CFA Institute

CFA Institute Research Challenge

Hosted by

CFA Society Italy

CCB Capital Management

Initial Coverage | February 28th, 2017

HOLD

Target Price: €30.2
Current Price: €29.97
Upside: 0.7%

Market Data

Main Shareholders

FIMEI	51.8%
Market	39.1%
Fidelity Management & Research Co.	3.3%
Treasury	2.0%
BNP Paribas Asset Management	1.4%
Norges Bank Investment Management	1.2%
The Vanguard Group Inc.	1.0%
Squindo Fritz (CFO)	0.2%

Share Outstanding (m)	209.1
Market Cap (€bn)	**6,267**
Free Float	46.1%
52-Week High/Low	**€20.94-30.23**
52-Week %	99.1%
Average Daily Volume (3mo)	445601.9

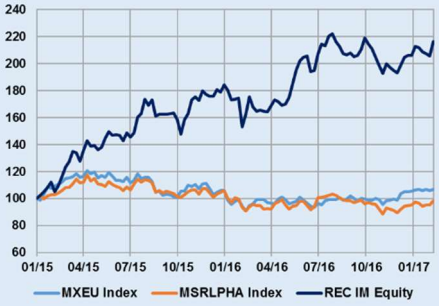
TP Main Multiples

	16E	17E	18E
P/E	**25.9x**	**23.1x**	**21.4x**
EV/EBITDA	**17.6x**	**15.9x**	**14.8x**
EV/EBIT	**19.9x**	**17.8x**	**16.6x**
EV/Sales	**5.6x**	**5.3x**	**4.9x**

Other Main Metrics

	16E	17E	18E
ROIC	**22.4%**	**25.0%**	**24.7%**
ROIC (ex Gw)	**46.2%**	**50.8%**	**48.9%**
ROE	**26.7%**	**27.8%**	**27.3%**
Debt / EBITDA	**86.6%**	**68.5%**	**70.0%**
NFP / EBITDA	**-53.5%**	**-23.9%**	**-33.8%**

2Y Price Performance



CFA Institute Research Challenge
CCB Capital Management

Italy | Healthcare | Pharmaceuticals

RECORDATI

a Specialty Pharmaceutical Group

Listed on: Borsa Italiana Stock Exchange
Ticker: REC: IM

€Mln	2015A	2016E	2017E	2018E	2019E	2020E	2021E
Revenue	**1,047.7**	**1,153.9**	**1,232.7**	**1,341.6**	**1,450.6**	**1,561.2**	**1,661.4**
Growth	6.1%	10.1%	6.8%	8.8%	8.1%	7.6%	6.4%
EBITDA	**317.0**	**371.2**	**410.3**	**439.9**	**490.4**	**520.5**	**562.4**
Margin	30.3%	32.2%	33.3%	32.8%	33.8%	33.3%	33.8%
Operating Income	**278.5**	**327.4**	**366.1**	**393.1**	**439.5**	**466.8**	**506.7**
Margin (OpM)	26.6%	28.4%	29.7%	29.3%	30.3%	29.9%	30.5%
Net Income	**198.8**	**237.3**	**268.5**	**288.9**	**323.9**	**344.2**	**374.4**
Margin (ROS)	19.0%	20.6%	21.8%	21.5%	22.3%	22.1%	22.5%
EPS	**0.97**	**1.15**	**1.31**	**1.41**	**1.58**	**1.68**	**1.82**

- ## Recordati, your specialty pharmaceutical company

We initiate our coverage of Recordati (REC) with an HOLD recommendation and a €30.2 target price, implying a 0.7% upside from its current stock price. REC is an international pharmaceutical group operating in the primary & specialty care (PSC) and orphan drugs (OrDs) business. We believe the actual market price fairly factors in 1) Success in its OrDs business (€297m 2021E, 9.7% 5Y CAGR) and further penetration in pharmerging countries. 2) Expectations about future acquisitions (~€400m EV at ~3x EV/S during 2017-2021), inorganic growth (€145m, 34% of 2017-2021 growth) and current PSC portfolio performance (3.6% 5YE CAGR). 3) Improvements of already outstanding margins from cost efficiencies and higher priced products in both PSC and OrDs (30.5% OpM 2021E, +2.1% 2016E).

- ## Successful business mix

With its **international footprint** and **established portfolio** of PSC corporate products being regularly enriched with new promising compounds to **integrate geographically**, and the OrDs business as its "**crown jewel**" driving up profitability, REC has been capable of providing strong returns (22.4% ROIC 2016E) and stable dividends (2.4% DY 2016E) with a financially sound business mix. The PSC business leverages its **wide distribution system** (REC's core strength) in order to obtain **compounds' full value** and provide the financial resources for further enlargements through acquisitions (one of REC's main growth patterns) and for fostering growth in the **riskier and more profitable OrDs** business without cash burnout risk and financing pressures.

- ## Accelerating investments: a promising outlook

After 2 years focused on endogenous growth and geographic consolidation of its most promising drugs, REC has returned to its characteristic strategy of inorganic expansion: in 2H16, it acquired Italchimici (EV €143m) and Pro Farma (EV €4.9m) and is now planning to further consolidate its geographic presence in the rest of Europe during 2018-19, with investments that we expect to range between €180-250m. Much progress was made in the OrDs business too: Cystadrops received EU marketing authorization in January and is expected to be launched in 2017, while Graspa in EU and Carbaglu's new indication in US are expected to set the ground for continuous high growth in future years. Recent pipeline strengthening and further internationalization will provide strategic positioning to REC's most promising business.

- ## Financials

Our estimates about future performance are in line with management's guidance: revenues to reach **€1.23bn** and **€1.45bn** by **2017E** and **2019E** respectively, growing at a **7.9% 3Y CAGR**. OrDs business and cost synergies to improve **operating margin** from 2016E 28.4% to 30.3% by 2019E and **30.5% by 2021E** (+1.1% without accounting for non-recurring expenses). EBITDA margin to improve by 1.6% (33.8% 2021E) during the period due to the positive effect of OrDs business model and stable level of D&A on sales at 3.4%. EPS to reach 1.82 by 2021, growing at a 9.6% CAGR.

- ## Valuation

Our **€30.2 TP** is based on a DCF model using a 6.6% WACC during our projected 5Y, a 7.4% TV WACC and a 2.53% TV growth rate. Our valuation sets REC at a **1YF 15.9x EV/EBITDA** and a **23.1x PE**, implying a 36.5% and 10.6% premium on peers' respective medians. We think these higher multiples to be justified by REC's outstanding **management track record** and the expectation that performance will keep improving in the future. Nevertheless, our valuation does not provide meaningful upside margin since the current stock price discounts an already positive outlook for the company, as factored in our base case scenario.

Investment Summary

We begin our coverage of REC with an HOLD recommendation and a €30.2 target price, implying a 0.7% upside from its current stock price. Our investment thesis is based on five main expectations about future performance that we think the market already factors in: **1) Strong growth in OrDs business** driven by new launches and indications in EU and US. **2) Increasing penetration in developing markets**. **3) Strong cash flow generation** (1.13x CFO/NI avg 2017-2021) backing accretive acquisitions (~€400m EV at ~3x EV/S during 2017-2021). **4) Stable growth in developed markets** through portfolio diversification and geographic integration. **5) Improvements in operating margins** from cost efficiencies and product mix from both PSC and OrDs (30.5% OpM 2021E, +2.1% 2016E)

Recordati a Specialty Pharmaceutical Group

Recordati Spa (REC) is an Italian based multinational pharmaceutical group founded in 1926. Following a strategy of **internationalization through bolt-on acquisitions** backed by a **solid cash flow generating product portfolio,** REC has reached a **Market Cap of €6.27bn and €1.15bn in revenues 2016E**. REC's core business is dedicated to the research, development, manufacturing and marketing of **pharmaceuticals for primary and specialty care (PSC, 83.8% 2016E sales)** and **orphan drugs (OrDs, 16.2% 2016E sales)** for the treatment of **rare diseases (RDs)**; in its 2 chemical plants it also runs a small chemical business (~3.5% sales). By **diversifying** through **geographies** and **therapeutic areas** and building a portfolio of **corporate products** to integrate geographically, REC has been capable of completely offsetting Zanidip (32.7% 2009 sales) 2010 patent expiration effect on revenues, which have since grown at an 8% CAGR thanks to successful launches of both in-house developed (ex. Zanipress, €69m 2016E), and in-licensed (ex. Urorec €85m and Livazo €35m 2016E). After the acquisition on Orphan Europe in 2007, REC has increased its presence in the OrDs business with the **acquisition of a portfolio of OrDs** for €73.5m in 2013 from Lundbeck. The business has grown at a 13.5% CAGR in the last 3 years and with its **high margins (44.7% OpM 2016E)** has improved REC's overall profitability (28.4% OpM 2016E, +7.6% 2013).

Growth Opportunities

OrDs business (€186.8m 2016E): current portfolio's increasing volumes, 2 launches in 2017-2018 expected and a new designation for Carbaglu in US **will drive the segment's strong growth** (€297m 2021E, 9.7% 5Y CAGR, 22% of period growth). Strategic positioning through internationalization in South-East Asia and pipeline strengthening will set the ground for growth in future years.

Inorganic growth to account for **44% of growth in sales during 2017-2021. We expect REC to invest ~€400m during 2018-2021** to acquire 2/3 companies in order to strengthen its pipeline and presence in some geographies like Germany, France, Poland or UK and diversify its business towards other ThAs or OTC/NPP.

Success in main markets of REC's most important corporate products: we expect solid single-digit growth from Urorec and Livazo until 2020, completely offsetting Zanipress generic entry effect on sales starting 2017. Investments during 2017-2021 to lay the foundations for future growth.

Growing presence in developing countries: Russian portfolio is being integrated with new corporate products while Turkish operations are expected to continue to grow double-digit by the time the new production facility gets fully operating (2017/2018E).

Relevant Risks

Lack of Investment opportunities: REC's high acquisitive and in-licensing activity may find external barriers due to the absence of profitable opportunities in the market.

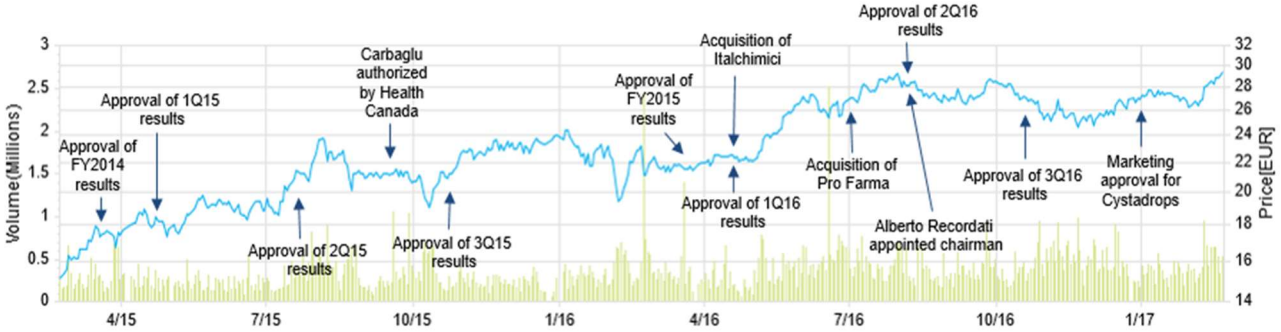
Generic Competition & Sales at Risk: Like every branded pharmaceutical manufacturer, REC has been fighting generics in order to keep its branded products' market share. Despite the slowdown in generic erosion of sales in recent years, REC will face €69m and ~€170m of sales at risk from generic entry during 2017-19 and 2020-23.

Financials

We forecast REC to grow at a **7.6% 5Y CAGR**, reaching **€1.66bn in revenues by 2021E**. OrDs business will account for 22% of overall growth (€297m 2021E). **Operating margin to reach 30.5%** by 2021, driven by cost efficiencies in SG&A expenditures (31% on sales, -1% 2016E) and higher priced product mix (69.6% Gross Margin, +0.9% 2016E) despite higher investments in R&D (8% on sales 2021E, +0.7% 2016E). **EPS to growth at a 9.6% CAGR** from €1.15 in 2016E to **€1.82** in 2021E.

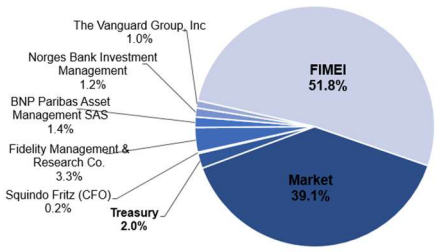
Valuation

Our **€30.2 TP** is based on a DCF model using a 6.6% WACC during our projected 5Y, a 7.4% TV WACC and a 2.53% TV growth rate. Our valuation sets REC at a **1YF 15.9x EV/EBITDA** and a **23.1x PE**, implying a 36.5% and 10.6% premium on peers' respective medians. We think these higher multiples to be justified by REC's **outstanding management track record** and the expectation that performance will keep improving in the future. However, considering the already bright performance expected from REC, current valuation provides narrow space for additional improvements and does not allow for higher multiples.



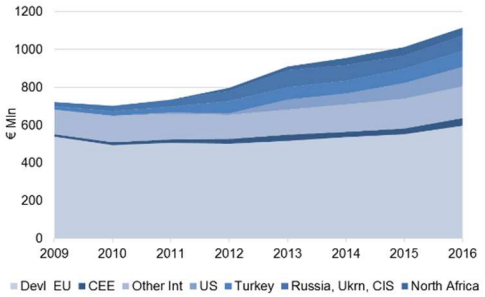
Source: Factset

Exhibit 1
Shareholder Structure as February 28th, 2017



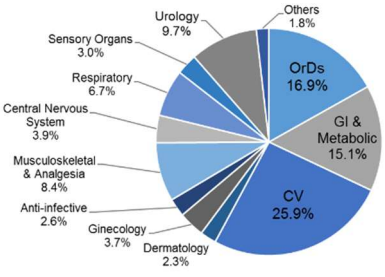
Source: Factset

Exhibit 2
Revenues breakdown by geographic area



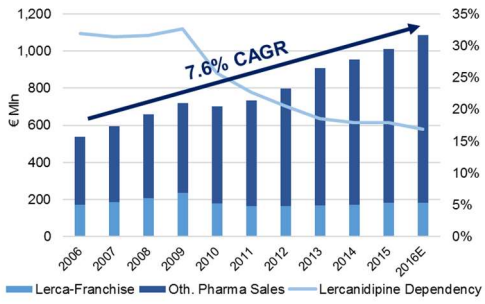
Source: Company Data, Team Estimates

Exhibit 3
Revenue Breakdown by ThA as 31 Dec 2015



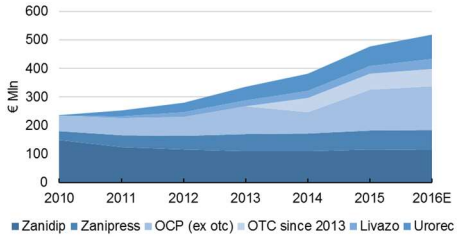
Source: Company Data, Team Estimates

Exhibit 4
Lercanidipine Dependency



Source: Company Data, Team Estimates

Exhibit 5
Corporate products performance



Source: Company Data, Team Estimates

Business Description

Recordati Spa (REC) is an Italian based multinational pharmaceutical group founded in 1926. The company is headquartered in Milan, Italy, and is **controlled by FIMEI Spa**, holding of the Recordati family, with an ownership of **51.8%** (see Exhibit 1). Following a strategy of **internationalization through bolt-on acquisitions** backed by a **solid cash flow generating product portfolio,** REC has reached a **Market Cap of €6.27bn and €1.15bn in revenues in 2016E**. Since 1984, it has been listed on the Borsa Italiana Stock Exchange and in June 20th 2016 entered the **FTSE MIB Index**.

Core Business and Geographical Breakdown

REC's core business is dedicated to the research, development, manufacturing and marketing of **pharmaceuticals for primary and specialty care (PSC, 83.8% 2016E sales)** and **orphan drugs (OrDs, 16.2% 2016E sales)** for the treatment of **rare diseases**. In its **2 chemical plants** in Campoverde (IT) and Cork (IRL) REC also runs a **small chemical business (3.5% sales)**, producing active ingredients and intermediates for both its operations and the pharmaceutical industry. REC has **6 pharmaceutical production facilities** located in Italy (Milan), France (Saint Victor), Turkey (Cerkezkoy, operating since 2016), Spain (Zaragoza), Tunisia (Tunis) and Czech Republic totalling **~205 Mln packs per year (~60% sales volumes**). REC has **consolidated subsidiaries** in **most EU countries** as well as **Turkey**, **Russia**, **CIS, US** and **North Africa**, established through its **acquisitions-based geographic expansion** (see Exhibit 2 for revenues breakdown). Despite sharing some **key corporate products**, REC's portfolio is **highly differentiated** across these countries because of both acquisitions heritage and different strategies and market opportunities. REC sells its products in the **rest of the world** (mainly China and Australia) through licensing agreements and its subsidiaries' exports.

Primary and Specialty Care (PSC)

REC's PSC business is focused on the treatment of **cardiovascular** diseases **(CV)**, **hypertension** in particular, **gastrointestinal & metabolic (GI)** and **genitourinary** diseases **(GU)** (see Exhibit 3). **Recent R&D** has been focused (except for OrDs) on the GU segment, which is deemed less crowded, more profitable and more prone to innovation than other ThAs like the CV. Investments through **different strategies** are carried out in **more ThAs in order to enlarge and diversify** the portfolio with new **corporate products (CP)**, i.e. products that can be marketed in those countries where REC has a direct presence to leverage. REC's major success factor in PSC is its ability to **integrate geographically its portfolio** and obtain its **full value**: as shown in Exhibit 4, growth has been resilient despite the expiration of lercanidipine's patent, REC's historical compound.

Core Corporate Products

Zanidip (lercanidipine), an internally developed calcium-channel blocker (Ccb) for the treatment of hypertension, represented and continues to represent REC's core product **(€114m, 9.9% of 2016E sales)**. Since **generic entry in 2010,** REC has limited volumes erosion and increased Zanidip business through geographic expansion, price containment and assignments of public tenders. Since 2012 revenues have been substantially stable **(~€110m, 50% 2009 sales)**.

Zanipress (lercanidipine + enalapril), an internally developed fixed combination of a Ccb and an Ace-inhibitor, was introduced in 2007 and partially offset the negative effect of generic entry on the lercanidipine-franchise sales **(€67m, 6% 2016E sales, 4.9% 3Y CAGR)**. **Generic entry** in major markets is expected in **~2Q17** but we forecast market share to be eroded less than other antihypertensive compounds.

Urorec (silodosin), an alpha-blocker for the treatment of benign prostatic hyperplasia (BPH), represents the most successful product in the GU area **(€85m, 7.4% 2016E sales, 22% 3Y CAGR)**. In-licensed by Kissei and introduced by REC in 2010, it is marketed in **34 countries**. Silodosin represents **one of the few new treatments for BPH that have been marketed in many years and that are being promoted to physicians and specialists**: competitors like Astellas' Omnic, Pfizer's Cardura or MSD's Avodart, whose generic version entered the market decades ago, are losing market share against a new product whose benefits are continuously promoted.

Livazo (pitavastatin) is a cholesterol-lowering statin in-licensed by Kowa. Since its launch in 2011, Livazo has been capable of gaining market share in one of the most crowded markets thanks to both its safety profile, in line with other statins, and its additional benefit of induced increase in HDL cholesterol **(€35.1m, 3% 2016E sales, 16% 3Y CAGR, 7.5% statins market in 4 main countries).**

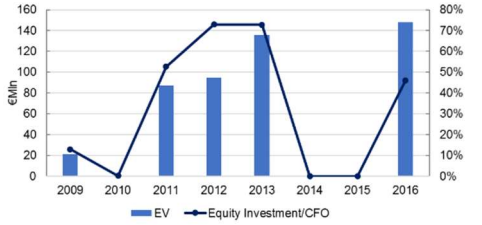
Other Corporate Products (OCPs): Despite **4 products** accounting for **~26% of 2016E revenues** (~33% PSC), REC's strategy of geographic integration has led to the development of a diversified CP portfolio composed of other 19 products, 6 of which OTC. Rec's OCPs account for €215m, 18.6% sales 2016E. OCPs strong growth is driven by both single products' success and the stable increase in those entering the group and being integrated, like CitraFleet and Casenlax in 2013.

Subsidiaries' local products: despite being sold only in one country, these products accounts for a significant part of that country's performance. Such is the case of **Methadone** (€28m 2015) in France, **Ortoton** (€28m) in Germany and **Peptazol** (€22m) and **Cardicor** (€22m) in Italy.

Orphan Drugs (OrDs)

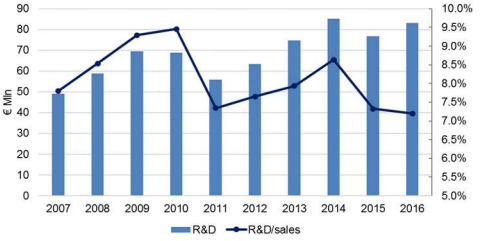
OrDs are **pharmaceutical products aimed at treating or preventing rare diseases (RDs), i.e. diseases with such a low incidence (< 1/2000 in Eu) that the development of a cure would not be profitable** for the company, and therefore, in the absence of **incentives**, would be orphan of it. Due to the high social value of providing a treatment to everyone despite the rarity of the disease, regulatory authorities have established many **incentives to the development** of OrDs, allowing the sector to growth exponentially during the last 15 years. Since the acquisition of **Orphan Europe** in **2007**, REC has concentrated its efforts on the development of this promising business. Through its expansion in the US with Recordati Rare Diseases and the acquisition of a portfolio of **5 OrDs (€73.5Mln) from Lundbeck in 2013,** the segment has grown at a **13.5% 3Y CAGR,** reaching **€186.8m in 2016E** (despite license termination of a key product in 2014). REC's OrDs portfolio, composed of 10 OrDs, focuses on the treatment of **pediatric metabolic diseases**. Through its R&D REC has developed its specific expertise in **urea cycle disorders** and **cystinosis**. **Carbaglu,** for the treatment of acute hyperammonaemia due to NAGS deficit and other 3 organic academia, is REC's most important OrD and has been the growth driver of the segment during last years.

Exhibit 6
Past Acquisitions EV and Cash Outflows



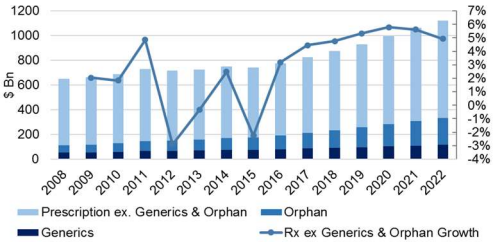
Source: Company Data, Team Estimates

Exhibit 7
R&D expenditures recent pattern



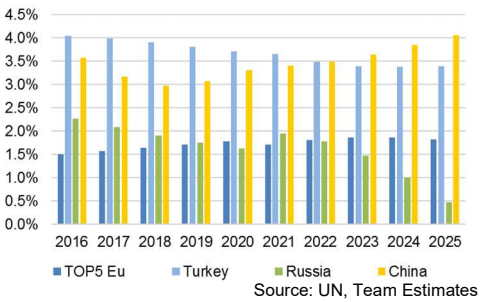
Source: Company Data, Team Estimates

Exhibit 8
WW Prescription Drug Sales



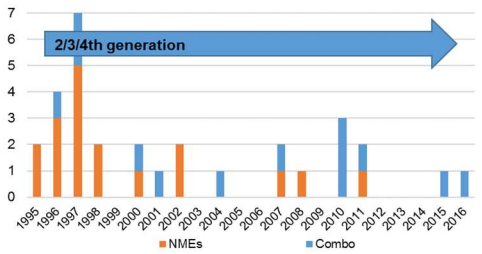
Source: Evaluate Pharma

Exhibit 9
People aged 60 or more expected growth



Source: UN, Team Estimates

Exhibit 10
New FDA approved antihypertension drugs



Source: Centerwatch, Team Estimates

Future Growth Strategy

REC strategy to foster growth in future years can be summarized in 4 key targets:
1) Expand OrDs portfolio and geographic reach: In order to consolidate the double-digit growth experienced in recent years, REC strengthened its pipeline during 2H16 with 3 new compounds and is now looking for new investments in OrDs companies with promising products like previously done with Erytech. REC will also keep expanding internationally: it is planning to establish a direct presence in South-East Asia by 2018.
2) Defend cash generating position in EU developed countries (53.44% sales): REC will concentrate on exploiting its more promising products while trying to limit generic penetration and downward pricing pressures. Demographic dynamics are likely to contribute to the modest organic growth in these markets.
3) Foster organic growth in developing countries such Turkey, Russia and Eastern Europe: REC has kept reinforcing its direct presence in these markets in order to profit from the high growth in pharmaceutical consumption expected to narrow the consumption gap in next years.
4) Strengthen the pipeline through both focused R&D and bolt-on acquisitions: Considering REC's **relatively low R&D activity (~7.7% sales 2011-16 avg, ~8% 2017-19E**, see Exhibit 8,), focused on few key compounds, an **acquisition oriented strategy** is deemed fundamental in order to foster growth. REC's targets are **cash flow generating** entities capable of providing quick returns and reinforce both its pipeline and its geographic presence.

