



OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome, and thank you for joining the Recordati Full Year 2023 Preliminary 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. Eugenia Litz, Head of Investor Relations of Recordati. Please go ahead, madam.

EUGENIA LITZ: Thank you, Sabrina, and good afternoon, everyone. I'm pleased to be here today with Rob Koremans, our CEO and Luigi La Corte, our CFO, who together will present the full year 2023 results. Also joining for the Q&A session will be Alberto Martinez, Executive Vice President of Specialty and Primary Care and Scott Pescatore, Executive Vice President of Rare Diseases. As always, the presentation is available in the investor section of our website.

It is now my pleasure to pass the call over to Rob. Please go ahead.

ROB KOREMANS: Good afternoon, and thank you for joining us today. Before moving on, please let me give a warm welcome to Eugenia Litz, our new Head of Investor Relations, who recently joined the group.

Let's start with the full year of 2023 preliminary results. We're very pleased to share our strong performance across the business, starting with the group net revenue at €2,082.3 million, up 12.4% versus previous year, or 14% on a like-for-like at constant exchange rate. This reflects strong double-digit growth across both specialty and primary care, which was up

13.6% like-for-like at a constant exchange rate, and rare disease, which was up 14.9% like-for-like at a constant exchange. Luigi will review this in more detail a bit later on in the presentation.

This robust growth was achieved despite increased FX headwinds over the recent months, with an adverse impact of minus 5.4% for the full year, mainly affecting our SPC business. The FX impact was mainly driven by Turkey, which was also offset by higher price inflation there.

We have continued to sustain sector-leading margins with EBITDA at 37% for the full year, reflecting revenue growth and our efficiency initiatives. Adjusted net income was €524.6 million, up 10.8% versus previous year, and above the top end of our guidance range, driven by strong operating performance and a lower than expected tax rate for the year. We've ended the year with free cash flow of €456 million, a €17 million increase versus previous year, and with a leverage at 1.96 times EBITDA.

Our key targeted R&D projects are progressing according to plan, with key updates expected in 2024. And with the strong momentum driving the business and excellent execution across the group, we are well-positioned to continue delivering profitable growth into 2024 and beyond.

Before Luigi gets into details of the full year results, I'd like to highlight our strong and consistent financial results over the last decade. The successful execution of our strategy has resulted in high single-digit growth over the last 10 years, consistently achieving or slightly exceeding objectives. And once again in 2023, we delivered results above guidance provided at the beginning of last year. This growth combined with high margins and cash generation has yielded significant return on capital with an average of 15% to 20% over the last decade.

We are all extremely proud of this and our ability to create outstanding value for all our stakeholders. We expect this strong performance to continue.

Let me now hand over to Luigi to take us through more detail in the performance in 2023.

LUIGI LA CORTE: Thank you, Rob. And good afternoon or good morning, everyone. I'm delighted to once again have an opportunity to comment on...you know, as Rob has described, what was really an outstanding set of results for 2023, where you know, as a business, we managed to grow strong revenue across both business units, sustain margins, and continue to build for the future with the deal we did with GSK and the progression of our pipeline projects.

Let me start, first of all, as usual, from revenue and specialty primary care specifically, which as you will have seen from our presentation, under Alberto's leadership has continued to achieve growth rates, which are ahead of the relevant markets. And as you will see from Slide 5, really exciting to see all of our therapeutic areas growing nicely, including our foundational cardiovascular TA, which grew primarily thanks to good growth of Lercanidipine, not just in our international markets, but actually grew also in most of our...the markets where we sell directly. They also saw accelerating growth of Reselip and resilience of some of our more mature products in cardiovascular.

Just over 23% growth of urology clearly, also includes the initial revenue from Avodart and Combodart. And once again, underline the key strength of the group in transitioning effectively and smoothly new products into the portfolio. Avodart, Combodart contributed €25.6 million in the later

part of the year. And we estimate that based on GSK's input, the sales of those 2 products in our relevant territories in 2023 were around €120 million.

In urology, we continue to see Eligard gain market share and pleased to say the new device has now been introduced in most of the main markets. And we also saw silodosin returning to growth.

GI portfolio continue to deliver a solid high single-digit growth for the year, close to 8%, very broad base across both our Rx and OTC portfolio, call out Procto-Glyvenol, our BioGaia based products, and the Casen portfolio.

