

# **Recordati S.p.A.**

## **“First Quarter 2015 Results Conference Call”**

**Tuesday, May 5, 2015, 4.00 PM (CET)**

**MODERATORS:     FRITZ SQUINDO, CHIEF FINANCIAL OFFICER**  
**MARIANNE TATSCHKE, DIRECTOR OF INVESTOR RELATIONS**

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Recordati First Quarter 2015 Results Conference Call. After the presentation, there will be an opportunity to ask questions.

At this time, I will have to turn the conference over to Ms. Marianne Tatschke, Director of Investor Relations of Recordati. Please go ahead, madam.

MARIANNE TATSCHKE: Good afternoon or good morning to everybody, and thank you for attending our conference call today. Fritz Squindo, our CFO will be presenting and commenting upon our first quarter 2015 results. For a better understanding of his presentation, please access the set of slides available on our website [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: Thank you Marianne, good afternoon or good morning to everyone. We can go on Slide #2 of our presentation. And we are pleased to announce our first quarter 2015 results which shows sales growth and further margin improvement.

Consolidated revenue is €275.7 million, up by 5.9% compared to last year. Let me underline that this is only due to the organic development of our product portfolio, no contribution from acquisition. Very important also in the first quarter, our margin continued to improve. EBITDA now at 30% of sales is €82.8 million, up by 15.9%, double-digit growth. Operating income at 26.6% of sales is €73.5 million, an increase of 18.1%. Net income at 18.8% of sales is €2 million; here an increase of 21.5% over 2014, then strong improvement, continued improvement of our margin.

We have also...we continue also to deliver strong cash generation, net cash is ....Net debt is €36.8 million, here we have a reduction of €49.3 million compared to last year and then we have continued to generate stronger cash flow.

Let's now comment our sales on Slide #3, our main product sales. Let's start with Zanicidip lercanidipine, sales grew by 8.1%. Sales are growing mainly in Germany, Turkey and also in Italy. Sales to licensees have also increased. Let me comment this increase. We believe that this is a temporary increase, and for the full year, we continue to be positive on our lercanidipine sales, but we continue to foresee flat sales of Zanicidip going forward. I would like to remind you that Zanicidip is not patent protected.

Moving to sales of our combination of lercanidipine-enalapril, the brand name, most important brand name of this combination, Zanipress, sales of Zanipress are up by €7.3 million...7.3% mainly due to the performance of the product in Italy and Turkey, but overall, we continue to increase sales of our combinations increasing our market share. The sale of Urorec, Urorec Silodosin is being successfully launched in 28 countries, with sales of €16 million during this quarter, up by 10.8% mainly due to the performance of the product in Italy, Turkey, France and Spain and Russia. We continue to gain market share also in the Urorec business.

Sales of Livazo, we are talking about Pitavastatin in Spain, Portugal, Ukraine, Greece and through a license agreement in Switzerland are €5.9 million and here the sales are down by 8%, but this is due to temporary lower sales to our co-marketer in Spain and Portugal.

Direct sales to the market are growing and we expect to grow the business on a yearly basis. We continue to believe that Livazo will remain a

business for selective marketing which we have a premium price for this product. Other corporate products comprise 17 products which are sold in multiple territories, 5 of which are OTC products, and overall, these products in the first quarter are growing by 7.1%.

Then our specialties indicated for the treatment of rare and orphan diseases generated sales of €7.4 million in the first quarter. Here, we have a very significant increase; we are talking about 34.6% which is mainly due driven by the good performance of our US business. And in the US business, we have also the positive foreign exchange effects following the revaluation of the American dollar. But overall, we are doing in any case very well in our orphan business.

Slide #4, the graph shows the breakdown of our revenue by type of product, and we are growing our international presence because our Italian...sorry, here we are talking about the type of products and we are growing our orphan business and also our OTC business in this quarter.

Let's now move on the composition of revenue by geography. We can start with our Italian business. Sales in pharmaceutical in Italy are down by 7.4%. This is due only to the termination of the license of Entact as from the month of June last year. The other products in our portfolio and in particular Urorec, Zanipril and Lercaprel, the two brands for our combination, Cardicor and Peptazol, two local product as well as the other OTC product are performing very well. Then excluding the reduction...the loss of sales linked to Entact business, we are growing our Italian business.

