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Teva Pharmaceutical Industries Ltd.

(TEVA)

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CORPORATE PARTICIPANTS

Christopher J. Stevo
Senior Vice President-Investor Relations & Competitive Intelligence, Teva Pharmaceutical Industries Ltd.

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

Eric A. Hughes
Executive Vice President-Global R&D & Chief Medical Officer, Teva Pharmaceutical Industries Ltd.

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

OTHER PARTICIPANTS

Umer Raffat
Analyst, Evercore ISI

Jason M. Gerberry
Analyst, BofA Securities, Inc.

David Amsellem
Analyst, Piper Sandler & Co.

Balaji Prasad
Analyst, Barclays Capital, Inc.

Ashwani Verma
Analyst, UBS Securities LLC

Yifeng Liu
Analyst, HSBC Bank Plc

Glen Santangelo
Analyst, Jefferies LLC

Chris Schott
Analyst, JPMorgan Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Hello, and welcome to the Fourth Quarter and Full Year 2024 Teva Pharmaceutical Industries Earnings Conference Call. My name is Alex and I'll be coordinating the call today. [Operator Instructions]

And I'll hand it over to your host, Chris Stevo, SVP-Investor Relations. Please go ahead.

Christopher J. Stevo

Senior Vice President-Investor Relations & Competitive Intelligence, Teva Pharmaceutical Industries Ltd.

Thank you, Alex. Good morning and good afternoon, everyone. I'd like to remind you briefly that we're going to be making forward-looking statements on this call. Any statements we make are as of today only, and we undertake no obligation to update these statements afterwards. And if you have any questions about forward-looking statements or other risk disclosures, please see our SEC filings under Forms 10-K and 10-Q.

And with that, let me turn it over to Richard.

Richard Francis

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

Thank you, Chris, and good morning, good afternoon, everybody. Thank you for dialing in for the call. Really excited to talk to you today about the 2024 performance of Teva and the lookout for 2025. So, as usual, I'm going to go back to the strategy, the Pivot to Growth strategy, what we set out in 2023, and what we accomplished of

this strategy in 2024. As you remember, it's based on four pillars: deliver on growth engines, step up innovation, create a sustainable generics powerhouse, and focus to business. And I'm really pleased to say that we've made really good progress across 2024 on all of these pillars.

As you'll see, AUSTEDO had another great year, up 34%. UZEDY had a very strong year, beating its target of $100 million and $117 million. And AJOVY grew at 18%, and reached the $0.5 billion number.

And step up innovation, great progress there by Eric and his team. Obviously, we saw the results of duvakitug at the end of last year where we think we are best in class and best by design. In olanzapine, we had the full safety data set, so we now know we don't have any PDSS in this patient population in this trial. And DARI, we've really moved fast into the clinic with our ICS/SABA, and 91% of sites are recruited.

On the generics business, all regions are growing for the second year straight, which is good, and our product launches have shown good performance to drive that growth.

And then on focus to business, it was good to see external endorsement of the improvement of Teva, with all the credit ratings improving their outlook for the company. And it's good to see that our TAPI business is back to growth, four quarters of growth and full year growth. So, really good start and really good progress on the Pivot to Growth strategy.

And how does this translate into growth? Well, as you see, eight quarters of growth we've had now after a number of years of decline. So, there's a consistency here which really pleases me, and congratulations to the team.

I'd just like to highlight here, just for transparency, we have highlighted that one-off payment we got from Sanofi in Q4 2023, but this performance puts us on track to hit our 5% CAGR that we committed to in 2027.

Now, to give you a bit of detail on this and the numbers, what drove the 9% in revenue? I'll go into that in a bit of detail, but let's start at the high level P&L. $16.5 billion of revenue, up 9%. So, the high end of our outlook. Our adjusted EBITDA was $4.8 billion, also up 9%. And our non-GAAP EPS, $2.49, up 10%. Free cash flow, up 10%, also at $2.1 billion. And it's good to see that our net debt to EBITDA is now close to touching $3 billion. And I remind you all that we did give a guidance up twice throughout the year. So, I think this performance is a strong performance, one we're very proud of.

But let me now go into a bit of detail as to what's behind this. So, all three of our businesses grew: our innovative business, our generics business, and our API business. And as you see, led by AUSTEDO, up 36%, close to $1.7 billion. Really strong performance again there. AJOVY, up 18%. As I said, out just over $0.5 billion. And UZEDY, $117 million. The generics business, close to $9.5 billion, up 11%. And API, at 3%. So, across all of our businesses, we've driven this 9% growth.

Now let's go into the innovative business first. So, on AUSTEDO, I want to be clear. We are on target to hit our $2.5 billion in 2027, and you'll see why. Why are we confident about that is because the US revenues are $1.642 billion. It's a 34% growth. And we've got strong TRx growth of 34% also. I'd like to point out, it has nice contribution from the rest of the world now starting to kick in with $46 million. And because of this confidence we have, our outlook of $1.9 billion to just over $2 billion for 2025 I think shows the strong belief we have in this product. I'd like to remind everybody, there's still a huge unmet medical need of the 800,000 patients who suffer from tardive dyskinesia. Only 6% are on treatment. So, we see a long runway for this product.

Now moving on to UZEDY. UZEDY, really pleased with what the team have done here. I think it goes to show what a really good differentiated product we have and what a world-class team we have out in the field. We did $117 million for the full year. So, we beat our guidance of $100 million, and we're planning to do $160 million in 2025. So, another growth contributor going into this year.

As we move on to AJOVY, I'm very proud of AJOVY. It's an interesting product that when I came here, I think people weren't sure what this could do going forward. But I think the company and the team have shown what they can do, even in a very competitive market across all of our regions. The 18% growth I think shows the ability for our teams, whether it's in Europe, USA, or international markets, to take market share. And we've grown market share across all of our regions here. So, congratulations to the team. And because of that, we're giving guidance of $600 million for 2025. So, a really good strong contribution from our innovative business and a good strong growth going forward into 2025.

Now moving on to the second pillar, which is step up innovation, which Eric will go into lot more detail. But I can't help talk about it because I'm so excited about it. So, if you look at our late-stage products here, olanzapine, ICS/SABA DARI, and duvakitug, these are all products which are coming to markets which have significant unmet medical need. And we come into the market in the near term. Olanzapine will be in 2026. ICS/SABA DARI will be in 2027, around about that. And duvakitug will be towards a year or two later. So, really excited about this. And we'll be entering Phase III with duvakitug this year, and we'll be talking about some indications as well.

