Recordati S.p.A

"2017 Preliminary Consolidated Results and 2018 Target Conference Call"

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MODERATORS: FRITZ SQUINDO, CHIEF FINANCIAL OFFICER

MARIANNE TATSCHKE, DIRECTOR OF INVESTOR RELATIONS AND CORPORATE COMMUNICATIONS

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome, and thank you for joining the Recordati 2017 Preliminary Consolidated Results and 2018 Target 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 and Corporate Communications of Recordati. Please go ahead Madam.

MARIANNE TATSCHKE: Hello, good morning or good afternoon to everyone. Here with me today is Fritz Squindo, our CFO who will be discussing and commenting upon our full year 2017 preliminary results and our 2018 target. A set of slides have been placed on our website www.recordati.com under Investors and the presentation stuff which you can access to…in order to follow our presentation more closely. I will now hand the call over to Fritz for his comments. Fritz…

FRITZ SQUINDO: Okay, thank you Marianne. Good afternoon or good morning to everyone. Slide #2 of our presentation. We are pleased with our 2017 results which confirm sales and growth margin in line of the first nine months result. Consolidated revenue is €1 billion 288.1 million which are up by 11.6%.

Let me underline that sales include also the consolidation of the Italchimici and Pro Farma the company that we acquired in 2016 and also the sales of metoprolol-based product that we have acquired from AstraZeneca which are consolidated as from July 2017. Like-for-like sales growth is 5.4%.

We have also been impacted in this in 2017 in particular in the second half of the year by our revenue being impacted by net currency exchange losses which could be estimated in €12.4 million which is 1.1%.

Therefore excluding this effect of the consolidation of the new product, the FX impact where revenue continued to grow by 6.5%. This excellent sales performance is the reason for further improvement of our margin in the year at 35.3% of sales is €454.7 million and EBITDA are up by 22.5% compared to 2016.

Operating income which now is at 31.6% of sales is €406.5 million an increase of 24.1%. Net income at 22.4% of sales is €228.8 million, an increase of 21.6% over the preceding year.

Regarding our present financial position, we will continue to have a very solid financial position that at the end of the year is €381.5 million with a increase of €183 million compared to last year and but this is after the distribution of dividend. We have…we continue to have our payout ratio which is 63% of our net income but in particular the acquisition of the product of AstraZeneca and at the end of the year the acquisition from Bayer of three products for an overall endorsement of €456.5 million. Excluding this, we continue to generate cash flow and we continue to have a cash conversion, which is 121 before our net income.

We are very pleased with our financial result, but I would like also to underline the important initiative in transaction concluded in 2017 for the growth and development of our Group. We have listed this in our slide. Let's remember Cystadrops, an orphan drug indicative for the treatment of ocular manifestation of cystinosis, which was approved by EMA in January a new product in our orphan disease.

In our treatment of rare diseases, an important agreement was signed with the Meyer Hospital in Florence for the development of the treatment of ROP, retinopathy of prematurity. This is also in the rare disease environment. In May we have acquired the European rights to

AstraZeneca metoprolol-based product, which will contribute to significant reinforcement of our presence in all these markets.

An agreement was signed with MimeTech for the development and subsequent global marketing of a new compound for the treatment of neuropathic keratitis. This is also in the rare disease environment. In July we have obtained Reagila, which is an innovative antipsychotic that we have under license from Gedeon Richter, was approved by EMA and we expect to start launching this product in 2018. In December, three gastroenterological consumer health products were acquired from Bayer for our French market there.

For the financial results, important initiatives undertaken and concluded for the development of [indiscernible]. 2017, very good result. If you want to go more insight to date on our results on Slide #3, we can follow and analyze the sales of our main product. We are very satisfied with the positive performance of all our core products…corporate product which the metoprolol-based product acquired from AstraZeneca were added as from July as I said in the beginning.

Let's start with Zanidip lercanidipine, sales grow by nearly 6%, sales of Zanipress, we are talking about the combination of lercanidipine and enalapril are essentially flat as expected. There is the [indiscernible] and generic entry in Germany and Italy but the overall sales of the lercanidipine franchise are nearly €190 million.

