Recordati S.p.A

“Presentation of Global Strategy, Development Strategy and the Objectives for 2019-2021 Plan"

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ANDREA RECORDATI: Welcome, thank you for coming to participate for the presentation of the Global Strategy, Development Strategy of Recordati and the Objectives for the 2019 and 2021 Plan. You obviously already have insight to them, insight on these numbers because they were released in the press release following the Board of Directors yesterday. But obviously, the plan today is to give you more color and information on what lies behind this plan, so strategy-wise and the financials and sales functions-wise.

So for those of you who don't know Recordati, because I know there are a few of you that don't know the company, I will go to Slide 4, please, Marianne, to give a quick profile of Recordati and what Recordati is today. Recordati is an Italian-originated pharmaceutical company. At the company obviously we closed 2018 with €1.3 billion worth of sales. And we have 4,142 employees across the world. The company has 2 main business units. One is the specialty and primary care business unit, which makes up about 84% of our revenues. And the other one is for the treatment of rare diseases, which is 16% of our revenues.

We are a well-known and well-positioned European player in specialty and pharma…primary care pharma and also with a substantial part of our business in OTC, which we put into this part of our business. We are operating in the main European markets, in Russia, Poland, and other Central and Eastern European markets and also in Turkey, an important country for us, and in North Africa. And we sell our proprietary drugs across our subsidiaries obviously, but also through our partners and licensees across the world.

For…[indiscernible] of the rare disease business, we have a global presence. We've been pursuing the strategy of entering more markets in recent years in order to kind of register and to sell our products directly and become really a global partner of choice for partnership as well in

order to licensing and justify also more better M&A, let's say, activities in this area because obviously the more markets we're present then we can commercialize our product launch, they come to market, the better for obvious reasons.

So moving on, still on the next slide, not [indiscernible]. Going on, on the next slide, a quick run through on the 2018 financial highlights. I'll be very brief because you know them very well. Our sales were up 5% in 2017. We closed with an EBITDA of €500 million, which equates to about 37% of our net revenues, which was up approximately 10% from the previous year. Operating income following more or less the same trend. And net income was up to €312 million, was 23% of net revenues and up 8% on the previous year. We closed with about €600 million or just below €600 million of net debt.

We have a very diversified business, both by our geography and by sales, and we think a very well-diversified and balanced diversification. As I mentioned before, we have a presence in rare diseases, which makes about 16% of our revenue, so we had a presence with the same amount of incidence in OTC.

We have a local product portfolio, which accounts for about 20% of our sales. And this local product portfolio contains some key champions in those respective markets. And then obviously, we have a franchise of corporate products. We're starting off from the lercanidipine franchise, our calcium antagonist for water retention, which is about 13.3% of sales; going through to our statin, to our BPH product, Urorec, the recently acquired in 2017 beta-blocker, metoprolol, from AstraZeneca; and then about 12.5% of other corporate products.

We are present…Italy is still an important country for us, 20% of sales, Germany follows and then France, then the emerging markets in Russia, Ukraine, CIS, followed by U.S.A., which is predominantly a presence in rare diseases and so forth. So just to give you a quick kind of insight on who we are today. Next slide, please.

Our history of growth. I think it's important to say a few brief words on our historical growth and expansion strategy in the year…of the products today. We were founded in 1926, and until the end of the 1990s, we were basically only in Italy and partially in Spain. Then in 1999, on the back of the success of lercanidipine and the cash flow generation of this product, we started an expansion strategy, geographical expansion strategy, but not only, also an expansion of our portfolio strategy. We then did France and followed by many other countries.

And this was achieved through a mix of organic development and inorganic development, but a well-balanced ratio of the 2. Progressive…so today, we have…we covered basically. we reached a progressive coverage of Western Europe, Central and Eastern Europe like I mentioned before and also some selected key markets around the Mediterranean Basin and also all the way down to CIS…emerging markets in the CIS area.

An important step in the company development was the diversification…strategic diversification to enter the rare disease segment in 2007 with the acquisition of our Orphan Europe. This was obviously on the back of us wanting to diversify our portfolio and enter a very attractive market, both looking at the patient needs and because it's a market that obviously offers a lot of opportunity because of the high unmet medical need, like I will explain a bit better later on, and also to diversify the

business because we think that diversification is one of the key strengths for the Group.

And we invested so in…both in SPC and the rare diseases, we invested significant amount of capital in order to kind of reach the geographical footprint that we have in the business today.

Today, our specialty and primary care business is about 84% of revenues with 70% of EBITDA and is really focused on Europe and the Mediterranean Basin, while the rare disease business is about 16% of revenues, 22% of EBITDA, and we consider it to be a worldwide presence.

In the next slide, again, to kind of continue with the company profile, and I think it's important to say a few words on the strong margin expansion and the sales growth in the past 5 years. This has been a solid kind of growth, starting from the revenues but also followed by an even stronger profitability growth and margin expansion, driven a lot by our very focused approach on leveraging assets that we acquire and put in our organization. And so we leveraged the organization rather than follow the acquisitions with no synergies let’s say or by adding structures in an unfocused way. This resulted, as you can see from the left graph on the right, which a lot of value creation for our shareholders. And we are planning to keep on doing this in the years to come.

To finish off, let's take historical strong performance story. I think it's also important to mention that when we communicate our targets to the market, we've done it in 2013 with first 3-Year Plan, and in '15 and in '17, we have always met or overachieved the targets we've given to the market. And the latest example is the 2017 Plan, which obviously finishes with 2019,

where you can see that revenues are in line with the 2019 Plan communicated targets, but we're planning to overachieve on the profitability target.

Next slide. Obviously, there was a big change, I need to mention this. There was a big change because it was an important transition for the Recordati Group. In 2018, the family decided to sell the controlling stake in the company. I won't get into the details of that, but unfortunately this happens in even the best families. And through a long process, selection process, we found what we feel is the best partner to keep on kind of stepping to the shoes of the Recordati family as a controlling entity into…of Recordati in order to assure the development of the Group in the years to come. This is obviously CVC Capital Partners, which, as you all know very well, is a leading private equity group with a solid P/E and a solid equity and with a strong track record. They have a global network. They have a highly experienced management team, but more importantly, they have a dedicated healthcare team with strong global network and a long-standing track record of investing into the healthcare sector.

So why did they choose Recordati? They chose Recordati, I think, because of the story that I just introduced through the previous slide and because also the prospect of the company in the years to come. I will remain as CEO, as it's already been announced. Here I am present as a CEO. And I'm also reinvesting in the company. I am reinvesting in the company, but not only myself, but also the top management of the company is reinvesting in the company alongside CVC and the co-investors of CVC. This is because we still believe there's a lot of strong potential for growth and development for the Group. And so management is in place. The same management that was with the Recordati family is still in the company and is managing the company as before and actually investing in the company, the top managers investing in the company

because they believe that the prospects are the same. I think it's also very important for the Recordati family to find a partner that would allow Recordati to be…remain an independent company, to ensure continuity for management and employees.

There is a strong commitment from CVC because a very important part of the investment thesis is the rare disease business. So there is a strong commitment for CVC Capital Partners to help us support and accelerate our growth strategy. And I think the numbers that you've seen released in the press release yesterday and which will be presented today go to show this.

It's also an important now to mention that to reinforce and bring the next further expertise, especially in the rare disease segment, Flemming Ørnskov, ex-CEO of Shire, obviously exited Shire following the acquisition of Takeda of Shire, has joined the Board of Recordati as a Chairman, as Non-Executive Chairman and he brings to Recordati with a solid expertise, track record, especially in the specialty and rare disease segment. So we are very excited about this, of the contribution he would bring to the company.

So now before we get into the strategy of the 3-Year Plan, since we also disclosed and announced the three…first quarter results yesterday by the Board of Directors, I would let Fritz as customary to introduce you through the quarter…first quarter results.