Cough & Cold that you recall, we commented quite a bit at the beginning of the year, also recorded a strong year where we gained market share, benefiting also from a strong season ended the year, 9%...9.3% above 2022. And with sales above pre-pandemic levels, absorbing quite some significant headwinds in terms of FX, particularly in the second part of the year.

And finally, as called out also at the 9 months, within our other products, you know, we've got some really nice performances in products like Magnesio Supremo, [indiscernible] and many of our local products, particularly in Turkey, you know, on part offset by reference pricing and the exit of tenders from Ortoton in particular in Germany.

So all-in-all, a very strong year for specialty primary care, thanks to renewed focus on commercial excellence and outstanding really considering these results were achieved whilst also streamlining the organization across many of our markets.

But as you will see from Slide 6, rare disease performance for 2023 was just as strong under Scott's leadership with really strong momentum in both our really key franchises, onco and endocrinology, with metabolic sales remaining resilient. Number of great milestones achieved during the year, oncology, which was in its first full year after the acquisition, you see achieved revenue of just over €200 million, which is clearly ahead of the expectations that we set when we announced the acquisition of EUSA Pharma. And that's really thanks to higher than expected sales of both Qarziba and Sylvant. And both of those really showing significant opportunities for continued growth in the future.

Great performance, obviously also of the endo portfolio with both Signifor and Isturisa achieving over \$100 million of revenue in the year. Isturisa actually around \$140 million, both products, very much on track to deliver on the midterm and longer-term objectives that we set. And obviously, excited that we've also...now in '23 filed for Isturisa approval in China and expect to also file in this...in 2024 for Signifor.

Metabolic as commented already over the course of 2023, continue to remain quite resilient. We did see good growth of Panhematin, Ledaga, which part offset the...what continues to be a very gradual erosion of Carbaglu in US and across some of the European markets. And obviously, very happy, we've now had the first commercial sales of Carbaglu in China at the end of '23. And we expect, obviously, to continue penetrating that market in '24.

And finally in rare disease, obviously, excited that we continue to see good progress in our development programs. And we do expect a news flow on that side over the course of 2024, particularly around midyear, with further interactions planned over the next months with the FDA, following feedback they provided at the Type C meeting we had in

November for Dinutuximab beta in Neuroblastoma. We do expect also to engage with the FDA around the regulatory pathway for the extension of the Isturisa label in the US over the course of the next months, and expect a readout from REC 0559, where we have completed enrollment around middle of the year.

So again, also for rare disease and throughout the business. Really solid performance across the portfolio, which you will see on Slide 7 you know, is very much the same also, if looking at the business from a geography lens.

All regions showing really strong growth in 2023. The picture is very much unchanged since we looked at it at the end of September. US has become, as expected, our #1 business in '23 with revenue of €316 million. But nice to see that's not, you know, Italy also growing nicely, 13.6%. Obviously, on the back also of the start of activities on Avodart and Combodart and also with broad-based growth on many of our key products, both on the Rx side and OTC.

The addition of Avodart and Combodart clearly also behind the acceleration of growth in Spain. We did see in the later part of the year, you know, growth rates in euro terms come down in Russia and other CIS countries in Ukraine, but remaining solid, above 20% in local currency.

And finally, you will have seen that throughout the presentation, we do comment on constant exchange rate growth, both including and excluding Turkey, because of the very high devaluation and price inflation, which distorts a little bit the figures. But once again, and also in the case of Turkey, very, very solid underlying performance with...in euro terms, 31% growth and double-digit volume growth in the year. So really strong

performance throughout the business, both in terms of therapeutic areas and geographies.

Turning to the P&L, obviously, very proud that we once again were able to deliver in line with expectations. Expectations that, of course, you recall, we upgraded during the course of 2023, delivering double-digit operating and the bottom line profits for the year. It was still clearly not the easiest of financial environment. Particularly pleased of the great work, which we did to mitigate the impact of inflation. Particularly in the first part of the year with gross margins...adjusted gross profit margin remaining strong, just over 71% of revenue, with the slight decline in the later part of the year, mostly due to the integration of Avodart and Combodart, where we share the economics with GSK through the supply price as announced at the time of the deal.

