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Teva Pharmaceutical Industries Ltd.

(TEVA)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello and welcome to the Q1 2025 Teva Pharmaceutical Industries Limited Earnings Conference Call. My name is Alex. I'll be coordinating the call today. [Operator Instructions] . I'll now hand it over to your host, Christopher Stevo, Head of Investor Relations, to begin. Please go ahead.

Christopher J. Stevo

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

Thank you, Alex. Good morning everyone. In the course of this call, we're going to be making some forward-looking statements and any statements we make are valid only as of today and we undertake no obligation to update them in the future. And if you have any additional questions on our forward-looking statements, you can see the relevant sections of our SEC filings under Forms 10-K and 10-Q.

Additionally, during today's call, all comments made to revenue growth year-over-year will be in local currency terms unless otherwise noted by one of us.

And with that, I will turn it over to Richard Francis.

Richard Francis

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

Thank you, Chris, and good morning, and good afternoon, everybody. Thank you for joining the call. Looking forward to talking to you through this agenda today are myself, Eli Kalif, my CFO, and Eric Hughes, the Head of

R&D. I'm going to go through the business update for Q1, but also we're going to give you an insight into the path towards our 2027 targets and the confidence – and the high level of confidence we have in achieving those.

Now, as you remember, this all started in 2023 with the Pivot to Growth strategy being launched and this was to return the company to growth. And as you can now see, this is our ninth consecutive quarter of growth and this has been driven by executing on our pillars, deliver on our growth engines, step up innovation, sustain new generics powerhouse and focus the business.

And as you'll see throughout the presentation, delivering on our growth engines, we continue to perform strongly with AUSTEDO, AJOVY, and UZEDY. Eric will give you some insight into the progress we've made on our pipeline and why we're excited about it, the filing of olanzapine in the second half of this year and the progress of the Phase 3 trial for duvakitug. You'll see once again, our generics business continues to grow and that will soon to be supported by our biosimilar launches, which I'll talk to later in the presentation.

We're constantly focused on capital allocation and allocating our capital to the highest areas of return to drive growth. As for TAPI, I can tell you that we are still in advanced discussions and I can't comment further until we make an announcement.

So now moving on to the results. So, as you can see, revenue was up 5% to $3.9 billion. Adjusted EBITDA was up 3% and our non-GAAP EPS was up to $0.52, up 8%. Good free cash flow for the quarter and our net debt-to-EBITDA is just above 3.

Now to move on to the next slide. As you can see, and I've mentioned it already, but I will mention it again. This is our ninth consecutive quarter of growth, reemphasizing the fact that the strategy, and the focus and the prioritization we've put around our innovative brands is driving growth on our ninth consecutive quarter.

Now, let me go into a bit more detail as to what is driving this. And I think this is a really important slide and a really important time for Teva to show this slide. What you'll see is the growth was spearheaded by our innovative brands. They reached $589 million in sales, that's a 45% increase over last year. And this was led by AUSTEDO growing at 39% globally, AJOVY up 26%, globally, and UZEDY doubling to $39 million.

Now I'm pleased to show that our generics business continues to grow in this quarter, up 3%, and we have another quarter of growth for TAPI. But let me double-click now and go into some of the detail here. So, starting with AUSTEDO. Really good performance across the world, but this is primarily led by the US. And as you can see, the US business is up 40%, so congratulations to the team here. And this is really driven by two factors. First, the combined effects continues to grow at TRx, but also the continued penetration of AUSTEDO XR. And as you can see, we now have more than 60% of new patients on AUSTEDO XR.

Now the benefits are clear and I think Eric and I have talked about those quite a lot. It reduces pill burden, it creates an optimal dosing and subsequently leads to better patient adherence, and compliance and as you can see here, the US milligrams growth is up 38%. And because of this good start to the year, we are narrowing the guidance here. We're just raising the bottom end by $50 million to $1.950 billion for the year.

Now to move on to UZEDY. UZEDY continues with strong momentum, and I'm pleased to show that the TRx continues to grow up 177%. Obviously this was on a small base. But I think what is pleasing to see here is that we've now gained over 60% of the share of the risperidone long-acting market. Now what this means is going forward, we need to start to compete more broadly in the long-acting market, so that's including patients not treated with the oral or the long-acting risperidone. Now, we believe we have confidence in doing this because of

the strong product profile we have that Eric and I once again talk a lot about. The fact that you can reach therapeutic dose within 24 hours without supplementary therapy is a very big positive for physicians, as well as the subcutaneous needle, and the fact that it doesn't have to be stored in a fridge, so good growth there from UZEDY.

Now moving on to AJOVY. AJOVY, up 26%, reconfirming our guidance for $600 million. And once again, what pleases me about this is it shows that we can execute on our innovative brands globally, not just in the US. And good growth we've seen in Europe and good growth in international markets. And some nice data points here that I just want to reference. We are the number one preventative CGRP injectable in the top US headache centers, and we are the number one preventative CGRP injectables in 28 markets across Europe and international.

