

Recordati S.p.A.

“2015 Preliminary 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 2015 Preliminary 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 of Investor Relations of Recordati. Please go ahead, Madam.

MARIANNE TATSCHKE: Good afternoon or good morning to everybody and thank you for attending the Recordati Conference call today. Fritz Squindo, our CFO will be presenting and commenting upon our full year 2015 results and our objectives for 2016.

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 answer any questions you may have. Please go ahead, Fritz.

FRITZ SQUINDO: Okay, thank you, Marianne. Good afternoon or good morning to everyone. We are pleased to comment our full year 2015 results, which confirm sales growth and further margin improvement.

Consolidated revenue is €147.7 million, up by 6.1% compared to last year and we are...here we are talking about organic growth. Our margin continues to improve. EBITDA at 30.3% of sales is €317 million, up by 15.8%. Operating income at 26.6% of sales is €278.5 million, an increase of 20.6%. Net income at 19% of sales is €198.8 million, an increase of 23.3% over 2014. Then let me underline that we continue to improve and to grow our margins.

We continue also to deliver strong cash generation. Net debt is €88.7 million at the end of 2015, a reduction of €7.3 million, compared to last year. And even after having paid out dividends for a total amount of €10.8 million, a strong cash generation together with improvement of our margins.

Let's us now enter in our analysis on Slide #3, sales of our main products starting with Zandip, Lercanidipine plain. Zandip sales grew by 5.9% in 2015. Sales volumes are growing mainly in Germany, in U.K., Poland, and Turkey and to licensees mainly in China and Australia.

During the year, we have competed favorably with the generic version of the product, this is mainly in Germany and in U.K, but we are very pleased by this performance of our lercanidipine plain, which is growing even in a generic environment.

Sales of Zanipress, our combination of lercanidipine and enalapril, are up by 7.2% mainly due to the performance of the product in Italy, in Turkey and of sale to licensees. The overall sales of the lercanidipine franchise in 2015 exceeds €180 million, better than expected, then overall good performance of the franchise of lercanidipine.

Other important product in our portfolio is Urorec. Urorec now has been successfully launched in 30 countries with sales of €8.3 million during 2015, which is up 15.6%, mainly due to the performance of the product in Italy, Turkey, France and Spain. Urorec was also recently launched in Tunisia and overall, this product has achieved a market share of 18.2% of the alpha blocker market in the 17 main European markets, in line, even better than our expectations.

Sales of Livazo, here we are talking about pitavastatin, our starting in Spain, Portugal, Ukraine and Greece and through a license agreement in Switzerland are €28.4 million, up by 11.4%. Overall, the product has achieved a market share of 6.9% of the starting market in the four countries.

Other products...other corporate products grew overall by 3.3%. This line comprises 19 products sold in multiple territories, mainly in Europe, six of which are OTC products.

Now, our specialty indicated for the treatment of rare and orphan disease generated in the year sales of €153.1 million, an increase of 24.3%. We are talking of an organic growth of our orphan business which is driven by the good performance of older products in the portfolio as well as to the positive foreign exchange effects following the revaluation of the American dollar, because we have an important part of our business in the U.S.

Slide #4, this graph shows the breakdown of our revenues by type of products. Let's now move on our geographical presence and then on Slide #5, you can find composition of revenue by geography. Let's start with our Italian market.

Sales for pharmaceuticals in Italy are down by 3.5%, which is due only to the termination of the license of Entact, an important product which we are licensed from Lundbeck as from the month of June 2014. Excluding this termination, the business is growing and in particular Urorec, Zanipril and Lercaprel which are the two brands of the combination of lercanidipine and enalapril and lercanidipine in Italy, Cardicor are performing very well as well as the treatment for rare diseases, which show significant growth.

