S&P Global
Ratings

Press Release

Luxembourg-Based Pharma Company Rossini Acquisition Assigned Preliminary 'B' Rating; Outlook Stable

- Funds advised by a consortium of private equity funds led by CVC Capital Partners and co-investors are acquiring FIMEI SpA, the holding company that controls about 53.3% of Italy-based pharmaceutical company Recordati SpA. The total consideration of the acquisition is €3.033 billion.
- The company is raising €1,280 million senior secured notes due 2025 to finance the acquisition. The Recordati family receives part of the consideration in the form of deferred and structurally subordinated notes of €750 million. Management will reinvest about €78 million into the business.
- We are assigning our preliminary 'B' long-term issuer credit rating to Rossini Acquisition Sarl, the holding company of FIMEI SpA. We are assigning our preliminary 'B' issue rating to the senior secured notes issued by Rossini Sarl.
- The stable outlook reflects our forecast that Recordati's operating performance should remain resilient over the next 18 months, providing healthy cash flow that enables Recordati to distribute a stable dividend stream that will allow Rossini Acquisition to fulfil its obligations.

LONDON (S&P Global Ratings) Oct. 8, 2018--S&P Global Ratings today assigned its preliminary 'B' long-term issuer credit rating to Rossini Acquisition Sarl (Rossini), a holding company above Italy-based pharmaceutical company Recordati SpA. The outlook is stable.

We also assigned a preliminary 'B' issue rating and '4' recovery rating to the €1,280 million senior secured notes due 2025 (in a combination of floating rate notes and fixed rate notes) issued by Rossini Sarl. The capital structure also includes a super senior revolving credit facility (RCF) of €250 million due 2025, assumed undrawn at closing.

The final ratings will be subject to the successful closing of the proposed issuance and will depend on our receipt and satisfactory review of all final transaction documentation. Accordingly, the preliminary ratings should not be construed as evidence of the final ratings. If the final debt amounts and the terms of the final documentation depart from the materials we have already reviewed, or if we do not receive the final documentation, we reserve the right to withdraw or revise our ratings.

Our preliminary rating on Rossini follows CVC Capital Partners' and co-investors' announced acquisition of FIMEI SpA, the holding company that controls a 53.3% interest in Recordati. The remaining shares are publically listed on the Milan Stock Exchange.

Recordati is dedicated to the development, manufacturing, and marketing of pharmaceuticals for specialty and primary care, as well as orphan drugs for

the treatment of rare and ultra-rare disease. Recordati is focused in two key segments: specialty pharma and primary care (84% revenues and 77% of EBITDA in financial year 2017, which includes over-the-counter [OTC] products); and rare disease (16% of revenues and 23% of EBITDA).

For financial year (FY) 2017, the group generated reported revenues of about €1.29 billion (€1.15 billion in FY2016) and reported EBITDA of about €454.7 million (€365.4 million in FY2016). The group's EBITDA margin improved to about 35.3% (from 31.7% in FY2016).

Our business risk profile reflects Recordati's well-diversified portfolio of products in different therapeutic areas, such as cardiovascular (which generated about 28% of total 2017 revenues); gastro and metabolic (about 15%); and urology (10%). These are considered niche categories that do not attract as much interest from big pharmaceuticals. Recordati's orphan drugs portfolio comprises 10 products, mainly in the metabolic disorders therapeutic area. Recordati enjoys a fully vertically integrated business model from API to finished products, ensuring cost competitiveness and high product quality. This model drives margins and protects the supply chain because about 60% of the group's net revenue is derived from internally sourced and manufactured products.

Despite Recordati's limited size compared with big pharma companies like Pfizer, Roche, and Sanofi, we take a positive view of the group's global footprint. Its products are approximately in 140 markets, both directly through its on-the-ground sales force and through distribution agreements. The company operates principally in Western Europe (the source of about 54% of 2017 total revenue), where its main market of Italy accounts for 20% of total revenue. The next largest single markets are France and Germany (10% of 2017 total revenue) and the U.S. (9%, limited to orphan drugs products only). We also take into account Recordati's good exposure to emerging markets, including Russia, Turkey, and other Central and Eastern European countries.

