

Recordati S.p.A.

“2016 First Quarter Results Conference Call”

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MODERATORS: FRITZ SQUINDO, CHIEF EXECUTIVE OFFICER
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 Quarter Results Conference Call. After the presentation, there will be an opportunity to ask questions.

At this time, I would like to turn the conference over to 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 our conference call this afternoon. Our CFO, Fritz Squindo, will be presenting and commenting upon our first quarter results. For a better understanding of his presentation, please access the set of slides which have been placed on our website www.recordati.com under the Investor section and presentations tab. At the end of his presentation, we will be available for any questions you may have. Please go ahead, Fritz.

FRITZ SQUINDO: Okay, good afternoon or good morning to everyone. We are pleased to comment our first quarter 2016 results, which show significant sales and margin growth. Consolidated revenue in the period is €302.2 million which are up by 9.6% compared to last year. This excellent sales performance which is due to only to organic development of our product portfolio and no contribution from acquisition in this period has driven a further improvement in our margins.

Let's start with EBITDA at 32.7% of sales, which is €9 million, up by €19.6 million, 26%. Operating income at 29.8% of sales, is €0.2 million, here we have an increase of 22.7%. Net income at 21.7% as a percentage of sales is €5.5 million, an increase of 26% over 2015. Then very solid and important improvements of our margin in this period, but we continue

also to deliver strong cash generation and net debt at the end of the period is €42.1 million, a reduction of €46.6 million compared to last year.

Let's now move on our analysis starting as usual from our main product sales, here you can move on Slide #3. We will start with our corporate products and we are starting with Zanidip lercanidipine sales grow by 3.5%. Sales increase mainly in North Africa and in the United Kingdom. Let's say that we continue to maintain even slight increase in the sales of Lercanidipine even if there is for this compound there is generic competition in the market.

Sales of the combination of Zanidip, of Lercanidipine and enalapril, is a brand...the most important brand name is Zanipress, are up by 5.8% mainly due to the performance of the product in Italy, Turkey and Spain and also to the sales of licensees, then also the combination continued to grow. Let me underline that the overall sales of the Lercanidipine franchise in the first quarter of the year exceeded €50 million.

Moving to silodosin; Urorec generated sales of €22.1 million in the first quarter, up by 37.7%, mainly due to the good performance of the product in Italy, France and Turkey and also to a significant increase in sales to licensees resulting from sales to one particular party and to restore the pipeline after the negotiation of the contract or conditions. Let me comment then we have very good performance in all the markets with one-off effect based on this restore of the pipeline to a licensor...to a partner that we had in Europe. But having in all the...in all our markets Urorec is growing, is gaining market share.

Sales of Livazo, we are talking about pitavastatin, our statin, in Spain Portugal, Ukraine, Greece and in Switzerland, where in Switzerland we are now selling directly the compound as from March because when we

decided to start our business directly also in Switzerland, the sales overall of Livazo are €8.9 million which are up by 15.7%...51.7% which is due to the good performance of the product mainly in Spain.

Other corporate products grow overall by 11.2%, these comprise 19 products sold in multiple territories, six of which are OTC products.

Then we have our special drug for rare diseases and our specialties which are indicated for the treatment of rare and orphan diseases generated sales of €46 million in the first quarter, an increase of 22.9% due to the good performance of all the business, and let me say all the products in this area, then very, very solid performance of all our corporate products. In Slide #4, you will see that you can then find our breakdown of our revenue by type of product.

Now we can move on Slide #5 to comment the composition of revenue, of our revenue by geography. Let's start with the Italian market. Sales in the Pharmaceutical in Italy are up by 2.1% and which is mainly due to the good performance of Urorec and Cardicor which are two major important, two very important products in our portfolio in Italy, but also to the significant growth of the treatment for rare diseases.

While in pharmaceutical sales in France are down by 0.7%, which is due mainly to the weak performance of the OTC product portfolio due to a less severe flu season in France, let me comment overall, we have had severe [ph] flu season in the Eastern European countries, but in France and some other Western European countries, we had a weak flu season. And this is mainly the reason for this decrease in the OTC portfolio. On the other hand, in France, Urorec and Methadone sales are performing well and the treatment for rare diseases are also growing strongly in this market.

The Group pharmaceutical business and sales in the USA is dedicated to the marketing of the products of the rare diseases and sales in the first quarter of this year are €25.8 million which are up by 24.7%. Then we confirm the solid performance and growing performance of our portfolio of drugs for the treatment of rare diseases in the US market.

Germany sales are up by 9.1% mainly thanks to the significant sales growth of Ortoton, methocarbamol and also for lercanidipine in the tender that we continued to gain in this market.

