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Teva Pharmaceutical Industries Ltd.

(TEVA)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the Teva's Fourth Quarter and Full Year 2022 Earnings Call. At this time, all participants are in listen-only mode. After the speakers' presentation, there will be the question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to our first speaker today, Ran Meir, Senior Vice President, Head of Investor Relations. Please, go ahead.

Ran Meir

Senior Vice President & Head-Investor Relations and Corporate Communications, Teva Pharmaceutical Industries Ltd.

Thank you, Nadia. Thank you, everyone, for joining us today. We hope you have had an opportunity to review our press release, which was issued earlier this morning. A copy of the press release as well as the copy of the slides being presented on this call can be found on our website at tevapharm.com.

Please review our forward-looking statements on slide number 2. Additional information regarding these statements and our non-GAAP financial measures is available on our earnings release and in our SEC Form 10-K and 10-Q.

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To begin today's call, Richard Francis, Teva's CEO, will provide an overview of Teva's 2022 results and business performance, recent events and priorities going forward. Our CFO, Eli Kalif, will follow up by reviewing the financial results in more detail, including our 2022 financial outlook.

Joining Richard and Eli on the call today is Sven Dethlefs, Teva's Head of North America business, who will be available during the question-and-answer session that will follow the presentation. Please note that today's call will run approximately one hour.

And with that, I will now turn the call over to Richard. Richard, if you would, please?

Richard Francis

President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

Thank you, Ran, and welcome, everyone. I'm excited to be here today, and I'd like to start by saying, it was great meeting many of you in San Francisco at JPMorgan last month. And I look forward to getting to know Teva shareholders, investors and analysts, so we can have an open dialogue going forward.

I'm excited to be here because there's a lot of opportunity at Teva. The team has done a tremendous work to get the company back to a solid foundation. And now there's an opportunity to get back to growth.

Before I start my review of Teva's 2022 results and discuss our guidance for 2023, I would like to update you that I've already initiated a strategic review process with my leadership team. Our teams are already hitting the ground running and we're working hard on analyzing some of the core strategic questions how the segments we operate in are going to evolve over time, and we understand what options we have.

It's going to be a very clear, purposeful strategy with real intent behind it. Every function, every dollar should follow that strategy going forward. Once the work is done around mid-year, I'll come back with the team and we'll present that to the market.

Now, let's move on to some highlights for 2022. We ended 2022 with revenues of $14.9 billion, and adjusted EBITDA of $4.6 billion. GAAP diluted loss per share was $2.12 and non-GAAP diluted earnings per share was $2.52.

You should note that our revenues were still affected by the strengthening of the US dollar during the fourth quarter, and we therefore still see significant headwinds from exchange rate movements on our revenues. We had a net impact of $780 million for the full year compared to 2021. Free cash flow in 2022 was $2.2 billion, and we continue to reduce our debt in accordance with our strategic targets. Net debt is now down to $18.4 billion.

Moving to the business overview. AUSTEDO, our leading brand, is growing very nicely, up 20% year-over-year, and AJOVY also grew across all three geographies, US, Europe, and international markets. I'll further discuss these two products in a few minutes.

We've also seen nice growth in our generics and OTC revenues in Europe, reflecting our strong position there and also some successful product launches. We've also seen good growth in generics and OTC in our international markets through a combination of volume growth as well as price adjustments to address inflation. So, good to see 9% growth in Europe and 5% in international in local currency terms.

We're also excited about the progress we're making on our pipeline. We recently initiated the Phase III trial of subcutaneous long-acting olanzapine for schizophrenia, together with UZEDY, our risperidone long-acting

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product, which I'll talk about in a few minutes. We're developing an exciting franchise for patients suffering from schizophrenia.

As for the nationwide opioids litigation settlement, we announced last month that we are moving on with these settlements after receiving broad support from the State Attorney Generals. We already settled with 49 of the 50 states and the sign-on process for the state subdivisions has begun. And given the very positive response from the states, we remain optimistic that the settlements will garner similar support for that.

Moving on to the next slide to look at our revenue and how it's developing. Overall, you'll see a fairly stable business with a portfolio of products and geographical spread that are well balanced.

I'd like to point out that in 2022, Q4 was the strongest quarter in terms of revenue similar to previous years. If you exclude the impact of FX, revenues in Q4 2022 were actually up 1% compared to the fourth quarter of 2021. So, in local currency terms, we had a nice single-digit growth in both Europe and international markets.

Moving to the next slide and expand on the comment I just made on Europe. It's a market that I'm very positive about. Europe is good, stable business for Teva. In markets like Europe, if you have a good pipeline, good go-to-market model, the business is predictable and it can drive continued growth. And we believe we have all of those elements in our European business.

We have a good portfolio, good pipeline and strong leadership in many of the markets. And this also supports a good margin profile, as you can see from the slide. And this is all playing out well. As you can see, revenues grew in Europe in the fourth quarter, 4% in local currency terms, which we're very pleased about.

Now, moving onto AUSTEDO, our next slide. Quarter four was a record quarter for AUSTEDO as we continue to see strong growth in both total and new prescriptions. Revenues grew 20% for the full year and 22% in the fourth quarter.

I'm happy to see strong continued development with nice increases in both revenue and the numbers of prescriptions. So, all in all, the trajectory looks positive. And Eli will elaborate on it when we talk about our 2023 outlook.

Now to better understand the potential of AUSTEDO, I'd like to take a look at the next slide. As you can see, there are approximately 785,000 patients suffering from tardive dyskinesia in the US. But unfortunately, only 15% of these patients are diagnosed and then even more disappointing, 5% are getting treatment. So, clearly, there is a lot of unmet need.

And of course, we're working hard to broaden that base, making sure they can benefit – the benefit of the product reaches more patients who need this therapy. This will drive increased prescriptions and also presents a significant long-term growth potential for AUSTEDO.

Now, moving on to AJOVY. Full year, our revenues grew more than 20% globally. This was despite the foreign exchange headwinds we faced in Europe and international markets.

Now, I think AJOVY's a great example of Teva's strong commercial and execution capabilities. As you know, AJOVY was not first-to-market in the US and Europe, but we're still capturing really strong market share and actually second in Europe. So, that's been very impressive and another proof point to me that the innovative and commercial go-to-market capabilities of Teva are strong.

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What we're seeing now in the US is really about slow growth, is around the injectable anti-CGRP therapies, and while most of the growth in migraine space is driven by the [ph] oral (08:13) therapies. Outside the US, we expect AJOVY to benefit from continued patient growth and launches in additional countries in Europe and international markets.

