

Recordati SpA

"First Quarter 2018 Results Conference Call"

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MODERATORS: FRITZ SQUINDO, CHIEF FINANCIAL OFFICER
MARIANNE TATSCHKE, DIRECTOR INVESTOR RELATOR

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Recordati First Quarter 2018 Results Conference Call. After the presentation, there will be an opportunity to ask questions.

At this time, I would like to turn the conference over to Ms. Marianne Tatschke, Director Investor Relator of Recordati. Please go ahead, madam.

MARIANNE TATSCHKE: Hello, good afternoon or good morning to everybody and thank you for attending the Recordati conference call today. Fritz Squindo, our CFO will be presenting and commenting upon our first quarter 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 SQUINDO: Thank you, Marianne. Good afternoon or good morning to everyone. We can start with Slide 2 in our presentation. And we are pleased with our first quarter 2018 results which are in line with our full year target and confirm sales and margin growth.

Consolidated revenue in the period is €366.5 million, which are up by 7.2% sales include in this period an estimated negative exchange rate effect which could be estimated in €12.4 million or 3.6%. Also sales also include those related to metoprolol based product acquired from AstraZeneca integrated in our product portfolio as from July last year, and which amount of €3 million in the first quarter of 2018. Then good

performance in term of sales but a further improvement of our margin and in track in line with the improvements we had in the previous year.

Let's start with our EBITDA. EBITDA at 36.7% of sales is €134.4 million and are up by 14.2%. Operating income at 32.9% of sales is €120.5 million, an increase of 12.4% compared to the same quarter of last year and net income at 23.6% of sales is €66.6 million, here we have an increase of 10.3% over the same period of the preceding year. Then we are improving our margin and we are growing our margin with a double-digit growth in all our line, EBITDA, operating income and net income.

In term of financial situation, we continue to have a very solid financial position, net debt is at the end of the period €484.6 million which had an increase of €102.3 million, but which is only due to the share buyback for which we have an overall disbursement in the period of €169.8 million which...and we continue to have a solid cash flow generation excluding this extraordinary point...extraordinary subject.

Regarding the activity for the further development of the company, I would like to underline that at the beginning of April, an agreement was signed with Mylan for the acquisition of the right to Cystagon in Europe and other territories. Cystagon was previously sold under license from Mylan. Then we are improving our rights in our orphan...treatment for Rare Diseases.

Slide #3, the performance of our corporate products is in line with our expectation. Zanicidipine sales are slightly down mainly due or let's say only due to the reduction of sales in Algeria following partition restriction on product for which there is local production. But in all the other business lercanidipine is keeping market share. Sales of Zanipress are down and this is due to the competition from generic version as

expected, but I think it's important to say that in the quarter we have only a decrease of 6.1% even if we have to compete against generic. And the overall sales of lercanidipine franchise in the first quarter of 2018 at nearly €5 million.

Urorec silodosin, generated sales of €26.7 million during the quarter, that are up by 12% due to good performance of our product in all domain [ph] markets.

Sales of Livazo are €2.4 million and are up by 29.3%, and this is due to the good performance of the product in Turkey but also in all the other market where it has been launched, therefore corporate product growing double-digit.

And let me comment...let's now comment on our metoprolol sales, just to remind you that on 1st June, 2007 that the agreement with AstraZeneca of the acquisition of the rights to Seloken and Logimax, these are three brands that we have acquired from AstraZeneca for product based on the [indiscernible] and was concluded, revenue generated by this product in the European countries covered by the agreement are consolidated at from 1st of July, 2017. And sales in the first quarter of 2018 are €3.3 million and this product contributes significantly to the growth of our subsidiary mainly in Germany, Poland, France and the Czech Republic and Romania.

Then we have starting selling and managing and we are pleased with the performance of metoprolol in the first quarter. Then we have our other corporate products which are down overall by 3.7% and this is due mainly to competition from generic version of rupertadina base brand, but most important is to the weak, late flu season and also the negative exchange rate effect that we have had in this quarter in our sales in Russia.

Our specialties indicated for the treatment of rare diseases generated sales of €54.8 million during the period, an increase of 5.2%. Sales in the USA market are down by 8.6% and this is due to a negative exchange rate effect and also to the initial competition from a generic version [technical difficulty]. On the other hand, very solid performance, in all the other parts of the world of our portfolio of products for the treatment of rare diseases.

Slide #4, this graph shows the breakdown of our revenues used by type of product. And now, you can see that corporate products including the rare disease graph now accounts for 68% of revenue with the inclusion of metoprolol franchise acquired from AstraZeneca.

Slide #5, the slide shows sales performance by geography; let's start with our Italian market. Sales in Italy are up by 2.3% and this is due mainly to the good performance of Urorec and Cardicor, and the significant growth in the market of the treatment of rare diseases and integration of the portfolio this is strong in all our market as from July '17 of the metoprolol base brand acquired from AstraZeneca.