Sales in Turkey are up by 6.4% and included is the growth in euro and include a negative currency exchange effect following the devaluation of the Turkish lira. We prefer to comment the performance in local currency and in local currency sales of our Turkish subsidiary grew by 24.6%, thanks to the good performance of all our corporate products, in particular I would like to underline Urorec and Zanipress, but also due to the very good performance of all the local products.

Revenue generated in Russia, Ukraine and in the other CIS market is €19.2 million, which are overall up in euro by 6.7% compared to the same period of the preceding year despite, here again, a negative currency effect of €2.6 million mainly in the Russian market. Sales in Russia in local currency are up by 19.5% and this is thanks to the growth here again of all our major products.

In Spain, sales are €18.4 million, up by 8.7% mainly due to the performance of Livazo, pitavastatin, Urorec, Zanipress and also the currently...Recordati current product Citrafleet. Also in Spain, sales of treatment for rare disease are growing significantly.

Sales in North Africa are €15.8 million, here up by 47.3%, very important increase which is mainly driven by exports from our subsidiary into this market and mainly in Algeria and was driven particularly by sales of Zanidip in this quarter in Algeria.

Then let me finish this composition of revenue with the other international sales. These sales grew by 10.6% and comprised the sales to our licensees for our corporate products in all the other markets in which we have now our direct presence and those of the Bouchara Recordati sales and the Casen Recordati sales in this market. And also the Orphan euro export worldwide excluding the USA and the Recordati rare diseases.

In the other parts of the world, where we had not a direct presence, we continue to grow our business and in this quarter, the growth was in the region of 10%.

Slide #6, the graph show the geographical breakdown of our pharmaceutical revenue and in the quarter let me say there is no major change in this quarter, because the good performance...we had a good performance overall in all our markets.

Slide #7, first quarter P&L, we have already analyzed our revenue for the period. Regarding margin let me again underline the further improvement in this quarter of all our margins, also gross profits. Gross profit is €208.5 million with a margin of 69% of sales. Last year, it was 68%, an improvement over the last period, due essentially to a better product mix.

Selling expenses increased less than sales and therefore down as a percentage of revenue compared to the same period of the proceeding year. R&D expenses are 22.3%, up by 12% and 7.4% as a percentage on

our sales, while G&A expenses are up by 4.5%, but decreased as a percentage of sales.

Overall, our operating income at 29.8%, here we have an increase of 22.7%. Regarding the financial situation, net financial charges are €2.5 million, a decrease of €1.2 million compared to 2015 which is due to the reduction of interest charges related to the medium long-term loan and also to net currency exchange rate gains in 2016 as opposed to net losses that we had in the first quarter of 2015.

Effective tax rate during the period is 25.3% which is a slight improvement over...compared to the effective tax rate of the same period of proceeding year.

Let me finish with our net income, net income at 21.7% then our net income as a percentage of sales is above 20%, 21.7%, sales is at €65.5 million and we have an increase of our net income of 26% over 2015.

Slide #8, in this slide...this slide show the split of revenue and EBIT between our two business segments and EBIT margin improved in both our business segments and now stands at over 44% in the rare disease segment and at 27% in the primary and specialty care segment. And in both, there was an increase compared to the same percentage that we had last year.

Financial position, well we continue to have a very solid financial position, we are continuing this cash generation and at the end of the quarter, the net financial position show a net debt of €42.1 million compared to the net debt of €88.7 million at the end of 2015. And let me underline that during the period, share buybacks were made for an amount of €10.9 million.

Slide #10, here we have our financial projection for the full year 2016 and then we expect for the full year 2016 the Group to continue to grow organically and also based on the very good performance in the first quarter, we have slightly improved our objective. Now our objective for the full year 2016 is to achieve sales of more than €1,100 million, operating income of more than €310 million and net income of more than €220 million.

Here I finished my presentation. Thank you for the attention and now I'm available for any questions you may have.

MARIANNE TATSCHKE: Yes operator, could you please open the question and answer period.

Q&A

OPERATOR: Thank you. 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 with Jefferies. Please go ahead, sir.

JAMES VANE-TEMPEST: Thank you. Good afternoon, thanks for taking my questions. Perhaps I can just start with some related to revenues. The growth in North Africa was very strong in the first quarter of the year. I just wonder if you could comment actually on some of the dynamics of last year just to remind us, you know, in Q3 the revenues were very low. Was that a temporary reason? I'm just wondering whether the absolute number of around €16 million is what you would expect to achieve for the rest of the year. Secondly just on Russia. The business grew despite some volatile FX this year. Do you think this type of euro growth is sustainable for the full year if current rates hold to the ruble? Thank you.

