Recordati S.p.A

"2013 Preliminary Results Conference Call"

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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 2013 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: Hello, good afternoon or good morning to everyone, and thank you for attending the Recordati conference call. Fritz Squindo, our CFO will be presenting and commenting upon our full year 2013 results. 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 presentation tab. At the end of the presentation, we will answer any questions may you have. Please go ahead, Fritz.

FRITZ SQUINDO: Okay thank you. Good afternoon or good morning to everyone. Slide # 2, here we are pleased to announce our preliminary results for the full year 2015. Also sales and profit grow significantly, double-digit growth at all levels. Let's go number; consolidated revenue is €941.6 million, up by 13.7%. EBITDA at 24.4% of sales, its €230.1 million, up by 20%, operating income at 20.8% of sales, its €195.4 million. Here we have an increase of 17%. Net income at 14.2% of sales its €133.7 million, an increase of 12.8% over 2012.

And very shortly financial results for the full year, but let me also underline that during 2013, we also closed important…various important deals for the development of the Company. On January, we successfully closed the acquisition from Lundbeck of the portfolio of drug for the treatment of rare and other disease for an amount of $100 million mostly sold in the United States. This was an important step for our entry in the US market for the orphan business.

In July agreement was signed for the acquisition of 90% of Opalia Pharma, a Tunisian pharmaceutical company. The first tranche of the transaction, around 67%, was closed in October, with the payment of €22.6 million. In October, we also closed the acquisition of the Spanish pharmaceutical company Casen Fleet, which involved the payment of €89.5 million. Let me underline that the result of both Casen Fleet, of Opalia are consolidated as from November.

Let's now move on Slide #3, main product sales. You can see the proportion of sales of our corporate product to total sales continue to increase and now stands at more than 49% and this is in line of our strategy to develop a corporate portfolio.

Let's move on our main corporate product, Zanidip. Sales decreased by 5.1%. We are talking about plain lercanidipine and this is due essentially to the generic competition mainly in Italy and in France. Sales of Zanipress, Zanipress is our combination of lercanidipine and enalapril, in 2013 are up by 21.3% mainly due to the performance of the product in Italy and in Turkey, whereas in Turkey the product was launched in September 2012. The product has also performed well in Germany, Spain, Portugal and France. Now, Zanipress is available in 23 countries. Let me say that we are very pleased by this continuous growth of this new…our corporate product.

Urorec, here we are talking about silodosin, it's been successfully launched in 23 countries with sales of €46.7 million in 2013, up 42.8% mainly due to the performance of the product in Italy, in France, in Turkey. Here again, in Turkey we launched the product in August, 2012.

Sales of Livazo, Livazo is our statin pitavastatin and licensed by Kowa in Spain and in Portugal and through a license agreement in Switzerland. During 2013 sales are €22.5 million, and here the sales are up by 38.1%, a very solid sales in the market in which we have been able to launch the products at the right price.

Then we have our specialties which are indicated for the treatment of rare and orphan disease, which generated sales of €127.9 million this year, an increase of 68.6%, which is due to both the consolidation of the sales in the US of the products that we have acquired and also by the growth of our organic portfolio.

Now, you can find on Slide #4 the graph which shows the breakdown, which show the breakdown of our revenue by type of products.

I would like to move on Slide #5, composition of revenue. First of all, let me underline that 2013 sales include the sales of the US portfolio, which we have acquired in January. And we include also the sales generated by the product portfolio acquired in Russia and the sales of….starting from November from Opalia and Casen.

If we exclude the impact of the sales, excluding the effect of this acquisitions, sales growth in the year in 2013 is 2.6%. Let's say that the organic growth in 2013 is 2.6%. But, on the other hand, I would like also to point out that during 2013, some currencies were progressively devaluated compared to last year, mainly the Russian Ruble and the Turkish Lira and the effect of which can be estimated to be of €12.2 million on sales. Then we had more than 1% impact due to the currency depreciation. Let me on this aspect to say that we have a natural hedging in this area because we have also cost denominated in Russian Ruble and the Turkish Lira, and the impact on the sales level could be estimated on this €12.2 million, while at EBIT level it is essentially lower based on this natural hedging that we have in our P&L based on the cost denominated in this currency.

