

Deborah A. Knobelman, Ph.D., Sr Research Analyst

212 284-9323, deborah.a.knobelman@pjc.com**Reason for Report:**

Change in Price Target

Changes	Previous	Current
Rating	--	Outperform
Price Tgt	\$40.00	\$37.00
FY05E Rev (mil)	\$5,491.6	\$5,438.1
FY06E Rev (mil)	\$6,402.3	\$6,346.5
FY05E EPS	\$1.64	\$1.62
FY06E EPS	\$1.94	\$1.92

Price:	\$30.79
52 Week High:	\$34.66
52 Week Low:	\$22.82
Price Target:	\$37.00

(20x FY2006 EPS)

Shares Out (mil):	683.8
Market Cap. (mil):	\$21,054.2
Avg Daily Vol (000):	5,172
Book Value/Share:	\$7.90
Cash Per Share:	\$1.53
Debt to Total Capital:	38%
Div (ann):	\$0.07
Est LT EPS Growth:	15%
P/E to LT EPS Growth (FY06):	1.1x
Est Next Rep Date:	08/03/2005
Fiscal Year End:	Dec

Rev (mil)	2004A	2005E	2006E
Mar	\$1,052.4A	\$1,304.9A	NA
Jun	\$1,176.4A	\$1,312.0E	NA
Sep	\$1,247.3A	\$1,381.8E	NA
Dec	<u>\$1,322.8A</u>	<u>\$1,439.4E</u>	<u>NA</u>
FY	\$4,798.9A	\$5,438.1E	\$6,346.5E
CY	\$4,798.9A	\$5,438.1E	\$6,346.5E

FY RM	4.4x	3.9x	3.3x
CY RM	4.4x	3.9x	3.3x

EPS	2004A	2005E	2006E
Mar	\$0.31A	\$0.38A	NA
Jun	\$0.34A	\$0.38E	NA
Sep	\$0.37A	\$0.41E	NA
Dec	<u>\$0.41A</u>	<u>\$0.44E</u>	<u>NA</u>
FY	\$1.42A	\$1.62E	\$1.92E
CY	\$1.42A	\$1.62E	\$1.92E

FY P/E	21.7x	19.0x	16.0x
CY P/E	21.7x	19.0x	16.0x

**Teva Pharmaceutical
Outperform****(TEVA - \$30.79)
Volatility: Low****Q1 Solid; Looking Toward '06 For Product Flow****KEY POINTS:**

- Teva reported a solid Q1, posting \$1,304M on the top line and \$0.38 in EPS, slightly below our expectations of \$1,322M and \$0.39, but in line with consensus. Revenues were modestly below our expectations across the board, with N. American generics booking \$640M vs. our \$650M, and total global in-market Copaxone revenues at \$256M vs. our \$262M.
- We see this quarter's results as in line, and note in particular that gross margins were not significantly below our expectations of 46.5%; TEVA posted 46.3%. In particular, Teva noted that product mix (with EU generics posting lower margins than U.S. generics) was the cause of the sequential down-tick in gross margins, but stated that N. American generic gross margins were up sequentially. Expenses were in line with our expectations. We are uncertain why "consensus" for these line items were more aggressive than our expectations, but we suspect this is the reason for the stock's performance yesterday; it also could've been due to a break in the well-established record of beating consensus EPS.
- We are taking down our Q2 assumption from \$0.39 to \$0.38, so EPS will be flat sequentially. Our revenues for Q2 go from \$1,333M to \$1,312M. We nudge down our gross margins for Q2 from 46.3% to 46.2%. For 2005, our EPS moves from \$1.64 to \$1.62, still on the high end of \$1.56-\$1.63 guidance. Spending in our model remains largely unchanged.
- Copaxone did not see the full benefit of Tysabri's market removal in Q1, but still managed to post 24% growth in global in-market sales YOY. The company is guiding to 20%+ growth in 2005, and we are modeling 22% to \$1,143M in 2005. Also, due to an additional data submission for "technical errors" on Agilect, the PDUFA date has been pushed out to Aug. 4. We continue to model a Q3 launch.
- Going forward, we hope to see product flow in N. American generics pick up in late 2005 and 2006, with some of the key launches to look for in Concerta, Biaxin, Zithromax, and Pravachol. Overall, Teva hopes to launch more than 80 products between 2006 and 2007, up from an anticipated 20 in 2005.
- While not an exciting quarter, we believe Teva posted solid numbers for Q1 and expect the company to continue to fall within its own unchanged guidance. We suggest that the stock price weakness yesterday could have had something to do with the recent change in market perception on Tysabri's return. We continue to believe that the Tysabri situation is unchanged - Elan will not meet with the FDA to even discuss the possible return until late summer, and we think it is very likely that additional trials, or at least an Advisory Panel meeting, would be required before the drug could return to market even in its most limited form. Thus, we do not think there will be an impact on Copaxone until at least 2006, and possibly not for many years. With Teva still trading at a 6% discount to its peers and having superior fundamentals, we would be buyers at these levels.

