

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

ROVI.MC - Half Year 2018 Laboratorios Farmaceuticos ROVI SA
Earnings Call

EVENT DATE/TIME: JULY 26, 2018 / 1:00PM GMT



CORPORATE PARTICIPANTS

Javier López-Belmonte Encina *Laboratorios Farmaceuticos Rovi, S.A. - Second Deputy Chairman & CFO*

Juan López-Belmonte Encina *Laboratorios Farmaceuticos Rovi, S.A. - CEO & Director*

CONFERENCE CALL PARTICIPANTS

Daniel Wilkinson *Edison Investment Research Limited - Analyst*

Francisco Ruiz Exane *BNP Paribas, Research Division - Research Analyst*

Ignacio Ortiz de Mendivil Arrate *JB Capital Markets, Sociedad de Valores, S.A., Research Division - VP*

Samir Devani *Rx Securities Limited, Research Division - Research Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you all for standing by, and welcome to the ROVI first half 2018 Financial Results Conference Call. (Operator Instructions) And I also must advise you that this conference is being recorded today, Thursday, 26th of July, 2018. And I would now like to turn the conference call to your speaker, Mr. Javier López-Belmonte. Thank you, please go ahead, sir.

Javier López-Belmonte Encina - *Laboratorios Farmaceuticos Rovi, S.A. - Second Deputy Chairman & CFO*

Thank you very much, and good afternoon to everyone. This is Javier López-Belmonte, CFO of ROVI. At this time, I would like to welcome everybody to this first half 2018 results conference call, which will start in a moment. Let me please first introduce ROVI's attendees today, Mr. Juan López-Belmonte, CEO; Marta Campos, Investor relations and myself. (Operator Instructions) Let me now then turn the call over to our CEO, Mr. Juan Lopez-Belmonte, for the highlights on this first half 2018 results.

Juan López-Belmonte Encina - *Laboratorios Farmaceuticos Rovi, S.A. - CEO & Director*

Thank you, Javier, and welcome to everybody. I'm here to present the first half 2018 results. Performance in this period has been in line with our expectations. Our 5% operating revenue growth in the first half of the year was driven by the strength of the Specialty Pharmaceutical business, which grew by 14%, strongly outperforming the market. Data provided by QuintilesIMS indicates that the innovative product market in Spain increased 2% in the first half of 2018. However, sales of pharmaceutical products with prescriptions from ROVI rose 17% in the same period, exceeding the market by 15 percentage points. We forecast that we will continue to grow at a higher rate than pharmaceutical market expenditure in the first 5 months of 2018, which according to the Ministry of Health consumption and social welfare shows a growth rate of 3.5%. Regarding the classification lower authority using data from QuintilesIMS, ROVI was positioned 21st in terms of value and was the fastest-growing innovative company among the 21st top ranked companies in the first 6 months of 2018. In the first half of this year, we made an important investment effort in research and development. As we continue to develop a Phase III focus study done and a Phase I study for Letrozole, both with our ISM technology. Likewise, EBITDA was affected by nonrecurring expenses of EUR 2.6 million. EUR 1.5 million of this amount were related to the study and analysis of potential corporate operations while EUR 1.1 million were linked to a substantial change to Frosst Ibérica employees' working conditions. EBITDA with research and development are related excluding R&D expenses in the 6-month periods ending 30th of June, 2018 and 30th of June, 2017. And the impact of nonrecurring expenses in the first half of 2018 decreased by 1% from EUR 33 million in the first half of 2017 to EUR 32.7 million in the first half of this year, reflecting a 1.4 percentage point fall in the EBITDA margin to 22.4% in the first half of 2018. Net profit through the research and development increased by 17% from EUR 24.3 million in the first half of last year to EUR 28.4 million in the first half of 2018.

Prescription-based pharmaceutical specialties, which grew by 17% in the first half of 2018 are high strategic value products and contribute to give ROVI a wider scope for the coming years. ROVI counts as driving force with Bemiparin, which performed very well in the first half of 2018, with sales up 13% to EUR 48.3 million. Sales of Bemiparin in Spain grew by 16% to EUR 33.9 million in the first half of this year, while the low molecular weight



heparin market increased 4.2% in the same period, beating the market by 11.8 percentage points and achieving a market share of 42% in the first half of 2018 compared to 28% in the same period the previous year. In addition, we continue to be focused on taking our main product Bemiparin to an international level as one of the drivers of long-term growth. International sales increased by 7% to EUR 14.4 million.