Pharmaceutical sales in France are slightly down by 0.4% and this is also due only to the residual effect of the Adagen license termination that we had last year. Excluding the rare disease business, which is impacted by the termination of Adagen, in France our business, primary and specialty care business increased by 2.7%, the portfolio is performing well and in particular, Urorec and Methadone is doing very well. And the OTC product portfolio, we have an important OTC business in France is growing by 8.5%.

In Germany, sales are up by 11.9%, mainly thanks to the significant sales growth of Ortoton and also due to the good performance of lercanidipine and here again, the product for the rare disease treatment.

The Group pharmaceutical business in USA, I would like to underline again is only dedicated to the marketing of product for the treatment of rare disease. Sales in 2015 are €2.1 million and include as I said, a positive currency effect exchange of €3.5 million. But let me underline that in local currency, sales of this business in the USA increased by 24.7%, a very strong performance even if we exclude the positive currency effect in the U.S.

Sales in Turkey, we are talking in Turkey of our primary and specialty care business, are up by 8.9% and include the negative currency effect following the recent 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 14.2%, thanks double-digit growth in Turkey, thanks mainly to the good performance of all our corporate products, in particular Urorec and Zanipress and Lercadip, and also very strong performance of our local products, mainly Mictionorm, Kreal and Cabral.

Revenue generated in Russia, Ukraine and the other CIS market is €72.4 million, which are down by 11%, compared to the preceding year and this is only due to the negative currency effect on sales in Russia. Also due to depreciation of the ruble in 2015 which has an effect in our sales of around €20.4 million.

Sales in Russia in local currency again are up by 16.7% over the preceding year, thanks to the growth of all our portfolio including also the corporate product which has been launched, in particular we are talking about Procto-Glyvenol, Urorec and also Zanidip. Then here again, a translation or negative translation effect based on the depreciation of the local currency, but very solid and continued good performance of the portfolio acquired in Russia.

Spain, in Spain sales are €72 million, up by 5.6%, mainly due to the performance of Livazo and Urorec. Livazo is the most important product in Spain. The successful launch of Virirec, alprostadil, which is a new topical treatment of erectile dysfunction, also sales of treatment of rare disease are growing significantly in Spain.

Let me now comment on our sales in North Africa, which are €43.7 million, which are up by 14.1% and comprised both the extra sales generated by our prime subsidiary, Bouchara Recordati in this territory and in particular in Algeria, and also sales generated by our subsidiary, Opalia Pharma, the Tunisian Pharmaceutical Company acquired during the fourth quarter of 2013. Then also in North Africa, driven by the good performance of corporate products, we are growing by 14.1%.

Then our international sales grew by 9.4% and comprise as usual, the sales through our licensees, for our corporate product. We are performing well

with all our products, corporate products in particular, lercanidipine and their combination. We include also in this line Bouchara Recordati sales and Casen Recordati exports sales and also the part of the orphan business worldwide excluding the USA. Then also in the part of the world in which we have not a direct presence, we have one important growth by around 10%, exactly 9.4% increases.

In Slide #6, we are talking about our geographical breakdown and this graph shows the geographical breakdown of pharmaceutical revenue in which you will see that we have a very balanced spread in both the European market, we are now a growing presence also in USA. And Italy represents in all our business 20.2% of our sales.

Let's now move on our financial result, P&L and Slide #7. Our results for 2015 show as I said at the beginning of my presentation, further significant margin improvement, which is due essentially to the progressive leveraging of our organization and the good performance of high margin business.

And let's start with the gross margin, which is €712.5 million in the period, with a margin of 68% on sales, a further increase over that of the preceding year due to the higher proportion of higher margin product sales and also to the termination of Entact in Italy, a relatively low margin product. Let's say that also in 2015, we have continued to slightly improve our gross margin, thanks to a good product mix.

Selling expenses increased less than sales and are therefore, down as a percentage of revenue at 28% on sales and this thanks to the increased efficiency of our Group commercial organizations.

R&D expenses are €76.7 million, which is down...are down by 10% compared to those recorded in 2014, also due to a interruption of the development of the product NX-1206 (ph) for the benign prostatic hyperplasia.

