Recordati S.p.A

"2014 Preliminary Results Conference Call"

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MARIANNE TATSCHKE, HEAD OF INVESTOR RELATIONS

OPERATOR: Good afternoon. This is the Chorus Call Conference Operator. Welcome and thank you for joining the Recordati 2014 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, Head 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. Fritz Squindo, our CFO will be presenting and commenting upon our preliminary 2014 results and our objectives for 2015 and our outlook to 2017. For a better understanding of his presentation, please access the set of slides available on our website www.recordati.com under the Investors Section and Presentations tab. At the end of the presentation, we will answer any questions you may have. Please go ahead, Fritz.

FRITZ SQUINDO: Thanks Marianne. Good afternoon or good morning to everyone. We can start with Slide #2 and we are pleased to announce our preliminary results for the full year 2014 which shows sales growth and significant margin improvement result which are in line with the first nine months result.

Consolidated revenues is €987.4 million for the full year 2014 up by 4.9%. As already stated in 2014, there was a significant margin improvement. EBITDA at 27.7% of sales is €273.8 million and up by 19% compared to 2013. Operating income at 23.4% of sales is €231 million, an increase of 18.2% over 2013. Net income even better at 16.3% of sales is €161.2 million, an increase of 20.6% over 2013. As we have always had for in the first nine months result, we continue to have significant improvement in our margin in this year.

During the year, we have also obtained two new product in license one is Vitaros for the treatment of erectile dysfunction. This is one product under license from Apricus Biosciences. And another one the code is PSD502 the brand would be Fortacin and this is one product for the treatment of premature ejaculation and this is one product under license from Plethora Solutions [indiscernible] which we are progressively together with our silodosin Urorec building a important franchise in this area.

In July our orphan drug Carbaglu was also granted orphan drug designation by the FDA in the US for its use in the treatment of organic acidemias. For the organic acidemias we have already obtained the approval for the European market. Now we are enlarging also for the treatment…this kind of treatment our Carbaglu in the US.

I would like also to take this opportunity to provide you with an update regarding our NX-1207 product in license from Nymox. Let me say that in view of the phase III clinical trial result which have been communicated by Nymox end last year and after a profound evaluation over the last month, we decided to premature terminate the European clinical trial involving this product before having reached the expected target of 340 patients. This is linked essentially to the phase III data coming from the trial conducted by Nymox who showed no significant improvement over Placebo for this product based on this result then I would like to underline again we had decided to premature terminate the development of the product also for the European market.

Having said that, we can move on Slide #3 in which we can analyze the development and the performance of our corporate products in 2014. Let's start with Zanidip. Zanidip lercanidipine sales remains substantially stable even a small increase and here the volume reduction as a result of

the generic competition mainly in Europe and the negative currency effect in Turkey in which locally the product is growing, but in the conversion in euro there is a reduction in the sales of Zanidip in Turkey. Then these two major factors were more than compensated by strong growth of export from say France mainly in North Africa. Then overall Zanidip is maintaining the level of sales achieved in 2013.

Moving to the combination sales of…here we are talking about the combination between lercanidipine and enalapril. The sales of Zanipress are up by 2.4% mainly due to the performance of the product in Italy and Turkey. Sales are down in Spain and in Portugal due to the entry of generic version of the products.

Urorec, silodosin has been successfully launched in 28 countries with sales of €59.1 million during 2014, which are up 26.3%. This is mainly due to the performance of the product in all the major country; let me underline the performance in Italy, Spain, in France and in Turkey achieving a 15.5% market share of the alpha blocker market. These are based on IMS data in 16 countries.

Sales of Livazo here we are talking about pitavastatin are continued to be limited to some territory in Europe in particular in Spain, Portugal, Ukraine, Greece and through license in Switzerland. In 2014 up €25.5 million up by 13.3% then good performance, but in a limited…are in a limited market. Our specialty indicated for the treatment of rare and orphan diseases generated sales of €123.2 million in 2014. These are down by 3.7%, but this deduction is due only and entirely to the termination of the license of Adagen in the main countries. We lost from the beginning of 2014 the rights for selling this important product in the main countries in Europe. Excluding Adagen sales altogether the other products in the portfolio grow by 13.3% then excluding Adagen we

continue to have a double-digit growth in our business for the treatment of rare diseases.