Industry Overview and Competitive Positioning

Pharmaceutical Industry Outlook & Macro Trends

Worldwide Pharmaceutical Industry Outlook

Worldwide prescription drug sales are expected to grow at a **6.3% CAGR** between **2016-22** from **$778bn to $1,121bn**, largely driven by new launches in **oncology, anti-diabetics and rare diseases**. Loss of exclusivity (LOE) effect on total sales will be offset by **increasing generic consumption** and **wider spending in pharmerging countries**. The 3 aforementioned segments and the overall **specialty segment** are expected to drive **European 3% 2016-22 CAGR in Rx sales**, from **$172bn to $206bn**, while the **rest of the market will register no significant growth in value**: downward pricing pressures and new generics entry will offset increasing volumes effect on growth. (*source: Evaluate Pharma IMS*). **Three key worldwide trends** can therefore be identified: **1)** Greater use of **more expensive medicines in developed markets 2)** Greater use of **cheaper alternatives after LOE 3) Greater access in pharmerging countries for lower cost drugs. Worldwide OrDs market** (**$113bn 2016E**, 14% Rx sales) is expected to double during this period, reaching **$217bn in 2022** (19% CAGR) due to increasing new launches of OrDs targeting unmet RDs and indication extension.

Other Macro Trends

1) Ageing population, especially in European developed countries, will contribute to markets' growth (see Exhibit 9).
2) Economic stagnation and increasing **dependency ratios** will keep exerting significant pressures on **governments' budgets**. Regulations favoring **generic adoption** and **price cuts** on drugs are expected to keep eroding pharmaceutical profits in high-priced and high-volumes ThAs.
3) In developed markets, increasing awareness of the importance of life-style change in preventing CV and other diseases contrasts with **increasing urbanization** and other **social trends** related to CV and GU diseases such as decreasing hours of sleep, and hours spent working.

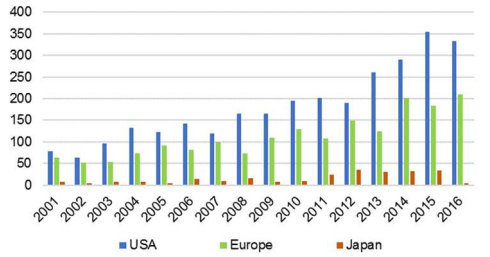
PSC Positioning & Competitive Landscape

Core ThAs Segments: Hypertension, Hypercholesterolemia, BPH

REC PSC business is focused on **crowded, low innovative ThAs segments** like **hypertension** (**$26bn**, 8th biggest pharmaceutical market, 0.4% 5Y CAGR by 2022E, *Source: Evaluate Pharma*) and hypercholesterolemia (more than $13bn by 2020E, -6.78% 4YE CAGR, *Source: Technavio*) which are experiencing **stable or increasing generic competition** and growth in volumes mainly driven by developing countries. **Big pharmaceutical** companies, despite still marketing their most successful products, **stopped investing heavily in these segments** (See Exhibit 10 for antihypertension ex.) **since providing incremental benefits with respect to previous blockbusters has become harder** and fighting generic competition has proven unprofitable. **Investments have shifted towards less crowded and higher priced ThAs**, one of which is RDs. Nevertheless, **when these benefits are obtained** (ex. Urorec and Livazo), profits can still be substantial in some of those segments where, despite well-known drugs being present, patients still face **unmet needs** and **market shares are penetrable** through promotional activities that see virtually **no active challengers**. BPH is one of REC's markets where innovation is still expected and competitors' pipelines are strengthening. Another market that shares part of BPH's characteristics (recent new launches, space for innovation, unmet needs) is **antipsychotic**, where REC will launch Reagila (Cariprazine) in 2018.
Other ThAs: REC's portfolio is highly differentiated between ThAs and many are composed of NPP (non-prescription pharmaceuticals) and OTC products whose competitive landscape is shaped by different dynamics: purchasing power is transferred from physicians to patients, and brand awareness and pricing play a major role than in PSC segments where drugs are reimbursed.

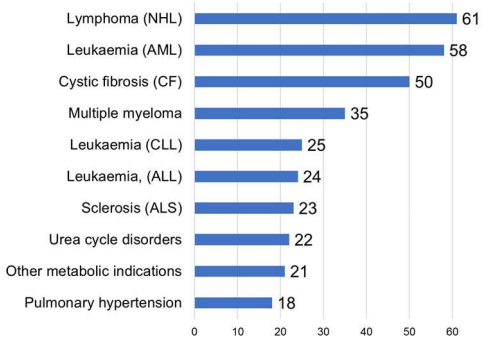
REC's Primary & Specialty Care: Porter's Five Forces	Intensity
Internal Rivalry: REC's core business is not involved in most competitive and R&D focused segments (oncology, vaccines, etc.) but its main ThAs' segments (antihypertensive, hypercholesterolemia, BPH, etc.) are crowded and full of established products and generics from both Big Pharma and small specialty companies: selecting those key ThAs and compounds/drugs to invest in represents REC's biggest challenge. Corporate products' brand awareness in OTC/NPP helps reduce external competitive pressures.	●●●○○
Threat of New Entrants: Significant percentage of core business focused on low innovative segments discouraging the high initial investments required to enter the business. Limited threat from disruptive innovation in all major ThAs.	●●○○○
Threat of Substitutes: Healthy lifestyle represents the only substitute to most PSC products. Current socio-demographic trends show mixed results but skewed towards lower pressures.	●●○○○
Bargaining Power of Buyers: Consolidated and geographically diversified product portfolio not expected to be affected by further price cuts from national authorities. OTC/NPP diversification will contribute to shifting power towards retail consumers.	●●●○○
Bargaining Power of Suppliers No significant pressures from both chemical products suppliers and contract manufacturers. Despite high shifting costs, the long-term nature of relationships and abundance of suppliers avoids pricing pressures and similar dynamics.	●●○○○

Exhibit 11
New Orphan Designations per year



Source: EMA, FDA, Ipsor, Evaluate Pharma

Exhibit 12
OrDs available for RD/RD class (2015)



Source: Evaluate Pharma

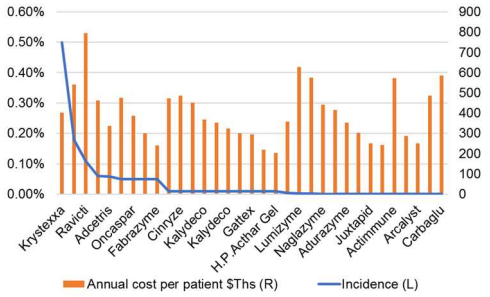
Orphan Business Environment and REC's Positioning

Since 2003, the OrDs sector has registered an **exponential growth in number of designations** (see Exhibit 11) and has accounted for almost **40% of all NMEs and biologics approved by FDA** during the last 4 years. It is estimated that more than **7000 RDs** exist but less than 400 of them have a designated OrD. With current investment trends, it is expected that by 2020 over 470 RDs will have a designated OrD. While global medicine spending on OrDs is expected to be 1-2% of global spending, it will be as much as 10% of spending in developed markets (source: Evaluate Pharma). **The main reasons** why the OrDs business has been one of the most successful investments for pharma companies in the last years of low R&D productivity are:
1) Regulations in US, Europe and Japan incentivizing research through fiscal and non-fiscal incentives for orphan designated products. **2) Compared with standard drugs**, OrDs typically require **26% shorter clinical development times** (51m vs 69m) and **smaller trials samples**, spend almost **half the time in regulatory review** (9m vs 17m) and are **more likely to be approved** (source: Premier Research). It is also estimated that OrDs return on investments is 1.12x that of other specialty drugs. **3)Their high social value**, combined with high patients' interest and associations activity, has put pressures on national authorities to lean towards granting marketing authorization (MA) and reimbursement to products that represent the only opportunity to change patients' lives when no safe alternative is available even in the absence of much supporting clinical data. **4) The wide number of potential diseases still unmet and the small number of patients** lower the competition in the industry and make it not profitable for generic companies to enter the market. **5) High prices not matched by high fixed and selling costs**: lean operating structures and small, high trained, selling-force numbers (**orphan specialists**) are required to promote an orphan drug to the few doctors specialized in the diagnosis and treatment of the specific RD in each country or region (As further shown in Exhibit 17, REC's OrDs operating margin kept growing towards 44.7% as economies of scale where progressively exploited). Nevertheless, the OrDs business presents **high risk and volatility**: clinical studies may not be successful due to both **lack of evidence and insufficient patients enrollment** while revenues, despite marketing authorization, may not meet expectations due to **difficulties in making correct diagnosis**.

REC's positioning: as shown in Exhibit 12, despite the massive opportunities in terms of RDs to target, there is much concentration in some specific RDs which have either higher incidence, different mutations or opportunities for more indications. Despite having 2 products for those crowded indications, REC's focus is in a less crowded area, i.e. urea cycle disorders, where competition is present but with lower intensity. Nevertheless, breakthrough innovation risk in OrDs is much higher than in PSC and requires carefully monitoring of competitors' pipelines.

REC's Orphan Drugs Business: Porter's Five Forces	Intensity
Internal Rivalry: REC is not directly investing in those few most crowded RDs segments and is developing its own expertise in urea cycle disorders. We expect competitive dynamics to persist in the short-mid term but, as the market gets crowded, even REC's segment may face increasing competition, especially in those diseases where prices are higher (ex. Carbaglu).	●●●○○
Threat of New Entrants: Except for the huge expertise necessary to conduct R&D, there are no significant barriers to entry: small biotech companies keep entering the markets backed by public or external funding from both pharmaceutical companies and VC funds.	●●●●○
Threat of Substitutes: Two compounds were granted orphan designation in the urea cycle disorders segment during last years but their indication do not exactly match the ones treated by REC's OrDs. Of REC's OrDs, 4 have an alternative OrD. (see Appendices 3/4 for important disclosure about potential sales at risk due to innovative breakthrough).	●●●○○
Bargaining Power of Buyers: High social value and associations activism in EU and US has made price cuts difficult. In order to avoid excessive spending, national authorities have preferred to increase reimbursement requirements (HTA criteria) rather than charge customers or limit supply. Recent trends show increasing concerns about pricing but REC's policy is deemed disciplined despite Carbaglu being one of the most expensive OrDs (No pricing pressures on Carbaglu are expected in the short term ,see Exhibit 13).	●●●○○
Bargaining Power of Suppliers: No significant threats are perceived. As in PSC, relationships are strategic.	●●○○○

Exhibit 13
High priced OrDs and RD incidence



Source: AHIP, Team Estimates

Competitors' Financial Analysis

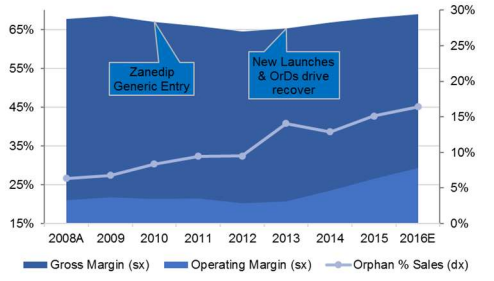
In both PSC and OrDs, companies of different size with different business model populate REC's competitive landscape, from BigPharma to small or international generic producers and growing biotechnology companies. Obviously, many small and mid-cap companies participate to the business but those analyzed in Exhibit 14 represent the biggest players and shapers of the industry or REC's direct competitors/peers. We can observe REC's different strategy in its lower R&D spending, focused on few key compounds, and low net/debt position due to its prudent capital structure. Nevertheless, this strategy has proven to generate returns consistent with the industry thanks to the compensation of lower R&D expenditures with licensing agreements and inorganic growth. Looking at REC bigger competitors, in fact, higher EBITDA margins have been achieved through higher propensity towards R&D and innovation, despite the higher expenditures involved with this strategy. Horizon's and Alexion's financials confirm the presence of higher margins in the OrDs business.

Exhibit 14: Main Competitors' ThAs & key financials (as 2016E)

	CV	GI/M	GU	Oncology	CNS	Diabetes	Vaccines	Resp.	OrDs	Revenues (€M)	EBITDA Margin	R&D on Sales	ROE	Net Debt/ EBITDA	CFO/NI
RECORDATI	■		■		■			■	■	1153,9	32,2%	7,3%	24,2%	53,6%	112,0%
Sanofi	■		■		■	■	■		■	34542,0	32,0%	14,9%	12,7%	59,7%	97,4%
Pfizer	■			■			■		■	48879,4	38,2%	14,8%	24,4%	104,6%	86,4%
GSK			■		■	■	■	■		32653,1	34,5%	12,4%	442,8%	143,3%	130,5%
AstraZeneca	■	■		■				■		21285,3	32,9%	24,5%	36,7%	146,1%	80,2%
Teva	■	■	■	■	■			■		21184,5	33,3%	9,6%	15,1%	476,9%	99,6%
Chemical W. of GR	■	■			■					1258,9	22,8%	9,0%	9,4%	-66,7%	130,6%
Horizon									■	987,3	43,8%	4,5%	35,6%	324,0%	77,2%
Alexion									■	2890,1	43,1%	22,4%	12,6%	174,2%	72,0%

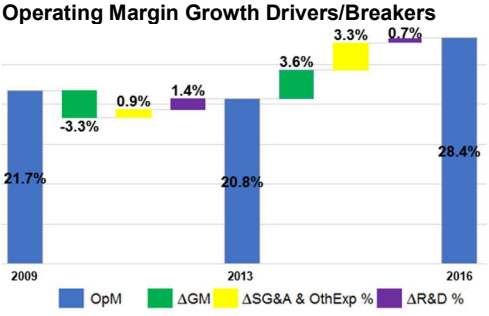
Source: Factset, Team Estimates, Company Data

Exhibit 15
Gross & Operating Margin Performance



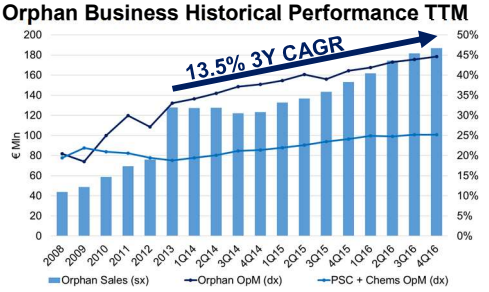
Source: Company Data

Exhibit 16
Operating Margin Growth Drivers/Breakers



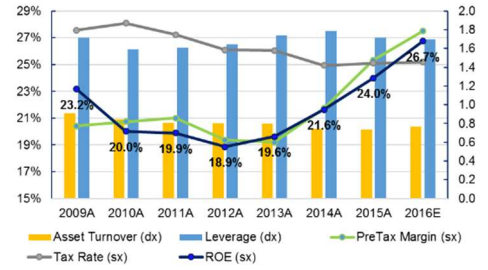
Source: Company Data, Team Estimates

Exhibit 17
Orphan Business Historical Performance TTM



Source: Company Data, Team Estimates

Exhibit 18
ROE: DuPont Analysis



Source: Company Data, Team Estimates

Financial Analysis

Past Performance Analysis

Overview

2009-2013 Geographic Expansion and Orphan Development - REC **revenues grew 26%** to €942m despite the introduction in 2010 of the **generic version of lercanidipine**, whose sales **decreased by 47% in 2009-13 to €109m**. Growth in this period was driven by: **1) Acquisitions of companies** in Turkey, Russia, CEE, Spain etc. (**cumulative EV ~340m**) **2) New launches** of proprietary and in-licensed product such as Urorec, Livazo, Cardicor and Zanipress (**€143m sales 2013**). **3) Acquisitions of portfolios** of OTC and PC products in Germany and Russia as well as **OrDs** in US during 2013 (**€73.5m invested**). Thanks to this acquisition, the **OrDs business,** which grew organically in 2009-12 at a 15.8% 3Y CAGR**, grew by €52m** (**27.2%**) **to €127m in 2013** alone.

2014-2016 Consolidation and Return to Investments - Thanks to its promising portfolio and a solid geographic presence, REC focused on organic growth and consolidation of its businesses. 2016 preliminary results confirm **OrDs business' 22.0% sales growth** (**23.1% 2YCAGR**) **to €187m**, while **Urorec and Livazo** grew at **20.8%** and **12.3% 2YCAGR** respectively, topping with **Zanipress €189m in 2016E**. Good performance of Ortoton in Germany and Tergynan in Russia, CIS and CEE consolidated REC's positioning in these areas. Currency depreciation partially offset double-digit growth in **Turkey** (**16.5% 2016E, 9.5% 3Y CAGR**). The acquisitions of Italchimici and Pro Farma in 2H16 will provide REC further cost synergies in the Italian market and new opportunities in the Swiss, along with increasing stable cash flows to back new investments and increasing dividends.

Operating Structure Evolution

2009-2013 As shown in Exhibit 16, **Gross Margin** (**GM**) **decreased** from **68.5% in 2009 to 65.2% in 2013** mainly due to price reduction after generic entry of lercanidipine and other price cuts. Lower growth in R&D expenditures and no significant restructuring costs lowered GM effect on **Operating margin** (**OpM**) until 2012/3 (**20.8% 2013, -0.9% 2013**). Without accounting for non-recurring costs, lower R&D and improved SG&A efficiency limited 2013 OpM decline to 1% against the 3.3% drop in GM. Lower D&A brought EBITDAM to 24.4% (-2% 2009). Improved fiscal position and absence of non-recurring costs contributed to **ROS** growth in 2011 (15.3%, +0.4% 2009). Increased use of debt and the decline in OpM caused subsequent decline in ROS to **14.2%** in 2013.

2014-2016 REC registered growth in both **GM (68.7% 2016E +3.5% 2013)** and **OpM** (**28.4% 2016 +7.6% 2013**) driven by **1) OrDs business** growing OpM (44.7% 2016E +11.7% 2013, Exhibit 17) **2) Improved efficiency** in the distribution system lowering SG&A incidence on sales (**32% 2016E, -2.9% 2013**). **R&D** costs peaked in 2014 (8.6% of sales) due to the end of 5 phase III trials and they have been stable at ~7.3% since. Without accounting for non-recurring costs**, 2016E OpM is 29.5%, +7.2% 2013.** EBITDAM mirrored OpM (32.2% 2016E, +7.8% 2013). Strong increase in **ROS** (**20.6% 2016E +4.3% 2014**) was driven by both **OpM** growth and improved **fiscal position** (**tax rate 25.2% 2016E, -0.9% 2013**).

Returns & Cash Flows

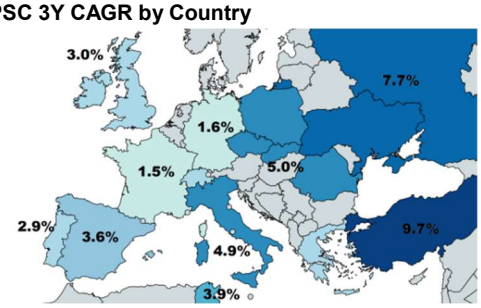
2009-2013 As shown in Exhibit 18**,** REC's lower leverage and asset turnover after lercanidipine's LOE drove **2009-11 decline in ROE to 19.9% 2011 (-3.3% 2009**) despite ROS improvement due to absence of non recurring costs. PreTaxM decline since 2012 offset improvements in both leverage and fiscal position on ROE (19.6% 2013, -3.6% 2009). New acquisitions and increase in WC contributed to the temporary decrease in ROIC (16% 2013, -6% 2009). CFO/NI bottomed at 95% in 2012 (-45% 2009) due to both WC increase and lower D&A, but since 2013 it has stabilized over 110%.

2014-2016 Strong growth in ROE since 2014 (**26.7% 2016E, +7.1% 2013**) was driven by high growth in the **PreTaxM** and **fiscal position** (25.2% tax rate, –9% 2013). No improvements in leverage and asset turnover were registered despite **payout ratio shift from 50% to 60%**. 2016E **ROIC** to surge over 2009 levels to **22.4% (+6.4% 2013)** despite negative effect of acquisitions in H16 on invested capital. Strong cash flow generation confirmed during the period (109% CF/NI 2016E).

Exhibit 19: Past Performance & Future Projections

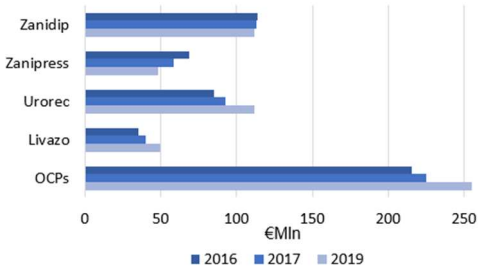
€Mln	2009A	2010A	2011A	2012A	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E	2021E
Revenue	**747.5**	**728.1**	**762.0**	**828.3**	**941.6**	**987.4**	**1,047.7**	**1,153.9**	**1,232.7**	**1,341.6**	**1,450.6**	**1,561.2**	**1,661.4**
Growth	8.4%	-2.6%	4.7%	8.7%	13.7%	4.9%	6.1%	10.1%	6.8%	8.8%	8.1%	7.6%	6.4%
Gross Profit	**511.9**	**488.1**	**502.1**	**534.8**	**614.3**	**660.3**	**712.5**	**793.0**	**853.0**	**931.1**	**1,008.1**	**1,086.6**	**1,156.3**
Margin (GM)	68.5%	67.0%	65.9%	64.6%	65.2%	66.9%	68.0%	68.7%	69.2%	69.4%	69.5%	69.6%	69.6%
Selling % on Sales	29.9%	29.7%	30.5%	30.3%	29.2%	28.7%	28.0%	26.6%	26.2%	26.0%	25.8%	25.8%	25.7%
R&D % on Sales	9.3%	9.5%	7.3%	7.7%	7.9%	8.6%	7.3%	7.3%	7.7%	7.9%	8.0%	8.0%	8.0%
G&A % on Sales	5.8%	6.0%	6.0%	5.5%	5.7%	5.8%	5.6%	5.4%	5.4%	5.4%	5.3%	5.3%	5.3%
Other Exp % on Sales	1.7%	0.5%	0.7%	1.0%	1.6%	0.4%	0.5%	1.1%	0.2%	0.8%	0.1%	0.6%	0.1%
EBITDA	**197.0**	**181.7**	**187.7**	**191.7**	**230.1**	**273.8**	**317.0**	**371.2**	**410.3**	**439.9**	**490.4**	**520.5**	**562.4**
Margin	26.4%	25.0%	24.6%	23.1%	24.4%	27.7%	30.3%	32.2%	33.3%	32.8%	33.8%	33.3%	33.8%
Operating Profit	**162.2**	**154.8**	**163.5**	**167.0**	**195.4**	**231.0**	**278.5**	**327.4**	**366.1**	**393.1**	**439.5**	**466.8**	**506.7**
Margin (OpM)	21.7%	21.3%	21.5%	20.2%	20.8%	23.4%	26.6%	28.4%	29.7%	29.3%	30.3%	29.9%	30.5%
IBT	**152.7**	**151.0**	**160.0**	**160.3**	**180.8**	**214.8**	**265.4**	**317.3**	**355.7**	**382.7**	**429.0**	**456.0**	**495.9**
Tax Rate	27.6%	28.1%	27.2%	26.1%	26.1%	24.9%	25.1%	25.2%	24.5%	24.5%	24.5%	24.5%	24.5%
Net Income	**110.6**	**108.6**	**116.4**	**118.5**	**133.7**	**161.2**	**198.8**	**237.3**	**268.5**	**288.9**	**323.9**	**344.2**	**374.4**
Margin (ROS)	14.8%	14.9%	15.3%	14.3%	14.2%	16.3%	19.0%	20.6%	21.8%	22.1%	22.3%	22.1%	22.5%
IC (€bn)	0.539	0.538	0.655	0.826	0.977	0.967	0.944	1.099	1.115	1.288	1.309	1.494	1.517
ROIC	**22.0%**	**20.7%**	**20.0%**	**16.7%**	**16.0%**	**17.8%**	**21.8%**	**22.4%**	**25.0%**	**24.7%**	**25.6%**	**25.1%**	**25.4%**
ROE	**23.2%**	**20.0%**	**19.9%**	**18.9%**	**19.6%**	**21.6%**	**24.0%**	**26.7%**	**27.8%**	**27.3%**	**26.8%**	**25.7%**	**25.4%**
CFO/NI	140.2%	129.5%	104.3%	95.2%	127.5%	111.1%	124.4%	109.3%	114.5%	116.0%	111.0%	115.3%	111.3%

Exhibit 20
PSC 3Y CAGR by Country



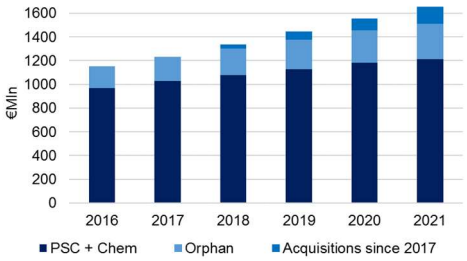
Source: Team Estimates

Exhibit 21
Corporate Products Mgmt Expectations



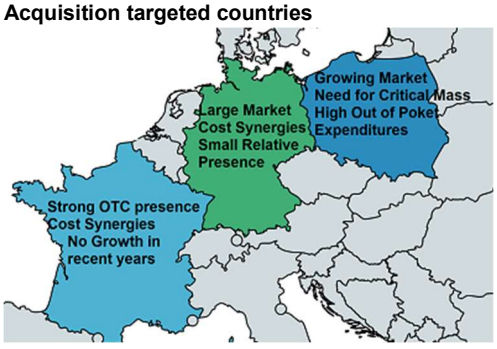
Source: Company Data

Exhibit 22
Revenues growth breakdown



Source: Team estimates

Exhibit 23
Acquisition targeted countries



Source: Team Estimates

Future Performance Expectations

Overview

2017-2019 Industrial Plan Strategy - We forecast **2017 revenues** to be in line with management's expectation, **growing 6.8% to €1.232bn**, €59.9m of which from 2016 acquisitions and therefore an **organic growth of 4.2%. The OrDs business, growing 7.1% to €200m**, will contribute to 17% of growth. We expect **PSC organic growth to maintain at 4.8%** during 2018-2019 and the **OrDs** business to keep growing but at lower rates than previous years: we estimate an **11.8% 2Y CAGR** based on management's expectations about new launches' sales. **Organically**, we think REC business will grow at a **5.9% CAGR during 2018-19**. We believe **inorganic growth and OrDs business development will shape the true success of 2017-2019 IP**: success in future acquisitions will determine which strategy REC will follow in its main countries and how sustainable its current business model of low R&D (mainly focused on RDs) and bolt-on acquisitions can be.

