Recordati S.p.A.

"2015 Second Quarter & First Half Results Conference Call"

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MODERATORS: FRITZ SQUINDO, CHIEF FINANCIAL OFFICER

MARIANNE TATSCHKE, INVESTOR RELATIONS AND CORPORATE COMMUNICATIONS

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Recordati 2015 Second Quarter and First Half 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, Investor Relations and Corporate Communications. Please go ahead, madam.

MARIANNE TATSCHKE: Good afternoon or good morning to everybody, and thank you for attending the Recordati conference call today. Fritz Squindo, our CFO will present and comment upon our first half 2015 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 presentations tab. At the end of the presentation, we will answer any questions you may have. Please go ahead, Fritz.

FRITZ SQUINDO: Okay, thank you Marianne. Good afternoon or good morning to everyone. We can start on Slide #2, and we are pleased to announce our first half 2015 results which confirm sales growth and further margin improvement.

Consolidated revenue is €539.1 million, up in the period by 6.2% with a second quarter growth of 6.5% better than we have achieved in the first one. But let me underline again, our margin improvement, our margin continue to improve in this period. Let's start with the EBITDA, EBITDA at 30.4% of sales is €163.9 million and our EBITDA is up by 15.5%. Operating income at 26.9% of sales is €145.2 million, an increase of 19.2% better than EBITDA and net income at 19.2% of sales is €103.2 million and here we have an increase of 24.3% over 2014 then very strong improvement of our margin, but let me underline again that we continue to deliver also a stronger cash generation net debt at the end of the period is

€139.9 million, here a reduction of €46.2 million, compared to the last year even after having paid out dividend for a total of €49.2 million, therefore the free cash flow generation in the first half this year is a bit less than €100 million.

Let's go in detail on our presentation, the main drivers for our growth let's start as usual by our main product sales. Slide #3 Zanidip lercanidipine sales grow by 9.4%. Sales are growing mainly in Germany, in Turkey and in particular to the licensees and here I would like to underline our sales in Australia and in China. Sales of the combination of lercanidipine and enalapril the brand name more commonly Zanipress are up by 9.9% mainly due to the performance of the product in Italy and Turkey then let's comment the overall sales of lercanidipine franchise, this sales in the first half are of around €100 million significantly better than expected.

Let's move to Urorec, our treatment for the BPH, sales of Urorec had been successfully launched in 30 countries with the sales of €33 million during the first half of this year and sales are up by 16.1% which is mainly due to the performance of the product in Italy, in Turkey and in France. Let me underline that Urorec was also in prelaunch in Tunisia. Sales of Pitavastatin, Livazo in Spain, Portugal, Ukraine, and Greece and to a license agreement in Switzerland are €13.4 million up by 7.9% and this is due to the performance of the product in Portugal, Spain and Greece. Then good performance in the country which we have already launched the drug. Other corporate product grows overall by 4.9%. This Group of product comprises 19 products sold in multiple territories six of which are OTC products.

And now let's move on our treatment, drug for the treatment of rare disease and orphan diseases which generated sales of €33.9 million in the first…€73.9 million in the first half of this year with an increase of 22.6%,

which is due to the good performance of the sector as well also to the negative foreign exchange effect…positive foreign exchange effect following the revaluation of the American dollar I would like to remind you that we have one part of the business is in the US.

Slide #4, we confirm to have a very well diversified product portfolio. But now we can move on Slide #5 in which I would like to comment, the composition of our revenue by geography. Let's start with the Italian business. Sales in Italy are down by 5.9% due to the termination of the license of Entact as from the month of June last year 2014. On the other hand, the other product portfolio are doing very well in particular, I would like to underline the performance of Urorec, of Zanipril and Lercaprel which are the two brands for our combination of lercanidipine and enalapril and Cardicor, as well as the treatment for rare disease in the Italian market.

Pharmaceutical sales in France are up by 0.4% mainly due to the good performance of Urorec and Methadone, as well as the introduction of CitraFleet, CitraFleet is one product belonging to the Casen portfolio, and the Casen is the Spanish product…the company we acquired at the end of 2013.

In Germany, sales are up by 11.8% mainly thanks to the significant growth, sales growth of Ortoton, methocarbamo (ph). Sales in Turkey are up by 20.6% and here again there is a positive currency effect following a slight revaluation of the Turkish Lira in the first half compared to last year. In local currency, sales of our Turkey subsidiary grow by 16.5%, and this is mainly driven by the good performance of all of the corporate product Lercadip, Urorec and Zanipress, as well the local products such as MICTONORM KREVAL and CABRAL, but let me say that all the product portfolio in Turkey is doing very well.

