

# **Recordati S.p.A**

**"First Nine Months 2023 Results Conference Call"**

**Tuesday, November 07, 2023, 16:00 PM CET**

**MODERATORS:**      **ROB KOREMANS, CHIEF EXECUTIVE OFFICER**  
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OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Recordati First Nine Months 2023 Results Conference Call. As a reminder, all participants are in listen-only mode. After the presentation there will be an opportunity to ask questions. Should anyone need assistance during the conference call, they may signal an operator by pressing "\*" and "0" on their telephone.

At this time, I would like to turn the conference over to Ms. Lucia Abbatantuoni, IR Specialist of Recordati. Please go ahead, ma'am.

LUCIA ABBATANTUONI: Thank you Judith. Hello everyone, and thank you for attending the Recordati conference call today. I'm pleased to be here with our CEO, Rob Koremans and our CFO, Luigi La Corte who will present first 9 months 2023 results. We will run you through the presentation. As usual, the set of slides is available on our website in the investor section.

I will now give the floor to Rob. Please go ahead.

ROB KOREMANS: Thank you. Thank you Lucia and good afternoon ladies and gentlemen, and thank you for having joined our 9 months conference for 2023. And I'm happy to say that we've been able to continue to deliver double-digit organic growth throughout our business in both our businesses, Specialty and Primary Care, and in the Rare Disease business we see this really good momentum of the double-digit growth, and this has been achieved notwithstanding fairly strong FX headwinds that we are facing in the recent months, and not just re...anyone exposed to the same geographies.

So achieving these results with this strong headwinds is something that gives us great satisfaction. Also, the fact that we've been able to maintain a sector-leading margins with EBITDA margin of 38.3% gives us great confidence in the future. Equally important is the ability

to transfer and convert the strong revenues to strong free cash flow, and with the free cash flow up €45.5 million versus 2022, and now reaching €391.8 million, we really are very proud with these results. This is a pro forma leverage of 1.9 times EBITDA.

Also in terms of our key R&D projects, we see very good progress, we are progressing to the plan with Signifor, with Qarziba, with REC 0559 and with the plans launch of Carbaglu in China that actually or probably still happened this year ahead of plan, and the filing for Isturisa the NDA in China has also been filed in September.

And consistent with our ambition to strengthen in a moderate way our ability to drive affordable innovation and specifically lifecycle opportunities in our own portfolio, we've been able to appoint Milan Zdravkovic as our Head of R&D Executive Vice President Research and Development, and has joined a couple of weeks ago, and I'm confident that his expertise and track record will help us on our journey of maximising the opportunity for our own portfolio a little bit expense going forward.

And thanks to all of this, the excellent business performance to-date, the strong momentum of the business, I'm very pleased to say that we're expecting to deliver our results for the full-year of 2023 at the high end of our guidance, and based on solely our organic portfolio already, we expect to exceed the targets that we set earlier this year in February for 2025 as well.

I will now leave the floor to Luigi to give a little bit more colour to our first 3 quarter results. Luigi.

**LUIGI LA CORTE:** Thank you Rob, and good morning, good afternoon everyone. I will as usual provide a bit more color on the year-to-date results and leave time obviously to then for Rob to take you through the...more detail on the guidance.

Switching to Slide 3 as Rob has said, the business has performed really well over the last 9 months and in Q3 with both business units really delivering and driving solid growth at double-digit in both instances at constant exchange rates.

I'll start with Specialty and Primary Care on Slide 3 which again continues to grow double-digit 8% headline reported obviously absorbs significant FX headwinds over the last 2 quarters with all of the therapeutic areas really growing in line with or ahead of the relevant markets. The stand-off performance obviously continues to be our cough and cold portfolio with a growth of 23.8% versus last year and almost similar increase relative to pre-pandemic levels, and this is really back on the very strong first half of the year with revenue for cough and cold in Q3 starting to normalize, and was in fact very close to the levels achieved as expected in 2022, also due to the weakness of the rouble.