INVESTMENT RECOMMENDATION:

We maintain our Outperform and tweak down our price target from \$40 to \$37 (20 FY06E EPS of \$1.92) due to our reduced estimates.

RISKS TO ACHIEVEMENT OF TARGET PRICE:

Risks include price and/or market share declines among its current products & delays in pipeline products, as well as generic competition on Copaxone or other branded products. There is also a risk to assets from conflict in the Middle East.

COMPANY DESCRIPTION:

Teva is one of the world's leading generic pharma companies.

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	Q1 PJC Ests	Q1 Teva Actual	Difference
Copaxone	\$262M	\$256M	-\$6M
N. American Generics	\$650M	\$640M	-\$10M
API	\$125M	\$118M	-\$7M
EU Generics	\$280M	\$280M	0
Total Revs	\$1,322M	\$1,304M	-\$18M
Gross Margins	46.50%	46.30%	-20bps
R&D	\$93M	\$88M	-\$5M
S,G&A	\$187M	\$185M	-\$2M
EPS	\$0.39	\$0.38	-\$0.01

Source: Company reports, PJC Ests.

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NYSE: TEVA

Teva Income Statement

Piper Jaffray
Deborah Knobelman, Ph.D.
(212) 284-9323
deborah.a.knobelman@pjc.com