Now moving on to the pipeline, the next slide, please. In my six weeks of Teva, I've met with R&D teams. And I have to say that I'm very impressed with the capabilities in the people we have. I was also pleasantly surprised by innovative pipeline. We plan on sharing more details on it when we discuss our updated strategy throughout this year.

Now let me highlight a couple of exciting assets that are under regulatory review. Firstly, our biosimilar to HUMIRA is expected to launch in July 2023, pending FDA approval, which I'll talk about in a bit more detail in a few minutes. I'm also happy that the FDA has accepted for review the BLA for our biosimilar Stelara, and we anticipate that the review will be completed in the second half of this year.

Moving to our innovative medicines pipeline. As I said before, we are building a strong foundation for the schizophrenia franchise. UZEDY, an important product for patients suffering from schizophrenia, which I will elaborate on in the next slide; and olanzapine long-acting, another exciting prospect for the treatment for schizophrenia, we recently moved into a Phase 3 trial.

Both olanzapine and UZEDY represent complementary approaches to schizophrenia patient management by addressing unmet needs in the long-acting market, and together with the AUSTEDO, which treats tardive dyskinesia, a side effect of schizophrenia treatment, we're building a strong franchise for schizophrenia therapies.

So moving on to the next slide to talk about UZEDY. As you know, we have resubmitted the file to the FDA for review and expect to have a decision in the first half of this year. So just to frame the market landscape, there are approximately 2 million treated schizophrenia patients in the US and approximately 10% of them receive long-acting injectable products. And this long-acting category is growing steadily. In terms of sales, the overall schizophrenia long-acting market in 2021 was estimated to be $4 billion.

Now relative to other therapies in the market, UZEDY, our product, will have more patient-friendly injection mechanism, which is subcutaneous, a small needle and is lower volume, and it comes in a ready-to-use pre-built syringe; basically, an easy and effective way to get to your therapy. And we are very much looking forward to bringing these benefits to the patients who are suffering from schizophrenia, and who need stable therapy to avoid relapses. Given these profile advantages we have with UZEDY, we are talking about a 20% market share over time.

Now let's talk about HUMIRA, which I know has been getting a lot of attention recently and is the largest product in the history to face biosimilar competition with annual revenues of over $17 billion. Now based on most recent updates from our partner, Alvotech, we're [ph] pairing (11:08) for the launch on the first of July this year. The FDA has confirmed that the target date for the decision on Alvotech's application is April 13 of this year. The FDA has also confirmed that the data provided by Alvotech is sufficient to support a determination of interchangeability.

And approval, of course, requires a satisfactory outcome from the upcoming facility inspection – or reinspection, should I say, which is scheduled for March. It should be noted that while we are still waiting for the approval in the US, Alvotech's biosimilar of HUMIRA is currently being marketed in 17 countries around the world, including Canada and numerous markets across Europe.

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Now to be clear, we have risk adjusted its contribution to our 2023 guidance, similar to the way we risk adjust other significant launches in the US market. That said, we believe biosimilar to HUMIRA, like other biosimilar products, will continue to be an important product in our portfolio beyond 2023.

Now, moving on to the next slide. ESG is everyone's business at Teva. Let me be clear about that. The board and the executive management team firmly believe that ESG is critical and inseparable to our long-term sustainability and success.

Over the last few years, the team has worked hard to lay strong ESG foundations and formalize our ESG strategy. We have set ambitious and meaningful targets that are tied to our business, enhance the reporting and disclosures, and strengthen our governance. Our ESG strategy focus on advancing health and equity through our medicines, minimizing the impact of our operations and products on the planet, and dedicating the company to quality ethics and transparency.

So now, let's talk about our 2027 long-term targets. First of all, I'd like to say, as I said in the beginning, I do think the management team has done a great job over the last few years to get the company back to a solid foundation. As we define our strategy going forward over the next few months, we will look for the opportunities to prioritize and to reallocate the best position [ph] for Teva (13:18) for long-term growth and success.

We'll come back and share that with you with our new strategy around mid-year. Please stay tuned and I'm very much looking forward to it. But with regard to these long-term financial targets, these will remain in place.

And with that, I will hand over to Eli to walk you through the financials.

Eli Kalif

Chief Financial Officer & Executive Vice President, Teva Pharmaceutical Industries Ltd.

Thank you, Richard, and good morning and good afternoon to everyone. I'll begin my review of our 2022 financial results with my main focus being on the fourth quarter performance. This will be followed by an introduction to our 2023 non-GAAP outlook and some of the important assumptions behind it.

Beginning on slide 16. I would like to start with our Q4 GAAP performance. Revenues in the fourth quarter of 2022 were $3.9 billion, representing a decrease of 5%, or increase of 1% in local currency terms, compared to the fourth quarter of 2021.

This increase was mainly due to higher revenue from Anda, generic products in our Europe segment, AUSTEDO and AJOVY, partially offset by lower revenue from generics products and certain respiratory products in our North America segment as well as COPAXONE.

In Q4 2022, we recorded a GAAP operating loss of $855 million compared to operating income of $78 million in Q4 2021. We had a net loss of $1.2 billion compared to $159 million in Q4 2021, and a GAAP loss per share of $1.10 compared to $0.14 in the same period a year ago.

GAAP operating loss, net loss and loss per share were mainly due to goodwill impairment charges in the fourth quarter of 2022, partially offset by lower legal settlement and loss contingencies. The goodwill impairment charges were mainly related to exchange rate fluctuations in our international market and updated projections in our Teva api business.

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The strengthening of the US dollar versus other currencies during the fourth quarter of 2022, including hedging effects, negatively impacted our revenue and GAAP operating income by $270 million and $132 million, respectively, compared to the fourth quarter of 2021.

Turning to slide 17. You can see that the total non-GAAP adjustment in the fourth quarter of 2022 were $2 billion, and this is versus $1 billion in Q4 2021. The most notable non-GAAP adjustment was a goodwill impairment charges of $1.3 billion, which I just mentioned.

Now moving to slide 18 for review of our non-GAAP performance. I've already discussed our fourth quarter revenues, which totaled approximately $3.9 billion. Annual revenues were $14.9 billion, a decrease of 6%, or 1% in local currency terms, compared to 2021. For the full year, we saw the same trend regarding US dollar appreciation which, including hedging effects, negatively impacted revenues by $780 million compared to 2021.

Now, let's move down to the P&L and look at the margin. Our non-GAAP gross profit margin was 54.2% compared to 56.1% in Q4 2021. The decrease in non-GAAP gross profit margin was mainly due to the higher revenue with the lower profitability from the Anda in our North America segment, partially offset by higher revenue from AUSTEDO in our North America segment and a favorable mix of generic products in our Europe segment.