Sales of other product, the strong growth is also linked to the contribution from the Casen Fleet main product that we are now selling after the acquisition of the company the Spanish company with a portfolio in Europe at the end of 2013 then very strong performance of our corporate product.

We continue in Slide #4 the graph shows the breakdown of our revenues by type of product in which we continue to keep our local subsidiary product in the region of 30%.

From a geographical point of view, let's move on Slide #5 which we can start of our sales in Italy which remain our major market. The sales of pharmaceutical in Italy are down by 4.7% compared to those of the preceding year and this is due to the termination of Adagen. Adagen has sales also in Italy and more important the termination of another important contract we had the license from Lundberg for selling in Italy, Entact which is [indiscernible].

Let me say that all the other products in our portfolio are performing very well. They have not been able to offset the important loss linked to the Entact mainly, but they are performing very well. Pharmaceutical sales in Italy are down by 3.5% and this is mainly due to the decrease of the OTC line product which are indicated for the treatment of ENT disorder and this is due mainly to a seasonal factor and also here to the termination of Adagen license.

On the other hand, Urorec and methadone are performing well. Here again, we have some impact due to Adagen we have not been able to completely been offset by Urorec and the other product.

In Germany, sales are up by 4% and this is tend to the sales grow of Ortoton which is a local very well known product in Germany of our combination and of our orthopedic product line.

Moving to Russia, revenue generated in Russia and the other CIS countries is down by 9% compared to the preceding year due to the negative currency effect of €15.8 million. We have an important impact linked to the depreciation of the Ruble. We would like also to underline the positive performance in local currency. Sales in Russia in local currency are up by 8.4% compared to the preceding year. Then our business in Russia is growing, but our business translated in Europe is and will be impacted by the depreciation which is very important of the Ruble going forward.

In Spain, sales include a consolidation effect of €38.5 million sales generated in the first 10 months by the Spanish pharmaceutical company Casen Fleet that we as I said acquired in the fourth quarter of 2013. But in general, we are performing very well in Spain and the company main product of the Casen Fleet Company which is CitraFleet is growing its becoming part of our corporate product. Also in the Recordati transitional corporate product like Livazo and Urorec are also performing very well. Only Zanipress and Cidine (ph) are facing generic competition then here we have one growth which is linked to the consolidation, but the portfolio itself is growing in Spain.

Sales in Turkey are up by 3.5% and here impacted by a negative currency effect of €13.2 million. Then in local currency the performance is even more important and sales of our Turkish subsidiary grow by 17.4% and

this thanks mainly to the good performance of all the corporate product Procto-Glyvenol, Urorec and Zanipress.

The Group pharmaceutical business in the USA is dedicated to the marketing of product for the treatment of rare diseases. Sales in 2014 are €56.8 million and let's say here we have one increase by 10% with not a significant impact of big link to the evaluation of the US dollar because 2014, 2013 the US dollar exchange rate between Euro and US Dollar are substantially straight. Then there is a growth which is linked to the solid and growing performance of our business in the US. Business I would like to underline again, which is limited to the treatment of rare diseases.

Sales in North Africa are €38.2 million and comprised both the export sales generated by Bouchara Recordati, Bouchara Recordati is our subsidiary in France in this territory in particular in Algeria and sales generated by Opalia Pharma, the Tunisian Pharmaceutical Company acquired during the first quarter of 2013. These company sales are €15.9 million during 2014. Then we are progressively consolidated our business in North Africa.

Then let's say something regarding Portugal. In Portugal, our sales are up by 10.1% and this is mainly linked to the good performance of corporate product Livazo, TransAct and Urorec. Here again, we have a positive impact due to the consolidation of the new acquired company Casen Fleet which has a Portuguese subsidiary which sale for an amount of €2.9 million. In say…in Spain as I said, in Spain and in Portugal, sales of the combination are affected by the entry of generic version.

