CFA Institute

CFA Institute Research Challenge
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The Ancient Sailors

Recordati
Italy | Healthcare | Pharmaceutical | Equity research

Recordati, a dynamic Pharma Group

A 10.8% upside potential
We initiate our coverage with a **BUY recommendation** and a target price of **EUR 32.7** implying an **upside of 10.8%** as of Feb. 24. REC is a growing international pharmaceutical group, with a **long-standing position in the Primary and Specialty Care segment, and an up-and-comer in the treatment of Rare Diseases.** The Group's pharmaceutical business (96.6% of total sales in 2015) is carried out in the main European markets, in Russia, in Turkey, in Tunisia and in the USA through subsidiaries. **REC signs highly innovative Phase-III product partnerships** and license agreements with pharmaceutical companies of high standing. The Group actively faces the challenges of a constantly changing market place also with **acquisitions of existing marketing organizations, thus ensuring products diversification and market penetration opportunities.**

A healthy background, always striking the target
REC has a history of delivering ahead of expectations at the top line, operating profitability and net income levels. According to the preliminary results for 2016, REC has already exceeded the targets planned for 2017. REC had predetermined to reach by 2017 EUR 1,150mln for revenues and EUR 300mln for EBIT, values that have already been achieved in 2016 with a year advance: in fact, the Group has registered EUR 1,154mln of revenues and 327.4mln of EBIT. These positive results are rooted both on organic growth (7.5% of sales), as well as on acquisitions inputs of Italchimici S.p.A. and Pro Farma AG (2.6% of sales).

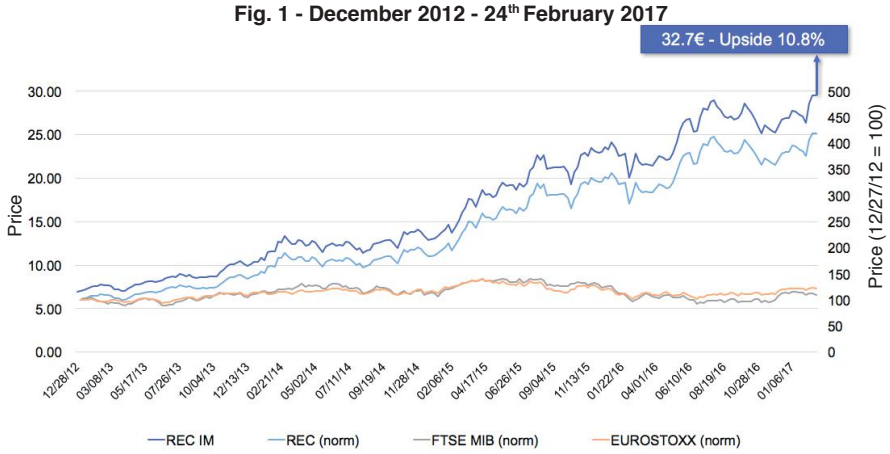
Heading to a bright future
The most prominent growth drivers for incoming years (2017-19), entirely supporting our growth estimates, include:

- Solid organic growth driven by REC **corporate products**;
- Follow-up of **bolt-on acquisition strategy** pursued in the last 15 years, financed by ex-dividend generated cash flow;
- Proven **high profitability in the treatment of Rare Diseases business**, expected to grow by a 9.4% CAGR in the next three years;
- Emerging markets solid growth strategy (**Turkey, Russia and Asia-Pacific**);
- Highly potential **pipeline** products and development capability allowing to create **additional value for the company**

A leading Business Plan
In the new BP REC has set these new targets for 2017 and 2019: for 2017, net revenues of EUR 1,220mln, EBITDA of EUR 410mln, EBIT of EUR 365mln and net income of EUR 260mln; for 2019, net revenues of EUR 1,450mln, EBITDA of EUR 500mln, EBIT of EUR 450mln and net income of EUR 325mln. **The Group believes 2016 operating margins level should be sustainable over the period.**

Remarkable financials indication
According to our estimates for 2019: revenues will reach EUR 1,429mln in 2019, EBIT EUR 430.9mln and EBITDA EUR 479.9mln.We adopted a slightly prudential profile on our estimates, however still heading to BP values considering REC past deliveries and proven plan sustainability. **EPS** and **DPS** will grow at 9.7% 3Y CAGR, **with constant 60% Payout ratio**, ensured by solid cash flow generation (10% 3Y CAGR).

Fig. 1 - December 2012 - 24th February 2017



Source: Factset and Team estimates

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Recommendation BUY

Closing price (24th February) EUR 29.5
Target price EUR 32.7
Upside 10.8 %

Market data at 24th February
Ticker: REC, Reuters RECI.MI, Bloomberg REC IM
Closing Price (EUR): 29.5
52 wk range (EUR): 20.66 - 29.75
Market Cap (EUR bln): 6.169
Ordinary outstanding shares (mln): 209.1
Volume 30 days: 446,139
Raw Beta vs EUROSTOXX 50: 0.47
Raw Beta vs FTSE MIB: 0.35
Raw Beta vs SXDP Index: 0.87
Volatility 12 weeks: 21%

Key Financials

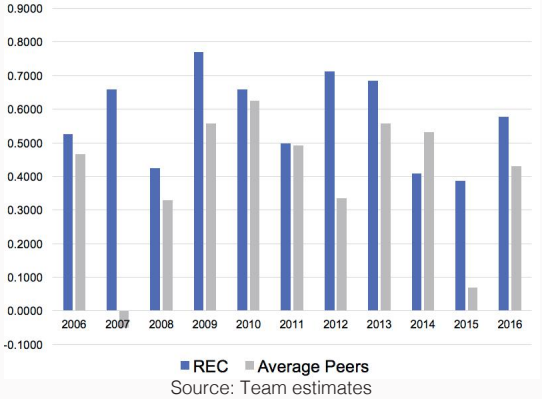
	2015	2016A	2017E	2018E	2019E
EPS diluted (€)	0.95	1.14	1.25	1.37	1.50
DPS diluted (€)	0.60	0.68	0.75	0.82	0.90
ROE (%)	22.9	23.8	24.1	24.5	25.0
EBIT Margin (%)	26.6	28.4	29.5	30.0	30.2
P/E	24.9x	23.6x	23.6x	21.5x	19.7x
EV/EBIT	17.6x	17.5x	17.3x	15.9x	14.5x
Div. Yield (%)	2.45	2.53	2.54	2.78	3.05

Price performance

	2013	2014	2015	2016
Total Return	56.0%	26.4%	91.7%	14.5%

Family-oriented company
Chairman: Alberto Recordati
Vice-Chairman and CEO: Andrea Recordati
Main investor: FIMEI (Recordati's holding) 51.8%

Historical Sharpe Ratio: REC vs Peers



Source: Team estimates

Investment Summary

Bet on it!

We initiate our coverage with a BUY recommendation for Recordati S.p.A (REC) and a target price of EUR 32.7, implying an upside of 10.8% from current stock price of EUR 29.5 as of February 24. We are confident in the ability of REC to keep a high-profitability level in the mid-term (estim. 2016-19 EBIT up at CAGR 9.6%) and to increase its turnover, mostly relying on its successful growth supporting strategies and its foresight on the healthcare industry challenges and evolution.

Winning combination

REC has a well-established reputation on the market as a small pharmaceutical multinational company with a core business relying on two segments: Primary and Specialty Care (79.4% of sales) and Orphan Drugs (16.2% of sales). REC is mostly known among healthcare specialists for its internally developed **anti-hypertensive drugs (Zanidip and Zanipress, lercanidipine)** and for a licensed product treating **benign prostatic hyperplasia (Urorec, silodosin)** deserving a solid standing in the medical world for lower associated side effects with respect to competitors.

Challenge accepted

REC qualifies as a forerunner in the Italian pharma market. In time, the Group proved its business vision by focusing on two main challenges, characterized by high potential in terms of growth and profitability: **Orphan Drugs market entry and emerging markets penetration.** Thanks to the acquisition of Orphan Europe (2007), **REC decided to bet on Rare Diseases (+22% YoY, 16.2% of sales in 2016)**, a niche sector with much higher margins with respect to P&SC (EBIT margin, 44.6% vs. 25.2% in 2016). Rare Diseases are characterized by a lack of generics competition, higher consumer switching cost, shorter clinical trials, extended exclusivity and high probability of success in the regulatory process. The internationalization of the business directed towards emerging markets revealed as the second key determinant for a further boost: **in 2016, net sales in Russia and Turkey increased in local currency by 22% and 27% YoY respectively.** REC also expanded in Mexico, Colombia and Brazil with investments in local start-ups for the treatment of Rare Diseases. We believe these fast-growing countries can radically reinforce REC geographical presence and determine a further premium for next years.

Acquire or go home

M&A activity confirms as a major trend and growth catalyst in the healthcare sector. Since the early year 2000's, REC has pursued a strategy of international expansion and portfolio diversification, both through acquisitions of local firms and license agreements. REC backs up its capability of financing operations with existing liquidity. REC acquisition targets are, on average, small/medium companies with a purchasing cost of 3x EV/sales. In 2016 REC realized a 10.1% YoY, sustained by the acquisitions of Italchimici S.p.A. (EUR 130mln) and Pro-Farma AG (EUR 14mln). **Being a small and fast-growing multinational company, REC intends to keep up with exogenous growth plans, product mix diversification and pipeline development as to avert the threat for potential takeovers.** According to what disclosed by the management, REC is planning further acquisitions both in Europe and in Asia/Pacific.

Outstanding financial efficiency

The Group financial results have always stated at solid levels, thanks to the successful management of all business areas. **Realized total revenues and operating profits items have historically exceeded market expectations and REC targets. Earnings growth has shown a pressing rhythm: in the last 5 years EBIT doubled**, from EUR 166mln in 2012 to EUR 327mln in 2016, growing at a CAGR of 18.3%, with an wide operating margin improvement, that has increased from 20.2% in 2012 by up 28.4% last year. The Group grants a sustainable level of debt and a solid coverage position, with **a level of EBITDA that was of two times the NFP in 2016**, despite dividend payment of EUR 3mln and acquisitions expenses. We expect improving results for **2017-2019**:

- **Revenues will grow at a 3Y CAGR of 7.4%, reaching EUR 1,429.13mln;**
- **EPS will increase from EUR 1.14 up to EUR 1.50.**

For the same period, we believe REC will be able to guarantee a strong generation of cash, large enough to pay dividends of EUR 0.9 in 2019 (CAGR of 9.7%) and to finance acquisitions.

Valuation

Our Target Price of 32.7 is based on a weighted average of a two-stage DCF model and a Relative Analysis (P/E and EV/EBIT). We decided to rely more on the DCF model since we believe that for a pharmaceutical industry long term trends are relevant and should be incorporated, given that the objectives of REC are in the long run. **We also stressed our analaysis through two opposite DCF scenarios: a worst case scenario (grey sky, -15% of estimated revenues and a higher discount factor) and a best case one (blue sky, +7% of revenues from BP estimates).**
Our confidence is strengthened by a high level of diversification and low risk potential associated with REC pipeline, we believe the market may grant a premium to REC company value in presence of feasible and attractive projects. Following this, **we decided to determine the NPV of the Vitaros® pipeline project to show its potential impact on REC enterprise value.** We additionally analyzed REC dividend yield in order to determine the sustainability of the Payout Ratio in time, according to the **Sustainable Growth Rate (sgr %)**. Ultimately, we built a **Sharpe Ratio** to compare REC and peers' performance return (risk-adjusted) in time.

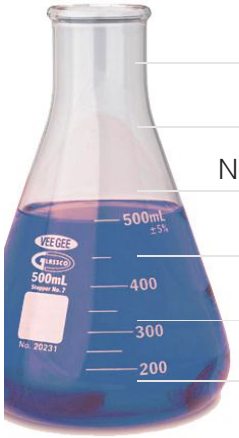
Business Description

Recordati at a glance

Recordati (REC) is a high-growth international Italian based pharmaceutical company that operates as a subsidiary of the Recordati family holding FIMEI. It was founded in 1820, when Battista Recordati acquired an apothecary and turned it into a laboratory for the production of quinine and various elixirs. In 1926 Giovanni Recordati gave the industrial breakthroug, opening a factory for research and production of large-scale drugs. Since 1984 REC is listed on the Milan Stock Exchange. **REC has constantly grown thanks to the success of its products, the continuing internalization of the Group and the diversification of its portfolio**, implemented through investments in R&D (see Appendix 1.3) and focused acquisitions strategies began in the nineties and still ongoing. It offers a wide range of innovative pharmaceuticals, both proprietary and under license, in a wider number of therapeutic areas for Primary and Specialty Care, with a specialization in cardiovascular, gastroenterology and urology (Fig 3 - 2015 revenues by therapeutic area).

REC is also present in the field of Rare Diseases, in which researches, develops and markets several Orphan Drugs, which accounts for the 16% of total revenues and for the 26% of total EBIT. This segments deserves increasing importance in the growth prospects of the Group, as it is characterized by negligible fixed costs, allows for product portfolio diversification and ensures high margins (46% EBIT Margin against the 26% of P&SC). In addition to large profits flowing from the Pharma sector (EUR 1,103mln in 2016, 96.6% of sales), REC adds an ancillary pharma chemical business (3.4% of revenues).

Fig. 2 - REC 2016 key financials (EUR)



Revenues	1,154 mln
Ebit	327.4 mln
Net Income	237.5 mln
Equity	935.8 mln
Net Debt	198.8 mln
DPS	0.68

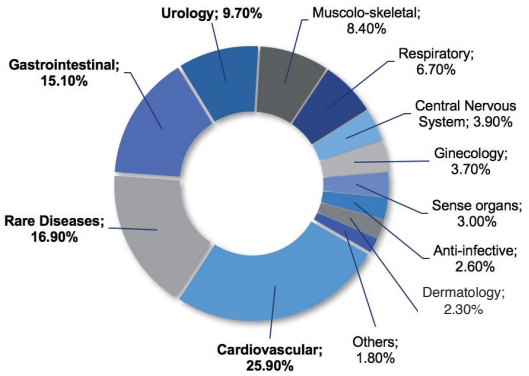
Source: Company data

Revenues breakdown by product

REC sales by segment can be classified as following: Corporate Products (40.6%), OTC (16.1%), products from subsidiaries (23.6%), and Orphan Drugs (16.2%) - Fig. 4. Among corporate products, most important cash generating sources are:

- **Zanidip®/lercanidipine** (9.8% of revenues), is an hypertensive drug discovered and developed by REC (sales growth +1.5% YoY).
- **Zanipress®/lercanidipine + enalapril** (5.9% of revenues), Zanidip life-cycle management product, is an antihypertensive drug internally developed and commercialized by REC. Its patent expired in Portugal and Spain in 2013 and in 2017 it will expire also in Italy, Germany and France: REC foresees that the generic competition will take about 30% of its market by 2019.
- **Urorec®/silodosin** (7.4% of revenues), is a medicinal product used to treat the urinarysymptoms associated with benign prostatic hyperplasia, whose patent will expire in 2020. In 2016 it contributed to EUR 85.2mln of revenues (+24.8% YoY).
- **Livazo®/pitavastatin** (3% of revenues): it is an innovative statin for the treatment ofdyslipidemia and primary hypercholesterolemia, sold by REC under license. It is characterized by a high-growth potential, since its patent will expire in 2021. In 2016 it contributed to EUR 35.1mln of revenues (+23.6% YoY).

Fig. 3 - 2015 revenues by therapeutic area



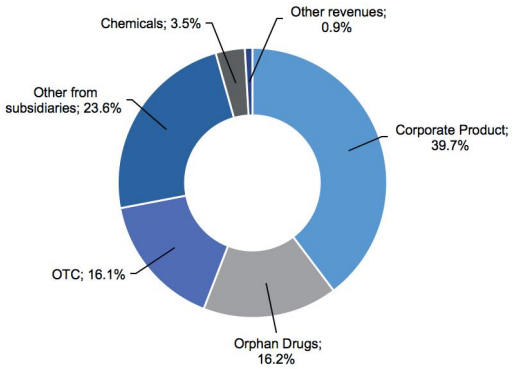
Source: Company data

Forthcoming launches next to commercialization

Product pipeline development (progressing Phase III studies) qualifies as REC organic growth strategy, mainly intended at supporting product decay and substitution. Next to commercialization products are:

- **Fortacin®** is an innovative treatment for premature ejaculation, it consists a topical spray containing lidocaine 7.5mg and prilocaine 2.5mg. Premature ejaculation is possibly the most prevalent sexual dysfunction in men of all ages. Licensed for Europe, Russia, Turkey; its launch is expected for the end of 2017 (peak sales EUR 20-30mln).
- **Reagila®** (Cariprazine) is an atypical antipsychotic, discovered by Gedeon Richter Plc, for treatment of bipolar mania and schizophrenia. Schizophrenia is a chronic disorder that has a worldwide prevalence approaching 1%. Approval expected for H2 2017 and initial sales from 2018. Peak sales could exceed EUR 100mln.
- **Vitaros®** is a topical cream for local treatment of Erectile Dysfunction; containing alprostadil, the product is applied locally and delivers rapid onset. Vitaros® provides an alternative to oral treatment and it is particularly recommended for patients with complications that preclude them from using orally delivered systemic treatments.

Fig. 4 - 2016 revenues breakdown by product lines



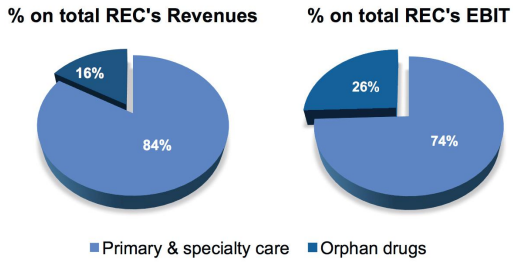
Source: Company data

Orphan Drugs - 16.2% of REC revenues, but an outstanding 26% of EBIT -

Orphan Drugs (therapies for pathologies with <200.000 of patients affected, as for FDA criteria), **is a high-profitability segment characterized by high pricing, low fixed costs, low product substitution and absence of economies of scale**. Thanks to this particular structure of costs, Orphan Drugs, given the same level of revenues, generate operating profits much higher than those generated by P&SC products: **last year it recorded 46% on EBIT Margin, against 26% of P&SC.**

REC operates in this business with two dedicated subsidiaries: Orphan Europe (based in Europe) and Recordati Rare Diseases (based in US) since 2007 and 2013, respectively. The most important Orphan Drugs are: **Carbaglu®** (carglumic acid) for the treatment of NAGS deficiency, **Phanematin®**/Normosang® (hemin for injection) for AIP attacks and **NeoProfen®**/Pedea® (ibuprofen lysine) indicated in the treatment of patent ductus arteriosus in premature infants.

Fig. 5 - 2016 margins of Orphan Drugs: Revenues vs EBIT



Source: Company data

For a more detailed list of Orphan Drugs, please refer to Appendix 1.4.

According to the new BP 2017-19, macro trend of the Orphan Drug segment and our positive projections about the approval of some products pipeline (Graspa® and Carbaglu® for organic acidemias indication) we estimate a CAGR of 10.8% for the period 2016-2021.

A second leg growth strategy: acquisitions & partnership

In addition to corporate products expansion, REC strategy heads to exogenous growth by means of internally financed bolt-on acquisitions, enhancing its positioning on underrepresented therapeutic areas (dermatology, gastroenterology and gynecology). In 2016, REC spent EUR 145mln euro for the acquisition of Pro Farma AG and Italchimici S.p.A. Considering M&A activities from 2007 we aimed at proposing some hypothesis about possible REC's future acquisitions. For the historical synopsis of M&A and partnership agreements, and our proposal on future acquisitions, please see the Appendix 1.5.

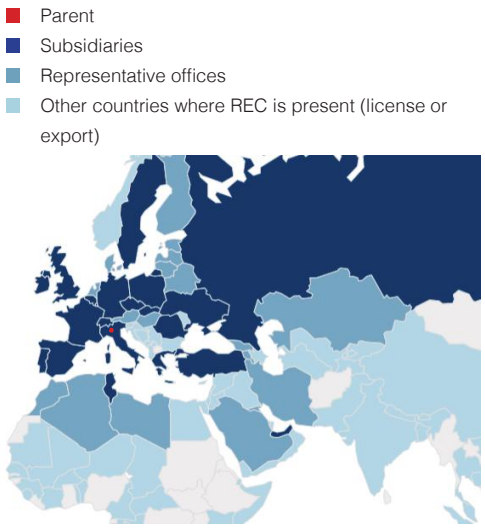
REC also plans a product line expansion through new partnership agreements, among which the last three were:

1 - AP-HP (Assistance Publique – Hopitaux de Paris) (2016): development and commercialization of a treatment for patients affected by Maple Syrup Urine Disease (MSUD)

2 - Gedeon Richter (2016): commercialization and distribution of cariprazine in Western Europe and in Algeria, in Tunisia and in Turkey.

3 - Meyer Hospital, Italy (2017): licensing and financing agreement covering hospital's phase II clinical trial for the treatment of affected by retinopathy of prematurity. *See disclosure

Fig. 6 - Presence of REC in EMEA

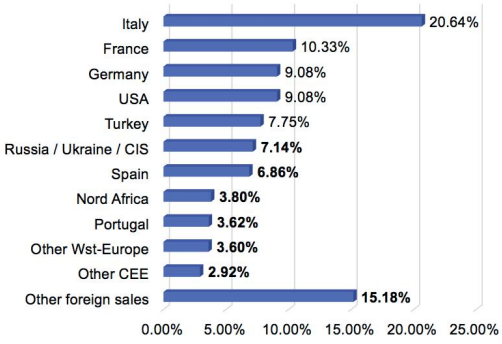


Source: Company data

Geographical presence

REC operates directly with affiliates in 20 Countries and sells its products in 135 markets both directly and through license agreements. The group has achieved broad geographical coverage thanks to its efficiency in representatives networking and to its experience in the regulatory field. In terms of revenues: Italy (20.6%), France (10.3%), Germany (9.1%), USA (9.1%), Turkey (7.8%), Russia and CIS (7.1%), Spain (6.9%), and percentages below the 5% in North Africa, Portugal, and other foreign countries.

