

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Recordati 2018 First Nine Months 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. Marianne Tatschke, Director of Investor Relations and Corporate Communications of Recordati. Please go ahead, madam.

MARIANNE TATSCHKE: Good afternoon or good morning to everybody and thank you for attending the Recordati Conference Call. Fritz Squindo, our CFO will be presenting and commenting upon our first nine months 2018 results. For a better understanding of this presentation, please access the set of slides available on our website www.recordati.com, under the investor 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. On Slide #2, then we are very pleased with our first nine months results, which show sales and margin growth.

Let's start with our revenue; consolidated revenue is €1,013.3 million which are up by 5.1% compared to last year. In 2018, sales included from metoprolol base product which was acquired from AstraZeneca last year, and we also include the sales generated by Natural Points, the Italian company acquired in June, as well as, an estimated negative currency exchange effects which could be estimated in €39.1 million which means

that we have been strongly impacted by the devaluation of some currency in particular...this is linked [ph] in the...particular in the third quarter by the devaluation of the Turkish Lira. If we exclude these items growth would have been 3.6% and we continue to have organic growth in the region in the range of 3%-5%. It's important to say that the further improvement of our margins is on track.

Let's start with EBITDA at 37.5% of sales is €380.1 million which are up by 11.1%. Operating income at 33.3% of sales is €337 million, an increase of 9.6% and net income at 23.5% of sales is €237.9 million, an increase of 8.2% over the same period of the preceding year which means that we continue to improve our margin essentially thanks to deleveraging of our organization.

Financial position we had a net debt at the end of September which is €462.7 million, we have an increase of €80.9 million compared to last year end. But let's underline that we had the share buyback for an overall disbursement of €169.8 million. We had payment of dividend for an amount of €7.1 million and also the acquisition of Natural Point in Italy for a value of €75 million. Excluding these item, we continue to have a very solid cash generation which is close to €440 million, which is even more than one...one to one cash conversion with our net income.

Regarding our corporate development initiatives, during the period an agreement was signed in Mylan for the acquisition of the rights of Cystagon in Europe and other territories. And as I said the Natural Point an Italian company specialized in food supplement, and in particular was [indiscernible]. We are very pleased by our performance, both in term of financially, but also regarding agreement that we have signed for the target development of our company going forward.

Then we can comment on our main product sales. Slide #3 and then the performance of our corporate products is in line with our expectation and the metoprolol based product acquired from AstraZeneca were added to our portfolio as from July 2017. That's my comment on the major corporate product Zandip lercanidipine sales are substantially stable and this is in line with our expectations.

Regarding Zanipress, Zanipress is our brand...is our combination with lercanidipine and enalapril. Sales of this product are in the first nine months of 2018 are down due to the competition of the generic version. But let's say, today we have the generic competitor in all our major market and we believe that this reduction of 13.1% in an environment where there is a strong generic competition for our brand is an important result even better than what we expected.

Let's now move on Urorec. Urorec silodosin sales are €76.1 million during the period and we continue to grow our product in the first nine months our sales are up by 9.5%. This is due to the good performance of the product in all the main markets. Sales of Livazo are €34.4 million and are up by 17.8%. We continue to have a double-digit growth from Livazo due to the good performance of the product in Turkey and in all the other market where it has been launched.

Let's now move on Seloken. I would like again to underline that on June last year we signed an agreement AstraZeneca for the acquisition of the right of this product. In Europe, revenues generated by this product in all our countries which are covered by the agreement in the first nine months of 2018 are €73.8 million and are in line with our expectation to keep this product...to stop the erosion of this product and to keep this product stable. Let me say also and we will see in the presentation of our background [ph] by geography that these products contribute significantly

to the growth of our subsidiary, mainly Germany, Poland, France, Czech Republic and Romania.

The other corporate products are down overall by 0.8%, and this is due to the competition from generic version of Rupatadine-based brand, but also to the negative exchange rate effect in Russia, part of this are the corporate products are sold in the Russian market.

Then our specialties indicated for the treatment of rare diseases generated sales of €63 million during the period an increase of 1.1%. Sales in USA are down by 10% due mainly to the negative exchange rate which could be estimated in €5.5 million and to the competition...expected competition let me say from a generic version of Cosmegen.