FRITZ SQUINDO: Good morning to everyone. I'll try to do a very short presentation because I think the focus today is more on the…first quarter results is more…rather than the first results are more in the business line, but I think to say that we are in line with our targets. We are growing the company, and the first quarter is a very solid and good starting point for our Business

Plan. And then you have seen by the press release yesterday that we continue to grow the business. Revenue grew by 4.5%, and this revenue included those revenues generated by the company that we acquired last year. We have also been impacted by a negative currency exchange rate, which is mainly due to the different valuation of the Turkish lira first quarter 2014-2019.

Overall, if we exclude all these items, the growth would've been of 3.2%, which means that we continue to have a pillar for our growth, both the organic business which continues to grow 3.2%, plus the contribution that is linked to our acquisition, in particular last year, we acquired 2 companies, Natural Point in June; and Tonipharm, which is an important brand in France, at the end of the year.

We are even increasing our margin in terms of EBITDA. Our margin of EBITDA grew by 7.1%, and now our EBITDA margin is at 37.6% of sales. Operating income which remained at 32.9%, in line with what we have achieved last year, with an increase of 4.5%. This different performance between EBITDA and the EBIT is also due to the acquisition. We are now acquiring essentially [ph] assets for which we have the amortization charges in our P&L. But in terms of net income, the growth of net income is of 6.4%, also thanks to lower level of financial charges and a bit lower tax rate.

The tax rate in the first quarter was 24.5% compared to the 25% we had in 2018. Then solid financial performance in line with expectation, 4.5% growth of revenue, but in terms of net debt, we continue to have a very balanced financial position. Net debt at the end of the period was €555.7 million, and this is all linked to the payment that we had in the first quarter for some milestones for the acquisition of Juxtapid in Japan and for the

payment of the milestone for the acquisition of another product in license in our orphan disease, which is Ledaga.

Then let me comment then, in the first quarter, we have also an increase on our debt by €25 million, which is linked to I know the very well-known first-time application of the IFRS 16. Then we have…overall, we continued to have a strong cash generation, which is in part invested in our BD activity, and we are very pleased by this milestone because it means that we have been able to continue reinforce [ph] in this case as well as essentially the case of investment of our orphan business.

Regarding corporate development, the most important acquisition was the acquisition of the rights for Juxtapid in Japan. This is important because we have entered last year in Japan based on our current portfolio, and we are very pleased by this reinforcement of our Japan organization with the acquisition of the rights for Juxtapid.

Let's…we can move on to the analysis of the main products in which we can see that our lercanidipine plain continues to remain a very important asset in the business. We continue…even we have a slight growth in the first quarter. Zanipress is decreasing, and this is only due to the generic entry in other markets in particular in the France one, while Urorec and Livazo are continuing growing. Seloken, the product acquired from AstraZeneca, is essentially stable, which means that we've been able to stop the erosion. When we bought the product, there was an erosion trend. The product managed by our commercial organization has stopped the erosion. We believe that this is not a growing opportunity. It was an important margin expansion, but now we are able to keep this essentially stable.

And then rare disease growth is 2.4%, and this is due also to the competition of the generic version of Cosmegen in the United States. The Cosmegen generic entry in the first quarter last year, the first quarter last year, generic was less aggressive than was in the second part of the year. Then in the first quarter, the impact quarter-by-quarter was more important than what has been…we expect to be going forward because after the first quarter in which there was an initial phase then there was a substantially stable share of the business between us and the generic version of Cosmegen in the United States.

We can now directly move on the composition of revenue by geography. Then with the Italian business continuing to grow, also thanks to the consolidation of Natural Point, which is a very important brand, Magnesio Supremo which is growing Pharmaceutical in sales also is growing, also thanks to the acquisition of our product, in particular, of the 2 brands, the Ginkor, Alodontv, belonging to Tonipharm, the company we have acquired at the end of the year. In Germany, we continued to grow the business also, thanks to the initial phase of Reagila. The German market is the first market in which we have launched in April last year Reagila. Reagila is a product based on cariprazine with license from Gedeon Richter, which is an important product…new product in our SPC business.

Revenue in Russia and the CIS, Ukraine and CIS market are down by 11.8%. And this is due to both, on the one hand, the exchange rate effect, but we have also had in Russia mostly local sales business, which is decreasing in the first quarter. But this is, let me say, only due to procurement policies of the main wholesaler. And in the…sales at the end of April are above last year. Then it's…that's due to phasing in our supplying the wholesalers. And we believe that our Russian business also in local sales could continue to grow at the high single digit as we did in 2018.

Then in all the other…in Spain we're growing. Let's comment on Turkey because comment…Turkey is an important business. We have a very strong performance locally, 24.4%, which is driven by…28.4%, which is driven by both volume growth, but also price increase because in February, there was a general price increase for all the company in Turkey.

Then sales in the U.S., these are only sales linked to the orphan business. As I said, that this less 3.3% is due only to the generic competition, Cosmegen.

Then we can move on slide in which represents our first quarter results. Revenue has been commented, gross profit is slightly below...there is a slight decrease compared [technical difficulty] last period. And this is due mainly to price and currency effect, while we continue to leverage the organization; we are reducing our SG&A expenses as a percentage of sales. We are...and that is the reason why we are keeping our operating margin similar that we have achieved last year. And we are even slightly increasing the net income at 24.1% and this is mainly thanks to the tax rate Andrea asked me to underline. And I think it's important to underline that EBITDA is growing now. Our EBITDA is 37.6% of our sales.

So the operating segment, then in terms of segment, we are growing both the business and our...just to say that our EBITDA in the primary…in specialty and primary care in the first quarter was 35.1% and this is not one business, one business unit which is growing in terms of profitability, both are growing and also in the specialty and primary care we have a very solid and valid EBITDA.

In terms of financial position, €555.7 million net debt financial position. As I've already commented, solid generation of cash flow and we think that we have room starting from this financial position to pursue our M&A strategy which will be financed, both the cash flow generation plus possible slight increase on our debt.

Okay. Then I [multiple speakers].

ANDREA RECORDATI: Thank you, Fritz. So I will go now with the 3-year plan, and I will start with the company strategy slide. Marianne, please. Okay. Before I…starting from the top of the slide, I think it's important to mention that we are...we feel that as a group we are positioned well...well positioned and exposed to positive macro trends. Obviously, an aging population is fueling higher health care expenditure and there is a greater prevalence of obviously of chronic diseases.

Recordati's portfolio is weighted toward a sort of diseases being in cardiology, primarily urology, gastrointestinal. We have a good exposure to emerging markets; yes obviously there is FX kind of issue to kind of manage there. But the volume growth of this market tends to kind of outdo this problem. So we are confident that being present in this market is a very good diversification and an important factor in driving growth of the group. And obviously, we are present in the rare disease area which, today with about 500 approved drugs to-date and 6,000 designated rare diseases still offers large and a lot of opportunity to find new product for unmet medical need diseases and clearly develop this business further.

So based on this premises, the group objective...the general group objectives are to continue the successful strategy that we have pursued to-date. This is obviously steady organic growth from a well-diversified portfolio. I think that as I mentioned before diversification for us is a key

strength factor for Recordati, it allows us to mitigate single risks…specific risks both geographically and portfolio related and obviously enhance this growth with accretive or strategic acquisitions, both in SPC and rare diseases.

More specifically, in the specialty and primary care we want to maintain the steady volume led growth from cash generative core products, as you would see in the following slides. To continue reinforcing our current geographical footprint in order to remain a partner of choice for BD and M&A activities, we think that we are, in Europe in the regional kind of arena, one of a few specialty pharma companies with a stronger footprint, both commercial and really a one-stop shop for partners looking for registering and commercializing the product in this market or in this region.

We will continue leveraging additional kinds of new products on the current organization, both in-licensed product and products that we acquire. And we will obviously keep on reinvesting, like Fritz said, the cash flow into accretive acquisitions in this part of the business.

Regarding the rare disease strategy, we will continue developing our portfolio…our global portfolio, we...like we've done recently. So bringing our products to new markets like we've done in LATAM and in other parts of the world in recent years, and...but also obviously, launching in new markets. And obviously, we will focus on consolidating our presence in LATAM where we entered into 2017 and in the Asia Pacific region where we entered into 2018.

