
Teva Pharmaceutical Industries Limited.
TEVA - \$14.19 – NYSE

Recommendation: Cover ½ of Short Position.**Reasons For Taking profit on Short Sale Recommendation****1st Sell Short recommendation: April 10, 2018 @ \$17.60, Profit +\$3.41 +19.4%****2nd Sell Short recommendation: May 30, 2018 @ \$22.00, Profit +\$7.81 +35.5%**

- Revenue growth declining.
- Gross profit declining.
- Gross margin declining.
- Operating profit declining.
- EBITDA declining.
- Net income declining.
- EPS declining
- Competition increasing.
- Shares outstanding increasing.

TEVA has hit our short term price target of \$14-\$16. Therefore, per our policy we are taking profit on our short recommendation of ½ of our position. It took a year, a little longer than we thought, but what else is new. We still believe that ultimately this is a \$10 stock. But in a 10 year bull market, we have done well taking profits on our shorts when we have them, instead of seeing some dumb story come out and watching the stock rally on a “beat the number” bull...

We originally shorted TEVA because it was a highly indebted company that relied on one drug, Copaxone for 17% of its revenue, but 48% of its EBITDA. That drug had two generic competitors coming to market, so it didn't seem like a stretch to assume that TEVA was going to have a problem. Alas, we were wrong, initially but ultimately correct.

The street bought the turnaround story hook, line and sinker. Turnarounds can generate huge returns, we get that. But shouldn't there be an actual turnaround occurring? Our first sell short recommendation in April 2018, seemed liked a slam dunk. That should have been our first warning, that it would not be that easy. Of course, TEVA then played the “beat the number” game. **It reported “better than expected” 2018 first quarter revenue and earnings and RAISED GUIDANCE!**

Never mind, that **revenue was down 10.4%** year over year. **Copaxone revenue declined 40%**, gross margin declined from 50.2% to 46.4%, five quarters in a row of sequential revenue declines, gross profit down 17%, EBITDA down 11%, net income down 13.3%, and EPS down 11.3%. But they beat the number, hooray!

What was important, was that they “beat the number”, and the “turnaround “ was going smoothly and oh, by the way **Warren Buffet was buying**. Well, if Warren Buffet is buying, I don't need to do any work and just buy the stock, because obviously he did the work so it must be a buy. Um, no. Warren Buffet was not buying, his lieutenant was buying TEVA. Not the same thing.

Was the “turnaround” going smoothly? Not really. Yes, they were paying down debt and cutting expenses but that was not keeping up with the deterioration in the business.

As we wrote in our May 2018 report:

“They cut expenses by \$228 million in North America, but segment profit still declined by \$411 million”!

Gross profit from the North America segment in the first quarter of 2018 was \$1.4 billion, a **decrease of 31%**.

Copaxone performance in 1Q18

In fiscal 1Q18, Teva reported sales of \$645 million for its multiple sclerosis drug, Copaxone, a **sequential decline of ~21%, and a YR/YR decline of 33%**.

Europe Copaxone sales fell ~13%.

In the Growth Market segment, Copaxone sales came in at \$16 million, a YR/YR decline of 24%.

On May 14, 2018 Teva stock increased ~5.5% on the news of the expected delay in the FDA approval for rival Perrigo’s (PRGO) generic version of Teva’s asthma inhaler ProAir. Guess what, the **Perrigo generic now has approval!** Oops!

What does TEVA say now about their competitor Perrigo's generic competitor to ProAir? **“Significant erosion due to introduction of generic Albuterol”**. Pro Air had revenue of \$397 million in 2018. Revenue from ProAir was supposed to be \$500 million. Oops!

So, TEVA's management INCREASED guidance and the stock price increased 22% from \$17 to \$22 on this “turnaround”! Wait, what? Increased guidance?

Lets see:

Revenue declining, gross profit declining, gross margin declining, operating income declining, EBITDA declining, net income declining, EPS declining, competition increasing, shares outstanding increasing, but we cut some expenses and paid off some debt and Buffet likes it. Oh, ok. The lack of work that is going on in this bull market is incredible.

Since then it has been a steady deterioration in the business.

2018 Fourth Quarter Results

- Revenue \$4.559 billion vs \$5.459 billion, **down 16%** year over year.
- Gross profit **down 19%** year over year.
- Non-GAAP EPS \$0.93 vs \$0.53, **down 46%**.
- Free cash flow \$522 million vs \$934 million, **down 44.1%**.
- EBITDA \$1.091 billion vs \$1.534 billion, **down 28.9%**.
- Copaxone revenue \$494 million vs \$821 million, **down 39.8%**.

With a “turnaround” like this, we would hate to see what a disaster looks like? Actually, this is what a disaster looks like!

They did pay down debt by \$3.6 billion to ONLY \$28.9 billion! So there is that!

Teva has three business segments: North America, Europe & International.

North America Segment

Our North America segment includes the United States and Canada.

The following table presents revenues, expenses and profit for our North America segment for the three months ended

December 31, 2018 and 2017: **Three months ended December 31,**

	2018		2017	
(U.S.\$ in millions / % of Segment Revenues)				
Revenues ...	2,238	100%	2,689	100.0%
.....				
Gross profit	1,201	53.7%	1,506	56.0%
.....				
R&D expenses	185	8.3%	192	7.1%
S&M expenses	341	15.2%	285	10.6%
G&A expenses	127	5.7%	101	3.8%
Other income	(3)	\$	(10)	\$
Segment profit	551	24.6%	938	34.9%

Revenues from our North America segment in the fourth quarter of 2018 were \$2,238 million, **a decrease of \$451 million, or 17%**, compared to the fourth quarter of 2017, mainly due to a **decline in revenues of COPAXONE, our U.S. generics business, ProAir and QVAR®** and the loss of revenues from the sale of our women's health business, partially offset by higher revenues from AUSTEDO and Anda.

Revenues in the United States, our largest market, were \$2,103 million in the fourth quarter of 2018, a **decrease of \$434 million, or 17%**, compared to the fourth quarter of 2017.

Revenues by Major Products and Activities

The following table presents revenues for our North America segment by major products and activities for the three months ended December 31, 2018 and 2017: **North America**

	2018	2017	Percentage Change
(U.S.\$ in millions)			
Generic products	\$ 1,099	1,224	(10%)
.....			
COPAXONE	356	641	(44%)
.....			
BENDEKA / TREANDA	140	158	(11%)
.....			
ProAir	45	102	(56%)
.....			
QVAR	9	48	(81%)
.....			
AUSTEDO	68	17	314%
.....			
Anda	363	289	26%
.....			

Generic products revenues in our North America segment in the fourth quarter of 2018 **decreased by 10%** to \$1,099 million, compared to the fourth quarter of 2017, mainly due to additional competition to methylphenidate extended-release tablets (Concerta® authorized generic), portfolio optimization primarily as part of the restructuring plan as well as market dynamics and **price erosion in our U.S. generics business**, partially offset by new generic product launches.

COPAXONE revenues in our North America segment in the fourth quarter of 2018 **decreased by 44%** to \$356 million, of which \$341 million were generated in the United States, compared to the fourth quarter of 2017, mainly **due to generic competition** in the United States.

ProAir revenues in our North America segment in the fourth quarter of 2018 **decreased by 56%** to \$45 million, compared to the fourth quarter of 2017, mainly due to higher sales reserves recorded in the fourth quarter of 2018 in **anticipation of generic competition** to

the short-acting beta-agonist class of drugs, including an approved generic version of Ventolin HFA. In the albuterol inhaler category, **approximately 40% of prescriptions are written as “generic albuterol,”** which means that **the launch of any generic inhaler may (will) cause patient migration to such generic products.** We launched our own ProAir authorized generic in the United States in January 2019.

North America Gross Profit

Gross profit from our North America segment in the fourth quarter of 2018 was \$1,201 million, **a decrease of 20%** compared to \$1,506 million in the fourth quarter of 2017. **The decrease was mainly due to lower revenues from COPAXONE and generic products.**

Gross profit margin for our North America segment in the fourth quarter of 2018 **decreased to 53.7%, compared to 56.0%** in the fourth quarter of 2017. This decrease was mainly due to lower COPAXONE revenues.

North America Profit

Profit from our North America segment in the fourth quarter of 2018 was \$551 million, **a decrease of 41%** compared to \$938 million in the fourth quarter of 2017. The decrease was mainly due to lower revenues from COPAXONE and generic products as well as investment in the launch of AJOVY.

Europe Segment

The following table presents revenues, expenses and profit for our Europe segment for the three months ended December 31, 2018 and 2017: **Three months ended December 31,**

	2018		2017	
(U.S.\$ in millions / % of Segment Revenues)				
Revenues	1,204	100%	1,450	100%
.....				
Gross profit	689	57.2%	758	52.3%
R&D expenses	75	6.2%	78	5.4%
S&M expenses	278	23.1%	284	19.6%
G&A expenses	82	6.8%	96	6.6%
Other income	1	\$	(1)	\$
Segment profit	253	21.0%	301	20.8%

Revenues from our Europe segment in the fourth quarter of 2018 were \$1,204 million, a **decrease of \$246 million, or 17%**, compared to the fourth quarter of 2017. In local currency terms, revenues decreased by 14%, mainly due to the loss of revenues from the closure of our distribution business in Hungary, the sale of our women's health business and a **decline in COPAXONE revenues**, partially offset by new generic product launches.

Revenues by Major Products and Activities

The following table presents revenues for our **Europe** segment by major products and activities for the three months ended December 31, 2018 and 2017: Europe

	2018	2017	2017-2018
(U.S.\$ in millions)			
Generic products	\$ 844	928	(9%)
.....			
COPAXONE	118	155	(24%)
.....			
Respiratory products	90	110	(18%)
.....			

Generic products revenues in our Europe segment in the fourth quarter of 2018, including OTC products, **decreased by 9%** to \$844 million, compared to the fourth quarter of 2017. In local currency terms, revenues decreased by 6%, mainly due to the loss of revenues from the termination of the PGT joint venture and generic price reductions, partially offset by new generic product launches.

COPAXONE revenues in our Europe segment in the fourth quarter of 2018 **decreased by 24%** to \$118 million, compared to the fourth quarter of 2017.

