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PRESENTATION

Christopher Thomas Schott - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Good morning, everybody. I'm Chris Schott from JPMorgan and very pleased to be introducing Teva this morning. From Teva, we have the company's new CEO, Kåre Schultz. He's going to make about 10 or 15 minutes of opening remarks and then we're going to do a brief fireside chat after that.

So with that, we'll turn it over to Kåre.

Kåre Schultz - *Teva Pharmaceutical Industries Limited - President, CEO & Director*

Thank you very much. Good morning, everybody. It's a pleasure to see you all here. Thank you upfront for your interest in Teva. I'll do a brief presentation to just highlighting some of the key events and some of the key elements of the current situation and then we'll move on to a fireside chat, and then later on if you want, we'll have a breakout room where there will be Q&As. So first of all, as you know, for Teva and other companies, it's hard to predict the future. That's also the case here. So be careful here and read this carefully. Now talking about that, this is the current reality, the way that I see it for Teva, that we have some significant challenges and that we have to take action quite urgently in order to handle the challenges. The challenges are not very complicated in a way. They are pretty straightforward. So I think most of you will be able to relate to both the challenges, but also to the actions we are taking in order to handle the challenges. And the first challenge I would like to mention is sort of this straightforward fact that we have a debt of some $32 billion. And, of course, that means we needs to be able to service the debt in a serious way. We needs to live up to all our obligations, and we need to have good relationship to the banks, the bondholders and so on since we have this significant amount of debts. The other issue we are facing is that we have, for many years, had the leading MS product COPAXONE, which has done phenomenally well. It's a fantastic product. Many, many patients are benefiting from it every single day. And it has now gotten generic competition, and we know more about generic competition than most companies. So we also know how to try to work in that situation and make sure we get the best out of the situation so that we keep as much revenue as possible. But still, of course, we will see a slow reduction in revenues from COPAXONE in the coming years. It's a major part of our revenue, it's a major part of our earnings and we need to address that issue.

Then it's no secret for anybody that the generic marketplace in the U.S. has been changing over the last couple of years. A couple of factors that have influenced it are the fact that FDA decided to move faster on approvals for generics, typically generics that were already approved for a couple of manufacturers, got approved for more manufacturers. And it's also a fact that the buying side of the equation got more organized. You could say there are 3 big consortiums now that are buying products for the U.S. generic market. So it's more, you could say, consolidated on the buying side than it used to be some 5, 10 years ago. This has all led to more competition and we've seen prices that have been eroding slightly faster than we saw in the past.

Then there's another element to the generic market, that is, how many first-to-market, first launches do you get. So you all know that in the beginning, there's relatively higher prices for generics and then as more competitors come in, the prices go down. So the majority of the profit pool really stems from launching first or being one out of 2 who launch first and then the first year or 2, you get a significant profit out of that. And we've seen less of those from Teva's side. So then you can say what are we going to do about all of this? Well the short answer is that we're going to make sure that with the forecasted revenue stream without any overoptimistic predictions about changes in the market dynamics, we make sure that we reduce our cost base so that we can match the income we have and live up to our financial obligations and serve the debt and basically be in a healthy state financially. At the same time, we will manage, of course, closely our liabilities to make sure that everything is in good shape there and everybody is happy there. And then we'll be divesting as we've done already, some of our noncore assets. But we're really not talking about sort of chopping up the company because that does not play into our core strength. Our core strength is we have the biggest value chain from early development CMC, API manufacturing, finished manufacturing of any company in the whole world and we're going to keep that intact. We're going to keep the product portfolio intact. And then we're just going to optimize and make more efficient the way we deliver these billions of products in the marketplace, thereby ensuring our margins are in good shape and ensuring that our operating profit is in good shape.

