Teva reported fourth quarter 2014 EPS of $1.31, down 7.7% from the year-ago period but a penny above the Zacks Consensus Estimate of $1.30. Fourth quarter revenues declined 4.8% to $5.168 billion, but were slightly above the Zacks Consensus Estimate of $5.152 billion. Currency fluctuations had a negative impact of $277 million on total revenues. Teva continues to expect earnings of $5.00 - $5.30 per share on revenues of $19 billion - $19.4 billion. 2014 was a challenging year for Teva, which is going through a transition period. While the company's new strategy looks good, execution remains the key. Headwinds include new competition for branded products and fewer generic product launches. Meanwhile, we are encouraged by Teva's efforts to delay the entry of generic Copaxone. We expect investor focus to remain on the generic Copaxone situation and business development deals.

ZACKS CONSENSUS ESTIMATES

Revenue Estimates
(In millions of $)

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Earnings Per American Depository Share Estimates
(EPADS is operating earnings before non-recurring items)

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1 ADS = 1 Ordinary Share
*Quarterly numbers may not add to annual figures due to rounding off.
Projected EPADS Growth - Next 5 Years %

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2 - Buy

* Definition / Disclosure on last page
OVERVIEW

Headquartered in Petach Tikva, Israel, Teva Pharmaceutical Industries Limited is a global pharmaceutical company that develops, manufactures, and markets both branded and generic drugs, as well as active pharmaceutical ingredients (APIs) in North America, Europe, Latin America, Asia, and Israel. Teva’s generic product portfolio includes tablets, capsules, ointments, creams, liquids, injectables, and inhalants. The company’s main branded products include Copaxone (multiple sclerosis) and Azilect (Parkinson’s disease). Besides this, Teva’s branded product portfolio consists of respiratory products like ProAir, a short-acting beta-agonist for the treatment of bronchial spasms and exercise-induced bronchospasm, and Qvar, an inhaled corticosteroid for long-term control of chronic bronchial asthma. Moreover, the company has several candidates in its pipeline, which are in different stages of clinical development for the treatment of multiple sclerosis (MS) and asthma.

The Dec 2008 Barr Pharmaceuticals (a U.S.-based multinational generic pharmaceutical company with operations mainly in the U.S. and Europe) acquisition boosted Teva’s product portfolio which now includes several generic pharmaceutical products as well as women’s health products. The combined company also has greater resources and expertise in biogenerics. The Barr acquisition has enhanced Teva’s leadership position in the U.S. and allowed it to expand its presence in Europe.

In Oct 2011, Teva acquired Cephalon, Inc. for $6.8 billion. The Cephalon deal is in line with Teva’s long-term strategy of expanding and strengthening its branded and specialty pharma business.

Teva has been working on strengthening its position in Europe through its acquisition of Germany’s second largest generics producer, ratiopharm. This deal has helped Teva strengthen its position in key European markets, especially Germany, the second largest generic market in the world. Teva should also gain a strong foothold in rapidly growing generic markets like Spain, Italy and France.

Teva’s 2014 total revenues remained flat at $20.3 billion.

REASONS TO BUY

- **New Strategy Looks Good:** Teva is currently going through a tough transition period given fewer large generic opportunities, potential new competition for branded products and a higher cost base. However, we are encouraged by the company’s plans to improve its position. Teva said that it intends to accelerate growth platforms, protect and expand core franchises, expand its global presence, pursue strategic deals and reduce the cost base. The company is working on streamlining its pipeline. Meanwhile, as far as generics are concerned, Teva intends to pursue first-to-file and first-to-market opportunities and seek approval for complex generics which are likely to face less competition. The company also announced a cost-savings program which is expected to deliver savings of about $2 billion by the end of 2017 (net savings of $600 million achieved in 2014 and $500 million expected in 2015). The company intends to divest non-core assets as well.