Let me finish with the other international sales which grow by 3.6% and comprise the sales of our corporate product to licensees and we are maintaining our sales even if for lercanidipine we have some risk linked to

the generic competition, but here we have also the Bouchara Recordati export sales excluding those in CIS and North Africa which are reported separately which is growing, the business is growing and the Orphan Euro export worldwide excluding the US then this represent the part of the business which is…in which we have no direct present, which continue to grow in 2014, we give you this business by 3.6%.

Slide #6 then this graph shows the breakdown, the Group pharmaceutical breakdown, the geographical breakdown sorry of our pharmaceutical revenue and worth mentioning is our growing presence in Spain and in North Africa following our recent acquisition. But also that we are progressing, we are reducing our presence in Italy now is less than one four is 22.3% of our sales. Then we are progressively continuing the process of developing our international trade.

Full year 2014 result, these are our preliminary result Slide #7. We have already talked about revenue for the period. Now let's move on the cost side. Gross profit is €660.3 million with a margin of 66.9% on the sales. Here we confirm the increase of our gross margin compared to that of 2013 due to a positive mix effect following the addition to the portfolio of the product belonging to the two companies acquired to development of the corporate product and to the sales reduction of Adagen and Entact which are relatively low margin product. Therefore, we are improving our product mix.

Selling expenses as a percentage of sales, they are down compared to the same period of the preceding year and this is due to the overall containment in all market and synergies that we obtain with the integration of the newly acquired company in Spain.

R&D expenses are €85.3 million, which are up by 14.1% due to development of clinical trial for product and development. G&A expenses are up by 5.7%, but are substantially stable as a percentage of sales. Thanks to and particular to higher gross margin and the lower incidence of the selling expenses, EBIT for the year has increased to 23.4% of sales, a significant improvement compared to 20.8% achieved in 2013.

Other expenses, net of the other income are €3.9 million and include €2.9 million for a personnel reorganization charges that we had in all our subsidiaries.

Net financial charges are €16.3 million. Here we have an increase on our costs of €1.6 million, due mainly to interest accrued on a higher level of indebtedness in particular related to medium long-term loan. We have raised money to be prepared for financing our development going forward, but in 2014, we have a negative impact to the increase of the medium long-term loans that we had now in our balance sheet. The effective tax rate during the period is 25% an improvement compared to that of the same period of the preceding year.

Let me finish our comment on the P&L with our net income at 16.3% of sales, net income is €161.2 million. Here we have one increase and I would like to underline this increase, which is 20.6% over the preceding year. Then let me say that we had a very strong performance, a very strong improvement in term of margin and in particular in term of net income.

Financial position, the full…the full balance sheet will be released when will be approved the final number the 4 of March, let me just give you an idea at the end of December, the net financial position show a net debt of €186 million with a reduction of €75 million, compared to the end of last

year and during the period, the dividend was distributed for a total of €75.4 million of which €22.3 million is balance of the 2013 dividend and the 53.1 as an interim dividend for 2014. Then we have reduced our debt by 75 and we have also paid dividend for another 75, which means that we continue to have a cash generation which is in line even higher of our net income.

Moving to the target today the Board has also approved our business plan, our strategy and objective for 2015-2017. Let me start with the target for 2015. I would like first of all to go on the assumption that we have based on the target that will be announced. First of all, for 2014, '15 sorry we expect lercanidipine franchise to remain relatively stable with sales of between 160 and 165, and we continue to believe that we can continue to defend our franchise in the lercanidipine business.

Wide sales of Urorec we expect to increase by around 15% with a positive performance all our market and sales of Livazo to increase by more than 10. Just to underline again that we will have a farther impact from the termination of the license agreement for Entact, because of the first half sales has…first half of the year sales in Italy will be impacted by the termination of this contract which was terminated mid 2014.

Going to the new environment sales in Russia to increase by more than 10% in local currency and sales in Turkey to increase by around 10% always in local currency that for the treatment of rare disease to grow double-digit and then we expect to continue with the current portfolio to have a double-digit growth in the rare disease business. We have also one impact, a fixed impact on the net revenue, because on the one hand we expect the Russia to continue to increase in local currency, but we expect to be impacted by the devaluation I would like to remind you that there

has been a very strong devaluation of the Ruble mainly in the second part of 2014 which will impact our 2015 performance.