Respiratory products revenues in our Europe segment in the fourth quarter of 2018 **decreased by 18%** to \$90 million, compared to the fourth quarter of 2017. In local currency terms, revenues decreased by 15%, mainly due to lower sales in the United Kingdom.

Europe Gross Profit

Gross profit from our Europe segment in the fourth quarter of 2018 was \$689 million, a **decrease of 9%** compared to \$758 million in the fourth quarter of 2017. The decrease was mainly due to the loss of revenues from the sale of our women's health business and a **decline in COPAXONE revenues.**

Europe Profit

Profit from our Europe segment in the fourth quarter of 2018 was \$253 million, a **decrease of 16%** compared to \$301 million in the fourth quarter of 2017.

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International Market Segment

The following table presents revenues, expenses and profit for our International Markets segment for the three months ended December 31, 2018 and 2017: **Three months ended December 31,**

	2018		2017	
(U.S.\$ in millions / % of Segment Revenues)				
Revenues ...	740	100%	910	100%
.....				
Gross profit	312	42.1%	390	42.9%
.....				
R&D expenses	26	3.5%	25	2.7%
S&M expenses	134	18.1%	169	18.6%
G&A expenses	38	5.1%	45	4.9%
Other income	-	\$	(4)	\$
Segment profit	114	15.4%	155	17.00%

Revenues from our International Markets segment in the fourth quarter of 2018 were \$740 million, a **decrease of \$170 million, or 19%**, compared to the fourth quarter of 2017.

Revenues by Major Products and Activities

The following table presents revenues for our International Markets segment by major products and activities for the three months ended December 31, 2018 and 2017: **Three months ended December 31,**

	2018	2017	Percentage Change
(U.S.\$ in millions)			
Generic products	\$ 499	650	(23%)
.....			
COPAXONE	20	26	(23%)
.....			
Distribution	146	144	1%
.....			

Generic products revenues in our International Markets segment in the fourth quarter of 2018, which include OTC products, **decreased by 23%** to \$499 million, compared to the fourth quarter of 2017.

COPAXONE revenues in our International Markets segment in the fourth quarter of 2018 **decreased by 23%** to \$20 million, compared to the fourth quarter of 2017.

International Markets Gross Profit

Gross profit from our International Markets segment in the fourth quarter of 2018 was \$312 million, **a decrease of 20%** compared to \$390 million in the fourth quarter of 2017.

Gross profit margin for our International Markets segment in the fourth quarter of 2018 **decreased to 42.1%, compared to 42.9%** in the fourth quarter of 2017.

International Markets Profit

Profit from our International Markets segment in the fourth quarter of 2018 was \$114 million, compared to \$155 million in the fourth quarter of 2017, **a decline of 26.5%**.

2019 Guidance

	2018 Actuals	2019 Outlook
Revenues	\$18.9 billion	\$17.0-17.4 billion
Non-GAAP Operating Income	\$4.7 billion	\$3.8 – 4.2 billion
EBITDA	\$5.3 billion	\$4.4-4.8 billion
Non-GAAP EPS	\$2.92	\$2.20-2.50
Weighted average number of shares	1,024 million	1,096 million
Free cash flow	\$3.7 billion	\$1.6-2.0 billion

Midpoint guidance:

Revenue down 9%.

Operating Income down 14.9%.

EBITDA down 13.2%.

Non-GAAP EPS down 19.5%.

Shares out up 7%.

Free cash flow down 51.4%. Turnaround secured?

The outlook for 2019 non-GAAP results is based on the following key assumptions: **2018 Actuals**

Global COPAXONE	\$2.4 billion
ProAir HFA	\$397 million
AJOVY	\$3 million
AUSTEDO	\$204 million
North America Generics	\$4.1 billion
Europe Generics	\$3.6 billion
International Generics	\$2 billion
Foreign Exchange	
Non-GAAP Other Income	\$0.2 billion
Non-GAAP Tax Rate	14%
CAPEX	\$0.6 billion

2019 Commentary

Continued price erosion as a result of generic competition; anticipated sales of ~\$1.5 billion

Significant erosion due to introduction of generic Albuterol

Continued ramp up of sales in the U.S. to ~\$150 million

Continued ramp up of sales in the U.S. to \$350 million

Slight decline due to erosion and volume declines offset by new launches

Continued portfolio optimization and full year effect of OTC JV dissolution

Adverse impact in Japan due to NHI price revision and LLP erosion

Negative impact of approximately \$0.3 billion on sales, and \$0.1 billion on operating profit vs. 2018

Significant decline vs. 2018 16% vs. 2018 actual of 14%

At similar level as 2018

Global Copaxone revenue to decline an additional 38%, after declining 40% in 2018!

ProAir to be cut in half. Remember the stock went up 5% on no generic competitor last year?

AJOY and AUSTEDO the only 2 drugs making progress. Revenue to be up \$293 million combined. Will not make up for the loss in Copaxone alone.

Consolidated Statements of Income

(U.S. dollars in millions, except share and per share data)

	Three months ended		Year ended	
	December 31,		December 31,	
	2018	2017	2018	2017
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
Net revenues.....	4,559	5,398	18,854	22,385
Cost of sales.....	2,588	2,954	10,558	11,770
Gross profit.....	1,971	2,444	8,296	10,615
Research and development expenses.....	295	346	1,213	1,778
Selling and marketing expenses.....	797	823	2,916	3,395
General and administrative expenses.....	344	350	1,298	1,451
Other asset impairments, restructuring and other items.....	153	1,036	987	1,836
Intangible assets impairment.....	745	2,829	1,991	3,238
Goodwill impairment.....	2,727	11,000	3,027	17,100
Legal settlements and loss contingencies.....	31	176	(1,208)	500
Other expense (income).....	43	(1,099)	(291)	(1,199)
Operating loss.....	(3,164)	(13,017)	(1,637)	(17,484)
Financial expenses – net.....	223	191	959	895
Loss before income taxes.....	(3,387)	(13,208)	(2,596)	(18,379)
Tax benefits.....	(139)	(1,471)	(195)	(1,933)
Share in losses (profit) of associated companies, net.....	(5)	(7)	71	3
Net loss.....	(3,243)	(11,730)	(2,472)	(16,449)
Net income attributable to non-controlling interests.....	(357)	(195)	(322)	(184)
Net loss attributable to Teva.....	(2,886)	(11,535)	(2,150)	(16,265)
Dividends on preferred shares.....	54	65	249	260
Net loss attributable to Teva's ordinary shareholders.....	(2,940)	(11,600)	(2,399)	(16,525)

Earnings per share attributable to ordinary shareholders:	Basic (\$)	(2.85)	(11.41)	(2.35)	(16.26)
	Diluted (\$)	(2.85)	(11.41)	(2.35)	(16.26)
Weighted average number of shares (in millions):	Basic	1,031	1,017	1,021	1,016
	Diluted	1,031	1,017	1,021	1,016

Non-GAAP net income attributable to ordinary shareholders:*		543	949	2,985	4,075
Non-GAAP net income attributable to ordinary shareholders for diluted earnings per share:		543	949	2,985	4,075
Non-GAAP earnings per share attributable to ordinary shareholders:*	Basic (\$)	0.53	0.93	2.92	4.01
	Diluted (\$)	0.53	0.93	2.92	4.01
Non-GAAP average number of shares (in millions):	Basic	1,031	1,017	1,021	1,016
	Diluted	1,034	1,018	1,024	1,018

Condensed Consolidated Balance Sheets

(U.S. dollars in millions)

(Audited)

	December 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents.....	1,782	963
Trade receivables.....	5,822	7,128
Inventories.....	4,731	4,924
Prepaid expenses.....	899	1,100
Other current assets.....	468	701
Assets held for sale.....	92	566
Total current assets.....	13,794	15,382
Deferred income taxes.....	368	574
Other non-current assets.....	731	932
Property, plant and equipment, net.....	6,868	7,673
Identifiable intangible assets, net.....	14,005	17,640
Goodwill.....	24,917	28,414
Total assets.....	60,683	70,615
LIABILITIES & EQUITY		
Current liabilities:		
Short-term debt.....	2,216	3,646
Sales reserves and allowances.....	6,711	7,881
Trade payables.....	1,853	2,069
Employee-related obligations.....	870	549
Accrued expenses.....	1,868	3,014
Other current liabilities.....	804	724
Liabilities held for sale.....	-	38
Total current liabilities.....	14,322	17,921
Long-term liabilities:		
Deferred income taxes.....	2,140	3,277
Other taxes and long-term liabilities.....	1,727	1,843
Senior notes and loans.....	26,700	28,829
Total long-term liabilities.....	30,567	33,949
Equity:		
Teva shareholders' equity.....	14,707	17,359
Non-controlling interests.....	1,087	1,386
Total equity.....	15,794	18,745
Total liabilities and equity.....	60,683	70,615

Condensed Consolidated Cash Flow

(U.S. Dollars in millions)

	Three months ended		Year ended	
	December 31,		December 31,	
	2018	2017	2018	2017
	Unaudited	Unaudited	Unaudited	Unaudited
Operating activities:				
Net income (loss)	(3,243)	(11,730)	(2,472)	(16,449)
Net change in operating assets and liabilities	(302)	72	(1,823)	(1,645)
Items not involving cash flow	3,912	12,517	6,741	20,319
Net cash provided by operating activities	367	859	2,446	2,225
Net cash provided by investing activities	74	1,912	1,866	3,446
Net cash used in financing activities	(499)	(2,506)	(3,351)	(5,750)
Translation adjustment on cash and cash equivalents	(35)	18	(142)	54
Net change in cash and cash equivalents	(93)	283	819	(25)
Balance of cash and cash equivalents at beginning of period	1,875	680	963	988
Balance of cash and cash equivalents at end of period	1,782	963	1,782	963

Segment Information

	North America		Europe		International Markets	
	Three months ended December 31,		Three months ended December 31,		Three months ended December 31,	
	2018	2017	2018	2017	2018	2017
	(U.S. \$ in millions)		(U.S. \$ in millions)		(U.S. \$ in millions)	
Revenues.....	\$ 2,238	\$ 2,689	\$ 1,204	\$ 1,450	\$ 740	\$ 910
Gross profit.....	1,201	1,506	689	758	312	390
R&D expenses.....	185	192	75	78	26	25
S&M expenses.....	341	285	278	284	134	169
G&A expenses.....	127	101	82	96	38	45
Other income (loss).....	(3)	(10)	1	(1)	-	(4)
Segment profit.....	\$ 551	\$ 938	\$ 253	\$ 301	\$ 114	\$ 155

