

Recordati S.p.A.

“2016 First Half Results Conference Call”

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MARIANNE TATSCHKE, DIRECTOR OF INVESTOR RELATIONS

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Recordati 2016 First Half Results Conference Call. After the presentation, there will be an opportunity to ask questions.

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

MARIANNE TATSCHKE: Hello, good afternoon or good morning to everyone, and thank you for attending the Recordati conference call. Fritz Squindo, our CFO will be presenting and commenting upon our first half 2016 results and our objectives for the full year. For a better understanding of his presentation, please access the set of slides available on our website www.recordati.com under the Investor Section and presentations tab. At the end of the presentation, we will be answering any questions you may have. Please go ahead, Fritz.

FRITZ SQUINDO: Okay, thank you Maria, and good afternoon or good morning to everyone. We can start with Slide 2 of our presentation. We are pleased to comment our first half '16 results which continue to show sales and margin growth.

Consolidated revenue in the period is €87.9 million which are up by 9.1% compared to last year. Sales include €3.2 million from the initial consolidation of Italchimici, the recent [ph] company that we have acquired in Italy. This excellent sales performance is therefore mainly due to the organic developments of our product portfolio and has driven a further improvement in our margin.

EBITDA is 32% of sales is €88.1 million which are up by 14.8%. Operating income at 29% of sales is €70.2 million, an increase for our

operating income of 17.2%. But let me underline that this result includes non-recurrent expenses of €8.6 million which are due to our acquisition of Italchimici. We have ancillary cost related to this recent acquisition and also we have accrued charges for the reorganization of the company of around €8.5 million. EBIT margin excluding this non-recurrent expenses would have exceeded 30%. Therefore, we continue to improve our margin based on our operating development. Net income at 20.9% of sales is €22.7 million, an increase of 18.9% over 2015. Then very solid results during the period, and a further improvement in our margin.

Financial position remain very solid and net debt is €164.4 million with an increase of €75.6 compared to last year and...but during the period, the acquisition with Italchimici and the payment of the balance of 2015 dividend accounted for a total of €188.3 million. And then we continue also from a cash point of view to continue to confer our solid cash generation.

These are the financial results, but we are very pleased also for the further development of our Company based on inorganic opportunity in...as already mentioned at the beginning of the presentation, at the end of May the Italian pharmaceutical company Italchimici was acquired for a total enterprise value of around €130 million. The acquisition of Italchimici represents for us an excellent opportunity to accelerate our growth, in particular in the Italian market based on the interesting portfolio of well-known products that has significant market share in the Company which we have acquired.

Then in July, also a small Swiss pharmaceutical company Pro Farma was acquired here for a value of 16 million Swiss franc enterprise value and the acquisition of Pro Farma represents for us an excellent base on which we can develop our operation in Switzerland where Recordati has recently

started to sell its product Livazo pitavastatin in which we have the opportunity to start selling from September other products belonging to our corporate portfolio. Then surely financial results and also important that for a further development of the Company in mainly in the Western European part of our business.

On Slide #3, we have a as usual the presentation of our...the performance of our main products, then we can start from Zanidip, from lercanidipine, lercanidipine overall [ph] sale are substantially flat while sale of the combination of lercanidipine and enalapril, Zaniress is the most important brand, are up by 1.9%. And here direct sales to the market are growing more than indirect and are mainly driven by good performance of our portfolio in Italy, Turkey and Spain.

Let me here underline that the overall sales of the lercanidipine franchise in the first half of the year are almost €100 million, then solid performance also from the franchise of lercanidipine. The other corporate products are growing. Urorec, we are talking about silodosin generated sales of €2.7 million in the first half, up 29.5% which are mainly due to the good performance of the product in the major markets, let me underline Italy, France and Turkey and also the significant increase in sales to our partners in some markets.

Sales of Livazo, pitavastatin in Spain, Portugal, Ukraine, Greece and Switzerland, where now we are selling directly the products as from March, are €17.7 million and here the product is up by 32.5% and this is due to the good performance of the product in all the countries, mainly in Spain. The other corporate product grew overall by 10.2% and this comprises 19 products sold in multiple territories, 6 of which are OTC products. The OTC products are growing by 16.1%.

And let me finish the presentation of the corporate product with the product for treatment of rare disease in which our specialty indicated for the treatment of rare and orphan diseases generated sales of €5.3 million in the first half and organically our business increased by €28.9 million. And this is due to the good performance of our business in all the areas. Very good performance in the US, but also good performance in all the other areas with the opportunity in this business to expand the business also in Latin America and Canada and as we always said, now the view for the orphan disease is a more worldwide view rather than a European one.