Urology was...growth was equally strong in fact in absolute terms and even larger contribution to our growth for these 9 months. This is really driven by the continued strong end market performance of Eligard which continues to gain share and which we are very happy to report we've now started the transition of the new device across those markets and that namely Ireland, Portugal and Denmark and we expect now the transition to follow across the region in Q4 last year and beginning of 2024. And clearly also the first 9 months and Q3 results reflect the first contribution of Avodart and Combodart of €3.8 million, which I'll come back to in a minute.

I'm very pleased also with the resilience and actually growth of our cardiovascular portfolio led by lercanidipine, particularly with sales to our international partners growing and also continued solid growth of our gastrointestinal portfolio both on Rx and OTC side. Anyhow within the other products growth of only 1.2% that is a mix of a

number of products growing nicely, Reagila, Magnesio Supremo and others offset by some of the pressure we anticipated at the start of the year more to come in Germany from reference pricing and just sufficient to let go some tender business there.

I'd like to think these results confirm the ability for our organization to sustain the products sales of our established products, and really drive growth of our growth drivers and sustain actually mid-term growth of mid-single-digit which is what we said we aim to deliver over the years ahead for SPC, but clearly since the announcement in July of the latest deal with GSK, as you'll see on Slide 4, [indiscernible] busy working through the transition of the sales and distribution activities related to Avodart and Combodart, and as hopefully you will appreciate we have once again confirmed our track record of being able to integrate new business as quickly and effectively with 5 markets already going live in the month of September and contributing to the revenue, further ones have gone live since, which clearly, thanks to the effectiveness and the speed with which the transition is being managed, we're very confident to deliver at the high end of that €10 million to €20 million range we provided, and with Spain actually transitioning the last few days, you know, may even do slightly better than that. But once again, very pleased with both the end-market performance and the ability to integrate this latest and exciting new business, which allows us to further strengthen our leadership in urology.

Switching to Slide 5 and Rare Disease. Clearly, we are just as proud and pleased with the performance of our Rare Disease franchise. Continue to grow high double-digits with...really driven by both our endocrinology and oncology franchise, which are absolutely on track to deliver on the expectations that we've set, both midterm and longer term.

To highlight, some of you may have noticed, €150 million revenue for the first 9 months, our rare oncology portfolio has already achieved the

initial sales expectations we set for full year 2023. So clearly, as we had anticipated already at the start of this year, moving ahead of plan. Thanks to both strong growth of Qarziba and Sylvant and also some nice positive momentum of Fotivda. Very strong continued patient uptake of Isturisa and double-digit growth of Signifor on the endocrinology side, which will be the key growth driver over the next years for the group.

And again, here, a nice milestone achieved over the first 9 months with...for those of you who may read the fine print, Isturisa achieving close to €100 million of revenue in the first 9 months of this year and continuing to grow. And pleasing, obviously, to see, as Rob has already mentioned, we have now filed for regulatory approval for Isturisa in China, following the approval already earlier this year of Carbaglu, which we hope to see...we expect to see first commercial sales in China of Carbaglu already in the coming months of this year.

And finally, we'll say we're very pleased also with the resilience of our metabolic portfolio with growth of Panhematin in US, Ledaga in Europe, offsetting the erosion of Carbaglu in US and EMEA. But Carbaglu itself is growing in international markets, and will continue to do so. And Metabolic will be further sustained by the increased penetration in international markets.

And I think Rob has already touched on the updates on the life cycle management programs. Just to reiterate them briefly, we are ready for the Type C meeting, which is now scheduled for the next week for Qarziba BLA in the US, and hope to...we'll be enrolling first patients in the PBH study on pasireotide in the next weeks and expect to close out the enrolment of patients in the REC 0559 Phase II study by the end of this year, all as expected.

And clearly, this performance year-to-date and this momentum on our projects, that gives us confidence to have a really strong foundation in

Rare Disease to continue growing, as we promised, double-digit over the coming years and with these exciting projects that we think can provide further growth beyond that.

On Slide 6, very obviously, again, pleasing to see all regions are really contributing to the growth. Of course, this quarter, we celebrate the continued very strong performance of the US business on the back of the Endo/Onco Panhematin growth. US, has now become, for the first time, the first business unit for the group. But it's nice that you see that it's not the sole driver. And clearly, Italy are also growing double-digits as are many of the other markets growing either high single or double-digit themselves, the one exemption, Germany. We said at the beginning of the year, we would expect erosion from reference pricing on Ortoton and Claversal and our decision to let go off some tender business with very, very low margins, but other than that, very solid performance across multiple geographies.