- **Solid Generic Drugs Pipeline:** Teva is the world’s largest generic drug company in terms of both total and new prescriptions. The company enjoys a leading position in the U.S., which is the world's largest generic market. In 2014, Teva maintained its leadership position in the U.S., with total prescriptions of approximately 500 million, representing 14.2% of total U.S. generic prescriptions. As of Jan 22, 2015, the company had 120 abbreviated new drug applications (ANDAs), representing more than $86 billion in branded U.S. sales, including 42 first-to-file opportunities representing branded U.S. sales of more than $31 billion. Teva intends to pursue first-to-file and first-to-market opportunities and seek approval for complex generics which are likely to face less competition. This should help the company maintain its strong position in the global generics market.
Teva is also working on strengthening its position in key emerging generic markets, where generics penetration is low and growth and profitability potential high. Meanwhile, the company is working on strengthening its presence in Japan, the world's second-largest pharmaceutical market. The company's Jul 2011 acquisition of Taiyo should help strengthen its presence in Japan. Teva also acquired its 50% interest in its joint venture with Japanese company Kowa Pharma.

- **Settlement of Patent Disputes**: Teva has been very active in entering into settlement agreements. The company's record of successfully resolving patent challenges has contributed to its growth, and challenging patents continues to be an important part of its generic product selection and development strategy. Active patent challenges require litigation, thereby leading to higher general and administration expenses. Therefore, the settlement of these challenges accelerates the availability of low cost generic products and also removes uncertainties associated with litigation. Important challenges settled by the company include the Effexor dispute (Effexor XR launched in the U.S. in Jul 2010), the Combivir dispute, the Avandia, Avandamet, and Avandaryl dispute, the Actos/Actoplus dispute (authorized generics of Actos and Actoplus Met launched in Aug 2012), the Nexium dispute and the Entocort EC dispute among others.

- **Active on the Deal-Making Front**: Teva has been actively pursuing deals and acquisitions to drive growth. The Dec 2008 acquisition of Barr has helped Teva strengthen its position as a leading generic player not only in the U.S. but also in Europe. This acquisition has boosted Teva's product portfolio which now includes several generic pharmaceutical products as well as women's health products. The combined company also has greater resources and expertise in biogenerics. This acquisition has enhanced Teva's leadership position in the U.S. and allowed it to expand its presence in Europe, where the generic penetration rate is lower compared to the U.S. Less developed generic markets like France, Italy and Spain, provide the company with significant opportunity for sales growth. Additionally, Teva's acquisition of ratiopharm has helped the company strengthen its position in Europe further.

In addition to boosting its position in the generics market, Teva is working on strengthening its position in the over-the-counter (OTC) market. The company entered into a partnership agreement with Procter & Gamble (P&G) targeting the consumer health care market. The partnership brings together both companies' existing OTC medicines and complementary capabilities. While P&G brings its strong brand-building, consumer-led innovation and go-to-market capabilities to the partnership, Teva's broad geographic reach, R&D experience, and extensive product portfolio will be used to drive growth.

The companies have set up a joint venture, PGT Healthcare, combining their OTC businesses outside North America. The deal makes sense with OTC medicines representing significant commercial potential in both developed and emerging markets. An aging population, improving quality of life and increasing purchasing power should help drive growth in the $200 billion OTC market. The companies should also benefit from the trend of shifting products from Rx-to-OTC. In fact, the OTC business is doing well.

- **Branded Products Chugging Along**: In addition to the generics business, Teva has a significant branded pharmaceutical business. Key products include Copaxone (multiple sclerosis), Azilect (Parkinson's disease), Treanda (oncology), biopharmaceuticals and biogenerics, and respiratory and women's health products. Copaxone, Teva's main branded product, posted global in-market sales of $4.2 billion in 2014. Teva is converting patients to a 40 mg thrice-weekly (3TW – three times a week) formulation of Copaxone that was approved in the U.S. in 2014. At the end of 2014, the conversion rate was about 63%. Teva’s branded product portfolio also includes a range of respiratory products for different ailments like asthma, chronic obstructive pulmonary disease (COPD) and allergic rhinitis.
Teva also a range of women's health care products in its portfolio consisting primarily of oral contraceptives, intrauterine contraception, hormone therapy treatments for menopause/perimenopause and treatments for endometriosis and labor and delivery.

