

# **Recordati S.p.A**

**"First Quarter 2020 Results Conference Call"**

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**MODERATORS:**      **ANDREA RECORDATI, CHIEF EXECUTIVE OFFICER**  
**LUIGI LA CORTE, CHIEF FINANCIAL OFFICER**  
**MARIANNE TATSCHKE, DIRECTOR OF INVESTOR RELATIONS AND**  
**CORPORATE COMMUNICATIONS**

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Recordati 2020 First Quarter 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 everyone, and thank you for attending the Recordati conference call today. Our CEO, Andrea Recordati and our CFO, Luigi La Corte will be presenting and commenting upon our first quarter 2020 results. For a better understanding of his presentation, please access the set of slides available on our website [www.recordati.com](http://www.recordati.com) under the Investor Section and Presentations tab. At the end of the presentation, we will answer any questions you may have. Andrea, please go ahead. Thank you.

ANDREA RECORDATI: Okay, good afternoon, ladies and gentlemen, and welcome to our first quarter results conference call. So if you turn please to Slide 2 of the presentation which is clearly the slide, with the title first quarter 2020 highlights. As you know, the first quarter of 2020 saw the onset of the COVID-19 pandemic in all geographical areas in which the Group operates. As we all know, restrictions were imposed on the movement of people, transport, production, commerce most of which are still in place. I can confirm that there was exceptional organizational responsiveness at Recordati to deal with effect of an unprecedented crisis. Despite the medical emergency and restrictions implemented in all countries where

financial results obtained in first quarter are very positive and confirm the continued growth of the Group.

Revenues grew significantly but please let me remind you that they include a €20 million stockpiling effect which we expect to lead to a destocking in the second quarter. And also these revenues include €14.7 million revenues from the sales of Signifor. EBITDA which excludes €2 million of non-recurring costs related to the COVID-19 emergency, mostly donations to hospitals in the most affected areas, is at €172.9 million or 40.3% of sales growing on previous year by 20.1%. Net income also grew by more than 20% with both profitability measures leading to a fiscal margin improvement. Adjusted net income which is net income excluding amortization and impairment of intangible assets except software and goodwill, as well as non-recurring items net of past effects is at €125.2 million or 29.2% of sales with a growth versus the previous year of 23.5%.

Luigi will touch and give more information on this additional measure we have introduced during the presentation. Net debt at the end of March is at €880.8 million compared to net debt of €902.7 million at the 31<sup>st</sup> of December 2019. During the period, an amount of €20 million was paid to Novartis following the European approval of Isturisa, and own shares were of course purchased for a total outlay net of disposables...of disposal for the exercise of stock options of €14 million. We are also very pleased to have obtained early approval for Isturisa both in Europe and in the U.S. and I shall discuss the launch planning further on in the presentation.

If you can please turn to Slide 3 of the presentation, just a few more words on how Recordati has been dealing with this unprecedented crisis. Clearly, the Group's primary objective was to safeguard our employees and the assurance of continuity of supply and distribution of our products.

As you all know, with regards to the pharmaceutical industry, operations were allowed to continue in order to ensure the availability of drugs for patients. While complying with global measures necessary to ensure the health and safety of its employees, we conducted non-interrupted production and distribution activities and adopted all necessary measures to guarantee the continuous availability in the market of its products. I take this chance to really wish...I really sincerely would like to thank all the Group employees for the great effort and excellent job done in this type of a situation. Especially in the Lombardy region that as you know was one of the most heavily affected areas in Europe with the COVID pandemic

The professionalism, dedication and sense of responsibility, in particular our manufacturing and distribution employees allowed our activities to continue in the best possible way, ensuring the uninterrupted availability of our product many of which are for the treatment of severe, chronic diseases. We are proud of the contributions we have been able to provide in this emergency, also for the donations we have made to support healthcare situations with tireless and courageously committed for fighting the COVID -19 epidemic in the most affected areas.

Just to give you a bit more detail on this, looking at the slide, when it comes to safe environment for our employees, we implemented measures to protect obviously individuals, and to prevent infection diffusion in our facilities. Clearly, all the personnel that could work from home was left home, and worked from home. And I can confirm that the organization reacted very well as I mentioned before and people are working indeed.

New working models in all manufacturing plants were introduced to support business distancing measures, as for an example revision of working time and redistribution of personnel in our facilities in Turkey,

Italy and Indonesia, a two-shift model in France, in our Nanterre Rare disease facility and we can shift introduction in our specialty primary care facility in France in Montluçon and in our facility in Spain.

Turning to supply chain and continuity for all our businesses in all markets, we introduced alternative supply flow for starting materials and intermediates to feed Recordati's API plants, both for captive and merchant portfolios, stock management tuning both for APIs and finished drug forms. We introduced stock delocalization for finished drug forms in the different countries creating more hubs, alternative FDF supply flows, planning and production for programmes revision for FDFs both in Recordati's and our CMO plants and alternative logistics and distribution models.

