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# EDITED TRANSCRIPT

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## CORPORATE PARTICIPANTS

**Michael McClellan** *Teva Pharmaceutical Industries Limited - Executive VP & CFO*

## CONFERENCE CALL PARTICIPANTS

**David Reed Risinger** *Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst*

## PRESENTATION

**David Reed Risinger** - *Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst*

(technical difficulty)

Start with the disclaimer to refer you to [www.morganstanley.com/researchdisclosures](http://www.morganstanley.com/researchdisclosures). And our discussion this session is with Teva. It's very much my pleasure to welcome Mike McClellan, he's the company's CFO. He was appointed CFO in November of 2017. He served as interim group CFO from July of '17 to November. And in the prior 2 years he served as Senior Vice President and CFO of Global Specialty Medicines. Prior to joining Teva in 2015, Mr. McClellan was the U.S. CFO at Sanofi. So once again, thanks for joining. I guess, it would be great to start up by asking you about the significant change that management is executing on and the turnaround. So let me turn it over to you for some opening remarks.

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**Michael McClellan** - *Teva Pharmaceutical Industries Limited - Executive VP & CFO*

Great. Thanks, David. So now, I think, many of you that've been following the company know that we've had some troubling times in the last year, 1.5 year. We have a new CEO, who's been in place about 10 months now. He's leading a restructuring and a turnaround of the business. We have a pretty fresh management team. Mostly from people within Teva, but people that are fairly new to their roles. So we're all excited about turning the company around. We're making very good progress with the restructuring plan. We've made very good progress in terms of managing our debt and getting it into a much more reasonable situation. We've termed out some of the maturities with a large issuance that we did in the first quarter of this year. We've also been able to manage our relationships with our banking partners pretty well. So we feel like we're in a good spot, but we're still in the middle of a 2-year restructuring plan. So good so far. A lot left to do. Quite a few things that we're working on in terms of trying to stabilize our generic business, trying to get some new specialty products to market.

I will make 1 disclaimer, we do have some potential news coming with a PDUFA date on a very important product for September 16. So I will not be making any comments around that. We still have -- we stick with the comments that we've made at the second quarter earnings, and I think you those are public, so you can look at those if you need. And when we do have news to come out to market, we will definitely do so. So -- but we're in the early phase of getting the turnaround. We've got through a lot of the people downsizing, the restructuring of the units. We still have, of course, quite a bit of work to do on the manufacturing footprint. We've announced some closures, were going to keep working on that. So we're working on all the aspects of the cost, trying to stabilize the generic business and hopefully set ourselves up for a longer term growth in the specialty. We are managing the COPAXONE situation. We've had some good ability to keep a very good share of that business in the last couple of months. We do expect competition to continue to increase as we've said in our second quarter earnings call. So, so far so good, but it's really -- it's a turnaround story. It's about executing the restructuring. It's about executing on new launches, and then eventually having a business that will turnaround and in the outer years will start to grow.

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## QUESTIONS AND ANSWERS

**David Reed Risinger** - *Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst*

Great. Thank you. So could you just update us on the company's progress coming into the second half, and how we should think about the business momentum?



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**Michael McClellan** - Teva Pharmaceutical Industries Limited - Executive VP & CFO

Yes, so there's a couple of different dynamics going on. Of course, we're starting to see more competition to COPAXONE. We did a good job in the first half versus the expectations and keeping market share at some good pricing levels. We do see that starting to accelerate in the second half. The Sandoz-Momenta Glatopa product is now starting to pick up some market share, but so far so good. We're also, of course -- if you look at the U.S. generic business, there was a large decrease year-on-year in the first half -- the first half last year. Some of that will get a little bit easier because of the comparison and the second half of last year is a little bit easier for us versus the second half this year. But we still are, of course, managing some of the declines of some large launches that we had last year. And the Concerta, auto generic, which is under more and more competition. So we do see that launches are going to be the key to turning that business around. We're starting to see some launches come in, we'll see that in the second half and we're very excited about what we have as opportunities for 2019.

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**David Reed Risinger** - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

And maybe you could just talk about FX. So clearly, the U.S. dollar has strengthened, any color you can provide on the outlook for FX?

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**Michael McClellan** - Teva Pharmaceutical Industries Limited - Executive VP & CFO

Yes. So, I mean, the best we can do is look at where it is today, with the dollar, euro around 1.16, 1.17. We will see, potentially, when you look at the second half of this year versus the second half of the last year, a little bit of a currency headwind Europe. We're also like everyone, dealing with some of the turmoil in the emerging or International Markets, as we call it. The situation in Turkey, the situation in Argentina, we are starting to see a little bit more pressure on the ruble. Luckily, none of those businesses are terribly large outside of the business in Russia, so it's manageable. But where we are seeing more growth some of those markets, it tends to get offset by currency pressure. And that's something we've factored into our guidance for the second half. We do see a little bit of a currency headwind in the second half versus the original expectations of the year. But we've been able to still raise our guidance twice this year on the back of other strong performances.