We launched an Enoxaparin biosimilar Becat in Germany in September 2017, in the U.K. in March 2018, and in Italy in April this year. We should be launching in all major countries in Europe before Q1 2019. For this purpose in a (inaudible) state of commercialization strategy, we have established subsidiaries in France, U.K., Germany and Italy, and we expect to operate in Poland soon. These 5 countries versus Spain and Portugal cover around 75% of the European Enoxaparin market and provides a fine European infrastructure that is highly leverageable. Besides Europe, we have signed out licensing agreements in 45 countries as part of our second stage of commercialization strategy. We have signed 2 important licensing agreements to distribute a market for Enoxaparin biosimilar, the first with Sigma Pharmaceuticals, who has the exclusive rights for 17 Middle East and North Africa countries; and the second with Sandoz for 14 countries/regions. With respect commercialization, in Q4 2017, with sales amounted to EUR 1.5 million and sales increased to EUR 8.9 million in the first half of 2018, 86% of which corresponds to sales in Germany and 11% in Italy.

So let me just summarize the opportunity here. It is a EUR 1 billion market with high entry barriers where biosimilar strength will reach 50% to 70% of market share and with only 2 other potential players in the market. The latest launches were again, a strong driver of growth in the first half of 2018. Sales of Neparvis from Novartis launched in December 2016 indicated for the treatment of adult patients with symptomatic chronic heart failure and reduced ejection fraction reached EUR 5.9 million compared to EUR 1.5 million the same period last year. Sales of Hirobriz Breezhaler and Ulunar Breezhaler, both inhaled bronchodilators from Novartis increased by 9% to EUR 7.7 million. Sales of Vytorin, Orvatez and Absorcol, the first of the 5 licenses of Merck Sharp & Dohme increased by 3% to EUR 19.6 million in the first half of the year. Sales of Volutsa from Astellas Pharma increased by 25% to EUR 5.4 million. All these product launches will lead us to stretch the average life of our product portfolio by several years, and we expect they will provide us with a sustainable and profitable growth opportunity in the coming years. Other products such as Medikinet and Medicebran from Medice increased by 3%, with sales of EUR 3.9 million in the first half of this year.

Finally, sales of contrast imaging agents increased by 4% to EUR 15.3 million. Recovering from manufacturing, sales decreased by 25% to EUR 23 million in the first half of 2018, mainly because of the reduction of the injectable business compared to the first half of 2017, when exceptional high volumes were manufactured for some customers. ROVI has one of the largest solid oral forms manufacturing plants in Europe and sales increased 1% in the first half of 2018 to EUR 13.1 million. The manufacturing plant at San Sebastián de los Reyes acquired in June 2018 has started to feel changes filling operations in February this year versus standing those production lines of injectables of the group. By the end of 2018, a mid-teen decline from 10% to 20% in toll manufacturing is expected. As previously informed, ROVI has progressed in the development of DORIA. The first candidate for its leading-edge drug delivery technology ISM for a prolonged release of risperidone, a well-established second-generation antipsychotic medicine. After successfully finishing the Phase I and II program of DORIA, we established the pivotal Phase III trial PRISMA-3 with the recruitment of the first agent in May 2017. In May 2018, we informed that after a brief specified interim analysis on the pivotal PRISMA-3 study, an independent data monitoring committee recommended to continue the clinical trial and nothing is in the currently planned number of randomized patients. The company plans to file an NDA U.S. registration dossier for the FDA the second half of 2019.

On the other hand, in November 2017, ROVI started the clinical development of Letrozole ISM, the first long-acting aromatase inhibitor injector intended for the treatment of hormone-dependent breast cancer. The first is 1 clinical trial, the LISA-1 study is an open label dose escalation study to evaluate the pharmacogenetics, safety and treatability of single intramuscular injections of Letrozole ISM at different strengths in healthy post-menopausal women. The clinical trial is currently ongoing as expected.