On the other hand, we have also the business which is growing one in the US dollar which could benefit from the revaluation of the US dollar. Net impact is a negative effect on the sales line of around €15 million. On the operating income, this is in part offset by the fact that we are also cost denominated in local currency.

Let me also say that the breakdown of sales by product and business and by geography in 2015, we expect to remain substantially unchanged. These are the target for 2015.

The assumptions, let's now move on the assumption for the 2016 for our outlook for 2017. And then here first of all, I would like to start with the assumption linked to the current portfolio. How we expect to continue to develop our current product portfolio. Then lercanidipine franchise, we expect to decline slightly and this is due to the entry of generic competition in the major market we are talking about Italy Zanipress the combination we are talking about Italy. We are talking about Germany. We are talking about France. And then based on this decline we expect the sales going forward of around €140 million.

On the other hand, we expect Urorec, for Urorec we have a clinical data protection until 2020. We expect to continue to grow and to gain market share and to reach in 2017 sales of around €85 million. Livazo, we expect to increase to €35 million mainly in the current market plus some other market in particular we expect to launch the drug in Turkey.

Then we have the other corporate product which we expect to exceed €140 million in 2017, and here we expect to have positive impact of around €20

million sales of the new product for which we have signed this year the contract, the license contract we are talking about Vitaros and Fortacin. Drug of the treatment of rare disease we expect overall to exceed 15% of the total sales and we confirm a double-digit growth per year. OTC to remain essentially stable as a percentage of sales, and let me again to say that we have build this objective for 2017 based on the currency exchange rates.

This is let's say the performance expected from the existing portfolio plus the new product that we have already license agreement signed, but there is a final bullet point which is very important. Let's say that we confirm our growth strategy is through acquisition and we expect to reinvest the cash generated in the period in corporate development activities, primary in product portfolio enhancement in all the major market which we have our presence and we include also in this corporate development activity, the opportunity, the possibility to enhance our portfolio in the Western European market.

Therefore based on the fact that for us, this is a very strong commitment, we have also included in our target as we did in the previous business plan, a positive impact linked to the acquisition and then we have also considered sales and profit linked not only to the organic development of the existing portfolio, but we expect to be able in this period of time to increase our sales and our profit with the positive reinvestment of our cash flow generation.

Having said that, Slide #11, here we have our objective for first of all 2015 and then 2017. Revenue; the target for regarding sales for 2015, we expect sales of around €1 billion, I would like to underline here the difference between what we had, what we now expected for 2015, we expected for 2015 when we announced our business plan at the beginning

of 2013, the difference is exclusively to the severe negative FX effect which is due to devaluation of the Ruble, which is not completely offset by the revaluation of the US dollar then we had this performance, this objective in 2015 which is strongly impacted by the FX effect due to the Ruble.

For 2017, net medium term, the plan is to achieve sales of €1.150 billion which is due to both organic sales and strategy linked to our acquisition strategy. Regarding organic sales development, we expect this to be around half of sales growth in the period 2015-2017 then we expect to have half of the growth driven by the current portfolio, half linked to the reinvestment of the cash flow.

Let's now comment our margin improvement because it is important. We confirm our margin improvement. We have already improved margin in 2014, but we expect to have a farther margin improvement. And then, we have in term of objective for 2015, we expect to exceed the original expectation and that we expect to have one EBIT around €250 million, which is 25% of sales, when increased compared to the 23.4% achieved this year and net income of around €175 million, here we are talking about 17% of sales. Then we expect to continue to improve our margin for 2015, but also in the plan we expect to have a farther slightly increase of our EBIT, we expect the EBIT to be between 25% and 26% of sales and net income between 17% and 18% of sales.

Let's now move on the last slide in which there is a summary of our target, which means just what we have already stated. For 2017, we expect in terms of sales to achieve 1.150 billion sales and EBIT as I said 25, 26% net income as a margin as a net income 17%, 18% which is and improve compared to what we have already achieved, which is already and improve compared to 2013.

Now I have finished my presentation. I am available for any questions you may have.

COMPANY REPRESENTATIVE: Could you please open the question and answer period? Thank you.

Q&A

OPERATOR: Excuse me; this is the Chorus Call Conference Operator. We will now begin the question and answer session. The first question is from Chris Cooper of Jefferies. Please go ahead sir.