Fig. 7 - 2016 pharma revenues breakdown by geo-area



Source: Company data

Manufacturing and distribution facilities

REC pharmaceutical production is based in Italy, Ireland, France, Turkey, Spain, Czech Republic and Tunisia. The company **has cracked down on fixed costs, especially on research costs, attaching larger priority to license-agreements for multiple territories.** Ideal partner for marketing pharma in Europe, Russia, Turkey and North Africa. Furthermore, REC, **in the medium-long term, could exploit the production overcapacity of the new Plant in Turkey** (55mln of produced packs against the capacity of 80mln), internalizing part of the production currently allocated to third parties, that could lead to a further reduction of operating costs. Ultimately, Turkey's plants represent a key hub for business internationalization towards Asia and Middle East.

Industry Overview

Industry trend analysis

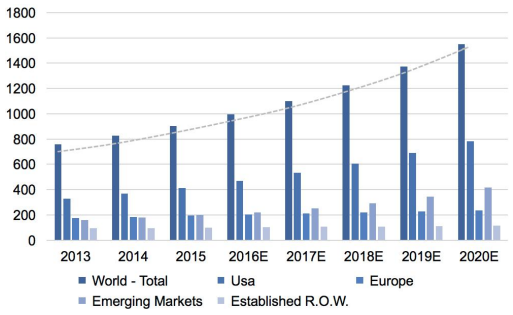
The Pharma industry is a large, competitive, highly fragmented and regulated context. Market conditions are getting harsher through tighter regulation, stricter price controls and government scrutiny. Things are even tougher on the marketing and sales front: the 'patent cliff' is one major factor (between 2012 and 2018, generic erosion will wipe about USD 148bln of pharma's revenues). On the other hand, some market indicators reflect a growing demand for medicines, an increase in public and private healthcare expenditures, a growth in global spending on medicines (USD 1.2trn in 2016 growing at CAGR of 3-6%), mainly driven by the path of Emerging markets (30% of global spending) and an increase in sales of generics and biologics drugs. In particular:

- sales in **emerging countries** rose by 22,6% and sales in the "fast followers" rose by 7.2% (Argentina, Egypt, Indonesia, Mexico, Pakistan, Poland, Romania, South Africa, Thailand, Turkey, Ukraine, Venezuela and Vietnam)
- for **mature economies**, we should distinguish different sales growth for US (CAGR of +13% in 2013-16) and Europe (CAGR of +4.4% in 2013-16)

Globally, **Pharma market is expected to grow steadily, reaching nearly USD 1.6trl by 2020, signing a CAGR of 11.7% for 2016-2020** (see Figure 8). The importance of the mature economies on pharma market share is being eclipsed by the strong growth of emerging markets. Based on current trends, "Pharmerging" markets such as China, Brazil, India and Russia are seemingly more attractive environments for investments, deserving an increasing share in time (see Figure 9).

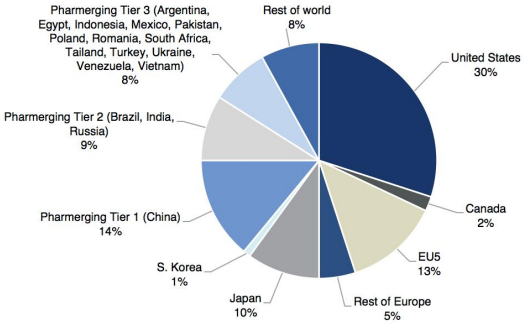
Focusing on **Rare Diseases**, the last decade has been the most productive period in Orphan Drug development (designations and approvals). **For 2001-2010, this market has increased with a CAGR of 25.8%, against the CAGR of 20.1% of non-orphan drugs' market**. Being characterized by high margins and high profitability, we estimate it will continue to grow in importance. In addition our estimates are supported by the National Institutes of Health and the European Organization for Rare Diseases indications, according to which there are approximately 7,000 Rare Diseases worldwide, with an average of 250 new discovered diseases per year.

Fig. 8 - Pharma Sales by region (bln USD)



Source: Statista and Team estimates

Fig. 9 - 2016 pharma market share by geo



Source: IMS Market Prognosis

In the next lines we will focus on P&SC and Orphan Drugs trends: despite the larger scope of the Pharma industry, we decided to take into consideration two main business segments as to allow for a more detailed analysis.

Primary and Specialty Care Trend

Macro trends: 1) Increase in population ageing (See Fig. 10) 2) Increase of life expectancy (see Fig. 11) 3) Increase of public and private health expenditure 4) World Health Organization enlists cardiology, oncology, neurology, diabetes, arthritis, mental disease and respiratory disease as therapeutic areas and pathologies of the future.

Micro trends: 1) Longer and more stricter government regulation process on drug pricing and approval 2) Increased market pressure on patent expiry 3) Local Health Care reforms, both in developed and emerging countries 4) High level of M&A activity.

Orphan Drugs Trend

Macro trends: 1) Rapid rise in the instances of various Rare Diseases (such as some rare forms of cancers) playing specific attention to emerging market 2) Rapid technological advancements 3) Increasing number of Rare Diseases therapies in pipeline.

Micro trends: 1) Growing government support to Orphan Drugs manufacturers from both developed and developing countries, such as government incentives in the form of tax credits and R&D grants, smaller and lighter clinical trials, extended exclusivity and high rates of regulatory success 2) Commercial drivers such as premium pricing, faster uptake, lower marketing costs and longer market exclusivity

Industry attractiveness: Porter's five Force Model

Porter's Five Forces analysis provides a good picture of the dynamics of the industry and the competitive landscape in which the company operates. We decide to carry out a relative **double analysis for P&SC and Orphan Drugs** sector since they qualify as two different businesses in terms of margins, profitability and regulations. Please refer to Appendix 2.2 for a more detailed analysis.

Recordati's competitive drivers and Swot Analysis

To better understand REC competitive position within the Pharma market and to underline its key success factors we have performed a **Swot Analysis**. Please refers to Appendix 2.3.
We have identified the following competitive advantages:

1. **Licenses and distribution:** thanks to its worldwide presence, its relationships with partners and his markets and customers' knowledge, REC has a competitive advantage in establishing long-term distribution agreements and in obtaining new licenses.
2. **M&A:** Recordati invests the large amount of generated cash in acquisitions and mergers, acquiring only product lines, in order to grow its capability on new markets or to obtain a stronger position in markets in which is already present.
3. **Strong and safe position in Rare Diseases:** REC will particularly focus hereafter in the US but will move towards different countries, such as in Brazil, Colombia, Mexico and MENA region, by making investments in local start-ups.
4. **Co-marketing strategies:** REC signs co-marketing agreements in order to strengthen the corporate active ingredients awareness and the reputation of the brand.

In order to further analyze REC long-term business perspectives and competitive advantages, we also performed a **MOAT Analysis**. Please refer to Appendix 2.4.

Competitive positioning

To identify competitors, we conducted a double overlap analysis, on therapeutic areas and on Geo exposure for 20 potential companies, selected among large, medium and small size companies.

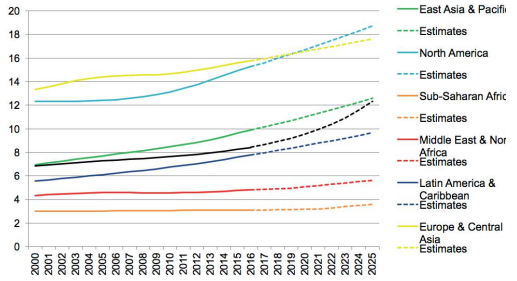
Therapeutic area analysis. We selected the most important therapeutic areas for REC in terms of sales. We assigned a weight to each area (normalized to 1): Cardiology 0.25, Urology 0.20, Derma&Musculoskeletal 0.10, Gastroenterology 0.10, Rare Diseases 0.15, Neurology 0.05, and OTC 0.15. We computed a weighted sum of their percentage of revenues on that area. We selected those companies deserving a result higher than **5% threshold**: IPN, ROVI, KRKG, BEI , SHP, SAN, LUN, and PFE.

Geo area analysis. Following the same methodology, we performed an overlap based on geographical revenues only for peers overtaking the first step, to strengthen our final selection. The weights we assigned to the chosen countries are in line with their percentage on sales in that area (normalized to 1): Europe 0.60, US 0.15, Turkey 0.1, Russia&CSI 0.1, North Africa 0.05.

Summing up these two results, we obtained the final percentage of overlap. **With this methodology we have been able to select five companies as direct competitors exceeding the threshold of 20% of total overlap: IPN, ROVI, BEI, SHP, and LUN.**

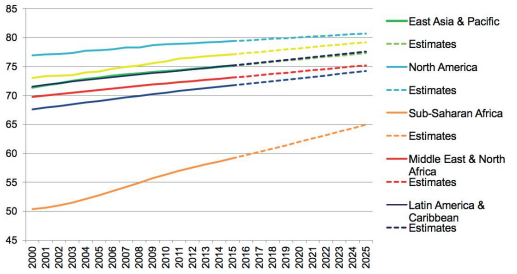
To further justify our competitor's choice we conduct a quantitative **Discriminant analysis**. Since this double-check returns the same group of peers arising from the competitive positioning analysis, we decided to base our relative valuation on **IPN, ROVI, BEI, SHP,** and **LUN** as well. For the fully detailed analysis on competitive positioning please see Appendix 2.1.

Fig. 10 - Population ages 65 and above (% of



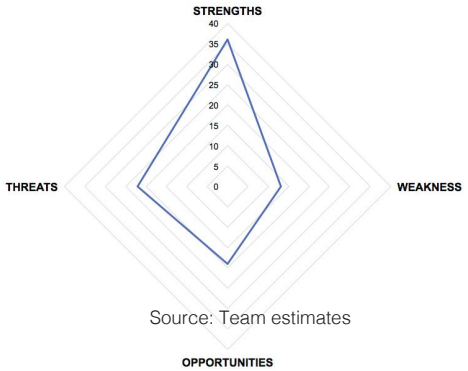
Source: World Bank and Team estimates

Fig. 11 - Life expectancy at birth, total (years)



Source: World Bank and Team estimates

Fig. 12 - REC swot analysis



Source: Team estimates

TICKER	Therapeutic Area weighted average	Geo-Area weighted average	Total weighted sum
ALM-ES	4.4%		
IPN-FR	**6.6%**	24.5%	**31.1%**
MRK-US	2.6%		
ORNBV-FI	2.3%		
ROVI-ES	**12.4%**	54.8%	**67.2%**
HIK-GB	4.8%		
SAZ-DE	0.2%		
GALN-CH	1.7%		
KRKG-SI	**8.4%**	11.1%	19.5%
BEI-DE	**12.4%**	22.9%	**35.4%**
SHP-GB	**11.2%**	14.1%	**25.3%**
JNJ-US	0.3%		
SAN-FR	6.2%	13.7%	19.9%
BAYN-DE	1.9%		
GSK-GB	1.2%		
NOVO.B-DK	2.6%		
LUN-DK	**6.1%**	14.3%	**20.3%**
NOVN-CH	2.7%		
UCB-BE	2.8%		
PFE-US	**6.5%**	14.5%	**21.0%**

Source: Factset and Team estimates

Financial Analysis

Main Financial Figures

Revenues. From 2010 until 2016 revenues have constantly increased with a CAGR of 7.4%, going from EUR 762mln in 2011 to EUR 1,157mln last year. The main growth drivers have been 1) the constant growth of corporate products, 2) new investments in Rare Diseases cures, and 3) the continuous diversification of product mix. In particular:

1. **Corporate products** have grown from EUR 252mln in 2011 to EUR 458mln in 2016, signing a total upward of 82% (5Y CAGR of 12.7%)
2. **Rare Diseases drugs** have grown at a speed double than the Group average, going from EUR 69mln to EUR 196mln in 2011-2016 with a total growth of +170% (5Y CAGR 23.2%). Within five years, Orphan Drugs shares on total sales increased from the 9% in 2011 to 16% in 2015.
3. **The diversification of product mix** has been achieved through new product launches, new license agreements and acquisition policies. Group revenues in 2016 include EUR 27.7mln related to the acquisition of Italchimici S.p.A. and Pro Farma

To estimate global revenues, we analyzed quarterly data from 2011, the year after Zanidip patent expiry. Estimates were obtained by applying a weighted exponential method displaying the lowest MSE (HOLT). Our estimates are larger than consensus, but aligned with REC target, standing at EUR 1,226mln for 2017, EUR 1,319.6mln for 2018 and EUR 1,429.1mln for 2019 (3Y CAGR 7.4%).

For a product-by-product revenues estimate, and for consideration related to the geographical area, please refer respectively to Appendix 3.1 and Appendix 3.2.

Fig. 13 - Growths for the period 2016-2019

GROWTH RATES | 2016 - 2019	Absolute % growth	CAGR 3Y
Revenues	23.85%	7.39%
Gross Profit	27.24%	8.36%
EBIT	31.59%	9.58%
DPS (diluted)	31.85%	9.66%

Source: Company data and Team estimates

Fig. 14 - Revenues estimates comparison

Revenues	2017	2019
Consensus	€ 1,226.0	€ 1,387.0
REC	€ 1,220.0	€ 1,450.0
Team estimates	€ 1,226.0	€ 1,429.1

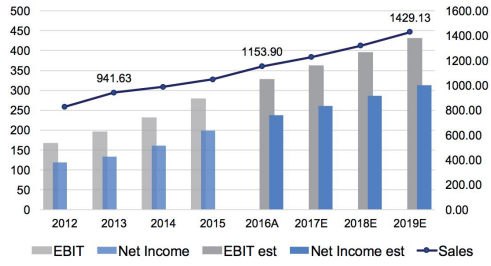
Source: Factset, Company data and Team estimates

INCOME STATEMENT - MLN €	2014	2015	2016A	2017E	2018E	2019E
Revenues	987.4	1047.7	1153.9	1226.0	1319.6	1429.1
Gross Profit	660.3	712.5	793.0	852.1	925.1	1009.0
Margin (%)	66.9%	68.0%	68.7%	69.5%	70.1%	70.6%
EBIT	231.0	278.5	327.5	362.0	395.4	430.9
Margin (%)	23.4%	26.6%	28.4%	29.5%	30.0%	30.2%
EBITDA	273.8	317.0	371.2	404.0	442.0	480.0
Margin (%)	27.7%	30.3%	32.2%	33.0%	33.5%	33.6%
Net Income	161.2	198.8	237.5	260.9	286.0	313.1
Margin (%)	16.3%	19.0%	20.6%	21.3%	21.7%	21.9%
EPS	0.77	0.95	1.14	1.25	1.37	1.50
DPS	0.50	0.60	0.68	0.75	0.82	0.90

EBIT and EBITDA

Historical EBIT and EBITDA show a constant growth both in absolute values and as percentage of total sales. **The constant reduction of SG&A margins is due to acquisitions in foreign countries specifically made to strengthen and improve the efficiency of marketing costs, promotional operations and sales forces networks . We believe REC will still be able to slightly decrease operating costs margins** in the incoming years: according to our estimates EBIT and EBITDA values will grow at a 3Y CAGR of 9.58% and 8.49% respectively, reaching lower reaching in 2019 EUR 430.9mln and EUR 480mln.

Fig. 15 - EBIT & Net Income (EUR mln)

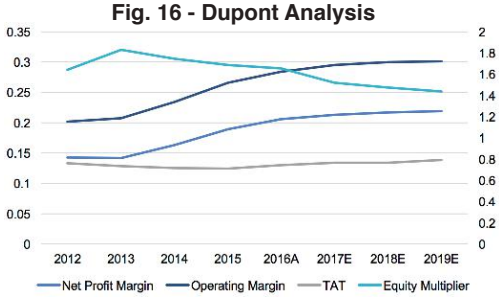


Source: Company data and Team estimates

Bottom Line and DPS

We estimate that for 2016-2019 Net Income will increase by a CAGR of 9.6%, reaching EUR 313.1mln in 2019, and also net margin on sales, that will go from 20.6% last year to 21.9% in 2019. As disclosed in the recent BP, REC will maintain a constant Payout Ratio of 60%: we thus expect REC will pay DPS of EUR 0.9 in 2019. **Our estimates are slightly larger than consensus values and lower than REC estimates: we believe REC will be able to beat consensus estimates, overall incorporating 2018-19 acquisitions contribution to growth.** A share buyback of EUR 60mln occurred in 4Q 2016, related to the stock-option plan expiration: no buyback operations are expected for the future until the new stock-option plan.

Fig. 16 - Dupont Analysis



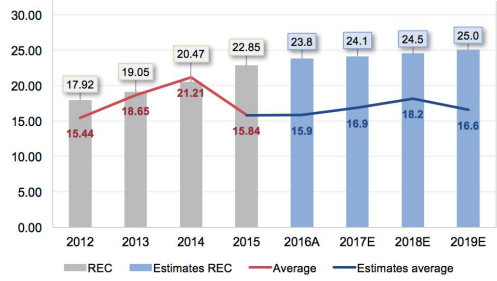
Source: Company data and Team estimates

Internal Financial Efficiency Across Time

Here we present a comparative financial analysis based on margins, by selecting a group of peers composed by Ipsen SA, Lundbeck A/S, Shire PLC, Laboratorios Farmaceuticos Rovi, S.A. and Beiersdorf AG.

The figure of ROE. For the past 5 years has increased by a 4Y CAGR of 7.3%, up to our estimate of 23.8% in 2016. This indicates **REC has always been able to grant a higher return than the risk-free rate (Italian 10Y- BTP yield at 2.2%) and its cost of capital (estimated at 7.64%) return to its shareholders**. Following our estimates on balance sheet figures, in the period 2017-2019 ROE will costantly increase by 0.5% each year, being able to reassure new and old investors with a positive growth trend. We have also performed a Dupont Analysis (Fig. 16) that highlights that the main component of the positive trend of ROE is the increase in operating margin whereas financial leverage has slightly decreased in time, in line with the industry. **According to our estimates these positive trends are confirmed also for the following years and, in addition, REC will continue to show a profitability higher than the average of our selected peers** (Fig. 17).

Fig. 17 - ROE: REC vs competitors

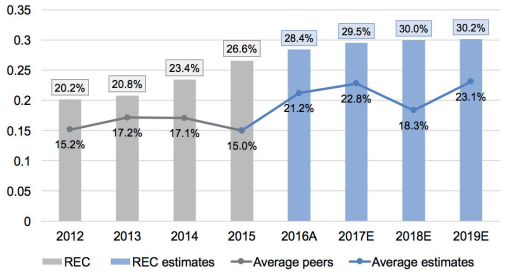


Source: Company data and Team estimates

Ebit margin: Specialty Care vs Orphan Drugs. For the 2012 – 2015 period **EBIT Margin has always been above the average of the group of peers, moving from 20.2% in 2012 to 26.6% in 2015, due to the good cost control, strong productivity, and the growth of the Orphan Drugs business** that grants very high margins (last year it has registered 46% on EBIT Margin, against 26% of Primary and Specialty Care). Nowadays Orphan Drugs stand at 16% of total REC revenues, but we expect they will increasingly contribute to REC profitability in the future. **According to our estimates the positive trend of margins is confirmed also for the period 2016-2019**, for which we performed self estimates for REC and consensus values for competitors. **EBIT margin will reach 30.2% in 2019, against the average 23.1% of selected peers** (Fig. 18).

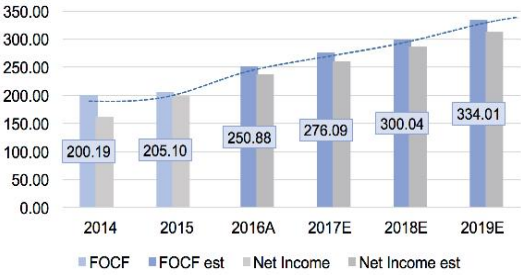
ROIC Analysis. The increasing figure of ROIC shows that, besides cash generation, the combination of shareholders' equity and total debt deserves increasing weight over net earnings generation with +8.9% CAGR for the period 2012-2015. At the end of 2015, a close to 10.2% ROIC ultimately assesses REC ability in allocating capital to profitable investments.

Fig. 18 - EBIT margin: REC vs competitors



Source: Company data and Team estimates

Fig. 19 - FOCF & Net Income (mln EUR)



Source: Company data and Team estimates

Strong cash generation

Cash flow generation has historically been sustained by constantly increasing revenues and wide operating margins. Following the above-mentioned pace of the business, we assume this increasing trend to persist in the future with a 3Y CAGR of 10%.

Valuation

Methodology

We performed a DCF Model and a Relative valuation, obtaining our final target price for REC as a weighted average of the two methodologies (Fig. 20 and Fig. 21 respectively). We assigned weights of 0.75 and 0.25 to the DCF and to the Relative valuation respectively, thus becoming more reliant on the results stemming from the former approach. This choice relates to the fact that companies' valuation within the pharma industry should properly encounter for the value added by pipeline projects and forthcoming product launches. According to us, such value can only emerge from a DCF methodology, which incorporates long-term growth assumptions and comprehensive growth potential.

