Richter Gedeon Nyrt.

Hungary, Pharmaceuticals

Issuer

BBB+

Outlook

Stable

Senior unsecured debt

BBB+

Rating composition

Business risk profile		
Industry risk profile	A-	BBB-
Competitive position	BB+	
Financial risk profile		
Credit metrics	AA	AA
Liquidity	+/-0 notches	
Standalone credit assessment		**BBB+**
Supplementary rating drivers		
Financial policy	+/-0 notches	+/-0 notches
Governance & structure	+/-0 notches	
Parent/government support	+/-0 notches	
Peer context	+/-0 notches	
Issuer rating		**BBB+**

Key metrics

			Scope estimates	
Scope credit ratios*	**2023**	**2024P**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	Net interest expense			
Scope-adjusted debt/EBITDA	0.0x	Net cash	Net cash	Net cash
Scope-adjusted funds from operations/debt	>100%	Net cash	Net cash	Net cash
Scope-adjusted free operating cash flow/debt	>100%	Net cash	Net cash	Net cash
Liquidity	>200%	>200%	>200%	No ST Debt

Rating sensitivities

The upside scenario for the ratings and Outlook:

- Significant improvement in the company's business risk profile, e.g. through increased exposure to innovative pharmaceuticals (remote).

The downside scenarios for the ratings and Outlook (individually):

- Lack of visibility regarding the replacement of Cariprazine sales, i.e. by increasing the number of phase 3 molecules (NMEs) in the issuer's pipeline by 2026;
- Debt/EBITDA increasing to above 1.5x.

**All credit metrics refer to Scope-adjusted figures.*

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Related methodologies

General Corporate Rating Methodology, Feb 2025

Pharmaceutical Companies' Rating Methodology, Apr 2024

Table of content

1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Net cash position • Significant growth potential thanks to Vraylar royalties • Protection afforded by specialty pharma focus • High profitability	• Product concentration, specifically an earning reliance on one product • Execution risk related to pipeline delivery and inorganic growth • Costs associated with transition towards specialty products • Macroeconomic and supply chain challenges

2. Rating Outlook

The Stable Outlook reflects Richter's ability to grow while maintaining a very strong financial risk profile as evidenced by its net cash position. This assumption is contingent upon the group's continued utilisation of its substantial cash reserves for smaller acquisitions, rather than larger ones.

3. Corporate profile

Multinational pharmaceutical group headquartered in Hungary

Richter Gedeon Nyrt. (Richter) is a Hungarian pharmaceutical group that was founded in Budapest, Hungary in 1901 by Gedeon Richter, a Hungarian pharmacist. Today, the group is one of the largest pharmaceutical manufacturers in Central and Eastern Europe, with operations in more than 40 countries. Richter has two segments: i) pharmaceuticals, comprising research and development, manufacturing, and the sales and marketing of pharmaceutical products; and ii) the wholesale and retail distribution of these products. Richter focuses on areas in which it has specialised knowledge: central nervous system disorders in original research, women's healthcare, and biosimilars product development.

In recent years, Richter has been expanding its operations through strategic partnerships and acquisitions. The group has established joint ventures with other pharmaceutical companies and acquired companies and product lines to expand its portfolio and reach new markets.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
25 Apr 2025	Affirmation	BBB+/Stable
23 Apr 2024	Affirmation	BBB+/Stable
26 Apr 2023	Affirmation	BBB+/Stable