Sales in France are up by 14.1%, what here mentions is the good performance also in France of Urorec, the good performance of Methadone; it's our product that we are selling in France. In addition to the sales of Lercadip the second brand of lercanidipine which is now market directly by our subsidiary, following the termination last year of the license agreement with PHARMA. And here again, the integration in our product portfolio as from July 2017 of the metoprolol base product acquired from AstraZeneca, it's also...it's worth also mentioning that the treatment of rare diseases also [ph] in France are growing strongly.

In Germany, sales are up by 20.5%, mainly thanks to the sales generated by metoprolol base product. Revenue generated in Russia, Ukraine and CIS countries is €32.1 million, which are down in Europe by 4.7%. But it includes estimated currency effect losses of €3.6 million. If we are analyzing sales in Russia, in local currencies these are flat...are down by 0.3% and this is due to the sales reduction of the product for seasonal disorders due to a much weaker flu season than when the flu season we had last year.

I would like to remind you the strong performance we had in our Russian business in local currency in the first quarter of 2017. In Russia, the corporate products Urorec, Zanidip, and Livazo are performing well.

The Group's pharmaceutical business in the USA, just to remind you that we dedicate to the marketing of product for treatment of rare diseases. Sales in the quarter of 2018 are €25.6 million. As I said, these are down by 8.6% due to the significant negative exchange rate and initial competition from a generic version of [indiscernible] in US dollar, our US business is growing by 6.5%.

Sales in Turkey are down by...euro denominated sales are down by...up sorry by 0.4% but include a negative currency exchange effect which is estimated to be €3.4 million. Here again, in local currency sales of our Turkey subsidiary continued growth significantly and in the quarter, the growth...we grew our business by 18.5%.

And just a comment also on sales in Central and in Eastern countries, which benefit significantly from the consolidation of the metoprolol base product acquired from AstraZeneca, and we are very pleased by having now in this market a critical mass that we wanted to have.

Slide #6, as usual we present graph...the geographical breakdown of our pharmaceutical credit, just to remind you that Italy continued to be in the region...in particular the first quarter is 21.4% of our total sales.

Slide #7, we have already...this is the analysis of the P&L analysis and sales we have already analyzed our revenue for the period which are growing by 7.2%. Let's now move on the P&L analysis, gross profit is €257.2 million with a margin of 70.2% on sales, an improvement over that of the proceeding year due to the further growth of product with higher margin and also to the positive effect of the metoprolol base product [technical difficulty].

Trading expenses at 25% of sales increase less than sales and are therefore down as a percent of revenue compared to the preceding year. Thanks to the increased efficiency of the group commercial organization. We continue to improve our margin. Thanks to our capacity to leverage our sales organization, G&A expenses are down by 4.4% and diminished as a percent of sales to 4.5%.

R&D expenses are €27.7 million and our R&D expenses are up by 19.4% compared to those recorded in the first quarter of 2017, and this is due to initiation of new development programs and the amortization of the acquired of the metoprolol base product.

Net financial charges are €4.9 million an increase of €3.1 million due to the interest of the new medium long term loans and higher currency exchange rate losses, mainly linked to intercompany agreement in ruble and in Turkish lira. The effective tax rate during the period is 25.1% which is percent slightly below based of the same period of the preceding year in line with our expectation.

And now, let's finish with our net income at 23.6% of sales is €86.6 million an increase of €10.3 million over the same period of the preceding year. And as we comment also the EBITDA in our...which is 46.7% of sales and our EBITDA is up by 14.2%. Then, let's say, that in the quarter we have very solid financial performance with our margin which continue to improve quarter-by-quarter.

Slide #8, the slide...this slide shows the split of revenues and EBIT between our two business segments, and EBIT margin for the rare disease segment are 47% and for the primary specialty care segment at 30.4%. It is important to underline that both segments show margin improvements.

Slide #9, our financial position, as I said at the end of March, the net financial position shows a net debt of €484.6 million compared to the net debt of €381.8 [ph] million at year end of 2017. But I would like to underline that during the period €10 million milestone was paid as per the license agreement with [indiscernible] but more important we have purchased own share for an overall amount of €69.3 million. Therefore, we have an increase of our net debt, which is only due to the acquisition [ph] of our treasury stock.

Having said that, on Slide #12, we are presenting, and let's say, confirming our targets for the full year 2018, is in line with our previous target, the expectations to achieve sales of between €1,350 million and €1,370 million. No, acquisitions are included in this target. Although, I confirm that we are strongly committed as in the past to an ongoing acquisition strategy, in order to accelerate our growth.

Regarding margin, margins are expected to continue to improve. For the full year, we expect to achieve an EBITDA of between €490 million and €500 million which is around 36% of sales. EBIT of between €430

million and €440 million around 32% of sales and net income of between €10 million and €15 million here around 23% of sales, then we are...and good performance in the first quarter. Based on the first quarter result, we are confident to be able to achieve our full year results and the target that we have announced.