In Spain, sales are €34.8 million, up by 3.1% mainly due to the performance of Livazo and Urorec, and the launch of Virirec a new topical treatment of erectile dysfunction that we have launched in May in Spain. Sales for the treatment of rare disease are growing significantly.

Let's now move on the USA, the Group pharmaceutical business in USA, I would like to remind you that is only dedicated to the marketing of product for the treatment of rare diseases. Sales in the first half of 2015 are €39.8 million and include a positive currency exchange effect. Here again in local currency sales increase by 17.2% then very good performance even excluding the positive currency effect.

Revenue generated in Russia, Ukraine and the other CIS countries is €34.6 million, which are down by 11.9% compared to 2014 and this is due to negative currency effect of €11.5 million. Sales in Russia in local currency are up by 24.6% over the same period of this preceding year. Thanks to the growth of all products including also the corporate product, Procto-Glyvenol and Urorec. I would like commenting this number, I would like to remind and to ask you to take into account, the low level of say generating in the first half of 2014 following the reorganization of the distribution channel. But even if you exclude this, on a local base, we continue to grow our business in Russia.

Let me also comment on our sales in North Africa which are €23.9 million, which are up by 20% and comprise both the export sales generated by Bouchara Recordati in these territories, Bouchara Recordati is our French subsidiary and these sales are mainly generated in Algeria, and also the sales which are generated by Opalia Pharma, the Tunisian Pharmaceutical Company we acquired during the fourth quarter of 2013. Opalia sales in the first half 2015 are €11.9 million.

Then the other international sales grow by 9.7% and comprise as usual the sales to our licensees for our corporate product, but also the Bouchara Recordati, the Casen Recordati export sales worldwide excluding the US and this is for the [indiscernible]. The overall business, let's say the pharmaceutical business is growing and which I would like to underline again the second quarter which was even better than the first one.

From a geographical breakdown, let me underline in the Slide #6, which show the geographical breakdown of our pharmaceutical revenue that the Italian businesses now represent 21.6% of our revenue then we continue in the development of the company outside the Italian business.

Slide #6, first half 2015 result and Slide #7 sorry, our results for the first half 2015 show further significant margin improvement as I said at the beginning of my presentation, which is mainly due to the progressing leveraging of our organization and the good performance of high margin businesses and products.

Let's start commenting, the gross profit, gross profit is €366.8 million with a margin of 68% on sale, a significant increase over the same period of the preceding year and this is due to higher proportion of higher margin product sales to the total product sales and also to the termination of the Entact in Italy relatively low margin product, but we continue to improve our gross profit.

Selling expenses increased less than sales and this is also a trend that we continue to have over the last period and are therefore down as a percentage of revenue and this is…thanks to the increased efficiency of the Group commercial organization. R&D expenses are €37.9 million, and are down by 6.8% compared to 2014 and this is mainly due to the

interruption of expenses related to the phase III clinical trial involving the product NX-1207 for benign prostatic hyperplasia which is in license from Nymox. G&A expenses are up by 5.4% remaining stable as a percentage of sales.

Other expenses net of other income are €1.6 million and include an accrual of €0.6 million for reorganization costs. Net financial charges are €8.2 million here we have a slight decrease of €0.6 million due mainly to the reduction of interest charges related to the medium, long-term loans. The effective tax rate during the period is 24.7%, an improvement compared to the same period of last year. Net income and I would like to underline again that our net income is in the period 19.2% of sales is €103.2 million and with an increase of 24.3% over 2015. Here again to underline again that we continue in our margin improvement.

We on in Slide #8, we present the breakdown of our EBIT and Revenue, the two segment, the treatment of rare…the business for the treatment of rare disease and the business for Primary & specialty care. And then the slide show the split of the revenue, EBIT between the two business segment, and while the segment dedicated to the treatment for rare disease generate 13.7% of our sales, it accounts for 21.9% in term of EBIT and the EBIT margin on sales of this segment is 42.9% in the first half 2015. We continue to have an important driver in the improvement of our margin linked to the development of the treatment of the rare disease.