In terms of the outliers, Türkiye, clearly, a 32% growth in euro terms is fantastic, supported by both double-digit volume and price increases awarded and achieved by our teams in excess of the very sharp devaluation in the market. Russia, CIS and other CEE countries, also growing high double-digit, also offsetting the impact of devaluation. And clearly, that's very much in the back of the very strong cough and cold portfolio beginning of this year and also the carry-on of price increases taken, particularly in 2022.

And finally, to call out other international sales growth of 21%, and that's really a reflection of the addition of the Onco portfolio, the strong growth of the rare disease business in international markets and higher sales to distributors, which on lercanidipine, which this year have bought earlier than previous year in several instances.

So very, very robust top line and equally robust P&L, which you will see on Slide 7. Thanks to the revenue growth and the operating

leverage that provides and the continued cost discipline. Our margins have remained...and remain strong. Gross profit margins are holding up better than anticipated at the start of the year at 71.5% on an adjusted basis. It is slightly below the first 9 months of last year. We always said we would see at some point some impact from inflationary pressures which is coming through. Given the decrease in inflation rates over recent months, we do expect this to be relatively much more mild and temporary than had been expected in February. We did take, at the level of gross profit, an adjustment, a true-up to the unwind of the noncash fair value step-up on the acquired inventory of EUSA, also primarily due to the higher sales of the oncology products.

SG&A expenses growth of 6.6% and a 28.2% of revenue clearly reflects the benefit of the synergies and efficiency initiatives that we already announced and initiated last year.

R&D costs are very much gradually increasing, part due to the additional amortization of roughly €10 million. But also, as we've started to progress some of our life cycle management initiatives, stripping out amortization, you will have seen it's still well below the 7%, which we said it would grow to over the plan period.

And finally, confirming their nonrecurring nature, you would see that other expenses of €5.6 million, being mostly residual costs related to SPC rightsizing significantly below last year, which also obviously reflected one-off costs related to the acquisition of EUSA.

This, as said, leads to a very strong financial results. EBITDA at just under €596 million is 38.3% of revenue, growth of 15.4% versus last year. And yes, I'm fully aware that this is slightly above the plus or minus 37% guidance for the full year, reflecting as often and in fact, very consistently been the case for the group, somewhat lower margins due to a number of reasons mixed, particularly with regards to the international sales portfolio, gradual step-up of R&D, phasing of



activities, which will imply a slightly lower Q4 result, but very, very strong performance, and also at the level of adjusted net income.

Net income, we see growth of 26% and 14%, respectively, reflecting strong operating results, which absorb, €49.1 million of financial expenses, slightly above last year, but reflecting higher interest charges, which are offset by lower FX losses, which will occur in the first 9 months of 2022.

Very, very happy to see the strong revenue and profit growth translate into increasing cash flow. On Slide 8, you will have seen free cash flow of €391.8 [ph] million is over €45 million ahead of last year, reflecting the really, really strong results, which offset, obviously, the increase in working capital, strictly driven by the increase in business and higher cash interest expense.

Obviously, in the first 9 months, we've made the upfront payment to GSK of €245 million. The residual of €70 million payment to Tolmar, which was due upon approval of the new device across the key markets, and earlier in the year, obviously, the residual milestones of €20 million to Novartis for Isturisa.

But, thanks to this great free cash flow, you will see, on Slide 9, we have managed to absorb both this, and the dividend payment made in May. With net debt of €1.5 billion just €84 million above the number at 31st December of 2022, with leverage at 2 times on an as-reported basis, and 1.9 times last 12 month EBITDA, if accounting for a full-year benefit of the Avodart and Combodart contribution.

And with that, I will hand back to Rob to close with an update on the guidance.

ROB KOREMANS: Thank you, Luigi. Now, given this very strong business momentum, and despite the sharp increase in the currency headwinds in the recent

months, it's clear that we will likely end 2023 at the high end of the upgraded guidance rates provided in May. All businesses are performing well, and this combined with the fact that we now also have Avodart and Combodart. It's equally clear that we will exceed the targets set for 2025 that we shared with you in February of this year.

