

# **Recordati S.p.A**

**“First quarter 2014 results conference call”**

**May 6, 2014**

**MODERATORS: MR. FRITZ SQUINDO, CHIEF FINANCIAL OFFICER  
MS. MARIANNE TATSCHKE, HEAD OF INVESTOR RELATIONS**

OPERATOR: Good afternoon. This is the Chorus Call Conference Operator. Welcome and thank you for joining the Recordati First quarter 2014 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: Yes, good morning, good afternoon to everybody, and thank you for attending the Recordati conference call. Fritz Squindo, our CFO will be presenting and commenting upon our first quarter 2014 results. For a better understanding of this presentation, please access the set of slides available on our website at [www.recordati.com](http://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: Okay, thank you Marianne. Good afternoon or good morning to everyone. Slide # 2, we are pleased to announce our results for the first quarter 2014, which show sales growth and significant margin improvement. Consolidated revenue is 260.4 million up by 6.5%. I would like to comment on our revenue evolution, these sales included or generated by the two company acquired last year, the Spanish company Casen Fleet and Tunisian company Opalia Pharma acquired in October 2013 for an amount of 9.9 million for the Casen Fleet and 4.3 for the Opalia Pharma. These are adding sales, which are adding to the organic development.

On the other hand during 2014, in this first quarter, some currencies were significantly devaluated mainly the Russian Ruble and the Turkish Lira for an estimated effect of €10.5 million on sales. If we exclude the new acquisition and we exclude also the negative currency effect, sales growth would have been 4.9%. This is our sales projection.

Regarding, as already stated in the first quarter, there is a significant margin improvement. EBITDA at 27.4 of sales, percentage of sales is 71.4 million up by 16.4 then double digit growth operating income at 23.9% of sales is 62.2 million here an increase of 18.1%. Net income at 16.4% of sales is 42.8 million, an increase of 13.2% over the first quarter of 2013, very important impressive margin improvement; let me also say that during the first quarter we obtained a new product Vitaros for the treatment of erectile dysfunction under license from Apricus.

Let's now move on our sales evolution, Slide # 3, we have our main product sales, our corporate product sales. Zanicidipine plain sales decreased by 1.5% and this is a result of generic competition mainly in Italy and also to a negative currency effect in Turkey, but we are keeping our sales of our lercanidipine plain. Regarding the combination, here we are talking about the sales of Zanipress is the combination between lercanidipine and enalapril sales are up by 11.4% mainly due to the good performance of the product in Italy in the new...linked to the new launch in new markets. Urorec, silodosin has been successfully launched in 25 countries with sales of 14.5 million in the first quarter of 2014; up 39.4% mainly due to the performance of the product in Italy, in Spain, in France, and by the references (Ph) in other countries let me say we continue a stronger performance and growth of this product. Sales of Livazo we are talking about pitavastatin in Spain, Portugal, Ukraine and through a license agreement in Switzerland at 6.4 million up by 7.7%.

Then our specialist...specialty is indicated for the treatment of rare disease generated sales of 27.8 million in the first quarter which are down by 2.7% and this is entirely due to the termination of the Adagen license in the main country. Adagen was the most important product in our portfolio and we had the termination for the main country at the beginning of this year. Excluding Adagen sales altogether, the other products in the

portfolio grow by 12.2% then we can confirm that excluding Adagen, we can continue to have...we are able to continue to have a double-digit growth in our orphan disease business.

Slide #4, we are talking about our product portfolio and we continue to progress and diversify our product portfolio.

Slide #5 composition of revenue by geography. Let's start with Italian, the Italian market sales, sales of pharmaceutical in Italy are up by 4% over those of the same period of the preceding year and this is due to good performance of the main products and also of the OTC portfolio. Let me say that the termination of Entact, which is an important product for the Italian market, will happen in...at the end of May of...at the end of the month of May. Then we will see in the second half of the year a different kind of performance in our Italian market, but in the first quarter in a stable market, we have been able to have a growth in our sales in Italy. Pharmaceutical sales in France are down by 5.2% mainly due to the sales decrease of the OTC line of product indicated for the treatment of ENT disorder and this is mainly due to a seasonal factor, the first in this first quarter the seasonal impact was not so important as in this last....we had in 2013.