Now the cost reduction we're doing, and this is very broad terms, but just simplistically, think about it this way. Our total cost last year is roughly $16 billion. That's everything, including manufacturing, sales, marketing, staff, everything. So we've roughly taken those $16 billions and over 2 years, we are reducing it to $13 billions. We do that by cutting costs everywhere where we can and where it does not affect revenue generation, basically. Now you might say how can this be done? Is this realistic? And I can tell you, it's very realistic, it's a very firm plan. We are executing on it as we speak and it will definitely happen. So you don't need to worry about that part of it. Now we'll do it, of course, in a sequence. You all know about labor laws and how to negotiate things when you reduce manning, shutting down factories, consolidating R&D sites, consolidating office sites, all that. It takes time. You can't do it in one day. But you can do it sequentially in a couple of years. And that's why we do the majority right now. This month, the majority of the people who will be let go will be notified. But there will be also be plant closures and R&D site closures that will happen over the next 2 years. And that will, of course, be a process that will be timed according to how we can execute without hurting our R&D portfolio and without hurting our ability to service the market.

Our #1 commitment is, of course, to all the millions of patients who use our products every day. So we will make sure that we will have no supply interruptions or any problems like that in connection with this restructuring plan. It's all elements of the cost base. The 14,000 people we are letting go is from everywhere in the company, whether it's staff functions, R&D functions, manufacturing, sales, marketing and so on. The 2 areas where you'll see the least reductions is on the actual manufacturing shop floor and in the sales force because we want to keep the whole product flow going so that we keep the revenue base, but we reduce the cost base, thereby securing our operating profit. There will, of course, be some cash outlays for severance pay, plant closure cost and so on. We estimate that to be around $700 million this year. And that's, of course, cash but it's something that doesn't repeat itself, of course. And once we go forward, we will see the $3 billion cost reduction repeating itself year after year.

Now some have asked me, how on earth is this possible? How can it be you can do so much when the company has been stating before that it had done a lot? There's one fundamental reason why we can do more than people estimated and that is the structure the company has had. Teva has been doing great on COPAXONE, having a big profit stream coming in from that and has been doing great on generics, optimizing the size of the business, getting bigger and bigger. But the way Teva has been organized has been in 3 silos, one has been a silo of global staff functions, so HR, finance so on, going across the world and basically trying to run as good a finance, HR, communications so on activity in each part of the world. That has been, in a way, isolated from a generic structure, so a generic business division structure, which again has been isolated from a specialty divisional structure. And that has led to the fact that very few people have had a good grip on the operating profit and the P&L. So everybody did their best in their functional area, everybody did a good professional job, but nobody really looked at the operating profit and the P&L of the company apart from, I guess, the CEO and the Board of Directors, but that's not enough to drive a company. So one simple change, instead of having all these functional goals that people have had that have not led really to a success from a profitability point of view, the company this year -- everybody in the company, me included, basically has company profitability and cash flow as their targets. That will hopefully change behavior so that you don't stop optimize on your own little part of the company, but you look to optimize the profitability of the whole company. So we're basically merging 3 kind of organizational structures into one. That takes out 2/3 of management in some cases and that simplifies the whole operation. And that's part of the reason why we can do this quite significant reduction of some 25% of the total manning worldwide.

Of course, we also have to close facilities. I've said before that with the size we have, serving more than 200 million patients every day, we need a substantial manufacturing footprint. But had we done it organically bottom up, we would probably have 2 to 4 API sites and maybe 8 to 12 finished pharmaceutical manufacturing sites. Today we have 80 sites in total. So it goes without saying that we have too many. On the other hand, you can't just change everything in manufacturing in a few years. You have to do it in a long-term plan. But we will be moving from these 80 towards a more sustainable level that will probably around half the number of sites in longer term. And in the short term, in the next 2 years, we will see a reduction probably between 20 and 25 sites around the world. All this, of course, improving profitably. We'll also go through the total R&D portfolio. We need a strong generic R&D portfolio because we need to be first to fire, first to launch and we're focused on that. And any of you who've looked into it will know that the combination of Teva and Actavis, we have by far the biggest portfolio of first-to-file generics and biosimilars in the U.S. and we'll continue to focus on that and that will continue to generate new revenue for us on a constant basis. And then we'll focus on the R&D programs that we think are most promising. We have traditionally been strong in CNS and Neurology and we'll stay in those areas, but we will slim down the portfolio. So basically keeping a full portfolio from a timing perspective, but also focus on the key assets we have where we need to back them up with whether it's Phase IV trials, Phase III, Phase II. So we'll be backing AUSTEDO that we just launched. We'll be making sure that fremanezumab gets a fantastic launch this summer, also backed by good continued clinical trials. And we'll be working on fasinumab, which has a great promise in the nonopioid pain relief segment, which I think is very promising given the whole situation around opioids that we all know so much about.

