

Recordati S.p.A

“2013 First Quarter Results Conference Call”

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MODERATORS: MR. FRITZ SQUINDO, CHIEF FINANCIAL OFFICER
 MS. MARIANNE TATSCHKE, HEAD OF INVESTOR RELATIONS

OPERATOR: Good afternoon. This is the Chorus Call Conference operator. Welcome and thank you for joining the Recordati 2013 First Quarter 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 Marianne Tatschke, Head of Investor Relations of Recordati. Please go ahead, madam.

MARIANNE TATSCHKE: Hello. Hello everybody, good afternoon or good morning and welcome to the Recordati conference call. Fritz Squindo, here with me today, our CFO, will be presenting and commenting upon our first quarter 2013 results. As usual, 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 answer any questions that you may have. Please go ahead, sir.

FRITZ SQUINDO: Okay. Thanks Maria and good afternoon or good morning to everyone. We are pleased to announce our results for the first quarter of 2013, both sales and profit grew significantly, double-digit growth in the period.

Let's go through the number, consolidated revenue is €244.6 million, up to 11.4%. EBITDA, at 25.1% of sales, is €61.3 million, up by 13.5%. Operating income, at 21.5% of sales, is €52.6 million, here an increase of 10.5%. The difference between EBITDA and operating income is mainly due to the fact that in the first quarter amortization of intangible assets increased by €2.6 million, due mainly to the amortization of the amount paid acquisition at the end of 2013...2012 and beginning of 2013, of the product portfolio in the US from Lundbeck and in Russia and other CIS market.

Net income, at 15.4% of sales is €37.8 million; here we have an increase of 11.8% over the first quarter 2012.

Then, very good result, let's say, for all our parameters, we have a double-digit growth in this first quarter results.

Let's now move on our analysis of sales, on Slide #3, we have our main product sales. As you can see here, the proportion of sales of our corporate products to total sales continue to increase and now stand at almost 45%. Overall, direct sales have increased by 1.4% and this is a result of a reduction of direct sales mainly in Italy and France, due to lower volumes sold as a result of the net income position, but on the other hand a growing sales in the other part of the world, sales in Turkey increased by 22.2%. Sales to licensees, which represent half of the total sales that is say 49%, up by 8.4%, thanks to the continued development of the markets in South America and North Africa and then, good performance also from our lercanidipine sales?

Moving to sales of the combination of lercanidipine and enalapril, Zaniress is the most common brand and the direct sales of Zaniress in the first quarter 2013 are up by 13.5% and this is mainly due to the performance of product in Italy, in Portugal and in Turkey, where in Turkey the product has been launched in September 2012. Let's say that Zaniress is now available in 22 countries.

Urorec, silodosin has been successfully launched in 20 countries, with sales of €10.4 million in the first quarter of this year, up 36.7%.

Sales of Livazo, we are talking about pitavastatin in this case in Spain and in Portugal during the first quarter 2013, are €5.9 million, up by 88.8%.

Let's now move on our orphan drugs business, our specialties indicated for the treatment of rare and orphan diseases generated sales of €28.6 million in the first quarter 2013. Here, we had an increase of 41.3%, but this increase is mainly due to the sales of the USA of the portfolio product for the treatment of rare diseases that we have acquired from Lundbeck in January. But we are developing our...we are continuing to develop our presence in the orphan business.

On Slide #4, the graph shows the breakdown of our revenue by type of products. We have now broken out in this presentation our OTC sales which in the first quarter represent 17.7% of our sales. Here, we have an important increase, which is also due to the newly acquired product portfolio in Russia. This portion includes also OTC product...include mainly OTC products sold locally by our subsidiaries and we are only one OTC corporate product, which is Procto-Glyvenol which is sold in multiple territories and let me underline that this product was previously reclassified and added corporate product. But we are strongly...we have a strong developments in our OTC franchise in this first quarter 2013.

Composition of sale of revenue by geography, we are now on Slide #5, okay, let's start with Italy. Sales in Italy are in line with those of the same period of the preceding year. ZaniPril and Lercaprel, the two brands of our combination of lercanidipine and enalapril and Urorec, silodosin are performing well. OTC product sales are...also grew in the period due among others, to the sales of Dentosan, the oral care line of products acquired in the fourth quarter of 2012. Sales of products for the treatment of rare diseases in Italy also grew.