5. Financial overview (financial data in HUF m)

			Scope estimates		
Scope credit ratios	**2023**	**2024P**	**2025E**	**2026E**	**2027E**
EBITDA interest cover	Net interest expense		Net interest expense		
Debt/EBITDA	0.0x	Net cash	Net cash	Net cash	Net cash
Funds from operations/debt	>100%	Net cash	Net cash	Net cash	Net cash
Free operating cash flow/debt	>100%	Net cash	Net cash	Net cash	Net cash
Liquidity	>200%	>200%	>200%	No ST Debt	No ST Debt
EBITDA					
Reported EBITDA	245,923	313,917	306,144	321,451	342,487
add: operating lease payments	-	-	-	-	-
add: recurring dividends from associates	21	21	-	-	-
less: capitalised expenses	-	-	-	-	-
Other items (incl. one-offs)	(11,436)	(21,551)	-	-	-
EBITDA	**234,508**	**292,387**	**306,144**	**321,451**	**342,487**
Funds from operations (FFO)					
EBITDA	234,508	292,387	306,144	321,451	342,487
less: interest	9,149	5,441	944	946	1,362
less: cash tax paid	(9,744)	(23,565)	(37,748)	(39,731)	(42,867)
Other non-operating charges before FFO	(23,656)	19,359	-	-	-
Funds from operations	**210,257**	**293,622**	**269,340**	**282,666**	**300,982**
Free operating cash flow (FOCF)					
Funds from operations	210,257	293,622	269,340	282,666	300,982
Change in working capital	(66,522)	(22,553)	(12,039)	(13,815)	(21,823)
Non-operating cash flow	-	-	-	-	-
less: capital expenditures (net)	(91,582)	(61,366)	(80,000)	(60,000)	(60,000)
less: lease amortisation	(1,327)	(4,655)	(5,501)	(5,501)	(5,501)
Other items	-	-	-	-	-
Free operating cash flow	**50,826**	**205,048**	**171,800**	**203,350**	**213,658**
Interest					
Net cash interest per cash flow statement	(9,504)	(5,671)	(1,174)	(1,176)	(1,592)
add: interest component, operating leases	-	-	-	-	-
add: 50% of interest paid on hybrid debt	-	-	-	-	-
add: other items	355	230	230	230	230
Interest	**(9,149)**	**(5,441)**	**(944)**	**(946)**	**(1,362)**
Debt					
Reported financial (senior) debt	74,119	84,100	83,735	83,735	83,735
add: subordinated (hybrid) debt (net of equity credit)	-	-	-	-	-
add: shareholder loans (net of equity credit)	-	-	-	-	-
less: cash and cash equivalents	(80,493)	(135,627)	(132,531)	(174,160)	(220,478)
add: non-accessible cash	-	-	-	-	-
add: pension adjustment	1,937	2,155	2,155	2,155	2,155
add: operating lease obligations	-	-	-	-	-
add: asset retirement obligations	-	-	-	-	-
add: other debt-like items	15,533	14,818	13,593	13,593	13,593
Debt	**11,096**	**(34,554)**	**(33,048)**	**(74,677)**	**(120,995)**

6. Environmental, social and governance (ESG) profile[1]

Environment	Social	Governance
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)	Labour management	Management and supervision (supervisory boards and key person risk)
Efficiencies (e.g. in production)	Health and safety (e.g. staff and customers)	Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)	Clients and supply chain (geographical/product diversification)	Corporate structure (complexity)
Physical risks (e.g. business/asset vulnerability, diversification)	Regulatory and reputational risks	Stakeholder management (shareholder payouts and respect for creditor interests)

ESG factors: credit-positive credit-negative credit-neutral

Industry related ESG risk

Pharmaceutical companies provide products that contribute to human health and well-being, which is credit-positive.

However, the high regulatory and reputational risks inherent to the pharmaceuticals sector are credit-negative. The main regulatory risk relates to the potential for large litigation cases, especially in the US. Reputational risk is linked to the perception of unethical pricing and sustainability issues regarding the balancing of patent expiry with new products.

[1] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

7. Business risk profile: BBB-

Blended industry risk profile of A-

The market in which Richter is active is considered to be a combination of innovative and generic pharmaceutical industries. The innovative segment, consisting of Cariprazine and women's healthcare, has the higher weight in the business split. The blended industry risk of A- is based on a combination of an AA industry risk profile for innovative and a BB for generic pharmaceuticals.

The higher contribution from the innovative segment is partly due to the success of Richter's neuropsychiatric drug, Cariprazine. The drug is licensed to AbbVie Inc. in North America under the trade name Vraylar and has generated net sales of around USD 3.2bn for AbbVie in 2024 (of which Richter receives royalties). In Europe and other countries, it is marketed as Reagila via partners such as Recordati and Hikma.