So these three products really show our ability to drive innovative brands [indiscernible] (00:06:56) bring into the market, so congratulations to all the people that are responsible for this.

Now as I move on to our generics business, as you can see, we continue to grow our generics business up 3% year-on-year. And as you can see, we grew this across all of our regions, 5% in the US, 1% in Europe, and 2% in international markets. Now this is a slower growth than we've had in previous years, and this was really because of the prior comparisons, where we had a number of launches across all of our markets. And in Europe, we had a number of tenders, which will not be repeated in Q1.

We also saw the slowdown in inflationary in many of our international and European markets, so that has also impacted us. Now, what I'd like to point out, Q1 represents the high watermark, likely high watermark for 2025, so just factor that in as you consider our generics business going forward.

Now I'd like to take a moment to talk about our biosimilar business. And we've talked about this from a point of view that we have a portfolio strategy play, and we're going to bring multiple products to the market and we're starting to see that happen now. As you can see in Q1, we launched two products in the United States, biosimilar Humira and biosimilar SOLARIS, so congratulations to the team for bringing those to the market.

But in 2025 to 2027, we have another five products to launch. And some of these, depending on FDA approval, could actually come in 2025. But this just emphasizes the fact that we have a number of portfolio of biosimilars coming to the market, and this gives us a real chance to grow our biosimilar business at a faster rate than we have in the past.

Now I want to take a bit of time, that's Q1, and I focused on driving the business in Q1 and giving you an outlook on that. Now I want to take a moment to talk about why we are so confident about hitting our 2027 targets. And this really comes down to two areas of focus. One is how do we keep driving the top line, and the second is how do we manage our OpEx and capital allocation.

So let me start with the first one. So as you can see here, we have multiple growth drivers for 2027. Touching upon some of the brands I've just spoken about, in our innovative portfolio of AUSTEDO and AJOVY, we see continued growth in these over this period, and we're confident about hitting $2.5 billion of sales for AUSTEDO in 2027. But this will also be supported by UZEDY, as you've seen good growth with UZEDY, and that will be joined by olanzapine in the second half of next year as that comes to the market, so we'll have a nice long-acting franchise in schizophrenia.

Now as you think about our generics business, we think about that being stable from 2025 to 2027. And in our generics business, we include OTC and biosimilars. But just like to point out, that means we'll be offsetting the

generics Revlimid impact by 2027. And then if you factor in our legacy innovative brands like COPAXONE and BENDEKA, we anticipate they will continue their slow decline. What is worth pointing out on this slide is that this growth is predominantly driven by our innovative portfolio, which is a high-margin business.

Now, if I move on to the next slide, I'd like to talk to you about how we're thinking about capital allocation and OpEx. But this is more fundamental than this. This is really about transforming Teva from a pure-play generics company into a leading biopharmaceutical company. And we're going to do this by primarily focusing on three areas. First is modernizing the organization, leveraging our regional hubs, driving more automation, reducing layers, and then prioritizing resource allocation, reducing costs in functions like G&A and TGO, and making sure we allocate them to the growth drivers I just mentioned on the previous slide, and then optimizing our external spend. We have a lot of suppliers and that we have an opportunity to consolidate those and really optimize our procurement.

Now when we do that, we're going to end up with, in 2027, $700 million of net savings. And that is after the reinvestment in our growth portfolio that I've just mentioned, and our pipeline, while offsetting the generic Revlimid profit/loss in 2026. So as you can see, we have a very clear path to achieving 30% operating margin in 2027.

Now with that, I would like to hand over to Eli Kalif, who's going to walk you through the financials and a bit more detail on that 30% operating margin. Over to you, Eli.

Eli Kalif

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

Thank you, Richard, and good morning and good afternoon to everyone. I really would like to start with the following key messages that I believe are important, and I would like you to take away from our call today.

Firstly, Q1 came with a solid performance, demonstrating our constant execution. Secondly, our continued improvements on strengthening our balance sheet and more specifically our working capital and leverage. Third, our confidence in the targeted programs to deliver approximately $700 million of net savings, in line with our Pivot to Growth strategy, solidifying our 30% operating profit margin targeted by 2027. And lastly, the new confirmed US tariff have been absorbed within our full year updated guidance for 2025.

Now moving to slide 18 to review our Q1 2025 financial results. Starting with our GAAP performance. Please note that throughout my remarks, I will refer to revenue growth mainly in local currency terms, unless I specify otherwise. Q1 was financially solid, with revenue of approximately $3.9 billion, growing at 2% in US dollars, or 5% in local currency, net of negative FX impact of approximately $100 million after hedging. This is our ninth consecutive quarter of growth since we established our Pivot to Growth strategy in May 23. We saw a strong momentum in our innovative products, particular on AUSTEDO, AJOVY, and UZEDY. For generics, we saw broad-based growth across all the regions. GAAP net income and earnings per share were $240 million and $0.18 respectively.