Regarding the portfolio, let me underline that Urorec, Silodosin and methadone are performing well. Revenue generated in Russia and the other CIS countries is down by 20.3% compared to the same period the preceding year. It is mainly due to the negative currency effects, which impacts for €3.2 million.

I would like to say something and to comment in particular sales in Russia. Sales in this market in local currency are down by 10.9% compared to the same period of the preceding year and this is due to the

reorganization of the distribution channel. In fact as from January of this year, the distribution of products in the Russian territory is no longer handled through direct sales to importer, but rather directly by our subsidiary. This has involved the setting up of local inventories and consequent reduction of stock held by the distributors.

Regarding the portfolio, sales of Urorec and Tergynan, two corporate products performed well. Germany, in Germany sales are up by 7.8% thanks to the sales growth mainly of [indiscernible] of Zanipress and of [indiscernible] product line. In Spain sales, here sales include, as I said at the beginning the 9.9 million generated by the Spanish pharmaceutical company Casen Fleet acquired in the fourth quarter of last year. The company's main product is Citrafleet, the preparation of colonoscopy which is now part of our corporate product portfolio as it's also marketing other European countries. Regarding specifically our business in Spain let me underline that Livazo and Urorec are performing very well.

Sales in Turkey are down by 7.8% due to the negative currency effect, which has an effect of 6.2 million. In local currency sales of our Turkish subsidiary grow by 18.4%, thanks mainly to the good performance of the corporate product Procto-Glyvenol, Urorec and Zanipress and also to the main local product then negative impact on our consolidated number due to the currency devaluation of the Turkish Lira, but a very solid and good performance of our business in local currency.

The Group's pharmaceutical business in the USA is dedicated to the marketing of product for the treatment of rare diseases. Here sales in the first quarter 2014 are 11.4 million and are up by 9.7% and here we have a good performance from both the Carbaglu product, which is a product belonging to the orphan group of an Europe portfolio, as well as with Lundberg (Ph) portfolio that we have acquired end of 2012.

Then we are very pleased we continue to be very satisfied by the performance of our business in the USA. Now we have also present in North Africa and sales following the acquisition of Tunisia and sales in the North Africa in the first quarter are 10.2 million and as I say comprised the, both the export sales generated by the Bouchara Recordati in this territories in particularly in Algeria, which are previously shown and other international sales and as well as sales generated by Opalia Pharma, the Tunisian Pharmaceutical Company acquired during the fourth quarter of 2013, good performance and growing performance even on an organic point of view in this business.

Sales in Portugal are up by 14.8% and this is due to the good performance of corporate product Livazo, TransAct and Urorec as well as to the contribution of the new product sold by the Portuguese subsidiary of the newly acquired Spanish Casen Fleet, in the Casen Fleet Group there was also a small business in Portugal and the consolidation of this business allow us to have a good performance in our Portugal business.

Let me finish with other international sales, which grow by 10.1% and comprise the use of sales to our licensees for our corporate product. Bouchara Recordati sales export sales excluding those in the CIS and in North Africa, which are reported apparently in Russia, in CIS in North Africa and the Orphan Europe export business excluding the US, here we are based mainly to the good performance of our corporate product outside our existing territories we have an increase in our sales by 10.1%.

On Slide #6, here you can find the geographical breakdown of our pharmaceutical sales and it was mentioned in the presentation our growing present in Spain and in North Africa following our recent acquisitions.

Slide #7, first quarter 2014 result, we have already talk about the revenue from the period now and I'll move on the P&L, gross profit is 173.4 million with a margin of 66.6% on the sales an increase compared to that of the first quarter 2013 and this is due to a positive mix effect following the addition to the portfolio of the new products belonging to the new company acquired in 2013, and it comes with a discontinuation of Adagen a relatively low margin product Adagen was very important in term of sales, but it was less significant in term of margin.