We view the European generics market as fragmented and price-competitive, with growth trends driven by volume rather than pricing, as governments are carefully reviewing health care spending. We expect the market to grow at a compound annual rate of about 4% in 2017-2022, fueled by new molecule launches and low price erosion. It also benefits from aging populations and an increasing prevalence of chronic diseases, amid a stable regulatory environment.

Specifically in the off-patent branded industry, we anticipate more acquisition opportunities given the growing number of drugs with patents expiring in 2018-2022. However, there is some uncertainty about the price of these off-patent drugs given the increase in competition in that space. We expect global orphan drugs market sales to grow by double digits in the next few years, reaching above $200 billion by 2022. Orphan drugs have some advantages over prescription drugs, in terms of development (estimated at under five years from Phase II compared with six-to-eight years for prescription drugs), approval time (about 11 months compared with about 16.5 months for prescriptions), and approval success. Additionally, the orphan drugs have a faster initial uptake due to large unmet need, and though they are slower to reach peak sales (generally there are fewer sales resources and it is more difficult to capture the full patient population), the orphan drugs category is also slower to decrease in sales due to lower generic pressure. Growth prospects reflect the large number of unmet diseases, as only about 500 treatments exist for more than 6,800 rare diseases that have been identified. The new products in this category are often more effective than existing products, have lower competition given the small spectrum of cases, and present a relatively low burden to payors given that they remain small in relation to total health care spending.

Our assessment of Recordati's business risk profile is constrained by the maturity of its product portfolio, mainly in the specialty and primary care division. Only 10% of revenues are protected by patents or regulatory exclusivity. Positively, this means that the "patent cliff" is only a risk for a limited proportion of Recordati's sales, the affected drugs being Urorec (for treating prostatic hyperplasia) expiring in 2020 (patented in Europe until 2018, with clinical data exclusivity until 2020) and Livazo (for hypercholesterolaemia) expiring in 2021. We expect the resulting decline in sales will likely be partially offset by the launch of new products such as Reagila in a new therapeutic area, schizophrenia, together with Fortacin and notably Seloken (in the cardiovascular area, following an acquisition Recordati made in mid-2017).

Growth will also come from the expansion of existing products in new markets. The orphan drugs portfolio currently features 10 treatments for rare and hard-to-treat diseases. For this division, Recordati develops products in-house and acquires them at a late stage, where some clinical evidence already exists that can limit the possible failure in the development process. In this division, growth will be fueled by the launch of Cystadrops (for nephropathic cystinosis), the U.S. launch of Carbaglu, and the acquisition of the marketing rights in North America for Cystadane. The underlying market for orphan drugs has great potential and Recordati has been able to create a track record in developing new products and building good relationships with patients associations and leading clinicians, providing a unique global platform able to sell and market rare disease products around the world.

The OTC division also provides stability to the business. Growth in this division will partially derive from three new products Recordati has bought from Bayer's consumer health division for the French market: Transipeg, TransipegLIB (both macrogol-based laxatives for the treatment of symptomatic constipation in adults), and Colopeg, which is a large volume bowel cleanser indicated in preparation for endoscopic exploration.

In the specialty and primary care division, Recordati's strategy is to focus mainly on manufacturing and marketing products licensed from third parties or bought via mergers or acquisitions. In our view, this allows the group to be less capital-intensive than competitors as it requires less in-house research and development (R&D). This will bolster profitability but still requires the company to cover the licensing and royalty costs.

Recordati has a good reputation in the pharma industry, which enables it to in-license products thanks to its well-developed distribution platform and geographical reach. That said, this model limits the group's growth, which in our view is too closely linked to the successful identification of acquisition targets among third-party products. This exposes the group to a potential lack of targets in the market or expensive acquisitions with a long payback period.