CHRIS COOPER: Hi there, thanks for taking my questions. I have three please. Firstly, on the planned EBIT margin expansion 2017 of 25 to 26%, I was hoping if you could give us a flavor for how much of that is going to come from natural operating leverage and how much might come from sort of additional cost measures that you could employ? Secondly on Zanipress the color on the 2015 sales target is helpful. And then again on 2017, I was wondering if you could maybe give us a flavor on how that might then look beyond 2017 as in how quickly you might expect that to full off. And then lastly, just wanted an update on the EU regulatory environment I guess with Spain and France both moving to INN, I just wondered if you could comment on what this could mean to your of patent products over the next year or two? Thank you.

COMPANY REPRESENTATIVE: Okay. First question regarding the EBIT and net income margin expansion, let me say that we expect these expansion in 2015 mainly related to a farther improvement of our gross margin coming from a more profitable product mix, while in 2017…'16 and '17 we expect a lower incidence mainly of selling expenses due to the further leverage of our

selling organization. Then let's say that what we expect, we expect the business, the organic business to expand the margin and this is linked essentially to the leveraging going forward of our selling organization and we expect to maintain the same margin even with the acquisition because we have primarily targeted to buy product in which the impact linked to the positive impact linked to the leveraging, the sales organization is from the beginning then we are open to both. We are also both open to buy companies, but we are now targeted to buy something in existing environment mainly in which we can add on the one hand synergies as we have realized following the acquisition of Casen Fleet or buying product we have immediately the full contribution without adding significant selling cost and then we could add immediately after a positive contribution and the expectation is to be able to maintain the same level of profitability that we are able to achieve in the organic business.

Second point, Zanipress let's say that Zanipress we have already co-generic competition in some European market mainly in Spain and in Portugal. For the main market we expect generic version to enter the market in the second half 2016 and then 2017 we expect to be a full year impacted by the generic competition. As you know the negative impact in Europe mainly you have immediately after the end of the generic with price reduction we have been able to…we expect to be able to defend in some market the volume then going forward we expect this franchise to remain essentially stable or to have a slight decrease, but not significant. The major reduction we expect to be in 2016 and 2017.

Third point, prescription by active ingredient. This is not a new for Spain, because this is something that is already in place in Spain. If something that has been introduced in 2015 in France for the time being, we have not seen immediate impact. We have also the experience in Italy which we have both let me say the prescription by active ingredient together with the

brand and then probably it could be a possible solution in France. Then for the time being, we don't expect immediately an impact going forward we have to follow carefully these prescription by active ingredients in France. Is it enough?

CHRIS COOPER: That's very helpful. Thank you.

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

MARTINO DE AMBROGGI: Yes, thank you. Good afternoon everybody. The first question is on the R&D level in implicit in your guidance?

COMPANY REPRESENTATIVE: Okay, the only one.

MARTINO DE AMBROGGI: That's the first one.

COMPANY REPRESENTATIVE: Okay. And we expect we have…we expect R&D to remain essentially stable at around 8% of sales. This is our assumption in our business plan.

MARTINO DE AMBROGGI: Okay. The second question is a clarification, because if I understood correctly you mentioned 2017 targets the growth is half like-for-like and half from new acquisitions, am I right?

COMPANY REPRESENTATIVE: Yes you are right.

MARTINO DE AMBROGGI: Okay. So just to have a better understanding apart from what you explained concerning lercanidipine, but what are the other areas, geographical areas or products which are under performing because of the expiry of the license or for any other reasons, because at the end the

growth that you expect like-for-like will be low single digit 2 or 3 maybe 4%?

COMPANY REPRESENTATIVE: Yes and let's say that we don't expect major termination of contract. We expect the negative impact which is in the region of €20 million €25 million in the lercanidipine franchise because from 160, 165 we expect to move to 140. This is the major risk, the major impact in term of product portfolio we expect to offset part of this with Urorec, with Livazo, with the new corporate product and with the treatment, drug for the treatment of rare diseases. Then in term of geographical breakdown we don't expect major changes. I would like to underline again this is based on the current exchange rate and then could be some negative or positive impact that is very difficult to be predicted in particular regarding the evaluation of the Ruble going forward. But the major impact in our organic…the major risk in our organic development is linked to the generic competition for Zanipress for the combination.