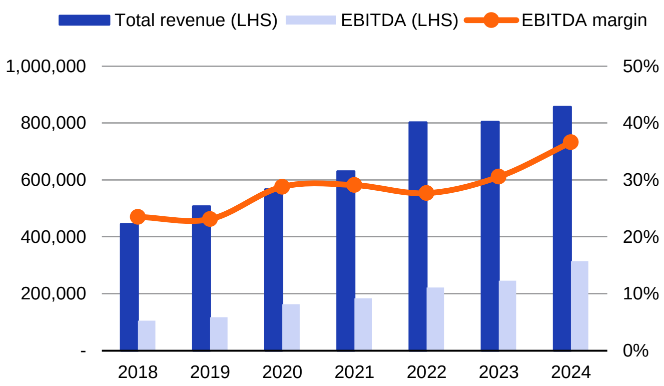
The common factor among the group's pharmaceutical exposures is the speciality focus, both in innovative (neuropsychiatry with Vraylar; women's healthcare and contraceptive patch Evra) and in generics (osteoporosis and rheumatology). Some of Richter's generics products have market shares of well above 50% and are thus in no danger of substitution. Management plans to focus achieving a balanced portfolio of innovative and generics in the long-term.

Strong operating profitability for a mid-sized pharma player

Richter's operating profitability is very strong for a medium-sized pharmaceutical company and remains the strongest support for its business risk profile. This is predominantly due to the royalties from Vraylar, which contributed materially to group sales and has further growth potential. In 2024, the royalties equated to HUF 229bn, an increase of 18% YoY. Assuming that the generics operating margin is below that for innovative, the underlying EBITDA margin for innovative is estimated greater than 40% (assumptions are based on the divisional profit breakdown disclosed).

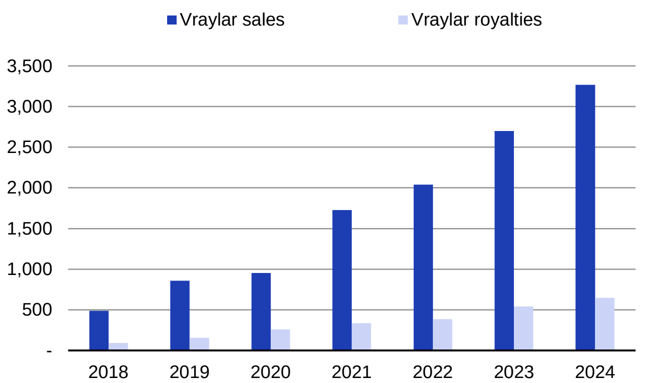
We expect the group's EBITDA margin to gradually increase to around 35% by 2027 as the biotechnology segment within generics turns profitable in the medium term.

Figure 1: Revenue and EBITDA development (HUF bn)



Sources: Richter, Scope

Figure 2: Vraylar sales evolution (USD m)



Sources: Richter, AbbVie, Scope

Strong reliance on Cariprazine

Overall Richter's diversification is held back by its small scale in comparison to international peers and the relatively high dependence on its largest product (Cariprazine) in relation to speciality pharmaceutical sales (29% of 2024 total pharma sales), which is likely to increase further once Vraylar sales peak. On the positive side, the 29% exposure to the US (likely to further increase due to Vraylar) supports diversification. The exposure to neuropsychiatry and women's healthcare – both representing large addressable markets – are expected to support future sales growth.

US and Russia as the two most important markets

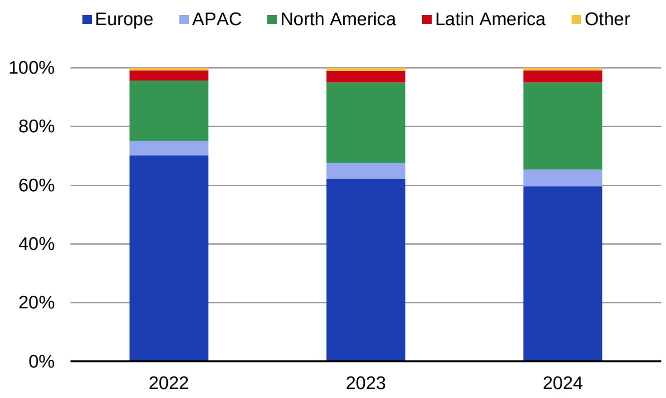
Russia remains a strategic focus as Richter's second largest market in terms of sales (after the United States). In 2024, Richter earned HUF 119bn in revenues in Russia, which accounted for 14% of group pharmaceutical sales. Business in Russia continues to be negatively impacted by supply chain disruptions and currency volatility resulting from the Russian-Ukrainian war.