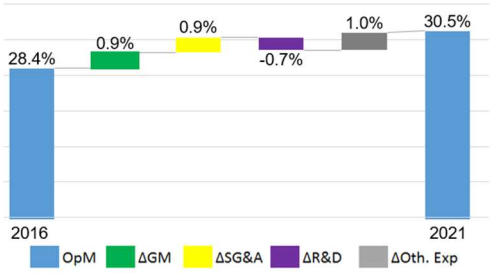
2017-2019 Organic Growth Drivers and Breakers - Management is committed to **protecting market share of its lercanidipine franchise, focusing on limiting Zanipress generic entry erosion to ~30% of €69m 2016E sales** and keeping **Zanidip** sales in the **€110m range**. Given Zanipress' lower volumes and other factors **discouraging generic entry**, we believe the target to be within reach. Slowing generic competition will likely make **Zanidip target achievable** too. **Urorec and Livazo** are expected to maintain their growth pattern and continue eroding competitors' market shares, topping **~110m and ~50m in 2019** (**8.8% and 12.5% 3Y CAGR,** mgmt. expectations**).** With no compounds entering the market during these years, Urorec's growth will be relatively unchallenged, while the launch of Livazo in Russia and Turkey will reinforce REC's corporate portfolio in those areas. Management expects **other CPs** to reach **~€255m** by 2019 (5.8% 3Y CAGR). We believe growth will be driven by Tergynan, ProctoGlyvenol, Citrafleet and others CPs which are either being geographically integrated, like Casen's portfolio, or marketed in growing countries (like Russia, Turkey and CEE). We forecast initial sales of **Fortacin, Vitaros and Reagila** to have little effect on period's performance **(~€14m)**.

Revenues Forecast: 2017-2021 - **Our revenues forecasts are based on a top down geographic approach according to the following process:** 1) Each country's PSC portfolio is analyzed and divided in product subgroups with different expected performance and adjusted for expected growth rate in TAM and GDP where deemed necessary. 2) When not feasible, expectations about country's pharmaceutical market growth during next 5Y were used as a proxy for REC's growth and, when deemed necessary, adjusted to take into consideration: a) Expected currency depreciation. b) Subsidiaries' past performance and portfolio opportunities**. Geographically, Turkey** (**11.3% 3YCAGR**), **Russia & CIS** (**7.7%**) will drive PSC organic growth in the next 3Y. In particular, we expect the new **Turkish production facility** to provide REC's business with the necessary volumes to supply the growing Turkish market and keep growth into double-digit during next years despite recent currency depreciation. The Russian portfolio will keep performing well thanks to the new launch of Livazo, its solid portfolio positioning and a positive currency effect since 2017. **Developed Europe** will register modest organic growth **(2-3%)** driven by OrDs and REC's most successful products but offset by Zanipress' and other products' decline. As shown in Exhibit 20, we expect healthy growth from most d**eveloping countries and international sales**, as we think subsidiaries' portfolio is capable of growing in line with each country's market. In the **OrDs** segment, **Cystadrops'** launch in 2017 will be the growth driver of the European market while Carbaglu's second indication in the U.S, expected by 2H17, will drive US growth (12.8% 3Y CAGR): it is indeed REC's highest priced and most important OrD (~$585k annual cost per adult patient vs expected ~€45k for Cystadrops, team estimates based on orders ex Italian law 79/14 and 648/96). For the OrDs business we forecast **a 9.7% 5Y CAGR**, slightly lower than previous **10.2% 3Y,** since the effect of initial sales of new launches on segment's revenues will slow down after Carbaglu's new indication in US. By 2021, we forecast REC's OrDs business to account for **17.9%** of the expected **€1.661bn revenues**.

Investments during 2017-2021 - **At an avg ~113% CFO/NI** and organic growth as previously stated, REC will generate **~€310m** per year in cash from its operations during 2017/18. With its **constant dividend policy** expected to consume slightly less than 60% of NI and no expectations of significant changes in REC's capital structure in next years, we estimate **REC to handle ~€155m** per year during 2017/18 without considering expected debt issuances and repayments. The **internationalization** of the **OrDs business** is going to absorb only a small portion of those resources and with them we expect REC to follow its typical strategy of bolt-on acquisitions and acquire either **a) 1 company** of bigger than usual dimension **(EV 180-250m) b) 2 smaller companies (EV 90-125m each)** at a **3x EV/S** during **H18**. We do not expect acquisition in the OrDs business due to segment's high multiples but management is looking for opportunities. Considering REC's geographic presence, acquisitions will likely take place in either **Germany, France or Poland**, where its business can be **strengthened** and **synergies** exploited. UK is being assessed too, but considering the macroeconomic environment and the main reason behind a UK investment, i.e. a more intense launch of Reagila, we are more skeptical about investing there.

2020-2021 Preparing for the next Cycle - As for the majority of drugs, Urorec and Livazo are likely to reach their peak sales the year before the entry of their generics. We assess a **€115-125m** range for **Urorec** in **2020** and **€50m** for **Livazo** in **2019,** both driven by increasing market share in their main markets and new launches in previous years in some of the remaining countries authorized by their licensing agreement. We believe generic entry may be capable of eroding ~40% of Livazo's sales and ~45% of Urorec's sales in 2/3 years. According to our estimates, this **potential €74m drop in sales** in the following years will be partially offset by the new launches in the orphan business of **Graspa** for ALL in 2018/9 and **current pipeline's 3 OrDs** in 2019. Management estimates peak sales to be around **€30m and €75m** respectively. We expect **Reagila** initial sales in 2019 to be ~€8m and reach **~€25m** in **2021/22** (*Source: Team estimates, Global Data*, **€45m 2025E in Top5EU**; management expects peak sales of €100m by ~2028E). We forecast **Fortacin** and **Vitaros** sales to reach **~€8m** by 2019 and €18m by 2021. Together, these products may reach **peak sales of €40-60m** in the second half of 2020s but their performance is still highly uncertain due to the high complexity of their markets. We expect **1/2 additional acquisition** of mid dimension (total EV ~200m, 1 or 2 depending on previous decisions) **to take place in 2020.** Our assessment is based on estimates about REC's target geographic structure and strategic competitive positioning.

Exhibit 24
Operating Margin Development



Source: Team Estimates

Operating Structure

GM to **growth moderately** (**69.5% 2019E, +0.8% 2016E**) driven by **OrDs'** and **corporate products'** better margins and to stabilize since 2019: Livazo and Urorec generic entry effect on margins will likely be offset by increasing weight of OrDs and CPs. We think there is still ample space for **cost efficiencies in SG&A**: acquisitions in 2016 have not increased REC's selling force and OrDs margins have proved to be very sensible to volume increase and R&D investments. We expect **SG&A% decline** to improve 2019E OpM by 0.9% (**31.1% SG&A on Sales**). We forecast them to be ~€95m in 2017, **7.7% of sales**, **growing 13%** as REC increases its efforts towards the development of the 3 OrDs in its pipeline and Carbaglu's phase III clinical trials end. R&D expenses will shift towards 7.9% of sales and in the range of **management's 8% target by 2018**. We estimate R&D to account for **8% of sales by 2020** and be stable thereafter, as REC relies more on in-house R&D in its OrDs business and adds new specialties to its pipeline. **EBITDAM** will reach **33.3% in 2017**, in line with **OpM growth (29.7% 2017E**), and improve towards **33.8% by 2021** as D&A on sales lowers towards 3.4%, in line with management's expectations. **ROS** expected to benefit from tax rate improvement (24.5% 2017E, -0.7% 2016E) due to new Italian tax rates and to grow to **21.8% by 2017 and 22.5% by 2021**, driven by improvements in **OpM** (**30.5% 2021E**).

Returns & Cash Flows

We expect ROE to surge to 27.8% in 2017, driven by improvements in Pretax Margin (28.9% 2017E) and tax rate; its subsequent slowdown is due to uncertainty about dividend policy and new investments dragging down leverage. Stable positive performance of ROIC during 2017-2021 driven upwards by OpM and tax rate improvements and floating around 25% with small changes due to mid-year acquisitions and related expenses. CFO/NI to stabilize around 113% confirms our view about persistent strong cash generating ability.

Valuation

We issue a **Hold** recommendation with a **TP of €30.2** and an implied **upside potential of 0.7%**. Our valuation is based on a **DCF model** to better account for the different **growth and investment patterns** that PSC and OrDs businesses will likely follow in the next 5 years and REC's **acquisitive strategy**. Our DCF model is counterchecked through **a) sensitivity analysis** on TV growth rate and WACC, with further analysis of leveraging effect on REC's cost of capital **b) specific bull and bear scenarios** in order to evaluate upside and downside potential under specific assumptions.
We conducted a **Multiple Analysis on REC's 1YF and 2YF P/E and EV multiples**. We decided not to consider MA as the primary valuation technique due to the low grade of comparability of peers' business and the belief that our DCF model, with explicit assumptions on the base case scenario, provides clearer insight into REC's business model, strategy and opportunities. Nevertheless, we use it as a **validity check to our assumptions** about REC's future prospects.

Exhibit 25
DCF Model Projected 5 Years

€M	2017E	2018E	2019E	2020E	2021E
Revenues	1232.7	1341.6	1450.6	1561.2	1661.4
Growth	6.83%	8.83%	8.12%	7.62%	6.42%
IC	1115.4	1288.0	1309.1	1494.0	1516.6
ROIC	25.0%	24.7%	25.6%	25.1%	25.4%
NOPAT	**276.42**	**296.78**	**331.84**	**352.43**	**382.58**
+ D&A	44.1	46.9	50.9	53.7	55.7
- Change in WC	5.2	0.5	15.3	0.9	13.4
- Capex	55.6	219.0	56.7	237.6	64.9
FCF	**259.8**	**124.2**	**310.7**	**167.6**	**360.0**
Discount Factor	96.9%	90.9%	85.3%	80.0%	75.1%
Present Value	**251.7**	**112.8**	**264.9**	**134.1**	**270.2**

Source: Team Estimates

Exhibit 26
WACC Assumptions

Risk-free rate	0.2%
Market Premium	7.4%
Beta	0.89
Cost of Equity	6.9%
Cost of Debt	3.5%
Tax Rate	24.5%
After Tax Cost of Debt	2.6%
Capital Structure	0.95
WACC	**6.6%**

Source: Team Estimates

DCF Model

2017-2021 Our assumptions for the period, presented in the Future Performance Expectations section, show growth potential boosted by OrDs and developing markets performance and acquisitions for a total of €400m at a ~3x EV/S expected to take place in H18 and H20, contributing approximately by 44% to 2017-2021 growth. Despite believing that REC's strategy of inorganic growth will persist in future years, its discontinuity and uncertainty leads us to not stretch further our 5Y estimated period

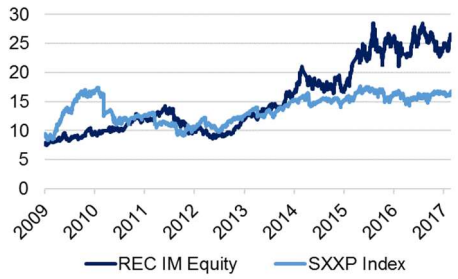
Key Assumptions on TV
1) ROIC: we set our sustainable TV ROIC at **25.4%**, in line with average past performance accounting for the improvements in operating and fiscal position.
2) TV Growth Rate: we set REC's TV growth rate at 2.53%, in line with expected long-term world's GDP growth rate. We think REC's geographic diversification and investment strategy will ultimately lead to an international presence capable of sustaining this growth rate in the future. As a consequence of ROIC and TV growth rate expectations, we set TV reinvestment rate at 9.96%.

Sensitivity Analysis: adjusting for differences in TV WACC and Growth Rate we obtain a range with respect to our valuation of **-15% and +24.3%.** We want to stress the attention on the **following matrix**: as explained below in the capital structure analysis, a 5% increase in debt to capital employed (D/CE) would result in a **significant decrease in TV WACC from 7.4% to 7.1%.**

TV WACC \ TV GROWTH RATE	1.8%	2.0%	2.3%	2.5%	2.8%	3.0%	3.3%
7.8%	25.6	26.3	27.1	27.9	28.8	29.9	31.0
7.7%	26.2	27.0	27.8	28.6	29.6	30.7	31.9
7.5%	26.8	27.6	28.4	29.4	30.4	31.6	32.9
7.4%	27.4	28.2	29.1	30.2	31.3	32.5	33.9
7.2%	28.0	28.9	29.9	31.0	32.2	33.5	35.1
7.1%	28.7	29.6	30.7	31.8	33.1	34.6	36.2
6.9%	29.4	30.4	31.5	32.7	34.1	35.7	37.5
Upside/ Downside to BC	Worst case	L Median	L Mean	Mean	R Mean	R Median	Best Case
	-15.0%	-6.4%	-6.1%	1.0%	8.4%	7.9%	24.3%

Capital Structure Analysis
REC has maintained a conservative capital structure during the last years (0.87x Debt/EBITDA, 0.54x Net Debt/EBITDA 2016E), without exploiting re-leveraging opportunities offered by its stable cash generating PSC business and low interest rates but providing growing dividends to its shareholders. Management recently confirmed its willingness to not increase leverage over historical values in order to have the necessary financial flexibility to take advantage of future opportunities for acquisitions or other investments or, in their absence, increase payout ratios. Despite agreeing on this strategy of financial flexibility, we analyze the effect that a change in REC's capital structure would have in its TV WACC: a **shift from 5% to 10% in REC's D/CE** would indeed lead to a 7.1% WACC and a 31.8 TP, implying an upside of 6% with respect to its current price and of 5% with respect to our base case valuation. We therefore believe the market will continue to factor a conservative capital structure even in future years. According to our analysis, REC could

Exhibit 27
Historical PE



Source: Factset

Exhibit 28
Multiple Analysis, Key Multiples

Company	1YF P/E	1YF EV/EBITDA	1YF EV/EBIT	EBITDA Margin
Almirall SA	20.2 x	9.8 x	14.0 x	30.0%
Borion SA	19.4 x	8.8 x	10.6 x	26.6%
CW of GR	19.1 x	11.6 x	18.0 x	23.9%
Lundbeck	21.6 x	11.4 x	15.5 x	30.5%
Ipsen SA	24.3 x	14.4 x	17.1 x	25.7%
Orion Oyj	28.5 x	20.1 x	22.5 x	29.7%
SOBI	29.0 x	17.3 x	23.8 x	33.3%
UCB SA	17.8 x	11.7 x	14.7 x	26.8%
Average	**22.5 x**	**13.1 x**	**17.0 x**	**28.3%**
Median	**20.9 x**	**11.6 x**	**16.3 x**	**28.3%**
REC (con.)	**23.2 x**	**15.7 x**	**17.6 x**	**33.0%**
Prem. (dis.)	**11.0%**	**35.0%**	**7.6%**	
REC (team)	**23.1 x**	**15.9 x**	**17.8 x**	**33.2%**
Prem. (dis.)	**10.6%**	**36.5%**	**9.1%**	

Source: Factset, Team Estimates

Exhibit 29
Past Transaction Multiples

Buyer	Seller	Purchasing price ($M)	EV/Sales
PSC			
Mylan	Meda	9.900	4,30 x
Actavis	Forest Lab	25.000	7.35 x
Orphan			
Horizon	Hyperion	1.100	8,79 x
Endo	Auxilium	2.600	6,50 x
Horizon	Raptor Ph.	800	7,28 x
Shire	Viropharma	4.200	9,81 x
Weighted multiples			**6.24 x**
Implied Equity Value (€bn)			**7.2**
Implied Share Price (€)			**34.3**
Implied Upside			**14.5%**

Source: Team Estimates, Companies' Data

already sustain a 10% D/CE without lowering its **interest coverage ratio under 14x and its Debt/EBITDA over 1.8x,** and therefore without putting at risk its creditworthiness but, considering management's prudence, we factor no changes in the capital structure in our base case.

Scenario Analysis

Bull scenario - we forecast higher **top line growth (8.2% 5Y CAGR)** driven by 1) Higher penetration in developing markets (ex. Turkey 11.6% 5Y CAGR). 2) Slightly better performance of corporate products in Europe and lower Zanipress, Urorec and Livazo generic erosion. 3) Success in all orphan compounds and fast market entry (10.5% CAGR). 4) Acquisition multiples are set at 2.8x EV/S in order to account for potential bargains and REC's excellent track record. 5) Faster margins improvement.

Bear scenario - we forecast lower **top line growth (6.7% 5Y CAGR)** driven by 1) Slower penetration in developing markets (ex. Turkey 8% 5Y CAGR). 2) Fiercer generic penetration in both developed Europe and developing countries. 3) Slower growth of orphan business (8.4% CAGR). 4) Acquisitions at higher multiples (3,2x EV/S) and with no growth potential. 5) Lower margins improvement.

TV assumptions are kept constant with respect to our Base Case with the exception of REC's OpM and leverage: we analyze two bull scenarios where we forecast a D/CE of both 5% and 10% (in order to measure upside potential provided by changes in capital structure). Bear scenario's D/CE is kept constant at 5%.

Results and Conclusions – Our two scenarios provide a range of **–4.0% and +3.8%** (+8.7% with 10% D/CE) with respect to current market price and **–4.6% and +3.2%** (8.0%) to our base case estimates. Considering the narrow range of prices deriving from our projected scenarios and the low probabilities that we assign to each one of them, our analysis **confirms our HOLD recommendation.**

Multiples Analysis

Peer selection & Benchmarking – we identified **8 peers** among European pharmaceutical companies, based on size, geographic exposure, main ThAs and stage of development, even if none of them is accurately comparable to REC due to differences among business models and product portfolio.

Multiples - We focused on **P/E and EV/EBITDA**, the most common multiples in the industry, and in order to compensate for differences in ThAs, business models and capital structures we take into consideration EV/EBIT, EV/S and operating margins too. We rely on **1YF and 2YF estimates** considering each peer's outlook and growth opportunities.

P/E - Our estimates' implied **1YF 23.1x P/E** sets REC at a **10.6% premium** on its peers' median of 20.9x (23.2x consensus, 11% premium). Ours' 2YF implied 21.5x P/E implies a 26.8% premium on peers' 17x median (21.6x consensus).

EV/EBITDA – Our valuation implies a **1YF 15.9x EV/EBITDA** and a **36.5% premium** on peers' median (15.7x consensus, 35% premium). Similar pattern is observed in other EV multiples: **1YF 17.8x EV/EBIT (9.1% premium) and 5.3 EV/S (51.7%).**

Conclusion – As shown in Exhibit 27, REC has been trading at **higher multiples since its expansion in the OrDs business and its subsequent improvement in profitability**. Our DCF implied multiples confirm market's view on REC deserving higher premiums. We deem these multiples to be justified by **management's outstanding track record** and the expectation that REC's growth and improvement in profitability is going to persist in the **long term**. We also observed that REC's E**V multiples are in line with those of its peers that share similar operating margins** (SOBI, Orion Oyj). Nevertheless, our valuation does not provide meaningful upside margin since the current stock price discounts an already positive outlook for the company, as factored in our base case scenario **We therefore confirm our HOLD recommendation**.

M&A Multiples

REC represents one of the few pharmaceutical companies with a series of characteristics that make it an **attractive acquisition target** for foreign pharmaceutical companies willing to enter promptly into the European market: **1) Stable cash flow generation** through a consolidated portfolio. **2) Wide and efficient distribution system with mid-cap turnover. 3) Experienced management to whom entrust European operations**. Indeed, rumors in September of an interest by Fosun Pharmaceutical confirm our hypothesis of optimal acquisition target to enter the European market. Despite FIMEI's 51.8% ownership and confirmation by current management that REC is not on sale, we run an analysis on previous acquisition multiples in the industry. We use bottom up approach in order to estimate the EV/S acquisition multiple of REC based on its 2 business segments. Transaction multiples were not considered in our valuation because, considering management's recent statement, we assess the event to be still unlikely. Results are shown in Exhibit 29.

INVESTMENT RISKS

Macro	**[M1] Regulatory Risk**: National authorities' actions to contain healthcare expenditures have represented the key trend in the years since the financial crisis. Generic competition surged and usage was encouraged through new regulations. Pharmaceutical companies' margins were eroded through price cuts and pay-back systems too. Geographic and ThA/OTC diversification represents the best way to deal with regulatory risk.
	[M2] Risk from international presence: Despite geographic diversification being positive in order to reduce exposition to one country's market and its regulatory framework, risks arise from exposure to developing markets and countries where both political and regulatory frameworks face considerable uncertainty (i.e. Russia, CEE, Turkey, NAfr).
Strategic	**[S1] Innovative breakthrough:** In REC's main ThA segments, innovation in recent years has been marginal and further breakthrough are not expected in the short term. Risks are present in part of its OrDs business, especially where more than one indication (those where multiple diseases can be addressed and prices set higher) may be obtained by new and more efficient orphan drugs.
	[S2] Lack of Investment opportunities: REC's high acquisitive and in-licensing activity may find external barriers due to the absence of profitable opportunities in the market: we believe REC's increase in R&D will provide a floor to the potential negative effect of lack of inorganic growth.

Strategic	**[S3] Unsuccessful acquisitions**: [S2] leads to a worse risk, i.e. that in the absence of many optimal targets, future acquisitions will be driven by the necessity to enlarge business rather than to make it profitable. Even if REC's geographic structure allows for many synergic opportunities, obtaining value from future acquisitions may be harder in future periods, as we expect that REC will have to invest more and in bigger targets. Excellent track record of accretive acquisitions still provides good expectations about investment opportunities identification.
	[S4] Pipeline shortage: REC's pipeline has not been particularly rich during last years and was mainly composed of new indications and formulations (life cycle management) rather than new compounds. Despite REC's success in its LCM activity, an improvement in the pipeline, even only in the OrDs segment, is deemed necessary to foster organic growth and avoid relying only on acquired or in-licensed compounds. New compounds added during 2HQ16 provide guidance on how the management addressed and partially offset this potential threat to future returns.
Operational	**[O1] Generic Competition & Sales at Risk**: Like every branded pharmaceutical manufacturer, REC has been fighting against generics in order to keep its branded products' market share. Despite the slowdown in generic erosion of sales in recent years, REC will face €69m and ~€170m of sales at risk from generic entry during 2017-19 and 2020-23 in its PSC business.
	[O4] Pharmacovigilance: Once a drug is approved and marketed, its effectiveness has still to be monitored in order to control for new potential side effects or risks**.** Despite PSC bears relative low pharmacovigilance risk, the OrDs business, given the low numbers of clinical trials and required periodic reassessments, presents more risk of market approval withdrawal, especially if the OrD is approved under exceptional circumstances.
	[O5] R&D productivity & Reimbursement Risk: Providing sufficient clinical data on compounds efficacy and benefits/costs profile is fundamental to pass HTA assessment and obtain reimbursement. Some drugs, especially OrDs, may not be reimbursed by national healthcare and insurance systems due to the absence of sufficient data from clinical trials or limited incremental benefits with respect to other reimbursed drugs. The OrDs business presents the additional risk of not reaching a sufficient number of enrollments. Considering REC's intent to boost its R&D in the next 3Y, we advise monitoring carefully clinical trials development as shown in Appendix 4. These difficulties can bring to delay programmed launch timing.
Financial	**[F1] Solvency Risk & Capital Structure**: REC has kept a **solid capital structure during the last 7 years** (avg 0.84 Debt/EBITDA) and is expected to keep it during next years as long as it needs financial flexibility to take advantage of opportunities for acquisitions.
	[F2] Credit risk: REC sells its products mainly to **wholesalers** or, in some cases, directly to retailers/pharmacists. This distribution system therefore does not show significant credit risk, as can be seen from the **historical low amount of allowances for doubtful accounts** and trade receivables turnover, in line with the industry.
	[F3] Interest rates volatility: considering REC's capital structure, we do not expect interest rates volatility to represent a serious threat to neither profitability nor solvency.
	[F4] Forex Risk: REC's activities are exposed to foreign currency risk mainly through the US dollar, the Turkish lira and the Russian ruble. In recent years, fluctuations have favored American operations and highly deflated Russian and Turkish ones (despite double-digit growth in national currency even if accounting for high inflation). Nevertheless, direct presence in each of those countries, particularly in Turkey*, represents a natural hedge against Forex risk: the impact on returns may be significant, but profitability/margins should not be affected significantly. *(natural hedge against currency depreciation due to both in-country production and national regulation on International Reference Price)

OTHER HEADINGS

Exhibit 30

Board of Directors Composition

Member	Position
Alberto Recordati	Chairman
Andrea Recordati	Vice Chairman and CEO
Rosalba Casiraghi	Independent Director
Michela Castelli	Independent Director
Paolo Fresia	Independent Director
Mario Garraffo	Independent Director
Fritz Squindo	Managing Director and CFO
Marco Vitale	Independent Director

Corporate Governance

REC's conventional corporate governance system presents the following corporate bodies: the Shareholders' Meeting, the Board of Directors and the Board of Statutory Auditors. The independent auditor function is delegated to KPMG, whose assignments were decided during 2011 for the years 2011-2019. REC complies with the main recommendations of the "Codice di Autodisciplina" (Corporate Governance Code) as approved on March 2016 with some other specific integrations and adjustments. The BoD is actually composed of eight directors five of which independent, so their presence mitigates the risk related the significant top management participation to company's ownership and Recordati's family involvement.
REC's Remuneration Policy is approved by the BoD based on a recommendation made by the **Remuneration Committee** (a body formed by independent BoD members). **Different compensation schemes are implemented in order to balance the fixed and variables components in a way to be sufficient to attract and motivate managers**. All directors are paid a basic fee, plus an extra amount for non-executive directors in relation to their appointment to each committee, with a further extra amount for non-executive directors who occupy the position of Chairman on those committees. Bonuses are payable for individuals in amounts proportionate to the achievement of annual results defined with the company for the year in question and with a maximum ceiling equal to 30% of gross annual salary (GAS) excluded for the Chairman and CEO. **During 2014 a new Stock Option Plan has been approved** for the subsequent four years. The BoD may grant the options to senior managers of the company or of companies either directly or indirectly controlled and to employees who occupy particularly important positions and contribute significantly to the achievement of group results.