Now, let's look on our non-GAAP performance. Our non-GAAP gross margin grew by 140 basis points year-over-year to 52.8%. The main drivers of this increase were positive shift in the portfolio mix, especially AUSTEDO, strong continued growth, partially offset by negative FX impact. Our gross margin in Q1 was slightly better than our normal seasonality and our internal expectation for Q1, benefiting from favorable timing of shipments and improved product mix towards the end of the quarter. About two-thirds of that gross margin improved flow through to operating margins, which grew by 100 basis points year-over-year. We ended the quarter with a non-GAAP earnings per share of $0.52, an increase of $0.04, or 8% year-over-year, but the non-GAAP adjustment in the first quarter of 2025 were $388 million.

Turning to slide 19. We have significantly transformed our balance sheet and cash generation capability over the last five years to enable growth. I'm really proud of our team's efforts across operational and commercial processes, which have led to improved net working capital as a percentage of revenue and reduced cash conversion days, while at the same time creating a more nimble supply chain. These efforts have unlocked approximately $1.7 billion of capital since the end of 2021, which we have consistently deployed to reduce leverage and reinvest in the business.

Our gross debt at the end of Q1 was $16.7 billion compared to $17.8 billion at the end of the year. This decrease in our gross debt was mainly due to a repayment of $1.4 billion of notes at maturity, partially offset by exchange rate fluctuations. Our net debt was $15 billion and the net debt to EBITDA remained just over three times. As I mentioned in January, our free cash flow guidance represent a slight decrease compared to 2024, mainly due to our deliberate efforts to streamline our account receivable securitization program, as well as taking into account higher scheduled legal settlement outflow this year. I believe excluding such legal payments highlights the improvement in our underlying cash generation, which has consistently led to a cash conversion in line with our long-term targets of 80% or more. As we have moved into our growth acceleration phase of our strategy, we are now focusing on further enhancement to free up additional capital, which can reinvest in our business.

On slide 20, I know that all of you have questions about tariffs, and I wanted to address this for you. While the situation regarding trade and tariffs remain dynamic, based on what we know today and the tariffs that are already in place on China, we have absorbed this impact in our revised guidance for 2025. And we not see any material impact on our business. Importantly, I want to remind everyone that Teva has a substantial US manufacturing footprint. A significant amount of the US innovative revenue is US manufactured, include AUSTEDO, our largest product. Our US manufacturing footprint includes eight manufacturing sites, the largest among the generics players.

Teva is also uniquely positioned given our very limited exposure to China and India from a sourcing perspective. While we continue to closely watch on ongoing development, we are taking a proactive measure in our supply chain to mitigate potential risk. At this point, we feel well positioned in our ability to navigate the potential impacts from the US tariffs. Moving to slide 21. As Richard mentioned earlier, we are transforming Teva with a targeted program to become a world-class biopharma company. Our commitment remains clear: to deliver sustainable margin improvement without compromising our ability to innovate and to invest in our long-term growth. What you see from this slide is that overall, this transformation program will deliver approximately $700 million of net savings between 2025 and 2027 and provide us a clear path to our 30% operating margin targeted by expanding gross margins to be between 57% to 58% by 2027, while keeping operating expenses at the range of 27% to 28% of revenue despite continuous investment in growth and pipeline.

On slide 22, I really want to spend time and to show you the bridge between our current margins and our 30% targets in 2027 and how savings from this transformation program, as well as the ongoing portfolio shift towards high-growth and margin innovative products, are enabling us to achieve our operating margin goals. Over the next couple of years, we expect to expand our operating margin by approximately 400 basis points. As we have communicated before, during this period, we will experience the impact of revenue cliff from generic Revlimid in 2026 as well as headwinds in 2027 related IRA Medicare Part D negotiation for AUSTEDO. While we are not providing specific revenue and operating profit guidance for 2026 and 2027 today, the transformation programs and our expected growth trajectory, led by our innovative portfolio, give us the confidence to grow EBITDA in 2026 and in 2027, both in dollars and margin terms.

We are transforming Teva into a structurally higher gross margin business through improvement in our portfolio mix and transforming of our manufacturing cost base, network simplification and procurement optimization. With a significant gross margin expansion, our OpEx from transforming programs will allow us to keep OpEx as a percentage of revenue stable through 2027, as we redirect significant savings in our G&A towards our innovative portfolio and pipeline, which in turn enable us to drive both short-term and long-term growth. With these dynamics, we expect to expand our operating margin in 2026 by 125 basis points to 200 basis points, more than offsetting profit headwinds related to generic Revlimid within the same year and by another 125 basis points to 260 basis points in 2027. It is also empowering to note that our strong revenue growth and margin trajectory alongside our ongoing deleveraging during this period will allow us to achieve our target of two times net debt-to-EBITDA ratio by 2027.