Segment Information

	North America		Europe		International Markets	
	Year ended December 31,		Year ended December 31,		Year ended December 31,	
	2018	2017	2018	2017	2018	2017
	(U.S. \$ in millions)		(U.S. \$ in millions)		(U.S. \$ in millions)	
Revenues.....	\$ 9,297	\$ 12,141	\$ 5,186	\$ 5,466	\$ 3,005	\$ 3,395
Gross profit.....	4,979	7,322	2,884	2,887	1,254	1,433
R&D expenses.....	713	969	283	390	96	154
S&M expenses.....	1,154	1,288	1,003	1,130	518	672
G&A expenses.....	484	533	325	354	153	189
Other income.....	(209)	(92)	-	(16)	(11)	(8)
Segment profit.....	\$ 2,837	\$ 4,624	\$ 1,273	\$ 1,029	\$ 498	\$ 426

Revenues by Activity and Geographical Area
(Unaudited)

	Three months ended		Percentage Change 2017-2018
	December 31,		
	2018	2017	
(U.S.\$ in millions)			
North America segment			
Generics medicines.....	\$ 1,099	\$ 1,224	(10%)
COPAXONE	356	641	(44%)
Bendeka and Trenda.....	140	158	(11%)
ProAir.....	45	102	(56%)
QVAR.....	9	48	(81%)
AUSTEDO.....	68	17	314%
ANDA	363	289	26%

	Three months ended		Percentage Change 2017-2018
	December 31,		
	2018	2017	
(U.S.\$ in millions)			
Europe segment			
Generic medicines.....	\$ 844	\$ 928	(9%)
COPAXONE	118	155	(24%)
Respiratory products.....	90	110	(18%)

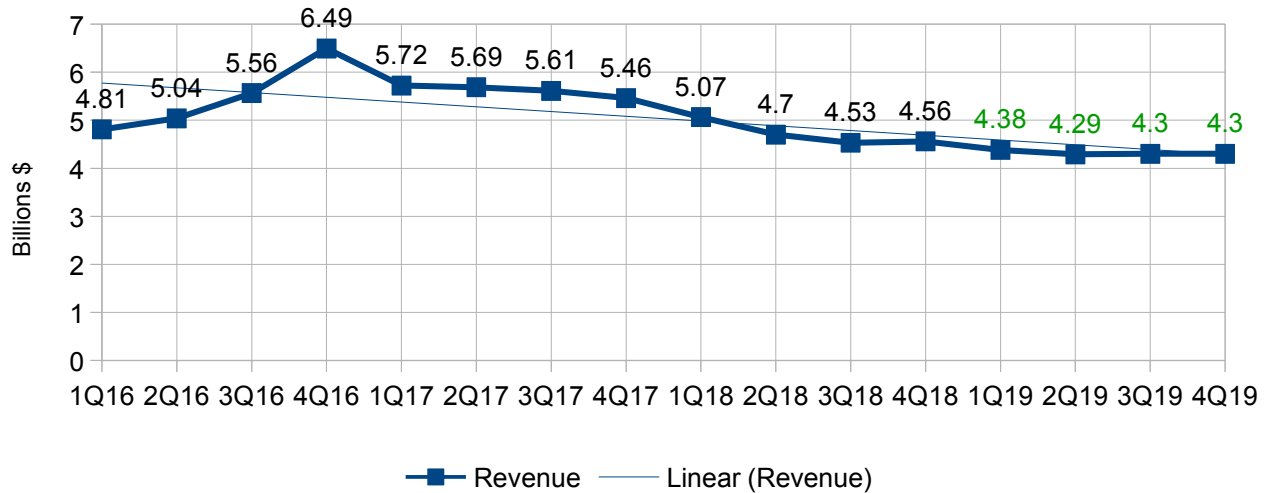
	Three months ended		Percentage Change 2017-2018
	December 31,		
	2018	2017	
(U.S.\$ in millions)			
International Markets segment			
Generics medicines.....	\$ 499	\$ 650	(23%)
COPAXONE	20	26	(23%)
Distribution	146	144	1%

Revenues by Activity and Geographical Area
(Unaudited)

	Year ended		Percentage Change 2017-2018
	December 31,		
	2018	2017	
	(U.S.\$ in millions)		
North America segment			
Generics medicines.....	\$ 4,056	5,203	(22%)
COPAXONE	1,759	3,116	(44%)
Bendeka and Trenda.....	642	656	(2%)
ProAir.....	397	501	(21%)
QVAR.....	182	313	(42%)
AUSTEDO.....	204	24	750%
ANDA	1,347	1,153	17%
	Year ended		
	December 31,		
	2018	2017	
	(U.S.\$ in millions)		
Europe segment			
Generic medicines.....	\$ 3,593	\$ 3,471	4%
COPAXONE	535	595	(10%)
Respiratory products.....	402	368	9%
	Year ended		
	December 31,		
	2018	2017	
	(U.S.\$ in millions)		
International Markets segment			
Generics medicines.....	\$ 2,022	\$ 2,370	(15%)
COPAXONE	72	91	(21%)
Distribution	602	550	9%

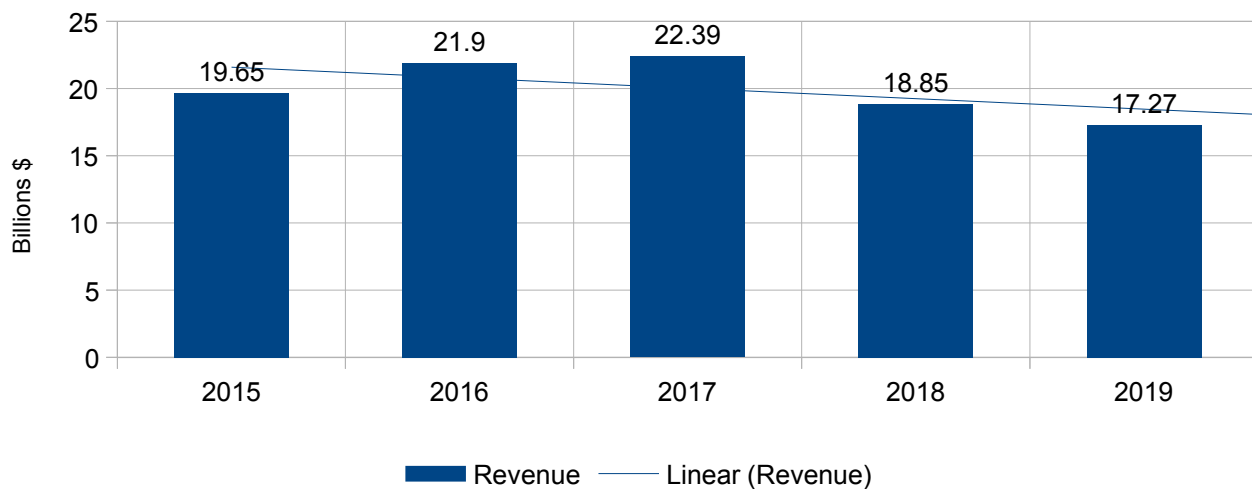
TEVA Revenue

2016 To 2019 Est.



TEVA Revenue

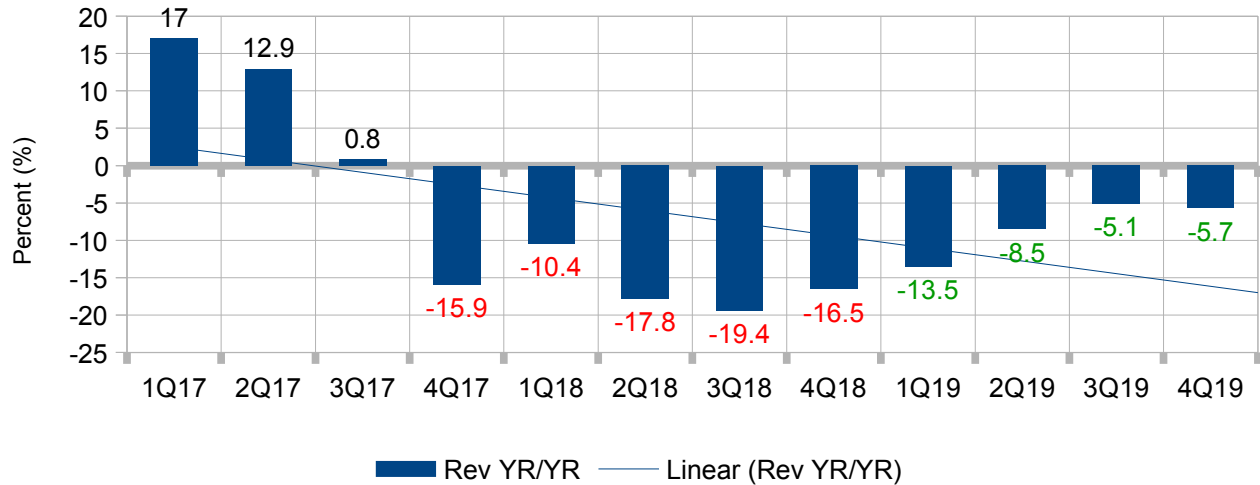
2015 To 2019 Est.



