

BUSINESS OVERVIEW

Teva is a pharmaceutical company specializing in generics.* In August 2010, Teva completed the €3.8 billion acquisition of Ratiopharm, Germany's second-largest generics producer.

INVESTMENT HIGHLIGHTS

- **#1 global provider of generic drugs**, in terms of both total and new prescriptions. Teva had 22% share of total U.S. generic prescriptions in 2009, up from 17% in 2007. Teva is also #1 in Europe.
- **Aims to achieve \$31 billion in revenue and non-GAAP net income of \$6.8 billion by 2015.** Assuming stable share count, no significant increase in leverage and a 15x earnings multiple, equity fair value could be well over \$100 per share by 2015.
- **Benefiting from secular trends including** ageing populations, governments' efforts to expand access to medicine, and payors' focus on cutting healthcare costs by favoring generics over branded drugs.
- **\$150 billion of branded medicines to lose patent protection by 2015.** Teva's generics should be able to capture a material share of this opportunity.
- **Strong U.S. product pipeline**, with 206 new drug applications as of mid-July. 134 of these are "Paragraph IV" applications challenging patents of branded products worth \$107+ billion annually.
- **~30% of revenue is from branded drugs**, with the majority based on Copaxone, the #1 prescribed treatment for multiple sclerosis. Teva aims to keep higher-margin branded drugs at ~30% of revenue.
- **Vertically integrated** through active pharma ingredient manufacturing capability and intellectual property (2,300 granted and pending patents).

INVESTMENT RISKS & CONCERNS

- **Unrealistic 2015 targets?** Teva has given little detail on organic vs. M&A-led growth. Value creation may give way to empire-building. The revenue goal implies ~14% annual organic growth versus 2009. A 22% net margin appears aggressive.
- **Will acquisition of Ratiopharm (and potential other M&A) create value?** EV-to-revenue paid is 2.4x based on Ratiopharm's 2009 revenue. Teva expects deal synergies of "at least" \$400 million.
- **Potentially declining Copaxone contribution (18% of revenue and >18% of EBIT in 2009)**, even prior to U.S. patent expiry in 2014. Sandoz and Mylan have filed applications for generic versions.

* Generics are chemical and therapeutic equivalents of brand-name drugs and are sold at prices substantially below those of their branded counterparts.

SELECTED OPERATING DATA¹

FYE December 31	2005	2006	2007	2008	2009	YTD 6/30/10
Revenue (\$bn)	5.3	8.4	9.4	11.1	13.9	7.5
Δ revenue	9%	60%	12%	18%	25%	14%
<i>% of revenue by major product line:²</i>						
Generics and other ³			75%	71%	67%	67%
Innovative products ⁴	90%	93%	11%	17%	19%	20%
Respiratory products			8%	7%	6%	6%
API ⁵	10%	7%	6%	5%	4%	4%
<i>Revenue growth by major product line:²</i>						
Generics and other				10%	21%	13%
Innovative products	10%	66%	13%	86%	39%	23%
Respiratory products				5%	15%	11%
API	5%	12%	-4%	7%	-6%	3%
<i>% of revenue by geography:</i>						
North America	60%	60%	58%	58%	62%	64%
Europe	29%	24%	28%	27%	24%	22%
International	11%	16%	14%	15%	15%	14%
<i>Revenue growth by geography:</i>						
North America	3%	61%	7%	18%	34%	18%
Europe	23%	33%	30%	13%	10%	7%
International	16%	127%	2%	27%	20%	6%
<i>Selected items as % of revenue:</i>						
Gross profit	47%	51%	52%	54%	53%	55%
R&D	7%	6%	6%	7%	6%	6%
EBIT ⁶	25%	26%	25%	24%	22%	26%
Net income	20%	6%	20%	5%	14%	20%
D&A	5%	5%	5%	4%	7%	6%
Capex	6%	5%	6%	6%	5%	4%
Δ shares out (avg)	1%	22%	2%	2%	12%	4%

¹ Financials are based on U.S. GAAP. Significant acquisitions during the period include Barr Pharmaceuticals in December 2008 and Ivax in January 2006.

² No comparable reporting is available for periods prior to 2007.

³ "Other" includes non-promoted branded products, medical devices, over-the-counter products, distributed products, and animal health products.

⁴ Includes contribution from branded multiple sclerosis treatment Copaxone.

⁵ Active pharmaceutical ingredients.

⁶ Excludes settlements, restructurings, impairments, and in-process R&D.

COMPARABLE PUBLIC COMPANY ANALYSIS

	MV (\$mn)	EV (\$mn)	EV / Rev.	P / Tang. Book	This FY P/E	Next FY P/E
MYL	5,430	9,860	1.9x	n/m	11x	9x
WPI	5,270	6,280	2.0x	>99x	12x	11x
TEVA	47,010	49,150	3.3x	13.6x	11x	10x

MAJOR HOLDERS

CEO Yanai <1% | Chairman Frost 2% | Other insiders 2% | Cap Re 5% | Wellington 3% | FMR 3% | Axa 2%

RATINGS

VALUE Intrinsic value materially higher than market value?	☆☆☆
DOWNSIDE PROTECTION Low risk of permanent loss?	☆☆☆
MANAGEMENT Capable and properly incentivized?	☆☆☆☆
FINANCIAL STRENGTH Solid balance sheet?	☆☆☆☆
MOAT Able to sustain high returns on invested capital?	☆☆☆☆
EARNINGS MOMENTUM Fundamentals improving?	☆☆☆☆
MACRO Poised to benefit from economic and secular trends?	☆☆☆☆

THE BOTTOM LINE

Generics leader Teva has set itself ambitious performance goals by 2015, including a doubling of revenue. Rising generic drug penetration worldwide – driven by payors' focus on controlling healthcare costs and efforts to increase access to affordable medicine – continues to provide a strong tailwind to the company. Combined with a deep product pipeline and leading share in key markets, Teva may yet execute on its stated goals. While shares appear undervalued on this basis, greater use of M&A, the potential for lower Copaxone profits and competition from both generic and branded rivals pose risks.