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Teva maintains its aim on lofty targets

Despite reporting disappointing annual results and guidance for 2011, Teva reiterated its commitment this week to meeting the ambitious 2015 goals it set a year ago (*Teva's bullish forecast enhances generics outlook, January 8, 2010*).

One year on and Teva's 2015 sales target of $31bn, almost double its revenues last year, looks equally demanding – consensus sales estimates of $24bn in 2015 reveals a massive $7bn shortfall to Teva's target (see table below). That the difference in 2015 sales has narrowed from a $10bn gap a year ago largely reflects Teva's $5bn acquisition of Ratiopharm last March. So when Teva's chief financial officer, Eyal Desheh, went on record this week to claim the company is ready for a similar size deal and that M&A activity may need to account for more than one-third of sales growth, further significant consolidation in the generics sector this year seems a foregone conclusion.

The table below compares Teva's 2010 annual results and the company's key projections for 2011 and 2015 against the consensus of current analyst forecasts, compiled by *EvaluatePharma*. Although Teva did not issue specific guidance for 2012 this time around, comments from management suggest these are largely unchanged from the projections the company made last year.

Teva - Forecast Financial Items

All figures $bn (except EPS)	**2010**				**2011**				**2012***				**2015**		
	EVP	**Teva**	**% diff**		**EVP**	**Teva**	**% diff**		**EVP**	**Teva**	**% diff**		**EVP**	**Teva**	**% diff**
Total Revenues	16.3	16.1	-1%		18.8	18.8	0%		20.5	22.1	8%		24.1	31.0	29%
R&D Expenses	(1.0)	(0.9)	-3%		(1.2)	(1.1)	-6%		(1.3)	(1.8)	34%		(1.6)	(2.3)	41%
Net Income	4.2	4.1	0%		4.8	4.6	-5%		5.4	5.2	-4%		6.8	6.8	0%
EPS	4.54	4.54	0%		5.19	5.05	-3%		5.84	5.58	-4%		7.19	7.16	0%
Year End Cash & Equivalents	1.2	1.3	12%		2.2				5.0				18.9		

** guidance for 2012 was issued in Jan 2010*

While 2010 results and estimates for 2011 are largely in-line, Teva is clearly expecting sales growth way above analyst expectations from 2012 onwards. As a general rule analysts will not include future unknown acquisitions in their forecast models, so the bulk of the additional revenues Teva is predicting will have to come from M&A.

Mind the gap

Last year Teva was predicting a $17.1bn increase in sales between 2009 and 2015, two thirds of which - $11.3bn - was expected to come from organic growth.

Factors driving this organic growth include a rapidly expanding global generics market, which Teva predicts could reach $150bn by 2015, driven by the pressure to deliver affordable medicines in both developed and emerging markets. The eventual emergence of a biosimilar market also represents a significant growth opportunity which would also be classified as organic growth.

The remaining $5.8bn increase in sales was therefore expected to come from acquisitions; the purchase of Ratiopharm added about $2.2bn to the top line, which should flow in this year (*Teva triumphs in 'must-win' battle for Ratiopharm, March 18, 2010*).

In theory, if analysts agree with Teva's bullish estimates for organic growth then consensus for 2015 should be around $25.2bn at a minimum, with acquisitions such as Ratiopharm added on top.

Whereas a year ago Teva's lofty goals did surprise the market, analysts have had plenty of time to digest Teva's targets, yet consensus for 2015 still sits at $24.1bn, which will already include the $2.2bn minimum revenue from Ratiopharm.

As such, it seems analysts remain somewhat sceptical at this stage of Teva's organic growth targets, while the need for further significant M&A activity to help bridge the gap is clear.

Possible targets

Teva's move on Ratiopharm was designed to significantly increase its presence in Europe, a region in which it had a surprisingly weak position. As such, the likes of STADA Arzneimittel and Actavis are often listed as potential targets to build on its European expansion, particularly into more of the emerging countries within the region.

STADA's sales in 2015 are expected to reach $2.9bn, while Actavis could bring in $4.3bn in the same year, analysts believe.

Aside from seeking further consolidation in the generics sector, Teva could also be on the hunt for companies with more of a branded portfolio and an innovative R&D operation. Teva's biggest selling product, MS drug Copaxone, will suffer generic erosion within the next few years and the company may look to shore up its branded business. Promising oral MS drug, laquinimod, has been licensed from Active Biotech and further licensing or M&A activity in this and related areas cannot be ruled out.

But perhaps one of the most intriguing aspects of Teva's outlook is that analysts are already predicting that earnings in 2015 will meet the company's guidance, even with significantly lower revenues included in their models.

As such, should investors be worried about the relatively low bottom-line value that Teva could extract from all these additional revenues?

Either way, Teva's desire to dominate the generics sector shows little sign of abating.