

Israeli drugmaker Teva to cut quarter of global work force (Update)

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Israeli flag flies outside Teva Pharmaceutical facility building in Neot Hovav, Israel, Thursday, Dec. 14, 2017. Teva Pharmaceutical Industries Ltd., the world's largest generic drugmaker, says it is laying off 14,000 workers as part of a global restructuring. The company said Thursday that the layoffs represent over 25 percent of its global work force. (AP Photo/Tsafrir Abayov)

Teva Pharmaceutical Industries Ltd., the world's largest generic drugmaker, on Thursday said it would lay off over a quarter of its

workforce as part of a global restructuring meant to salvage its ailing business.

The company said 14,000 workers would be let go. The cuts will be scattered across Teva's global operations and will occur over the next two years, with most expected in 2018.

The announcement marked a stunning setback for a company seen as a national source of pride in Israel. With roots going back more than a century, Teva has grown into a major global player over the past 40 years with a series of acquisitions, and by developing original drugs and leading the move toward cost-saving generic medications.

The country's main trade union scheduled a nationwide solidarity strike on Sunday, the beginning of the Israeli work week, and Teva's chief executive apologized to the prime minister for the company's dire situation.

Teva's most famous product is Copaxone, a treatment for multiple sclerosis, and it recently became one of two companies offering a generic version of the blockbuster drug Viagra.

In a letter to employees, Chief Executive Kare Schultz, who only joined Teva in September, said the restructuring is "crucial to restoring our financial security and stabilizing our business."

"We have no time to waste," he said. "We are flattening our organization both top down and sideways, with fewer layers of management and increased accountability. This will ensure better integration, improve productivity and efficiencies, and reduce our cost base."

Teva's bottom line has been hit by the expiration of patents on Copaxone, pricing pressure on its core generics business and a \$35

billion debt load taken on in its acquisition of the generics business of Allergan. It also has suffered from turnover and instability in senior management ranks.

Teva's U.S.-traded stock has skidded nearly 60 percent this year. But after the announcement, its shares were sharply higher Thursday, up 14 percent at \$17.98 after trading opened on Wall Street.



A man walks out of Teva Pharmaceutical facility building in Neot Hovav, Israel, Thursday, Dec. 14, 2017. Teva Pharmaceutical Industries Ltd., the world's largest generic drugmaker, says it is laying off 14,000 workers as part of a global restructuring. The company said Thursday that the layoffs represent over 25 percent of its global work force. (AP Photo/Tsafrir Abayov)

Schultz said the restructuring would include changes in the generics portfolio, both through price adjustments and product discontinuation. He said a "significant number" of research and development and manufacturing facilities would be closed or divested, and there will be a "thorough review" to prioritize core projects, cancel others and maintain a pipeline of new products.

The company canceled its dividend for shareholders and said annual bonuses for 2017 also will not be paid.

The company said the layoffs would affect all businesses and regions, including about 1,700 people in Israel, or a quarter of the local work force. Affected employees are expected to be notified within 90 days.

"Making workforce reductions of this magnitude is difficult, and we do not take them lightly," Schultz said. "However, there is no alternative to these drastic steps in the current situation."

In a conference call with analysts, Schultz said two priorities would be Austedo, a newly launched drug that treats Huntington's Disease, and the planned launch of fremanezumab, a treatment for migraines that is currently in Teva's pipeline.

He predicted a bright future, saying it would take about two years to get costs under control and to adjust to the loss of Copaxone sales, and several years more to regenerate growth from new drugs and a focus on profitable generics.

The restructuring will include a one-time charge of \$700 million, but Teva expects to cut costs by \$3 billion by the end of 2019.

"Two years from now, it's going to look good. If we do well, then in five years, it's going to look great," Schultz said.

Credit Suisse analyst Dr. Vamil Divan said in a research note that investors would be encouraged by cuts that were "larger and more rapid than what had been anticipated." He praised the company's decision to focus on its two new drugs, and also said that spreading the restructuring across the company could make it easier to execute.



A woman leaves the gate of Teva Pharmaceutical facility in Neot Hovav, Israel, Thursday, Dec. 14, 2017. Teva Pharmaceutical Industries Ltd., the world's largest generic drugmaker, says it is laying off 14,000 workers as part of a global restructuring. The company said Thursday that the layoffs represent over 25 percent of its global work force. (AP Photo/Tsafrir Abayov)

He noted, however, that "there are a lot of details yet to be revealed for how they will execute this plan." He said labor strife and political opposition in Israel presented possible roadblocks ahead.

Schultz said the company will be "respectful and transparent" and work closely with employee representatives and unions.

Later on Thursday, Israel's national trade union, the Histadrut, announced plans for a nationwide strike on Sunday. It said air and seaports, public transportation, insurance companies, banks, government offices and health clinics would close throughout the morning in solidarity with the workers—which could bring the nation to a standstill.

Israeli Prime Minister Benjamin Netanyahu's office said he called Schultz and urged him to do his utmost to protect Israeli jobs, especially in poorer outlying areas, and to maintain the company's Israeli identity. Teva has roughly 7,000 Israeli employees, making it one of the country's largest private sector employers.

Netanyahu also spoke to Histadrut leader Avi Nissenkorn and also pledged to work to minimize the impact on local workers.

In a letter to Netanyahu, Schultz apologized "on behalf of Teva's previous management" for the company's dire situation, but said there was no choice. He promised that Teva's global headquarters would remain in Israel.

"I do so as a reflection of my commitment to Israel," he said.

Teva workers held demonstrations at plants and offices across the country, including a factory in Kiryat Shmona, a town near Israel's northern border with Lebanon. Dozens of workers held signs saying "Teva, this is our home," and called on the company not to close the plant.

"The feeling is tough, we are waiting for answers, we are fighting, we are not intending to go in and work and we hope that the answers will come

quickly," said Libby Ben Shitrit, a worker at the factory.

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