

OPERATOR: Good afternoon, this is the Chorus Call conference operator. Welcome and thank you for joining the Recordati 2017 First Quarter 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 of Investor Relations and Corporate Communications of Recordati. Please go ahead, madam.

MARIANNE TATSCHKE: Good afternoon or good morning to everyone and thank you for attending our conference call today. Fritz Squindo, our CFO is here with me and he will be presenting and commenting upon our first quarter 2017 results and our objectives for the full year. For a better understanding of his presentation, please access the set of slides available on our website www.recordati.com under the Investors section and presentations tab.

At the end of the presentation, we will answer any questions you may have. Please go ahead Fritz.

FRITZ SQUINDO: Thank you Marianne, good afternoon or good morning to everyone. We can start with our Slide # 2 and let me underline that we are pleased with our first quarter 2017 results. We show continued sales and margin growth and are above our expectations.

Consolidated revenue is €341.9 million which are up by 13.1% compared to last year. Let me underline that sales include €15.8 million from the consolidation of Italchimici and Pro Farma the Italian and Swiss company acquired in 2016 and consolidated respectively from 1st of June and 1st of July but more important on like-for-like basis sales growth is 7.9% an excellent performance of our organic portfolio and these excellent sales

performance which as I said is mainly driven by the organic development portfolio has driven further improvement of our margins.

Let's start with EBITDA, EBITDA at 34.4% of sales is €17.7 million and our margin is up by 18.9% compared to last year. Operating income about 30% of the margin of sales at 31.4% is €107.3 million, here we have an increase of an 18% and [indiscernible] and 23% of sales is €78.5 million with an increase of 19.9 close to 20% over the same period of the preceding year.

So in Pro Farma further margin expansion driven as I said by the organic development of our portfolio. Also in the period very strong cash generation, net debt is €106 and €5.6 million here we had a reduction of €3.1 million compared to the end of last year.

Then solid financial results to which we want to add also important step in the development in particular in the enhancement of the portfolio and of the pipeline of our organic base or some business at Cystadrops which is an orphan drug indicated for the treatment of ocular manifestations of cystinosis was approved by the EMA in general and is becoming an important product our portfolio in the orphan business.

And furthermore as an announcement of our pipelines an important agreement was signed with the Meyer Hospital, pediatric hospital in Florence for the development of the treatment of the ROP which is the retinopathy of prematurity. Then solid financial results plus some important steps to further improve our orphan business.

Slide #3 here we are commenting we can on comment our main sales product, let me say that we are very satisfied with positive performance of our product...of our corporate product during the beginning of the year.

Let's start as usual with Zanidip sales and Zanidip sales in the quarter grow by more than 5% then excellent result for our proprietor customer. Sales of Zanipress are up by 6.9% and the expected enter of the generic version in the main European market has not yet come out on some initial sales in Germany. This was the reason why above our expectation in the quarter we have been able to grow our sales of our combination of lercanidipine and enalapril.

The overall sales of the lercanidipine franchise in the quarter are €56 million which are an important result for the franchise. The other product Urorec generated sales of €3.8 million during the quarter which are up by 8% mainly due to the good performance of the product in Italy, France and also in Russia.

Sales of Livazo, Livazo is our statin pitavastatin and we have launched pitavastatin in some selected markets...remind you what are these selective markets of Spain, Portugal, Ukraine, Greece, Switzerland, Russia and Turkey are in the peak of €9.6 million up by 7.1% through the good performance of the product mainly in Spain and in Switzerland and also let me underline the launch of the product in Turkey.

The other corporate product grow overall by 33.7% a very solid and important performance these as usual comprise 21 products sold in multiple territories, eight of which are OTC products. Major contributors to grow in the period, the anti-infective drug in Russia, which include also positive currency exchange gains in Russia.

We will see that our portfolio in Russia in the third quarter grew significantly and then also our corporate product in Russia grew significantly and this 23% is also due to the inclusion in this group of

products of the OTC portfolio of the line of gastroenterological product based on lactobacillus Reuteri mainly sold in Italy and Spain. In Italy it sold what we sold but in Turkey -region there is an increase linked to the consolidation as from July of the sales of Italchimici in our business.