Pharmaceutical sales in France are up by 3.1%, mainly due to the good performance of Urorec and Methadone as well as the introduction of CitraFleet; Casen Fleet now is the Casen Recordati product also in France.

Germany, in Germany sales are up by 13.1% and this is mainly thanks to the significant sales growth of Ortoton, methocarbamol product, which is a very important local product.

Sales in Turkey are up by 28.5% and include a positive currency exchange following the revaluation in this quarter of the Turkish lira. Let's comment to the basis in local currency and local currency sales of our Turkish subsidiary grew by 18.3%, then very good performance also in local currency continued the good performance that we had last year. And this is thanks mainly to the good performance of all our corporate products, Lercadip, Urorec and Zanipress and of the local product of which I would like to mention Mictonorm, Kreal and Cabral.

The Group pharmaceutical business in the US, just to underline again, is strongly dedicated to the marketing of product for the treatment of rare diseases. Sales in first quarter of 2015 in this market are €20.7 million and as I said, include an estimated positive currency effect of €1 million. In local currency, sales...our increase of sales is very important, sales increased by 48.8%.

Then let's move on Russia, revenue generated in Russia, Ukraine and the other countries, in the other CIS countries is €18 million, down by 8.3% compared to the same period of preceding year. And this is only due to negative currency effect of €2 million.

Let's comment sales in Russia in local currency sales are up by 46.8% and this is thanks to the growth of all products, including also the corporate product Procto-Glyvenol and Urorec, and also I would like to underline taking into account the low level of sales generated in the first quarter 2014 following the reorganization of the distribution channel.

We commented last year, a low performance in the first quarter due to the change in reorganization distribution model and now we are comparing the good performance with a very low performance last year. Then please don't expect the same 46.8% increase for the full year in Russia.

In Spain, sales are €6.9 million, down by 3.3% mainly due to the competition from generic version of Cidine which is a local product, very important, there for Zanipress, for Zanipress, we have a price reduction, that is from February last year. And the competition is mainly as this is impacting price. Regarding volume, we have not significant decrease in volume due to the competition of generic version of the combination in Spain. Let's also comment that in Spain, sales of the...for treatments of rare diseases are growing significantly.

Then we have sales in North Africa are €10.8 million, here up by 5.6%. And these sales comprise both the export sales generated by Bouchara Recordati in this territory, in particular in Algeria, and sales generated by Opalia Pharma, the Tunisian Pharmaceutical Company acquired during the first quarter of 2013. Opalia Pharma sales in the first quarter of 2015 are €5.8 million and they include also sales previously handled and managed by Recordati Bouchara in this market. But overall, our presence in Tunisia is going well.

Sales in Portugal are up by 3.4% and here thanks to the good performance of corporate products. Here we have also Livazo to which we have also good performance due to Urorec and TransAct.

Let me finish the presentation of our revenue by geography commenting our international...other international sales which grew by 5.3% and as usual comprise the sales to our licensees for our corporate product, the

Bouchara Recordati sales and the Casen export sales and also the Orphan Euro export worldwide excluding the USA.

Then overall, we have one...our pharmaceutical business organically grew by 6.1%, then very positive performance of our pharmaceutical business in the first quarter of this year.

Slide #6, here we have our breakdown of our revenue by geography and then we are progressively reducing and continue to reduce our presence in Italy developing the business overall in all the other part of the world.

Slide #7, first quarter result, the embedded results, we have already talked about the revenue for the period; let's now comment on profit and costs. Gross profit is €87.5 million with a margin of 68% on the sales, a significant increase over that of the same period of proceeding year due to higher proportion of higher margin product sales to the total product sales and to the termination of Entact in Italy, a relatively low margin product.

Selling expenses increased less than sales and are therefore down as a percentage of revenue, thanks to the increased efficiency of the Group commercial organization. R&D expenses are €9.9 million and here expenses are down by 4.3% compared to 2014. And this is mainly due to the interruption of expenses related to the Phase III clinical development for the product, for the benign prostatic hyperplasia that we had under license from Nymox.

G&A expenses are up by 6.1% and remain stable as a percentage of sales. Net financial charges are €3.7 million, a decrease of €0.4 million. This is mainly due to the reduction of interest charges related to medium and long-term loan. The effective tax rate during the period is 25.5%, an

improvement compared to that of the same period of the proceeding year and in line with the tax rate that we have for the full year 2014.