Now, our early-stage pipeline is also exciting. I would remind people that the anti-IL15 and the anti-PD1-IL2 were developed and created by the same team who created what we believe is best-in-class TL1A duvakitug. So, very excited about this pipeline, and Eric will go into bit more detail.

Now moving on to the third pillar, which is our create a sustainable generics powerhouse, starting with our biosimilars. Our strategy was to build a broad portfolio, and we're up to 18 assets now. And you saw us do a couple of partnerships, a few partnerships last year to build out this portfolio even further. But I think what is exciting to see is, in between now, this year, 2025, and 2027, we will launch seven assets into the United States, and we'll launch four biosimilar assets into Europe. So, this is really starting to build momentum and acceleration for our biosimilar business. And that will also help us drive growth on the top and bottom line towards our 2027 targets.

Now getting to the core generics business, another strong year, and, as I said, across all regions. And this was where we just started to tighten our capability and our focus operationally. We've improved our ability to launch our new products across all regions, on time more often. We've improved our supply chain, making sure we can supply the market on time more often. And we're also doing some work – we did some work in 2024, and this will continue to make sure we improve that efficiency within our supply chain so we can reduce our COGS and become even more competitive over the long term. But this generics business grew 11%, so very strong.

Now let me give you a bit of detail on what the regions did, and I think all the regions stepped up to drive this 11%. Another year of strong growth by the US team. So, congratulations to them. And Europe, 6%. As you know, this is a very big business, and we see mid-single-digit growth from Europe now consistently. So, another strong year for the team. And international markets at 15% consistently deliver double-digit growth.

Now moving on to the final pillar, which is focus to business, and this is where TAPI comes in. I'm really pleased with the work the TAPI team have done. We've taken this business from decline to growth, and the momentum is increasing. And we have confidence that we can continue this growth into mid to high single digits. The third party

business and the pipeline is growing significantly in 2024. We continue to see that happen in 2025, and we continue with the divestment process.

Now talking about the fourth pillar, we always talk about capital allocation. We're very much focused on this at Teva. And just to remind everybody, as we generate more cash, more capital, we'll pull that to pay down our debt. That's the number one priority. But then, we'll invest in the growth engines. As you see, we get a good return on that investment with AUSTEDO, AJOVY and UZEDY.

And then, with this exciting pipeline, Eric also will get the capital to make sure that we can maximize that, obviously, because some of this pipeline will have the opportunity to go into a number of indications. And then, we'll do – we'll supplement all of this with business development.

So, that's what we've done in 2025 from a business point of view. Now, I'll hand over to Eric who's going to talk you through that pipeline that we're so excited about.

Eric A. Hughes

Executive Vice President-Global R&D & Chief Medical Officer, Teva Pharmaceutical Industries Ltd.

Thank you, Richard. I first wanted to start off by saying we're very excited by the announcement of our top line results for our duvakitug program last month. The data speaks for itself. Great dose response in both ulcerative colitis and Crohn's disease and these treatment effects are the highest reported for this MOA. So, great work by the team and we're very excited to show these results.

This was a validation of what we've been saying about the fundamentals of this program. Duvakitug has high potency in vitro; has high selectivity for the DR3 receptor; has low antidrug antibodies; it shows a rapid, profound and prolonged suppression of the free TL1A levels in the serum; and we've consistently shown a favorable safety and tolerability profile to-date. So, very excited by the data and we're very pleased that this will be presented as late breakers for both ulcerative colitis and Crohn's disease at the ECCO conference on February 22 in Berlin. So, great work by the team.

Now, this next slide, I could also say it speaks for itself, but I don't want to say that today. I want to really walk through this, because this is a very important slide when it comes to our duvakitug program. TL1A is produced by a variety of cells, mucosal cells and immune cells. And the stimulus for the release of free TL1A is both microbial and non-microbial signals. But TL1A acts as a key amplifying signal. It binds to a variety of different cells in the immune system that secrete a variety of different cytokines and trigger different signaling pathways. It also binds the fibrotic cells and has an impact on fibrosis and the maturation of fibrotic matrix.

Now, what does this mean? Well, it means that you can envision many different indications that this program could go into, from Crohn's disease, all the way down to idiopathic pulmonary fibrosis. And to really put this in context, we listed a number of marketed products that you all know very well. You know the impact that all these programs and these products have on patients worldwide. But it's important to remember, these programs and products only hit specific subsets of these signaling pathways.

So, it's really exciting to think about the prospect of what a compound like duvakitug could do when hitting this amplification signal of a variety of different cellular pathways. So, it really is a portfolio and a product. And the future, I believe, is very bright for the birth of this new class of MOA.

Moving on to our dual-action rescue inhaler program. Very exciting program. Very big program for Teva. It's important to remember, there's 11 million people in the US today who are still using a single albuterol, like a

SABA single agent for their asthma exacerbation. So, it's a large population. But we already know that GINA guidelines actually recommend using a dual-action rescue inhaler. You should be getting a beta-agonist, plus a steroid when you have an asthma exacerbation. So, Teva is very proud to be bringing forward an easy-to-use dual-action rescue inhaler, dry powder inhaler device.

And to give a little bit more color as to why the dry powder inhaler device is important, it's the difference between what's available now, a metered dose inhaler, which is the old spray-type inhaler device compared to our dry powder. And the difference is, our product doesn't require any priming, it doesn't require any shaking, no hand-breath coordination is needed, no spacers are needed and it's not complicated by cleaning. It's simply open, inhale and close. So, it's an easy-to-use product both by pediatrics and adults.

And just to remind you what our Phase III program looks like, it's a three-arm study. It's a large study of over 2,000 patients that we use two different doses compared to albuterol alone. It's exciting that we're including patients all the way down to the age of 4 through adulthood. It's a primary endpoint looking at asthma exacerbations and it's an event-driven study. So, our focus this year is enrolling it. We've got over 91% of our sites up and running at this point and this is going to be a very big focus for us in R&D this year.

And last but not least, our olanzapine LAI program is right on schedule. Our last patient, last visit will be imminently at the end of this month. We're looking to present the full safety database in the second quarter of this year at a conference and we're looking for the NDA submission in the second half of this year. Very excited about this program. I think it's going to be an important product for patients with schizophrenia.

