Recordati S.p.A.

"First Quarter 2022 Results Conference Call"

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MODERATORS: ROB KOREMANS, CHIEF EXECUTIVE OFFICER
LUIGI LA CORTE, CHIEF FINANCIAL OFFICER
FEDERICA DE MEDICI, INVESTOR RELATIONS AND CORPORATE COMMUNICATIONS

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome, and thank you for joining the Recordati Conference Call. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions. Should anyone need assistance during the conference call, they may signal an operator by pressing "*" and "0" on their telephone.

At this time, I would like to turn the conference over to Ms. Federica De Medici, Investor Relations and Corporate Communications of Recordati. Please go ahead, madam.

FEDERICA DE MEDICI: Hi, thank you Sabrina and good afternoon or good morning everyone, and thank you for attending the Recordati conference call today. I am pleased to be here with our CEO, Rob Koremans, and Luigi La Corte, our CFO, that will be presenting the 2022 first quarter results. They we will be running you through the presentation. As usual, the set of slides is available on our website under the Investor Section. After that, we will open up for Q&A.

I will now leave the floor to Rob. Please go ahead.

ROB KOREMANS: Thank you Federica. I'm proud to announce a very strong start of the year for revenues and bottom-line performance with continued strong cash flow generation. Overall revenue growth was 9% or 11% in constant exchange rate and reached €419.4 million, reflecting continued post-COVID recovery and good underlying growth of both our businesses.

SPC recovers in relevant markets, especially with regards to cough and cold and OTC products and also with improved access to health care professionals almost returning to pre-pandemic levels, and also a very

robust performance of rare disease, both the Endo and the metabolic portfolio in the US and in Europe.

In more details, Endo increased its revenues by 46.4% versus first quarter of last year, thanks to the continued new patient acquisition in the US and in the lead European countries. Isturisa has now reimbursed in Germany and Spain, and we keep pushing to get that in other European markets.

We have a nicely increased contribution from Eligard, €7 million up versus first quarter of last year, with stabilization of the markets in many countries and actually in some, we already start to see growth which is a very big change from the product we took however [ph] the decline. The new device filling has been accepted by the European Medical Agency with a decision expected in the third quarter of this year.

The EUSA Pharma acquisition closed on March 16, and the integration is progressing really, really well. Also, the business is tracking nicely ahead of our own expectations. And then we've also had good growth in the quarter in Russia and Ukraine, basically on the back of a very strong cough and cold season, and also related to some of the advanced purchases that were made in both countries ahead of the conflict.

We see that Russia has brought in €17 million in revenues and Ukraine €4.4 million in the quarter. And what you should note as well is that Russia, the growth has been strong also because of strong destocking in the year before in the same quarter.

Our financial results reflect strong top line performance and efficiency improvements like the SPC rightsizing in our commercial structure and sales force and also still very limited year-to-date inflation impacts on COGS and OPEX.

EBITDA €163 million or at 38.9% of sales, which is up 8.7% in the...versus the first quarter of last year. Adjusted net income of €116.3 million or 27.7% of sales and up 11.4% versus first quarter last year and net income at €96.7 million or 23.1% of sales, up 7.6%. We have continued strong free cash flow generation of $110.3 million.

Operating results reflect the impact of €7.1 million of nonrecurring costs, mainly related to the EUSA Pharma transition and organizational restructuring. Our net debt of €1.4 billion is around 2.2 times EBITDA pro forma for EUSA Pharma, reflecting continued strong cash generation by the business and expected to be around 2.4 post-May dividend payment.

Before handing over to Luigi, who will provide more details on the financial performance, I would also like to talk briefly about EUSA. The acquisition was driven by our desire to enter into this very appealing rare disease segment of oncology. Rare oncology is a beautiful growth opportunity and fits perfectly to our Rare Disease business where we see mutual strengthening.

The assets that we've acquired are very, very attractive, and we see opportunities to continue the strong growth and performance. And also, we get people that are strongly committed, very capable and strongly committed to making impact on disease and on patients, and that is what ultimately drives us in this business very strongly.

'21 revenues were just over €150 million, ahead of plan, and as we also closed now a little bit earlier than expected, and we can also update our expectations for this part of the business for the 3 quarters of 2022 that we consolidated Quarter 2, Quarter 3 and Quarter 4. We expect for these 3

quarters, a contribution of over €120 million in revenues and over €30 million in EBITDA contribution in the last 3 quarters of this year, with a growing margin, which is much in line with the Rare Disease segment.

Non-recurring costs in 2022 and 2023 are confirmed to be around €35 million, €28 million of which will happen in 2022 and they're related largely to the ongoing manufacturing technology transfer for Sylvant and acquisition and integration related expenses. Total consideration of €707 million with an enterprise value of €750 million net of financial debt of the acquired business and of other adjustments and financing via an existing liquidity and €650 million of new debt facilities.

On the right hand of the slide, I'll give a little bit more color to the integration. We have now integrated the oncology asset into our Rare Disease unit with 3 strong business units within Rare Disease, Metabolic, Endocrinology and the Oncology assets. Like I said before, the integration is progressing really, really well, and we expect to completely finish the integration still this year.

There's a lot to do around the new sets of products that we acquired. The performance is really, really fantastic. But what we do with user integration is much more than integrating assets. The key thing here are also really the people that we brought on board with all of their confidence and know-how which is very relevant in this attractive niche oncology market and the rare disease oncology.

And with these people and with our own team here, we look at some of the assets where we see additional opportunities that we've indicated in the pipeline part of the slide where we are currently looking at what are the opportunities and bring the business cases for that. Too early to comment on the size of the opportunity and time lines, but we believe there's

something there that is really worth spending some time and money looking at this.