On the other hand, let me underline that sales in the other part of the business in the rest of the world grow by 12.9%, excluding the US performance which is impacted by these two extraordinary item, devaluation, FX negative impact and generic competition of Cosmegen. We continue to have a solid growth double-digit in our orphan businesses...our business for the treatment of the rare diseases.

Slide #4, the graph shows as usual the breakdown of our revenue by type of product and we don't see...we are now in this chart, you can see that there is an increase of the metoprolol side, has been acquired from AstraZeneca in the corporate product, no major changes.

Slide #5, the composition of revenue by geography; let's start with our Italian business which represents approximately 20% of our sales. Sales in Italy are up by 4.2% to the good performance of Urorec and Cardicor. And the significant growth of the treatment of the rare diseases, but also this is due to the integration in the product as from July of this year of

metoprolol brand acquired from AstraZeneca, and in the last quarter also to the integration of the product that we have acquired following the acquisition of Natural Point.

In Germany, sales are up by 16.3%, thanks mainly to the sales generated by the metoprolol product acquired from AstraZeneca. Sales in France here again we are up by 7% in France worth mentioning the good performance of Urorec, the integration in the product portfolio of the metoprolol base brand and also the integration of the gastrointestinal product, Transipeg and Colopeg, we acquired from Bayer in December 2017. Here again, also in France the treatment for rare diseases are also growing strongly.

Revenue generated in Russia, Ukraine and CIS countries is €75.1 million which are down in this case by 5.2% but includes an estimate currency exchange losses of €8.7 million, then this decrease is only due to the currency...negative currency effect. Sales in Russia in local currency which is...Russia is the most important market in this line, sales in Russia in local currency are substantially stable and the corporate products launched in Russia which are Urorec, Zanidip [indiscernible] are performing well.

Now, then we can comment on to our group pharmaceutical business into USA which is only dedicated to marketing of product for the treatment of rare diseases. And as I said, sales in the first nine months 2018 are €75.1 million down by 10% due mainly to the generic competitions of Cosmegen and due to the significant negative exchange rate effect.

Sales in Turkey are down by 12% and here again this is only due to the negative currency exchange affect which can be estimated to be of €20.3 million. We have had in our business in Turkey a very strong impact in

terms of revenue linked to the devaluation of the local currency. While we are in local currency, sales of our Turkish subsidiary grow by 21.6%. Then very solid strong performance of all our products in Turkey which has not been able to offset this strong negative currency exchange which has been...which has had acceleration in the last quarter.

Sales on Central and Eastern European countries, let me say benefit significantly from the consolidation of metoprolol based product, but in this business we are growing both the metoprolol based product but also our corporate brand. Also thanks to the enforcing of the organization following the acquisition of the face of metoprolol, which allow us to have a critical math in practically all our... all these markets.

Slide #6, the graph shows the geographical breakdown of our pharmaceutical revenue, we will see that we continue the 12 Italian businesses most important business but which represent around 20% of our sales, and we continue to have a very balanced presence in all the other geographical European markets.

Slide #7, sales, which here we are commentating our first 9 months year-P&L results. We have already analyzed our revenue for the period, so let's now move onto gross profit. Gross profit for the period is €17.3 million with a margin of 70.8% on sales.

And I would like say that we continuously improved our gross margin and this improvement is mainly due to the further growth of products with higher margins and also to the positive effect of the metoprolol based products acquired from AstraZeneca.

Selling expenses at 24.7% of sales, increased less than sales and therefore are down as a percentage of revenue compared to the preceding year,

thanks to the increased efficiency of our Group commercial organization, which means that we continue to increase our revenue as [indiscernible] products, thanks to our business development activities, but also growing the current portfolio keeping the same current...keeping the same commercialization and then we continue to leverage our infrastructure and improving our margins.

G&A expenses are sustained...are practically stable, and diminished as a percentage of sales to 4.8%. Here again, we are also leveraging, which is less important in terms of margin improvement, but it's in the same direction as the sale...as the selling expenses.

R&D expenses are €79.4 million and there you see the R&D expenses are up by 10.1%, compared to those recorded in the first 9 months of last year. And this is due to initiation of the new development programs, mainly in the rare disease arena and the amortization of the acquired rights of the metoprolol based products.

Net financial charges for the period are €13.8 million. Here we have an increase of €2 million due to the interest of the medium and long-term that which has been granted for the financing of the acquisition of metoprolol and in particular that we have bought last year.