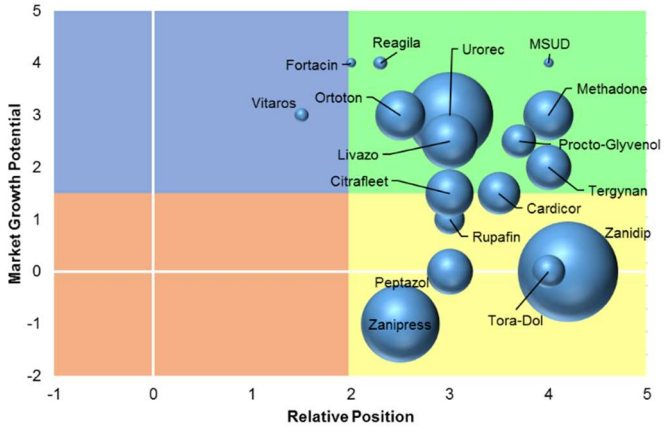
Corporate Social Responsibility

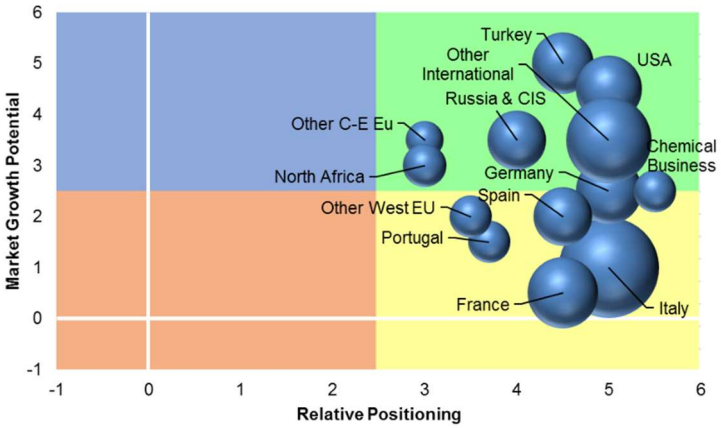
REC's **ethics code** identifies all rights and responsibilities of all those who work with the company and has been adopted to reflect company's values and promote high standards of professionalism.
REC's main social value activities are:
1) The Arrigo Recordati International Prize: an international competition for scientific researchers in the field of cardiovascular diseases. **2) Recordati Rare Diseases Foundation and Orphan Europe Academy**: RRD and OE develop and deliver tailored solutions in training and education, for healthcare professionals, to promote accurate diagnosis of rare diseases and care of patients. They give special support to patient affected by rare diseases and their families creating global networks and collaborating with experts, scientists, policy makers and regulators. A staff-volunteering program demonstrate the personal commitment to all living a rare condition organizing therapeutic programs and holiday camps. **3) Support to several associations**: REC is directly involved in supporting associations that give assistance to sick people in order to improve patients' quality of life considering the social aspect and the needs of disadvantaged people.
REC has been included in the Standard Ethics Index since last June and has obtained an E+ Standard Ethics rating.

APPENDICES

1. BCG Matrix

We present our BCG product and geography matrix in order to provide a quick summary of our view of both strategic market opportunity and major products performance.





2. Core PSC Products & Performance

CORPORATE PRODUCTS

Corporate products represent, together with the OrDs segment, REC's most important component of its product portfolio. They are all those in-house developed, acquired or in-licensed PSC products for which REC leverages its distribution system and geographic presence in order to sell in as much countries as possible and obtain their full value. This integration process, given REC's high acquisitive and in-licensing activity, is fundamental in order to generate returns. CPs' 16.7% 2Y CAGR is only partially driven by increase in sales of already established CPs (~50/70%); the remaining part is generated by the addition of new products to its corporate portfolio and the increase in sales that the integration process generates. This strategy has led to 47.8% of pharmaceutical sales to be represented by REC's CPs. Even OTC diversification has played a crucial role during last years: out of its 19 corporate products, 6 of them are OTC and have been the major growth drivers in areas like Eastern Europe and Russia.

€ Mln	2010	2011	2012	2013	2014	2015	2016E	1YG	2Y CAGR
Corporate Products (CPs)	**235.2**	**252.0**	**278.9**	**335.5**	**380.9**	**477.3**	**518.9**	**8.7%**	**16.7%**
% Ph Sales	33.5%	34.4%	35.0%	36.9%	39.9%	47.2%	47.8%		
Zanidip	148.7	124.7	114.6	108.7	109.3	115.7	114.0	-1.5%	2.2%
Zanipress	31.7	41.6	49.3	59.8	61.2	65.7	69.1	5.2%	6.2%
Urorec	2.1	19.8	32.7	46.7	59.1	68.3	85.2	24.8%	20.1%
Livazo	-	6.8	16.3	22.5	25.5	28.4	35.1	23.5%	17.3%
Other Corporate Products	52.8	59.2	65.9	97.7	125.76	199.29	215.50	8.1%	30.9%
Of which OTC	-	-	-	-	49.7	55.1	61.4	11.4%	11.1%

ZANIDIP (Lercanidipine)

Introduced in	Countries Marketed in	Ownership	Patent Expiration	Expected Peak Sales
1997	101	REC	2010	2009

PERFORMANCE

€Mln	2008	2009	2010	2011	2012	2013	2014	2015	1Y growth	3Y CAGR	2016E	1Y growth	3Y CAGR
Total Sales	**201.6**	**214.9**	**148.7**	**124.7**	**114.6**	**108.7**	**109.2**	**115.7**	**5.9%**	**0.3%**	**114**	**-1.5%**	**1.6%**
Direct Sales	132.3	140.9	85.5	70.9	62.4	58.8	59.2	60.6	2.4%	-1.0%	-	-	-
Sales to Licensees	69.3	74.1	63.2	53.8	52.2	49.9	50.1	55.1	10.0%	1.8%	-	-	-

CHARACTERISTICS

In-house developed third generation Calcium Channel Blocker for the treatment of **hypertension**. Lercanidipine lowers blood pressure causing the relaxation of smooth muscles in blood vessels and reducing the risk of cardiovascular events. Preclinical and preliminary clinical findings suggest lercanidipine may have beneficial effects on atherosclerosis and left ventricular hypertrophy. The efficacy and tolerability profiles of lercanidipine make it a suitable choice for treating hypertension in a wide range of affected patients. It is a **first/second line (as other CCBs) antihypertensive drug**.

PERFORMANCE SNAPSHOT & KEY FACTORS

Zanidip is the group's main product, 9.9% of 2016E revenues and is available in more than 100 countries. Generic entry in 2010 eroded its marginality and sales but the group has been capable of limiting the effect (<50% sales) and has since maintained a stable market share. Sales are expected to grow little in the future, driven by increasing use in developing economies and demographic trends in developed countries.

ZANIPRESS (Lercanidipine + Enalapril)

Introduced in	Countries Marketed in	Ownership	Patent Expiration	Expected Peak Sales
2007	28	REC	2016	2016

PERFORMANCE

€Mln	2008	2009	2010	2011	2012	2013	2014	2015	1Y growth	3Y CAGR	2016E	1Y growth	3Y CAGR
Total Sales	**6.8**	**20.7**	**31.6**	**41.6**	**49.3**	**59.8**	**61.3**	**65.7**	**7.2%**	**10.0%**	**69.1**	**5.2%**	**4.8%**
Direct Sales	3.2	10.5	19.9	26.5	33.2	41.7	44.6	47.8	7.2%	12.9%	-	-	-
Sales to Licensees	3.6	10.2	11.7	15.1	16.1	18.1	16.6	17.9	7.8%	3.6%	-	-	-

CHARACTERISTICS

In-house developed fixed combination of lercanidipine (CCB) and enalapril (ACE-I). It is required for the treatment of **grade II/III hypertension** and in **high-risk patients of grade I hypertension**. The two drugs in combination lower blood pressure by a greater amount than each one alone, so combinations can be even synergistic rather than simply additive. They have to be taken just once a day, a characteristic that enhances compliance with other treatments. Overall, this product is the leader in its class with a market share of 45.7%.

PERFORMANCE SNAPSHOT & KEY FACTORS

Generic entry is expected to affect sales starting 2Q17 but we expect a slightly lower effect than the one suffered by single compounds due to the product's smaller market and its geographic distribution. Indeed, despite generic versions of Zanipress being present in Portugal and Spain since 2013, sales **decreased only by 28%** in those markets. Management believes to be capable of limiting generic competition effect on sales to 30% by 2019.

UROREC (Silodison)												
Introduced in		Countries Marketed in		Ownership		Patent Expiration			Expected Peak Sales			
2012		34		Kissei (JP)		2021			2020/2021			
PERFORMANCE												
€Mln	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**1Y growth**	**2016E**	**1Y growth**	**3Y CAGR**
Total Sales	**/**	**/**	**2.1**	**19.8**	**32.7**	**46.7**	**59.1**	**68.3**	**15.6%**	**85.2**	**24.8%**	**22.2%**

CHARACTERISTICS

Silodosin is a new **α_{1A}-blocker** that remains the **first line therapy** for the treatment of **benign prostatic hyperplasia (BPH)**. BPH is a common and widespread problem among **men after the age of 40 years**. **The prevalence of BPH increases from approximately 50% at 60 years to 90% in men older than 85 years** and is the most important cause of lower urinary tract symptom that determines problems linked to urination as increased frequency, urgency and reduced stream. Urorec **guarantees symptoms reduction and improvement of life quality within the first week of treatment**. Early α-blockers that were nonselective for adrenoceptor subtypes have been associated with blood pressure-related adverse effects, such as orthostatic hypotension, while **silodosin possesses an excellent cardiac- and blood pressure-related safety profile** and it is well tolerated for men with mild-to-moderate liver dysfunction and for them who need to maximize cardiovascular tolerability. Evidence showing **solid efficacy and cardiovascular safety** profiles of silodosin will provide a good solution for the treatment of lower urinary tract symptoms associated with BPH in an increasingly aging society. It was in-licensed from Kissei Pharmaceutical for the whole of Europe (45 countries) and for a further 18 countries in the Middle East and Africa in 2010. Silosodin products are sold directly by Recordati under the brand Urorec and by licensees under the brand Sylodix.

PERFORMANCE SNAPSHOT & KEY FACTORS

The product is sold in 34 countries, reaching an **alpha-broker market share of 18.2%** in the main European countries and an average 10% BPH market share in REC's main markets. Since its launch, Urorec sales have been growing substantially and this trend is continuing due to the great performance especially in Italy, France and Turkey and to the increasing sales to licensees. We believe Urorec can **still increase its market share** substantially considering that it is **one of the few products (if not the only one) promoted in its specific ThA segment: its competitors are well known generics not promoted by their producers and their market shares are being eroded with time.** Management expects sales to exceed €100m in 2019

LIVAZO (Pitavastatin)												
Introduced in		Countries Marketed in			Ownership		Patent Expiration			Expected Peak Sales		
2011		Sp, Ptg, Ukr, Grc, Swz, Rus			Kowa (JP)		2020			2020/2021		
PERFORMANCE												
€Mln	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**1Y growth**	**2016E**	**1Y growth**	**3Y CAGR**
Total Sales	**/**	**/**	**/**	**6.8**	**16.3**	**22.5**	**25.5**	**28.4**	**23.6%**	**35.1**	23.5%	16.0%

Pitavastatin is a statin for **the reduction of elevated total cholesterol (TC) and LDL cholesterol (LDL-C)**, in adult patients with primary hypercholesterolemia and combined (mixed) dyslipidemia when response to diet and other non-pharmacological measures is inadequate. Clinical trials showed that pitavastatin not only reduces LDL-cholesterol, but also increases HDL-cholesterol, the "good" one, a dual effect that appear to reduce relevant risks for cardiovascular complications. It has been demonstrated that Livazo is a particularly relevant option due to its distinct pharmacological characteristics, among which the low drug-drug interaction seen in clinical trials and its strong efficacy in metabolic syndrome patients or in elderly patients. The overall safety and tolerability of pitavastatin are consistent with other commonly prescribed statins.

PERFORMANCE SNAPSHOT & KEY FACTORS

Impressive sales growth in 2016E, up by 23.3% with respect to the previous year, for a total of €35.1 million that represents 7.5% of statin market in Livazo's main 4 countries. Introduction in Russia in 2016 and Turkey in 2017 to contribute to double-digit growth in next 3 years (12.5% CAGR Management Estimates).

CITRAFLEET (Mix)									
Introduced in		Countries Marketed in		Ownership		Patent Expiration		Expected Peak Sales	
2014		>8		REC (2013)				n.a.	
PERFORMANCE									
€Mln	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**1Y growth**
Total Sales	**-**	**-**	**-**	**-**	**-**	**-**	**23.5**	**26.0**	**10.6%**

CHARACTERISTICS

Lemon flavor powder for oral solution for **bowel cleansing prior to any diagnostic procedures** requiring a clean bowel e.g. colonoscopy or x-ray examination. We think moderate growth will continue in next years thanks to increasing volumes and geographic integration.

TERGYNAN (AI combination)										
Introduced in		Countries Marketed in		Ownership		Patent Expiration			Expected Peak Sales	
2010		Russia, CIS, Ukr		REC (2009)						
PERFORMANCE										
€Mln	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**1y growth**	**3Y CAGR**
Total Sales	**-**	**-**	**13.4**	**18.3**	**25.7**	**27**	**26.9**	**22.7**	**9.9%**	**-4.1%**

CHARACTERISTICS

Combination of different AI with antimicrobial, anti-inflammatory, antiprotozoal and antimycotic activity for the treatment of **gynecological diseases**. Tergynan, due to its multicomponent composition, is a vehicle for the topical treatment of vulvovaginitis and colpitis with different origins: bacterial, fungal, parasitic, and mixed. The composition of the drug includes imidazole derivative, ternidazole, rendering trihomonatsidnoe action, and also active against anaerobic bacteria, in particular gardnerellas, aminoglycoside antibiotics, acting on a pyogenic bacterial flora of the vagina, neomycin sulfate, an antifungal polyene antibiotic nystatin, active against fungi of the genus Candida; corticosteroid with the local anti-inflammatory effect of prednisolone metasulfobenzoat. Excipient tablets ensures the integrity of the vaginal mucosa and the physiological pH level.

PERFORMANCE SNAPSHOT & KEY FACTORS

Sales are collected principally in Russia so they were affected by severe ruble's devaluation. Stable growth since 2016 thanks to Russian improving economy and ruble's appreciation.

PROCTO-GLYVENOL (Tribenoside + Lidocaine)									
Introduced in		Countries Marketed in		Ownership		Patent Expiration		Expected Peak Sales	
2011		>10		REC (2013)		n.a.		n.a.	
PERFORMANCE									
€Mln	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**1Y growth**
Total Sales	**/**	**/**	**/**	**n.a.**	**n.a.**	**n.a.**	**12.8**	**13.0**	**1.6%**

CHARACTERISTICS

For the **local treatment of the symptoms of hemorrhoids** as pain, smarting, itching, skin tension due to the inflammation in the anal region. It is able to reduce capillary permeability and improve vascular tone; the anesthetic component helps to provide a rapid symptomatic relief.

PERFORMANCE SNAPSHOT & KEY FACTORS

The plant in Campoverde di Aprilia has been approved for the production of tribenoside. Procto-Glyvenol is one of the principal growth drivers in Russia and other Eastern Europe countries (sales +13% in 2015)

RUPAFIN (Rupatadine)										
Introduced in		Countries Marketed in		Ownership		Patent Expiration		Expected Peak Sales		
2002		Ita, Ger, Fra		Uriach						
PERFORMANCE										
€Mln	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**1Y growth**	**3Y CAGR**
Total Sales			**8.1**	**9.5**	**11.6**	**9.0**	**9.4**	**10.1**	**7.4%**	**-3.0%**
CHARACTERISTICS										
Rupatadine is a second-generation antihistamine and PAF antagonist used to treat allergies. Rupatadine fumarate has been approved for the treatment of allergic rhinitis and chronic urticaria in adults and children over 12 years.										

COUNTRY SPECIFIC PRODUCTS

Products that REC does not sell outside of a specific market and, due to their dimension, are relevant and characterize REC's presence in that market.

PEPTAZOL (Pantoprazole - Sodium)										
Introduced in		Countries Marketed in		Ownership		Patent Expiration		Expected Peak Sales		
2002		Italy		Byk Gulden (Altana)		Expired		/		
PERFORMANCE										
€Mln	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**1Y growth**	**3Y CAGR**
Total Sales	**/**	**20.2**	**21.1**	**22.1**	**20.1**	**22.7**	**25.4**	**23.6**	**-7.1%**	**5.5%**
CHARACTERISTICS										
Peptazol is a proton pump inhibitor (PPI), a class of compounds that reduces the amount of acid produced in the stomach and is indicated for the **treatment of peptic ulcers, gastroesophageal reflux disease, erosive esophagitis and other conditions**. The lower potential interactions with other drugs compared to similar ones make it widely appreciated, especially for the treatment of patients subjected to more than one therapy simultaneously.										
PERFORMANCE SNAPSHOT & KEY FACTORS										
Generic entry to keep affecting sales in 2016-2017. Sales expected to stay flat thereafter thanks to its good positioning in the market.										

TORA-DOL (Ketorolac Tromethamine)										
Introduced in		Countries Marketed in		Ownership		Patent Expiration		Expected Peak Sales		
2002		Italy		Roche		Expired		2010		
PERFORMANCE										
€Mln	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**1Y growth**	**3Y CAGR**
Total Sales	**/**	**15.4**	**15.4**	**14.9**	**14.0**	**13.5**	**13.3**	**12.2**	**-8.3%**	**-4.5%**
CHARACTERISTICS										
Tora-dol (ketorolac) is a nonsteroidal anti-inflammatory drug (NSAID). Ketorolac works by reducing hormones that cause inflammation and pain in the body that usually occurs after an operation or other painful procedures. Tora-dol is **used short-term (5 days or less) to treat moderate to severe pain**.										

METHADONE										
Introduced in		Countries Marketed in		Ownership		Patent Expiration		Expected Peak Sales		
		France		REC		No patent		n.a.		
PERFORMANCE										
€Mln	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**1Y growth**	**3Y CAGR**
Total Sales		**17.6**	**20.3**	**22.5**	**24.0**	**25.1**	**26.3**	**28.1**	**6.8%**	**5.4%**
CHARACTERISTICS										
Methadone is an opioid narcotic analgesic that reduces withdrawal symptoms in people addicted to heroin or other narcotic drugs acting in the brain to change what body feels and how responds to pain without causing high level drug addiction. A new innovative usage is in palliative treatment of cancer related pain in cases of resistance or intolerance to opioids (phase III completed in 2014-preregistration in 2015).										

3. Orphan Drugs Portfolio

CARBAGLU	Carglumic Acid	
Indications	Treatment of hyperammonaemia due to: **N-acetyl glutamate synthase primary deficiency, isovaleric acidaemia, methylmalonic acidaemia, propionic acidaemia** (EU only).	
Incidence	Only a few cases have been reported worldwide. The overall incidence is unknown. **<1 / 1000000.** The estimated prevalence of NAGS deficiency is **0.00125 per 10,000** persons in the European Union.	
Characteristics	N-acetyl glutamate synthase deficiency is an inherited disorder that causes ammonia to accumulate in the blood. Ammonia, which is formed when proteins are broken down in the body, is toxic when the levels become too high. NCGA, which is an amino acidic analogue of NAG, although being in vitro a weaker activator of CPS than the naturally occurring activator NAG, was shown in vivo to reach the mitochondrion more easily than NAG. Onset it occurs at any age, but neonatal presentation appears to be the most frequent. NAGS deficiency may also be secondary to certain organic acid disorders, defects in fatty acid metabolism or valproic acid treatment. Diagnosis may be suspected by demonstration of decreased liver NAGS activity and can be confirmed by DNA analysis.	
Composition	Dispersible tablets: 200mg-60tbl / 5tbl	**Price** €6276,76 / 522,31 (R)
Dosage	For NAGS: from 100mg/kg to 250 mg/kg For Methylmalonic/Propionic/Isovaleric Acid 100 mg/kg a 250 mg/kg divided in 2 or 4 daily dosages	**Alternative Drugs** NO

NORMOSANG/PANHEMATIN	Human Hemin	
Indications	Treatment of the symptoms of occasional attacks of porphyria such as pain, increased heart rate or blood pressure, and changes in mental status.	
Frequency	**5,25/100000**	
Characteristics	Normosang is an enzyme inhibitor made from red blood cells that works by correcting certain types of heme deficiency in the liver. **PANHEMATIN is the only FDA-approved therapy for AIP attacks.**	
Composition	Concentrate for solution for infusion: 25mg/ml-10 vials	**Price** €3576,26 (NOT R)
Dosage	3mg/kg once a day for 4 days diluted with 100ml 0.9% sodium chloride administrated by intravenous infusion	**Alternative Drugs** Scenesse (Clinuvel Uk Limited)

CYSTADROPS	Mercaptamine hydrochloride
Indications	Positive opinion of CHMP for the treatment of **corneal cystine crystal deposits in patient with cystinosis** in adults and children from 2 years. (27/01/2017 marketing approval in EU)
Frequency	**1-2/100000**
Characteristics	Cystinosis is a rare congenital lysosomal storage disorder recognized as a severe life threatening condition. Without effective treatment, cystine crystals accumulate in the cornea and can cause severe ophthalmic consequences, including blindness. Cystine forms crystals (crystallizes) in many types of cells and slowly damages affected organs.

COSMEGEN		Dactinomycin	
Indications	It is used to treat: **Wilms' tumor** (1/10000), **childhood rhabdomyosarcoma** (3,5% infant tumor), **ovarian (germ cell) cancer**, **gestational trophoblastic neoplasm**, **Ewing's sarcoma** (10% of total bones' cancer), **metastatic testicular tumors** (nonseminomatous), **gestational trophoblastic neoplasm**, locally recurrent or locoregional **solid tumors** (sarcomas, carcinomas and adenocarcinomas**), soft tissue sarcoma**, **osteosarcoma**.		
Characteristics	Generally, the actinomycin exert an inhibitory effect on gram-positive and gram-negative bacteria and on some fungi. However, the toxic properties of the actinomycin (including dactinomycin) in relation to antibacterial activity are such as to preclude their use as antibiotics in the treatment of infectious diseases. Because the actinomycins are cytotoxic, they have an antineoplastic effect which has been demonstrated in experimental animals with various types of tumor implants. This cytotoxic action is the basis for their use in the treatment of certain types of cancer. Dactinomycin is believed to produce its cytotoxic effects by binding DNA and inhibiting RNA synthesis.		
Composition	Powder for solution for injection: 0,5mg – 1vial	**Price**	€4,66 (NOT R)
Dosage	0,005mg/kg - Not more than 15mcg/a day for each two weeks cycle	**Alternative Drugs**	n.a.