And to make all of this happen, people are key. And the integration with EUSA is happening incredibly fast. We are very compatible in culture, and it's very, very good to see how the teams are working together and we basically work as one to help them drive our business further and serve even more patients in the time to come.

And with that, I'll leave the floor to Luigi for a detailed financial review.

LUIGI FELICE CORTE: Thank you, Rob, and good morning, good afternoon, everyone. Likewise, a very happy to have this opportunity to provide more detail on what was a strong set of results in Q1.

Starting with, as usual, on Slide 4, sales for our key corporate products, which you will see reflect very strong growth of our rare disease franchise and continued recovery of our relevant markets in Specialty and Primary Care, particularly cough and cold and OTC. When it comes to the main lines on the sheet, Zanidip and Zanipress are lercanidipine franchise, you'll see down by 18.7%, with both products down in the quarter.

As anticipated and flagged sales in Zanidip were down primarily due to sales to our distributor in China following a loss of a tender. And due to the fact that in Q1, 2021, sales benefited from initial sales to that distributor. We don't expect to have further erosion on the franchise in the remainder of the year.

Sales of metoprolol broadly stable. As we recall, metoprolol was down over 7% last year. We are seeing a return to growth in Central and Eastern Europe, which was offset by a slight erosion in Poland and Germany,

predominantly. And also, in this case, I don't expect further erosion for the remainder of the year.

As Rob highlighted strong contribution of Eligard in the quarter with sales of just under €24 million. Thanks to the promotion behind the product. We have succeeded in stabilizing in-market sales and starting to see signs of return to growth in France and more importantly, in Spain, which is the key market for Eligard. These being you know, obviously great signs given the product fees trajectory within market sales overall, broadly in line with last year, and the €7 million increase being mostly driven by the transition to direct distribution.

We had set expectations for 2022 that our other franchise is silodosin and pitavastatin which lost exclusivity in 2020 would continue to stabilize, and that's very much still the view. You see the fact that pitavastatin returning to a slight growth. Thanks to growth of sales to our international distributors and also in Switzerland and Russia. And erosion...some continued erosion on silodosin being primarily though driven by FX in Turkey and some additional erosion in Italy in particular.

A key growth driver many...several key growth drivers within the other corporate products, I'll call out some of our main cough and cold franchise, ISOFRA, POLYDEXA, the Hexa line in France, but also of the corporate OTC portfolio, CASENLAX and some of our probiotics products together with Reagila, all of which contributing to sales of other corporate products being €72.3 million in the quarter, up close to 14% versus Q1 of last year. Some of these products, as you recall, particularly cough and cold being impacted by a bit of destocking in the first part of the year, prominently Russia.

Sales of drugs for Rare Diseases and it's at €106.1 million growing by close to 25%, and as you can see, with the growth really being driven by both our legacy metabolic franchise, but also the Endo portfolio, which has reached €38.2 million in the quarter, €17 million of which are being contributed by Isturisa.

We've seen in the quarter a very little impact from recent generic entry in the US of…on Carbaglu. We do expect a bit more headwind from that in the second part of the year, but we do continue seeing dynamics in generics in the Rare Disease segment being very different from SPC, and therefore with much higher stronger ability to retain patients on current medications.

And finally, and just for reference, obviously not included in these results are the Q1 sales of EUSA, which in the first quarter were around €38 million, an 8% increase versus previous year. And as anticipated and previously communicated, we will be obviously consolidating these results starting from Q2.

So then moving on to Slide 5, you see drugs for Rare Diseases account for now over 25% of revenue. OTC, overall which grew strongly at double-digit in the quarter, accounts for 19% of group sales with local portfolios accounting for 14% overall.

On Slide 6, looking at revenues by key market, you will see, in fact, the...how broad-based the growth was. In fact, all of our key geographies are growing. Even Turkey, which is obviously showing a minus sign is growing high double-digit, close to 31% in local currency. And just picking out some of the main themes, it's quite common in terms of cough and cold, Eligard OTC driving the growth of Italy and France at respectively 5.2% and 12.1% versus last year. In the case of Italy, within

OTC, we call out [indiscernible] which grew strongly in the quarter, in the case of France, it was really the Hexa line and the [indiscernible]. In both cases, again, with good contribution from Eligard in the quarter.

US is now our second largest market, obviously dedicated to the sales of Rare Disease product with revenue of €52.6 million in the quarter, up 42% or 32.4% constant exchange rate, obviously with tailwind from the strengthening of the US dollar over these months.

Germany, up by 5.3% with revenue €38.3 million, with growth of Ortoton and once again, growth...strong growth of the Rare Disease franchise in Germany and the strong contribution from Eligard which is also driving significant growth in Spain at €33.3 million.

Spain continued to see also a strong growth of our GI portfolio, products like CitraFleet, Casenlax which are…have strongly rebounded since the middle of last year, following the impacts of the pandemic with very similar trends driving the growth in Portugal as well of 11.1%.

Turkey, as commented local currency terms growing by over 30%. This is really volume-driven with strong recovery of the market there, obviously, also in this case, some contribution from Eligard, for which we have now actually completed the marketing authorization transfer also in Turkey, and therefore, we'll be able to you know, fully support the product. We do expect actually growth in Turkey to accelerate over the next month following price increases which were considered to the industry in March of this year.

I'm sure we may have questions on business performance and outlook in Russia, CIS and Ukraine. Obviously, as you will have seen, sales in that region remained very resilient, and in fact, showing strong growth in the

quarter. Once again, that is somewhat distorted by the destocking that we have seen, particularly in Russia, in the first quarter of 2021. But that aside, obviously, we saw in the early months…the early weeks of the year, a strong recovery of those markets, particularly of cough and cold, with...and also in the weeks leading up to the escalation of the conflict, some advanced purchases locally. You see that in local currency terms, Russia...sales to Russia are up close to 60%. Again, once again, with the Q1 comparable being somewhat distorted by destocking. Sales in Ukraine also of equivalent €4.4 million were up 22% in the quarter in local currency terms.