In the plan, we have included partially the Carbaglu organic acidaemia launch in the U.S.A., and the Cystadrops launch in the U.S.A., and also continuous rollout of the same in the European and other markets. And

obviously, we've also included in the plan the sales of Ledaga, the product for license that we acquired from Helsinn end of last year.

We will continue progressing our current pipeline, I think this is an important thing to mention, and I'll give a bit of insight on that further on in the presentation. But this pipeline is not...or better…the products being developed in this pipeline today are not in the plan, because it will come to fruition off 2021. So there's no sales related to these products in the plan.

And as Fritz mentioned briefly before, we will continue, which is…let's say, an important statement, to invest in targeted BD and M&A as well, like we did for Juxtapid and the BD for Ledaga. This will become a narrow of further focus in the years to come for Recordati in order to reinforce our global portfolio. And we think that we are very well positioned for this.

So now a quick kind of run through the key assumptions around the key products in our portfolio. So starting off from the most important franchise in the SPC business which is the lercanidipine franchise which is basically made up of the mono-substance of Zanidip and the combination product with [indiscernible] and Zanipress.

We expect the sales of Zanidip to remain stable throughout the plan at €120 million going forward. This is a very important product from a cash generation point of view, as you know. And I think that the recent years have demonstrated that we have achieved this objective, so this is why we probably...we feel that we're going to be able to maintain the sales going forward in the plan.

And even though we had an initial impact of Zanipress generic impact in the recent 2 years, we think that we will be able, based on the experience

that we built with Zanidip, to actually stabilize the product around €60 million with Zanipress product]. Both...if you consider both brands we sell 70% of all volumes across the world of this molecule. So obviously…and are both...obviously vertically integrated in the groups starting from the API manufacturing…that we manufacturing our API plants in Campoverde di Aprilia in Central Italy and in Cork, Ireland. And the obviously, having the vertical integration gives us all the obvious benefits competition wise because obviously we can compete on all levels with the generics.

We have been successfully competing in different ways. Every market is different. In Germany, we don't tender since certain other markets…while promotion is still sensitive, we still promote the products, so...but we demonstrated with Zanidip [ph] that we have manage to kind of, let's say, keep updated generics and stabilized sales at the levels that I mentioned before. And so, as a total franchise, we expect to stabilize at €180 million of sales throughout the plan.

Residual erosion for generic competition would be mitigated by geographical expansion. This means that we have plans to roll out in certain emerging markets the Lercanidipine products. We are also repatriating from distributor the products in markets where we were not present before. We are repatriating the products in order to sell them directly ourselves and this obviously has a very positive impact on margins because obviously we can maintain more of the margin that we…stable with distributors. And in certain cases, this is part of our business is to obviously change distributors when we're not happy of their kind of performance.

Moving on to Seloken, the metoprolol franchise, this is about 7.3% of our sales. As you know, we acquired this franchise from AstraZeneca. Did you say something?

MARIANNE TATSCHKE: Okay, it is in a different order [technical difficulty].

ANDREA RECORDATI: You changed the order. I didn't change the...I have a printout here, and they're in the right order. No, you're right, you're right. Sorry, my mistake.

MARIANNE TATSCHKE: Who want to talk about?

ANDREA RECORDATI: Going back to Urorec. Let's start with Urorec. Okay. Urorec, Marianne keeps me update.

Urorec, silodosin, this is our BPH product and we consider as one of our corporate products, we quoted…we did the development and registration for this product for Europe, while the originator is Kissei, a Japanese company, but…and basically this equates to about 7.4% of our sales it is launched today in 39 markets. We have an average market share of about 12.4% of BPH markets in 15 main countries. We are...in 2018, we exceeded €100 million of sales which are also a very important milestone for us. We are expecting generics to arrive at the beginning of 2020, I am sure you know that. And we are expecting the generic impact to mainly take place in Italy, France and Spain.

However, we will keep on promoting like we do for Zanidip and lercanidipine franchise, we will keep promoting in promotion sensitive countries. But we see that we still kind of still, let's say, compete with the generics even post loss of exclusivity. And the plan assumes for many reasons, but mainly linked to the renegotiation of the supply agreements

we originated and so forth and obviously a reduction of AP investments in those markets where we will stop promoting, because of [indiscernible] promoting against the generic. We will see a lower impact on margin than on sales in our plan, okay?

So now I go back to metoprolol. Metoprolol, we acquired in 2017…July 2017, from AstraZeneca for the divestiture of this product, this obviously was a very strategic acquisition for us. It was a biggest deal we ever did in Recordati. It allows us; first of all, to bring in sales which were significantly accretive to the group, because of leveraging of the product on our current business, being a cardiovascular product obviously went well...very well with a targeted approach of lercanidipine and promotion on the rest of our cardiovascular franchise.

And it was very important strategically because it allowed us to complete our European footprint. And this had the benefits, two key benefits basically entering Benelux directly and the Nordic countries and also the Baltics where we're not present until that time because it allowed us to repatriate our products from the distributors that were managing our products in those markets. We've obviously have further margin enhancement. And also to set up shop and build some critical mass in the other launch of cariprazine, Reagila in these markets where until that time, we would have probably had to license it out to a local distributor in order to commercialize it. And obviously, we feel that it's better for us and it's more in the interest of the group to be able to commercialize this product directly, also being a specialty product, very targeted to schizophrenia, obviously…indicating schizophrenia and therefore targeted to a very small kind of a safe segment of physicians being the psychiatrists.

Another big important strategic driver of this acquisition was obviously the fact that it allowed us to build and reinforce our critical mass in some

of the Central and Eastern European markets, where this was needed. And we see the results now because this part of the business is performing extremely well. But obviously, by building critical mass, we were able to kind of reinforce our promotional and selling structure in those countries, which vice-versa also benefit the performance of the rest of the portfolio.

So this I mentioned, I think. Everything...and like Fritz mentioned before, it's very important to say that when we acquired this product, it probably was showing a decline. And following the integration in our promotional structure, the product was stabilized and through a different…let's say a more focused and careful management of the asset and promotion in markets where promotion had been abandoned for some years. And in fact, we expect the product to be stabilized around €100 million throughout the plan.

Livazo, pitavastatin, obviously statin, this product is launched in 8 markets, it has about 8.4% of the statin market in the 6 main countries. We expect to grow...continue growing double-digit throughout 2019, and we're expecting again generics to arrive in 2020. We expect this generic impact mainly to impact in Spain and Portugal because these are the 2 main countries of the franchise. And in selected countries, we will keep on promoting however again, like I mentioned before in these 2 markets. For example, we will keep on promoting the product, because they are promotion sensitive markets and this was based to kind of you know, competitive generics also on a promotional level. So here we plan to stabilize a product around €40 million, more or less. Okay?

Sticking to Reagila to finish off, let's say, the corporate products of specialty primary care business unit. Reagila, like Fritz mentioned before, is a product that we licensed in from Gedeon Richter, the Hungarian Pharmaceutical Company, its Western Europe and some selected other

markets. Obviously, they kept the rights for their area...regional area of strength which is Central and Eastern Europe [indiscernible] Russia and CIS.

This product was approved for the treatment of schizophrenia in 2017. It's got a very solid clinical profile, and it is one…is now the only product actually to have data that shows that it has efficacy in addressing positive/negative symptoms of schizophrenia which is one of the most difficult areas of schizophrenia to treat.

Richter launched the product in 2018; we are rolling out the product in new markets also for us in 2019. And we expect this product to peak sales around €100 million in sales. So obviously, you are not seeing the peak sales here because the peak sales will arrive post 2021. This, I think it is an important step strategically also, because it shows that we are pursuing the strategy of moving our primary business more to the specialty business and the specialty primary care business because obviously, this is a highly specialized product.