Slide #4, we have the usual graph which shows the breakdown of revenue by type of product, no major change compared to the previous presentation.

Slide #5, composition of revenue by geography. Let's start with our sales in Italy. Sales of pharmaceutical in Italy are in the period up by 4.7% and this is due to the good performance of all our products, in particular we like to underline Urorec and Cardicor. Also, I would like to say that we had a significant growth in Italy of the treatment for rare disease. This performance includes, also as I said at the beginning of the presentation, the consolidation of one month's sales of Italchimici, which was €3.2 million. But even excluding Italchimici, the business organically is growing in Italy. Then Italchimici is the way for the acceleration of our growth in Italy, now part of the business itself is growing.

Pharmaceutical sales in France are up by 3.1% and here the driver...the most important driver are Urorec and Methadone sales together with the treatment of rare diseases which are growing strong.

In USA, let me again do underline that the Group pharmaceutical business in the USA is only dedicated to the marketing of products for the treatment of rare diseases and sales in the first half of 2016 are €2.8 million, up by 32.9% which is very important increase. But this is mainly driven by volume increase, we had some minor price increase, but the performance is mainly driven by the volume increase in particular by the volume increase in Cardicor which is one of our major projects in the portfolio of our US subsidiary.

In Germany, sales are up by 6%, mainly thanks to the significant sales growth of Ortoton, methocarbamol and of lercanidipine.

Let's now move on Turkey; sales in Turkey are in euro up by 11.2%, and include a negative currency exchange effect following the devaluation of the Turkish lira. In local currency, sales of our Turkey subsidiary grew by 25.6%, thanks to the...we really had a good performance of all the corporate products, in particular, Urorec, Zanipress, the combination lercanidipine, and also some local products, and very solid performance of all our products in Turkey.

Spain, sales are €7.6 million, up by 7.9%, mainly due to the performance of Livazo, which is our...today the most important product in our subsidiary in Spain, but we are doing a good performance also for Urorec, CitraFleet and Casenlax, the products belonging to the current...currently to the Company that we acquired two years ago. And also, Zanipress is growing, even if we had generic competition in the market for our combination. Let me underline that again, also in Spain sales of treatment for rare diseases are growing significantly.

Revenue generated in Russia, Ukraine and CIS countries, is €5.7 million, up by 3.1%, here again in euro. But despite we have a very important

negative currency effect estimated around €6.3 million, mainly due to devaluation of ruble. Sales in Russia, in local currency are up by 21.9%, in line with the trend, with the result achieved in the first quarter and this is thanks to the growth of all our products.

Sales in North Africa are €26.7 million, are up by 11.7%, and here we include both export from our French subsidiary and the sales of our Tunisian subsidiary, the name of which is Opalia.

Other international sales grew by 8.1%, and as usual, they comprised sales to our licensees for our corporate products Bouchara Recordati and Casen Recordati exports sales, and also a small part of our Orphan export business excluding the US, and the other countries in which we have a direct presence. But also for this part of our portfolio, we continue to grow our sales.

Slide #6, the graph shows the geographical breakdown of our pharmaceutical revenue which continue, which we have our Italian business which now represent 20%, 21%.

Slide #7, we are now talking about our P&L results. We have already analyzed and commented the revenue for the period. The gross profit in the period is €407.4 million with a margin of 69.3% on sales and also on a gross profit level, we had an improvement over that of the same period of the proceeding year, which is driven by a better product mix, but you will be...you can see that we continue to improve our gross profit.

Selling expenses increased less than sales and are therefore down as a percentage of revenue compared to the same period of the same...of the proceeding year and this is thanks to the increased efficiency of the Group commercial organization.

R&D expenses are €41.6 million which are up by 9.8% and G&A are up by €7.5, but decreased as a percentage of sales. You can see that we are improving our operating margin based on the improvement of the gross profit and mainly the leverage effect based on the efficiency of the current organization, commercial organization.

Again, we've...I would like to underline the net other expenses which is €8.5 million and include the organizational restructuring charges and ancillary costs both related to the recent acquisition of Italchimici in Italy. As I said at the beginning of the presentation, excluding these non-recurring charges, our EBIT margin will be above 30%.