Let's move on France. Pharmaceutical sales in France are down by 8.6% and this is mainly due to the sales decrease of ZaniDip, the ZaniDip

competition is very strong in France, while on the other hand, here again sales of our new corporate products Zanextra, Urorec and also methadone as well as the OTC line of product indicated for the treatment of ENT disorder and which has very good seasonal period in this winter, are growing. Then we have an increase on the one hand Zanidip competition but on the other hand, the other product portfolios are growing.

Let's move on revenue generated in Russia and the other CIS market. The sale in the period is €24.6 million, up by 89.7% over the same period of the preceding year. Sales include, for sure the portfolio of self-medication products, acquired in November last year. If we exclude this effect, the sales growth is of 21.8%, then we have both here in Russia an increase due to consolidation of new sales, but we continue to have a very solid and robust growth in this market.

Sales in Russia alone are €21.1 million, while sales generated in...in the other CIS countries mainly in Ukraine are €3.5 million, then very good performance of our business in this area.

In Germany sales are up by 12.7% and this is thanks to the sales growth of Zanipress, Ortoton and Urorec, in addition to the sales of the six OTC products that we have acquired in April last year and CitraFleet the preparation for colonoscopy, also this product was acquired in April 2012.

Let's now move on Turkey, sales in Turkey are up by 14.2%, thanks mainly to the good performance of the corporate products. All our corporate products are doing very well. In Turkey, let's start with Lercadip, Procto-Glyvenol, Gyno-Lomexin, Urispas, in addition to sales of the new launches in of Urorec and Zanipress. Then, we are very pleased let me say by our performance of all the corporate portfolio in Turkey.

Then we have the Group's pharmaceutical business in the USA, which is dedicated to the marketing of products for the treatment of rare diseases. Sales in the first quarter of this year are €10.1 million and consist of revenues from Carbaglu, which is the orphan drug approved by the FDA in 2010 and from the portfolio of treatments for rare or other diseases acquired in January 2013 from Lundbeck.

The main products of this new portfolio are Panhematin, for the amelioration of recurrent attacks of acute intermittent porphyria and Cosmegen used mainly in the treatment of three rare cancers. But let's say that all the portfolio is doing well.

Sales in Portugal are down in this stage by 9.6%, but this is mainly due to the termination of the license agreement for the products Tareg and Co-Tareg, termination that we had at the end of 2012. On the other hand here again, the corporate products Zanipress, TransAct LAT, Urorec, Urispas and here very important Livazo which is the brand of our pitavastatin are performing well.

In Spain sales are down by 15.7%, and this is mostly due to competition from generic versions of Cidine, Cidine was one of the subsidiary's main products in...a local product, but a very important product for our Spanish subsidiary. Here, again Livazo, Urorec and Zanipress, in addition to the other corporate products, are performing well, but they are not...the sales of this product at the beginning of the generic competition, [indiscernible] not able to completely offset the decrease that we had with Cidine.

Sales in other countries in Western Europe, are substantially in line with those of the first quarter 2012, while sales in Central and Eastern

European countries are increasing mainly due to the development of our business in Poland, which generated sales in the first quarter of this year of €4.2 million, comprising mainly sales made by the Polish company Farma-Projekt acquired in August last year and also by the other product of portfolio which were acquired during 2012, but we are still in a starting point with our Polish subsidiary, but we have now €4.8 million in this important market in the Eastern European area.

Let's finish the presentation with the other international sales, which are substantially in line grow by 1.1% and it usually comprises the sales of our licensees for our corporate products, the Bouchara export sales, and Orphan Europe's sales worldwide, excluding all the market in which we have a direct presence, which is Europe, Middle East and USA., this is for the orphan business.

Slide #6, this graph shows the geographical breakdown of our pharmaceutical revenue and we have now broken our sales in Russia, in the other CIS countries and as we have seen in the previous presentation, these territories now are our third largest markets. For the first time, we are also...we are now also showing our sales in the USA, which account for 0.43% of total sales and comprises mainly the sales of the portfolio of products acquired in January from Lundbeck, to which we are adding our Carbaglu sales.