But the slight reduction in adjusted gross profit margin versus '22 was more than offset by the synergies and operating leverage that we see at the level of SG&A at 28.9% of revenue, which also more than offset the increase as planned in R&D expenses to 12.3% of revenue. R&D expenses, excluding amortization, still remaining below 7% on a cash basis. And again, very much in line with the guidance that we gave when we set out the plan in early 2023.

Happy to see, obviously, other expenses just under \$8 million, significantly reduced versus '22 levels. These being mostly nonrecurring cost related to residual integration costs of EUSA, and also the continued streamlining of operations in the specialty primary care business.

With these results, we delivered a very strong operating profit as said, with EBITDA just under €770 million, 37% EBITDA margin as noted by Rob, 14.4% growth versus 2022. And adjusted net income closed just above



the top end of the guidance range that we provided at \$524.6 million, thanks to both the strong operating performance and a slightly lower tax rate than expected. And I will not just in closing on the P&L. Thanks to the operating results and the lower nonrecurring cost, reported net income up 24.6% versus 2022.

As always, turning those profits into cash flow has always been a trademark of Recordati. I am pleased to see on Slide 9 that '23 was also very much a year of strong cash flow generation with free cash flow of €456 million, above '22 levels with the strong growth of EBITDA, in part offset by increase in working capital and higher interest payments, and now, of course, the increase in working capital, very much driven by the increased volume of business. We did see actually inventory days come down in 2023, debtor days is slightly increasing. We do feel this is in current times, a very strong performance. We'll look to tighten the screws further on the working capital in 2024.

But delighted to see that with this free cash flow generation and you know, despite investing €350 million in intangibles being mostly the upfront payment to GSK and residual milestones to Tolmar and Novartis, and paying dividends close to €246 million.

As you would see on Slide 10, we ended the year with once again, a very solid balance sheet with net debt of \$1,580 million roughly being just under 2 times trailing 12 months EBITDA, once considering a full-year benefit from the Avodart and Combodart products. So, we're ending 2023 with a very strong momentum, a very solid balance sheet and obviously, well positioned to continue on our journey of profitable growth.

And with that, I will turn back to Rob to talk about targets for '24.

ROB KOREMANS: Thank you, Luigi. So, turning to our '24 Guidance. We are very pleased to announce our expectations for continued growth across all key metrics. Targeting double-digit growth in revenue and EBITDA. Specifically, we expect revenue between €2,260 million and €2,320 million, reflecting mid-single-digit growth of SPC at constant exchange rate and double-digit growth of rare disease at constant exchange rate and both of them organically.

EBITDA between €830 million and €860 million, confirming sector-leading margins at around 37% and an adjusted net income between €550 million and €570 million or at 24.5% of net revenues. And with our continued strong momentum and solid execution across the business, we are extremely confident in our ability to achieve these targets for '24. We'll most gladly provide more color on this during the Q&A.

But let me turn to the last slide of the presentation to just capture the fact that our overall value proposition has been quite constant in the recent years and will remain the same. We continue to drive organic growth of the business and complementing it with BD and M&A. We will sustain our sector-leading margins.

With the current portfolio being forecasted to deliver over €2.4 billion of revenues by '25, excluding any additional BD transactions, thanks to continued growth of both SPC and Rare Disease. We have a very strong momentum behind the business with many opportunities ahead.

Our solid track record speaks to the fact that we've been able to consistently deliver, and we expect to continue to be able to do so in the future, enhancing our value going forward.

This ends our presentation. Thank you, everyone, and the team is ready to take your questions.

## Q&A

OPERATOR: 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 press "\*" and "1" at this time.

The first question is from Brian Balchin of Jefferies. Please go ahead.

BRIAN BALCHIN: Hi, thanks for taking my questions. I've got 3. The first is on debt refinancing considerations. Just hoping you can share plans for the debt expiring in 2024. Are you going to retire or refinance and just thoughts on shifting towards more fixed versus floating?

Second is your sales guide for GSK products. It looks to be €150 million for 2024 despite sales of €120 million for full year '23. So, can you just help us understand the moving parts there, please?

And then just third, on Qarziba. What was the feedback from the Type C meeting in November? And I guess, what's the path forward from here? Cheers.