Turning to Slide 4, I would like to say a few words on Signifor before I pass on to Luigi for...who will take you through on the first quarter results. So we are very pleased with the performance of Signifor in the first quarter with an estimated 6% growth versus 2019 on a like-for-like in market sales basis. Especially given the current situation and the fact that we are just starting to promote the product ourselves in the U.S., while the transfer of the marketing authorization in Europe is still to be completed.

What is probably of most interest for all of you and of course for us as well is the launch of Isturisa. Launch in the U.S. is on track and is slated for June, July and in the EU starting from Q3 2020. We have decided not to postpone the launch in the interest of patients. We are aware of the value of this new treatment option for patients suffering from Cushing's disease and are committed to making it available as soon as possible. Launch activities at one time would have been carried out has being actively present in medical congresses and visiting European Union leaders and specialists are of course not possible at the moment.

Given the current COVID-19 environment to which we are all adjusting, we have invested in a set of tools and technology infrastructure that allows us to conduct remote detailing and enable virtual video conferences with the healthcare providers. Notwithstanding the challenged situation, our organization is committed to implement the launch plan as effectively as possible.

So if you can please turn to Slide 5, and at this point, I am going to pass to Luigi who will take you through the results in detail for the first quarter. Thank you.

LUIGI LA CORTE:

So thank you Andrea, and good afternoon and good morning, everyone. I am pleased to have this opportunity to comment on clearly a strong set of results for Q1. I am flattered as has been highlighted by what we estimate has been a €20 million stocking effect ahead of the start of the COVID crisis. As I go through the presentation, I am not going to try and un pick that by product or by market, but what I will say is that it primarily affected our specialty and primary care business in particular in Western Europe and Central and Eastern Europe. Rare disease business was only marginally affected.

So with that said, starting with sales by product, corporate product, therefore products which are sold in more than one market, continued to grow and now account for close to 70% of total revenue. Our lercanidipine franchise continued to grow nicely, the model grew by 8.7% in the quarter driven by Germany, Poland, Turkey and Benelux, and the combination product with enalapril also continued on the growth trajectory that is started back on in the later part of 2019.

Urorec or silodosin faced...started to face as of Q1 as anticipated generic competition, generics entered the market over the course of the quarter and we now have more multiple generics in all of the major European markets with price reductions as anticipated which range between 25% and 40%, depending on the country, but so far our strategy to continue to support products at the point of loss of the exclusivity has successfully sustained volume and managed to contain the level of its erosion in the first 2 months. We ought to expect that to continue in the coming month. Pitavastatin continued to grow well driven by strong underlying growth in Russia and Turkey, but also continued growth in Spain, Portugal and Greece.

We had an exceptionally strong quarter on our metoprolol franchise driven both by those markets where we established operations to promote products directly over the course of 2019, but also growth in Germany and Poland, growth which was in part also benefiting from some temporary shortage of generic products in some of the markets. Other corporate product growth of 15% was fairly broad-based with a particularly strong contribution from our seasonal flu and allergy portfolio Isofra and Polydexa in Russia and Ukraine, Hexaspray in France, but also strong growth...of growth of Procto-Glyvenol and Reagila which was up over 60% relative to Q1 in the previous year.

Drug for rare diseases grew by almost 38% obviously Signifor and Signifor LAR making a significant contribution to that with €14.7 million in the quarter. Juxtapid and Ledaga also contributed roughly €2 million each in the quarter. But beyond that, we also saw good growth from Carbaglu and Cystadane in U.S. and from Cystadrops in Europe alongside continued growth in some of our international markets.

As you will see from Page 6, you know, the share of business which comes from rare diseases and OTC continue to grow with rare diseases now accounting for 18% of total net revenue. And local product portfolios are still important, but below 16%.

Moving to Slide 7, and looking at revenue by geography. Once again, very broad-based growth with several markets offer to a solid good start in January and February already and obviously with a growth further enhanced in March by stock movements. The one outlier if you like on the slide is Italy, with minus 2% growth, that's driven by multiple factors, Italy you may recall based generic entries and price reductions on pantoprazole and lovastatin in the later part of 2019, and obviously a significant...has a significant business in silodosin which face generic entry in the quarter. Italy is also the one market within specialty and primary care where the stocking effect at the end of the quarter was less pronounced and in fact, it was close to nil, we estimate given that the crisis broke out earlier and we saw stocking already taking place in February and unwound in March.

France, revenue is up 8.9% with strong growth of methadone Hexaspray and Ginkor, plus obviously a good contribution from rare disease. And Singapore, there is also some stocking in France alongside the other European markets, as I've mentioned, which does in part offset pressures that we're seeing in France, on lercanidipine and silodosin from new legislation which was introduced at the start of the year, which promotes dispensing of generic alternatives.

Germany was off to a very strong start with growth in the quarter of 8.4% driven by metoprolol, Claversal. And obviously, once again, the contribution of Signifor. Very strong growth in Russia, CIS and Ukraine of 24.7% with Russia growing by 20.5% in the quarter with a mix of

volume and price growth, you know, really driven as I said earlier, by our seasonal flu portfolio and Procto-Glyvenol.