Let me finish with our net income at 18.8% of sales, net income is €52 million, here an increase of 21.5% over the same period of the proceeding year. Then let me underline again, very strong improvement of our margin.

Slide #8, this is a new slide in which we show the split of revenue and EBIT between our two business segments, the...this is the business of the treatment of rare diseases and the primary and specialty care business. While the segment dedicated to the treatment of rare diseases generated 13.6% of our sales, it accounts for 21.4% of our EBIT. And let me underline that EBIT margin on sales for this segment in this quarter is 42% then we are improving the margin of our orphan business, at 42% of sales.

Financial position, Slide #9, at the end of March, the net financial position shows a net debt of €136.8 million compared to the net debt we had at the end of 2014 of €186 million. Then we have strong cash generation €9.2 million cash generation.

And on Slide 11, here we have our target for 2015. During the first quarter, we have experience, we've had a more favorable net currency effect than expected, but we may...but this environment in this situation will still change. Therefore, we can confidently confirm our full year 2015 expectation generated sales of more than €1 billion.

Regarding margin, we are confident also based on the first quarter result we can obtain a big margin of around 25% and a net income margin of around 17.5%. We are therefore confirming our target because some

macroeconomic effect, in particular the net currency effect, we cannot predict how we will move...will be in the next part of the years.

Here I finished my presentation, and I'm available for any questions you might have.

MARIANNE TATSCHKE: Yes, could you please open the question and answer session.

Q&A

OPERATOR: Sure, madam. This is the Chorus Call conference operator. We will now begin the question and answer session. The first question is from Mathew Weston with Credit Suisse. Please go ahead.

MATHEW WESTON: Good afternoon. Thank you for taking my questions. Two please, the first, regarding the Livazo. You mentioned the issue of stocking or demand returning to normal later in the year. Can you tell us are we currently at a position where we are destocked, and so we should have a bounce back in revenue or whether we are now at a position where stocking levels are normal and we should just continue to see growth of the product with demand? And then secondly, with respect to the Nymox spend. Clearly, the program has now been terminated. Q1 benefited from an interruption of the Phase III spending, how should we see the next quarter's progress in terms of the orderly wind down of that product? Thank you

FRITZ SQUINDO: Okay. First question was related to Livazo sales. Okay, let me...we have this down, we said this is which has mainly linked to sales to co-marketer and then it's not stock in the channel, but it's sales to the co-marketer and then stock in the hand of the co-marketer. And we...I can confirm that for the full year we expect these sales will be normalized and we expect to

continue to grow our business because let me say in our Livazo business we have both, our sales direct to the market, and we continue to grow this part of the business. IMS sales also for our part are growing, just sales to them, to their stock sometime quarter-by-quarter, compare a quarter to another, there could be some stock impact, but which is not stock in the channel but it's just stock to our finished products sold to the licenses.

Regarding...I think it's a general question regarding R&D expenses. Then and we have stopped the development of the Nymox product in the last quarter of last year. We have accrued all the costs related to this program in 2014 then we have now reorganizing our R&D activity. We expect for the full year 2015 to be in line with our expectation to R&D expenses, which means to have our R&D expenses in the region of 8% then nothing, then for the full year the R&D expense is to be around 8% of sales.

MATHEW WESTON: Okay. Thank you very much.

FRITZ SQUINDO: And we are working toward obviously adding new project to our pipe.

MATHEW WESTON: Thank you.

FRITZ SQUINDO: Okay.

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

JAMES VANE-TEMPEST: Hi, good afternoon. Thanks for taking my question. And first one regarding guidance, organic growth, please, if I can? And first, I am historically talking organically about the business, I think, the range you sort of indicated was roughly sort of 3% to 4%. So clearly you know,

strong 5.9% in the first quarter. Just wondering you know, thinking about the mix of products now and how you see the opportunities, whether really the underlying organic growth is higher than the 3% to 4% going forward if you could [indiscernible] previously? And secondly, just on currency, just wondering if you can confirm the exact amount EBIT, which is benefited you in the first quarter, please, and I will just come back for quick follow-up, please?

