UBS

UBS Investment Research

Teva Pharmaceuticals Limited

Antegren Not Expected To Materially Change TEVA EPS

■ Antegren Submission in mid-2004

Today, Biogen Idec/Elan announced that they are submitting the BLA for Antegren (for MS) after a 1-yr interim analysis of the two 2-year trials. Its unclear at this point whether this drug would be positioned as an adjunctive therapy to existing MS drugs or would be monotherapy, which makes it difficult to quantify potential impact on Copaxone, if any.

■ Modest Negative Effect on Teva

Copaxone is currently the only non-interferon approved for MS, and now 65-70% of its use is first-line (i.e. no longer a second line drug for interferon-failure patients). While we don't know the potential positioning of Antegren yet, if we use Rebif entrance in the U.S. as a case study, we would expect minimal impact.

■ What Is The Worst Case Scenario?

We estimate that Copaxone will represent 8-9% of sales and 11-12% of profits annually in 2004-06. Thus, we estimate that even if the growth rate for Copaxone is cut in half by Antegren (which we view as the worst case scenario), it would only erase $0.03-0.04 in EPS in 2006. Our 2006 EPS estimate is $3.55.

■ Valuation

We believe that Teva is on track to regain its 20-25% premium to the group, given the consistent EPS growth and 100+ ANDAs in the pipeline. We project a P/E of 27 times our 2005 EPS estimate of $3.05; our 12-month price target is $82.

Highlights (US$m)	12/02	12/03	12/04E	12/05E	12/06E
Revenues	2,519	3,276	4,723	5,336	-
EBIT	519	785	1,227	1,429	-
Net income (UBS)	426	632	856	1,010	-
EPS (UBS, US$)	1.52	2.14	2.60	3.05	-
Net DPS (UBS, US$)	0.22	0.31	0.40	0.40	-

Profitability & Valuation	5-yr hist. av.	12/03	12/04E	12/05E	12/06E
EBIT margin %	17.4	24.0	26.0	26.8	-
ROIC (EBIT) %	18.5	27.2	37.9	39.3	-
EV/EBITDA x	16.3	17.4	14.8	12.5	-
PE (UBS) x	27.1	23.7	25.8	22.0	-
Dividend yield %	1.1	0.6	0.6	0.6	-

Source: Company accounts, Thomson Financial, UBS estimates. UBS EPS is stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of NIS298.10 on 17 Feb 2004

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Global Equity Research

Israel

Pharmaceuticals

Rating Buy 1
Unchanged

Price target NIS370.00/US$82.00
Unchanged

Price NIS298.10/US$67.22 (ADR)

RIC: TEVA.TA/TEVA.O BBG: TEVA IT

18 February 2004

Trading data (local/US$)

52-wk. range	NIS298.10-174.50/US$67.22-35.75
Market cap.	NIS84.2bn/US$19.0bn
Shares o/s	282m (ORD)/282m (ADR)
ADR ratio	1 ADR :1 ORD
Free float	89%
Avg. daily volume ('000)	244/2,537
Avg. daily value (NISm)	64.8/153.0

Balance sheet data 12/04E

Shareholders' equity	US$3.17bn
P/BV (UBS)	7.0x
Net cash (debt)	(US$0.46bn)

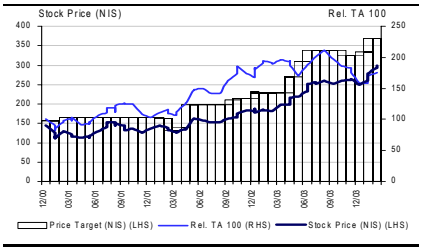
Forecast returns

Forecast price appreciation	+24.1%/+22.0%
Forecast dividend yield	0.6%
Forecast stock return	+24.7%/+22.6%
Market return assumption	9.7%/6.7%
Forecast excess return	+15.0%/+15.9%

EPS (UBS, US$)

	12/04 UBS	12/04 Cons.	12/03 Actual
Q1E	0.57	-	0.50
Q2E	0.59	-	0.49
Q3E	0.68	-	0.53
Q4E	0.73	-	0.62
12/04E	2.60	*2.56*	
12/05E	3.05	-	

Performance (NIS)



Source: UBS

www.ubs.com/investmentresearch

Effects on Copaxone

Antegren BLA To Be Based on One-Year data (Not Two-Year)

Today, Biogen Idec/Elan announced that they would be submitting the BLA for Antegren (for multiple sclerosis) after a 1-year interim analysis of the two 2-year trials. One trial is for Antegren monotherapy and the other is for Antegren in combination with Avonex (an interferon). The companies are not disclosing the trial results. It is unclear at this point whether this drug would be positioned as an adjunctive therapy to existing MS drugs, or would be a monotherapy.

