Intermonte

Milan, 11 November 2024

Italian Equity Research – 3Q24 results

RECORDATI

OUTPERFORM

Sector: Healthcare

Price: Eu51.50 - **Target: Eu63.00**

Solid 9M On Track with FY Guidance, A Compelling Entry Point

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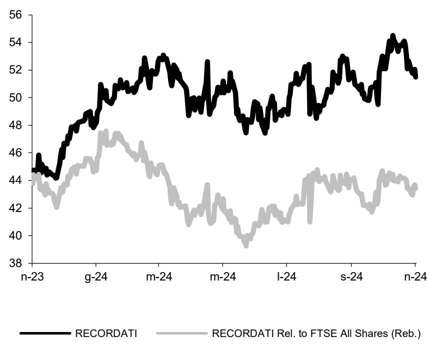
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2024E	**2025E**	**2026E**
Chg in Adj EPS	-1.4%	-0.2%	-0.2%

Next Event

FY24 Results late February 2025

RECORDATI - 12M Performance



Stock Data			
Reuters code:			RECI.MI
Bloomberg code:			REC IM
Performance	**1M**	**3M**	**12M**
Absolute	-1.2%	5.1%	17.6%
Relative	-1.4%	-1.2%	-1.0%
12M (H/L)			54.50/44.17
3M Average Volume (th):			231.52

Shareholder Data	
No. of Ord shares (mn):	209
Total no. of shares (mn):	206
Mkt Cap Ord (Eu mn):	10,770
Total Mkt Cap (Eu mn):	10,770
Mkt Float - Ord (Eu mn):	5,189
Mkt Float (in %):	48.2%
Main Shareholder:	
FIMEI	51.8%

Balance Sheet Data	
Book Value (Eu mn):	1,864
BVPS (Eu):	8.91
P/BV:	5.8
Net Financial Position (Eu mn):	-2,374
Enterprise Value (Eu mn):	13,144

- **9M24 results.** Recordati reported solid 9M margins (38.2% vs. 36.6-36.8% expected) despite a lower-than-expected top line (-3/4% vs. our/consensus exp.) and a reduction in the adj. gross profit margin (68.1%, -0.4pp YoY) due to the consolidation of Avodart® and Combodart®/Duodart®, as well as product mix changes. This led to a 2-3% positive surprise on the bottom line vs. our estimate and consensus. 9M net revenues stood at €1,743mn, up 12%. Topline grew c.9.3% organically in 9M (1Q: +10.9%, 2Q: +9.4%, 3Q: +7.5%), excluding 2.3pp in ForEx tailwinds and c.€83mn of revenues from Avodart® and Combodart®/Duodart®. The strong business momentum continued in both Specialty & Primary Care (S&PC) and Rare Diseases (RRD). On a like-for-like basis and at CER, S&PC continued to track a mid-single-digit growth trend (1Q: +10.1%, 2Q: +4.7%, 3Q: +4.2%) driven by Urology and resilient Cardio and Gastro portfolios. RRD again saw double-digit growth (1Q: +13.9%, 2Q: +18.0%, 3Q: +11.9%) driven by the ongoing strength of Endo and Onco franchises, with the erosion of Metabolic easing off. The adj. EBITDA margin was 38.2% (-0.1pp YoY), in line with 1H, reflecting strong revenue and operating leverage.
- **Positive feedback from conference call.** Management conveyed a positive message on FY trends, clearly indicating that company revenue guidance is not pointing towards the lower end of target ranges (confirmed). With less than two months left in the year, this strongly implies top line growth momentum will remain solid in 4Q. Furthermore, the weaker profitability implied in 4Q (higher R&D costs to support the US expansion of the Isturisa label) seems to be well factored in, given that both 1H and 9M margins were 38%, while FY year guidance is set at c.37%. Isturisa was approved for Cushing syndrome in China in September 2024 (earlier than expected), and management is optimistic about its market potential.
- **Change in estimates.** We are making minor adjustments to our FY24 estimates, remaining within the company's target ranges. Specifically, we are raising margins slightly (from 36.9% to 37.2%), partially offset by higher financial charges (from €66mn to €78mn) and a higher tax rate (from 23.0% to 23.4%). This results in a -1% adjustment to adj. EPS for 2024E, with a neutral impact on 2025-27E estimates.
- **OUTPERFORM confirmed; target still €63.** 9M trends confirmed positive momentum across both divisions, with the company still on track to hit this year's targets and laying strong foundations for next year, boosted by the recent Enjaymo acquisition. This latter will strengthen Rare Diseases, taking the segment to over 40% of overall turnover in 2026, and further differentiate the business profile of the 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 (>€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 with an industry buyer, a scenario favoured by the extreme fragmentation of the market and the 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	2023A	2024E	2025E	2026E	2027E
Sales (Eu mn)	2,082	2,319	2,595	2,725	2,857
EBITDA Adj (Eu mn)	770	863	973	1,030	1,079
Net Profit Adj (Eu mn)	525	565	633	683	729
EPS New Adj (Eu)	2.509	2.701	3.029	3.268	3.486
EPS Old Adj (Eu)	2.509	2.738	3.035	3.275	
DPS (Eu)	1.200	1.350	1.643	1.805	1.943
EV/EBITDA Adj	13.8	15.2	13.4	12.4	11.6
EV/EBIT Adj	16.9	18.7	16.1	15.0	14.0
P/E Adj	20.5	19.1	17.0	15.8	14.8
Div. Yield	2.3%	2.6%	3.2%	3.5%	3.8%
Net Debt/EBITDA Adj	2.1	2.8	2.3	2.0	1.7

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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.

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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Intermonte SIM is authorised by CONSOB to provide investment services and is listed at n° 246 in the register of brokerage firms.

As at 30 September 2024 Intermonte's Research Department covered 125 companies. Intermonte's distribution of stock ratings is as follows:

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

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (61 in total) is as follows:

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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Further information is available