



Capital Management



# RECORDATI

Milan, March 27<sup>th</sup> 2017



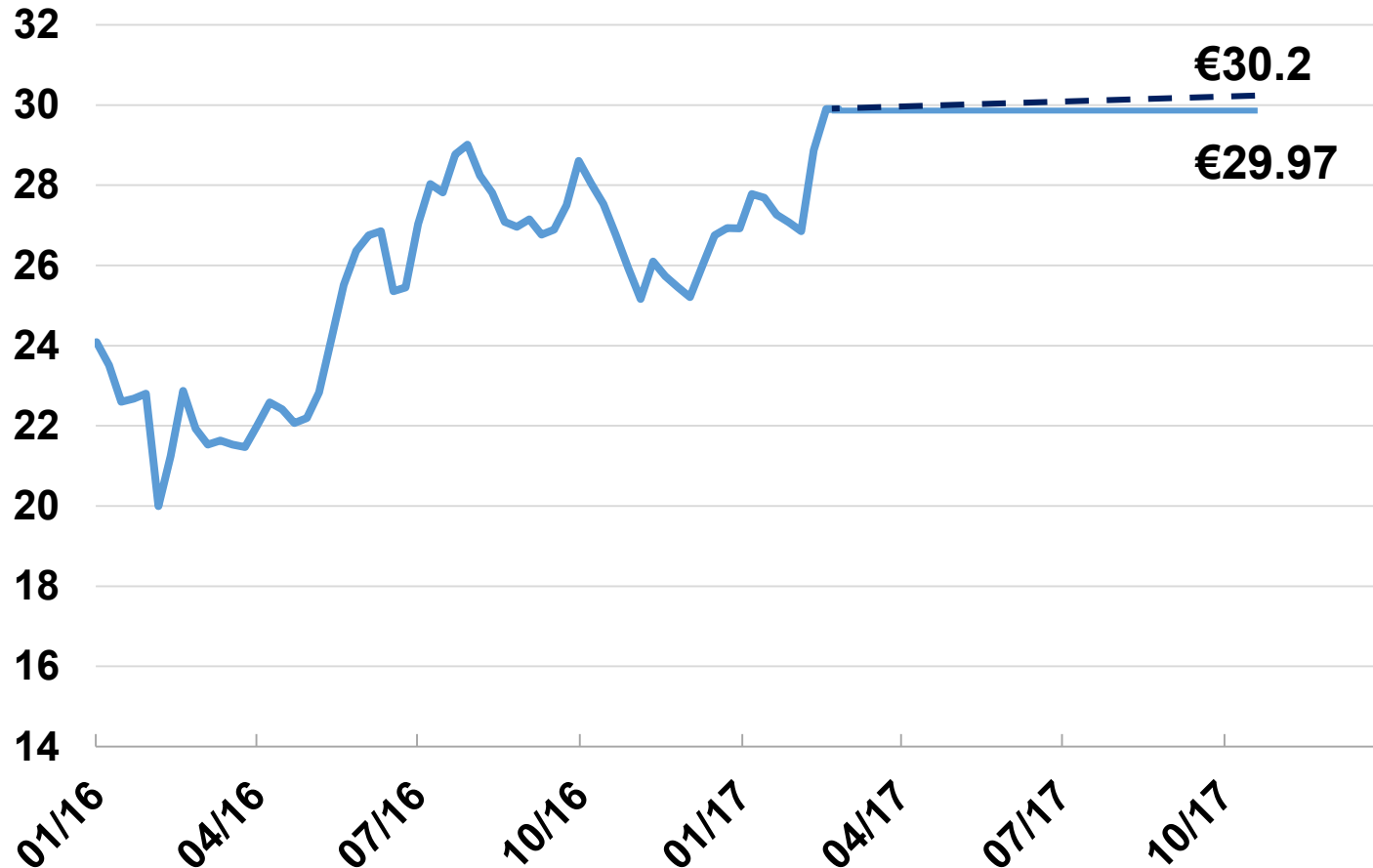
**CFA Institute Research Challenge**

# Investment Recommendation



Ticker – REC : IM

Industry - Healthcare | Pharmaceuticals



Initial Coverage  
**HOLD**

**€30.2 TP**

+0.7%

€29.97

As February 28<sup>th</sup>, 2016

## KEY INVESTMENT DRIVERS

- **Bright Outlook** already factored in
- Need for **More Guidelines** about **Investments** and Capital Structure
- **Significant % of Growth from Discontinued Operations with Excellent PastTrack Record**

# Business Description



# Recordati at a glance



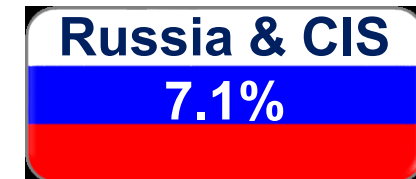
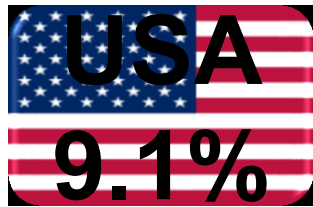
MARKET CAP

**€6.26bn**

As February 28<sup>th</sup>, 2016

REVENUES 2016E

**€1.15bn**

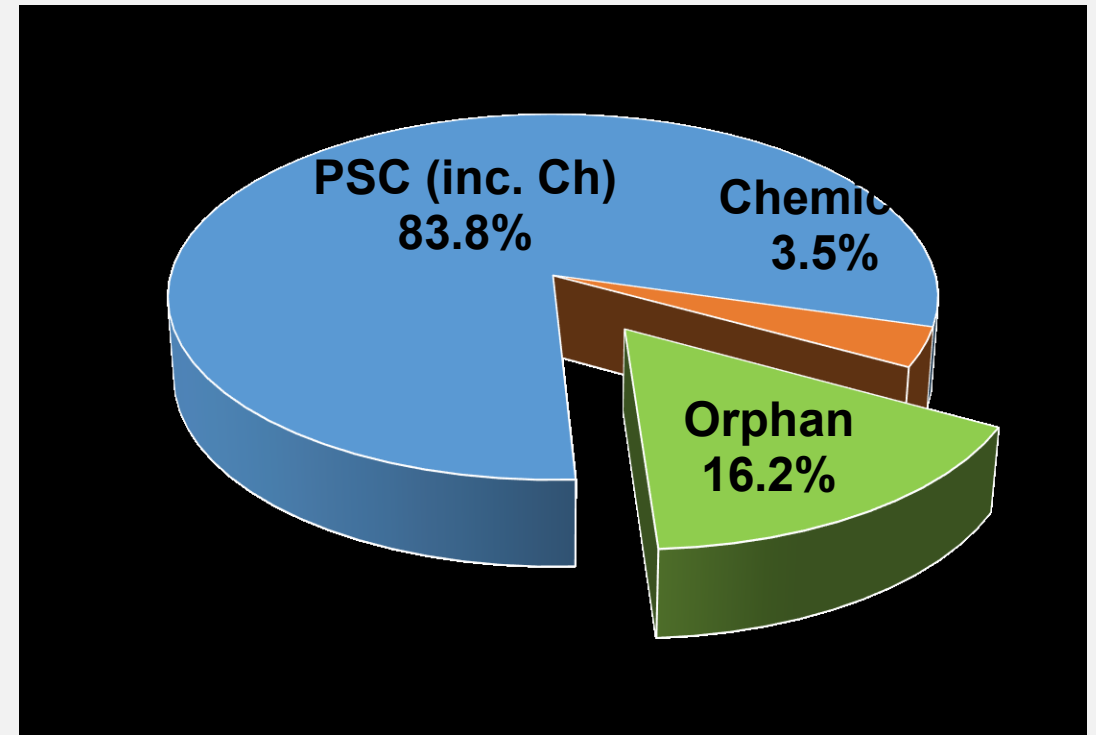


\*Pharmaceutical Sales %

- Subsidiaries
- Branches and other forms of territorial presence
- Countries where Recordati products are sold (under license or exported)



# Recordati at a glance



Business Description



Industry Analysis



Financial Analysis

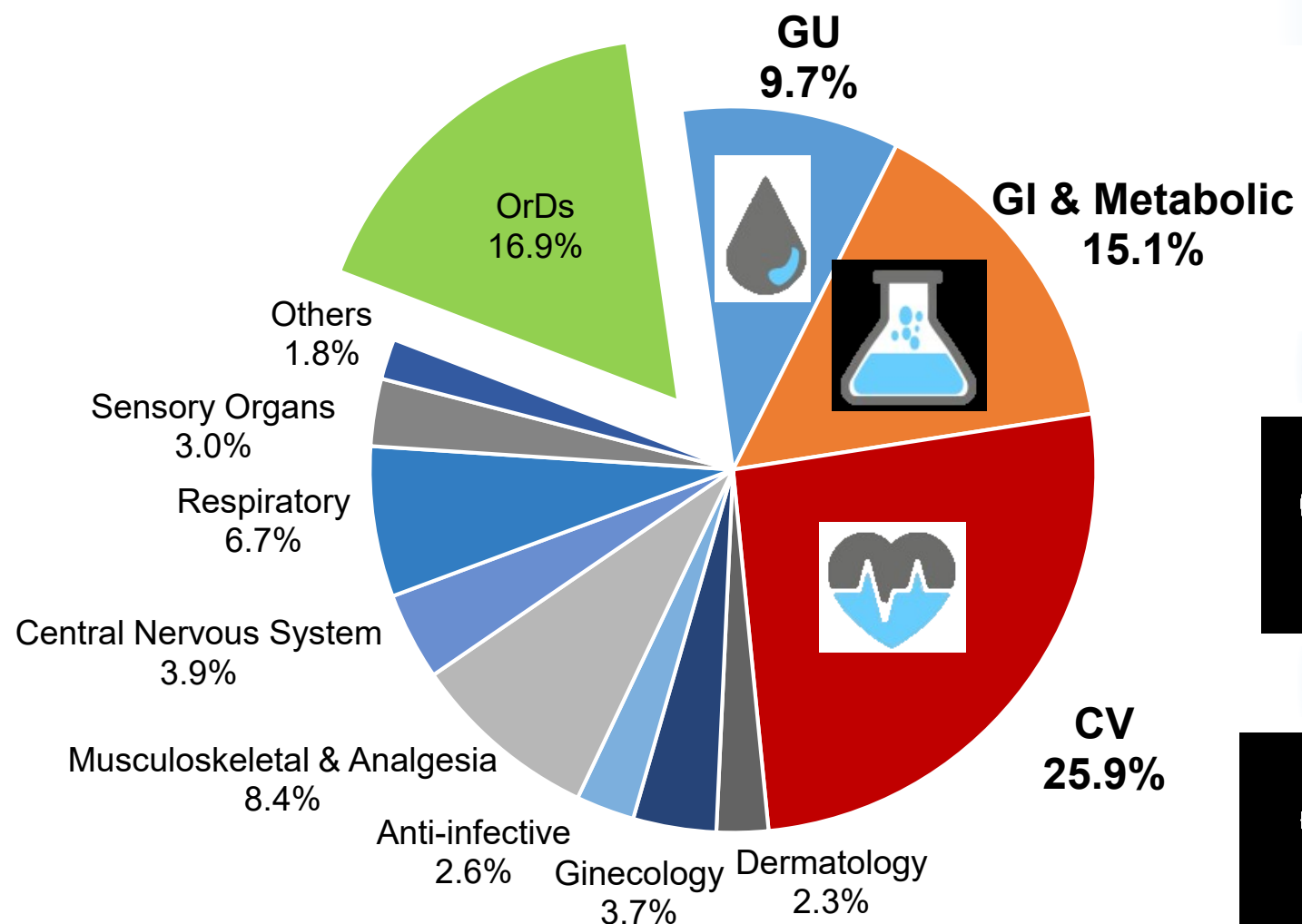


Valuation

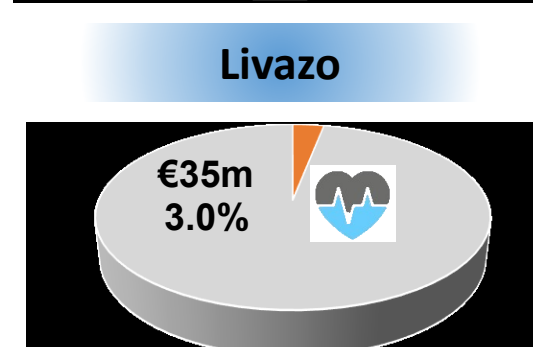
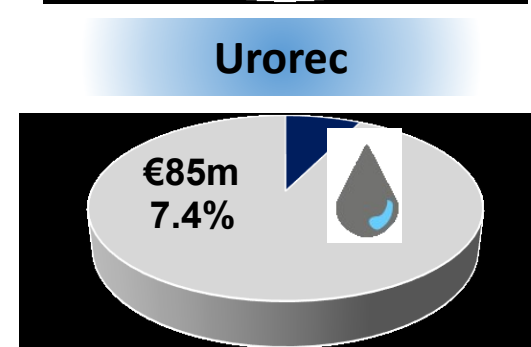
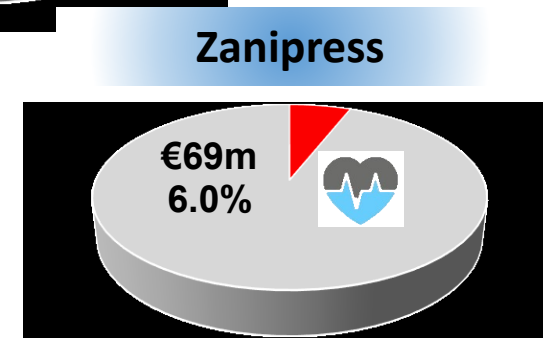
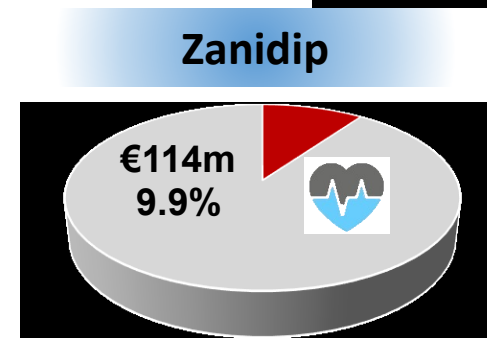
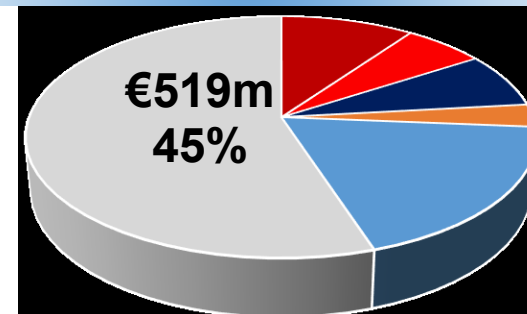


Investment Risks

# PSC Portfolio Structure



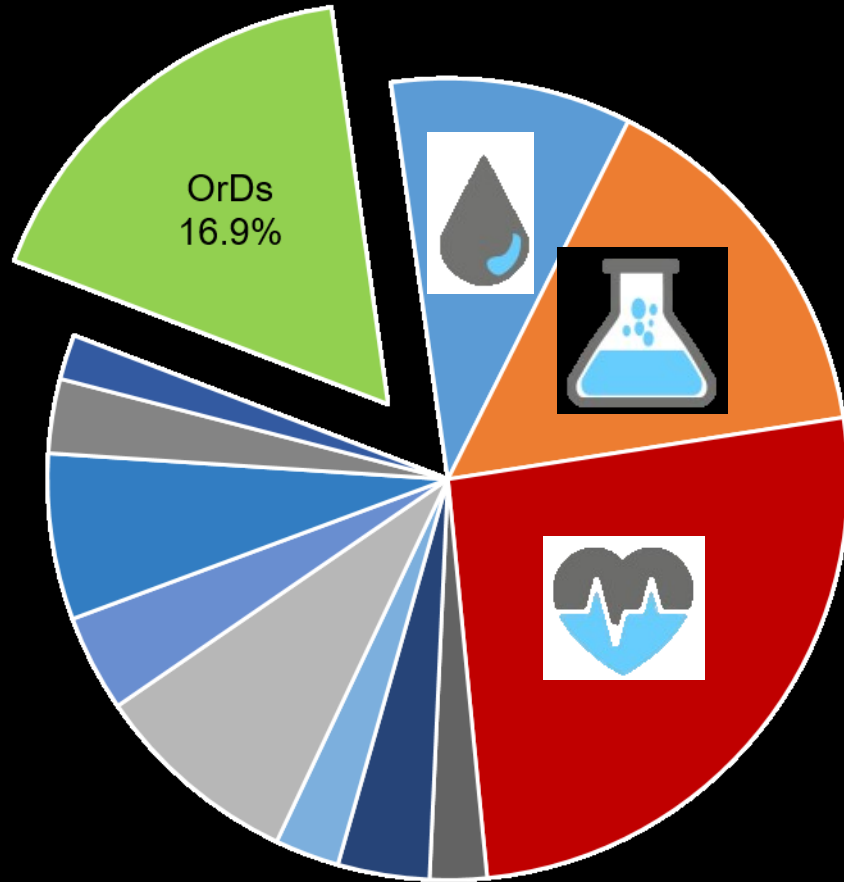
## 23 Corporate Products (6 OTC)