Then our specialties which are indicated for the treatment of rare diseases generated sales of €2.1 million during the period and here we have an increase of 13.3% due to the good performance of the business in all areas [ph]. Solid growth of our corporate product and in Slide # 4 we present a graph which shows the breakdown of our revenue by type of order.

No major change in this quarter compared to the breakdown we had last year. Slide # 5, here we present our composition of revenue by geography and sales in all our main markets show continued growth that we start with sales in Italy which include also the consolidation of the revenue generating by Italchimici and which are...which was in the period €3.3 million, but here then we increase by 21.5 our business in Italy mainly driven by the consolidation of Italchimici. Pharmaceuticals in France are up by 5% and this is due to the good performance of the main, main product that we underline Urorec, Methadone and Zanextra. Zanextra is the combination for which we haven't seen yet generic competition coming and also to the strong growth of the treatment of rare disease.

Revenue generated in Russia, Ukraine and the other CIS market is 33.7 which are up this is very important result 75.9% compared to the same period of preceding year. And also thanks to a currency exchange gain that could be estimated in €7.8 million. Then benefiting but not only benefiting from the exchange rate gains also very solid performance in local currency and our sales in Russia, in local currency are up by 37.0%, driven by all the growth of the portfolio and also very strong seasonal...effected for our product.

Let's now move on our business in the USA which is dedicated to the marketing of the product of the rare diseases and first in the quarter which sales grew by 8.5%.

In Germany, our sales are up by 14.6% mainly thanks to the significant sales growth of our Ortoton, Methocarbamol base product also here we have an increase of Zanipress our combination we are also growing other corporate products in particular Lercanidipine and Urorec together with CitraFleet.

Sales in Turkey, in euro denominated performance are up by 1.1% and here include a negative currency effect which could be estimated of €4.4 million. In local currency as you know we prefer to comment our performance in local currency our Turkish subsidiary grew by 22.5% in line with the growth we achieved last year.

In local... the local business continued to grow significantly in Turkey. And let me comment also the sales in the other Western European country which include the sales in Switzerland following the acquisition of Pro Farma AG in 2016. And the direct sales to the market of our corporate product which are previously sold by licenses.

Slide #6, this graph shows the geographical breakdown of our pharmaceutical revenue, here no major change as to underline that the Russia, CIS and Ukraine now it represents 10.2% of our revenue thanks to the very solid performance in this court.

Slide #7, first quarter P&L result and we have as I said farther market function regarding revenue we have already analyzed our revenue for the period. Let's now move on the gross profit, gross profit is €36.1 million

with a margin of 69.1 on sales a slight improvement over that of the preceding year due to the best product mix which is important to underline that we are growing our revenue, we are growing our portfolio and we are maintaining our gross profit.

While in term of operating leverage we are improving our percentage of sales compared to the revenue in particular selling expenses increased less than sales and are therefore down as a percentage of revenue compared to the preceding year.

Thanks to the increased efficiency of the Group commercial validation, we are increasing, we are growing organically by around 8% without a significant increase in our infrastructure in our organization. This 10.6% is also linked to the consolidation of the organization that we bought last year including as I said Italcimici and Pro Farma. R&D expenses are 23.2 million and are up by 4% while G&A expenses are up by 6.8% but are down as a percentage of sales.

Then as a result we have been able in the quarter to have an operating margin which exceed 30%, we have achieved 31.4% as a margin at operating level.

Net financial charges are €1.8 million increase of 0.7 compared to last year which is due to higher currency exchange rate gains as compared to those in the first quarter of 2016. The effective tax rate during the period is 25.6 substantially in line with what we expect for the full year and what was in the same period of the preceding year.

And then net income at 23% of sales is as I said €78.5 million, which an increase of 19.9% close 20% over the same period of last year. And let me again...to underline a farther expansion of our margin but after two

years in which we have been already able to continue expand our margin. And now our margin at operating impact is above 30%.

And operating margin by segment, this is the Slide #8 shows the split of revenue and EBIT, between the two business. And EBIT margin improved in both our segments and now stand at 45.2% for the rare disease segment but...and 28.9% in the primary specialty care segment. Which means that we have been able to significantly increase...with a significant increase of our margin also in the primary and specialty care segment.

Financial position Slide #9, at the end of March, the net financial position shows a net debt of €105.6 million and which is €93.1 million...which a decrease of €3.1 million compared to the end of last year with a very stronger cash flow generation.