U.S. which is predominantly was effective, obviously relates to our rare disease business is up by 21.1%. With some tailwind in terms of FX the market...on a local currency basis, U.S. grows by 17.6% with the growth clearly driven by Signifor, but also Carbaglu and Cystadane, which more than offset what we expected to be a low single-digit decline for the quarter on Panhematin.

Turkey grew up by 25%, which reflects foreign exchange headwinds of close to 12% in the quarter. Growth was driven from the overall portfolio, but obviously particularly strong on leading products in the market Mictonorm, Cabral and Livazo. There was in Turkey as well even though the impact of COVID in the quarter was less pronounced. There was a little bit of talking ahead of expected price increases in the quarter. And we do expect growth to soften somewhat in Turkey in the coming months as a result.

Spain and Portugal, both grew with growth, driven by Livazo and Reagila, which was launched in both markets at the end of 2019, but again, the contribution of Signifor. Other Central Eastern European markets and other markets in Western Europe, all grew exceptionally well. Thanks to metoprolol particularly in those markets, as I said earlier, where we started to establish the direct selling organization, but also thanks to the continued growth of Procto-Glyvenol, Reagila and Zanidip and also again the contribution of rare diseases which almost doubled sales in Central and Eastern European markets.

North Africa is up by 5.4% with growth driven by our business in Tunisia, which is up double-digit 10% growth there, and other international sales

growth of 4.4% really reflects the growth of our rare disease business in international markets, particularly in Colombia and Japan, in addition to additional revenue in the quarter from Signifor.

So again, all in all, a strong the Q1 in terms of revenue, thanks to a good start of the year enhanced [ph] in March. And obviously an expectation that that will also mean a somewhat softer Q1 to adapt stocking unwind and as we face a stronger headwinds in terms of foreign exchange particularly on the Turkish lira, and the rubel.

On Slide 8, in terms of revenue competition by geography, the picture is, you know, fairly unchanged, the only thing that I will sort of emphasize here, is the fact that really the diversified footprint of the group has been a key strength as we've gone through this turbulent period, with the group not being overly reliant on anyone geography.

Switching to Slide 9, and looking at the other lines of the P&L beyond 12% growth in revenue, we also obviously saw a strong growth in underlying profit. Gross profit margin grew to 70.8% really driven by mix and the additional contribution from the rare disease portfolio.

SG&A expenses of 27.6% of sales are made up of 23.3% [ph] of sales of selling expenses and 4.3% of sales of G&A. The increase...the single-digit increase versus last year really driven by the additional investments and resources that we put in place over the second part of 2019 to upgrade our resources and capabilities to maximize the opportunity on our endocrinology franchise, and obviously start to reflect also cost to prepare for a launch of Isturisa in the U.S. partially offset by a level of deferral of activity on the primary and specialty care side from March into later part in the year again due to the disruption.

R&D expenses grow to 8.1% of revenue, really reflecting both the increase in amortization charges, rising from the acquisitions that we made last year, but also reflecting initial costs from the clinical trials, behind the Signifor and Isturisa which we inherited from Novartis. €2.1 million of other expenses are really the non-recurring costs incurred as a result of the COVID-19 crisis, mostly being in fact the majority of this are the donations which the group decided to put in place to help those hospitals in the most affected areas. We expect the total amount of let's say non-recurring cost driven by COVID for the full year to be in the range of €6 million to €8 million and once again, primarily being the €5 million of donations that we have set out to make.

Operating income, as a result is €148.4 million up 17.8% versus 2019 or 34.6%, and EBITDA is €172.9 million at 40.3% of sales or 20% increase versus last year. Obviously these figures also benefit from the higher sales in the quarter. But, I would emphasize that even adjusting for that and we estimate the incremental €20 million revenue being worth roughly €13 million and at EBITDA level, you will see that the EBITDA margin still is ahead of last year and in line with the improvement that we had set out to achieve in the 2020 target.

The net income of €11.2 million is 20.7% up on 2019, reflecting both the higher operating results, but also reduced financial expenses, driven by a positive effect on 2 cross currency swaps, which are no longer treated as hedges, since the start of 2019. And a lower tax rate around 33.5%, which benefit from the ongoing benefit of the Patent Box, which we agreed with the Italian tax authorities at the end of 2019.

As Andrea mentioned, as of this quarter, given the increased level of intangibles on our balance sheet and to facilitate comparability of our financial results with those of our peers in the sector, we have decided to

provide an additional measure as of this quarter being adjusted net income, which adjust net income for amortization and write-down of intangibles excluding software and goodwill and non-recurring items, net of the tax effect. On this basis adjusted net income for Q1 was €25.2 million, which is up 23.5% versus 2019. We will still fine tune the definition of EBITDA to exclude non-recurring items. And once again, in Q1, this solely relates to the COVID-related expenses of around €2 million, which we expect to grow to only €6..€6 million to €8 million for the full-year.

We've included for references on Slide 10, a clear reconciliation between net income and adjusted net income, both for Q1 2020 and Q1 2019, and also provided reconciliation for the full-year 2019, and a reconciliation of what would have been a target on adjusted net income basis that's consistent with the target net income guidance that we provided for the full-year. And again, I won't go through the details of that, but you will have that in the presentation slide.