FRITZ SQUINDO: Okay. First question, James, was regarding North Africa, we...in North Africa, we have direct sales...due to our subsidiary in Tunisia, which is made by Opalia which are relatively stable. They grow by 6% in the period. But...and then we also sales to some distributor, mainly we are talking about Algerian [ph] distributor. And here there is...we are not sales directly in the market, are sales to distributor and then some time, some quarter could be different from the others, because we have to receive specific authorization for importation of the product. And then we have no, well balanced distribution of our sales in this market.

And in particular, in this quarter, the sales due to our Zanidip export were very important because we have received in the beginning of the year, some importation licensing and we have supplied an important part, we expect to be the full sales in Algeria for the full year. Then this is not an extraordinary impact, but a sort of concentration in one quarter of our sales, that we expect not the full year, but in eight month as in market sales in Algeria. Is it enough for North Africa?

JAMES VANE-TEMPEST: Yes, that's great. Thank you.

FRITZ SQUINDO: Okay, the second was Russia.

MARIANNE TATSCHKE: Russia.

FRITZ SQUINDO: Russia, then in Russia we are doing a very good job, let me say this way. We are growing our business in local currency by 19%-20%. We are...all our products are growing. We are growing both in volume and in price. We have increased some price, but with attention to be able to keep unit market share. And if, let me say, I cannot predict what could be the exchange rate between euro and ruble during the second part of the year.

But based on the current estimation, we can confirm that we can have a growth in this business, not only in local currency but also in euro denominated revenues. We are very pleased, we are performing well, the portfolio is growing, and we are able to compensate by the local performance the devaluation of the ruble.

JAMES VANE-TEMPEST: Okay. Thank you. Just a couple of follow-up questions, if I can? There's been various press articles about potential M&A. I'm just wondering if you can comment on where you are with your M&A strategy and when we might be able to expect something from you.

FRITZ SQUINDO: The M&A strategy, we continue to have a strong cash generation, we continue to believe that the M&A [ph] the inorganic growth will remain an important pillar for our growth. We are working on some projects, but I cannot comment on possible deal, we'd like to close some deal going forward. But I can just to confirm that even if we haven't closed deal, let me say in the last two years, we continue to believe that this is an important pillar, mainly for investing our free cash flow. Then I cannot comment on possible deals in short-term, but I can say that we are working on some dossiers and we will see going forward.

JAMES VANE-TEMPEST: Thank you. My final question is, historically you have at some point during the year given a mid term business plan update. Just wondering when we may or may not receive one of those from you this year as well? Thanks very much.

FRITZ SQUINDO: Okay. Then we...probably by the end of the year, because we would like to have a clear picture in particular on the generic competition for the combination; and then by the end of the year or beginning next year probably we will release a new business plan for the next three years.

JAMES VANE-TEMPEST: Thank you.

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

ELEANOR FUNG: Hi, a few questions, if I may. Firstly, on your new guidance, that implies a new base EBIT margin of 28%. How should we think about the margin progression over the next 12 to 24 months, as your portfolio mix shifts? Secondly, on Russia just a follow-up, I guess given the difficult market conditions and your peers also commenting on the difficulty in operating in that market, just curious on what you are doing differently to drive such a strong growth. And what surprised you in this quarterly plan versus your expectations going into the beginning of the year? And finally, just on rare diseases, you have had a very strong start to the year. How sustainable is this low-20s year-on-year growth that you've seen in first quarter 2016? Thank you.

FRITZ SQUINDO: Okay, then first question was regarding our margin. Then in our target the implied EBIT margin is 28%. We have increased our expectation, mainly driven by both, on the one hand very important improvement that we have seen in the first quarter of our profit. We have now a gross profit which is 69% cost of goods 31%. And this is important, because it's an improvement of our margin. We expect also a slight decrease based on the performance of the sales increase, as a percentage in our selling expenses, as a percentage of sales. And having said that, today, I can say, that, this margin could be sustainable organically going forward.

Then we have...the previous guidance was an implied EBIT by 27%, we have achieved in this quarter a very high margin which is a bit less than 30%. But it is mainly driven by this performance of revenue 9.6%. We don't expect to continue within around 10% increase for the full year. We

expect one increase in revenue in our target for the full year is 5%...as bit 5%-6%. And based on this, for sure, the leveraging impact of sales in our selling expenses is significant in the first quarter. Then the new margin 28%; could be organically sustainable, and as usual we are very pleased by this improvement in the gross margin.

On the other hand, EBIT margin in particular, selling expenses are...we expect as a percentage of revenue are mainly driven by our revenue growth, based on what we expect for the full year, we expect this margin could be sustainable going forward.

Regarding, Russia, I don't know...I know what we are doing, I don't know what they do in the other companies. We are managing locally the business, we are managing the price increase, which is an important, but this overall, the market is increasing in value by around 6%, we are increasing more than 6%,a bit less than 20%.