FRITZ SQUINDO:

Okay. Let's start with...we are very pleased by these organic development in the first quarter. But we are comparing one quarter to another quarter, and part of this good performance is also linked to some low performance that we had last quarter, in particular let me comment in two businesses which are important for us. One is the Russian one, which was linked to the, as I said, to the change of the distribution model. But also the US business [indiscernible] was a bit weak last year compared to the other quarters during the year.

We on the other hand we are also comparing the Italian business with a quarter, which we had sales for Entact, because the termination of the Entact occurred in end of May. Then we cannot say that we expect for the full year the same level of organic growth. We are very confident to be able to do a good job for the full year. But for the time being, we maintain our target which is one organic growth in the region of 3%-5%, but now we are very close to the top part of the range. Then we...it's also linked to the currency situation in the previous guidance when we announced our Business Plan we announced a negative currency effect of around €15 million overall in the year due to the currency depreciation at that time, in particular the exchange rate between euro and ruble was completely different. It was in the region of 70, now it's in the region of 65, 59, and 58. And then the real organic development is also linked on the revenue line to the currency scenario.

We have seen the ruble with strong and rapid depreciation and then a rapid revaluation and then it's essentially stable but it's not as I said in the conference very easy to predict this macro scenario. Then let's say that we expect...we believe to be in the high part of the range, but part of this is linked to external items, external elements not completely in our hand. In the first quarter, the currency effect at revenue level was around...was essentially flat because on the one hand we have the depreciation compared to last year in the ruble. But we have also revaluation in the Turkish lira and in the US dollar.

Now, the US dollar is essentially stable, but the Turkish lira in the last 10 days is in the depreciation trend, another reason to avoid to give clear target in terms of sales.

The second question, which was, what is the EBIT impact of the foreign exchange? As usual, the answer is we have a natural hedging on our business, and then we have been able essentially to hedge the depreciation of the ruble with the revaluation of our...in particular US business. Then, having said that, the US business is mainly linked to the Orphan business, high margin. Then in terms of margin probably we have a bit, a positive impact by the revaluation of the US dollar in the first quarter. But it's not material in our result.

JAMES VANE-TEMPEST: Thank you, very much, Fritz. Just one follow-up if I can. Given my understanding of the visibility on your R&D cost, you clearly demonstrated very good strong cost control. With the 26.6% margin in the first quarter, because seeing the business is naturally hedged in terms of currency, just wondering, what...sort of how would you potentially be looking to revisit your 2015 targets at this stage of the year, given such a strong start?

FRITZ SQUINDO: Okay. Let's say that for us now it's 25% is we are very confident to be able to achieve. We could also have a bit higher margin if our R&D cost will be lower than what we expect it to be in the region of 8%. But we would like to have a clear picture represented by at least six months to review our projection. But I can confirm that we are confident to be able to achieve at least this level of profitability.

JAMES VANE-TEMPEST: That's great. Thanks very much, Fritz.

FRITZ SQUINDO: Bye.

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

MARTINO DE AMBROGGI: Good afternoon, everybody. Two questions, one on, rare disease 42% return on sales. Just to understand Fritz, how much is due to US dollar revaluation, you mentioned during the previous answer. And if it can be considered level for the full year or what is the variance around this level?

FRITZ SQUINDO: Okay, 42%...we have our businesses fully located in the US, and then on the one hand we have a positive impact linked to the revaluation of the US dollar on the revenue level. But we have also cost unfortunately in the US. And then the overall business is not strongly impacted by the margin, it's not...as a percentage it's not strongly impacted by the US dollar. 40%, we expect to be our margin going forward for our Orphan business. Then 42% is not a peak, something that we expect probably not 42%, in the region of 40%. We have already announced this margin as the normalized margin in our Orphan business.

MARTINO DE AMBROGGI: Okay. Regarding currencies, you mentioned the guidance at the beginning when you announced the implied €15 million negative impact from currencies. So based on the current environment, which is much more favorable, what would be the positive impact in terms of sales?

FRITZ SQUINDO: Okay. We cannot predict as I said, the future...

MARTINO DE AMBROGGI: Sorry...

FRITZ SQUINDO: ...stable. And we see volatility, also today there is, what I can say in the first quarter 2015, the currency effect on the revenue line was essentially zero. Then we have recovered what was our assumption in terms of currency impact because we expected not to be able to completely offset the depreciation of the ruble with the revaluation of the US dollar. And let me underline in the first quarter we have had also a positive impact on the Turkish lira, today it's not the same situation. The Turkish lira is around the same level of 2014. Then, today it's not so negative as expected, what will be in the next nine months, I cannot say today, if for sure, if the exchange rate will remain as to today probably the impact will be essentially flat.