Now, G&A expenses are up by 3.2% even also in this case, they increased less than our sales. And therefore, we have a reduction of this G&A expenses as a percentage of sales and now they are at 5.6% on sales.

Then we are improving the gross profit and we are leveraging our SG&A organization, which are the major driver for these improvement of our operating income which moved from 23.4% in 2014 to 26.6% in 2015. We have also other expenses, net of other income, which in 2015 are €5 million and these expenses include also an accrual of €2.6 million for reorganization costs.

Let's move on the financial side, net financial charges are €13.1 million, a decrease of €3.2 million due mainly to the reduction of interest charge related to the medium long-term loans. The effective tax rate during the year is 25.1%, substantially in line with the preceding year.

And net income at 19% of sales is €198.8 million. Here we have an increase of 23.3% over the last year and let me underline that we have been achieving these results based on the organic development of the Company. We are increasing our net income margin from 15.3% to 19%, a very solid improvement in our margin.

Slide #8, here the slide shows the split of revenues and EBIT between our two business segment, treatment of rare disease and primary specialty care, while the segment dedicated to treatment for rare disease generated

14.6% of our sales, it accounts for 22.6% of EBIT and this is a very important business in our portfolio.

Let's now comment our EBIT, our EBIT margin on sales stands at between 41% and 42% for the rare disease segment and of around 24% and 25% for the primary and specialty care business, and both improved during the period.

In Slide #9, you will find our financial position, as I said at the beginning, a very strong cash generation during the year. The net financial position shows at the end of the year a net debt of €8.7 million, a reduction compared to end of 2014 at €7.3 million. And we have achieved this improvement even after having paid out dividend for a total amount of €10.8 million, then very strong cash generation in the year.

Now, we have our financial projection for 2016. And for the full year 2016, we expect the Group to continue to grow organically and this assumption is based on inorganic growth. And our objectives are to achieve sales of between €1070 million and €1,100 million.

Then we expect to have an operating income of between €90 million and €300 million and net income between €205 million and €215 million. However, these as I said, are our objectives. We continue then to expect to continue to grow organically and to have a slight improvement of our margin. But I would like to underline that we continue to strongly committed to making further acquisition and we expect this acquisition to add a contribution to our growth, also we expect also in 2016. Then these are the organic growth and we continue to confirm the commitment in our acquisition strategy in the acquisition arena.

Here I have...then I am terminating my presentation and I am available for any questions you may have.

Q&A

OPERATOR: Excuse me...please go ahead.

MARIANNE TATSCHKE: Yes, you can open the question and answer period. Thank you.

OPERATOR: Okay. Thank you. We will now begin the question and answer session. The first question is from Eleanor Fung with Goldman Sachs. Please go ahead.

ELEANOR FUNG: Hi, thank you for taking my questions, three if I may and I will jump back into the queue. Firstly, for your 2016 guidance, could you help us think about the [indiscernible] for your SG&A and R&D spend assumptions of your 2015 period? Secondly, given your 2016 guidance implies 27% EBIT margin at the midpoint, is there room to raise your 2017 guidance which you had previously set at 25% to 26% EBIT margin? And thirdly, on your expansion of the rare disease business the Brazil, Columbia and Mexico, could you comment on how you are thinking about the sales growth potential in these markets and over what timeframe? Thank you.

FRITZ SQUINDO: Okay, thank you, Eleanor. First of all, the question was related to 2016 G&A. Let's say that our 2016 objective as you said imply a 27% margin, around 27% margin, which means a slight improvement compared to 26.6% we have achieved in 2015, which is driven mainly by the leverage of our sales organization and which means that we expect a slight improvement in our SG&A. In 2015, SG&A our 33.6%, let me say that as I said during the conference call, selling expenses 28% of sales,

general...G&A, 5.6%, we expect to slightly improve this percentage, to reduce this percentage based on the leveraging computerization.

