

Teva Pharmaceuticals

4Q wrap: mixed 4Q print but progressing to 2027 targets

Reiterate Rating: BUY | PO: 16.00 USD | Price: 12.10 USD

2024 guide lays out path to sustained EBITDA growth

TEVA delivered a mixed 4Q update that included some revenue misses on key segments, but we believe most the shortfalls were due to phasing and do not impact our 2024+ outlook. On 2024, we came away comforted that TEVA should be able to generate another year of revenue growth that can drop to the bottom line (based on OpEx commentary). On a go-forward basis, we believe 4Q updates lay the roadmap for several positive developments including: 1) the planned API divestiture (known as TAPI) - offers a path to TEVA meaningfully accelerating its de-leveraging effort (see TAPI below); 2) revenue growth of CNS brands [Austedo, Uzedy, and Ajovy-global] should help drive more predictable growth through the end of the decade and help expand margins. Overall, while 4Q itself was not pretty (1-timers), we like the TEVA go-forward setup both in terms of established growth drivers and pipeline optionality, thus reiterate Buy. We raise PO to \$16/sh (from \$15) on updated net cash balance.

TAPI: plans to divest offer greater focus on growth drivers

Today, Teva announced its intention to divest TAPI, an API business that generates ~\$900m in revenue (\$568m external + ~\$300m internal). The main API public comp is EuroAPI, but that business carries meaningfully lower EBITDA margins (12% vs. TAPI 28-30%); TEVA notes its API business offers a more differentiated portfolio, technologies and customer profile and believes a prospective buyer could either be a strategic consolidator or a non-strategic buyer looking to optimize the business. We believe TEVA will want to secure a multiple on lost EBITDA at or above the company's trading level (vs. 6.25x for EuroAPI), noting a 7x multiple implies \$1.6-1.7bn pre-tax proceeds.

Model changes

Our PO change +\$1/sh is driven by updated net cash balance. We maintain our FY24 revenue forecast at \$15.9bn with off-setting product-level tweaks including: 1) lowering our legacy brands (Copaxone & Treanda/Bendeka) by \$80m and ~9%, respectively; 2) on growth brands, we raise our Uzedy forecast in the near-term to \$73m in FY24E (from \$44m; vs mgmt \$80m guide). Our Austedo \$1.5bn FY24E revenue forecast remains unchanged but our 1Q forecast is less shallow based on channel strategies. Our '24E OpEx grows +0.4% Y/Y, 27.5% of sales or +1% increase over our prior estimate.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.52	2.59	2.40	2.68	2.90
GAAP EPS	(2.12)	(0.50)	0.21	0.49	0.71
EPS Change (YoY)	-2.3%	2.8%	-7.3%	11.7%	8.2%
Consensus EPS (Bloomberg)			2.41	2.59	2.65
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	4.8x	4.7x	5.0x	4.5x	4.2x
GAAP P/E	NM	NM	57.6x	24.7x	17.0x
EV / EBITDA*	9.1x	8.6x	8.7x	8.4x	8.1x
Free Cash Flow Yield*	7.7%	10.1%	17.5%	19.2%	21.0%

* For full definitions of *IQmethod*SM measures, see page 5.

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Timestamp: 31 January 2024 05:28PM EST

31 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	15.00	16.00
2024E Rev (m)	15,879.4	15,902.7
2025E Rev (m)	16,483.4	16,288.1
2026E Rev (m)	16,834.5	16,669.9
2024E EPS	2.45	2.40
2025E EPS	2.74	2.68
2026E EPS	2.92	2.90
2024E EBITDA (m)	4,759.3	4,787.0
2025E EBITDA (m)	5,009.3	4,922.6
2026E EBITDA (m)	5,200.1	5,136.4

Jason M. Gerberry
Research Analyst
BofAS
+1 646 743 0180
jason.gerberry@bofa.com

Pavan R. Patel
Research Analyst
BofAS
+1 646 855 5825
pavan.r.patel@bofa.com

Chi M. Fong
Research Analyst
BofAS
+1 646 855 5264
chi.fong@bofa.com

Dina Ramadane
Research Analyst
BofAS
+1 646 556 0492
dina.ramadane@bofa.com

Stock Data

Price	12.10 USD
Price Objective	16.00 USD
Date Established	31-Jan-2024
Investment Opinion	C-1-9
52-Week Range	7.09 USD - 12.64 USD
Mkt Val (mn) / Shares Out (mn)	13,564 USD / 1,121.0
Free Float	0%
Average Daily Value (mn)	129.16 USD
BofA Ticker / Exchange	TEVA / NYS
Bloomberg / Reuters	TEVA US / TEVA.N
ROE (2024E)	13.6%
Net Dbt to Eqty (Dec-2023A)	49.8%
ESGMeter™	High