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**David Reed Risinger** - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

And just remind us about hedging, natural hedging. And the offset on the operating line.

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**Michael McClellan** - Teva Pharmaceutical Industries Limited - Executive VP & CFO

Yes, for us, we have quite a bit of cost base, whether it's production or operating expenses in those markets like Europe, like in Israel. So as the dollar goes up and down, we'll see more movement on sales than we will on the profit. So there is a little bit of a natural hedge in many of those markets that we operate on. So whereas the sales will be more effected, it is mediated at the operating profit line, both on the upside and downside as the currencies go up and down.

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**David Reed Risinger** - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

Okay. Could you talk about 2019 being a trough year and opportunities for growth beyond '19?

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**Michael McClellan** - Teva Pharmaceutical Industries Limited - Executive VP & CFO

Yes, so as we see the dynamics, we think COPAXONE will continue to decline from '18 to '19. We do see, in the rest of the business, the opportunity of the European generics to be stable, if not slightly growing. The International Markets, we will see some volume growth, now whether or not we see actual dollar growth will depend a little bit on the way the currencies react. And it's too early to know how that's going to happen in '19. In terms of our other specialty business, we're expecting AUSTEDO to continue to grow, we do expect to launch the CGRP product. So we will start

to see outside of COPAXONE, some growth. We do have an uncertain situation with the ProAir franchise in the U.S., we're waiting to see if a generic comes. So far it has not happened in 2018. We don't expect it this year, but it could happen sometime in 2019. So there's a lot of moving parts. But once we get beyond '19, we do expect that we will at some point be able to stabilize and maybe even have some good years and slightly grow the U.S. Generic business, couple that with the specialty growth that we will come from these new products, and we do see that we should be able to rebound in 2020 and beyond. Whether exactly it's '19 or '20 will depend a little bit on how lucky we are with some of these other factors. The better '19 is, that could put a little bit pressure on it being either the trough or equal with 2020. So there's a lot of moving parts that we're looking at. But we do expect in the outer years, with these new product, a stabilization in some of the other parts of the business that then be able to rebound into a growth mode.

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**David Reed Risinger** - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

Okay, very good. And it's -- this typical to see from the outside, really, what inning you're in with respect to cost-cutting. Could you provide some perspective?

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**Michael McClellan** - Teva Pharmaceutical Industries Limited - Executive VP & CFO

Yes, so in terms of innings. I mean, if you look at 2-year restructuring plan, we're 9 months into it. But I would say that we've done the bulk of the -- at least the people in sales force, reductions in the head offices and a lot of the headcounts already come out. So now, we'll start to see more savings, of course, as we go along the rest of the year. And then, a full year effect of that in 2019. When it comes to the things that take a little bit longer, like reductions of manufacturing, capacity enclosures of plants, that'll continue into 2019. So I'd say we're in the middle innings. We've done well so far. But we still have to execute and keep our focus on completing the plan, getting all the way to the \$3 billion spend base reduction, which is still our commitment for 2019.

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**David Reed Risinger** - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

Okay. And with respect to the longer term target for operating margin to be at or above 27%, obviously, cost cutting has a significant lever, could you talk about some of the other levers as well?

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**Michael McClellan** - Teva Pharmaceutical Industries Limited - Executive VP & CFO

Yes, so what's important for us is that we first get through the cost cutting, we will see -- and you can see in this year that the margins are under pressure because of the decline in COPAXONE. So we need to rebound in the specialty by launching the new products being very successful with AUSTEDO and our CGRP product. And we also then need to see a stabilization, if not a rebound in the generic business. And that's really going to be down to executing launches, so that we're able to launch enough each year to offset the continued erosion. In the industry, you're always going to have some price erosion on your base, particularly in the U.S. But it's our task to then have enough opportunities to offset that with new launches. We do have some good opportunities as we go into 2019, and we're looking forward to really executing on those.

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**David Reed Risinger** - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

And could you speak to the current rate of year-over-year decline in pricing in the U.S. There's been a lot of talk about moderation and price declines, but at the same time, we haven't really seen it in many of the large companies reported year-over-year trends?