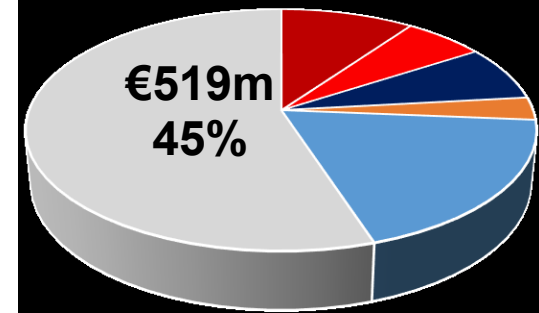
Therapeutic Area % of Pharmaceutical Sales as of 31 Dec 2015



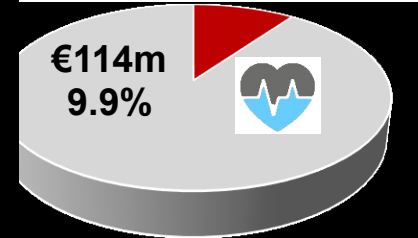
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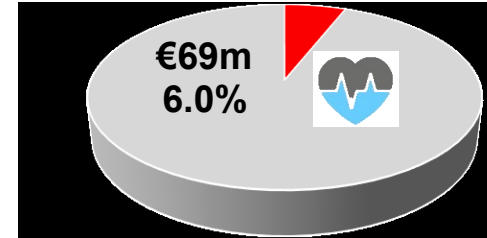
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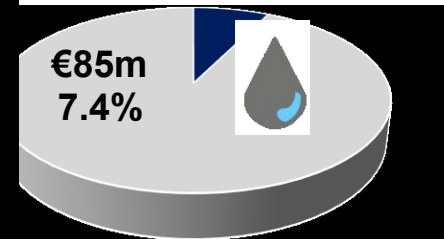
### Zanidip



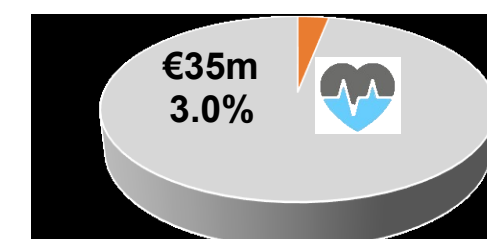
### Zanipress



### Urorec



### Livazo



Business Description

Industry Analysis

Financial Analysis

Valuation

Investment Risks

# EMEA Subsidiaries at a glance



Most Important Subsidiaries

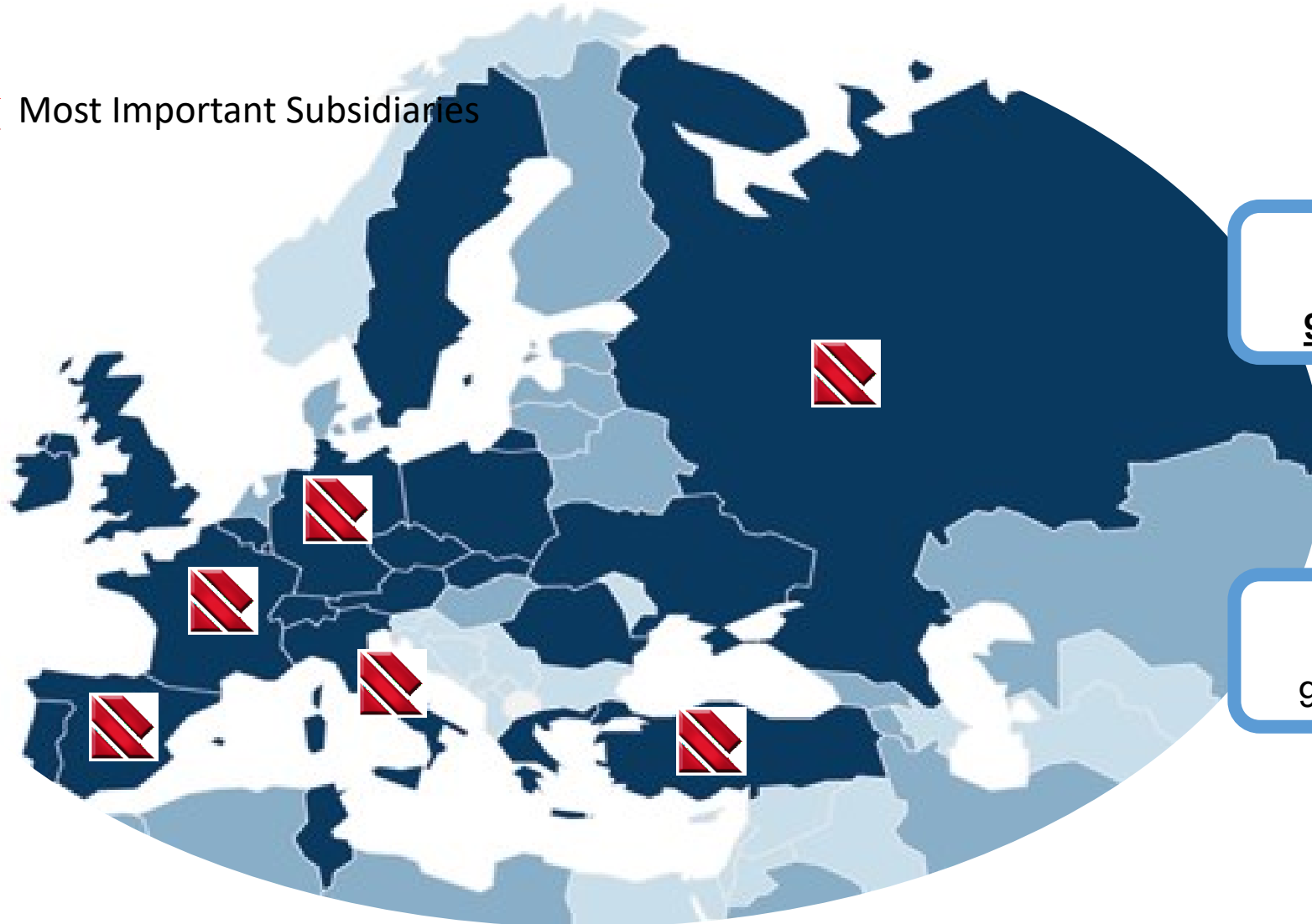
**Italy**  
**20.6% Sales**  
1.1% 3Y CAGR

**France**  
10.3% Sales  
**0.0% 3Y CAGR**

**Germany**  
**9.1% Sales**  
7.5% 3Y CAGR

**Turkey**  
7.8% Sales  
**9.5% 3Y CAGR**

**Russia & CIS**  
7.1% Sales  
9.8% 1Y Growth



Business Description

Industry Analysis

Financial Analysis

Valuation

Investment Risks

\*Pharmaceutical Sales % including OrDs



# Orphan Drugs Business



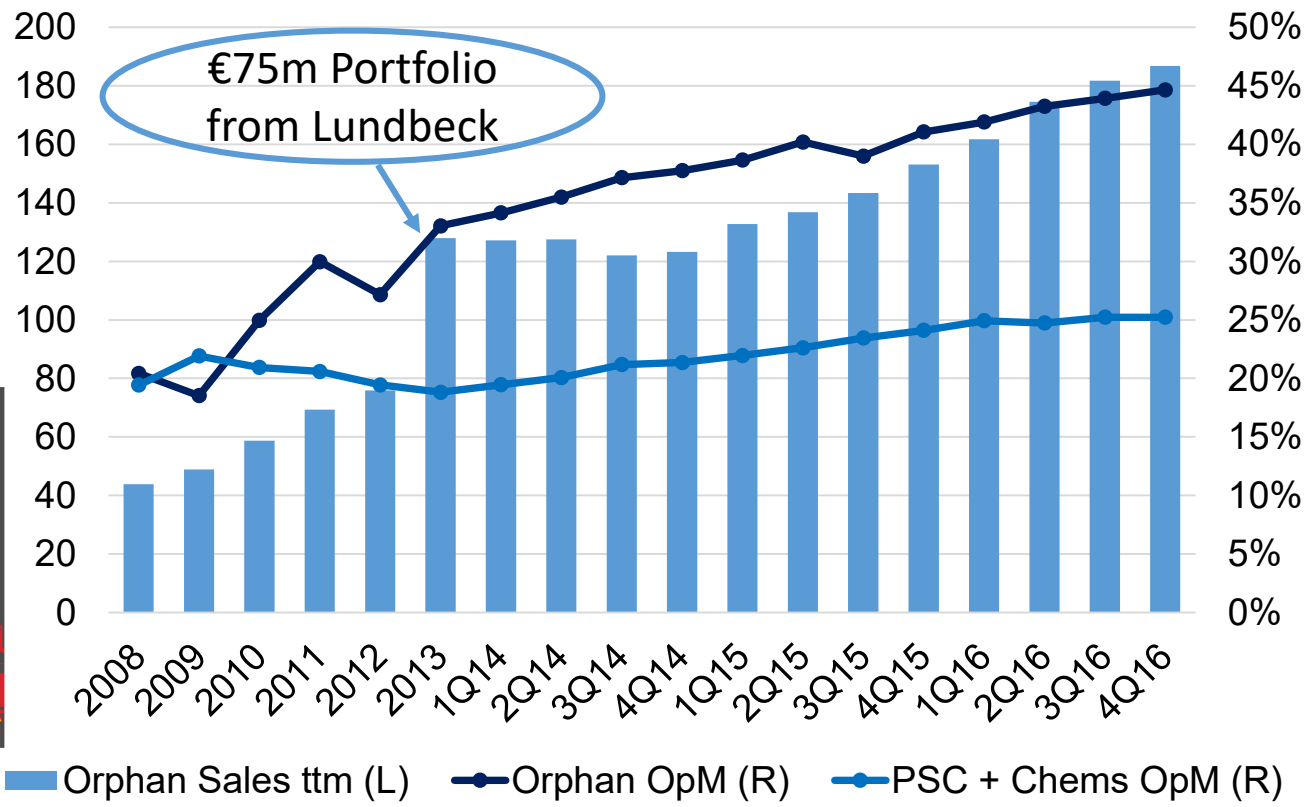
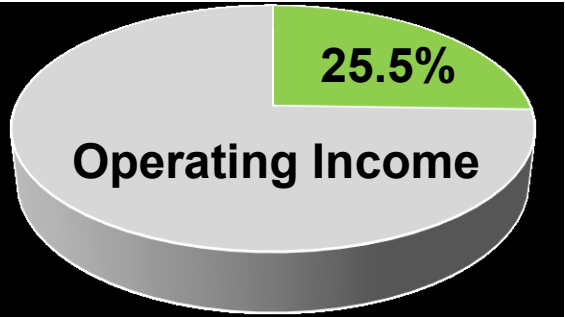
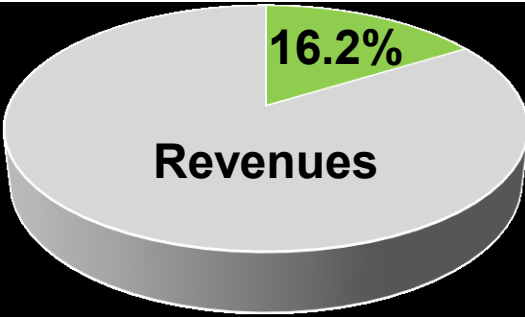
**€187m**  
Revenues 2016E

**13.5%**  
CAGR  
since 2013

**9**  
Orphan Drugs

**2**  
New Launches  
& Indications

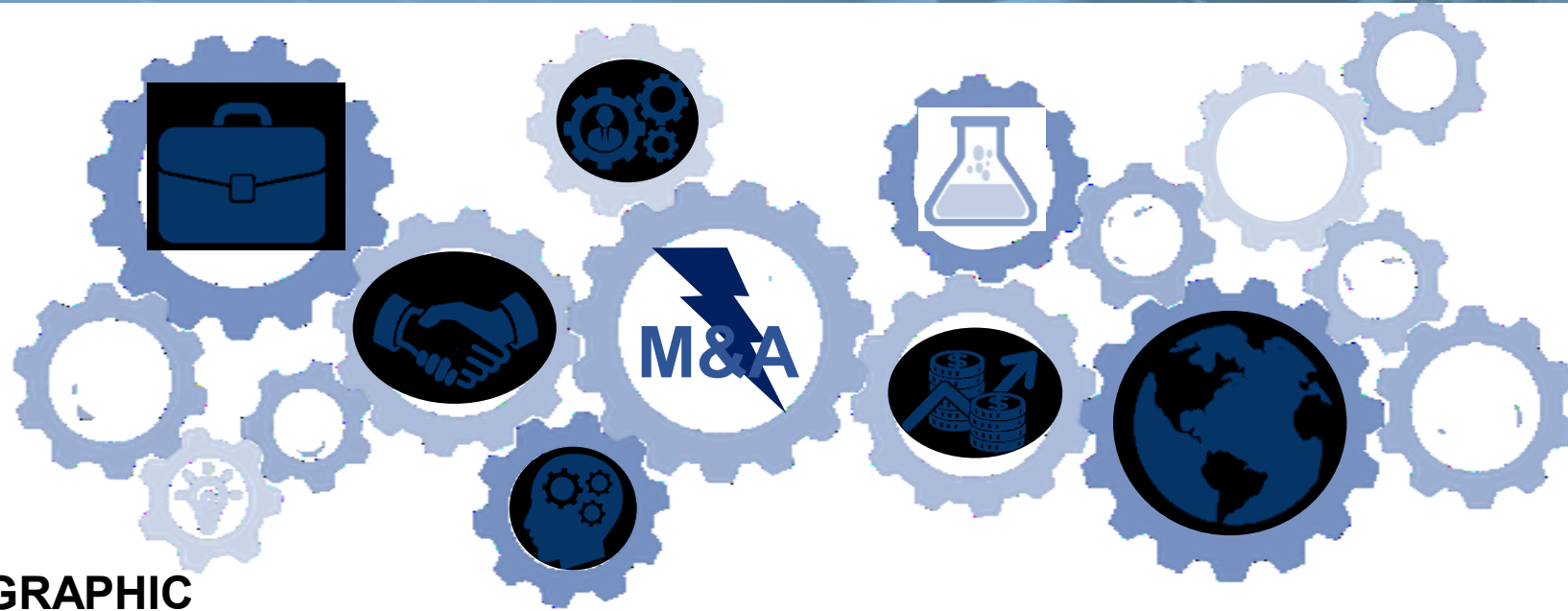
**4**  
Compounds in  
the Pipeline



**USA**  
9.1%  
**SALES**



# Business Model



## GEOGRAPHIC INTEGRATION

of Corporate Portfolio in order to obtain compounds' FULL VALUE



## BOLT-ON ACQUISITIONS

to expand and consolidate geographically, grow inorganically and strengthen the pipeline



## LOW R&D

Focused on few key compounds and progressively towards the orphan business



## GLOBAL ORPHAN BUSINESS

US since 2013 with Recordati Rare Diseases  
Expansion in LATAM in 2014  
2019 Target: South-East Asia