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iQprofileSM Teva Pharmaceuticals

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	10.0%	10.4%	9.6%	9.9%	10.1%
Return on Equity	28.1%	21.9%	13.6%	12.2%	11.7%
Operating Margin	27.2%	25.4%	25.4%	27.3%	27.9%
Free Cash Flow	1,042	1,368	2,372	2,602	2,854

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.6x	0.7x	1.1x	1.0x	1.0x
Asset Replacement Ratio	1.1x	1.2x	1.2x	1.2x	1.2x
Tax Rate	12.0%	NM	15.5%	16.0%	17.0%
Net Debt-to-Equity Ratio	211.8%	49.8%	16.7%	-8.1%	-14.5%
Interest Cover	4.5x	3.8x	4.4x	5.4x	6.6x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	14,925	15,848	15,903	16,288	16,670
% Change	-6.0%	6.2%	0.3%	2.4%	2.3%
Gross Profit	8,057	8,470	8,507	8,890	9,193
% Change	-6.5%	5.1%	0.4%	4.5%	3.4%
EBITDA	4,588	4,818	4,787	4,923	5,136
% Change	-6.6%	5.0%	-0.6%	2.8%	4.3%
Net Interest & Other Income	(1,074)	(1,179)	(930)	(825)	(700)
Net Income (Adjusted)	2,797	2,898	2,710	3,036	3,281
% Change	-2.1%	3.6%	-6.5%	12.0%	8.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(2,565)	2,232	232	558	803
Depreciation & Amortization	500	469	476	483	490
Change in Working Capital	1,257	(219)	(12)	(101)	(88)
Deferred Taxation Charge	(1,059)	(600)	(600)	(600)	(600)
Other Adjustments, Net	3,457	40	2,832	2,832	2,832
Capital Expenditure	(548)	(555)	(557)	(570)	(583)
Free Cash Flow	1,042	1,368	2,372	2,602	2,854
% Change	341.5%	31.3%	73.3%	9.7%	9.7%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(1,369)	(1,000)	(1,600)	(1,800)	(3,400)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	2,801	4,353	6,235	8,149	8,714
Trade Receivables	3,696	3,925	3,938	4,034	4,128
Other Current Assets	5,554	5,971	5,986	5,982	6,052
Property, Plant & Equipment	5,739	5,824	5,904	5,991	6,085
Other Non-Current Assets	26,216	25,408	24,600	23,792	22,984
Total Assets	44,006	45,481	46,664	47,947	47,962
Short-Term Debt	2,109	3,764	4,550	514	514
Other Current Liabilities	9,359	9,786	9,802	9,793	9,869
Long-Term Debt	19,103	9,433	5,397	5,397	4,030
Other Non-Current Liabilities	4,744	4,744	4,744	4,744	4,744
Total Liabilities	35,315	27,727	24,493	20,448	19,157
Total Equity	8,691	17,754	22,170	27,500	28,805
Total Equity & Liabilities	44,006	45,481	46,664	47,947	47,962

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Pharmaceuticals

Company Description

Teva, an Israeli/US generics company, is one of the largest companies in the global generic pharma industry following its acquisition of Allergan's generics unit. The company's business model includes global generic capabilities, vertical integration into the active pharmaceutical ingredients (API) business, and a branded specialty pharma business (Copaxone, Treanda, Austedo and other products).

Investment Rationale

We rate TEVA Buy as we see TEVA moving towards a phase of more predictable top and bottom-line growth. We see '24 financial performance as key for validating: 1) growth of high margin brands is outpacing LOE brands leading to improved margins, 2) stabilizing global gx business: the US segment should benefit from new launches while the ex-US business has been showing low to mid-SD organic growth over last 1-2 years. We also look to pipeline updates: Uzedry launch, olanzapine LAI Ph3, TL1A Ph2 data

Stock Data

Average Daily Volume 10,674,436

Quarterly Earnings Estimates

	2023	2024
Q1	0.41A	0.52E
Q2	0.56A	0.54E
Q3	0.60A	0.69E
Q4	1.00A	0.66E

Acronyms:

TAPI: TEVA active pharmaceutical ingredient

CNS: central nervous system

Price objective basis & risk

Teva Pharmaceuticals (TEVA)

Our \$16 price objective (PO) is based on a '24E EV/EBITDA multiple of 8.25x, which is slightly above the peer group avg of 6.7x reflecting key new product launches following resolution of opioid litigation. Our valuation factors in \$4.9bn in contingent legal liabilities related to opioid litigation resolution (\$3.4bn) and generic price fixing (\$1.5bn). The \$3.2bn estimate for present value of opioid resolution cost is based on \$4.35bn gross liability, with a 13-year payout. We assign \$400m equity value from TL1a deal proceeds.