Financial position here we are on Slide #9, and at the end of June the net financial position shows a net debt of €139.9 million, a reduction of €46.2 million compared to the end of 2014, and I would like to underline that we have had this reduction in our net debt even if we have paid out dividend for a total of €49.2 million in April then very strong cash generation during the period.

Then last…then I would like to comment our financial projection and our target for the full year 2015. Slide #10 and the Group…let me underline that the Group business performance during July was in line with the first half and consequently target for the full year of 2015 are reviewed upward regarding to that we have announced in February 2015.

Expectation are now to achieve sales of around €1,040 million, operating income of around €270 million and net income of around €190 million. Then based on the good results in the first half, the good performance in July we believe that we can improve our margin and our revenue for the full year 2015. Here I finished my presentation and I'm available for any questions you may have.

MARIANNE TATSCHKE: Could you please, okay…

Q&A

OPERATOR: Please madam, excuse me. Excuse me, this is the Chorus Call Conference Operator. We will now begin the question and answer session. The first question is from Ms. Eleanor Fung of Goldman Sachs. Please go ahead madam.

ELEANOR FUNG: Good afternoon. Congratulations on an excellent set of results. Three questions please if I may are around the guidance. Firstly, you historically guided to organic growth a 3 to 5%, but your revised guidance to the 6% growth for 2015, can you comment on what areas of the business have or are projected to do better than expected and if so why? Secondly, you've raised 2015 top line guidance by about 4%, but EBIT by about 8%. Can you quantify how much of this is due to better gross margin versus other cost lines and what the underlying driver for this cost improvement if any?

And finally, is there any step for improving the 2017 margin guidance of 25% to 26% EBIT given your new 2015 guidance already implies 26% and your portfolio is continuing to shift to higher margin mix? Thank you.

FRITZ SQUINDO: It was very difficult to understand the first question….

MARIANNE TATSCHKE: First question there is a certain echo on the line.

FRITZ SQUINDO: My understanding is to comment on the…of the good performance in the first half which are the driver for this performance better than expected, is this the question?

ELEANOR FUNG: Yes definitely what I was trying to understand is the guidance implies 6% versus organic growth of guidance of 3 to 5%, so just [technical difficulty]?

FRITZ SQUINDO: Okay then let's say that there are not only one driver, but in general a very good performance of all our product portfolio. We are doing very well with our corporate products. We are even as I said in the conference call increasing the sales of lercanidipine plain then from a product point of view there is not one statistic driver, but a general good performance of all our portfolio, one point which is better than expected compared to previous guidance is the FX effect we expected mainly at the level of sales projection a negative impact of FX driven mainly by the evaluation of the Ruble of around for the full year, of around €15 million, while actually with this effect is essentially neutral then. We have a good performance locally on all our business plus a less negative impact, which is essentially neutral in term of foreign exchange. The second quarter…the second

ELEANOR FUNG: How much is driven by gross margin and how much by other cost?

FRITZ SQUINDO: Trend of the improvement.

ELEANOR FUNG: Yeah, the revenues improved.

FRITZ SQUINDO: The revenue then regarding the improvement of our margin are mainly driven by gross profit because we…as we have a very positive impact by leveraging our organization, which is based on the efficiency of our commercial organization. We expected to grow not to this extent and there is no…a cost reduction is mainly the improvement in our margin driven by this revenue growth, which is in the region of 6%. Another point is of the improvement of the margin to this level that we believe is sustainable except at R&D expenses as in the first quarter also in the first half our R&D expenses are lower than the average of Recordati over the past year. We are in the first half R&D expenses are 7% as a percentage of sales, which is lower than expected as I say this essentially due to the interruption of the expenses related to the development of the product in license from Nymox. We expect going forward also we have include in our guidance not this level of R&D expenses, but to have R&D expenses in between 7% to 8%. Then the margin improvement is driven by overall good performance FX effect, which is less negative than expected and lower R&D expenses compared to what is the average of the R&D expenses that we expect in our full medium long-term as Recordati. Then regarding the third question, we are very pleased to have achieved even exceed our guidance for 2017 as I said part of this is also driven by 1% essentially in the region of 1% at lower R&D expenses with it, we don't expect to keep going forward. But for sure, we don't want to change our…for the time being our guidance for 2017. This will be part of the overall review that we will have at the end of 2015. But we are pleased we have in certain way anticipated the margin improvement that we expected for 2017, but the new guidance will be released in the future.

ELEANOR FUNG: Thank you.