Other Central and Eastern Europe, sales of €30.3 million, up 9.3%, driven once again by OTC, growth of rare disease, and as commented in return to growth of metoprolol in several markets, coupled with obviously the addition of Eligard, which is driving also a significant part of the growth for Western European countries. And again, to call out here, growth of pitavastatin in Switzerland and some of the smaller Western European markets.

North Africa, sales of €10.1 million are up 3.1%, and with sales from our affiliates in Tunisia, OPALIA up 8% and that growth, partially offset by continued challenge to exports to Algeria. And finally, international sales down by 8.5%, really being reflective of the dynamics of shipments to China, which offset the growth of rare disease and contribution of Eligard in our international affiliates.

On Slide 7, you'll see that Italy has a share of total at around 18.4%, obviously remaining our main markets with US now representing close to 13% of total, but once again, you know, showing a very diversified footprint for the group.

Moving on to the P&L on Slide 8, as Robert said, you know, margins remained strong. I'm very happy, obviously, with the financial performance, in the quarter, gross profit margin at 72.5%, slightly below the level achieved in the first quarter of 2021, a bit of mix there, but also starting to see a little bit of an increase in raw material costs starting to come through. And we do expect a little bit more of that in the remainder of the year.

SG&A expenses at 29% of revenue are up 7.3% versus previous year, with selling expenses up by 6% at 23.6%, and G&A has been staying at around 5.3% of revenue. The growth here, particularly in selling expense is clearly being due to the restart of activities in the field, which have returned pretty close to pre-pandemic levels in most of our territories with exception of some of the Northern European countries, and additional obviously reflects also additional investments behind Endo and Eligard, which however, offset by some of the efficiency improvement initiatives that we put in place at the end of last year and are continuing to deploy.

R&D expenses at 10.4% of sales are up 5.3%. Clearly, this is driven by...particularly by some of the measures we took last year to strengthen areas like market access, pharmaco vigilance and regulatory as we took on new franchises and the progression of ongoing studies, particularly in the Endo side, and obviously, MT8 [ph], as usual, this line of the P&L includes amortization expenses to the tune of €18.7 million in the quarter.

Other expenses of €7.2 million reflect you know, €5 million of nonrecurring costs related to the user transaction. I recall, we said we expect from the transaction a total of €35 million across '22 and '23, of which €28 million this year, and also some additional costs of around €2 million due to the ongoing rightsizing exercises.

This results in operating income of €131.3 million, a margin of 31.3% and EBITDA of $163 million which is very strong, very much in line with last year or close to last year at 38.9%, reflecting the strong revenue, the cost discipline and as I said, minimal impact so far of inflation in year-to-date.

And moving to the non-operating line of the P&L, I mean, obviously, we have continued to see some FX volatility in the quarter, which results in some FX losses, but not quite to the same level as same period last year, which is behind slightly lower financial expenses of $7 million. The tax rate broadly stable at around 32.2%, leading to a net income of €96.7 million and adjusted net income of €116.3 million, which is up 11.4% versus Q1 of 2021.

You'll see on Slide 9, both businesses holding strongly and performing strongly in terms of margins with Rare Disease at around 47%, and SPC at 36% with Rare Disease now accounting for just over 30% of group EBITDA. We're obviously focusing EBITDA given the increasing distorted effect, the amortization and other noncash IFRS 3 adjustments will have on reported operating income, particularly starting from Q2 once we start consolidating EUSA.

On Slide 10, cash flow, as Rob mentioned, continues to be very strong. You recall, we had a very strong result in 2021. 2022 free cash flow in the first quarter of €110.3 million is in line effectively with previous year. So once again, on track for strong delivery in terms of cash generation as well, with the incremental EBITDA being offset by slightly higher take on working capital, really being driven by the growth of the business, of course, the cash flow reflects the consideration paid for EUSA of €707 million. And in the other financing flows, obviously, is the net debt, which we acquired with the entity of around €25 million plus the new financing that we took on to finance the acquisition.

Slide 11 as already commented by Rob, obviously, net...our balance sheet that remains strong with €1.4 billion of debt representing around 2.2 times leverage with...or in fact, I should say, without pro forma EUSA, excluding completely the EUSA pro forma EBITDA would be around 2.3 or 2.2 once we include that.

And to close on my side, you'll see on Slide 12, we provided a bit of a latest view in terms of some of the key planning assumptions for this year. You may sort of recognize the bullet points on the left representing the assumptions we called out when the targets were set at the beginning of the year and sort of the current view.

And in summary, we believe that we are on track to deliver on the objectives that were set. We certainly feel the momentum on the revenue side is strong, is robust, of course, we expect a bit more headwinds, particularly on the SPC side coming from combination of FX, which will be most likely higher than the minus 1%, has been forecasted, obviously, it depends a little bit on what happens to the ruble. But overall, and aside from that on track with our growth ambitions and certainly on track when it comes to the key growth drivers being the Endo franchise and Eligard.

What headwind we may see on SPC arising from the conflict, we believe, is going to be offset by the slightly higher contribution of EUSA, which we will consolidate as of Q2, but obviously, we'll have the benefit for the full quarter, as Rob said, delivering over €120 million of revenue and over €30 million of EBITDA for...between Q3 and Q4.

We do expect EBITDA margin to still be around 37% of revenue. And despite the very strong performance in Q1, we do expect somewhat higher inflation headwinds in the second part of the year. And, of course, just the

sheer effect of consolidating EUSA which is currently running at a lower EBITDA margin than the rest of the group, but our expectation remains that it will align over time to the average of the Rare Disease segment.