Business Description

Industry Analysis

Financial Analysis

Valuation

Investment Risks

# Industry Analysis



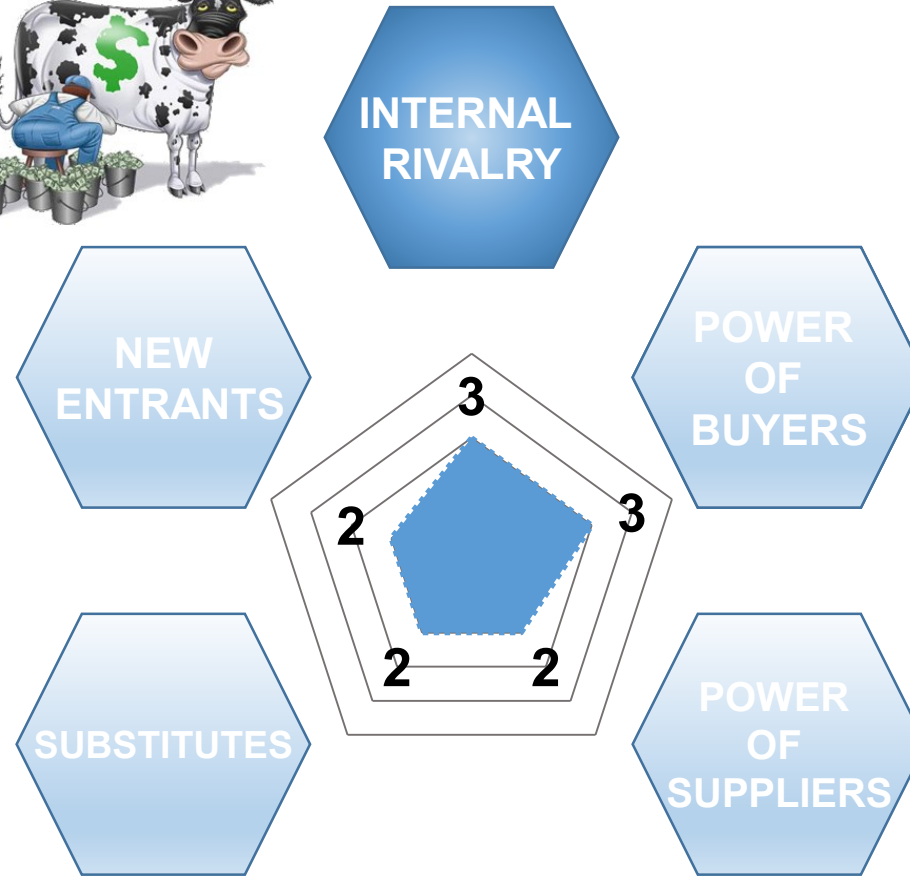
# PSC Industry Analysis



- Crowded & Low Innovative
- Demographic Trends
- Stable Generic Competition

**HIGH FRAGMENTATION**  
**Low and Established MS\***

**NEED TO FOCUS ON**  
Unmet Needs



Business Description

Industry Analysis

Financial Analysis

Valuation

Investment Risks

# PSC Industry Analysis



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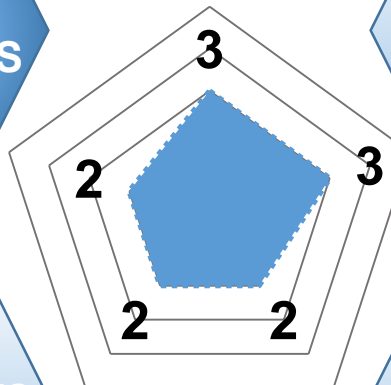
**INTERNAL RIVALRY**



- **High Barriers to Entry in Specialty Care**  
+
- **Difficulty to Innovate**

**NEW ENTRANTS**

**POWER OF BUYERS**



**SUBSTITUTES**

**POWER OF SUPPLIERS**

Business Description

Industry Analysis

Financial Analysis

Valuation

Investment Risks

# PSC Industry Analysis



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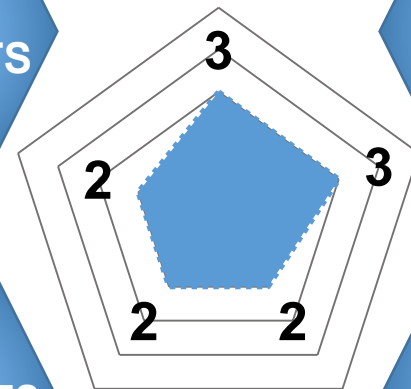
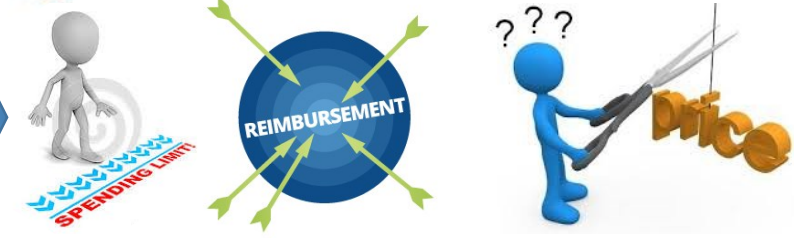
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- +
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**NEW ENTRANTS**

**POWER OF BUYERS**



**SUBSTITUTES**

**POWER OF SUPPLIERS**

- **Not a Likely Target** of further Price Cuts or changes in Reimbursement Rates
- **OTC/NPP Diversification** (Purchasing Power Shift)

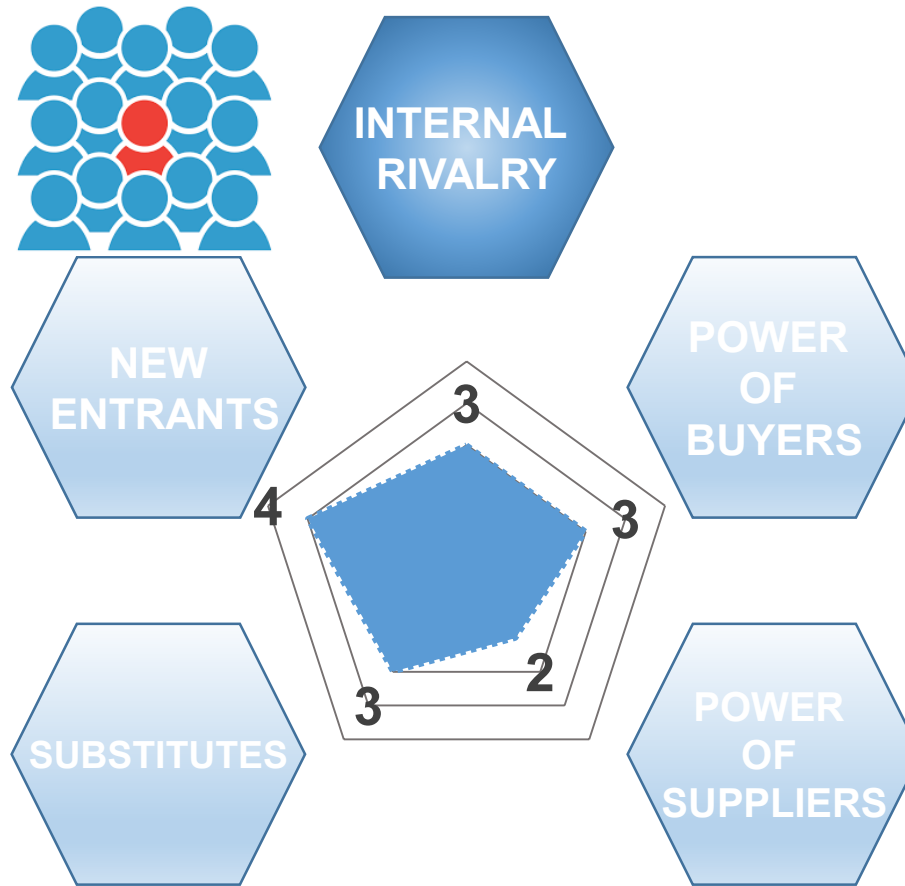
Healthy Lifestyle  
 Omeopathy  
**Mixed Results**

High **Shifting Costs** but  
**Long-Term Value** of Relationships



# Orphan Drug Industry

- > **6000 RD** (< 1 : 10'000) still lack treatment
- **No significant Compounds** in Most **Crowded Indications**
- Expertise in Pediatric Metabolic **Ultra-Rare Diseases** (< 1 : 50'000) like **UCD** and **Cystinosis**.



Business Description



Industry Analysis



Financial Analysis



Valuation

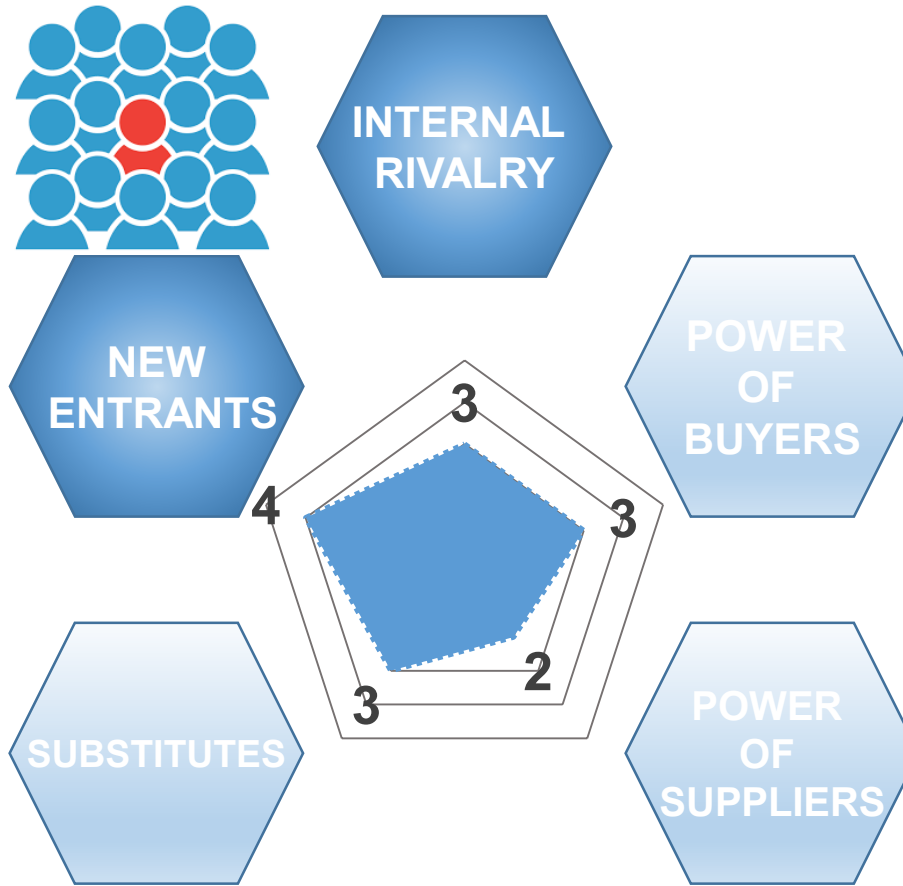


Investment Risks

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- **No significant Compounds** in Most **Crowded Indications**
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- **Potential 100% MS** for new or breakthrough compounds
- **Small Biotech Companies** financed by **VC** and other bigger companies



RECORDATI → erytech

Shire → PROMETHERA BIOSCIENCES → Boehringer Ingelheim

Business Description

Industry Analysis

Financial Analysis

Valuation

Investment Risks



# Orphan Drug Industry

- > 6000 RD (< 1 : 10'000) still lack treatment
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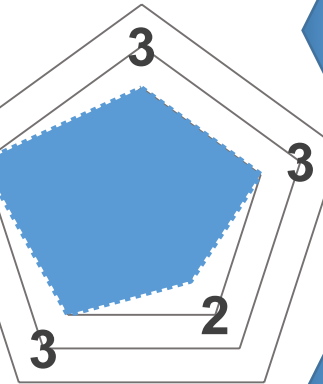


INTERNAL RIVALRY



NEW ENTRANTS

POWER OF BUYERS



SUBSTITUTES

POWER OF SUPPLIERS

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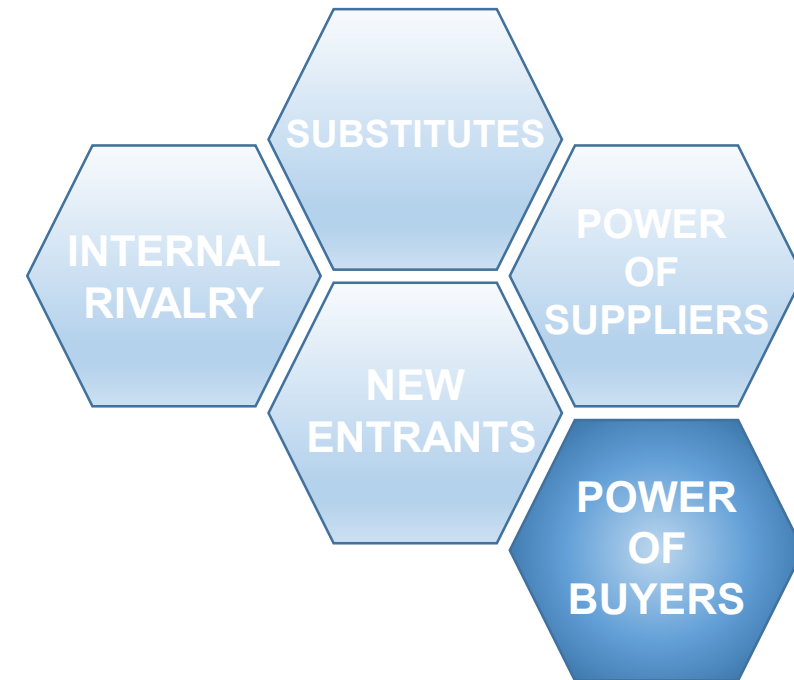


The only substitute is another OrD; Pricing can be a key factor

Same as PSC; Production is **100% Outsourced**



# Orphan Drugs Industry 5 Forces



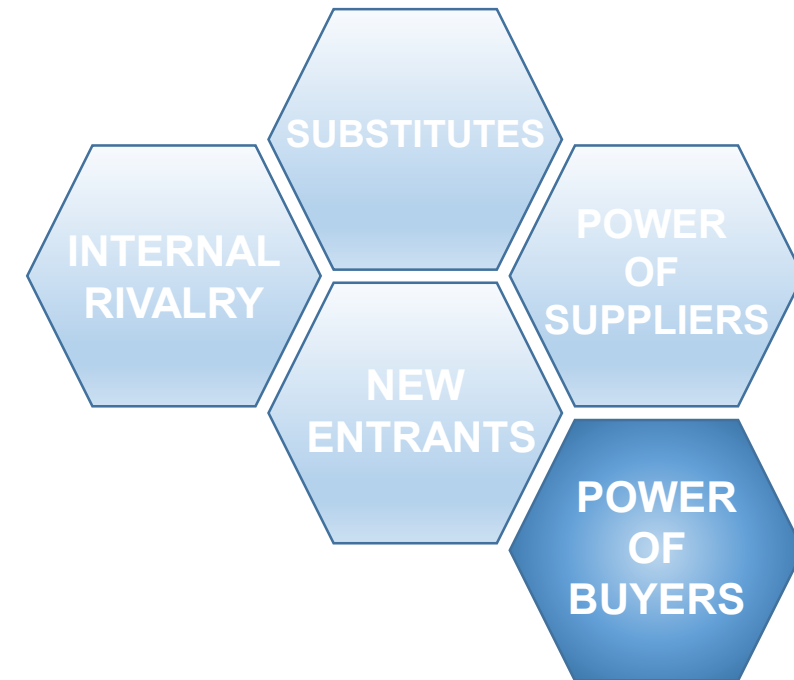
❖ **High Social Value**  
❖ **Associations Activism**



- **Increasing Awareness** among Authorities and General Public
- **Difficult Price Cut**
- **More Relaxed Policies**



# Orphan Drugs Industry 5 Forces



- ❖ High Social Value
- ❖ Associations Activism



- Increasing Awareness among Authorities and General Public
- **Difficult Price Cut**
- **More Relaxed Policies**



Business Description



Industry Analysis



Financial Analysis



Valuation



Investment Risks

# Orphan Drugs Industry 5 Forces



- ❖ High Social Value
- ❖ Activism from a number of associations



- Increasing Awareness among Authorities and General Public
- Difficult Price Cut
- More Relaxed Policies



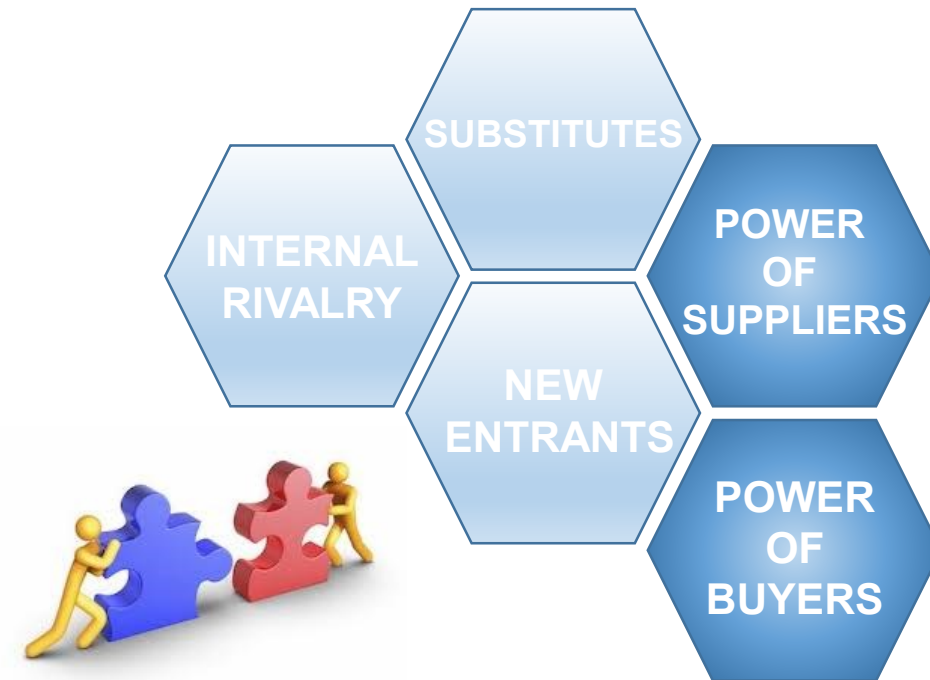
Business Description

Industry Analysis

Financial Analysis

Valuation

Investment Risks



Production is totally outsourced to external manufacturers because of the low amounts of units to product and the relative high complexity.

