

RECORDATI

Sector: Healthcare

OUTPERFORM

Price: Eu48.82 - Target: Eu62.00

Top Line Strength Boosts FY Outlook. Compelling Entry Point

Giorgio Tavolini +39-02-77115.279
 giorgio.tavolini@intermonte.it

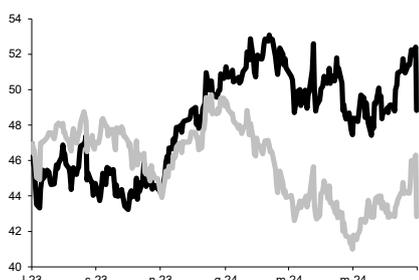
Stock Rating

Rating:	Unchanged		
Target Price (Eu):	Unchanged		
	2024E	2025E	2026E
Chg in Adj EPS	0.6%	0.5%	0.5%

Next Event

3Q24 Results Out 8 November 2024

RECORDATI - 12M Performance



— RECORDATI — RECORDATI Rel. to FTSE All Shares (Rel.)

Stock Data

Reuters code:	RECI.MI		
Bloomberg code:	REC IM		
Performance	1M	3M	12M
Absolute	0.2%	-2.5%	4.3%
Relative	-1.9%	-2.9%	-10.2%
12M (H/L)	53.08/43.23		
3M Average Volume (th):	243.50		

Shareholder Data

No. of Ord shares (mn):	209
Total no. of shares (mn):	206
Mkt Cap Ord (Eu mn):	10,210
Total Mkt Cap (Eu mn):	10,210
Mkt Float - Ord (Eu mn):	4,919
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:	5.5
Net Financial Position (Eu mn):	-1,384
Enterprise Value (Eu mn):	11,593

■ **2Q24 results.** 2Q results were broadly in line with consensus (slightly above our estimates) on the top line, adj. EBITDA and net profit. The strong business momentum continued into 2Q in both Specialty & Primary Care and Rare Diseases. Net revenues stood at €557.2mn, up 17.2%. We estimate c.9.4% organic growth in 2Q (+8.8% in 1H), excluding 1.8pp in ForEx tailwinds and c.€30mn of revenues from Avodart® and Combodart®/Duodart®. On a like-for-like basis, S&PC growth experienced a sequential slowdown (1Q: +10.1%, 2Q: +4.7%, 1H: +7.6%) but showed double-digit growth for Eligard and resilience in the established Cardio portfolio. On the other hand, RRD posted an impressive acceleration (1Q: +13.9%, 2Q: +18.0%, 1H: +15.9%) driven by continued strength of Endo and Onco franchises, with the erosion of Metabolic easing off. The adj. EBITDA margin came to 36.1% (-1.5pp YoY, -1pp vs exp.) with a negative product/country mix and the consolidation of Avodart® and Combodart® / Duodart® diluting the adj. gross margin in 2Q (69.0%, -2.9pp YoY), not entirely offset by strong revenue and operating leverage on OpEx. The company revised FY guidance ranges upwards by c.1% on the back of the strong 1H results and the continued business momentum.

■ **Buying opportunity after yesterday's unjustified sell-off:** we are unable to fathom yesterday's poor stock reaction (-6.8%) to what were supportive results overall, with a low single-digit improvement expected in consensus estimates. In our view, the only mildly negative operational elements were: a) the failure of Phase 2 REC-0559, but this is not included in current guidance and remains an opportunity on which the company is still working; b) a slightly weaker gross margin due to the unfavourable product/country mix. On the other hand, management made positive remarks on Isturisa®: sNDA was submitted in June for Cushing's syndrome label extension in the US, with a decision expected in mid-2025.

■ **Change in estimates.** We are raising our FY24 revenue/EBITDA/adj. net profit estimates by 1%, in line with the mid-points of the new target ranges.

■ **OUTPERFORM confirmed; target still €62.** Robust revenue growth momentum continued in 2Q, with more visibility on key R&D pipeline projects (especially Isturisa). Beyond organic delivery, focus on the stock is linked to a potential exit by majority shareholder CVC. It is hard to say whether the recent refinancing of the Rossini vehicle could reduce CVC's urge to seek an immediate exit. The fund entered Recordati 6 years ago and since then the stock has ensured CVC an unlevered equivalent annual return in the mid-teens area (high-teens on a levered basis) based on an entry price of €28 and on the reinvestment of dividends accrued so far (c.€6.4/share). Nevertheless, we see room for a further premium of c.27% at current prices, with an exit at ~€61-62/share (our TP €62); at this level, the stock would trade at 16x EV/EBITDA'25E (currently 13x) and 21x P/E'25 (currently 17x), broadly in line with the average of the last 5 years. Our preference would be a potential merger with an industrial buyer, a scenario favoured by the extreme fragmentation of the market and Recordati's exposure to the attractive Orphan Drugs business (c.40% of Group EBITDA in FY23), which boasts double-digit growth and margins (over 40%), far higher than Specialty&Primary Care. Furthermore, it would preferably be a deal involving 100% of Recordati that could guarantee attractive industrial 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	2,450	2,568
EBITDA Adj (Eu mn)	673	770	858	909	958
Net Profit Adj (Eu mn)	473	525	573	612	655
EPS New Adj (Eu)	2.263	2.509	2.738	2.925	3.133
EPS Old Adj (Eu)	2.263	2.509	2.723	2.911	3.118
DPS (Eu)	1.150	1.200	1.350	1.546	1.686
EV/EBITDA Adj	15.4	13.8	13.5	12.6	11.7
EV/EBIT Adj	19.3	16.9	16.6	15.3	14.2
P/E Adj	21.6	19.5	17.8	16.7	15.6
Div. Yield	2.4%	2.5%	2.8%	3.2%	3.5%
Net Debt/EBITDA Adj	2.1	2.1	1.6	1.3	1.1

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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&PMB40 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.

Explanation of our ratings system:

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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As at 30 June 2024 Intermonte's Research Department covered 116 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	23.97 %
OUTPERFORM:	49.59 %
NEUTRAL:	25.61 %
UNDERPERFORM	00.83 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (49 in total) is as follows:

BUY:	38.78 %
OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short
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