We have managed carefully the price increase because we want to keep the volume and also let me say in the first quarter, we had benefit from a positive flu season, because there was in Russia in particular in general a very high, a very strong season, flu season.

Then we have two major points; one, a very good portfolio, price increase, volume increase, but also for this very strong performance, a, favorable seasonal impact because our portfolio is also a portfolio, which is...which could benefit from winter season impact. The third was linked to our Orphan disease business. Then we are very pleased by the performance of the Orphan business. We are increasing the Orphan in the first quarter by around 22%.

In this business, there is nothing particular extraordinary in the quarter. I said during the conference call, a very good performance in all our business and all our products. Let's say that for the full year, you could expect the business to be, the growth of the business to be between 15%, 20%. Then we continue to have more than 10%, the expectation was to have at least double-digit growth in the region of 10%, now you could expect one growth between 15% to 20%.

ELEANOR FUNG: Thank you.

FRITZ SQUINDO: Bye.

OPERATOR: The next question is from Heung Trung with Credit Suisse. Please go ahead.

HEUNG TRUNG: Hi, Trung Heung from Credit Suisse. Firstly, I've got four questions. Firstly, how much of the performance is seasonal and how much is underlying improved sustainable growth for this quarter? My second question is how big was the one-off exchange impact? Is the interest charge of 2.5% representative for the quarter? Thirdly, have you any guide of the level of share repurchases for the year? And finally, can we have an update on Graspa? Are you still on track for the approval in the second half of this year? Have you had any discussions with the EMA and launch costs for this product? Thanks very much.

FRITZ SQUINDO: Okay. Then the first question to me is very difficult to be answered. We have had a seasonal impact, but to say how much is absolutely difficult because there is no an average seasonal impact. The growth is driven also by the fact that year-by-year the season is not exactly the same. I wanted to underline this seasonal impact because I wanted to underline that this 20% growth, local currency in Russia is really very strong. But to say

how much is seasonal, how much is the underlying business is impossible because this underlying business in any case, then frankly speaking for me is impossible to answer.

MARIANNE TATSCHKE: The seasonality is mostly in France and to a certain extent in Russia.

FRITZ SQUINDO: Yes, but [multiple speakers]. To us...we can say that this could be something on the qualitative...from a qualitative point of view, it's quite impossible to say how much is the negative impact in France and the positive impacts in...

MARIANNE TATSCHKE: [Multiple speakers].

FRITZ SQUINDO: Okay. Second point, regarding the exchange rate impact, then we had been negatively impacted by the exchange rate, mainly the devaluation of the Turkish lira and the ruble and in the first quarter, the negative impact was around 2% of our revenue. The third point was...

MARIANNE TATSCHKE: What was your third question, hello...?

FRITZ SQUINDO: Hello? Then regarding Graspa, then we could...we expect to file the Graspa...the Erytech has been already filed to Graspa and the approval is expected let me say not before the year end 2016. Then we are at the end of the second half period. Then could you...

MARIANNE TATSCHKE: Share repurchases [multiple speakers].

FRITZ SQUINDO: Could you please ask again the question number three?

HEUNG TRUNG: Yes, sure. It was any guide to the level of share repurchase for the year. And I wanted to know the one-off gain in the net income line.

MARIANNE TATSCHKE: One-off gain in the net income, we don't have a one-off gain...

HEUNG TRUNG: In the net interest line?

MARIANNE TATSCHKE: In the net interest, no, no.

FRITZ SQUINDO: No, no, there no, okay then...We have as in let's say then, in the first half, we have had in our interest rate, a positive impact but which is minor not significant. It's important as comparison with 2015 because in 2015 we have had a loss in the exchange rates. But something which is not significant and then we expect as usual this exchange impact to be....to fluctuate during the year, but not to be significant in our operating income...our net income. Then let's say in the net income in the quarter, there is nothing, which is exceptional, which is linked to the financial item, and this is not linked to the business day-by-day.

MARIANNE TATSCHKE: And on share purchases?

FRITZ SQUINDO: Then, we have also bought share in the first half, in the first quarter for a full amount of €10.9 million. During the year as usual we will buy shares mainly to serve stock option plans and then probably the second half of the year, we could start again to buy some shares for serving the stock option plan which will be vested in 2016. But we have no...2017, sorry, but let's say, we have no clear objective, we have the authorization for buying share and then we will see these on how many employees exercise the stock option. And then, how many shares we have to buy to keep a minimum level of share available for the stock option plan.

HEUNG TRUNG: Thank you.

FRITZ SQUINDO: Bye.

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

MARIANNE TATSCHKE: Okay. So there are no more questions. We will say goodbye to everyone. Thanks for attending the call.

FRITZ SQUINDO: Goodbye to everyone. Bye.