**Buying companies with years of declining revenue is generally not a good idea!
Shorting them seems like a better idea!**

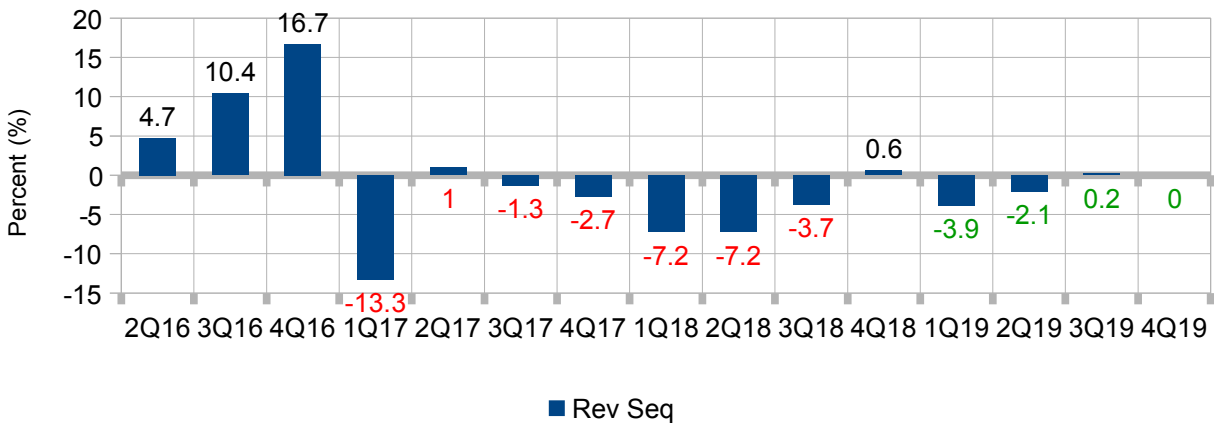
TEVA YR/YR Revenue Growth

2017 To 2019 Est.



TEVA Sequential Revenue Growth

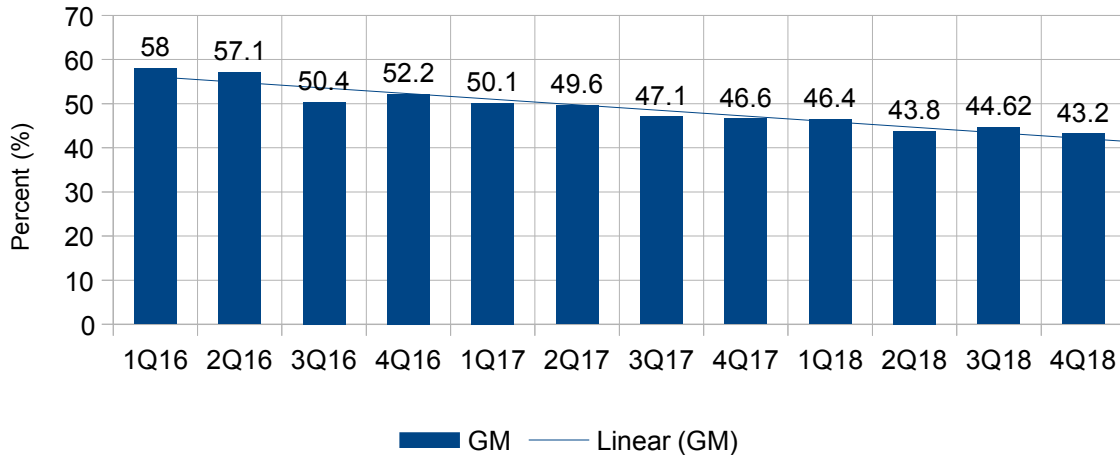
2016 To 2019 Est.



11 out of the past/next 12 quarters of negative sequential revenue growth. 9 quarters in a row of year over year revenue declines! Turnaround?

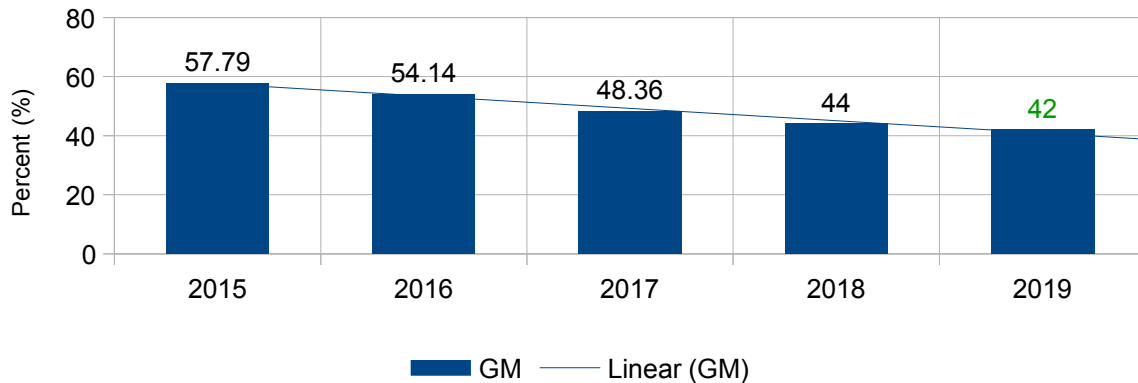
TEVA Gross Margin %

2016 To 2018



TEVA Gross Margin %

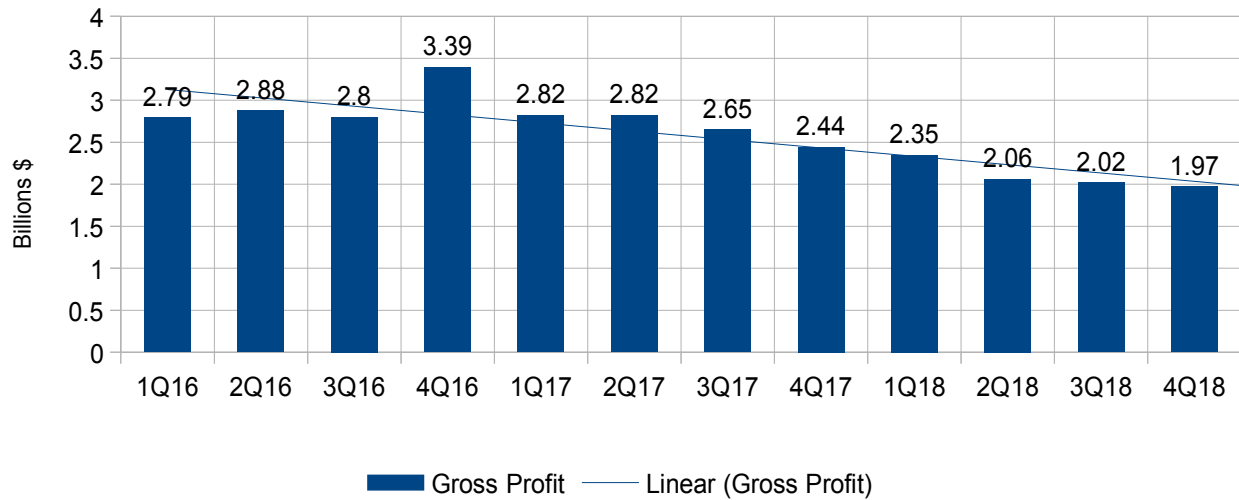
2015 To 2018



Four years in a row of declining gross margins. Our estimate of gross margin of 42% for 2019 is generous. More likely to be 40%.