Let's now move on our sales by geography. Sales in Italy are up by 3.7% over those of the same period of preceding year. Here the two brand of the combination Zanidip, enalapril (Ph) and Urorec are performing well. OTC product, also sales also grew in the period due among other to the sales of Dentosan, the oral care line of products acquired in the fourth quarter 2012. Sales of product for the treatment of rare disease also show significant growth.

Then in Italy we in a….we grew by 3.7% overall. While pharmaceutical sales in France are down by 4.3%, and this is mainly due to the sales decrease of Zanidip. On the other hand, sales of Zanextra, Zanextra is our brand of the combination in France, of Urorec and of Methadone as well as the OTC line of product indicated for the treatment of ENT disorder and the treatment of rare disease are going to decrease in France. It's only due to the generic competition mainly in the first part of the year of our Zanidip brand.

Revenue generated in Russia and the CIS countries is €89.4 million, up here by 74.3% over that of the same period of the preceding year. Sales include the portfolio of self-medication product acquired in November last. Excluding the effect of this sales last…I mean-2012, for sure, excluding the effect of this sales growth is of 21.9%. Important organic development and good result from the portfolio that we acquired at the end of 2012.

In Germany sales are up by 14.7%, to the sales growth of Ortoton and of Urorec. In addition to the sales of the six OTC products, and of CitraFleet the preparation for colonoscopy, now CitraFleet this one product belonging to the Casen Fleet portfolio, that we have derived for selling CitraFleet in a licensing agreement that we signed in April 2012. Let's say that, CitraFleet now is becoming a corporate product. And in Germany in 2013 it is performing well.

Sales in Turkey are up by 0.9%, and here are impacted by the severe devaluation of the Turkish Lira. In local currency, sales in Turkey increased by 10.7%. Then we have a local development double-digit growth in Turkey as in sales denominating in Turkish Lira. And this is thanks mainly to the good performance of the corporate product Lercadip, Procto-Glyvenol in addition to sales of Urorec and Zanipress, as I said launched during the third quarter 2012. I would like again to underline the very good performance of our corporate products in the Turkish market.

The Group pharmaceutical business in USA, we have now sales also in the US, is dedicated mainly to the marketing of products for the treatment of rare diseases. Sales in 2013 are €51.6 million and consist of revenue from Carbaglu and from the portfolio. Carbaglu is one product belonging to the Orphan Europe portfolio, but mainly from the portfolio for the treatment of rare and other disease acquired in general 2013.

In Spain, sales increased by 13.8% and it include the consolidation as from 1st of November of this year of the sales of laboratory of Casen Fleet currently acquired in October. Regarding our portfolio, Livazo, Urorec and Zanipress are performing well, while achieving one of the subsidiaries main product is impacted by competition from generic version. But let's say, with the acquisitions currently now we have a significant increase and we expect to increase significantly our presence in the Spanish market in 2014.

Sales in Portugal are down by 2.8%, due mainly to the termination of a license agreement for the product Tareg and Co-Tareg at the end of last year. The corporate products Zanipress, Livazo, TransAct, Urorec and Urispas, as well as the self medication products are performing well. Here again, we have a minor business coming from the acquisition of Casen Fleet.

Then let me underline that following the acquisition of Opalia Pharma, in Tunisia, we now split out our sales in North Africa. Apart from the two months of sales generated by Opalia, here we have totally about €2.8 billion (Ph). We classify in this line export sales from our French subsidiary Bouchara Recordati into the area mainly in Algeria.

These sales previously were reported as other international sales, but we will see that we have a business…an already existing business in North Africa, and we expect to increase our presence based on the consolidation next year of our Opalia business acquired in November this year.

Let's now finish the presentation; our sales in other Central and Eastern European countries, which significantly increased. This is mainly due to the acquisition of the Poland Company last year.

Now, we can move on Slide #6, here the graph shows the geographical breakdown of our pharmaceutical revenue. And we are progressively diversifying our portfolio, increasing our presence in Russia, having a direct presence in the US. Now, increasing our presence in Spain, and we are now also presenting our presence in the growing market, which is North Africa.