PEDEA/NEOPROFEN		Ibuprofen	
Indications	Treatment of a hemodynamically significant **patent ductus arteriosus** in preterm newborn infants less than 34 weeks of gestational age		
Frequency	At the time of designation, patent ductus arteriosus affected approximately **2.13 in 10,000** people in the European Union (EU); equivalent to a total of **around 81,000 people**. This product was withdrawn from the Community register of orphan medicinal products at the end of the 10-year period.		
Characteristics	Patent ductus arteriosus (PDA) is one of the most common congenital heart defects, accounting for 5%–10% of all congenital heart disease in term infants. Three management strategies are currently available for PDA: fluid restriction and diuretics (as clinically appropriate), medical intervention, and surgical ligation. Pharmacologic closure can be achieved via administration of intravenous indomethacin or ibuprofen lysine. While both agents have shown similar efficacy, ibuprofen lysine has demonstrated an improved safety profile, particularly in terms of renal effects, compared to indomethacin. The other alternative regimen is the rescue treatment with either indomethacin or Ibuprofen. Both agents are equally efficacious, achieving successful closure of a PDA in 75–93% of cases; ibuprofen reduces the risk of oliguria, but may increase the risk for chronic lung disease (CLD), and pulmonary hypertension.		
Composition	Solution: 5mg/ml – 4 vials of 2ml	**Price**	€656,8 (NOT R)
Dosage	3 intravenous injections administrated every 24 hours after the first six hours of life	**Alternative Drugs**	No

CYSTADEN		Betaine anhydrous	
Indications	**Classic homocystinuria**; **homocystinuria due to methylene tetrahydrofolate reductase deficiency**; **methylcobalamin deficiency type cblE**; **methylcobalamin deficiency type cblG**; **methylmalonic acidaemia with homocystinuria**		
Frequency	**1/335000**		
Characteristics	Cystadane is a medicine used to treat homocystinuria, an inherited disease where the amino acid homocysteine cannot be broken down and therefore builds up in the body. This causes a wide range of symptoms, including impaired vision, weak bones and circulatory problems. It is used with other treatments, such as vitamin B6 (pyridoxine), vitamin B12 (cobalamin), folate and a special diet. Cystadane should be used as supplement to other therapies such as vitamin B6 (pyridoxine), vitamin B12 (cobalamin), folate and a specific diet. Patients taking Cystadane appeared to have greater reductions in homocysteine levels than untreated patients. This was associated with an improvement in symptoms affecting the cardiovascular system (heart and blood vessels) as well as an improvement in developmental problems in around three quarters of the patients taking Cystadane.		
Composition	Oral powder: 180g – 1 vial	**Price**	€667,29 (R)
Dosage	6g administrated orally in divided dose of 3g two times per day	**Alternative Drugs**	No

CYSTAGON		Cysteamine bitartrate	
Indications	Treatment of proven **nephropathic cystinosis.** Cysteamine reduces cystine accumulation in some cells (e.g. leukocytes, muscle and liver cells) of nephropathic cystinosis patients and, when treatment is started early, it delays the development of renal failure.		
Frequency	**1-9/100000**		
Characteristics	Cystinosis is a metabolic disease characterized by an accumulation of cystine inside the lysosomes, causing damage in different organs and tissues, particularly in the kidneys and eyes. A delayed-released formulation has been developed and approved in the USA for the infantile form, which allows patients to receive cysteamine only twice a day, thus improving compliance and quality of life. Topical cysteamine eye drops are also needed as systemic cysteamine has no effect on cystine corneal deposits.		
Composition	Hard capsules: 50mg-100cps	**Price**	€78,69 (R)
Dosage	<12 years/< 50kg 1.3g/m^2 divided in 4 daily dosages; >12 years/>50 kg 2g divided in 4 daily dosages	**Alternative Drugs**	Procysbi (RaptorPharmaceuticals Europe)

VEDROP		Tocofersolan	
Indications	**Alagylle syndrome;** Familial **intrahepatic cholestasis** in children		
Frequency	**1/335000**		
Characteristics	Vedrop is indicated in vitamin-E deficiency due to digestive malabsorption in pediatric patients suffering from congenital chronic cholestasis or hereditary chronic cholestasis, from birth (in term newborns) to 16 or 18 years of age, depending on the region. Congenital or hereditary chronic cholestasis is an inherited disease causing problems with the flow of bile from the liver to the gut. Bile is a fluid produced in the liver that helps to absorb fats from the gut. Tocofersolan can be absorbed from the gut in children who have difficulty absorbing fats and vitamin E from the diet. This can increase vitamin-E levels in the blood and help to prevent neurological deterioration (problems in the nervous system) due to vitamin-E deficiency. Vedrop has been authorized under 'exceptional circumstances'. This means that because the disease is rare, it has not been possible to obtain complete information about Vedrop. Every year, the European Medicines Agency will review any new information that may become available and this summary will be updated as necessary.		
Composition	Oral solution: 50mg/ml – 1 vial 20ml, available vials of 60ml	**Price**	€104,26 / 282,94 (NOT R)
Dosage	0,34ml/kg/die – oral syringe of 1/2ml which are provided in the pack.	**Alternative Drugs**	Orphacol (Laboratoires Ctrs) Kolbam (Retrophin Europe Ltd)

WILZIN		Zinc Acetate	
Indications	**Wilson's disease**: multisystem disease presenting non-specific neurological, hepatic, psychiatric or osseous-muscular manifestations due to excessive copper deposition in the body.		
Frequency	**1-9/100000**		
Characteristics	Wilson's disease is a rare inherited disorder where patients lack an enzyme that is needed to eliminate the copper contained in food from the body. This results in copper building up in the body, first in the liver, then in other organs such as the eye and the brain. 91% of the patients evaluated had adequate control of their copper levels within the first year of treatment with Wilzin.		
Composition	Hard capsules: 25mg-250cps	**Price**	€263,05 (R)
Dosage	Adults: 50mg three times per day – maximum dosage: 50mg five times per day Children: 1-6 years: 25mg two times per day; 6-16 years (<57kg) 25mg three times per day	**Alternative Drugs**	YES, various

4. Pipeline & New Launches

NEW LAUNCHES 2016/2017

	FORTACIN (lidocaine+prilocaine)
GENITOURINY	Easy-to-use fast acting topical spray formulation of lidocaine and prilocaine for the treatment of **premature ejaculation**.
	MANAGEMENT ASSESSMENT & OUR OPINION: Fortacin represents a new interesting products that diversifies REC's portfolio in a ThA which is seeking innovative products to its unmet needs. There are currently few pharmaceutical products to treat premature ejaculation: **Dapoxetine** (Priligy) was the fist compound developed specifically for that disease but at least 5 other **selective serotonin reuptake inhibitor** (**SSRI**) can be taken into consideration. The major problem with SSRI is that they are **antidepressant** with potential side effects (like erectile dysfunction). Despite not belonging to an easy **identifiable market**, Fortacin will have to face the competition of **many non-pharmaceutical products**, from natural remedies to other non-pharmaceutical products that share its active ingredients (that can be bought online) to other famous topical treatments like **EMLA** (which shares Fortacin's AI). Despite this competitive environment, we think Fortacin **still has the potential** to cut its space in a very difficult market. We think management's **peak sales estimates of €20-30M are conservative** and that the product could reach, in a best case, **even €40M**, but pricing is going to be crucial. **KEY ADVATAGES**: safety, fastness (5min), can be used 4 times a day. **KEY OBSTACLES**: Rx drug (requires going to the physician), cost, new launches (ex Zartane,Tramadol). Fortacin has been licensed by Plethora Solutions for Europe, Russia, CIS, Turkey and other countries in North Africa for ~€11M. Launch is expected in 2017. Obtain EU approval of variation to commercialize a canister with fewer dosages.

	VITAROS (alprostadil)
GENITOURINY	Topically applied cream formulation of alprostadil for the treatment of **erectile dysfunction**.
	MANAGEMENT ASSESSMENT & OUR OPINION: In-Licensed by Apricus Biosciences for some WEU countries, Russia, CIS, Turkey and some North Africa countries. Launched in Spain, Portugal, Ireland, Poland, Greece, Romania, Czech Republic and Slovakia. Vitaros is a patient-friendly form of alprostadil and represents a valid alternative to PDE-5 inhibitors (Viagra, Cialis, Levitra) for difficult to treat patients: it produces effects in 15-30 min and that last for 1-2 hours. Vitaros represents a safer alternative to other treatments due to the local application capable of minimizing potential side effects with food or other drugs. We do not expect Vitaros to have the same effect on revenues of Fortacin: Vitaros' market is bigger and dominated by products like Viagra, Cialis and on-line alternatives without prescription whose market share is going to be very hard to erode (especially if considering €49 per pack like in Italy.)

	CYSTADROPS (mercaptamine)
ORPHAN	Eye drops developed for "**ocular manifestations of cystinosis**" which cannot be controlled by orally administered mercaptamine, specially formulated in a patient-friendly gel form.
	MANAGEMENT ASSESSMENT & OUR INITIAL OPINION: 27/01/2017 REC received European marketing authorization for Cystadrops, the first eye-drop solution containing cysteamine hydrochloride approved in EU. Its main benefit is the reduction of the accumulation of cystine crystals in the cornea with only 4 instillations per day. The product had already been made available to patients through early access programs in Europe and in some other countries and therefore many patients affected by the ocular manifestations of cystinosis have already been able to benefit from treatment. Cystaran is a similar drug marketed in US by Sigma Tau since 2012 and has approximately 300 cystinosis patients in the US. Cystaran can be available even in some European countries in relation to local law but some countries like Italy, its cost is not directly reimbursable but has to be supported by each ASL, making Cystadrops, if reimbursed, not challengeable.

PRE-REGISTRATION & PHASE III

	GRASPA (L-asparaginase encapsulated in homologous human red blood cells)
ORPHAN	In-licensed to Recordati in Europe by Erytech for the treatment of **acute lymphoblastic leukemia (ALL)** in patients with **first recurrence of Philadelphia chromosome negative (ALL)**. L-asparaginase has been shown to possess a powerful antitumor activity, but this enzyme is highly toxic and a large part of the patient population presents with a hypersensitivity and does not tolerate well the current treatment protocols. This population represents a large currently unmet medical need. Graspa® avoids toxicity and hypersensitivity issues associated with L-asparaginase treatments while maintaining its antitumor activity. Positive efficacy was demonstrated during the completed Europen Phase 2/3 pivotal study. Still in **Phase IIb clinical trials for acute myeloid leukemia (AML)** in patients >65 unfit for chemotherapy (licensed to REC; part of R&D costs on REC)
	MANAGEMENT ASSESSMENT & OUR INITIAL OPINION: Erytech's withdrawal from EMA marketing approval in November 2016 delayed sales by approximately 9 months. MA application expected to be resubmitted in mid-2017.

	REAGILA (cariprazine)
Central Nervous System	Orally active and potent dopamine D3/D2 receptor partial agonist with preferential binding to D3 receptors and partial agonist at serotonin 5-HT1A receptors developed by **Gedeon Richter** in the EU for the treatment of **schizophrenia**
	MANAGEMENT ASSESSMENT & OUR INITIAL OPINION: Atipsychotic used in psychiatric diseases, including schizophrenia, mania, bipolar depression and major depression. In licensed with Gedeon Richter for marketing cariprazine Western Europe, Turkey, Algeria and Tunisia.MA expecteted in second half 2017. Estimated peak sales: more than €100m. Despite Vraylar (Allergan's US) $43.2m sales in the last 9 months of 2016, Cariprazine has currently only one indication in EU and there is still lack of significant **clinical comparative data** showing more benefits than aripiprazole (Abifly, generics entering the market) to justify expected peak sales higher than management's. Nevertheless, in animal models of psychosis, **Cariprazine** demonstrated a series of **potential characteristics relative to** dopamine **D2 and D3** receptors that may bring it to a significant market share surpassing management expectations if they were confirmed in clinical trials too.

	Methadone
LCM	Currently used in France, where it is distributed by Bouchara Recordati as replacement therapy for major opioid drugs dependence. In 2012 Recordati started, in France, an open, multicenter, randomized, national Phase III b clinical study on methadone for the treatment of cancer-related pain inadequately relieved by opioids and obtained preregistration in September 2015.
	MANAGEMENT ASSESSMENT & OUR INITIAL OPINION: no information available.

New Indications US	CARBAGLU (carglumic acid)
	Currently approved in EU and US for the treatment of hyperammonaemia due to NAGS deficiency. Carbaglu is approved in EU for 3 additional indications in organic acidemias and is in phase III clinical development in the USA for that indications (orphan drug designation granted in 2014). Two new formulations are being developed for use in acute hyperammonaemia.
ORPHAN LCM EU	**MANAGEMENT ASSESSMENT & OUR INITIAL OPINION**: Carbaglu represents REC's most successful (and also most expensive) orphan drug. It has no direct competitors in its first indication for the moment. **Potential Threats**: **Promethera Biosciences** is currently developing **HepaStem,** an orphan product (EMA designation 17/7/2013) for a long list or urea cycle disorders linked to liver disease, one of which is hyperammonaemia due to NAGS deficiency (currently in Phase II, we do not know whether it is complementary or alternative to Carbaglu). **Horizon Pharma's Ravicti** is not indicated for the treatment of **acute hyperammonaemia** and its efficacy for the treatment of N-acetylglutamate synthase (NAGS) deficiency has not been established.

PHASE I/II and PRE-CLINICAL

REC 0438
Nociceptin analogue for urinary incontinence associated in pediatric patients suffering from spina bifida (Rare Disease)
MANAGEMENT ASSESSMENT & OUR INITIAL OPINION: phase I/II EU Phase I/II clinical trials were conducted before 04/2016 for its overactive bladder indication.

NO SPECIFIED ORPHAN COMPOUND
Oral intervention for acute infectious exacerbations associated with Cystic Fibrosis.
MANAGEMENT ASSESSMENT & OUR INITIAL OPINION: announced during 4Q16 earnings call & 2017-2019 Industrial Plan. This new compound shows REC continuing efforts in investing in promising orphan drugs.

Partnership with AP-HP (Assistance Publique – Hopitaux de Paris)
Development of innovative product for the treatment of acute decompensation episodes in patients with MSUD (Maple Syrup Urine Disease) (Rare Disease).
MANAGEMENT ASSESSMENT & OUR INITIAL OPINION: very small initial sales were included in 2017-2019 Industrial plan, meaning REC believe the compound, despite being in Phase II/b as 3Q16, has the potential to gain early access before 2019. According to REC's IR, Acer Therapeutics ACER-001, an orphan designated drug in phase II for the treatment of MSUD, does not have the same indication of REC's compound, which is for in acute decompensation episodes only, and therefore does not represent a competitor.

LICENSE AGREEMENT (Meyer Hospital, Florence)
Worldwide licensing agreement for the development of a treatment for pre-term babies affected by retinopathy of prematurity (ROP).
MANAGEMENT ASSESSMENT & OUR INITIAL OPINION: The treatment has to be developed on the basis of the know-how acquired by the Meyer Hospital that is actually investigating in a Phase II clinical trial. REC will complete clinical development and regulatory steps to obtain MA. ROP is a rare condition and represents one of the most common causes of visual loss in childhood that can lead with lifelong blindness. ROP presents 2 already designated OrDs: Aganirsen Antisense Oligonucleotide (Gene Signal SAS) and Mecasermin rinfabate (Premature AB), used only to prevent ROP; both were not uniquely studied and indicated to treat retinopathy in premature new-borns. This agreement can represent a **new growth path to strengthen REC's neonatology orphan division** considering that it also comprehends a deal for a long-term partnership with Meyer Hospital that is directly involved in the research of new and innovative treatment for severe and debilitating childhood diseases.

5. Geographic Breakdown

Recordati boasts a **wide international footprint** obtained through **1) an internationalization process based on acquisitions** that accelerated in 2005 and continued until present **2) out-licensing agreements** and **exporting activity** for its corporate compounds in **countries** where REC has decided not to establish a direct presence. According to the management, **the internationalization process in the PSC area is ended** and no further acquisitions in new geographic areas are expected in the next years while **in the OrDs Area internationalization is still ongoing** and new branches are expected to be established in **Latam and East Asia**, where rare diseases awareness and policies are growing. This geographical footprint represents Rec's **major success factor**: its established presence and regulatory processes knowledge in European markets allows REC to obtain the **Full Value** of in-house developed, acquired and in-licensed compounds. Considering the **absence of many other pharmaceutical companies** with similar geographic presence and turnover, we believe REC represents a **strategic long-term partner** for many foreign R&D focused companies that want to enter those markets covered by REC without selling their compounds or accepting the lower out-licensing margins offered by bigger multinational companies. This **in-licensing/acquisition oriented attitude** can be confirmed by the **relatively low incidence of R&D expenditures** (7.0% of Sales 2016E) and recent investment trends. These characteristics, which make REC more a marketing pharmaceutical company rather than a pure pharmaceutical one, are also those that recently raised the interest of Fosun Pharmaceutical, which deemed REC as the proper company to leverage in order to access the EMEA market.

Source: Company Data as 3Q2016

REVENUE DISTRIBUTION

€Mln	2009	2010	2011	2012	2013	2014	2015	2016E	1Y Growth
Italy	210.6	197.0	217.7	214.7	222.7	212.3	204.8	229.9	12.2%
France	162.4	139.9	128.7	120.2	115.1	111.0	110.6	115.1	4.1%
Usa	-	-	6.1	7.4	51.6	56.8	82.1	101.1	23.2%
Germany	65.8	63.3	66.2	70.9	81.4	84.6	94.8	101.1	6.7%
Turkey	18.0	27.3	31.0	65.1	65.7	68.0	74.1	86.3	16.5%
Russia & CIS	22.5	27.4	36.9	51.3	89.4	81.3	72.4	79.5	9.8%
Spain	30.9	29.6	31.8	33.3	37.9	68.2	72.0	76.4	6.1%
North Africa	-	-	-	19.4	21.4	38.3	43.7	42.3	-3.2%
Portugal	36.8	36.3	34.4	33.9	32.9	36.2	39.3	40.3	2.4%
Other CEE	14.3	15.6	17.6	25.0	33.7	27.5	30.9	40.1	5.1%
Other W.EU	30.7	26.7	27.1	26.9	25.6	24.6	28.5	32.5	40.7%
Other Intern. Sales	128.6	139.2	136.2	129.3	132.5	144.8	158.4	169.1	6.7%
Pharma Sales	**720.6**	**702.3**	**733.6**	**797.4**	**909.9**	**953.7**	**1,011.6**	**1,113.8**	10.1%
Chemical Business	**26.9**	**25.9**	**28.4**	**30.9**	**31.7**	**33.7**	**36.1**	**40.2**	**11.5%**

% on PhSales	2009	2010	2011	2012	2013	2014	2015	2016E	09-16 Δ%
Italy	29.2%	28.0%	29.7%	26.9%	24.5%	22.3%	20.2%	20.6%	**-8.6%**
France	22.5%	19.9%	17.5%	15.1%	12.6%	11.6%	10.9%	10.3%	**-12.2%**
Usa	-	-	0.8%	0.9%	5.7%	6.0%	8.1%	**9.1%**	**9.1%**
Germany	9.1%	9.0%	9.0%	8.9%	8.9%	8.9%	9.4%	**9.1%**	-0.1%
Turkey	2.5%	3.9%	4.2%	8.2%	7.2%	7.1%	7.3%	**7.8%**	**5.3%**
Russia & CIS	3.1%	3.9%	5.0%	6.4%	9.8%	8.5%	7.2%	**7.1%**	**4.0%**
Spain	4.3%	4.2%	4.3%	4.2%	4.2%	7.1%	7.1%	6.9%	2.6%
North Africa	-	-	-	2.4%	2.4%	4.0%	4.3%	3.8%	
Portugal	5.1%	5.2%	4.7%	4.3%	3.6%	3.8%	3.9%	3.6%	-1.5%
Other C/E-EU	2.0%	2.2%	2.4%	3.1%	3.7%	2.9%	3.1%	3.6%	1.6%
Other W-EU	4.3%	3.8%	3.7%	3.4%	2.8%	2.6%	2.8%	2.9%	-1.3%
Other Intern. Sales	17.8%	19.8%	18.6%	16.2%	14.6%	15.2%	15.7%	15.2%	-2.7%

TALY											
Companies: Recordati, Innova Pharma, Italchimici (2Q2016), Orphan Europe Italy											
PERFORMANCE											
€Mln		**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**1y growth**	**3y CAGR**
Pharma Revenues		**210.6**	**197.0**	**217.7**	**214.7**	**222.7**	**212.3**	**204.8**	**229.9**	**12.2%**	**1.1%**
Rx		88.4%	87.6%	88.1%	87.4%	81.8%	79.3%	78.2%			
Otc		11.6%	12.4%	11.9%	12.6%	18.2%	20.7%	21.8%			
TOP 7 Dependency		-	-	44.1%	42.7%	45.3%	54.5%	58.7%			
PRODUCT	**ThA**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**1y growth**	**3y CAGR**	
Urorec	GU	-	-	-	7.7	12.2	16.2	19.3	19.1%	36.0%	
Peptazol	GI	20.2	21.0	22.1	20.9	22.7	25.4	23.7	-6.8%	4.2%	
Cardicor	CV	-	-	10.8	12.5	14.4	18.2	20.3	11.2%	17.5%	
Zanidip	CV	48.9	27.1	22.3	20.1	18.9	18.9	18.4	-2.5%	-2.9%	
Zanipril	CV	-	-	-	5.5	9.1	12.2	14.6	12.0%	38.6%	
Tora-Dol	PM/I	15.4	15.4	14.9	14.0	13.5	13.3	12.2	-8.3%	-4.4%	
Rextat	CV	9.3	10.3	14.5	10.0	10.2	10.7	12.0	11.4%	6.1%	
TransAct-Lat	OTC/NPP	4.8	10.0	n.a	n.a	5.8	6.8	6.5	-4.4%	-	
Alovex	OTC/NPP	5.1	5.4	5.8	6.3	6.6	7.4	7.5	1.4%	6.0%	
Proctolyn	OTC/NPP	-	-	5.6	6.4	5.9	6.2	6.5	4.5%	0.5%	
Imidazyl	OTC/NPP	-	-	-	-	4.2	4.6	4.8	3.4%	-	
Other Relevant Products		Dentosan Brand (OTC); Italchimici's Ptf: Reuflor, Peridon Line, Lactdigest (GI); Kentera, Genurin (GU); CitraFleet, Casenlax (GI).									
PERFORMANCE ANALYSIS											
Recent revenues growth driven mainly by **Urorec, Cardicor, Zanipril** and acquisition of **Italchimici**. Zanipril sales are expected to decrease by 30% by 2019 (due to generic entry in 2017) and stabilize thereafter. Italchimici's yearly sales (~€21M) to drive 1H2017 growth. Livazo is not sold due to low reimbursed price. Increasing OTC presence and diversification to help against potential future price cuts risk. 2016 organic growth at ~2% to be sustainable forwards if backed by growing economy.											
Country Role: Tier 1 Cash Cow: Cash Generating Market where exploit new launches and cost synergies. Modest market growth opportunities.											

FRANCE											
Companies: Laboratoires Bochura Recordati, Bochura Recordati, Fic Medical, Recordati Orphan Drugs, Orphan Europe											
PERFORMANCE											
€Mln		**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**1y growth**	**3y CAGR**
Pharma Revenues		**162.4**	**139.9**	**128.7**	**120.2**	**115.1**	**111.0**	**110.6**	**115.1**	**4.1%**	**0%**
Self-medication				18.2	19.6	24.6	22.1	24.0			
TOP 6 Dependency				52.7%	56.3%	59.0%	60.6%	63.7%			
PRODUCT	**ThA**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**1y growth**	**3y CAGR**	
Metadone	CNS	17.6	20.3	22.5	24.0	25.1	26.3	28.1	7.1%	5.5%	
Urorec	GU			3.5	6.6	8.5	10.0	11.6	15.0%	20.7%	
Zanextra	CV	2.7	7.1	8.6	10.2	10.6	10.1	10.3	2.1%	0.5%	
Hexa line	OTC/NPP	11.9	10.0	7.9	8.4	9.1	7.0	8.2	18.3%	-0.7%	
Neo-codion	OTC/NPP	7.9	7.0	6.8	7.0	6.8	6.5	6.6	2.2%	-2.0%	
Zanidip	CV	52.7	26.8	18.4	11.6	7.9	7.4	5.6	-24.2%	-21.4%	
Other Relevant Products		Exomuc, Aphtavea, Wystamm.									
PERFORMANCE ANALYSIS											
2016E growth driven mainly by new launches, orphan segment and methadone sales. Generic competition is fiercer than other European countries due to generic favoring regulation. OTC and self-medication products sales to return to growth in 2016 and thereafter. Zanextra expected 60% decrease in sales to affect 2017-19 performance significantly. Methadone, Urorec and orphan business will be short-term growth drivers, new launches thereafter. Revenue decrease mostly attributable generic erosion of Zanidip sales and volatility in self-medication/OTC.											
Country Role: Tier 3 Cash Cow: Cash Generating Market where exploit new launches. Modest market growth opportunities.											