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**Michael McClellan** - Teva Pharmaceutical Industries Limited - Executive VP & CFO

Yes, we don't -- we no longer give out specific numbers on price declines in the base business, because we feels that, that's a very sensitive information and it, kind of, gets you into a competitive disadvantage when you're dealing with your customers and partners. But what we can

definitely say is that, we see that there is some moderation in the pricing pressures. There still continues to be rising pressure. I think that's always been part of the U.S. Generic industry, that's moderating a little bit from the, I would say, rather exceptional period we've had in the last 2 years where the formation of 3 large buying groups coupled with a lot more players getting into the market, especially on the committee side, created a supply and demand situation that led to more price erosion than probably have been seen in the years before that. That's starting to moderate, at least, yearly signs. It's not something that's going to flatten out or start to go into an increase, because that's just not the way the industry is set up to work. But we've also taken some efforts to look at our portfolio and to start stepping away from businesses that's gotten unprofitable. It's not a large piece of the business. It's a small portion of the U.S. business. And we feel in those areas, it's places where other competitors might have a cost advantage and they've been able to pick it up. So that in itself hasn't really put a huge different dynamic into the industry. So I think, if you look across the industry, you probably see slightly different side from each of the companies. But it really depends on their portfolio and where they are in terms of their own cycle, and what kind of exposure they have to commodity products versus the more complex things.

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**David Reed Risinger** - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

And could you just expand on early signs of moderation? What you mean by that?

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**Michael McClellan** - Teva Pharmaceutical Industries Limited - Executive VP & CFO

I think, some of the extraordinary pressure from a lot of the techniques that the buying groups have been using, it's starting to normalize. So you're not seeing the individual products coming down in the significant chunks that we saw, say in, '17. But of course, it's a competitive industry and you'll continue to see some deflation in price pressure. We do, of course, look for opportunities where we need to step away because we've gotten into point where it's no longer interesting for us to be in some of those products. But like I said, it's a very small piece of the business.

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**David Reed Risinger** - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

Okay. Thank you. Could you please remind us about your current leverage and recent action with respect to debt, and progress toward your 4x target?

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**Michael McClellan** - Teva Pharmaceutical Industries Limited - Executive VP & CFO

Yes. So right now we're in a situation where the leverage as of Q2 is about 4.8x net debt to EBITDA. And that's really -- it started to creep up a little bit with the decline in the COPAXONE. We are being debt down. We've brought the debt down by over \$7 billion in the last 2.5 years. So we're making good progress at reducing debt. But because of the little bit of the decline we've seen in the business, mainly driven by the COPAXONE, erosion and the U.S. Generic pressure, we are seeing a little bit of a tick up in our net debt to EBITDA. We still are targeting to get to 4x by the end of 2020. That means we need to continue paying down \$2 billion to \$3 billion a year in terms of debt reduction, and we need, by 2020, to start rebounding at the profit level. Those are the formulas to get us there. We feel like we're on track, but we have a lot of work to do, and there are some swing factors that we need to very -- keep a very close eye on.

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**David Reed Risinger** - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

And then, with respect to potential divestitures, could you update us on those?

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**Michael McClellan** - Teva Pharmaceutical Industries Limited - Executive VP & CFO

Yes, so we've been pretty, I think, open, that we're only looking at a few small assets to divest. The one that we have been discussing is the Medis business, which is a business-to-business platform that operates in Europe. We are looking at potentially divesting that. I won't comment on where



we are with it. We do have a good progress there. And as soon as we have either a deal or decide to keep it, we'll update the market. But things are moving ahead. And then, there's a lot of other small assets, nothing really significant to mention.

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**David Reed Risinger** - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

And when you say business to business, what do you mean?

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**Michael McClellan** - Teva Pharmaceutical Industries Limited - Executive VP & CFO

So the Medis business basically takes existing generic files and then sales to other generic companies under their packaging, and -- so that they can access markets that we potentially are not competitive in. There are some countries across Europe where we're not as competitive, or in the case where multiple brands are on the market already, maybe is a viable business to use some of our reduction capacity to sell the other generic companies who then sell onto the market.

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**David Reed Risinger** - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

Okay, thank you. With respect to franchises, I wanted to pivot to those. So AUSTEDO's ramp has been particularly impressive, could you just help us understand where you are in the adoption curves in Huntington's disease and tardive dyskinesia?

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**Michael McClellan** - Teva Pharmaceutical Industries Limited - Executive VP & CFO

Yes. So I think, we've made very good progress with that product. I remind everyone that we launched the HD First. So we were really in the more narrow indication in the early part of our launch phase. We did get the TD indication later in 2017. So now we're really starting to penetrate that market. It is a competitive market, we have a competitor in the TD space, in neurocrine, that's also doing quite well there. So I think we're starting to build what has been a market that's had a huge unmet need. The existing products weren't really -- I don't think there was anything really approved for TD in the past on label. So it's a new market. It requires contacts with a lot of new customers to us and to our competitor. But so far so good. The adoption seems to be coming along. We think there's still a lot of room left to grow that market, and we expect to be competitive and try to get our fair share of it.