Antegren (natalizumab) is a humanized monoclonal antibody and is the first alpha-4 antagonist in the new SAM (selective adhesion molecule) inhibitor class. It is being studied in Crohn's disease as well as multiple sclerosis. The two multiple sclerosis studies are called the AFFIRM and the SENTINEL trials. The AFFIRM trial is a placebo-controlled study of approximately 900 patients, evaluating the ability of natalizumab to slow the progression of disability in MS and reduce the rate of clinical relapses. The SENTINEL trial is a placebo-controlled study of approximately 1,200 patients with relapsing-remitting MS, evaluating the effect of the combination of natalizumab and AVONEX compared to treatment with AVONEX alone in slowing the progression of disability and reducing the rate of clinical relapses. The primary endpoints for both Phase III two-year trials in MS are based on the Expanded Disability Status Scale (EDSS) and relapse rates. The pre-specified primary endpoint of the one-year analysis was relapse rates.

Impact on Copaxone

Teva's Copaxone (glatiramer) is currently the only non-interferon approved for multiple sclerosis. When Copaxone was first introduced, it was used more as second-line to the interferons, but now, 65-70% of physician use of Copaxone is in FIRST-LINE patients. Thus, a larger number of physicians are having success with Copaxone, and when combining this with its less-severe side effect profile, doctors may be loath to change prescribing patterns initially. Thus, we expect that Copaxone would only be modestly affected by Antegren in the marketplace.

Copaxone growth still expected

Copaxone in-market sales were $720 million in 2003 ($494 million in the U.S. and $226 million outside the U.S.). Teva books roughly 55% of these total sales. Copaxone was only just introduced in some major European countries, such as Germany and France, in 2003. During 4Q, U.S. in-market sales grew 23% whereas outside the U.S., mainly in Europe, sales grew by 62%. We forecast that Copaxone should account for about 8-9% of TEVA's total revenues, and 11-12% of total profits for 2004-06. The table below shows our assumptions for Copaxone's contribution to Teva's bottom line.

Table 1: Copaxone Profit & Loss Analysis

In-Market Sales	2003	2004	%	2005	%	2006	%
U.S. Copaxone	494.0	531.1	*7.5*	585.6	*10.3*	646.7	*10.4*
Int'l Copaxone	226.0	278.4	*23.2*	329.3	*18.3*	382.2	*16.1*
Total Copaxone	**720.0**	**809.5**	*12.4*	**914.9**	*13.0*	**1028.9**	*12.5*
Aventis Revenue Split	324.0	364.3	*12.4*	411.7	*13.0*	463.0	*12.5*
Teva Revenue Split	**396.0**	**445.2**	*12.4*	**503.2**	*13.0*	**565.9**	*12.5*
COGS	106.9	115.8	*8.3*	125.8	*8.7*	135.8	*8.0*
R&D (Copaxone + oral)	39.6	44.5	*12.4*	50.3	*13.0*	56.6	*12.5*
SG&A	138.6	155.8	*12.4*	176.1	*13.0*	198.1	*12.5*
Total Expenses	**285.1**	**316.1**	*10.9*	**352.3**	*11.4*	**390.5**	*10.9*
Operating profit	110.9	129.1	*16.4*	151.0	*16.9*	175.4	*16.2*
Taxes	23.3	27.1		31.7		36.8	
Net income	**87.6**	**102.0**	*16.4*	**119.3**	*16.9*	**138.6**	*16.2*
Total Teva Net Income	**617.8**	**825.7542**	*33.7*	**977.6975**	*18.4*	**1148.882**	*17.5*

Source: Company reports, UBS

Case Study Last Year: Despite the introduction of Pfizer/Serono's Rebif (a major competitor MS drug) in March 2002, Copaxone's U.S. market share has grown from 28% TRx share to 29-30% TRx share. If the highly anticipated Rebif did not make a dent in Copaxone's market share, it's possible that Antegren might not make a material difference. In the table above, we estimate that if half of the growth in Copaxone profits were to be eliminated in 2006, it would only erase $0.03-$0.04 in EPS.

Pipeline

Teva has 240 generic products in active development. In the U.S., Teva has a record 88 abbreviated new drug applications (ANDAs), plus 6 Andrx O.C. products and 18 Sicor products, filed at the FDA representing total annual brand sales of about $68 billion. Teva believes it may be first to file on at least 17 of these, which have total annual brand sales of about $14 billion. Teva continues to increase its wide margin of leadership over its peers. Teva will be holding its typical quarterly analyst lunch in New York on February 19, where we expect some more detail on the pipeline and an update on key Paragraph IV challenges. On the 4Q earnings conference call, we did not obtain more detail on the timing of launches of key products, except that Teva anticipates launching Andrx O.C.s after the first quarter. In addition, Teva has an NDA for rasagiline for Parkinson's Disease filed at the FDA and at regulatory agencies outside the U.S.

Teva Pharmaceuticals Limited

Teva is one of the world's largest generic drug companies and has a leading position in the U.S. generic market. Teva also focuses on opportunities for proprietary branded products for specific niche categories. Teva's operations are conducted directly and through subsidiaries in Israel, Europe, North America and several other countries.