Now, let's discuss our updated 2025 non-GAAP outlook on slide 23. As I mentioned earlier, our performance in Q1 was solid, delivering revenue growth, improved margin and cash flow, while navigating the impact of macroeconomic headwinds, including negative FX movements. Before I get into the details of our revised guidance, you may recall from our Q4 call in January that 2025 guidance included a full-year contribution from both Teva API and the Japanese generics business. It excluded any milestone payments from Sanofi, but did include Teva's 50% share of duvakitug R&D expenses. While we are still in ongoing discussion on the sales of Teva API business, Teva concluded the divestiture of its business venture in Japan, as planned on March 31, 2025.

Accordingly, we are revising our 2025 guidance today to reflect the inclusion of only the actual Q1 contribution from the Japan business venture and removing the nine-month expected contribution from the divested business. For the rest of the year, we have now excluded approximately $250 million and $40 million for the revenue and operating profit, respectively, for the Japan business venture.

Next to the 2024 actual result, we have included a 2024 pro forma reflecting Japan contribution in the equivalent period to assist you with the modeling a year-over-year comparison. In terms of the underlying changes in the guidance, as Richard highlighted earlier, with a strong Q1 performance, we have increased the low end of our expected revenue range by $50 million for AUSTEDO. With this element in mind, we now expect our 2025 revenue to be between $16.8 billion and $17.2 billion. This reflects a reduction of $200 million to the top end of our range or $100 million at the midpoint of our original revenue guidance from $17.1 billion to $17 billion.

Our revised guidance reflects slightly higher growth of approximately 4% at the midpoint versus 2024 pro forma given the lower growth and margin profile of the divested Japan business. While we are going to see majority of the savings from our transformation programs materialize between 2026 and 2027, we do expect to start seeing the savings in the second half of 2025. Combining that with our Q1 performance and the visibility we have today, we are raising the lower end of our 2025 non-GAAP outlook for operating income and EBITDA by $200 million or by $100 million at the midpoint.

Accordingly, our earnings per share guidance range is increased by $0.10 to between $2.45 and $2.65. Now, let me double-click on some thoughts on the quarterly phasing for the rest of the year, especially as it relates to Q2. We continue to expect our non-GAAP gross margin to be between 53% to 54% for the full year. Given that the timing of the shipments and our product mix help our Q1 margins slightly, we expect flat to slightly higher gross margin in the second quarter when compared to the first, with the further progress expected in the second half of the year, driven by revenue trajectory and portfolio mix. As a reminder, our fourth quarter gross margin are expected to reflect a step-down in the generic Revlimid revenue, consistent with the quarterly cadence we have seen in recent years. In addition, we continue to expect our operating expenses to be between 27% to 28% of

revenue for the full year, with the second half being lower than the first, driven by ope4rating leverage, in line with expected ramp up in revenue.

Our guidance continue to [ph] exclude (00:25:36) any contribution from potential development milestone payments from our partner Sanofi for the Phase 3 initiation of our anti-TL1A program, duvakitug. We will revise our guidance to include these milestone payments when they earned. And also, as I just said earlier, the revised guidance already absorbed the immaterial impact of the confirmed tariff.

Moving to slide 24, we showcased our consistent capital allocation strategy, which is clear and designed to fuel our long-term growth and innovation, while strengthening our balance sheet through further deleveraging and meeting our financial commitments. And finally, before I conclude my review of the first quarter results and hand it over to Eric, I want to reconfirm our 2027 financial targets. And based on what I just said on 2026 and 2027, we are laser-focused on our execution and are on track to achieve these targets.

With this, I will now hand it over to Eric to discuss our pipeline.

Eric A. Hughes

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

Thank you, Eli. Let me start by going over our progress of our programs in development. So starting with olanzapine LAI, we're excited to be presenting the long-term safety data for our Period 2 of our Phase 3 study this month at the Psych Elevate meeting. And we're on track for our submission in the second half of this year. Our DARI program, our dual-action rescue inhaler program in asthma, I'm happy to say that the study is initiating around the globe. I've been on three different continents and racked up the frequent flyer miles and I'm happy to see that we progressed above our targets on site initiations and we're on target for full enrollment of the study by the end of this year, with the results in the second half of next year. Our duvakitug program is on target for start of Phase III with our partner Sanofi in both ulcerative colitis and Crohn's disease.

And finally, emrusolmin is a very important unmet medical need in multiple system atrophy. We believe we have a differentiated product and we're actively enrolling that study now with a target of full enrollment by the second half of next year. And we're advancing our IL15 and our anti-PD1-IL2 program in the clinic now. So, a lot of great progress, good work by the team and our program's in development. Now, development and clinical work doesn't end with approval of a drug. Our lifecycle management is an active role of what we do here.

And I'm very proud to talk about where we've come with AUSTEDO XR. As an illustration, on the top here, I show you know what we launched the product with, with a b.i.d. medication, with multiple different pill sizes. And then on the bottom, I show what we've achieved with AUSTEDO XR by introducing a titration kit and a one-pill-once-a-day presentation. So, what does that mean? So, you can see with the AUSTEDO b.i.d., to get the top dose, you have to write nine different prescriptions. With the titration kit and the single pill once-a-day AUSTEDO XR, that just takes four prescriptions.