ROB KOREMANS: Thanks, Brian. Let me start with the last question. So we had a very good and constructive meeting with the FDA in November Type C. The FDA fully recognizes the unmet need. There was a very good dialogue. They also asked for some further analysis they will submit in the first half of

this year. And this will give a slight delay of 2 months to 3 months for a submission. But that does not change the value of Qarziba in the US at all. And so, we remain confident, and we've seen that the FDA actually also strongly recognizes the fact that there is an unmet need. And we'll keep you updated on the further developments.

Luigi, do you want to take the first question of Brian?

**LUIGI LA CORTE:** Yes. Hi, Brian, I guess from...at the Recordati level, you know, frankly, the debts maturing...loans maturing in 2024 is really a non-event in the sense that you know, we will part...repay those through cash flow apart. We're actually in the process already of finalizing a couple of bilateral loans with banks to replace them. I think you may be referring to perhaps refinancing needs of a majority shareholder, Rossini. All I know is, I think they've stated, they will look to refinance those over the course of 2024, but I don't really have any more insights on that process, to be honest. So hopefully, that addresses the part of the question that relates to Recordati.

**ROB KOREMANS:** Maybe...

**COMPANY REPRESENTATIVE:** Thank you for the question, Brian, on the GSK products. I can confirm that the expectation for 2024 of €150 million is actually in line or above the initial expectation that we had for these 2 products in 2024. The driver of the deviation is mainly a decision that GSK took back last year to exit unprofitable tenders. And that's a decision that we have also taken for our own products. So, it's somehow providing around €10 million impact in 2024 versus 2023. But that is partly offset with the growth that we are not only sustaining but now also adding in Spain and in Italy. So, as I said, it's consistent with what we expected. And in the case of Germany, it's more of a one-off effect, and we will expect moving forward to

continue to see the growth in the 2 main markets, Italy and Spain, and driving the growth from €150 million onwards in the following years.

OPERATOR: The next question is from James Gordon of JP Morgan. Please go ahead.

JAMES GORDON: Hello. James Gordon, JPMorgan. Thanks for taking the questions. 2 questions, please. The first one was about the on-market assets, in particular, the Endo franchise, which has been a key growth driver for the rare disease business so Isturisa and Signifor. And I know there were some newer branded drugs potentially coming to market and also generics or some older drugs. And the drugs, they don't work the same way and don't all treat exactly the same symptoms, but things like Gi2 [ph] antagonists and steroidogenesis inhibitors. So my question is, how durable do you think the strong growth in the Endo franchise is going to be? Is there a lot more market expansion still to happen? What's your penetration looking like? And do we need to keep an eye on any of those competitors? Or are they not really directly competing with you? So that's the first question, please.

Second question was on guidance. And so, the 2025 guidance is at least €2.4 billion of revenues. But if we take the midpoint of this year's guidance, that's about 5% revenue growth, if you adjust the €2.4 billion. So is there anything for next year that could cause a bit of a slowdown versus the growth this year and the last year...9% last year, by 10% this year or is it that, that guidance just hasn't been updated yet, but you might update that at some point in this. So when might you do that?

LUIGI LA CORTE: Hi, James, it's Luigi. Let me take the second one and just to clarify. The updated guidance or steer that we gave in November for 2025 was revenue from current portfolio above €2.4 billion. Now, we didn't really sort of specify you know, more in detail than that. So, I don't know what number

above €2.4 billion you're picking to work out that growth rate. We provide usually an update in terms of midterm plans every other year. So the normal cadence would be some point in the first part of 2025. Obviously, we have also a lot of things, as we said, reading out over the course of this year. So expectations should be that we would keep to that same guidance in terms of further updates. Now, of course, the situation changes and warrants further update, we'll provide it. But again, our guidance for 2025 was revenue above €2.4 billion from the current portfolio. So yes, hopefully, that addresses your question. Scott.

SCOTT PESCATORE: Thanks, Luigi. Thank you, James, for the question. This is Scott Pescatore. I'm happy to tell you a little bit more about the growth of the Endocrinology franchise, both in the Europe and in the US. As you've seen over the last year since we launched the franchise in the US and in Europe, we've seen significant growth across all markets in all regions. And as you see from the slides, we grew the franchise at 41% versus last year...versus 2022 and 2023. And we anticipate continuing that strong growth in '24 and beyond. We have a very, very strong customer base, both in US and in Europe. We are anticipating to grow that customer base, getting new patients from existing customers and new customers as well and new patients from those customers, and then continuing our geographic expansion with our continued rollout into markets like in Latin America and of course in China. So we anticipate seeing both Isturisa and Signifor significantly growing without too much of an issue that we have seen...like we have seen in the past.