And finally, let me end with our guidance for 2018. ROVI expects a mid-single-digit growth rate for the operating revenue, with sales of its Enoxaparin biosimilar within a range of between EUR 20 million to EUR 30 million. We have stayed on the path of sustained growth. We increased sales strongly and performed in the market. We expanded our heparin franchise through the launch of Enoxaparin biosimilar in U.K. and Italy and seeking the signature of 3 important agreements with Sigma and Sandoz for 41 countries. And we have consolidated our pharmaceutical specialties area, thanks to the strength of our leading products such as Neparvis, Orvatez, Ulunar and Volutsa. Likewise, we are making an effort to heavily invest in research and development, focused on ISM technology which we see as a new avenue of future growth for ROVI. To conclude, we believe we are at a growth inflection point with the strong growth opportunities driven by DORIA and Letrozole. Both candidates validating our leading-edge drug delivery technology, ISM. And second, our Enoxaparin biosimilar, which will allow us to transform the European footprint. These growth levers



are firmly under the -- they're a very solid ongoing business that has deliver year after year based on our leading Specialty Pharma franchise and our high-value added toll manufacturing services.

And now, I'll pass on Javier, who will run you through the financials in more detail. Thank you very much for your attention and for taking the time to participate in this telephone conference.

Javier López-Belmonte Encina - *Laboratorios Farmaceuticos Rovi, S.A. - Second Deputy Chairman & CFO*

Thanks, Juan. So starting with the P&L, as Juan already said, our operating revenue increased by 5% this period. This growth is driven by the good performance of Bemiparin and our leading products. Products such as Neparvis, Orvatez, Volutsa and Ulunar. Sales of prescription-based products increased by 17%, strongly outperforming the novelty toll market 15 percentage points in the first half of 2018.

Regarding Bemiparin, our flagship product, internally developed, we achieved a 13% growth. Sales in Spain grew by 17%, while international sales increased by 7%. Gross profit increased by 1% to EUR 85.1 million in the first half of 2018, reflecting a decrease of 2.5 percentage points in the gross margin to 58.2% from 60.7% in the first half of 2017, mainly due to the decrease of the injectable business, which added higher margins in the first half of last year. ROVI's commitment to innovation has been reflected in the figures for the first half of 2018.

R&D expenses rose 79% to EUR 16.8 million. These figures are mainly the result of a focused investment in the ISM risperidone project. Our investment effort in R&D is motivated by our firm commitment to market owned quality and successful products in the immediate future. Selling, general and administrative expenses, SG&A, grows 3% to EUR 52.4 million in the first half of 2018 compared to the first half of 2017, mainly due to international subsidiaries expenses, which amounted to EUR 2.6 million compared to EUR 0.2 million in the first half of 2017. Excluding expenses related to international subsidiaries, SG&A was decreased by 2% in the first half of 2018. In the first half of 2018, EBITDA was affected by nonrecurring expenses of EUR 2.6 million. EUR 1.5 million of this amount were related to the study and analysis of potential corporate operations, while EUR 1.1 million were linked to a substantial change to Frosst Ibérica employees' working conditions. This change in working condition was mainly related to the removal of the gathering service for which the employees were compensated with a sum similar to the course that ROVI would have incurred in the following 5-year period. EBITDA decreased to EUR 13.3 million in the first half of 2018, a fall of 44% compared to the same period the previous year, reflecting a 7.9 percentage point decrease in the EBITDA margin, which was down to 9.1% in the first half of the year from 17% in the first half of last year. However, EBITDA pre-R&D has been calculated excluding R&D expenses in the first half of 2018 and 2017, and the impact of nonrecurring expenses in the first half of the year decreased by only 1% from EUR 33 million in the first half of 2017 to EUR 32.7 million in the first half of 2018, reflecting a 1.4 percentage point for the EBITDA margin to 22.4% in the first half of this year. Likewise, recognizing the same amount of R&D expenses in the first half of 2018 as in the first half of 2017 and is excluding the impact of nonrecurring expenses in the first half of 2018, EBITDA would have decreased by 1% to EUR 23.4 million, reflecting a 1.1 percentage point fall in the EBITDA margin to 16% in the first half of 2018. EBIT performance followed the same trend as EBITDA in the first half of 2018. It decreased by 58% to EUR 7.5 million, reflecting a 7.7 percentage point fall in the EBIT margin. EBIT pre-R&D decreased by 1% from EUR 27.1 million in the first half of 2017 to EUR 26.9 million in the first half of 2018, reflecting in this case, a 1.2% point fall in the EBIT margin to 18.4% in the first half of this year. Likewise, recognizing the same amount of R&D expenses in the first half of the year as in the first half of 2017 and excluding the impact of nonrecurring expenses in the first half of 2018, EBIT was decreased by 1% to EUR 17.5 million, reflecting a 0.8 percentage point fall in the EBIT margin to 4.0% in the first half of 2019. Net financial costs decreased by 11%, up to EUR 0.4 million in the first half of 2018. Net profit decreased to EUR 7.6 million in the first half of 2018, a 52 percentage fall compared to the same period the previous year. However, net profit pre-R&D calculated excluding R&D expenses in the first half of 2018 and '17 and the impact of nonrecurring expenses in the first half of 2018 increased by 17% to EUR 28.4 million in the first half of 2018.