Second question was related to 2017 objective. We are improving our margin, we are...now we expect for 2016 one margin which is in the region of 27%. And let's say that we believe that the margin achieved today and we expect to achieve next year will be sustainable going forward, which means that we can in some way consider this objectives...margin as an objective for 2017 going forward.

Having said that, in terms sale expectations, we have announced in February in 2015 one objective, which include also acquisition and we confirm, as I said, you need the conference call, that we continue to be strongly committed in the acquisition and then you can consider the sale expectation announced in 2015 including the acquisition as achievable, if acquisitions are included. Then we can confirm the objective in terms of sales and we are also, we can also confirm that the current expectation in terms of margin would be sustainable going forward.

Third question regarding the expansion in...of our orphan business, this is absolutely in line with the development of our orphan business. We expect next year to continue to grow double-digit our orphan business, we expect...which is driven by both development of our product portfolio and geographical enlargement. Geographic enlargement is linked to the entry in busy (ph) markets, but we are talking about ultra rare diseases. And then, we don't expect to have from the beginning higher sales in this environment, in these countries the first activity is mainly linked to the market access.

And then, the geographical expansion contribute, but it's not the main driver for the growth of the orphan business but it's strategic, very

important because orphan business is...we want to continue to develop and the objective is to try to have a worldwide business and we believe that with the current portfolio could allow us to have these global view. Therefore, in 2015, 2016, we are working on South America and in Canada and then we will think on Far East and for which we have some licensing-out activities that we are progressively working on developing also in this arena, our orphan business.

But we are talking about a few million of sales because we are talking about ultra rare products for which at the beginning the most important activity is the market access activity.

ELEANOR FUNG: Thank you.

COMPANY REPRESENTATIVE: Okay, Eleanor.

OPERATOR: The next question is from Martino De Ambroggi with Equita. Please go ahead.

MARTINO DE AMBROGGI: Good afternoon, everybody. One more question on the guidance for the current year, what's the R&D assumption underlying the guidance, first. Second, I presume FOREX, well, I ask you what are the assumptions on FOREX underlying the guidance and just have a...sorry, if I missed it, but if any split...but what was the FOREX impact both at top-line and EBITDA level in 2015?

FRITZ SQUINDO: Okay. Let's start with the last question. We had been impacted by FX in 2016 on sales revenue line, we have been impacted negatively by the devaluation of the ruble and the Turkish lira, which has been offset, partially offset by revaluation of the US dollar. Overall, the impact for the full year of the FX could be estimated in 0.4%, which means something in

the region of €3.5 million. But we have been able based on the presence and different geographies to bear (ph) the FX effect.

For 2016, in this objective we have, we don't disclose exactly our budget assumption, but let me say that are not very far from the current one, a bit more positive on the ruble side, but let's say that with the current guidance, we have decided to give a range also because we expect to be in some way impacted, positively or negatively by the currency effect, but the baseline is essentially not very far from the current one. And the third question, the first...

MARTINO DE AMBROGGI: Sorry, Fritz, if I may, I imagine at the EBIT level basically zero impact?

FRITZ SQUINDO: Not zero, because we had a natural hedging, but we have a minor impact because we have the cost which are denominated in local currency. We have some impact also in the EBIT margin, but which is absolutely not in the same extent at the revenue level.

Let's now move on the R&D, we expect in 2016 our R&D to be between 7% to 8%, let's say your assumption is at 7.5%, which is essentially in line with the level of spending throughout 2015 and we are progressing, focusing our activity in the orphan business and also in specialty type products.

MARTINO DE AMBROGGI: Okay. If I may, one more question on the guidance going forward because you mentioned 27% return on sales is sustainable going forward, but should we consider it as a cap or pending further acquisitions, mainly there would be more efficiencies and this could grow, but on linkage of acquisition, so that if you could elaborate on it?