Slide 11 illustrates the growing relevance of the rare disease business on our total results as we commented already. Rare disease representing 18% of revenue in the first quarter and 23% of EBIT and EBITDA. But nice also to see on a margin basis EBITDA for the both rare diseases and specialty primary care growing in the quarter relative to the same period of last year.

And finally, from my side, on the Slide 12, Q1 is also a strong quarter in terms of cash flow generation. As Andrea mentioned, our net debt at the end of March was €80.8 million, a decrease of close to €2 million versus December of 2019, which reflects also net cash outflow for share repurchases of around €4 million in the quarter and the \$20 million milestone payments that which was made to Novartis for the Isturisa

approval in the EU, with liquidity at the end of the quarter a very robust €200 million.

And with that, I will hand over to Andrea to talk about the outlook for the remainder of the year.

ANDREA RECORDATI: Okay. Thank you very much, Luigi. So regarding the...turn to Slide 14, please, so regarding full-year outlook for 2020. So despite the level of uncertainty from the environment in which we operate due to the COVID-19 crisis, we would like to provide you this outlook for the year.

Given the situation, we expect net revenue to be slightly below our original forecast, due to FX headwinds, in particular in Turkey and Russia, and obviously the impact of the COVID-19 lockdowns and demand in Q2 and Q3. Signifor and Isturisa targets are unchanged at around €17 million, notwithstanding the slight delay in the EU MA transfer for Signifor which implies only booking the net margin and not fulfilled for a few more months than we expected initially in our objectives. And clearly, also because of launch of Isturisa in the context, we all know about. €5 million to €6 million incremental investments over earlier than expected launch for Isturisa. And also please let me remind you that this launch also triggered €3 million of additional amortization charges.

EBITDA margin improvement excluding COVID-19 related non-recurring cost is basically on-track. As I said before, there were many donations and we roughly expect EBITDA and adjusted net income to be near the lower end of the range announced in February.

This leads me too basically to the end of the presentation, which points, actually I'd say; I pass the word to Marianne Tatschke.

MARIANNE TATSCHKE: Yes. Thank you, Andrea. Operator, could you please open the question and answer period.

## 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 to you to use handsets while asking questions. Anyone who has a question may press "\*" and "1" at this time.

The first question is from Martino De Ambroggi of Equita. Please go ahead.

MARTINO DE AMBROGGI: Thank you. Good afternoon, everybody. The first question is on the M&A activity that I suppose is totally frozen. But I was wondering, what's your feeling on the potential opportunities, which may arise in such a brand new environment first?

The second, do you stick to your 2021 guidance, which was supposed to include the additional acquisitions or this becomes more difficult. And still on 2021, just to be sure, the adjusted net profit guidance should be €50 million higher indeed than the €400 million more non-adjusted net profit.

ANDREA RECORDATI: Okay. Let me just answer the first question and I'll let Luigi answer the second question. Regarding M&A activity being frozen, we don't actually see this freeze of M&A activity. We have plenty of dossiers on our table which are progressing. And as you know and we believe that this [technical difficulty] can progress even in the context we're operating at

this moment in time. We don't really see why this should slowdown or be frozen. So this is still and always will be an integral part of our strategy going forward. And we would press on this front, obviously, also in view of the first one on objectives. Okay, so maybe Luigi you can answer the second question regarding the guidance for 2021.

LUIGI LA CORTE: Yes. So we're clearly... we're not providing at this point a sort of detailed update on 2021 guidance. So the one that we provided and which we reiterated at beginning of the year still holds. And yes, I think the ballpark, the rough estimate, which you quoted in terms of adjustment for 2021 if you go from net income target to adjusted net income is correct.

MARTINO DE AMBROGGI: Okay. Thank you. And if I may follow-up on sales for the current year because you mentioned negative FOREX effect of Turkey and Russia, just magnitude of this effect. And if you confirm Urorec minus 40 and Livazo minus €7 million for the current year due to patent expiry.

LUIGI LA CORTE: Okay. So I've...I think I'm not sure I heard correctly the first part of the question. In terms of the second part of the question, are we still expecting the level of genetic erosion on silodosin and pitavastatin as we had expected, I think the answer is, yes, absolutely. And in terms of foreign exchange, I mean, you will have seen obviously since the beginning of the year, both the ruble and the Turkish lira has weakened. And that's what we are referencing and seeing. Our guidance is provided on sort of based on the consensus exchange rates, not current exchange rates, and obviously we will see the impact of that on revenue. And we think the impact of that is roughly 1 percentage point in terms of additional tax that we see over the coming months.

MARTINO DE AMBROGGI: Thank you.

OPERATOR: The next question is from Jo Walton of Credit Suisse. Please go ahead.