Let's now move onto P&L analysis of first quarter results, Slide #7, we have already talked about the revenue for location. Then move onto gross profit, gross profit is €159.2 million, with a margin of 65.1% of sales. Here, we have a slight increase compared to that of the first quarter last year, following mainly the addition of to the portfolio of the new product acquired, which had relatively high margins.

Selling expenses as a percent of sales increased slightly compared to the same period of the preceding year and this is due to the reinforcement of the sales organizations in Russia and the other CIS countries as well as in Poland, this was mainly linked to the acquisition of the portfolio in Russia in the company in Poland in addition to the promotional activity related to the newly acquired products, mainly in the OTC environment, for which there is a promotional and advertising activity behind.

R&D expenses are €18.5 million, higher than those recorded in the first quarter 2012, also due to the amortization of the amounts paid for the acquisition of the product portfolios in the USA and in Russia and the other CIS countries.

G&A expenses are up by 14.9%, but are substantially stable as a percentage of sales.

Let's now move onto net financial charges. Net financial charges are €1.3 million, unchanged compared to the same period of 2012, despite increased indebtedness thanks to both currency exchange gains and a lower cost of the debt.

The effective tax rate during the period is 26.5%, lower than that of the same period of the preceding year and net income as I presented in the beginning, at 15.4% of sales is €37.8 million, an increase of 11.8% over the same period of the preceding year.

We wish also to point out that EBITDA, as I said at the beginning, grew by 13.5% compared to 2012 and is 25.1% of sales. We think it's important now for us also to highlight EBITDA, following the significant recent product acquisition and the consequent amortization expenses.

Then, let's say again very solid with a double-digit growth result in this quarter 2013, but we continue to have a solid financial position at the end of March this year, the net financial position show a net debt of €192.3 million, but let me underline that during the first quarter \$80 million equivalent to €60 million were paid for the acquisition of the portfolio product in the US, together with the existing stock, of the stock of this product for an amount of \$11 million. Then therefore we can say that excluding (Ph) the extraordinary outflows we have to use strong cash flow generation.

Now, we have our financial projection for the full year 2013 and let me say that the excellent result obtained in this first quarter 2013, which has been also confirmed during the month of April and a driver, and this is thanks to the strong international expansion of the Group and I would have to review it to be more precise regarding our target for the full year 2013. Then the new target our sales of around €930 million, operating income of around €190 million and net income of around €132 million, very good result and a base for this new target for the full year 2013.

Now Maria, I finished my presentation and I am available for any question you have.

MARIANNE TATSCHKE: Okay.

Q&A

OPERATOR: This is the Chorus Call Conference operator. And we will now begin the question and answer session. The first question is from Ricardo Luis with Credit Suisse. Please go ahead.

RICARDO LUIS: Yes, hi good afternoon and many thanks for taking my questions. The first one being whether you have seen any change in the intensity of healthcare reforms in Italy or in any specific European market and also I'd like to ask you whether, I mean how the enrollment of the NX-1207 trial is going in Europe and whether we should expect any change in the underlying level of R&D in the coming quarters? Thank you.

FRITZ SQUINDO: Okay, thank you for the questions. Regarding austerity measures let's say that we had not seen particularly changes, which is no positive and/or negative, then we expect these environment to continue to be impacted by austerity measures, but not particularly new compared to what was announced in 2012. In particular for the Italian environment, we continue to stay in this budget for pharmaceutical spending, which is at pharmacy level, at 11.35% of total healthcare expenditure. Let's say on the other hand, that the budget for hospital pharmaceutical spend is now 3.5% and there is this two clear target for both pharmacy level expenditure and hospital expenditure and then no particular renew in June as announced could be a review of the list of drug eligible for reimbursement, but not let me say that there is no particular changes the environment continue to remain tough in term of price control, but not tougher than in the past. Regarding the Nymox, NX product we are in the phase of preparation for the enrollment and we are in the starting moment for the enrollment of the patient, but we don't expect our R&D expenses to increase significantly during 2013, because the cost is not only linked to the enrollment, but it's also linked to the preparation of the clinical development study and we are now in our P&L of the cost which is related to the preparation and to the account that with all the clinical centers and then we expect to continue, we expect to recover to respect our timetable for the clinical development of this product and no significant increase in our R&D expenditure, which as a percentage, let me underline that R&D expenses as a percentage of sales in this quarter was in the region of 7.6%, but having in mind the

revenue in this quarter based on some of seasonal effect of some part of our portfolio is higher than probably in the other part of the quarter, then no, in absolute value significant increase in R&D expenses going forward.