So, that's a reduction of five prescriptions to get to the top dose. That means it's a lot easier for a physician to get the patient at their optimal dose and also decreases the co-pays the patient has to deal with. So, we've really made it a lot easier to get people started on AUSTEDO and I think that that's a great benefit for patients.

AUSTEDO XR means a lot of other things too. When, depending on the dose you run, you can have a 50% to 75% reduction in your pill burden, which is very meaningful for patients. Also what's very important that in our studies of our titration kit, we now get 95% of our patients up into the dose range according to our label greater than 24 mg. So, that's a real benefit, making sure that the optimal dose based on the patient's experience is

achieved and that that helps with not only getting the best efficacy, but also potentially improving their adherence. And finally as one would expect, AUSTEDO XR is really easy to use as reported by our patients in 98% of them.

So altogether, this means that for new prescriptions, greater than 60% of the patients are choosing AUSTEDO XR. We're very proud of this work we've done in lifecycle management.

Something else that we've been very proud of and there was a lot of excitement about was our duvakitug program. We presented our Phase 2 results at the ECCO conference, and we actually just represented some of the data at the DDW conference this month. But back in ECCO, when Dr. Reinisch and Dr. Jairath presented the ulcerative colitis and Crohn's disease data and the late breakers, there was a lot of excitement. It was really the talk of the town when it comes to new treatments in ulcerative colitis and Crohn's disease. But I want to emphasize we are on track for starting our Phase 3 program with Sanofi second half of this year, and we're in development of our strategy of new indications in the future.

And finally, I just want to emphasize olanzapine LAI. We believe this is a great new product in development that will build upon our franchise in long-acting injectables on top of UZEDY. UZEDY has been doing great, as Richard had progressed, and we're very happy with the activity of our olanzapine LAI. It's similar to oral olanzapine. As I mentioned, we'll be presenting the Psych, the data at Psych Elevate with our Period 2 safety later this month. We had a productive meeting with the FDA for the pre-NDA meeting on April 9. And finally, we're on track for our NDA submission second half of this year.

And with that, I'll pass it off to Richard for final comments.

Richard Francis

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

Thank you Eric, and thank you Eli. So, I would just like to remind everybody that the growth we've seen in Q1 and the last two years, we have plans to continue that as part of the Pivot to Growth strategy. As you can see, we're in the acceleration phase. And this will be driven by AUSTEDO, AJOVY, UZEDY, olanzapine as we've highlighted. And that will soon be supported by DARI, our asthma product. And then as you see beyond 2028, we have multiple opportunities to continue to drive growth in our innovative portfolio, as well as this being supported by the growth in generics, which includes our biosimilars business. So we have a clear target to hitting our 30% operating profit beyond 2027.

Now, final thoughts, Q1 good solid start to the year, revenue up 5%, great contribution from our innovative portfolio. I think we've highlighted a very clear path towards 30% operating margin, and you'll see that start to come through next year and then finalize in 2027, and also the fact that we're on track for olanzapine submission and the start of our Phase 3 in duvakitug.

Now, to close, I just wanted to invite everybody to attend the Accelerate and Innovation Strategy Day later this month in New York. This is where we'll highlight in even more detail this second phase of the Pivot to Growth strategy where we accelerate growth, so I look forward to seeing many of you there in person.

And with that, I'll hand it over for questions. Thank you.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] . Our first question for today comes from David Amsellem of Piper Sandler. Your line is now open. Please go ahead.

David Amsellem
Analyst, Piper Sandler & Co.

Q

Thanks. So, I wanted to take a step back from the details on the savings and how you get there in 2027, and ask a general question regarding what Teva wants to be. On one hand, you talk about being a generics powerhouse; on the other hand, there's this transition to being a global biopharma company. And I realize it's not an either or, but can you help us better understand where your generics business, particularly your oral solids business, fits in with the overall strategy? And particularly how you're thinking about generics R&D, as it relates to, again, this new Teva going forward? So that's number one.

And then number two, regarding the savings, is this sort of the beginning or sort of the destination, if you will, in terms of savings? In other words, is there the potential to extract even more efficiencies as we think longer term beyond 2027? Thanks.

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

A

Hi, David, thanks for the question. So to answer the first question, when we started this Pivot to Growth journey, Teva was a pure-play generics company. And now, I think we've shown, and this quarter is a great example of the amount of progress we've made on driving our innovative portfolio in the market, as well as the pipeline which Eric just highlighted. So I think we're well on our way to becoming a leading biopharmaceutical company.

But I would remind you that in Pivot to Growth, we have four pillars. And the third pillar on Pivot to Growth is a sustainable generics powerhouse. And we think that's an important part of this journey that we're on. We see the benefits of having a powerhouse generics in our company. It helps fuel our innovation, fuel discipline to our cost base, so we think they are complementary. So I hope that answers your question.