And last, I just wanted to point out and pause for a minute and say how far we've come in the innovative programs at Teva over the last two years. I'm proud to say that all these programs now have dosed or are dosing in all these different indications at this point. As I mentioned, olanzapine LAI, we're looking for the submission this year after the presentation of the last data in the safety. The DARI program, as I mentioned, is our biggest Phase III study to-date at Teva and we really got a good head start on our site initiations. Duvakitug was a great end-of-the-year presentation with the data and we're excited to be working with Sanofi to get the Phase III started this year. Emrusolmin is dosing a high unmet medical need for multiple system atrophy. Anti-IL15 is now in celiac and vitiligo. And last but not least, we're now dosing patients in our anti-PD1-IL2 program in oncology.

So, it's been a great two years and wait for more this year. And with that, I'm going to pass it off to Eli.

Eli Kalif

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

Thank you, Eric, and good morning and good afternoon to everyone. I will begin my review of our 2024 financial results, focusing on our fourth quarter performance. I will follow up this one with the introduction of our non-GAAP outlook for 2025 and some of its important assumptions to help you to better understand our financial guidance for this year.

Beginning on slide 27, I would like to remind everyone that in the fourth quarter of 2023, Teva entered to exclusive collaboration with Sanofi to develop and commercialize Teva's anti-TL1A asset, duvakitug. As we communicated previously, per the terms of the collaboration agreement, Teva received an upfront payment of $500 million in the fourth quarter of 2023, which we recognized as revenue. This payment positively contributed $500 million, both our revenue and free cash flow, and had a positive contribution to our adjusted EBITDA of approximately $430 million.

During the presentation, I will discuss certain results, including revenue, profit and free cash flow for the quarter and for the full year of 2024, excluding the impact of this upfront milestone payment in 2023 to also provide you a like-to-like comparison of our financial results.

Now, starting with our Q4 GAAP performance. Revenue in the fourth quarter of 2024 were $4.2 billion, a decrease of 5% in both US dollars and local currency terms compared to the fourth quarter of 2023. Excluding the Sanofi payment, revenue increased 7% in both US dollars and local currency terms compared to the fourth quarter of 2023. This increase was mainly driven by strong growth from our key innovative products, AUSTEDO, UZEDY, and AJOVY, growth from our generics products across all our segments globally, as well as from sale of certain product rights.

In Q4 2024, we recorded a GAAP operating loss of $29 million, compared to a GAAP operating income of $755 million in the same quarter of last year. The main driver of the decrease was the Sanofi upfront payment, as well as a goodwill impairment charge in Q4 2024 related to our API reporting unit. Our GAAP net loss and net loss per share were $217 million and $0.19, respectively, which were primarily driven by the decline in operating income that I just explained.

Turning to slide 28. You can see that the total non-GAAP adjustment in the fourth quarter of 2024 were $1,033 million. This included impairment of a long-lived asset of $517 million, mainly related to the classification of our business venture in Japan and our API business as a held-for-sale, as well as a $280 million goodwill impairment charge also related to that same business.

Now moving to slide 29. We will review our non-GAAP performance. As I already mentioned, our fourth quarter revenue were approximately $4.2 billion. Our annual revenue in 2024 were $16.5 billion, an increase of 8% in US dollars and 9% in local currency terms compared to 2023, excluding the contribution from the Sanofi upfront payment.

Next, let's move down to P&L, starting with the gross profit margin. Our non-GAAP gross profit margin was 54.8%, compared to 58.2% in Q4 2023. Excluding the upfront payment in 2023, our gross profit margins improved by approximately 150 basis points year-over-year. This improvement was driven by ongoing improvement in our portfolio mix, mainly coming from AUSTEDO, as well as the sale of certain product rights. As we have communicated previously, sale of these legacy brands and generics product rights is in line with our strategy to constantly optimize our product portfolio with a focus on a long-term profitability.

Overall, we saw a gradual and sustainable improvement in our gross profit margin. This was despite significant FX headwinds, which negatively impacted our revenue by approximately $257 million and a gross profit by $187 million, mainly as a result of a stronger US dollar against the currencies of certain of our international markets.

Non-GAAP operating margin was 27.6% in Q4 2024, slightly below the fourth quarter of 2023 excluding the upfront payment last year, mainly due to higher operating expenses as a percentage of revenue, reflecting our deliberate investment in R&D and sales marketing to drive growth in both of our key products, as well as a further acceleration of our pipeline.

Turning to EPS. We ended the quarter with a non-GAAP earning per share of $0.71, compared to $0.69 in Q4 2023, excluding the upfront payment, mainly driven by higher absolute levels of operating income.

Now moving to slide 30. This slide highlights our focus and balanced approach to drive steady improvements in profit and cash flow as we continue to invest in our business for short and long term growth. As I mentioned

earlier, excluding the upfront payment last year, our gross profit and free cash flow improved in 2024, driven by our portfolio mix, with a strong growth coming from our key innovative products. This allow us to reinvest a portion of that gross profit into the sales marketing and R&D to support our growing innovative portfolio and progressing our key pipeline assets leading to high operating expenses. We believe this balanced cost allocation is important for us in the short term to create a business with both long term growth and profitability, with the growth of a mix in higher margin innovative portfolio.

Our free cash flow in 2024 was just over $2 billion. At the point – at the end of the point of our guidance range, increasing by approximately 10% versus 2023, excluding the upfront payment from Sanofi, driven by higher net profit and our ongoing efforts to improve our working capital management, partially offset by higher legal payments. As a reminder, our free cash flow in 2024 included $522 million litigation payments, which was increase of $57 million compared to 2023. These payments include a settlement related to a legacy litigation that we have put behind us to focus on our growth strategy.

Moving to the next slide. I want to remind everyone of our commitment to continue to deleverage as we remain focused on executing the next phase of our Pivot to Growth journey. Throughout 2024, we continue to reduce our net debt, which was approximately $14.5 billion at the end of the year. Our gross debt was $17.8 billion, compared to $19.8 billion at the end of 2023, mainly reflecting the repayment of approximately $1.6 billion of our senior notes at maturity. We also improved our net debt to EBITDA ratio, which is now approximately 3 times and on track to our 2027 targets of 2 times leverage.