With our current portfolio alone so not factoring any BD or M&A activities that we will continue to do but with the current portfolio alone we're now likely to deliver both revenue in excess of €2.4 billion and also a slightly increased margin compared to what we've been sharing with you in February '25 margins to stay around 37%, and like I said our strategy does remain unchanged.

So in addition to this strong organic growth, we feel well positioned to continue pursuing accretive and growth M&A and BD opportunities and we'll definitely...and we're engaged in this as we speak. We are committed to growing maintaining our margins and very clear capital allocation policy with a very strong balance sheet and equally committed to treating the planet in the right way and having a sustainable development where we're also making very nice progress to-date as recognized by some of the ratios.

So with that, I would like to end our presentation, and basically hand back and open the floor for questions and answers.

## Q&A

OPERATOR: Thank you. This is the Chorus Call conference operator. We will now begin the question and answer session. Anyone who wishes to ask a question may press "\*" and "1" on their touchtone telephone. To remove yourself from the question queue, please press "\*" and "2." Please pick up the receiver when asking questions. Anyone who has a question may "\*" and "1" at this time.

The first question is from Charles Pitman with Barclays. Please go ahead.

CHARLES PITMAN: Hi, thank you very much for taking my questions. Sorry, I just want to kind of go back over the comments with respect to the FY '25 guidance. And I was wondering if you could just help us think about the expected contribution of Avodart and also like the contribution of the 1Q phasing benefit seen this year. Is that just expected to kind of carry on now? Is that still expected to unwind?

And then just maybe secondly, if you could just speak to the level of synergies of and commercial...to the commercial strategy that you've identified between Avodart and your existing urology portfolio as Avodart is now kind of been folded into the Recordati portfolio. Yes, just any further thoughts you can give us around how you further expect to extract value from this acquisition? Thank you.

ROB KOREMANS: So Charles, maybe I'll start. So thank you for the questions, first of all. And maybe I'll start with your question on the guidance out to 2025. Obviously, Q1 phasing benefits have no bearing on the 2025 guidance that was sort of transitional. And in nature, so by definition, they will not affect.

With regards to Avodart and Combodart, as we've set out in the past, our 2025 targets included an assumed contribution from; potential deals that that we may make. So obviously, to an extent, Avodart and Combodart...having done the Avodart and Combodart deal that goes to, if you like, fulfil that part of the assumptions, but I think it's fair to say, I mean, if you look at our performance this year, it's the business is clearly performing better than we have set out at the beginning of 2023. I think if you even just take 2023 as a sort of a point, I mean, yes, we'll be adding €20 million or thereabouts from Avodart and Combodart.

We said at the start of the year, within the 2023 guidance that we're expecting 1% to 2% effects. We now said it's very much in fact to be around 4%, it was already 4.3 in the first 9 months. I mean, that more than offsets the contribution from Avodart and Combodart. So I think while it's fair to say Avodart and Combodart fulfil the expectation that we would continue to be able to deals and we've done that and very proud that we did. I think it's fair to say, and this is also why we wanted to emphasize this, it is our current portfolio, which is really tracking ahead of expectations, both on the specialty primary care side and on the rare disease side. Hopefully that addresses your question.

LUIGI LA CORTE: And maybe Charles on Avodart and Combodart itself, in urology, we have a very clear portfolio strategy with Avodart and Combodart addressing very different patient segments and very different patient needs and indications than, for instance, for Urorec or Eligard. So, and what the revenues from the product where we now...from GSK, the commercialization and distribution, we have, it's about €115 million, we also communicated that we expect to do a mild growth of this and what's really pleasing is to see that we're able to convert this distribution to a sooner than expected by delivering fast and the initial feedback from the market also is very positive.

So I am very happy with this deal. I think it's really a good value generator and fits perfectly and will not go at cost but in fact completely builds on the presence we've build for Urorec and Eligard and fits nicely into the portfolio without any cannibalization or any negative competition.

CHARLES PITMAN: Thank you very much.

OPERATOR: The next question is from Alex Simon with Tikehau Capital. Please go ahead.