Our non-GAAP operating margin in Q4 2022 was 29.1% versus 30.4% in Q4 2021. This decrease was mainly driven by a lower gross profit margin mentioned above, partially offset by lower operating expenses, which I will discuss in the next slide.

2022 for year non-GAAP operating margin was 27.7%, similar levels as in 2021. We ended the quarter with a non-GAAP earnings per share of $0.71 compared to $0.77 in Q4 2021, mainly due to the negative impact from foreign exchange fluctuations and the lower gross profit, partially offset by lower operating expenses as well as lower tax rate.

Now, let's take a look at our spend base on slide 19. As you can see, our quarterly spend base declined by $97 million and increased by $38 million net of FX. For the full year 2022, our total spend base declined by $609 million (sic) [$691 million] (18:11), or $174 million, net of FX, annual decrease in our spend base was due to a lower cost of goods sold related to a lower annual revenue as well as ongoing active management of operating expenses.

Looking ahead to 2023, we expect the overall spend base to remain at the level of $11 billion as we continue with our ongoing efforts to transform our global operation network and ongoing active management of operating expenses.

If you look at slide 20, we continue our journey to improve margins by reaching 28% operating margin by end of 2023 despite of some of the macroeconomic headwinds related to the inflationary pressures. And while we continue to face these pressures, our ongoing efforts to reduce and optimize our cost of goods sold and operating expenses are expected to continue to help us partially mitigate these global macroeconomic headwinds. As Richard mentioned earlier, we continue to target 30% operating margin by end of 2027.

Turning to free cash flow on slide 21. Our free cash flow in the fourth quarter of 2022 was $1.1 billion. The increase in our free cash flow in the fourth quarter of 2022 compared to the fourth quarter of 2021 resulted mainly from the sale of accounts receivable under a US securitization facility entered into November 2022, partially offset by changes in working capital terms.

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For the full year 2022, free cash flow was $2.2 billion, an increase of 2% compared to 2021 and on the high end of our 2022 guidance. Free cash flow into 2022 was largely affected by the sale of accounts receivable under a new US securitization facility entered into in November 2022, partially offset by an increase in inventory levels, lower proceeds from divestitures of business and other assets, as well as higher payments of legal settlement in connection with the opioids litigations.

Turning to Slide 22. Our progress continued in terms of reducing down our debt. The net debt at the end of Q4 2022 was $18.4 billion compared to $20.9 billion at the end of 2021. The decrease in our gross debt in 2022 was mainly due to the debt repayment, partially offset by exchange rate fluctuation. The decrease in our net debt was mainly due to our free cash flow generation during the year. Our net debt-to-EBITDA ratio continued to decrease [ph] coming at (21:08) 4 times for Q4 2022.

Looking at Slide 23. Debt reduction continues to be our primary focus. As you can see, we have made significant progress in the last six years, as we had committed to reduce the level of the debt we had on our balance sheet. During these six years, we've paid back approximately $20 billion to our bondholders, including interest payments, and we expect our net debt to further decline as we continue to make progress towards 2027 long-term targets.

Turning to Slide 24, which represents our upcoming debt maturities. If you recall, we did a $5 billion SLB refinancing to address the 2022, 2023 and 2024 maturities back in November 2021. We continue to assess market conditions for opportunities to refinance upcoming maturities. Given the interest rate environment, we expect this to result in higher financial expenses in 2023, which I will discuss in a few moments.

Looking at the cash conversion on Slide 25. We established a target of 80% by end of 2023. In 2022, we made further progress on this. As we keep focusing on our net working capital enhancements, our efforts to optimize our working capital turn in light of our revenue mix is key for our liquidity. We're really happy to see that it came in at 80%, up from 77% in 2021. As Richard mentioned earlier, we'll continue to manage our business and working capital with a focus on generating cash-to-earnings at this level.

Now let's turn our attention to our 2023 non-GAAP outlook, which we are introducing for the first time today. Here in slide 26, you will find the five main components of our outlook: revenues, operating income, adjusted E BITDA, earnings per share and free cash flow as well as additional components, including expected revenue range for key products.

Our company worked hard throughout 2022 navigating and addressing the ongoing impact of the geopolitical and macroeconomic headwinds. We expect this volatile environment in the markets to continue in 2023 based on leading global financial institution forecast. With this in mind, we begin with 2023 total revenue, which we expect to be between $14.8 billion and $15.4 billion. This is very much in line with our revenue level in 2022.

We expect continued momentum of AUSTEDO with a total annual revenue to grow to approximately $1.2 billion or 24% in 2023. Furthermore, AJOVY is expected to benefit from continued patient growth in the US, Europe and international markets. Global sales for AJOVY are expected to be approximately $400 million in 2023.

We have factored into our guidance the continued erosion of global COPAXONE revenues, which we expect to decline during 2023 to approximately $500 million. The majority of the decline is expected in the US. The expected ongoing growth of AUSTEDO and AJOVY is greater than the offset effect by the decline in COPAXONE sales.

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Our non-GAAP operating income is expected to be between $4 billion and $4.4 billion, and our non-GAAP adjusted EBITDA is expected to be between $4.5 billion and $4.9 billion. As discussed earlier, we continue to explore opportunities to refinance the upcoming debt maturities to align our debt maturity profile for the coming years with our core operational performance.

There could be a meaningful step up in our finance expenses if we were to pursue any refinancing due to the higher interest rate environment. We expect an increase of approximately $100 million reaching $1 billion in 2023.

Looking at our tax rate in 2022. Our non-GAAP tax rate was 11.7%. As we look ahead to 2023, we expect our tax rate to be in the range of 14% to 17%. You might recall that our non-GAAP tax rate in 2022 was below our initial guidance, as it was mainly affected by realization of a loss related to an investment in one of our US subsidiaries.

This expected increase in our finance expenses, the tax rate's expected to have significant impact on our EPS 2023 outlook in comparison to 2022. This bring us to the expected earning per share in the range of $2.25 to $2.55, using a share count of approximately 1.1 billion shares.

2023 free cash flow is expected to be in the range of $1.7 billion to $2.1 billion. This guidance reflects our expected higher plant expenses, which I have outlined before as well as increased legal expenses related to the nationwide opioid settlement.

As you know, we do not provide quarterly guidance, but I thought it would be helpful to share with you how we're thinking about the progression the – both revenue and earning throughout the year.