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**David Reed Risinger** - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

And then, future growth drivers ahead for that franchise?

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**Michael McClellan** - Teva Pharmaceutical Industries Limited - Executive VP & CFO

So we'll continue to penetrate both in, HD and TD. And right now we are working on a clinical trial with a partner in terms of the Tourette syndrome indication, which there are very limited options of approved products for Tourette on the market. So that could be another opportunity if the clinical trials go well. So we do see this as a very good asset and we're gonna continued to invest in it and drive the growth as best as we can.

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**David Reed Risinger** - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

And remind us why work with the partner on Tourette and what's -- where does that currently stand?



**Michael McClellan** - Teva Pharmaceutical Industries Limited - Executive VP & CFO

So this was more of an innovative approach to funding the -- those clinical trials of this indication. This was done a couple of years ago. We set up a partnership with an external clinical-trial based company. So it's really a risk reward play and that if it goes well, they'll get a nice return. If it doesn't go well, they're the ones taking the risk on the clinical trial. But we are excited if it does come through and gets a good label for Tourette that there is a market there that needs additional options in terms of treatment.

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**David Reed Risinger** - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

Okay, thank you. Could you speak to the outlook for complex generic products? The reason why I ask this is, on the one hand, COPAXONE has done quite well in the face of initial generics, but on the other hand Teva's own generic pipeline includes some complex generic opportunities. So if you could discuss that, that would be much appreciated?

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**Michael McClellan** - Teva Pharmaceutical Industries Limited - Executive VP & CFO

Yes. So I think, we're starting to make good progress. We've recently got approval of an EpiPen, AB-rated product. So we are starting to see some movement in the complex generic space. But of course it's going to be a very competitive market when you get there. The brands including ourselves with COPAXONE are no longer just taking a step back and letting the generics have the complete market. So there are different players that are out there in the market. There's authorized generics. There is discounting with brands. Combinations of that. So we're going to have to execute quite well, because the slice of the pie in that complex product is going to be tougher to get at. But because they are difficult to make and their difficult to get approval, if you can get to the market first, you have a very good opportunity to really be able to drive some value.

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**David Reed Risinger** - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

Why don't I pause there and just see if there are any questions from the audience. Okay. Could you just talk about each of your ex-U. S. segments and the growth momentum, particularly, excluding any unusual items that have skewed the reported numbers?

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**Michael McClellan** - Teva Pharmaceutical Industries Limited - Executive VP & CFO

Yes, so I think when you look at both, Europe and the International Markets, I will point to a couple of things, mainly in the International Market. We divested the women's health business last year, so those came out of those segments. So you'll see a little bit of a year-on-year effect from those. And then we also deconsolidated the Venezuelan business. So in the International Markets you see a little bit of an impact year-on-year from that. If we talk about business momentum, what we see is that the European business, in terms of generics, is doing quite well. It's low single-digit growth, driven by launches and continued penetration. That market is a little bit different than the U.S. and that in many of those markets, you launch at a fixed price, but then you can gain market share. So you can actually grow those businesses over time. As opposed to markets like the U.S. or there are few line end markets in Europe where you launch and then you try to hang on to the volume and the price. So the European dynamic is quite well. We're very strong there and we're seeing good results. And you see a little bit of tampering of that when the dollar goes up and down versus the euro and the pound. But the overall business momentum is very good. In the International Markets, we continue to penetrate and grow volumes in many of the markets, but the currency impact, at least this year, has been made much more unfavorable in those markets. But there's good opportunities. We have to be very selective in the way we approach and invest in these markets. But we do see that, when it comes to the specialty business outside of the U.S., we do have some good momentum in the respiratory business across Europe. We are under pressure in Europe and the International Markets for COPAXONE, but it's not the same dynamics, it's a little bit of a slower decline than you see in the U.S., mainly driven by reference pricing impacts. So overall, our businesses in Europe, fairly stable, if not slightly growing, and we expect that trend to continue in the near future. And then, the International Markets, we continue to make good progress on growing the volumes of the business, but we are impacted by currency and that can swing one way or another.





**David Reed Risinger** - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

Okay. Regarding the BENDEKA trend of franchise, it appears to be quite well insulated from generics. Could you speak to that and talk about how investors should think about the prospects for that franchise?