ALEX SIMON: Hi, thanks for taking my question and congrats for the results. Would you please provide some more color on how you intentionally approach your refinancing of your 2025? Thank you.

ROB KOREMANS: I am sorry, but I think you've dialed into the wrong conference call. This is the Recordati. We've nothing to do with high yield bond maturing 2025, which I think relates to our majority shareholder. So apologies, that I've no info on that. Can we go to the next question, please?

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

MARTINO DE AMBROGGI: Thank you. Good afternoon, everybody. The first question is on the rare diseases. First, Isturisa plus Signifor, am I right in assuming that this year will beat the €240 million which is the high end of your guidance range, and for EUSA you already stated that is going better than expected. I suppose also €200 million, which is the high end of the guidance range for EUSA is also possible.

And apart from referring to the 2025 guidance, apart from the inclusion of GSK acquisition, am I right in assuming that excluding GSK, what is going better than expected is mainly the rare diseases business also for 2025 expectations or am I wrong. These are the first 2 questions. I have another couple of later.

ROB KOREMANS: Thank you Martino. Maybe just very brief first part and then I will pass to Luigi but I think what's really going better is our entire business, right. We see the momentum in SPC in our specialty primary care where traditionally I think the growth we always looked at something around 3%. We are now much more going into a couple of percent higher, which is really very nice. So we are very confident, and we see the stabilization of the old portfolio and the strategy really working out on driving growth platforms within SPC.

And you are also right to see that our rare disease business is performing better. The oncology, what we set out for the target for all of 2023, €150 million, we already achieved after 9 months, so a great momentum...a very good momentum in Endo and we don't see that end anytime soon. Both businesses really contribute at the moment to good momentum and that is also the basis for adjusting the guidance that we...and it's not a firm in that sense, but I would ask Luigi give some color on that and it's on both our businesses, on the organic and now combining also Avodart, Combodart into it. We are extremely likely to get to the €2.4 billion at least.

LUIGI LA CORTE: Thank you Martino and obviously I echo what Rob just said. You are maybe slightly correct, the high end of the guidance that we provided for this year on the Endo franchise was 250, because we set 220 to 250 and for Onco, it was 185 to 200. I am not going to...I mean, obviously, as you said, the business is doing well. I am not going to dissect this year's higher end revised by business. Obviously, the businesses are doing well. I think I would expect these businesses to be at the higher end of those brackets, but I wouldn't speculate now, you know, where exactly that is going to be just south of the top or just north. But you know, we are very brief, but as Robert said, it is not just rare disease, but it's also the specialty and primary care. We had said we would grow SPC, our constant exchange rate 4% to 5% over the plan years. This year is clearly doing better and we expect to go back to around that growth rate but obviously starting from higher base and having already secured now, I might create a deal which fits very nicely in the portfolio. So again...once again, for us it's a really broad-based over performance versus, you know expectations at the beginning of the year.

MARTINO DE AMBROGGI: Okay, thank you. 2 follow ups. One on Isturisa in China. What is the timing you expect to start marketing activity, and I don't

know if you remind what is the potential contribution of China in this field?

And last question, one of your slide, you said capture opportunities within our pipeline, just to understand what are the most important...was apart from the products we already know and we discussed during the call. But what is not included in your 2025 guidance and maybe it could be added in the best-case scenario.

LUIGI LA CORTE: So on China, we had Carbaglu that is going to be an important door opener on organization in China. We always said we would be expecting first sales in the beginning of next year. We now see it coming at still this year, which is good. And we also share for Carbaglu the peak sales expectations to be something like €15 million to €20 million based on our current knowhow. Isturisa has been submitted in September of this year. Typically, you would expect an approval towards the end of next year with a launch in a couple of months later. So somewhere in the first half of 2025 for sure but maybe even a little bit sooner. And that's always a bit difficult to predict with China. So I would like to be cautious there and not all the promise. And Isturisa is an interesting product we believe that has a potential of about €50 million which we also shared for China.

So the opening of China where we are already present through in the oncology franchise through our partner Beijing [ph], but this for the metabolic and endocrinology franchises where we feel we are very well positioned to do this, and I am on-track and techs [ph] going a little faster than anticipated so we are very happy with that. I hope that answers your questions on China.