JO WALTON: Thank you. I wonder if you could tell us a little bit more about Isturisa and Signifor. Just starting, you've given us the IQVIA sales number at €17.4. Can I just check exactly what you booked, so that we can get some sense of how much there would be an uplift when you take the full responsibility for the product? Perhaps you could tell us a little bit about the U.S. and European split for Signifor. And now that you are going to be launching in Europe and the U.S., just want to check your original guidance for the €70 million, excluded any U.S. launch. Now, are you adjusting the...your target, or should we still assume that that is excluding the U.S? And can you tell us a bit about pricing. Now, that you've got approval in Europe presumably you've been able to have some discussions about pricing ahead of launch, and perhaps you could tell us where you think that, that is shaking out? And on the COVID effect, you talked about specialty and primary care. You didn't mention OTC, for most companies OTC has been an area of significant stocking, is that not an issue for you? Thank you.

ANDREA RECORDATI: Okay. Thank you, Jo. A lot of questions there. I think, I've noted them all I'll give it a shot. So in terms of Signifor and Isturisa and clarity. So first of all, just to be clear, as noted on the slide, those are not IQVIA sales, these are for 2019, the sales which were reported to us by Novartis having been sold into the market. And for 2020, this is a gross of the €14.7 million net revenue, which we book, which is for the period before marketing authorization transfer a net margin. And then, following marketing authorization fronts, where...which has obviously occurred already in the U.S. you know, a sort of gross, the net sales number, as the rest of the portfolio. So we've tried to help the read of the...our estimate of the market performance, we have a grossed up our revenue number to

make it comparable, to a sort of net sales number, which would have been recorded by Novartis last year, so that's #1.

I think #2, I think you were looking for a U.S. and Europe split, we have not provided that in the past other than saying that more than 50% of Signifor sales is outside of the U.S. And I think we will leave at that finding. On the €70 million guidance for the products. There are 2 effects there, which will set each other. So on one hand, we have made an estimate we built into the forecast now, initial sales of Isturisa, in the U.S. for the year. However, we have also...there is a small delay of 1 to 2 months, and the timing of the marketing authorization transfer of Isturisa...sorry of Signifor in the European Union, and again as explained before the market authorization takes place, the revenue that we book is only the net margin, so there's a discount to the full amount. That's why we're sticking with for the time being with a guidance that we've provided, which obviously is also reflective of the fact that we will be launching Isturisa in a somewhat unprecedented environment where we think we have put in place everything that is necessary to still maximize the opportunity, but obviously the level of accuracy that we can provide in the forecast that I am sure you appreciate is reduced.

On pricing, we're not going to provide detailed commentary on pricing. I think Isturisa has a very compelling clinical profile, and the rest assure we will have also compelling value proposition, and we will not comment, more than that being in launch phase.

And I think hopefully...with the last question on COVID. Yes, you're absolutely right. When I commented on specialty and primary care that obviously includes the OTC portfolio within that as well, you may recall whenever we report our numbers OTC is part of specialty and primary care. And yes, OTC as well was affected by the stocking and will be

effecting in Q2 by destocking, and what we expect to be a temporary softness of demand.

I hope we cleared all the questions.

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

KC ARIKATLA: Hi, everyone. Thank you for taking my questions, I have 2. The first one on Panhematin, can I confirm that the product sales in the U.S. were down low single-digit percentage. And if that is true, can you give us an idea about whether this has been a growth product in the last few quarters? So is it down low single-digit after growing quite a bit in the last few quarters, and also is that all currency driven, or are you seeing any initial impacts from the recently launched competitor product here? That's my first one.

The second question, a few Spanish pharma companies have been talking about potential price cuts proposed by the government for prescription products in the country. Can you give us an idea about how big your prescription sales are in Spain, and we'd love to hear any thoughts that you might have on these potential price reforms? Thank you.

ANDREA RECORDATI: KC, I'm sorry. I think perhaps it was the line, but we're not sure we caught the product. I think your first question was on Panhematin, is that correct?

KC ARIKATLA: Yes, Panhematin historical growth and are you seeing any impact from [indiscernible]?

ANDREA RECORDATI: Yes, so the short answer is, the impact so far is in line with what we expected. I think, we commented at the end of the year that the erosion

would happen over time, it would be more of a 2021 effect, as opposed to a 2020 effect. And I think I mentioned during my presentation that we've seen a sort of single-digit decline in Q1 on Panhematin, which to be honest is part [indiscernible] just general impact, where our patients need to go to infusion centers. And clearly have not been able to do that in certain circumstances because of the crisis.

And I think your second question was around the Spain and the level of prescription sales. I'm not sure.

MARIANNE TATSCHKE: On the price cut.

ANDREA RECORDATI: Sorry.

MARIANNE TATSCHKE: Price cuts apparently has been announced by...

ANDREA RECORDATI: To be honest, we've not seen sort of price reductions as being sort of a major factor in Spain in the quarter; the prescription pharmaceutical sales in Spain roughly...are just over 80% of the total sales.

KC ARIKATLA: Okay. Thank you.

OPERATOR: The next question is from James Vane-Tempest, of Jefferies. Please go ahead.

JAMES VANE-TEMPEST: Hi, good afternoon. Thanks for taking my questions. I have a couple on guidance, and then a couple on the business, if I may. So just on guidance, and just to be clear in at least in terms of looking the alternative performance measures, so thank you for providing that. Going forward, you're going to be providing guidance on that metric is that going to be the preferred metric or guidance or is this just given the period in

terms of the one-off, how we should think about it, and then, you know, which numbers really what...we should be focusing on for the year.