And it's also important to say that even in this context, even it is a new product and a new target where we were not present before, we still follow the approach of Recordati of leveraging the organization. What do I mean by that? We did not obviously...we did not go out and just create ex-novel [ph] new schizophrenia or psychiatry promotional lines. What we did is that we went for a very careful analysis of our promotional evidence [ph] in these countries, we re-addressed some of the FTEs, that’s basically promoting on the current portfolios to move some of those in certain selected countries we've added a few more in order to kind of reach critical mass. So this was really another example of leveraging the organization...the current organization to make space for a product which is actually out of the TAs where we were operating before. Okay?

Takes me to the rest of the corporate products which I will not go into detail, there's a lot of very nice brands here. It's important to remember, though, that we have an important part of our sales which is made-up of other corporate products we sell in more than one market. These are the brands that we're talking about, there is 23 of them, 9 of them are OTC products and are OTC corporate products for society [ph]. And we expect this part of the business which you've seen before the incidence from our total sales to grow around mid-single digit over the plan period.

Moving on…a little more color on the OTC part of the business which like I mentioned before is 16% of our sales. We expect this business to account to move from 16% to about 18% of our sales in 2021. Corporate brands in the OTC business that we manage account for about 55% of total OTC sales. And the main brands are Procto-Glyvenol which is for hemorrhoids, another product Hexaspray, cold and flu, Casenlax is a kind of words that I kind of mixed.

We do what we…how we will keep on developing this business, we will keep on doing life cycle management of the key brands like everybody obviously operates in the OTC business does. And...but not only on the corporate brands, but also on some selected key local brands because we have also other local OTC brands which are actually leaders in the respective markets in the countries where they're commercialized. So obviously, we do also activities of life cycle management of that.

We believe there's an opportunity to develop this business further in European markets. We believe there's an opportunity to cross-sell. So we are in the process of how we've done it within the past, but we keep on reviewing our local portfolios to see if we can bring some of these products to the new markets or by...mainly by putting them under

umbrella brands…of strong umbrella brands that we have in other markets…obviously there is a disease therapeutical fit. So there's a lot of activity on this. And we expect this product portfolio to keep on growing, again, mid to high digit...single-digit throughout the plan period. So as you can see, it's an important part of the business and we are...we have to keep focus on developing it.

Moving to the rare diseases business. So the top brands you see at the top are the key brands of our rare disease business, Carbaglu, Cystadrops, global brands; Panhematin, North American, Latin brand; Cystadane and Cystagon also global. This, as I mentioned before, is about 16% of our net revenues. It is area of important focus for the development of the organization, as I will explain a bit better later on in the presentation. We expect during the plan period to grow the sales of current portfolio double-digit annually over the period. We put in the planned launch of Ledaga, the product that I mentioned before that we licensed in from Helsinn. We got the new EU Commission approval following the EMA's acceptance of the post-approval commitments, which were completely resolved.

We put in the planned sales of Juxtapid that we bought from Aegerion for Japan. And we expect our U.S. business to keep on growing single-digit. This is 40% of the business, of rare disease sales business and which would be generated by 2021. And this is obviously an important area of focus for us for BD and M&A activities, because we want to reinforce ourselves in the U.S. market.

We have built into the plan also the launch of Carbaglu, the second indication organic acidemias for the U.S. market, as previously announced. And we expect the sales to start beginning in the plan period. And the Cystadrops also we built into the plan the initial sales for Cystadrops in the U.S. And obviously, we expect Cystadrops to keep on

developing and growing also in Europe, because it's one of our key drivers for the rare disease franchise.

So it's important to say, we felt that it was important also to kind of create one brand for our rare disease business, because until now, we were operating in Europe and MENA and other new markets with also other parts of the world with Orphan Europe brand, which was a regional company we acquired in 2007, whilst instead in the U.S. following the acquisition of the Lundbeck portfolio, we utilized Recordati rare disease brand. And we felt that it was important now to put everything underneath, all our business in the rare disease segment underneath this brand in order to give also clarity to our partners and the market in general, physicians and so forth and patients, okay.

So I will move on, to mention on rare disease…on research and development. We built into our Plan about 8% to 9% of sales to be allocated to R&D activities. The focus in specialty and primary care regarding R&D activities is to continue to focus on the development of products in specialty care on a European basis to in-licensing activity and where possible co-development activities, partnerships. And obviously, like I mentioned before, we will keep on doing activities for the life cycle management not only on the OTC, which I also mentioned before, but also on selected kind of key corporate brands in the specialty and primary care segment or our ex-plans on specific local countries, champions, for example, our Methadone franchise in France, which is an important part of our revenues in France. We are always investing in life cycle management to pursue new indications and new formulation for this franchise in the French market.

Regarding treatment for rare diseases, like I mentioned at the beginning of my presentation, we are progressing with the current pipeline. None of

these products, as I mentioned, are included in the plan, because they will not come to market before 2021 or within 2021. These are the products I think I need to go through and you know them all very well, because our pipeline has been really kind of this for some time. And we will continue our plan; it's to continue to identify new products to reinforce our pipeline. We believe that it's important to kind of start building and reinforcing further our R&D pipeline in the rare disease segment where we feel that we have space to compete. And obviously, we will pursue this by doing what we've done up till now, which is seeking opportunities and partnerships with companies, the universities, research groups and so forth.

Our approach will be to find where possible global brands to be developed, because obviously, we feel that we want to bring in and invest in R&D activities for products that we will be able then to commercialize it and make it to market hopefully on a global basis. And I think that is everything that I need to mention on this slide.

So how will we accomplish the numbers that you've seen yesterday and that we will go through again later on in the presentation in a short while? So acceleration of Group. So let's say focus on the M&A strategy and focus areas. So like I mentioned, licensing remains a very important part in the specialty and primary care. Licensing remains a very important part of our business model. So we will keep on seeking new product license opportunities in the specialty product and primary care business, for example, as we did with [indiscernible]. We feel that we are seen as a partner of choice for the markets we operate in, because we are a one-stop shop. We kind of support our partners on the clinical development, the regulatory focus, market access all the way to the commercialization and also supply and distribution, obviously, and manufacturing if necessary, because we have a very strong manufacturing footprint.

We will obviously look like it's the…our discipline to favorable terms in terms of upfront consideration versus risk-sharing milestones compensation. And this obviously important for us as an approach and obviously we will leverage our extensive distribution, clinical, regulatory platform that we have in order to kind of achieve new licenses for our SPC business.

Regarding acquisitions, we will focus on the European opportunities, because obviously these European regional opportunities [indiscernible] Turkey and Russia and CIS, where we can find synergies like it's in the DNA of the company. An example of this is the example of the acquisition of Italchimici in Italy. We will pursue and look at other opportunities like metoprolol, the divesture of AstraZeneca of metoprolol because carving our tail end products, which have not had any focused promotion for many years from the originators and we…where we believe there are turnaround growth prospects that can be achieved through promotion. I think this is a real opportunity that we see in metoprolol.

And so we are still looking for targets of this entity. And it's important to say that we are seeing a lot of activities from multinationals around this area, because a lot of multinationals are following the path of AstraZeneca. There's been a number of examples, as I'm sure you know, of divesting some noncore or what they don't consider anymore core products, giving opportunities to companies like Recordati to capitalize on this.

We will look also for selective acquisitions, selective acquisitions of OTC brands in multiple or single territories. Examples of this have been, obviously, the acquisition of Tonipharm in France, the recent acquisition

that brought in the other portfolio, Ginkor, which is a stronger brand, OTC brand in France or Natural Point with its Magnesio Supremo for Italy.

Our strong integration capabilities of companies and products, obviously, is known and obviously, it will be a driver for this strategy. And obviously, as I said before, we'll continue leveraging our extensive distribution platform and geographical reach in order to achieve a greater proportion of revenge for the SPC business. Critical mass, and it's interesting also access new markets, even though, for the moment, I think it's very important that I clarify this, the SPC business will not look into expand our geographical footprint. Therefore, we are positioned as a regional player around Europe, Russia, CIS, Turkey, the Mediterranean, and this is where we want to stay. We're not planning to go and develop our SPC business in the LATAM or Southeast Asia, because this is not in our DNA, so we will capitalize where we are strong today.