- **Pipeline Progress:** In Oct 2014, Teva provided a strategic review update and said that it will primarily focus on its core therapeutic areas - CNS (including multiple sclerosis, neurodegenerative diseases and pain) and respiratory (including asthma and chronic obstructive pulmonary disease). Teva expects to launch more than 30 products by 2019, which will boost revenues by over $4 billion on a risk-adjusted basis. Teva also said that majority of the product launches (>20) will be in the CNS and respiratory fields. As far as other therapeutic areas like women's health and oncology are concerned, Teva will only focus on market-ready products or late-stage candidates to maximize sustainable profitability. Moreover, the company will continue to look for activities and collaborations with commercial benefits.

Meanwhile, following its strategic review, Teva announced that it will be discontinuing or divesting 14 pipeline programs. Teva intends to save over $150 million in 2015 and over $200 million each in 2016 and 2017 as R&D costs. The company plans to utilize these savings in its two core therapeutic areas, which will increase R&D productivity in these areas. Lead pipeline candidates include CEP-33237 **extended release abuse-deterrent hydrocodone** (pain management – under regulatory review) and **reslizumab** (severe asthma with eosinophilia – regulatory filing in 2015).

**REASONS TO SELL**

- **Tough Transition Period:** Teva is going through a tough transition period with headwinds existing in the form of fewer large generic opportunities, potential new competition for branded products (especially Copaxone) and a higher cost base. Teva is also facing a patent challenge for its thrice-weekly formulation of Copaxone. While we are encouraged by Teva’s new strategy, we note that the company may take some time to deliver. Currency will also have a negative impact in 2015.

- **Competition:** The generic market is highly crowded and Teva faces competition from players like Actavis, Mylan, Dr. Reddy’s, and Sandoz among others. Competition is fierce as generic companies strive to be the first to launch a generic version once a brand product loses exclusivity so that they can capture significant market share. Once additional generic companies enter the market, market share, revenues and gross profit typically decline. Therefore, it is very important for generic companies to develop and introduce new products in a timely and cost-effective manner to maintain revenues and gross profit. In addition to competition from other generic players, brand name companies also provide competition by marketing their own generic version (authorized generics) of their brand products. Teva also faces competition in the brand product market from other pharmaceutical players depending on product categories. Teva’s lead branded product, Copaxone, faces intense competition from existing products such as Avonex, Betaseron, Rebif, Extavia and Tysabri. Competition in the MS market has intensified with the launch of oral drugs like Biogen’s Tecfidera, Novartis’ Gilenya, and Sanofi’s Aubagio.

- **Dependence on Generics Business:** We are also concerned about the company’s dependence primarily on its generics business for growth. Increased competition in the generics market could lead to intense pricing pressure thereby affecting the company’s top-line performance. Meanwhile, the performance of the EU generics business remains disappointing and a matter of concern. Performance in the EU will continue to be weak with sales being affected by macro-economic conditions, currency fluctuations and healthcare reforms.

- **Pipeline and Regulatory Setbacks:** Although Teva provided an update on its pipeline, we await more details and clarity regarding the candidates in development. Moreover, we note that clinical development involves a high degree of risk. Gaining approval for pipeline candidates has become
more difficult given the tough regulatory environment. Development and regulatory setbacks for late-stage pipeline candidates would be a major disappointment for the company. Custirsen did not fare well in a phase III study. We were also disappointed with the phase III BRAVO results on MS candidate, laquinimod. Teva is conducting another phase III study with results due in 2016 and potential launch in late 2017/early 2018. Meanwhile, Teva is no longer evaluating laquinimod for lupus. Moreover, the CHMP stuck to its negative opinion about Nerventra (proposed EU trade name of laquinimod). In 2010, Teva faced a pipeline setback when talampanel failed to meet its primary endpoint in a phase II study that was being conducted with patients suffering from amyotrophic lateral sclerosis (ALS). Teva has also been unsuccessful in its attempts to expand Nuvigil's label.