Fig. 20 - DCF valuation results

PV of FOCF 2017-2021 (EUR mln)	1346.0
Long-term growth rate %	2.48%
PV of Terminal Value (EUR mln)	5783.4
Enterprise Value (EUR mln)	7129.4
Net Financial Position (EUR mln)	198.8
Equity Value (EUR mln)	**6930.6**
Number of shares (mln)	209.1
Fair Value (EUR)	**33.1**
Current Price (EUR)	29.5
Upside/downside (%)	**12.3%**

Source: Team estimates

DCF Valuation: target price of EUR 33.1

We adopted a two-stages DCF since we want to highlight long-term trends.

- **I stage – 2017-2021**. FOCF obtained for the 2017-2019 periods are the results of our estimates in the financial analysis. **For 2020 and 2021 we assumed a FOCF constant growth of 8% YoY,** in line with the YoY average growth of the previous three years (+10%). We decided to use a rate lower than the average in order to incorporate conservative assumptions on long-term growth and to reflect patent expiry of Urorec® in 2020 and Livazo® in 2021.
- **II stage – terminal value**. We computed the TV using a **long-term growth rate of 2.48%**, which is the weighted average of long term nominal GDP growth rates of the main countries in which REC operates. As for WACC computation, we considered only those countries in which REC has a percentage of sales higher than the 5%, adjusting weights via normalization procedure.

Based on our estimate and on our assumptions, the **target price obtained with the DCF valuation is EUR 33.1.** To see the complete DCF analysis please refer to Appendix 4.1

Fig. 21 - Relative valuation results

TICKER	P/E 2017E	Z SCORE	RANK	EV/EBIT 2017E	RANK
REC	23.6x	-0.165	4	17.3x	4
IPN	22.6x	-0.006	3	16.3x	3
LUN	22.0x	0.095	2	15.1x	2
SHP	12.1x	1.744	1	12.9x	1
ROVI	29.7x	-1.176	6	27.5x	6
BEI	26.1x	-0.588	5	18.6x	5
Median ex REC	22.6x			16.3x	
Prem/Disc	4.21%			6.57%	
Target	29.8			33.0	
Weight	50%			50%	

Source: Factset and Team estimates

Wacc assumptions

We present in the table below the values used to computed the WACC, which is equal to **7.37%**. Please see the Appendix 4.2 for the complete explanation.

Fig. 22 - WACC = 7.37%

Risk Free Rate (R_F)	**2.85%**	Weighted average of the risk-free rates of each country, with weights the same used for the long-term growths of FOCF. We have considered 10 years government bonds yield.
Equity Risk Premium (ERP)	**7.23%**	We first computed the ERP of each single country in which REC operates as the sum of the Mature Market Risk Premium of 5.69% and the specific Country Risk Premium. Then we computed a weighted average using always the same weights (normalized to 1).
Beta	**0.66**	104 weeks Beta against the Eurostoxx 50 index, unlevered for the capital structure, and re-levered for the target capital structure of the Pharma Industry: 88% debt, 12% equity.
Cost of Equity (K_E)	**7.64%**	We have applied the CAPM: K_E = RF + Beta*ERP
Cost of Debt (K_D)	**3.45%**	Sum of the risk-free rate and 0.6%, the minimum level of spread related to the implicit ranking of AAA for the interest coverage ratio (Damodaran source)
Debt and Equity	**6116 - 337.2**	Equity is the Market Cap at 21st Feb 2017 ; Debt is the 2016 book-value of debts
Tax rate	**25%**	Level of taxation declared by REC

Sensitivity analysis and price scenarios

We implemented two sensitivity tables on DCF target price and on DCF terminal value (Fig. 23 and Fig. 24 respectively). We also figured out through **qualitative assumptions two opposite scenarios** in which we observe how extremely positive and negative circumstances **impact on REC target price** Please refer to Appendix 4.3 for the complete analysis.

Fig. 23 - Sensitivity analysis on Target Price

		Long term growth						
	33.14	1.50%	2.00%	2.30%	**2.48%**	3.00%	3.50%	4.00%
Long term WACC	5.87%	36.14	40.27	43.30	45.38	52.84	63.11	78.88
	6.37%	32.99	36.29	38.65	40.25	45.82	53.07	63.39
	6.87%	30.43	33.12	35.03	36.29	40.61	46.01	53.30
	7.37%	28.30	30.55	32.11	**33.14**	36.59	40.78	46.21
	7.87%	26.51	28.42	29.72	30.58	33.40	36.74	40.95
	8.37%	24.98	26.62	27.73	28.45	30.80	33.53	36.89
	8.87%	23.66	25.08	26.03	26.65	28.64	30.92	33.67

Source: Team estimates

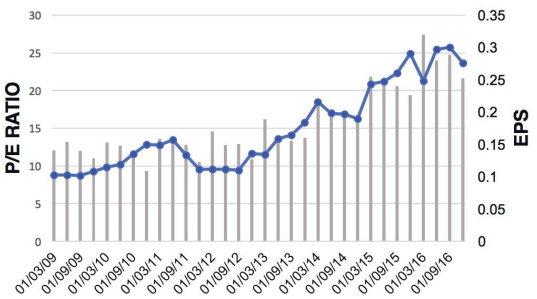
Fig. 24 - Sensitivity analysis on Terminal value

		Long term growth						
	5783.37	1.58%	1.88%	2.18%	**2.48%**	2.78%	3.08%	3.38%
Long term WACC	5.87%	6534.34	7046.39	7641.71	8342.39	9179.12	10195.80	11457.45
	6.37%	5852.26	6261.72	6729.81	7270.10	7900.69	8646.28	9541.49
	6.87%	5299.12	5634.29	6012.35	6442.07	6934.84	7505.61	8174.52
	7.37%	4841.51	5121.15	5433.12	**5783.37**	6179.41	6630.83	7150.14
	7.87%	4456.65	4693.68	4955.69	5246.88	5572.39	5938.68	6353.91
	8.37%	4128.47	4332.07	4555.40	4801.48	5073.97	5377.37	5717.25
	8.87%	3845.31	4022.19	4214.93	4425.77	4657.39	4913.00	5196.55

Source: Team estimates

Fair value of Pharma companies also depends on their pipeline products and on their capability to launch new products on the market. REC pipeline is well diversified and the strategy to invest in advanced Phase III projects, mainly through license agreements, sensibly decreases the risk of project failure, together with R&D expenses. Such characteristics took us to further analyse and quantify the premium that the market can attach to new projects release, reinforced by REC proven track record, strong cash generation and efficient drugs development capabilities. **Supporting our recommendation, we decided to perform a NPV of the Vitaros® project, in order to show its impact in terms of value creation for the company.** Please refer to Appendix 4.4 for the complete analysis.

Fig. 25 - Historical P/E vs EPS quarter



Source: Team estimates

Relative Valuation

We performed a multiples analysis for double-checking our DCF valuation. Following the competitive positioning analysis, we decided to choose some small/medium (IPN, LUN, ROVI), consumer oriented (BEI) and focused on Orphan Drugs (SHP) companies. REC is also in competition with some non-listed Italian companies such as Bracco Group, Menarini and Angelini.

Multiples: We considered two widely used multiples, equity side and asset side, P/E and EV/EBIT, in order to compare REC with peers and to reach a suitable target price.

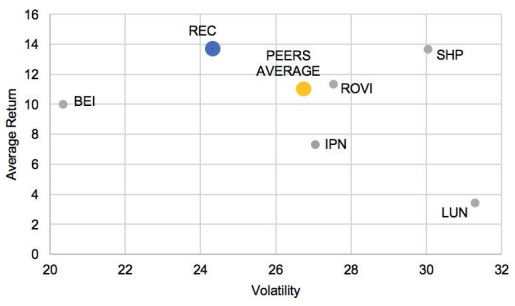
Type	Equity Side	Asset Side
Multiple	**P/E (with EPS diluted)**	**EV/EBIT**
Model	We designed P/E for the selected group as a function of: EPS growth (%), Net Margin (%), Adj Beta 104w (vs. Europe Stoxx 600 Health Care) and DPS CAGR 3Y.	EV/EBIT is built as a linear function of EBIT growth (%)
Consideration, based on 2017E	**REC trades on 23.6x P/E at 2017E**. We considered the median value of the group as threshold to obtain a relative indication about REC multiples. P/E shows a premium of 4.21% against peers.	At present, **EV/EBIT forward 2017E is 17.3x**. Also in this case REC shows a premium of 6.57% vs peers median ex REC.
Final considerations	Both considered multiples are at premium considering the median: this is mainly due to the past few years positive performance (+9.65% of EPS growth and +10.53 of EBIT GROWTH for 2017E) and, as written above, by the attractivity of REC diversified pipeline.	

Dividend Yield. We decided also **to focus on Dividend Yield forward 2017E to show REC strength against competitors** (please see the Appendix 4.5) .
We decided to associate an analysis of D/P to some factors of risk: Beta and Payout Ratio. The reason is that a high Payout relative to other companies may indicate a less secure dividend because it is less covered by earnings; Adj Beta (52w against companies' reference index) is used as measure of market risk. For 2017E REC is characterized by a higher D/P (2.54%). Payout Ratio is greater than competitors, but considering the structure of the group and cash generation we deem 60% to be sustainable (Damodaran Global Pharma Jan. 2017 updated, 2.55% and 64.9%). Considering the median of Beta, REC appears less exposed to market risk.
Checking EPS growth 2017E (+9.65%) for Sustainable Growth Rate (sgr, +9.9% in 2017E), **we believe in REC capability to maintain a constant Payout in time and distribute a reliable DPS**. REC dividend policy can be considered attractive for potential investors.
Weighted **target price is EUR 31.4** and it is consistent with our DCF analysis, supporting our BUY indication. (upside of +6.4%).

TICKER	D/P 2017E	PAYOUT 2017E	BETA ADJ	ROE 2017E	SGR 2017E
REC	2.54%	60%	0.58	24.1%	9.92%
IPN	1.24%	28%	0.66	17.8%	12.80%
LUN	2.29%	50%	0.84	19.1%	9.46%
SHP	0.60%	7%	0.73	14.1%	13.08%
ROVI	1.26%	38%	0.53	12.2%	7.61%
BEI	0.83%	22%	0.66	14.0%	10.99%

To conclude our relative analysis, following the theory, we performed a traditional Sharpe Ratio, where we combined profitability and stock volatility. Here profitability measure is given by: Div.Yield + ROE*(1-Payout). In Fig. 26, it is possible to observe REC and peers' performances and positioning.

Fig. 26 - Sharpe Ratio



Source: Company data and Team estimates

Risk

According to REC business targets and structure we decided to encounter for a number of possible risky events, crossing their potential impact on the business and their likelihood of occurrence. We assigned each event a risk grade from 1 to 5 (lowest to highest riskiness). The analysis is based on REC official targets and strategies for 2017.

RISK CLASSIFICATION MATRIX			CONCEQUENCES				
			1	2	3	4	5
			INSIGNIFICANT	MINOR	MODERATE	MAJOR	DEVASTATING
LIKELIHOOD	5	ALMOST CERTAIN	Investments in R&D		Expiry of patents	Market competition	
	4	LIKELY			Launch of new products / Foreign currencies risk		
	3	POSSIBLE	Legal actions	Interest rate risk	Credit risks / Product liability	Changes in legislation	
	2	UNLIKELY	Compliance	Internationalization	Pharmacovigilance and Authorizations / Expansion in emergin countries	Interruption of production process	
	1	RARE	Liquidity risk			Production process	

	Risk	C	L	Ref
EXTERNAL CONTEXT	**Changes in legislation.** Reimburse of prescription drugs by national healthcare services and changes in Governments policies have an important impact for the Pharma industry, in terms of price pressure. REC has diversified its sales on several geographical markets trying to reduce dependency governments' decisions. Spain and Italy represent an important share of REC revenues (7.1% and 20.7%), and deficit cuts planned for 2017 could have an impact on public health sector. The situation need to be monitored.	4	3	
	Expansion into emerging markets. REC sells Primary and Specialty Care products in Turkey and Russia&CIS (double-digit-growth), with important portfolio's shares (7.3% and 7.1% of sales), while with Orphan Drugs is present in Brazil, Colombia and Mexico with limited investments in start-ups. For 2017 the Group is not taking into consideration a further geographical expansion in these markets, since the aim is to reinforce the portfolio through the acquisition of new licenses.	3	2	
	Market competition. Pharma Industry is subject to a high competition, mainly related to generics entry after patent expiry. REC has tried to diversify the range of its product portfolio, in order to reduce dependency on a small number of strategic pharmaceuticals.	4	5	
STRATEGY AND OPERATION	**Internationalization of the group.** REC operates in a growing number of countries, with many subsidiaries and partners. For both P&SC and Orphan Drugs the aim is not the geographical expansions but the reinforcement of the portfolio, for P&SC through the acquisition of new licenses and for Orphan Drugs through limited investments in local start-ups. Group has formalized a management system in place with central units which integrate, monitor and co-ordinate the operations of local units.	2	2	
	Expiry of patents. Patents expiration is one of the principal risks of Pharma Industry. In 2017 patent of Zanipress® will be subject to expiration in Europe, with besides Portugal and Spain where generics are already present from 2013. REC estimated that generics may enter to the market by the end of Q1 2017, with an important impact on selling price (up to -30%) and then on revenues. REC is pursuing a diversification strategy to enlarge its portfolio and its geographical presence.	3	5	
	Investments in R&D. This risk is related to the uncertainty that investments would not produce the expected results, because of authorizations and reimbursement conditions. REC mitigates this risk by reducing R&D to low levels (about 8% of sales), and by acquiring product licenses on drugs in Phase III or already approved.	1	5	
	Launch of new products. The risk is strictly linked to authorizations by regulatory Authorities. In order to reduce this risk REC pursues two policy lines: 1) the first one is to broaden and balance its pipeline, acquiring drugs already registered, or in Phase III; 2) the other is to pursue a plan of geographical diversification to limit dependence on the regulatory authorities of a single country.	3	4	
	Pharmacovigilance and Authorization. The procedure of regulation and pharmacovigilance is complicated and expensive for players, and, to reduce this impact, REC usually operates through license agreements on drugs in Phase III, or already approved. It has assigned specific pharmacovigilance responsibilities within its organizations, and has put integrated systems in order to manage information necessary to Authorities. - Please see Appendix 5.1	3	2	
	Production process and interruptions. To mitigate this risk REC has implemented an effective asset protection policy through: 1) production plants with an appropriate capacity and flexibility to handle changeds in planning requirements 2) constant monitoring activity on the availability of inventory to identify potential "out-of-stock" situations and to guarantee production autonomy 3) insurance policies covering for direct damages (buildings, machines and goods) and indirect damages (loss of profit as a consequence of accidents).	4	2	

FINANCIAL	**Credit Risk.** The Group tries to control credit exposure thanks to the allocation of credit limits to each customer and through an internal reporting system. The risk can be considered higher in some cases as consequence of exposure to geographical area with specific peculiarities, such as Russia and Tunisia, but on average the risk is limited.	3	3	
	Interest rate risk. REC raises funds using debt and invests excess cash in money market and other financial instruments, for which fluctuation of market interest rates can represent a risk. REC's policy is to limit the risk related to interest rate by recurring to fixed interest loans or variable interest loans covered by derivatives. According to Group's believe, we think that changes in current interest rates would not have an important impact.	2	2	
	Foreign currency risk. REC is exposed to foreign currency risk with its strong presence in USA, and especially in Turkey and Russia since RUB and TRY has been very volatile last two years. In Turkey the impact of this risk is reduced by the structure of the business (production in loco). For the other currencies REC tries to be covered by hedging positions. - Please see Appendix 5.2 for a further description	3	4	
	Liquidity risk. Liquidity risk is limited because of REC's capital structure, characterized by a sustainable cost of debt (about 3.5%) and large amount of cash always reinvested or distributed through dividends.	1	1	
LEGAL AND COMPLIANCE	**Product liability.** REC can be exposed to risks of claims for damages caused by its pharmaceuticals. It covers the risk with insurance policies to all the products marketed and under development. This kind of risk can be considered moderate in terms of impact and likelihood.	3	3	
	Compliance. REC has formulated a set of ethical rules of conduct in accordance with compliance with the legislation and regulations applied in the geographical areas in which it operates. The main areas involved are: administrative liability of legal entities, corruption and anti-terrorism and international transactions with counterparts residing in countries subject to sanctions or embargo.	1	2	
	Legal actions. It is always possible that the Group may be required to meet costs resulting from litigation of various types. It is a possible scenario, but characterized by a limited impact.	1	3	

Corporate Goverance

Method of analysis and summary

The corporate governance structure of Recordati S.p.A. is based on a conventional organisational model and therefore consists of the following corporate bodies: (i) the Shareholders' Meeting, (ii) the Board of Directors, (iii) the Board of Statutory Auditors. **In analysing REC Corporate Governance our team has started considering which are the most important principle of a good CG, and only then we have verified whether Recordati has applied or not these principles.** We have considered five main aspects: 1) the family-oriented model of the company 2) the "degree of compliance" to best practices regarding the Board of Directors 3) the remuneration policy of directors 4) the composition of shareholders 5) the Corporate Social Responsibility. We present only a summary of our analysis, based on points 1), 2) and 5). Please see Appendix 6.1, 6.2, 6.3 and 6.4 for the complete analysis.

1) Family-oriented model. REC is an Italian family-oriented company, with the 51% of equity capital held by FIMEI S.p.A, which is the holding of the Recordati family. There are only ordinary shares, and with normal voting rights according to the principle one share one vote; lastly, there are no relevant agreements between shareholders. The positive side of the family-oriented company model is represented by the fact that **REC directors have historically behaved as to focus on medium-long term objectives for business sustainability and investors' profitability.**

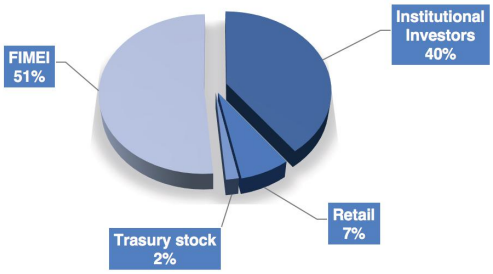
2) Remuneration policies for directors are based on a fee basis plus a variable part.

- Non-executives: the fixed fee is increased by an amount related to the participation to Committees (Risk and Remuneration Commitees) and an additional amount for the presidency of the two;
- Executives: the fixed part is based on the position held, and the variable part is linked to the achievement of specific objectives. For executive directors is also provided a **stock-option plan**, the exercise of which can only occur in the medium-term.

	**The remuneration policy attracts and motivates directors with the necessary professional skills for successfully manage the Company**; setting a variable component encourages directors in creating value for the Company in the medium-long term.
	Additional remunerations and **stock-options are provided only to the three executive directors, while may be used to remunerate also other categories of workers**

5) Corporate Social Responsibility. REC effectively manages the social impact and ethical issues within the medical and pharmaceutical areas, implementing a large number of social activities and supporting each year a very big number of associations dedicated to assisting sick people (29), to patients' quality life improvement (6), to new research projects (5), and to assisting disadvantaged people such as poor, homeless, disabled people and others (27). REC is also involved in a large number of projects regarding Rare Diseases. Lastly, each year the Group grants an international award, the Arrigo Recordati International Prize, consisting in EUR 100,000, to promote scientific research in the field of cardiovascular diseases.

