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EDITED TRANSCRIPT

TEVA.TA - Teva Pharmaceutical Industries Ltd to Provide Preliminary Outlook for 2016-2019

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OVERVIEW:

Co. provided an update on 2016-2019 preliminary outlook. Expects 2016 revenues, assuming five months of consolidation of Actavis Generics business, to be $22.0-22.5b and 2Q16 revenues to be $4.9-5.0b. Expected 2019 EPS is $6.9-7.4, 2016 EPS, assuming five months of consolidation of Actavis Generics business, is $5.20-5.40 and 2Q16 non-GAAP EPS is $1.19-1.22.

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PRESENTATION

Operator

Thank you for standing by, ladies and gentlemen, and welcome the Teva Pharmaceutical Industries Limited 2016 to 2019 preliminary financial outlook.

(Operator Instructions)

I must advise you that today's session is being recorded on Wednesday the 13th of July 2016. I would now hand the session over to your speaker today, Mr. Kevin Mannix, Senior Vice President, Head of Investor Relations. Please go ahead.

Kevin Mannix - *Teva Pharmaceutical Industries Ltd. - SVP and Head of IR*

Thank you, operator. Good morning and good afternoon everyone. Thank you for joining us today to discuss Teva's 2016 through 2019 preliminary financial outlook. On the call with me today are Erez Vigodman, Chief Executive Officer; Eyal Desheh, Chief Financial Officer; Siggi Olafsson, President and CEO - Global Generic Medicines; and David Stark, Deputy General Counsel.

We will start the call with presentations from Erez and Eyal before opening the call up for questions and answers. A copy of the slides come down to the website, TevaPharm.com, under the investor relations section as well, on the Teva Investor Relations app.

During this call, we will be making forward-looking statements, which are predictions, projections, or other statements about future events. These estimates reflect management's current expectations for Teva's performance. Actual results may vary whether as a result of exchange rate differences, market conditions, or other factors.

In addition, the non-GAAP figures exclude the amortization of purchase intangible assets, costs related to certain regulatory actions, inventory step-up, legal settlements and reserves, impairments, and related tax effects. The non-GAAP data presented by Teva are used by Teva's management and Board of Directors to evaluate the operational performance of the Company to compare against the Company's work plans and budgets, and ultimately to evaluate the performance of management. Teva provides such non-GAAP data to investors as supplemental data, and not in substitution or replacement for GAAP results, because management believes such data provides useful information to investors. With that, I will now turn the call over to our CEO, Erez Vigodman. Erez?

Erez Vigodman - *Teva Pharmaceutical Industries Ltd. - CEO*

Thank you Kevin, and good morning, good afternoon, and thanks for joining us today. We are pleased to host the call this morning. We expect the closing of the Actavis Generics deal at any time now, given our merger filing's pending final approval by the Commissioners of the US FTC. Other than the FTC approval, we are not aware of anything that would be expected to prevent the closing of this transaction.

In parallel, we are closely monitoring the corporate bond markets and given the various attractive terms currently prevailing there, we are considering accelerating our planned debt offering. With this in mind, and despite the fact that we will not yet have full visibility into the Actavis Generics number, and in particular, certain pipeline information, we have decided to provide you today with our best estimate of the financial outlook for Teva in 2016 to 2019, following the close of the deal.

But before we dive into the numbers, I would like to recap the progress we have made as a Company since the beginning of 2014, leading to this point in time. In 2014 and 2015, we solidified the foundation of Teva. We put the Company on solid footing, and announced a series of strategically compelling business development deals. The culmination of these moves continues to transform Teva's business in both generics and specialty.

2016 is a transition year for us. We are focused on fully delivering on our short-term operational and financial goals, and at the same time, moving ahead with our longer-term strategic moves. We have been preparing the integration of the Actavis Generics business. We closed the JV with Takeda in Japan, and the acquisition of Rimsa in Mexico, and we continue to strengthen our specialty business.

We delivered a solid first quarter in 2016, and today we are reaffirming and even slightly revising upwards the guidance we previously provided for the second quarter, as well as providing outlook for the remainder of 2016. With everything we have accomplished as a Company since the beginning of 2014, and once we close the Actavis Generics deal, we are creating a new Teva, with a strong foundation of significantly enhanced financial profile, and more diversified revenue sources and profit streams, backed by strong product development engines in both generics and specialty. This is a platform that will generate multi-year top line and bottom line growth, as well as significant cash flow.

Today, we will focus on the preliminary financial outlook of Teva for 2016 to 2019, post closing of the Actavis Generics deal. After we close the deal, we will provide you with more comprehensive business review and outlook for the combined Company. Having said that, it is important to remind ourselves of the strategic and financial rationale of the transaction.

The generics industry is one of the most attractive industries in the world, in terms of growth rate, profitability, return to investors, and contribution to health care systems and societies across the globe. The transaction between Teva and Actavis Generics transforms the generics space by combining two of the industry's best generic companies. It's cements and broadens our R&D capabilities, and highly complements our products pipeline and portfolio.

It also enhances Teva's leadership in an evolving customer landscape, and massive consolidation across our customer base. Finally, it strongly reinforces our strategy, opening a new set of possibilities for us in generics and specialty, and accelerating the creation of our new business model.

Financially, the transaction yields very competitive economics. It is highly synergetic, with $1.4 billion in operational and tax synergies achievable by the end of 2019. It is significantly accretive to non-GAAP EPS, with approximately 14% accretion in 2017, and approximately 19% accretion in 2019, and is expected to generate 9.3% ROIC by the end of 2019. The combined Company will generate more than $25 billion of free cash flow from deal close until the end of 2019, including the proceeds from the expected divestiture.

Now, let's look at the key preliminary financial outlook for the combined Company. First, it is important to state, we applied certain modeling assumptions in light of the limited visibility we currently have of the Actavis Generics pipeline. We look forward to taking you on a deeper dive into the combined generics business after we have closed the transaction and started the integration process.

It is also important to note that our 2016 outlook includes five months contribution from Actavis Generics. We estimate that we will grow the net revenues of the Company from $19.7 billion in 2015 to a range of between $26.7 billion and $27.8 billion in 2019, representing midpoint CAGR growth of approximately 9% on 2015 through 2019. As for the EBITDA of the Company, we estimate that we will grow it from $6.6 billion in 2015 to a range of between $10.7 billion to $11.5 billion in 2019, representing midpoint CAGR growth of approximately 14% from 2015 to 2019.

Turning next to net income and non-GAAP EPS, we estimate that we will grow net income from $4.7 billion in 2015 to a range of between $7.5 billion and $8.1 billion in 2019, representing midpoint CAGR growth of approximately 14% from 2015 to 2019. This in turn will generate an EPS growth from $5.42 in 2015, based on a share count of 867 million, to a range between $6.90 to $7.40 in 2019 based on our increased share count of approximately 1.1 billion.