Solid performance and we continue to have a stable slightly growing performance on the franchise of lercanidipine. Urorec, silodosin, generated sales of €92.8 million during the year, up 8.9%, and this is due to the good performance of the product in all the main markets. We have now commercialized this product in all the European markets. Sales of

Livazo are €39.2 million, up by 11.7% due to the good performance of the product mainly in Spain, Greece and Switzerland and also to the launch in Turkey and Russia. As I said in June, the agreement with AstraZeneca for the acquisition of metoprolol-based product in Europe was concluded. Revenues generated by this product in the European countries covered by the agreement are consolidated as from 1st of July and are €47 million at year end.

This product contributed significant to the general growth of our subsidiary, but in particular contributed to our growth in Germany, Poland, France, Czech Republic and Romania. Then we have the other corporate product which grow overall by 13.4%. A major contributor to growth in the period are the antiseptics sold in Russia and also the inclusion in the OTC portfolio of the line of gastroenterology product based on last Italchimici sales mainly sold in [indiscernible]. But also these solid established product are growing double-digit in 2017.

Let's finish with our specialty indicated for the treatment of Rare and Orphan diseases which generated sales in 2017 of €211.2 million with an increase of 13.1%. Thanks to the good performance of all the business in all the area and then we confirm our drug of rare diseases to complete towards a double-digit growth.

Slide #4, this graph shows as usual the breakdown of our revenues by type of products. Corporate product including the Rare disease now account for 66% of revenue with the inclusion of metoprolol franchise acquired as I said from AstraZeneca.

Slide #5, sales in our main markets show continued growth. Let's start with sales in Italy increased the revenue generated by Italchimici were consolidated as from 1st of June. Pharmaceutical sales in France are up by

9.2% mainly due to the good performance of Urorec, Methadone and also Zanextra, the brand of our combination in France for which we have not yet sales due to the face of generic competition in France. In addition, we have also the sales of Lercaril, lercanidipine plain, which is now sold recently by our subsidiary following the termination of the license agreement with our licensor.

Next also the treatment for rare diseases are growing in France, Germany, in Germany sales are up by 21.1% mainly thanks to the significant growth of Ortoton and also of lercanidipine and also to the sales generated by the metoprolol-based product acquired from AstraZeneca and as I said, it is and will be an important driver for the growth of our business in Germany.

The Group Pharmaceutical business in the USA is probably or everyone knows is only dedicated is exclusively dedicated for the treatment of rare diseases and is growing by 8.4 in 2017 and excluding by 11.0 for in local currency because we have been in the second part of the year negatively impacted by the exchange rate in the US market.

Revenue generated in Russia, Ukraine and the other CIS market is €107 million which are up by 34.6% which include also an estimated currency exchange gain of €9.8 million. Sales in Russia in local currency are up by 20%. Overall a very good performance in both euro denominated but also we continue to have a significant double-digit growth of our business in Russia.

Sales in Turkey are slightly down in euro but include an estimated negative currency effect of €17.7 million. In local currency sales, local currency sales of our Turkish subsidiary grow by 24.8%. Here again very solid and continued growth of our business in this market.

Then we have sales in other Western European countries include direct sales in Switzerland following the acquisition of Pro Farma AG again the company that we have acquired in 2016 and also include direct sales to market of our corporate product presold by licenses.

Let’s finish the presentation with the sale in Central and Eastern European countries which benefit significantly from the consolidation of metoprolol-based product acquired from AstraZeneca. But overall, good performance in all our territories due to organic development and also the consolidation in some important markets of the metoprolol sales.

The Slide #6, this graph shows geographical breakdown of our pharmaceutical revenue, no major changes because we have had in development in all the major markets.

Let’s now move on Slide #7 for our P&L result. We have already analyzed our revenue for the period. Let’s now move on to gross profit, gross profit in the period is €905.4 million with a margin on 70.3% on sales. An improvement over that on the preceding year which is due to the further growth of product with higher margin and also to the positive effect of the metoprolol-based product acquired from AstraZeneca.