As you can see on this slide, the execution of our Pivot to Growth strategy, along with our disciplined capital allocation policy over the last several quarters, has been recognized by the leading credit ratings agencies. All three major agencies have upgraded Teva credit ratings and outlook in the last six months to reflect our improved growth prospects and continue strengthening our balance sheet. These upgrades are a testament of our focused execution, and we remain committed to achieving an investment-grade rating, in line to our 2027 financial targets. Of the 70 global biopharma companies rated by S&P, Teva is one of only two with a positive credit outlook. A positive outlook indicate that an issuer's credit metrics are expected to improve.

Now, let's turn our attention to the 2025 non-GAAP outlook. As Richard and Eric talked about, and as reflected in our financial results of 2024, that was a very strong year with our progress in our Pivot to Growth strategy. We delivered solid revenue growth, improved margin and cash flow, and invested in our key growth drivers and our promising pipeline, while navigating the impact of macro headwinds, such as foreign exchange movement.

As a reminder, in 2024, approximately 47% of our revenue were denominated in currencies other than US dollars. In general, an increase in the US dollars versus other currencies in which we operated subjected to our hedging strategy has an impact on our revenue, profit, and cash flow. In 2025, we remain focused in executing the next phase of our strategy. We are also mindful of the industry dynamics, including the effect of the Inflation Reduction Act in the US market, our financial guidance considering these evolving dynamics, as well as the headwinds from foreign exchange movements.

Now, before I talk about the specifics, I thought it will be helpful to lay out our financial guidance to make comparison as simple as possible in light of the ongoing divestiture process of the Teva API in Japan generics business. The guidance range we are providing today assume a full year contribution from these assets in order to allow like-to-like comparison. We plan on revisiting our guidance to include only their actual divestiture financial results upon closing. The guidance also excludes any contribution from potential development milestone payments from our partner, Sanofi, for the Phase III initiation of our anti-TL1A program, duvakitug. We will revise our guidance to include these milestone payments when they are earned.

With this in mind, we expect 2025 revenue of $16.8 billion to $17.4 billion. This represents a growth of 2% to 5% compared to 2024, driven by the continued strong momentum in our innovative portfolio, including AUSTEDO, AJOVY, and UZEDY, along with the generics business that will grow, although more slowly than 2024.

We expect gross margin in 2025 to be stable and consistent with 2024 level, approximately in the range of 53% to 54%. As I mentioned earlier, our gross margin in 2024 benefited partially from the sale of certain product rights, consistent with our strategy. Our gross margin performance in 2025 is driven by continuous improvements in our portfolio mix, driven by strong growth in our innovative portfolio and the cost optimization program offsetting the adverse effects of the foreign exchange movements I just mentioned.

Coming to our non-GAAP operating profit. As I mentioned earlier, our focused investment in our key growth assets and our pipeline will continue, consistent with our strategy to drive both the short and long term growth of the company. With that in mind, we expect our operating expenses to be approximately 27% to 28% of revenue for the full year, representing both higher R&D expenses and sales marketing expenses compared to 2024. As a result, our non-GAAP operating income is expected to be between $4.1 billion to $4.6 billion. And our non-GAAP adjusted EBITDA is expected to be between $4.5 billion and $5 billion, both consistent with the 2024 levels at the midpoint of our guidance range.

We expect finance expenses to be approximately $900 million in 2025, lower than 2024, reflecting a lower start-of-the-year debt level and additional net reduction forecast over the course of the 2025. We expect our non-GAAP tax rates to be in the range of 15% to 18%, which bring us the expected non-GAAP earnings per share in the range of $2.35 to $2.65. We expect our 2024 free cash flow to be in the range of $1.6 billion to $1.9 billion. This represented a slight decrease compared to 2024, mainly due to our deliberate efforts to streamline our accounts receivable securitization program as well as to take into account higher legal settlement outflows in 2025, aligned with what I mentioned earlier.

Lastly, as you know, we do not provide quarterly guidance, but I thought I would like to be helpful to provide you some insight regarding the expected quarterly progression. Currently, with expected revenue, we are expecting gradual increase over the course of the year with the revenue in the second half of 2025 slightly higher than the first half. Our non-GAAP margin are also expected to gradually ramp up over the course of the year, in line with the revenue trajectory, as well as improvement in our cost optimization program we have initiated.

With that, this concludes my review and now I will hand it back to Richard for a summary.

Richard Francis

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

Thank you, Eli. So, to conclude, if I go on to the next slide, please. Thank you. The journey of the Pivot to Growth continues. And in 2025, these are the things we're going to focus on with our four pillars.

So, for AUSTEDO, it's aiming towards this target we have of $1.9 billion to $2 billion; UZEDY at $160 million; and AJOVY, over $600 million. So, this is about driving these and delivering on these growth engines.

Step up innovation, I think Eric has talked about that, getting the Phase III started is a clear focus and then finalizing the indications, filing olanzapine and completing the pediatric recruitment for DARI ICS/SABA. So, some really big milestones, I think, we have there for step up innovation.

And then, for the generics business, it's about making sure we continue to do the good work we started in 2024, which is making sure we launch these complex generics that we have 16 over 2024 – sorry, 2025 to 2026 on time; making sure we launch our biosimilars that we have, the 7 in the US and the 4 in Europe on time over 2025 and 2026; and then making sure we improve the efficiency of our business, to make sure we have a good supply chain that's cost effective.

And then, on focus our business, it's doing what Eli said and what I said earlier, is making sure we're allocating capital to the right areas of this business to drive short and long-term growth of this company.

And then, if I go on to the next slide, just to remind everybody, this Pivot to Growth is a journey. We sort of completed the first part, which was return to growth. And then, it's all about making sure we can continue this growth and driving this through our innovative portfolio. And I think we have really good reasons to stay very positive and optimistic because of the pipeline that's coming through now, because of the biosimilars that are coming through, the fact that we've returned our generics business to growth across all of our regions and the fact that we have plans put in place to drive margin expansion from a portfolio point of view on the top line, but also from a cost of goods and efficiency point of view on the bottom line.

So, a lot of reason to be optimistic about the future. And with that, I'll close and hand it over to the group for questions, please.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question for today comes from Yoon Choi of Evercore ISI. The line is now open. Please go ahead.

