

Mossberg's Investor Digest

Best Idea Profile

Teva Pharmaceutical industries, Ltd. (Nasdaq: TEVA)

DESCRIPTION:

Israel-based Teva is the largest generic drug company in the world. Approximately 75% of the company's drugs are generic and 25% are proprietary. The company's proprietary drugs are primarily used in the treatment of neurological, respiratory and women's health issues. The company operates in 60 countries and has 36,300 employees.

KEY INVESTMENT CONSIDERATIONS:

Strong Visibility – Teva is one of the few companies in this uncertain economy with strong visibility and confidence in future performance to give earnings guidance, not just for 2009, but for 2010 as well. Management has given EPS guidance of 3.20 to \$3.40 for 2009 and 30-35% growth in EPS for 2010.

Bright time for the generic industry

- **Favorable economic conditions** – Countries worldwide are seeking to limit the rise in drug spending. Increased use of generic drugs offers a compelling solution. According to the Generic Pharmaceutical Association, 70% of U.S. prescriptions were filled with generics, saving the system \$181 billion.
- **Favorable administration** – Healthcare reform will increase the size of the pie by including more people. The more people with insurance, the more generic drugs will be prescribed.
- **Secular growth to come from \$288 billion in patent expirations** – As drug patents expire they become available for companies, like Teva, to produce and market under generic names. From 2007 to 2015, patents will expire on drugs that generate \$288 billion in annual revenue. As of April 27, Teva had filed for approval with the FDA for 197 generic versions of drugs with expiring patents.

Proposed legislation may enact a new regulatory pathway for generic equivalents for biological drugs – In comparison to non-biologic prescription drugs, biologics lack a clear regulatory pathway through which generic equivalents can be considered for approval. With newly proposed legislation, that could be changing soon and open up a sizable new market for generic drug companies like Teva. There are plenty of reasons to open up this market to generics...the U.S. Congressional Budget Office estimates that biogenerics could save the U.S. government, including Medicare and Medicaid, \$12 billion over 10 years.

Efficiencies of scale – At the end of 2008, Teva completed the acquisition of the 5th largest generic drug company Barr. Including Barr, Teva has 24% market share and is larger than the next closest generic company by at least a factor of 2x. The company's efficiencies of scale give it significant competitive advantage when competing against other small and less cost efficient generic providers.

RISK:

The prescription drug lobby is one of the most powerful in Washington and will be fighting to keep patent rights as long as possible. While the Obama administration is a big supporter of generic drugs, if the drug lobby is successful at obstructing generic drug launches, it may negatively impact Teva's results.

VALUATION:

Shares are currently trading near their 52 week high and 15x 2009 EPS estimates. Given the company's 30%+ EPS growth rate and long term visibility, these shares could command a higher EPS multiple near 18-20x.

(Nasdaq: TEVA)

Investment Data (as of 7/20/09)

Recent Price	\$49.39
52-Week Range	35.89 - 50.35
Fiscal Year End	December
Dividend	\$0.58
Yield	1.2%
Shares Outstanding	853 MM
Average Trading Volume (3 mos)	5.3 MM
Market Capitalization	42 B
Cash	2.4 B
Long Term Debt	7.5 B
Enterprise Value (EV)	48 B
LT Debt/ Equity	0.5
BV/ Share	18.85
TTM Revenue	12 B
P/ Revenue	3.5x
2009 EPS (estimate)	3.30
P/ EPS	15.0x
TTM EBITDA	3.3 B
EV/ TTM EBITDA	14.5x

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.