Selling expenses at 25.7% of sales increased less than sales and therefore have gone down as a percentage of revenue, thanks to the increased efficiency of our…of the Group's commercial organization. We continue to increase our sales keeping essentially stable our selling organization.

R&D expenses are €100.3 million which are up by 19.8% compared to those recorded in 2016 and this is due essentially to the starting of new development programs, this is also due to the amortization of the acquired right of the metoprolol-based product and also important to the agreement with MimeTech for the development of the new compound for the treatment of neurotrophic keratitis for which we have signed the agreement for having this right in 2016 and we have paid an amount of €7 million as upfront payment, which was fully charged to the P&L.

G&A expenses are up by 1.2%, but diminished as percentage of sales to 5.1%. Here again we tried to keep the same organization for managing a growing environment, a growing business. Net other expenses significantly reduced as compared to that of the preceding year due essential to the extraordinary cost incurred last year following the…due to reorganization of the acquired company Italchimici and Pro Farma.

Let's now move on the net financial charges, we saw €17.4 million which is an increase on €7.2 million compared to the preceding year which is due to the interest of the new medium long term loan granted but also to a higher currency exchange rate losses mainly in the second part of this year.

The effective tax rate during the period is 25.8% slightly above the…for the same period of the previous period. Net income at 21.6% of sales is as I said at the beginning of the presentation €288.3 million and we are increasing our net income by 21.6%. Then solid performance because we are growing our margin by more than 20%, 24.01% operating income 21.6% to net interest.

Slide #8 shows the split of revenue and EBIT between our two business segments. And EBIT margin are 46.3% for the rare disease segment and 28.7% for the primary and specialty care segment which is in line with what we have being achieving in the first nine months and it's important to underline that both the two business units are growing in term of margin.

Net financial position very solid as I said in the end of the year, the net financial position show a net debt of €381.10 million. Then we have considering that we have as I said in that €456.5 million for the acquisition of the metoprolol for the acquisition of the product from buyer and also we have paid dividend like we did last year. Net solid financial potential, net solid cash flow generation.

Let's now move on our target for 2018. Then let's start with some assumption and then we will present our number and our expectation in term of margin. Then sales overall are expected to grow between approximately 5% and 6%. Target sales of…includes obviously the consolidation as from July 2017 of the sales of metoprolol-based product acquired from AstraZeneca. Therefore, on a like-for-like basis, low single-digit growth in this number is implied.

I would like also to underline that in our sales projection we have included an estimated negative currency effect impact of around 2% which are mainly linked to exchange rate between euro and US dollar in between euro and Turkish lira. We expect to have negative impact which could be estimated in something which is around 2%. And we have also estimated another 2% impact from generic competition which is attributable mainly to the competition on a…for the full year for the generic of Zanipress which means our combination of lercanidipine and enalapril and of the entry of the generic competitive which compete against our product in the US which is [indiscernible]. Overall these were two major generic competition environment competitive environment could have an impact in our sales projection which could be estimated around 2%.

Let me again as usual underline that these targets do not include any further position which remain an important pillar for our growth and it's our intention to continue to pursue our bolt on acquisition there. And usually we have defined sales target on days on the organic development not including the contribution that we expect to be linked to our acquisition strategy which we intend also in 2018 to continue to pursue.

On Slide 11, let’s have a look on more in detail on the sales projection and here we can say that sales of our lercanidipine-based product Zanidip and Zanipress are expected to be in around €175 million which is a bit less than what we have achieved in ‘17 mainly driven by the expected competition from generic for the full year and in particular in France in 2018. As usual in our projection for lercanidipine combination we try to be prudent in this projection of our sales.

Regarding the other product our corporate product, we continue to expect Urorec to grow mid single-digit to around €100 million sales while sales of Livazo are expected to grow by more than 10% in 2018. Then with our corporate product not impacted by generic, we expect to continue to grow. The metoprolol franchise which is essentially Seloken and Logimax is expected to generate sales of around 100 €million which is important because we are now stabilized the business, the franchise and in some selective market, we expect also to grow a business magnet in the Centre and Eastern European business. Then we have also an important factor next year which is the launch of Reagila.