FRITZ SQUINDO: Thank you. Okay, it's enough Eleanor.

OPERATOR: The next question is from Mr. Jo Walton of Credit Suisse. Please go ahead, sir.

JO WALTON: Jo Walton from Credit Suisse. Three questions please. Firstly, in Turkey you've done extremely well in Turkey particularly in local currencies. Are you out performing the Turkish market or is it just the market is doing very well and you are matching that. So if you could just tell us a little bit more about the dynamics there. My second question is on the rare disease business, a 17% local currency increases obviously extremely good. Can you give us some idea as to whether you've got capacity to take more product through that organization now and maybe the sales that you have are encouraging people to come along and ask you to be their distributor. Just tell us a little bit more about your experiences in rare diseases? And finally, if you could just confirm, I think this is what you said that the impact to foreign exchange in the half year on sales was essentially neutral. So the 6% growth is local currency growth. I wonder, if you could help us just split that between any acquisition effect, any first time effect of businesses that weren't owned in the second quarter of last year. So just we can see what the underlying versus the acquisition effect is? Many thanks.

FRITZ SQUINDO: Okay, thank you, okay. First question regarding the Turkish market, the Turkish market in the first half we have the number until the end of May is doing very well. In local currency, the market and values growing by a bit more than 10% and but our performance therefore is driven by a good shape of the market, but we are also outperforming the market growth that

is true is driven by both market growth. But we continued to be able to outperforming the growth of the markets. R&D in the US we are…

MARIANNE TATSCHKE: Rare.

FRITZ SQUINDO: Rare disease sorry in the US. Local currency 17%, this is driven by both. We continue to on large number of the patient, and we have some time, some price increase for some product in our portfolio. We are very pleased by our organization not only if the company has a clear objective to increase our presence, I would like again to underline in the treatment of rare disease in the US. And then we are very pleased if we can have some products to be promoted more to be sold in the US market and I think we are growing our organization, now we have a stable organization and I agree with you, we could become progressively a good partner for other company they want to sell through partnership in the US their product for the treatment of rare diseases. And then, we have third point, I confirm that the FX impact is essentially neutral and we are talking of a pure organic growth even better then pure organic growth in terms of acquisition the first half increase is in someway impacted by a comparison with 2014 in which there was in the first half sales of Entact, which were in the region of €16 million. Then we have recovered the termination and the 6.2 increase is absolutely pure organic. There is no product that we have bought even minor one that we have bought in the second half on during 2014, which is not something that for which we are very pleased frankly speaking. But from in judgment and the valuation of performance yes this is pure organic. Hello, Jo?

JO WALTON: Yes. Yes, thank you very much.

MARIANNE TATSCHKE: Okay.

FRITZ SQUINDO: Okay, bye.

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

JAMES VANE-TEMPEST: Hi, good afternoon. It's James Vane-Tempest from Jefferies. Thanks for taking my question. If I could possibly just clarify a few points which you made earlier on the call and I have two questions. And why was the lercanidipine franchise so strong in the first half of the year, I noticed overall result is about 9.5%?

FRITZ SQUINDO: Only this one.

JAMES VANE-TEMPEST: Well, [indiscernible] I think when you talked about the guidance over the mid-term. Am I right that you mentioned R&D is probably going to be lower as a proportion of revenue as we move out for the next few years? And then the third clarification point is, did you say that we'd get updated 2017 guidance in February?

FRITZ SQUINDO: Okay. Then the first question regarding lercanidipine, we are very pleased by the performance of lercanidipine as I said during the conference call this was a bit less than €100 million in the first half, it was driven by a stability in the market in which there are direct sales which is mainly Western European country and was driven this 9.4 improvement mainly by the sales to licensees. And then, we believe that this is something sustainable, but always in sales to licensees there is some stocking impact, because it's not sales to the market. What can I say that we expect for the full year the franchise to be for sure higher than our expectation that was 160, 165, and will be higher than 170 and then we will see that because we are able to maintain sales in the Western European market in which there is competition from generic version and we are able to increase in some

emerging market and I would like again to underline the good performance of lercanidipine in China. But in the first half as usual there are some stocking impact because these are not sales into the market, are sales to our licensees. Regarding the guidance, okay no I would like to underline that in our guidance for 2017, we expected to have our R&D cost in the region of 8%, while today it's 7%. This is mainly driven by as I said delays, interruption of the Nymox NX-1207 development, but we expect for sure to start again with new project in our pipeline and but and then, we don't…we expect even in the second half of this year to have our R&D higher than the low 7% we have achieved in the first half. Regarding guidance, we as usual beginning 2000…next year we will give the guidance for the next year, we will see if we want to update our business plan. We haven't yet decided if we want to update our guidance or not.