Net financial charges are €6 million; a decrease of 2.2 compared to the same period of proceeding year and this is mainly due to the reduction of interest charges related to our medium-term loans. The effective tax rate during this period is 25.3%, substantially in line with that of this 2015.

And net income at 20.9% of sales is €22.7 million. We have an increase of our net income of 18.9%. We continue to have a net income margin which is higher than 20%, in line with what we have achieved in the first quarter.

Slide #8, this slide as usual shows the split of revenue and EBIT between our two business segments. EBIT margin in the period improved in both our business segments and now stand at 46.5% for the rare disease segment and at 27.3% for the primary and specialty care segment, if we exclude non-recurring expenses that we have booked during the period coming from the acquisition of Italchimici. Then both businesses are growing profitably.

Financial position, at the end of June this year, the net financial position show a net debt of €164.4 million with...compared to the net debt at the beginning of the year of €88.7 million. As I said, during the period, we have paid dividend and we have...the dividend were at €1.5 million and we have also paid Italchimici and the full impact for both the Italchimici acquisition and the payment of the balance is €188.3 million. Then as I said, we continued a strong cash generation, it was more than €10 million which means that we continue to have cash conversion generation which is 101 [ph].

Then solid financial result in the period which...and now I would like to comment with you our financial projection for the full year of the year. Let me say that the Group business performance during July was in line with the first half, and taking into account also the consolidation of the two recently acquired companies, the Italchimici in Italy and Pro Farma in Switzerland, target for the full year 2016, and were reviewed [indiscernible], we have increased our target compared to those announced in May. The expectation now is to achieve sales of around €1,140 million. We expect to have...to achieve operating income of around €325 million and we have a target of net income of around €230 million.

I have now completed the presentation. Thank you for your attention and we are...I am available to any questions you may have.

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

Q&A

OPERATOR: Yes, thanks. Excuse me; this is the Chorus Call conference operator. We will now begin the question and answer session. The first question is from James Vane-Tempest of Jefferies. Please go ahead.

JAMES VANE-TEMPEST: Hi, good afternoon, thanks for taking my question. And just going on profitability actually and firstly, you mentioned underlying [indiscernible] some of the cost, operating margin would have been around 30%. And looking at your rare diseases business, I mean, it obviously less than 20% of revenues, but it seems to have contributed more than half the profit growth in the first half of the year. And so with the margin, you know, in the high 40s, you know, how sustainable is that and what is actually going on in your rare diseases business. And is it just purely a volume effect or anything around the rare diseases business will be helpful? And then also then related to the Group margin and whether that 30% level you think can be sustainable for the rest of the year? Thank you.

FRITZ SQUINDO: Okay, then the first question was related to the profitability in the rare diseases. For sure based on the current strategy of expansion of our portfolio and we could progressively increase our margin but on the other hand we have also stated that for us it's important the development of the business in the rare diseases, which we expect to be mainly driven by farther an improvement of our pipeline then we...on the one hand we could increase our profitability but on the other hand we expect to spend money for a improvement of the pipeline then, overall, we don't expect significant increase in our margin, and overall, I can say that we expect the margins that we have obtained to-date to be sustainable for, but we have now announced the target for 2000...and for the full year, which implies substantially to keep the margin in line what we have achieved. Today and for the 2017 for next year target, we will announce our new business plan at the end of the year and here we will give you some update on possible improvement of our profitability, but having said that we would like to continue also to invest in R&D, mainly in the Orphan business

which will be something that could in some way increase the cost of the R&D and then not allow us to continue to improve profitability.

Then, regarding the development of the march [ph] of the rare disease, today the expansion as I said is mainly driven by volume. We have some price opportunity increase but is a minor part of our increase. The volume is driven by new patient. It is driven by geographical expansion. It's driven by success of the launches in some new products, but we have opportunity in this business towards small price increase but the real driver as I said also in the conference call the volume effect.

JAMES VANE-TEMPEST: That's very helpful. Thank you very much.

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

JO WALTON: Thank you. Just a few questions please. Even though two acquisitions in this money month, is an improvement in the background I mean more private companies deciding that now is the good time to sell or is it just [indiscernible] that we've had two separately. I wondered you can tell us a little bit more about the Italchimici business. For example, what sort of operating margin it has so that when we see it in the business for more than one month, will it make a difference to the underlying operating margin as a group and could you tell us perhaps which product you think you can take outside of Italy now that they are your products and how quickly you might be able to register the venue [ph] of the market, you know, Turkey and all the other places where you sell your corporate products so well. And finally, could you just tell us a little bit about the market environment that you are seeing in the markets that we don't seem to know so much about Turkey and Russia, whether you think your performance is a held up performance relative to the market or just the

market itself is doing well in local currency and both of those markets at that moment?