**RECENT NEWS**

**Teva to Commercialize Eagle’s Cancer Drug in the U.S. – Feb 17**


EP-3102, which enjoys orphan drug status for both CLL and indolent B-cell NHL, may be eligible for seven years of exclusivity, once approved.

Under the terms of the deal, Teva will make an upfront payment of $30 million. Besides this, the company could pay up to $90 million on the achievement of milestones. Moreover, Eagle will be entitled to double-digit royalties on net sales of the candidate.

Teva will also give up its orphan drug exclusivities for NHL and CLL with respect to EP-3102, which will help the candidate reach the market more quickly. Both companies have also agreed to settle the patent infringement litigation between them.

In addition to the Eagle deal, Teva announced the launch of its generic version of Lovenox (prophylaxis of deep vein thrombosis) and Zyvox (treatment of infections caused by gram-positive bacteria).

**Teva Beats on Earnings By a Penny, Maintains Outlook – Feb 5**

Teva Pharmaceutical Industries Ltd. (TEVA) reported fourth quarter 2014 earnings of $1.31 per share, down 7.7% from the year-ago period but a penny above the Zacks Consensus Estimate of $1.30.

Fourth quarter revenues declined 4.8% to $5.168 billion, but were slightly above the Zacks Consensus Estimate of $5.152 billion. Currency fluctuations had a negative impact of $277 million on total revenues.

Full year earnings increased 1.2% to $5.07 per share. Revenues slipped 0.2% to $20.272 billion.

**Quarter in Detail**

Generic segment revenues declined 8% to $2.5 billion. Revenues from the U.S. generics business remained flat at $1.2 billion. Higher sales of generic versions of Xeloda, Celebrex, Evista, Baraclude and Lovaza were offset by lower sales of products launched in 2013. Teva will be launching its generic version of Nexium shortly.

European generic revenues of $759 million declined 16% from the year-ago period. Teva reported lower revenues in Germany, France and Spain.
Specialty product revenues increased 1% to $2.2 billion in the fourth quarter of 2014 reflecting higher central nervous system (CNS) and oncology product sales. Azilect ($108 million, up 10%) performed well in the quarter.

Oncology product sales grew 25% to $335 million in the fourth quarter of 2014, benefiting from sales of recently launched G-CSF products, Lonquex and Granix, and higher Treanda sales ($226 million, up 27.8%).

Meanwhile, worldwide Copaxone revenues declined 2% to $1.1 billion. While sales in the U.S. grew 4% to $835 million, ex-U.S. sales fell 15% to $286 million.

The new 40 mg thrice-weekly (3TW - three times a week) formulation accounted for more than 60% of total Copaxone scrips.

Respiratory segment revenues declined 1% to $252 million. The women's health business recorded revenues of $115 million, down 14%.

API revenues increased 2% to $178 million. OTC revenues fell 28% to $228 million reflecting the sale of U.S. OTC plants.

Research & Development expense decreased to $352 million from $409 million in the year-ago period. Meanwhile, Selling and Marketing (S&M) expenditures declined to $997 million from $1.1 billion in the year-ago period.

The company expects to spend $1.3 - $1.4 billion on R&D in 2015 and $3.3 - $3.5 billion on S&M. The company bought back shares worth $500 million during the quarter.

2015 Outlook Maintained

Teva maintained its outlook for 2015. In Dec 2014, the company had announced that it expects to earn $5.00 - $5.30 per share on revenues of $19 billion - $19.4 billion.

Earnings per share for the first half will be around 48% of the total with the second half being slightly higher.

While R&D spend is expected in the range of $1.3 - $1.4 billion, S&M spend is expected in the range of $3.3 - $3.5 billion.

Teva remains committed to cutting costs – the company delivered net cost savings of $600 million in 2014 and expects to deliver net savings of $500 million in 2015. Teva will also be pursuing business development deals in 2015.

Teva Gets Positive Copaxone Supreme Court Ruling – Jan 20

Teva received good news on the Copaxone front with the U.S. Supreme Court ruling in the company's favor in its patent infringement lawsuit related to Copaxone 20 mg/ml. Teva had filed a patent infringement lawsuit against Momenta/Sandoz Inc., Novartis' generic arm, who are looking to launch their generic versions of Copaxone.