Based on our expectation today, we anticipate that similar to the progress in 2022, the first quarter will be the lowest of our four quarters of revenue and earnings, with a gradual pickup in the second quarter. I hope this color will assist you with your modeling. This concludes my review of Teva's result for the fourth quarter and fiscal year 2022.

And now, I will hand it back to Richard for a summary.

Richard Francis

President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

Thanks, Eli. Before moving to the Q&A, I'd just like to summarize some key points. So I'm happy with the progress that has been made so far, and I want to congratulate the entire team, all my colleagues across the globe, on a solid Q4 and full year 2022.

AUSTEDO and AJOVY continue to drive growth. And as I mentioned before, there's a still a large unmet need that will drive growth in the future for AUSTEDO in the US, and AJOVY continues to see good traction, particularly in Europe and international markets. We have strong performance in Europe and international markets and our European business is [ph] steadily (28:10) growing with leadership positions in most markets.

We have an exciting pipeline across innovative medicines, biosimilars and generics. And these interesting and differentiated assets will set us up for future growth. We remain committed to our long-term financial goals around growth, improving margin and driving down debt.

And finally, I look forward to sharing with you some time in mid-year our updated strategy to ensure how we can position Teva for long-term success.

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With that, thank you for listening. I will now hand you back to the operator for Q&A.

Ran Meir
Senior Vice President & Head-Investor Relations and Corporate Communications, Teva Pharmaceutical Industries Ltd.

Nadia, we are ready for the Q&A, please.

[Technical Difficulty] (28:46-31:35)

Hi, everybody, we have some technical issues with the operator. We are working to fix it.

[Technical Difficulty] (31:40-32:29)

QUESTION AND ANSWER SECTION

Operator: Yes, speakers, please accept my apologies for the delay. Now we'll start the Q&A session. The first question comes now from the line of Umer Raffat from Evercore ISI. Your line is open. Please as your question.

Umer Raffat
Analyst, Evercore Group LLC

Q

Hi, guys. Thanks for taking my question. Umer here. Couple things, if I may. First, on guidance, I think there's a little bit of confusion on how much HUMIRA is in the number. And I guess, said differently, what people are really focused on is, is it still a growth year off of 2022 if there was no HUMIRA? That was first.

Second, I wanted to touch up on the TL1A program a little bit. Could you tell us if the asthma trial was a complete zero. I know it was terminated. And also for the IBD Phase 2 you initiated in August last year, how is the recruiting tracking? And could you be in a position to take an interim analysis on 14-week data perhaps later in 2022, which could inform a more accelerated Phase 3 start, just given how competitive this could get? Thank you.

Richard Francis
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

A

Hi, Umer. Thanks for the question. So, on guidance, as I mentioned, we do have HUMIRA in there, is risk adjusted. And I think your question was, if we don't have HUMIRA, will we still be able to drive growth. And I think I'll let Eli contribute, but what I would say is we have a number of opportunities to drive revenue in 2023. HUMIRA is part of that.

But obviously, we also talked about AUSTEDO, we've also got UZEDY, and we have other pipeline products that we haven't highlighted in this call. It is an important part, but we've risk adjusted it to take into account the uncertainty. But maybe I'll let Eli give some more color.

Eli Kalif
Chief Financial Officer & Executive Vice President, Teva Pharmaceutical Industries Ltd.

A

Yes, Umer, you see the range that we have there, and you can look on the midpoint versus the 2022 revenue, so you can see kind of a modest increase, then I would say that – to echo Richard, what he mentioned, HUMIRA is in the guidance and is risk adjusted. And we have few other elements that might potential hedge that element if it will not come through.

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Richard Francis
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.
A

Thanks, Eli. And then going on to your question on the TL1A, Umer, I'm sort of glad you brought it up because I think this highlights some of the interesting assets we do have in our pipeline, which we'll, as I said, fully discuss in midyear when we do a review of our pipeline and let people see some of the things that I'm excited about.

But to try and answer your question, we have initiated a clinical Phase 2 basket trial that started in August of 2022 in ulcerative colitis and Crohn's disease. So that is underway. I can't give much more information than that. But as I said, midyear, we'll probably be able to go into lot more detail on the clinical development plans for that asset and some of the others. Thanks for your question.

Operator: Thank you. Now [ph] we're going to take the (35:40) next question [audio gap] (35:41-35:58). And the next question comes from the line...

Ran Meir
Senior Vice President & Head-Investor Relations and Corporate Communications, Teva Pharmaceutical Industries Ltd.
A

Nadia, can we go to the question please?

Operator: Yes, of course. And the next question comes from the line of Gary Nachman from BMO. Your line is open. Please ask your question.

Gary Nachman
Analyst, BMO Capital Markets Corp.
Q

Okay. Great. Good morning. Thanks. So Richard, you have a clear strategy of building out your biosimilar capabilities while a competitor decided to sell off its biosimilar business, so...

Operator: Gary, your line is open.

Gary Nachman
Analyst, BMO Capital Markets Corp.
Q

Yes. Can you hear me?

Ran Meir
Senior Vice President & Head-Investor Relations and Corporate Communications, Teva Pharmaceutical Industries Ltd.
A

[ph] Yeah, we can (36:25).

Eli Kalif
Chief Financial Officer & Executive Vice President, Teva Pharmaceutical Industries Ltd.
A

Yes.

Richard Francis
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.
A

We hear you, Gary, I don't know what's going on today but please stick with us.

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Gary Nachman
Analyst, BMO Capital Markets Corp.

Q

Oh, okay. No, that's okay. So I'll start over. So you have a clear strategy of building out your biosimilar capabilities while a competitor decided to sell off its biosimilar business. So how much more critical mass do you need to maximize value in that market long term? And then how do you see market formation, particularly with HUMIRA biosimilars and the benefit of having an interchangeable available, how does that impact your payer discussions? If you could give us some color on that.

And then just on the generics business, Richard, will you be able to get back to $1 billion per quarter or so in North America, that was previously a target the company's had. Just talk about some of the dynamics there. And do you think you'll be able to stabilize that business? Will it continue to decline? Maybe talk a little bit at high level about the pipeline and maybe how that could return that business to growth over time. Thank you.

Richard Francis
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

A

Thanks, Gary. Thanks for your questions and sticking with us on the technical issues. So on the biosimilar one, I'll take a stab at these questions and also maybe tag team it with Sven, my colleague. So on the biosimilar, I don't want to comment on other companies' strategies, we're focused on our own. But what I would say is – and I've got history here – I do believe in the biosimilar opportunity in the market, and I think it's significant. And I think it's significant in the US and I think it's significant in Europe and the rest of the world.