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

MARTINO DE AMBROGGI: Thank you. Good afternoon, everybody. My first question is on...follow up on Isturisa...Isturisa in the franchise as you prefer.

Specifically, on Isturisa, trying to translate into figures what you commented in your last answer, you achieved €242 million, which is the high end of the guidance range you provided for 2023. May I ask you what is reasonable range for 2024, and as you provided 300, 340 as a range for '25 probably we are high end if not above that range? This is my first question.

The second one is similar but on oncology, because in this case, you are above the previous guidance range. So the same question is repeated also for oncology so probably, the 250 high end of the ranges can be even more looking at the growth path. And a follow-up later.

LUIGI LA CORTE: Hi Martino. It's Luigi. So I think, and I am taking the question because I think I may have answered to maybe with others on this before. We actually I think already signaled in November that when we upgraded the guidance or actually, give an updated steer for 2025 that it's likely that those franchises are going to be at high end of those ranges that we provided, right. As you rightly point out, the momentum is very strong. We are certainly on track and in fact on track to be at the high end of those ranges that we provided for 2025. We didn't provide detailed, and I don't think we ever do really for on a product-by-product basis for 2024. So I am afraid that we are not going to give a lot more on those that we have given, but I can only reiterate what Scott has said, which is you know, we are very confident on the strength of the portfolio and ability for rare disease that you continue growing a double-digit over the next years, both for Endo and for oncology. Hopefully, that addresses your question of by not fully for 2024.

MARTINO DE AMBROGGI: Yes, so I understand. The second part of my question is on the growth for 2024 in terms of sales, because if you consider GSK portfolio consolidation in rare diseases growth, basically the SPC implicit growth is

probably 1% or maybe 2%, which is lower than the usual growth. So I was wondering if it is just a matter of FOREX or is there any consideration on prices and overall for the portfolio.

LUIGI LA CORTE: No, you are exactly right Martino, it is the FOREX. You know, most of the FOREX pressure that we expect...as was the case this year, we expect to impact on SPC and that's why actually we called it out to help on the modeling. We do expect SPC to grow mid-single-digit across an exchange rate. Obviously, 2023, we said it many times, was a very strong year. Of course, that mid-single-digit is organic and then you have obviously the additional contribution of Avodart and Combodart on top of that.

MARTINO DE AMBROGGI: Okay. And very last on the EBITDA margin, because if you grow more in rare diseases rather than SPC, there is a positive mix effect. So what are the missing pieces justifying a stable EBITDA margin?

LUIGI LA CORTE: We are very proud of our 37% EBITDA margin. But I think yes, so organically, the business is, you know, rare disease will grow at a higher rate, but on SPC, we have the addition of the full year of Avodart and Combodart. So actually, if you work out the numbers, you know, yes, we will end up the year with higher share of rare disease but not by March, right, because you have got that additional component on SPC. We will have, as you may have seen on the slides, we do expect the benefit obviously of the operating leverage. We are continuing to drive efficiencies. We always look for efficiencies in the portfolio. On the other hand, you know, we are going to invest a little bit more in R&D in line with the plan that we had set out. And also a little bit...we do have a number of programs too on the system side but you know, we feel very comforting around maintaining the margins at current strong levels.



MARTINO DE AMBROGGI: Thank you Luigi.

OPERATOR: The next question is from Charles Pitman of Barclays. Please go ahead.

CHARLES PITMAN: Hi, thank you very much for taking my questions. Charles Pitman from Barclays. Just maybe starting with the tax, I was wondering if you could just give us little bit more detail on how come you ended up reporting lower than expected tax rate in FY '23. I think if you could dive a little bit more into the expected impact of the OECD tax performance you were talking about in your press release this morning, and how you expect this to filter out for 2024-2025.

And then maybe just second question on SG&A and cost. So given your kind of continued growth and expansion into the US, kind of, how should we think about SG&A given the expected increased cost and, you know, necessary marketing that goes with increasing your exposure in this region. And you know, to what extent does your effort's within digital can play a role in these efforts? Thanks so much.

