

Recordati S.p.A.

“2015 Third Quarter & First Nine Months Results Conference Call”

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MODERATORS: FRITZ SQUINDO, CHIEF FINANCIAL OFFICER

MARIANNE TATSCHKE, DIRECTOR OF INVESTOR RELATIONS

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Recordati Third Quarter and First Nine Months 2015 Results Conference Call. After the presentation, there will be an opportunity to ask questions.

At this time, I would like to turn the conference over to Ms. Marianne Tatschke, Director of Investor Relations of Recordati. Please go ahead, madam.

MARIANNE TATSCHKE: Hello, good afternoon, good morning to everybody, and thank you for attending the Recordati conference call. Fritz Squindo, our CFO will be presenting and commenting upon our first nine months 2015 results. For a better understanding of his presentation, please access the set of slides available on our website www.recordati.com under the Investors section and presentations tab. At the end of the presentation, we will be available for answering any questions that you may have.

Please go ahead, Fritz.

FRITZ SQUINDO: Thank you, Marianne. Good afternoon or good morning to everyone. We are very pleased to comment our first nine months 2015 results which confirm sales growth and in particular further margin improvement.

Consolidated revenue is €784.4 million, which are up by 5.7% compared to 2014. Our margin, as I said, continue to improve. Let's start with EBITDA at 30.7% of sales. EBITDA is €240.5 million, up by 13% compared to last year. Operating income at 27.2% of sales is €13 million, an increase of 18.1%. Net income at 19.4% of sales is €52.5 million, an increase of 23% over 2014.

Very solid financial results with continued margin improvement, but we continue also to deliver strong cash generation. Net debt at the end of September is €8.2 million. Here we have a reduction of €27.8 million, compared to last year even after having paid out dividend for a total of €49.2 million, then strong cash generation in the period.

Let's now comment our results starting with our main product sales. We are talking about our corporate products slide #3. Zanicip, lercanidipine plain continue to grow in the first nine months grew by 4.4%. Sales volumes are growing mainly in Germany, in Turkey and to licensees, in particular in Australia and in China. Third quarter sales in Turkey are growing in term of unit and value and local sales were affected by the devaluation of the Turkish lira.

Now, sales of our combination of lercanidipine and enalapril, we are talking about Zanipress, sales of this product are up by 7.2% mainly due to the performance of the product in Italy and in Turkey and to the sales to licensees. Let's comment that the overall sales of the lercanidipine franchise in the first nine months are of around €140 million, better than expected.

Let's move to Urorec, which is currently (ph) the second product in our portfolio, silodosin has been successfully launched in 30 countries with sales of €50.7 million during the first nine months of this year, up by 18.5% and this is mainly due to the good performance of the product overall. But I would like to underline the performance in Italy, in Turkey and in France. Urorec was also recently launched in Tunisia through our direct organization managed by Opalia, the company that we have acquired in Tunisia.

Sales of Livazo in Spain, Portugal, Ukraine, and Greece and through a licensee in Switzerland are €21.2 million, up by 14% due to the good performance in all our market, in particular Portugal, Spain and Greece.

Other products, corporate product grew overall by 3.9% and this comprise 19 products sold in multiple territories, six of which are OTC products, but overall, we have been seeing this product growing in the first nine months.

Let me comment now our specialty indicated for the treatment of rare and orphan disease. We generated sales of €12.1 million in the period, here an increase of 22%, mainly due to the good performance of the sectors in all our territory as well as a positive foreign exchange affecting our business in the US-related to the revaluation of the US dollar.

Let's now move on Slide #4, which show the breakdown of our revenue by type of product and we continue to have our diversified product portfolio. From a geographical point of view, here we are on Slide #5. Let me comment our composition of sales of revenue by geography.

Sales of pharmaceuticals in Italy are down by 5% and this is due only to the termination of the license of Entact as from the month of June 2014. Excluding the sales...this termination, the business is growing, in particular Urorec, Zanipril and Zanipress which are the two brands of the lercanidipine combination in Italy and Cardicor are performing very well, as well as the treatment of the rare disease business.

Pharmaceutical in France, our sales are up by 0.2% mainly due to the good performance here again of Urorec and Methadone, which is a local product, as well to the introduction of CitraFleet, the product belonging to Casen Recordati, which now is been sold directly by our organization in

France. And then also we had a growth in the OTC portfolio in our French subsidiary.

In Germany, sales are up by 11%, mainly thanks to the significant sales growth of Ortoton, methocarbamol and of lercanidipine.