And then second question relates to guidance's, R&D I mean, you flagged anyway that we should see an increase as you're investing in your portfolio. But, trying to look at you know, what you delivered in the topline stocking seems as if you might be running at an underlying level of around 8.5% of revenues. I am just wondering if that's sort of the right place to be in.

And then just questions on the business, you've given us a sense of the overall impact from COVID to the businesses here, but can you give us a flavor perhaps of the top 3 countries in Europe, how it had a various impact on the different pieces of the business and how you've responded?

And then finally, on M&A, Andrea you touched on that earlier into the Q&A, but just curious, if you could give some more details around the M&A environment, from the discussions you are happening in what areas we could potentially see the company go into next. Thank you very much.

ANDREA RECORDATI: I'll start with answering the last one. I mean, I cannot give you that kind of information. Clearly, M&A is a very sensitive subject. And as we said we have a lot of doses that we're looking, both in SPC and in rare disease. Okay, we're looking at portfolios of products being divested and we're looking also at opportunities or in licensing products in late stage development. And this is really the kind of color [indiscernible] reasons James. I hope you can appreciate that. But, as I said, there is a lot of movement, there is a lot of opportunities out there, so we're pretty confident that we will be able to kind of pursue and progress with our M&A strategy [indiscernible] even in this context we're operating in.

LUIGI LA CORTE: And I guess, James, going back to your first question with regards to guidance. You know, as you said, first of all, just to be clear as we said, we are going to continue to report on that sort of full IFRS basis and therefore provide visibility, not just on an adjusted net income basis, but net income as well. In terms of the focus on guidance, I didn't think, you know, as I said, you know, particularly given, second guess the type of acquisitions that we will make and whether or not they will come with value being ascribed to goodwill as you know it's not amortized versus intangible assets. We believe that, in terms of providing guidance the focus have to be on revenue, EBITDA and adjusted net income. But, again, as we have done now we will provide a bridge, so that you are able to reconcile. And in terms of the non-recurring items, as I said, in my presentation [indiscernible] 2020 is just too simply isolate maybe the donations and any truly acceptable non-recurring cost arising from COVID, after 2019 they were no such costs, there was...and I think we highlighted this clearly at the end of last year. There is the one-off benefit relating to prior year is off the Patent Box of €27 million in Q4. So, you have...the process of guidance will likely to be revenue, EBITDA and adjusted net income going forward, which also believes puts us more sort of on par with many in our sector.

OPERATOR: The next question is from Christ Ryan of Bank of America. Please go ahead. Excuse me, the question is from is a follow up from Jo Walton of Credit Suisse. Please go ahead.

JO WALTON: I don't think you actually answered the last question on R&D and if you cut out amortization 8.5% of sales it's still very low by your peer group standards. I wonder if you could talk little bit about how you see that developing. And if we look again through 2021, and perhaps beyond, I am interested in your views as to how governments are going respond to the extra debts that they are taking on board. Now, traditionally we like to

see our pharmaceuticals sort of you know, pretty much free at point of delivery and governments are very generous. But, do you expect to see incremental price pressures coming in as well as the COVID situation has to be paid for. And if so, are there any particular countries where you would point to a potential pricing risk for you? And could I also ask for the sales number for Isturisa, I think you may have given it, and I may have missed it?

ANDREA RECORDATI: Okay. So, starting on R&D Jo, if anything honestly R&D I don't think there is any sort of major change in terms of I think amortization numbers that we have always commented on, if anything R&D has been increasing over the last few years, both as a result of the increased amortization and as a result of new studies in particular going forward. We will see an increase being driven by costs, which are coming through the...to support ongoing trials of Signifor and Isturisa the factor is below differing [ph] with the levels of other companies in the sector. Yes, it is a different sort of if you like our product portfolio and approach. I think the Group has always being consistent [indiscernible] as an integral part of its strategy. And if you like complimenting the in house research which is done, you know, also depends on what stage you know difficult trials that we are carrying...different trails that we are carrying through are. So going forward there might be fluctuation, but yes, you are not going to see our R&D line 12% to 15% of net revenues, I mean, this is not what we expect and envisage going forward.

LUGI LA CORTE: And you've heard good percentage, I think you can factor in line with the guidance which we have provided us far as the 3 year plan? Okay, I think you had a question on pricing pressure?

ANDREA RECORDATI: So the Pricing pressure linked Jo to the current prices, in other works if the government in order to kind of mitigate this extreme cost that we are

putting on the balance sheet are going to come to us as an industry to regain at some stages. Honestly, it's a very uncertain time, and so it's very difficult to give you any kind of, you know, answer that, we are obviously monitoring the situation at this moment in time for an answer to this question. It is also a possibility but we haven't any seen any movement of the sort per se which are directly linked to the COVID-19 crisis.