With regard to savings, is this $700 million a destination or is it a journey? It is a journey. I think what you've seen with the last 2.5 years at Teva, capital allocation is really important to us. And so we're always thinking about how do we fuel our long-term growth drivers, and to do that, we have to be very thoughtful about how we spend our money. And so I think this era of cost efficiency, harmonization, frugality will continue. Obviously, this is the first big step forward, but it's something which we'll constantly look at. Because we have so many opportunities to drive this company forward from a growth perspective, we have to think carefully about making sure we think about costs and our allocation care specifically. So, hopefully that answers your question, David. Thank you for the question.

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. Thanks for taking my questions. So, Richard, one for you. Just when you read the Section 232 investigation into pharma, I'd love to get your perspective on sort of the core issue in that, which is an overreliance on critical medicines. There's an insinuation that I guess there's subsidies coming from the Chinese government regarding certain medicines. And so what do you think is the practical solution here because it's expensive, more expensive to make these products in the US? And so, do you think it requires governmental subsidies to truly achieve the solution that's desired here? I know it's probably not a question you want to answer, but given you're the leader in the US generic space, I think you offer some unique perspective here on an issue that's caused a lot of consternation in the markets?

And then so my second question is just with AUSTEDO. It is sold in Israel, which is an OECD country. So, just curious, what's the price there, because under Most Favored Nations, whatever that looks like, I just wonder if that price is meaningfully below the US price level? Thanks.

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

A

Hi, Jason. Thanks for the question. And so when we think about what could happen in the US, let me just reiterate what Eli said. I think [indiscernible] (00:38:02) when it comes down to the tariffs, I think we've mitigated where – what we currently see in front of us now. And we've worked hard to think about how we would adjust that if anything changes. And I think we've shown the agility in our organization to address certain macro changes like this, so I'd say that for one. The second, which is a slightly more philosophical question because what could happen? I really like to talk about what could happen. What I would say is where is Teva positioned within this world?

Well, I think because we do not rely on China, from a manufacturing point of view, and we have a very limited exposure to India. I think that, coupled with the fact that we have nine sites in the United States and by the way, AUSTEDO, which I'm going to talk a bit about later is manufactured in the United States. I think that footprint gives us, and that supply chain gives us a real strength in this dynamic market. But to your point, how should we think about medicines in the United States? How should we think about generic medicines in the United States? I think there is a good opportunity for debate. I think we are one of the largest suppliers, I think 1-in-14 scripts in the United States is a Teva script. And I think we'd like to definitely be part of that conversation, which we are, to make sure that the US does continue to benefit from our generics portfolio, but it's very dynamic. So, it's one that seems to be changing almost on a daily basis, but we are definitely in the conversation trying to help the administration on that.

With regard to AUSTEDO, I think it's just worth pointing out, we have very limited sales outside the United States. And so I think the pricing discussions there are really not going to impact us. Our focus is on driving the US business. I would like to point out, though that as we do start to expand our innovative portfolio, it will go globally, but it will always start in the US, and it will be very thoughtful about the dynamic situation when we come to launch in other markets, but thanks for your question, Jason.

Jason M. Gerberry
Analyst, BofA Securities, Inc.

Q

Thank you.

Operator: Thank you. Our next question comes from Umer Raffat of Evercore ISI. Your line is now open. Please go ahead.

Umer Raffat
Analyst, Evercore ISI

Q

Thanks for taking my question, guys. I have two, if I may. First, I just wanted to be super, super, super clear about 2026 and what you're saying. Should we be expecting a flattish EBITDA versus 2025 as our base case, because I noticed you said the transformation cost cuts, "offset the generic Revlimid." But when you spoke about 2027, you use the words generics Revlimid is "compensated." So presumably generic Revlimid is only partially offset in 2026 and you'd need help from other stuff like AUSTEDO to offset the other half. So at best, is that a flattish EBITDA in 2026 as a base case?

And then secondly, Eli, I noticed net debt went up by $500 million versus where it was in December. And I can see why it could be flattish because there wasn't a lot of free cash flow generated in 1Q, but why would it go up by $500 million? Thank you.

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

A

Hi, Umer, thanks for the question. So, I can be very clear on 2026. EBITDA will go up in absolute dollars and our OP will go up, so just to be very clear about that. And what I'd like to highlight is that some of these organizational effectiveness programs we're putting in place will move very rapidly on them, so a significant amount of those will hit in 2026. And don't forget, we have the innovative business continue to show strong growth as that will play into it. But to be very clear, our EBITDA in absolute dollars will go up next year as it will in a percentage.

Over to you, Eli, for the next question.

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

A

Yes, Umer, thank you for the question. Yeah, you're right. And what we saw this quarter mainly due to the close of Japan business, we actually, as part of it, we need to share the cash between the [ph] BV (00:42:02). So, if you actually refer to slide 55 in the appendix, when you see the trend on the net debt and the component of that one, you usually were sitting on around $2 billion of cash balance this quarter. It went down to $1.7 billion because we distribute the residual cash that belong to the partner post the close as the dividend around $280 million.