MARIANNE TATSCHKE: Okay. Mr. Squindo's presentation finishes here. If you have any further questions, please operator, could you please open the question and answer session.

Q&A

OPERATOR: Excuse me. This is the Chorus Call conference operator. We will now begin the question and answer session. The first question comes from James Wallace with Credit Suisse. Please go ahead.

JAMES WALLACE: Thanks for taking my questions. Firstly, on share buyback in the quarter. Out of your total share repurchase authorization of €300 million, you spent €170 million in the first quarter. What level of further repurchases, would it be sensible to assume going forward for the year...does this level of share repurchasing or a lack of sensible external acquisition opportunities at this time? Secondly on Cystagon, in practical terms what will the change in relationship with Mylan on Cystagon mean? Have you paid an upfront sum to avoid paying an ongoing royalty, if so, what level is that? And then, also, could you just tell us the number shares you have outstanding at the end of the first quarter? And then finally, just on cariprazine, perhaps you could just give us a bit of color on sort of how the launch preparations are going? Thank you.

FRITZ SQUINDO: Okay. Regarding our share treasury stock policy in the...we have a significant increase our treasury stock in the quarter because the main

reason we have both the stock, we prefer our stock option plan and today we have both practically the full value...the total number of stock that we have to use in our existing stock option plan that we don't see in the near future, let's say, without a new stock option plan issue to significantly increase the number of stock that we want to acquire. Then we have invested this money to acquire what we need is necessary for the future stock opt plan in the note of our consolidated balance sheet in particular in the Note 11, you will find all the information regarding the stock option, the option outstanding at the end of March and the number of treasury stock we have now in our balance sheet.

The second question was related [multiple speakers]. Okay, we have both [technical difficulty] and then we have transformed a license agreement in a product which is now prepared progressively [ph]. We have...paid in April and March time for this acquisition, what is significantly changing that we have the full right forever and we are also going forward the right for reducing progressively our cost of goods based on our full right on this product.

We have paid, you will find this number in the next report, and altogether we have paid €20 million for this deal, which is based on technology transfer or acquisition of the right of the program.

The third is being to our Reagila business, the launch is going ahead, we have now in the month of April launched the drug in Germany, this was in our plan and we have now in April launched the drug, than we are also working actively in our market access activity and we expect progressively during the second part of 2018, and first half of 2019 to start launching Reagila in all the other major markets in Europe.

JAMES WALLACE: Thank you. Could you tell us what the price in Germany?

MARIANNE TATSCHKE: Price in Germany...

FRITZ SQUINDO: Well, these are, let's say, commercial information, but the price that we have now obtained is in line with our expectation and we are pleased by the price that we have obtained. Frankly speaking for major reason I don't want to comment on detail on the price on Reagila in this conference call.

JAMES WALLACE: Okay. Thank you very much.

FRITZ SQUINDO: That is a good price, and [indiscernible] the price in Germany is an higher price at the beginning and then there is other mechanism and then we could...we are expecting some reduction in Germany. But this is in line even a bit higher than what was in our previous business...in our business case. Just to reassure the market that we are on track, and we are doing our activity, we are progressively developing our market taxes activity and we are pleased by the evolution of Reagila market access appeal.

JAMES WALLACE: Thank you.

FRITZ SQUINDO: Okay, bye.

OPERATOR: The next question comes from Bruno Permutti with Banca IMI. Please go ahead.

BRUNO PERMUTTI: Yes, good afternoon. I would like to ask you what is your view on possible acquisitions, and if you see changes in the market compared to your plan to your previous view. So if you are...if I remember, you are keen to bolt-on acquisitions in the markets where you are already present. I wanted to understand if this is still your strategy, and if you believe that by the end of the year, there could be materialization of any possible deal?

FRITZ SQUINDO: Okay, then. As I said, when I was commenting, the target, we continue to be strongly committed to these ongoing acquisition strategy, which in order to accelerate the growth and we continue to have a target these bolt-on acquisition, which we try to find asset in the existing geography for leveraging the organization, for accelerate growth. And we...I can confirm that for the time being there are projects that we are looking, there are opportunities. Today, we have not included in the...in our target because it's practically impossible to say, yes or no, if we are able to close some deal, but we are actively working on this approach and the strategy. And strongly commitment opportunities in the market and then we expect to close some deals in the past, I don't know if this would be done in the third quarter...second quarter, but I think for this acquisition it is important that we are conforming strongly our commitment and I can confirm also to all of you that, there are opportunity available in this arena in the market...in the M&A...

BRUNO PERMUTTI: Thank you.

MARIANNE TATSCHKE: Okay. If there are...

OPERATOR: There are no more questions registered at this time.

MARIANNE TATSCHKE: Okay, so good bye to everybody. Thank you for participating.

FRITZ SQUINDO: Good bye to all of you.