So in a way, you could say that we're doing a lot of things at the same time. We're also optimizing our portfolio and there's been some misunderstandings about what is it we're doing with this optimization of the portfolio. Why am I talking about some prices will have to go up, because they're not sustainable. It's basically a change where you can say, Teva used to focus on maximizing revenue in the generics business, believing that if you just maximize revenue, everything will fall in place and you'll get great profitability and so on. That doesn't really work from my point of view. You always need to maximize operating profit. So when you think about it, if you maximize revenue, you're taking really any deal you can get, just to get the volume, but you don't really stay super focused on what is the per product, per SKU profitability. That's what we want to do going forward. That doesn't mean that we stop supplying our customers. It doesn't mean that we sort of do not deliver to patients who need the products. It just means that we have started negotiations, where we explained to our big customers that these SKUs, not all of them, maybe 10% of the products we're delivering, they're really not sustainable from our point of view. And then we're fine with discontinuing them, but we're also fine with renegotiating the price to a sustainable level. But the whole thing comes out of the simple economic theory that instead of focusing on maximizing revenue, you maximize operating profit product by product. And then the downsizing in manufacturing and R&D, of course, improves the cost base as well. So we think doing all this, we will see improved profitability for sure.

So in terms of our financial profile, I started with that. We have these $32 billion in debt. And of course, we've got to make sure we can pay down that debt. I don't like to operate a company with debt, so it's a kind of funny situation I'm in. But I need, of course, then to get the debt down in order to like my job some more. And that's why I've decided immediately that we suspend dividends on all ordinary shares. We have a little bit of shares where we will be paying the dividend for the next year then that runs out. And then we will not be paying dividends until we get a sort of significant reduction in our debt. We will be committed, of course, to use the cash flow that gets in to pay down debt. I'm not going to plan any major acquisitions at all. I think we've done more than enough in the last 5 years, so we won't repeat that for the next 4 years. And then, of course, we'll make sure that we are in good sync with our banks, in terms of our banks' covenants and we'll make sure that we get down below net debt being sort of less than 4x EBITDA at the end of 2020. But I've also said already that I don't really like this 4x. I think it's sustainable for a large pharma company to have something like 2x net debt to EBITDA and that's what will be my ambition longer term for the company. And we do not plan to raise any equity. And the simple reason is that I'm hired by the shareholders and it's going to create most value for the shareholders that we do not create new equity, but rather make sure we optimize the business in order to serve value generation for the current shareholders. This is how our sort of debt maturities look ahead of us. We think we can handle this in a nice way given all the actions we're taking. We're also doing some divestments. We have done some divestments where we're getting paid this year, the women's health care in Europe, for instance. So we will see some nice cash flows coming in, which means that we can handle this debt for the coming 4 years. So the path forward and what you should look for and what we will deliver on in 2018 is that we will simplify the organization, we will make it leaner, we will make it faster in how it acts. We will get moving on the $3 billion cost reduction. You'll see the first signs of that you will see in the first quarter and then it will build up over the coming 2 years. You'll see that we continue to pay down debt. You'll see a strong launch of fremanezumab, hopefully we'll get the approval in mid this year and then you'll see a very strong launch. We've put very strong efforts behind that making sure that, that moves forward. We continue to put strong efforts between and behind AUSTEDO making sure that, that moves forward. And then you'll see that we'll be optimizing our R&D spend, both in specialty and in generics, so really go forward where we can see a good return on investment and that should all bring the long-term margins up and the returns on the investment in the company up. So with doing that, we also will ensure that we continue to do what we do better than anybody else, which is to deliver enormous daily quantities of high-quality medicines to patients and serve them every day through all the customers that we deal with.

