

Teva Pharmaceuticals

Israel/Pharmaceuticals

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UBS Research

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12-month rating	Neutral
12-month price target	\$35.00
Price	\$33.97

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Focus Turns to Strategic Review and New CEO

- Key takeaways from the conference call
- Additional takeaway
- Thoughts on the stock: Not ready to step into the name
- Valuation: Maintain our Neutral rating and price target of \$35

(1) In 2017, the key focus for Teva is execution that includes extracting synergies from the Actavis Generics deal, delivering on the generics (>\$750M in new launches) and specialty pipeline (SD-809 approval in Huntington's and Tardive Dyskinesia, Phase 3 CGRP data for migraine), driving additional operational efficiencies, and paying down debt to maintain its investment rating. The launch of generic Copaxone 40mg would impact the leverage ratio, but mgt doesn't expect this to increase risk to bank loans or impact debt covenants. (2) Teva provided few details on the strategic review (not surprising, as it's still early days) or why it started the review before the hiring of a new CEO, but it noted it has to get the right leadership to institute the right strategy to harness the strategic assets and strong talent at Teva. The review should be deep and broad-based as mgt expects to "dig deep" into the businesses and "leave no stone unturned." (3) The search for a new CEO would be global, and the CEO should have a deep and broad pharma experience to take Teva to the next level. On changing the current company bylaw stipulating the CEO must reside in Israel, mgt said it would do what it takes to bring the right CEO to Teva.

Additional takeaway

(4) Mgt is determined to maintain its 2017 EPS guidance and indicated it would take additional costs out to do so. (5) On the potential impact from generic Copaxone 40mg, mgt expects a slower erosion curve than that of a typical generic, as it has solid contracting in place and it doesn't believe PBMs would do a forced switch given the potential for patients to switch to higher cost orals. (6) We maintain our EPS of \$4.65 for 2017E and \$4.85 for 2018E.

Thoughts on the stock: Not ready to step into the name

While we think the generics pipeline can probably drive low-single digits sales growth over the LT, we're not ready to step into the name, given the uncertainty around the outcome of the strategic review and the search for a new CEO. Also, new CEOs tend to like to sign off on new numbers, and the new Teva CEO may have a different view of the numbers. Additionally, the key milestones on the branded side come in 2H17.

Valuation: Maintain our Neutral rating and price target of \$35

Our price target is based on the generics group P/E of ~7x (unchanged) our 2017 EPS estimate of \$4.65.

Trading data and key metrics

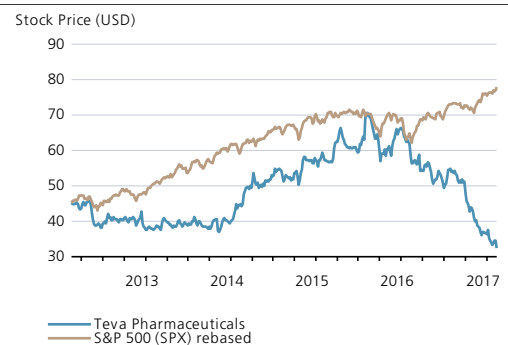
52-wk range	US\$59.09-32.19
Market cap.	US\$34.5bn
Shares o/s	1,015m (COM)
Free float	84%
Avg. daily volume ('000)	2,128
Avg. daily value (m)	US\$75.2
Common s/h equity (12/17E)	US\$37.3bn
P/BV (12/17E)	1.0x
Net debt / EBITDA (12/17E)	5.1x
RIC	TEVA.O
BBG	TEVA US

Sources: UBS, Bloomberg

EPS (UBS, diluted) (US\$)

	From	To	% ch	Cons.
12/17E	4.65	4.65	NM	-
12/18E	4.85	4.85	NM	-
12/19E	4.90	4.95	1	-

Performance



Sources: Bloomberg, UBS

Definitions of terms and abbreviations are available in the appendix section of this report, and more extensively on internet at www.ubs.com/glossary

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Teva Pharmaceuticals

Company Profile: Teva Pharmaceuticals

Teva is the largest global generics company. It also has a branded portfolio focusing on CNS and respiratory therapeutic areas, with key products including Copaxone for multiple sclerosis and ProAir albuterol inhaler for asthma and COPD.

Statement of Risk

Our valuation method is based on a P/E multiple. Risks to Teva include (1) competitive pressure on sales of Copaxone; (2) unsuccessful execution on Paragraph IV filings; (3) generic price deterioration for overall basket of products (especially from European pricing pressures), (4) inability to integrate acquisitions, (5) inability to execute on biosimilars, and (6) inability to identify and integrate future acquisitions.

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Highlights (US\$m)	12/14	12/15	12/16	12/17E	12/18E	12/19E	12/20E	12/21E
Revenues	20,272	19,652	21,903	23,505	23,323	23,399	24,214	24,946
EBIT (UBS)	5,732	6,174	6,834	7,005	6,991	7,043	7,259	7,440
Net earnings (UBS)	4,354	4,696	5,228	5,006	5,216	5,326	5,572	5,962
EPS (UBS, diluted) (US\$)	5.08	5.46	5.14	4.65	4.85	4.95	5.16	5.54
DPS (US\$)	0.62	0.62	0.62	0.62	0.62	0.62	0.62	0.62
Net (debt) / cash	(14,084)	(10,984)	(39,297)	(39,328)	(36,065)	(32,088)	(28,317)	(24,795)
Profitability/valuation	12/14	12/15	12/16	12/17E	12/18E	12/19E	12/20E	12/21E
EBIT margin %	28.3	31.4	31.2	29.8	30.0	30.1	30.0	29.8
ROIC (EBIT) %	15.8	16.6	12.5	9.6	9.4	9.6	10.0	10.2
EV/EBITDA (core) x	9.2	9.4	9.6	7.4	7.4	8.5	8.2	8.0
P/E (UBS, diluted) x	10.2	11.3	9.9	7.3	7.0	6.9	6.6	6.1
Equity FCF (UBS) yield %	10.2	9.1	3.0	14.8	16.3	15.5	15.8	17.0
Net dividend yield %	1.2	1.0	1.2	1.8	1.8	1.8	1.8	1.8

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied.

Valuations: based on an average share price that year, (E): based on a share price of US\$33.97 on 13 Feb 2017 20:34 GMT

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UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	45%	28%
Neutral	Hold/Neutral	39%	25%
Sell	Sell	15%	17%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2016.

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.

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Global Equity 12-Month Rating Definitions

Buy: FSR is > 6% above the MRA. **Neutral:** FSR is between -6% and 6% of the MRA. **Sell:** FSR is > 6% below the MRA.

Key Definitions

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

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