MARTINO DE AMBROGGI: Yes.

ROB KOREMANS: And the other question...sorry there wasn't a second question on...

MARTINO DE AMBROGGI: Yes, what is not included among the opportunities within our...your pipeline.

ROB KOREMANS: So if we look at the opportunities that we are addressing in our current pipeline, and we do see opportunities mostly in the Endo and Onco space, but to tackle those it's really label extension and typically this will come beyond 2025. And so, our approach there is very modest step up of activities, really driving furlough [ph] innovation there within low risk but also fairly low investment increasing by about 1% of sales over the 3 year period from 2023 till the end of 2025 our expenditure. But doing this also generates future growth, which also is equally important right. You want to grow today, tomorrow but also in the mid to...midterm and long-term future. And within this portfolio, we see some opportunities. We will share that but may need more data, but I think I would like to stop there and basically stay with this answer so far. Hope it helps.

MARTINO DE AMBROGGI: Thank you, Rob.

OPERATOR: The next question is from Alistair Campbell with RBC. Please go ahead.

ALISTAIR CAMPBELL: Rob, good Afternoon, and thanks for taking the questions, I've got 3 if that's, okay. First of all, Urorec you know, historically you are certainly early in the decade. That was a bit of a headwind with some loss of exclusivity, but actually delivering really impressive growth this year. I wonder, if you can just help me understand what I should be thinking about the trajectory of Urorec going forward? Is that something that should continue to be a very positive growth driver? Or should we think more of a sort of stable franchise from here?

Secondly, just really a modeling question on the PPA adjustment, it was a bit bigger in Q3? I wonder if that's kind of most of the done now



for the year or should we be expecting more in Q4 and indeed more to come in 2024?

And then just finally, just in terms of M&A and what you're thinking about? I mean I suppose I was broadly thinking maybe you'd favor RD over SPC, obviously, SPC is performing very well, the GSK transaction is off to a great start. How you think of balancing M&A opportunities between SPC and RD? Thank you.

ROB KOREMANS: Thanks Alistair. So let me start with your last question. We've always said that both businesses are equally important. And overall our business is really performing. So there's no immediate pressure to do a deal we'll continue to be as disciplines in the capital allocation, as you've always seen Recordati. But having said that, clearly, I mean, I would be very happy if we could really do a rare disease deal with a strong focus on the US. Ultimately, the biggest opportunities for this business will be we have the entire organization and the ability to do something fast and leverage it as best as we can there. So that will be very, very high on our wish list. But it's always difficult to exactly plan what happens when, and we continue to look at opportunities for both businesses with the discipline that I stress.

Maybe on your first question Urorec is doing really well, thanks for the compliment. And I think it shows the model of Recordati that works. If you are able to select molecules, even after loss of exclusivity, there is life in them, and you can really generate profitable growth. And that's what we've seen in Urorec. I would expect, though, that going forward, this is going to be more of a stabilization and that in the entire portfolio. We will see some modest growth more for the Avodart, Combodart now and continue growth also for Eligard., but Urorec specifically I don't expect it to because it will be more stable.

LUIGI LA CORTE: And Alistair, I will comment on your second question. And then thank you, by the way for the opportunity to further clarify. If you look back

to what we sort of published, you know, following the deals, the fair value, uplift, that was done in the acquire bank inventory was to the tune of €140 million, there's €50 million, which...close to €50 million of that which unwound and you will find in the 2022 results, you know, we expect the number for this year to be higher than that we were expecting in line. And honestly, you know, the business has been growing a little bit faster. And also, we've been going through some of the...it's like intermediary stocks that we take, that we acquired a little bit faster than expected. So hence, the true updates are in Q3.

So, you know, I would expect the full year number, I would expect to still see some in Q4, and the residual in 2024. It does depend a little bit on the specifics of, which products get hold of Qarziba and Sylvant inventory. So I'm not able to give you a very precise estimate of what would be Q4, and 2024. But the full number was 140 and that you should subtract from that what's been taken today this year and last and the residual will...part will be done in Q4 and part will be in Q1/Q2 next year. Does that...hopefully that helps.