And finally, free cash flow. We estimate we will grow our free cash flow from $4.9 billion in 2015 to a range of between $7.2 billion and $7.8 billion in 2019, representing midpoint CAGR growth of approximately 11% from 2015 to 2019. Including the $2.9 billion of proceeds from product divestitures, in 2016, we expect to generate over $25 billion of cumulative free cash flow between the close of the Actavis Generics deal and the end of 2019.

Let's look at the synergies which are included in our preliminary financial outlook. Compared to our original estimate of having to divest products that generate $500 million in revenues and $300 million in EBITDA in 2015, the actual amount of product divestitures now stands at approximately $1.1 billion and $600 million in revenue and EBITDA respectively. Nevertheless, we still expect to achieve cost synergies and tax savings of approximately $1.4 billion annually by the end of 2019, according to the breakdown of sources described by this slide.

This next slide demonstrates the realization curve of the synergies through the 2016 to 2019 timeframe, given the delay in deal close, and the larger than expected amount of divestitures. As you can see, it will take us one year longer to realize the full amount of synergies, and to achieve the $1.4 billion by the end of 2019.

Let us focus now on how the net costs of the deal have evolved since its announcement a year ago. We currently anticipate generating proceeds of approximately $2.9 billion on the sale of divested products, compared to the $400 million that was originally planned. Additionally, in agreement with Allergan, we expect to generate $1 billion from a working capital adjustment, and proceeds from sales of seven products back to Allergan.

When we add to that the current share price, based on the same number of shares to be issued at closing, we end up at a total net cost of the deal of $35.1 billion versus $40.1 billion at the announcement of the deal. This results in lower deal financing needs, and net financial debt on our balance sheets following the closing of the deal by approximately $4 billion compared to our estimates a year ago. Our deal borrowing needs have gone down from $27 billion to $23 billion, and our net financial debt following closing went down from $38 billion to $34 billion.

Turning to the next slide, you can see how the cash flow generation of the combined Company will enable us to deleverage rapidly, eventually freeing more and more financial resources to fuel our future goals and generate more shareholder value. We expect that by 2019, on an organic basis only, our net financial debt will be reduced to $12.7 billion, and our net debt to EBITDA ratio will be reduced to 1.14 times.

Now let's look at the key financial metrics of the acquired Actavis Generics business, as we see them to date, compared to the day we announced the deal. To this end, we are comparing our estimate for 2017, the first full calendar year where we will run the Actavis Generics business, to our original 2016 numbers, which formed the basis for the acquisition one year ago.

The EBITDA contribution of the Actavis Generics business to Teva is $2.6 billion. The higher tax savings and lower finance expenses, driven from the reduced net financial debt and the lower cost of borrowing more than compensates for the lower net contributions of synergies and divestitures in year one. This is the pattern we see during all the respective years, until the cost synergies and tax savings reach $1.4 billion by the end of 2019.

If we look further out at 2019, we see the current full year following close of the deal, we see net income for the combined Company to be in line with our model a year ago for 2018, as lower tax and finance expenses more than offset lower EBITDA, resulting mostly from revised assumptions on some of our specialty products. The value we see in Actavis Generics business goes beyond synergies and numbers.

It is about the strategic value of the business combination, and the type of platform we create by combining the capabilities of both these organizations. Just one strong manifestation of that is this impressive list of the first to file submissions in the first four months of 2016, of which Actavis Generics has 45% in terms of number of products, and approximately 65%, in terms of innovative value.

I would now like to turn the call over to Eyal to discuss our 2016 financial outlook, and add some more details to the 2016 to 2019 one. Eyal, please go ahead.

Eyal Desheh - *Teva Pharmaceutical Industries Ltd. - CFO*

Thank you very much, Erez. Good morning everyone, and thank you for joining us.

Before I review the combined financial results of Teva and Actavis, I would like to provide an update to our Q2 outlook. We believe that results for the second quarter of 2016 will be better than our original guidance. Revenues are expected to be between $4.9 billion to $5.0 billion, and non-GAAP earnings per share is expected to be between $1.19 to $1.22.

For the entire 2016, and here we assume five months of consolidation of Actavis Generics business, revenues are expected to be between $22 billion to $22.5 billion. Earnings per share are expected to be between $5.20 to $5.40. We assume an average share count of 1.021 billion shares in total, arriving at these results.

We modeled our current outlook from 2016 through 2019, and the outcome is presented in here. This outlook is organic only, and does not include any business development initiatives. And it assumes no generic competition to Copaxone 40 milligram, as we have said before.

As we already demonstrated on this call, our operational and financial results move by one year forward, compared to our original assumptions, and create strong results for 2017, 2018 and 2019. In 2019, our non-GAAP EBITDA is expected to range between $10.7 billion to $11.5 billion. Earnings per share is expected to range between $6.90 to $7.40 per share, and cash flow from operation is expected to be between $8 billion to $8.8 billion.

In addition to cash flow from operation, we expect to generate $2.9 billion from divestiture of assets in 2016, reflected in the free cash flow line. The specialty business net EBITDA for 2018 and 2019 included here is expected to be $500 million and $400 million lower from our original expectation for these respective years, due to the removal of security for the forecast, and a number of product delays, which were already announced.

Altogether, the new Teva demonstrates strong financial performance. Thank you all. I would now like to return the call to Erez for his closing remarks.

Erez Vigodman - *Teva Pharmaceutical Industries Ltd. - CEO*

Thank you, Eyal. Post the Actavis Generics acquisition, Teva will serve approximately 250 million people every day, and as the world's largest medicine cabinet, with more than 1,000 molecules, we will have one of the most competitive fully integrated operational platforms in the industry, that covers a full spectrum of products from volume generics to complex generics, and all the way to specialty medicines and biologics.

The Company's compelling economics and significant free cash flow generation will allow for rapid deleveraging, and as we have previously stated, give us the ability to pursue acquisitions of attractive branded and pipeline assets, biosimilar products, as well as deals that would expand our footprint in key growth markets. The unparalleled platform we will create is ideally positioned to realize opportunities that global and the US generic markets offer. Especially given the challenges and changes we are witnessing in various competitive landscapes.

We will be able to thrive in an evolving generics landscape by leveraging our global infrastructure, go-to-market platforms, and leading portfolio and pipelines for the benefits of patients, healthcare systems, and investors around the world. Thank you for your time, and we will now open the call to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Ken Cacciatore.

Ken Cacciatore - *Cowen and Company - Analyst*

Just a couple of questions -- first, what, if anything, do you and Allergan need to do to get this transaction closed? It sounded like, from the prepared remarks, there is -- everything is complete, but just wanted to make sure there's nothing in this amendment that the FTC needs to review or it would cause any more of a delay?

And then a clarification -- I believe I heard you say that the guidance for the next few years does not include a generic 40 milligram of Copaxone. Just wondering why you wouldn't factor that in.

And then, also, there is going to be a little bit more room from the lack of debt that you need to issue. Just wondering if that would be redeployed, maybe even more faster, into branded business development? Thank you.