Fig. 27 - Equity Composition at 28th Feb



Source: Company data

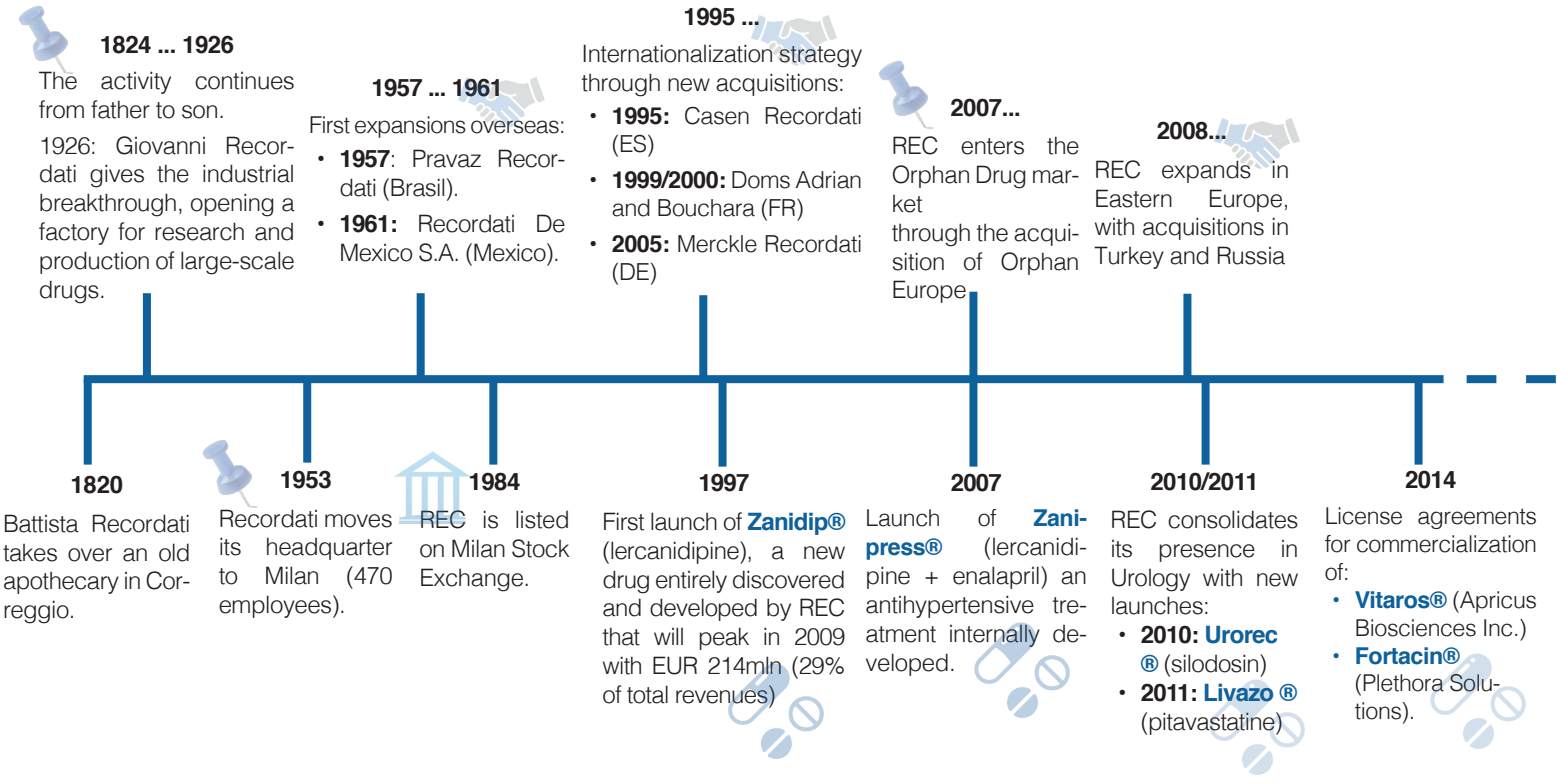
Fig. 28 - BOD Composition at 28th Feb 2017

Board of Directors					
#	Name	Role	Executive	Independent	Minority
1	Alberto Recordati	Chairman	X		
2	Andrea Recordati	Vice Chairman and CEO	X		
3	Rosalba Casiraghi	Administrator		X	
4	Michaela Castelli	Administrator		X	
5	Paolo Fresia	Administrator		X	X
6	Mario Garraffo	Administrator		X	
7	Fritz Squindo	Administrator and CFO	X		
8	Marco Vitale	Administrator		X	

Source: Company data

Appendix

Appendix 1.1 - Recordati Timeline, a long success story



Appendix 1.2 - License Agreements

Date	Licensor	Country	Brand	Active ingredient	Therapeutic area	Geo-area covered by commercialization
2004	Almirall	Spain	Cidine®	Cinitapride	Gastrointestinal	Spain
2004	Kissei	Japan	Urorec®/Silodyx™/Silosin®	Silodosin	Urology	Europe & others
2004	Uriach	Spain	Wystamm®/Rupafin®	Rupatadine	Allergy	France, Germany, Italy
2005	InfaCare Pharmaceuticals Corp	USA	Stanate®	Stagno-mesoporfirina	Metabolic	Europe
2005	Lavipharm Laboratories Inc.	USA	Fentanil Hexal	Fentanyl	Pain management/ inflammation	Europe
2005	Ipsen	France	Tenstaten®	Cicletanine	Cardiology	France
2007	Meda	Sweden	Zaneril®	Lercanidipine + enalapril	Neurology	Spain, Germany
2008	Menarini	Italy	Frovatriptan®	Frovatriptan	Pain management/ inflammation	France e Greece
2008	Actavis (ex Watson Pharmaceuticals Inc)	USA	Kentera®	Ossibutinine TDS	Urology	29 European countries
2008	Kowa	Japan	Livazo®/Alipza®	Pitavastatine	Cardiology	Europe (excluded UK and Germany)
2009	Amdipharm	Ireland	TransAct®LAT	flurbiprofene LAT	Pain management/ inflammation	Italy, Portugal
2010	Nymox Pharmaceutical Corporation	USA	NX-1207 (Phase III)	N/A	Urology	Europe, Russia C.S.I., nel Middle East, North & South Africa & development
2010	Merck KGaA	Germany	Cardicor®	Bisoprolol	Cardiology	Italy
2011	Novartis Consumer Health	Swiss	Procto-Glyvenol®	Lidocaine Hydrochloride & Tribenoside	Gastrointestinal	Poland, Russia, Turkey, Romania, Czech, Slovakia, Ukraine, Portugal and Cyprus
2012	Eritech	France	Graspa	L-asparaginase	Oncology	** still developing
2014	Apricus	USA	Vitaros®	Alprostadil	Urology	Spain, Irland, Portugal, Greece, Eastern Europe, C.S.I, Ukraine, Turkey, a some African countries
2014	Plethora	UK	Fortacin™	Lidocaine + prilocaina	Urology	Europe, Russia, C.S.I, Turkey, North Africa
2016	Gedeon Richter	Unghary	Vraylar™	Cariprazine	Neurology	Western Europe , Algeria, Tunisia e Turkey
2016	AP-HP (Assistance Publique – Hopitaux de Paris)	France	N/A	N/A	Metabolic	** still developing

Date	Licensee	Country	Brand	Active ingredient	Therapeutic area	Rights for commercialization
2009	Almirall	Spain	Urorec®/Silodyx™/Silosin®	Silodosin	Urology	Spain
2009	Nycomed S.p.A	Italy	Urorec®/Silodyx™/Silosin®	Silodosin	Urology	Italy (co-marketing)
2010	Leespharm	China	Zanidip®	Lercanidipine	Cardiology	China
2010	Esteve	Spain	Livazo®, Alipza® & others	Pitavastatine	Cardiology	Spain
2010	Zambon	Francia	Silodyx™	Silodosin	Urology	France (co-marketing)
2010	Merck Serono (Merck KGaA)	Germany	Livazo®, Alipza® & others	Pitavastatine	Cardiology	Francia (co-marketing)

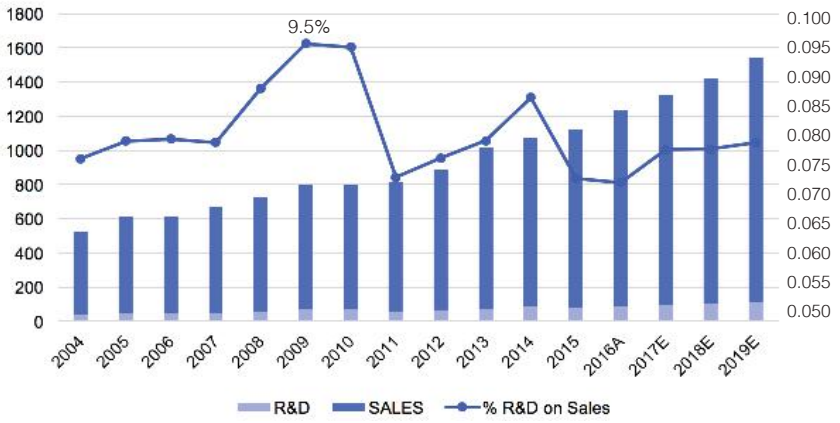
Appendix 1.3 - R&D

R&D industry trend

Pharma companies build their value on intangible assets and for this reason R&D expenses shall be addressed as value-generating costs for the company. The Healthcare sector is characterized by large investments in R&D: between 2002 and 2011 the pharma and the biotech industry spent nearly USD 1.1trn on it. In the same period the molecular and biologics entities approved by the FDA were 308, meaning that the average annual cost per approved molecule ranged from USD 2.3bln to USD 4.9bln.

As regarding REC, there exists a strict relationship between R&D investments and sales: R&D have always been a fairly constant percentage of revenues, around 7.5% on average. **When a patent is about to expire, REC generally increases its investments. This is what happened in 2010 with the expiration, in the main European countries, of the patent of Zanidip**. To cope with the reduction in sales of this product, from 2007 R&D expenses began to grow up to 69,4mln in 2009, with an increase over the previous year of 18.0% and an incidence on sales that reached the 9.5%. **For the same reason, we expect that from 2019 REC will increase its investments in R&D to face the consequences of patents' expiry of Urorec and Livazo**, respectively in 2020 and 2021.

Fig. 29 - REC R&D expenses on sales



Source: Factset and Team estimates

R&D and acquisitions

Typically, pharmaceutical companies willing to grow and diversify their portfolio need to invest in R&D, in order to discover and internally develop new drugs, to sign new co-marketing agreement or to engage in acquisitions. REC has historically focused on all these three paths, despite the M&A component of investments has always been higher than R&D expense: in 2016 REC invested EUR 145mln to acquire Italchimici and Pro Farma, against 83mln invested in R&D. This consideration is in line with **our idea that, as for the Primary and Specialty Care segment, REC can be regarded as a distributing company, rather than a pure pharmaceutical one.**

However, the same is not true for the orphan diseases segment, since the management disclosed in the new 2017-2019 BP its intention to focus more on R&D in this field.

Appendix 1.4 - Main drugs for the treatment of Rare Diseases

Name	Active ingredients	Indication
Normosang®/Panhematin®(USA)	Human hemin	Treatment of acute attacks of hepatic porphyria
Carbaglu®	Carglumic acid	Treatment of hyperammonemia due to N-acetylglutamate synthase deficiency (NAGS deficiency) and some organic acidaemias (isovaleric acidaemia,methylmalonic acidaemia and propionic acidaemia)
Cosmegen®	Dactinomycin	Treatment of three rare cancers
Pedea®/NeoProfen® (USA)	Ibuprofene iv	Treatment of patent ductus arteriosus (PDA)
Cystadane®	Betaine anhydrous	Treatment of homocystinuria
Cystagon®	Cysteamine bitartrate	Treatment of nephropathic cystinosis
Adagen®	Pegademase bovine	Enzyme replacement therapy for the treatment of severe combined immunodeficiency disease associated with adenosine deaminase deficiency (SCID-ADA)
Vedrop®	Tocofersolan	Treatment or prevention of vitamin E deficiency in paediatric patients and adolescents suffering from congenital or hereditary chronic cholestasis
Wilzin®	Zinc acetate	Treatment of Wilson's disease
Cystadrops®	Cysteamine chlorhydrate	EMA approval on 01/27/2017. Treatment of ocular manifestations of cystinosis

Appendix 1.5 - Historical and potential future M&A

M&A activity plays a central role in Pharma and Biotech industry. From early 2000's REC recognized a large number of deals trying to enhance its geographical presence and its coverage of therapeutic areas. Considering M&A activities from 2007 we decided to propose some hypothesis about possible REC future acquisitions. Still, according to the latest press release, potential acquisition targets could be located in Western Europe, Poland (to reach full product capacity) and in UK (to support Cariprazine expansion).

DATE	COUNTRY	COMPANY	CURRENCY	AMOUNT	FINANCED WITH CASH	SOURCE OF FUNDS	OBJECTIVE
13/12/07	France	Orphan Europe SARL	EUR	€ 135 Mln	NO	Cash	Geographical expansion, subsidiaries nine European countries and United Arab Emirates
31/03/08	France	FIC Medical	EUR	€ 12 Mln	YES	Cash (9 cash + 3 contingent payment/three years)	French company specialized in marketing registration, distribution and promotion on behalf of third party in Russia and CIS
23/12/08	Turkey	Yeni Ilac	USD	$ 59.88 Mln	YES	Undisclosed payment	Company produces and markets pharmaceuticals in Turkey
19/01/09	Czech Republic	Herbacos-Bofarma	USD	$25.44 Mln	YES	Cash	Geographical expansion and presence in Central and Eastern Europe
08/06/10	Romania	ArtMed International	EUR	€ 1.2 Mln + earn-out based on gross profits of the 5 products under license	YES	Undisclosed payment	Expansion its business into the romanian market, nutritional and RX products
01/07/11	Turkey	Frik Ilac	USD	$128.93 Mln ($74.5 Mln at the closing, other part in tranches)	YES	Cash	Geographical expansion and presence in Central and Eastern Europe; musculo, gastro, endocrine, central nervous, respiratory, immune and urinary system
23/09/12	Poland	Farma Projekt	USD	$ 21.29 Mln	YES	Cash	Expansion in Central and Eastern Europe
09/05/13	US	Lundbeck, non-core US operations	USD	$100 Mln	NO	(20 future payment+80 undisclosed payment)	Development of its product portfolio toward psychiatric and neurological disorders (rare diseases treatments)
21/10/13	Spain	Laboratorios Casen	EUR	€ 93 Mln	YES	Cash	Pharmaceutical and personal care products
31/10/13	Tunisia	67% of Opalia Pharma	EUR	€ 22.6 Mln	YES	Cash	Expanding its business in emerging markets, generic drugs and pharmaceuticals
26/05/14	Tunisia	23% of Opalia Pharma	EUR	€ 5.9 Mln	YES	Cash	Expanding its business in emerging markets, generic drugs and pharmaceuticals
31/05/16	Italy	Italchimici	EUR	€ 130 Mln	YES	Cash	
14/06/16	Switzerland	Pro Farma AG	USD	$ 16.3 Mln	YES	Cash	

Source: Company data

Fig. 31 - Potential future M&A

Primary Specialty Care	France	Germany	Greece	Ireland	Italy	Poland	Portugal	UK	Czech&Slovakia	Romania	Russia&CIS	Spain	Tunisia	Turkey
Antiinfectives													Opalia Pharma	Yeni Ilac / Frik Ilac
Cardiovascular						Farma Projekt						Laboratorios Casen	Opalia Pharma	Yeni Ilac / Frik Ilac
Dermatology									Herbacos-Bofarma				Opalia Pharma	Yeni Ilac / Frik Ilac
Central Nervous System			Cariprazina					Cariprazina						Yeni Ilac / Frik Ilac
Endocrinology													Opalia Pharma	Yeni Ilac / Frik Ilac
Gastrointestinal					Italchimici	Farma Projekt						Laboratorios Casen	Opalia Pharma	Yeni Ilac / Frik Ilac
Gynecology						Farma Projekt								
Immunosuppressant														Frik Ilac
Musculo-skeletal													Opalia Pharma	Yeni Ilac / Frik Ilac
Nutrition / Dietary										ArtMed International				Frik Ilac
Paint management / Inflammation						Farma Projekt			Herbacos-Bofarma					
Respiratory / Allergy					Italchimici								Opalia Pharma	Yeni Ilac / Frik Ilac
Oncology														Yeni Ilac / Frik Ilac
OTC						Farma Projekt								
Urology						Farma Projekt						Laboratorios Casen	Opalia Pharma	Yeni Ilac / Frik Ilac

REC First Lines
M&A specific
Macro trend (Therapeutic Areas)
Cariprazina No current coverage, but potential coverage from 2018 with Cariprazina

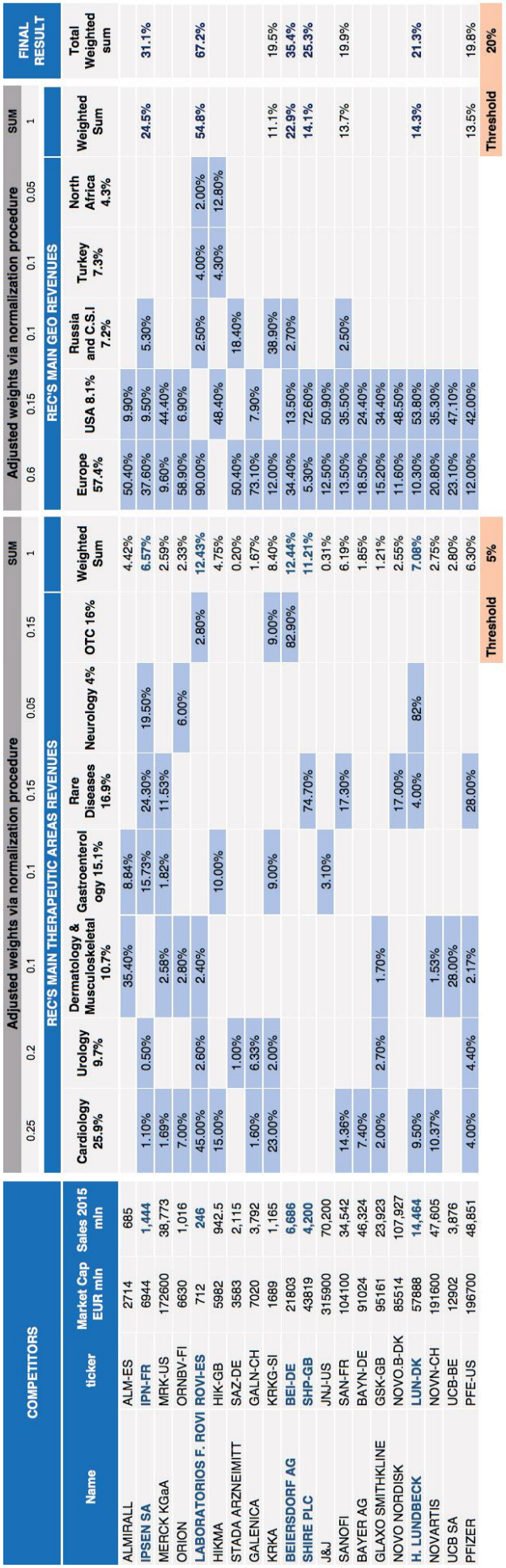
Source: Company data and Team Estimates

Following REC intention of enhancing its product portfolio, we created a matrix crossing geo-areas with treatment areas with reference to Primary and Specialty Care, in order to detect potential targets for acquisition:

- The light blue colored cells represent therapeutic areas by geography covered by REC;
- The dark grey colored cells represent therapeutic area for geography covered by REC through acquisitions from 2007 onwards;
- The pink colored therapeutic areas are those that, according to the World Health Organization, are indicated as future macro-trend pathologies (oncology, neurology, muscolo-skeletal, respiratory disease);
- The pink colored cells are our proposals for future geo-therapy targets. From the macro-trend we removed oncology, which is not considered a target for REC's immediate future, and some countries such as Greece (potential impact of austerity measures on pharma prices), Italy (acquisition in 2016), Tunisia and Turkey (recent and important acquisitions). We decided to select neurology, muscolo-skeletal and respiratory diseases for Eastern Europe (included Russia) and Spain as potential targets for future M&A operations.

Appendix 2.1 - Competitive Positioning

Competitive Positioning Analysis



COMPETITORS				Adjusted weights via normalization procedure								SUM	Adjusted weights via normalization procedure						SUM	FINAL RESULT
				0.25	0.2	0.1	0.15	0.05	0.15	1	0.6	0.15	0.1	0.1	0.05	1	
Name	ticker	Market Cap EUR mln	Sales 2015 mln	REC'S MAIN THERAPEUTIC AREAS REVENUES							REC'S MAIN GEO REVENUES							
				Cardiology 25.9%	Urology 9.7%	Dermatology & Musculoskeletal 10.7%	Gastroenterology 15.1%	Rare Diseases 16.9%	Neurology 4%	OTC 16%	Weighted Sum	Europe 57.4%	USA 8.1%	Russia and C.S.I 7.2%	Turkey 7.3%	North Africa 4.3%	Weighted Sum	Total Weighted sum
ALMIRALL	ALM-ES	2714	685			35.40%	8.84%				4.42%	50.40%	9.90%					
IPSEN SA	IPN-FR	6944	1,444	1.10%	0.50%		15.73%	24.30%	19.50%		6.57%	37.60%	9.50%	5.30%			24.5%	31.1%
MERCK KGaA	MRK-US	172600	38,773	1.69%		2.58%	1.82%	11.53%			2.59%	9.60%	44.40%					
ORION	ORNBV-FI	6630	1,016	7.00%		2.80%			6.00%		2.33%	58.90%	6.90%					
LABORATORIOS F. ROVI	ROVI-ES	712	246	45.00%	2.60%	2.40%				2.80%	12.43%	90.00%		2.50%	4.00%	2.00%	54.8%	67.2%
HIKMA	HIK-GB	5982	942.5	15.00%			10.00%				4.75%		48.40%		4.30%	12.80%		
STADA ARZNEIMITT	SAZ-DE	3583	2,115		1.00%						0.20%	50.40%		18.40%				
GALENICA	GALN-CH	7020	3,792	1.60%	6.33%						1.67%	73.10%	7.90%					
KRKA	KRKG-SI	1689	1,165	23.00%	2.00%		9.00%			9.00%	8.40%	12.00%		38.90%			11.1%	19.5%
BEIERSDORF AG	BEI-DE	21803	6,686							82.90%	12.44%	34.40%	13.50%	2.70%			22.9%	35.4%
SHIRE PLC	SHP-GB	43819	4,200					74.70%			11.21%	5.30%	72.60%				14.1%	25.3%
J&J	JNJ-US	315900	70,200				3.10%				0.31%	12.50%	50.90%					
SANOFI	SAN-FR	104100	34,542	14.36%				17.30%			6.19%	13.50%	35.50%	2.50%			13.7%	19.9%
BAYER AG	BAYN-DE	91024	46,324	7.40%							1.85%	18.50%	24.40%					
GLAXO SMITHKLINE	GSK-GB	95161	23,923	2.00%	2.70%	1.70%					1.21%	15.20%	34.40%					
NOVO NORDISK	NOVO.B-DK	85514	107,927					17.00%			2.55%	11.60%	48.50%					
H. LUNDBECK	LUN-DK	57888	14,464	9.50%				4.00%	82%		7.08%	10.30%	53.80%				14.3%	21.3%
NOVARTIS	NOVN-CH	191600	47,605	10.37%		1.53%					2.75%	20.80%	35.30%					
UCB SA	UCB-BE	12902	3,876			28.00%					2.80%	23.10%	47.10%					
PFIZER	PFE-US	196700	48,851	4.00%	4.40%	2.17%		28.00%			6.30%	12.00%	42.00%				13.5%	19.8%
										Threshold	5%					Threshold		20%

Discriminant Analysis

We perform a DA analysis in order to further validate the peers selection arising from the competitive positioning analysis.

DA is a statistical technique that uses the information available in a set of independent variables to predict the value of a discrete, or categorical, dependent variable. Typically, the dependent variable in a DA problem is coded as a series of integer values representing various group to which the observation in the sample belong. The goal of DA is to develop a rule for predicting to what group a new observation is most likely to belong based on the value the independent variables assume.