Regarding the effective tax rate, the tax rate during the period is 26.4%, which is higher than what was the tax of...effective tax rate last year, but this is due mainly to an adjustment of a tax risk provision that we have booked in the second quarter of this year for the orders [ph] that we had Italy, which is in part compensated, but the tax...tax credit in Turkey for an overall effect of €5.6 million.

Excusing this extraordinary effect, we continue to have a tax rate which is in line with our expectation, which means our tax rates increased to 24.5%, thanks to net income at 23.5% of sales, it's €277.9 million, and we are...we have an increase of 8.2% of our net income compared to what we have achieved last year.

Let's now move on Slide #8, which will show the split of revenues, EBITDA and EBIT between our 2 business segments and then EBITDA margin are 51% for the rare disease segment and 34.9% for the specialty and primary care segment. It's important to underline again that both segments shows margin improvement, the same for the EBIT margin...EBIT margin are 47.9%, for the rare disease segment and 30.5% for the specialty and primary care segment. Then performance not only means only one business unit, but an overall good performance in all our business.

Okay. Then let's move on our net financial position, which show a net debt of €462.7 million, which compared to the net debt at €381.8 million at the beginning of the year, but as I said at the beginning of my presentation, during the period a €10 million milestone was paid for the license agreement, which [indiscernible]. Then own shares were purchased for the overall amount of €169.8 million and dividend was distributed for an amount of €87.1 million. Furthermore, the Italian Company, Natural Point in June was acquired for a value of €75 million.

Then we are...our net financial position show an increase of our net debt, but if we exclude all of these payments, which are linked to the expansion of the company or are linked to the acquisition of our own shares, the cash generated during the period is up to around €204 million, implying a 100%, even more than 100% net income to cash conversion rates.

So these are...then let's now move on the end of our presentation. As usual at the end, we announce our financial projections for the full-year and these are on Slide #12. You can find our target for the full-year 2018 and let me say that taking into account the stronger devaluation of the Turkish lira, which we estimate will be for the full-year 2018 on its own had...on its own an impact of around €30 million here. For the full-year, we expect to achieve sales which are ranging from €1,340 million and €1,350 million.

While we confirm our objective for the margin in particular for EBITDA a range of between €490 million and €500 million, EBIT of between €430 million and €440 million and net income of between €310 million and €330 million.

Let me say then, we have been impacted by the devaluation of Turkish lira but thanks to the natural hedging which is in our business represented by cost, which are also denominated in the local currency, in particular in Turkish lira. And thanks also to the corrective actions that we have put in place, we are very pleased to confirm for the full year our margin, our target in terms of margin that we expect to achieve for the full year 2018. Here, I finish my presentation and I am available for any questions you may have.

MARIANNE TATSCHKE: Hi, Operator, can you please open the question and answer session.
Thank you.

Q&A

OPERATOR: Excuse me; 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." We kindly ask you to use handsets when asking question. Anyone who has a question may press "*" and "1" at this time.

The first question is from Jo Walton of Credit Suisse. Please go ahead.

JO WALTON:

Thank you. I have got three questions to start with, please. Firstly, on foreign exchange, you've hopefully given us the impact on the sales level, I wonder if you could help us on what the impact has been on the profit level as you say you have got significant costs in Turkey as well as revenues in Turkey. So, presumably there were some cost alleviation there, but if you could just help us look at the sensitivity to earnings as well as sales.

Secondly, in the U.S., I wonder if you could tell us whether Cosmegen has now got down to a level that you think is sustainable or whether we have got further erosion to go. And I am sure we don't find it very helpful if you could perhaps detail for us what is the biggest drug in the U.S. portfolio and roughly the level of sales that that has so that we don't get worried again by a potential for one drug going off patent. And then, could you also give us an update on Riglia or Reagila, when and how its rollout is starting. I believe that it should be being introduced in various countries around now. So, any initial thoughts on how that's going would be helpful, please.