Statement of Risk

Risk factors include FDA approval risk, timing of approvals, competition from competing drug therapies, litigation risk (including the appeal process), and product pricing risk from generic competition.

Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Required Disclosures

This report has been prepared by UBS Securities LLC, an affiliate of UBS AG (UBS).

Global ratings: Definitions and allocations

UBS rating	Definition	UBS rating	Definition	Rating category	Coverage[1]	IB services[2]
Buy 1	FSR is > 10% above the MRA, higher degree of predictability	**Buy 2**	FSR is > 10% above the MRA, lower degree of predictability	**Buy**	38%	35%
Neutral 1	FSR is between -10% and 10% of the MRA, higher degree of predictability	**Neutral 2**	FSR is between -10% and 10% of the MRA, lower degree of predictability	**Hold/Neutral**	51%	32%
Reduce 1	FSR is > 10% below the MRA, higher degree of predictability	**Reduce 2**	FSR is > 10% below the MRA, lower degree of predictability	**Sell**	11%	26%

1: Percentage of companies under coverage globally within this rating category.
2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS; as of 31 December 2003.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (an approximation of the equity risk premium).
Predictability Level The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.
Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
Rating/Return Divergence (RRD) This qualifier is automatically appended to the rating when stock price movement has caused the prevailing rating to differ from that which would be assigned according to the rating system and will be removed when there is no longer a divergence, either through market movement or analyst intervention.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.
UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.
Core Banding Exceptions (CBE): Exceptions to the standard +/-10% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned table in the relevant research piece.

Companies mentioned

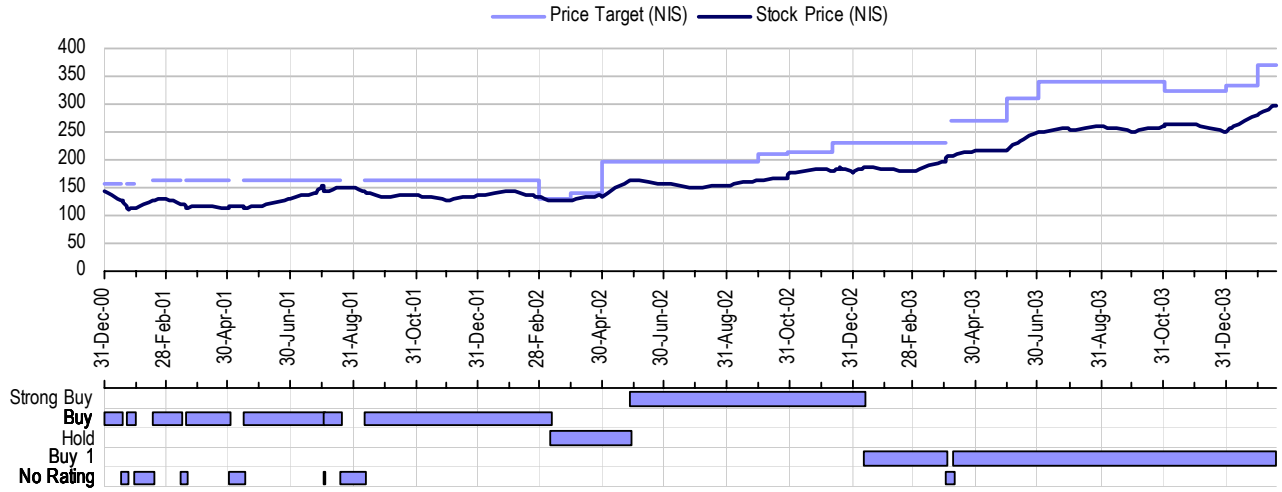
Company Name	Reuters	Rating	Price
Teva Pharmaceuticals[1]	TEVA.TA	Buy 1	NIS298.10

Price(s) as of 17 February 2004. Source: UBS.

1. UBS Securities LLC makes a market in the securities and/or ADRs of this company.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Teva Pharmaceuticals Limited (NIS)



Source: UBS; as of 17 February 2004.

Note: On October 13, 2003, UBS adopted new definition criteria for its rating system. (See 'Global ratings: Definitions and allocations' table for details.) Between January 11 and October 12, 2003, the UBS ratings and their definitions were: Buy 1: Excess return potential > 15%, smaller range around price target; Buy 2: Excess return potential > 15%, larger range around price target; Neutral 1: Excess return potential between -15% and 15%, smaller range around price target; Neutral 2: Excess return potential between -15% and 15%, larger range around price target; Reduce 1: Excess return potential < -15%, smaller range around price target; Reduce 2: Excess return potential < -15%, larger range around price target. Prior to January 11, 2003, the UBS ratings and definitions were: Strong Buy: Greater than 20% excess return potential, high degree of confidence; Buy: Positive excess return potential; Hold: Low excess return potential, low degree of confidence; Reduce: Negative excess return potential; Sell: Greater than 20% negative excess return potential, high degree of confidence. Under both ratings systems, excess return is defined as the difference between the FSR and the one-year local market interest rate.

Global Disclaimer