# Financials

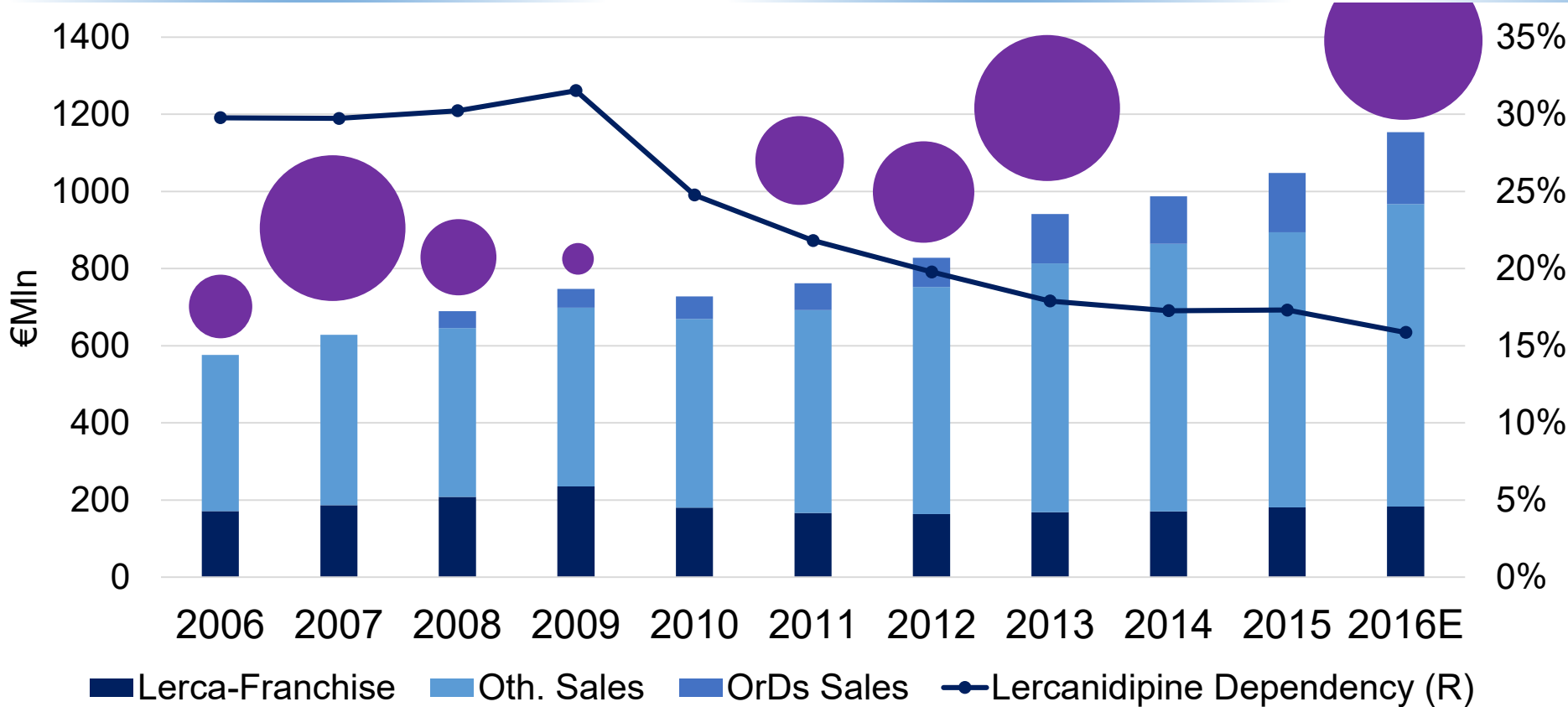


# Past Performance Recap



## Increased Diversification

## Excellent Track Record of Accretive Acquisitions



XX.X% 5Y CAGR

Aasdf  
Afeacs  
casdas

**+€600m**  
Cumulative 2006-16  
**EV of acquired companies**



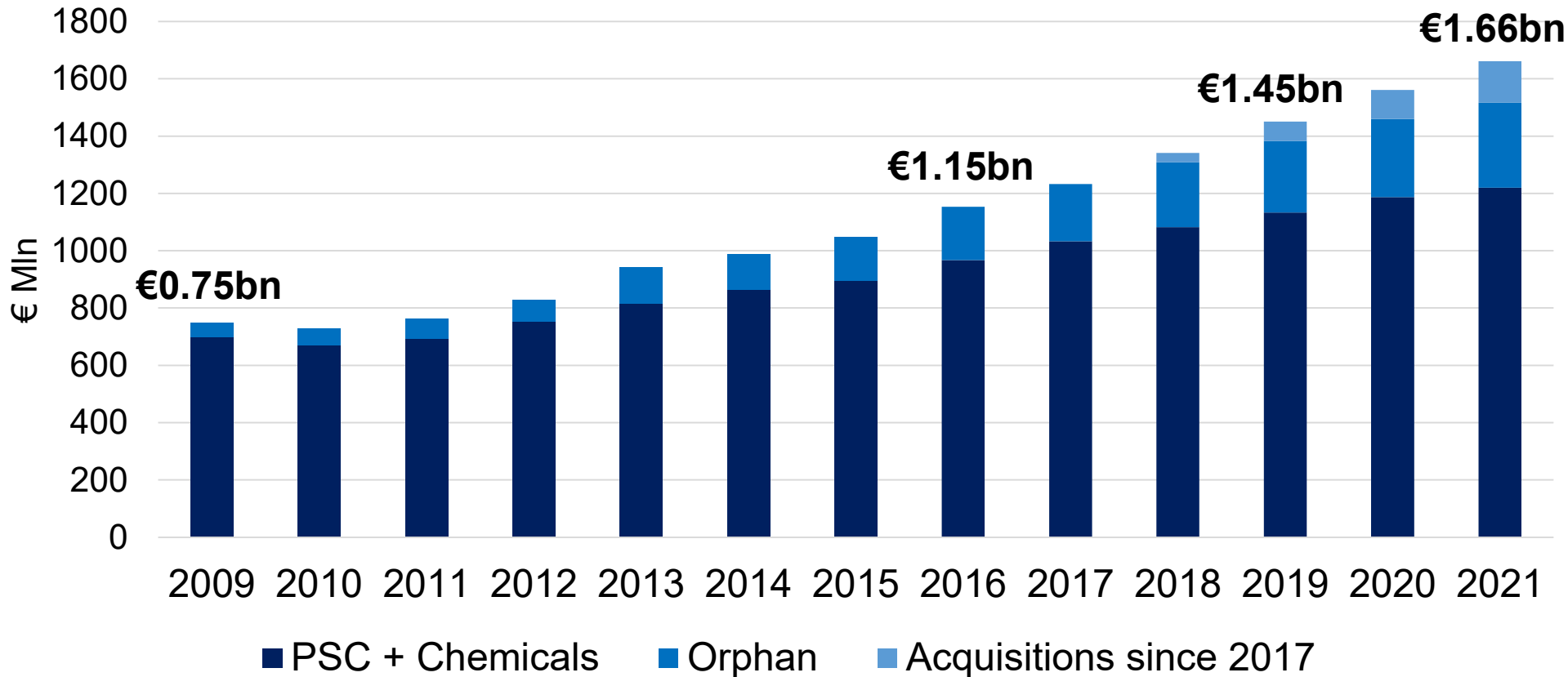
# Revenues Forecasts



**7.6% 5Y CAGR**

**€1.66bn Sales 2021**

**€1.82 EPS 2021  
9.6% CAGR**



Fasdf  
Faew  
cadscsa

Aasdf  
Afeacs  
casdas

Afr  
Fewa  
Csad

Business  
Description

Industry Analysis

Financial Analysis

Valuation

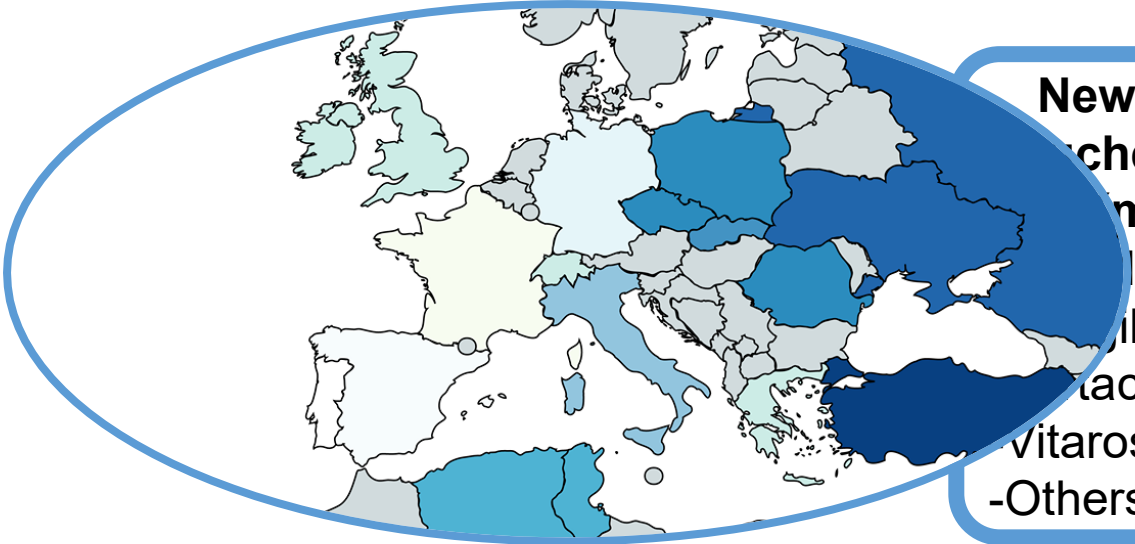
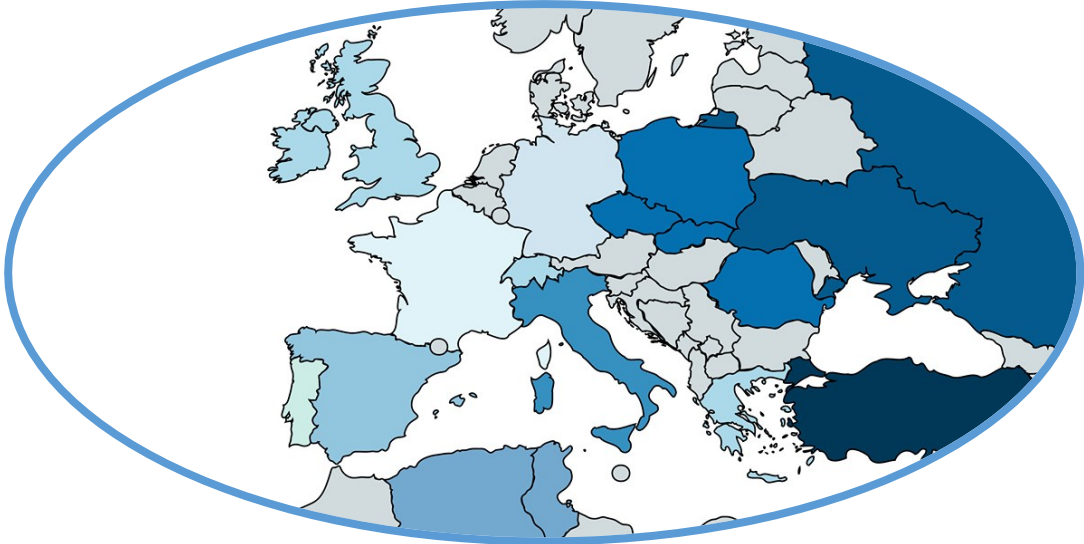
Investment Risks

# PSC Organic Growth



GRAFICO EASY CON  
CRECSITA CORE  
PRODUCTS???