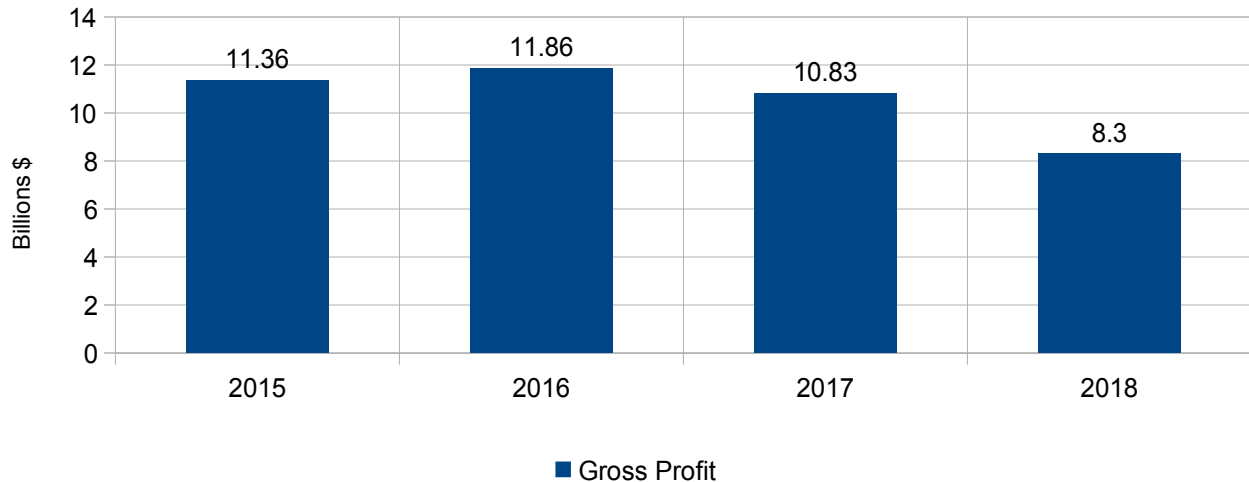
TEVA Gross Profit \$

2016 To 2018



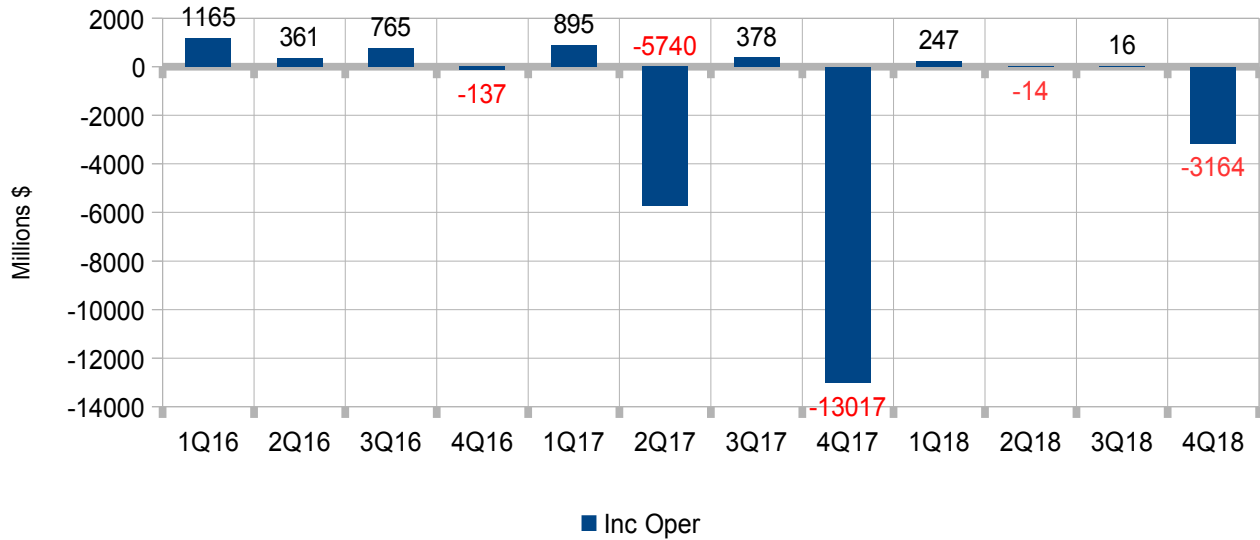
TEVA Gross Profit \$

2015 To 2018



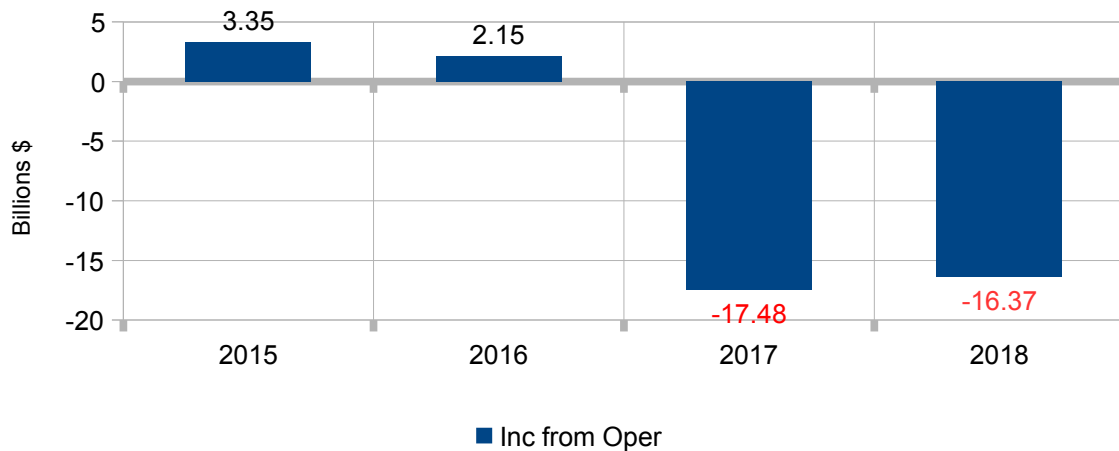
Buying companies with declining gross profit is generally not a good idea.

TEVA Income (Loss) From Operations



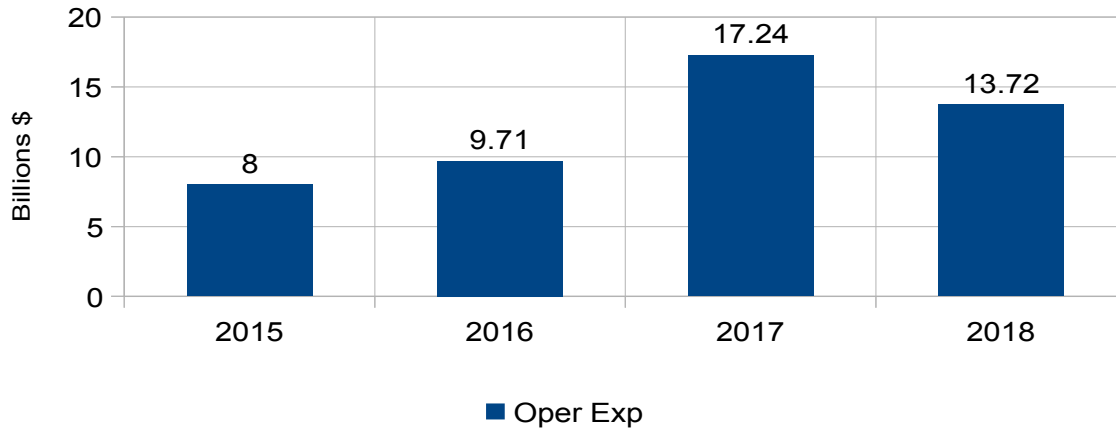
TEVA Income (Loss) From Operations

2015 To 2017



TEVA Operating Expenses

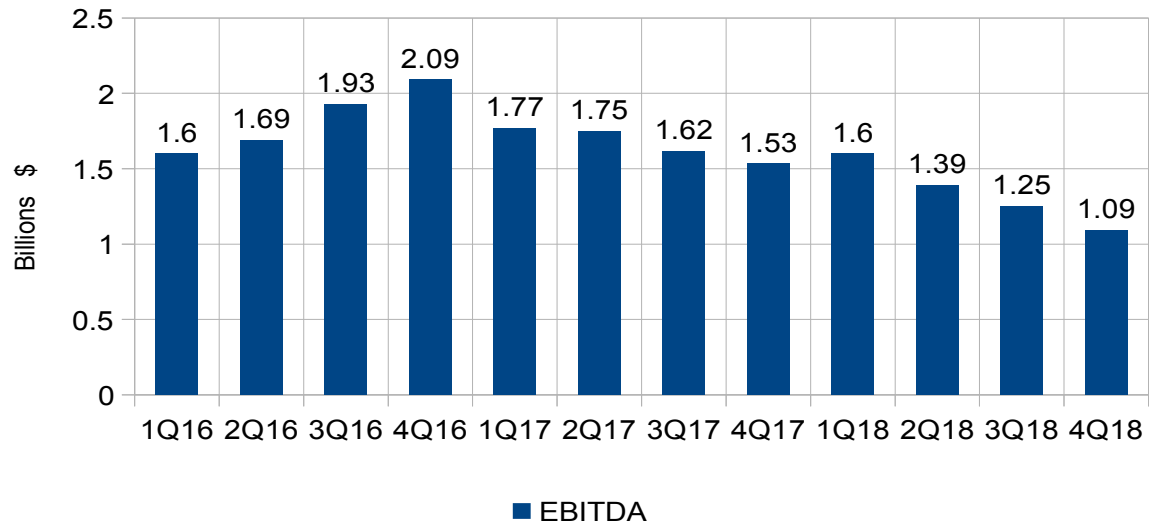
2015 To 2017



TEVA cut \$3.516 billion in operating expenses in 2018. They are in a race to cut expenses faster than revenue is declining!

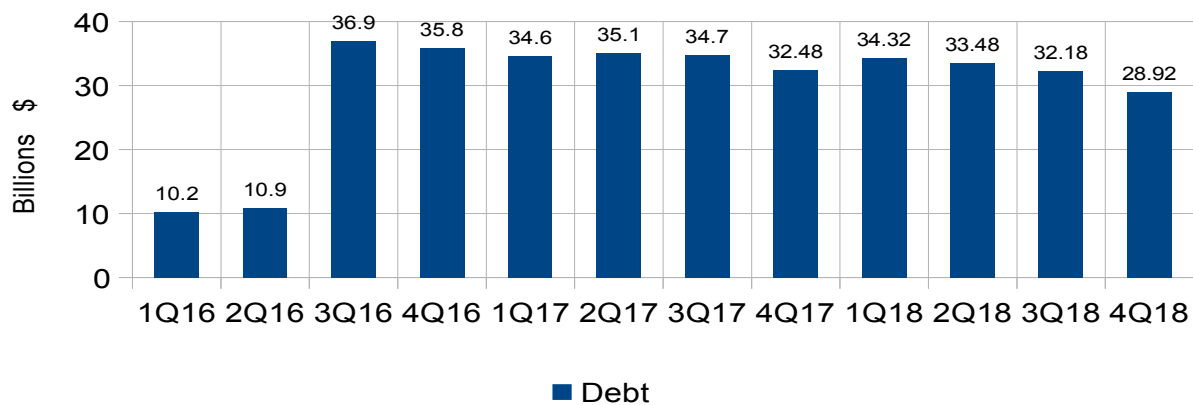
They cut R&D expenses by \$565 million, a 31.5% cut, from \$1.8 billion to \$1.2 billion. This is a drug company! Probably, the one expense that they should NOT cut is future drug research!!!

TEVA EBITDA



TEVA Long Term Debt

2016 To 2017



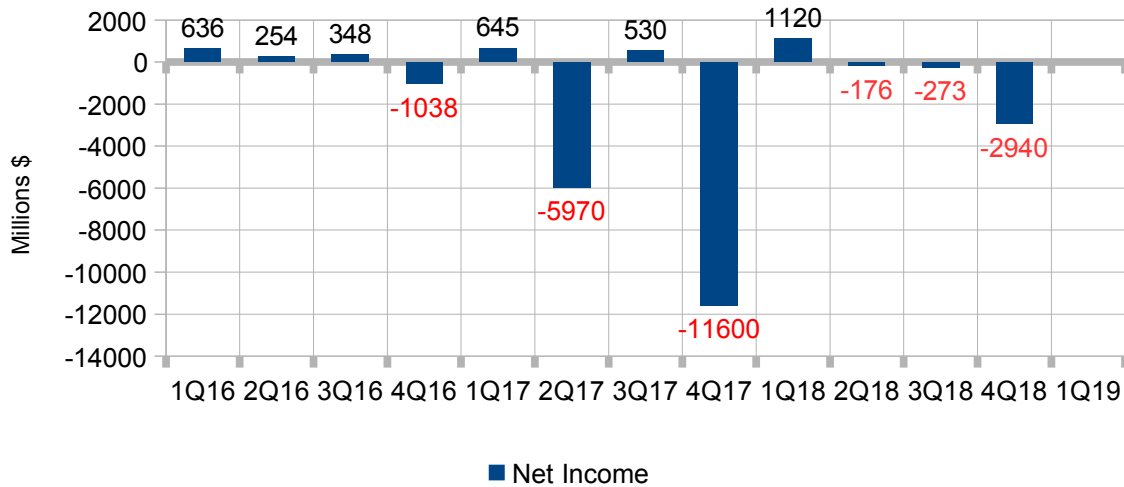
EBITDA continues to decline.

They are paying off debt, but it is still substantial.