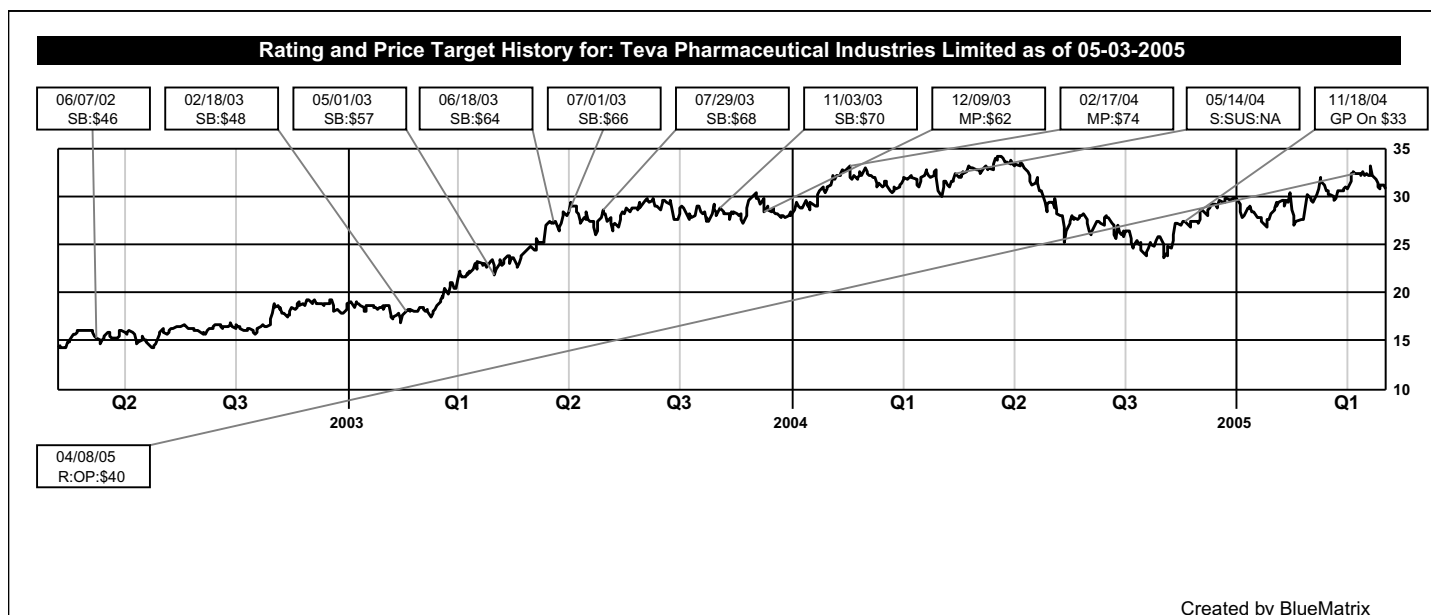
	FY 2003	Q1 Mar-04	Q2 Jun-04	Q3 Sep-04	Q4 Dec-04	FY 2004E	Q1E Mar-05	Q2E Jun-05	Q3E Sep-05	Q4E Dec-05	FY 2005E	FY 2006E	FY 2007E
Pharmaceutical	2,885.1	928.3	1,049.0	1,095.7	1,202.6	4,275.6	1,181.5	1,186.5	1,251.1	1,305.5	4,924.6	5,783.0	6,467.9
API	371.5	118.9	121.9	146.2	113.9	500.9	118.0	120.0	125.0	128.0	491.0	540.1	583.3
Other	19.8	5.2	5.5	5.4	6.3	22.4	5.4	5.6	5.7	5.9	22.6	23.4	24.5
Total Revs	3,276.4	1,052.4	1,176.4	1,247.3	1,322.8	4,798.9	1,304.9	1,312.0	1,381.8	1,439.4	5,438.1	6,346.5	7,075.7
Gross Profit	1,518.9	494.6	553.3	589.6	616.0	2,253.5	603.7	606.2	635.6	669.3	2,514.8	2,951.1	3,311.4
Gross Margin	46.4%	47.0%	47.0%	47.3%	46.6%	47.0%	46.3%	46.2%	46.0%	46.5%	46.2%	46.5%	46.8%
COGS	1,757.5	557.8	623.1	657.7	706.8	2,545.4	701.2	705.9	746.1	770.1	2,923.3	3,395.4	3,764.3
R&D, gross	243.4	72.0	91.4	95.0	97.7	356.1	90.8	98.0	98.0	98.0	384.8	414.8	443.9
Less Partic. & Grants	29.9	3.9	4.2	4.6	5.0	17.7	2.6	5.0	5.0	5.0	17.6	23.0	23.0
R&D, net	213.5	68.1	87.2	90.4	92.7	338.4	88.2	93.0	93.0	93.0	367.2	391.8	420.9
R&D % rev	6.5%	6.5%	7.4%	7.2%	7.0%	7.1%	6.8%	7.1%	6.7%	6.5%	6.8%	6.2%	5.9%
S,G &A	520.6	158.1	169.0	181.5	187.9	696.5	184.6	185.0	185.0	189.0	743.6	875.0	1,006.3
S,G&A % rev	15.9%	15.0%	14.4%	14.6%	14.2%	14.5%	14.1%	14.1%	13.4%	13.1%	13.7%	13.8%	14.2%
Total op exp	734.1	784.0	256.2	271.9	280.6	1,592.7	272.8	278.0	278.0	282.0	1,110.8	1,266.8	1,427.1
Op Inc	784.8	268.4	297.1	317.7	335.4	1,218.6	330.9	328.2	357.6	387.3	1,404.0	1,684.3	1,884.3
op inc margins	24.0%	25.5%	25.3%	25.5%	25.4%	25.4%	25.4%	25.0%	25.9%	26.9%	25.8%	26.5%	26.6%
Financial Exp, net	(5.0)	(1.3)	1.8	8.8	16.6	25.9	0.4	2.0	2.0	2.0	6.4	8.0	8.0
Pretax Inc	779.8	267.1	298.9	326.5	352.0	1,244.5	331.3	330.2	359.6	389.3	1,410.4	1,692.3	1,892.3
Income Tax	162.0	61.4	68.8	73.9	70.5	274.6	71.1	71.0	77.3	83.7	303.1	372.3	416.3
Tax rate	20.8%	23.0%	23.0%	22.6%	20.0%	22.1%	21.5%	21.5%	21.5%	21.5%	21.5%	22.0%	22.0%
Profit of Assoc. Companies	1.5	0.5	0.1	(0.2)	(1.6)	(1.2)	(0.0)	(0.5)	(0.5)	(0.5)	(1.5)	(2.0)	(2.0)
Minority Interests	(1.4)	(0.8)	(0.7)	(0.9)	(1.1)	(3.5)	(0.0)	(1.0)	(1.0)	(1.0)	(3.0)	(4.0)	(4.0)
Net Income, incl. 1x chages	691.0	(428.0)	229.5	251.5	278.8	331.8	260.2	257.7	280.8	304.1	1,102.7	1,314.0	1,470.0
Net Income, excl. 1x chages	617.8	205.4	229.5	251.5	278.8	965.2	260.2	257.7	280.8	304.1	1,102.7	1,314.0	1,470.0
FD EPS, incl. 1x charges	\$1.20	(\$1.44)	\$0.35	\$0.38	\$0.41	\$0.51	\$0.38	\$0.38	\$0.41	\$0.44	\$1.62	\$1.92	\$2.13
FD EPS, excl. 1x charges	\$1.07	\$0.31	\$0.34	\$0.37	\$0.41	\$1.42	\$0.38	\$0.38	\$0.41	\$0.44	\$1.62	\$1.92	\$2.13
FD Shares	589.8	681.4	694.1	693.9	688.7	689.5	683.8	687.2	687.9	688.6	686.9	690.3	693.8