Further R&D effort needed to improve specialty exposure

Richter's R&D efforts are good, at around 10-12% of pharmaceutical sales. However, any benefits for our analysis are eroded by the group's low scores for the breadth of its late-stage pipeline and number of blockbuster drugs, though both need to be seen in the context of Richter's size. Richter is continuing to make R&D investments with its partners in its major biotechnology and central nervous system projects, where it is reaching significant pre-clinical and clinical milestones.

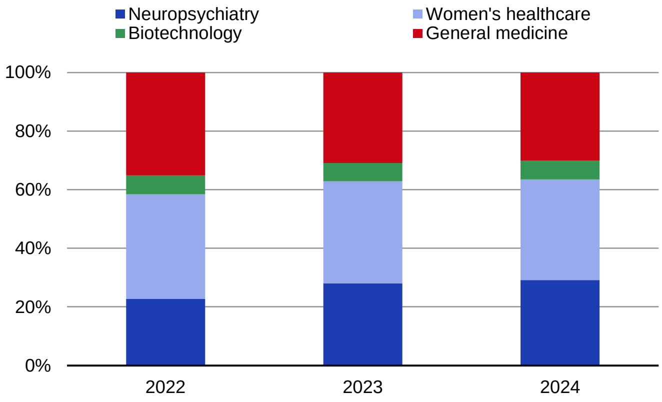
Richter's competitive position assessment benefits from our expectation of very favourable growth, mainly through Vraylar and women's healthcare products, as we expect no significant patent expiry in the medium term. Nevertheless we note Richter's significant dependence on its single blockbuster drug (Cariprazine) and the limited visibility underscored by the lack of late-stage NMEs in Richter's pipeline to support CNS sales after the patent expiry of Cariprazine.

Figure 3: Regional split of pharma sales



Sources: Richter, Scope

Figure 4: Richter division sales split



Sources: Richter, Scope

Biosimilar focus on rheumatology and osteoporosis

Richter's generics division lacks critical scale in relation to the large and very competitive underlying generics market. The division includes the traditional portfolio, branded generics and biosimilars. Richter's biosimilars division was renamed Biotechnology while its generics division was rebranded as General Medicine in 2023.

Richter also intends to strengthen its biosimilars portfolio over the coming years through launches in the main indication areas of osteoporosis and rheumatology, upon patent expiry of the originator products. In 2024, Richter completed the following two deals: (i) it became a strategic investor of Formycon AG, a pure play biosimilar company via 9% equity investment and; (ii) it agreed to acquire the interest of its partner's, HELM, in all of its German biological assets, resulting in 100% ownership of both Richter-Helm BioLogics and RHT Richter-Helm BioTec. The transaction allows Richter to consolidate its ownership and control over all biological research, development and manufacturing assets in Germany. This deal is a further step on the road towards making the biological business unit sustainably profitable and expanding capacities. Important to note, however, is that biosimilars have significantly higher research and development costs and risks and are more complex to manufacture than small-molecule generics.

Product specialisation limits pricing pressure

We believe the division's underlying strength lies in its specialist positioning, often accompanied by very high market shares and strong protection due to a dearth of competing products. This also tends to limit pricing pressure for many of Richter's products, in contrast with many other generic products. We therefore estimate that the EBITDA margin Richter generates is around 15% with the objective to increase to above 20%.

Richter's generics positioning does not meaningfully weaken its overall credit profile as its product portfolio is reasonably well protected and its geographical diversification is good. Moreover, Richter has never had material regulatory issues in any country, which reflects well on its production and compliance processes. The group's production and distribution network, often through subsidiaries and partner companies, also appears to service markets well.