MARTINO DE AMBROGGI: Okay.

FRITZ SQUINDO: On a full year we could recover this €15 million sales effect. Having said that, we expect also to have in this case impact on our EBIT. But we cannot say today, because we cannot give to the financial community one target based on the today level of the currency. We want to be very, very transparent, but it's very difficult to predict in this market what will be really the level of the currency, in particular for our revenue line for the full year 2015.

MARTINO DE AMBROGGI: Okay, thank you. If I may, one more question. In Italy, there are ongoing discussions on new cost cutting initiatives for the healthcare system; maybe it's too early to have an interpretation on what they are thinking about, but any risk to see some of your businesses which could be impacted.

FRITZ SQUINDO: Okay, so let's comment starting regarding the Italian business. As I said, the business in the first three months are down by 7.4, but this is due, as I said, only to the termination of the license of Entact, excluding Entact we are growing. What...we expect some reorganization of the reimbursement list in Italy probably in June, July. And I can agree with you, it's early to know...to say to you what could be the impact, but in our projection we have prudent assumption regarding the performance of our Italian business.

And then we have in some way in our projection already discounting some impact due to a sort of reorganization, sort of the reimbursement list or some sort of payback because for sure, the government wants to save its money and then the pharmaceutical business will be asked to return a part of the revenue in term of price reduction, reorganization of reimbursement list and so on. It is difficult to say today how much, how much will impact our business, but I can say that in our projection, we have already considered this possibility in a prudent way.

MARTINO DE AMBROGGI: Okay, thank you, Fritz.

FRITZ SQUINDO: Bye.

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

MASSIMO VECCHIO: Good afternoon, everybody. My question is on Zanidip and Zanipress. I was wondering if you can give more granularity of what's behind the strong first quarter performance and also what makes you so confident that this performance is going to get worse as far as the...as long as the year develops. So that's the main question. Second question is on FOREX, probably I've lost it, but I know if you quantify the impact on Q1 sales, on FOREX any of them. And the third point is just a check, just a clarification, is there any impact of any acquisitions in your first quarter year-on-year growth? I don't think so, but just checking. Thanks.

FRITZ SQUINDO: Okay, first question was linked to Zanidip and Zanipress performance. Let me say that Zanipress performance we believe is absolutely in line with our expectation. We continue to grow our market share. We continue to develop our lercanidipine and enalapril product and then 7.3% increase is absolutely in line with our expectation which is at this level and it could be even 10% for the full year. Zanidip plain, Zanidip plain, we see here we have one increase. It's what I would like to underline during my conference call is that we are very pleased by this performance, but here we are talking about sales to the market, but also sales to licensees and there are some sales to same licensees which has been particularly positive in this quarter and we don't expect it to be the same...the same situation over the last nine months.

Then what I can say. We are pleased, we continue to manage as best as possible our Zanidip plain, lercanidipine plain sales, but as a general assumption, we continue to believe that on a yearly basis Zanidip sales we expect to be essentially flat regarding sales achieved in 2014. Then it's not...we are not negative regarding Zanidip, but we don't want to give to you the message that we can restart increasing our Zanidip sales. We are protecting very well the business. We are doing a very good job and to

keep the level achieved in 2014 will be very positive and very solid results.

Second point, the impact of FX in the first three months. As I said, it was essentially zero, because we have revaluation of the US dollar, revaluation of the Turkish lira and depreciation of the Russian ruble.

And third question regarding the growth in our sales, the growth in this quarter is only organic, no contribution from acquisition. We expect and we would like to have a contribution in the next report, but we have a very good organic development, but we continue to believe that the Company and we continue to be committed to increase our basis of certain acquisition and we are working on different project for having during 2015, in particular '16, a strong contribution also linked to the acquisition policy, strategy.

MASSIMO VECCHIO: Thank you very much, very clear.

FRITZ SQUINDO: Okay, bye.

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

MARIANNE TATSCHKE: Okay, thank you. Good bye to everyone.

FRITZ SQUINDO: Thank you. Good bye to everyone.