Evaluate Vantage

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Teva's bullish forecast enhances generics outlook

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Recent talk about the current and future pharmaceutical market being a boon time for generics was emphasised further last night when Teva presented its corporate goals for the next five years, with staggeringly bullish group sales forecasts of $31bn by 2015.

Investors were clearly impressed, sending Teva's shares up 4% in early trading today to a record high of $58.83, valuing the world's biggest generics manufacturer at $54bn, higher than the US pharma giants of Bristol-Myers Squibb and Eli Lilly. The fact that Teva's revenue projections are significantly higher than current analyst expectations (see table below) is clearly a driving force for the share price gain, but also suggests the company is going to have to embark on an aggressive acquisition, licensing and emerging markets strategy to meet its lofty targets.

The table below compares some of the key projections made by Teva to a consensus of current analyst forecasts, compiled by *EvaluatePharma*. Although *EvaluatePharma's* current forecast range extends to 2014, the growth rates for 2013 and 2014 have been combined to project into 2015.

Teva - Forecast Financial Items											
All figures $bn (except EPS)	**2009**				**2012**				**2015 (projected)**		
	EVP	**Teva**	**% diff**		**EVP**	**Teva**	**% diff**		**EVP**	**Teva**	**% diff**
Total Revenues	13.9	13.9	0%		17.8	22.1	24%		21.2	31.0	46%
R&D Expenses	(0.9)	(0.8)	-7%		(1.2)	(1.8)	53%		(1.5)	(2.3)	54%
Net Income	3.0	3.0	0%		4.9	5.2	6%		6.1	6.8	12%
EPS	3.44	3.37	-2%		5.66	5.58	-1%		7.04	7.16	2%
Year End Cash & Equivalents	2.7				9.8				21.0		

Analysts currently expect Teva to record total revenues of $20.1bn in 2014, projected to $21.2bn by 2015, yet this is still massively lower than Teva's own prediction of $31bn.

So where will the small matter of an extra $10bn come from?

One factor is likely to be Teva's forecasts for a significant growth in the global generics market, which it believes could reach $150bn by 2015, as the pressure to deliver affordable medicine in both developed and emerging markets continues to increase.

Teva sees major growth in European and international markets that so far have low generic penetration rates. Teva's recent move to acquire a controlling stake in Taisho Pharmaceutical Industries in Japan, a country with a generic value rate of just 6%, is such an example.

Another clear driver is the obvious potential within the biosimilar, or biogeneric, market which companies, investors and analysts are still no doubt coming to terms with now that a regulatory pathway in the US has almost been cleared. Until the rubber stamp has been applied to this legislation and the FDA sets and adopts some clear approval guidelines for biosimilar products, analysts may still be conservative about this commercial opportunity, which could help explain the lower forecasts.

High bar

However, even after factoring in these growth opportunities it is clear that a significant chunk of the $10bn will have to come from acquiring or licensing companies and products. The fact that Teva’s earnings forecasts are not that far off consensus suggests that top line growth is going to be acquired; if the bulk of $31bn was generated organically the bottom line should grow at least as healthily.

Although often perceived as a serial acquirer, and it is regularly linked to a number of diverse acquisition targets, Teva has not made any company acquisitions since purchasing Barr Pharmaceuticals for $7.5bn in 2008.

These new forecasts would suggest that Teva is set to apply its substantial cash reserves and cash flow, the company estimates a cumulated cash flow of $22bn by 2015, to making the suitable acquisitions to help it meet its targets.

Teva has clearly set the bar at a record height, time will tell whether it will clear it.