On the other hand, as I think I underlined plenty of times before, the global business for us is the rare disease business. So how we will accelerate growth for this business? Again, 2 pillars are licensing in and partnerships, and obviously, acquisitions, M&A activity, which will become a more important part of our development strategy in the years to come.

So for the licensing, we'll look for us to acquire licensing rights, preferably in late-stage opportunity, because we're investing in R&D pipeline. We have that kind of theoretical approach. But here we want to access the licenses for late-stage opportunities for obvious reasons. We will keep on developing it, like I just mentioned, developing partnerships to...with research institutions like discovery companies or other rare disease companies that don't have a presence in their markets, that don't have the critical mass to develop that product on a global scale to enforce

pipeline. We feel...I mentioned this already that we are a partner of choice and we are well positioned to kind of compete in this licensing arena, partnership arena. And to achieve this, we will leverage on a global footprint that we built in the recent years, which allows us to justify investments in licensing deals and M&A activities.

Going to M&A activities. It's important to say and I stress this that yes, we are going to start looking for the acquisition of rare disease assets, but obviously as in the discipline of the company, there is always kind of [indiscernible] demonstrated around contingent, accessible valuations. This is a very important, because we know that there are assets out there that can be very interesting, but sometimes, the valuation is completely out of whack, to be very honest. But we also know that there are assets, which are now starting to come to market on the M&A arena, which allow actually more reasonable and approachable valuation that actually make the PCS and MPVs work, which is very important to us.

So for example, Juxtapid is an example of this solution of exclusive license, Juxtapid in Japan, which is also very important, because we just entered Japan you know on the back of the registration of our current portfolio, Japan for us is a very important market for development of the Group in the rare disease segment for the years to come. But we felt that this opportunity was very, very good for us, because it adds a critical mass and therefore being fall through with more investments to develop the whole portfolio in this country which is obviously, one of the key markets in the world.

As I mentioned, our market for rare disease treatment has shown extraordinary growth, and we think…I'd like to mention the example of Juxtapid, there will more and more opportunities, both on a regional level, but I think also on a global level to buy assets from companies, which are

refocusing out of the rare disease segment or for companies that don't have a critical mass to take a product global. And we've seen this, like I had in the third bullet point, which is this M&A market for rare disease assets is really starting to bring opportunities on the table.

And I don't think I need to repeat why we think we're well positioned to do this, I said this enough time, which takes me through the last part of my presentation, which will give you a bit more color on the financial assumptions behind the numbers that you saw in our press release yesterday, together what I have discussed now.

The Group evolution. So Group evolution, as I mentioned, continue the successful strategy that we've pursued till now, comes up from a new kind of focus, more focus on the rare disease business. Our objective is to bring the specialty and primary care business to account for 75% to 80% of revenues in 2021 and grow the rare disease business to 20% to 25% in 2021. Bolt-on acquisitions with acceptable valuation, obviously, are included in the Plan, like was announced in the press release yesterday

And revenue, organic revenue growth will be, I mentioned many times, would be complemented by accretive M&A. We will see faster local currency growth in emerging markets, it goes without saying, but we have offset this by a negative assumption on local FX rates. So we've already built in our plan a negative impact from FX rates going through to 2021. 8% of group revenue are…cumulative annual growth through 2021 is expected on the revenue line.

Regarding margins and profitability, we believe we can sustain margins throughout the Plan, and we are looking to a 9% objective of Group EBITDA cumulative annual growth.

Regarding cash flow and dividends, very important point obviously for our investors. Cash generation needs to exceed 100% of the Group net income. And we will continue with our policy of investing 40% of the cash flow generated to be reinvested, obviously in the development of the company and 60% payout…dividend payout ratio policy to return cash to our shareholders. So this is not changing.

Finally, an important point that obviously I think was quite obvious through the numbers. Some...I wish some of the analyst's reports that promptly came out after our press release yesterday. We have built in bolt-on acquisitions and this implies approximately 1.5% EBITDA…net debt increase in our plans, okay? However, I think it's also important to say that we could further increase this net debt up to a maximum of 3 times EBITDA, and obviously, contingent upon high-quality asset acquisition opportunities, but only if they are strategic, high-quality asset opportunities, okay? So we will keep a very disciplined approach on debt. I think that we're already showing that we are taking already a commitment to bring our debt to 1.5 times in the Plan. But we are open, if the opportunities arise, which obviously plan out strategically very positively, or the prospects are very positive for the Group, we are willing to go to a maximum, maximum of 3 times EBITDA net debt.

And I think that is really not my last slide, because we have the numbers. But you know the numbers, so…but anyway, just to recap the numbers that we presented yesterday. So as I mentioned, €1.7 billion approximately of net revenues, which equates to about 8% of cumulative annual growth between '18 and '21, €650 million of EBITDA, more or less, which equates to more or less 38% of incidence on net revenues. So again, showing and confirming margin sustainability, which shows a 9% growth in the period. EBIT of €560 million, we've incidence of 33%, again margin sustainability. And the same for net income at €400 million,

with 23.5% approximately of incidence on net revenues and thus 8.6% growth over the period.

We believe these are solid targets, achievable targets. Recordati, I think we don't put numbers lightly on the table. So we feel that this is a Plan that we can deliver over the period, and I think I'll finish with this statement.

I hope I clarified some of the questions you might have had. I'm sure you have plenty of other questions. So we can open the Q&A session now, and we start off with…I thought it was going to be you, Jo, as always, no, maybe…so first we do…we do the Q&A with the floor, and then we open the Q&A for the people connected online, okay. Jo Walton?

Q&A

JO WALTON: Thank you. Jo Walton from Crédit Suisse, 3 quick questions, please. On your long-term plan, you've got roughly 8% sales growth. Would it be fair for us to see that, that's prudently 50% organic and 50% acquisition? Or is that a different ratio?

ANDREA RECORDATI: Now, that's correct, approximately correct.

JO WALTON: Okay. Then can I also ask what you've assumed for things like the competition for Panhematin in the U.S. and whether that...

ANDREA RECORDATI: We, obviously, don't disclose assumptions or very specific assumptions on our key products, also for competitive reasons, because obviously, I hope you can appreciate this. We believe there is obviously going to [indiscernible] there will be in impact on the Panhematin sales. However, on the other hand, we still believe due to a variety of assumptions around

pricing of Panhematin or givosiran indication and so forth, we think that Panhematin will still keep a space in the treatment of, let's say, the few acute episodes, decompensation episodes, okay. So we have built in the Plan an impact of givosiran on the sales of Panhematin. We will not give you, obviously, the exact details for competitive reasons. But we still feel that we have a space to still compete in this disease area with Panhematin, even following the arrival of givosiran.

JO WALTON: I've got 2 other broader questions. If we see international reference pricing introduced in the U.S., do you think that will impact on the ability for you to in-license and freely price products in Europe? Some companies have said that they are worried that European prices would then be re-imported back into the U.S. So I wonder whether you've got any covenants, for example, in for your cariprazine license, which would limit use, so you couldn't have it too low a price or else you could find that, that price obviously wouldn't impact you, so there would be...

ANDREA RECORDATI: We always have full prices in our agreement with our partners, obviously, in order to mitigate this sort of effect or effects on a local level on pricing.

JO WALTON: And then my final question, at least this round. In terms of your ambition in orphan drugs, we saw Pfizer buy Therachon at the beginning of this week, that was a Swiss based company €350 million-odd, but it was pretty high-tech rare diseases. Would you...given there is a lot of rare disease work is now going with gene therapy and really high-tech stuff. Can you just scope for us where you think you are best positioned to buy assets?

ANDREA RECORDATI: Well, I mean, this is a very long conversation Jo. But to put it very kind of quickly, considering the context we're in. I think that you know, our approach would be to look for...we don't want to go into gene therapy. This is not an area where we planning to enter. We want to compete in the

small molecule area in the rare disease segment, maybe biological, we will see. I mean there are opportunities out there. It's a really opportunity-by-opportunity kind of approach and investment, it's very difficult. But let's say that gene therapy I can exclude that we want to go into gene therapy it is a bit completely out of scope for us. And obviously, we want to try and reinforce ourselves and where we are strong, which doesn't mean we would not look at other TAs, but let's say that generally want to keep on reinforcing ourselves in metabolic, pediatric syndromes, generally, even though there might be opportunities which may be kind of in different TAs but still in the context of non-super high-tech gene therapy products where we can also look to kind of add on TAs to our portfolio, okay. Does that answer the question?