Slide #7 P&L, preliminary result for 2013; we have already talked about revenue for the period. Now, let's move on the cost side; gross profit is

€614.3 million, with a margin of 65.2% on sales, an increase over 2012 following the addition of…to the portfolio of the new products acquired which has relatively higher margins.

Selling expenses include the reinforcement of the sales, organization in Russia and the other CIS country, as well in Poland following the acquisition. In addition to the promotional activity related to the newly acquired portfolio, and the consolidation of the new business acquired in Spain and Tunisia. Then we have an increase in our selling expenses. But let me underline, that as a percentage of sales, these expenses are below the same premium…the same period of the preceding year, due to the overall containment in all the other markets.

R&D expenses are €74.7 million, higher than those recorded last year, due mostly to the enrollment of patient in the Phase III clinical study, mainly in the Nymox front and due also the amortization of the amount paid for the acquisition of the product portfolio in the USA and in Russia. G&A expenses are up by 18.9%, and include the effect of the consolidation of the two companies acquired.

Let's now comment our other expenses, net of other…income which are other…the cost which are cost for €14.9 million, and include a restructuring provision of €10.5 million, most of which accrued to cover we are talking hereof €8 million. The cost for the completion in the…we have already accrued this in the third quarter of this year for the completion of the sales force reorganization in the French subsidiary.

Net financial charges are €14.6 million, an increase of €8 million compared to the preceding year, mainly due to increase indebtedness, this is due to the acquisition mainly, and to a negative currency exchange difference is mainly in the second quarter of 2013, which have to be attributed in particular to financial operation involving the Turkey subsidiary. Financial operation that has been closed in the third quarter of 2013.

Tax effective rate during the period is 26.1% in line with the preceding year and net income…we are talking net income at 14.2% of sales, an increase of 12.8% over the preceding year. Growth is lower than the growth in the operating income, due to higher incident of financial expenses. But, as I said at the beginning, very positive financial result and double-digit growth at all level.

Financial position, we are talking about preliminary results, but we can say that at the end of 2015, the net financial position show a net debt of €261 million, an increase compared to last year of €107 million. But let me underline that, very important, we have paid lot of money for the acquisition…the payment for the acquisition made during the year were essentially US $100 million or €75 million for the US acquisition, €89.5 million for the acquisition of Casen Fleet, and €22.6 million for the first tranche. We've not yet completed the acquisition of Opalia, but the bulk of the payment is already made for the acquisition of Opalia Pharma. Furthermore, we are also…distributed dividend…dividend were distributed for a total of €64.6 million. We have an increase in the financial position, but it was only due to the strong commitment engagement for our acquisition.

Let's now move on Slide #9, here we are talking of 2014 outlook. Here there are all the assumptions on which our 2014 objectives are based. Let me go through them one-by-one, then what we can say, Lercanidipine franchise we have said, remain essentially stable generating sales of between €160 million and €165 million, and we confirm that the franchise can be stabilized in the future. Then we continue to expect growth in the

Urorec franchise, sales of Urorec we expect to increase by more than 25%. For Livazo, we expect also to increase by more than 20% our sales without including any possible launch in Italy and in France. This result will be achieved excluding the launch of Livazo in these two important markets, for which we are working for possibly obtaining one price, acceptable for launching the drug.

Then let me say something regarding the orphan drug sales. We expect the sales to be impacted by the termination of license agreement for Adagen in major European markets, and also by expected generic competition for Cosmegen in the US. Then sales in Italy, we expect to be impacted by the termination of the license agreement of Entact, Escitalopram, the drug licensed from Lundbeck as from mid-year.

Then, on the other hand; in other markets, we expect sales in Germany to increase by more than 10%. We expect to continue good performance of our business in Russia, and the other CIS countries. Here again, to increase as the result achieved this year by more than 20%, and this…we are talking about organic growth, there is no acquisition included.

Sales in Turkey to increase high single-digit in local currency, I prefer to stay then on for the Turkish business, one objective in local currency because there are some risks related to the Turkish Lira devaluation.