I do believe it has an opportunity to drive growth over the short, medium and potential long term. I do think, to answer one of your parts of your question, it does require you to have a deep pipeline. And I think one of the things is you've got to be able to continuously launch biosimilar products as they become available.

And so I think the team has done a good job here in building out a pipeline. We want to make sure we continue to do that. We want to make sure we continue to have a geographical spread of that pipeline as we go forward. But yes, I see biosimilars as an opportunity to drive growth in the short, medium term.

Now when we talk about the market formation of biosimilar HUMIRA, what I would say is let's not forget the size of the prize here. This is over $17 billion in the US. I was part of the introduction of HUMIRA into the European market. So this is a big asset where I think payers and health care authorities can garner some significant savings. I think that's going to bear out over time.

I'll let Sven talk a bit about how quickly that can happen. I personally believe the interchangeability in some of the product profile characteristics we have for our biosimilar HUMIRA really differentiates us and allow payers to think about actually switching and transferring patients a bit more easily than they would on other products that don't have those characteristics. But I'll let Sven answer a bit of that.

And then on the Gx, I'll take a stab at that as well. In the – look, I obviously don't have history with this $1 billion comment. And so, I can leave that behind from my perspective. What I would say is, in the US, stability of our generics business should be driven about our pipeline, what we launch, when we launch and the ability to do that. And what we focused on and what we'll continue to focus on is complex generics.

Now, obviously, they have unpredictability, but when you do get into the market, they are very profitable and sustainable. So I think, for me, it's not so much about getting back to a revenue number. It's about making sure

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you have a Gx business that is profitable, predictable and allows you to get growth in the right areas and that comes back to profitability. But I'll hand over to Sven to give his view on those two questions.

Sven Dethlefs
Executive Vice President-North America Commercial, Teva Pharmaceutical Industries Ltd.
A

Thanks, Gary. I think you were interested in HUMIRA market formation and the benefit of interchangeability. So in what concerns market formation, I think we will go through three phases. Phase one is right now, because Amgen already entered the market with a non-interchangeable HUMIRA biosimilar. Then we have the next inflection point, which will be our market entry, it's July 1. And then we see a clear transition towards biosimilars with the formulary changes that come in 2024. So there will be basically three phases for the HUMIRA market formation.

I believe we are well positioned. We have discussions with all our customers on the July 1 date. Our customers very well recognize the importance of interchangeability. And I believe it has become even more important since AbbVie has guided to this year staying on formulary. And if you have AbbVie, the originator on formulary, of course, you need an interchangeable biosimilar to really drive uptake of biosimilar generics in this space.

And we also did recently market research on the question of pull-through with pharmacists and HCPs, and here, we also saw that interchangeability is actually well known in this professional community, and especially HCPs look for interchangeability designation when writing a biosimilar other than HUMIRA.

So, I believe, overall, our product profile is quite strong. We have high concentration, citrate-free interchangeable product. We are working towards FDA approval. And for that reason, I believe we can participate in this Phase 2 market formation starting in July.

And adding to Richard's comments about the complex generics or the US generics business and our run rate, so the run rate was $3.75 billion in 2021 and $3.55 billion in 2022. Our focus is now this year on creating a HUMIRA success and, of course, to bring more complex generics to the market.

Because what we've seen in our portfolio is, despite the hurdles that you have for FDA approval with complex generics, they show themselves to be very resilient and drive longer-term value and especially, when we look at our gross margin structure, you can see how important complex generics became over the last years.

So for this year, we talk about, especially FORTEO as an opportunity, [ph] Truvan (43:07) as a second opportunity. and then the other complex generics that we also talked about in the previous years, such as RESTASIS or Sandostatin. And then we have a couple of other complex generics in the pipeline potentially to be launched in 2023 if we get FDA approval. Thank you.

Gary Nachman
Analyst, BMO Capital Markets Corp.
Q

Great. Thank you very much.

Richard Francis
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.
A

Thanks, Gary.

Operator: Thank you. We'll now take our next question. Please standby. This is from the line of Glen Santangelo from Jefferies. Please go ahead.

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Glen Santangelo
Analyst, Jefferies LLC

Q

Yeah. Thanks for taking my question. Hey, Eli, I just wanted to unpack the revenue guidance a little bit more, if I could. I mean essentially, last quarter, you guided fiscal 2022 revenues of $14.8 billion to $15.4 billion. And now you're kind of just rolling that same guidance on 2023. And obviously, you're building in some contributions from the growth in AUSTEDO and some risk-adjusted contributions from UZEDY and HUMIRA.

So I was wondering if you could just talk about the offsets to that – to those numbers, to that growth. Will it be the same in 2023 as it was in 2022? Should we expect sort of a similar type of deceleration in the US generics business and a similar type of runoff in COPAXONE? Or is there something else we should be thinking about, for example, like FX playing a bigger role?

Eli Kalif
Chief Financial Officer & Executive Vice President, Teva Pharmaceutical Industries Ltd.

A

Okay. Thank you, Glen, for the question. So a few dynamics in that range. First of all, if you look on the midpoint of $15.1 billion, you will see versus 2022 kind of a modest growth, call it like 2%, but this is based on a risk adjusted in terms of several launches mostly related with North America.

Now if you think about the combination of AUSTEDO, AJOVY and COPAXONE, that's actually around $70 million higher than how we came in 2022. And we believe that there is still modest opportunities both in AJOVY, in AUSTEDO as we're actually running now the trend on the TRx. So that's one element.

And then a few other elements really related to our stabilized business in Europe in terms of generics and OTC, we see there also kind of a modest growth. And we live in kind of an environment which is very volatile in terms of FX, and we keep kind of enough spread in order to make sure that we're capturing any potential rebounding in terms of mostly on the euro appreciation versus dollars.

Glen Santangelo
Analyst, Jefferies LLC

Q

Okay. Thank you for all the details. Maybe if I could just ask one quick follow-up question on the balance sheet. Richard, you sort of seem to suggest that debt reduction remains a primary focus, but how do you think more broadly about the leverage situation? Because as Eli sort of talked about in his prepared remarks, there's significant maturities coming up in the next sort of few years that are at or above the level of free cash flow you're generating now and, ultimately, there's going to be some opioid payments that are going to have to be made.

So how do you think about getting that debt down to those sort of 2027 targets, just sort of given the current level of cash flow that you're generating? How should we think about that over the next couple years and in 2023 in particular? Thanks.