JAMES VANE-TEMPEST: Hi, It's James Vane-Tempest from Jefferies. [Indiscernible] about 8% growth which you said is roughly 50:50 organic and M&A. For them I think organic growth use to be around 5% or 6%. So I'm just curious what kind of foreign exchange headwinds is embedded into that guidance? And…take them one-by-one if you want, Fritz?

FRITZ SQUINDO: Okay, then. You have to take into consideration that in this half-and-half, which means around 4% organic growth, we have included in 2010 the generic entry of competitor for silodosin, Urorec. We've been able in the past from time to be a bit above the 5%. Overall, our statement was to be able to grow our organic...our business by 3% to 5%, sometimes we can be above. In the plan period, we have to manage 2 important items and subject which is the entry of generic of…for two important products and then I think to be able to have growth in the range...in the region of 4% in this environment which we've faced and to compete against generics for pitavastatin and silodosin is a challenging object.

JAMES VANE-TEMPEST: Thank you. To follow up on…

ANDREA RECORDATI: But on the FX point, we have built…I think, a substantial kind of effect...decline effect in our numbers.

JAMES VANE-TEMPEST: Yes, would you give us either the rates for the key currency or there like a 2% group. I am just trying to understand what the underlying growth…people have different assumptions.

FRITZ SQUINDO: For FX, we have built our plan, considering local currency growth, because we believe in both Turkish and Russia we can continue to have, probably in Turkey a double-digit growth local currency, and in Russia, high single-digit. But we have considered, we have offset this by these estimated effects which was based on consensus and essentially on inflation estimation. Then, overall, we can think that we have included in our business one...in our plan one negative exchange currency effect in the region of 1%-1.5% to it.

JAMES VANE-TEMPEST: Okay, that's great. Thank you. That's very helpful. Next question is, we've seen other private equity firms get involved in the scientific platforms across Europe. You talk about reasonable multiples, but do you think multiples are going to have to go up, and how do you view the competitive landscape, when there's a lot of available capital?

ANDREA RECORDATI: We've always had to compete for assets. We've always had to compete for assets, as I think I explained you know, a lot of this divestures, I mean, believe it or not, especially when they come from larger corporations, because larger corporations put a lot of weight also on who...not only a matter of financials, it's also a matter of capabilities in order to kind of maintain the assets and take care properly of the assets. Especially the larger or mid-sized companies, they don't want to just give the asset to the best bidder, because many times, some of this best bidders especially,

some of the ones that you kind of referred to indirectly there, they don't have the capability or the track record, the infrastructure to kind of support the factors which has especially in the rare disease segment have been important part of PR, let's say, component, because obviously, they don't want to give assets which have direct implications, because most of these drugs are life-saving drugs. And so, obviously there is patient advocacy groups are very important, patients are very important. And so, they tend to weigh the capabilities and the track record of the company is bidding for them as importantly, let's say, as a financial consideration that is put on the table, so it is a balance. So we feel that we have a serious competition, we've always had competition for many, many years on assets and on the M&A field. But we're still here and I think we've demonstrated that we can deliver.

JAMES VANE-TEMPEST: Thanks. And my last question for this round is, we talked about sort of spending more on R&D. Just curious given the focus intensity to spend to go up as a percentage of revenues or how should we think about the level of spending in your plan?

ANDREA RECORDATI: I mean, like we mentioned in the plan, our objective is to invest about 8% to 9% of our revenues in R&D. This is what we've built in the plan, it goes…let's say that we also say that we want to kind of increase our pipeline. At the same time, R&D is also linked to the development kind of cycle the products in the clinical development, so as we spend a bit more in the year after. And generally, I mean, we're not going to become an R&D driven company, let's be very clear about this because this is not going to...it's not Recordati. We want to tap on the innovation coming from the outside. And this is what we keep on doing.

So I will not say that you should expect our R&D activities to change substantially from what we've put in the plan and declared in this

presentation. Also the type of R&D we do and the type of product that we are putting is remember, we are operating...our R&D is driven mainly primarily from the rare disease segment, where the R&D spend is a very different thing from the spend that you do in developing and doing R&D activities on the specialty primary care large therapeutical areas product.

KC ARIKATLA: KC Arikatla from Goldman Sachs. I have 2 questions, both related to M&A. The first one; if we look at the primary and specialty care segment, how should we think about acquisitions, would you prefer to have metoprolol kind of acquisitions which contribute big and stay there or will it be something like Reagila which will continue to grow for a very long time, but probably not contribute much in the next 18 to 24 months?

ANDREA RECORDATI: Okay. I mean the presentation I think clearly states that we want to do a bit of both. Recordati has been...to be very honest we are a focus company. We know our capabilities are and or so forth and we always pursued in our growth with a lot of focus. But we are also in a…I mean we are…we follow in on opportunities approach. I mean, we would not in schizophrenia and in psychiatry and we went after cariprazine because, as we know very well, in the specialty primary care business, there is a drought of innovation coming for this big therapeutical areas. So we're trying to move more to this specialty area. So we would still pursue that because we see a role for licensing products and maybe are not going to kind of give us you know, a lot of upside in the next 18 to 24 months, but in the long term, for us, they are important growth drivers, okay. And cariprazine's numbers and the big sales I mentioned before I think are important in ensuring this.

At the same time, we will still be looking for opportunities out of metoprolol. We keep on getting dossiers regarding opportunities. Not all opportunities are the same, sometimes you get very nice looking brands,

you know, very famous brands like Seloken was come to the table, but then when you start deep diving into the numbers, into prospects and for a variety of real lot of variables they don't pan out to be so interesting.

So we continue to look for accretive opportunities and we would keep on looking at because I think it's an important component in our growth strategy for the SBC business, but also for total group because obviously the cash generation generated from the SBC business helps also the M&A development BD activities and growth of the rare disease business.

KC ARIKATLA: And a very related question, in the rare disease segment will you be focused on Phase III/Phase II assets or something like a Juxtapid which will contribute in the near term?

ANDREA RECORDATI: We look…we are looking...I mean pipeline related, let's say, that we look from early stage, obviously in the context of rare diseases. There is a lot of rare diseases, right, you know better than I do, KC, these products are rare disease that can become multibillion products. This is not where we're competing, but there are other players in those segments that can compete and have better chances of competing than us. We will look for…and we are looking for late stage opportunities…late stage opportunities and we are also looking for market side opportunities in the rare disease segment.

As I mentioned before in the slide regarding acceleration of growth, there is opportunities coming out in the market due to the refocusing of some players in the areas that have decided to kind of pursue our…and focus our efforts in other areas, TAs, whatsoever. And so, we think that there is space for us to kind of compete effectively, but we are looking for opportunities...late-stage opportunities that should be M&A driven kind of...M&A driven kind of asset deal. And more than that even we're also

looking out for products we already have marketed sales and can obviously start kind of contributing in to the P&L from day 1.

FRITZ SQUINDO: Can I add something on this?

ANDREA RECORDATI: Yes.

FRITZ SQUINDO: You have seen in the group evolution in term of profit margin with profitability, the assumption is to maintain the current profitability then which means that essentially our M&A is more focused in identifying, growing opportunity which is...could be in the rare diseases, could be then established product. We continue to be interested, because this is an important contribution for our margin. But today, the focus of the M&A is to try to find asset which are also an opportunity for growth. That's the reason why in our business...in our business plan, there is no as a base the achievement of one increase of our profitability because we want to buy something with growth opportunity.