RICARDO LUIS: Thank you very much.

FRITZ SQUINDO: Okay.

OPERATOR: The next question is from Martino De Ambroggi of Equita. Please go ahead, sir.

MARTINO DE AMBROGGI: Yeah, good afternoon to everybody. On R&D just a clarification is still 9% the percentage of R&D on sales that you expect for the full year?

FRITZ SQUINDO: Yes, we expect R&D to be in this range, because we don't expect unfortunately to do multiply by four our revenue, we have not €1 billion sales as an objective and then we have sales which are linked sometime to seasonal effect, but R&D are, let's say, in line each quarter as...if we exclude some exceptional down payment to be paid, the other part of the R&D are split uniformly in the quarter. Then we expect to have our R&D expenses in line with our expectation, which is around now at 9%.

MARTINO DE AMBROGGI: Okay, and on first quarter result, I understand that the US contributed with 4% of sales, but if I ask you what is the like-for-like growth both top-line and EBIT, could you give us just a rough idea?

FRITZ SQUINDO: We have in our let's say in...it is not easy to say exactly what is like-for-like, because we have both in our business acquisition of product, which is normal, let me say in some way organic in our business and acquisition of new company acquisition of new geography. If overall, if we exclude in the first quarter 2013 the contribution from the new portfolio of Lundbeck

which is in the US, which is €8.3 million, you can find this number in our report, I think still at 7.9% which is the sales generated by our product portfolio in Russia in the other CIS and 3.2% which is the contribution of the Polish company Farma-Projekt, then overall if we exclude all this effect the growth would be 2.6%. Then this is organic growth which excluding only the contribution of the new products, from a product portfolio we have some time...some losses, so this is the case of Tareg in Portugal and some contribution there, but if we exclude the important acquisition we had in organic growth in the region of 2.6%.

MARTINO DE AMBROGGI: Yeah, and in terms of EBIT roughly?

FRITZ SQUINDO: In terms of EBIT, this is something that we haven't disclosed because we manage the business altogether and then we cannot identify what is the contribution in terms of EBIT by one and company as well, and we prefer not to disclose the number, you can calculate if you want because you have the margin contribution of the business revenue, we have announced or roughly we have announced when we issued the press release for the acquisition.

MARTINO DE AMBROGGI: Okay. And if I may, just a follow-up on Spain and France, having the worst performance in terms of sales, did they require additional cost cutting actions as you did in the recent past?

FRITZ SQUINDO: Okay, let's say again that in France we are in the process and we have not yet had the impact of the reduction, because we are in the process for doing what is called in France plus Portugal, but this we always see going forward that the decrease of our sales in France would be lower, because we had a strong...these are most important reduction due to the competition of generic version against Zanidip had started last year in June, July and then there is no...it's an erosion in the first half, but not

probably regarding related to the second half of the year, but no I think we have now the right dimension of sales force in both France after the reorganization and also in Spain. Then in Spain we adjust to...we have...this is a strong decrease in this quarter because when start the generic competition we have immediately the impact and then this is lower going forward, but we don't expect for the time being to have other reorganization in these two markets.

MARTINO DE AMBROGGI: Okay, thank you.

OPERATOR: The next question is from Eleanor Fung with Goldman Sachs. Please go ahead.