We expect Reagila to be launched in Germany in April, the bulk of the other launches will take place toward the year end and we need to start in 2019 after we have included only…in our estimate only the sales lead to the German launch. We are now strongly still engaged in the market access and we will see growing during the year in future and anticipate some launch in other important market.

Then we have our business for the treatment of rare diseases, sales of product for the treatment of rare diseases are expected to grow high single digit excluding currency effect which is linked to the US dollar because the US dollar negative impact is mainly linked to this business. Right now, move on the number because in Slide 12, we have our number in term of target 2018. Let me…I would like to underline as we have stated in our title that we expect margins to continue to improve EBITDA at 36%, EBIT 32% and net income at 23%.

Then let me comment the number, the expectation is to achieve sales of between 1 billion 350 million and 1 billion 370 million and again no acquisition are included in this target although we are strongly committed to an ongoing acquisition strategy in order to accelerate our growth. Margin as I said are expected to continue to improve. In absolute value, we expect to achieve EBITDA of between 490 and 500 million which…and in term of EBIT, we expect to achieve EBIT of between 430 and 440 million and net income of between 310 and 315 million.

I would like to also say that in our projection for the full year, we have considered 8% and 8.5% of sales are expected to be allocated to R&D then we expect to continue to grow and to maintain our margin. Slide #13, here we have a financial projection for 2019. This is our financial projection based on the current business without the acquisition and in 2019, we expect organic growth to be in between 3% and 5%...in the range between 3% and 5%.

It is important also to say that we expect that margin achieved in 2018 are expected to be sustainable then the improvement achieved in 2018 will be sustainable going forward. We confirm our cash flow payout payment which is 40% to 60% and then we continue to be strongly committed to reinvest our the free cash flow that remain in the Company to accelerate the growth and we are also important committed to strongly pursue the bolt-on acquisition and also to continue to develop the rare disease pipeline as we have been able to do in 2016 with the contract we signed with MimeTech, with the Meyer Hospital.

Financial projection, we saw our base on organic, organically performance which is solid and which is growing, which is impacted in 2018 by the FX effect but we expect to continue excluding this effect to continue to grow by 35% to which as I said we continue to be strongly committed to make bolt-on acquisition because we have room in our organization to be able to add new product linked to acquisition without a significant increase in our cost which will be a way for accelerated growth and keeping even slight improvement in our profitability.

Thank you for your attention. I am now available for any question you may have.

Q&A

MARIANNE TATSCHKE: Operator, could you please open the question and answer session?

OPERATOR: Yes, thank you. This is the Chorus Call Conference operator. We will now begin the question and answer session. The first question is from KC Arikatla with Goldman Sachs. Please go ahead.

KC ARIKATLA: Thanks guys for taking my questions. I have one on the metoprolol franchise that you have acquired from Astra, your guide into sales of 100 million in 2018 which is around 4% to 5% growth from 2017. When this franchise was with Astra, it was declining by around 5% to 6% every year. Can you talk about what drives this turnaround for the franchise?

Is it because you are entering into new geographies or is it because you are planning to take price increases or is it just because of better execution? Thank you.

FRITZ SQUINDO: Okay then we are not enlarging the geography then this is essentially due to execution which is not better execution compared to AstraZeneca, I don't want to compare Recordati with AstraZeneca**.** It just leads to promotional activity that we had decided to put behind the product in a selective way, non involving a strong activity of our sales organization but with a selective approach in term of promotional activity, in particular in some market we expect to stop the erosion and to start growing the franchise.

It is not the enlargement of the geography; it is mainly driven by our activity in term of sales and marketing activity behind the product**.**

KC ARIKATLA: Thank you.