In order to be consistent with the previous competitive positioning analysis we considered as independent variables the percentages of therapeutic area and geo area overlap. Such variables have been selected relying on our analysis of the company and on management disclosures. As dependent variable, a categorical variable which assumes:

- **1 if it belongs to the "peer" group**
- **0 if it belongs to the "not peer" group**

We used these variables to develop a regression that combines the information available into a single-valued estimate of the group variable, namely discriminant scores. Since the discriminant scores does not returns the group membership predictions, we calculated a cut-off value to determine a classification rule. If the score is less than or equal to the cut off-value, then the observation is assigned into "not peers" group; otherwise into "peer". Applying this prediction rule we have been able to compare actual group vs predicted group in the following confusion matrix

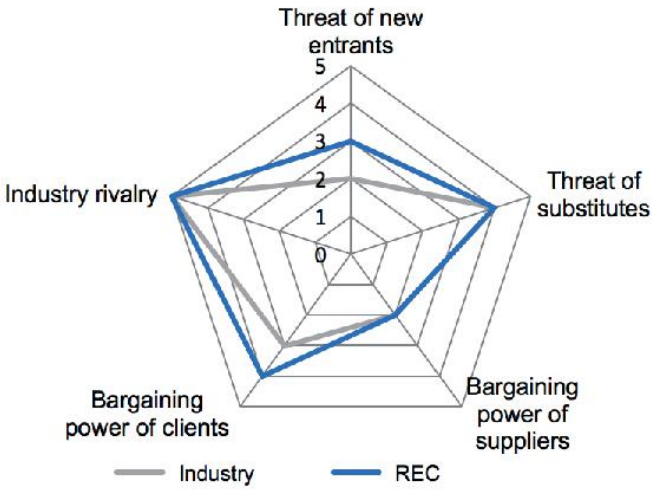
Confusion Matrix				
Group		Predicted 1	Predicted 0	Tot
Actual	1	5	0	5
	0	0	15	15
Tot		5	15	20

The models correctly classifies all the observations with a 0% of misclassification error, ensuring a reasonable peer selection result (IPN, ROVI, BEI, SHP, and LUN).

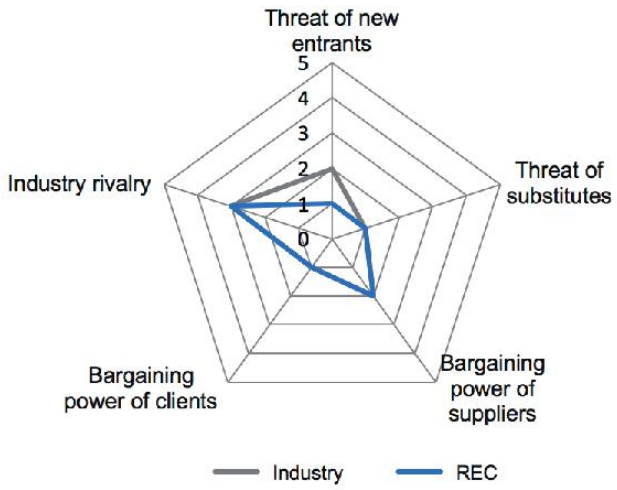
Appendix 2.2 - Porter's Five Forces

We decided to carry out a relative double analysis for P&SC and Orphan Drugs sector since are two completely different businesses in margins, profitability and regulations.

1 - Primary and Specialty Care Industry



2 - Oprhan Drugs



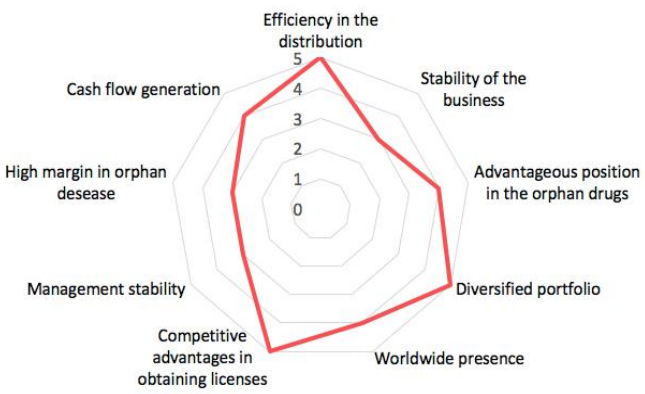
Porter's Five Forces - Primary and Specialty Care	Industry	Recordati
Threat of new entrants. The threat of new entrants in the Pharma industry is driven by moderate entry barriers due to costs associated with R&D of new drugs and know-how requirements. Companies willing to enter the industry are required an high investment level and need to reckon with Regulatory Authorities: any active ingredient to be commercialized must pass a lengthy process of approval (on average 10 years) by governemnts authorities, the FDA in US and EMA in EU. Brand loyalty and the preferred access to distribution channels can also prevent new players from entrance. **REC can be potentially more affected by the risk of new entrants with respect to the Big Pharma that operate on the market.**	Low - Medium	Medium
Threat of substitutes. The threat of substitute in the Pharma industry is quite high. However, the originators of new drugs benefit from different forms of protection against Generics (e.g. patents and regulatory exclusivities), which carry the most significant risk as soon as the period of market exclusivity is over. The entry of substitute in the market generates price pressure and can cause a profit drop. Buyer are always more drown to Generic drugs, since these products are intended to offer an affordable option for patients without sacrificing the efficacy and safety of the original formula. **Recordati is perfectly aligned with the Pharma industry intensity force. The main patent expiry date for REC are: Zanipress in 2017 (decline from 2016 to 2021 will be in a measure of a CAGR of -8%, team estimate) and Urorec in 2020 (increase in revenues until 2019 with CAGR 2016-2019 of +12% and revenues decline by a 2019-2021 CAGR of -23%)**	Medium - High	Medium - High
Bargaining power of suppliers. Established industry has led to a multitude of supplier limiting influence. The specialist knowledge of suppliers slightly increases their bargaining power, however not enough to negate the effects of supplier choice. Suppliers have very little power in the pharmaceutical industry because raw materials for manufacturing drugs are commodity products from the chemical industry, which are available from a large number of sources. In the Pharma industry, changing supplier is not an easy option, since they must undergo a long approval process by regulatory agencies. **REC, as a small player in the Pharma industry, could suffer from a high bargaining power of suppliers, but it effectively faces this risk through stable long-term agreements. To notice that Recordati also runs a pharmaceutical chemicals business (3.5%).**	Low - Medium	Low - Medium
Bargaining power of buyers. Buyers play an important role in Pharma sector as the demand of medicine will continue to increase in the following years. Since clients are more and more well informed about the products and since the differential advantage of industry products is negligible, the buyer switching cost is quite low (clients are price sensitive). Consumer power is quite high in particular when the patent expiry and generics enter the market. There will be more attention to cost-efficiency on the customer side because of a shift from a 'fee-for-service' to a 'fee-for-value' healthcare reimbursement system. **Despite a well diversified portfolio, REC does not have unique and irreplaceable product, so this force is higher with respect to the industry.**	Medium	Medium - High
Industry rivalry. The Pharma industry is characterized by a high level of concentration with fifteen multinational companies dominating the market and the global revenues. The competition among Pharma is strong and is driven by price pressure and economies of scale. There is a high degree of competition between name brand companies, but also between name brand and generic companies. **REC industry rivalry is aligned with the industry force.**	High	High

Porter's Five Forces - Orphan Drugs	Industry	Recordati
Threat of new entrants. Since the profitability of the Orphan Drug business is very high the attractiveness for new entrants is high as well. In fact, Phase III costs for Orphan Drugs are lower than for developing non-orphan products and the return on investment based on this costs is twice as high for the orphan products. However, high production costs, patent protection and government regulations pose high barriers to entry. **REC operates in the Orphan Drug segment with two dedicated subsidiaries and it is specialized in the genetic metabolic deficiencies. Since oncology qualifies as the main field of research and the most attractive one, REC could suffer in a lighter manner from the threat of new entrants with respect to other industry players.**	Low - Medium	Low
Threat of substitutes. The possibility of potential substitutes in the Orphan Drug segment is very low since they are identified as specific treatment regimes for specific diseases, which involve high R&D expenses and production costs. Generics cannot operate in this sector because it is characterized by low volumes and by high pricing. Furthermore, new active-ingredients are protected by patents and regulatory exclusivities with the possibility of extension if a new orphan indication is added. **Recordati is perfectly aligned with the Orphan Drug intensity force: NeoProfen (ibuprofen lysine) sold in US has excellently faced the risk of generics in 2016.**	Low	Low
Bargaining power of suppliers. In the Orphan Drugs segment, as well as in the P&SC, the bargaining power of suppliers is quite low. **REC intensity force is aligned with the industry since it usually concludes long term contracts with suppliers.**	Low - Medium	Low - Medium
Bargaining power of buyers. Orphan Drugs are a costly products niche. Buyers switching costs are high due to the low product replaceability. **REC has strengthened its existing portfolio with well-know products such as Carbaglu, Cosmagen, Pedea/NeoProfen, Normosang/Panhematin, Cystadane and Cystagon that are able to maintain a strong power against custumers.**	Low	Low
Industry rivalry. The Orphan Drugs segment is characterized by a high rivalry when achieving the governmental project for the research on a new Rare Disease and the related monetary incentive. After the designation, the winner company benefit of patent monopolies and the rivalry decrease. **REC intensity force reflects the force affecting the industry.**	Medium	Medium

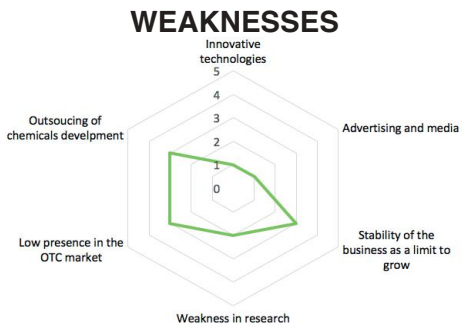
Appendix 2.3 - Swot Analysis

We implemented a Swot analysis assigning to each driver a score between 1 (very low) and 5 (very high) considering strengths and weaknesses internal to REC and the relative opportunities and threats on the market. The grade system used to analyze the overall position of REC and the aspects considered for each category are summarized by the above graphs.

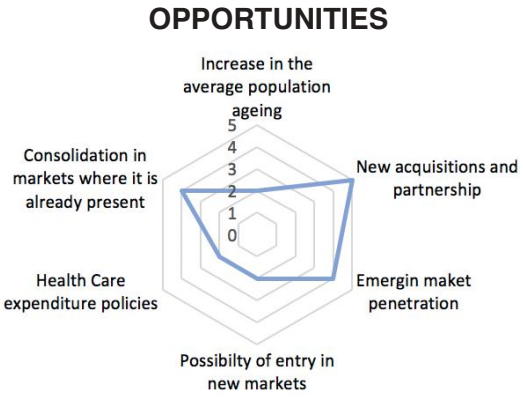
STRENGTHS	Score
Efficiency in the distribution	5
Stability of the business	3
Advantageous position in the Orphan Drugs	4
Diversified portfolio	5
Worldwide presence	4
Competitive advantages in obtaining licenses	5
Management stability	3
High margin in Orphan Drugs	3
Cash flow generation	4
SUM	36



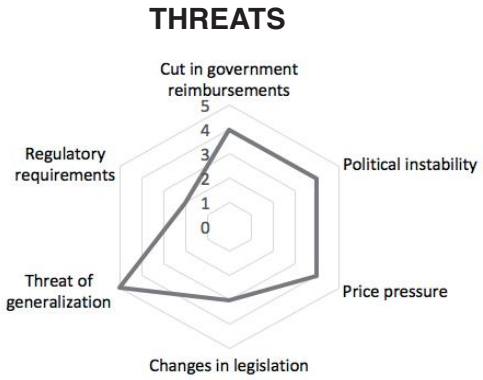
WEAKNESSES	SCORE
Innovative technologies	1
Advertising and media	1
Stability of the business as a limit to growth	3
Weakness in research	2
Low presence in the OTC market	3
Outsourcing of chemicals development	3
SUM	**13**



OPPORTUNITIES	SCORE
Increase in the average population ageing	2
New acquisitions and partnerships	5
Emerging markets penetration	4
Possibilty of entry in new markets	2
Healthcare expenditure policies	2
Consolidation in markets where it is alrea-dy present	4
SUM	**19**



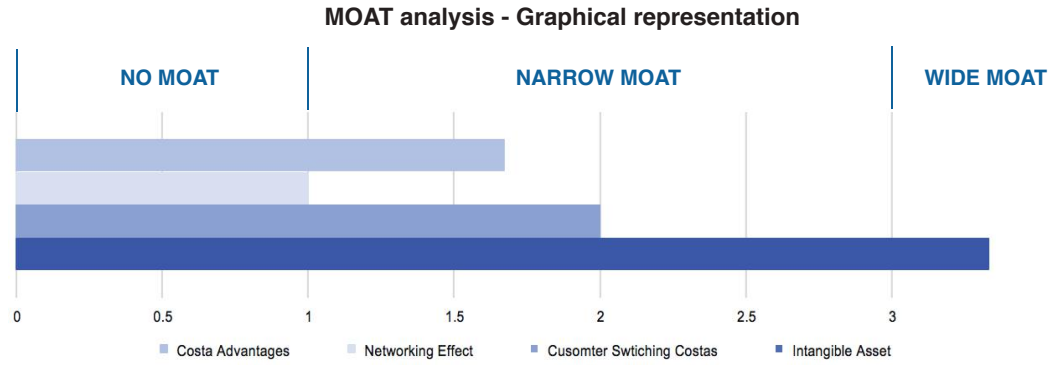
THREATS	SCORE
Cut in government reimbursements	4
Political instability	4
Price pressure	4
Changes in legislation	3
Threat of generalization	5
Regulatory requirements	2
SUM	**22**



Appendix 2.4 - Moat Analysis

Companies characterized by strong competitive advantages are in general more valuable than others, an "Economic moat" is a sustainable advantage that defend company against competitors. This simple concept stands at the basis of our analysis. From a theoretical point of view, it is not possible to consider great products, high market share, efficient operations and management as an economic moat. The model splits each possible moats in three categories: no moat, narrow and wide, considering the advantage level for the company.

Company sources	Specific	Additional information	Score	Final	MOAT valuation
INTANGIBLE ASSETS	BRAND	REC is well known in terms of geographical presence and distribution for healthcare specialists; on the other hand, we think that the brand is not particularly strength in consumers' mind (because of competition of Big Pharma).	3	3.7	WIDE
	PATENTS	Thanks to exclusive licenses and planned investments in R&D, patents in Rare Disease are characterized by higher margins and absence of generics competition; REC patents can be considered as important moats.	4		
	REGULATORY LICENSES	By definition, Pharma sector is subject to regulatory processes which are able to influence competition. REC has assigned specific pharmacovigilance responsibilities within its organizations and has put integrated systems in order to manage information necessary to authorities	4		
CUSTOMER SWITCHING COSTS	CUSTOMER SWITCHING COSTS	Customer switching costs are quite low for PSC, clients are price sensitive (generics competition). Orphan business is completely different, switching cost are high due to the low product replaceability.	2	2	NARROW
NETWORK EFFECT	NETWORK EFFECT	Network effect is not particularly relevant for REC business. For Pharma Industry, value of service does not increase with the number of users.	1	1	NO MOAT
COST ADVANTAGES	PROCESS	We do not believe REC production process can be considered as an economic moat, able to ensure a competitive advantage for the Group.	1	1.7	NARROW
	LOCATION	The Group shows a good geographical presence thanks to subsidiaries and manufacturing sites (also in Turkey), but it cannot be seen as a competitive advantage.	2		
	SCALE	REC enjoys economy of scale in order to reduce the impact of COGS, we decided not to consider it as an economic moat	2		



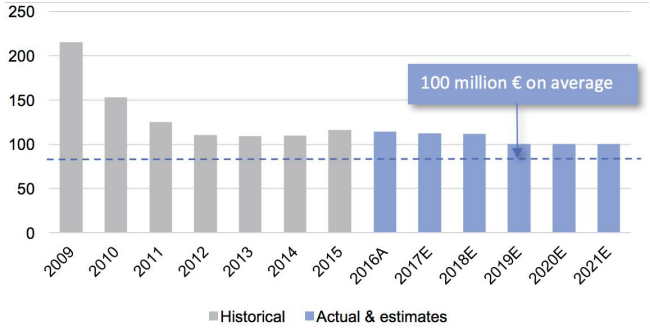
We decided to assign a grade (1 to 5) to each possible economic moat, depending on its capability to become a competitive advantage in the long run. Computing the mean for each characteristic, we decided to consider ranges between 0 and 1 as "no moat", up to 3 as "narrow moat" and higher as "wide moat".

Appendix 3.1 - Revenues breakdown by product

The most important cash generating products are: drugs for Rare Diseases (16.2% of sales) , OTC (16.1%), products by subsidiaries (23.6%) and corporate products (39.7%) - Please see Fig. 38 in the following page.
Among REC corporate products, we decided to perform a detailed revenues estimate analysis on those most well-known by healthcare specialists: Zanidip, Zanipress, Urorec and Livazo.

Zanidip®, whose active ingredient is the **lercanidipine, is a drug indicated for the treatment of high blood pressure and arterial hypertension. It was discovered and internally produced by the REC**, **and it has always been considered its core brand until 2010, patent's expiration date**. **In 2010 revenues fell by 30%**, from EUR 214mln in 2009 to EUR 148mln in 2010. In 2008 it accounted to the 30% of total sales, whereas in 2016 only for the 9.9%, with an absolute value of EUR 114mln. The very bulk of this decline occurred in 2010-2011 and in 2012 quarterly revenues of this product registered a QoQ negative growth. **From 2012 sales seem to have stabilized around an average value of EUR 111.5mln** per year (annual average related to the period 2012-2016) and, according to BP 2017-2019, sales of Zanidip are expected to remain stable around EUR 110mln. From 2019, this value could overestimate the real performance, since there exist at least 5 generics that, at least on the Italian market, are sold at a price 45% lower than **Zanidip. We believe that revenues could reach a value around EUR 100mln**, due to consumer preference for generics or to a future depreciation, necessary to adapt Zanidip price to increased market competition.

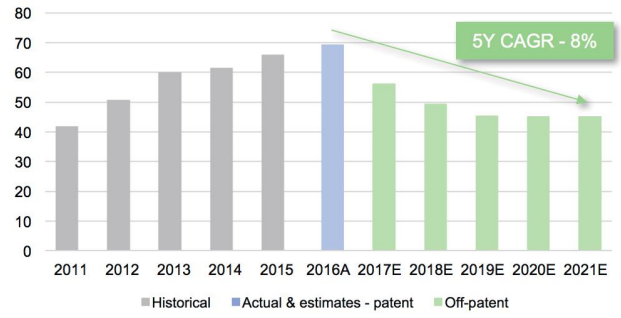
Fig. 32 - Zanidip annual Revenues - 2009/2021



Source: Company data and Team Estimates

Zanipress®, **the life cycle management product of Zanidip, is an antihypertensive drug internally developed and commercialized by Recordati. It associates lercanidipine with enalapril** (a widely prescribed ACE-inhibitor). **In 2010 revenues of Zanipress were EUR 31mln, 4.35% of total REC's revenues.** In 2016 Zanipress registered EUR 69.10mln of revenues, 6% of total revenues. We can assume that last year recorded sales reached a peak, since from 2014 generics are marketed in Spain and Portugal; a halving of sales is expected also in Italy, France and Germany, where the **patent expired at the beginning of 2017: according to our estimates and BP indications, Zanipress revenues will move from EUR 69.1mln in 2016 to EUR 55.64mln in 2017**. For the incoming years 2018-2021 (first 4 off-patent years) we assumed that revenues will follow the same negative trend which affected Zanidip sales in its first four off-patent years, but with a lower overall impact on total sales, as Zanipress market today is a less attractive environment for generic drugs manufacturers than Zanidip market at the time. **According to our estimates, the decline from 2016 to 2021 will be in a measure of a CAGR of -8%, and of a total percentage variation of -35%.**

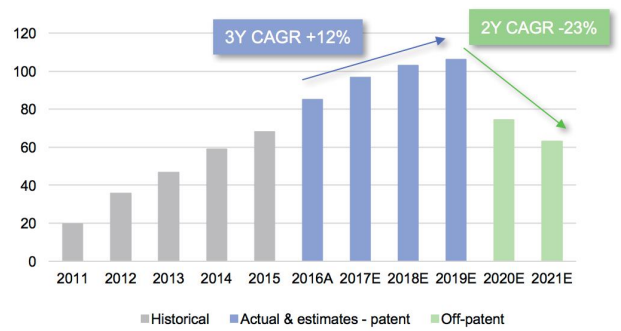
Fig. 33 - Zanipress annual Revenues - 2011/2021



Source: Company data and Team Estimates

Urorec®, whose **active ingrediet is the silodosin, is used to treat the urinary symptoms associated with benign prostatic hyperplasia** (BHP). It was licensed to Recordati by the Japanese pharmaceutical company Kissei and it was **commercialized in 2010 in Europe**, Middle East and Africa. We expect continuous sales growth since new clinical studies confirm Urorec efficacy in treating BPH and proves its low level of interference with patients' health conditions. Furthermore, Urorec has been tested for a second therapeutic indication for the treatment of premature ejaculation and it performed very good results. **Over the period 2011-2016 sales increased by a CAGR of 34%, from EUR 19.7mln to EUR 85.2mln. To estimate future sales we used a negative exponential forecast, with peak sales in 2019, and a final annual growth of 3% for 2018-2019 . In 2020, patent expiry date, we estimated that the level of sales will decrease by 30%** as a consequence of the reduction of price, sold volumes and the entrance of generics.