These are the performance of the first quarter. The Group business continued to perform very well also during April and for the full year 2017. Therefore, we are increasing our objectives and now the expectation for the full year is to achieve sales of around 1 billion 250 million, EBITDA of around 425 million, EBIT of around 380 million and net income of around 275 million. A solid result in the quarter and a solid expectation also for the full year 2017.

Here I stop my presentation. Thank you for your attention and now. I am available for any question you may ask.

COMPANY REPRESENTATIVE: Yes, operator please you can open the Q&A session.
Thanks.

Q&A

OPERATOR: Thank you. This is the Chorus Call Conference Operator. We will now begin the question and answer session. The first question is from Jo Walton with Credit Suisse. Please go ahead.

JO WALTON: Thank you. I have got three questions. Firstly, you have increased your guidance for the year by 30 million. The sales level was about 15 million of the profit level. Could you give us some sense of what proportion of that increase is because you have not yet seen the expected Zanipress generics and what your...now your current assumption is in terms of the timing of that rolling on in Europe.

My second question is about the countries, Turkey and Russia. So you have shown 22% local currency growth in Turkey and 38% local currency growth in Russia. I wonder if you could just tell us how sustainable you think that is. I believe that some of the Russian growth includes the first time contribution of the Italchimici. So if you could just give us a sense of what the underlying Russian growth is, that would be helpful.

And my third question just relates to costs, particularly to R&D. R&D has been growing a little less than sales. I wonder if you could tell us whether that is just a phasing of project spending and whether by the end of the year we should see that your R&D grows more in line with sales. Many thanks.

FRITZ SQUINDO: Thank you Jo for the question. Let's start with the first question which is linked to our target. We had increased our target mainly due to three major reasons, one is the better performance in the first quarter and this has been something already achieved and which is driven by...mainly by the delay in the end of the generic competitor for the combination of

lercanidipine and Enalapril and also due to this strong performance in some marketing particularly Russia and CIS

In our target for the full year we have...the assumption is to have generic competitor for the combination starting essentially in the second half because we don't expect...we expect generic clientele in the business. There are some delay, but we believe that in the second half in some way also in Italy and in France generic will finally enter into business and then we have the...it is difficult to say how much of this increase of the value is linked to the generic delay but part of this for sure is linked to the assumption that we expect also for the second quarter no generic strength significantly but in the second half we expect...in ways and generic.

This is the reason why in the first half the organic growth in the first quarter was 7.9. In our full year objective, the organic growth is 6.3%. For sure, we are benefitting from both generic delay but also by a solid performance in some specific market. Let me then comment on your second question which is, are we sustainable our Turkish and the Russian business. Let's say we expect Turkey in terms of local business fully to be sustainable because we have been able last year to grow in the same range. It was 25% and we have a solid portfolio, we are adding product, we are adding Livazo and then we expect to be able to keep this local performance in Turkey.

37% local performance in Russia is something which we believe is extraordinary which means that for the full year we expect product to be to more in line with what we have achieved last year which is a double digit growth in the region of 20%-25% that's sustainable not to the same extent as we have achieved in the quarter because in the first quarter we have been benefitting from a very positive seasonal effect due to our portfolio that we have specifically in Russia.

The third question then, just to underline, there is no sales of Italcimici in Russia then our growth is an organic one without any addition coming from our acquisition. The third question was linked to R&D expenses, then in our business plan we have underlined that we want to invest in R&D. We have signed this contract with Meyer. We are looking for other possible program. We grow by 4%, then for the R&D expenditure are mainly driven by program and then we try to keep a sort of relation between safe growth and R&D but we expect probably going forward to slightly increase our growth in the R&D because some of this contract will allow us to start some clinical development. I can confirm that we expect to increase for the full year our growth in the R&D starting from this 4% that we have achieved during the first quarter.

We expect in particular...we like to underline again we expect to add other program in our R&D pipeline. This will be probably the driver for possible increase in the R&D expenditure.

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

KC ARIKATLA: Hello and thanks for taking my questions. I just had one question. On the currency impact, how much was it in the quarter and from the last time you gave your 2017 guidance have you changed your FX guidance for 2017? Thank you.