On the other hand, we compensate this through development of the corporate product. As I said, OTC we expect to remain essentially in line with this growth which is 2% to 3% per year, and let's say that this growth is in line what we have achieved over the last two or three years excluding the impact of the acquisition.

MARTINO DE AMBROGGI: Okay and one more question on the 2017 target. We mentioned the sales, but what is the reasonable rate on sales like-for-like?

COMPANY REPRESENTATIVE: In term of EBIT margin.

MARTINO DE AMBROGGI: Yes.

COMPANY REPRESENTATIVE: As I said, we expect to…this expectation which is for the full portfolio including the acquisition we expect to be mainly driven by the improvement of the organic portfolio in line with our expectation and the assumption is based on the kind of the acquisition which are mainly product acquisition we expect to be able to maintain what we have seen, what we expect to be able to increase from an organic. Then what we had said 25, 26 is something that we expect as a margin in the existing portfolio.

MARTINO DE AMBROGGI: Okay and my last question is on the acquisitions, we are accustomed to see acquisitions year-after-year, what's the maximum level of debt that you have in your mind, I know very well in case of an opportunity, you are willing to exceed eventual threshold, but in a normalized situation?

COMPANY REPRESENTATIVE: Okay then let's say that we now in Slide #8 you will find our finance acquisition at the end of 2013 our net debt was 186. First of all, we expect to be able to reinvest all the cash that we will generate going forward which is €70 million, €80 million per year and we can also increase our debt until one level which is for us absolutely acceptable which is one-time EBITDA. But in this assumption we expect probably to reinvest all the cash that we will generate and not necessarily to increase the level of debt compared to the debt that we have at the end of 2014. It depends on the opportunities.

MARTINO DE AMBROGGI: Yes I know, I know. Thank you. Bye.

OPERATOR: The next question is from Matteo Marricco of CIBC World Markets. Please go ahead.

MATTEO MARRICCO: Yes hi, how are you?

COMPANY REPRESENTATIVE: Thank you.

COMPANY REPRESENTATIVE: Good, thank you.

MATTEO MARRICCO: Hello.

COMPANY REPRESENTATIVE: Yes.

COMPANY REPRESENTATIVE: Hello, thank you.

MATTEO MARRICCO: I am calling from Montreal and I am questioning regarding NX-1207 where it says that you guys you interrupted prematurely the study. Does that mean that there is a chance you might pick it up again or it's finished for you the deal with Nymox?

COMPANY REPRESENTATIVE: Let's say that for we, after as I said profound evaluation over the last month of the clinical result obtained also in the phase III clinical by Nymox we decided to terminate which is then we have soft development for the current indication of Nymox in Europe then it's we have terminated the development of this drug for Europe.

MATTEO MARRICCO: Okay, so there is no chance that you will look at the existing results that you've had up-to-date and breakout those results?

COMPANY REPRESENTATIVE: We have already analyzed all the results and this is our final decision.

MATTEO MARRICCO: Okay, will those results be made public.

COMPANY REPRESENTATIVE: No because we have analyzed not our result, we have because for the time being in our clinical development, we have treated only one third of the patient we have decided to stop and then there is no enough data to justify an evaluation of this, but then we have decided to stop the recruitment of the new patient. We are now following all other good practice for closing our clinical development and we don't expect to have a new data for the development.

MATTEO MARRICCO: And if Nymox decides that they want to continue this study will they be able to, or you led them continue the study on their own, do they have the right to do this?

COMPANY REPRESENTATIVE: For the time being in the agreement we have responsibility for the development of Europe and then if they want they can ask and then we will see, but for the time being for us we have decided to terminate the development and I….

MATTEO MARRICCO: Okay, I appreciate it.

COMPANY REPRESENTATIVE: And then we are not continuing the development and the enrollment and then we expect not to have significant data in the limited number of patients that we have.

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

COMPANY REPRESENTATIVE: Okay then we will say good bye to everybody. Thank you for attending the call.

COMPANY REPRESENTATIVE: Goodbye.