The Group pharmaceutical business...let me say that the Group pharmaceutical business in the USA is only dedicated to the marketing of product for the treatment of rare diseases. Sales in the first nine months of 2015 are €60 million and as I said, include a positive currency effect of €10.7 million due to the revaluation of the US dollar, but in local currency sales increased by 15.5%, then very solid performance of our portfolio in the US business.

Sales in Turkey are up by 12.6%, and include a negative currency effect following the recent devaluation of the Turkish lira. In local currency, sales of our Turkish subsidiary grew by 14.8%. Thanks, mainly to the good performance of all our corporate products, in particular, Lercadip, Urorec and Zanipress, but also linked to the good performance of some important local products such as Mictonorm, Kreval and Cabral, but overall, solid performance, in particular in volume of our business in the Turkish...of our Turkish subsidiary.

In Spain, sales are up by 5.7%, mainly due to the performance of Livazo, Pitavastatin and Urorec. And the successful launch of Virirec alprostadil, a new topical treatment for erectile dysfunction that we have launched in Spain. Sales for the treatment for rare disease are also growing significantly.

Revenue generated in Russia, Ukraine and in the other CIS countries is €2 million, which are down in euro by 13.4%, compared to the same

period of the preceding year. And this is due only to the negative currency effect, which could be estimated for the period in €17.4 million.

Sales in Russia in local currency are up by 18.7%, then good performance on a local basis. This is...also thanks to the growth of all products, including the corporate product, Procto-Glyvenol and Urorec. We are now building our corporate product franchise also in our Russian business. But also take into account the low level of say generating the first nine months of last year, following the reorganization of the distribution channel in the first quarter. But even excluding this growing performance of our Russian business.

Let me now comment on our sales in North Africa, which are €31.6 million, up by 8.7%, and this comprise both the export sales generated by Bouchara Recordati in these territories, in particular in Algeria, we have a very solid presence in Algeria to our Bouchara...Recordati Bouchara subsidiary. And also sales generated by Opalia Pharma, the Tunisian Pharmaceutical Company acquired during the fourth quarter of 2013.

In particular Opalia Pharma sales in the first nine months of 2015 are €17.4 million and this include also the product previously handled by Bouchara Recordati through local distribution agreement in Tunisia. But overall, the existing...the previous existing sales generated by Bouchara and the portfolio acquired by Opalia allow us to have a good performance in our new subsidiary in North Africa and in Tunisia.

Other international sales grew by 11.1%, and comprise the sales to our licensees, for our corporate product. Here, we are talking mainly of Lercanidipine, Urorec, and the combination. But also the Bouchara Recordati and Casen Recordati export sales, excluding the sales in our subsidiary, and the Orphan Europe's export worldwide excluding the US.

This business has continued to grow and in the first nine months grew by...as I said 11.1%.

We can move on Slide #6, which is the geographical breakdown of pharmaceutical, revenue which...in which you can see that our Italian businesses now represent around 20% of our business which means that we continue to enlarge our international presence of the business.

Slide #7, our result for the first month of this year show as I said further significant margin improvement due to the progressive leveraging of our organization and the good performance of high margin business , reflecting in improvement of the gross profit.

Revenue has been already commented; let's move on the cost side. Let's start with the gross profit. Gross profit in the period is €32.8 million with a margin of 67.9% of sales, an increase over that of last...of the same of 2014 due to higher proportion of higher margin product sales to the total product sales and also to the termination of Entact in Italy relatively low margin product, then an improvement of our product mix in the same direction as in the first six months.

Selling expenses increase less than sales, and here we had the leveraging (ph) impact of our organization and are therefore down as a percentage of revenue. This is thanks to the increased efficiency of the Group commercial organization.

R&D expenses are €5.2 million, and are down by 10.9% compared to those recorded in the first nine months of 2014, due to the interruption of expenses related to the phase III clinical trial involving the product NX-1207 for benign prostatic hyperplasia under license for Nymox, which was

in development last year. G&A expenses are up by 2.1%, and are reducing as a percentage of sales.

Net financial charges are €10.2 million, a decrease of €3 million which is due mainly to the reduction of interest charges related to the medium, long-term loans. We have renegotiated our loan and then we are reducing the cost of our debt. The effective tax rate during the period is 24.8%, an improvement compared to that of the same period of the preceding year in line with our expectation. Net income at 19.4% of sales, as I said at the beginning is €52.5 million, an increase of 23% over 2014 (ph). As I said at the beginning very solid and strong financial result.