ALASTAIR CAMPBELL: Yes, super helpful. Thank you.

OPERATOR: The next question is from Niccolo Storer with Kepler. Please go ahead.

NICCOLO STORER: Yes, thank you. Thank you for taking my 3 questions. One is a follow up from the very last one on inventory or at least effect on figures? Did I understand where you said Luigi €140 million over the 3 year period '22, '23, '24 right?

LUIGI LA CORTE: Yes, that's what I would expect. And that's...and that's still very much it is the €140 million is obviously given. That won't change. And it's just the speed with which we go through that inventory that determines how much of it we take in one period or the other. And, you know, it's

been on a positive side that we'll be going through faster than then expected originally.

NICCOLO STORER: Okay, perfect. Thank you. Other questions, so first one on, on gross profit, and gross margin, if I...if I focus specifically on Q3, I see that we have nearly 200 bps less than last year. So if you comment on which items has moved the margin in this direction? And whether we should expect this to clearly continue into following quarters?

And the second one maybe a comment on the metabolic franchise again Q3 performance, double-digit decline, which have been the drivers? Thank you.

LUIGI LA CORTE: I am sorry, on the gross profit margin, look, I think you know, there is a little bit of noise in the number...reported gross profit level from the PPA...from the PPA adjustment, you know, in any single quarter, there'll be a number of factors. In the first half of this year, we benefited from very high volumes, particularly in Q1, with therefore you know, the absorption of the fixed cost base on the manufacturing side. And some of that has unwound in Q3 combined with and always said, you know, we would at some point, see a little bit of the effect of inflation, which I always said does take a little bit of time to come through. We're not going to give sort of detail P&L guidance for Q4. But no, I wouldn't...I wouldn't expect...I wouldn't take Q3 as a sort of proxy for next year.

ROB KOREMANS: And Niccolo on your question on metabolic. We're very pleased and happy with the growth of both Panhematin that is really almost found the second use again. And it's really growing quite nicely. And we're super happy with that. And also Ledaga is growing quite nicely versus last year.

On Carbaglu, we see generic impact, mostly on impacting the prices that we have 2 generics in the US market. We had anticipated even a

bigger impact to be to be careful. We maintain our patients actually are able to capture also new patients and there's a huge loyalty of both doctors patients and families to the product. But, clearly with the generics on the market, we sell at lower prices and that's what you're seeing. And that's not US that's also...it's not just US, that's also happening in Europe.

But then we also said like Carbaglu in a couple of weeks we'll see the first sales in China coming and with products like this, and I have seen that in the past as well, in the so-called emerging markets you still have opportunities years later and that's what we are seeing here. So, for these products we continue to be positive. So, metabolic for us remains an important pillar of the business, clearly not the growth driver per se if you all combine everything in metabolic. And the growth drivers are Endo and Onco, but meta is a very nice business.

And there is many products, another example, for instance, we...that...we have Juxtapid in Japan. It's also doing quite nicely. So, wherever we focus on these ultra-rare products, oftentimes for ultra-rare diseases, but we can really make an impact and we continue to benefit from it also after...long after loss of exclusivity. Does it help?

NICCOLO STORER: Thank you, perfect.

OPERATOR: The next question is from Isacco Brambilla with Mediobanca. Please go ahead.

ISACCO BRAMBILLA: Hi, good afternoon everybody. Just one question from my side all others have already been answered. Focusing on the specialty and primary care segment, if we look at this year's excluding Türkiye, looks like the 4 months over the third quarter was broadly flattish year-over-year. Just wondering if you can provide us a bit more color on drivers of this performance if there is anything hinting at the structural slowdown or is it just normalization of extraordinary stockings in the

first quarter and normalization of cough and cold products since in the first part of the year?

**LUIGI LA CORTE:** Hi, Isacco thank you. No, I mean SPC was really down to the FX impact. I think if you were to back out the impact of FX on SPC in the quarter, it would still be just above 10% gross. Don't forget and you know from my perspective that's actually quite impressive given that Q3 starts comparing against a quarter last year where we did start to see the cough and cold business already starting to recover post-pandemic and was slightly ahead of pre-pandemic levels, already last year. So, no, not at all the businesses performed well into Q3 with, you know, adjusting for FX and underlying growth above 10% in the quarter.