David Stark - *Teva Pharmaceutical Industries Ltd. - Deputy General Counsel*

Thanks for the question, Ken. This is David.

On your first question, under the agreement, there is up to 10 business days between clearance and closing. As Erez said, there is nothing else that we know of that would be standing in the way of getting the deal closed, other than the FTC clearance, which could come at any time. The amendments are obviously public, and get filed with the FTC in normal course, and we don't see any issues there.

Erez Vigodman - *Teva Pharmaceutical Industries Ltd. - CEO*

Ken, our first priority now is to use the very strong cash flow that the combined Company will generate to deleverage quickly, and also to direct resources in order to target highly attractive, complementary BD targets.

Eyal Desheh - *Teva Pharmaceutical Industries Ltd. - CFO*

On Copaxone -- first of all, Ken, hi, thanks for the question. Just to put things into a frame, we estimate about $4 billion in sales for 2016. And an erosion of between $200 million to $300 million every year from this level until 2019. We assume no generics, as we have communicated in the past, in our forecast.

Ken Cacciatore - *Cowen and Company - Analyst*

Thank you.

Operator

Umer Raffat.

Umer Raffat - *Evercore ISI - Analyst*

I guess my first question is -- what do you think is really driving the slight delay in deal close? I know the timelines were end of June. Is there a formal FTC Commissioner vote scheduled yet? I think that is the first one.

Secondly, working capital change, as part of the amendment, I just wanted to understand, did Allergan invest more in working capital, or is there a Crestor launch you didn't realize? I just want to understand the key impetus behind that.

And finally -- Eyal, maybe this one is for you -- when I look at the guidance provided today, versus the guidance provided last year, and I focus in specifically on 2018, it seems like revenues are lowered by about $1.65 billion, but EBITDA lowered by about $1.2 billion. I just wanted to understand what is driving that, because the margin impact to EBITDA -- sounds like it is being driven by branded, but I just wanted to be clear. Thank you.

David Stark - *Teva Pharmaceutical Industries Ltd. - Deputy General Counsel*

Thanks, Umer. This is David. On the first question, there is no formal FTC vote scheduled, nor will there be a formal FTC vote scheduled. I'm glad you raised it, because we have had questions about that from time to time. It is a much more informal process between the front office of the FTC and the commissioners.

Eyal Desheh - *Teva Pharmaceutical Industries Ltd. - CFO*

On the working capital adjustment -- due to the closing delay, the delay in closing, Allergan has agreed to change the working capital mechanism we had in the original agreement, and provide Teva with approximately $800 million addition in working capital adjustment. This amount, as you saw in Erez's slides before, effectively reduces the cost of the deal.

Siggi Olafsson - *Teva Pharmaceutical Industries Ltd. - President and CEO of Global Generic Medicines Group*

Maybe, Umer, if I take the 2018 question. This is Siggi here.

As you highlighted, in 2018, versus the July 2015 guidance, the difference is $1.2 billion in EBITDA. As both Erez and Eyal highlighted, we have moved it one year forward, but how we divide the $1.2 billion is approximately $500 million is due to the delay in the specialty pipeline. And approximately $700 million is due to the additional divestiture that you have seen, and the delay in closing the deal.

That is why we catch up fully in the 2019 time frame, where we catch up on the divestiture, and we get the full net synergies of $1.4 billion. That is how the math works on the EBITDA for 2018.

Umer Raffat - *Evercore ISI - Analyst*

Got it. (Multiple speakers) Go ahead.

Erez Vigodman - *Teva Pharmaceutical Industries Ltd. - CEO*

Please, go ahead.

Umer Raffat - *Evercore ISI - Analyst*

I was just going to say, just to clarify, I just want to be super clear. The last minute delay, is there a new product that needs to be divested?

Also, Eyal, sorry, I couldn't follow the working capital part fully -- sorry about that.

Siggi Olafsson - *Teva Pharmaceutical Industries Ltd. - President and CEO of Global Generic Medicines Group*

No. If I take the first part, basically what we highlighted is in our original assumption, as you see in the slide, we assume the divestiture of EBITDA of roughly $300 million, versus what we are seeing today, based on the commitment we have made to regulatory authorities around the world of $600 million. That obviously impacts the net synergies.

We are still going to get the net synergies of $1.4 billion by the end of 2019. The eight-month delay in getting the synergies, and then the negative synergies, which obviously hit us on day one, and we recapture up until the end of 2019, affects the net EBITDA impact in 2018. Probably one of the slides explains it better, where you see the gap between the two lines of the original synergy capture, versus the new synergy capture.

Erez Vigodman - *Teva Pharmaceutical Industries Ltd. - CEO*

And maybe just to put it another way, Umer, on the basically contribution of the Actavis into our EBITDA and net income, the adjusted time difference between 2018 and 2019 during the next three years, just a time difference. And on the -- basically the level of revenues and profits from our specialty pipeline, there is also a time difference between 2018 and 2019, to the extent net profit is impacted and I just underscored that point in my opening remarks.

On the working capital, basically the, again, I don't know what was not clear, but what really matters in here that the agreement between us and Allergan enables us to reduce the net cost of the transaction. That is what matters at the end, if you translate it into lower financing needs, and [that's what matters here].

Kevin Mannix - *Teva Pharmaceutical Industries Ltd. - SVP and Head of IR*

Next question, please.

Operator

Liav Abraham.

Liav Abraham - *Citigroup - Analyst*

A couple of questions -- firstly, can you just give some additional color as to what the assumptions are for the variance between the low end and the high end of the guidance ranges that you provided? You mentioned -- my understanding is that this is not Copaxone, or is it based on Copaxone? That is my first question.

Secondly, can you comment on the generics pricing assumptions that you have baked into your forecast? Following on that, Siggi, maybe you could just comment on the generics pricing environment, more broadly, that you are currently seeing in the marketplace. Thank you.

Siggi Olafsson - *Teva Pharmaceutical Industries Ltd. - President and CEO of Global Generic Medicines Group*

Let me start on the questions two and three. First of all, on the generic pricing assumption for the plan, as Eyal and Erez highlighted, this is obviously a high-level plan, because we haven't got access to the Actavis information. We don't have the details behind the pipeline. We need, obviously, to understand the opportunities on the pipeline and IP situation.

Our assumption and what we assume is basically approximately 5% organic growth that we see year on year. That matters with the formula I gave you at the earnings call earlier this year -- are we assuming the same pricing of minus 4% or is it minus 5%? It really doesn't matter what we say. It is net-net when we have the new launches, minus the price erosion, minus any volume decline, we are seeing approximately 5% growth year on year.

In terms of generic pricing in the second quarter, we saw no change in the pricing. We saw a stable environment, as we talked about, from first quarter into second quarter. Obviously, in second quarter, as we have highlighted to investors, there was no significant new launches that we saw in Teva, which obviously impacts the overall generic numbers. The pricing has remained stable.