0.38 0.39 0.41 0.44 1.62 1.89 2.15

Yr/Yr Growth

	FY 03/02	Q1 04/03	Q2 04/03	Q3 04/03	Q4 04/03	FY 04/03	Q1 05/04	Q2 05/04	Q3 05/04	Q4 05/04	FY 05/04	FY 06/05	FY 07/06
Total Revs	30.1%	38.9%	53.9%	53.5%	40.4%	46.5%	24.0%	11.5%	10.8%	8.8%	13.3%	16.7%	11.5%
Gross Profit	38.7%	42.0%	53.6%	56.3%	42.3%	48.4%	22.1%	9.6%	7.8%	8.7%	11.6%	17.4%	12.2%
COGS	23.5%	36.4%	54.2%	51.1%	38.9%	44.8%	25.7%	13.3%	13.4%	9.0%	14.8%	16.1%	10.9%
S,G&A	27.5%	28.9%	30.1%	44.9%	31.7%	33.8%	16.8%	9.5%	1.9%	0.6%	6.8%	17.7%	15.0%
R&D	29.4%	46.8%	79.8%	65.0%	45.3%	58.5%	29.5%	6.7%	2.9%	0.3%	8.5%	6.7%	7.4%
Pretax Inc	56.2%	52.4%	72.8%	66.7%	49.4%	59.6%	24.0%	10.5%	10.1%	10.6%	13.3%	20.0%	11.8%
Income Tax	50.6%	63.0%	94.1%	89.0%	41.6%	69.5%	15.7%	3.2%	4.6%	18.7%	10.4%	22.8%	11.8%
FD EPS	58.2%	-691.3%	-5.2%	48.5%	34.7%	-57.9%	-126.6%	8.0%	8.3%	8.5%	220.4%	18.4%	11.2%
FD EPS (excl charges)	40.5%	23.9%	36.6%	40.5%	32.8%	33.6%	24.9%	12.4%	11.5%	8.3%	13.7%	18.4%	11.2%

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			Count	Percent
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