So thank you very much for listening. And now, we'll have a little chat and later on there's a breakout session with Q&As. Thank you.

QUESTIONS AND ANSWERS

Christopher Thomas Schott - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Great. Well, thanks, for those comments. So one of the questions, I think there was some surprise in the market by the depth of the restructuring. It can be spent through a lot of restructurings already, you're talking about a $3 billion cost cutting. I guess, as you go through this process, how do you ensure that you're not cutting too deep and exacerbating some of the challenges that the organization has already been facing?

Kåre Schultz - *Teva Pharmaceutical Industries Limited - President, CEO & Director*

Yes, the way you do it is, you have to do it in a very structured way. So you have to go through all the different functions and then you have to get down to sort of the, you could say, department level, the people level and making sure that the people you take out are not people who are an integral part of the actual value chain. So you protect your basic value chain. This is basically doing the regulatory process, getting the filings through, getting approvals, getting manufacturing up and running, doing the production volumes you need, getting your money collected, getting your sales force out there. So you protect the basic value chain. And then you'd basically look at everything else and say, does it add value or not? If it doesn't add value, you get rid of it. And I've done it before a couple of times. And I've never seen it cause any real trouble with -- in terms of revenue generation. So I think, it won't do it this time either.

Christopher Thomas Schott - *JP Morgan Chase & Co, Research Division - Senior Analyst*

And when I -- I think you talked about this kind of 3 structures moving to one. How big of a piece of the $3 billion is that piece of it versus just fundamentally rethinking the strategy within some of the individual business units?

Kåre Schultz - *Teva Pharmaceutical Industries Limited - President, CEO & Director*

I would say probably up to 1/3 of it is when you collapse it into one business, because if you imagine, you have sort of super-complicated structures where people are reporting into different places despite the fact they're sitting in the same place or, even worse, you have a situation like here in the U.S., where due to acquisitions -- I didn't explain this. Maybe I should just explain this briefly. The reason why Teva has this complicated structure, both of the 3 different areas but also of a lot of sites for R&D, for manufacturing, for offices and so on, is due to the growth through acquisition. When you acquire a lot of companies and you're actually successful in the sense that you make good revenues, you make good operating profit, unless you're very motivated to sort of squeeze out cost and create synergies, you don't necessarily consolidate everything, you don't consolidate manufacturing, you don't consolidate your marketing operations, you don't consolidate your R&D sites, your marketing sites and this leads to a situation where it's very suboptimal from a cost efficiency point of view as opposed to if you grow organically. So you have 2 R&D sites, 2 manufacturing sites and each country you only have one marketing organization, one place where you sit. So just here in the U.S., I think we have maybe 5 to 10 office locations and we are basically going to close pretty much everything apart from one place. Now that takes some time to do, but it creates big cost synergies without reducing the output. So that's maybe...

Christopher Thomas Schott - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Yes, that makes a lot of sense. And there's been a lot of discussion around the portfolio optimization process you're going through and I think you've explained that it was a kind of volume versus profit focus before. I guess, first of all, how big of a piece of when you think about the recovery of Teva is the ability to take price on these assets? Is that a big piece we should be thinking about or is that -- this is a smaller piece?

Kåre Schultz - *Teva Pharmaceutical Industries Limited - President, CEO & Director*

No. This is not really a big piece. It's a smaller piece out of the totality. I mean, U.S. generics and the profitability from U.S. generics is a smaller piece of the total profitability of Teva. We have just as much business in Europe and rest of the world on generics as we have in the U.S. So it's not like the U.S. generic business is a really big chunk of our profitability, but it's of course important. The small philosophical thing inside the company that you should not go for optimizing your revenue line no matter what, you should go for optimizing your operating profit. That's the basic thing.