We understand that internal R&D is mostly utilized for the development of the orphan drugs division. In our view, Recordati's R&D investment is currently below market average; its R&D ratio is low compared with peers (8% of revenues in 2017). As a result, the pipeline in this division is not strong.

Although company growth depends to an extent on externally sourced products, Recordati has demonstrated a track record in delivering organic growth and increasing profitability every year. Its reported EBITDA margin was 35.3% in FY2017. Margin growth is related to top-line growth, which is fueled primarily by Urorec and Livazo, the orphan drugs division, and successful in-licensing and acquisition activities. The group is well-diversified geographically, with no country accounting for more than about 20% of total revenues, no major concentration in one therapeutic area (the top exposure, cardiovascular,

represents 28% of total revenues), and no single products that represent more than 10% of revenues (Zanidip generates 9%).

The main strengths of the business are its established track record in in-licensing products (27% of total products are licensed, by revenue in 2017; the rest are owned), careful selection of targets that suit the current portfolio, and its growth potential. The latter will come from expanding current products in new markets. The company can use its good relationships with the big pharma companies that are willing to collaborate with a reliable partner such as Recordati. The biggest cost for the company is staff; they are crucial to the business model--particularly the sales force.

Our highly leveraged assessment of the financial risk profile reflects Rossini Acquisition's 100% ownership by financial sponsor CVC Capital Partners and co-investors. It also reflects the fact that CVC and co-investors will have 53.3% (net of treasury shares held by Recordati as of June 30, 2018) ownership of Recordati (through Rossini and Rossini Sarl) after acquiring FIMEI, giving the private equity fund full control of Recordati,its dividend policy, and therefore access to 53.3% of dividends. Ownership on a fully diluted basis is approximately 51.8% as of June 2018. We expect Rossini to post an S&P Global Ratings-adjusted ratio of funds from operations (FFO) to debt of about 6.5% and FFO cash interest coverage (including a dividend to minorities as a fixed charge) slightly below 2x over 2019-2020.

We treat the dividend to minorities as interest costs because we consider that it could be replaced by interest expenses in the event that Rossini increases its equity stake in Recordati with a debt-funded transaction. That said, we consider this scenario to be unlikely; given the current share price of about €30 per share, the mandatory tender offer would likely be set at €28 per share.

We expect Rossini to generate discretionary cash flow above €120 million in 2018 and €140 million-€150 million thereafter (after payment of interests and dividends to minorities). The rating is also supported by Recordati's healthy free operating cash flow (FOCF) generation, which we expect to be above €300 million in 2019. It will support Recordati's ability to distribute enough dividends to Rossini (53.3% of total dividend) to ultimately fund Rossini's interest obligation.

According to our forecasts, Recordati will distribute dividends of 65%-70% of its net income in line with the historical trend.
Our base case assumes:

- S&P Global Ratings-adjusted EBITDA of €475 million-€480 million in 2018 and about €500 million-€505 million in 2019.
- Recordati will be able to expand its profitability metrics, supported by high-margin generation, new launches, cost-efficiency initiatives, and the expansion of existing products in new geographies.
- Annual capital expenditure (capex) of about €30 million over the next two years.
- No annual acquisitions assumed.
- No dividends payments from Rossini to its shareholders.
- No shareholder loans in the capital structure as we assume that the equity injection from CVC to finance the acquisition is common equity.

Based on these assumptions, we arrive at the following credit measures:

- Adjusted FFO to debt of 6.5%-7.0% in 2019 and 2020.
- Adjusted FFO cash interest coverage ratio slightly below 2.0x in 2019-2020.
- Adjusted FOCF generation at the Rossini level comfortably above €150 million-€160 million in 2019-2020.

The stable outlook reflects our view that the performance of Rossini's operating subsidiary Recordati should be resilient and the company will be able to generate a stable reported EBITDA margin of about 37.5% during the next 12 months. In our view, the company's EBITDA margin should be supported by a more favorable product mix, offsetting some price pressures in the industry. Under our base-case scenario, we assume that the company will have a weighted-average adjusted FFO-to-debt ratio of about 6.5% over 2019-2020 and FFO cash interest coverage of about 2.0x in 2019-2020.