Next, we increase…we expect to increase our presence and also profitability in Spain with the integration of Casen Fleet. And important, the main product CitraFleet now is a corporate product, which expected sales in Spain, in Portugal, in Italy, in Germany and in other markets of around €20 million. And now we have another important corporate product in our portfolio. North Africa, I talked about North Africa before, it's a new business opportunity and with integration of Opalia and the existing export sales in this area. And regarding our…we expect to increase our margins, thanks mainly to the gross margin improvement as a result of high margin associated to the newly acquired products, and the low margins generated by the terminated products.

Regarding cost structure, SG&A expenses, we expect to remain stable as a percentage of sales, while R&D expenses are expected to grow to around 9% of sales. Then overall, we expect to improve our margin compared to what we have achieved in 2012.

Let's now have an outlook here with two pie, one presenting the product portfolio and the other presenting our geographical presence…how to evolve our geographical presence in 2014. Let me say that, this evolution is perfectly in line with what was expected, and we present…and when we presented our business plan last year. We expected to increase our presence in some markets, particularly in the Eastern European part. We expected to increase our presence in the corporate, as corporate product and also in the OTC. And you see that OTC we expect to represent around 20% of our portfolio in 2013.

Let's say that our product portfolio now is more diversified, with an increasing proportion of corporate products. And let me underline that in 2014, sales expected for proprietary products will grow by at around 75%, but the proprietary products will represent around 75% of all sales, and then reducing the risks linked to agreements with partners (Ph).

In terms of geographic presence, then we will confirm that we would like to have a larger and have a more profitable presence in Spain, as well as to have a more consolidated establishment in North Africa. Let me again underline that all our objectives…and these objectives for 2014 are not included any new acquisition.

But for the objectives, we can move on Slide 11, in which we present our 2014 outlook. Then 2014 despite two important license termination, we are talking about Adagen for the orphan business and Entact for the Italian market, we expect to achieve sales of more than €1 billion, a growth rate of more than 6% excluding any new acquisition.

Second important point, as I said, we expect margin improvement thanks mainly to the better margins of the new businesses acquired relative to low margins of terminated products. We therefore expect EBIT to exceed €220 million, and net income to exceed €150 million.

Let me say something also for 2015; we continue to be strongly committed to grow both organically as well as through acquisition. And our objective for 2015 is to achieve sales of between €1,050 million and €1,100 million. And another important point, we expect margin as a percentage of sales in 2015 to be in line with those targeted for 2014. We expect the improvement achieve…that we expect to achieve in 2014, to be confirmed also in 2015.

And finally, in Slide #12, which is the table showing our expectations as clearly (Ph) illustrated. Okay, I'll finish here my presentation, I am available for any questions you have.

MARIANNE TATSCHKE: Could you please open the question and answer section.

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, Eleanor Fung from Goldman Sachs. Three questions, please, if I may. Firstly, Fritz, just going forward, what is your focus for acquisitions? In particular, it would be great to understand whether your focus is on for bolt-on acquisitions for existing businesses, geographical expansion or late-stage pipeline of assets. Secondly, just on your guidance upgrade for 2015, it would be great to understand whether this reflects a more optimistic contribution from the underlying business or a greater contribution from acquisitions. And finally, just on financials, could you please provide guidance on the tax rate you expect going forward as you diversify away from Italy? Thank you.

FRITZ SQUINDO: Okay, thank you. Let's start with the acquisition. As I said, we confirm our commitment to continue to make acquisition. What is our target, essentially now we expect to have an add-on acquisition; it could be either companies or product, but mainly in the existing geography with the clear objective to leverage existing sales organization. We confirm that for us, you know, first objective is to identify product, all in the OTC area or privately paid, but the major focus is now to identify assets in the existing market, in the existing margin which we can leverage with the cost structure that we have already built through the previous acquisition. If you are now looking at our organization, we have commercial organization within all the major European markets. And then, the first objective is to increase our presence in some particular product with the objectives to identify portfolio or product which fit with the existing activity of the sales organization.

Then regarding, it's not a priority, the enlargement of our geography, but as usual if we can find a possibility in some market, which are close to the existing one, we can continue in this geographic expansion. But it's not a priority, now it's a priority reinforcement of our existing presence.