FRITZ SQUINDO:

Okay. Thank you for your questions, Jo. As I said, during the conference call, we have estimated our currency effect in the region of €9.1 million which is very important, which is mainly linked to the translation of our business managed essentially locally in the U.S. in Russia and in particular in the Turkish lira. Regarding the impact on margin, we...normally we don't disclose this full impact because in particular we can say that we

have a natural hedging which will offset not to the full impact of this effects on sales, on margin because we have been...we entered [ph] this business, let me say the margin is not very different from the margin, the EBIT we are achieving in the...at the Group level and then you can estimate the impact on the EBIT level with this translation to be essentially a portion of this FX effect which is in line with the gross...the EBIT margin that we have in our Group consolidated result.

But, on the other hand, we continued to manage the business and then if we cannot offset in terms of revenue the FX effect because this is essentially a translation and we try to grow locally the margin and we are doing this in particular in Turkey in which we are growing by more than 20%. On the EBIT margin, we have also some action to correct and to minimize this effect in terms of cost cutting, reducing investments on that. We have...and we very pleased to be able to in 2018 based on this natural hedging plot, as I said these corrective actions to preserve and to keep the margin that we have announced for the full year.

Then, regarding U.S. we have impacting for sure less than what we are impacting in terms of sales on our EBIT, but we are managing our margin to be able to offset the full impact through corrective action in the local business. Regarding the U.S. business, then we have seen progressively Cosmegen sales to decrease. For the full year, the expectation was to have a reduction in our sales of Cosmegen in the region of US \$10 million, and essentially we are in line with our expectation. Then regarding our portfolio in USA for our orphan...rare disease business, we prefer not to disclose in detail our...the sales of our products. I can only say that most important product of our portfolio in the U.S. is Panhematin.

The last question was linked to performance of Reagila, cariprazine, then we...the product is in a way [ph] launched Germany, will be launched the

product in the last quarter of this year in Italy, in Switzerland, U.K., Sweden, Finland and Denmark which means that and Netherland which means that we now decided also to enter in this business directly in particularly in Sweden, Finland, Denmark and the Netherlands. Thanks to both metoprolol sales and the opportunity to launch Reagila, then we are launching Reagila in both of these markets. Further launches, we expect to take place in the first-half of 2019. But then, where in general we are very pleased by the level of investment that we have been able to achieve in all these markets in which we expect to launch the drug.

JO WALTON: Can I just check...you are saying that you actually launched it in Germany in the quarter that we had, it's only been in Germany. But in...by the end of the year, it will be in all these other markets?

FRITZ SQUINDO: By the end of the year, it will be launched in Italy, U.K., Sweden, Finland, Denmark, Netherlands, and Switzerland. We expect the beginning of next year to launch the drug in Spain, Portugal and then in France.

JO WALTON: Thank you.

FRITZ SQUINDO: Okay.

OPERATOR: The next question is from KC Arikatla of Goldman Sachs. Please go ahead.

KC ARIKATLA: Hi, thanks for taking my questions. I have a couple, both on your Turkish business. You've mentioned that you expect a 30 million FX headwind from Turkish Lira alone in 2018. Can you tell us what the cutoff date for that is? Is it based on the FX that was there at the end of the third quarter or is it much more recent than that? And sticking with Turkish business, do you have any plans to take advantage of the depreciation and the

currency given that you have a manufacturing base there, i.e. do you have plans to use it to increase manufacturing and sell it in regions which are close to Turkey. Thank you.

FRITZ SQUINDO: Okay. Could you ask again the first question, because it was not clear, what was your question regarding the impact of the Turkish Lira in our P&L?

KC ARIKATLA: Sure, so the 30 million FX impact that you have estimated, at what date is that based on the FX?

COMPANY REPRESENTATIVE: At what date? It's a full-year.

FRITZ SQUINDO: This is a full-year; by let's say that by the end of September in our actual number the impact of Turkish Lira negative currency effect is close to €20 million. For the full-year we expect another strong impact in the fourth quarter and overall 30 million Lira is the effect...the negative FX effect for Turkish Lira from the full-year.

And regarding the business in Turkey, we have this production plant, which has been built primarily for serving the business in Turkey. But we have availability of capacity and we are working on using this production capacity first of all to supply in our Eastern European market, and we are also working for having the plan approved for the European markets. Then this could be a way for reducing our risk, but it is not something that could completely set [ph], is the normal ordinary business...ordinary customer, we just try to reduce the risk that is not something that could...based on the production capacity we have available, could significantly change the negative currency effect in our P&L.

KC ARIKATLA: Thank you.

FRITZ SQUINDO: It's okay.