Umer Raffat
Analyst, Evercore ISI

Q

Hi, guys. This is Umer filling in for Yoon Choi. I had a couple questions, if I may. First, maybe just big picture. As it relates to the EBITDA trajectory going forward, I know there's clearly investments that will be made on the TL1A program. Just curious how the spend will break out for Teva versus Sanofi as it relates to the new indications as well as it relates to the Phase III program. But then also, there's some AUSTEDO headwinds coming as well from an IRA perspective. So, how do you think about EBITDA trajectory going forward in general?

And secondly, on API business, I noticed in the reconciliation slides, there's some goodwill impairment as well as [ph] tangible (00:35:09) impairment, just trying to understand, have your expectations on API business pulled back in from a valuation perspective? Thank you.

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

A

Thanks, Umer. Thanks for the call. I think we'll tag team on this. I'll start with [ph] EBIT (00:35:22) and then Eli can chime in, and then maybe even Eric a bit.

So, firstly, on the broader question of costs and EBITDA, obviously the partnership we have is about sharing, both the upside and the costs to get there for duvakitug. So, it'll be a 50/50 share of the OpEx going forward. And, obviously, I think your question relates to, as we move not only into Phase III, [ph] but IBD (00:35:47), but what Eric talked about, the multiple indications we're going to be thinking about going into. I think from that point of

view, it goes back to capital allocation and making sure we're focusing the capital on the right areas and duvakitug is definitely a priority.

As we think about it just generally over the course of the business to 2027, what Eli has also highlighted is, we have a lot of good things to invest in. And I think we've shown when we invest, we get a very good return, as in the investments we did in our innovative portfolio. The market is steady. AJOVY and UZEDY have really delivered strong growth and also the investments we did in the pipeline have created real value creation in the short term, but definitely in the long term.

So, I think for us, we're aiming to grow our EBITDA. We want to grow it obviously for that 2027 target. But we want to make sure we're investing in the short term to allow us to not really just hit the 2027 target, but to make sure we're really accelerating this business beyond that.

Would you like to add anything else to that, Eric?

Eric A. Hughes
Executive Vice President-Global R&D & Chief Medical Officer, Teva Pharmaceutical Industries Ltd.
A

I think that the only thing I would add is that the structure and the reason we did the deal with Sanofi and why it was so important, I mean, it was a strategic way of making it possible to achieve the full potential of what a duvakitug program could achieve. And having a partner like Sanofi, cost sharing is a really good way to have locked and loaded this for the future.

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

Thanks. And then, maybe with TAPI, Eli, do you want to take that?

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

Yeah. So, Umer, just on the spend, to come back on the R&D, just kind of a high level, from 2023 to 2024 average, if you were looking about 45 to 55 generics innovative, we're looking now to kind of a third and two-third in between the mix of generics innovative in terms of how we're actually allocating cost into the R&D. And, yes, if in 2023-2024 we're, in average, like, below 6%, we're going to be above 6% in R&D over revenue for the coming years, of course, also for 2025.

As far as related to the API business, on December 31, we classified the API business as a held-for-sale. That actually putting the three elements, which is the R&D related to that business, the manufacturing and the commercial and into assets held-for-sale, which classifying the net assets.

And before you do that kind of an element, you need to kind of do kind of some analysis related to the expected deal structure and that – for integrated kind of a goodwill assessment and after that, [ph] impairment (00:38:29) of assets that those – that you now collapse into that classification.

We're not providing any information related to valuation because I mentioned it in the past. So, we really would like to respect the process and working with our advisor on that perspective. But I will mention that pretty much nothing changed from what I said before in terms of the trajectory and your process on selling the API business.

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

Thanks for the question, Umer.

Umer Raffat
Analyst, Evercore ISI
Q

Thank you.

Operator: Thank you. Our next question comes from Jason Gerberry of Bank of America. Your line is now open. Please go ahead.

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

Hey, guys.

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

Hi, Jason.

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

Thanks for taking my questions. Hey, I just have a couple on the guide. I'm just wanting to understand a little bit. You're – at your midpoint, you're growing sales, I think, $600 million, of which about $300 million of that is AUSTEDO. But yet there's, like, no operating leverage driving through the P&L. So, maybe can you just help us understand that a little bit more?

And then on UZEDY in the second half of last year, you averaged – I mean, you summed up to about $80 million in sales. That's about $160 million run rate. So, I'm just kind of curious as we look to 2025, are you just being conservative on the outlook for that product? Or are there some Part D redesign considerations that may be an impediment to growth? So, those are my questions. Thanks.

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

Thanks. Thanks, Jason. Thanks for the questions. So, I'll start actually in reverse. So, with regard to, you say the – firstly, I'm glad you noticed the strong performance of the team. So, thank you for that. It was a good year in 2024. I do just want to point out that you said he does fall into now the Medicare Part D redesign immediately. And so we take that hit straight away on Jan 1. So, that is the thing that I think may be the disconnect. We still see the opportunity to drive strong growth of the product from a prescription point of view, but we have to let that play out.

And then, from an [ph] OP guide (00:40:36), which I think was a bit similar to the question that was prior, but I think a bit more detail you want, I think what we have also in – and I'll start this, Eli, and then you can chime in, we have a few things.

Firstly, this IRA redesign doesn't just touch UZEDY. It actually hits AUSTEDO. Now, although we got the phase in with AUSTEDO, it still hits us, and I think that's just something for people to start to understand. And, obviously,

AUSTEDO is a big product now because of the success once again that was driven by the team in 2024. So, that's part of that. We do have our legacy innovative plans still declining, and then we have a big FX hit as well.

So, I think those are the things that sort of contribute a bit to that. And then the thing we've – Eli highlighted around, we are probably going to be investing a bit more to make sure the opportunities that we got in front of us, which I think everybody sees, are really clear. We don't – not invest enough in those to make sure we can create the long term success that we planned in Pivot to Growth.

But maybe, Eli, I'll let you add to that.

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

Yeah. Yes. So, Jason, thanks for the question. Just to kind of level-set, right, if we end up the year with 53.3% on gross margin, if you actually break out the impact of $190 million on FX, this company is running 54.5%. I know the market is now looking on more or less the same gross margin, but from the fact that we have the majority, part of our revenue is non-dominated US dollars with the FX fluctuation and what we saw in the last few months, and mostly on euro dollars, we actually remained focused on how to guide, and we're actually baking in some impact on FX. And this is why you see kind of the guidance with 53% to 54%.