**RoW**  
€XXXm  
X.X%  
5Y CAGR



**New**  
...ches  
...m  
...lla  
...tacin  
...vitaros  
-Others

Business Description



Industry Analysis



Financial Analysis



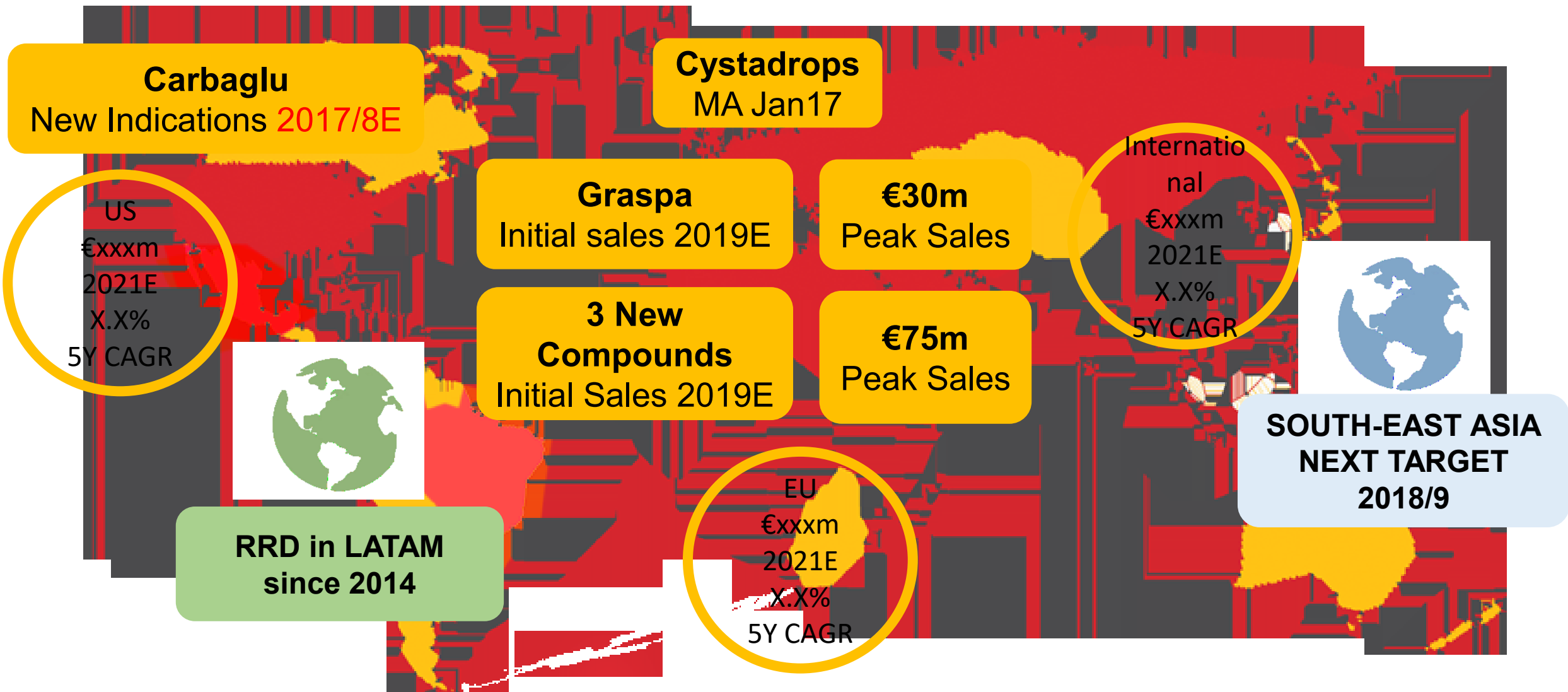
Valuation



Investment Risks



# Orphan Business **check carbaglu**



Business Description



Industry Analysis



Financial Analysis



Valuation



Investment Risks

# Orphan Business **check carbaglu**



€XXXm 2021E, 17.x% Sales

17.x% Sales

9.7% 5Y CAGR

US  
€xxxm  
2021E  
X.X%  
5Y CAGR



RRD in LATAM  
since 2014

EU  
€xxxm  
2021E  
X.X%  
5Y CAGR

International  
€xxxm  
2021E  
X.X%  
5Y CAGR



**SOUTH-EAST ASIA  
NEXT TARGET  
2018/9**

Business  
Description

Industry Analysis

Financial Analysis

Valuation

Investment Risks

# Acquisitions & Inorganic Growth

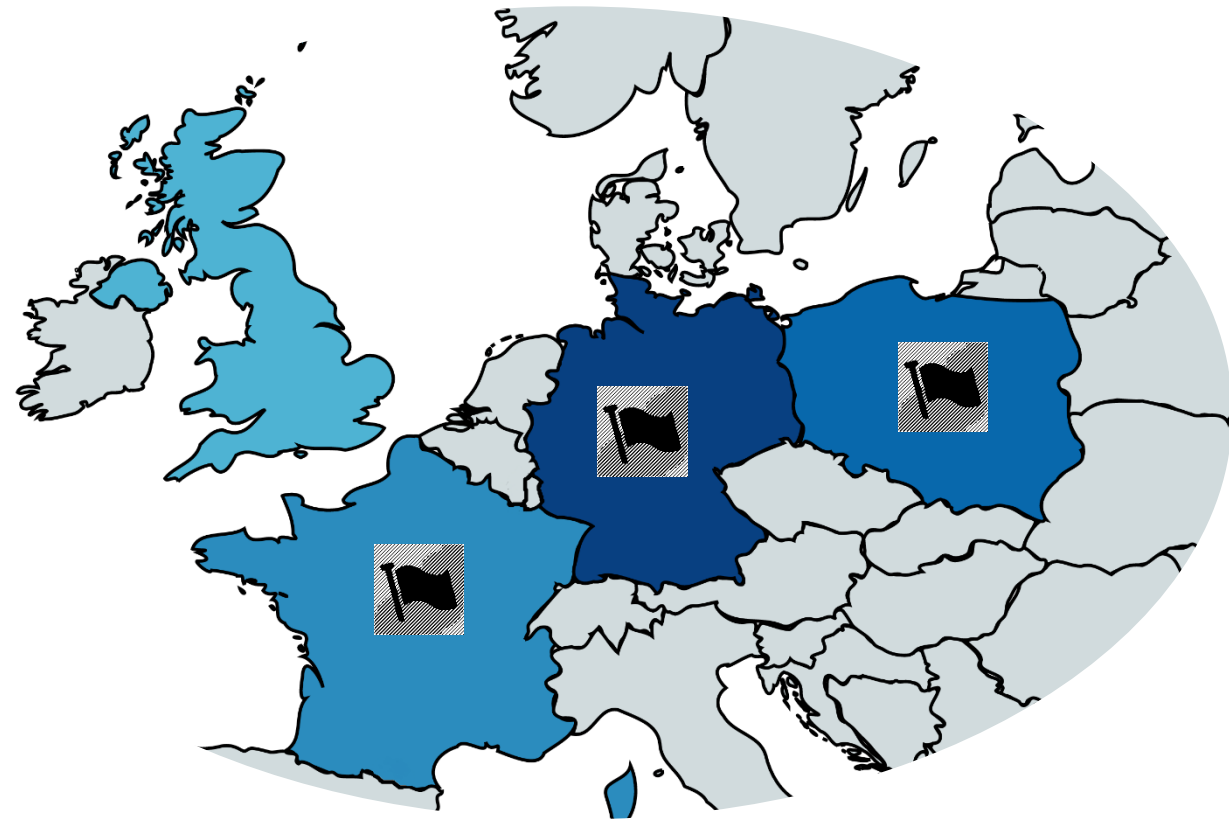


## 1° Germany

- Large Market
- Cost Synergies
- Small Relative Presence

## 2° Poland

- Growing Market
- Need for Critical Mass
- High Out of Pocket Expenditures



## 3° France

- Strong OTC presence
- Cost Synergies
- Weak Recent Performance

## 4° England



- Brexit Risk
- Reagila Launch
- Mainly OrDs presence



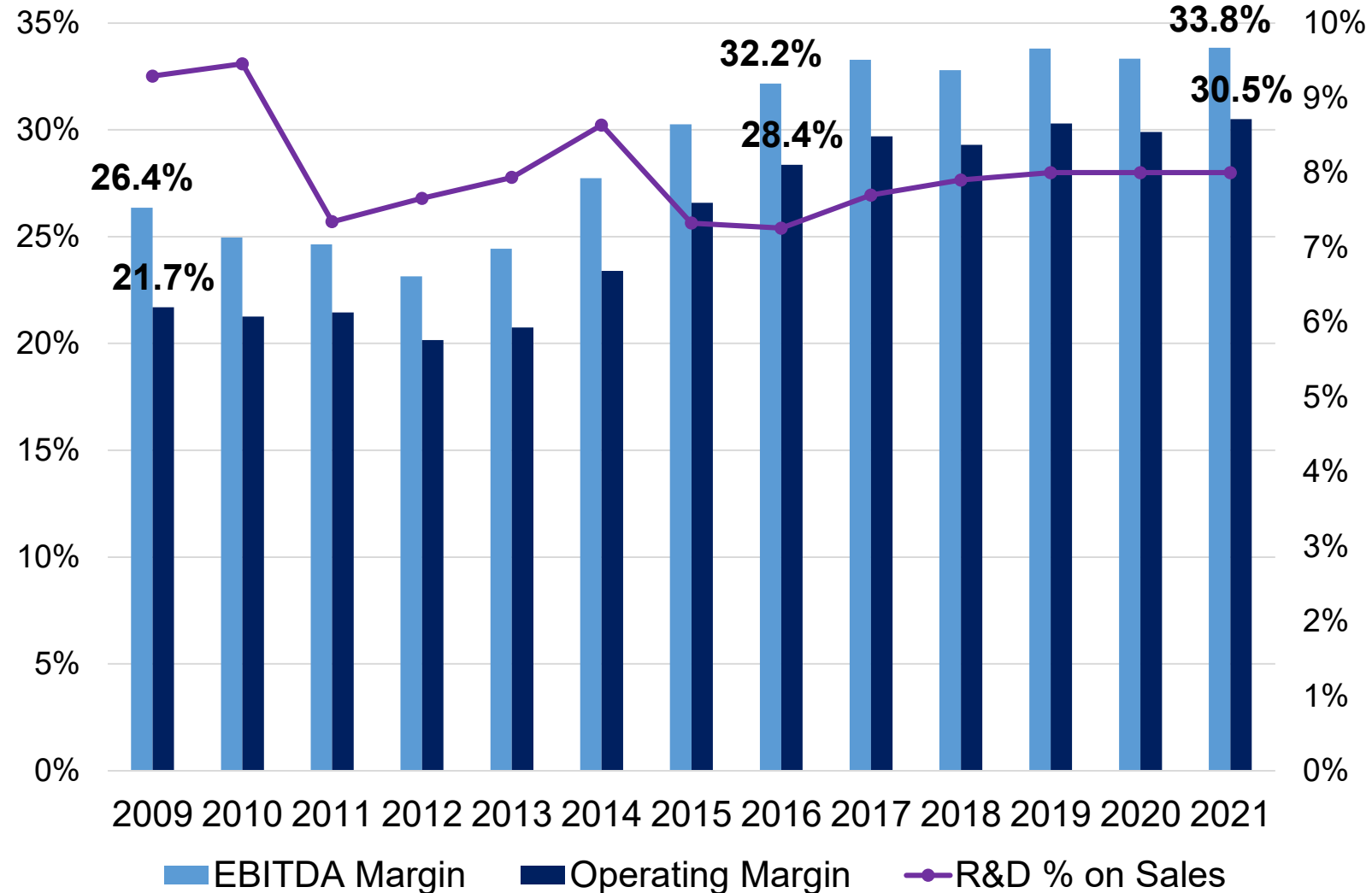
# Profitability Analysis



**30.5%**  
**Operating Margin**  
+210bps vs 2016  
**+110bps without Oth.Exp**

**33.8%**  
**EBITDA Margin**  
+160bps vs 2016  
**+60bps without Oth.Exp**

**€1.82 EPS**  
**9.6% 5Y CAGR**



Business Description

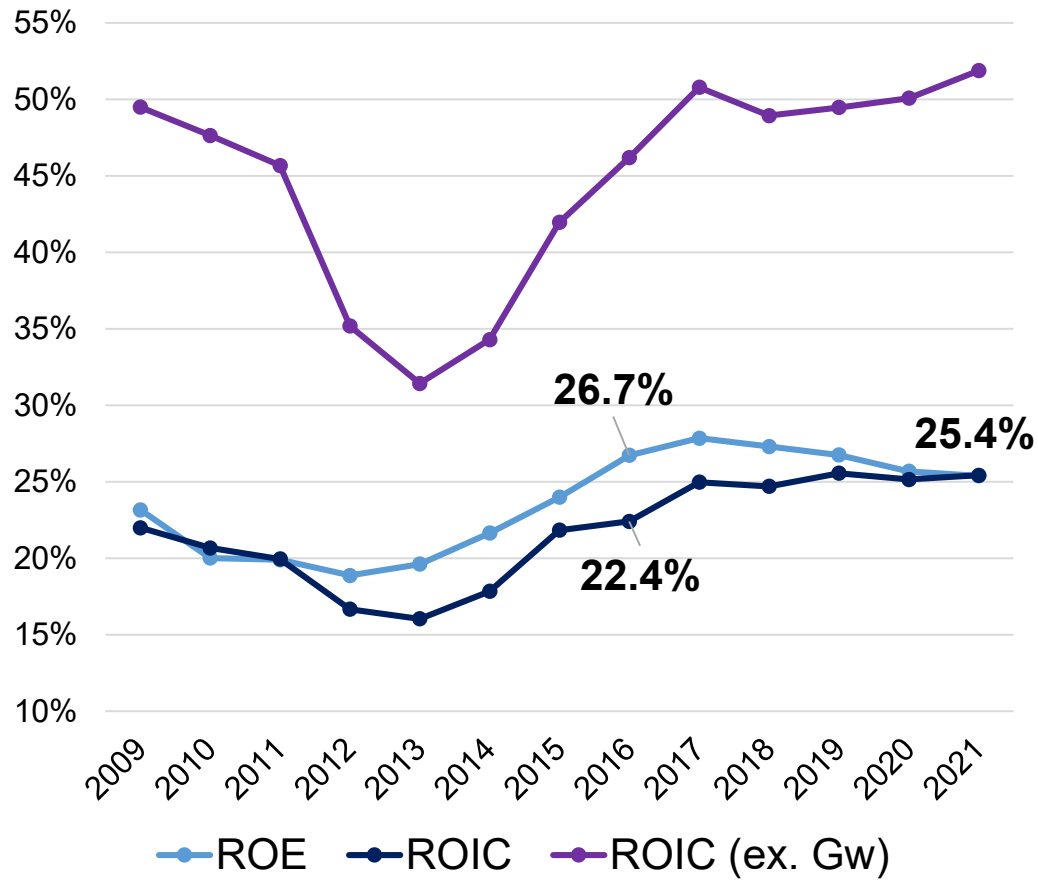
Industry Analysis

Financial Analysis

Valuation

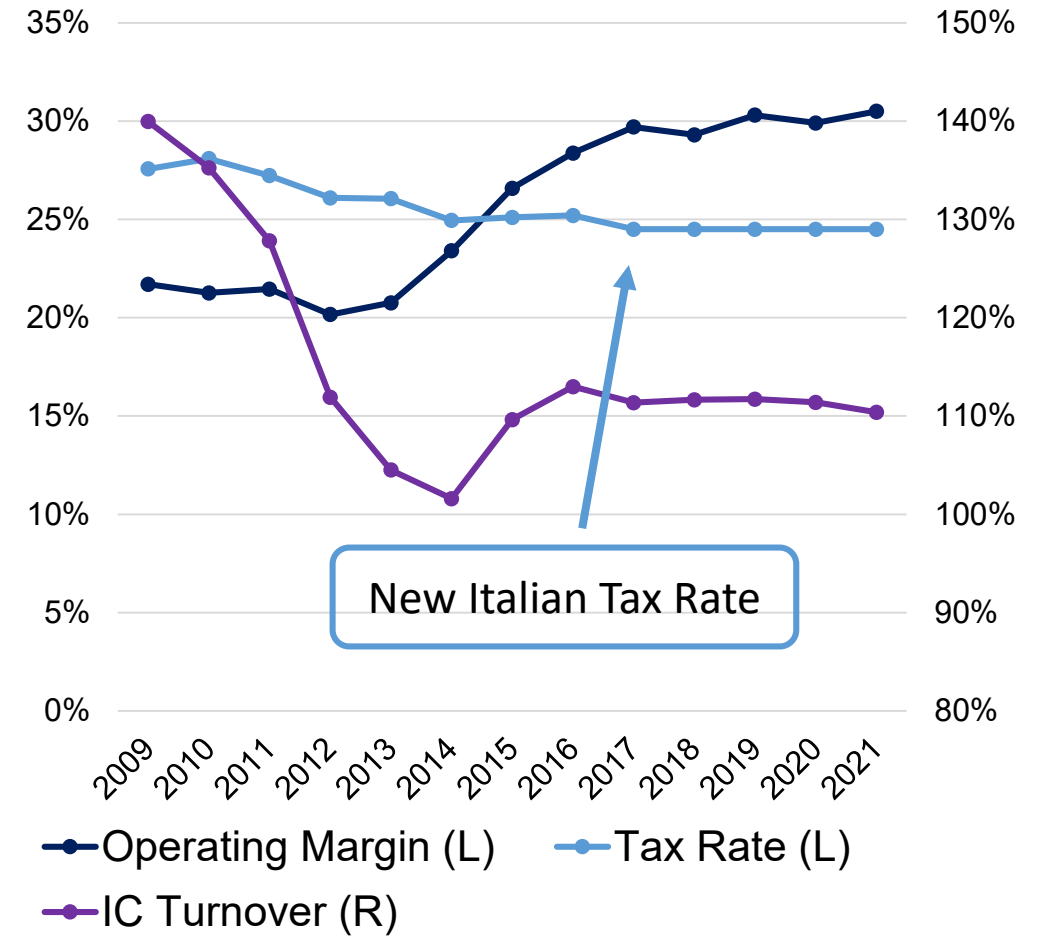
Investment Risks

# Return Analysis



**ROIC  
+3XXbps**

**Uncertainty:  
Capital  
Structure  
& CF  
Management**



**New Italian Tax Rate**



# Valuation



# DCF Model



TV ROIC 25.4%

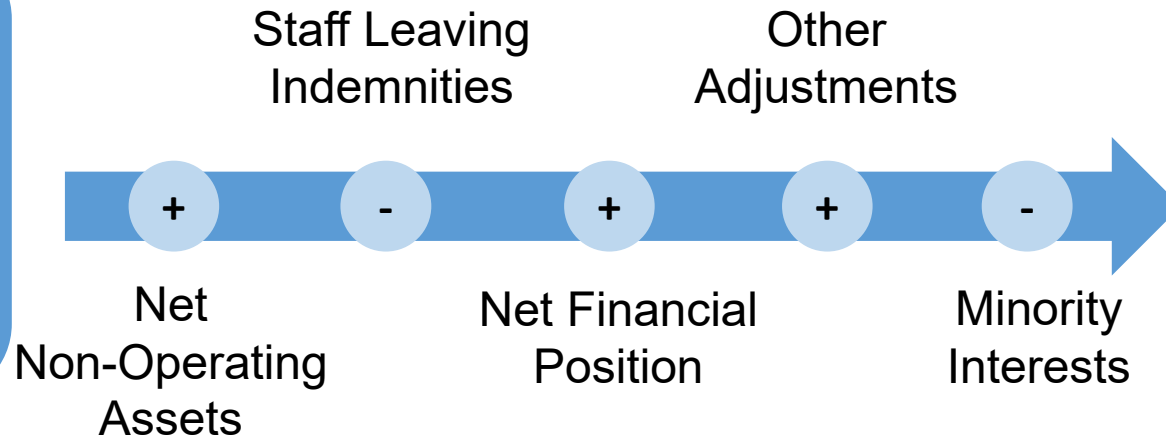
TV Growth Rate 2.53%

PV FCF  
€1.033bn



PV TV  
€5.484bn

ENTERPRISE  
VALUE  
€6.518bn



Share Price  
€30.2

Business Description

Industry Analysis

Financial Analysis

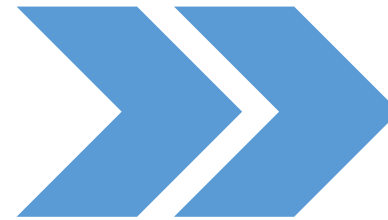
Valuation

Investment Risks

# WACC Calculation



Risk-free Rate	0.2%
Equity Risk Premium	7.4%
Beta	0.89
Cost of Equity	6.8%
<b>D/CE</b>	<b>5%</b>
After-tax CoD	2.6%
Cost of Debt	3.5%
Tax Rate	24.5%



2017-2021  
**6.6%**

TV  
**7.4%**

Business  
Description



Industry Analysis



Financial Analysis



**Valuation**



Investment Risks



# Scenario Analysis



## BULL SCENARIO

- PSC xx.X% CAGR xxxxx
- OrDs xx.x% CAGR xxxxx (Graspa, Carbaglu)
- Inorganic €xxxm 2021, 3.xx EV/S , +Growth
- **30.6% 2021 Operating Margin**