Regarding late stage projects, this is not part let me say of our acquisition, it's not used…the use of the basket that we have available for the acquisitions strategy is mainly part of our R&D development and then this is considered in our 8% to 9% cost for the R&D development. And also here again, I can confirm that we are strongly committed to identify products, late stage products, but even early stage product for the development. And this is mainly in the orphan drug in which the development is quicker than in the traditional business, less expensive and in which you can have this approach which is focused not necessarily on late stage product, but also focused on early stage products. Then this is the first.

The second question was linked to our…to my financial projection, then what we have increased. We have increased a bit of our sales expectation and let's say significantly our margin expectation. Then the sales projection, as usual in our projection, we have included both acquisition and organic development. And the organic growth we expect to be as usual in the region of 3% and then it's not our….the increase is not linked to an expected increase, higher than expected in organic growth, but in the combination of both. We have now acquired significant and growing environment…growing business in Tunisia, we expect a good performance from the Casen Fleet one and that altogether allow us to be a little more optimistic in our expectation for 2015.

But here again, we want to confirm that the commitment is to add these add-on acquisition and then the range is mainly due to the fact that we want to do as usual this acquisition, but we want to select in the right way as in the past, the right target for having synergies for a creation of value as we have been doing over the past…over the last years.

Regarding tax rate, then we have confirmed this year a 26% tax rate, which is in line with 2012, which is a bit better than expected. Let's say this is a level that we can consider for sure sustainable for the future. We can also…even a slight improvement based on as you said our presence in different markets with lower tax rate compared to the Italian one. Then 26% is a base, we could even have a better improvement, which is a decrease of our tax rate going forward. Is it okay? Hello, hello.

OPERATOR: Ms. Fung, your line is open.

FRITZ SQUINDO: Eleanor.

MARIANNE TATSCHKE: Operator.

OPERATOR: Ms. Eleanor Fung, line is open if you want to ask….

MARIANNE TATSCHKE: Yes, we cannot hear her, she…we answered the question, has she heard the reply?

FRITZ SQUINDO: Okay, let's move….

MARIANNE TATSCHKE: Yes, hello.

OPERATOR: If Ms. Fung wants to reply, her line is open, she can speak into the conference. The next question is from Jo Walton of Credit Suisse. Please go ahead.

JO WALTON: Thank you.

FRITZ SQUINDO: Hey Jo, did you hear my previous answer?

JO WALTON: Yes, we did, very clear. Thank you.

FRITZ SQUINDO: Okay, perfect, but we had some problem with the connection, just to be sure that you have heard my answer, okay.

JO WALTON: We have heard your answer.

MARIANNE TATSCHKE: Okay.

FRITZ SQUINDO: Okay, perfect. Thank you.

JO WALTON: You have talked about an organic growth rate in 2013 of 2.6%, but that was after €12.2 million or roughly 1.5% of foreign exchange. So if I add that back to look at your constant currency growth, it was just over 4% in 2013. Do you think that that is a reasonable level to look at your ongoing local currency growth rate, or do you think it will slip back to that sort of 3% level that you were talking about because it has been a little bit higher?

FRITZ SQUINDO: Okay, let's say that in 2014, it's a different story, organic will be lower based on the termination of the two important contracts. Then, in our number, 2014 the organic growth is lower than this 4% achieved in 2013, based on this important termination, we are losing important contract in Italy and in the orphan business.

JO WALTON: I was wondering if you could perhaps give us some idea of what the two of those combined were, perhaps you don't want to tell us individually, but the aggregate level that we would be expecting to lose and when during the year we would lose them?

FRITZ SQUINDO: Okay, Adagen we will…we expect to lose not the full sales of Adagen, but the bulk of sales of Adagen because we are losing the rights for the major

European market and here we are talking of one lost in the region of €20 million. Regarding Entact, Entact is the product licensed from Lundbeck in Italy. We expect that to terminate mid-2014 and here we are talking of one product of revenue in 2013 of around €40 million. Then we are talking of two important drugs in our portfolio. Overall, €50 million, €60 million, we are not losing for Entact, we are just losing half of this part in 2014, but a significant impact. Then if we…then from an organic point of view, we expect this has an important impact.

Going forward, having also in others more impact of this mainly for Entact in 2015, this is why we expect around 3% of organic growth in 2015 which is essentially in line of the current performance excluding this one-off factor which is some…the termination of these two important contracts.