FRITZ SQUINDO: Okay. Then, as you know we have an FX impact on the sales and during the quarter we have a positive FX mainly to the revaluation of the ruble. But, on the other hand we have been impacted by some negative impact by the Turkish Lira overall it's something which is let me in the region of €4 million benefit due to exchange rate in the first quarter. Then, for the full

year we adjust modify in the forecast we have for sure modified some exchange rate. We are having some way taken into consideration this evaluation of the ruble and the devaluation of the Turkish Lira. But, in the quarter the FX impact on the straight line which is mainly linked to the translation of our revenue, which our recognition locally in the local currency is in the region of €4 million.

KC ARIKATLA: Thank you.

OPERATOR: The next question is a follow up from Jo Walton with Credit Suisse. Please go ahead.

JO WALTON: Thank you. Could I just ask two other questions please? On your SG&A if you could just tell u a little bit about the development there and how we should think of that for the rest of the year. I'm assuming that you are able to launch Cystadrops with your existing rare disease infrastructure so that there won't be much additional costs there. But, if you find that your...Zanipress generic comes in, are you able to make adjustments to your SG&A at that time or are you spending now more because you are able to. So, it's just to get a sense of how the SG&A may develop for the rest of the year? And in terms of the net financial expense, you pointed to an exchange gain in the first quarter of this year. Do you think that it is reasonable for us assume four times your 1Q net finance charge for the full year or do you think that your net finance charge by quarter will go up in subsequent quarters?

FRITZ SQUINDO: Okay. Then, last from the first question. Then, in terms of percentage of selling expenses or SG&A then probably in the first quarter we have achieved a very low level which is driven mainly by the strong performance in terms of organic growth because the dynamic of our

selling expense is essentially the same during the year with some more investment at the beginning of the promotional activity then.

For the full year based on the fact that we don't expect to grow by 13.1% but a bit less for the full year organically as I said, 6.3 instead of 7.9 for the full year of our SG&A could be a bit higher than these 25.9% that we have achieved in the first quarter, not significantly higher but something that's more due to the development of our sales because we don't expect to have major changes in our infrastructure because I agree with you Cystadrops for sure will be launched using our current infrastructure. The impact on the generic, we don't expect to downside our face organization, based on the possible range of generic competitor for the Zanipress for two different reasons, one, we expect this to impact our business, but not dramatically as we have announced in the business plan we expect the generic could erode given erosion of around 25 - 30% of our sales of the combination.

On the other hand, we are also preparing our organization for a possible launch of cariprazine going forward, and we don't expect major changes in the SG&A and based on the performance as we expect in terms of revenues the SG&A could be a bit slightly higher but not significantly in terms of percentage of sales for the full year.

The second question regarding financial expenses, we have been...we have had positive impact €0.7 million in the first quarter for this exchange gain then you can multiple not the result of the first quarter, but the result, because we don't expect to able to have a report this positive exchange gain and then the level of financial expenses for the full year, we expect it to be let's say in the region of €12 million for the full year. Then 12, a bit less or a bit more depending on the exchange losses or gain that we are able to achieve during the year.

JO WALTON: Thank you very much.

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

MASSIMO VECCHIO: Peter, just a clarification maybe already said, the organic growth in Italcimici, I missed that?

FRITZ SQUINDO: Then, during the conference call I said that the growth of Italcimici was 13.3 million which is the growth of our Italian business. But, let's say that we then excluding Italcimici the growth is something that is not significant in the Italian business.

MASSIMO VECCHIO: Okay.

FRITZ SQUINDO: Also, because we are also using our sales remuneration to promote Italcimici because we have on the other hand we are important contribution from the consolidation of Italcimici because we have been already finalizing our the organization of the sales force, all the product portfolio belonging to the Italcimici now is promoted by our organization we have two organizations in Italy one is the Recordati SPA sales force and the other sales force organization under the name of [indiscernible].

MASSIMO VECCHIO: And this explains part of the reduction of SG&A on sales. Is that [indiscernible]?

FRITZ SQUINDO: But, not only this part that is also driven by the fact that we are growing in Russia without having people in. In Russia we are growing, In Turkey without adding people in Turkey and so on and overall operating leverage,

which is also significant in Italy, because we are adding the Italcimici portfolio without asking the same levels of cost.

MASSIMO VECCHIO: Thank you very much.

FRITZ SQUINDO: Bye.