With the bulk of their cost cuts done and free cash flow plunging over 51% in 2019, progress in cutting debt will become much harder.

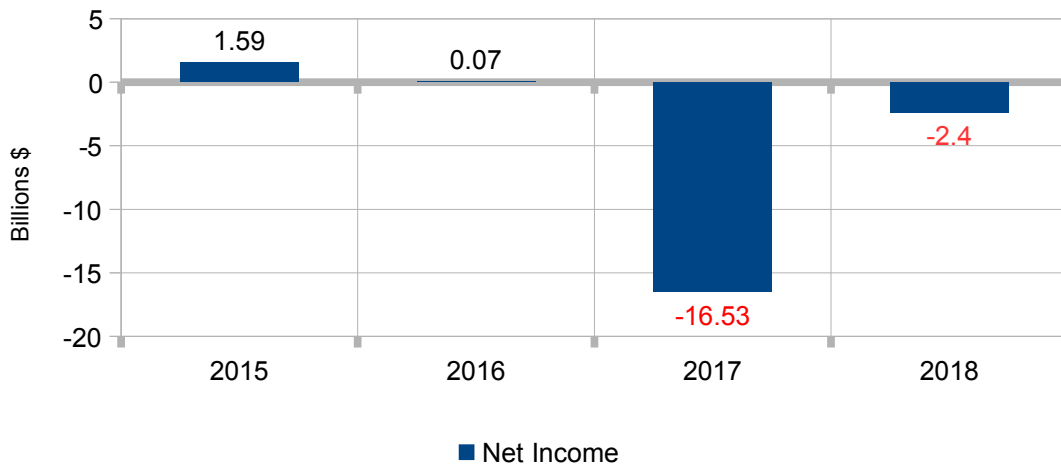
TEVA Net Income

2016 To 2018 Est.

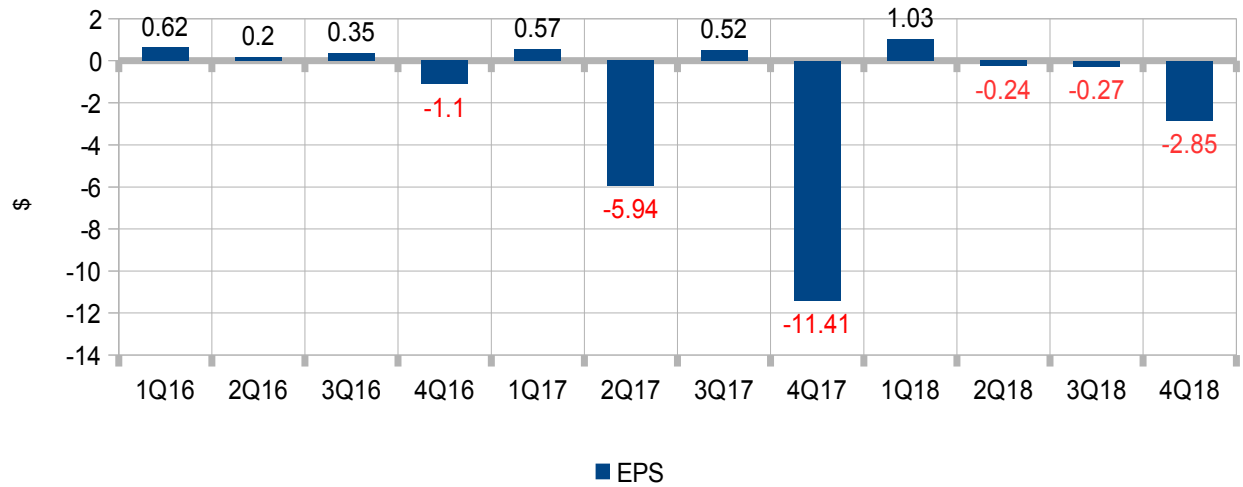


TEVA Net Income

2015 To 2018

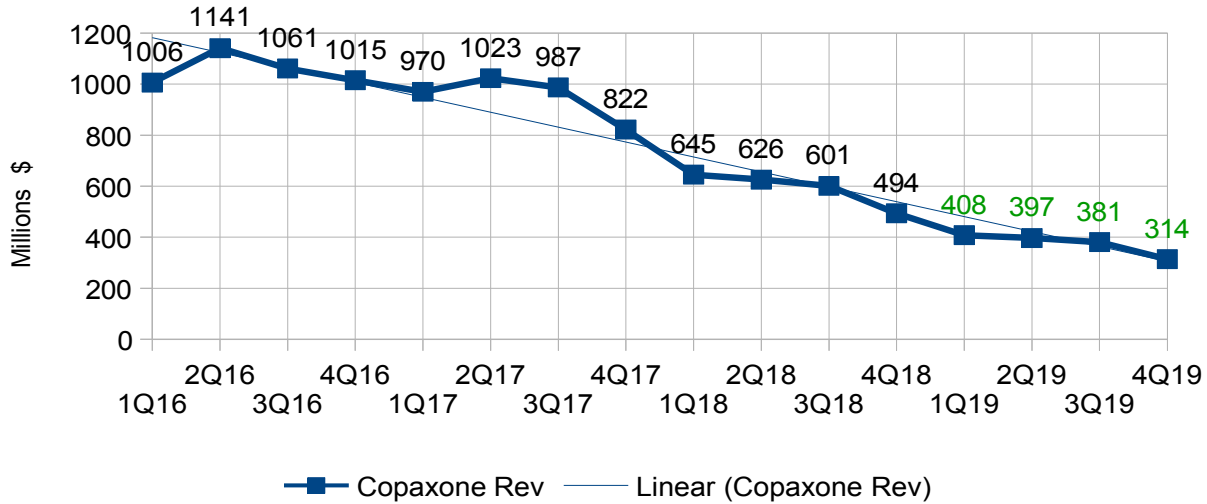


TEVA Earnings Per Share (GAAP)
 2016 To 2018



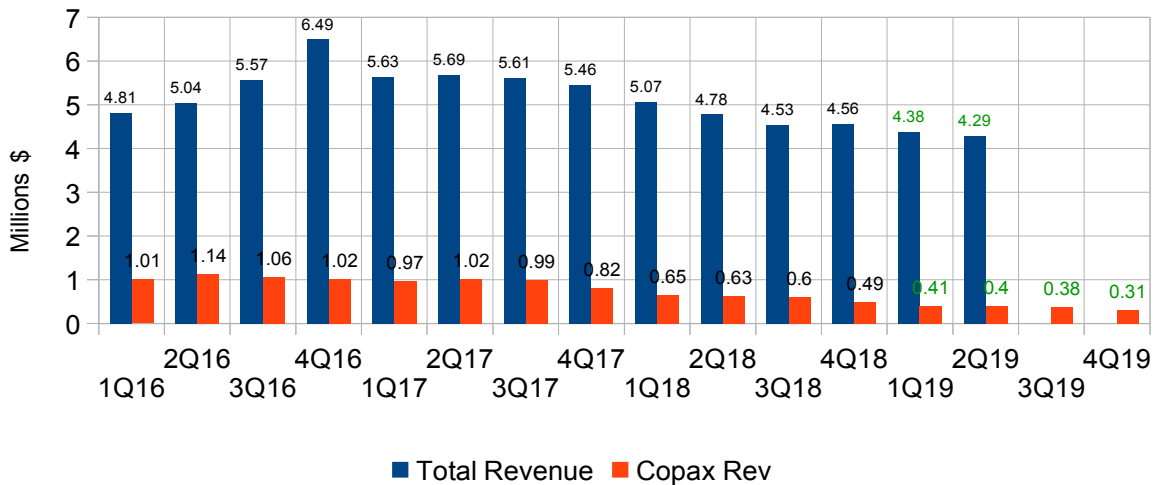
TEVA Copaxone Revenue

2016 To 2019 Est.



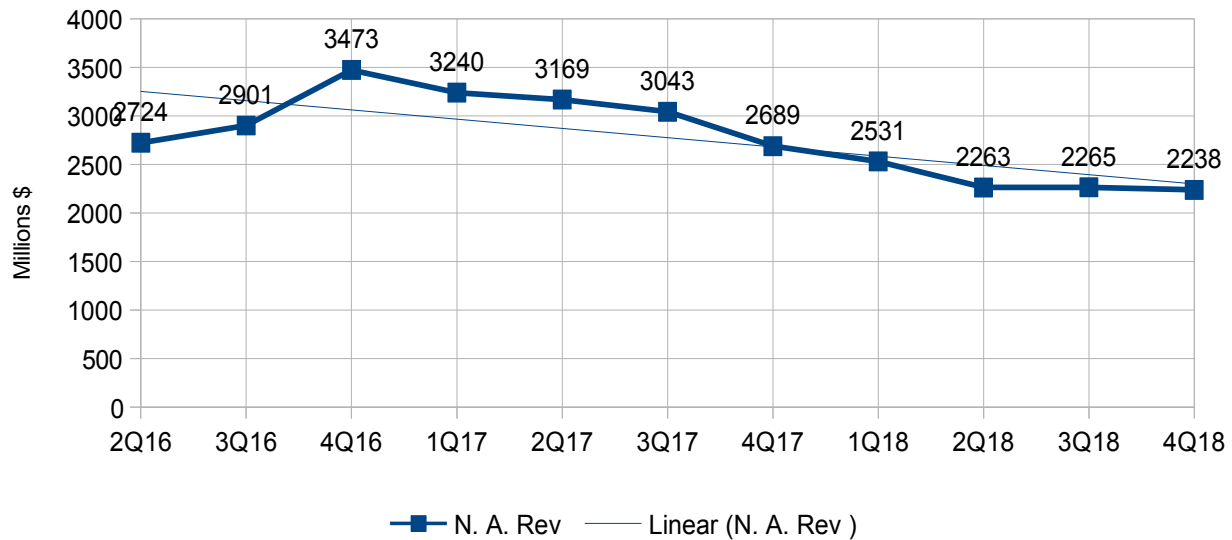
TEVA Total Revenue Vs Copaxone Revenue

2016 To 2019 Est.



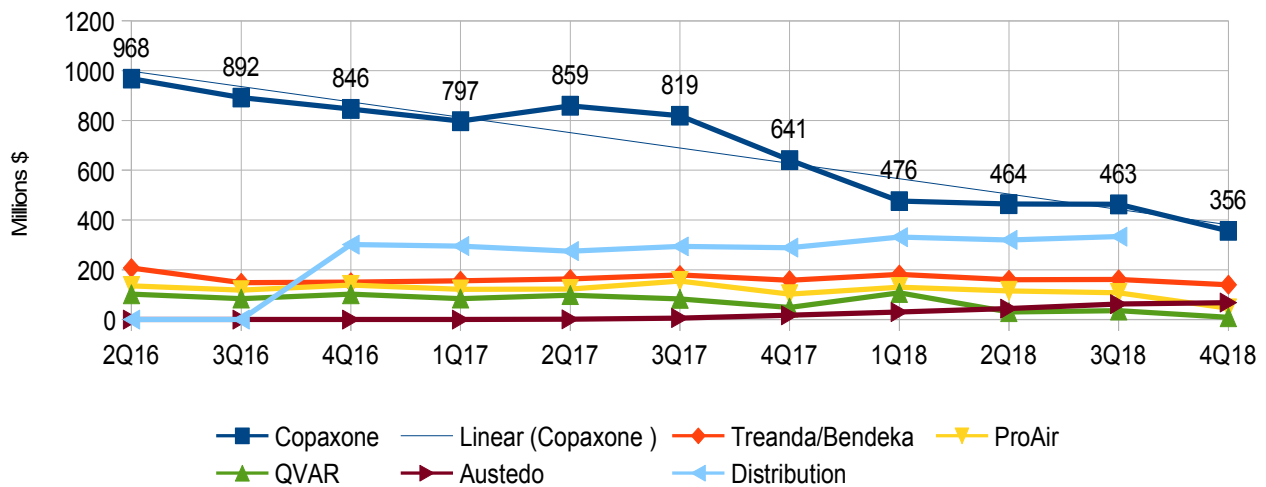