Christopher Thomas Schott - *JP Morgan Chase & Co, Research Division - Senior Analyst*

I guess along in there, as I think about some of these unprofitable products, I mean, is -- was there other benefits of producing these and that you got greater share among some of your very profitable products because you had such a large basket of products you're selling and do we think about any ancillary impact to the portfolio if, in fact, you exit some of these businesses?

Kåre Schultz - *Teva Pharmaceutical Industries Limited - President, CEO & Director*

No, I don't think so. But it's of course such that we are the biggest supplier to the U.S. marketplace in terms of generics. And we have very, very good relationships with the key buying groups and we work closely with them. And we'll, of course, honor all our contracts and make sure that there's no supply interruption or anything like that. But at the same time, I think we have been underanalyzing, underutilizing the detailed knowledge about each and every product whether it is making sense or not and if products are not cash basis margin positive. So they're actually cash negative just manufacturing and selling them. Then, of course, it's our responsibility to talk to our customers about it and create a sustainable situation instead of an unsustainable situation. It would also be unsustainable long term for U.S. consumers if we didn't do this. So I think it's a natural thing, but it's a small piece of the total parcel in terms of operating profit improvements.

Christopher Thomas Schott - *JP Morgan Chase & Co, Research Division - Senior Analyst*

One last question on this. You mentioned your relationship with some of your customers. Is there any hurdles that are -- you foresee in terms of being able to -- you mentioned about 10% SKUs are part of this. From a contract perspective, et cetera, will this take time to get out of these? Or do you have...

Kåre Schultz - *Teva Pharmaceutical Industries Limited - President, CEO & Director*

Of course, it takes time because you typically have maybe, let's say, 6 months' supply agreements on products. And, of course, you don't run away from any of your commitments, not at all. So you sit down and in some cases, it's a product that you sell for $0.50 that needs to go to $0.60. It's not dramatic. It's not dramatic cost per patient we're talking about. And in some cases, you'll discontinue the product, that's fine. In some cases, you will find a solution with your customers and that's also fine. But we have to remember that the key operating profit driver of the generics business is the new launches. It's the first 1 to 2 years of a new launch where you generate by far most of the operating profit in U.S. generics. It's not 5 years after launch when the price is really low and you have a huge volume. But, of course, we would like to serve as many customers as possible, but under the condition that we optimize our operating profit.

Christopher Thomas Schott - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Great. Looking beyond this kind of rebasing, can you still articulate a little bit what you see as the longer term kind of vision for Teva and growth drivers for Teva, again when we look 2019 and beyond? And how do you see this business growing over time?

Kåre Schultz - *Teva Pharmaceutical Industries Limited - President, CEO & Director*

Yes, so the way I see it is we have sort of an unparalleled strong value chain, like I said before. Our ability to do early clinical trials, whether it's clinical testing of generics or new specialty products. We are one of the best in the world on that. And then taking it through the whole development and launch process because of the volume we have. So you'll see 2 key drivers of growth for Teva: one will be the key new specialty products that we are launching, like fremanezumab, fasinumab and others. And the other one will be the global footprint with both our generics, operating the generics, our complex generics and even our OTC products, where we'll make sure that all countries will be operating on a profitable level and that we'll be launching more new generics biosimilars than anybody else. And that will be driving our profitability together with basically fine-tuning the whole machine to have a much better gross margin and operating margin than we have today.

Christopher Thomas Schott - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Great. Maybe one last question for this session. When you think about the leverage of the company and the investment grade rating, how important is the rating in terms of your financial flexibility and how you think about gross...?

Kåre Schultz - *Teva Pharmaceutical Industries Limited - President, CEO & Director*

So the leverage of the company, I mean, we have too much debt, which I said in the beginning. I'm going to make sure that we bring it down. And in that process, we'll be optimizing the business and using all the cash flow we generate to bring down the debt. And then how that relates to what exact rating we'll be getting, that I'll leave up to the rating agencies. We'll just make sure that we have a sound financial base, no matter what rating we end up having.

Christopher Thomas Schott - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Great. Well, let's continue discussion across the hall, but thank you very much.

Kåre Schultz - *Teva Pharmaceutical Industries Limited - President, CEO & Director*

Thank you.