Likewise, recognizing the same amount of R&D expenses in the first half of the year as in the first half of last year and excluding the impact of nonrecurring expenses in the first half of 2018, net profit would have increased by 16% to EUR 18.3 million. The effective tax rate was minus 7.4% in the first half of 2018 compared to 8.6% in the first half of 2017. This improvement in the effective tax rate is due to the increase in the capitalization of research and development deductions and negative tax bases. As of 30th of June, 2018, Frosst Ibérica may have negative tax bases still amounted to EUR 35.1 million. While the Risperidone ISM Phase III trial is ongoing, adding higher R&D expenses were moved, ROVI expects a very beneficial effective tax rate would be applicable, which could cause the income tax item to be positive income as it happened this time. Notwithstanding, when the R&D expenses are normalized after the completion of the Phase III trial, the company expects the effective tax rate to be in mid-single-digit numbers in the following years. ROVI invested EUR 5.1 million in the first half of the year, which was the same amount as in the first half of last year.

This amount for (inaudible) euros relates to investment CapEx regarding our facilities and EUR 0.8 million relates to maintenance on our Capex. The soundness of our balance sheet and our consideration capacity has always allowed promoting the organic growth of the company. Free cash flow decreased to minus EUR 5.8 million in the first half of the year from minus EUR 3.4 million in the same period of the previous year, mainly due to increasing inventories, receivables and payables and the decrease in the profit before income tax with already increasing R&D expenses. Regarding our debt, ROVI had total debt of EUR 38.5 million. Of that amount, EUR 25.9 million is debt with banks, representing 70% of total debt. While EUR 12.6 million correspond to debt with public administrations related to the development of R&D projects, which is 0% interest rate debt, representing 33% of total debt. ROVI had gross cash position of EUR 31.4 million and net debt of EUR 7 million in the first half of 2018 compared to EUR 1.1 million as of 31st December, 2017. Finally, on the 5th of July, ROVI paid a gross dividend of EUR 0.1207 per share, with dividend rights on 2017 earnings. This dividend represented a 35% payout. Finally, regarding news flow for 2018, we expect to announce additional new licensing products to be announced in the Specialty Pharma area, new contracts in Toll Manufacturing and new national marketing approvals for the Enoxaparin biosimilar in the rest of the EU countries. Likewise, we expect to launch our Enoxaparin biosimilar in the outlier countries in Europe before first quarter of 2019. With regard to R&D, we will continue recruiting patients for the Risperidone ISM Phase III study. ROVI plans to file an NDA U.S. registration this year for the FDA in the second half of 2019. Also, we expect to release the Letrozole ISM Phase I data results at the second quarter of 2019. And that's all regarding our financial results of the first half of 2018.

Now, we can start with the Q&A session. Back to you, Jenny.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from the line of Samir Devani.

Samir Devani - Rx Securities Limited, Research Division - Research Analyst

I've got a couple. Just going to the exceptional charge, the EUR 1.5 million for potential corporate operation. I just wanted to understand what that it is. Were you assessing some acquisition opportunity in there?

Javier López-Belmonte Encina - Laboratorios Farmaceuticos Rovi, S.A. - Second Deputy Chairman & CFO

Samir, this is Javier. Unfortunately, we cannot disclose any further information about this topic. However, we wanted to be very transparent and to help or facilitate the analysis of investor and analysts of our P&L, and that's why we disclosed this, an exceptional and extraordinary amount of opportunity. We cannot give more details for now.