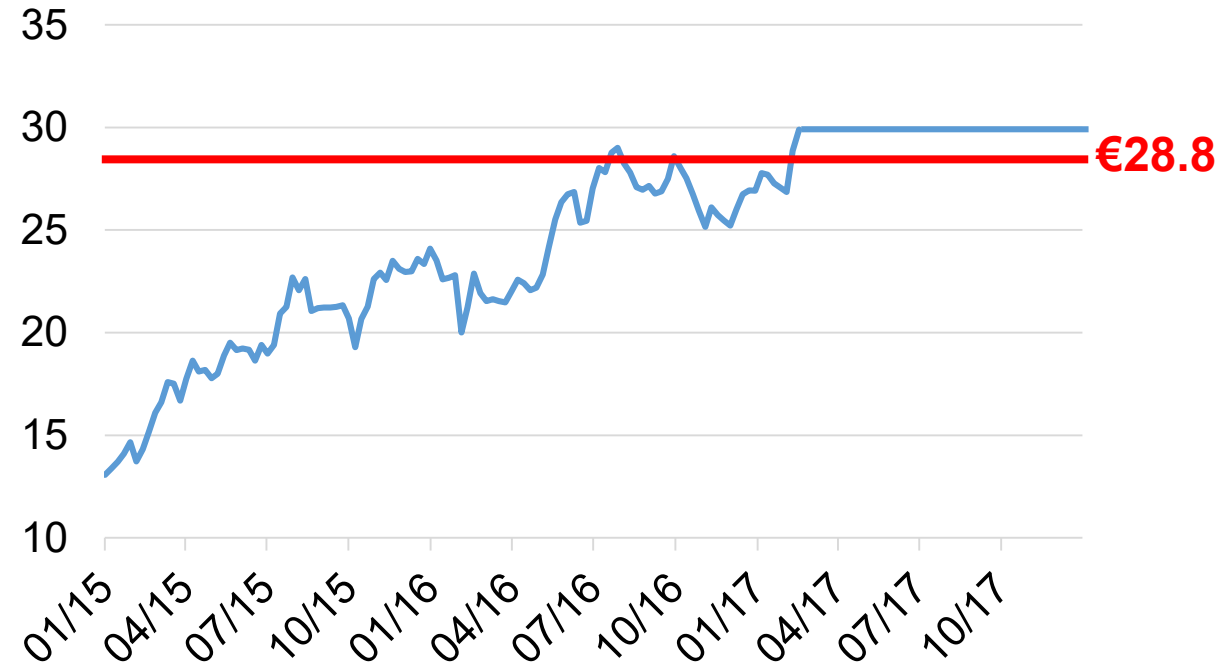
**TV**  
**STABLE**  
**ROIC**  
**&**  
**Growth Rate**

## BEAR SCENARIO

- PSC xx.X% CAGR xxxxx
- OrDs xx.x% CAGR xxxxx (Graspa, Carbaglu)
- Inorganic €xxxm 2021, 3.xx EV/S , +Growth
- **30.4% 2021 Operating Margin**



**€32.6**  
**€31.1**



**€28.8**

**5% D/CE; 7.4% TV WACC**

**10% D/CE; 7.1% TV WACC**

Business Description



Industry Analysis



Financial Analysis



Valuation



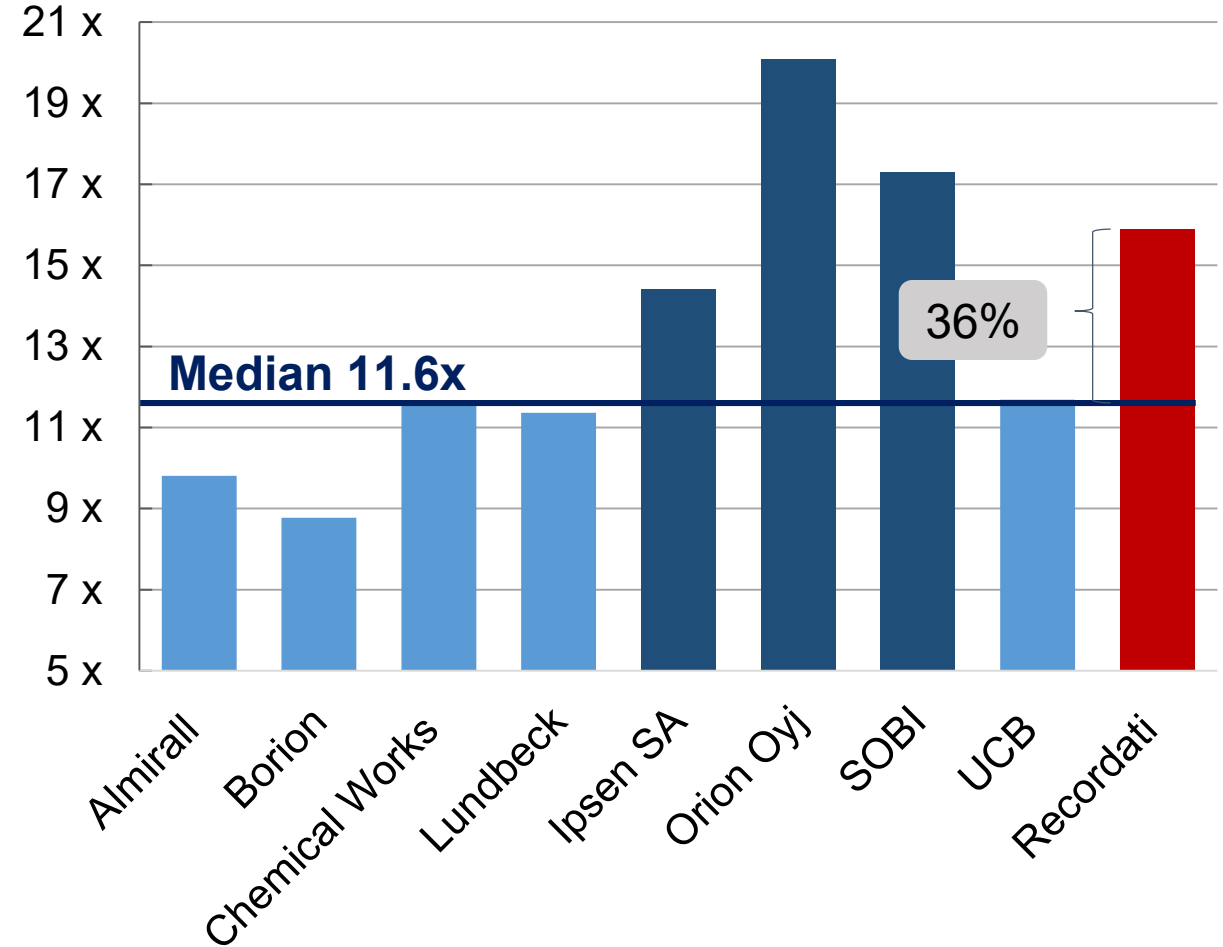
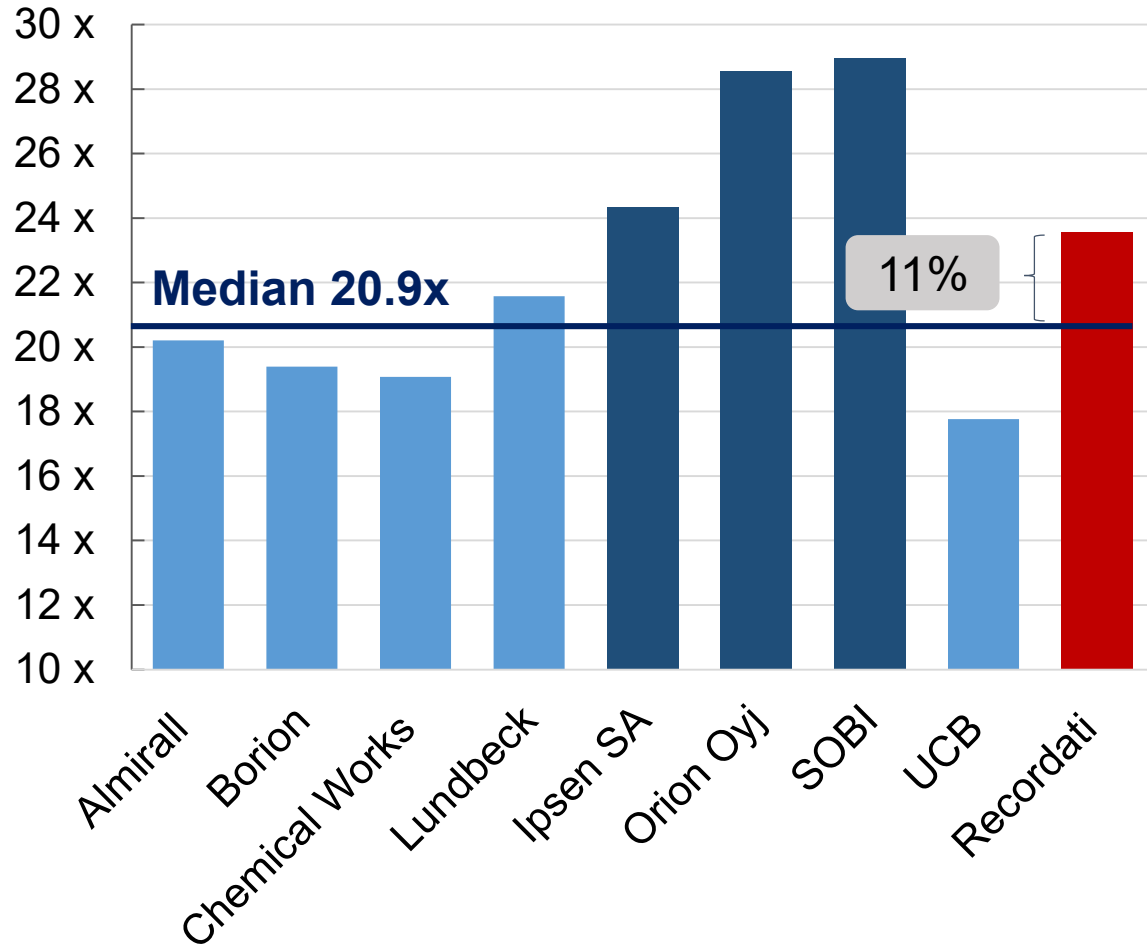
Investment Risks

# Multiples Analysis (AGGIUNGI AVERAGE)



## 1YF P/E

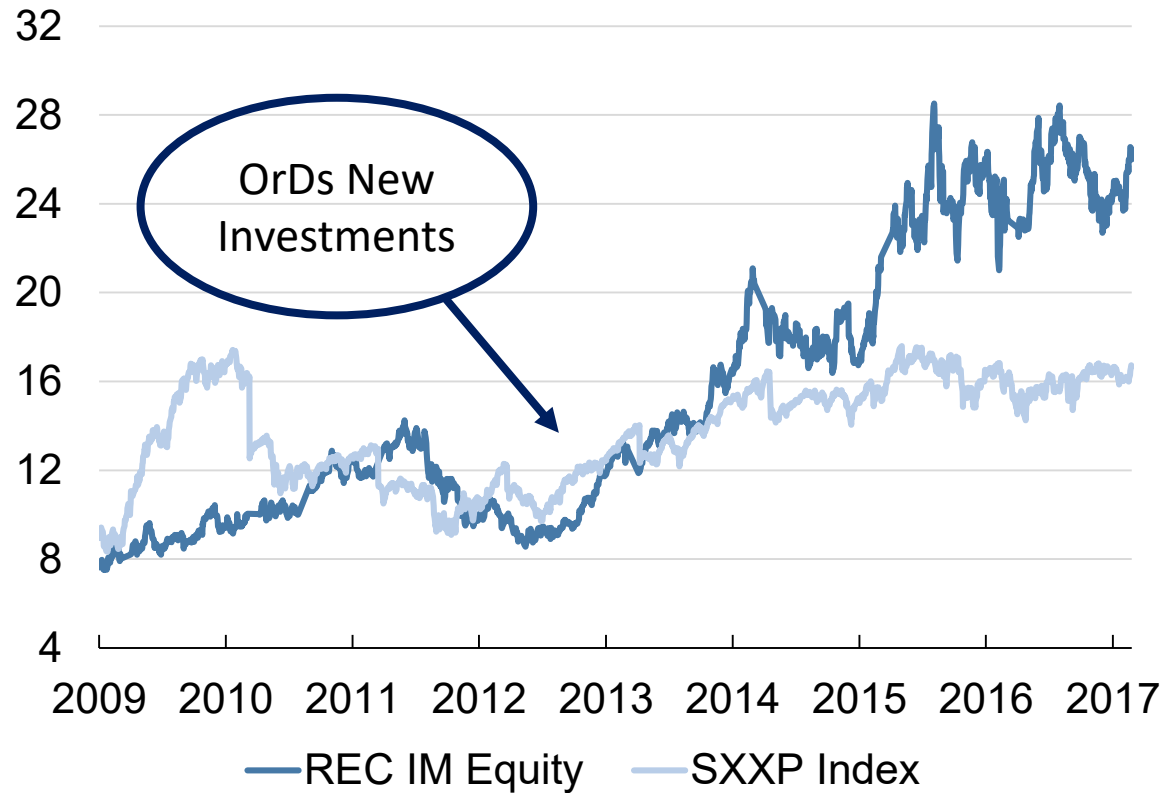
## 1YF EV/EBITDA



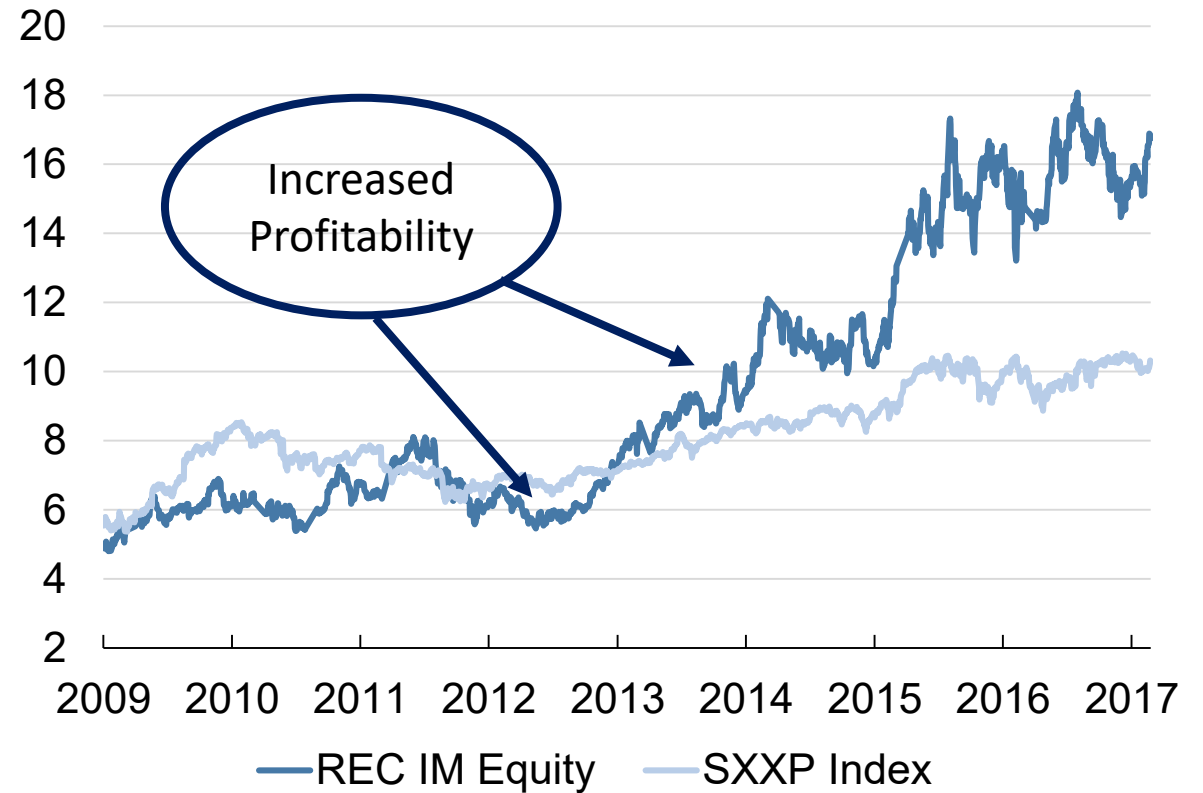
# Multiples Analysis (CONTROLLA LE DATE)