Fig. 34 - Urorec annual Revenues - 2011/2021



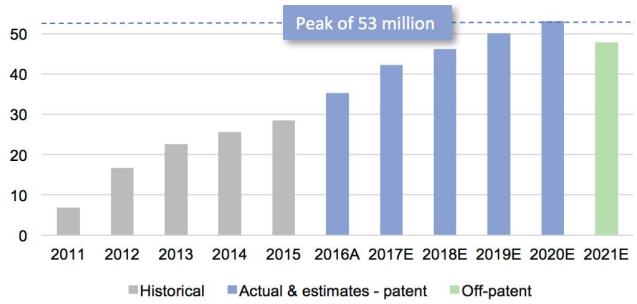
Source: Company data and Team Estimates

Livazo®, **whose active ingredient is the pitavastatin, is an innovative drug used for the treatment of dyslipidemia**, a condition characterized by abnormal levels of cholesterol and other lipids in the blood, which increase the risk of heart disease and stroke. It was licensed to Recordati by the Japanese pharmaceutical company Kowa and it was commercialized for the European market, Russia & C.I.S. and Turkey. **It is a successful product since, from its commercialization in 2011, it proved a high growth potential.** Revenues generated in 2016, including sales to licensees, are EUR 35.1mln **(+23.5% YoY). We believe that this positive trend will continue until patent expiry in 2021.**

OTC. Over-the-counter are drugs sold directly to customers **without medical prescription and for not reimbursed for the major part.** That's the reason why this segment represents a **good way to diversify the portfolio** and to reduce dependence and conditioning on foreign standards, government reimbursement policies and pricing pressure affecting drugs on prescription. In the last 5 years the percentage of OTC on total revenues has increased, going from 10% in 2011 (EUR 76.2mln) to 16.1% in 2016 (EUR 153.5mln), due to the strengthening of OTC product line, mainly achieved through acquisitions. **For 2017 and 2018 we estimate an increase in OTC revenues, related to the acquisition of Italchimici, an Italian pharmaceutical company with a wide number of OTC products in its portfolio and an overall potential revenues of EUR 46mln per year**. For 2019 onwards, we assumed a linear growth, estimating that OTC product will grow in importance, until reaching in 2021 around EUR 300.76mln. For such computations we also relied on the 2017-2019 BP, according to which REC will continue its strategy of expansion in the Russian market, extension of the Casen-Recordati portfolio and of new acquisitions. All different ways that will lead to the same result: the reinforcement of the OTC line.

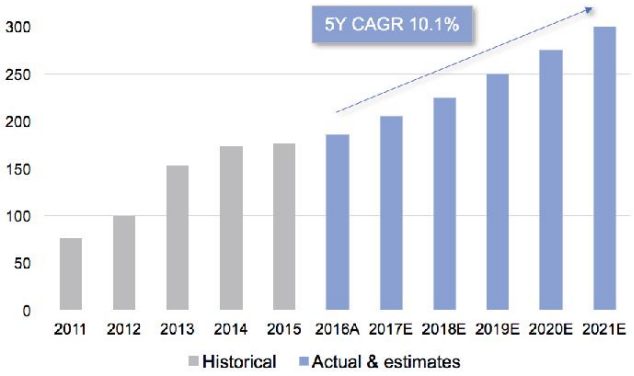
Orphan Drugs. REC from 2007 and 2013, respectively, operates in the Orphan drug market with two dedicated subsidiaries: Orphan Europe and REC Rare Diseases in US. **REC Orphan Drugs has undergone an extraordinary growth between 2009 and 2015 at a CAGR of 17.72% and also its weight on total revenues has increased from 6.54% to 14.60% for the same period**. This positive trend can be explained by a well balanced product portfolio that includes some top products (Carbaglu®, Panhematin®, NeoProfen Injection, Cosmegen® for Injection, Cystagon®, Cystadane®) and by a powerful products pipeline. As we can see in the figure REC highest revenues YoY growth was in 2013 (35.64%) due to the acquisition of the American subsidiary. According to the BP 2017-2019, to the macro trend of the Orphan Drugs segment, and to our positive projections about the approval of some products pipeline (Graspa and Carbaglu), **we estimate a constant growth at a CAGR of 8.70% for the period 2017-2021**. The announcement on 27 January 2017 that the European Union Commission has granted the European marketing authorization for product Cystadrops® reinforces our estimates.

Fig. 35 - Livazo annual Revenues - 2011/2021



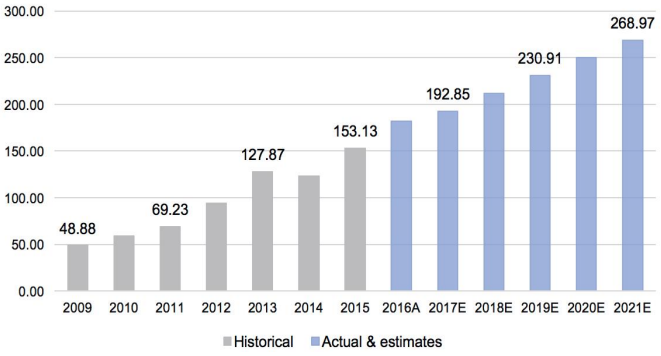
Source: Company data and Team Estimates

Fig. 36 - OTC annual Revenues - 2011/2021



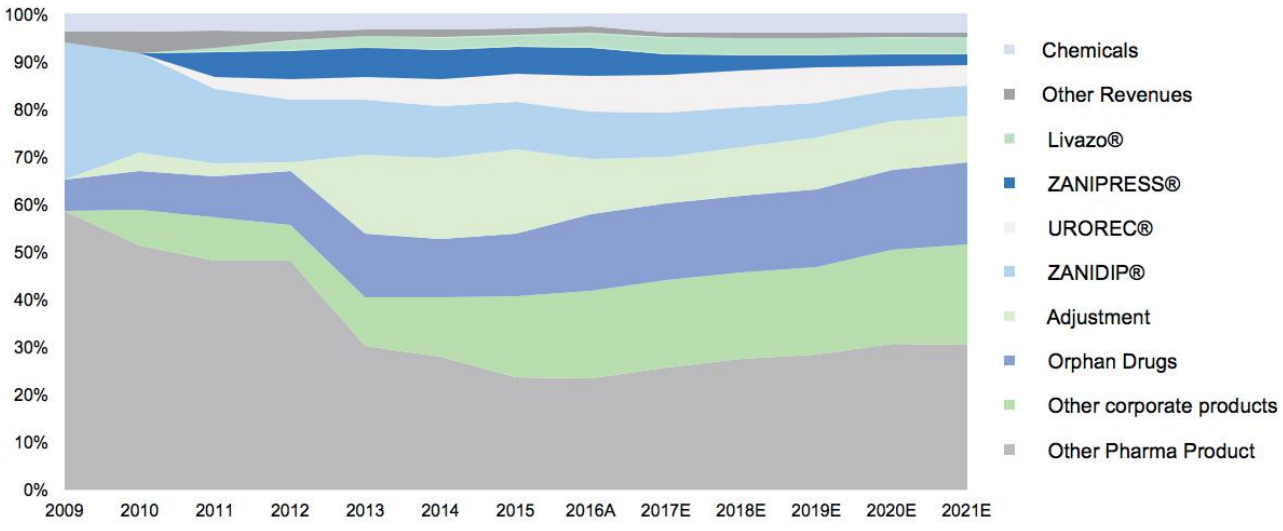
Source: Company data and Team Estimates

Fig. 37 - Orphan Drugs annual Revenues - 2009/2021



Source: Company data and Team Estimates

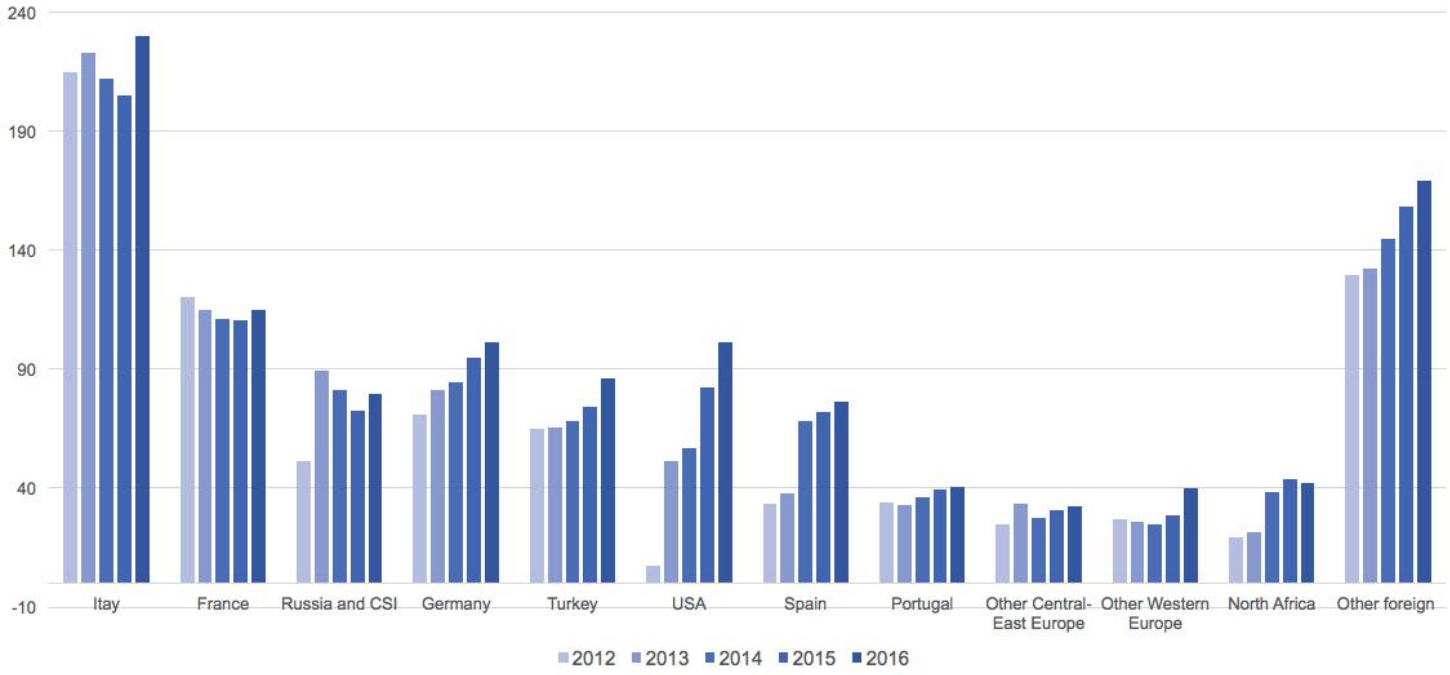
Fig. 38 - 2009-2021 revenues breakdown by product



Source: Company data and Team Estimates

Appendix 3.2 - Revenues breakdown by geo-area

Fig. 39 - 2009-2021 revenues breakdown by product



Source: Company data and Team Estimates

Despite of fluctuations of TRY and RUB currencies, which recorded a negative impact of EUR 2,8mln and EUR 20,9mln respectively in 2015), Turkey and Russia contributed a great deal to REC sales in the last few years. Turkey grew by 26.8% in local currency, driven by both local and corporate products; Russia performed sales at +22% in local currency in 2016. REC is mainly growing thanks to lercanidipine and OTC products, which are already well consolidated products in these markets. In September 2016, REC launched Livazo in Russia and it is planning a launch in Turkey this year as well. The demand for medicine in Russia is expected to increase up to 45.1 in 2020. **In Russia and Turkey "middle-class"consumers (defined as those with annual income between USD 6,000 and USD 30,000 PPP) are forecasted to decline in favor of higher income groups** (Pwc estimates). Thus, we expect that REC will follow the same trend followed by major pharmaceuticals, moving its activities towards highly-growing emerging markets.

US grew in local currency by 26.2% in 2016. As declared by REC investors' relator, the company will not be affected by changes to the Obama-Care Act, since REC business in US is represented only by the **treatment of Rare Diseases.** We expect that Cystadrops, approval in January 2016 will be an additional growth driver, together with Carbaglu approval for the treatment of organic acidemias in incoming years. Given high profitability and high margins directly related to the Orphan Drugs business segment, we expect double-digits growth rate for sales for the following years.

Revenues in North Africa decreased by 3.1% from 2015 to 2016, due to poor results of the Algerian business. In Tunisia REC is growing sales thanks to the acquisition of 90% of Opalia Pharma in 2013, a Tunisian pharma company specialized in dermatology, gastroenterology and respiratory therapeutic areas. **We expect the Group to add corporate product to its existing portfolio since North Africa market can be a strong driver for growth, with a 7.6% CAGR through to 2020 (BMI Research estimates).**

Considering Western Europe, Italy grew by 12.2% in 2016, thanks to the acquisition of Italchimici, which contributed to consolidate REC position on the market. **Germany increased by 6.7%** in 2016 with a solid performance of Ortoton and Claversal (local products). It represents a key market for REC and we expect the Group to possibly reinforce its presence thought bolt-on acquisitions here. **In 2016 Spain and Portugal grew by 6.1% and 2.42%, respectively.** Both are performing positive results after a slowdown period due to the entrance on the market of generics of lercanidipine (2013). **France performed +4%, mainly driven by local products, such as Methadone,** Urorec and ZanExtra. We expect possible products line acquisitions and license agreement in France that will contribute to generate future revenues. **As regarding other CEE countries, REC shows low market penetration in Poland besides its subsidiary and the management declared that they are considering possible future acquisitions in this country.** In 2015, Poland contribution to revenues stood at EUR 12.6mln with a growth of 35.3% thanks to good performance of Procto-Glyvenol, the main product of the subsidiary. **REC Romanian subsidiary, Recordati România, registered a decline in sales of 3.2% in 2015.** Considering the current political environment, **we expect CEE governments' policies for 2017 to be mainly focused on negotiation on lower prices for medicines, on improving pharmaceutical policies and on reducing barriers to trade.** On a worldwide perspective, there will be a concerted effort to advance legislation in response to the challenges posed by the increasing demand for higher quality medicines. More developed markets will seek to improve access to high-value medicines through the expansion of reimbursement tiers. In the less developed markets, legislative changes will focus on the implementation of basic pharmaceutical policies. These are positive political signals sending out clear indications of business expansion in highly-growing emerging European countries.

In other foreign countries, REC recorded an exponential growth from 2012 and in 2016, reaching sales at +6.7%, especially with the Orphan Drugs business. Such increments are justified by their entrance in the South America market (Mexico, Colombia and Brazil) and in Canada from the end of 2015. REC also operate in the Middle East, with a subsidiary based in UAE which serves most of the region through a dedicated sales force. Furthermore, as declared in the last conference call, REC plans to expand his Orphan Drugs segment in Southeast Asia.

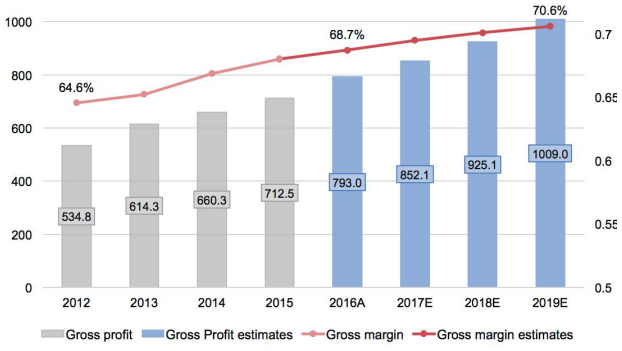
Appendix 3.3 - Income Statement

INCOME STATEMENT - EUR mln	2012.0	2013.0	2014.0	2015.0	2016A	2017E	2018E	2019E
Total Revenues	**828.3**	**941.6**	**987.4**	**1047.7**	**1153.9**	**1226.0**	**1319.6**	**1429.1**
Growth %		*13.7%*	*4.9%*	*6.1%*	*10.1%*	*6.2%*	*7.6%*	8.3%
Cost of goods Sold	293.6	327.3	327.1	335.2	360.0	373.9	394.5	420.1
Margin on Revenues	*35.4%*	*34.8%*	*33.1%*	*32.0%*	*31.2%*	*30.5%*	*29.9%*	*29.4%*
D&A	24.7	34.7	42.8	38.5	43.7	42.0	46.6	49.0
Growth %		*40.3%*	*23.2%*	*-10.1%*	*13.6%*	*-3.9%*	*11.0%*	*5.2%*
Margin on cost of goods sold	*8.4%*	*10.6%*	*13.1%*	*11.5%*	*12.1%*	*11.2%*	*11.8%*	*11.7%*
Other cost of goods sold	268.8	292.6	284.3	296.7	316.3	331.9	347.9	371.1
Gross Profit	**534.8**	**614.3**	**660.3**	**712.5**	**793.0**	**852.1**	**925.1**	**1009.0**
Growth %		*14.9%*	*7.5%*	*7.9%*	*11.3%*	*7.5%*	*8.6%*	*9.1%*
Margin on Revenues	*64.6%*	*65.2%*	*66.9%*	*68.0%*	*68.7%*	*69.5%*	*70.1%*	*70.6%*
R&D	63.4	74.7	85.3	76.7	83.7	94.4	102.9	112.9
Growth %		*17.8%*	*14.1%*	*-10.0%*	*9.1%*	*12.8%*	*9.0%*	*9.7%*
Margin on Revenues	***7.7%***	***7.9%***	***8.6%***	***7.3%***	***7.3%***	***7.7%***	***7.8%***	***7.9%***
Selling costs	250.6	275.2	282.9	293.2	311.7	322.5	349.4	380.4
Margin on gross profit	*46.9%*	*44.8%*	*42.9%*	*41.2%*	*39.3%*	*37.8%*	*37.8%*	*37.7%*
G&A	45.5	54.1	57.2	59.0	60.9	64.1	69.7	75.6
Margin on gross profit	*8.5%*	*8.8%*	*8.7%*	*8.3%*	*7.7%*	*7.5%*	*7.5%*	*7.5%*
Other Expenses	8.3	14.9	3.9	5.0	12.6	9.2	7.7	9.2
Margin on gross profit	*1.6%*	*2.4%*	*0.6%*	*0.7%*	*1.6%*	*1.1%*	*0.8%*	*0.9%*
EBIT	**167.0**	**195.4**	**231.0**	**278.5**	**327.5**	**362.0**	**395.4**	**430.9**
Growth %		*17.0%*	*18.2%*	*20.6%*	*18.8%*	*10.5%*	*9.2%*	*9.0%*
Margin on Revenues	*20.2%*	*20.8%*	*23.4%*	*26.6%*	*28.4%*	*29.5%*	*30.0%*	*30.2%*
Net Financial Income (Expense)	6.6	14.6	16.3	13.1	12.6	14.2	14.0	13.5
Growth		*120.7%*	*11.1%*	*-19.5%*	*-3.3%*	*11.9%*	*-0.8%*	*-4.0%*
EBITDA	**191.7**	**230.1**	**273.8**	**317.0**	**371.2**	**404.0**	**442.0**	**480.0**
Growth %		*20.0%*	*19.0%*	*15.8%*	*17.1%*	*8.8%*	*9.4%*	*8.6%*
Margin on sales	23.1%	24.4%	27.7%	30.3%	*32.2%*	*33.0%*	*33.5%*	*33.6%*
EBT	160.3	180.8	214.8	265.4	314.9	347.8	381.3	417.5
Tax Expense	41.8	47.1	53.6	66.6	77.4	87.0	95.3	104.4
Tax Percentage	25%	25%	25%	24%	25%	25%	25%	25%
Net Income	**118.5**	**133.7**	**161.2**	**198.8**	**237.5**	**260.9**	**286.0**	**313.1**
Growth %		*12.8%*	*20.6%*	*23.3%*	*19.4%*	*9.9%*	*9.6%*	*9.5%*
Margin on sales	*14.3%*	*14.2%*	*16.3%*	*19.0%*	*20.6%*	*21.3%*	*21.7%*	*21.9%*
Diluted WA Outstanding shares - mln	211.6	211.9	209.1	209.0	209.1	209.1	209.1	209.1
EPS (diluted) - €	**0.56**	**0.63**	**0.77**	**0.95**	**1.14**	**1.25**	**1.37**	**1.50**
Payout ratio	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
DPS (diluted) - €	**0.30**	**0.33**	**0.50**	**0.60**	**0.68**	**0.75**	**0.82**	**0.90**

Gross Margin and cost of goods sold

Considering the historical period 2012-2015, REC has always been able to reduce the cost of goods sold margin on revenues from 35% to 32% in FY15, thanks to an increase in efficiency through cost synergies and economy of scales related to the extension of the production; as a consequence, the margin of Gross Profit has increased each year by approximately 1%. **According to our estimates for 2016-2019 Gross Profit will grow from 793 to EUR 1009.3mln, with a CAGR of 8.4%, and Gross Margin will increase from 68.7% up to 70.6%. These estimates imply a slightly decrease in the weight of COGS on revenues, until reaching 29.4% in 2019**; we believe this is are achievable values, due to: 1) stable relationships with suppliers 2) continuous policy of reducing inefficiencies of production and since 3) two of the next forthcoming products for 2017 – Vitaros and Fortacin – belong to Urology, a therapeutic area in which REC has already a high market quote, allowing the company to use suppliers and networks that already owns.