Samir Devani - Rx Securities Limited, Research Division - Research Analyst

Okay. And then just a final question just on the biosimilar Enoxaparin. You won't see (inaudible) in the U.K. I know there's a kind of process there but obviously sales seemed quite limited at the moment. Can you just remind us what sort of time line sort of the key tenders are up for bidding?

Juan López-Belmonte Encina - Laboratorios Farmaceuticos Rovi, S.A. - CEO & Director

Samir, this is Juan. The U.K., it has proven to be quite a slow-paced tender process. We have already been awarded a couple of tenders in the U.K., but the execution of the tenders have been much slower than we previously thought. We've seen the last couple of months that sales, although in a limited way, they're starting to get some speed. We have cleared a schedule of the different vendors, they're going to probably the next coming months. And we're optimistic on the chances that we have of being awarded a couple of them. I'm talking that initially on a very (inaudible) very fast switching market due to the tender process has proven to be much slower than we previously thought.



Samir Devani - *Rx Securities Limited, Research Division - Research Analyst*

Just 1 final follow-up question. Just on the injectables business, I'm just wondering if you could talk a little bit about capacity and your strategy to sort of increase revenues there.

Javier López-Belmonte Encina - *Laboratorios Farmaceuticos Rovi, S.A. - Second Deputy Chairman & CFO*

Samir, this is Javier again. As you know very well, we have (inaudible) capacity with regards to injectables, so we have already in place and working 2 full injectable facilities. However, it is very difficult for us to foresee or to forecast the needs for our own products. So we have taken a conservative approach in the sense that we are limiting our selling and marketing infrastructure in terms of toll manufacturing, and we are trying to market and promote our spare capacity to high added-value customers rather than volume-driven customers. So that's why this year, the injectable business is slowing down a little bit. And for us, we believe it's reasonable to wait and see which will be the capacity needed to our own growth. And then in the next years, we believe that we have more capacity we can change our strategy to capture all the markets. But now, we are trying to keep the focus to high added-value injectable customers.

Operator

(Operator Instructions) And the next one comes from Francisco Ruiz.

Francisco Ruiz - *Exane BNP Paribas, Research Division - Research Analyst*

I have 3 questions. The first one is, if you could give us some guidance on profitability. I mean, the bumpy expenditure in R&D and also in SG&A make us [committed] to get to ETA with the market figure (inaudible). So can you give us an idea of what SG&A would be in the second half of the year and R&D as well? The second question is on these license agreements that you signed on and the separation. Can you give us an idea of how much could represent in the coming years? And finally, it's on the taxes. Given the kind of the new growth (inaudible) is thinking to impose a minimum corporate tax of 15%. Could this affect you? Or will you have an increase on taxes because of that?

Javier López-Belmonte Encina - *Laboratorios Farmaceuticos Rovi, S.A. - Second Deputy Chairman & CFO*

With regards to your first question regarding an outlook for our profitability for the end of the year, but we can't comment you with on with the rest of the analysts of R&D figures will be in line with forecasted in our analyst presentation back in 2017. That means that the R&D figure will be above EUR 30 million and in average, I guess, close to EUR 32 million, EUR 33 million. Again, related in line with our forecast that we did a couple of -- 1 year ago. Regarding the G&A, we do not see any ups and downs. We believe it will be pretty much linear in the next 6 months. And then with that information, we have to assess the probability of the company, which I believe will be again, very much in line with the trend that we have shown in the first semester. With regard to your second question, (inaudible) Juan. I mean, those profit agreements, I believe they're going really to push sales of biosimilar in the second (inaudible) second growth of lack of growth or in [accommodation] strategy. Just to give you some flavor, the Sigma agreement implies a market of around EUR 70 million in terms of sales, is the regional market leader by far in those markets. So we are very optimistic that we should be capable of grabbing a substantial market share of that market. In the same line, the Sandoz agreement, the market or the countries under this agreement, their accumulated value is around EUR 150 million. Again, we've taking out a substantial chunk of the worldwide market of (inaudible) suffering. Again as well Sandoz, I think I have to speak highly about the company, it's one of the largest generic players in the pharmaceutical business. And again, we are -- with Sigma, we are really excited to start launching the biosimilar in those countries. Having said that, the registration process in most of these countries unfortunately, take some time. That's why we very much have highlighted that we envisage all these markets as a second leg of growth within our [commercialization] strategy. The ones we start bringing out the growth in the markets and under these agreements we believe, will substantially fill up the size of the biosimilar offering. And lastly, with regards to your last question, about all the rumors of any potential change in the corporate income tax. As far as we know, these countries have minimum corporate income tax. I would say that as we -- in the medium term, as we expect our profitability to rise due to the launch of new products and the ramp up of the biosimilar, it's a minimum gap will not have any change our current operating income tax. One thing as you know is the corporate income