GERMANY											
Companies: Recordati Pharma, Orphan Europe Germany											
PERFORMANCE											
€Mln		**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**1y growth**	**3y CAGR**
Pharma Revenues		**65.8**	**63.3**	**66.2**	**70.9**	**81.4**	**84.6**	**94.8**	**101.1**	**6.7%**	**7.5%**
of which Auto-medication					12.9	18.4	17.0	16.9			
TOP 7 Dependency			76.5%	74.1%	70.4%	68.8%	74.4%	76.5%			
PRODUCT	**ThA**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**1y growth**	**3y CAGR**	
Orton	MS/A	4.2	5.1	5.8	6.4	11.8	19.2	27.8	44,6%	62,8%	
Claversal	GI	15.1	15.2	15.2	14.6	13.9	12.8	12.6	-2,0%	-4,8%	
Zanipress	CV	5.6	6.8	7.5	8.0	8.5	8.7	7.8	-11,0%	-0,8%	
Corifeo	CV	5.5	3.7	3.7	5.0	4.5	4.6	7.1	53,5%	12,6%	
Recosyn	MS/A	0	7.2	6.4	5.9	5.9	6.0	6.3	4,4%	2,3%	
Mirfulan	OTC/NPP	0	5.4	5.3	5.1	6.0	6.1	6.0	-1,1%	5,6%	
Lipotalon	MS/A	0	5.1	5.2	5.0	5.2	5.4	5.0	-8,6%	-0,3%	
Other Relevant Products		SportVis, Citrafleet, Kentera, Remiprostan, OTC line (Rhinopront, Mirfulan, J Hp-Rodler, Betadorm, Osteoplus, Xitix)									
PERFORMANCE ANALYSIS											
Recent growth driven by good performance of Ortoton and Corifeo. Other products' sales stable or slightly decreasing. Low portfolio diversification not expected to affect sales performance in future years. No significant growth expected in future years from current portfolio mix except for Ortoton, Urorec, which along with new launches will drive sales growth until 2019. Orphan business, demographic trends and new launches to drive growth thereafter.											
Country Role: Tier 2 Cash Cow: Cash Generating Market where exploit new launches. It offers the best opportunities in developed Europe.											

USA										
Companies: Recordati Rare Diseases										
PERFORMANCE										
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**1y growth**	**3y CAGR**
Revenue RRD €Mln	**-**	**-**	**6.1**	**7.4**	**51.6**	**56.8**	**82.1**	**101.1**	**23.2%**	**25.1%**
Revenue RRD $Mln	**-**	**-**	**-**	**-**	**-**	**75.5**	**91.1**			
PERFORMANCE ANALYSIS										
Presence in the US dedicated exclusively to the commercialization of OrDs. Carbaglu, Panhematin and Cosmegen drove 2016E growth. No pricing pressures are expected thanks to disciplined pricing policy, partially offsetting regulatory framework uncertainty. Double-digit growth to continue until 2021 with Carbaglu's expected new indications and formulations.										
Country Role: Tier2 Star: World's biggest market with highest prices where sell OrDs already approved in Europe.										

TURKEY

Companies: Recordati Ilac

PERFORMANCE

		2009	2010	2011	2012	2013	2014	2015	2016E	1y growth	3y CAGR
Pharma Revenues €Mln		**18.0**	**27.3**	**31.0**	**18.0**	**65.7**	**68.0**	**74.1**	**86.3**	**16.5%**	**9.5%**
Pharma Revenues TRY Mln						161.1	184.8	211.1			
TOP 7 Dependency						75.0%	83.4%	86.7%			
PRODUCT	**ThA**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**1y growth**	**2y CAGR**	
Cabral	MS/A					30.0	34.8	38.1	9,6%	12,8%	
Lercadip	CV					31.4	35.4	37.8	6,8%	9,7%	
Mictonorm	GU					22.1	28.2	35.1	24,4%	25,9%	
Kreval	Resp					13.0	17.9	20.8	16,2%	26,7%	
Urorec	GU					9.9	14.1	20.7	46,3%	44,5%	
Zanipress	CV					7.7	11.7	17.6	49,7%	51,4%	
Procto-Glyvenol	GI					6.8	11.9	13.0	9,3%	37,8%	

Product revenue in TRY Mln.

PERFORMANCE ANALYSIS

Recent growth driven by both new launches and market growth. Increasing diversification between ThAs in 2016 and following years. Full capacity of the new plant still not reached (58 out of 80 Mil packs per year in 2016E).

Country Role: Tier2 Star: high-growing market with significant currency risk partially offset by natural hedging and exporting opportunities. Strong opportunities from new launches. Price regulation still a remarkable growth-breaker but with limited effect on returns.

RUSSIA & CIS

Companies: Rusfic

PERFORMANCE

/		2009	2010	2011	2012	2013	2014	2015	2016E	1y growth	3y CAGR
Pharma Revenues €Mln		**22.5**	**27.4**	**36.9**	**51.3**	**89.4**	**81.3**	**72.4**	**79.5**	**9.8%**	**-3.8%**
Russian Pharma Revenues €Mln						76.2	68.3	60.6			
CIS Pharma Revenues €Mln						13.2	13	11.8			
Russia TOP 5 Dependency						88.7%	85.3%	83.3%			
PRODUCT	**ThA**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**1y growth**	**2y CAGR**	
Tergynan	AI					757.0	937.3	992.6	5,9%	14,5%	
Polydexa	ENT D					546.8	782.1	851.0	8,8%	24,8%	
Isofra	ENT D					473.2	465.7	640.6	37,5%	16,4%	
Alfavit	DS					596.1	452.0	560.7	24,0%	-3,0%	
Qudesan	DS					458.3	314.5	317.5	1,0%	-16,8%	

*Product revenue in RB Mln. 2016 Russian Gdp growth ~0% in inflationary context. Growth to reach 1% in 2017 but to stay flat thereafter. Inflation in 2017 and later years still uncertain but expected between 3% - 7%.

PERFORMANCE ANALYSIS

Double-digit growth in national currency partially offset by strong currency depreciation in previous years. Solid but little diversified product portfolio of established products is being integrated with Casen products and Livazo in 2017. Good performance of the recently introduced products Procto-Glyvenol, Urorec, Zanidip, Tergynan, Polydexa and Isofra as well as the Phosphosoda, launched in 2016. We expect REC's CP to keep growing in next years with the Russian market. Improving economic and geopolitical outlook may lead to fully exploiting markets' opportunities. Ruble's recent appreciation to improve 2017 performance and bring 3Y/4Y CAGR over 0% in 2017/8.

Country Role: Tier3 Star: high growing market with significant currency and geopolitical risk.

SPAIN

Companies: Casen Recordati, Orphan Europe Spain

PERFORMANCE

€Mln		2009	2010	2011	2012	2013	2014	2015	2016E	1y growth	3y CAGR
Pharma Revenues		**30.9**	**29.6**	**31.8**	**33.3**	**37.9**	**75.7**	**72.0**	**76.4**	**6.1%**	**26.4%**
TOP 7 Dependency						70.2%	71.9%	70.0%			
PRODUCT	**ThA**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**1y growth**	**3y CAGR**	
CitraFeet	GI					2.2	12.2	12.3	0,9%	-	
Livazo	CV			1.8	5.9	8.0	9.3	10.2	9,8%	20,2%	
Enema Casen	GI					1.3	8.1	7.9	-2,2%	-	
Urorec	GU		0.4	2.7	3.7	4.7	6.5	7.2	11,8%	24,6%	
Cidine	GI	10.2	9.5	10.3	10.1	6.1	5.8	5.1	-11,7%	-20,4%	
Bi-OralSuero	Dietary Supp					0.7	4.5	4.8	7,1%	-	
Zanipress	CV	0.5	2.0	2.9	3.2	3.7	2.8	2.9	4,7%	-3,1%	
Dermatrans	Dermatology	2.9	2.2	2.5	2.3	n.a	n.a	n.a	-	-	
Zanidip/lercanidipine	CV	9.7	7.7	3.1	2.1	n.a	n.a	n.a	-	-	
Other Relevant Products											

PERFORMANCE ANALYSIS

2016 growth driven by good performance of Urorec, Livazo CitraFleet and Casenlax. Casen's portfolio is well established in this market and its still being integrated in other countries. Good performance of OrDs in 2016.

Country Role: Tier 2 Cash Cow: Cash Generating Market where exploit new launches and cost synergies. Modest opportunities in terms of market growth.

NORTH AFRICA

Companies: Opalia Pharma

PERFORMANCE

€Mln	2009	2010	2011	2012	2013	2014	2015	2016E	1y growth	3y CAGR
Revenues				**19.4**	**21.4**	**38.3**	**43.7**	**42.3**	**-3.2%**	**25.5%**

PERFORMANCE ANALYSIS

2016 lower sales due to decline in Bochura Recordati exports towards Algeria during last quarter (first 9m sales were up by 8.7%). Opalia Pharma sales in Tunisia kept growing in local currency in 2016 (5.4% first 9m growth. Good performance of Zanidip in 2016.

Region Role: Tier 3 Star / Tier 1 Question Mark: Region with promising growth opportunities. Considerable uncertainty from both political and operational risk.

PORTUGAL

Companies: Recordati Portuguesa, Jaba Recordati, Jabafarma Produtos Farmaceuticos, Bonafarma Produtos Farmaceuticos

PERFORMANCE

€Mln		2009	2010	2011	2012	2013	2014	2015	2016E	1y growth	3y CAGR
Pharma Revenues		**36.8**	**36.3**	**34.4**	**33.3**	**32.9**	**36.2**	**39.3**	**40.3**	**2.4%**	**7.0%**
TOP 5 Dependency		-	-	-	48.2%	59.1%	53.9%	52.1%			
PRODUCT	**ThA**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**1y growth**	**3y CAGR**	
Livazo	CV	-	-	-	4.2	5.6	6.3	7.2	14,2%	19,9%	
Zanipress	CV	-	3.3	n.a	4.8	5.5	4.2	4.1	-0,9%	-4,7%	
TransAct LAT	MS/A	-	3.2	n.a	2.9	3.4	4.0	3.9	-2,6%	10,4%	
Microlax	GI	-	-	-	2.9	3.2	2.9	2.8	-3,5%	-0,2%	
Urorec	GU	-	-	-	1.3	1.7	2.1	2.4	14,0%	21,4%	
Other Relevant Products		Egostar, Guronsan, Aloclair									

PERFORMANCE ANALYSIS

Recent growth driven by good performance of Transact-Lat, Livazo and Urorec.

Country Role: Tier 2 Cash Cow: Cash Generating Market where exploit new launches. Modest opportunities in terms of market growth.

OTHER CENTRAL & EASTERN EUROPEAN COUNTRIES

Companies: Herbacos Bofarma (CR), Artmed International (RO),Farma-Projekt (PO)

PERFORMANCE

	2009	2010	2011	2012	2013	2014	2015	2016E	1y growth	3y CAGR
Other CCE	**14.3**	**15.6**	**17.6**	**25.0**	**33.7**	**27.5**	**30.9**	**32.5%**	**5.1%**	**-1.2%**
Poland				6.9	15.1	9.3	12.6	-	35,5%	22,2%
Czech Republic & Slovakia	12.2	12.2	14.2	14.5	13	12.7	12.4	-	-2,4%	-5,1%
Romania				2.3	2.8	3.6	3.5	-	-2,8%	15,0%
OrDs in CEE	2.1	3.2	3.6	2.3	2.7	1.8	2.4	-	33,3%	1,4%

PERFORMANCE ANALYSIS

Good performance of corporate portfolio and OrDs in 2016 drove 5.2% growth.

Region Role: Tier1 QuestionMark / Tier3 Star: we believe further investments (in companies or products) are needed in order to fully exploit opportunities. **Poland Outlook:** Poland is one of the most difficult markets for specialty pharmaceutical companies: high generic adoption, lowest average price per medicine in Europe, low reimbursement rates. Strategy: developing a presence to catch future opportunities, particularly in OTC/Self-medication segment.

OTHER WESTERN EUROPEAN COUNTRIES

Companies: Recordati Ireland, Recordati Hellas Pharmaceuticals (Gr)

PERFORMANCE

	2009	2010	2011	2012	2013	2014	2015	2016	1Y Growth	3Y CAGR
Other W. EU	**30.7**	**26.7**	**27.1**	**26.9**	**25.6**	**24.6**	**28.5**	**40.1**	**40.7%**	**16.1%**
Greece	4.1	6.3	7.2	8	8.2	8.9	10.5	-	18.0%	9.5%
England	15.1	9.9	7.6	5.6	6.9	7.2	9	-	25.0%	17.1%
W.EU OrDs	8.7	8.2	9.8	11.1	8.8	7.3	7.7	-	5.5%	-11.5%
Switzerland	-	-	-	-	-	-	-	-	-	-
Ireland	2.8	2.4	2.4	2.2	1.6	1.2	1.3	-	8.3%	-16.1%

PERFORMANCE ANALYSIS

Organic growth driven by increase in OrDs sales and good performance in UK and Greece of Lercanidipine in 2016. *Organic growth ~22% (Pro Farma sales ~€5.3 Mln 2016E).

Region Role: Tier 2 Cash Cow: Cash Generating Market where exploit new launches. Modest opportunities in terms of market growth.

OTHER INTERNATIONAL SALES

PERFORMANCE

€Mln	2011	2012	2013	2014	2015	2016E	1y growth	3y CAGR
Total Other International Sales	**136.2**	**129.3**	**132.5**	**144.8**	**158.4**	**169.1**	**6.7%**	**8.5%**
Sales to International Licensees	89.5	94.8	96.5	99.6	109.5	-	9,9%	4,9%
Bochura Recordati Export Sales (Excl. CIS and NA)	-	12.5	15.2	14.7	14.9	-	1,4%	6,2%
Casen Recordati Export Sales	-	-	-	7.6	6.6	-	-13,4%	-
Orphan Europe Sales to Licensees and Exports	9.9	12.1	15.8	16.4	20.3	-	23,7%	19,0%
Other Income	9.9	10.1	5.0	6.5	7.2	-	10,0%	-10,7%
	*Data previous 2011 is absent due to comparability issues.							

PERFORMANCE ANALYSIS

Growth expected to continue in the short/mid-term thanks to the increasing pharmaceutical expenditures in developing countries. Main corporate products and OrDs have been the best performers so far. Chinese and Australian licensees account for most of sales to international licensees.

Role: Tier1 Cash Cow: segment where exploit new corporate compounds and orphan portfolio.

CHEMICAL BUSINESS

Chemical Plants: Campoverde (Ita), Cork (Ir)

PERFORMANCE

	2009	2010	2011	2012	2013	2014	2015	1y growth	3y CAGR
Total	**26.9**	**25.9**	**28.4**	**30.9**	**31.7**	**33.7**	**36.1**	7,1%	6,6%
Italy	2.0	2.5	3.2	2.8	3.2	2.9	2.9	0,1%	1,3%
Europe(excl Italy)	10.2	8.7	10.0	11.0	11.9	12.6	14.0	10,5%	12,5%
Amercas	8.9	8.1	9.2	9.0	9.7	10.0	11.2	12,0%	7,6%
of which usa	-	-	-	-	-	2.3	8.8	-	-
of wihic latam	-	-	-	-	-	7.7	2.4	-	-
Australasia	4.8	5.8	5.1	6.2	5.3	6.3	6.1	-3,5%	-0,6%
Africa	0.8	0.7	1.0	1.9	1.7	1.8	1.9	5,0%	-1,1%
Information									

PERFORMANCE ANALYSIS

Recent growth driven by increase in volumes and positive currency effect from Euro depreciation. We expect growth to keep track with increasing pharmaceutical expenditures. Core chemical portfolio composed of CV, GU and GI related AI: verapamil, benidipine (CV, Ccb), mebeverine, dimenhydrinate (GI).

Business Role: Tier3 Cash Cow: Cash Flow Generating accessory business.

6. Porter's Five Forces

PHARMA-BIOTECH INDUSTRY RECENT TRENDS: the **M&A wave** that **started in 2014 (436$Bn), peaked in 2015 (724$Bn)** and slowly declined in 2016 with the collapse of the "Pfallergan" mega-merger was the consequence of a series of **endogenous and exogenous factors** affecting the pharmaceutical industry. In the former group, **increasing blockbusters' patent cliffs**, threats of new **biosimilars**, **lowering big-pharma R&D productivity** and **pricing scandals** have all posed serious questions to the ability of pharmaceutical companies to generate returns to their shareholders. **Ageing population, increasing worldwide healthcare expenditure** and their consequences on developed countries' **government budgets** have represented and continue to represent the biggest exogenous elements to face. **Favorable monetary policies** in both US and EU have made financing this M&A activity cheaper then ever and have backed the high multiples paid in many big transactions. **Consolidation, rebalancing/divesting** and **opportunity-seeking** are the words that better describe this M&A wave.
Differently from many companies taking part to this wave, REC focused on organic growth thanks to its lower dimension and its promising portfolio (which exerted lower pressures on returns). It's low R&D activity, which can be considered under certain points of view a weakness, played in its favor and helped in both generating returns and cash available for the acquisitions that took place in 2016 and will take place next years. **Consolidation and geographic integration** are the two reason that motivated the 2 acquisitions and are the strategies that REC is likely to follow in the future years.

INTERNAL RIVALRY: PSC - REC's core operations are focused on **ThAs such as CV, GI and GU** where **innovation** in previous years has been **marginal** if none and few NMEs are approved each year and are expected to be approved in the next. These ThAs, CV in particular, were some of the fastest growing in the later second half of the 20th century and are the same which are not expected to register considerable growth and innovation in next years. They are acknowledged by both REC and its competitors as **Cash Cows** where market shares, despite being highly fragmented, have been stable since the introduction of generics for the most successful compounds in the last 10/20 years and prices where mainly affected by new government interventions and regulations. For example, the antihypertensive segment has not been affected much by the introduction of new fixed combinations and competition has considerably slowed down given that many **generics have been on the market for decades** and there aren't significant patent expirations expected in the future: **growth in volumes was largely offset by pricing pressures**. Same can be said for other CV segments, like hypercholesterolemia. Nevertheless, this slowly **growing environment can still be leveraged** by a company with a **wide distribution system** like REC: analyzing Urorec's performance we can see that despite marginal innovation representing the biggest growth breaker in order to increase market share, the absence of product promotion by both big-pharma and generic manufacturers, whose products' awareness and market share are consolidated, have generated the opportunity to enter a market where competition is low and new compounds, despite being few, can still be promoted if sufficiently effective.
OrDs - one of the characteristics that made the investment in OrDs development a **safe heaven** for pharma companies is that once an orphan drug is approved, the only possibility for a competitor to enter the market for that same rare disease is to offer a **more effective treatment**, not a lower price, as long as **market exclusivity** is still valid (10YEU,7YUS). However, even **after ME expiration**, price competition may still be not profitable given that the low number of patients and the costs necessary to market the orphan drug make generic competition not profitable (no economies of scale). There may be rare diseases for which a generic alternative is available (for example, REC's NeoProfen is facing the competition of a generic and Cosmogen may too soon) but this are more an exception rather than the rule. Despite high returns, competition in the OrDs business is lower than other growing segments like oncology and anti-diabetes due to the **presence of many diseases which still lack treatment (>7000)**. Nevertheless, some segments, due to specific characteristics of the RD, present a high number of OrDs, like Non-Hodgkin lymphoma (NHL), which counts 61 orphan designated drugs.

BARGAINING POWER OF BUYERS: PSC - ageing population and increasing healthcare expenditures have posed great pressures on European governments' budgets, already put in jeopardy by the sovereign debt crisis of 2012 and the high levels of public debt to GDP. Price cuts and generic adoption were fostered in European countries in different ways and degrees, resulting in lower profit for pharmaceutical companies and their need to reinvent their approach towards public and private payers, focusing more on breakthrough innovation, unmet needs and patient monitoring. Despite national authorities and insurance companies representing the biggest buyers, due to different coverage policies in regions like Eastern Europe or MENA the burden of pharmaceutical expenditures is in greater amount carried by patients. **OrDs -** the high social value attached to the treatment of orphan drugs has led to more relaxed policies towards the development, marketing and pricing of OrDs. Associations like Eurordis (EU) and NORD (US) have also increased rare disease awareness among authorities and the general public. Nevertheless, recent scandals in the US regarding orphan drugs pricing have raised the question of whether their regulation should be revised. Despite huge changes aren't currently expected, given that these skyrocketing prices are more the exception rather than the rule, the increase in rare diseases treatments and the possible impact on national budget must be taken into account. The worldwide orphan drug market is expected to double between 2016-20 and regulators will have to rethink their previous decisions as orphan drug expenditures increase their weight on total public healthcare and pharmaceutical expenditures: stricter requirements, in particular in the form of more conclusive data about drug efficacy, are being applied by many national authorities, making the centralized approval process not a grant for success.

BARGAINING POWER OF SUPPLIERS: PSC - REC's supply chain is structured on 2 levels: the first is represented by active ingredients/chemicals suppliers, where its activities are partially vertically integrated with its own production facilities in Campoverde (IT) and York (IR); the second is composed of those manufacturers to which REC outsources the production of approximately 40% of its products. Despite high shifting costs, the importance of long-term relationships and the abundance of manufacturers and chemical supplies makes the power of suppliers not significant under a strategic point of view. **OrDs -** the whole OrDs portfolio production is outsourced to third parties because manufacturing outsourcing represents the best way to deal with the low amount of units to produce and their complexity. Again, we see no particular threats in REC's differentiated supply chain as the same reason for a balance of powers between buyers and sellers in PSC applies for this segment too.

THREAT OF NEW ENTRANTS: PSC - The pharmaceutical industry is known for its high barriers to entry and the difficulty to build an international and diversified business. New entrants risk is particularly relevant in those areas like oncology and rare diseases were companies address severe unmet needs, face considerable investment risks and can raise capital through or sign agreements with other bigger pharmaceutical companies (ex Erytech with REC for Graspa in Eu) or be backed by VC funds. Therefore, the PSC segment doesn't show significant new entrants risk: competition will be driven by current companies, especially big generic producers like Teva, but we expect no considerable market share changes and even fewer new entrants in those consolidated and low innovative ThAs were REC's core business resides. Competition is likely to rise in those ThAs that better resemble consumer's discretionary (OTC and no-Rx, i.e. Italian C class drugs) and were companies do not need to leverage economies of scale in order to finance their R&D. It is highly unlikely for a new company to enter markets that, like the anti-hypertensive or gastrointestinal ones, show low growth and innovation, if not in the case of breakthrough innovation. The high barriers to entry typical of the pharmaceutical industry will therefore keep new entrants away. **OrDs** – New entrants are likely to appear in this segment, especially in the form of small biotech companies as previously stated. Nevertheless, the wide number of diseases to address and the inclination to focus on those diseases whose OrD can meet further indications (ex ALL AML) reduces REC's exposure. In any case, we believe REC's distribution system and regulatory knowledge still represent a huge opportunity for small R&D focused companies to obtain their drugs' full value and we believe that more agreements such as the one signed with Erytech are likely to be signed in future years in order to grow the orphan business.

THREAT OF SUBSTITUTES: recent years have seen an increasing awareness of the importance of conducting an healthy lifestyle and avoid assuming pharmaceutical products when not necessary. Despite this, other sociodemographic dynamics like increasing urbanization and other dynamics associated to CV and GU disorders make us think that these trends will not likely be capable of significantly reducing pharmaceutical consumption.
OrDs – there are no substitutes to OrDs aside from other OrDs. As a consequence, substitutes' dynamics represent a key component of the same rivalry between players in the OrDs business: 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.

7. Swot Analysis

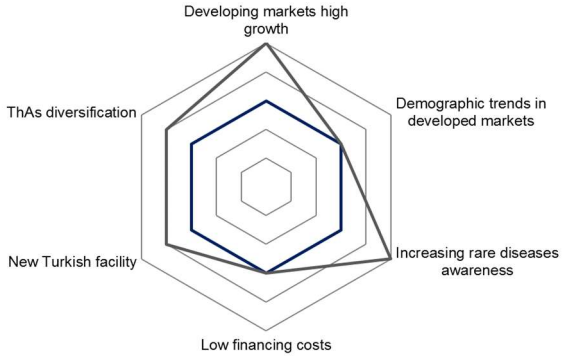
SWOT analysis interpretation
REC's Points: in this section a value between 1-5 is associated to each line of the SWOT analysis to show REC's positioning in terms of ability to leverage strengths and opportunities and suffer from weaknesses and threats.
Effect on Returns: to each item is associated a specific EoR value between 1-5 in order to show how the item should be addressed by REC: a higher EoR than REC's point means that the company should keep exploiting its strength/opportunity or undertake measure to reduce its weaknesses or exposure to future threats; lower values imply the item has lower importance in generating returns and should not be given more strategic importance. EoR values are assigned based on an overall assessment of REC's characteristics.