Copaxone used to do \$1.1 billion PER QUARTER with a 85% gross margin! That was about a \$935 million pre-tax profit EVERY quarter. Now? It's going to be down to near \$300 million with a 25% gross margin or \$75 million pre-tax profit! Oops!

TEVA North America Revenue



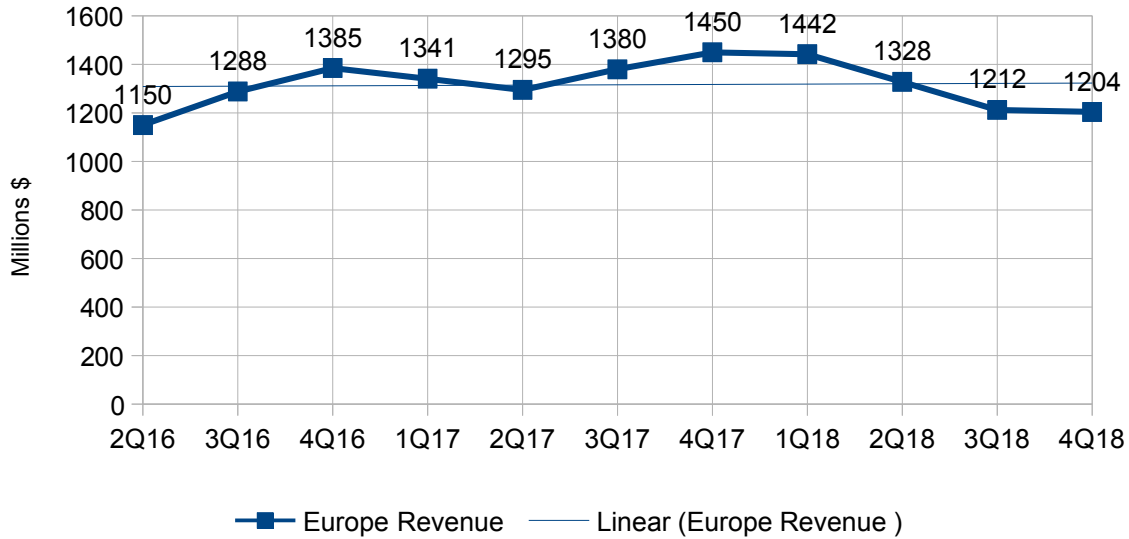
TEVA N.A. Revenue By Product

2016 To 2018

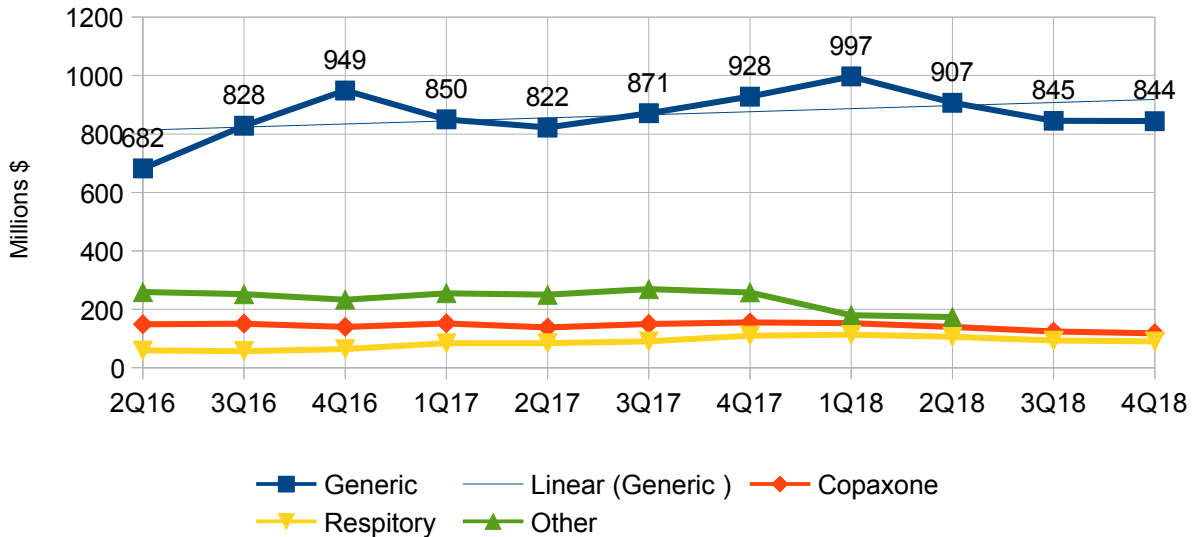


**North America revenue, their largest market, has declined by 63% since 2016!
Where exactly is the turnaround?**

TEVA Europe Revenue



TEVA Europe Revenue By Product

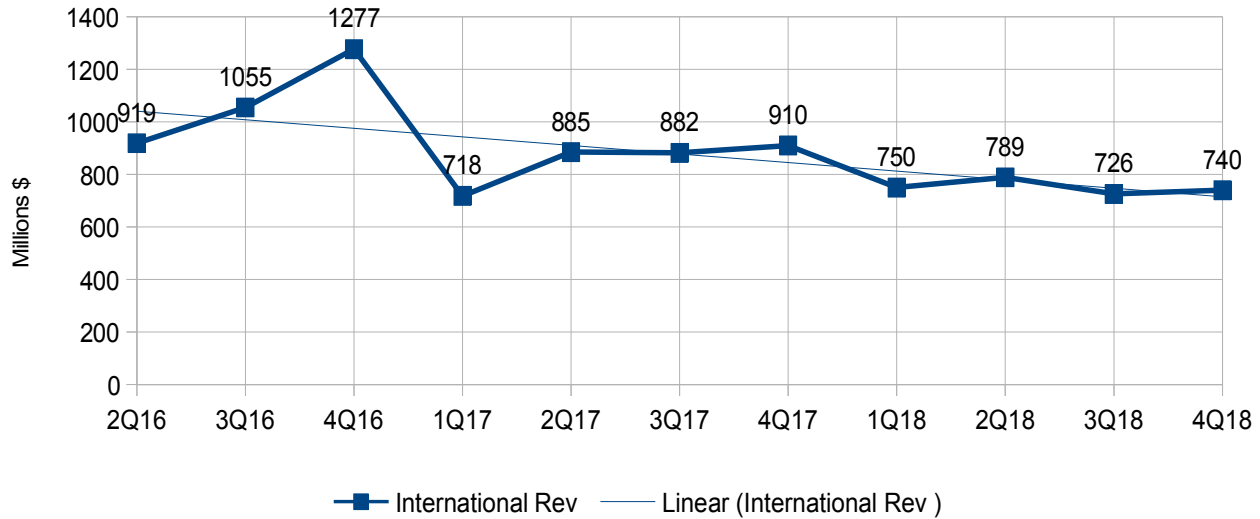


Europe has held up better as it has been basically flat for three years.

