Intermonte

Milan, 07 October 2024

Italian Equity Research – Company Update

RECORDATI

OUTPERFORM

Sector: Healthcare

Price: Eu51.85 - **Target: Eu63.00**

Acquisition of Enjaymo to Boost Rare Disease Franchise

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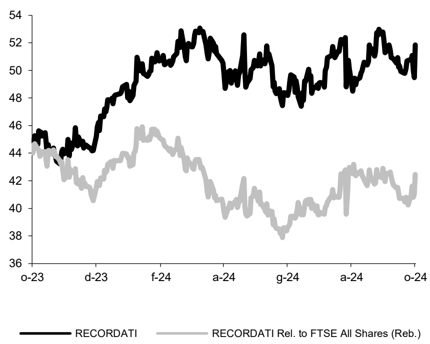
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 62.00 to 63.00
	2024E	**2025E**	**2026E**
Chg in Adj EPS	0.0%	3.8%	4.5%

Next Event

3Q24 Results Out 8 November 2024

RECORDATI - 12M Performance



Stock Data			
Reuters code:			RECI.MI
Bloomberg code:			REC IM
Performance	**1M**	**3M**	**12M**
Absolute	-0.4%	5.6%	17.8%
Relative	-0.1%	7.3%	-4.3%
12M (H/L)			53.08/43.23
3M Average Volume (th):			227.08

Shareholder Data	
No. of Ord shares (mn):	209
Total no. of shares (mn):	206
Mkt Cap Ord (Eu mn):	10,843
Total Mkt Cap (Eu mn):	10,843
Mkt Float - Ord (Eu mn):	5,224
Mkt Float (in %):	48.2%
Main Shareholder:	
FIMEI	51.8%

Balance Sheet Data	
Book Value (Eu mn):	1,865
BVPS (Eu):	8.92
P/BV:	5.8
Net Financial Position (Eu mn):	-2,375
Enterprise Value (Eu mn):	13,218

- **Acquisition of global rights to Enjaymo.** Last Friday, Recordati announced an accord with Sanofi to purchase the global rights on Enjaymo® (sutimlimab), the sole product approved to treat cold agglutinin disease (CAD), a rare lymphoproliferative disease of B cells. Financials: Enjaymo revenues of circa €100mn in the twelve months to August 2024 and forecast of revenues above €150mn in 2025, with a potential peak of total annual sales at €250-300mn, double the current level. Subject to the closing date, Recordati foresees a minimal contribution to revenues in 2024. Deal expected to be immediately accretive to EBITDA, with profitability the average for rare diseases starting from 2025. Cashout: US$825mn up-front; additional payments linked to commercial thresholds up to US$250mn, if net revenues top peak expectations for total annual sales. Closing foreseen by the end of 2024, subject to regulatory authorisation. Funding through existing liquidity and new bank funding already in place. Net debt expected to be circa 2.4-2.5x EBITDA (pro-forma) as at end-2024 and at least 2.0x EBITDA as at end-2025 on the basis of no further M&A.
- **Positive feedback from management call.** Recordati is acquiring full global rights to Enjaymo, marking a full acquisition rather than a licensing agreement. Management is confident of achieving peak sales and does not see competition risk as Enjaymo has a unique position in treating CAD. The addition of the product will also generate strong synergies by leveraging Recordati's existing relationships with haematologists and the distribution network established with Sylvant, enhancing its presence in the US and Europe. In addition, the agreement differs from prior deals, offering Recordati full economic control and better margins without a supply-sharing agreement like the one signed last year with GSK for Avodart and Combodart. The M&A strategy is confirmed, with management looking at further opportunities to expand its rare disease and specialty care business while maintaining financial discipline and not being forced to pursue any new deals in the short term.
- **Change in estimates.** We incorporate the full acquisition cashout in FY24 net debt and we raise our FY25-26 revenue/EBITDA estimates by 6/7%, assuming an initial c.44% margin in FY25 for Enjaymo®, above our current estimate for the rare diseases segment (c. 42%). This translates into mid-single digit accretion at EPS level and an increase in leverage to 2.3x as at YE25 (from previous 1.3x), reducing to 1.9x as at YE26.
- **OUTPERFORM confirmed; target raised to €63 (from €62).** We welcome the acquisition of Enjaymo as it will strengthen Rare Diseases, taking the segment to over 40% of overall turnover in 2026, and further differentiate the Group business profile in terms of pipeline (Enjaymo® complementary to the Onco portfolio, in particular with Sylvant®) and geographically (further expansion in USA, Japan and Europe). It should also enable Recordati to exceed FY25 targets (which we now expect to be improved) by 8-10% (FY25: >€2.4bn sales, ~37% margin). Beyond organic delivery and further upside from M&A, we continue to see speculative appeal linked to a potential exit by majority shareholder CVC, especially in the event of a merger deal with an industrial buyer, a scenario favoured by the extreme fragmentation of the market and company's increasing exposure to Orphan Drugs. Furthermore, a deal involving 100% of Recordati could guarantee attractive synergies, justifying a premium to current market valuations.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	1,853	2,082	2,324	2,600	2,730
EBITDA Adj (Eu mn)	673	770	858	975	1,032
Net Profit Adj (Eu mn)	473	525	573	635	685
EPS New Adj (Eu)	2.263	2.509	2.738	3.035	3.275
EPS Old Adj (Eu)	2.263	2.509	2.738	2.925	3.133
DPS (Eu)	1.150	1.200	1.350	1.614	1.774
EV/EBITDA Adj	15.4	13.8	15.4	13.4	12.5
EV/EBIT Adj	19.3	16.9	18.9	16.2	15.0
P/E Adj	22.9	20.7	18.9	17.1	15.8
Div. Yield	2.2%	2.3%	2.6%	3.1%	3.4%
Net Debt/EBITDA Adj	2.1	2.1	2.8	2.3	1.9

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:
- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium of 5.5% are being used.
Frequency of research: quarterly.
Reports on all companies listed on the S&PMIB40 Index, most of those on the MIDEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.
A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.
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BUY: stock expected to outperform the market by over 25% over a 12 month period;
OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;
NEUTRAL: stock performance expected at between +10% and – 10% compared to the market over a 12 month period;
UNDERPERFORM: stock expected to underperform the market by between –10% and -25% over a 12 month period;
SELL: stock expected to underperform the market by over 25% over a 12 month period.
Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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BUY:	28.24 %
OUTPERFORM:	48.09 %
NEUTRAL:	23.67 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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BUY:	55.74 %
OUTPERFORM:	34.43 %
NEUTRAL:	09.83 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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