Richard Francis
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

A

Thanks for that follow-on question, Glen. And what I'd say, before I hand over to Eli, is we think and plan about our debt and repayment of the debt thoroughly and long term. So the way we think about some of the payments we have to pay in 2023, 2024 and 2025, we've been working on for some time, so firstly, just to give you that background. And maybe, Eli, if you could go into more specifics about that.

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Eli Kalif
Chief Financial Officer & Executive Vice President, Teva Pharmaceutical Industries Ltd.
A

Okay. Yes, Glen. So looking mostly on liquidity and free cash flow and the debt. So I will start by, if you look on the guidance we gave for the free cash flow, $1.7 billion to $2.1 billion, that midpoint, $1.9 billion, if you compare it to where we actually end at 2022, call it, around 15% kind of a reduction, this is mostly related to the fact that we are considering coming back to the market to address our 2025 maturity debt [ph] take (48:06). And that means that we will, according to the current interest rate environment, we'll need to step up in our [ph] funds (48:15) expenses. So this element that I mentioned already in my prepared remarks, this is a third out of this, I would say, decrease.

Other elements according to the ongoing development with the time lines on the opioid settlement, we see ourselves paying the first payment, and that's actually modeled in our free cash flow generation, into Q3 2023. And this is around incremental additional $300 million versus what we paid in 2022. So this is kind of the dynamic on that midpoint.

Now if you look on the lower end, [ph] if you track it at (48:55) $1.7 billion, part of the refinancing that we're planning in 2023, actually planning to actually get a bit lower debt [ph] take (49:02) for 2023, 2024 and 2025 to the level of $1.7 billion, $1.8 billion in order to make sure that we have enough cushions to drive the business, mostly because of those two elements that I mentioned.

And as I mentioned in my prepared remarks, we have ongoing actions going on our working capital and that cash conversion improvement in the last three years mainly coming from those elements. So, high level, in terms of liquidity, we see ourselves really strongly positioned in order to – have the ability to serve the debt as well to meet our commitments in terms of obligations, mostly with the coming opioid settlement.

Glen Santangelo
Analyst, Jefferies LLC
Q

Okay. Thanks for the details.

Richard Francis
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.
A

[indiscernible] (49:48)

Operator: Thank you. We'll now take our next question. Please stand by. This is from the line of Jason Gerberry from Bank of America. Please, go ahead.

Jason M. Gerberry
Analyst, BofA Securities, Inc.
Q

Hey, guys. Thanks for taking my questions. Just wanted to follow up on that free cash flow comment. I think that you used the term incremental for the $300 million of added opioid costs, but I think you had some payments for opioids in 2022. So should we think about that as like the $300-plus million, what was kind of the run rate of payments in 2022, or just the total of about $300 million of opioid-related payments?

And then on the 2023 guidance element, just wanted to ask the HUMIRA question a little bit differently. So everybody's saying 2023 is going to be more of a modest year of biosimilar HUMIRA uptake. But if you were able to get the interchangeability, mindful that you're giving guidance on a risk-adjusted basis, but is there a big upside

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scenario, or is it too early to say and you need to kind of get to July contracting before you can kind of comment on that? Thanks.

Richard Francis
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.
A

Okay. Thanks, Jason. Thanks for the question. I think I'll hand you, obviously, the opioids and the cash to Eli and then Sven can talk about the opportunity with HUMIRA and some of the variables in that. So, Eli, first.

Eli Kalif
Chief Financial Officer & Executive Vice President, Teva Pharmaceutical Industries Ltd.
A

Yeah. So, Jason, thanks for the questions. I will clarify. As you recall, we had already, before getting to that mature development on the nationwide, [ph] there were already (51:27) states that we settled. And during 2022, we paid already around $130 million in our free cash flow. And that amount will have kind of a carryover of around $150 million for next year.

Now this is not including the $300 million nationwide that we will need to pay in – according to the current trajectory of the [ph] process (51:54) in Q3 2023. So you can actually model around $430 million to $450 million that's going to be paid for opioid this year. Is it clear?

Jason M. Gerberry
Analyst, BofA Securities, Inc.
Q

Yes, that's clear. Thank you for clarifying that

Eli Kalif
Chief Financial Officer & Executive Vice President, Teva Pharmaceutical Industries Ltd.
A

Yes, okay.

Sven Dethlefs
Executive Vice President-North America Commercial, Teva Pharmaceutical Industries Ltd.
A

Okay, HUMIRA. HUMIRA, our plan and the risk adjustment that we took, I think that was the topic. So first of all, we plan as having an interchangeable product in July, so that we get approval for it. Just as a reminder, the review process by the FDA for the interchangeable HUMIRA from our partner Alvotech has been concluded, and the outstanding issue for approval is now the site inspection that was scheduled for March 6. So we expect if the site inspection will be successful, we get approval for both BLAs that are with the FDA [audio gap] (52:47-53:35) the guidance that we have.

So is there an upside? Of course, there's an upside if we sign all the contracts and we have a limited number of competition within these contracts, we are quite confident that we can generate pull-through because of the product profile. But we have to wait and see for the next step, and I would say we take it step-by-step. We're quite confident in approval. We also are quite confident in our ability to supply the market with the required volumes. So that's all on track.

Eli Kalif
Chief Financial Officer & Executive Vice President, Teva Pharmaceutical Industries Ltd.
A

Jason, [ph] I note that (54:08) we were down for – it's okay, is that what you need?

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Jason M. Gerberry
Analyst, BofA Securities, Inc.

Q

Yes. [indiscernible] (54:13)

Eli Kalif
Chief Financial Officer & Executive Vice President, Teva Pharmaceutical Industries Ltd.

A

[ph] I note (54:13) we were down [indiscernible] (54:14)

Jason M. Gerberry
Analyst, BofA Securities, Inc.

Q

Great. Thanks.

Eli Kalif
Chief Financial Officer & Executive Vice President, Teva Pharmaceutical Industries Ltd.

A

Okay. Cool. Next question.

Operator: Thank you. Yes. We'll now move to our next question. Please standby. This is from Balaji Prasad from Barclays. Please go ahead.

Balaji Prasad
Analyst, Barclays Capital, Inc.

Q

Hi. Good morning, everyone. Richard, you have articulated the importance of biosimilars for Teva over the next few years. And as I look at the long-term guidance that you provided of mid-single digits, I want to understand the role of specialty segments within this, especially as we look at the pipeline and the late-stage assets in specialty [ph] as parts (54:50)?

And secondly, coming to this year's guidance, excluding FX and biosimilar HUMIRA, are there any other major variables which influence the $600 million revenue or $400 million EBITDA spread? Thanks.