## HISTORICAL P/E



## HISTORICAL EV/EBITDA



Business Description

Industry Analysis

Financial Analysis

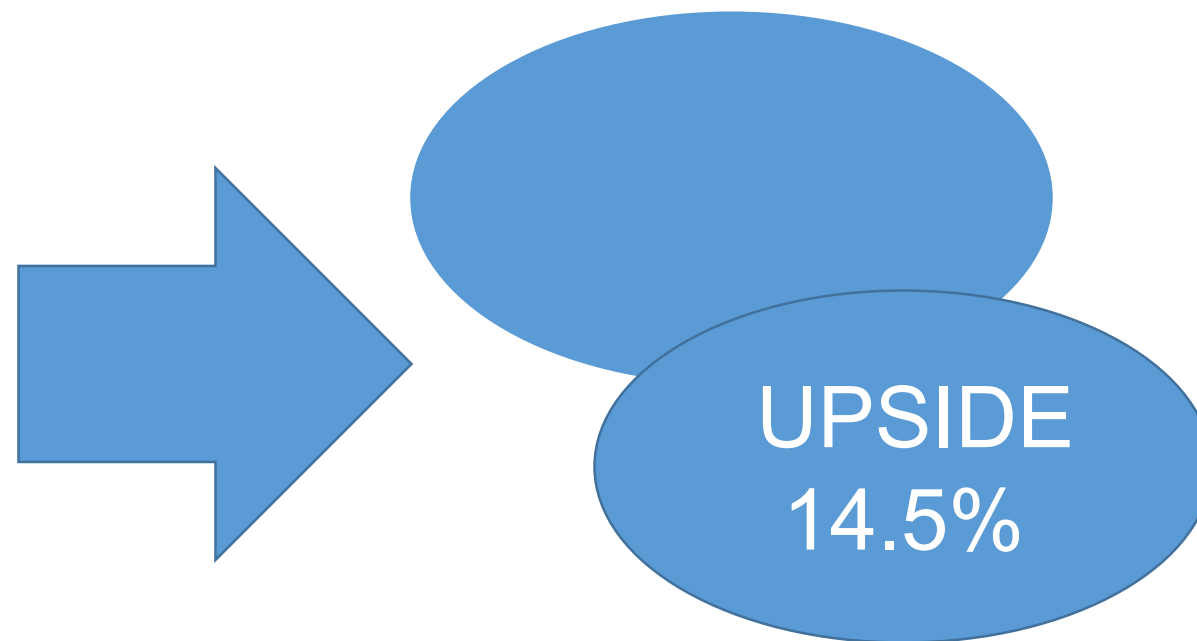
Valuation

Investment Risks

# Past Transactions Multiples



Buyer	Seller	Purchasing price (\$bn)	EV/Sales
PSC			
Mylan	Meda	9.9	4.30 x
Actavis	Forest Lab	25	7.35 x
Orphan			
Horizon	Hyperion	1.1	8.79 x
Endo	Auxilium	2.6	6.50 x
Horizon	Raptor Ph.	0.8	7.28 x
Shire	Viropharma	4.2	9.81 x
Weighted Multiples			6.24 x
Implied Equity Value (€bn)			7.2



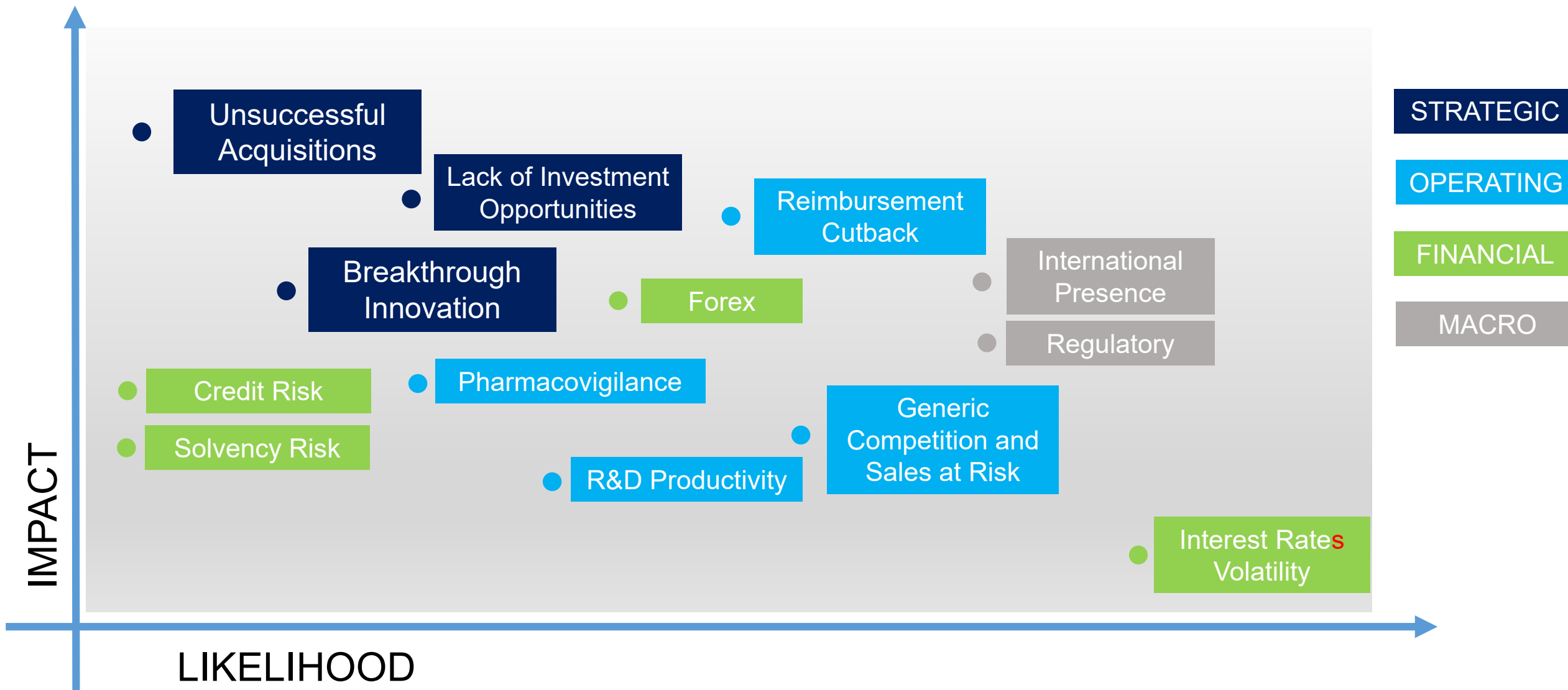
DESPITE RUMORS ABOUT FOSUN PHARMACEUTICAL'S INTEREST, THE COMPANY IS **NOT CURRENTLY ON SALE**