**OPERATOR:** As a reminder, if you wish to register for a question, please press "\*" and "1" on your telephone. For any further questions, please press "\*" and "1" on your telephone.

The next question is a follow-up from Isacco Brambilla with Mediobanca. Please go ahead.

**ISACCO BRAMBILLA:** Hi, sorry. Just one quick follow-up from my side on full year '25 targets. Any additional color on say your commentary this is based on current perimeter fair to assume you're still committed to consider M&A opportunities over the coming years also with Also, with Avodart-Combodart integration proceeding at pace. Maybe this is more a question for Rob. Do you see the structure ready already now to potentially show M&A in the coming months?

**ROB KOREMANS:** Okay. Thank you Isacco. Thank you for the questions and the opportunity to clarify, and I was very committed to M&A BD partnering and we are absolutely ready to take on the next opportunity. We are actively pursuing some, and it's always been an important part for Recordati and it will continue to be an important part for Recordati.

But you're right, even without this, we are very well-positioned because the business is just doing quarter-after-quarter very well. We are very well-positioned to now exceed the guidance that we gave for '25 and get exceeded [ph] €2.4 billion in revenues, but absolutely committed to doing the right deals, but also equally committed to making sure that from a deployment of capital point of view, the return of the capital should be really effective and it's not just doing deals for the sake of growing, but it's really generating long-term profitable growth in areas where we can make a meaningful contribution to patients and rare disease, very often able to address unmet needs and especially really making meaningful contributions to the quality of life for big diseases like hypertension or prostatic hypertrophy or so we commit to that and we'll continue to commit.

ISACCO BRAMBILLA: Many thanks.

OPERATOR: The next question is from Laura Homsy with MFS. Please go ahead.

LAURA HOMSY: Hi, there. Thanks for taking my questions and apologies if you had mentioned this, but just regarding M&A, what's your financial policy in terms of leverage? Like what's sort of the maximum you would be comfortable reaching for the right opportunity?

LUIGI LA CORTE: Yes. So, thank you for the question. There is no change to what we sort of said when we got to the plan on that. We said the key to resolve our strategy and value proposition remain unchanged. We had the plan in 2025 for sole leverage between 1.7 to 2 times, but we did say and that we have said this at least since the last 5, 6 years that we do feel the business thanks to the strong cash flow performance, we could have the flexibility growth up to close to 3 times. If really a right opportunity of scale came up requested that, and you know, you're seeing biggest deal we did today at EUSA, immediately after the deal, we went to 2.5 times and then very quickly we were down to below 1.5. Now, we have done GSK where we are 1.9, and if ever we did do

something which takes us up to close to those levels, we clearly do it with an intent to then deleverage fairly quickly. So, our commitment to keeping a solid and healthy balance sheet is as strong as the commitment to our continued driving organic growth and enhancing that with BD and M&A.

I hope that helps answer your question, thanks.

LAURA HOMSY: Thank you. Very helpful.

LUIGI LA CORTE: I think Operator we don't have time...

ROB KOREMANS: Operator we probably have time for one more question.

OPERATOR: Alright. So, the last question is from a Paul Conlon with Amundi Asset Management. Please go ahead.

PAUL CONLON: Hello, thanks for taking my question. Just one question actually. Do you have any intent to get back into the bond market in the mid...short to mid-term future as against say working with term loans?

LUIGI LA CORTE: We've not been, that I'm aware, in the bond market, at least not sort of private bond. We've done a couple of private placements in the past. So, again, right now we're very happy with the conditions we get from our relationship banks. So, no near term need or desire to look at other financing options, but these are the kind of things you evaluate over time based on market conditions.

PAUL CONLON: Okay. Thank you very much.

ROB KOREMANS: Thank you Paul for that last question and thank you, ladies and gentlemen for having joined us today. I mean, we were pleased to report yet another strong quarter for Recordati which now sets us really well for exceeding not only the '23 initial guidance and we are now

going to end really at the top-end of our May guidance, but also improve both the margin and the revenue expectations for '25. The business is doing extremely well and we will keep you updated of any relevant...these elements as we have always done and thank you for having joined today.