And finally, we do expect financing costs to be probably closer to the higher end of the range, because of the increase in interest rates and FX, but no change at current time and other tax rate or nonrecurring cost assumptions.

And so, you see on Slide 13 effectively you know, confirmation of the target that we set at the beginning of the year, which, just as a reminder, obviously include the contribution of EUSA. Clearly, we assume that sort of continued operations in Russia in line with the current.

And with that, I'll hand over to Rob to talk about our priorities.

ROBERT KOREMANS: Thanks, Luigi. So clearly, our priority remains on delivering the targets for 2022. We're on track and confident that we can deliver. But I also wanted to share with you some of the overall broader priorities that we see in our business.

First, we will continue to drive organic growth for both our business units. And we have our growth drivers in place in the SPC part of the business with Eligard, with OTC and in general, increase in demand. Our growth is volume driven on the back of a growing market demand, aging population, specifically for the area...having solutions for patients in this area in SPC.

And we continue to see very good growth for our Rare Disease part, specifically on the Endo and on the oncology franchises with strong double-digit growth in this. And we really want to continue to also exploit, what I would like to stress as affordable internal pipeline

opportunities, aiming to reinforce our internal pipeline and also our capabilities in that field.

And for me...and for us, affordable innovation means that it's not only financially affordable in terms of cost but also in terms of risk. And within our portfolio, we see good opportunities that we want to further explore to enhance our growth in a very nice...in terms of the follow and low-risk opportunity there.

We keep also enhancing our growth through value accretive M&A activities, both in SPC and that is focused on Europe and in Rare Disease, which is global, and there will be focus also on the US, because that's where the biggest earnings and profit opportunities are in this business. We are committed to reinvest cash flow in the company to fuel future growth.

We want to stay and our ambition is very clearly to sustain our position as a sector-leading business in terms of operating margins on EBITDA and adjusted net income. We will continue to drive for further efficiency on the commercial side, but also in our operations where we have programs in place to address the impact of inflation and also to leverage our vertically integrated supply chain and absolutely to maintain a solid balance sheet and a very clear capital allocation policy as done in the past with very strong discipline. We do expect to continue to deliver strong cash flow generation to fuel our growth and also our dividend policy with a 60% of cash flow.

By the end of 2022, we aim for a leverage ratio of around 2.2 times EBITDA, excluding any further BD/M&A. However, our cash generation profile we feel could allow us to go to close to 3 times if a high-quality opportunity of scale came along. And clearly, we would do so with a plan

to come back to the levels of leverage that we feel are more sustainable and appropriate for our business.

With that, I would like to thank you for your interest so far, end the presentation and open the floor to questions.

Q&A

OPERATOR: This is the Chorus Call conference operator. We will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on the touchtone telephone, to remove yourself from the question queue, please press "*" and "2." We kindly ask to use handsets when asking questions. Anyone who has a question may press "*" and "1" at this time.

The first question is from Martino De Ambroggi of Equita. Please go ahead.

MARTINO DE AMBROGGI: Thank you. Good morning, good afternoon everybody. The first question is on the consolidation of EUSA, because you are revising upwards the contribution, but because of, let's say, one month in excess of what you expected. But I noticed the EBITDA margin is a couple of percentage points higher. I don't know if it's just a matter of rounded figures or you discovered something more exciting than you thought? And you didn't talk about '23 guidance for EUSA. And I just ask you if you confirm €150 million for sales and €50 million of EBITDA. And a general question on the guidance because if we remove EUSA from the consolidation, you have growth in terms of sales and EBITDA between 0% and 5%. And if we remove also the contribution of the Endo franchisee, it's even lower. So I clearly understand there is the Russia impact. I don't know if you can share with us what is your best estimate

for the current year sales, Russia and Ukraine together. I understand the FOREX is a bit worse than expected. Lercanidipine, I understand it's just an issue for the first quarter. So could you summarize what are the negative effects on a like-for-like basis that are impacting your guidance?

LUIGI FELICE CORTE: Sure, Martino. So I'll try on the last one, though. There's a number of moving parts there, obviously, also not clear if the sort of reference is the guidance for Q1. But I think in terms of your question, I think we said that we're already at year...at the start of the year that EUSA is performing better than if you like, our sort of business case assumption, and that's reflected both in a like stronger sales momentum and also a sort of marginal improvement in the sort of expected EBITDA contribution. Bear in mind also, there is a little bit of...I mean, when looking at the contribution for this year, we also had to make a call without having full visibility on the monthly phasing as to what exactly would be the portion that we would be consolidating this year. So there's a little bit of that. To answer sort of maybe sort of more relevant question, around 2023 expectations for EUSA, I mean we're not giving today, right, sort of revised 2023 guidance; however, I mean we have indicated that EUSA is running ahead of plan. I mean it delivered just over €150 million of sales in 2021. It's currently running, I mean, if you do the math with around sort of 25% EBITDA margin in the second part of this year, we think we can achieve in excess of 30% for next year.

Again, we're not going to give a sort of specific, but it's certainly going to deliver more than €150 million of sales. And I think you should expect an EBITDA margin contribution of that north of EBITDA. I think when you then start on taking things like Endo, you need to be a little bit careful, right, because, I mean, Endo is an integral part of our business.

So, to look at, first of all, Q1 results, obviously, don't have any contribution from EUSA. In fact, they have a €5 million charge, as I read. So if you like, the growth that you see in EBITDA for this quarter from our perspective is fully organic and for EUSA, of course, if we start taking out from that, all of the parts of the business, which are growing, then of course, the balance will be declining. So perhaps I didn't fully understand the third question. But I think from our perspective, excluding EUSA, so far, we're growing and we'd expect that to continue.

MARTINO DE AMBROGGI: And could you share your best estimates for Russia, Ukraine this year?