JAMES VANE-TEMPEST: Excellent. Thank you. One final follow up question is I think Nymox recently reported positive second study for NX-1207. Now after their first study, which was disappointing I think I remember that you shelved the plans for your study, just wondering whether that will change your thoughts around the product, I'm actually still have that license and how we should think about the potential of NX-1207?

FRITZ SQUINDO: Okay. On these specific announcements let me say that we do not comment upon any announcement made by Nymox relative to their clinical trial in the US. We confirm that we have interrupted clinical as I said the clinical development for the product and if anything should change in the future we will make the necessary disclosure then for no we don't want…I don't want to comment on the announcement made by Nymox with their press release.

JAMES VANE-TEMPEST: Sure I understand that. My question was more of a, you still have the right in Europe and given that they've done a, you've made the side to reinstall that program [indiscernible]?

FRITZ SQUINDO: Here again, we are interrupted then we are in talk with Nymox, but the major point is not to understand what is the real future of the product, but today I have no news to be announced.

JAMES VANE-TEMPEST: Okay. Thanks very much.

FRITZ SQUINDO: Okay.

OPERATOR: We have a follow-up question from Ms. Jo Walton of Credit Suisse. Please go ahead madam.

JO WALTON: A couple please. Could you give us an update on GRASPA and when we should expect to hear more data from you any filing timelines et cetera. Secondly, going back to the Zanidip franchise which is done so well was there anything that is just related to the first half in this do you think, because we have been seeing a gradual decline and therefore it is surprising to see it being so strong. Would you advise us to assume that this is a level that can be sustained perhaps for the next year or so or do you think we should look for a decline going forward again? And my final question on acquisition, you said that you were disappointed that you haven't been able to make any acquisitions in the first half of this year. I wonder if you could tell us a little bit more about that. Is it perhaps that there weren't good candidates to look at or people are too greedy on price? What's the rationale?

FRITZ SQUINDO: Okay. First question regarding GRASPA, I can just do confirm that the next step on the GRASPA development will be the filing that we expected

the file will be done by Erytech, which is managing the process for the ALL and we expect next in September in line with what has been announced by Erytech, the filing of the product for the EMA (Ph) approval. Then regarding Zanidip, we have been very pleased. We are very pleased by this performance. We don't see a particular impact due to a particular event. As I have already commented, the major driver on Phase II licensees and these could be also impacted some time by some stocking made by some licensees, but not significantly. What can I say that in the European market, we are able to maintain our sales in some markets we are even increasing our sales. We are competing what is possible with generic competitor. In Germany, we have compete and win…won sorry the tender for lercanidipine in the market and now we are progressively having 100% of all sales of the molecule of lercanidipine in Germany then we are tried to keep our market share or in the molecule of lercanidipine overall. And then we based on this result, I cannot say that we don't expect erosion, but probably we can say that we cannot expect important erosion going forward. We are very pleased by the way which we are continuing, defending lercanidipine playing safe.

Regarding acquisition, okay we are not…we are disappointed. We continue to working on some project. The market is becoming more and more expensive, and I agree some is not...there are some candidates some time these are too expensive, but the reason is mainly driven by the lack of candidate. This was mainly in 2014. Now it's mainly…the concern is mainly linked to the price and the market which are required by the seller. But having said that, we continue to believe that inorganic growth is an important pillar of the development of the company. We can confirm investor that we will remain prudent in approaching our deal, but the market is progressively changing and then we are now trying to identify synergies of revenue cost to add positive impact for possible new acquisition, but I can confirm that even in these more expensive market,

we continue to believe that inorganic growth is an important pillar for the development of the company.

JO WALTON: Thank you.

FRITZ SQUINDO: Okay. Bye.

OPERATOR: For any further questions, please press "*" and "1". Mr. Squindo and Ms. Tatschke, there are no questions registered at this time.

FRITZ SQUINDO: Okay.

MARIANNE TATSCHKE: Okay. Then we can say good bye to everybody and thank you for attending.

FRITZ SQUINDO: Goodbye. Bye-bye.