And then if you think about how the euro got kind of reevaluate by the end of March, we actually also got kind of a $200 million of FX. So, those element versus the how we end up year-end at $40.5 million give us this $0.5 billion to the [ph] $15 million (00:42:44). Thank you.

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

A

Thanks for the question, Umer.

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

Hi. Thanks for taking our questions as well here. So maybe just on the potential tariff scenario, can you talk about your ability to pass through potential price increases for generics to PBMs and how does that vary for commercial versus government channel?

And then secondly, on the cost optimization bucket that you talked about, can you expand a little bit on what sits within the second bucket here, prioritizing the resource allocation. Just want to make sure that the investment in the business continues despite the initiatives?

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

Okay. Hi, Ash. Good to hear from you. I'm probably going to tag team this with Eli. So I think, broadly speaking, on the tariffs, probably the simplest way to think about this is we've had the ability to mitigate tariffs as they stand here. And we also, as I've said, contingency planned for any other eventuality that could happen. And I think that's an important aspect of it.

Now, the opportunity to pass through and have that as the simplistic approach is something that we've leveraged less. I think we need to think a bit more about the ability to leverage other aspects of our supply chain and the fact that we do have a significant footprint in the United States, so that's [ph] sort of once I'll (00:44:23) start with that on the tariffs.

On the second part, on the efficiency savings, and the OpEx, what is really important to understand as we drive our Pivot to Growth strategy, we see the opportunity to drive significant revenue in our innovative business going forward. And to do that, we really need to think about how we allocate capital, where we drive efficiencies. So, when you think about it and I think your question was, are we cutting too much, and are we not able to invest in our business? Absolutely not. The reason why we've driven this and we've driven this with such purpose is to make sure that we do think about capital allocation.

And so, the innovative portfolio that we have in the United States, that will also start to be launched in other European markets in the next couple of years and the pipeline that Eric has will be resourced appropriately. That is why we're taking this action now to improve our capital allocation across the organization. But maybe Eli, I can hand it to you to add any other comment.

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

Yes. And I think Ash, you mentioned into the second paragraph related to prioritization and resources allocation from Richard's slide. And I think the main element there is that we are constantly looking on how we're able to rationalize our manufacturing footprint. And today, we are actually running the 35 sites if I exclude the TAPI sites and we're actually planning to get it below 30 sites by 2027. And with this one coming a few other elements that's driving also our ability to run a more lean manufacturing activities and our ability to also structure some organizational element inside our manufacturing cost base. So, all in all, according to what Richard mentioned, this is about our ability to really become biopharma company and to react to actually any element related to cost.

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

Yeah. And I think maybe just to close out, I think the simplistic way to think about, Ash, is G&A and TGO down in costs that allows us to invest more in R&D and sales and marketing. And because that TGO cost reduction impacts COGS, that also gives us a nice lift in our gross margin. Thanks for the question, Ash.

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

Hi. Great. Thanks so much for the questions and all the color on the restructuring details today. Maybe just building on some of the earlier comments on the timing of the $700 million as we think about 2026 versus 2027, I guess I was a bit surprised. The magnitude of operating margin improvement in 2026 is somewhat similar to 2027 despite it seems like most of the REVLIMID headwinds hitting next year. So, can you maybe just help me get my hands a little bit around the gating of the improvements there? And then the second question, maybe on the same theme on the net savings, I know there is some reinvestment, what is the gross number we're talking about here?

So, I guess how much is being freed up to be reinvested? I know $700 million is flowing through, but what's the reinvestment kind of scale that we're thinking about here as well? Thanks so much.

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

A

Hi Chris. Nice to hear from you. So, I'll once again tag team this with Eli. So, starting with the question on how we make an impact – such an impact in 2026. So, I think it's best to think of this in three ways. We're driving this improvement in EBITDA and operating margin by three aspects. One is our revenue, one is our cost of goods, and one is our OpEx management. And so if you think about the revenue, as you've seen, our innovative revenue continues to perform really well, AUSTEDO, UZEDY and AJOVY. And we see no reason why we can't continue to grow those products well into 2026. And those are high gross margin products. It's important to remember that.

Then when we think about some of the impacts of what Eli just mentioned about, manufacturing and our improvement in efficiencies there, that will reduce our cost of goods, which once again will start to impact 2026. We do get more of that in 2027, but it does start to impact in 2026. That improves our gross margin there.

And then finally, the OpEx savings that we make, a significant amount of those do hit us in 2026. And don't forget, some of that does allow us to continue to invest in our innovative portfolio to make sure we can continue to grow that. So that sort of amplifies that. So, we have a very clear plan on this, Chris, it's very well laid out. We know exactly what we need to execute. I think we have a high degree of confidence that we can do that in 2026 and definitely by 2027. But I hope that answers most of your questions. But I'm going to hand it to Eli to maybe take that question around net savings.