JO WALTON: Thank you. And then, could you also please just confirm for us how the Lundbeck portfolio…because that was a large portfolio that you had for just about a year, what the…whether you've managed to accelerate that growth, whether there was, you know a one-time benefit you've managed to grow that faster in 2013, then you would expect it to continue going forward, so whether that will also be a growing area? And my final question about the OTC acquisitions, you seem to be looking for particularly more OTC products, are there any countries that you are looking to make those acquisitions in, or any specific types of products?

FRITZ SQUINDO: Okay, let's talk about our US Lundbeck portfolio, a very extraordinary let me say performance in 2013. What can we expect, for sure to continue the growth with as I said one possible risk which is an expected generic competition for Cosmegen, Cosmegen is an important product of this portfolio. We are talking about net sales in the region of US $8 million and here we could have some impact from the generic competition. We are working for finding possible solution for protecting not the full value, but the bulk of the value of Cosmegen in the US. Then we could have in 2014 a growing performance for all the other products, but overall, we don't expect significant growth in the US portfolio based on these possible risks, then we will see going forward if this is a real threat or just a possible entry of the generic competition.

The second point based on the OTC, we confirm our commitment, our engagement to develop the OTC franchise. Regarding what…this will be essentially part of this add-on acquisition strategy because now we have an OTC organization mainly in all the European market, we had just a lack (Ph) of this organization only in Spain, now with the Casen Fleet acquisition; we have an OTC organization, an OTC portfolio also in Spain. Then this will be part of these add-on acquisitions to identify possible products to be added on an existing organization, we built our organization in Germany in 2012, following the acquisition of the six J&J products, and now we have historical presence in Italy. We have a very solid presence in France, historical presence based on the Jaba portfolio in Portugal. And Czech Republic is essentially in OTC business, in Poland we have the portfolio of OTC and an organization selling to the pharmacies. And also in Russia we have an OTC portfolio, mainly based on the acquisition of the Adagen portfolio. Then the commitment is not to build a new organization in this area, but to reinforce the portfolio in older markets, in which we have already the right organization.

JO WALTON: But no particular product.

FRITZ SQUINDO: No particular products, this is mainly linked to the opportunity coming from the market. But in…while in the ethical…in the risk (Ph) activity, we would like to find product which fit with the category, with the class, with the detailing activity. For the OTC we are more open because it's mainly a presence in the pharmacy which is the driver for the success rather than to be in one specific therapeutical area.

JO WALTON: Thank you very much.

FRITZ SQUINDO: Okay.

OPERATOR: Mr. Squindo, Ms. Fung has reconnected.

FRITZ SQUINDO: Okay.

OPERATOR: Would you like me to open her line?

MARIANNE TATSCHKE: If she has anything else to ask, yes.

OPERATOR: Okay just a second. Thank you.

ELEANOR FUNG: Hi, no further questions. Thank you.

MARIANNE TATSCHKE: Okay.

FRITZ SQUINDO: Okay.

OPERATOR: The next question is from Massimo Vecchio of Mediobanca. Please go ahead.

MASSIMO VECCHIO: Yes good afternoon. I have some questions on Vitaros, three in particular. The first one is, since when you started to book sales, then if you can share with us the size of the market you expect in Europe or the amount of sales that you expect to do on this product. Third point, reading presentation from Apricus, they were talking about cash upfront payment from other companies that had the license. Can you share with us; if you paid some cash upfront this is…this will clearly change the cash flow profile. Thanks.

FRITZ SQUINDO: Okay, regarding Vitaros, let's say that, we expect sales…to book sales end 2014, beginning 2015, when we expect to launch mainly in Spain this drug. Here we are talking not a license for all our studies, there is, but for a part of which, mainly for some in the Western European part, the most important is Spain, and there are other minor markets. But also in Turkey and Russia, that is mainly an agreement for the new European market rather than for the existing one. And we here…sales expected for us, we can define as tens of millions of euro than we are not talking of huge amount of sales, but we are talking tens of millions of euro. And this is the way which we would like to give you an indication rather than the size of the market. Then there is a study that we got through for the evaluation of the product, but the magnitude of the value of the drug is in this area. Then for sure there are milestone to be paid, but the bulk of these are linked to commercial achievement, they are based to sales achievement, and a minor part is due to the launch of the drug in some markets. Then there is now a significant impact in our cash flow based on what we have to pay for the launch of the drug.