Liav Abraham - *Citigroup - Analyst*

Siggi, do you see that environment changing in the back half of the year, once the deal closes, as the two largest -- two of the largest players in the market come together?

Siggi Olafsson - *Teva Pharmaceutical Industries Ltd. - President and CEO of Global Generic Medicines Group*

No. Our assumption for the rest of the year is basically assuming the same pricing erosion. It is difficult to say; but as I'm sitting here today, with the information I have in hand, we are assuming and now forecasting for the guidance for the remainder of the year same pricing assumption as we have had for the first half of the year.

High end, low end?

Eyal Desheh - *Teva Pharmaceutical Industries Ltd. - CFO*

Good morning, Liav. Basically, the range -- we're not doing this for the first time. We are providing ranges to all our forecasts.

There are so many parameters in it, including, but not limited to, exchange rates, ability to focus, as Siggi mentioned, our lack of very detailed knowledge of the Actavis pipeline. We will get access to that, only once we close the transaction. These are our best estimates, which should accommodate different demands to products, launch timing, and all the risk factors and opportunities that are included in forecasting going forward.

Liav Abraham - *Citigroup - Analyst*

Just to be clear, the low end of the range still assumes Copaxone exclusivity over the period?

Eyal Desheh - *Teva Pharmaceutical Industries Ltd. - CFO*

Yes, the low end of the range is our floor. That is how we see it, and we are very committed to it.

Liav Abraham - *Citigroup - Analyst*

Okay, thanks.

Operator

Jami Rubin.

Jami Rubin - *Goldman Sachs - Analyst*

Just some clarification questions -- maybe for you, Siggi. Can you clarify the model -- your model's assumptions for Allergan's revenue contribution? I'm just looking at slide 14, and I'm confused by it. When the deal was announced back in July, not a lot has changed, but our understanding was that Allergan's revenues were about $6.5 billion, its EBITDA was $2.4 billion.

As we move forward, obviously, the delay of the deal, the divestitures, et cetera, et cetera. But can you break out for us what you're assuming Allergan contributes to the Business in terms of its top line and EBITDA out to 2019? It seems that the business has weakened from our perspective, but how you are thinking about the growth in the contribution from that business?

Secondly, Eyal, you had skipped over the cash flow guidance in the second quarter of 2016. It seems like that's coming down by a couple hundred million. Why is that?

And then thirdly, you gave ROIC of 9.3% by 2019. Can you put that into perspective? What is ROIC today before the deal, and how do you see that ROIC changing?

Where is the contribution -- the shareholder value contribution? What is that actual number? Thanks very much.

Siggi Olafsson - *Teva Pharmaceutical Industries Ltd. - President and CEO of Global Generic Medicines Group*

Thanks, Jami. So with regards to the Actavis modeling, obviously it's a high-level modeling. We don't have access to the pipeline, again.

But if you think about slide 14 again, what we are showing here is in a way the starting point. The EBITDA, the starting point of the first full year of operation is $2.6 billion, which basically is in line. You mentioned the $2.4 billion, so there has been a significant growth in the business.

Obviously, it has to do a lot with new product launches. You see that in our numbers, and the same applies to the Actavis numbers.

But we feel comfortable around this $2.6 billion. We're not going to break it out into years. In a way, our modeling is done in the way that we don't have access to the full pipeline to allow us to do it at a high level. But we feel that with the pipeline and with, as you saw on the slide, 326 ANDAs pending, more than 110 first to files, we have modeled 5% growth in the new combined Company of the generic business, which we are very committed to, and feel comfortable around.

But really, what slide 14 is showing you is the first full year of operation. And what you need to do, if you want to see the overall value of the first full year of operation, is to add the $1.4 billion of net synergies to the $2.6 billion, to see what the synergies plus EBITDA is of the acquired business.

Eyal Desheh - *Teva Pharmaceutical Industries Ltd. - CFO*

Jami, two of your questions -- one, the cash flow in Q2 was influenced by one significant milestone payment, on behalf of reslizumab, the product that we have launched. We were focusing this a quarter later, so it was triggered, and the payment was made. That is the major difference.

Regarding ROIC, we calculate ROIC from this transaction three and four years out. Basically, the net income contribution from the transaction, on the [effective] costs of the deal, and the quality we measure, that puts us over 9%. It's very significant for our industry. Measure this about against the Teva weighted average cost of capital, which was calculated to be 5.5%, and gives us the economics of the deal, which are very significant.

Jami Rubin - *Goldman Sachs - Analyst*

Can I just -- thank you for that. Siggi, can I just follow up? I'm just trying to understand the Allergan math for 2016.

Your math implies that Allergan generic sales will be about $2.7 billion for five months. If you annualize that, that would be about $6.6 billion, plus if you added $1.1 billion of revenues divested, that implies about $7.7 billion today. Is that the right way to look at that? That looks like -- sounds like a huge jump from last year. No. Okay.

Erez Vigodman - *Teva Pharmaceutical Industries Ltd. - CEO*

No. Jami, maybe I will try to clarify things here. Basically, what we tried to convey here is that the way we looked at the business, when we announced the deal, and what basically formed the basis for our model then was $2.7 billion of EBITDA 2016, plus [$0.5 billion] of net synergies, minus $1.2 billion of tax and finance expenses, and then adjust with depreciation, it would have contributed $1.8 billion to our net profit.

Looking now at 2017, which is the full year -- full calendar year we run the business -- the first one, we are basically now modeling $2.6 billion of EBITDA on a stand-alone basis, which is generated by Actavis, less contribution from net synergies, because it catches up over time, and we are able to reach to the $1.4 billion just by the end of 2019. But lower tax and finance expenses, that will at the end of the day culminate to a higher net profit contribution by the deal to favor. That is basically what slide number 14 spells out.

Siggi Olafsson - *Teva Pharmaceutical Industries Ltd. - President and CEO of Global Generic Medicines Group*

But to address, Jami, your question about sales, and how we [multiple] the sales into 2016, overall, the revenue hasn't changed in the Actavis business. We understand, it is in good shape. We are pleased with the business as it is.

We will obviously -- when we close, we will have better information of individually how the sales line comes in. Obviously, in the outer years, this is modeled, but the business is in good shape, as you see from slide 14. And slide 14 was to [have] exactly, that the underlying business of what we're acquiring is in very, very good shape, and in the same shape as we were hoping when we did the transaction a year ago.

Jami Rubin - *Goldman Sachs - Analyst*

Great. Thank you very much.

Operator

Manoj Garg.

Manoj Garg - *ABR-Healthco - Analyst*

Thank you for taking the question. I have a few. One, on the deal -- do you have some level of blessing from the FTC that the level of divestitures that you're pointing to will be sufficient for a culmination?

David Stark - *Teva Pharmaceutical Industries Ltd. - Deputy General Counsel*

The answer is yes.

Manoj Garg - *ABR-Healthco - Analyst*

Great. And then second, David, maybe for you, since you're not including any generic competition to the 40 milligrams in your guidance, was there anything that came out of the IPR hearing that gives you additional confidence there?