Fig. 40 - Gross Profit & Gross Margin



Source: Company data and Team Estimates

Appendix 3.4 - Balance Sheet

BALANCE SHEET - EUR mln	2012	2013	2014	2015	2016A	2017E	2018E	2019E
Assets								
Cash & cash equivalents	38.42	52.27	136.99	225.53	138.50	160.00	180.00	200.00
Accounts receivables	155.36	179.78	179.03	177.22	175.22	180.22	186.00	190.00
Inventories	126.39	140.20	141.20	143.09	151.88	157.74	174.02	188.76
Other cash items	0.00	0.00	0.00	0.00	191.78	136.43	132.44	119.01
Other current assets	28.52	30.57	41.40	46.83	51.58	54.80	65.00	70.00
Current Assets	348.68	402.82	498.62	592.67	708.95	689.19	737.46	767.77
Net PP&E	59.97	81.29	92.27	108.99	127.67	155.20	184.88	219.00
Intangibles	644.68	764.31	729.49	699.74	692.62	691.47	688.69	686.85
Deferred tax assets	22.84	25.21	33.02	30.50	34.62	36.78	39.59	42.87
Other non current assets	10.71	10.20	21.82	37.04	47.72	58.06	70.41	84.83
Non-current assets	738.20	881.00	876.61	876.26	902.63	941.51	983.57	1,033.55
Total assets	1,086.89	1,283.82	1,375.22	1,468.93	1,611.58	1,630.70	1,721.03	1,801.32
Liabilities								
Short-term debt	64.13	114.30	36.83	44.32	56.10	39.56	53.00	43.00
Tax liabilities	9.79	15.95	12.54	14.59	15.00	15.94	17.16	18.58
Accounts payable	106.93	107.16	112.54	106.60	119.00	120.87	132.00	135.00
Other current liabilities	79.97	105.98	96.65	107.00	101.00	98.08	105.57	103.00
Current liabilities	260.82	343.39	258.56	272.51	291.10	274.45	307.73	299.58
Long term debt	129.11	196.80	286.20	269.90	281.10	230.00	200.00	200.00
Deferred tax liabilities	15.87	21.10	21.60	22.40	21.37	23.48	25.74	28.18
Staff leaving indemnities	17.86	16.70	18.40	18.90	18.85	18.85	18.85	18.85
Other non-current liabilities	1.83	4.00	3.05	15.19	1.15	1.23	1.32	2.60
Total non-current liabilities	164.67	238.60	329.25	326.39	322.48	273.56	245.91	249.63
Total liabilities	425.49	581.99	587.80	598.89	613.58	548.01	553.64	549.21
Net Operating Working Capital	113.58	121.46	139.90	138.95	143.67	157.88	170.29	192.18

SHAREHOLDERS' EQUITY	2012	2013	2014	2015	2016A	2017E	2018E	2019E
Common stock	26.14	26.14	26.14	26.14	26.14	26.14	26.14	26.14
Retained earnings	501.70	559.88	627.24	685.59	780.57	884.93	999.32	1,124.56
Other equity account	133.56	115.80	134.04	158.26	191.29	171.63	141.93	101.41
Total Shareholder equity	661.40	701.82	787.42	869.99	998.00	1,082.70	1,167.39	1,252.11
Total Liabs & SH equity	1,086.89	1,283.81	1,375.23	1,468.89	1,611.58	1,630.70	1,721.03	1,801.32

NET FINANCIAL POSITION	2012	2013	2014	2015	2016A	2017E	2018E	2019E
Cash & cash equivalents	38.42	52.27	136.99	225.53	138.50	160.00	180.00	200.00
Short-term debts	-64.13	-116.51	-36.83	-44.32	-56.10	-39.56	-53.00	-43.00
Net liquid assets	-25.71	-64.24	100.16	181.21	82.40	120.44	127.00	157.00
Long-term debts	-129.11	-196.80	-286.20	-269.90	-281.10	-230.00	-200.00	-200.00
Net financial position	-154.82	-261.04	-186.04	-88.69	-198.70	-109.56	-73.00	-43.00

Consolidated operational efficiency. REC financial statements review from 2012 to 2015 highlighted an increase in the internal financial efficiency. Days for accounts receivables have constantly diminished from roughly 68 in 2012 to 61 in three years 2012-2015, with a change in the main figure of +4.5%, thus signaling a good receivables management. At the same time, days of inventory disposal show an efficient production system, with a decreasing figure from roughly 157 to 155 days in three years despite increasing inventory (CAGR +4.2%) and increasing turnover ratio. An overall constant trade payables figure positively affect the liquidity turnover and repayment ability of the Group. Recalling revenues CAGR at +7.4% and planned companies acquisition targets, we assumed such trends to forward until guidance indications in 2019, with inventories growing at CAGR +7.5% and accounts receivable growing at CAGR +2.7% with constant days respectively.

Liquidity ratios. After 2012 and 2013, where the Quick Ratio was below 1, in 2014 has been 1.31 and in 2015 1.58, which means that there is a tendency to pay off current liabilities without disposing any long-term assets. The good liquidity position is also confirmed by the Cash Conversion Cycle, which, on average, from 2013 to 2015 is equal to 103 days, meaning that REC has the ability to convert in receipts what it has bought in 4 months, which implies less probability of need to borrow. According to our estimates for the period 2016-2019:

- the QR will be on average 1.20, with the minimum of 1.08 in 2016 and a maximum of 1.30 in 2019
- the CCC will slightly decrease, going from 96 days in 2016 to 93 in 2019.

Both indicators reassure investors on the good liquidity position of REC.

Improving NFP. Short-term debt have irregularly moved on a YoY basis, showing REC ability in leveraging readily available liquidity and temporary lines of credit on demand. This figure seems to be mainly driven by portions of loans repayment in the year and we decide to stay on this point, following disclosure over debt repayment schedules until 2019. **As for the long-term debt, we believe the Group will be able to partially repay the amount of debt issued in recent years to support acquisition plans, net of rescheduling and\or premature repayments effects.** Such dynamics positively affect REC short and long-term repayment ability by means of current assets including generated cash items, thus resulting in an increasing NFP position from EUR -198.8mln in 2016 to a lower net debt positon of EUR 43mln in 2019.

Appendix 3.5 - Financial ratio Analysis

RATIO ANALYSIS	2012	2013	2014	2015	2016E	2017E	2018E	2019E
Profitability ratios								
Gross margin	64.6%	65.2%	66.9%	68.0%	68.8%	69.5%	70.1%	70.6%
Operating margin	20.2%	20.8%	23.4%	26.6%	28.4%	29.5%	30.0%	30.2%
Net margin	14.3%	14.2%	16.3%	19.0%	20.6%	21.3%	21.7%	21.9%
SG&A to Sales	36.7%	36.5%	34.8%	34.1%	33.2%	32.2%	32.4%	32.9%
NWC	113.58	121.46	139.90	138.95	143.67	157.88	170.29	192.18
Total Invested Capital	851.78	1,002.46	1,016.51	1,015.21	1,046.30	1,099.38	1,153.86	1,225.72
EBIT to Total Inv. Capital	19.6%	19.5%	22.7%	27.4%	31.3%	32.9%	34.3%	35.2%
ROA	10.9%	10.4%	11.7%	13.5%	14.7%	16.0%	16.6%	17.4%
ROE	17.9%	19.0%	20.5%	22.9%	23.8%	24.1%	24.5%	25.0%
ROIC	6.7%	6.9%	8.4%	8.7%	9.1%	9.5%	9.9%	10.2%
Operating efficiency indicators								
Receivable turnover	5.33	5.24	5.52	5.91	6.59	6.80	7.09	7.52
Inventory turnover	6.55	6.72	6.99	7.32	7.60	7.77	7.58	7.57
Payables turnover	7.75	8.79	8.77	9.83	9.70	10.14	10.00	10.59
NWC/Sales	0.14	0.13	0.14	0.13	0.12	0.13	0.13	0.13
Leverage indicators								
D/E	0.29	0.44	0.41	0.36	0.34	0.25	0.22	0.19
D/Total Inv. Capital	0.23	0.31	0.32	0.31	0.32	0.25	0.22	0.20
Total debt/EBITDA	1.01	1.35	1.18	0.99	0.91	0.67	0.57	0.51

Appendix 3.6 - Cash Flow Statement

CASH FLOW STATEMENT - EUR mln	2012	2013	2014	2015	2016A	2017E	2018E	2019E
Net Income / Starting Line	118.50	133.69	161.20	198.81	237.46	260.89	286.00	313.10
D&A	24.75	34.71	42.78	38.48	43.70	42.00	46.63	49.03
Other non-cash items	2.89	(0.44)	(10.30)	(0.18)	(0.18)	-	-	-
Cash from operations before ΔNWC	146.14	167.97	193.68	237.10	280.98	302.89	332.62	362.13
Changes in Working Capital	(33.38)	2.15	(14.52)	10.27	5.62	(9.00)	(10.92)	(15.74)
Total cash from operating	**112.75**	**170.12**	**179.16**	**247.37**	**286.60**	**293.89**	**321.70**	**346.39**
Capex	(13.32)	(12.33)	(22.23)	(31.24)	(35.00)	(41.00)	(45.00)	(50.00)
Equity Investments	(82.20)	(123.73)	-	-	(165.00)	-	(150.00)	(150.00)
Intangibles	(49.55)	(65.78)	(2.88)	(2.45)	7.11	1.15	2.78	1.84
Other net investments	(7.45)	0.62	(0.49)	0.19	0.19	0.19	0.19	0.19
Total cash flow from investing	**(152.53)**	**(201.21)**	**(25.59)**	**(33.50)**	**(192.69)**	**(39.66)**	**(192.02)**	**(197.97)**
Cash from (Repayment) of Debt	(11.50)	143.30	28.30	(14.20)	22.98	(67.64)	(16.56)	(10.00)
Dividends	(61.35)	(64.64)	(75.40)	(110.77)	(142.48)	(156.53)	(171.60)	(187.86)
Other changes	3.35	(17.92)	3.73	(3.23)	(60.00)	-	-	-
Total cash from financing	**(69.50)**	**60.74**	**(43.37)**	**(128.20)**	**(179.50)**	**(224.17)**	**(188.16)**	**(197.86)**
Total cash flow	**(109.27)**	**29.65**	**110.19**	**85.68**	**(85.59)**	**30.06**	**(58.49)**	**(49.44)**

CapEx and acquisitions aligned to REC plans. In order to properly incorporate REC planning over future acquisitions and to produce consistent results among business strategies and our valuation until guidance, we decided to move CapEx figure in line with revenues growth at a ratio of 3.5%, with 12.62% CAGR increase in the 2016-2019 period. Extraordinary costs items related to upgrading physical assets are indeed included in the scope of this cash flow item. Likewise, the purchasing costs for acquisitions in 2018 and 2019 are directly included within the equity investments flow item, roughly encountering for an overall amount of EUR 300mln to be equally allocated in two years.

Appendix 4.1 - DCF

DCF VALUATION	HISTORICAL		ACTUAL	ESTIMATES			FURTHER		...	TV
	2014	2015	2016	2017	2018	2019	2020	2021		
Sales	987.4	1047.7	1153.9	1226.0	1319.6	1429.1				
Growth		6.11%	10.14%	6.25%	7.64%	8.30%				
Ebitda	273.8	317.0	371.2	404.0	442.0	480.0				
Growth		15.77%	17.10%	8.84%	9.40%	8.59%				
Ebit	231.0	278.5	327.5	362.0	395.4	430.9				
Growth		20.55%	17.59%	10.53%	9.22%	9.00%				
Net income	161.2	198.8	237.5	260.9	286.0	313.1				
Growth		23.33%	19.45%	9.86%	9.62%	9.48%				
D&A	42.8	38.5	43.7	42.0	46.6	49.0				
Margin %	4.33%	3.67%	3.79%	3.43%	3.53%	3.43%				
Capex	22.2	31.2	35.0	41.0	45.0	50.0				
Margin %	2.25%	2.98%	3.03%	3.34%	3.41%	3.50%				
Δ Operating Net Working Capital	18.4	-0.9	4.7	14.2	12.4	21.9				
Margin %	1.87%	-0.09%	0.41%	1.16%	0.94%	1.53%				
Free Operating Cash Flow (FOCF)	**200.2**	**205.1**	**250.9**	**276.1**	**300.0**	**334.0**	**360.7**	**389.6**		
FOCF per share	1.0	1.0	1.2	1.3	1.4	1.6	1.7	1.9		
Growth		2.45%	22.32%	10.05%	8.68%	11.32%	**8.00%**	**8.00%**		**2.48%**
Wacc				**7.37%**	**7.37%**	**7.37%**	**7.37%**	**7.37%**		**7.37%**
Days to 24th February 2017				310.0	675.0	1040.0	1405.0	1770.0		
Discounting period (daily)				0.8	1.8	2.8	3.8	4.8		
Discount factor				1.1	1.1	1.2	1.3	1.4		
Discounted FCF				259.9	263.1	272.8	274.4	276.0		
Cumulated FCF								**1346.0**		

Appendix 4.2 - Wacc Computation

Risk free rate = 2.85%

In order to have a R_F rate that would have been comprehensive of REC geographical revenues breakdown, **we weighted the 10Y Government bonds yields of those countries in which REC sells the most with the sales percentage that REC register in that geo-area.** To simplify we have considered only those countries in which REC has registered a percentage of sales higher than the 5% of total revenues; indeed, the weights used to ponder R_F have been adjusted via normalization procedure. Values have been updated at 21st Feb 2017.

Risk Free Rate = 2.85%			
Country	**10Y Gov. Yield**	**% of Rev 2016**	**Normalized %**
Italy	2.14%	20.6%	29.1%
Francia	0.88%	10.3%	14.5%
Spagna	1.68%	6.9%	9.7%
Germania	0.20%	9.1%	12.8%
Turkey	8.25%	7.8%	11.0%
USA	2.37%	9.1%	12.8%
Russia	7.00%	7.1%	10.0%
RISK FREE	**2.85%**	71%	100%

Cost of debt = 3.45%

The cost of debt has been estimated as the **sum of the risk-free rate and the default spread related to the interest coverage ratio**. This spread is associated to the level of the ratio EBIT/Interest Expense, which reflects the goodness of the liquidity and solvency position of a company: higher is this ratio, higher is the rating assigned. We computed this ratio from 2010 onwards, and, for all these years, REC has showed a value deeply larger than 8.5, which is the current threshold above which to the company is assigned a triple A. The spread associated to the interest coverage ratio of REC was 0.6% and, considering a R_F of 2.85%, the cost of debt is equal to 3.45%. Our computation is supported by the last average effective interest rate computed by REC, that, applying the rates resulting from the interest rate swaps, is 3.5%

Interest coverage ratio	Rating	Spread
>		
8.5	AAA	0.60%
6.5	AAA	0.80%
5.5	A+	1.00%
4.25	A	1.10%
3	A-	1.25%
2.5	BBB	1.60%
2.25	BB+	2.50%
2	BB	3.00%
1.75	B+	3.75%
1.5	B	4.50%
1.25	B-	5.50%
0.8	CCC	6.50%
0.65	CC	8.00%
0.2	C	10.50%
-1	D	14.00%

Equity risk premium = 7.23%

Also for ERP we have computed a weighted average. For each country we have computed the ERP as the sum of the Mature Market Risk Premium of 5.69% (According to the last estimate provided by Damodaran) and the specific Country Risk Premium, approximated by the Rating-based Default spread based on the local currency sovereign rating di Moodys. Then we have weighted each ERP with the same weights use for the Risk-free rate.

BETA 104 weeks – EUROSTOXX 50 = 0.66

To be consistent with our computations on Risk-free and ERP, in which we have computed a weighted average in relation to the geographical presence of REC, we have decided to regress REC against the EUROSTOXX 50 index: 104 weeks Raw Beta = 0.46; then we have computed the adjusted Beta: Adjusted Beta = 0.64; Then we have unlevered the Beta for the capital structure of the company (94.6% Equity – 5.4% Debt) = 0.62; Finally we have re-levered Beta with target capital structure (88% Equity – 12% Debt) = 0.66

Appendix 4.3 - Blue sky and grey sky

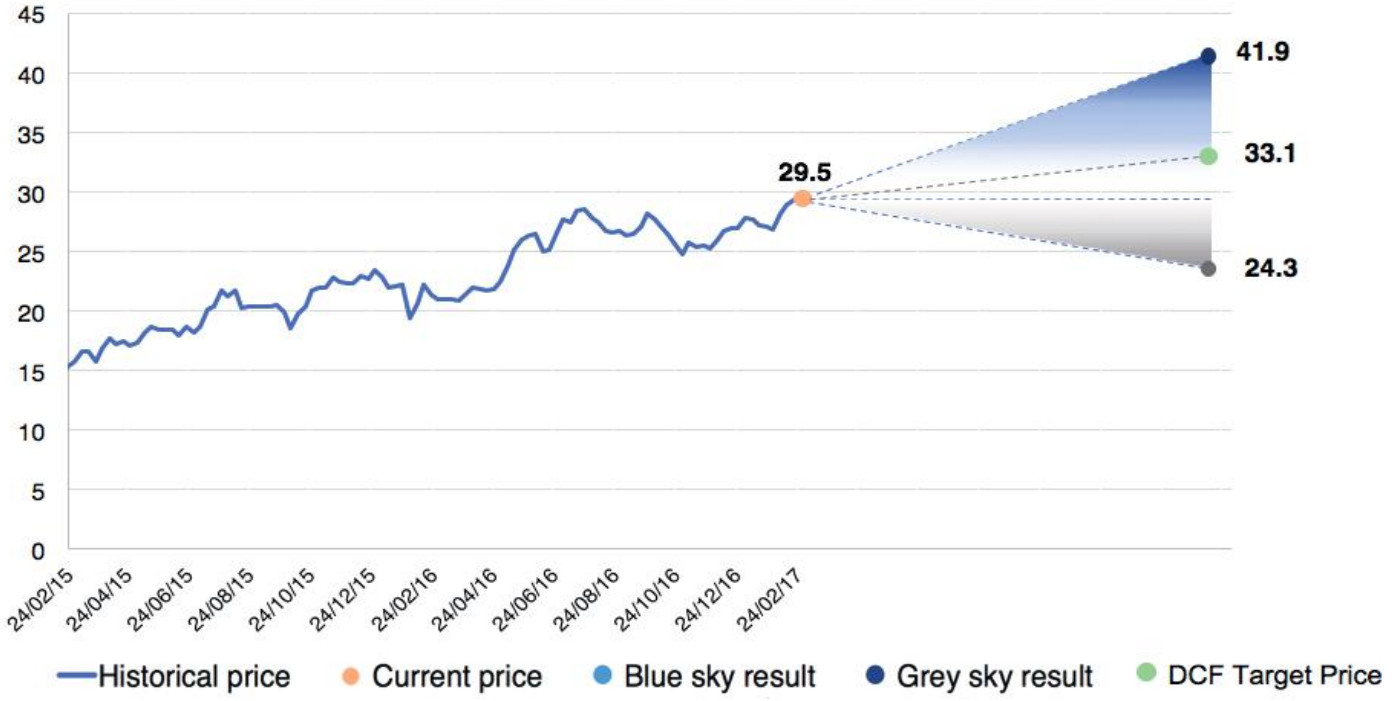
We tried to figure out, through **qualitative assumptions**, **two opposites scenarios** in which we observe how extremely positive and negative circumstances **impact on REC target price.**

As regarding the **Blue sky scenario**, we considered the following possible events: REC will successfully achieve all planned acquisitions and the impact of these acquisitions on revenues is higher than expected; nìew acquisitions will lead to important cost synergies and thus to a positive impact in terms of cost reductions; Zanipress patent expiry in 2017 will not impact on revenues due to new products development; pipeline products will be approved and successfully launched on the market; REC will register higher than expected margins in the Orphan business; business in emerging markets will overperform. In order to include these aspects in our analysis **we decided to add each year a further 7% to the 2017-19 net income disclosed in BP**. Following this approach, we reached a **target price of EUR 41.9**, given a **growth of 10% for 2020-2021** (consistent with the average growth of the previous three years) and a **long-term growth of 3%**, which is sustainable in an extremely positive scenario.

For the **Grey sky scenario**, **we started modelling from our net income estimates for the 2017-19 period. We assumed for each year a 15% reduction**, which may be justified in light of the following: Zanipress patent expiry and generics substitution on the market will affect revenues heavier than expected through a market share reduction; Cariprazina will not be approved and its launch, scheduled for 2018, will be postponed causing an undesired impact on revenues. We have also considered the possible effect of **political instability in emerging markets** in which REC is involved, assuming a **higher risk-free rate** and thus an **increase in the discount factor (Wacc=7.50%)**. Our result was a **target price of EUR 24.03**, given a **growth of 3% for 2020-2021** (in line with the average growth of the previous 3 years) and a **long-term growth of 2.48%.**

Looking at these two scenarios, we built a range between EUR 41.9 and EUR 24.03, with an upside of 42% and a downside of 18.5% against the current price of EUR 29.5 respectively.

Fig. 50 - Blue sky and Grey sky scenario



Source: Factset and Team Estimates

Appendix 4.4 - NPV project on Vitaros®

In this page you will find a table with the complete list of molecules that REC has in its pipeline, and our Net Present Value (NPV) analysis on Vitaros®, a product that is going to be launch in 2017 (Spain).