ELEANOR FUNG: Hi, three questions if I may, it's Eleanor Fung from Goldman Sachs. Firstly on Turkey, excellent sales growth, I was just wondering if there was any stocking associated with this quarter, given that you had launched a couple of your new products. Secondly, just a follow-up question on France and Spain, and on some of the continued decline at the country level, just wanted to clarify should we expect to see an inflection point to grow in second half or if not, could you give us the timeframe for when we expect these two countries to return to growth. And finally, just on your lower tax rate for the quarter, just wondering if there is anything behind that's causing it to be lower than your guidance of 27% for the full year or could we expect that the 27% number could potentially be much lower at the full year?

FRITZ SQUINDO: Okay, first question was related to stocking effect, no we...there was no stocking effect for any product in...no particular stocking effect in this quarter. Regarding sales of France and Spain, then we, as I said, probably for France you could expect this decrease to be reduced going forward, because for Zanidip which is...the major reason for this decrease is linked

to the generic competition of Znidip. Last year in June, July in France they introduced or they branded generic a new mechanism for reimbursement of the brand and in direct mechanism, which means you can buy, you have the full reimbursement that you have to pay the full value to the pharmacist and then ask to the reimbursement, which occur in one month, but you have to do this process. And this has a strong impact not only for lercanidipine, for all the generic molecule in France. Now this is...in some way stop that, we have been seeing some slight increase in Znidip sales compared to the last quarter 2012 and then we can say that this decrease of Znidip is essentially stabilized. And then, in France probably going forward you will see a decrease in sales, which is lower than this 8.6%. Regarding Spain here we try to offset the Cidine, generic version with the development of Livazo, but frankly speaking we expect to have a double-digit growth in Spain for the full year...sorry decrease...sorry for the full year 2015, which is mainly due to the generic competition volume, but mainly price reduction for the generic entry of one generic version of Cidine. The third question was related to the tax rate, Then we have 26.5, we try to do our best and then we expect to have a tax rate, which could be in the range of 26, 27 but for the time being let me say that the assumption is to have a tax rate in this region not...I cannot say that we are for sure reducing our tax rate, we will see at the end of the year, but for the time being 26, 27 is the range on which we expect to be our tax rate for the full year 2013.

ELEANOR FUNG: Great, thank you.

OPERATOR: The next question is from James Vane-Tempest with Jefferies. Please go ahead.

JAMES VANE-TEMPEST: Hi, good afternoon and thanks for taking my question. I just have one actually first, and that is I was just wondering what changed in terms

of your internal expectation from when you gave your results in February with your guidance to May, clearly a couple of months, this given me kind of visibility on the Q1 for the rest of the year. So your internal expectations by then was that slightly better gross margins or were there perhaps better visibility on some of the costs, I am just trying to get to sense in terms of maybe you are fine tuning your guidance from to guess say maybe 1% higher revenue number, but clearly it's slightly high, the operating profit, you are clearly expecting higher profitability for the year, I am just wondering what level on the P&L your expectation has changed? Thank you.

FRITZ SQUINDO: Okay, let's say that, it's usual to have first part of the year inline even slightly better than your expectation or better than this budget is a real important starting point in managing one company. Then we are more confident now and the major point is the revenue level, because we have not just increased only our operating income and net income, but we have also slightly increased our revenue. Then, we don't expect to increase significantly the margin, but we expect to be able to have one revenue level, one revenue, which are slightly better than the previous guidance...the previous objective. And then today, we don't expect to improve based on lower level of cost, but we expect to improve our...to achieve this contribution mainly to the sales revenue and we are more confident because part of the growth is also linked to the contribution of the new acquired product portfolio and now we are confident, then our expectation could be achieved for the full year 2013. Then is...the major point is revenue consideration, evaluation.

JAMES VANE-TEMPEST: That's great. Thank you.

FRITZ SQUINDO: So in terms of margin you will see that the margin remain essentially in line and with our objective the full year, which is a bit lower than the

margin achieved in the first quarter. But this is due to a minor seasonal effect in the first quarter, because part of our cost are fixed cost and then we can have higher margin in one quarter in which we have higher sales than the average level during the other quarters.

OPERATOR: The next question is from Alessandro Poggi with Banca Aletti. Please go ahead.

ALESSANDRO POGGI: Hello, thanks for taking my question. I have a question on organic growth on which you already gave details during the call, but with respect to Italy, so what I would like to know is what change would we read on the table, if we were to strip out then to some of first quarter sales? Thanks.