Upside risks: 1) Ability to execute BD (business development) activity to drive mid-SD revenue growth in '23-27 timeframe, 2) surprise high value new generic product launch.

Downside risks: 1) annual opioid costs may limit BD activity thus hindering TEVA's aspiration of achieving mid-SD revenue growth in '23-27 timeframe, 2) increased price erosion to key spec pharma brands

Analyst Certification

I, Jason M. Gerberry, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Specialty Pharma & Biotechnology Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Arcellx, Inc.	ACLX	ACLX US	Jason M. Gerberry
	Arrowhead Pharmaceuticals	ARWR	ARWR US	Jason M. Gerberry
	bluebird bio	BLUE	BLUE US	Jason M. Gerberry
	Exelixis	EXEL	EXEL US	Jason M. Gerberry
	Immunovant, Inc.	IMVT	IMVT US	Jason M. Gerberry
	Intra-Cellular Therapies	ITCI	ITCI US	Jason M. Gerberry
	Ionis	IONS	IONS US	Jason M. Gerberry
	Jazz Pharmaceuticals	JAZZ	JAZZ US	Jason M. Gerberry
	Lyra Therapeutics	LYRA	LYRA US	Jason M. Gerberry
	Oculis Holding AG	OCS	OCS US	Jason M. Gerberry
	Relay Therapeutics	RLAY	RLAY US	Jason M. Gerberry
	Tarsus Pharmaceuticals	TARS	TARS US	Jason M. Gerberry
	Teva Pharmaceuticals	TEVA	TEVA US	Jason M. Gerberry
	Vaxcyte Inc	PCVX	PCVX US	Jason M. Gerberry
	Xenon Pharmaceuticals	XENE	XENE US	Jason M. Gerberry
NEUTRAL				
	Alkermes	ALKS	ALKS US	Jason M. Gerberry
	Amphastar Pharmaceuticals	AMPH	AMPH US	Jason M. Gerberry
	Axsome Therapeutics	AXSM	AXSM US	Jason M. Gerberry
	Galapagos	GLPG	GLPG US	Jason M. Gerberry
	ProKidney Corp	PROK	PROK US	Jason M. Gerberry
	Roivant	ROIV	ROIV US	Chi M. Fong
UNDERPERFORM				
	Bausch Health Cos Inc	BHC	BHC US	Jason M. Gerberry
	FibroGen Inc.	FGEN	FGEN US	Jason M. Gerberry
	Harmony Biosciences	HRMY	HRMY US	Jason M. Gerberry
	Organon	OGN	OGN US	Jason M. Gerberry
	Viartis Inc.	VTRS	VTRS US	Jason M. Gerberry

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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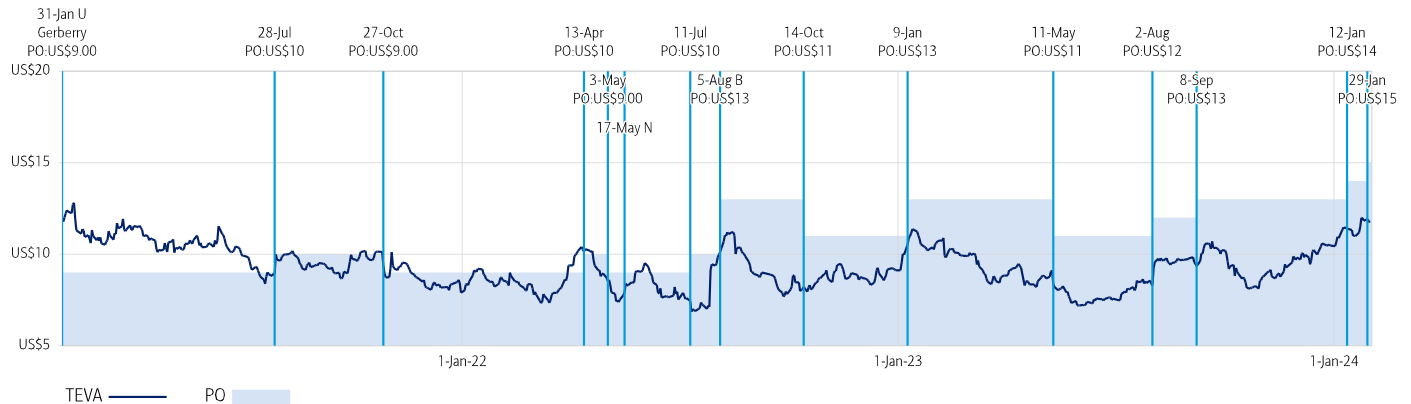
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Teva Pharmaceuticals (TEVA) Price Chart



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Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
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Underperform	N/A	≥ 20%

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