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

R&D expenses are 20.8 million up by 12.6% due to the advancement of clinical trials for new product and development generally are up by 6.9% and are substantially stable as a percentage of sales, thanks in particular to higher gross profit and to lower incident of SG&A, mainly particular for the selling expenses EBIT in the first quarter has increased to 23.9% of sales.

Net financial charges in the period are 4.1 million here an increase of 2.8 million compared to last year and due mainly to currency effect losses following the devaluation of inter-company transaction in Rubles and also to interest accrued on higher level of inductance in particular related to the medium long-term loan that we have raised mainly in the second half of 2013. The effective tax rate during the period is 26.4% substantial unchanged compared to the...of the same period of the preceding year and net income at 16.4% of sales. As I said, at the beginning 42.8 million an increase of 13.2% over the same period, net income growth is lower than

the growth in operating income due to higher increments of financial expenses.

Slide #8, our financial position, very soon we will confirm our very solid financial position and continue generation of free cash flow at the end of March, the net financial position show a net debt of 229.1 million a reduction of 31.9 million compared to the end of last year. Let me underline that during the period a residual amount of 2.7 million was paid for the acquisition of Spanish company Casen Fleet and 1.8 million were paid as an upfront to Africa's for having the Vitaros license agreement.

Let's now move on the final slide with the objective for the full year 2014. In 2014, despite the two important license terminations and also despite a significant negative currency effects, our objective is to achieve sales of slightly below €1 billion. Regarding margin, we expect margin improvement to continue for the full year and these are essentially mainly due to better margin of new business acquired whereas the low margin of terminated product. We therefore confirm that we expect EBITDA for the full year to exceed 220 million and net income to exceed 150 million. Here I terminate my presentation. Thank you for your attention and I am available for any questions you have.

MARIANNE TATSCHKE: Jack (Ph). Can you open the question and answer period please?

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 Eleanor Fung of Goldman Sachs. Please go ahead.



ELEANOR FUNG: Hi, three questions please if may. Firstly, on Russia at your full year '13 conference call, you'd previously guided to expectations of more than 20% growth. I am just curious to understand if you are...if you still believe you are on track to hit this target and when do you think sales will normalize with the new arrangements that you have in Russia. Secondly, you've had a very strong improvement in gross margin this quarter. Could you please comment on whether you now expect this to be a fair reflection of the underlying margin going forward? And finally, just on pipeline I note that the phase III trials for Grasp and ALL are expected to be in the third quarter. If the data are positive, I'm just curious on how big an opportunity do you see this for Recordati? Thank you.

COMPANY REPRESENTATIVE: Okay. Regarding Russia?

COMPANY REPRESENTATIVE: No, no, we had in our assumption for the full year 2014, development of our business in Russia in the region of 20%. We have this completely different performance, let me say in the first quarter, which is mainly driven by the devaluation of the Ruble that is also due to this stock effect and reduction in stocking the channel. Regarding the full year, we expect to have fund growth for the full year and based on the last best estimate as we are building with our colleague in Russia, we expect one increase, which could be a bit below 20%, we are thinking on local currency to have one increase between 10% to 20% for the full year 2014 and this is not Russia plus CIS, it is only Russia in currency...in local currency. The second question was related to the gross margin, we have one increase in the gross margin in the quarter, which is; let me say, in line with our expectation. There was already...we expected this increase in the gross...in the gross profit margin based on the termination, as I said of the Adagen and we expect also to have the termination of Entact which are two important product from a sales point of view that's important from a margin point of view and then we confirm that we expect full year one

gross margin which is comparable in line with what we have achieved in the first half. We are talking about one gross margin of 66.6 could be in this region and then we confirm a one increase in this...in our gross profit. Regarding Grasp, we are talking about a product in our pipeline we can...we would like to wait the final result for the clinical development before giving you a magnitude of how could be important this product in term of potential sales, because we prefer to have the clear picture on the full result of the clinical trial to understand the clinical profile to better understand, let me say, the clinical profile and to give some magnitude of what we expect to be Grasp in this indication for Recordati mainly for the Recordati rare disease business.