ROB KOREMANS: Thanks Charles. This is Rob. Let me take the second question. Our footprint in the US is actually what we need, so we are not going to expand the footprint. We are not going to up our expenditure. We will see actually improved performance probably in the US because with that same team, we do expect to sell more than we sold in 2023, right. So I don't...and we are very...I think long before anyone in this room joined Recordati, Recordati was already very, very cost conscious and we continue to be that. So I don't expect any negative impact at all on SG&A. If anything we continue to do to benefit from the right sizing and the commercial leverage and the impact we are making in the market.

And for the tax question, let me hand over Luigi.

LUIGI LA CORTE: Hi Charles. On the tax side, yes, we had I don't know...obviously, within the European Union in particular, you know, as a result of the pandemic, there were a number of programs to incentivize investments. We have taken those opportunities that we thought were appropriate, so we had a little bit more benefit on that side, a little bit higher benefit from patent box in Italy. It also had a one-off benefit which we did adjust...in adjusted net income in Turkey where hyperinflation affects became rather than from tax purposes for the first time this year. So there were a number of things which help push down the tax rate when we rolled up the final numbers at the end of 2023. For 2024, our statutory tax rates are increasing. As you know, there is this OXE [ph] guidance to at least achieve 15% tax rate in various jurisdictions. We estimate, you know, that will push our average tax rate closer to 23% for 2024. And that's consistent with the guidance that we have given for adjusting net income for the year. Hopefully that addresses your question, Charles.

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

NICCOLO STORER: Thank you. Good afternoon, everyone. I have a couple of questions. The first one is on your margin guidance for 2024, specifically on your gross margin. If you can comment on whether you see further erosion on an adjusted basis going forward or not?

The second one is on your revenues growth guidance, in particular SPC. You say you see mid-single-digit organic growth at constant exchange rates? At the same time you said, that you see FOREX headwinds, I was wondering if your mid-single-digit organic growth guidance is already including also some price adjustments in Turkey, which clearly have supported 2023 figures or not?

Then if you can maybe elaborate...last question, can elaborate a little bit more on digital spend, you mentioned as a reason, which contributes to keep margin at 37% in 2024 you expect to envisage? Thank you.

ROB KOREMANS: Hi, Niccolo. This is Rob. On the digital, I think like many companies, we're experimenting a little bit with improving our impact on customers or improving our efficiency using generative AI in things like medical writing or supply chain that will come with some of these use cases and some spend to that. That's not anything earth-shocking and if anything it should improve our performance further. So my bet will be that many of the more alert [ph] pharma companies are doing this at the moment because of the opportunities that are there and we have done it already in '23, and will continue to drive this omni-channel and you know, also embedding more and more where possible and where beneficial, also some of the artificial generative AI...initiatives. But there isn't any super substantial spent all of a sudden on digital.

Let me pass to Luigi for the questions on gross margin and maybe also on the SPC. I think that's an easy straightforward.

LUIGI LA CORTE: Yes, and I probably, Rob, if you don't mind, I'll just add on the digital side. I guess, that's digital/systems and simply just one thing I'm quite proud of. Your call in February '23 had announced that we're going live with the new SAP system. In Italy, it's now gone live in 4 other markets in Europe with zero disruption to the business. And in fact, with the business really rallying around implementations, I'm very happy with that.

On the gross margin, we're not going to go as we've never done exact line-by-line guidance for the P&L. I will say, we do expect the...I talked about Avodart and Combodart having, you know, slight dilutive impact at the

level of gross margin, but then obviously positive impact in terms of operating leverage on SG&A will continue to see some of that. But you already saw that in a way in the Q4 gross margin of 2023.

And the revenue growth for SPC. Yes, of course, that includes Turkey as well. But you may be aware, Niccolo, the Turkish authorities are actually putting in place but some programs to reduce inflation, stabilize the Turkish lira. So at this stage, we're not expecting to see various as significant price increases in '24 as we saw in '23. Should that be different? I mean, what we have seen today is you know, that price inflation been offset by devaluation. So you know, as it stands you know the...yes Turkey is included in that guidance for SPC. And the level of devaluation is included in that sort of average of between 2% or 3% adverse effects for the group. Hopefully that makes sense.