MASSIMO VECCHIO: Thank you very much.

FRITZ SQUINDO: They were talking about, let's say on the milestone to be paid, one is, what we have to pay the signatory (Ph) as upfront, we are talking about 1.8 and the other….

MARIANNE TATSCHKE: Its few hundreds of thousands every launch.

FRITZ SQUINDO: And it's not significant, the part linked to the launch is one milestone that we have to pay if we achieve commercial sales result. And then, always we say we are very pleased to pay this amount of money if we are achieving expected level of sales.

MASSIMO VECCHIO: Thank you very much, it was very clear.

FRITZ SQUINDO: Okay, bye.

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

JAMES VANE-TEMPEST: Hi, good afternoon. Thanks for taking my questions. And just two, please. And firstly, on R&D, you commented about 9% of revenues. And I am just wondering looking mid-term how this is expected to change, especially products like NX-1207, so any color on how R&D is expected to progress [indiscernible] would be helpful? And then second just on your organic growth, I know you've guided 2015, but if you could perhaps stretch to look at little bit further than that, is that a level, which you is sustainable really in the mid-term especially with Zanipress generic starting early 2016?

FRITZ SQUINDO: Okay, let's start with the first answer. We expect to increase our R&D to around 9% next year for two different reasons, one is the continuous enrollment in the clinical trial for the Nymox product, and we expect the bulk of the cost will in 2014/2015. But also to the fact that in the new acquired product company, both Opalia and Casen Fleet, we have a small organization dedicated to the R&D and we would like to keep before (Ph) specific region for developing drug for the Tunisian market in Opalia and for building [indiscernible] are already franchised, and we have some resources, some clinical development in Casen Fleet, then we would like to keep it, it's not as in the past, it was essentially only a commercial acquisition, in these two cases, we are both also a small R&D dedicated to the specific business that we have acquired. So this is the one of the reason why we expect our R&D to increase to this 9% in 2014. And let me say this could be a level of percentage of sales that could be sustainable in the future. But here again, as usual, we prefer to give objectives in terms of R&D based on program rather than only based as a percentage of sales.

Organic growth, let's comment…we have now disclosed our expectation for 2015. I don't want to disclose number for 2016, because we don't know exactly when generic could enter in the market. We have a ten-year path (Ph) protection in using clinical data until mid of 2016. And then we think that we can protect our franchise of Zanipress in the major market for…not for the full year, but for the…an important part of 2015. Then, I don't want to disclose today this number, but let's say that we expect as usual to have an organic growth which is positive one, and then we can try to balance the possible risk, possible threat as we had in 2014 based on generic competition, based on termination of some contract with development in different markets. But I don't want to disclose number today for 2016.

JAMES VANE-TEMPEST: Okay, that's great. Thanks very much.

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

JO WALTON: Just a quick question on foreign exchange please, you identify foreign exchange as a risk, if foreign exchange levels stayed exactly as where you are today for the rest of the year, would that be a significant factor? Is there already some negative foreign exchange built-in or is this just you are concerned about what may happen in particular in say the peripheral European currencies?

FRITZ SQUINDO: Okay, and let's say again that foreign exchange for us, it's for sure an exposure. We have an exposure mainly in Turkish Lira and in Ruble Russian, but we have a natural hedging in all the country based on the cost denominated in this currency. Let's say that if our budget assumption are very close to the existing one, not very far for the existing one for sure, if the Turkish Lira will be at the end of the year four instead of three against Euro, then will have an impact on sales, but also on cost. And I expect to be the impact on margin limited by this hedging based on the cost denominated in Turkish Lira. We have production plant, we have all the retaining activity we have which is denominated in the same currency as the sales. Then in term of line by line, we could have an impact, but in term of operating income, I expect this to be reduced by as I said the hedging that we have in each market. And here again, our budget exemption are closer to the existing level of the existing exchange rate.

JO WALTON: Thank you.

FRITZ SQUINDO: Okay.

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

MARIANNE TATSCHKE: Okay, thank you for listening to our conference call and goodbye to everyone.

FRITZ SQUINDO: Goodbye.