Slide #8, here we present our operating segment revenues and EBIT. In particular, I would like to underline that this slide shows the split of revenues and EBIT between our two business segments, the treatment of rare diseases and primary and specialty care. While the segment dedicated to treatment of rare disease generated 14.3% of our sales, it accounts for 22.2% of EBIT and we have a high margin business, but EBIT margin on sales for the both segments is in line with the previous quarter and stands as I said at 42%...around 42% for the rare...for the treatment of rare disease segment, and of around 24%, 25% in the first nine was 24.6% for the Primary & Specialty care segment. Then very high performance margin in EBIT, but an improvement also in the Primary & Specialty care segment.

Financial position, we continue well with a solid financial position. We continue well with a very solid cash generation. At end of September, the next financial position shows a net debt of €8.2 million, here a reduction of €27.8 million compared to the last year, and even after having let's say payout of dividend for a total of €49.2 million, then strong generation of cash flow.

Slide #10, to finish my presentation, financial projection and target for the full year 2015. The Group business in this period was in line with the expectation and therefore, we confirm the full year 2015 targets to achieve sales of around €1,040 million, operating income of around €270 million and net income of around €190 million.

Here I finish my presentation and I'm available for any questions you may have.

MARIANNE TATSCHKE: Could you please open the question and answer period.

Q&A

OPERATOR: Thank you. This is the Chorus Call conference operator. We will now begin the question and answer session. The first question is from Eleanor Fung with Goldman Sachs. Please go ahead.

ELEANOR FUNG: Thank you for taking my questions. Three questions please, if I may. Firstly, since your peers have highlighted weakness in Russia due to the macro environment, just curious on how you are thinking about the robustness of the growth trajectory for your franchise in the near-term on a constant currency basis? Secondly, on US pricing, wondering if you could share your broad thoughts with us on the pricing environment over the next few years and your ability to increase prices on your US portfolio? And finally, just on your full year guidance, just wondering if there is potential sensitivity to your EBIT guidance assuming sort of flat gross margins as 4Q '14 and the same R&D phasing (ph), it implies quite a high SG&A spend relative to the current run rate, would love to hear your thoughts on that? Thank you.

MARIANNE TATSCHKE: On the weakness in Russia.

FRITZ SQUINDO: Okay, let's start with our business in Russia then. As I said during the presentation, we are growing locally in local value by 18%, which is also due to the low level of pace in the...mainly in the first quarter 2014, but even excluding this let's say comparable effect, we continue to grow our business in Russia in local value.

Then we don't see major risk and major threat in our local business. We expect to continue to have to manage the depreciation of the currency. And we thought we had always said we have a portfolio which is fully paid by the patient and we prudently, let me say, sometime we can increase our price. And our growth in Russia is driven by both volume, but mainly by price increases which are absolutely in line with the inflation and are a bit less than the inflation rate and we decide price increase also based on competitive environment and competitors in the field. Then no major...we don't expect double-digit growth, but we have not...we have no major concern in our Russian business.

Second point, US prices, then let me say we would not expect our business to be negatively impacted by this political scrutiny in the drug pricing in the US. We had historically taken responsible pricing action for all our products in US. Let me underline that Recordati rare diseases offer several medical breakthrough for the treatment of such with severe and extremely rare condition let's say. Then we don't expect the business to be strongly affected because as I said, we have had reasonable price action (ph) when the business is not driven by price increase but is mainly driven by continued new patient...adding new patient to our existing patients and then let's say that we continue to be committed to working with patient physician and payers to ensure that every patient can benefit from our therapies had access to them. And we have had some price increase, but

this was not the only driver for the growth in the US, we are gaining patient time-by-time.

The third question was related to our guidance. First of all, let me underline again that our target is around something that is not...we are...we try to be...to be able to predict the future, but we cannot say a perfect number for the full year result. In general, as a general evaluation, I expect SG&A to be in line in the last quarter with the previous three quarters we could have R&D a bit higher in the last quarter, this was what we expect to have. And sales a bit lower than the average of the quarter, but this is what we expect in term of full year result. We will see at the end of the year what will be the final result. But we don't expect...I don't...when you said SG&A increase in the last part of the year, we expect to be essentially in line in absolute value with the first three quarters. Is it okay, Eleanor?

ELEANOR FUNG: Yes, thank you very much.

FRITZ SQUINDO: Okay.

OPERATOR: The next question is from Martino De Ambroggi with Equita. Please go ahead.