OPERATOR: As a reminder, if you wish to register for a question, please press "*" and "1" on your touchtone telephone. Once again, if you wish to register for a question, please press "*" and "1" on your telephone. The next question is a follow-up from Jo Walton of Credit Suisse. Please go ahead.

JO WALTON: Thank you. I just wonder, if you could help us with a little bit of background, how you are seeing the Turkish market. You've obviously grown strongly in that market, how you think that market is developing, if there is any risk to the domestic growth rate from all of the currency problems that they are having at the moment, whether you are still confident in the underlying rate of growth. And perhaps also tell us a little bit about how you are seeing the underlying growth rate in Russia? And then finally, it is obviously very important to you to make acquisitions to do...grow sales in your business model to both grow organically and to grow by acquisition, just to be clear that you are sort of hopper of targets is as full as ever, just checking that you are happy that there is still plenty of acquisitions that you could make out to bolster your organic growth.

FRITZ SQUINDO: Okay. First question was related to our performance in the Turkish pharmaceutical business, let's say then in 2018 our performance is not only due to volume growth but based on this strong devaluation of the Turkish lira, there has been in Turkey a price...a general price increase in the region of 10% to 12% at the beginning of the year. Then we expect also for next year to have I don't know to what extent but a price increase which is a way for adjusting the price with the precision because part...we are producing locally, but other pharmaceutical company are only reporting, then they need some price adjustment. And then we expect also next year the business, the pharmaceutical market in Turkey to continue to

grow double digit, in this case driven by both price adjustment plus volume growth.

Regarding Russia then we have been now performing. We have stable business in the first 9 months, probably if you remember, we were below...we were decreasing our business in the first 6 months but this was linked to the extraordinary strong performance in 2017. We expect our Russian business to continue in local currency to grow high single-digit.

JO WALTON: [Multiple speakers].

FRITZ SQUINDO: Okay, I agree with you, our business model is let's say linked to both acquisition and organic growth. In term of acquisition, we continue to follow opportunity. We don't expect to close future acquisition in short term by the end of the year, but we are looking for some minor opportunity mainly in the OTC environment and we continue to scout and to go through all of opportunity that we expect to be...to have available in the market.

We are recognized as a solid buyer and then it's not plenty of opportunity but there are opportunities. Our pipeline has some projects and we [indiscernible]. It is very difficult to predict when we can close an acquisition but I can confirm that the strategy of the company continue to be based on this pillar, organic plus the acceleration through acquisition which we expect to be bolt-on acquisition for our European markets and some OTC assets. And we are also open to possible acquisitions in the orphan arena, but this must be based on price which we believe are acceptable for value creation which is the base behind our M&A strategy.

JO WALTON: Thank you.

FRITZ SQUINDO: Okay.

OPERATOR: The next question is from Katarina [indiscernible] of BlackRock. Please go ahead.

ANALYST: Hi good afternoon. You mentioned that Panhematin was one of your biggest drugs in the U.S. I was wondering if you comment on the recent announcement by competitor Mylan [ph] that their clinical trials of givosiran which we understand is a competitor to Panhematin has been delayed. Is that expected to be a positive effect on you and if a competitor is approved, is there a way to quantify the impact on Panhematin sales in the U.S.

FRITZ SQUINDO: Okay. Then we know first that givosiran is a possible competitor of Panhematin for the treatment of the disease. We are following the evolution of Givosiran. I don't comment on their development plan. They have announced possible delay but we continue to believe that Givosiran is one treatment for the chronic use...for the chronic disease while Panhematin is more an indication for the acute treatment. And then even in the environment which Givosiran will be approved, we believe that Panhematin will continue to have an important market share in the market. Then if you are asking me you are pleased by the delay, we are not pleased by...we believe that patient has to have all the possible treatment, but we would like to complete the treatment in this disease and we expect to be able to keep our position in market share even in one market in which Givosiran will be approved.

ANALYST: Okay. Thank you.

OPERATOR: Once again, if you wish to register for a question, please press "*" and "1" on your telephone. 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. Mr. Squindo, there are no more questions registered at this time.

MARIANNE TATSCHKE: Okay.

FRITZ SQUINDO: Good afternoon and good morning to everybody and thanks for attending our conference call.

MARIANNE TATSCHKE: Goodbye. Thank you.