And on top of what Richard mentioned, we will see some acceleration on costs, as we mentioned, in terms of R&D and few other elements related to that one. But as a percentage of revenue, we are actually improving our investment in our OpEx, and therefore we don't see much flow-through to the EBITDA, just because of the fact that we are able to grow the business and we were able to show it in the last two years.

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

Thanks, Eli.

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

Thanks for the question, Jason.

Operator: Thank you. Our next question comes from David Amsellem of Piper Sandler. Your line is now open. Please go ahead.

David Amsellem Q
Analyst, Piper Sandler & Co.

Thanks. So, I know you're getting a lot of questions on Revlimid. And what, the business looks like in 2026 with Revlimid eroding. But can you just give us a more detailed road map on how you're thinking about newer products that could make up for the impact of losing sales on Revlimid? Is it going to be mostly biosimilars weighted or complex small molecule weighted? Can you just talk about what specific products and what kind of products you think are going to make up for that shortfall for next year?

And then secondly, I know you probably can't give too many – too much in the way of detail on this, but regarding the lawsuit versus CMS, any color on just sort of timing for arguments and how we should think about next steps there? Thank you.

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

A

Thanks, David. Thanks for the questions. So, on the Revlimid. Yeah. Let me see if I can answer that, to your satisfaction. So, once again, great performance that we've seen by the team in the US to drive the success of Revlimid, but that does create a headwind potentially in the future if not too careful. So, how do we deal with that?

So, firstly, I sort of want to take it to a macro level. So, firstly, because of the way the company is structured now and the growth rates we have in our innovative business and our ex-US business. I think from an overall growth rate of the company, I think we're in a position to weather the, if you want to call it, loss of exclusivity, which sounds a bit strange with the generics, but that cliff, than we ever would in the past. So, I think that's important.

But if you break it down a bit more specifically because I think that's where your question was, from a generics business, remember that two-thirds of our business is not in generics. And as you saw, that's growing very strongly and that's very profitable. So, that's something that balances it.

Then going in and clicking, double-clicking to go deeper into the US, which is I think specifically where your question is, we have 16 complex generic launches that we're going to do in 2025 and 2026. So, one of the things we have to do is maximize those, and launch those on time and maximize those. The other is, we have a number of biosimilars that are coming out in 2025 or – and some in 2026 in the US, and so we need to maximize those. As well as we had some biosimilars that have launched slowly in the market, but we see those have an opportunity to contribute in 2026.

So, you have all of those things going together. And our aim and our ambition is to manage that drop-off, which, by the way, we planned for it at being a cliff, so we haven't anticipated any soft landing. That's how we plan to deal with it.

And if I take it, but right back to the beginning again, but on a macro level, don't forget, we have AUSTEDO accelerating. We have UZEDY accelerating. We have AJOVY accelerating. We have olanzapine launched in 2026. We'll have ICS/SABA not far behind that. And so we have a lot of things to continue the trajectory of growth.

Now I know the focus will be on 2026, and we'll look to manage that as best we can. But if you look at 2027, 2028, and beyond, I think the direction of travel for the revenue and the bottom line is clear, based on all of those assets we have coming through.

But I hope that helped, David.

David Amsellem
Analyst, Piper Sandler & Co.

Q

Yeah. That's helpful. Thank you. And then CMS, last impression?

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

A

Oh, yeah. Sorry. Forget about that lawsuit. So, yeah. So, you're right. Unfortunately, I can't say too much about it because obviously we're in litigation. But I think – so as we get more clarity on that, we'll let you know. From a timing point of view, we may have something that we can talk about later in the year. But, obviously, this is not something where we're necessarily in control of the timelines.

Thanks for your questions, David.

David Amsellem
Analyst, Piper Sandler & Co.

Q

Thank you.

Operator: Thank you. Our next question comes from Balaji Prasad of Barclays. Your line is now open. Please go ahead.

Balaji Prasad
Analyst, Barclays Capital, Inc.

Q

Hi. Good morning, and thanks for the questions. Couple from me for Eli and Richard. Firstly, on the free cash flow decline this year in the guidance, nearly $200 million to $500 million of decline. Can you quantify the impact of these accounts receivables securitization programs? Is this a one-off or is this purely a timing issue? And should we expect a normalized curve into 2026? That's one.

And two, probing further on the EBITDA guidance, I'm trying to understand. If we set aside generic Revlimid impact, is there any reason to think that the complex generics and biosimilars segment will be dilutive to EBITDA relative to their own profitability in 2024 with the new launches coming in? Thanks.

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

A

So, thanks, Balaji. Good to hear you. I'll hand over the free cash flow to Eli who can explain that.

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

A

Yeah. So, Balaji, we were very transparent, and we mentioned that we are looking to reduce the program on the securitization. To quantify the numbers, it's between $100 million to $200 million. Of course, it depend on the mix of the receivable as we move forward with the year in terms of timing, but that's kind of the element. And, of course, as I mentioned in my prepared remarks, we're going to have kind of a legacy of settlement payments that actually get kind of a timing now in 2025 versus 2024.

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

A

Eli, do you want to take a bit of the EBITDA guidance?

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

A

Yeah. So, our EBITDA, let's say, guidance on the top level is including growth in generics, that is including growth in biosimilars, right, which mean is actually contributing to our margin, would flow through to the EBITDA. We just need to remember that, as I mentioned, if you look actually on the higher range of the revenue and the higher range of the OP, which is resulting with the higher EBITDA, you can see that we're actually around the 27.5% in OpEx. If you go to the midpoint, went kind of above the 28%. And the reason for that one is because of the mix of the revenue and the contribution from the top line to the bottom line, which mean for – to growing from the midpoint to the higher point, we are not actually spending more on OpEx. And this is just about how we view the element in the mix in terms of FX and our ability to grow mostly on the innovative part.

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

A

Yeah. And I think the thing I'd add to that, Eli, and it's important because I think we've been very focused on how we allocate capital within Teva to drive what is being a significant turnaround of this company in two years. We've been able to actually drive the top line while managing the bottom line.