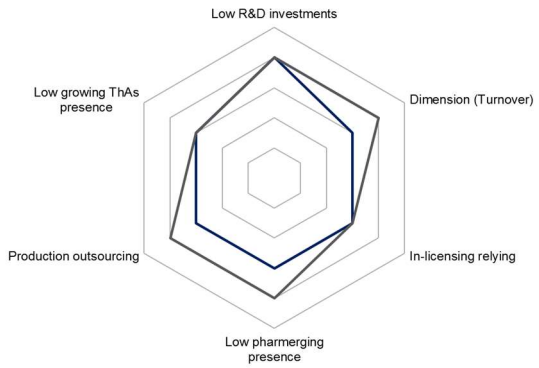
Strengths: 4 / 5	REC's Points	Effect on Returns
International diversification	4	5
Management reliability	4	4
Cash flow generation	4	4
Strategic compound focus in R&D	3	4
Regulatory and negotiating process knowledge	4	4
Solid Capital Structure	4	3
Acquisitions management	5	5
Efficient distribution system	4	5

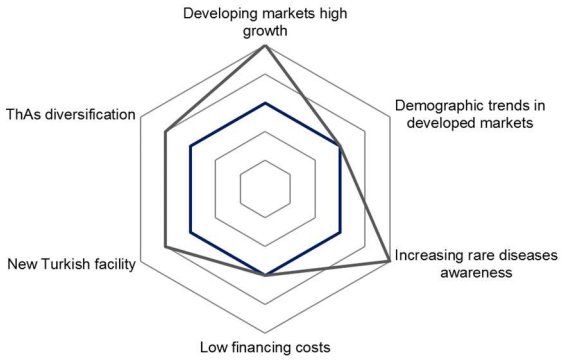
Weaknesses: 3.2 / 5	REC's Points	Effect on Returns
Low R&D investments	4	4
Dimension (Turnover)	3	4
In-licensing relying	3	3
Low pharmerging presence	3	4
Production outsourcing	3	2
Low growing ThAs presence (low organic growth opportunities)	3	4

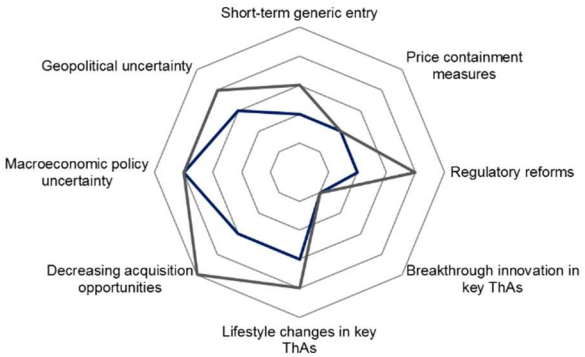
Opportunities: 3 / 5	REC's Points	Effect on Returns
Increasing HC expenditures in pharmerging countries	3	5
Demographic trends in developed markets	3	2
Increasing rare diseases awareness and national plans	3	5
Low financing costs	3	3
New Turkish facility	3	4
ThAs diversification	3	4

Threats: 2.4 / 5	REC's Points	Effect on Returns
Short-term generic entry	2	3
Price containment measures	2	2
Regulatory reforms	2	4
Breakthrough innovation in key ThAs	1	1
Lifestyle changes	3	3
Decreasing acquisition opportunities	3	5
Macroeconomic policy uncertainty	4	4
Geopolitical uncertainty	2	3









8. Income Statement

€MIn	2009A	2010A	2011A	2012A	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E	2021E
Revenue	747.5	728.1	762.0	828.3	941.6	987.4	1,047.7	1,153.9	1,232.7	1,341.6	1,450.6	1,561.2	1,661.4
Growth	8.4%	-2.6%	4.7%	8.7%	13.7%	4.9%	6.1%	10.1%	6.8%	8.8%	8.1%	7.6%	6.4%
Gross Profit	511.9	488.1	502.1	534.8	614.3	660.3	712.5	793.0	853.0	931.1	1,008.1	1,086.6	1,156.3
Margin	68.5%	67.0%	65.9%	64.6%	65.2%	66.9%	68.0%	68.7%	69.2%	69.4%	69.5%	69.6%	69.6%
Selling	-223.7	-216.5	-232.2	-250.6	-275.2	-282.9	-293.2	-307.3	-323.0	-348.8	-374.2	-402.8	-427.0
% Sales	29.9%	29.7%	30.5%	30.3%	29.2%	28.7%	28.0%	26.6%	26.2%	26.0%	25.8%	25.8%	25.7%
R&D	-69.4	-68.8	-56.0	-63.4	-74.7	-85.3	-76.7	-83.7	-94.9	-106.0	-116.0	-124.9	-132.9
% Sales	9.3%	9.5%	7.3%	7.7%	7.9%	8.6%	7.3%	7.3%	7.7%	7.9%	8.0%	8.0%	8.0%
G&A	-43.7	-44.0	-45.4	-45.5	-54.1	-57.2	-59.0	-62.0	-66.6	-72.4	-76.9	-82.7	-88.1
% Sales	5.8%	6.0%	6.0%	5.5%	5.7%	5.8%	5.6%	5.4%	5.4%	5.4%	5.3%	5.3%	5.3%
Other Exp	-12.8	-3.9	-5.1	-8.3	-14.9	-3.9	-5.0	-12.6	-2.5	-10.7	-1.5	-9.4	-1.7
% Sales	1.7%	0.5%	0.7%	1.0%	1.6%	0.4%	0.5%	1.1%	0.2%	0.8%	0.1%	0.6%	0.1%
EBITDA	197.0	181.7	187.7	191.7	230.1	273.8	317.0	371.2	410.3	439.9	490.4	520.5	562.4
Margin	26.4%	25.0%	24.6%	23.1%	24.4%	27.7%	30.3%	32.2%	33.3%	32.8%	33.8%	33.3%	33.8%
D&A	34.8	27.0	24.3	24.7	34.7	42.8	38.5	43.8	44.1	46.9	50.9	53.7	55.7
% Sales	4.7%	3.7%	3.2%	3.0%	3.7%	4.3%	3.7%	3.8%	3.6%	3.5%	3.5%	3.4%	3.3%
EBIT	162.2	154.8	163.5	167.0	195.4	231.0	278.5	327.4	366.1	393.1	439.5	466.8	506.7
Margin	21.7%	21.3%	21.5%	20.2%	20.8%	23.4%	26.6%	28.4%	29.7%	29.3%	30.3%	29.9%	30.5%
Net Interest	-314.9	-305.8	-323.5	-327.3	-376.2	-445.8	-544.0	-644.7	-721.8	-775.8	-868.5	-922.7	-1002.6
IBT	152.7	151.0	160.0	160.3	180.8	214.8	265.4	317.3	355.7	382.7	429.0	456.0	495.9
Taxes	-42.1	-42.4	-43.6	-41.8	-47.1	-53.6	-66.6	-80.0	-87.1	-93.8	-105.1	-111.7	-121.5
Tax Rate	27.6%	28.1%	27.2%	26.1%	26.1%	24.9%	25.1%	25.2%	24.5%	24.5%	24.5%	24.5%	24.5%
Minorities	0.01	0.01	0.01	0.01	0.02	0.01	0.01	0.02	0.03	0.03	0.03	0.03	0.04
Net Income	110.6	108.6	116.4	118.5	133.7	161.2	198.8	237.3	268.5	288.9	323.9	344.2	374.4
Margin	14.8%	14.9%	15.3%	14.3%	14.2%	16.3%	19.0%	20.6%	21.8%	21.5%	22.3%	22.1%	22.5%
Growth	10.1%	-1.8%	7.2%	1.8%	12.8%	20.6%	23.3%	19.4%	13.2%	7.6%	12.1%	6.3%	8.8%
EPS	0.56	0.55	0.58	0.59	0.66	0.73	0.97	1.15	1.31	1.41	1.58	1.68	1.82
EPS diluted	0.54	0.52	0.56	0.56	0.63	0.77	0.95	1.13	1.28	1.38	1.54	1.64	1.78

9. Balance Sheet

€Mln	2009A	2010A	2011A	2012A	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E	2021E
ASSETS													
PP&E	55.4	53.0	55.4	60.0	81.3	92.3	109.0	113.1	112.2	140.6	138.6	162.0	160.6
Intangible assets (ex Gw)	96.5	113.5	149.6	231.5	295.5	266.0	246.5	272.6	284.8	298.3	306.1	316.4	327.0
Goodwill	303.7	305.7	365.7	413.2	469.2	463.5	453.3	562.7	562.7	677.7	677.7	817.7	817.7
Other investments	3.7	1.9	2.0	6.9	5.9	17.1	32.4	24.5	24.5	24.5	24.5	24.5	24.5
Other non-current assets	3.8	2.5	1.3	3.8	4.3	4.7	4.5	5.2	5.3	5.5	5.6	5.8	5.9
Deferred tax assets	21.8	20.2	22.5	22.8	25.2	33.0	30.5	32.9	32.9	32.9	32.9	32.9	32.9
Non-current assets	**484.9**	**496.9**	**596.5**	**738.2**	**881.4**	**876.6**	**876.2**	**1010.9**	**1022.4**	**1179.5**	**1185.4**	**1359.3**	**1368.5**
Inventories	86.6	85.2	108.3	126.4	140.4	141.2	143.1	155.6	158.2	173.9	186.7	199.4	211.3
Trade receivables	132.6	126.6	141.2	155.4	179.8	179.0	177.2	202.4	216.3	239.6	254.5	278.8	291.5
Other receivables & current assets	25.6	29.6	24.5	27.1	30.3	37.2	34.2	38.2	40.1	43.4	46.8	50.2	53.4
Fair value of hedging derivatives (FVH)	0.0	1.2	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fair value of hedging derivatives (CFH)	0.0	0.0	0.0	1.4	0.0	4.1	12.7	0.0	0.0	0.0	0.0	0.0	0.0
Short-term financial investments, cash and cash equivalents	93.8	161.7	105.2	38.4	52.3	137.0	225.5	138.5	195.6	172.5	270.7	232.1	320.3
Current assets	**338.6**	**404.2**	**380.9**	**348.7**	**402.8**	**498.6**	**592.7**	**534.7**	**610.2**	**629.4**	**758.6**	**760.5**	**876.5**
Total assets	**823.5**	**901.1**	**977.5**	**1086.9**	**1284.2**	**1375.2**	**1468.9**	**1545.6**	**1632.6**	**1808.9**	**1944.0**	**2119.8**	**2245.0**

€Mln	2009A	2010A	2011A	2012A	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E	2021E
EQUITY AND LIABILITIES													
Share capital	26.1	26.1	26.1	26.1	26.1	26.1	26.1	26.1	26.1	26.1	26.1	26.1	26.1
Additional paid-in-capital	83.7	83.7	83.7	83.7	83.7	83.7	83.7	83.7	83.7	83.7	83.7	83.7	83.7
Treasury stock	-59.1	-52.6	-53.2	-46.3	-37.8	-30.7	-35.1	-82.2	-80.4	-80.4	-80.4	-80.4	-80.4
Hedging reserve (CFH)	-4.0	-4.3	-4.2	-5.0	-2.3	-0.7	-3.3	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1
Translation reserve	-6.2	-0.6	-8.2	-3.7	-42.9	-56.3	-66.9	-75.5	-75.6	-75.6	-75.6	-75.6	-75.6
Other reserves	25.0	25.7	26.6	26.3	25.8	29.9	42.5	35.6	34.4	34.4	34.4	34.4	34.4
Retained earnings	332.8	389.3	445.7	501.7	559.9	627.2	685.6	755.8	850.8	958.2	1,073.7	1,187.1	1,307.6
Net income for the year	110.6	108.6	116.4	118.5	133.7	161.2	198.8	237.3	268.5	288.9	323.9	344.2	374.3
Interim dividend	0.0	0.0	-38.5	-40.1	-44.5	-53.1	-61.6	-71.2	-80.6	-86.7	-105.3	-111.9	-121.7
Group shareholders' equity	**509.0**	**576.0**	**594.4**	**661.3**	**701.8**	**787.3**	**869.9**	**905.7**	**1,023.0**	**1,144.6**	**1,276.6**	**1,403.7**	**1,544.5**
Minority interest	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.3
Shareholders' equity	**509.0**	**576.0**	**594.5**	**661.4**	**701.8**	**787.4**	**870.0**	**905.8**	**1,023.1**	**1,144.8**	**1,276.8**	**1,403.9**	**1,544.8**
								0.0	0.0	0.0	0.0	0.0	0.0
Loans - due after one year	80.0	96.8	137.5	129.1	196.8	286.2	282.6	281.1	228.1	269.7	249.0	245.0	206.3
Staff leaving indemnities	19.9	19.3	16.7	17.9	16.7	18.4	18.9	20.6	20.6	20.6	20.6	20.6	20.6
Deferred tax liabilities	5.7	5.7	6.0	15.9	21.1	21.6	22.4	28.5	28.5	28.5	28.5	28.5	28.5
Other non-current liabilities	6.2	0.6	2.1	1.8	4.8	3.1	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Non-current liabilities	**111.7**	**122.3**	**162.3**	**164.7**	**239.4**	**329.2**	**326.4**	**332.8**	**279.8**	**321.4**	**300.6**	**296.7**	**258.0**
								0.0	0.0	0.0	0.0	0.0	0.0
Trade payables	81.8	93.1	98.7	106.9	107.2	112.5	106.6	118.9	125.1	141.6	145.8	163.7	166.4
Other payables	48.4	53.5	58.3	54.0	70.8	64.9	72.4	78.0	82.0	88.7	95.6	102.5	109.1
Tax liabilities	12.6	9.7	12.1	9.8	16.0	12.5	14.6	18.1	19.7	21.2	23.8	25.3	27.5
Other current liabilities	0.5	0.6	0.3	0.5	0.9	0.9	1.0	1.0	1.1	1.2	1.4	1.5	1.6
Provisions	22.0	21.4	21.8	20.5	29.5	25.8	29.4	35.0	36.3	38.3	40.3	43.4	46.1
Fair value of hedging derivatives CFH)	4.0	4.3	4.2	5.0	2.3	5.1	4.3	0.0	0.0	0.0	0.0	0.0	0.0
Fair value of hedging derivatives (FVH)	2.3	0.0	0.0	0.0	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans - due within one year	2.4	16.6	11.6	8.1	80.3	28.3	34.5	40.4	53.1	38.2	45.3	67.3	74.9
Bank overdrafts and short-term loans	28.9	3.5	13.6	56.0	34.0	8.6	9.8	15.7	12.3	13.4	14.5	15.6	16.6
Current liabilities	202.8	202.7	220.7	260.8	343.0	258.6	272.5	307.1	329.6	342.7	366.5	419.1	442.2
Total Equity and Liabilities	**823.5**	**901.1**	**977.5**	**1,086.9**	**1,284.2**	**1,375.2**	**1,468.9**	**1,545.6**	**1,632.6**	**1,808.9**	**1,944.0**	**2,119.8**	**2,245.0**

10. Cash Flow Statement

€Mln	2009A	2010A	2011A	2012A	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E	2021E
Net Income	**110.6**	**108.6**	**116.4**	**118.5**	**133.7**	**161.2**	**198.8**	**237.3**	**268.5**	**288.9**	**323.9**	**344.2**	**374.4**
D&A	34.8	27.0	24.3	24.7	34.7	42.8	38.5	43.8	44.1	46.9	50.9	53.7	55.7
% sales	4.7%	3.7%	3.2%	3.0%	3.7%	4.3%	3.7%	3.8%	3.6%	3.5%	3.5%	3.4%	3.3%
Other Non Cash	5.5	-4.3	1.5	2.9	0.3	-10.3	-0.2	-2.3	0.0	0.0	0.0	0.0	0.0
Changes in Working Capital	4.2	9.3	-16.2	-33.4	1.8	-14.5	10.3	-19.3	-5.2	-0.5	-15.3	-0.9	-13.4
Cash Flow from Operations	**155.0**	**140.6**	**121.5**	**112.8**	**170.5**	**179.2**	**247.4**	**259.5**	**307.5**	**335.3**	**359.5**	**397.0**	**416.7**
CFO % NI	140.2%	129.5%	104.3%	95.2%	127.5%	111.1%	124.4%	109.3%	114.5%	116.0%	111.0%	115.3%	111.3%
Capex	-27.0	-33.3	-43.0	-65.4	-78.5	-25.6	-33.5	-34.7	-55.6	-19.0	-56.7	-37.6	-64.9
% sales	3.6%	4.6%	5.6%	7.9%	8.3%	2.6%	3.2%	3.0%	4.5%	1.4%	3.9%	2.4%	3.9%
Equity Investments	-20.0	2.1	-63.9	-87.2	-123.1	0.0	0.0	-119.5	0.0	-200.0	0.0	-200.0	0.0
Cash Flow from Investing Activities	**-47.0**	**-31.2**	**-106.9**	**-152.5**	**-201.6**	**-25.6**	**-33.5**	**-154.2**	**-55.6**	**-219.0**	**-56.7**	**-237.6**	**-64.9**
Dividends	-49.3	-54.4	-93.1	-61.4	-64.6	-75.4	-110.8	-132.7	-151.7	-167.2	-191.9	-217.1	-233.5
Net Buybacks	0.0	6.2	-0.4	5.6	6.5	6.0	-6.0	-48.8	0.5	0.0	0.0	0.0	0.0
New Issue of Debt	0.0	30.0	44.7	0.0	151.7	110.6	52.0	51.6	0.1	79.8	24.5	63.3	36.2
Repayment of Debt	-2.9	-2.5	-21.9	-11.5	-8.4	-82.2	-66.2	-34.5	-40.4	-53.1	-38.2	-45.3	-67.3
Other	5.0	4.5	-10.4	-2.2	-18.2	-2.3	4.3	-33.7	0.0	0.0	0.0	0.0	0.0
Cash Flow from Financing Activities	**-47.2**	**-16.1**	**-81.1**	**-69.4**	**66.9**	**-43.4**	**-126.6**	**-198.1**	**-191.5**	**-140.5**	**-205.7**	**-199.1**	**-264.6**
Change in Short Term Financial Position	60.8	93.3	-66.6	-109.2	35.8	110.2	87.2	-92.8	60.4	-24.2	97.1	-39.7	87.2
Short Term Financial Position at end of period	64.9	158.2	91.6	-17.6	18.2	128.4	215.7	122.8	183.2	159.1	256.2	216.5	303.7
Cash & Equivalents	**93.8**	**161.7**	**105.2**	**38.4**	**52.3**	**137.0**	**225.5**	**138.5**	**195.6**	**172.5**	**270.7**	**232.1**	**320.3**

€Mln	2009A	2010A	2011A	2012A	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E	2021E
Short-term financial investments, cash and cash equivalents	93.8	161.7	105.2	38.4	52.3	137.0	225.5	138.5	195.6	172.5	270.7	232.1	320.3
Loans - due within one year	2.4	16.6	11.6	8.1	80.3	28.3	34.5	40.4	53.1	38.2	45.3	67.3	74.9
Bank overdrafts and short-term loans	28.9	3.5	13.6	56.0	34.0	8.6	9.8	15.7	12.3	13.4	14.5	15.6	16.6
Net Short Term Financial Position	62.5	141.6	80.0	-25.7	-62.0	100.2	181.2	82.4	130.1	120.8	210.9	149.2	228.8
Loans - due after one year	80.0	96.8	137.5	129.1	196.8	286.2	282.6	281.1	228.1	269.7	249.0	245.0	206.3
Derivatives Hedge Effect	2.3	-1.2	-1.8	-1.4	2.2	0.0	-12.7	0.0	0.0	0.0	0.0	0.0	0.0
Net Financial Position	-19.7	46.0	-55.7	-153.5	-261.0	-186.0	-88.7	-198.7	-98.0	-148.9	-38.1	-95.8	22.5
Debt ex. Overdrafts	84.7	112.2	147.3	135.9	279.3	314.5	304.4	321.5	281.2	308.0	294.2	312.3	281.2
Debt inc. Overdrafts	113.5	115.7	160.9	191.9	313.3	323.0	314.3	337.2	293.6	321.4	308.7	327.9	297.8

11. Returns & Turnovers

	2009A	2010A	2011A	2012A	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E	2021E
ROE	23.2%	20.0%	19.9%	18.9%	19.6%	21.6%	24.0%	26.7%	27.8%	27.3%	26.8%	25.7%	25.4%
PreTax Margin	20.4%	20.7%	21.0%	19.4%	19.2%	21.8%	25.3%	27.5%	28.9%	28.5%	29.6%	29.2%	29.8%
Tax Rate	27.6%	28.1%	27.2%	26.1%	26.1%	24.9%	25.1%	25.2%	24.5%	24.5%	24.5%	24.5%	24.5%
Asset Turnover	0.91	0.84	0.81	0.80	0.79	0.74	0.74	0.77	0.78	0.78	0.77	0.77	0.76
Leverage	1.72	1.59	1.60	1.64	1.74	1.79	1.72	1.70	1.65	1.59	1.55	1.52	1.48

	2009A	2010A	2011A	2012A	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E	2021E
NOPAT	117.5	111.3	119.0	123.4	144.5	173.4	208.6	244.9	276.4	296.8	331.8	352.4	382.6
IC	539.0	537.8	654.8	825.6	976.6	967.4	943.8	1,098.7	1,115.4	1,288.0	1,309.1	1,494.0	1,516.6
IC (ex. GW)	235.3	232.0	289.1	412.4	507.4	503.9	490.6	536.0	552.7	660.3	681.4	726.3	748.9
ROIC	22.0%	20.7%	20.0%	16.7%	16.0%	17.8%	21.8%	22.4%	25.0%	24.7%	25.6%	25.1%	25.4%
ROIC (ex. Gw)	49.5%	47.6%	45.7%	35.2%	31.4%	34.3%	42.0%	46.2%	50.8%	48.9%	49.5%	50.1%	51.9%
1-Tax Rate	72.4%	71.9%	72.8%	73.9%	73.9%	75.1%	74.9%	74.8%	75.5%	75.5%	75.5%	75.5%	75.5%
Operating Margin	21.7%	21.3%	21.5%	20.2%	20.8%	23.4%	26.6%	28.4%	29.7%	29.3%	30.3%	29.9%	30.5%
IC Turnover	139.9%	135.2%	127.8%	111.9%	104.5%	101.6%	109.6%	113.0%	111.4%	111.6%	111.7%	111.4%	110.4%
IC (ex Gw) Turnover	314.9%	311.6%	292.5%	236.2%	204.7%	195.3%	210.7%	224.8%	226.5%	221.2%	216.2%	221.8%	225.3%
Tax Rate	27.6%	28.1%	27.2%	26.1%	26.1%	24.9%	25.1%	25.2%	24.5%	24.5%	24.5%	24.5%	24.5%

	2009A	2010A	2011A	2012A	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E	2021E
Trade Receivables Yend	5.6	5.8	5.4	5.3	5.2	5.5	5.9	5.7	5.7	5.6	5.7	5.6	5.7
Inventory Yend	2.7	2.8	2.4	2.3	2.3	2.3	2.3	2.3	2.4	2.4	2.4	2.4	2.4
Trade Payables Yend	2.9	2.6	2.6	2.7	3.1	2.9	3.1	3.0	3.0	2.9	3.0	2.9	3.0
Days of Receivables	64.8	63.4	67.6	68.5	69.7	66.2	61.7	64.0	64.0	65.2	64.0	65.2	64.0
Days of Inventory	134.2	129.5	152.0	157.1	156.6	157.6	155.8	157.3	152.1	154.7	154.0	153.4	152.7
Days od Payables	126.6	141.5	138.5	132.9	119.5	125.6	116.1	120.3	120.3	125.9	120.3	125.9	120.3
Cash Conversion Cycle	72.3	51.5	81.1	92.7	106.8	98.2	101.5	101.1	95.9	94.0	97.8	92.7	96.5

	2009A	2010A	2011A	2012A	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E	2021E
Current Ratio	1.7	2.0	1.7	1.3	1.2	1.9	2.2	1.7	1.9	1.8	2.1	1.8	2.0
Quick Ratio	1.2	1.6	1.2	0.9	0.8	1.4	1.6	1.2	1.4	1.3	1.6	1.3	1.5
Liquidity Ratio	0.5	0.8	0.5	0.1	0.2	0.5	0.8	0.5	0.6	0.5	0.7	0.6	0.7

€MIn	2009A	2010A	2011A	2012A	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E	2021E
EBITDA	197.0	181.7	187.7	191.7	230.1	273.8	317.0	371.2	410.3	439.9	490.4	520.5	562.4
Debt to EBITDA	43.0%	61.7%	78.5%	70.9%	121.4%	114.9%	96.0%	86.6%	68.5%	70.0%	60.0%	60.0%	50.0%
Net Fin Position to EBITDA	-10.0%	25.3%	-29.7%	-80.0%	-113.4%	-67.9%	-28.0%	-53.5%	-23.9%	-33.8%	-7.8%	-18.4%	4.0%
EBIT	162.2	154.8	163.5	167.0	195.4	231.0	278.5	327.4	366.1	393.1	439.5	466.8	506.7
Debt to EBIT	52.2%	72.5%	90.1%	81.4%	142.9%	136.1%	109.3%	98.2%	76.8%	78.3%	66.9%	66.9%	55.5%
Net Fin Position to EBIT	-12.2%	29.7%	-34.1%	-91.9%	-133.6%	-80.5%	-31.9%	-60.7%	-26.8%	-37.9%	-8.7%	-20.5%	4.4%
CFO	155.0	140.6	121.5	112.8	170.5	179.2	247.4	259.5	307.5	335.3	359.5	397.0	416.7
Debt to CFO	54.6%	79.8%	121.3%	120.5%	163.8%	175.5%	123.1%	123.9%	91.5%	91.8%	81.8%	78.7%	67.5%
Net Fin Position to CFO	-12.7%	32.7%	-45.9%	-136.1%	-153.1%	-103.8%	-35.9%	-76.6%	-31.9%	-44.4%	-10.6%	-24.1%	5.4%

12. Revenues Forecast by Geographic Area

€MIn	2016	2017	2018	2019	2020	2021	3Y CAGR	5Y CAGR
Revenues	1,153.7	1,232.7	1,341.6	1,450.6	1,561.2	1,661.4	7.9%	7.6%
YoY Growth		6.8%	8.8%	8.1%	7.6%	6.4%		
Acquisitions since 2017		0	33	67	101.34	144.81		
Orphan Drugs	186.8	200.0	226.4	250.0	272.5	297.0	10.2%	9.7%
YoY Growth		7.1%	13.2%	10.4%	9.0%	9.0%		
% sales	16.2%	16.2%	16.9%	17.2%	17.5%	17.9%		
of which USA	101.1	107.2	126.5	145.0	153.7	162.9	12.8%	10.0%
YoY Growth		6.0%	18.0%	14.7%	6.0%	6.0%		
PSC + Chemical	966.92	1,032.72	1,082.19	1,133.57	1,187.33	1,219.56	5.4%	4.8%
YoY Growth		6.8%	4.8%	4.7%	4.7%	2.7%		
Chemical Business	40.2	41.8	43.5	45.2	47.0	48.9	4.0%	4.0%
YoY Growth		4.0%	4.0%	4.0%	4.0%	4.0%		
PSC pharma	926.7	990.9	1038.7	1088.4	1140.3	1170.7	5.5%	4.8%
YoY Growth		6.9%	4.8%	4.8%	4.8%	2.7%		
New Launches	0	0	10	25.2	47.4	63		
Current PSC	926.7	990.9	1028.7	1063.2	1092.9	1107.7	4.7%	3.6%
YoY Growth		6.9%	3.8%	3.3%	2.8%	1.3%		
€MIn	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**3Y CAGR**	**5Y CAGR**
Italy	219.7	247.2	250.3	253.5	257.2	256.5		
YoY Growth	0.0%	12.5%	1.2%	1.3%	1.5%	-0.3%	4.9%	3.1%
France	104.9	107.6	108.4	109.6	111.3	108.7		
YoY Growth	0.0%	2.6%	0.8%	1.1%	1.5%	-2.3%	1.5%	0.7%
Germany	87.5	89.4	91.1	91.6	93.1	94.2		
YoY Growth	0.0%	2.1%	1.9%	0.6%	1.6%	1.3%	1.6%	1.5%
Turkey	86.3	97.5	109.2	119.1	128.6	138.9		
YoY Growth	16.5%	13.0%	12.0%	9.0%	8.0%	8.0%	11.3%	10.0%
Russia & CIS	79.5	86.7	93.6	99.2	103.2	106.3		
YoY Growth	9.8%	9.0%	8.0%	6.0%	4.0%	3.0%	7.7%	6.0%
Spain	69.6	72.5	75.0	77.3	77.2	73.3		
YoY Growth	0.0%	4.2%	3.4%	3.1%	-0.2%	-5.0%	3.6%	1.0%
North Africa	42.3	43.9	45.7	47.4	49.3	51.2		
YoY Growth	0.0%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%
Portugal	38.6	39.7	40.8	42.0	41.6	39.2		
YoY Growth	0.0%	2.9%	2.8%	2.9%	-0.9%	-5.9%	2.9%	0.3%
Other CEE Countries	29.7	31.2	32.7	34.4	35.8	36.8		
YoY Growth	0.0%	5.0%	5.0%	5.0%	4.0%	3.0%	5.0%	4.4%
Other WE Countries	23.7	24.4	25.2	25.9	26.2	26.2		
YoY Growth	0.0%	3.0%	3.0%	3.0%	1.0%	0.0%	3.0%	2.0%
Other International Sales	144.9	150.7	156.8	163.0	169.6	176.3		
YoY Growth	0.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

13. WACC

WACC has been computed as the weighted average of the net cost of debt and the required return to equity, whose contribution to WACC has been adjusted by geographic areas according to the specific country risk premium estimated in accordance to the studies of Damodaran.