MARTINO DE AMBROGGI: Yes, good afternoon, everybody. Three question also from me. You mentioned R&D in Q4 slightly up, I imagine as a percentage of sales or absolute value. And should we expect a similar R&D, I mean 7% of sales also next year or should it be significantly higher? And the second question is on cash generation, sorry if you already gave some clues during the introduction. But I was wondering what are the elements causing such as huge generation of cash in Q3? And the last is on M&A, I know, you will not answer, but we heard a lot of rumours maybe some of

them is real or not, but for sure you are looking at big company in a recent rumour so just to have your feelings?

FRITZ SQUINDO: Okay. First of all, first question was related to R&D expenses. Then we expect a bit higher revenue expenses within the expectation...we see this. In the last quarter, in both, as a percentage, as absolute value, for 2016, let me say that at the beginning of February we will announce our full results for this year, and our target for 2016. And then, if I can confirm what I've already said, we expect R&D to be between 7 to 8, and then we will see...but discussion program evaluation, and then we will see what will be best maintained in the next year in the R&D, because we have not defined the target for...internal target for the R&D for next year, and this will be discussed in November/December internally and will be announced in early February together with perhaps the full year results for this year.

So regarding the cash generation, then I agree with you. It was very strong; the cash conversion is higher than the normal phase for us. This is, let's say, based on the good management, let's say this way. We are controlling our invest...our inventory, account receivable, but it is also due to a...in our working capital because we have been able in the first nine months to decrease the working capital even if we are increasing our business. But this working capital decrease is also due at the end of September to the tax liability which are...which has been...which is due mainly to the fact that in some countries, and in particular in Italy we had some accounts to be paid to the government and the fiscal authority not proportionally during the year, but in particular in November. Then excluding this tax liability effects, I think we have been a bit higher than the average, but not significantly as could be understood following the number in the first nine months.

MARTINO DE AMBROGGI: Sorry, Fritz. And perhaps if I may...Fritz sorry, on this subject, if I may, just to have an idea roughly what's the amount of the tax liability justifying the change in the free cash flow. And should we consider it temporary or it's something that will be transferred also in Q4 and year-end results?

FRITZ SQUINDO: Okay. Then it's...in the cash flow statement you will see that the increase on the tax liability is around €1 million...€10.6 million. This unfortunately we expect to be temporary because we have to pay taxes and then we would like to be not temporary, but permanent, but unfortunately in November we have to pay, and not only in November in Italy, but also in other country to pay taxes. Then, let's say, this €10 million it's absolutely temporary, and I don't expect to see this by the end of the year. Then, the cash generation is mainly impacted by this €1.8 million cash generation at the working capital level which is not in line with growth of the business, and then it's partially due to this exceptional item.

Second point is...the third point is linked to acquisition. I can confirm that we continue to be very active in the M&A arena, regarding some rumour, probably...and for sure you are thinking about the rumours which are linked to the possible acquisition of Recordati of the Swiss company [indiscernible]. Then, I can clearly state today, that the request price we are not interested in this acquisitions then the rumour are not true, and we are not among the final business.

Then, we continue to be very active; we continue to believe that in organic growth it's absolutely important for us. We have cash availability. We have financial capacity. We have management capacity for the acquisition, but we continue to be disciplined and prudent in term of price. And at the requested price, I would like to again confirm that we are not interested in the acquisition of Polichem (ph)...

MARTINO DE AMBROGGI: Okay. Thank you very much.

OPERATOR: The next question is from Dil Judge with Credit Suisse. Please go ahead.

JO WALTON: Hello, it's Jo Walton from Credit Suisse. Three quick questions, please. Firstly on the net interest, the average of the last seven quarters, your net financial charge has been about €4 million. You talk about being able to renegotiate the cost of debt down. And clearly in the third quarter your net interest payment was much lower. Is the third quarter charge a reasonable reflection of the quarterly charge we should expect going forward absent any significant M&A? My second question relates to your Turkish operation, and how strongly it is growing? You are continuing to grow much more strongly than the background market. How much longer do you think you can do this, and the reason that I am asking is to get an idea, not just for Turkey, but more broadly when you make acquisitions, you know, how much longer than the first year or so, do you still get significant benefits to enable you to outgrow the market? And my final question relates to M&A again. And if you could just restate please your priorities in terms of things like OTC or prescription and geographic area, and perhaps to help us not get too worried about rumours. What's the sort of maximum size that you think you would be comfortable doing?

FRITZ SQUINDO: Okay. Thank you for all these questions. Next financial...okay for the full...for the...in the nine months, we've reduced our financial charges, we have in the second quarter renegotiated some bank loan and then we are using some credit spreads, but the third quarter was also impacted by currency effects, which was positive then. We believe that this third quarter charge cannot be the base for a full year calculation because there is also a positive...in the period a positive effect. Then...but, let's say that financial charges which are in the region of €12 million, €13 million were

based without M&A, based on no remuneration of the cash could be a good estimation for the full year costs for Recordati.