LUIGI FELICE CORTE: Yes. I mean, Ukraine, obviously, we had €4.4 million of revenue in the first quarter. I think that is remarkable and a testament really to the resilience of people in that country. I mean, we are continuing to be able to get sales across and I think people in Ukraine are trying to operate as close to normal as they can. So we're still seeing wholesalers putting through orders and even paying invoices. Now of course, we don't expect a significant contribution from Ukraine over the remainder of the year. Russia is different. I mean,

Russia, I mean, Russia we see the business continuing to perform. Of course, we've said multiple times. We're committed to continuing to supply patients wherever they are. And I think it's more a judgment call as to where you think the ruble will be, which is a little bit difficult to call right now.

So, we're not providing specific full year estimate for Russia. But so far, we see business there continuing. We may expect a little bit of demand softening later in the year as economic sanctions start to bite into spending

power. But then if you assume 73 on the ruble, which is where it is now or 100, which is consensus, clearly makes a difference.

ROBERT KOREMANS: And maybe also worth to stress Martino that the…of course, we continue to serve patients wherever they are as to our best ability and do so within all the legal frameworks and the requirements coming from sanctions. And we always said also the priority is safety of our people, both in Ukraine and Russia. And this is an incredible, volatile environment where we really are very much on top of it. I'm glad to say everyone is safe so far. But we need to really make sure that this continues to be the case also in Russia. So, you cannot just pull out without at least also considering the potential implications for our people in Russia.

So, we continue to do business, and we work with the consensus ruble rate at the moment, but no one really knows where this will end. And so far we really are very close on top. So far, we've not seen any significant interruption of our business there or in Ukraine for that matter.

MARTINO DE AMBROGGI: Okay, thank you. Just the very last question on the M&A. I don't know if you…we can stay it temporarily on hold because you need to digest the EUSA or because the debt-to-EBITDA is already higher than usual or back to what Andrea used to state in the previous calls, there are a lot of opportunities around and this will not prevent any announcement.

So I think I would go with Andrea's words. There are really some really good opportunities around. And of course, we will maintain our discipline. And I think that's been one of the key success drivers of Recordati, it's being able to generate really good cash out of the acquisitions we do and have a good return on capital. So that is something we really look at very carefully.

There will be opportunities going forward. EUSA integration is progressing really well, and the people are really very much part of Recordati at the moment. And any new deal, of course, we have to put in the light of the opportunity and we are very much aware of the fact that we need to finance it. So we'll take all of that into consideration and keep the discipline there. But if the right opportunity is there, we will not hesitate and go for it.

MARTINO DE AMBROGGI: Thank you.

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

JO WALTON: Thank you. I've got 3 real questions and just one modeling question. My first question is your ability to pass on prices ex-U.S. You've mentioned that you're expecting to see higher inflation in the second half. Is that something that you'll be able to offset, I guess, in OTC, that's relatively easy. You have been given some price leeway, perhaps you could give us the magnitude of that in Turkey and whether it actually manages to catch up with the devaluation.

My second question would be whether you've seen the current very poor environment for biotech funding increase the number of deals that you are being offered. I could imagine that there would be lots of biotech companies who are now no longer looking to try and commercialize things themselves because they may not be able to get that funding to do it. So is there a material uptick in what you're able to do? And then perhaps allied to that, I was really intrigued by your slide where you talked about the integration of EUSA in your Orphan Europe business.

And the 2 together is 2 and 2 may equal 5, not 4. Can you give us some idea of maybe the number of marketing people that you had in your Rare Disease unit? What quantum that has gone up? Is there some sort of critical mass that you have now reached adding that business?

My final just modeling question is I know you haven't decided exactly what the amortization charge will be for EUSA. But could you give us a number that we should use for the next 3 quarters? Presumably, it's higher than the 18.6 that we had in the first quarter? Thank you.

ROBERT KOREMANS: Thanks, Jo. A couple of good questions, interesting questions. On prices, I think you're right. What we've done, yes, in the U.S., even there is an opportunity and ability to increase prices a bit, although these things are also…I mean, you have to be careful on how to do that and where to do. OTC, yes, the same if the competitive environment allows for it. In Turkey, we've had the opportunity to really increase selectively some of our products because we could demonstrate through the Ministry of Health that the price increase would really be justified and they've approved that on top of an already over 30% price increase in general that became effective in March.

So, we've seen the ability for us to pass on some of the cost pressure to also increase our prices, not everywhere and everything, but where it's possible and reasonable and I believe it's the right thing to do, we obviously do that.

On biotech, yes, I think when 2, 3 years ago, money was swimming around biotech. This is less the case. Yes, there will be good opportunities for companies like Recordati. We had a very good commercial footprint in rare disease globally and a very strong footprint also in Europe where some of these opportunities can actually also fit to SPC. This really helps

us in future M&A. And a bit to the point I was making before, we will maintain our discipline, right? It's really important that we do the right deal with the right potential return and using our capital in a disciplined manner. Also, for us, it's absolutely something that is needed, and we'll continue to do that. But I'm optimistic about possibility to do the right sort of deals.

EUSA has absolutely strengthened our footprint in rare disease. I'm not going to share the exact commercial footprint for competitive reasons, that's too sensitive. But before that, we really didn't have much of a presence in the rare oncology, and now it's with the EUSA people, and they're now Recordati people on board. We have a very good medical, commercial and general ability to interact in this niche oncology…rare disease oncology market, where there are couple of good opportunities.

And I think with this footprint, there hasn't been much of a commercial overlap, if you like because the Endo, the Metabolic and the Onco commercial medical teams are very different. But definitely, these people can learn from each other and the back-office support functions is where we see a little bit more of a potential opportunity in synergies.