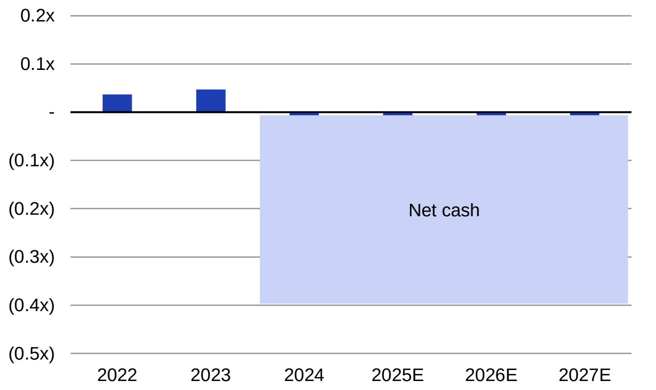
8. Financial risk profile: AA

Net cash position reached in 2024

The main driver of Richter's issuer rating remains its very strong financial risk profile. The group's previous net cash position, prior to the bond issuance, has allowed it to self-finance for a few years. Richter has returned to a net cash position in 2024 thanks to the recurring cash inflow from Vraylar royalties starting in 2020 (which is expected to increase further based on AbbVie's peak sales estimates for the drug) and improved profitability at the group level. We expect that Richter's net cash position will persist throughout the forecast period (to 2027). This will allow Richter to invest in a new innovative pipeline and to strengthen its generics business line. The group aims to acquire mature assets that complement its portfolio, primarily in the women's healthcare and biotechnology treatment areas.

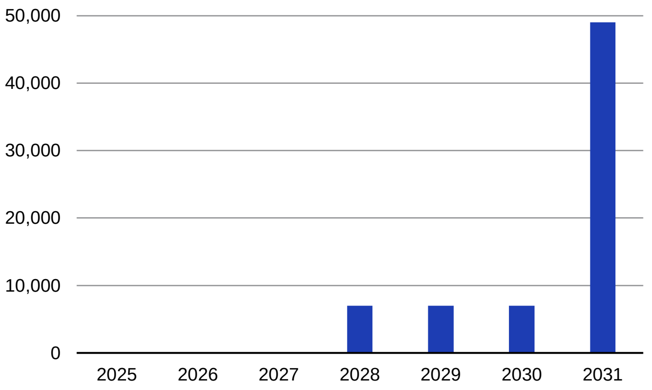
Richter's financial risk profile is assessed conservatively as the timing and conditions of future acquisitions are uncertain and depending on the target, the net cash position may not be maintained on a sustained basis. Execution risk associated with M&A activity could also negatively impact Richter's credit metrics. Our base case does not assume any major acquisitions, rather smaller bolt-on acquisitions.

Figure 5: Debt/EBITDA development



Sources: Richter, Scope estimates

Figure 6: Bond amortisation schedule (HUF m)



Sources: Richter, Scope

Adequate liquidity

Richter's liquidity profile is adequate thanks to its low balance sheet financial debt and ample available cash (HUF 136bn at YE 2024), supported by reliable free operating cash flow generation and no significant debt repayments scheduled until 2028, when the bond begins to amortise.

Table 1. Liquidity sources and uses (in HUF m)

	2024	2025E	2026E
Unrestricted cash (t-1)	80,493	135,627	132,531
Open committed credit lines (t-1)	-	-	-
FOCF (t)	205,048	171,801	203,351
Short-term debt (t-1)	1,225	1,590	-
Liquidity	**>200%**	**>200%**	**No ST Debt**

Sources: Richter, Scope estimates

9. Supplementary rating drivers: +/- 0 notches

Credit neutral financial policy

The rating has no adjustments related to financial policy, peer group considerations, parent support, or governance and structure.

Financial policy is the most relevant supplementary rating driver for Richter, which has been assessed as being credit neutral.

Richter has an attractive shareholder remuneration policy: the group has committed to an annual base dividend of EUR 200m with upside potential upside (maximum dividend payout at 50% of net profit) to avoid excess cash accumulation.

No new share buyback program has been announced since 2023.

Although Richter has an appetite for M&A and ample cash reserves in addition to the bond proceeds, it appears unwilling to take on the risks associated with large-scale acquisitions. Management aims to acquire mature assets that complement its portfolio and to establish a sustainable business model beyond Vraylar's anticipated loss of exclusivity in 2029.

10. Debt rating

Senior unsecured debt rating: BBB+

In June 2021, Richter issued a HUF 70bn senior unsecured bond (ISIN: HU0000360441) through the Hungarian Central Bank's Bond Funding for Growth Scheme. The bond proceeds were used for general corporate financing. The bond has a tenor of 10 years and a fixed coupon of 1.75%. Bond repayment is in four tranches: 10% in 2028, 2029 and 2030 with 25% of the face and a 70% balloon payment at maturity in 2031. Bond covenants include non-payment, insolvency proceedings and claim disputes.

Richter's senior unsecured debt rating has been affirmed at BBB+, in line with the rating action on the underlying issuer rating.

Related research

ESG considerations for rating pharmaceutical companies, March 2022

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