FRITZ SQUINDO: Okay, first question was linked to our success in the quarter in making acquisition. As usual, we have a lot of products on the table, we are looking for a lot of opportunities and we have closed this too in this quarter. I don't see major change in the M&A arena, just the opportunity that we have to sign these two deals, but we don't expect to have other deal in short-term, and we don't have to see...we haven't seen a real change in the arena of M&A, which I expect to remain very crowded and very competitive.

Moving to the Italchimici, Italchimici was an opportunity for us to reinforce our basis in Italy. As I said, to accelerate the growth in Italy, revenue of the Italchimici last year was €46 million, is a very consolidated firm in the Italian pharmaceutical market. The profitability is a bit lower than the growth profitability in the primary and specialty care business. We expect to...we are already starting in the reorganization, which means to progressively consolidate all the portfolio in our current organization and we expect the brand, I very well know, is a growing business, it's not a double-digit business, it's a single digit growing opportunity and we expect next year when we have completed the reorganization to have from Italchimici a margin which is a bit higher than the current one. Then we expect the Italchimici to be a little creative in terms of EBITD margin based essentially of the reorganization that we are doing now and we expect to complete by the year end for this reorganization.

Then it's an opportunity mainly for the Italian markets. In this acquisition, we don't expect to have significant opportunity for having product outside Italy. Because the portfolio is a local one, driven mainly by very well known brand, the only one which will now, is a sort of corporate product,

is Lactigest because the owner of the right of Lactigest is Pro Farma our Swiss company and then we would like now to try based on the Pro Farma rights, [indiscernible] Italcimici right, to possibly enlarge the business of Lactigest outside the two current market. But the real value of this acquisition is the integration of the portfolio in the current organization in Italy and synergy which are more in the cost side rather than in the revenue development.

Regarding the market environment in Turkey should be Russia, and then the Turkish market is a growing environment. We increase our basis by 26%. The business locally is growing by something in 18%. We are doing better than with growing business. Same in Russia, even if we are... probably in Russia our performance is even better compared to the market than we have achieved in Turkey because here the market is growing 5%, 6%. While based on the very good performance of our trend, we are growing by 21%. Then the two environments we don't see critical issue in the market for these two countries. We expect or there could be in particular in Turkey going forward some risk which I related to the exchange rate and more in for us in translation of the result of the two subsidiaries based on possible evaluation over the local currency. Then in these two markets, surely the pharmaceutical environment, the usual financial risk, which is mainly driven by FOREX, FX risk which we see today more in the Turkish business rather than in Russian market.

JO WALTON: So when you talk about your 8.9% sales growth, just to confirm, this is the sales growth in Euros. If we were to look at many other companies, wouldn't look it at all in local currency. It would be higher, but clearly you have the exchange issues in Russia, Turkey and to an extent the US.

FRITZ SQUINDO: No, let me again, we have both in our presentation the Euro growth and development at local currency. In Russia, our...in local currency, our

growth is 21.9% and we compare this 22% increase with the business...with the margin, which is growing by 5%, 6%. Turkish performance, our local performance is 25.6% compared to a market performance in the period of 18% something in this range 18%.

JO WALTON: Thank you.

FRITZ SQUINDO: Okay.

OPERATOR: Thank you. As a reminder, if you wish to register for a question, please press “*” and “1” on your telephone. The next question is from Jo Walton of Credit Suisse. Please go ahead.

JO WALTON: I am sorry to hog [ph] the questions. But I wonder if you could just give us a bit more help on the drivers of your growth in rare diseases. It's obviously growing extremely strongly, but these products Carbaglu has been around for sometime. Why are they growing so strongly now, have you put more sales force behind them, have you [technical difficulty] marketing of enhanced labels [ph] or what is the reasoning that suddenly there is stronger volume growth? And secondly, you have talked before, and you mentioned again the opportunity to expand this business globally. I wonder if you could just talk about any infrastructure you might have in let's say Latin America or Canada those were two countries or two regions that you talked about or whether we should think that maybe the next leg of your M&A might be to try and build out some more infrastructure so that you can more effectively globalize this business?