FRITZ SQUINDO: Okay. Then, this is our best estimation. Today, we expect our...for sure, the improvement in our margin could be linked to the type of acquisition, but organically we consider...we are talking about organic evolution. I think organically you can consider this 27% as sustainable going forward.

Then for us, we try not to have a cap in terms of profitability for sure, we would like to have a floor and not a cap, then we are working for improving. But the real impact of a new acquisition is also very strict to the type of acquisition. As I said, if we are talking about only products we could from the [indiscernible] to averages in different organizations. If we are talking about companies, even in existing territories, in this case the contribution probably is not from the ERCO (ph) because we have some of the organization, we could have synergies, but not from the beginning, but let's say 27 is the best estimation we can have today.

MARTINO DE AMBROGGI: Okay. Thank you.

OPERATOR: The next question is from Dale Judge with Credit Suisse. Please go ahead.

DALE JUDGE: Hi, there, Dale Judge from Credit Suisse. Three questions, if I can. Firstly, can you discuss your experience in emerging market in terms of underlying demand and ability to repatriate earnings, what do you expect in terms of Russian demand for 2016 and can you just discuss a little bit more your like-for-like and for OTC business development, is that still a priority...

FRITZ SQUINDO: Sorry, could you repeat the third question, please?

DALE JUDGE: The third one?

FRITZ SQUINDO: The third one, yes.

DALE JUDGE: Yes. And how is the like-for-like for OT business developed, is it OTC business that is...

FRITZ SQUINDO: OTC business.

DALE JUDGE: Yes, is it still a priority to add capacity there?

FRITZ SQUINDO: Okay. Let's start with your first question. We are in emerging markets, but let's say that our emerging market is Russia, our emerging market is Indonesia, our emerging market is Turkey, and then we...what is our experience, we have no problem in terms of repatriation of capital because in this market there is no such kind of constraints. We are not talking about...when I am talking about Algeria, I am talking about when market in which we are selling from our subsidiary.

We are not impacted by any constraints having any limitation in terms of repatriation in our so-called emerging markets. We are...in our experience in emerging markets, we as I said, we said we are increasing in our business the FX risk because locally, we are doing very well, we are growing. We are managing the business through volume impact in Turkey, through volume and price effect in Russia, but we have an impact in our P&L which is linked to the translation from the local currency in euro. But excluding this, we don't see any major risk in our emerging markets.

Regarding Russia, then Russia is...we have been growing the business last year by 16.7, which is in part only due to a comparison base because last year we changed the distribution model, and then this is not, let me say in market evaluation. But having said that, we are growing mainly through

price increase, we are keeping our unit and we are growing in the Russian market by price increase.

We tried to be prudent in the price increase, because we want to maintain our market share and then (ph) we follow the inflation, but we tried to manage our Russian business carefully in terms of price. And this, we expect to be also the way in which we will manage the Russian business in 2016. No, (ph) important volume increase, we are only growing volume in our corporate product, which are in the launching phase and then not related to the overall performance of the market, but it is mainly driven by the success in launching our product. But overall, the major driver we expect to be a price increase. The third, could you repeat because...

DALE JUDGE: The like-for-like on what business?

MARIANNE TATSCHKE: On your OTC.

FRITZ SQUINDO: On the OTC.

DALE JUDGE: Like-for-like on the OTC.

FRITZ SQUINDO: Well, OTC is...for us, it's a local business, and then we have a very known local brand. And then, overall, we expect our OTC business to be in line with the GDP growth in each market. And then, we expect to grow in line essentially with the growth of the Company, and because it's difficult to say like-for-like in the OTC, because we prefer to comment geographically by product. But, we don't see any major risks of threat in our OTC business.

DALE JUDGE: Okay. Thank you. And just one more if I can, not really mentioned Grasca, can you talk more about your launch plans and level of spending in 2016?