tax filing, well, we do have now some limitations with regards to the use of the energy tax bases and also the R&D deductions, those are already in place and that we can limit on the use of that in [evaluations]. And another thing is the corporate income tax in terms of accounting. In terms of accounting, as you know, we have to approve and capitalize the deductions that we are producing this year and the next year, and that will not change a thing. But anyhow, as you are seeing, these are rumors and we have to see what happens with the corporate income tax. The good news is that with the current introductions and the negative tax ratios already capitalize in place. We do not believe that our corporate income tax change dramatically in the next coming years, even though they will propose a new law.

Operator

(Operator Instructions) And the next question comes from the line of Ignacio Mendivil.

Ignacio Ortiz de Mendivil Arrate - *JB Capital Markets, Sociedad de Valores, S.A., Research Division - VP*

I have also few questions. The first one regarding Enoxaparin and Bemiparin. And at what prices are you guys now in heparin? And how much (inaudible) on your cost of goods sold? And finally, can you tell us if Enoxaparin sales are contributing positively or negatively to your gross margin? Regarding working capital, we see a large increase mainly due to heparin inventories. Can you tell us also what you expect for the rest of the year? And then the last one, how do you expect to protect your license right of Vytorin and Absorcol? And what big sales we should we expect now for both products?

Javier López-Belmonte Encina - *Laboratorios Farmaceuticos Rovi, S.A. - Second Deputy Chairman & CFO*

Ignacio, this is Javier. With regard to recovery in heparin prices, we cannot disclose that openly. It is very confidential for us and also, you can imagine, we cannot share that information with our competitors. As you know, our consumption of heparin is high in terms of cost of goods. And the market of which are somehow commoditized and depends on many factors. With regard to Enoxaparin sales, I mean, they expand our gross margin [or not]. I can tell you that in the current markets, we are expanding and they are contributing in a positive way to expand our gross margin. The third question was related to heparin inventories and you are right, we're building up heparin inventories and we are building up Enoxaparin products because we are launching in many countries. And before we launch, we need to build up the (inaudible) groups to reach on afterwards. So I believe that there's going to be a trend for us in the following months and I guess, in the following years as until the sales of the group become flattish. Because as we are in a ramp up situation, I guess as a function here, we have working capital related to the biosimilar will be increasing related to the inventories.

Juan López-Belmonte Encina - *Laboratorios Farmaceuticos Rovi, S.A. - CEO & Director*

This is Juan. Regarding Vytorin and Absorcol, as you may know, a few generic (inaudible) the launch of the product at risk in May this year. We're expecting anytime, to have the final decision of the jury, the [Dutch] studies right now deciding whether they're infringing IP protection. Having said that, unfortunately due to the prices scheme provision in Spain, once they have launched all products and in respective the reimbursement profile, you need to match prices of the generic products. So we have to decrease prices by 40% in order to still relate in the reimbursement category list. So when a little bit right now and somehow for (inaudible) in the sense that there are many cases in their cities and in the recent years that we can somehow extrapolate. Will we -- articulation cost and we have to had to burst a meter of (inaudible) and discuss where we can have our prices sit back and the initial ones before the analytics are launched. And again, it would depend very much on the court decision and (inaudible) of health (inaudible) potential sales objective of Vytorin. If we lose the court case or if the minister of health decides not to say, grant us our former price, we should be making monthly sales of around EUR 700,000 per month to EUR 800,000 per month on the product.

Operator

(Operator Instructions) And the next one comes from Daniel Wilkinson.