David Stark - *Teva Pharmaceutical Industries Ltd. - Deputy General Counsel*

I don't know about additional confidence, but I would say, and thank you for the question, that we came out of it feeling very good about things, as we have stated in the past. And the IPR hearing itself was part of the equation there.

Erez Vigodman - *Teva Pharmaceutical Industries Ltd. - CEO*

And we are very consistent with the way we provided, basically, models and guidance in the past. The outlook here is consistent to its -- basically the way we provided you with outlooks in the past, in that regard. Going forward, when we guide for 2017, we might provide you with the -- the Street with more details that relate to potential scenarios for 40 milligram Copaxone.

Manoj Garg - *ABR-Healthco - Analyst*

Okay, great. And the last one for Siggi, while we have you -- Siggi, maybe you can talk about where you're seeing pockets of strength in the near term, and maybe talk about pricing a little bit?

Siggi Olafsson - *Teva Pharmaceutical Industries Ltd. - President and CEO of Global Generic Medicines Group*

Yes. I think our assumption is, on pricing, has not changed. We have built that in; and as I said to a previous question, we assume an underlying growth of 5% in the generic business, which gives you pricing somewhere between 3% to 6% decline year on year in the overall.

In the second quarter, we have a stable pricing environment; there was no significant change in the pricing. I think the opportunity, obviously, coming into 2017 -- 2017 -- and this is what we want to speak to investors when we have closed the deal, is to give you a glimpse and a lifted look into the combined pipeline of Teva, and Actavis Generics in the new Teva.

I think that will be a very exciting year of new launches, both in 2017 and 2018. That really drives the growth, Manoj. It is amazing.

This is why it is such an exciting opportunity to be in this Company, to be in a generic company that has the opportunity over the next five years maybe to launch 4,000 to 5,000 products in the market. That is something that is not given, and that is the engine for the growth of our Business. Really, it's the new launches, but we hope to take you through that detail when we have closed the deal -- a few weeks after that.

Manoj Garg - *ABR-Healthco - Analyst*

Great. Thank you, all.

Operator

David Risinger.

David Risinger - *Morgan Stanley - Analyst*

I have a number of questions. First, what is your best guess for the timing of the closing of the deal -- in the next week, in the next few weeks? Any color on what we should expect would be helpful.

Second, could you just talk more about the pipeline, and please explain this specialty pipeline delay. And then, what specifically is in your 2019 revenue for branded pipeline revenue?

The third question is -- with respect to Allergan's performance, the consensus view is that Allergan's revenue has been worse than expected, and that pricing is worse than expected. Siggi, you are saying on the call here that Allergan has performed, in the quarters that they have reported since you announced the deal, that Allergan has reported in line, and that the pricing environment hasn't been worse than expected. Could you just talk through that a little bit more, and help the Street understand why the Street is wrong in thinking that Allergan has been performing worse than expected, and the pricing environment has been worse than expected? Thank you.

Erez Vigodman - *Teva Pharmaceutical Industries Ltd. - CEO*

Thank you for the questions. First, I would like to underscore again, we expect the closing of the Actavis Generics deal at any time now -- any time now.

On the specialty pipeline, key delays and changes are driven by Vantrela, SD-809 in Huntington Disease and [Zecuity]. Key specialty products that are included in our pipeline, and are going to basically -- are going to generate revenues in 2019 already. Of course, Copaxone, Vantrela ER, hydrocodone IR, SD-809, Huntingtons and tardive dyskinesia, TV-84125 will start to generate revenues already in 2019.

Respiratory franchise basically will generate in 2019 $1.3 billion to $1.4 billion of net revenues. And together with other, Women's Health, and oncology products that will generate for us also something in the neighborhood of $1.5 billion to $2 billion; these are the basically main products. It does not include everything, but really the main products that are included in the numbers in 2019.

Siggi Olafsson - *Teva Pharmaceutical Industries Ltd. - President and CEO of Global Generic Medicines Group*

David, on the Actavis business, as I said, it is in line with our expectation. I think, obviously, there are two things that play into it.

First of all, 2015 was a very good launch year. And you see the revenue and the profitability going up and down.

Obviously, two-thirds of the Actavis business is in the US. And when there is lack of launches, like was in first quarter, in second quarter they have Crestor, but that was the only big launch.

When you see a lack of launches, you will see a dip in the revenue. That is as per our expectation.

I obviously don't have access to the pricing of Actavis. We assumed that in the pricing and what we have seen has remained at minus 4%. This is why -- what we have seen in the Actavis numbers since we signed the deal is not unexpected, because you always have to assume that launches drive up revenue, and when you don't have launches, obviously you're hit by the price erosion. Overall, I have the same comfort in the Actavis business now as I had 12 months ago when we announced the deal.

David Risinger - *Morgan Stanley - Analyst*

Thank you.

Operator

Tim Chiang.

Tim Chiang - *BTIG - Analyst*

This question might have been answered already. I just wanted to get clarification on your second-quarter outlook. Why is the revenue going up, but your operating cash flow down from the prior outlook, again?

Eyal Desheh - *Teva Pharmaceutical Industries Ltd. - CFO*

Well, first of all, thanks for the question. I will try to clarify.

There is no direct relationship on the same quarter between revenues and cash flow. In Q2, we are collecting revenues of Q1. So, collection is always delayed.

There are many, many other moving parts, like working capital, level of inventory, level of receivables, gross to net payments to our distributors and customers. You can't really look at an exact tie between the quarterly results and the cash flow. If you look at this, given everything that is happening now, this is a very strong cash flow generation for Teva standalone, even before the deal closes.

Tim Chiang - *BTIG - Analyst*

Just one follow-up -- the rate of debt paydown -- is it the same as you had originally forecasted a year ago, with the original targets for leverage by 2018, 2019?

Eyal Desheh - *Teva Pharmaceutical Industries Ltd. - CFO*

First of all, we are borrowing less. Our base borrowing level is going to be lower. If you make that adjustment, it is very similar to what we have predicted before.

Tim Chiang - *BTIG - Analyst*

Okay. Great. Thanks.

Operator

Marc Goodman.

Marc Goodman - *UBS - Analyst*

Just to clarify on the guidance, so, Copaxone, there is no generic in there whatsoever, whether it is the high end or low end of the range. So, if there happened to be a Copaxone within this time period, that guidance does not hold. I just want to confirm that.

And second of all, let's just presume that there was a generic Copaxone for a second, sometime in the next couple of years, what would you do differently in running the Business, with respect to changing the expenses? And then second question, Siggi, can you give us a flavor for how you think about the operating margin of the combined generics business now?

Eyal Desheh - *Teva Pharmaceutical Industries Ltd. - CFO*

Maybe I will start, and then Erez will take it over, and Siggi will answer the last one.

Yes, obviously, if we see generic competition to 40 milligram, this is not the right outlook. We have, in Q3 of last year, if you remember, we provided our views on what could happen in a situation like this. We will address it in more details in the future.