Second point regarding the Turkish operation, Turkish operation, we are doing very well, we are very pleased. We are growing, as I said in conference call, also the local portfolio, the corporate product. We have been launching all our corporate products, excluding pitavastatin for which we are in talk with authority for the pricing. We are growing double-digit, 14.8%, but also the market is doing not bad.

I remember in the quarter review that I had with the Turkish General Manager there. The market in 2015 is at the double-digit growth, could be low double-digit, but we are not doubling the growth of the market. We continue to do as in the past and [indiscernible] then the market and then it is due to the good performance and good trend, environment trend and our capacity for our new product essentially to continue to penetrate the market. This is not...this is due as I said, to both good management of the existing portfolio, but the major driver is the launch of the existing drugs for which we have no major risk for our corporate product that we expect to continue in a positive environment, to continue to grow our portfolio.

Here again, as for the Russia, we have been impacted by the depreciation of the Turkish lira in the third quarter, while in the first part of the year, it was essentially neutral. Now, the exchange rate as you know perfectly better than me between euro and Turkish lira has a big difference now. We and don't...it's very difficult to predict what it will be and we are waiting for the election and we are waiting for the new scenario in Turkey. But the major threat in Turkey, we expect to be the Turkish lira exchange rate with euro rather than our capacity to continue to generate volume in this market.

M&A, then we as I said, we continue to believe that this is an important pillar for our development. The priority or the acquisition we are looking for are essentially enhancement of our existing portfolio, which means possible companies, possible product in the existing geography. We are mainly focusing both prescription and OTC products; there is no preference between the two, in the Western...in the existing geography, with also a particular attention in the Western and Central European market. Then there is no geographical expansion in the priority behind our M&A strategy, but rather a consolidation of some existing business in existing geography. Prices; we continue, as I said, to have...to be disciplined, to be prudent. We have in some way to accept the price increase, but we are not prepared to pay much.

MARIANNE TATSCHKE: Size of the acquisition...

FRITZ SQUINDO: And the size...now the Company has a different size compared to the previous...the Company some years ago, but we continue to believe that the size will be not very high. Then there was still this rumour for Polichem, €400 million, which is of course not something that we wanted to pursue at that price. We were interested, but not at the price and we expect the price to be a bit higher than the average of Recordati, but not significantly higher, let's say we continue to target €100 million, €200 million acquisition because for us acquisition is the way for consolidating the business and then we must have a sort of balance between existing business and the new acquired business. Then the target we expect to be in the region of €100, €200 million.

This is the general trend thanks, this is the general approach. Then we could also approach a bigger one, if the price is the right one and the synergies and the integration is important for Recordati. But today we are looking for opportunities in this size.

JO WALTON: Thank you very much and I may have missed it at the beginning and I just apologize, could you tell us what the overall impact of foreign exchange was both on sales and on profits?

FRITZ SQUINDO: On sales, let's say that in the quarter, the FX rate, the effect was essentially in one point...in the quarter was 1.5%. Only in the quarter, while for the full year, there is on the [indiscernible] the evaluation of the US dollar is essentially neutral, it's a bit negative and not significantly, we are talking about 0.2%, 0.3%. And it's not something which is relevant in our result. While in the first quarter, one reason for the growth which was lower than the previous quarter is also due to this FX on sales, which is I would repeat one point in the region of...1.5% and the effect on the...

We have overall, we have a negative impact on currency exchange losses for the full year, but in the quarter, it was positive, I have not with me the number, I will send if you want directly.

JO WALTON: That's very kind. Thank you very much.

FRITZ SQUINDO: If we...for the effect on the EBITDA, then this is minor. We continue to believe that on the EBIT, the effect is not the same as on the sales because we have a natural hedging, which is linked to cost, which are denominated in local currency. Then there is one impact, but which is minor, which is you can consider that we have in this business one margin, which is in line with the margin...of the EBIT margin of the Company, then you can calculate this effect as this margin on the sales that we have been losing in the quarter, which means 20%, 25% of the effect that we have had on the sales, rather on the revenue line.

JO WALTON: Thank you.

FRITZ SQUINDO: Okay.

OPERATOR: Ms. Tatschke, Mr. Squindo, there are no more questions registered at this time.

MARIANNE TATSCHKE: Okay. Thank you. So we will say goodbye to everybody and thank you for attending the call.

FRITZ SQUINDO: Bye-bye.