FRITZ SQUINDO: Okay. Then first of all, let me remind you that Erytech which is our partner for Grasca, at the end of September they filed for a marketing approval which is expected in some...end of summer 2016 in the best case. Then we are now waiting for the approval, the process is managed by Erytech. On the other hand, we are initially organizing our business line because the Grasca will be managed in the orphan drug business, but we expect to build progressively for the Grasca one specific organization. But, we don't expect it to be significant cost in 2016, because we are now in the process for the approval for waiting for the marketing authorization.

This could be an important item in terms of development of the sales and cost associated mainly in 2015...in 2017. But let me add, we are talking about few people, we are not talking about huge organization. Let's say, that we don't expect Grasca, only to be sold only through the existing organization, we expect to build a specific very few line, which we expect to be not very huge, we are talking about few people very specialized people, very dedicated, with a very high knowledge in the business. But for 2016, the impact of Grasca, we expect to be not significant.

OPERATOR: Thank you. As a reminder, if you wish to register for a question please press "*" and "1" on your telephone. For any further questions, please press "*" and "1".

The next question is a follow-up from Eleanor Fung with Goldman Sachs. Please go ahead.

ELEANOR FUNG: Hi, a couple of follow-up please, if I may. Firstly just on thinking about your Casen Fleet portfolio, just wondering, if you could comment on your plans for geographical expansion of those products into other geographies, which target markets within your subsidiaries are you thinking about? Secondly, wondering if you could provide some broad guidance on how you expect your Turkish business to evolve? Thanks very much.

MARIANNE TATSCHKE: Eleanor, Casen portfolio, geographical expansion.

FRITZ SQUINDO: Okay, then regarding Casen portfolio, we are in the phase of selling directly in our major market part of the Casen portfolio and we are thinking on launching the new drug, which means that we are selling now directly in France, Casen Fleet and Phospho-soda, we are doing the same in the Italy. We are...started selling this product in Russia in mid-2015; we expect to start selling in Turkey in 2016. Then, we are in the process of, first of all, to sell in our current organization through our current organization the Casen portfolio. Casen is also a minor business in our export business and probably will be a priority going forward. The first priority was to directly sell and to have the full margin of the Casen product in all our European and emerging markets, where we have our sales organization. Then, it's progressively working (ph).

ELEANOR FUNG: [Indiscernible] Turkish business expense?

FRITZ SQUINDO: Then, Turkey in, I think we are doing very well in Turkey, we are growing locally double-digit. We expect for the time being to continue to develop our portfolio. We have room for growing; we have launched the combination last two years ago, where we have launched Urorec silodosin two years ago. And then, there is...we are talking for having the reimbursement of Livazo. Today, the expansion of our Turkish business

is mainly linked to the organic development it is not a priority in term of acquisition.

ELEANOR FUNG: Thank you.

OPERATOR: Once again, if you wish to ask a question, please press “*” and “1” on your telephone.

The next question is a follow-up from Dale Judge with Credit Suisse. Ms. Judge, your line is open.

DALE JUDGE: Hello, can you hear me now?

MARIANNE TATSCHKE: Yes.

FRITZ SQUINDO: Yes.

DALE JUDGE: Sorry, about that? And you have highlighted that the 16% growth in Russia is not the same as in market sales, is the 20% growth in the U.S. representative, and is that rate sustainable with your current portfolio?

FRITZ SQUINDO: Okay. Let’s say that, in the U.S. 2015 was very successful. We expect to continuing double-digit growth to sales of 2015, we will see in 2016. But, we are doing very well. There is room for our product to grow in the U.S.

Then overall, let me comment something on the orphan business overall. The orphan business in 2015 grew by 24.3%, we have been positively impacted in this area by the revaluation of the U.S. dollar, and this has an impact of 11.6%, then overall the business grew by 12.7%, which is in line with our exception to have...to continue to have a double-digit growth in the orphan area and we confirm also for 2016 this kind of level of growth.

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

MARIANNE TATSCHKE: Okay, then we will say goodbye to everybody. And thanks for attending the call.

FRITZ SQUINDO: Bye-bye.