FRITZ SQUINDO: Okay. Then, I agree with you that our performance in the Orphan business, treatment of rare disease is very solid and impressive. But this is mainly driven by volume, which means, new patient because the majority...the important part of our portfolio is represented by chronic

treatment, and then we add new patient, needs to add a new patient on a chronic one. It's true that Carbaglu is not a new product in Europe, but the most important performance of Carbaglu in the USA, and we have obtained the approval in the USA in 2010, and now we are in the phase of really launching with our subsidiary in the US of Carbaglu.

And we are also in...the volume effect, we are selling directly in some new territories, and we have already direct presence in Latin America. We have opened subsidiary in Brazil, in Columbia, in Mexico. We have also a subsidiary in Canada, which means that we are trying to enter in new market in which we have from margin side cost for a very small infrastructure, but in which we can have the full value of the business. And then, we have, as I said some positive price increase. But this is not the most important driver in the business.

We have a solid portfolio, and we are able to grow in particular in the new area with our product. We have also have a positive impact in the European market, coming from the launch of one product in our which we present in our pipeline which are main patient [indiscernible], we are expecting the approval probably in the next year. But we have already sales of Citra drop [ph] and this is another driver for the growth of the business. Then, not one driver...a solid performance of all our product with and let me say one excellence performance of Carbaglu in United States.

JO WALTON: Thank you.

FRITZ SQUINDO: Okay.

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

ANALYST: Hello, actually my question, you already almost answered my question. But I just wanted to check with you, when do you expect GRASPA approval, and also regarding all your growth drivers on the rare disease specifically. Do you consider any new deal [indiscernible] what could be the kind of deal you could make with a company like [indiscernible] for example, for GRASPA or for other type of product?

FRITZ SQUINDO: Sorry, regarding the deal...are you asking me something regarding deal in the rare disease arena or in general?

ANALYST: In general.

FRITZ SQUINDO: Okay. Then, regarding GRASPA, again the process for the approval for GRASPA is managed by Erytech, and we expect the approval of GRASPA beginning 2017. But, we are not managing directly this is fully managed by Erytech. Regarding the driver of growth, I have already answered the previous question, and I just cannot only confirm that we believe that there are essentially the volume development in all our geography.

M&A, even if we are now and we are very pleased to close some deal for this acquisition in Italy and Switzerland, we confirmed that in organic development continue to remain an important pillar for our development. And we continue towards the target opportunity of Product Company; product portfolio mainly in the Western European part of our business, with the objective to continue leveraging our sales [ph] organization, deal comparable to the Italchimici one in other geography is impossible to be found.

ANALYST: Okay, thank you.

FRITZ SQUINDO: Okay, bye.

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

JAMES VANE-TEMPEST: Hi, thanks for taking my follow up question. Just I have two if I can. And Fritz, I think you said that on the rare disease business in the US, you are currently rolling our Carbaglu. Can you just give us a sense of what kind of peak sales potential you see for that product in the US? And then, my second question is, sorry if I missed it. But, you know, you have the one-off of €8.6 million in second quarter, the guidance of €325 million in EBIT, [indiscernible] more one-offs in the second half and are they included? Thank you.

FRITZ SQUINDO: Okay. Let's answer the last question Mr. Vane. We have one-off in the first quarter. We are in the process of reorganizing the Company, the bulk of the reorganization charges I expect to be already charged in the first half. And then in the second half we expect some other minor possible one-off, but the bulk of the one-off. Then by the end of the year you can consider one-off in our P&L of around €10 million, something more than the €8.6 million that we have booked until now. Then, the bulk, I expect to be already charged.

The second question, we are pleased by the performance of Carbaglu. Carbaglu...for Carbaglu in the USA, we are now also in the process for enlarging this indication, because we expect to file beginning next year probably a Carbaglu for having also in USA the indication for organic acidemia. And then, we expect to continue to enlarge the business in the US, but for our orphan disease portfolio usually we don't give a specific target product by product. But it is doing well, and on top of this, we expect also in the future possibly to enlarge the indication to the organic

acidemia, which has been already obtained in Europe three years ago I think, if I remember well.

JAMES VANE-TEMPEST: Thank you.

OPERATOR: Gentlemen, there are no more questions registered at this time.

MARIANNE TATSCHKE: Okay. So we will say good bye to everybody. Thank you for attending, if there is no further questions.

FRITZ SQUINDO: Thank you to everyone. Bye-bye.