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

A

Yeah, Chris, thanks for the question. So, to make it kind of a bit simple, if you think about us growing the business, it mean that we need to invest more in OpEx. What we're doing here is that there are part of those kind of savings allowing us to keep at the OpEx range between 27% to 28% as a percentage of revenue, although from a dollar perspective, we are growing our OpEx numbers. But the percentage stay more or less the same because we are growing revenue, which means that element that's supposed to actually increase the OpEx is offset by those savings. And then optically, what you will see, you will see that actually the gross profit is actually increasing at the range of around 400 basis points.

Now, when you mention about phasing, I think that we try to be transparent as much as we can at this stage. And on the slide on the bridge that I explained on the right side, we phase the 2025, 2026, and 2027 and provide a

kind of a meaningful range of expansions on the basis points. And at that point, to go into kind of a more specific, I think that we will see it in upcoming Capital Market Day when you can get you kind of more color around the phasing.

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

Thank you.

Chris Schott
Analyst, JPMorgan Securities LLC
Q

Thanks, Eli.

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

Thanks, Chris.

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

Yifeng Liu
Analyst, HSBC Bank Plc
Q

Thanks so much for taking my questions. Could you please comment on biosimilar dynamics and what you've seen this year so far versus previous years? And how are you thinking about the trend over this in the next couple of years? And the second maybe is on your LAI portfolio. We hear some of the new emerging antipsychotic therapeutics and new mechanisms of action. How do you see this dynamic evolve in both the context of monotherapy and adjunctive therapy? Thanks.

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

Thank you, Yifeng. So let me take on those questions. The biosimilar market, I think it was a broad question. I don't think we see any real difference in the dynamics of this. But I always remind people to think about the biosimilar market as the US and Europe. They're very different markets in how they operate and the ability to penetrate them.

So, as you've highlighted, we have – we started to see our portfolio come to the market in the US as well as Europe over the next few years. So what I would say in the US, I think it's still slow and steady, and it depends on the product and it depends on the channel. But we're excited that we had two new biosimilars in Q1, and I think the team in the US is very capable of navigating what is an emerging market. And then in Europe, we do have the opportunity to launch a biosimilar product this year and we'll have more coming in the subsequent years, where the penetration, the uptake is a lot quicker based on the healthcare systems there and what you've seen with biosimilars. But I think it's important to understand that our biosimilar portfolio will become more global as the years go on. And it's an extensive biosimilar portfolio, hence the reason why we believe that can actually drive some good growth between now and 2027.

With regard to your LAI question, I'm going to answer a bit of it, then I'm going to hand it over to Eric because I want to make sure he has one question to answer today. So, with regard to the LAI question, I think what we've

seen in the schizophrenia market is the need for efficacy and safety, where they have a real history on that. And so what we've seen when we've launched UZEDY, [indiscernible] (00:53:18) the risperidone market, we've got really good traction and the team have done a great job with UZEDY. And that's because we developed a product which is very physician-friendly and very patient-friendly, and the uptake into that, compared to the LAI market, has been really good.

And we believe that we can expand into other molecules. I think that history of efficacy and safety, physicians take very seriously when initiating any patient who has schizophrenia. I think with olanzapine, don't forget olanzapine is considered the most efficacious treatment for schizophrenia. And the fact that it hasn't been a long-acting olanzapine available that's widely used, should I say, I think there's real excitement about the product we're going to bring to market next year and we'll actually be bringing it to the European market as well.

So, when it comes to new therapies entering, I think that is always looked at with enthusiasm. I think it's great for patients, but I think physicians with such a condition also want to have a certainty of efficacy and safety and outcomes. But maybe I will hand that on to Eric to comment more.

Eric A. Hughes

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

A

Yeah. Thank you, Richard. Yeah, there's a few things I just want to add to what Richard just said. So, we always welcome new mechanism of actions for the treatment of schizophrenia. Schizophrenia has a wide need for new treatments. There's still a large unmet medical need for patients with schizophrenia. The good news is with the treatments we have today, we can treat them. But the real value for long-acting injectables is addressing the adherence problem. That's the real reason that people still fail. They relapse, they get hospitalized and their disease progresses.

So, new MOAs are welcome. But right now, getting a long-acting injectable and having a formulation that's as easy to use as we've developed for UZEDY and we're submitting for olanzapine. This is using, as Richard said, a tried and true and tested MOA that people know. Now we're advancing it into a better way of giving it. And that really will impact what we need to do for patients. So, we're very pleased with this franchise we're building and what we'll bring to the care of patients with schizophrenia.

Richard Francis

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

A

Thanks, Eric. Thanks, Yifeng, for the question.

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

Richard Francis

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

So, thank you everybody who dialed in. Thank you for your interest in Teva and your questions today and I look forward to updating you in person at our Capital Markets Day later this month in New York. Thank you.

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