COST OF EQUITY

Risk-Free Rate: According to the "Consistency principle", risk-free rate is selected consistently with the currency in which the cash flows on the project are estimated; furthermore, to select an asset to be risk free, there can be no risk of default associated with cash flows and reinvestment risk. Using these criteria, the appropriate risk free has to be a default-free zero coupon rare. Accordingly we decided to use 10y German Sovereign Bond without making further averages, as we think that there are no other assets recognized as risk free by markets at the moment; additionally, 10y bund spread is already included in the Country Risk Premium.

Risk-free rate

Governments bonds' yields	10 Years Gov. Bond Yield
Germany Government Bonds 10Y Yield	0.2%

Equity Risk Premium: To estimate Total Equity Risk Premium we considered the weighted average of Total Market Risk Premia, calculated using as weights the geographical distribution of revenues for each country in which REC operates and REC's exposition to different markets. Total Market Risk Premium is computed as the sum of Country Risk Premium, considering geopolitical risk, and Mature Market Risk Premium, that is considered equal to 5,69% (Source: Damodaran).

Equity Risk Premium

Country	Total Market Risk Premium	Weight
Italy	7,89%	20,60%
France	6,26%	10,30%
Usa	5,69%	9,10%
Germany	5,69%	9,10%
Turkey	8,58%	7,80%
Russia & CIS	8,58%	7,10%
Spain	7,89%	6,90%
Portugal	8,58%	3,60%
North Africa	9,85%	3,80%
Other Central Europe	9,09%	3,60%
Other Western Europe	6,81%	2,90%
Other international	7,08%	15,20%
Market Risk Premium	**7,41%**	**100%**

Country Risk Premium

Country	Country Risk Premium
Italy	2,20%
France	0,57%
Usa	0,00%
Germany	0,00%
Turkey	2,89%
Russia & CIS	2,89%
Spain	2,20%
Portugal	2,89%
Nord Africa	4,16%
Central-Eastern Europe	3,40%
Western Europe	1,12%

BETA : We decided to estimate REC's beta through a bottom up process because we believe it can better assess the current systemic risk embedded in the pharmaceutical business and take into consideration REC's international presence. Additionally, bottom-up approach takes into account the current capital structure and better reflect future changes of debt level. We selected large-cap pharmaceutical companies with an international presence, instead of REC's major comparables, in order to avoid being misled by mid-cap volatility and low significance of the regressed betas. We then regressed their weekly returns against the MSCI EUR index in a 2Y period (the length of the period was chosen accordingly due to the lack of statistical significance in 5Y weekly and monthly returns). Then, we calculated their unlevered beta, took the simple average as REC's raw unlevered beta and finally adjusted for REC's financial leverage (5%) to obtain REC's Implied Beta. To fit into our 2-Stage DCF model, we rolled the beta through 5 years windows using Blume adjustment to make beta revert to 1 for TV, using a two-year correction time and taking into account the geometric average to obtain REC's Beta levered.

Name	Tax rate	Beta	D/E	Raw Beta Unlevered
Sanofi	33,3%	0.76	20%	0.69
Novartis	17,9%	0.72	13%	0.65
Merck	29,7%	0.75	17%	0.67
Novo Nordisk	22.0%	0.82	1%	0.82
		REC's Beta Levered (adj.) 0.89		

Despite the potential large cap bias, and in the absence of statistically significant data, we are confident that the process we employed can generate a conservative estimate of the beta of the industry, which is substantially in line with MSCI Europe Pharma Index's 2Y adj. Beta of 0.886.
As for the TV, the Beta has been adjusted to 1 to take into consideration the cyclical nature of the business.

COST OF DEBT

We decided to use REC's effective cost of debt of 3.5% for two reasons: 1) the part of outstanding debt which drives the cost of debt has a long maturity; 2) REC hedges its cash flows through interest rate and currency swaps. As the value of debt reported in company preliminary results already incorporates the value of cash flows derivatives, it can be considered a good proxy of its market value.

WACC COMPUTATION

	5Y	TV
Risk-free Rate	0.2%	0,2%
Beta	0.89	1,00
Equity Risk Premium	7.4%	7.4%
Cost of Equity	6.8%	7.6%
Cost of Debt	3.5%	3.5%
Tax Rate	24.5%	24.5%
After Tax Cost of Debt	2.6%	2.6%
Capital Structure	0.95	0.95
WACC	**6.6%**	**7.4%**

14. Valuation: DCF Model

€Mln	2015	2016	2017	2018	2019	2020	2021	TV
Revenue	1047.7	1153.9	1232.7	1341.6	1450.6	1561.2	1661.4	1703.4
Growth	6.11%	10.14%	6.83%	8.83%	8.12%	7.62%	6.42%	2.53%
Operating Margin	26.6%	28.4%	29.7%	29.3%	30.3%	29.9%	30.5%	30.5%
Tax Rate	25.1%	25.2%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%
Invested Capital	1003.7	1098.7	1115.4	1288.0	1309.1	1494.0	1516.6	1555.6
ROIC	21.8%	22.4%	25.0%	24.7%	25.5%	25.1%	25.4%	25.4%
NOPAT	**208.6**	**244.9**	**276.4**	**296.8**	**331.8**	**352.4**	**382.6**	**392.2**
Growth	**20.3%**	**17.4%**	**12.9%**	**7.4%**	**11.8%**	**6.2%**	**8.6%**	**2.5%**
- Tangible Assets Capex	31.4	16.8	12.4	12.3	13.2	14.2	15.0	
- Intangible Assets Capex	2.5	17.9	43.1	6.7	43.5	23.4	49.8	
- Equity Investments	0.0	119.5	0.0	200.0	0.0	200.0	0.0	
+ D&A	38.5	43.8	44.1	46.9	50.9	53.7	55.7	
- ΔNWC	-10.3	19.3	5.2	0.5	15.3	0.9	13.4	
Net Investments	-14.9	129.7	16.6	172.6	21.2	184.8	22.6	39.0
Reinvestment Rate	-7.13%	52.98%	6.01%	58.16%	6.37%	52.45%	5.90%	9.95%
FCFF	**223.5**	**115.1**	**259.8**	**124.2**	**310.7**	**167.6**	**360.0**	**353.2**
Discount Factor MYC			96.9%	90.9%	85.3%	80.0%	75.1%	
PV FCFF			**251.7**	**112.8**	**264.9**	**134.1**	**270.2**	**5,484.4**

Current Share Price (€)	29.97
Shares Outstanding	205,328,894
In-the-Money Options	6,952,263
Weighted Average Exercise Price (€)	10.28
Treasury Shares	3,891,262
Stock Options less Treasury Shares	3,061,001
Options Proceeds in Exchange for Treasuries (€)	39,988,053
Options Proceeds for New Issues (€)	31,455,983
Total Proceeds from Stock Options (€)	71,444,036
/ Current Share Price (€)	29.97
Share Repurchased with Option Proceeds	2,383,852
Shares form Stock Options	3,061,001
Less: Shares Repurchased	2,383,852
Net New Shares from Options	677,149
Fully Diluted Shares Outstanding	**209,802,305**

€ Mln	
Present Value of Future Cash Flows	1,033.7
Terminal Value	5,484.4
Enterprise Value	**6,518.1**
(+) Net Non-Operating Assets	28.9
(-) Staff Leaving Indemnities	20.6
(+) Net Financial Position	-198.7
(+) Other Adjustments	0.5
(-) Minority Interests as 31Dec 2016E	0.1
Equity Value	**6,328.0**
Fully Diluted Shares (m)	209.8
Share Price (€)	**30.16**
Current Share Price (€)	**29.97**
Up(Down)side	**0.64%**

15. Scenario Analysis: Bull Case

€Mln	2015	2016	2017	2018	2019	2020	2021	TV
Revenue	1047.7	1153.9	1236.0	1351.7	1472.5	1594.0	1710.0	1753.2
Growth	6.11%	10.14%	7.11%	9.36%	8.94%	8.25%	7.28%	2.53%
Operating Margin	26.6%	28.4%	29.7%	29.7%	30.4%	30.1%	30.6%	30.6%
Tax Rate	25.1%	25.2%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%
Invested Capital YE	1003.7	1098.7	1115.9	1289.4	1313.1	1499.9	1526.4	1566.7
ROIC	21.83%	22.41%	25.0%	25.2%	26.0%	25.8%	26.1%	25.40%
NOPAT	**208.60**	**244.88**	**277.15**	**302.58**	**337.97**	**362.25**	**395.07**	**405.05**
Growth	**20.3%**	**17.4%**	**13.2%**	**9.2%**	**11.7%**	**7.2%**	**9.1%**	**2.5%**
- Tangible Assets Capex	31.4	16.8	12.5	12.4	13.5	14.5	15.5	
- Intangible Assets Capex	2.5	17.9	43.3	6.8	44.2	23.9	51.3	
- Equity Investments	0.0	119.5	0.0	200.0	0.0	200.0	0.0	
+ D&A	38.5	43.8	44.1	46.9	50.9	53.7	55.7	
- ΔNWC	-10.3	19.3	5.6	1.1	16.9	2.1	15.4	
Net Investments	-14.9	129.7	17.2	173.4	23.7	186.8	26.5	40.3
Reinvestment Rate	-7.13%	52.98%	6.20%	57.31%	7.01%	51.57%	6.71%	9.95%
FCFF	**223.5**	**115.1**	**260.0**	**129.2**	**314.3**	**175.4**	**368.6**	**364.7**
Discount Factor MYC			96.9%	90.9%	85.3%	80.0%	75.1%	
PV FCFF			**251.8**	**117.4**	**268.0**	**140.4**	**276.7**	**5,663.5**

BULL SCENARIO 1: 5% D/CE, 7.4 TV WACC

€ Mln	
Present Value of Future Cash Flows	1,054.2
Terminal Value	5,663.5
Enterprise Value	**6,717.7**
(+) Net Non-Operating Assets	28.8
(-) Staff Leaving Indemnities	20.6
(+) Net Financial Position	-198.7
(+) Other Adjustments	0.5
(-) Minority Interests as 31Dec 2016E	0.1
Equity Value	**6,527.57**
Fully Diluted Shares (m)	209.80
Share Price (€)	**31.11**
Current Share Price (€)	**29.97**
Up(Down)side	**3.8%**

BULL SCENARIO 2: 10% D/CE, 7.1 TV WACC

€ Mln	
Present Value of Future Cash Flows	1,054.2
Terminal Value	5,970.2
Enterprise Value	**7,024.4**
(+) Net Non-Operating Assets	28.8
(-) Staff Leaving Indemnities	20.6
(+) Net Financial Position	-198.7
(+) Other Adjustments	0.5
(-) Minority Interests as 31Dec 2016E	0.1
Equity Value	**6,834.3**
Fully Diluted Shares (m)	209.80
Share Price (€)	**32.57**
Current Share Price (€)	**29.97**
Up(Down)side	**8.7%**

16. Scenario Analysis: Bear Case

€Mln	2015	2016	2017	2018	2019	2020	2021	TV
Revenue	1047.7	1153.9	1227.7	1326.7	1426.0	1526.8	1597.0	1637.3
Growth	6.1%	10.1%	6.4%	8.1%	7.5%	7.1%	4.6%	2.5%
Operating Margin	26.6%	28.4%	29.5%	29.1%	30.1%	29.7%	30.2%	30.2%
Tax Rate	25.1%	25.2%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%
Invested Capital YE	1003.7	1098.7	1114.7	1285.8	1304.7	1487.6	1504.1	1541.2
ROIC	21.83%	22.41%	24.7%	24.3%	25.0%	24.5%	24.3%	25.40%
NOPAT	**208.6**	**244.9**	**273.4**	**291.5**	**324.1**	**342.4**	**364.1**	**373.3**
Growth	**20.3%**	**17.4%**	**11.7%**	**6.6%**	**11.2%**	**5.6%**	**6.4%**	**2.5%**
- Tangible Assets Capex	31.4	16.8	12.3	12.1	13.0	13.8	14.4	
- Intangible Assets Capex	2.5	17.9	43.0	6.6	42.8	22.9	47.9	
- Equity Investments	0.0	119.5	0.0	200.0	0.0	200.0	0.0	
+ D&A	38.5	43.8	44.1	46.9	50.8	53.6	55.6	
- ΔNWC	-10.3	19.3	4.7	-0.7	14.1	-0.3	9.7	
Net Investments	-14.9	129.7	15.9	171.1	19.0	182.9	16.4	37.1
Reinvestment Rate	-7.1%	53.0%	5.8%	58.7%	5.8%	53.4%	4.5%	10.0%
FCFF	**223.5**	**115.1**	**257.6**	**120.3**	**305.1**	**159.5**	**347.7**	**336.2**
Discount Factor MYC			96.9%	90.9%	85.3%	80.0%	75.1%	
PV FCFF			**249.5**	**109.4**	**260.2**	**127.6**	**261.0**	**5,219.9**

€ Mln	
Present Value of Future Cash Flows	1,007.6
Terminal Value	5,219.9
Enterprise Value	**6,227.5**
(+) Net Non-Operating Assets	28.8
(-) Staff Leaving Indemnities	20.6
(+) Net Financial Position	-198.7
(+) Other Adjustments	0.5
(-) Minority Interests as 31Dec 2016E	0.1
Equity Value	**6,037.4**
Fully Diluted Shares (m)	209.80
Share Price (€)	**28.78**
Current Share Price (€)	**29.97**
Up(Down)side	**-3.98%**

17. Multiple Analysis

	Selected/Non selected	Explanation
ALK – Abello A/S	No	Similar geographical exposure but different product portfolio
Almirall SA	Yes	
Astellas	No	Too big and different geographical exposure
AstraZeneca PLC	No	Too big company
Borion SA	Yes	
BTG PLC	No	Mainly focus on oncology and higher R&D on Sales
Gedeon Richter Plc	Yes	
GlaxoSmithKline	No	Too big company
Emergent BioSolution Inc	No	Focus on biopharma and higher R&D on Sales
Endo International	No	Different geographical exposure and product portfolio
H Lundbeck A/S	Yes	
Icon PLC	No	Different geographical exposure; no R&D costs
Ipsen SA	Yes	
Lab. Rovi SA	No	Too small company and different product portfolio
Mallinckrodt PLC	No	Different product mix
Orion Oyj	Yes	
Pfizer	No	Too big company
Sanofi	No	Too big company
Shire PLC	No	Different geographical exposure
Swedish Orphan Biovitrum AB	Yes	
UCB SA	Yes	
Valeant Pharmaceutical	No	Too big company

Peers

	1YF EV/EBITDA	2YF EV/EBITDA	EBITDA 1-Y g%	EBITDA 2-Y g%	1YF EBITDA Margin	2YF EBITDA Margin	1YF EV/EBIT	2YF EV/EBIT	EBIT 1-Y g%	EBIT 2-Y g%	1YF EBIT Margin
Almirall SA	9,8 x	8,3 x	11,78%	18,29%	30,0%	33,3%	14,0 x	11,2 x	18,6%	25,2%	21,1%
Borion SA	8,8 x	8,2 x	6,64%	7,44%	26,6%	27,4%	10,6 x	9,8 x	6,9%	7,8%	22,1%
Gedeon Richter Plc	11,6 x	10,3 x	12,68%	12,86%	23,9%	25,1%	18,0 x	14,6 x	116,0%	122,9%	15,4%
H Lundbeck A/S	11,4 x	9,6 x	34,61%	18,53%	30,5%	33,5%	15,5 x	12,5 x	65,6%	24,1%	22,3%
Ipsen SA	14,4 x	12,0 x	18,93%	20,06%	25,7%	27,9%	17,1 x	14,0 x	14,8%	22,5%	21,6%
Orion Oyj	20,1 x	19,3 x	-7,96%	4,35%	29,7%	29,6%	22,5 x	21,6 x	-6,8%	4,2%	26,5%
SOBI	17,3 x	11,9 x	13,62%	44,88%	33,3%	39,2%	23,8 x	14,7 x	30,7%	55,7%	22,1%
UCB SA	11,7 x	10,3 x	13,45%	13,99%	26,8%	29,3%	14,7 x	12,3 x	10,9%	20,0%	21,2%
Average	**13,1 x**	**11,2 x**	**12,97%**	**17,55%**	**28,3%**	**30,7%**	**17,0 x**	**13,8 x**	**32,1%**	**35,3%**	**21,5%**
Median	**11,6 x**	**10,3 x**	**13,07%**	**16,14%**	**28,3%**	**29,4%**	**16,3 x**	**13,2 x**	**16,7%**	**23,3%**	**21,8%**

	2YF EBIT Margin	1YF EV/SALES	2YF EV/SALES	SALES 1-Y g%	SALES 2-Y g%	1YF P/E	2YF P/E	EPS 1-Y g%	EPS 2-Y g%	1YF Net Income Margin	2YF Net Income Margin
Almirall SA	24,8%	2,9 x	2,8 x	6,3%	6,6%	20,2 x	15,7 x	15,7%	28,4%	16,4%	20,0%
Borion SA	22,8%	2,3 x	2,2 x	3,7%	4,2%	19,4 x	17,9 x	7,0%	8,1%	13,6%	14,1%
Gedeon Richter Plc	17,6%	2,8 x	2,6 x	8,2%	8,0%	19,1 x	15,7 x	0,3%	21,4%	14,3%	16,0%
H Lundbeck A/S	25,7%	3,5 x	3,2 x	8,7%	7,7%	21,6 x	16,1 x	18,8%	34,2%	13,1%	16,9%
Ipsen SA	23,9%	3,7 x	3,3 x	16,0%	10,6%	24,3 x	20,1 x	17,0%	21,8%	15,3%	17,1%
Orion Oyj	26,4%	6,0 x	5,7 x	2,4%	4,7%	28,5 x	27,1 x	-6,1%	4,1%	21,0%	21,1%
SOBI	29,6%	5,3 x	4,3 x	17,8%	22,1%	29,0 x	18,4 x	39,9%	57,8%	18,8%	24,2%
UCB SA	24,4%	3,5 x	3,3 x	4,5%	4,3%	17,8 x	14,6 x	18,9%	21,4%	14,0%	16,4%
Average	**24,4%**	**3,7 x**	**3,4 x**	**8,4%**	**8,5%**	**22,5 x**	**18,2 x**	**13,9%**	**24,6%**	**15,8%**	**18,2%**
Median	**24,6%**	**3,5 x**	**3,2 x**	**7,2%**	**7,2%**	**20,9 x**	**17,0 x**	**16,3%**	**21,6%**	**14,8%**	**17,0%**

Large Cap

	1YF EV/EBITDA	2YF EV/EBITDA	EBITDA 1-Y g%	EBITDA 2-Y g%	1YF EBITDA Margin	2YF EBITDA Margin	1YF EV/EBIT	2YF EV/EBIT	EBIT 1-Y g%	EBIT 2-Y g%	1YF EBIT Margin
Novo Nordisk	11,6 x	11,0 x	3,6%	5,3%	45,9%	46,2%	12,4 x	11,8 x	3,4%	4,6%	43,0%
Sanofi	9,9 x	9,5 x	5,4%	3,5%	31,9%	32,0%	12,0 x	11,4 x	3,6%	4,8%	26,3%
AstraZeneca PLC	12,1 x	11,1 x	-3,8%	9,1%	33,9%	35,7%	14,5 x	13,4 x	-9,6%	8,4%	28,3%
GlaxoSmithKline	9,8 x	9,3 x	5,2%	4,9%	33,7%	34,0%	11,6 x	11,1 x	10,2%	4,5%	28,4%
Roche	10,6 x	9,8 x	5,2%	7,2%	40,6%	41,6%	12,0 x	11,3 x	2,6%	6,3%	35,9%
Novartis AG	15,8 x	14,7 x	-2,0%	7,7%	28,6%	29,6%	17,4 x	16,1 x	-2,2%	8,1%	25,9%
Pfizer	10,8 x	10,2 x	7,5%	5,6%	42,0%	43,4%	11,6 x	10,9 x	8,8%	6,7%	37,6%
Average	**11,5 x**	**10,8 x**	**3,0%**	**6,2%**	**36,6%**	**37,5%**	**13,1 x**	**12,3 x**	**2,4%**	**6,2%**	**32,2%**
Median	**10,8 x**	**10,2 x**	**5,2%**	**5,6%**	**33,9%**	**35,7%**	**12,0 x**	**11,4 x**	**3,4%**	**6,3%**	**28,4%**

	2YF EBIT Margin	1YF EV/SALES	2YF EV/SALES	SALES 1-Y g%	SALES 2-Y g%	1YF P/E	2YF P/E	EPS 1-Y g%	EPS 2-Y g%	1YF Net Income Margin	2YF Net Income Margin
Novo Nordisk	43,0%	5,3 x	5,1 x	4,2%	4,7%	16,3 x	14,7 x	2,0%	11,0%	32,6%	33,6%
Sanofi	26,8%	3,1 x	3,1 x	5,3%	3,0%	14,3 x	13,5 x	-0,4%	6,2%	19,5%	19,8%
AstraZeneca PLC	29,7%	4,1 x	4,0 x	-6,7%	3,4%	15,5 x	14,2 x	-13,8%	9,1%	21,5%	21,5%
GlaxoSmithKline	28,6%	3,3 x	3,2 x	7,9%	3,8%	14,8 x	14,3 x	8,8%	3,0%	18,1%	18,1%
Roche	36,4%	4,3 x	4,1 x	4,2%	4,6%	15,8 x	14,7 x	6,3%	7,1%	20,7%	21,9%
Novartis AG	26,9%	4,5 x	4,3 x	0,9%	4,0%	16,4 x	14,9 x	-0,2%	10,5%	22,9%	24,3%
Pfizer	39,3%	4,4 x	4,3 x	0,5%	1,9%	13,4 x	12,3 x	7,0%	8,5%	28,9%	30,1%
Average	**33,0%**	**4,1 x**	**4,0 x**	**2,4%**	**3,6%**	**15,2 x**	**14,1 x**	**1,4%**	**7,9%**	**23,4%**	**24,2%**
Median	**29,7%**	**4,3 x**	**4,1 x**	**4,2%**	**3,8%**	**15,5 x**	**14,3 x**	**2,0%**	**8,5%**	**21,5%**	**21,9%**

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