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

JAMES VANE-TEMPEST: Yes, hi. Thanks so much for taking my questions. I am just wondering in your guidance what kind of pre-launch costs there are for cariprazine. If you can help us try and understand the ramp up of that if that's happening and I apologize I missed it in your presentation when you talked about genericization impact, is that Zanipress or are there any other products we need to be aware of and similarly are there any products where licenses are being terminated this year which we need to take into account.

And then finally, when do you think we might be able to get an update on your next three-year business plan? Thank you.

FRITZ SQUINDO: Okay then, regarding cariprazine or regarding Reagila, we have included in our target only the sales which are linked to German market because we expect to launch in Germany in the second quarter of this year but we have included all the costs which is related to the market taxes and the premarketing activities because even if we expect to launch a drug at the end of the year, we have to start doing premarketing and market assets from the beginning of the year then.

We have not included the full cost for the promotion but we have included a large part of the cost which are linked to the premarketing and market taxes activity for Reagila. In term of sales, we have included only the German one which means that we have only initial sales for Reagila in our target 2018.

The second point was the leap to the generic. As I said at the beginning, we expect in…we said when I presented our financial projection, we expected to expect some impact from the full generic presence of the competitor of our combination and this is mainly in France because for the time being regarding the combination, we can say that the Zanipress generic competitor has been already launched in Germany and in Italy.

In Italy, we have reduced the price to…near to the generic price. In Germany, we are now in the competition to obtain and to gain tender while in France, generics are expected soon, has been already approved but not yet on the market but frankly speaking we expect soon also in France the generic to come. Another product for which we had to face generic competition which is important in our projection is the generic competition of Cosmegen. Cosmegen is a US product in our franchise for the treatment of rare diseases. The competitor is already in the market and we expect our business in the US to be impacted by this generic competition for Cosmegen which is an impact that could be estimated in the region of 10 million US dollars that these are the two major generic risks that we have to face in 2018, one in this prime and specialty business and the other is in the rare disease environment overall. We expect this have an impact of around 2% and the third question was regarding termination, there is no termination or major termination in 2018 which could have an effect a negative impact in our projection, in our sales.

JAMES VANE-TEMPEST: [Indiscernible]

FRITZ SQUINDO: Now, we probably now we have to we have given an invitation regarding our organic projection in 2019 and probably we will update the pre-year business plan by the year end beginning 2018.

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

OPERATOR: The next question is from Jo Walton with Credit Suisse. Please go ahead.

JO WALTON: Thank you. A few question, and I apologize our line was a little bad, and so you may have given this information but I couldn't quite hear it. So, to start with I wonder if you could split out the 11.6% sales growth that you had in 2017 roughly into what the impact of currency was and what the impact of acquisitions was, so that we can get an idea of the like-for-like into 2017? My second question is to ask about the impact in the profit in 2017 of restructuring charges to put all of your acquisitions together, you noted I think that there some headwind from that which wouldn't be appearing in 2018 and it was one of the reasons the margins might go up. My next question is just to understand on the generic side do you think that there could be up to a €10 million impact for Cosmegen generics, is that effectively eroding the whole of the product, is that roughly the size of the product or is that a product where you would expect to retain a significant level of sales perhaps at a lower price.

FRITZ SQUINDO: Okay, let's start with first question with, which was in the split of our 11.6 growth in 2017 then we have on a like for like basis that we have, the growth was 5.4 which has been already impacted by 1.1 due to currency effect. Then, excluding the consolidation and excluding the FX effect the organic growth would have been 6.5%, the other is linked to 5.1 linked to the consolidation of at the beginning of the year Itaslchimici and Pro Farma in the second half of metoprolol-based product.

In 2016, we haven't we have no cost for restructuring because the reorganization of the two company acquired in 2016 was fully charged to the P&L in 2016. And know your cost for the organization in 2017 regarding generic erosion we expect $10 million to be the erosion and we expect to keep a part of the value because we expect the generic competitor to enter that not very aggressive and then expect an erosion and because we…keeping part of the value of this.