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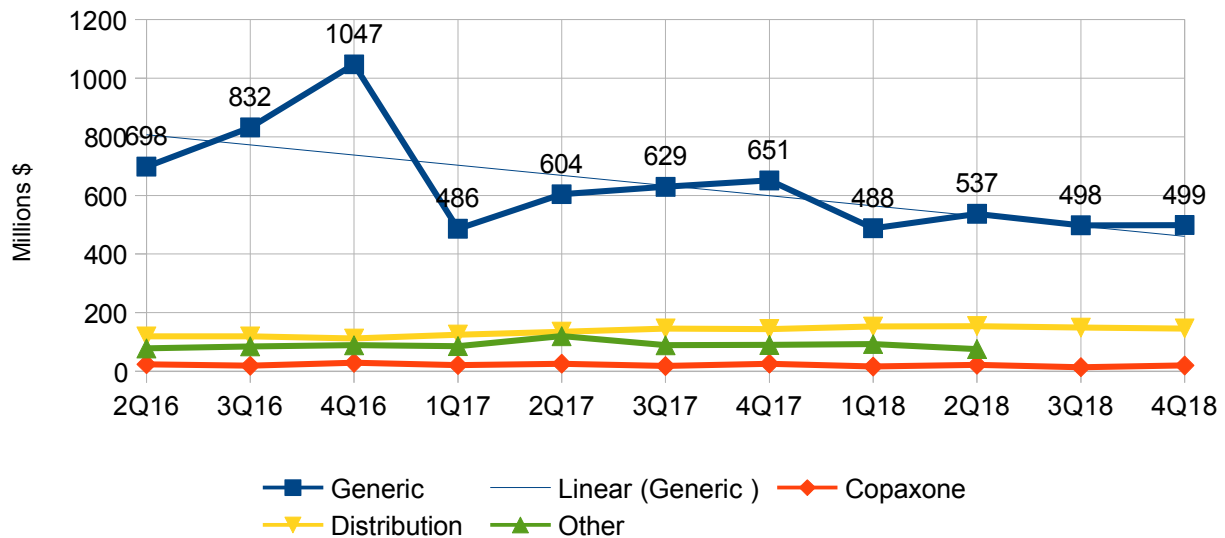
TEVA International Revenue

2016 To 2018



■ International Rev — Linear (International Rev)

TEVA International Revenue By Product

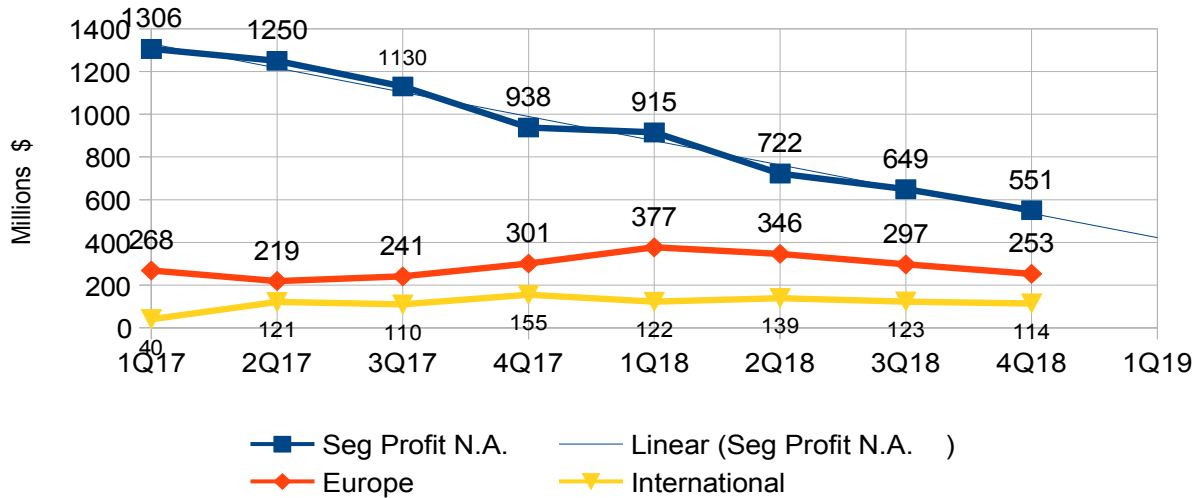


■ Generic — Linear (Generic) ◆ Copaxone
 ▼ Distribution ▲ Other

International revenue has declined about 30% in three years.

Segment Profit

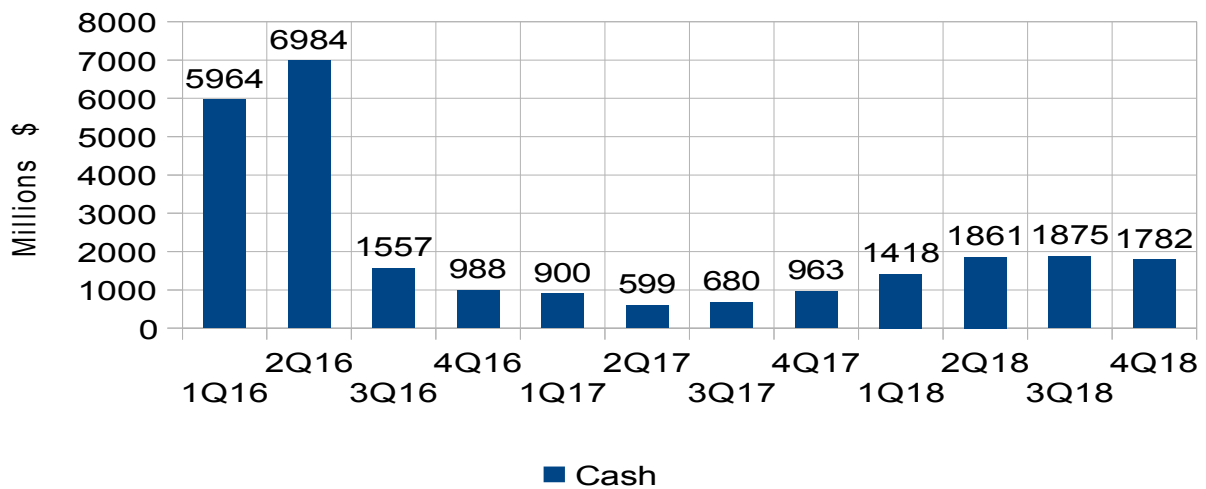
N. Amer, Europe & International



Segment profit in North America has declined 58% in TWO years. Europe and International are flat to declining.

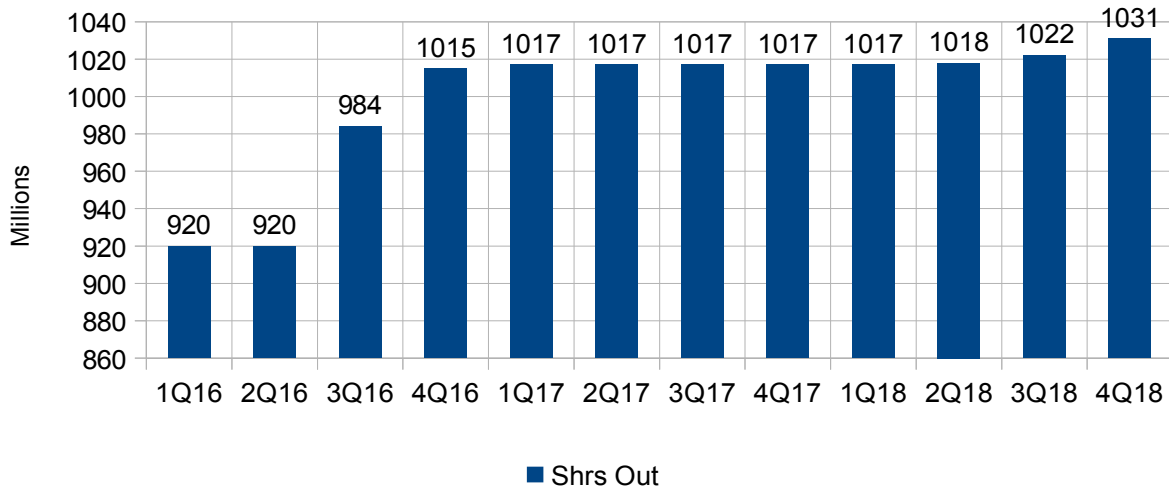
TEVA Cash

2016 To 2017

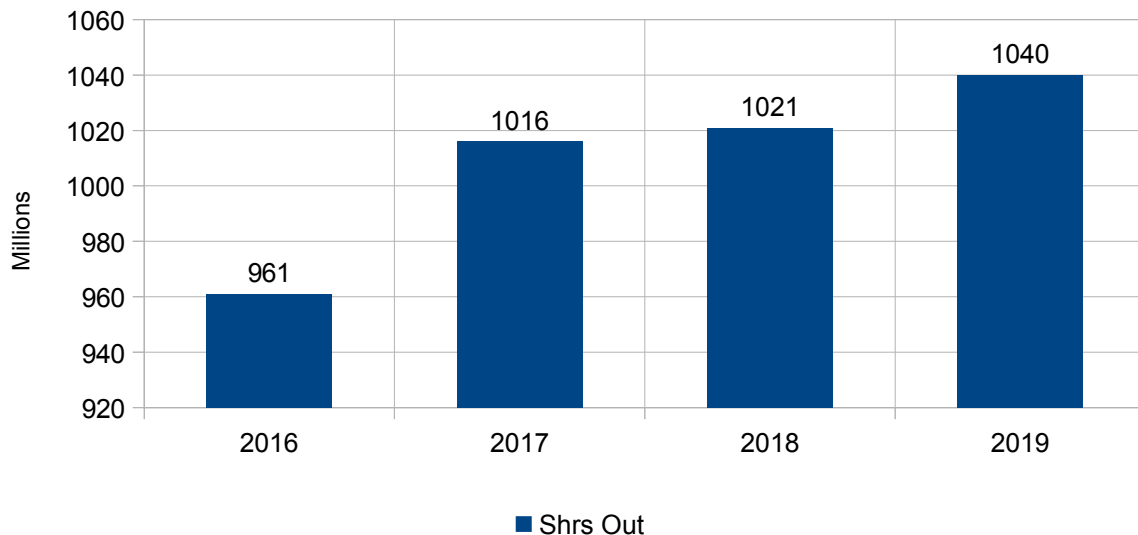


TEVA Shares Outstanding (FD)

2016 To 2018 Est.



TEVA Shares Outstanding (FD)



And another 2% dilution in shares outstanding coming in 2019.

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Conclusion

The turnaround story in TEVA has been greatly exaggerated. They have cut expenses and paid off several billion in debt, but the decline in revenue has exceeded their ability to cut expenses fast enough. We believe that they are somewhere around 75% through their total cost cutting. There will be continued declines in revenue, gross profit, gross margin, EBITDA and cash flow going forward.

“Investors” that bought TEVA stock on the “they beat the number” game and “Warren Buffet is buying” are now sitting on 35 percent losses. As we wrote in our last report, “These people have no idea what they own”.

This is a highly indebted, declining business in a cutthroat competition environment. Our main short thesis was that **Copaxone accounted for 45% of their EBITDA and with TWO new generic competitors, they were in big trouble.** This turned out to be accurate.

Now, their other main product, ProAir, also has a generic competitor. We believe that 2019 will be very similar to 2018 with almost every metric declining, except shares outstanding.

We actually hate taking a profit here on our short as we believe that this a \$10 stock, but it is our policy to take profit on some portion of the short position when it hits our short term price target.

Our longer term price target remains \$10-\$12, which we believe will be reached in 2019.