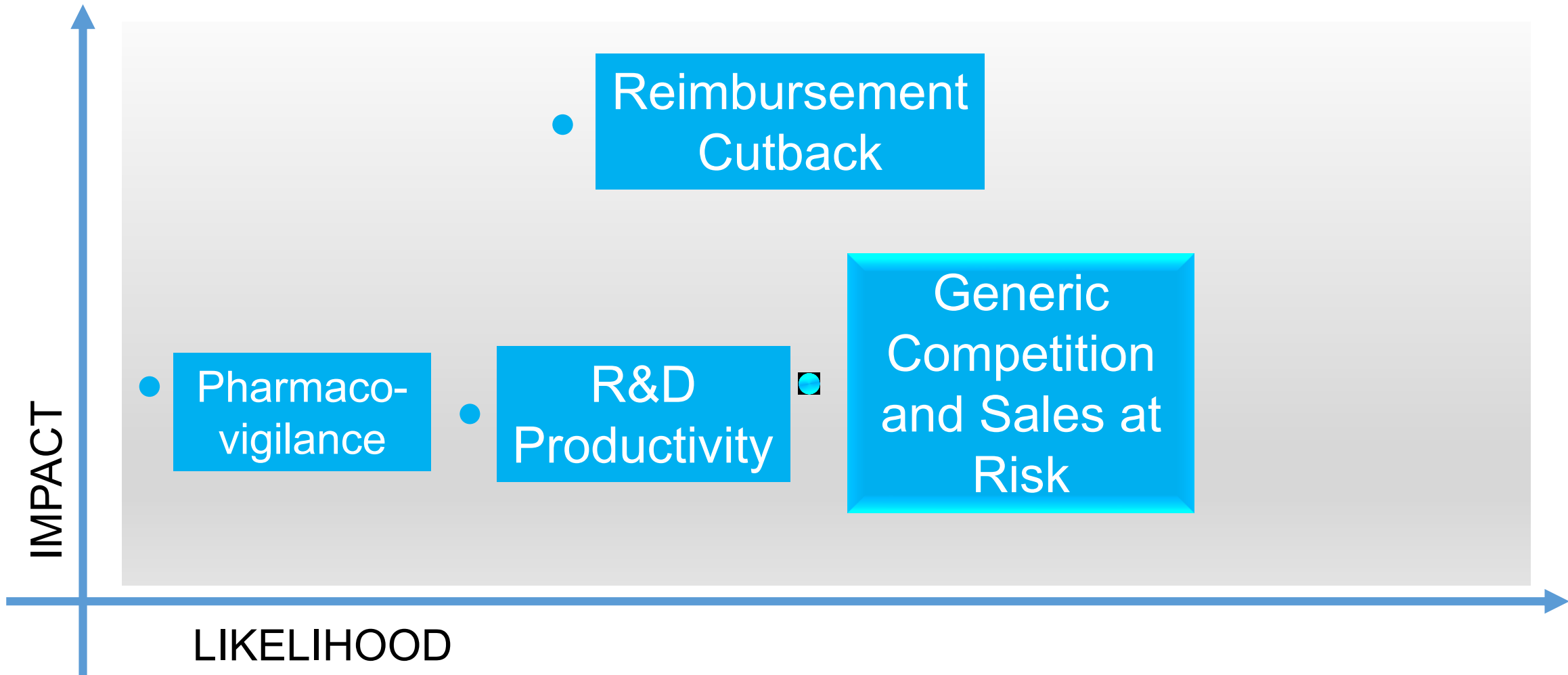
# Investment Risks



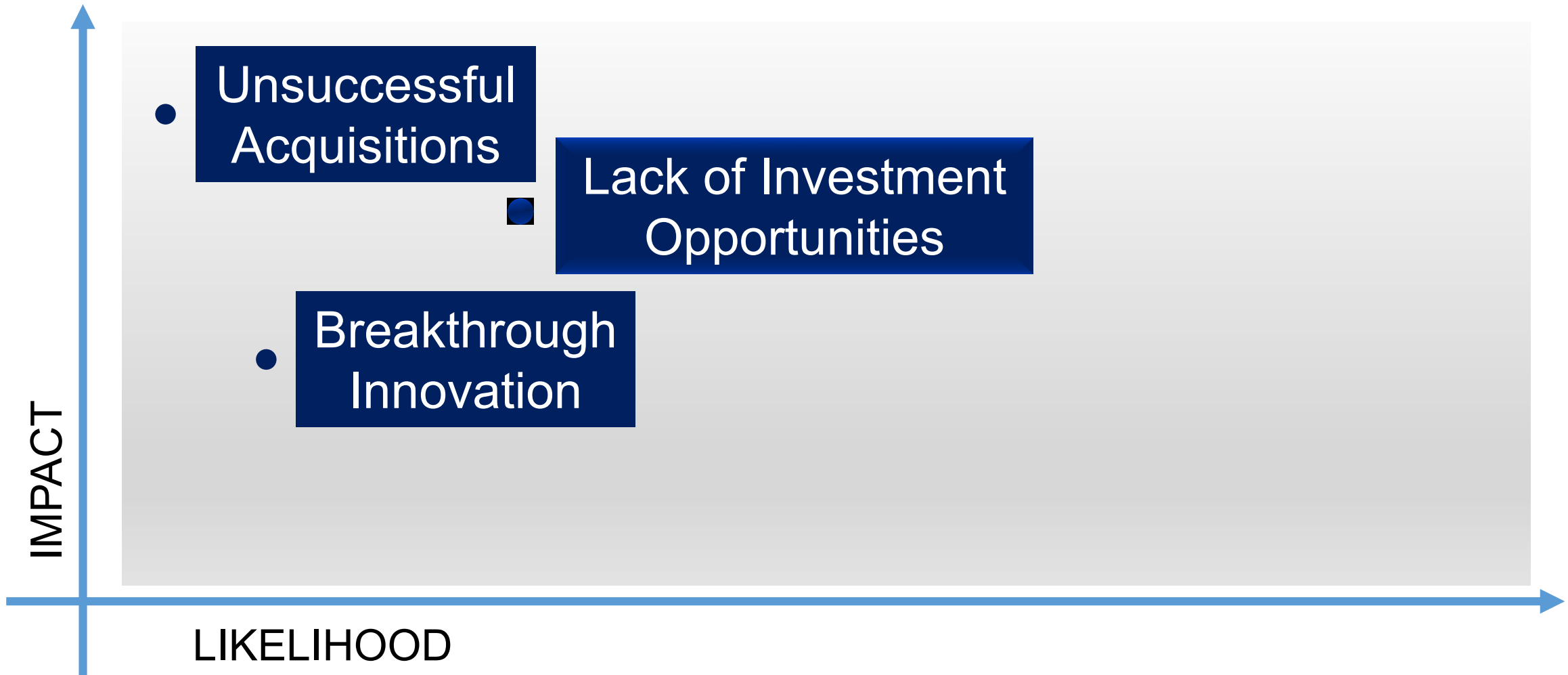
# Risk Matrix



# Operating Risks

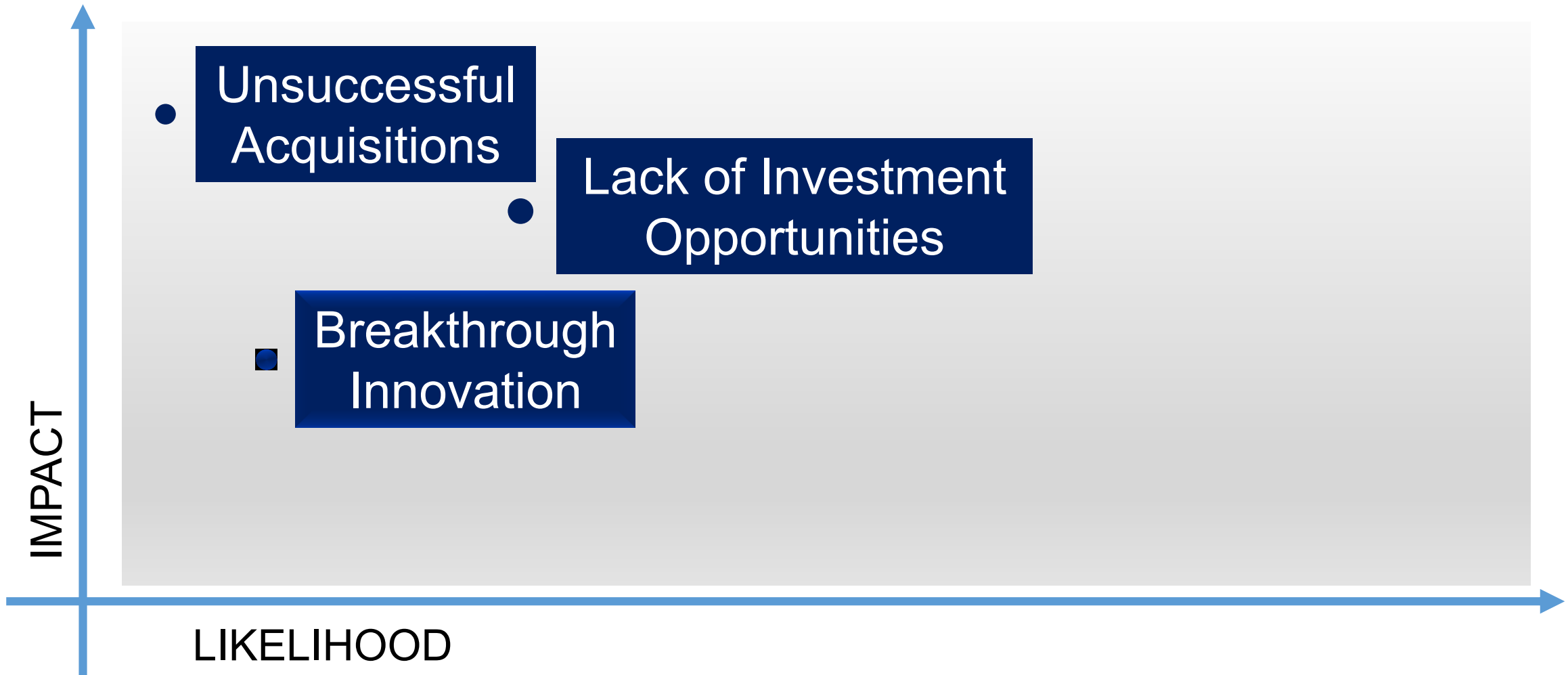


# Strategic Risks

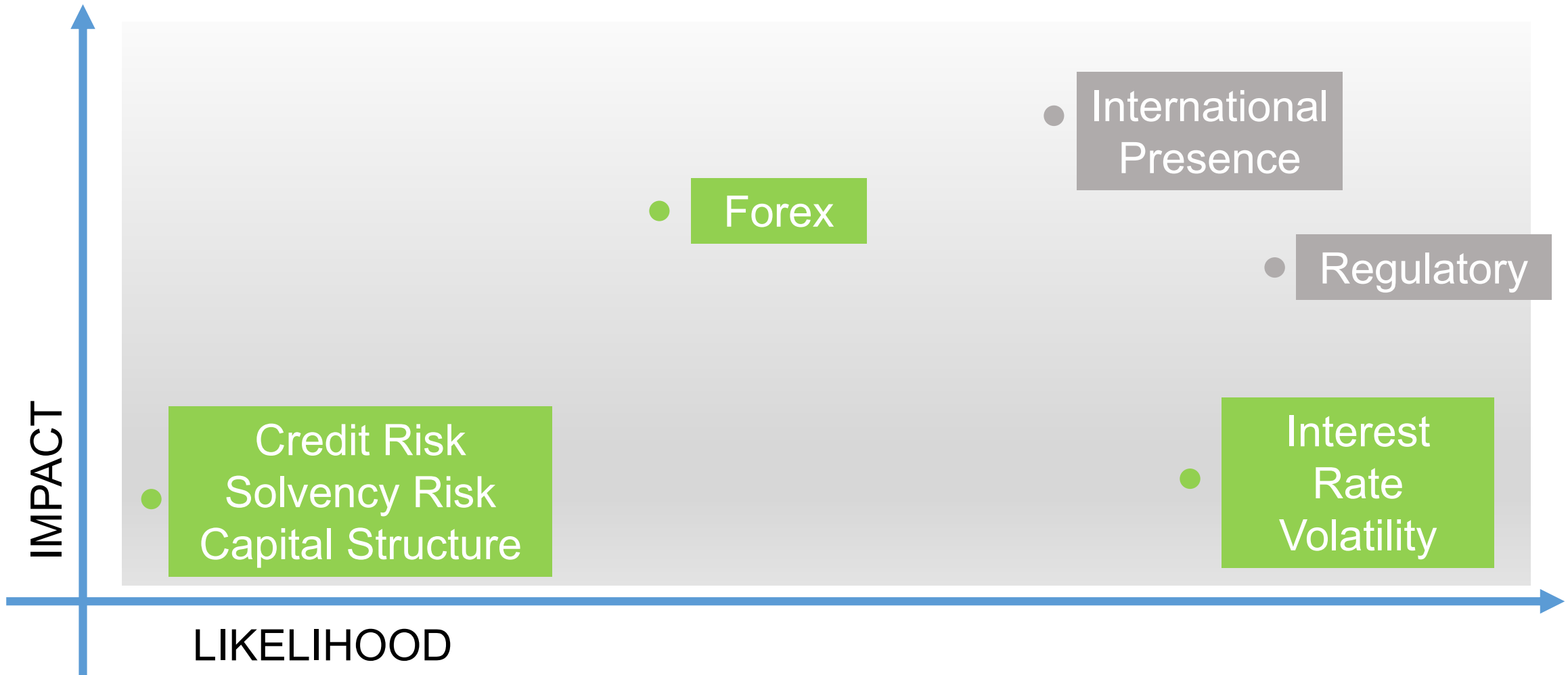




# Strategic Risks



# Financial and Macro Risks





## Initial Coverage **HOLD**

**€30.2 TP**

### KEY INVESTMENT DRIVERS

- **Bright Outlook** already factored in does not allow for higher valuation and richer multiples

Without

- **More Guidelines** about **Investments** and **Capital Structure** choices

Since

- Significant % of growth comes from **Discontinued Operations**

### SOLID PERFORMANCE

- Low Downside Risk

- Prudent Capital Structure

- with **Excellent Historical Track Record**



**THANK YOU!**

...and remember to **HOLD RECORDATI**

# Appendices

# EMEA Subsidiaries at a glance



Most Important Subsidiaries



**Italy**  
**20.6% Sales**  
1.1% 3Y CAGR

**France**  
10.3% Sales  
**0.0% 3Y CAGR**

**Germany**  
**9.1% Sales**  
7.5% 3Y CAGR

**Spain**  
6.9% Sales  
5.9% 2Y CAGR

**Portugal**  
3.6% Sales  
7.0% 3Y CAGR

Oth. WE  
2.9% Sales  
**16.1% 3Y CAGR**

**Turkey**  
7.8% Sales  
**9.5% 3Y CAGR**

Other CEE  
3.6% Sales  
**5.1% 1Y Growth**

Russia & CIS  
7.1% Sales  
9.8% 1Y Growth

N.Africa  
3.8% Sales  
**5.1% 2Y CAGR**

\*Pharmaceutical Sales % including OrDs

Business Description



Industry Analysis



Financial Analysis



Valuation



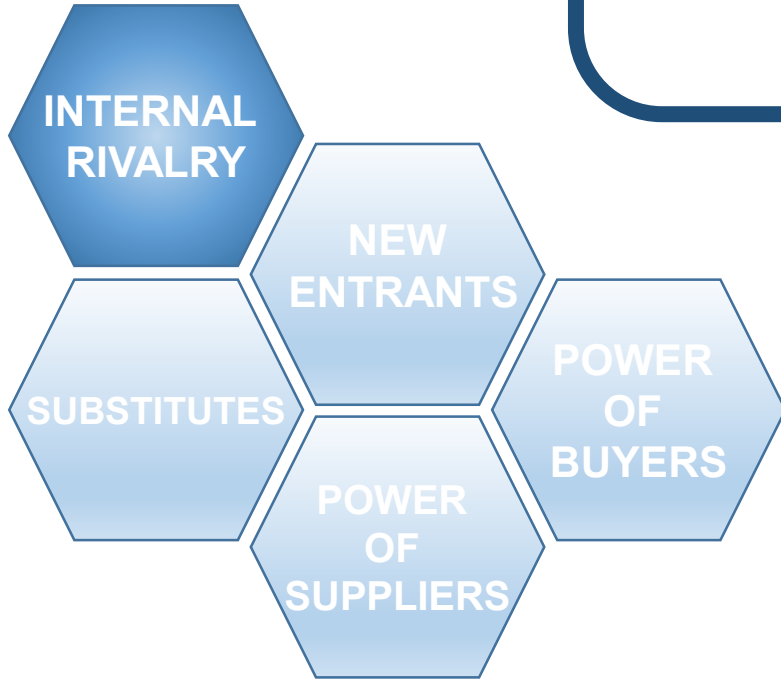
Investment Risks

# PSC Industry 5 Forces



- ❖ CV, GI and GU segments are **crowded** and **low innovative**
- ❖ Growth in volumes driven by **demographic trends**
- ❖ **Mostly stable generic competition**

**HIGH FRAGMENTATION**  
**NO SIGNIFICANT MARKET SHARE**



## OPPORTUNITIES:

- **Product promotion capabilities and wide distribution system**
- **Diversification through OTC and NPP**

Business Description

Industry Analysis

Financial Analysis

Valuation

Investment Risks

# PSC Industry 5 Forces



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INTERNAL RIVALRY

NEW ENTRANTS

SUBSTITUTES

POWER OF BUYERS

POWER OF SUPPLIERS

## OPPORTUNITIES:

- **Product promotion capabilities and wide distribution system**
- **Diversification through OTC and NPP**

## SIGNIFICANT BARRIERS:

- High initial investments and know-how
- **Difficulty in innovation** in most profitable areas
- **Lower barriers in OTC**

Business Description

Industry Analysis

Financial Analysis

Valuation

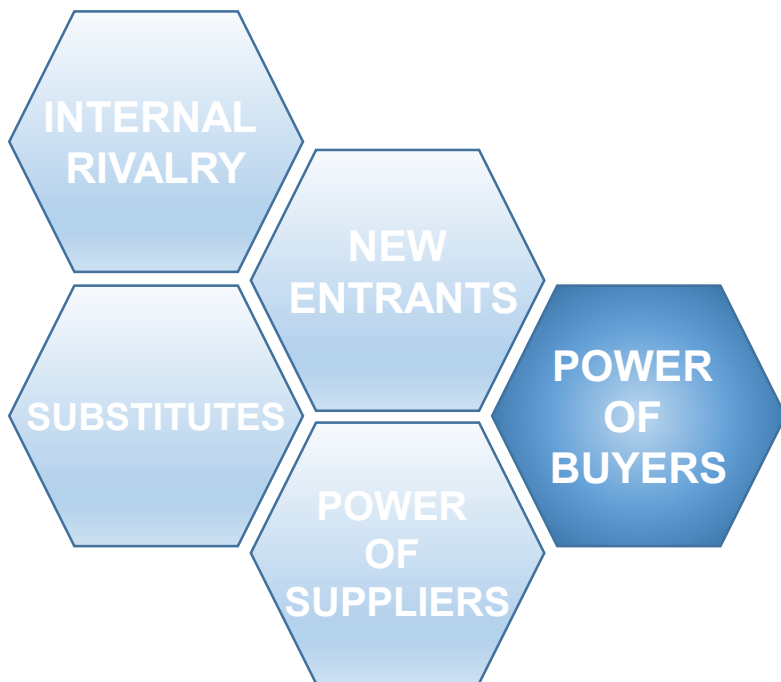
Investment Risks



# PSC Industry 5 Forces



## WHO?



Governments'  
Budgetary Pressure

NATIONAL  
AUTHORITIES

Reimbursement  
Rates, Price Cuts and  
Generic Favouring



INSURANCE  
COMPANIES

PHYSICIANS



Out of Pocket  
Expenditure

PATIENTS

Business  
Description

Industry Analysis

Financial Analysis

Valuation

Investment Risks

# PSC Industry 5 Forces



## WHO?

Long Term Relationship

**ACTIVE INGREDIENTS AND CHEMICALS SUPPLIERS**

Partially vertically integrated with RED's production facilities in Campoverde and York

**MANUFACTURERS**

Production of approximately 40% of total REC's products.

High shifting Cost

Abundance of Suppliers

INTERNAL RIVALRY

NEW ENTRANTS

SUBSTITUTES

POWER OF SUPPLIERS

POWER OF BUYERS

Business Description

Industry Analysis

Financial Analysis

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Investment Risks

# PSC Industry 5 Forces

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INTERNAL  
RIVALRY

NEW  
ENTRANTS

SUBSTITUTES

POWER  
OF  
BUYERS

POWER  
OF  
SUPPLIERS

## WHICH?

**HEALTHY LIFESTYLE**

**NO  
THREATS**

Business  
Description

Industry Analysis

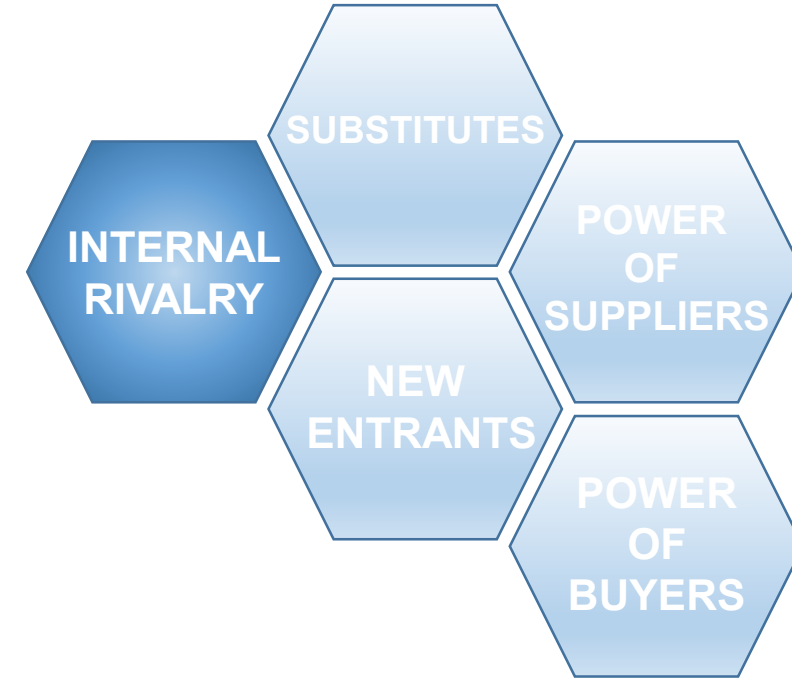
Financial Analysis

Valuation

Investment Risks

# Orphan Drug Industry 5 Forces

- > 6000 Rare Diseases still lack treatment
- No significant compounds in most crowded segments



## INCENTIVES:

Protocol Assistance

Centralised Authorisation Procedure

10y EU/ 7y US of Market Exclusivity

Grants, Fee Reduction

Member States Incentives

- ❖ 26% shorter development times and smaller trials samples
- ❖ 1.12x return on investment related to other specialty drugs
- ❖ Higher prices not matched with higher costs

Business  
Description

Industry Analysis

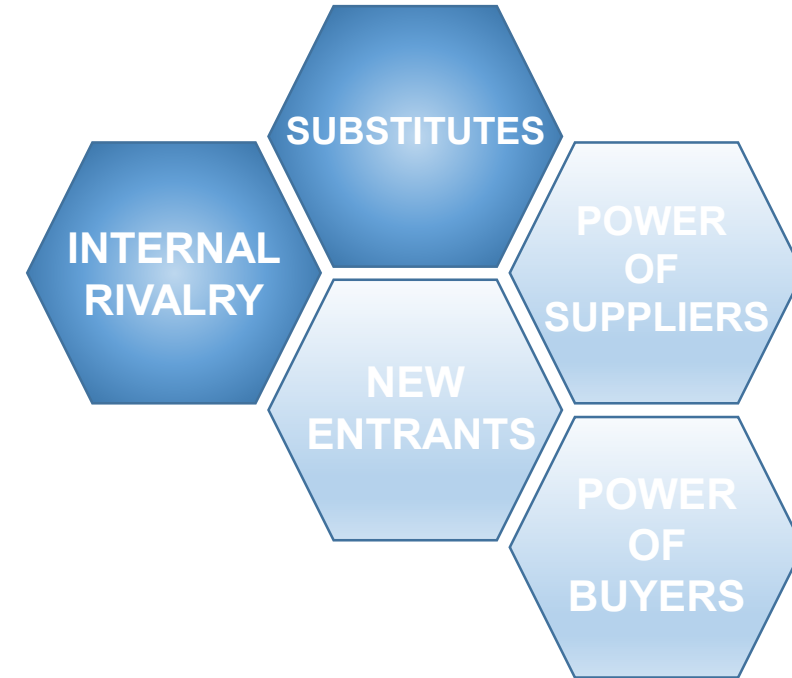
Financial Analysis

Valuation

Investment Risks

# Orphan Drug Industry 5 Forces

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## INCENTIVES:

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Member States Incentives

- ❖ Actual designation in urea cycle disorder do not directly match the ones treated by REC's OrDs
- ❖ Only 4 RDs treated by REC have an alternative drug in the market.

New OrDs with clear incremental benefits are likely to obtain nearly 100% market share, with the exception of drugs whose prices do not allow for complete reimbursement.

Business Description

Industry Analysis

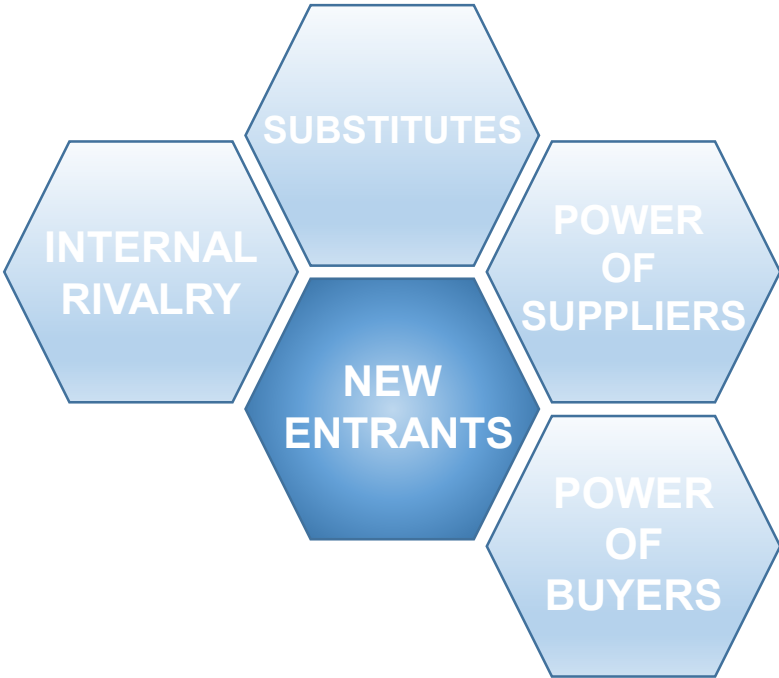
Financial Analysis

Valuation

Investment Risks



R&d focused small biotech companies can acquire the necessary expertise to develop new orphan drugs and obtain full value from agreements with bigger companies and venture capital funds.



erytech 



 RECORDATI

G  
R  
A  
S  
P  
A



Boehringer  
Ingelheim