BRUNO PERMUTTI: Bruno Permutti from Banca IMI. A question related to the acquisition from rough clients to the number, it seems like you expect to have more or less between €800 million and €900 million of CAPEX for acquisitions, for additional sales in the €150 million, €200 million over the time horizon. I would like to understand if these are more or less the numbers that you've factored in your plan or if I'm losing something? And another question, if I may, is on Juxtapid only to understand the time horizon of the possible contribution to your profit and loss in terms of revenue.

ANDREA RECORDATI: Okay. So the first question...

FRITZ SQUINDO: I'll start with the easier one which is Juxtapid, okay. Just to add...

ANDREA RECORDATI: The first one is even easier, because, okay your assumption is the right one. Okay, then we have implicit...

FRITZ SQUINDO: [multiple speakers]

ANDREA RECORDATI: If you want we can elaborate.

FRITZ SQUINDO: I don't know, we're going to elaborate, that's good answer. Now going back to Juxtapid, Juxtapid our forecast is to reach peak sales of €20 million, €20 million peak sales which are not in the plan of peak sales. Peak sales, takes time to build product, okay.

JAMES VANE-TEMPEST: Hi, it is James from Jefferies again. 2 follow-ups, please. On Reagila, just curious what potential you see for Reagila in other indications, whether those were included in your €100 million peak estimate? And then second question is, my sense is that in U.K., and Germany, you will subscale compared to some other markets. So just wondering what your expectations are to grow there.

ANDREA RECORDATI: With Reagila?

JAMES VANE-TEMPEST: So overall in U.K., and Germany. Sorry, I should probably split the question. So the first one is on Reagila in terms of other indications that we can?

ANDREA RECORDATI: Certainly, we don't think we'd subscale, you said that Germany...

JAMES VANE-TEMPEST: Compared to your other markets, I guess, in terms of infrastructure?

ANDREA RECORDATI: We think that we are well-positioned in Germany. I mean we always reinforce one of the key markets in Europe. So obviously we are always looking for local potential deals to reinforce our...further buildup critical mass in the country. But I think we have enough scale, and we have a subsidiary that's €100 million of sales. So it is kind of fits well with our big subsidiaries, let's say, in the SBC area.

Reagila U.K., yes obviously Reagila U.K. is…we have reentered the U.K. on the premise of launching Reagila because obviously we believe the U.K. market is an important market for this...is considered to be an important market in the schizophrenia field. Today, we have...obviously, in this market, we only have the residual sales of our lercanidipine franchise which is very generic size in this market.

So we created a very targeted, focused sales team, we have a commercial head to start you know, putting Reagila on the market. This takes time since national formularies as you know, it takes time to put them in. So it's quite slow uptake for this market. But...so we follow the usual approach of Recordati of quotient. So yes, to put what we hear, there is a necessary structure in order to bring Reagila to the market and the necessary resources without, however, kind of taking too much of a big step. There was another question. Sorry, James, maybe...

JAMES VANE-TEMPEST: Reagila and other indications.

ANDREA RECORDATI: Other indications, Reagila, we did not build anything in the plan, no. We did not build anything in the plan. There is activity going on, but we did not build anything in the plan. For now we have schizophrenia.

JAMES VANE-TEMPEST: Thank you.

NAVEED MUKHTAR: Hi, thank you for the presentation. This is Naveed Mukhtar from PGIM. Just a few questions on the rare disease business, in your plan, you mentioned double-digit growth. Can you explain if you expect a 50:50 split in organic and inorganic growth coming in from there or if not what the rough split is? And secondly, just in the first quarter trading, the revenue growth was 2.5%, I appreciate that there was a generic competition coming in, but maybe you can spit out that a generic competition impact and potential effects impact to explain what the underlying growth was in the rare disease segment in the quarter.

FRITZ SQUINDO: So the first question was related to the organic growth and contribution for M&A in the...we have an objective, a target which is for the overall business. So it's not specific for the orphan business, because we have on the other hand this assumption that we want to buy asset in both, in the specialty care and in rare diseases, but we cannot...we don't want to have a so detailed target on the specific...how do we want to increase our business in the orphan arena because this is obviously based on opportunity that we can find going forward in the M&A.

ANDREA RECORDATI: Well, we have a war-chest to invest.

FRITZ SQUINDO: Exactly.

ANDREA RECORDATI: We've saved the war-chest to generate a certain kind of revenues and profitability, but it's allocated to the full group. So if you want a target on organic growth for what we expect our organic growth, you go to Slide 29 and you see obviously our objective for rare disease business approximately.

FRITZ SQUINDO: And then could you repeat the second question? I have not heard the number saying this way. The underlying business is growing but because

in particular for Cosmegen let me comment in this way. The first quarter last year was impacted by less extent what was the impact going forward? And then if you compare quarter-by-quarter, we have an important. Then overall, the business is growing, but I am not here with me the exact number, and I want to give number which are not the correct one, if you want we can go ahead identify the number and then we can send to you the real number in term of underlying growth.

JO WALTON: Jo Walton from Crédit Suisse. On cariprazine, could you tell us how you've managed to price this product in Europe? Other companies with new schizophrenia drugs have found that some countries have been very reluctant to give premiums over relatively old products. And I know when you initially start, you have a fantastic time. You can do [indiscernible] like in Germany. But then that comes to an end within 12 months or so. So how have you been finding those negotiations because that's a relatively new thing for you to be doing?

My second question is…and I don't know, maybe there are some CVC people here that I wouldn't recognize. So I don't know how easy this answer will be. But if you could give us an idea of perhaps by how much the number of contacts that you've got in the various opportunities have gone up? I mean, we on the outside have seen that CVC's network is feeding you more opportunities than you would otherwise have had, and that that's one of the benefits that we see as shareholders in the form of having CVC as a partner here. But I wonder if you could tell us what benefit you felt that they have brought to the business.

ANDREA RECORDATI: Jo, I'll start on this answer which is very much straightforward, and then I'll let Fritz enjoy himself with cariprazine answer. We started quite recently, one. I mean we basically started operating with CVC as a majority because the closing was in December, okay. So we are a public

company before the closing was done. CVC was not involved, and there was…because there was a MCO that have to be taken through, I mean so we were very disciplined and very serious about handling the relationship pre-closing. Closing was basically during the Christmas, just before the Christmas holidays. January we started. We created new Board of Directors. There was a lot of governance kind of things that have to be put in place.

We are getting a flow. I can confirm to you there is a flow of opportunities coming from CVC. On the other hand, Recordati is pretty well on the map already. So…and I think AstraZeneca deal already helped us to kind of get on the map for the sort of kind of deals of those sorts and also in the rare disease segment. So there are…I can tell you that since CVC entered, we have had for sure them bringing stuff on the table or opportunities on the table that would not have come to us, but can I…will I tell you where these opportunities will go…will come to fruition? Today, it's too early because unlike many opportunities that come also to Recordati before CVC took the majority stake in the company, not all of them went to fruition. But there is definitely an increase of opportunities coming on the table due to CVC's global network. That I can confirm for sure, yes.

FRITZ SQUINDO: It's my turn for cariprazine. Okay. Let's…Jo, let's say that we are pleased by our market access activity for cariprazine, and this was also my statement in the last conference call. Then we had learned in Germany, we had this very good price. We have now renegotiated…I mean negotiation of the price, and the new price which is the final one, we are very pleased and it's above our expectation. We have had…it was the average which was really a very high price, but the final one after the negotiation is even above. We have now had the reimbursement in Italy, in Nordic, in the U.K. And here again, we are pleased by the price that we

have obtained. We are now in the process for having the price in Spain, and we are very positive of this. France remain a difficult environment because you know in term of market access France is a very difficult market. Then having said that...

ANDREA RECORDATI: Sorry, let me just add, however, I know what you're referring to because I mean we're talking about 2 different products. I mean cariprazine is an ex novo new molecule. The other one was basically a me-too kind of product as far as we're concerned. So we think that our clinical profile for cariprazine is definitely better than the [indiscernible]. And so this is why we think we have a better chance to kind of from a P&L activities and market access activities. But Europe is difficult. There are kind of barriers that need to be overcome. France is a difficult market to negotiate. We are working on it. We think we have elements to bring the product to market and…but it's a process which requires time and which is ongoing. So if you want to add anything else.