Fig. 51 - Pipeline

Name	Originator	Indication	Development status
VITAROS®	Apricus	Erectile dysfunction	Approved by a number of health authorities in Europe
CARBAGLU®	Recordati	Organic acidemias	Approved in EU
			Phase III in U.S.A.
CARBAGLU®	Recordati	Hyperammonaemia	New formulations
FORTACIN™	Plethora Solutions	Premature ejaculation	Variation of EU approval completed
methadone		Treatment of cancer related pain in cases of resistance or intolerance to opioids	Filed in France
GRASPA®	Erytech	1) Acute lymphoblastic leukemia (ALL) in patients with first recurrence of Philadelphia chromosome negative ALL	1) Filed in EU
		2) Acute myeloid leukemia (AML) in patients >65 unfit for chemotherapy	2) Phase II b
REC 0438	Recordati/UFPeptides	Overactive bladder (OAB) in patients with spinal lesions	Phase I/II in EU
Reagila®	Gedeon Richter Plc.	Antispychotic for the treatment of schizophrenia	EMA approval expected second half 2017

Fig. 52 - Project NPV on Vitaros®

Cash Flows (mln)		2014	…	2017	2018	2019	2020	2021
		-€ 50.00		€ 15.00	€ 20.00	€ 30.00	€ 40.00	€ 45.00
Royalties 20%				€ 3.00	€ 4.00	€ 6.00	€ 8.00	€ 9.00
Ke	7.64%			7.64%	7.64%	7.64%	7.64%	7.64%
Ke composto				7.64%	15.86%	24.72%	34.24%	44.50%
Tasso di attualizzazione				**0.93**	**0.86**	**0.80**	**0.74**	**0.69**
DCF EVALUATION								
Discounted Cash Flow		-€ 50.00		€ 13.94	€ 17.26	€ 24.05	€ 29.80	€ 31.14
Cumulated				€ 13.94	€ 31.20	€ 55.25	€ 85.05	€ 116.19

NPV
€ 66.19
Option
€ 8.18
Bev
€ 58.01

According to this analysis we evaluated the project by discounting its expected cash flows at a risk-adjusted Ke. Vitaros® (aprostatil) is a topical cream for local treatment of Erectile Dysfunction (ED). In 2014 REC signed an exclusive license agreement with Apricus Biosciences, Inc. (US) to market Vitaros® in Spain, Russia, Turkey, Ireland and other European and African countries. Apricus obtained the right to receive up to approximately EUR 3.8mln as upfront and pre-commercialization payments. REC paid also approximately EUR 47mln in sales milestone payments, plus double-digit royalties.

The NPV of an investment project can be computed by discounting the cash flows generated in time. One risk related to this NPV approach is not to consider the value of the possibility to delay, expand or abandon the project. This is reason why the project can be evaluated as a European Call option (plain vanilla). In order to determine the value of the Call we applied the Black and Scholes model, with inputs defined as:

$$C(S,t) = N(d_1)S - N(d_2)Ke^{-r(T-t)}$$

$$d_1 = \frac{1}{\sigma\sqrt{T-t}}\left[\ln\left(\frac{S}{K}\right) + \left(r + \frac{\sigma^2}{2}\right)(T-t)\right]$$

$$d_2 = \frac{1}{\sigma\sqrt{T-t}}\left[\ln\left(\frac{S}{K}\right) + \left(r - \frac{\sigma^2}{2}\right)(T-t)\right]$$

$$= d_1 - \sigma\sqrt{T-t}$$

In our case, we have that:

- S = Present Value of Cash Flows until patent expiry (expected peak sales EUR 30-50mln)
- K = Initial cost deriving from exclusive license agreement (EUR 50mln, upfront payment & milestones)
- T = Patent life (5 year, until 2021) with initial time t equal to 0
- r = Risk free rate related to the life of the project (2.87%)
- σ = Volatility (25%)

The model returns a Call value of EUR 8.18mln (positive result for S-K), clearly setting out project acceptance. Comparing Vitaros NPV of EUR 66.19mln with EV/SALES of 4.17 (3Y average), it is possible to appreciate the market potential premium of the project in terms of EV (4.4%). Due to REC capability in sustaining and releasing a several number of pipeline projects from time to time, we believe in the reliability of this result to further strengthen our buy recommendation.

Appendix 4.5 - Relative Valuation

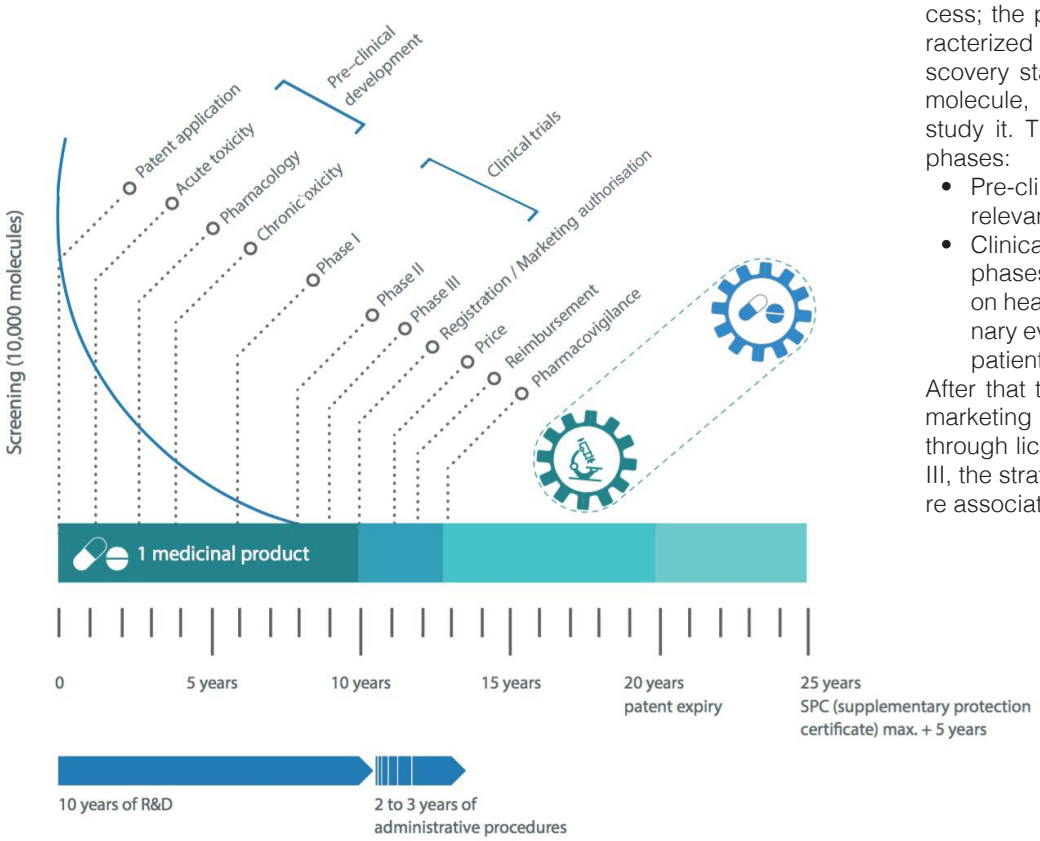
Fig. 53 - Peers multiples analysis

PEERS	TICKER	P/E			EV/EBIT			Dividend Yield			PAYOUT		
		2016A	**2017E**	2018E	2016A	**2017E**	2018E	2016A	**2017E**	2018E	2016A	**2017E**	2018E
RECORDATI	REC	23.6	**23.6**	21.5	17.5	**17.3**	15.9	2.53%	**2.54%**	2.78%	60%	**60%**	60%
IPSEN	IPN	22.6	**22.6**	20.1	15.9	**16.3**	14.6	1.38%	**1.24%**	1.42%	31%	**28%**	29%
LUNDBECK	LUN	46.8	**22.0**	16.4	22.7	**15.1**	12.2	0.85%	**2.29%**	3.29%	40%	**50%**	54%
SHIRE	SHP	28.7	**12.1**	10.4	41.7	**12.9**	11.1	0.51%	**0.60%**	0.72%	15%	**7%**	8%
ROVI	ROVI	23.3	**29.7**	21.3	14.2	**27.5**	19.5	1.30%	**1.26%**	1.54%	30%	**38%**	33%
BEIERSDORF	BEI	26.4	**26.1**	24.2	18.5	**18.6**	17.4	0.88%	**0.83%**	0.83%	23%	**22%**	20%

Source: Team Estimates

Appendix 5.1 - Focus on Pharmacovigilance and Authorization

Fig. 54 - Authorization process



Source: European Federation of Pharmaceutical Industries and Associations

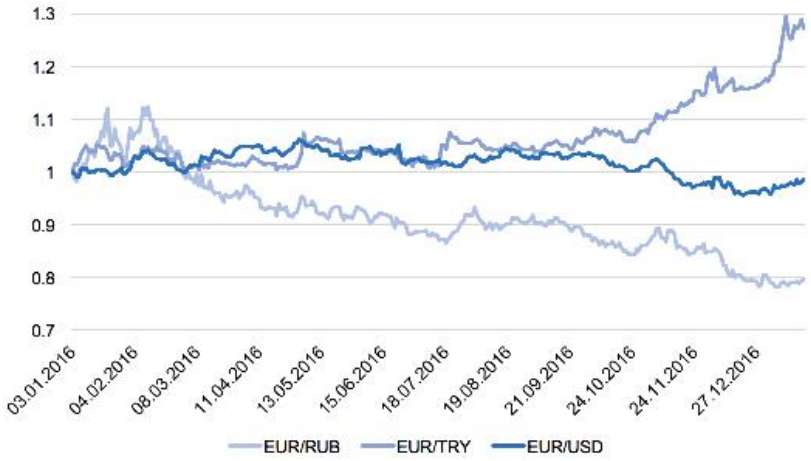
Table represents a generic drug approval process; the procedure is lengthy, costly and characterized by potential risk of failure. Drug discovery starts with ideas for a drug target and molecule, once identified companies starts to study it. The process is composed by several phases:

- Pre-clinical stage: various test in vitro and in relevant animal models
- Clinical trials: it can be divided into three phases. In Phase I, the compound is tested on healthy volunteers. Phase II gives preliminary evidence of efficacy and safety on enrol patients. Phase III

After that the drug is ready for registration and marketing authorization. REC typically operates through license agreement on projects in Phase III, the strategy reduces sensibly the risk of failure associated.

Appendix 5.2 - Focus on currency Risk

Fig. 55 - 2016 currencies fluctuations



Source: Factset

We tested for correlation the three most volatile currency related to REC activities (TRY, RUB and USD), against EUR, from 2016. We focused in particular on TRY and RUB, the correlation is positive but it cannot be considered strength. As written before, the risk is mitigated by the particular structure of Turkish business (cash flows generated both by sales and expenses are denominated in the currency) of the relative country. The Group engages in forward contracts for the purchase and sale of currencies to cover amounts at risk.

Correlation Matrix	EUR/RUB	EUR/TRY	EUR/USD
EUR/RUB	1		
EUR/TRY	0.372	1	
EUR/USD	0.237	0.254	1

Appendix 6.1 - Family-oriented model

In general, the PRO of a family oriented company is represented by the fact that the family generally implement long-term policies that grant cohesion and stability for a long period. On the other side, the negative CONS are:

- Lack of confidence in designating "foreigners" as professional managers, perpetuating the business in the hands of next generations, with high probability of inefficiency
- Possible inclination of owners in implementing opportunistic behaviours and egoistic extraction of private benefits from the company.

REC has historically granted profitability for shareholders in the medium-long term, implementing policies always addressing cohesion and stability in the company. Differently from other family oriented companies, one of the competitive advantages of Recordati is based on the fact that their subsidiaries are all run by local managers: this ensure a better knowledge of foreign markets, and a more stable and trustee relationship between the company and its suppliers in foreign countries. See the Fig. 56 for the composition of the Management.

Fig. 56 - Management Composition

Name	Role within REC	Gender	Nationality
Alberto Recordati	Chairman	M	Italian
Andrea Recordati	Vice-chairman and CEO	M	Italian
Fritz Squindo	General Director and CFO	M	Italian
Enrico Baroncia	Director for Italy	M	Italian
Luca Bolliger	Director Corporate Licensing	M	Swiss
Corrado Castellucci	Director Orphan Drugs	M	Italian
Gabriele Finzi	Corporate Development Director	M	Italian
Daria Ghidoni	General Counsel and Corporate	F	Italian
Antoine Grouès	Director of International Sales to licensees	M	French
Giuseppe Gualazzini	Human Resources Director	M	Italian
Luisa Mainoli	CFO	F	Italian
Bernard Millet	Director Western Europe	M	French
Giovanni Minora	Director of Group Audit	M	Italian
Diego Provvedini	Director of R&D structure	M	Italian
Ismail Yormaz	Director South East Europe and North Africa	M	Turkish
Paolo Romagnoli	Director Medicinal Chemistry	M	Italian
Marianne Tatschke	Director Investor Relations & Corporate Communications	F	Argentine
Roberto Teruzzi	Director of Group Industrial Operations	M	Italian
Witold Urban	Director CEE	M	Polish

Source: Company data

Appendix 6.2 - Comply or explain

Since regarding BOD there exist no Hard Law rules, but only Soft Law ones that are not mandatory but can be discretionally applied by companies, we have decided to evaluate the "goodness" of compliance of ReC to the best practices suggested by the Law and by the Italian Code of Conduct. The summary table below regards regarding the composition of the Board and our evaluation upon the degree of compliance.

Principle	Complying?	Additional information
Non-executive directors should be in major part independent, and should take decision on areas affected by conflicts of interest	✓	All non-executive directors are at the same time independent directors and are active participants within the internal committees
Disclosure and transparency on remuneration policies of directors and further details should be granted	✓	A special section is provided with information in the website of the Company where are published current remuneration policies and stock-option plans
Composition of the BOD: for quality, experience and diversity (for professionalism, gender, origin and culture)	✓/✗	There exist a certain level of diversity for skills and experiences, but, to be a Pharmaceutical company there are too much financial experts (4 out of 8), and there is no diversity in origin and culture since they are all Italian
Within the Board there should be at least three internal Committees, especially for 1) remuneration policies 2) internal audit committee and a third one for 3) nomination of directors	✗	There are two internal committees, one for the remuneration, and the other for internal audit. REC's justifies the absence of the third one on the fact that, until now, have never been encountered difficulties related to nomination proposals and the appointment of directors.
Committees should be composed in major part by independent directors	✓	All members of the two committees are independent directors
If the BOD is composed by more than 7 members, at least 2 directors should be independent	✓	Five out of eight members are independent
Chairman and CEO should be different persons, since the executive responsibilities of the board's chairman should not be in contrast with its duty of supervision	✓/✗	Until August 2016 Giovanni Recordati has always been at the same time Chairman and CEO. After his death Alberto Recordati has became Chairman and Andrea Recordati Vice-Chairman and CEO.
The nomination of shareholders should be based on the voting list system, and least 1 members of the BOD should represent minority shareholders	✓	REC follows the voting list system
The administrative, managerial and supervisory bodies should include in total an appropriate balance of executive/managing and non-executive/supervisory	✓	Five out of eight members are non-executive
BoD is called at least once a year to to carry on a self-assessment evaluation regarding the composition of the Board, its competence, and its performances	✓	In recent years the process of self-assessment of the Board of Directors has always confirmed a good composition of the board
Diversity of the gender: at least 1/3 of the members should be persons belonging to the less represented gender of the Board	✗	Only 2 out of eight members of the Board are female, which is the gender less represented
The BOD should meet at regular intervals and should be granted the involvement of all directors	✓	On average REC's BOD meets 7 times in a year, and, on average, are present the 95% of directors

Appendix 6.3 - Remuneration

The last remuneration policy has been approved by the Board of Directors of the Company on March 8th 2016, following the proposal drafted by the Remuneration Committee.

- **Non-executive directors'** compensation is composed by a fixed amount, increased by an amount related to the participation of Committees (Risk and Remuneration Commitees), and by an additional remuneration for the presidents of the two.
- **Executive directors'** compensation is divided into two components: a fixed part based on the position held, and a variable part based on annual performances. In particular, the variable part is related to three objective specifically assigned to each director, among which two are personal, and the other is linked to the level of the Ebitda margin reached. Then, to each objective is associated a measurement indicator that assumes a certain value in relation to the "goodness" of the director's performance; the weighted average of these indicators will define the variable remuneration.

Stock-option plan. Recordati has approved in 2014 a stock-option plan, that will continue until 2018. According to the current plan, those who hold a certain position within the Company – unless exceptions only executive directors – are automatically entitled to benefit from the distribution of a certain number of stock options, without constraints related to performances; unlike the attribution, however, the possibility to exercise such options is linked to the achievement of certain objectives for the Company, mainly related to the reached level of consolidated Net Income. If this result is achieved, the assigned stock options, however, can not be exercised immediately. **The total amount of stock-option assigned is divided into four separate tranches, each consisting of 25%: the first tranche is exercisable from one year after the attribution, the second from two years after, the third from one three years after, and the last that can be exercised only four years after the attribution.**

Fig. 57 - Last remuneration plan update at March 2016

Board of Directors (*)	Description of Office (C)			Remuneration (4)							
(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
First Name and Last Name	Position	Period in which the position was held	Expiry of term of office	Fixed remuneration (EUR)	Remuneration for attendance on committees	Non-equity variable remuneration (EUR)		Non-monetary benefits (EUR)	Other remuneration (EUR)	TOTAL (**) (EUR)	Fair value of equity remuneration (EUR)	End of term of office or of employment relationship indemnity (EUR)
						Bonuses and other incentives	Share in profits					
Giovanni Recordati	Chaiman, CEO, General Manager	2015	Approval of 2016 Annual Report	(i) 40 (ii) 100 (iii) 780	0	480	0	27	0	1,427	164	0
Alberto Recordati	Vice-Chairman	2015	Approval of 2016 Annual Report	(i) 40 (ii) 50 (iii) 440	0	132	0	0	0	662	82	0
Rosalba Casiraghi	Director	2015	Approval of 2016 Annual Report	(i) 40	10 (b)	0	0	0	0	50	0	0
Michaela Castelli	Director	2015	Approval of 2016 Annual Report	(i) 40	10 (b)	0	0	0	0	50	0	0
Paolo Fresia	Director	2015	Approval of 2016 Annual Report	(i) 40	0	0	0	0	0	40	0	0
Mario Garraffo	Director	2015	Approval of 2016 Annual Report	(i) 40	20 (a) 10 (b)	0	0	0	0	70	0	0
Carlo Pedersoli	Director	2015	Avv. Pedersoli resigned is directorship on 8th March 2016	(i) 40	10 (d)	0	0	0	0	50	0	0
Andrea Recordati	Director	2015	Approval of 2016 Annual Report	(i) 40 (iii) 402	0	120.5	0	0	0	562.5	76	0
Fritz Squindo	Director	2015	Approval of 2016 Annual Report	(i) 40 (iii) 605	0	180	0	3	0	828	82	0
Marco Vitale	Director	2015	Approval of 2016 Annual Report	(i) 40	20 (c)	0	0	0	50 (1)	110	0	0

Light grey lines refer to persons who are no more BOD members at current date.

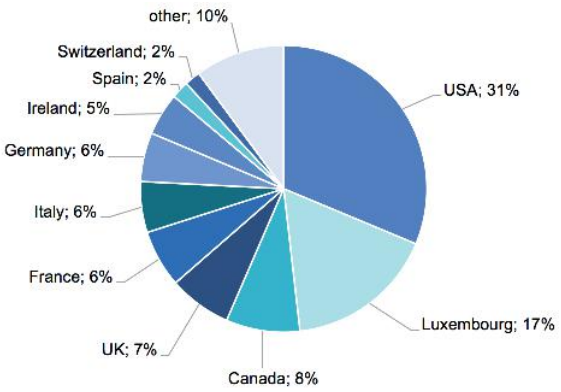
* Directors receive remuneration solely from the Company Recordati S.p.A. (and not therefore from its subsidiaries or associates).
** The"Total" in column (6) contains the sum of items (1) to (5).
FIXED REMUNERATION: (i) Emoluments approved by shareholders even if not paid. (ii) Remuneration for special positions pursuant to Art. 2389, paragraph 3 of the Italian Civil Code. (iii) Fixed employee remuneration gross of social security payments and tax borne by the employee, net of compulsory collective social security payments borne by the Company. Neither attendance payments nor lump-sum expense reimbursements are paid.
REMUNERATION FOR ATTENDANCE ON COMMITTEES: (a) For the position of Chairman of the Remuneration Committee. (b) For the position of member of the Remuneration Committee. (c) For the position of Chairman of the Audit and Risk Committee. (d) For the position of member of the Audit and Risk Committee.
OTHER REMUNERATION: (1) For consulting activity. (2) For the position of Chairman of the Supervisory Committee of the Company
FAIR VALUE OF EQUITY REMUNERATION: The portion of equity remuneration paid recognised in the financial statements."

Appendix 6.4 - Equity and Shareholders composition

Minority Shareholders. **Even if there is only one director representing minority Shareholders, there are specific factors that grant an indirect protection to this category of investors.** In particular we noticed that **REC has only "ordinary shares", with normal voting rights according to the principle one share one vote.** The absence of dual or multiple class of shares, with different incorporated voting rights, prevents majority shareholders to retain voting control and to condition decisions taken during the General Assembly Meetings of Shareholders. **In addition, there are no poison pills or relevant pre-agreements between Shareholders.**

Shareholders composition. In REC there is a high block ownership, since the 52% of equity is in the hands of FIMEI S.p.A., the holding of the Recordati family. However, REC has increased the % of institutional ownership, and enlarged the geo-base of investors. Although its family-oriented model, REC is able boast the confidence of markets and investors all over the world (Fig. 58).

Fig. 58 - Shareholders geo-base



Source: Factset and Team Estimates

Important disclosures
*Since the reference date of our analysis is 24 Feb 2017, we were not able to incorporate the Meyer hospital license agreement in our recommendation.

Guide to fundamental research
In our recommendation, we used the following equity rating system, which is not related to market performance and whose key is reported below:
Equity rating key (long-term horizon: 12M)
- BUY: stock is expected to outperform the market by over 10% over a 12M period
- OUTPERFORM: stock expected to outperform the market by between 5% and 10% over a period of 12M
- HOLD: stock performance expected at between -5% and +5% compared to the market over 12M period
- UNDERPERFORM: stock expected to underperform the market by between -5% and -10% over a period of 12M
- SELL: stock is expected to underperform the market by over 10% over a 12M period

Disclosures:

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