FRITZ SQUINDO: Okay, let's say that Dentosan is an important product for our OTC portfolio, but overall it's not so significant in our full...in our sales in Italy, then there is a small contribution of Dentosan, it's not significant, then we...let's say that we are very pleased by our performance in Italy mainly driven by our Urorec portfolio, which is able to maintain our sales compared to 2012. Then, we are talking about really a minor...it is not a minor product, let me say it's important because it's a way to reinforce our OTC line, it's an important brand, but we are not talking about €10 million sales, we are talking about on a year level, we are talking about €4 million or €5 million sales. And then it's a...there is a small contribution, but let's say that the Italian performance is mainly driven by our Urorec portfolio.

ALESSANDRO POGGI: Okay, thank you very much. That's all from me.

OPERATOR: The next question is from Elisa Corghi with Intermonte. Please go ahead.

ELISA CORGHI: Thanks. Two questions if I may, first one regarding orphan Europe which sales were flat, excluding acquisitions in Q1 and I was wondering if there

was any reason behind it or if it was, let's say, not particularly meaningful on a quarterly basis? And the second question, I didn't get you on France I am sorry, have you already enforced your redundancy plan? Thanks a lot.

FRITZ SQUINDO: Okay, regarding Orphan Europe I agree with you, excluding the US business orphan is essentially flat, which is not the normal trend in orphan but when we compare number you have to consider also the last period to which you compare your number. And the first quarter 2012 was significantly high for our orphan business, sometime we had some sales to patient which are not perfectly...which are higher than in one quarter than the other. Then, it's mainly due to the first quarter...high level of sales in the first quarter 2012 rather than not good performance in this quarter. Regarding the second question which was...

ELISA CORGHI: If we are already....

FRITZ SQUINDO: Yeah, we have not yet concluded, because it's a long process we are in the process and we expect to conclude the process by the end of the year, but this is only...I can only say this, that we are talking about Trade Union and then we cannot disclose all the information related to this process. But we are in the process to complete and we had in our business plan the conclusion for the end of the year and we expect to be in line with these objectives.

ELISA CORGHI: Am I...am I right in saying that you already made some provisions for...

FRITZ SQUINDO: We just...we have already done...

ELISA CORGHI: Okay.

FRITZ SQUINDO: ...some provision in...at the end of 2012.

ELISA CORGHI: Great, thank you. Thanks a lot.

FRITZ SQUINDO: Okay.

OPERATOR: There is a follow up from Martino De Ambroggi with Equita. Please go ahead.

MARTINO DE AMBROGGI: Yeah still on the issue of France and so on that....

MARIANNE TATSCHKE: What?

MARTINO DE AMBROGGI: Can you hear me?

MARIANNE TATSCHKE: No, repeat please Martino.

MARTINO DE AMBROGGI: Yeah, still follow up on the restructuring actions, cost cutting actions in France, what...what's the amount of the provision you....

FRITZ SQUINDO: Please...we had already announced this number in 2012...

MARTINO DE AMBROGGI: No, no, no release of provision?

FRITZ SQUINDO: No, release of provision...

MARTINO DE AMBROGGI: Okay, in this quarter and...

FRITZ SQUINDO: We have no release, because we have not yet finished the procedure.

MARTINO DE AMBROGGI: Okay, so...

FRITZ SQUINDO: Then this will be released at the end of the December, please we are in the process of...yeah in this process discussing with the Trade Union and then please I cannot say everything because it's a confident negotiation.

MARTINO DE AMBROGGI: Okay, but your full year guidance for the current year doesn't include anything more?

FRITZ SQUINDO: No.

MARTINO DE AMBROGGI: Okay.

FRITZ SQUINDO: We can accept, we think to have already accrued what we need to pay at the end of 2012. This is our expectation; we are in now in the negotiation process and thus I don't know what will be the final output, but I think it's enough what we have already accrued.

MARTINO DE AMBROGGI: Okay. Thank you.

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

MARIANNE TATSCHKE: Okay, thank you very much. Thank you everybody and we can end the call at this time.

FRITZ SQUINDO: Thank you, bye.