FRITZ SQUINDO: I wanted to comment on our solid clinical profile. It allow us to have this go to market access with us.

ANDREA RECORDATI: Exactly. This is really the only product. I mean obviously we don't have a specific indication in positive, negative symptoms, okay. But it is mentioned in the SPC. I mean it is the right kind of benefit of a product. It's the only product that has data showing this efficacy. And so this is recognized. I can tell you the community of key opinion leaders and physicians is extremely excited and interested in the product. Maybe in our premarketing and obviously market access activities, and that we are progressing in the different markets, rarely do I remember a product that enticed so much kind of interest from the physician community. They were really waiting…they are really waiting for this product. So there's a lot of elements in motion, but we are confident that we will deliver on this

because of the clinical profile of the product, okay. Any question…any more questions from the floor? No more questions. So shall we open the line for questions coming from those of you connected?

OPERATOR: This is the conference operator. The first question is from Martino De Ambroggi of Equita. Please go ahead.

MARTINO DE AMBROGGI: Thank you. Good morning, everybody. The first question is on the orphan drug's potential acquisitions, because, Andrea, I remember in your last official presentation of targets, you ruled out acquisitions in this field. So what do you mean for interesting opportunities mentioned in Slide #33? And what has really changed in your view for these options? And I have 2 other questions later.

ANDREA RECORDATI: Okay, one second. I'll answer this one first. What has changed in 3 years, first of all? The company has changed substantially. Our financial capability has changed over the last 3 years, notwithstanding CVC's entry. And with CVC's entry, we feel that we can be even a bit more ambitious on pursuing rare disease M&A assets or assets coming through the M&A kind of process in the rare disease segment. So we feel that the business is a good business. 3 years ago, we still felt it was a good business, but obviously we are a company that like takes development with discipline.

And over the years, last 3 years, we feel that we've become even more, let's say, convinced that this is the area where to really generate growth, and I repeat growth for the Group in the years to come so that we're willing to invest more in this area.

Also, as I said before, I think it was pretty clear. We feel that there are more opportunities coming to the market than in the past, at more reasonable valuations. There are still opportunities coming to market at

non-reasonable valuations, but this honestly a price obviously is based to the specialty care segment. So it's very difficult to generalize in the flow of opportunities in M&A, that would be in SPC or in rare disease. But we are seeing more opportunities. We see more opportunities…definitely more opportunities than what we used to see in the past.

MARTINO DE AMBROGGI: Okay, thank you. The second question is on the like-for-like growth. So it's very clear 50:50 acquisitions and like-for-like, but I see another way to find what is your underlying assumption for the like-for-like sales in 2021, because in your Slide 28, you are indicating OTC sales around €280 million which are 18% of sales. So if I calculate €1.55 billion of sales in 2021, am I right in assuming this as the underlying like-for-like sales growth?

FRITZ SQUINDO: Can you repeat your calculation?

MARTINO DE AMBROGGI: Yes. In Slide 28, the OTC…where there is the OTC business projection.

FRITZ SQUINDO: OTC business, sorry.

MARTINO DE AMBROGGI: Yes, it's well, roughly I'd arrive €280 million in sales in 2021. But you indicate being 18% of sales, of the group sales, I suppose, like-for-like. So by dividing €280 million by 18%, it comes €155 million for sales.

FRITZ SQUINDO: It is not easy to go through your calculation. But if we…I think we can reiterate that in our Business Plan, our assumption in term of organic growth then to be completely open is in the region of 4%, 4.5%, which is roughly half of what is our 7.9% CAGR for the period, including M&A.

MARTINO DE AMBROGGI: Okay. And the...

FRITZ SQUINDO: To do for all the other calculation that you want…

MARTINO DE AMBROGGI: I will call you, thank you. But for margins, we assume a flattish margins like-for-like?

ANDREA RECORDATI: We assume what?

MARTINO DE AMBROGGI: As a percentage on sales? Okay.

FRITZ SQUINDO: Yes because, as I said, in this M&A approach, we will be very pleased to find a possible other metoprolol acquisition which has an important accretive contribution. But today, the commitment is to be focused more in asset in both OTC or specialty care…specialty and primary care business in the business development area and in the orphan area in which there is a growth opportunity behind. We don't expect the M&A to contribute to a further improvement. We don't expect it to be dilutive. And therefore, the statement, which is to keep…to maintain our margin going forward is linked to both, the contribution of M&A, but also it's a statement, which is valid for our organic business.

MARTINO DE AMBROGGI: Okay. If I may, a follow up on the M&A. It's clear you have an opportunistic behavior. But what could be the opportunity convincing you to push the debt to EBITDA to the cap of 3? What is the priority, a big portfolio opportunity, a therapeutic area, geographical expansion opportunity? So what could be the reason justifying the increase through EBITDA?

ANDREA RECORDATI: I wish I had the crystal ball. Honestly, anything, which is strategically viable for company to generate growth and reinforce the Group is an attractive opportunity that could…let it be a portfolio product, let it be a

single franchise, let it be a company, honestly, it's…I can't foresee the future. It's not a matter of being opportunistic. We're operating in the rare disease segment. We said more or less what we want. I said before that yes, obviously, we are prioritizing areas where we already operate, where we see our position as a position of strength, metabolic disorders and where we can obviously achieve better kind of integration and synergies. But at the same time, history teaches us that you have to also look at opportunities which are out of your comfort zone.

So we will look at stuff if the opportunity chose to be…looks to be high-quality asset opportunities, which are not only financial but also strategic elements that support it, we will look at them. And…but today, we don't have anything, which I can use as an example to kind of give you a clear answer. But I wouldn't keep on saying that yes, we are opportunistic, but we're not only opportunistic. I mean this is a bit of an overstatement, I think, okay.

MARTINO DE AMBROGGI: Okay, thank you.

FRITZ SQUINDO: Let me comment on this. And I think there's a clear statement of the company today to slightly increase our debt based on opportunity, and then we are very confident to be able to achieve this Business Plan, which imply a slight increase of our debt. But we have also included this statement, which is a further increase of the debt just to say that the focus of the company is to grow. Then if we are able to find opportunity for growth, there is space up to, this is the message, there is space up to because for sure we don't want to go more than 3 times debt to EBITDA to follow other opportunities that we believe are quality asset acquisition opportunities.

And so then the base plan is to continue to reinvest a bit more of the free cash flow generation, which is something new compared to what was our previous statement in the previous Business Plan. And…but we want also to have flexibility in term of possible other acquisition following our normal, very prudent approach in term of the valuation of the asset. And then we could even slightly improve above of this 1.5. 3 time the maximum level of debt that we can achieve. That's the message that is clear in this statement.

MARTINO DE AMBROGGI: Very clear. Thank you.

OPERATOR: The next question is from [indiscernible] of Amundi. Please go ahead.

ANALYST: Hi, good evening. I have a question about the Methadone. For my understanding, it's a molecule applied to several medicines. And it represent 2.5% of your revenue. But it belongs to the opioid family. I would like to know if there are regulatory risk identified. And how can this impact your revenue in the next future? Thank you.

ANDREA RECORDATI: Now, the impact of potential regulatory risk on the revenues you asked, right?

ANALYST: Yes.

ANDREA RECORDATI: Okay. Now, this product is utilized for drug addiction or heroin addiction. It's a controlled substance de facto in France, highly regulated and which serves obviously an important social, what's the word, a social function to the treatment of heroin addiction in France. So this is not a product that we utilize and we promote against opioids. So we don't see any regulatory risk on this and therefore risk on the prospect for the product. It's a very stable franchise for us in France.

ANALYST: Okay. Thank you very much.

ANDREA RECORDATI: You're welcome.

OPERATOR: There are no more questions registered at this time from the conference call.

ANDREA RECORDATI: Okay. Thank you, everybody. I don't know if there's anyone else here on the floor that wants to ask something else. If not, we can close the session. Thank you, everybody. Thank you for your patience.

FRITZ SQUINDO: Thank you.