As of this call, we are very confident in Copaxone. We have seen how the market turned generic on 20, but obviously the numbers would be somewhat different.

Erez?

Erez Vigodman - *Teva Pharmaceutical Industries Ltd. - CEO*

We will provide additional rationale that pertains to Copaxone when we provide the guidance for 2017, and then we will be basically be in a position to deal with different scenarios with more visibility into the numbers. That is number one.

Number two, of course, Teva is positioned to deal with all relevant scenarios that pertain to Copaxone left alone after we close the [Actavis deal].

Siggi Olafsson - *Teva Pharmaceutical Industries Ltd. - President and CEO of Global Generic Medicines Group*

Marc, on the operating margin, so Teva is currently in the high 20%s in terms of operating profit. Actavis is probably in the mid-30%s, something like that. What I would see is that at the close of the transaction, we will be somewhere around 30%, maybe a little bit higher.

Obviously, when we get the synergies through, over the three years, my best estimation for the generic business is, we should be running a business with operating profit around mid-30%s. Around 35% operating profit, when we have realized the synergies, which would be best in class of generic companies of this size.

Marc Goodman - *UBS - Analyst*

And maybe just as a follow-up here, can you give us a flavor for what's happening in Europe, and how you're thinking about Europe during this time period? Does it return to growth?

Siggi Olafsson - *Teva Pharmaceutical Industries Ltd. - President and CEO of Global Generic Medicines Group*

Yes. How we see Europe is basically, we are assuming that, on average the price erosion of approximately 5% in Europe. Overall, the beauty now on the new pipeline is we will see, in our key European markets, launches between 15 and 25 products per year in the new combined pipeline.

Obviously, what we're getting with the Actavis acquisition is the pipeline also included in Medis; that allows us to grow bottom line. But also small growth on the top line, due to the new launches.

I think the business itself, the underlying business in Europe, might grow like 1% to 2%. I think IMS is forecasting 1%, but our growth will rely very heavily on the increased pipeline that we have in Europe.

Marc Goodman - *UBS - Analyst*

Thanks.

Operator

Ronny Gal.

Erica Kazlow - *Sanford C. Bernstein - Analyst*

This is Erica Kazlow on for Ronny. Could you provide some details on what your branded sales assumption growth rate is now, and how that would be impacted, should generic Copaxone potentially enter the market sometime in the next couple of years? Also interested in understanding how the entry of Copaxone 40 milligram generic would impact pricing and gross margin on Copaxone. I know you say you would provide some guidance later, but would your previous number of $1.2 billion on revenue and $0.65 EPS impact in 2017 still stand?

Erez Vigodman - *Teva Pharmaceutical Industries Ltd. - CEO*

Just in general, the growth profile of our specialty product groups are very appealing, let alone from the moment new key specialty products kick in 2017, 2018, 2019. That basically accelerates the growth of our specialty business and reinforces the growth profile of Teva in its entirety. We will provide much more details when we meet you for 2017 guidance.

Siggi Olafsson - *Teva Pharmaceutical Industries Ltd. - President and CEO of Global Generic Medicines Group*

On the Copaxone thing, what we said earlier is, when we give guidance for 2017, that will be obviously after the IPR decision in August. We will give you more detail, if any impact would be on generic competition on 40 milligrams.

Kevin Mannix - *Teva Pharmaceutical Industries Ltd. - SVP and Head of IR*

Next question.

Operator

Randall Stanicky.

Randall Stanicky - *RBC Capital Markets - Analyst*

Just a couple of questions -- first, can you clarify on Copaxone, how was that factored into the previous 2015 guidance, versus how you detailed today with the erosion?

Secondly, if we look at the EBITDA margin for 2019 on today's outlook, it is 38.2%. It was 41% on 2018 last year. Is it fair to assume that delta is just the change in specialty, if we hold other timing assumptions constant?

And then the tangential to that, for Siggi, as you think about the gross margin for the Actavis and Teva business, has there been any change at all to how you're modeling or factoring that into guidance from July 2015 to today? Thanks.

Siggi Olafsson - *Teva Pharmaceutical Industries Ltd. - President and CEO of Global Generic Medicines Group*

Let me start, Randall. I think overall on the gross margin, what has changed is obviously the timing and the realization of the synergies. You saw on our slide that $500 million out of the net $2 billion of synergies is coming from the cost of goods sold. That is realized over time, and it's more towards the end, because obviously it takes a long time to close plants, and make [purchasing] synergies and things like that.

That is the only change that has happened in the gross margin assumption, is that the COGS synergies are coming in approximately a year later or eight months later, due to the delay in closing of the transaction. Otherwise, we are at the same gross margin as before. We are very pleased.

There has been a significant improvement in our gross margin over the last three years. We know what the gross margin is in Actavis; we are pleased with that. It all has to do with the synergies and the capture over time.

Erez Vigodman - *Teva Pharmaceutical Industries Ltd. - CEO*

And on the Copaxone question, basically, 2016 is stronger than what was originally anticipated. By the way, that was also the case, comparing to 2015 in retrospect.

So, we continue to model $200 million to $300 million erosion on a yearly basis. The basis of 2016 is higher than what was anticipated originally. We continue to embed into our model a $200 million to $300 million erosion on a yearly basis.

And the question on delta that you see in 2018, maybe I will try again to clarify things. What basically we are seeing in the numbers is that we are able to catch up on all the economics that we expected to generate from the Actavis Generics deal. There is a $400 million gap in 2019.

In terms of EBITDA, it is emanating from our specialty franchise. We are basically able to compensate on this in the bottom line, due to much lower tax and finance expenses. Bottom line, we are able to catch up. And going forward once key specialty products kick in, we will revise the plan that we see in specialty during the time frame that was provided here, and even accelerate the pace and momentum of our specialty franchise.

Randall Stanicky - *RBC Capital Markets - Analyst*

Got it. Should we still expect a September, more detailed business update, following the close?

Siggi Olafsson - *Teva Pharmaceutical Industries Ltd. - President and CEO of Global Generic Medicines Group*

We haven't said September. We obviously need to get our hands on the pipeline. We hope soon after close.

We want to give you more visibility into the generic business, to highlight what is in the pipeline, highlight maybe the growth, highlight also where we think each of the pipeline products could fall onto different years. We don't know -- I don't think we will update the outlook at that point in time, but we want to give you more visibility into the combined pipeline of the generic part as soon as we can, after close of the deal.

Erez Vigodman - *Teva Pharmaceutical Industries Ltd. - CEO*

And if you relate to basically what was promised during our Q1 earnings call, we basically indicated August and September as the two development milestones. What we are doing today, basically, next time that we plan to meet the Street is when, of course, during the first week of August, Q2 earning call. Next basically milestone will be 2017 guidance, and that is basically a date that should be set between August and 2017 guidance, we will meet the Street to provide you to what Siggi has just indicated.

Randall Stanicky - *RBC Capital Markets - Analyst*

Great. Thanks.