Our footprint is now global. And I think a company like Recordati for partners is a fantastic partner where they don't completely lose their assets and lose themselves. Can still feel what they do and the assets that they brought and tendered forwards with a lot of loving tender care. We really are a good home for the right ones. And that, I think, is an advantage that we have. And for your last question, I'll ask Luigi to comment on that.

LUIGI FELICE CORTE: Yes. For modeling purposes. But for those…maybe, I don't know, for others on the call, I mean, obviously, we're now going through the sort of purchase price allocation exercise. If you start from the premise that we

signed an enterprise value to EUSA of €750 million and assume that a large chunk of that would be assigned to intangibles, you can expect a sort of yearly amortization charge of probably somewhere between, let's say, ballpark, €25 million, €30 million a year.

Now, I need to be careful with that. The reason why we haven't sort of yet sort of finalized that is because we're looking, we're making sure that we've also looked carefully at the fair value uplift on inventory as customary and as perceived by the standards, and that work is ongoing, and we'll have to…we will say obviously communicate the exact figures as soon as we've done that exercise. So sorry, I can't be more precise than that at this stage. But the work isn't done yet. Obviously, we closed the acquisition a few weeks ago. And inventory by nature is a bit of a moving sort of beast.

JO WALTON: Thank you very much.

OPERATOR: The next question is from Harry Sephton of Credit Suisse. Please go ahead.

HARRY SEPHTON: Thanks for taking my question. So my first question is on the new Eligard device. So ahead of its launch, can you maybe give us an update on your expectations of approximately what proportion of the current Eligard market you would expect to switch with that new device. And then also, could you give us an update on the competitive advantage you expect for that new device, especially in light of some recent launches of other prefilled LHRH agonists in that space?

My second question is then on Russia. So you mentioned that you are still supplying in Russia, but are you still currently carrying out promotional activities in Russia? And would you say that supply is broadly normal?

And then related to that as well on Russian receivables, while Russia may only account for a small portion of your sales, we usually hear that it takes longer to get paid from Russia. Hence, we see a higher proportion of receivables. Can you disclose your receivables in Russia? And maybe comment on the current ability to get paid and take cash out of the country at the moment. Thank you.

ROBERT KOREMANS: And maybe, Luigi, if you start with Russia, take that question first.

LUIGI FELICE CORTE: Yes. Sure, Harry. I mean we're currently seeing no issue at all collecting and remitting funds out of Russia and converting the rubles into euro. So that's sort of short answer to that. I mean, usually, the distributors in Russia work anywhere between 75 to just over 100 days. And we don't sort of give a sort of specific number. So, I think if you look in our Annual Report, I think we do publish, if you like, for the total net assets, which are denominated in rubles at the yearend. I think it was 6 billion in sort of rules with yearend being a particular sort of high moment because of the sort of phasing of cough and cold. So, it's usually, again, anywhere between 75 to just over 100 days, but we're seeing no problem at the moment, collecting. And by the way, we do also have insurance and guarantees that we've always had, actually, that's not something new on receivables in that country because of their long-dated nature.

ROBERT KOREMANS: And also in terms of shipments, stock, nothing unusual at the moment in Russia. It's a bit more cumbersome to do some of the business there, checking all the parties involved in terms of making sure that we really stick to all the required legal actions there and clearances. But no particular changes in stock levels or anything in Russia.

LUIGI FELICE CORTE: We have maybe just to round off. I mean as you expect we have sort of been operating sort of trying to making sure that invoices out of Russia are

paid on time and where possible, in fact, times a bit ahead of time. And the business…our local affiliate in Russia has reduced, as they've done, others, some of the level of, if you like promotion and advertising to some extent.

ROBERT KOREMANS: And on Eligard, on the question, so what we expect of this new device is that it's actually…it will help to improve the handling for patients. It will still…it still is a device that you really need to explain to the patients and nurses and caregivers in general, medical professionals. What we've seen coming up from some of the tests we take, this is really…it's appreciated. We will…we believe it will help to give a positive impact on it. I don't expect that a huge percentage of patients, all of a sudden is banging on our doors to shift, but we will start to shift almost all of the patients to this new device country by country as the authorities will most likely request us to take back the old device the moment, you have an improved version of the market. So, I do expect that this device will over time substitute for all of the…not only new patients but also existing patients on Eligard.

HARRY SEPHTON: Brilliant. And just did you have any comments on the recent launch of a prefilled syringe in the LHRH space? Or would you say that that's just typical of the markets that you operate in?

ROBERT KOREMANS: Yes, it is. I think if you see in this market, there's all sorts of alternatives in the market. We have factored them all into our plans, and we do not see that this is going to seriously impact our plans going forward. So, this was all factored in.

HARRY SEPHTON: Brilliant. Thanks very much.

OPERATOR: The next question is from Rajan Sharma of Deutsche Bank. Please go ahead.

RAJAN SHARMA: Hi, thanks for the questions. Just a couple of updates, actually. The first on the Cushing's Syndrome regulatory path for Isturisa in the U.S. I think previously, you commented that FDA discussions were expected in early 2022 and now that we're kind of into the second quarter of the year. Could you provide an update on that and whether any discussions have been held?

And then just secondly, an update on Sylvant, which is one of the EUSA products. Again, full year results, you commented the performance of that product, in particular, had been particularly strong given the IL-6 market dynamics, so I was just wondering if that's normalized now? Or does that demand remain elevated? Thank you.

ROBERT KOREMANS: So the FDA discussions will happen in the next weeks. Actually it's…they are very imminent. And I don't think I should comment on the potential outcome there, but it's…we expect to have that anytime soon now.

On Sylvant, no, it's sort of normalized. There was a bit of an uptake at the end of last year because of some of the potential competitive products couldn't always deliver and we took up some of that and that has really normalized now.