JO WALTON: And then, looking at 2018 you are expecting like for like sales growth then of 3% to 5% and then presumably we should add on top the acquisition effect that like which is almost another 5% of the second half of putting in Italchimici and the full year effect of the buyer business. I am just trying to understand how that 3 to 5 is there. I understand the foreign exchange element and I understand that there is an erosion from generics. But I would have expected the overall number to be a bit higher because it's about 5% we get from the residual element of acquisition and my final question is just to ask about Cariprazine in Germany, do you have any information on when you will have an a quick decision on this, I know this that you have an opportunity for a period of time to sell it at whatever price you like and get it established, but do you know when a quicker likely to come out with a view as to whether this provides a significant advantage over other cheaper generic products.

FRITZ SQUINDO: Okay. Then, the question regarding sales, I would like to comment again that for the full year 2018 we expect sales approximately to grow overall including any effect by 5 or 6%, which includes based on the new product the consolidation of product acquired only metoprolol because Italchimici was acquired in 2016, Pro Farma was acquired in 2016 then…

JO WALTON: I apologize I meant metroprolol and the buyer product?

FRITZ SQUINDO: For the metroprolol okay, the buyer is not we are talking about because for a certain period of time we have only the margin we are under a service agreement with them that is not significant but let's say if we exclude the two metroprolol and buyer as I had already stated, we expect low single digit due also to the 2% impact of the currency FX impact and also another there is another 2% which is attributable to generic competition. The second point is, enough Jo.

JO WALTON: Yes, thank you.

FRITZ SQUINDO: Okay. The second question was...?

JO WALTON: [Indiscernible]

FRITZ SQUINDO: Regarding Cariprazine, we expect a quick decision because we expect to launch the Cariprazine in the 2Q based on this law and that you can launch the price that you want and then you have to go through the renegotiation of the price. Then, we have included in our plan only the German because we expect a quick decision and we expect to be able to launch Cariprazine in the second quarter of this year based on this procedure, which is in place in Germany.

JO WALTON: And you would expect the rest of the rollout of your plan to take place in 2019?

FRITZ SQUINDO: We expect, second half 2018 and beginning 2019. Then, it's very difficult to predict the real timetable when you have to negotiate with SK organization but Germany is a different point, it's a different point, it's a quick decision all the other we are in the process, we are building our market taxes dossier and let's say that we expect second half beginning '19, the period which we could launch Cariprazine in the major European market.

JO WALTON: Thank you.

FRITZ SQUINDO: Launches are expected in the second half of 2018.

JO WALTON: Thank you.

FRITZ SQUINDO: Okay.

OPERATOR: As a reminder, if you wish for a question please press "*" and "1" on your telephone. The next question is from Thomas Guillot with Kepler Cheuvreux. Please go ahead.

THOMAS GUILLOT: Hi, thank you for the taking my question, one if I may on your negative fixed currency effect for next year, could you give us some input on the split between the US and the emerging market, you had really strong negative currency effect for 2017 in Russia and Turkey and just would like to have some flavor on that, thank you?

FRITZ SQUINDO: Could you repeat that, sorry. Do you want to know the split between emerging market essentially Turkish business and U.S. in our FX let's say that we expect probably 40% in the U.S. market and the other part more linked to emerging market.

MARIANNE TATSCHKE: This is in 2018.

FRITZ SQUINDO: Yes, in 2018.

THOMAS GUILLOT: Yes, 2018, yes.

MARIANNE TATSCHKE: Okay.

THOMAS GUILLOT: Yeah, that's correct.

OPERATOR: The next question is from Bruno Permutti with Banca IMI. Please go ahead.

BRUNO PERMUTTI: Hi, good afternoon. I wanted to have if it is possible your assumption for 2019 for the pipeline, the product pipeline that you have. So in the guidance you gave, I wanted to understand if you included also a contribution from Fortacin from Graspa, from other drug for rare disease under development. And if you can confirm as that on cariprazine you see a big sales of around €100 million and also as for cariprazine if you could give us an indication of what could be the weight of the German market on the total sales you expect and if I may a second question related to possible fiscal optimization that you are looking for, you have a quite look up straight but there is some…there are some elements that you are considering for further fiscal optimization in 2018 and 2019?