NICCOLO STORER: Great. Thank you. Thank you both.

OPERATOR: The next question is from Alistair Campbell of Royal Bank of Canada. Please go ahead.

ALISTAIR CAMPBELL: Hi afternoon, thanks for taking my question. I was actually just thinking about the 559 data readout mid-year I'm just going to quickly with your trial, I mean, obviously its looks like a 100 patient trial. And actually looks not too similar in size to the trials they've got Oxervate approval in the US, and also actually similar endpoints. It strikes me that the data actually could give a very deep insight into whether this is a real product or not. So, with that in mind assuming we get good data. So there's 3 questions really, first of all what extra work do you think you need to do then to progress to market?

ROB KOREMANS: Sorry Alistair, could you increase the voice a little bit. We can hardly hear you, it's very faint. So you're asking about REC 0559, but we're not sure what to the question specifically is sorry.

ALISTAIR CAMPBELL: Yes, it's just that you know, similar we get good data mid-year. We're trying to understand really what further work do you think you have to do to get the product to market. Also in terms of ideally how would you like to differentiate the product is that going to be on, efficacy or convenience?

And then just finally you know given what you're seeing in the market, can you maybe remind me you know, what sort of market opportunities you see for this one? Thank you.

ROB KOREMANS: Hi Alistair. Let me just give first answer and I also hand over to Scott. I mean obviously we're...we've completed enrollment in Phase 2. Last patient's not completely finished. We expect data mid-year. Phase 2 data is always a bit speculative. So to start to announce all sorts of differentiation on the basis of this, I think we have to be very careful. But what we do see and know from Oxervate that it's very cumbersome in the administration and really leading to problems for patients and fairly painful in the use. And so far, we've not observed any of that in REC 0559. Of course, it will go through...depending on the outcome of the data, if they are positive, we'll go into Phase 3 program for REC 0559. And we have good hope for this product, but I've learned to be very cautious with products still in Phase 2. And I think it's' right to do that here, Scott, anything new?

SCOTT PESCATORE: No, no, thanks. Thanks, Rob. Thanks for the question, Alistair, because this is obviously a key trial for us, a key development program. And as Rob mentioned, I mean, we're very pleased that the Phase 2 completed enrollment, and looking forward to the next phase...the next phase, and

looking at the data and then moving into Phase 3, and bringing this to market as quickly as possible, because we do anticipate there be benefits versus Oxervate. And there certainly is a place in the market for REC 0559, and it's our objective to push this forward as quickly as we possibly can to get this to patients.

ROB KOREMANS: And maybe one part of the question. We have flagged that this is a above €100 million opportunity, which compared to the Oxervate revenues, as I'm sure you're aware, is fairly modest, right? But frankly, before we haven't seen the Phase 2 data, I'm a bit reluctant to make any other projections on the opportunity there?

ALISTAIR CAMPBELL: That's it. Thank you.

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

ISACCO BRAMBILLA: Hi, good afternoon everybody. A couple of questions from my side. First one is on the very short term outlook. A reason for asking is that in the first quarter you will face an extremely tough comparison base. So, could be helpful to understand if your guidance is assuming a positive like-for-like performance in the first quarter of this year.

Second question is actually on M&A or say cash redeployment strategy. In November, you were quite vocal in indicating recognition to continue your consolidation campaign. Could we just clearly understand, how things are moving and if this commitment is renewed for 2024?

ROB KOREMANS: Hi, Isacco, thanks. On the M&A, we continue to be really focused on this and I see good progress, but I have learned not to shout hurray before the ink isn't really dry and then we'll share it immediately with you of course,

but what I can say is that the...our pipeline of opportunities is definitely not smaller than any time before and we are very committed to continue to pursue that. What we always said is both businesses are equally important, but with the most recent deal on the SPC side, we would be delighted to announce something on the rare disease side. But we'll continue to explore opportunities everywhere because it's very difficult to really time those things. And we'll continue also to be as disciplined as Recordati has been in the past.

On the first quarter expectations, I think it's probably good if Luigi commend or maybe Alberto, but yes last year's first quarter was very good...extremely good. To be equally good this year would be a good achievement, but let me pass to Luigi or Alberto to maybe comment a bit more.