RAJAN SHARMA: Okay. Thank you. And then just if I could follow-up actually on one of the questions on the business development or M&A outlook given the market weakness? And obviously, you talked to there being opportunity now. So does that potentially provide you with kind of the rationale to perhaps go to the higher levels of leverage that you've discussed potentially kind of 3 times or above given that we are potentially in kind of a unique opportunity for yourselves?

ROBERT KOREMANS: Well, the 3 times for us is sort of hard. But like I said before, if there is a fantastic opportunity, and we see it all depends really on what the deal would be. But if this is the ones in the lifetime opportunity, which we would try and make it happen, but we do have this governance around the leverage, and we really take that serious.

LUIGI FELICE CORTE: I think I will just correct on that. I think we will continue to be as disciplined as we've always been. I think, yes, there are opportunities being thrown up [indiscernible] and biotechs finding it harder to potentially access funding. But we're not going to go in wild pretty simply because that's the case. We'll continue to apply the same sort of rigor to the approach that we've always applied, Rajan.

ROBERT KOREMANS: All right. Thanks very much.

OPERATOR: The next question is from Giorgio Tavolini of Intermonte. Please go ahead.

GIORGIO TAVOLINI: Hi, good evening or good morning, everyone. I had 2 questions from my side. For modeling purposes, in the past, you used to provide the operating income breakdown between rare diseases and specialty and primary care business. So I was wondering if you could share with us a similar breakdown also for this quarter.

Secondly, I noticed that in Slide 3, you are mentioning 2 new pipeline indication for Sylvant within the EUSA Pharma portfolio and also for Signifor PBH. So what benefits…opportunities do you expect from these new indications and which timing? And the very third one is on the trend, top line trend. I mean, you had an easy comp in the first quarter due to the destocking in Russia last year and the accelerated purchases this year. So I was wondering if you could quantify this effect to extrapolate a like-for-

like trend. And if we should expect in the second quarter a weaker top line momentum due to the normalization of this organic trend. Thank you.

ROBERT KOREMANS: Yes. Thank you, Giorgio. Maybe I'll start with the 2 opportunities you related now and I'll pass on to Luigi to address the other one. The opportunity on Signifor PBH, PBH stands actually for post-bariatric hypoglycemia, which is a fairly serious problem with a big unmet medical need that highly obese people undergoing surgery oftentimes face and can really have very serious medical consequences. What we have seen in some sub segments of patients doing trials with Signifor is that there could be a potential benefit there. And what we're doing at the moment is trying to understand what it would take to get that indication approved and what it would bring in terms of the business case.

I think in the…we'll need a bit of time to really completely sort it out. And then I can't comment on what time we would need to really then get it to market because it depends really on the clinical program that we would need to agree with the authorities. We do have…and you might have picked that up. The European authorities do believe that this is really interesting and relevant, and we got an orphan drug designation for this indication in Europe. So it's something we're really seriously looking at and we would consider to do if also commercially it makes sense to do this as an opportunity.

Sylvant new indications are really very much cytokine response indications that we look at broader. There, we even have much…we need to really sit and we're sitting down with our new colleagues from now the Onco franchise in the Rare Disease to go through all the opportunities, prioritize them and look at what are the ones we really want to pursue. I'm optimistic that there is something really interesting and actually also quite significant in that respect. But I would rather really wait with a concrete

plan with timing and peak sales expectations before I share anything with you on that.

And Giorgio, I'll pass to Luigi for the other questions.

LUIGI FELICE CORTE: Yes. Sorry. So Giorgio, in terms of comparison to last year, I think last year, we quoted somewhere between €8 million and €10 million sort of being the destocking effect that we've seen on cough and cold and particularly in Russia in the first part of the year. I mean in terms of expectation going forward, I'm not going to have to sort of give more precise guidance than the one that we've given being that we expect to be within the range that we set.

We've given the indication of where we think EUSA will contribute. And I think with that, we can work out what kind of growth rate we can expect. I think in terms of operating income of the business unit and just to make sure that there's no suspicion, we won't be hide anything. It was close to around 39…adjusting for the €5 million nonrecurring item on EUSA, if we exclude that, it was around 39% for rare disease and 31% for SPC.

And again, the only reason why we think it makes more sense to focus on EBITDA going forward, as we started to do, if you recall, since some time to the global group is that unless we decide to do a massive sort of bridge between reported in core as other companies do operating income will start being a bit more distorted by the accounting of the noncash IFRS adjustments that arise from the acquisition. So that's the only reason really why we're focusing on EBITDA. But again, with around 39% on Rare Disease and 31% on SPC for the quarter.

GIORGIO TAVOLINI: Appreciate it. Thank you Luigi, thank you.

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

JAMES VANE-TEMPEST: Hi, thanks for taking my questions. Just firstly, on Turkey, I think you said you expected uptick in Turkey with higher prices. But just wondering if you can give us a sense of what the channel is like. And have you seen stocking in Turkey ahead of price increases by households or distributors?

And the second kind of related question and just following-up on an earlier question, it's interesting, you're not seeing stock levels change in Russia that much. Some other midsized companies have talked about households stocking up massively in March. So I'm just kind of curious why do you think that is? And how many months of inventories do you also have in Russia?

And then my last question is, typically, we've seen over the years you've updated the strategic plan at Q1. I recognize this is unprecedented times. But just wondering what your latest thoughts are around that, when we might get a glimpse of what you expect for 2024? Thank you.

LUIGI FELICE CORTE: James, I'll start with Turkey and Russia. I think Turkey, these price increases recur pretty much every year at the same time. So whenever would that sort of distributors try and advance some purchases just out of that, yes. But it's a trend that we know when to expect and to manage and there is...

ROBERT KOREMANS: There is no inflation.