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

MARTINO DE AMBROGGI: Good afternoon everybody. I have a follow-up on the R&D, it's very clear the R&D is expected to grow more than the 4% it grew in Q1. If I remember correctly in your guidance, you had roughly 8% on sales and that I was wondering if in your updated guidance, it's still in the region of 8% first, and second if this depends on the eventual...the possible announcement of new agreement or it's...so without any new agreement maybe it could be low and generating additional EBIT?

FRITZ SQUINDO: Okay. Then regarding our R&D we are not adopting any change in our R&D based on the performance of sales that we have been able to perform better than expected then if we perform at this level for a percentage of R&D based on the current program could be a bit less than 8% for the full year 2017 because R&D...to manage R&D needs to be careful in identifying the program and then it's not just expenditure. We have to spend carefully our money in the R&D and to increase probably our R&D expenses we have to sign a new agreement and we are working actively for finding new opportunity mainly in the orphan arena for reinforcing because this is an important objective in our business plan for in our single pipeline then without any new announcement, new deal probably at the end of the year based on the performance that we expect compared to what

was expected the budget probably we will be a bit low, we will have a percentage of R&D expenses a bit lower than 8%.

MARTINO DE AMBROGGI: Okay. And always connected to the R&D. If I remember correctly you guided for a rare disease business decline in EBIT because of higher R&D costs. In Q1, the profitability was 45 plus something in terms of return of sales, so that means that in the absence of new agreements this can be considered at level of profitability for the rare disease for the rest of the year?

FRITZ SQUINDO: No, no. Let us say the good performance and increase of our EBIT margin is linked to our operating leverage, which means that we have been able based on the cost structure that we have in mind for the full year, which include those R&D cost. We have been able to perform better in [indiscernible]. We have now improved our margin for the full year implied in our objective we have an EBIT margin, which is something a bit more 30%, which is not what we have achieved in the first quarter and we would like to as a strategic objective for the company to identify new program and to identify new program in R&D doesn't mean immediately to spend money, we can spend if we have to pay some upfront payment. But the R&D is a medium term objective and then we will see, we...I can't confirm that the commitment of the company is to announce our pipeline in mainly in the orphan business then we would like...we will be very pleased if we will be able to announce some new deal, some new agreement for enhancing our pipeline. This is the way in which we manage our R&D, not it's only half the percentage of sales, and it's a medium-term program driven by good program that we are able carry at.

MARTINO DE AMBROGGI: Okay. Thank you.

FRITZ SQUINDO: All right.

OPERATOR: Once again, if you wish to ask a question, please press “*” and “1” on your telephone. The next question is from Bruno Permutti with Banca IMI. Please go ahead.

BRUNO PERMUTTI: Good afternoon. I would like to ask you something about the acquisition policy, so you outlined in your last business plan quite important acquisition plan and I would like to know if you can confirm it right now and above all what is your view in terms of possible targets and if something has changed in terms of acquisition prices in the market in the last few months. So yes, yes this is it.

FRITZ SQUINDO: Okay. Then, let's say that no changes compared what we Andrea Recordati announce in the presentation. So this is planning properly. I confirm that the object...the M&A is more today focused in the primary specialty care business. This is mainly driven by the fact that in the orphan arena multiple of the assets are really expensive then we could also think of possible of a deal in this arena but we would like to have a deal with a real value creation and today the multiples are very high. Having said that, the focus remains as primary specialty care business and the focus remain in the European market. We would like to refer to some region. We are prepared to do deal, which are local deal or also if it's possible multiple territorial deal. We are prepared by product that could fit well with our current infrastructure. This was the case and this was the local acquisition of a company in Italy for other possible deal we continue to look for possible opportunities in Europe and as we also said we would like to enforce our business in Poland. We will like also to reinforce possibly the business in France and we are looking for product, which could fit very well with our current organization, which could allow us to continue to leverage our sales infrastructure. In terms of price, we haven't seen major changes compared to what multiple last year then it's just the

opportunity to find and to scout and to identify a dealer, we believe could really create value for the company, but the focus is Europe, primary and specialty care business.

BRUNO PERMUTTI: Thank you.

FRITZ SQUINDO: All right.

OPERATOR: Ms. Tatschke and Mr. Squindo there are no more questions registered at this time.

MARIANNE TATSCHKE: Okay. Thank you. Goodbye to everybody and thank you for attending the call.

FRITZ SQUINDO: Goodbye for everybody.