ELEANOR FUNG: Thank you very much.

COMPANY REPRESENTATIVE: Okay.

OPERATOR: The next question is from Ricardo Luis of Credit Suisse. Please go ahead.

RICARDO LUIS: Yeah, hi and thanks for taking my questions. The first one is a follow up on margins. So whether also the improvement in the SG&A would be sustainable throughout the year and the second question is on FX, so Russia and Turkey the main components but...can you also provide some sensitivity for your EBIT or bottom line to a further devaluation...10% devaluation for these two key currencies? And I also wanted to ask you on the pipeline, I mean, we have seen kind of mixed positive data in prostate cancer for the Nymox product, I know, you don't have the rights, but Nymox said that they intend to progress the development further for this product and look for partner, so I am wondering whether you would be interested in this additional indication too? Thank you.

COMPANY REPRESENTATIVE: Okay. First question regarding margin, let me say that we are very pleased by the margin achieved in the first quarter in particular for the 23.9% on sales in our EBIT margin, but let me say that for the time being we've seen that this 23.9 margin achieved can be considered as a peak for the year. We don't expect this to be sustainable at this level. We aware...we are aware that we can confirm that we expect and we confirm the margin improvement which we have already announced in our assumption for the full year and we have in some way slightly increased our margin because in our assumption for the full year now we expect to have sales, which could be slightly below 1 billion, but we have confirmed our EBIT in absolute value and then we confirm that we expect to achieve an EBIT margin for the full year which we expect to be between 22% and 23% and we confirm that this could be sustainable, the driver for this development will be essentially the improvement in the gross profit. We expect to keep selling expenses between 29% and 30%. Regarding R&D expenses that we had now in the first quarter 8% as a percentage, we could increase progressively discussed to what was our assumptions for the full year which is 9% based on new project that we expect to develop during the year. And then what can I say, okay, strong improvement in the margin, a peak is 23.9, but 22%, 23% are absolutely sustainable going forward. Regarding exchange rate, then we have a strong impact in our sales, we had...this will be probably in the first quarter the impact is most important, because we are comparing in particular the Turkish Lira with a very different devaluation of the Turkish Lira in the first half of 2013 and then we don't expect to have 10.5 plus multiplied by 4, but we expect one in fact one effect due to is for the full year the exchange rate will remain what is today in the region of €20 million, €30 million in term of sales. This is mainly translation effect because we have local sales denominated both in Turkish Lira and in Ruble...in Russian Ruble. On the other hand, as I always stated, we have also cost denominated in these two currency which are not to the same extent and as our revenue for sure because we

have margin...good margin in this market and then, but we have an natural hedging and then the impact on our EBIT is absolutely less than what we have stated has impact in our sales line. Regarding the last question was into...

COMPANY REPRESENTATIVE: The prostate cancer...

COMPANY REPRESENTATIVE: Prostate....we are partner of Nymox for Europe for the BPH. We had absolutely good relationship with them and we are absolutely interested in having also the rights for the new indication in the prostate and we are working together with Nymox to fight, we have also this kind of development. In this...in pharmaceutical, I think relationship is very important. We are basing a very strong and positive relationship with them and then this would be part of a possible evolution of the Nymox product in Europe. Having said that, we have not yet signed anything for having formally the right for this new indication.

RICARDO LUIS: Thank you very much.

COMPANY REPRESENTATIVE: Okay, bye.

OPERATOR: The next question is from Jamie Clark of Bank of America, Merrill Lynch. Please go ahead.

JAMIE CLARK: Hey, good afternoon. Three questions please. Firstly, I think you said something about the Italian market changing from May and that your performance is very good in the first quarter, that it sounded like you expect that to decline going forward? Secondly, on your gross margin, I was hardly seen before if you haven't seen the Russian and such (Ph) devaluations could we have exercised that margin to be substantially higher and thirdly, just on the Russian market itself, your sales were down

because of the changes to distributors, are you seeing any decline in that market in the first quarter? Thank you.