But it's worth noting that the tremendous growth we've seen over eight quarters, excuse me, and the change in direction of AUSTEDO and our innovative products and our pipeline is creating significant value, I think going forward in the short and mid-term, and definitely long term. And I think we've got to be good custodians of our capital to make sure we are driving these opportunities because these opportunities I think we've shown over the last two years do create significant value for the company and for the shareholders.

So, that's one of the things we are always trying to do and manage, and hopefully you've seen us do that. Thanks for the question, Balaji.

Operator: Thank you. Our next question comes from Ash Verma of UBS. Your line is now open. Please go ahead.

Ashwani Verma
Analyst, UBS Securities LLC

Q

Yeah. Thanks. Thanks for taking my question. So, I wanted to go back to the operating margin guidance one more time. So, this year, you're seeing a 100 bps margin compression, which is really opposite direction compared to where you're trying to get to 30% by 2027. So, are you still confident in the long term outlook, given that you'll have more headwinds like Revlimid step-down in 2026 and AUSTEDO IRA impact in 2027? And then I have a follow-up that I'll come back to.

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

A

Okay. Good to hear you, Ash. So, yes. In short, yes. Absolutely. And it comes down to primarily our innovative portfolio, and let me explain. So, as you've seen, the momentum we have with our innovative portfolio is clear, and that's going to keep driving the top line. But it changes our gross margin significantly, which just flows down through the P&L.

So, the biggest thing we do is we improve our portfolio mix. And I think people – when we think about how the sales of this company are going to be made up in 27 versus now, they'll be very different. There'll be a lot of innovative sales there, so that drives a very different trajectory. And I am very confident about AUSTEDO. And I remind everybody, despite the great growth, 34% growth, 34% TRx growth, there's only 6% of the 800,000 patients with tardive dyskinesia on treatment. And I remind people that we are confident we're going to hit the $2.5 billion in 2027, but the $2.5 billion is not the peak sales of AUSTEDO. And so this is primarily driven by revenue. But then we have other factors going to be contributing to the EBITDA, which is we have put together a value acceleration program in our TGO cost base, which is huge, to improve our efficiency within tech ops and that will drive improvement in our gross margin for our generics business, which is still significant as well as improvement in our bottom line.

And so, those things, coupled with the fact that we'll be launching also more new product launches and biosimilars, which drive growth, which, once again, I think when we looked at 2027 back in 2023 and I remember

you were there at that meeting, there was a lot of pessimism as to whether we could grow this generics business and whether we could actually bring the biosimilars to the market. I think we've shown we can.

So, those are the factors why we believe we will hit the 30%. So, it is a bit of hockey stick. I think I've been consistent in saying, it is going to be a hockey stick. But it's based on some good fundamentals of growth on the top line, supported by thoughtful capital allocation and efficiencies we're driving through the business.

Is there anything you want to add to that, Eli?

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

No.

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

Okay. So, maybe your second question, Ash.

Ashwani Verma Q
Analyst, UBS Securities LLC

And just a – just – yeah. Just on the TL1A, so just looking at this ECCO conference abstract, so seems like the 900-mg dose as opposed to the 450-mg is the one that is pretty convincingly beating the placebo, both in the naïve and biologics experience patients. So, high dose seems pretty much very good here. So, what I wanted to ask was, like, what was the rationale for you to discontinue your third dose earlier, which was the highest? And is there any potential to bring that back? Thanks.

Eric A. Hughes A
Executive Vice President-Global R&D & Chief Medical Officer, Teva Pharmaceutical Industries Ltd.

Yeah. Yeah. Thanks for the question, Ash. So, yeah, we're excited to be presenting the duvakitug data at the ECCO conference. And when it comes to the dose response, it's always good in a dose-ranging Phase II study to have a dose response. That really makes the modeling and simulation of your dose, going forward, much more robust. So, we're in the middle of doing that work right now with our partner, Sanofi.

We removed that dose early on, because our biomarkers, as you can see across our program, that we really do suppress the free TL1A very well at all the doses we've been looking at. One of the other reasons we removed that higher dose is because we wanted to actually have more power in these arms. And I think that was a really good decision, because it gave us a great dataset for both the ulcerative colitis and the Crohn's disease. Remember, this is the first well-controlled blinded study for Crohn's disease of this MOA.

So, the data is robust. The way that we redesigned the study is actually good. And we'll see what the modeling simulation is. But it's nice to see that we have this very safe, high therapeutic index right now and we have a lot of places we can go with it.

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

Thanks for the questions, Ash.

Operator: Thank you. Our next question comes from Yifeng Liu of HSBC. Your line is now open. Please go ahead.

Yifeng Liu
Analyst, HSBC Bank Plc

Q

Thanks for taking my question. I've got two, please. Just one on capital allocation. Now, you talk about business development opportunities. Given that you are already quite established in neuroscience and potentially, in the future, immunology, are there any other therapeutic areas or spaces you are interested in branching out?

And the second question is on duvakitug. And just wonder if you could share any other colors that you could on the upcoming Phase III development plan. Thanks.

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

A

Hi, Yifeng. Thanks for the question. So, other capital allocation, business development, other TAs, so, firstly, immunology and neurology or CNS offers a huge variety of diseases, conditions and indications. So, I think that's a pretty big playing field. But where we – a couple things to think about is we believe we have a CNS capability and infrastructure that we want to leverage, both from an R&D and a commercial capability. So, we're really focused on that.

Immunology, yes. That said, as Eric has talked about, with duvakitug having multiple indications and also one of our other products in the pipeline, IL15 – anti-IL15 having multiple indications, we feel we have a lot of immunology. And we're already in our pipeline, which I don't think people necessarily fully appreciate. But we still look there.

And then, outside of that, we do believe that rare disease creates an opportunity for Teva. Now, that would primarily be once again, if possible, align to our therapeutic areas of CNS and immunology, which there is a large potential out there. So, that's how we think about business development.

And on duvakitug, I'll hand that over to Eric.

Eric A. Hughes
Executive Vice President-Global R&D & Chief Medical Officer, Teva Pharmaceutical Industries Ltd.

A

Thank you, Richard, and thanks for the question. Yeah. So, we're focused on the Phase III program with our partner, Sanofi. We're working diligently. The pathway forward is fortunately clear in this disease area. We know what the endpoint should be, we know what the requirements are and we are going to be consistent with what the FDA guidance is.