We could lower the rating if Rossini's FFO cash interest coverage falls below 1.5x. This could happen if Recordati suffered an operational setback affecting its top-line or profitability, possibly the result of an unexpected tightening of reimbursement terms, or increasing product competition reducing the company's ability to replace declining revenues with newly acquired licenses. We could also consider a negative rating action if FOCF at the Recordati level deteriorates beyond our expectations, affecting its ability to pay dividends to Rossini.

We could consider an upgrade if the company demonstrates a sound track record of adjusted FFO to debt consistently above 12% and FFO cash interest above 2.0x on a sustained basis. Prospects for a higher rating would be supported by Recordati improving its profitability above the market average (40%) due to successfully replenishing its pipeline after the expiry of patents.

RELATED CRITERIA

- **Criteria - Corporates - General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers**, Dec. 7, 2016
- **Criteria - Corporates - Recovery: Methodology: Jurisdiction Ranking Assessments**, Jan. 20, 2016
- **Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers**, Dec. 16, 2014
- **Criteria - Corporates - General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities**, April 29, 2014
- **Criteria - Corporates - Industrials: Key Credit Factors For The Pharmaceutical Industry**, April 8, 2014
- **Criteria - Corporates - General: Corporate Methodology**, Nov. 19, 2013
- **General Criteria: Country Risk Assessment Methodology And Assumptions**, Nov. 19, 2013
- **General Criteria: Group Rating Methodology**, Nov. 19, 2013
- **General Criteria: Methodology: Industry Risk**, Nov. 19, 2013
- **Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments**, Nov. 19, 2013
- **General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers**, Nov. 13, 2012
- **General Criteria: Use Of CreditWatch And Outlooks**, Sept. 14, 2009

Press Office Contacts:
London: +44 20 7176 3605
Paris: +33 1 44 20 6740
Frankfurt: +49 69 33 999 182
Milan: +39 02 72 111 245
Moscow: +7 495 783 4009

S&P Global Ratings is the world's leading provider of independent credit ratings. Our ratings are essential to driving growth, providing transparency and helping educate market participants so they can make decisions with confidence. We have more than 1 million credit ratings outstanding on government, corporate, financial sector and structured finance entities and securities. We offer an independent view of the market built on a unique combination of broad perspective and local insight. We provide our opinions and research about relative credit risk; market participants gain independent information to help support the growth of transparent, liquid debt markets worldwide.

S&P Global Ratings is a division of S&P Global (NYSE: SPGI), which provides essential intelligence for individuals, companies and governments to make decisions with confidence. For more information, visit**www.spglobal.com/ratings**.

Update Profile:
If you would like to update your information (telephone number, email address, company, etc.) or change the sectors you receive press releases on, please **click here**.

Visit **SPRatings.com**, a free, interactive, and informative portal to access highlights from our credit research offerings. Consider this your portal to perspective: **www.spratings.com**.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, **www.standardandpoors.com** (free of charge), and **http://www.ratingsdirect.com** and**www.globalcreditportal.com** (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at **www.standardandpoors.com/usratingsfees**.

Australia

Ratings are statements of opinion, not statements of fact or recommendations to buy, hold, or sell any securities or make any other investment decisions. S&P Global Ratings Australia Pty Ltd holds Australian financial services license number 337565 under the Corporations Act 2001. S&P credit ratings and related research are not intended for and must not be distributed to any person in Australia other than a wholesale client (as defined in Chapter 7 of the Corporations Act). Australian users should only access information about S&P's products and services from **www.standardandpoors.com.au**. Other S&P Websites are not intended for Australian users.

To manage your S&P Global Ratings subscription preferences, please click **here**.

S&P Global Ratings, 55 Water Street, New York, NY 10041