LUIGI LA CORTE: I am sorry, I have just realized that I had missed one of the questions from James trajectory who is sort of unpicking the growth rate, and I don't know just to be clear, so, we have 12% overall growth, we said, €20 million of that is really exceptional stocking. Now, €14.7 million is contributed by Signifor. If I wanted to subtract both the sort of if you like the new revenue from Signifor and the stocking impact, we should be looking at a figure, which is closer to 3%, which is consistent with...in fact it's a very much in line with our expectation for the start of the year. And once again a year where we know we would be losing exclusivity of both silodosin and pitavastatin and facing the entry of new competitors of Panhematin in the U.S. So, apologies for that and please if you are going to be asking multiple questions if you could go a little bit slowly, we could have had sometime maybe to just note them all. Thank you.

MARIANNE TATSCHKE: Jo wanted to know about the sales of Reagila.

LUIGI LA CORTE: Yes, sorry Jo. Sales of Reagila were just over €3 million and 60% plus increase versus Q1 of last year. And hopefully, I hope we have not missed any other questions from anyone so far.

OPERATOR: The next question is from Chris Ryan of Bank of America. Please go ahead.

CHRIS RYAN: Hi, sorry, my questions have been answered. Thank you.

OPERATOR: So, the next question is a follow-up from James Vane-Tempest of Jeffries. Please go ahead.

JAMES VANE-TEMPEST: Hi, thanks for taking the follow-up. Just to qualify my earlier question, I was looking at more from the point of view of R&D as a proportion of revenue and I am curious in terms of what the underlying spend is, is sort of 8.5% really what the underlying run rate is for the year. And then, just from my, you know one of my prior questions I am just curious what impacts in terms of the sort of top 3 countries in Europe, you know, how the businesses adopted to the COVID challenges and what kind of processes you maybe have in place, just some color in terms of the Top 3 countries and outside of Italy would be really, really helpful to understand the businesses well.

LUIGI LA CORTE: I think we missed the second part of the second question. Regarding R&D, the run rate I think you can put it around 10%, okay, for a full year.

MARIANNE TATSCHKE: And what is the underlying without amortization?

ANDREA RECORDATI: Underlying without amortization?

LUIGI LA CORTE: Yes, it's roughly 50%; I mean no change versus what we have seen in Q1.

JAMES VANE-TEMPEST: Okay. Thank you. And just to clarify, my second question, it's given an impacts of the overall, you didn't give what impacts from COVID to the business but can you give us a flavour how this has happened in some of the various countries you operated in?

ANDREA RECORDATI: I think this has been really difficult market-by-market and in terms of also our products, every market was different in terms of the kind of measures

that we putting in place...that were put in place is different in terms of the logistic structures that we have delivered [ph] and that, you know, again it's not an exact science in terms of estimating the extra stocking impact. If we have obviously done this sort of country by country basis with the team, the €20 million is our estimate.

And you know in some cases we have seen as I said maybe metoprolol strictly was to an extent expected where market participants were slightly worried that generic options which were sourced out of China would be low in terms of availability. It's really difficult to give you a short answer, we would really have to go market-by-market, the only thing that I think stood out is obviously as I said, in Italy we saw that happened in February and unwind in March, and we'll see now in the next months, but we have seen most of that already reverse in the month of April actually, and continuing on in May.

So, I am confident by the time we get to Q2, we should have a more clean picture if you like in terms of underlying sales. Of course, what neither we and nor I think anyone right now can predict is whether or not there will be second waves of lockdowns in any of the markets, which clearly was not built into our thinking at the moment, the expectation is that gradually over the course of Q2, and Q3 things will start going back to a new normal. Let's say at the end of Q2 when we will announce our Q2 results...first 6 months results, I think we will be in a better position to give you cleaner kind of view on the outlook for the rest of the year, okay.

JAMES VANE-TEMPEST: That's very helpful. Thanks very much.

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

on your telephone. Ms. Tatschke...excuse me, there is a follow-up from Jo Walton of Credit Suisse. Please go ahead.

JO WALTON: I wonder if you could just tell us a little bit more about your launch plans in such a tough time for Isturisa. Is it...and whether you feel you have got all the right sort of digital tools in place? A number of companies have told us that they will be delaying their launches or it seems not strange clearly, but it seems ambitious to be launching a brand new product. Is this because you feel that you have already got very good tractions with the doctors, because you know them because they are selling...they are already involved with Signifor so that you can speak to them. Just give us some sort of...a little bit more sense on your plans for the launch please.

ANDREA RECORDATI: Jo, I think you answered your question, obviously we have good traction with the physicians, because they already obviously utilizing an endocrinologist in particular since they are already utilizing Signifor so our target in experimentation of physicians is in place. We have already started promoting to them in the U.S. for Signifor as you know and organization that we set up specifically for the launch of Signifor [indiscernible] specific business unit...endocrinology business unit in the U.S. to cater for this product portfolio, is already calling for Signifor and obviously doing premarketing activities for Isturisa. Isturisa is a product that is, let's say, highly anticipated by the endocrinologist so this should definitely help us even though obviously the face-to-face interactions are by definition limited; it is not in most cases nearly impossible.