LUIGI FELICE CORTE: Yes. So there's no…there is no…I don't think there's any sort of distorting effect of that because again we had sort of even though it's a slightly sort

of lower level but still high double-digit upfront increases in 2021 as well. I mean they do tend to trail a little bit, to the earlier question, do trail a little bit, the level of devaluation, but hopefully, you catch up over some years.

In terms of Russia, it's very, very difficult for us to gauge stock levels at the patient level. I think that we saw last year, a pretty drastic destocking from what used to be around 13%...we estimated, and I'm talking here stocks at wholesalers level, around 13 weeks, down to 8 and then sort of…it did sort of slid even slightly further in Q2. Information we have suggests that we're staying at those kind of levels, and actually, the distortion is from last year's destocking and the recovery of cough and cold, which across the region and; however, particularly in some of the Central, Eastern European markets, including Russia, was back, very close to pre-pandemic level. So based on the information we have, which is limited, and we're not going to be able to assess how much is exactly in people's homes, we're not seeing a huge increase in stock levels.

ROBERT KOREMANS: And no unusual patterns. So if you look at the patterns, I would be surprised if there would be massive stocking at household level.

LUIGI FELICE CORTE: There probably…there may be some…there may have been some in the early weeks, but now that we're 2 months on from the outburst of the conflict, I assume most of that like panic buying that would have been absorbed. Did that answer your questions, James?

JAMES VANE-TEMPEST: Yes. Thank you. And then just the last one on your strategic plan. Thanks.

LUIGI FELICE CORTE: Well, I mean, the strategic plan that we would usually update it every other year. So, I don't think there's any sort of change to that intent. So

we'll see, I mean, hopefully, by this…next year, the world will have sort of normalized a bit. But to do right now with so many moving parts, I don't think it would be particularly helpful, James. I don't know what else to say to that.

ROBERT KOREMANS: Of course, we stay on top of the business. We look at opportunities and for any potential deals, we make a longer-term view as far that is possible. But now, so every other year, we'll do the strategic plan, and you can expect from next year again.

JAMES VANE-TEMPEST: Great. Thank you.

OPERATOR: The next question is from Anna Murray of ICG. Please go ahead.

ANNA MURRAY: Hi, it's just a very straightforward one. I wondered if you could give an update on the funding for the US transaction. So€650 million, I think that's currently on a bridge. Is that right? Can you tell us what the current cost of debt is, if there are step-ups attached to that? And if you have or if you intend to refinance that bridge in the near term.

LUIGI FELICE CORTE: Yes. I mean, we've…we took out a bridge for when we did the deal. It's quite a long dated one, you'll see I think we shared already the details for the quarter, for Q1, where you will see in the notes is that sort of 12 months plus 6. So, we have a lot of time to decide the optimal way to sort of take that out. Obviously, original €650 million, we already took out €200 million with term loan at the beginning of the year, and we'll sort of continue to evaluate options. We have multiple ones available for the remainder. I know there's much more to say on that.

The line is quite bad. I hope I understood your question and responded.

ANNA MURRAY: Yes, you did. As a follow-up, I think you mentioned you think the financing cost will be to the wider end of your initial expectations. Can you give any guidance for that expectation now?

LUIGI FELICE CORTE: Yes. I mean the range that we've given was €31 million to €33 million for the year. And I said it will be at the higher end of that range.

ANNA MURRAY: Okay. Thank you.

OPERATOR: As a reminder, if you wish to register for a question, please press "*" and "1" on your telephone. The next question is from Isacco Brambilla of Mediobanca. Please go ahead.

ISACCO BRAMBILLA: Hi, good afternoon, everybody. I have a couple of quick questions. The first one is on raw materials, inflation pass-through. If I recall correctly, during the previous calls, we were discussing about the potential headwind to the tune of 50 basis points in the full year '22 from raw material inflation. Is this still a sort of a reliable expectation for this year.

Second question is on Eligard. If I look at Slide 4 of your presentation, I see a 40% year-over-year growth, which, I guess, is a bit inflated from the fact that in first quarter 2021, you were booking just net revenues for the product. If this is the case, can you disclose the sort of underlying growth trend of Eligard, say, net of the distortion?

LUIGI FELICE CORTE: HI, Isacco, yes, of course. So the sort of raw materials impact. You recalled correctly, the 0.5% sort of impact on gross margin. Obviously, that was sort of offset before the events in Eastern Europe and the further spike in inflation and prices that came with that. I think right now, I'd say probably we would expect an additional 0.5% on gross margin, so an additional 50 basis points. You've seen, I think, Q1, it was gross profit was

50 basis points below last year. I'd expect for the full year another 50 basis points decline, but we'll continue to sort of work at efficiency measures obviously to address that. And as we've said repeatedly, in some parts of the portfolio, we do have pricing lever that we can use.

With regard to Eligard, hopefully, I said it…I think I said it when I went through the product sales, I reiterated the €7 million increase versus last year is predominantly an effect of the transition to direct sales across all geographies. It wasn't the case in the first quarter of last year, of course. And from our perspective, stable…at this stage of the process is stabilizing the sales in market where like-for-like growth is pretty much on par with last year was the objective. And in fact that we're happy that we're starting to see signals of growth in Spain and in France. Like-for-like, it's…for now, it's pretty much in line with the previous year.

ISACCO BRAMBILLA: Okay. Many thanks.

ROBERT KOREMANS: Okay. I think, operator, we have time probably for one last sort of set of questions, if there are any?

OPERATOR: Ladies and gentlemen, there are no more questions registered at this time.

ROBERT KOREMANS: Then I'd like to thank you all for joining us today. Happy to share and probably share the first quarter results and confirm our outlook for the year and to have this discussion with you. I am looking forward to meeting you on the next occasion. I wish you a wonderful remainder of the day. Thank you.