So, that's one of the great things about these disease areas. What we have to do is clear. Right now, we just have to put the final touches on our plan for the Phase III study design itself, which is really based on the modeling and simulation that we'll use from this first study.

Beyond that, I think that we're excited about other indication in the future. We're thinking about that very hard. We're keeping it close to our chest. But I think I want to focus back on that slide about the potential of what duvakitug could bring to patients in a very broad way with many different indications. That's going to be the exciting next step. But thanks for the interest.

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

A

Thanks for the question, Yifeng.

Operator: Thank you. Our next question comes from Glen Santangelo of Jefferies. Your line is now open. Please go ahead.

Glen Santangelo
Analyst, Jefferies LLC

Q

Yes. Thanks for taking my question. Hey, Eli, I hate to come back to the EBITDA guidance, but I did have a follow-up question. When you look at 2024, it looks like your operating expense has increased 9%. And if I'm doing my math right, most of it looks like it was an increase in sales and marketing versus R&D and G&A. And so, I'm kind of curious, embedded within that 2025 guidance, could you give us a sense for how much of an operating expense increase you're assuming this year versus last year? And will it be more weighted towards sales and marketing or R&D? And then, maybe, as a part of that, could you talk about the impact that FX had in the top line and the operating profit guidance that you've given?

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

A

Okay. Thank you very much for the question. So, first of all, in terms of the dynamics in the OpEx, we are pretty much kind of aligned with our G&A, the movement on growing the sales marketing which is growing versus last year. But we need to understand that inside our R&D, with what we call and what we actually introduce, those financing programs that allowing us to finance the R&D, those one actually supporting our olanzapine, our ICS/SABA, and, of course, the share costs that we have with Sanofi on the TL1A.

As we move forward, we are, as you know, about to – in 2025 to submit the olanzapine, which means that the cost on the Phase III is actually getting down. And what we will see now are more support on the rest of other programs. So, in some way, there is kind of a shift of those funding that happen in 2024 to less funding that's happening in 2025 on certain programs, which mean that if we end with 5.9% on the R&D, we're growing above 6%. So, that's kind of the main change. And our midpoint is taking above 28%, and on the OpEx and our higher point is taking less than 28%

As far as related to the FX, look, last year, we saw kind of $190 million. It's kind of a 1.2%. You will assume that that's more or less the range that we are considering in the spread in the current revenue trajectory guidance.

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

A

Thanks for the question, Glen.

Operator: Thank you. Our next question comes from Chris Schott of JPMorgan. Your line is now open. Please go ahead.

Chris Schott
Analyst, JPMorgan Securities LLC

Q

Great. Thanks so much. Just two questions for me. Can you talk a little bit more about the fourth quarter US generic business? I know the first three quarters are very healthy growth, and this quarter was a little bit less. I'm just trying to understand, is that just timing or something we should be kind of watching there?

And my second question was coming back to the 2027 30% operating margin target. Just tell me a little bit, how much – what type of gross margins should we be thinking about for Teva in that timeframe? I think we're all just trying to kind of bridge what seems like a pipeline that really deserves investments. Launching a bunch of important products, it seems like gross margins is kind of one of the levers there. And I'm just trying to get a sense of, like, how big of a step-up we should be anticipating versus the targets for this year. Thank you.

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

Hi, Chris. Thanks for the questions. So, I'll tag team a bit with Eli on that. So, with regard to US generics, you're right. I think you said the fourth quarter, you felt, was a bit light. I think that was the question with US generics. I'd just like to remind you that Revlimid is allocated. The majority of sales are allocated in quarter two and quarter three. And so that's where you see that sort of quarterly fluctuation in the US. That said, I would like to point out that we did have a few good launches last year that helped minimize that, which I think is important. So, we had, obviously, Victoza. We had [ph] liraglutide (01:02:54), just to name a couple, which I think is sort of less than that. But there is that seasonality which you've always had in – with regard to the Revlimid allocation. That's Q2 and Q3.

And then on the gross margin, I'll sort of start it, and I think your question was in two parts. I think it's, what is the gross margin going to be when we think about 2027? And, Eli, you can take that. Then I think that was a more sort of high-level question, which is, how do you aspire to hit your OP and your gross margin and make sure you don't underinvest in the pipeline, which I think is also a very good question.

So, the way we think about it goes back to capital allocation, and a big part is making sure we do invest. And I think you've seen over the last two years, we've actually invested – we've been all-in in our pipeline. We've accelerated TL1A. When we didn't have Sanofi, we accelerated olanzapine. And we've accelerated ICS/SABA, and we've moved some other products into the clinic. So, I think we look after the pipeline really carefully, but we look after capital at the same time. So, I think that's a balance that we always think carefully about. And as we move forward, I think as the pipeline matures, we'll continue to show that due diligence.

But what we need to keep doing, and we believe we will keep doing, is driving the top line revenue, particularly from our innovative, because that changes the gross margin and it changes the profitability, which allows us to do that without really breaking our investment sort of guidance. That's a balance we have to manage. But I like that challenge because it's all focused on driving long term growth and long term value creation because we have such an exciting pipeline. But we watch carefully.

But maybe over to you, Eli, specifically on the gross margin.

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

Yes. Hi, Chris. Thank you for the question. So, look, we are looking on keep investing our OpEx over revenue, which the trend around 27% will move in the next, I would say – in 2026 to 2027 in average because we have kind of, I would say, more acceleration on R&D this year. So, this is why I mentioned that we end up – we may end up with even 28% this year.

But if we think about it on that trajectory on 27% OpEx and our view on 30% OP, it gives you kind of a range of 56% to 57%. That said, that it will not most likely be linear because it's really related to our mix on the innovative portfolio in terms of our able to grow that business, and also related to what Richard mentioned in our acceleration programs that we're working on across our global operations.

So, you can say, in average, 70 to 100 basis point increase year-over-year, up to a range of 56% to 57% by end of 2027.

Richard Francis

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

A

Hopefully that answers your questions, Chris. Thanks for your questions.

Operator: Thank you. At this time, we'll take no further questions. So, I'll hand back to the speaker team for any further remarks.

Richard Francis

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

Once again, I'd just like to thank everybody for dialing into the Teva call. Thank you for your interest and your questions, and we look forward to giving you updates in a few months on the first quarter of 2025. Have a good day.

Operator: Thank you, all, for joining today's call. You may now disconnect your lines.