We have invested obviously in digital tools in order to compensate this lack of face-to-face interaction which...and this has been going on both at the U.S. level and also the European level. But yes, I mean, so I think you partially answered your question. I hope I kind of you know added a bit more. But let's say that, we are confident that we should launch...I mean,

we don't think...we think it would be, let's say, unethical not to launch a product because of this crisis. This is a serious disease, okay, and this product has an extremely interesting profile, efficacy and safety profile. As I said, it is highly anticipated by the physicians and by patients. And so, I think it will be totally unethical not to launch it just because the launch, let's say, context is not ideal from a promotional perspective. But as I said this is going to be compensated by the fact that there is a big anticipation for the stock acquisition [ph] and also the fact that we know exactly [indiscernible] and targets that we need to go and visit and [indiscernible] and promote to our area of clients basically for Signifor. So we are quite, let's say, confident that we should deliver as expected, okay, even in this [indiscernible] situation.

JO WALTON: And can I ask you also, if you have any idea of when you might give us your Capital Market's Day with a sort of a bolder strategic update?

ANDREA RECORDATI: This has...I think we already mentioned it is going to take place...honestly, Jo, I think it would be...it will take still some months before...to really understand the impact of this crisis. So as I said, we will give you a 2020 outlook...new outlook for 2020, sometime during the first half results kind of you know, investor call, and the plan as already communicated is to present...

MARIANNE TATSCHKE: Not communicated.

ANDREA RECORDATI: We haven't communicated, sorry. The plan is to present the new was agreed also with the Board of Directors is to update our 3 year plan in February 2021...

JO WALTON: Thank you very much

OPERATOR: Once again, if you wish to ask a question, please press "\*" and "1" on your telephone. For any further questions, please press "\*" and "1" on your telephone.

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

ISACCO BRAMBILLA: Hi, good evening everybody. Thanks for taking my question. First one is on your topline guidance for full year 2020. You are mentioning an expectation to be slightly below the original guidance of mid single-digit revenue growth. I was wondering is this mid single-digit target purely organic or it takes into account also some kind of further contribution from M&A. This is [multiple speakers].

ANDREA RECORDATI: [Indiscernible]

ISACCO BRAMBILLA: Okay. And the second one is on Zanidip; Zanipress products are now posting...are again positing a quarter of sales growth. Should we continue to stick with regional expectations of flattish trends through 2021 or you feel confident we can assume some kind of growth going forward. And basically, the same question also for Seloken for which sales were very strong this quarter. I acknowledge there was some kind of one-off effects in this quarter, but 30% [indiscernible] is a lot, and I was wondering whether the underlying trend you see for Seloken is still flattish top line trend or some kind of thoughts may come also from this product?

ANDREA RECORDATI: Thank you, and this is...to answer...just to be precise on the first question you know, the bullet point on the mid single-digit growth as the total is from our February presentation which was representing our total sales, so that's total sales growth expectation which is...and just again...just to be really precise, it is organic instead of existing of base business plus

Signifor and Isturisa, so that's what...that was the guidance that was provided at the beginning of the year and that reference point against which we are saying as a result on the combination of slightly adverse effects and the, you know, softer demand which we expect to see particularly include Q2 in addition to the destocking will be likely slightly below. So again it is total...that's on total revenue consistent with the target that was defined at the beginning of the year which includes what we would call to be organic plus the contribution from Signifor and Isturisa.

With regards to longer term expectations on Zanidip, Zanipress and Seloken growth, you know we said that we will come back with a fuller update for 2021 and beyond. We are not going to try and do that on a product-by-product basis. But I think on...certainly on Seloken, you know we are happy with what we are seeing of the product, yes some of the growth in the quarter was one off. We would expect that product, now that we put resources in place in a number of markets where we used to operate distributors in the past as we show growth for the year. Zanidip and Zanipress also continuing to grow on an underlying basis, but I think there we need to obviously watch closes the impact in coming months in France, which is a high volume market for these products, and the impact those measures which were introduced earlier this year which forced patients to pay for products where they are dispense a branded and only afterwards claim reimbursement for the different generic. We have to see the impact that that has on the business and that may dampen the growth on Zanidip and Zanipress in the coming months.

ISACCO BRAMBILLA: Very clear. Many thanks.

OPERATOR: The next question is from Giorgio Tavolini of Intermonte. Please go ahead.

GIORGIO TAVOLINI: Hi, good afternoon and thanks for taking my question. I was wondering if you expect any additional cash out in the second quarter for the payments for the Isturisa launch since you already booked in the full year 2019, €89 million...payables for future payments due to Novartis. So I was wondering since you paid €20 million if you expect to pay the rest between Q2 and Q3 or in another moment. Thanks.

ANDREA RECORDATI: Yes, thank you for the question. Short answer is, yes, we have paid a \$60 million amount to Novartis which as you rightly pointed out was amongst the milestones that we are already articulated in the December 2019 final results. Once, we knew that the product have gained approval in the U.S.

GIORGIO TAVOLINI: Thank you.

OPERATOR: Ms. Tatschke, gentlemen, there are no more questions registered at this time.

MARIANNE TATSCHKE: Okay. Thank you. Thank you, operator. Thank you everyone for attending the call. Goodbye.