Operator

David Maris.

David Maris - *CLSA Limited - Analyst*

First of all, thank you so much for all the financial detail about the assumptions. It's very helpful.

Erez, Eyal, as you worked through the deal, and you reflect on the past year, other than the small timing issues and the divestitures that you have already covered in the call, what one thing do you think has turned out as a positive surprise, and what one thing do you think is more challenging?

Separately, on an unrelated note, if you could just update us on how the Takeda deal is going? Thank you.

Erez Vigodman - *Teva Pharmaceutical Industries Ltd. - CEO*

So, basically positive surprises are the businesses holding under such circumstances. That is not easy to basically run the business with such a level of uncertainty for almost 12 months. The way the business is holding up is really impressive. That is one important surprise.

The second one, of course, is the other day, we get more or less same economics for less -- for a lower net cost of transaction, and that timing, which is translated of course into financing needs. Overall, we [are variable] in terms of bottom line, at least to compensate on basically time differences of EBITDA generation. So that is a second one.

I would say that on the flip side, maybe two things -- one, basically the time it takes to be granted with approval. That is basically our bad news. That is bad news for us. And of course, it makes 2016 a transition year, where we plan basically to drive things forward full engine in 2016.

It will take us to basically access our full engine from the beginning of 2017 in order to generate all the numbers that we have just shared with you. That is number one. I would say that exhausts the two ends of the spectrum here.

Eyal Desheh - *Teva Pharmaceutical Industries Ltd. - CFO*

Maybe one additional positive, and very meaningful, is the financing situation. When we put together all the moving pieces, we need to raise $4 billion less, our capitalization is better, we raise more money on equity. On the equity raise back at the beginning of December, our leverage going immediately after closing is lower, even substantially lower than what we have anticipated.

And market conditions for raising money is significantly better. If you remember when we announced the deal, we predicted average cost of debt of about 3.5%. We are now looking at something like 2.8% to 2.9%, and that is very meaningful because the debt is long term, and over time, that accumulates to a lot of money that we're saving.

Siggi Olafsson - *Teva Pharmaceutical Industries Ltd. - President and CEO of Global Generic Medicines Group*

David, on the Takeda deal, as we mentioned before, we closed that transaction. We started the operation of the joint venture on April 1. This is the first full quarter of operation. It is going extremely well.

We have hired into key position. We have got a great CEO to join the team, to lead the team. It will obviously -- it will have a nice contribution in the beginning, but is expected to grow over time.

I think the model we are building in Japan is something that really works well, where the pipeline, the strong infrastructure of the generics that comes from Teva, but also the known -- the localization, the distribution, and the sales that comes from Takeda, I think this will be proven to be a great combination. So far so good, that we have where we are in terms of Japan.

David Maris - *CLSA Limited - Analyst*

Great. Thank you very much.

Operator

Greg Fraser.

Greg Fraser - *Deutsche Bank - Analyst*

It's Greg Fraser on for Gregg Gilbert. On the guidance, can you talk about your gross margin assumptions that are contemplated over 2017 to 2019? I'm not sure if I missed this, but can you comment specifically on how much revenue you are factoring in from the Actavis business in 2017?

Siggi Olafsson - *Teva Pharmaceutical Industries Ltd. - President and CEO of Global Generic Medicines Group*

As I mentioned to Jami, we haven't given out individually what the revenue is on the Actavis business. That will be a whole business.

We gave a picture of the EBITDA on slide 14, just to explain the full years of operation, but we have not broken out the revenue contribution in Actavis in any of the years, because it will be one and the same company, hopefully when we close the deal.

Eyal, on the gross margin assumption.

Eyal Desheh - *Teva Pharmaceutical Industries Ltd. - CFO*

On gross margin, Teva gross margin today is between 62.5%, 63%. It includes a significant portion of specialty business, which is a high-margin business.

Combining Actavis, which has the highest gross margin in the generic industry, by the way, will reduce the average gross margin to around 60%, with synergies on operation improving this over time. We are in between 60% to where we are today over the period.

Greg Fraser - *Deutsche Bank - Analyst*

Thank you.

Operator

Elliot Wilbur.

Elliot Wilbur - *Raymond James - Analyst*

I just wanted to ask a line of follow-up questions related to Siggi's earlier comments around margin expectations or margin evolution for the combined generics business. Specifically in thinking about the savings to arrive with the synergy realization on the COGS aspect of the total synergies target, how much of that is driven by just facility consolidation, plant rationalization, versus portfolio optimization?

Teva obviously has divested a significant number of products over the last couple of years, relatively low-margin assets. And just looking at the Actavis portfolio, their business is much more concentrated at the top, and they have a very long tail of subscale, sub $10 million assets. I'm wondering if you have really had a chance yet to do a deep dive there, and think about what the rationalization opportunities there, and whether or not that is fully embedded in the $500 million synergy realization target in COGS?

And just quickly, with respect to, obviously their most important asset, methylphenidate, assuming that you are embedding essentially the current status quo in the 2018 and 2019 guidance, but just wanted to confirm that.

Siggi Olafsson - *Teva Pharmaceutical Industries Ltd. - President and CEO of Global Generic Medicines Group*

Elliot, it's a good question. First of all, on the COGS, overall the first part of the COGS synergies are around purchasing. You roughly can think about, that about half of the COGS savings, about $250 million is due to facility, and roughly half is around the purchasing, people aspect, and things like that you get earlier. That's how we think about it.

Is there a longer-term opportunity for more? Yes, there might be. The reason why we say that is, as Carlo has mentioned on these calls before, it takes at least three years to close a plant, when a decision has been made. To realize synergies from closing a plant, this is a three-year time frame we're showing you here. There might be an opportunity outside of the time frame of what you're seeing here, in terms of further synergies.

But as we always talk about synergies in the first three years or [95%] within the first 36 months, that's why we peg it like this. But the purchasing synergies, the cost of API excipients will be the first one to come, and approximately $250 million will be then in facilities. Most of these facilities, the decision has already been made to enable us to get the saving in the planning period.

With regards to the methylphenidate, I have mentioned before, we assume competition on methylphenidate in the planning period. We assume that in fact this year; so far Actavis has not seen that competition. I think that is good news for the business.

We assume that there is a competition on generic Concerta in the planning period. That is how we have planned for the outer years.

Elliot Wilbur - *Raymond James - Analyst*

Is there any changes in assumptions around the existing relationship with J&J? I guess the question I should have been more up front. Are you assuming that, in fact, you will have your own product approved in the marketplace by the end of 2017, or maintenance of the existing agreement, or essentially there is -- at this point, there is no difference between the two?

Siggi Olafsson - *Teva Pharmaceutical Industries Ltd. - President and CEO of Global Generic Medicines Group*

We assume we will have a product in 2018. Let's word it like that.

Elliot Wilbur - *Raymond James - Analyst*

All right. Thank you.

Operator

David Amsellem.