Richard Francis
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

A

Hi. Thank you for the question. I'll take the first part and then maybe tag team with Eli on the second part. So I think your question was around sort of driving growth to our specialty portfolio going forward. So let me sort of touch a bit upon that.

I think I highlighted within the call already that the opportunity we still see around AUSTEDO and AJOVY. AUSTEDO particularly, when you look at the patient numbers that still are not being treated, I think the opportunity is significant to bring that therapy to a lot more patients. So I see that as a major driver. And AJOVY, I see as a driver that can probably be worthwhile outside the US as we expand more into Europe and the international market, because of the introduction of the [ph] oral (55:59) therapies into the US.

But then I will touch upon the pipeline as well. So UZEDY, the risperidone product, we have olanzapine, that product that's gone into Phase 3 clinical trials. So, I think – and then we have our innovative pipeline which we'll talk about midyear, which I see more as the medium term, but excited about it. I think that could bring some significant growth going forward, obviously, if that gets through the clinical development phase.

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So, I think we have a number of assets already and that's not mentioning some of the complex generics that Sven spoke about earlier, which we're still waiting for FDA approval. So, I think we're well positioned with our pipeline across specialty, biosimilars and complex generics. Obviously, the challenge always is making sure we get those to market in a timely fashion, and that's what we're going to be working hard on.

Now, with regard to the spread on the revenue, I'll let Eli take that and I think your comments were about, you understand the FX, you understand the biosimilars, but what else is driving that. So Eli, if you could help give clarity there.

Eli Kalif
Chief Financial Officer & Executive Vice President, Teva Pharmaceutical Industries Ltd.
A

Yeah. So Balaji, thanks for the question. Yes, when you drive kind of a range when you start the year, you look on – mostly on programs that [ph] requires – comes for (57:16) risk adjustments. So in addition to HUMIRA in the US generics, we have a few of them that we've risk adjusted. So they might come and be better than what we expect. So this is part of that range.

And also, the solid business that we have with Europe generics and OTC, even considering, I would say, the average of current run rate in 2022 that we see this one also with a great potential. So this is – those two elements, I will say, were still part of those range.

Richard Francis
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.
A

Thank you for the question.

Operator: Thank you. We'll now take our next question. Please stand by. This is from the line of Elliot Wilbur from Raymond James. Please go ahead.

Elliot Wilbur
Analyst, Raymond James & Associates, Inc.
Q

Thanks. Good morning. Maybe I can ask Sven to just follow up on the last question with respect to sort of the range of possibilities within the North American generics segment in 2023 and specifically thinking about new product launch opportunities. If there's anything you can highlight in terms of date-certain items or launches with certainty pursuant to settlements, and then maybe, specifically, just some of the complex generics that could enter the equation in 2023.

I know we've been – I feel like we've been talking about teriparatide and cyclosporine for three presidential administrations here. And, obviously, the FDA's been slow on complex generics, but any additional clarity you could add there with respect to the new product dynamic in 2023 would be helpful.

And then, for Richard, outside of the reiteration of the company's prior long-term financial targets, wondering if the strategic review or the updated strategic plan, in fact, could modify any of those parameters and thinking specifically about the 2027 debt-to-EBITDA target of 2x. Certainly seems like financial markets, equity holders will be much more comfortable with a higher leverage ratio, 2.5 to 3 times and if they were comfortable with the company's use of discretionary capital in terms of pursuing pipeline enhancement initiatives in additional strategic investments.

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So I'm wondering if there's maybe some flexibility, particularly with respect to that parameter because it would free up quite a bit of cash flow for reinvestment into pipeline and longer-term growth assets. Thanks.

Richard Francis
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.
A

Thank you. Thanks for those two questions, Elliot. So look, I'll go in the order you delivered them. So I'll ask Sven to answer one around the almost complex generics approvals that you've been experiencing through the last three presidential campaigns.

Sven Dethlefs
Executive Vice President-North America Commercial, Teva Pharmaceutical Industries Ltd.
A

Yes. So the usual suspects. Thanks for the question, Elliot. So US generics this year, overall, we'll see a weak patent expiring year. So this year doesn't have a lot of, let's say, launches that are naturally driven by patent expiry dates. It will be more driven by FDA approvals and settlement entries.

As you also pointed out, HUMIRA, we already talked about. FORTEO we received the CRL that we answered to the FDA. We are working with them closely to sort out this issue. Just as a reminder, this product has been launched many years ago in Europe already with EMA approval and we know how to manufacture it, of course. And I believe the product is high quality and that we will get the FDA [ph] round (01:01:17) to give us approval.

Then we have the reentry of REVLIMID, of course, due to our settlement date that is working on an annual cycle. So we'll reenter this market with a higher volume allocation within the settlement with BMS. And then we have, of course, [ph] Xulane (01:01:34), which is a new drug on the list [ph] for launch (01:01:38) this year.

And then I have a couple of other products that [ph] we let's say (01:01:44) prepare for launch, assuming that we get FDA approval. But since we have made some experiences with the FDA about how difficult it is to get complex generics approved, I don't want to give you a certain, let's say, now, I think once we get approval, we will communicate more around this.

But overall, I can say, let's say, complex generics are still quite attractive for us because if you analyze in the classical 80/20 analysis, our gross margin and the cash contribution within the generics portfolio, complex generics are certainly a major stabilizer in our business in North America. You also see that our price decline is quite stable in the base business. So that has improved over the last year, and we don't expect dramatic changes in that space. So overall, I would say US generics will develop if we get all the approvals that we discussed on a regular basis in this call.

Richard Francis
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.
A

Thank you, Sven. And then to answer your question about the payment of debt and the EBITDA target we gave in 2027 and flexibility around that, if I heard you correctly, Elliot. So look, we're in the midst of doing our strategic review and understanding our plan going forward. And that's a strategy that's going to deliver growth. That's the whole point of putting that strategy together.

I think what we think is important and what is – the team has worked hard on is to get credibility around our debt and [ph] our repayment (01:03:11) of it over the last few years. And so we don't want to squander that too quickly. So I think as we work through the strategic review and understand the opportunities and the need for capital, both

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within the company to reallocate resources to drive some of our pipeline and our in-market products, as well as to do some BD&L, we need to think about that.

But I'd also like to say that I think we think we have the ability to pay down that debt in the fashion that we've outlined and still be able to have some capital to allocate to drive the company back to growth. But we're in the midst of that, but I appreciate your point of view and your question's a challenge there. And we'll be able to give a bit more clarity on that midyear.

Operator: Thank you.

Richard Francis
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

A

Thank you.