FRITZ SQUINDO: Okay. Thank you for your question. Regarding cariprazine let's say that general in our '19 projection we had in queue this also product belonging to our pipeline. The major contributor for the growth is cariprazine. We have initial sales also Fortacin. Regarding the treatment of rare diseases, we have not included sales from Graspa because the product is under discussion with EMA and we have included some initial minor real minor sales based on the main patients used for some of our product in our rare disease franchise but the real important product for 2019 is cariprazine for which we expect as I said the launch in Germany.

Germany this year is we have included a target which is only initial sales and we are expecting German initial sales, which are between €3 million to €5 million plus, but we confirm that our evaluation of expected fixed rates for the product could continue to be of something which is around €1 million…€100 million. Then we are now focusing the activity linked to cariprazine in the preparation of the market as requested, but we have included and cariprazine is a growing product in our 2019 projection.

While the other product MimeTech are less important because we are in the initial phase of the development and we have as I said only included some sales, which are allowed for this particular drug under a particular program, which are under [indiscernible].

Regarding the tax rate, let's say that we have now achieved one tax rate in 2017, which was 25.8%. We continue to expect our tax rate going forward to be in the range of 25%, 26%. We expect to have minor positive effects from the tax reform in the U.S. but based let's say on the mix of company on corporation we…our expectation is to continue to have a tax rate which is in the range of what we had been achieving over the last three, four years and we have but in this number, we have not included any positive effect linked to support patent box in Italy because the agreement not only for Recordati, but for all the pharmaceutical company has not yet been signed.

That could be a positive impact but this is more linked to an agreement with the generic track [ph] and we have not yet signed this agreement. We have not included possible benefits from the patent boxes respectively.

BRUNO PERMUTTI: Thank you.

FRITZ SQUINDO: Alright.

OPERATOR: The next question is a follow-up from Jo Walton with Credit Suisse. Please go ahead.

JO WALTON: Thank you. You have referred a number of times to your wish to continue to do bolt-on acquisitions. I just wonder if you could tell us a little bit about the environment at the moment whether you feel that, you know, there are plenty of opportunities that you can look at and where these might be coming from, is it, are you expecting to be able to do the same sort of deal as you did with AstraZeneca for Seloken where big pharma is looking to streamline assets and therefore there is the opportunity to pick up odd brands or franchises or what are the areas that you are most hopeful that you may be able to make acquisitions with?

FRITZ SQUINDO: Okay. Thank you, Jo Walton. Yes we are probably committed in new bolt-on acquisition strategy because it's an important way for adding a organic growth to have an acceleration of this organic growth then we are now very well recognized as a solid and reliable buyer in this environment and let's say any company any big pharma or even small pharma, they want to sell, they try to contact Recordati because we have a solid experience also in managing the integration because one thing is to buy and one other thing is to be able to integrate.

Regarding the market environment, there are some opportunities but here again it's a confidential situation, I cannot comment on opportunities that we are looking for but there are some opportunities and use our link to big pharma decision to divest or rather opportunity what can I say that we continue to be focused in particular the primary and specialty care on the European business and we would like and we want to be able to find some opportunity which could be more in the metoprolol side rather than and the buyer was only a local opportunity for a gastroenterological product in France. But we are mainly looking for product with face which are not only in one market but our sales in the major market in many market in Europe.

We are optimistic, we are committed, we have competencies for doing this kind of deal. We are recognized as a solid buyer. We have financial reserves for doing the acquisition. We have also space in some organizations, selling organizations for adding other product then, which means that we are prepared to do some new opportunity to follow some other new opportunities but it's important that this acquisition can fit very well with existing organizations because the value creation is linked to our capacity to add and to integrate in the way of reducing the variable cost, the selling cost we serve into this market, the answer is we are committed and there are opportunities and we hope to be able to pursue some and to sign an agreement in 2018.

We are actively scouting for being successful in this environment as we have been able to do '16 and '17.

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

MARIANNE TATSCHKE: Okay, thank you very much for your attendance and goodbye.

FRITZ SQUINDO: Goodbye.