The court's ruling has sent the case back to the U.S. Court of Appeals for the Federal Circuit for further review. We remind investors that the '808 patent was invalidated by the U.S. Court of Appeals for the Federal Circuit earlier.
The Supreme Court ruling is a major positive for Teva and gives the company more time to convert patients to its 40 mg three-weekly (3TW) formulation of Copaxone.

**VALUATION**

Teva reported fourth quarter 2014 earnings of $1.31 per share, down 7.7% from the year-ago period but a penny above the Zacks Consensus Estimate of $1.30.

Fourth quarter revenues declined 4.8% to $5.168 billion, but were slightly above the Zacks Consensus Estimate of $5.152 billion. Currency fluctuations had a negative impact of $277 million on total revenues. Teva continues to expect earnings of $5.00 - $5.30 per share on revenues of $19 billion - $19.4 billion.

2014 was a challenging year for Teva, which is going through a transition period. While the company's new strategy looks good, execution remains the key. Headwinds include new competition for branded products and fewer generic product launches.

Meanwhile, we are encouraged by Teva’s efforts to delay the entry of generic Copaxone. Teva’s current trailing 12-month earnings multiple is 11.1, compared to the 39.2 average for the industry and 19.3 for the S&P 500. The stock is currently trading at 10.9x our 2015 EPADS estimate. Our target price of $59 is based on 11.4x our 2015 EPADS estimate. We remain Neutral on the stock. We expect investor focus to remain on the generic Copaxone situation and business development deals.

**Key Indicators**

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TTM is trailing 12 months; F1 is 2015 and F2 is 2016, CF is operating cash flow

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Earnings Surprise and Estimate Revision History

[Graph showing earnings surprise and estimate revision history for TEVA PHARM ADR (W).]
DISCLOSURES & DEFINITIONS

The analysts contributing to this report do not hold any shares of TEVA. The EPS and revenue forecasts are the Zacks Consensus estimates. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts' personal views as to the subject securities and issuers. Zacks certifies that no part of the analysts’ compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report. Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Because of individual objectives, the report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed herein are subject to change. This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. Zacks or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. Zacks uses the following rating system for the securities it covers. **Outperform**: Zacks expects that the subject company will outperform the broader U.S. equity market over the next six to twelve months. **Neutral**: Zacks expects that the company will perform in line with the broader U.S. equity market over the next six to twelve months. **Underperform**: Zacks expects the company will underperform the broader U.S. Equity market over the next six to twelve months. The current distribution of Zacks Ratings is as follows on the 1126 companies covered: Outperform - 15.7%, Neutral - 75.9%, Underperform – 7.5%. Data is as of midnight on the business day immediately prior to this publication.

Our recommendation for each stock is closely linked to the **Zacks Rank**, which results from a proprietary quantitative model using trends in earnings estimate revisions. This model is proven most effective for judging the timeliness of a stock over the next 1 to 3 months. The model assigns each stock a rank from 1 through 5. Zacks Rank 1 = Strong Buy, Zacks Rank 2 = Buy, Zacks Rank 3 = Hold, Zacks Rank 4 = Sell, Zacks Rank 5 = Strong Sell. We also provide a **Zacks Industry Rank** for each company which provides an idea of the near-term attractiveness of a company's industry group. We have 264 industry groups in total. Thus, the Zacks Industry Rank is a number between 1 and 264. In terms of investment attractiveness, the higher the rank the better. Historically, the top half of the industries has outperformed the general market. In determining **Risk Level**, we rely on a proprietary quantitative model that divides the entire universe of stocks into five groups, based on each stock's historical price volatility. The first group has stocks with the lowest values and are deemed **Low Risk**, while the 5th group has the highest values and are designated **High Risk**. Designations of **Below-Average Risk, Average Risk, and Above-Average Risk** correspond to the second, third, and fourth groups of stocks, respectively.