Operator: We'll now take our next question. Please stand by. This is from the line of Chris Schott from JPMorgan. Please, go ahead.

Chris Schott
Analyst, JPMorgan Securities LLC

Q

Great. Thanks so much for the questions. Just two for me. I guess, first, maybe, Eli, how should we be thinking about gross margins this year. I know you're targeting flat OpEx, but just maybe a little bit more color on the components of OpEx as we think about 2023?

And the second one was just kind of a bigger picture question on the biosimilar business. As you talk about this – as this continues to ramp and it's an important growth driver for Teva, I guess, does a continued kind of partner-centric approach make the most sense for the company, or would these be capabilities you would want to develop, I guess, to be more in-house over time as you think about kind of really trying to maximize the value of this opportunity? Thanks so much.

Richard Francis
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

A

Thanks, Chris. Thanks for the question. So Eli, you take the first one and then I can chime in with a view on the second.

Eli Kalif
Chief Financial Officer & Executive Vice President, Teva Pharmaceutical Industries Ltd.

A

Thanks, Chris, for the question. So we end up 2022 around 54% gross margin. And actually, when we are still looking on 2023, we're going to see a bit higher, I would say, additional 0.3%. And one of the things that we need to remember that the macroeconomic headwinds actually, overall, if we look on the numbers, hit us around 2% on our revenues, so call it around $300 million. With all the activities that we've already done and all those, I would say, optimization that were part of our long-term financial targets to expand our margin has helped us, as I mentioned in my prepared remarks, to partially offset that element.

Now, there is also kind of a element on revenue mix, and you can actually see that with the growth of AUSTEDO and as well on AJOVY and a few other elements that we are actually working on, we're going to see a very

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modest increase, but not more to the level of 54.5%, I would say, in 2023, which means that our ability to keep the current level on the OpEx will stay the same and the residual amount will flow through the OP margin.

Richard Francis
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

A

Thanks, Eli. So on the biosimilars. So, I think the question, Chris, was around as we move forward, we see it as a growth driver. Is this continued partner strategy or not? So, firstly, let me clarify that although we have a good and productive partnership with Alvotech, which is delivering a nice pipeline, we also have, I think, it's six in-house biosimilars that we've developed ourselves.

And going back to a comment I made on an earlier question. What I think is important with biosimilars is that we have a broad and deep pipeline that we can address most of these large biologics when they come off patent. And to do that effectively from a capital allocation point of view, I think it's a combination. It's a combination of partnering and it's a combination of doing some things in-house. And so that's what I see going forward, that combination, just to make sure we have the right pipeline and we're launching the products at the right time. Thanks for your question, Chris.

Operator: Thank you. And we will now take our final question. Please standby. And the last question is from Rishi Parekh from JPMorgan. Please go ahead.

Rishi Parekh
Analyst, JPMorgan Securities LLC

Q

Hi. How are you doing? Thanks for taking my questions. I just want to confirm a few things and then talk about – or ask a few questions on your balance sheet. With regards to your free cash flow, that $1.7 billion to $2.1 billion, I want to confirm that, that includes the $450 million of opioid payments or is it a different number?

Eli Kalif
Chief Financial Officer & Executive Vice President, Teva Pharmaceutical Industries Ltd.

A

Yes, it's including.

Rishi Parekh
Analyst, JPMorgan Securities LLC

Q

Okay. Great. And then with regards to your maturities, if I heard you correctly, I think you said that you're going to address your 2023, 2024 and 2025 maturities, which is different than what you had said at the JPMorgan conference. I was hoping that you could just walk us through what led to that change? Is it something related to your free cash flow or something related just to the interest rate environment? But would love to just have you walk through that.

Eli Kalif
Chief Financial Officer & Executive Vice President, Teva Pharmaceutical Industries Ltd.

A

Yes. So when we actually set the market, you will appreciate that the interest rate environment is higher than what we expected to tender on our debt [ph] take (01:08:44). And that means that we will have a impact on our – that will flow through impact on our free cash flow. This is one.

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The second thing is that, as we move forward and we see ourselves now more inside of positive momentums with the opioid, we actually want to make sure that we have enough cushion to manage that liability, and coming back to your first question, and that's actually already embedded there.

So we used to have kind of a $2.1 billion to $1.9 billion range on the debt [ph] take (01:09:23) currently, the 2023 is $2.1 billion, the 2024 is $1.9 billion. We're going to take it lower a bit in order to make sure that we have enough cushion there to manage it, and it will be part of the coming refinancing, which majority will be focused on the debt [ph] take (01:09:40) of 2025.

Rishi Parekh
Analyst, JPMorgan Securities LLC
Q

And then with the drop-down in your AR financing next year to $500 million, one, can you walk us through why it's declining by $500 million next year? And is that also affecting your thoughts around how you're looking to address your debt maturities this year?

Eli Kalif
Chief Financial Officer & Executive Vice President, Teva Pharmaceutical Industries Ltd.
A

Yes. So I don't understand the drop on the AR for next year, where you're actually considering that one, but I can mention the dynamics. This year, in terms of working capital, we were able to optimize our days outstanding payables (sic) [days payable outstanding] (01:10:20) as well a DSO. And that actually offsets part of inventory [ph] increase (01:10:28) in order to support our production plan for mostly for the first half of the year.

Rishi Parekh
Analyst, JPMorgan Securities LLC
Q

Yes. Sorry, I was just referring to the new AR facility that you entered into. I think it's $1 billion through November of this year, and then it drops to $500 million from November 2023 onwards to November 2025. And I was just hoping for an explanation behind that drop.

Eli Kalif
Chief Financial Officer & Executive Vice President, Teva Pharmaceutical Industries Ltd.
A

Yes. So actually, the facility is around $1 billion. We are not using the full of it. We use $800 million as an opportunity for us to be flexible on that program by actually initiating further enhancements on other elements of working capital that will allow us to be more flexible and reduce that program going forward.

Rishi Parekh
Analyst, JPMorgan Securities LLC
Q

Okay, Great. I follow with my direct questions later. Thanks.

Eli Kalif
Chief Financial Officer & Executive Vice President, Teva Pharmaceutical Industries Ltd.
A

Yeah. Thanks.

Richard Francis
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.
A

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Thank you. Thank you for your questions. I'd like to thank everybody for the questions and interest on the call today. And I'd like to also apologize for some of the technical issues at the start. That's always something you can't sometimes control, but I appreciate you bearing with us.

And on that, I'd like to close the call. Once again, thank you for your interest and look forward to talking to you on future calls.

Operator: Thank you. This does conclude the conference for today. Thank you for participating and you may now disconnect.

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