

**From:** Richard Kahn <[REDACTED]>  
**To:** "jeffrey E." <[REDACTED]>  
**Subject:** Fwd: Allergan and Teva  
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Richard Kahn  
 HBRK Associates Inc.  
 575 Lexington Avenue 4th Floor  
 New York, NY 10022  
 tel [REDACTED]  
 fax [REDACTED]  
 ce [REDACTED]

Begin forwarded message:

**From:** "Ens, Amanda" <[REDACTED]>  
**Subject:** Allergan and Teva  
**Date:** July 28, 2016 at 9:08:09 AM EDT  
**To:** Richard Kahn <[REDACTED]>

Rich,

Regarding biotech, our traders mentioned they are starting to see some rotation within healthcare from yieldier core names into biotechs as investors start positioning for a potential catch-up trade. That said, given your existing exposure, I like to suggest AGN and TEVA in specialty pharma. We can also discuss some names in sectors such as med tech and healthcare distribution.

BAML analyst Sumant Kulkarni reiterated his strong buys on AGN and TEVA overnight. Here are two ways to play the story via convertible preferreds where you get upside participation along with yield. As investors continue to search and stretch for yield, mandatory convertible preferreds such as these stand out to me as an attractive and differentiated opportunity. As an investor, you will receive shares at maturity and in the meantime, earn an attractive yield at a considerable pickup over the common stock dividend. This yield, along with the conversion ratio sliding scale, can result in an attractively skewed upside vs downside profile.

**AGN** - BAML reaffirming BUY on US1 listed AGN after FTC approval of generics sale to Teva. We like AGN due to its healthy product mix, solid pipeline and flexibility to deploy capital to drive shareholder return. Next catalyst will be 2Q earnings/2H16 Outlook on 8/8, \$294 price target.

\*\*\*\*\*Quick glance at AGN A 5.5% pfd: 911.5-913.50 vs 260.24 The pfd yield 6% vs zero in common representing great yield advantage. \$294 price target is 13% above current stock. On a +/- 20% move in common, the pfd participate 77% on upside and 64% on downside. Out of 24 analysts, 19 have buys, 4 holds, zero sells, avg price target \$298.63 (+15%). These are great outright preferreds for investors looking to participate in upside while picking up solid yield.

**TEVA** - BAML reiterating BUY after FTC's approval of AGN generics deal. We continue to like TEVA's positioning in generic pharma where scale and product diversity are increasingly important. TEVA remains one of our top picks in Spec Pharma, \$72 price objective (30% upside).

\*\*\*\*\*Quick glance at TEVA 7% preferreds 905.50-907 vs \$55.16. The Pfd yield 7.7% vs 2.47% in common giving yield advantage of 5.25%. On a +/- 20% move, pfd participate 80% on upside and 65% on the downside. Out of 33 analysts, 24 have BUYS and 7 Holds, no sells with avg price target of \$69.92 (27% upside). This is another great outright trade for those wanting to participate in upside on stock while picking up 525bps of extra yield.

Name	Stock	Pfd Level	Shares Per (Hedge Ratio)	Low Strike	High Strike	Current Yield	Yield Advantage	BAML Rating	BAML Price Tgt	Upside to Price Tgt	Up 20% return	Down 20% return
AGN (AGNprA) 5.5% 3/1/18	260.24	913.50	2.60	288.00	352.80	6.0%	6.0%	Buy	\$ 294.00	12.6%	15.4%	-12.8%
TEVA 7% (TEVVF)12/15/2018	55.16	907.00	12.00	62.50	75.00	7.7%	5.2%	Buy	\$ 72.00	30.5%	16%	-13%

Source: Bloomberg, BAML. Pricing as of 7/27/2016

Please find our research reports and convert primer attached.

## Allergan

(AGN, Buy, Price Objective: \$294)

- With FTC approval of AGN generics sale to Teva out of the way, we believe investors will start to take a closer look at AGN.
- We like AGN due to its healthy product mix, solid pipeline, and flexibility to deploy capital to drive shareholder return.
- The next catalyst will be 2Q earnings/2H16 outlook on 8/8 with investors likely focused on AGN brands' execution.

### Company Description

Allergan is a specialty pharmaceutical company that develops, manufactures, and markets branded and generic pharmaceutical (generics to be divested) products. The company's growth has been driven largely by acquisitions supported by internal growth. With significant acquisitions of "old" Allergan, Forest, and Warner-Chilcott, this Irish-

domiciled company now has significant global operations and scale.

#### Investment Rationale

We like AGN's business mix (some relatively durable brands/biosimilars), geographic footprint, thoughtful and targeted strategy, strong management team, and imaginative business development approach. We believe the acquisitions of Allergan, Warner and Forest put Irish-domiciled AGN in a strong strategic and financial position for an evolving Pharma landscape in the years ahead.

#### Teva Pharmaceutical Industries

(TEVA, Buy, Price Objective: \$72)

- We are reiterating our Buy on TEVA after the FTC's approval of the AGN generics deal (expected to close next week).
- We continue to like TEVA's positioning in generic pharma where scale and product diversity are increasingly important.
- Our updated model is conservative vs. TEVA's issued 2017-19 outlook as we assume generic competition to Copaxone 3TW in '17.

#### Company Description

Teva, an Israeli/US generics company, is one of the largest companies in the global generic pharma industry and is becoming larger after the pending Allergan generic deal closes. The company's robust business model includes global generic capabilities, vertical integration into the active pharmaceutical ingredients (API) business, and a branded specialty pharma business (Copaxone, Treanda, Azilect, Nuvigil and other products).

#### Investment Rationale

We believe Teva is a compelling investment opportunity as we like the company's geographic and business mix diversity, and believe that the company's ongoing operational turnaround on generics and its branded pipeline are underappreciated by the Street. We also like management's heightened sense of urgency on driving growth both organically and through M&A activity as seen via the recent Allergan generics transaction.

#### Amanda Ens

Director  
Bank of America Merrill Lynch  
Merrill Lynch, Pierce, Fenner & Smith Incorporated  
One Bryant Park, 5th Floor, New York, NY 10036  
Phone: 212.449.7781 Mobile: 917.386.3280  
[REDACTED]

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