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**Michael McClellan** - Teva Pharmaceutical Industries Limited - Executive VP & CFO

Yes, so we're very excited about that franchise, the BENDEKA product has done very well in converting away from the older trend of formulation. So we've had a great franchise there. Overall, the molecules are a little older, so the real demand is probably flat to slightly declining, but we've been able to keep a good business there. We do have -- our partner, Eagle also has a product on the market. A big bag ready to dispense. And they're getting a little bit of a market share, but that's in a very, very different segment of the market, so it's a little bit confined there. We're excited about the orphan drug exclusivity that they've gotten for the BENDEKA product. And we're still waiting to see how that's going to affect the potential of the older product trend of having generic competition as we get towards the end of 2019. So that's still something that could be a little bit of a swing factor, but we're doing quite well with that franchise and we do expect it to continue and have a good life in the coming years.

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**David Reed Risinger** - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

And with respect to the conversion, the majority of US dollars are driven by BENDEKA. Currently is that right?

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**Michael McClellan** - Teva Pharmaceutical Industries Limited - Executive VP & CFO

Yes, the conversion has been closer to 80%...

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**David Reed Risinger** - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

90%...

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**Michael McClellan** - Teva Pharmaceutical Industries Limited - Executive VP & CFO

90%. So it's been a very good run.

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**David Reed Risinger** - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

Okay. And then, pivoting to generic EpiPen, could you just update us on launch timing and how investors should think about that opportunity for Teva?

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**Michael McClellan** - Teva Pharmaceutical Industries Limited - Executive VP & CFO

Yes. So we're excited to have finally gotten approval after many years of discussions and working on this product. We're in the phase now of building the launch quantities. And I think we've said that we expect to launch in Q4. But still a good opportunity there. Of course, with the dynamics of the last 2 years and already having an authorized generic and some share being picked up by some of the other epinephrine injectors, it's probably more moderated opportunity than it would've been if we could have got the product to market earlier, but there's still a good opportunity there. And we expect to take start taking advantage of it in Q4.





**David Reed Risinger** - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

Great. And then, Forteo was a nice opportunity for Teva. I believe, Lilly has commented on a potential generic in August of 2018, could you update us on Forteo?

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**Michael McClellan** - Teva Pharmaceutical Industries Limited - Executive VP & CFO

Yes. So right now, we're working hard to get approval for this product, we expect to fully be able to launch in the second half of the 2019.

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**David Reed Risinger** - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

Okay. And then, I wanted to pivot to the NGF. So could you update us on the [Sinemets] for pain, the reduction in dosing and what we should be watching?

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**Michael McClellan** - Teva Pharmaceutical Industries Limited - Executive VP & CFO

Yes. So we're very excited about that partnership, and now it's still, of course, in clinical trials. And it's really one of those products that's really -- the key is going to be, the risk-benefit ratio with the side effects versus the efficacy. We see that we have a competitor in Pfizer Lilly's product that's little bit ahead of us. We are starting to try to read what signals they are getting in terms of what's acceptable. What will be able to get them approval. We did have an event earlier in the year, where we stopped the clinical trial for the 2 higher doses. This was based on the review of the safety data that said the balance between efficacy and side effect profile for those strengths just wasn't adequate to continue. But we do see that there is very good efficacy at the lower strengths at the lower doses and we're still working very hard on the clinical trial, being led, of course, by our partner Regeneron who are really the clinical lead on it. But it's one of those things that there's a huge potential unmet demand to have effective pain medicine that's nonopioid and based, especially in the U.S. market. So we are excited about the possibilities will and we will be cautious in terms of making sure that we get the right risk-benefit ratio. But if it passes the clinical trials and the data continues to be strong, this could be a great opportunity.

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**David Reed Risinger** - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

And what's the outlook for next event's timing to watch on that product?

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**Michael McClellan** - Teva Pharmaceutical Industries Limited - Executive VP & CFO

So we'll see more of the full Phase III readout towards later in 2019.

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**David Reed Risinger** - Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst

Okay.

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**Michael McClellan** - Teva Pharmaceutical Industries Limited - Executive VP & CFO

But you'll also be able to see what happens with the, Lilly, Pfizer product, a little bit earlier than that, because they're a little bit ahead of us in the cycle. So that will give a good indication about the class and whether or not it can be approvable and viable products in the market.

**David Reed Risinger** - *Morgan Stanley, Research Division - MD in Equity Research and United States Pharmaceuticals Analyst*

Okay. Very good. Well, we are out of time. Thanks for joining us this morning Mike, we appreciate you being here.

**Michael McClellan** - *Teva Pharmaceutical Industries Limited - Executive VP & CFO*

Great, thanks everyone.

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