Daniel Wilkinson - *Edison Investment Research Limited - Analyst*

Initially, we're very far in looking at strengths, particularly in Spain. [Looking] at the market dynamics (inaudible). Then second one is looking at Enoxaparin. You touched a bit on the U.K., but you've given us a split there at Page 1 and 2 with 11% in Italy. So I'm guessing, based on that kind of Q2 [German] sales seems slightly down on Q1. Can you just kind of give us an idea around that and what's driving that (inaudible)? And then finally, just on the cost of sales, I think you're up about 12% to about EUR 62 million and more generally, revenue. Can you just give an idea again what's behind that and what's causing that?

Juan López-Belmonte Encina - *Laboratorios Farmaceuticos Rovi, S.A. - CEO & Director*

This is Juan. Regarding in Italy, you're right. I mean, the sales in Spain are really staying up very nicely and that's mainly we believe, due to the threat of the future biosimilar launching in Spain. We believe that Sanofi or their sales force here, they have filed (inaudible) so have to reduce their commercial efforts and that is giving us momentum in terms of (inaudible) in sales. We see quarter by quarter and month by month that we are really targeting a market share within heparin. And we believe that this trend will continue in the next coming quarters. There are no really major dynamics but a pure competition landscape. And we believe in that sense, we are pushing exactly the same goals with Bemiparin and the same (inaudible) that will have them in the last couple of years. And we believe it's purely a change in the competition landscape end and we believe that Sanofi may be pulling away [from] promotional efforts that we were doing in the past. So from a Bemiparin point of view, we don't think nothing should change in the next coming quarter. And regarding [Germany], I think that could Germany are going really well. I mean, the market share is increasing. I know half on top of my head exactly which is the percentage in sense of market share. As we compare sales with the others, very similar in Enoxaparin, which is right now in the market. We're selling almost 3x their sales so with this, things are going at least as we planned and as we forecasted. I mean, it's something that we are learning and it really matches our previous market analysis that we did in a separate biosimilar. It's very different market by market, country by country. The dynamics are extremely different in particular, a very specific marketing approach in a country basis. And I believe in that sense, we believe in Germany, we'll have managed to create a list of (inaudible) initially the right dynamics. And actually sales, we are quite excited because they are really evolving in the way that we were expecting. I mean, having launched after our main biosimilar, Enoxaparin. Although a couple of weeks after, we are already tripling their sales.

Javier López-Belmonte Encina - *Laboratorios Farmaceuticos Rovi, S.A. - Second Deputy Chairman & CFO*

Actually, just to add some info. In terms of sell out or in terms of units sold from the pharmaceutical consumers, our sales in the second quarter have increased very much. However, the (inaudible) in January this year in order to get wholesalers to have a stock (inaudible) on volume just to fill up the -- also the wholesalers. But dependency is far more eventually (inaudible) selling out is very positive in the second quarter.

And Daniel, we didn't get your last question. Could you just repeat it? Sorry.

Daniel Wilkinson - *Edison Investment Research Limited - Analyst*

Yes, just looking at your cost of sales, it seems to be up about 12% to about EUR 62 million compared with about a 5% increase in your revenue. Can you just give an idea of what's behind that? Any specifics you can, that would be great.

Javier López-Belmonte Encina - *Laboratorios Farmaceuticos Rovi, S.A. - Second Deputy Chairman & CFO*

You mean about the cost of goods sold about the whole company in the second quarter, you mean that?

Daniel Wilkinson - *Edison Investment Research Limited - Analyst*

Yes, yes, yes.

Javier López-Belmonte Encina - *Laboratorios Farmaceuticos Rovi, S.A. - Second Deputy Chairman & CFO*

Yes, we are -- well, we are saying as the underlying injectables business for manufacturing contributed in a very high added value way last year. And also, depending on how it fell because of a change, the company approach in terms of cost of goods sold -- cost of goods because some of the sales of the toll manufacturing injectables are really service-driven, so they have no impact on the cost of goods sold line. And that would change the figures quarter by quarter.

Operator

(Operator Instructions) No more questions. Please continue.

Javier López-Belmonte Encina - *Laboratorios Farmaceuticos Rovi, S.A. - Second Deputy Chairman & CFO*

All right. Thank you, Jenny. So there are no more questions at this time. We can finalize this conference call. Thank you all of you for attending the call and we hope you have a great summer holiday break. Thank you and bye-bye.

Operator

Thank you, ladies and gentlemen. That does conclude the conference for today. Thank you all for participating, and you may now disconnect.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2018, Thomson Reuters. All Rights Reserved.