LUIGI LA CORTE: No, I think you have said it Rob and you are absolutely stark right, Isacco. I mean last year Q1 we said it last year was high. Let's see I mean there's a lot of coughing and wheezing in Europe at the moment. So, in terms of incidents of flu, it looks robust, but let's see, I mean last year Q1 was high. Of course, last year Q1 we didn't have Avodart, Combodart, so we'll see the growth from that. We're going in the year with strong momentum, but of course yes, regarding growth for Q1, we'll compare to a strong Q1 2023.

ISACCO BRAMBILLA: Okay, clear. Thanks Bob.

OPERATOR: Mr. Koremans, that was the last question. Sorry I have just one registered from a Bruno Permutti of Intesa Sanpaolo. Please go ahead.

BRUNO PERMUTTI: Hi, good afternoon and thanks for taking my question. I would like to know if you have some milestone payments that are expected during 2024,

and again on R&D, if the 13% on sales could be a good estimate by 2025. And lastly on the...particularly on the rare disease business, do you see any possible change in the US market related to the next election, so any potential impact or nothing should change?

ROB KOREMANS: Thanks for your questions, Bruno. So, maybe to start with the US, it's difficult to speculate, but what we do need...no, and that's I think absolutely what is key for Recordati. You focus on products with a very strong unmet medical need, where you bring there really good value to patients. I would argue that with...and those patients really depend on the products for their quality of life or sometimes even fact that they are still alive. So, it's for me would be unexpected and unlikely that a new government would all of a sudden change these policies, right? Also the existing government has already done something for instance the IRA to help and maybe mitigate strong price increases into the future and that's how we have planned. We have really planned for '24 also to not exceed inflation without price increases. I don't see that this is going to...any new government is going to make a dramatic, but yes I am not a political specialist and we don't have crystal balls that are any better than you, but this is how I would expect things to happen there. The other question...

BRUNO PERMUTTI: On your R&D?

LUIGI LA CORTE: So, yes hi, Bruno. So, this is Luigi. On the milestones, no we are not really expecting...I think we paid now the main sort of milestones that we had on deals which were already done. We paid the €17 million to Tolmar. There is no sort of milestones on the GSK agreement. We paid what we...was left on Novartis agreement and the next if you want, which is on my radar. I think we have disclosed in the past that we have about 20...between \$20 million, \$25 million which will be due on eventual



approval of Qarziba BLA in the US, and we'll see when that comes. But that's here in terms of future milestones from existing deals.

In terms of R&D, as percent of revenue, I'll stick with the guidance that we gave with the plan. And when we did the plan...when we announced the plan in February of '23, where we said if you recall that we'd expect R&D excluding amortization to increase by roughly 1 percentage point over the planned period, if you scrip out amortization and compare '23 to '22, you've seen it's gone up by, I think, 4...around 40 basis points. So, obviously we are tracking in line with what we said, but that's still the guidance I would work with.

BRUNO PERMUTTI: Thank you.

OPERATOR: The next question is a follow-up from Martino De Ambroggi of Equita. Please go ahead.

MARTINO DE AMBROGGI: Yes, thank you. Very, very quickly, the free cash flow used to be similar to net profit this year was penalized by net working capital. So, just understand what is the expectation for net working capital in '24 and presumably free cash flow will be in excess of €500 million this year.

LUIGI LA CORTE: Hi, yes. I think that...in terms of working capital, I mean as the business grows and we are projecting still, you know, the midpoint of our range on revenue is a 10% increase. We are a big company. You know, I would expect a level of increase for 2024 as well. Hopefully not to the same degree, I would say, as was the case in 2023. Does barring, you know, if we...were we to take a new business, which brings with it additional inventory. Then that may change, but I would expect a number hopefully below €100 million for sure, but again it will depend on a number of things.

OPERATOR: Mr. Koremans, there are no more questions registered at this time. Back to you for any closing remarks.

ROB KOREMANS: Yes, let me thank everyone for having joined our call. We...as you could feel are extremely proud of the achievements in '23, but look forward to '24, which is off to a good start and we are very confident to continue our momentum with beautiful opportunities. We'll keep you updated on some of the developments...all of the relevant developments in the company and as we have also indicated, making really the planned progress on our R&D programs and for any relevant update in '24, you will...we keep you updated there as well. So, thank you for having joined and look forward to our next interaction and like to close the call.