COMPANY REPRESENTATIVE: [Inaudible] in Italian market, it's not a market.

COMPANY REPRESENTATIVE: Okay, it's not a...let's say we...when I have commented our first quarter result in the Italian market we had this very positive performance plus 4%. I want to just to remind you during my presentation, that this is not what we expect for the full year because for the full year we expect to have a decrease in our presence in Italy mainly driven by the termination of the Entact agreement at the end of May, then this...yeah we are losing the license from Lundberg (Ph) for selling [indiscernible] in Italy we are talking about one product [indiscernible] sales on an year base of around 40 million is an important product and this was just to remind you that please don't expect our Italian business to grow for the full year.

JAMIE CLARK: Okay.

COMPANY REPRESENTATIVE: This was something that I have already clearly stated during my presentation of the assumption for the full year; I want just to remind you this. Second point gross margin, we...the currency effect has no significant impact in our gross margin because we have the production denominated in Turkish Lira and also from a margin point of view standpoint we have a source of compensation. We have reduction in the sales, but on the other hand, we have also reduction in the cost, and then we have no significant impact in our gross margin. It is the same in Russia, which we have the Advion portfolio, which is acquired and produced locally then the improvement is mainly driven by other factor, not the currency effect, the improvement of the gross margin and as I said is mainly driven by the portfolio effect mix between the new acquired

product that in the termination of the new product, and the last question was...

COMPANY REPRESENTATIVE: If there is a decline in Russia excluding [multiple speakers].

COMPANY REPRESENTATIVE: Okay then in Russia, there...we...the market is mainly driven by price increase in term of uniting the first two months was my last information regarding the business there is a minor decrease in unit and the...it is also in 2013 the driver for the growth is mainly linked to price and we had...but we have been doing over the last two to three year one performance which was better in the market and even we could expect some sort of stability in the market. I confirm that our expectation based on the last best estimate is to have in local currency one development, one growth that should be between 10% to 20% base. Also here the major driver will be a price increase, because we are in fully [indiscernible] business and based on the devaluation, depreciation of the Ruble and increase of product imported we have room for all our portfolio to have 5%, 10% price increase and we expect to be able to achieve this development in Russia mainly driven by price development in this market.

JAMIE CLARK: Okay. Thanks.

COMPANY REPRESENTATIVE: Okay.

OPERATOR: The next question is a follow up from Eleanor Fung of Goldman Sachs. Please go ahead.

ELEANOR FUNG: Hi, one follow up question please if I may. I was wondering if you would be able to disclose what your sales for Adagen and Cosmegen were if any for first quarter '14. Thank you.

COMPANY REPRESENTATIVE: Okay then for Adagen in 2013, our sales were €4 million. For Cosmegen, it's a different story. For Cosmegen, we expect generic competition to end for the time being we have not yet seen generic competition, generic version of the business. Here we are talking about one product with sales in the region of €8 million, €10 million.

ELEANOR FUNG: Thanks. And could you provide the Adagen first quarter sales number if any please.

COMPANY REPRESENTATIVE: Adagen first quarter, we have...what can I say, I have not here with me the Adagen sale which are...we have a minor stake, but what is important is the minor 2 or 3 million less than this, but what is important I would like to confirm what I have said during my presentation, if we exclude the Adagen sales both 2014 and 2013 altogether, the other product to the portfolio, US portfolio and European portfolio sales grow by 12.2% the underlying portfolio is growing in line with the past I...we have been growing since the acquisition of orphan business by more than 10% and also in 2014 excluding this termination we continue with the good performance of Carbaglu with a good performance of the Lundberg portfolio to grow by 12.2%, double-digit growth in our orphan business.

ELEANOR FUNG: Thank you.

COMPANY REPRESENTATIVE: Okay.

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

FRITZ SQUINDO: Okay. Thank you. Goodbye to everyone.

MARIANNE TATSCHKE: Okay, thank you. Good bye.