David Amsellem - *Piper Jaffray - Analyst*

I just wanted to ask a high-level question on the clearing of the FDA generics review backlog. And how is that reflected in your long-term aspirational targets that you have laid out today?

Or I guess, put another way, is the clearing of the backlog something we should think of as kind of cutting both ways, in terms of potentially putting some pressure on you competitively, but at the same time, also driving more contributions on the pipeline? I just wanted to get your thoughts on how you have reflected that clearing of the backlog in those long-term aspirational targets? Thanks.

Siggi Olafsson - *Teva Pharmaceutical Industries Ltd. - President and CEO of Global Generic Medicines Group*

David, good question. Our assumption is basically that it doesn't change so much. Obviously, it's difficult; as we've said, we don't know the details of the Actavis generic pipeline, so we need to look at that. That is part of the things we will review very carefully when we close this transaction.

But you are absolutely right to point out that it is cutting both ways, because if there's acceleration significantly in the backlog of clearing the backlog at the FDA, obviously there might be some price implications of that. But also as the new combined Company, roughly have about 20% of all ANDAs pending at the FDA at the close of transaction, we obviously would be the beneficiary of it.

So net-net, it cuts both ways. If there's acceleration at the FDA, we will get the benefit on the new product launches, but obviously it could hit us a little bit on the pricing. And the other way around, pricing is more stable while the backlog is in place. Our assumption here is that basically it remains the same time to approval as we have seen today.

David Amsellem - *Piper Jaffray - Analyst*

Thanks. So just to be clear, the clearing of the backlog just quantitatively in the long-term targets, should be seen as basically a net neutral?

Siggi Olafsson - *Teva Pharmaceutical Industries Ltd. - President and CEO of Global Generic Medicines Group*

Yes. More or less, for the overall business, net neutral. Even a slightly positive, because when you have 20% of the ANDA pending, it could be slightly positive for us as long as we have the right IP landscape to enable us to launch the products.

David Amsellem - *Piper Jaffray - Analyst*

Thank you.

Operator

(Operator Instructions)

Rohit Vanjani.

Rohit Vanjani - *Oppenheimer - Analyst*

I just had one quick one. It looks like, for 2Q, it looks like Azilect, Nuvigil, ProAir, Qvar, Pulmicort, they are all down quarter over quarter on a prescription basis. Copaxone may be up, but what is the strength in the quarter that is causing you to revise guidance upwards?

Eyal Desheh - *Teva Pharmaceutical Industries Ltd. - CFO*

Well, first of all, what we have seen in revenues, and that is what we monitor, we have seen slight improvement quarter over quarter in all our specialty products, from Copaxone to the respiratory products to Azilect, Nuvigil, they are all slightly ahead of last quarter, and a little bit above our forecast.

Erez Vigodman - *Teva Pharmaceutical Industries Ltd. - CEO*

So basically we will provide, we will shed more light on it of course during our Q2 earnings call. Just to underscore our specialty franchise, basically delivered very strong results in Q2.

Rohit Vanjani - *Oppenheimer - Analyst*

Lastly, have you said how many target action dates for your pipeline that the Teva business has for 2016?

Siggi Olafsson - *Teva Pharmaceutical Industries Ltd. - President and CEO of Global Generic Medicines Group*

No. We haven't, but I think the FDA and the industry and some analysts have come out that approximately 50% of the pipeline has a targeted action date today.

Rohit Vanjani - *Oppenheimer - Analyst*

Okay, great. Thanks.

Operator

Andrew Finkelstein.

Andrew Finkelstein - *Susquehanna Financial Group - Analyst*

If you could just clarify, as you think about cash flows over the forecast period, there are a number of factors that went into the changes from the divestitures to the interest savings. But has the cash generation of the generics business itself, and the margins and cash return on sales changed at all over the last year? And given some changes on the branded side as well, have your thoughts about the attractiveness in investing capital in generics versus brands for the longer term changed at all? Thanks very much.

Erez Vigodman - *Teva Pharmaceutical Industries Ltd. - CEO*

I think -- maybe two things. One is more general, and that is something we need to discuss more, as well, the attractiveness of the generics space is evident, and I'm talking about the global generic industry. That is a very attractive industry.

By all means, growth rates, cash flow generation, profitability, margins, and of course, return to shareholders. I'm looking at the last 10 years and I look at basically the way we see the growth profile for the next 10 years. That is a very attractive industry. And when the growth rates are compelling, and the EBITDA, and the margins are reached, of course, the cash which is generated is very profound.

That is something which is coming into play in everything that Teva has been doing. Especially looking at the huge improvement during the last two years in cash flow. Now we are able to drive up our cash flow generation, cash flow from operations and free cash flow in a way that was very strongly driven by the improvement of margin in generics. That is the main driving force in basically our ability to uplift and step up the cash flow generation from the Business.

Looking forward, what we see is a very different company which generates from the day we close the deal to the end of 2019 more than $25 billion of free cash flow. If you wish, without the divestitures -- so, during 2017 through 2019 time frame, more than $20 billion of free cash flow. Just another testimony of the basically cash flow generation capabilities that the generic business and combined Company possesses.

Andrew Finkelstein - *Susquehanna Financial Group - Analyst*

In terms of the branded business and the returns you are seeing there? Has that changed at all?

Siggi Olafsson - *Teva Pharmaceutical Industries Ltd. - President and CEO of Global Generic Medicines Group*

No. I think -- Siggi here -- I think, in terms of the branded business, we see the returns very exciting. I think what we are seeing here is in terms of the delay in the pipeline. Really, the branded business is -- we -- and in terms of your question around where we want to invest, clearly our specialty business is where we want to invest next.

We really, I feel personally, that what we have in generics today is exactly the base, and the Company we need to be a leader in this field. We really have an R&D capabilities in all dosage forms. We have our own operation in 80 markets around the world.

We are top three generic company in over 40 markets. Really, I think the Company going forward would invest more on the branded side versus the generic sides, for sure.

Erez Vigodman - *Teva Pharmaceutical Industries Ltd. - CEO*

To build on that, basically, the strong leadership position that we have been basically building in here on the generics side, at the same time, the strategy that we have casted for which one of our therapeutic areas on the specialty side in their quest to target and to claim for a global leadership position in each one of their therapeutic areas that are considered today core for us. The notion is to now to cementing and bolstering further the pipeline and the product portfolio, complementing each one of our therapeutic areas. I said it, and I'm reiterating it now, that is basically how the focus is shifting from BD perspective from generics to specialty, and also potentially to biosimilars, in order to bolster also our pipeline in biosimilars.

Andrew Finkelstein - *Susquehanna Financial Group - Analyst*

Thanks very much.

Operator

Thank you. There are no further questions. I will now hand the session back to CEO Erez Vigodman. Please go ahead.

Erez Vigodman - *Teva Pharmaceutical Industries Ltd. - CEO*

Thank you, everyone, for joining us this morning, and have a great day.

Operator

Thank you. That does conclude today's session. Thank you all for participating. You may now disconnect.
