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FitchRatings

Corporates
Pharmaceuticals
Germany

CHEPLAPHARM Arzneimittel GmbH

Ratings

Long-Term IDR	B
Senior Secured Debt – Long-Term Rating	B+

Outlook

Long-Term Foreign-Currency IDR	Stable

Click here for the full list of ratings

ESG and Climate

Highest ESG Relevance Scores

Environmental	3
Social	3
Governance	3

2035 Climate Vulnerability Signal: 30

Applicable Criteria

Sector Navigators – Addendum to the Corporate Rating Criteria (December 2024)

Corporate Rating Criteria (December 2024)

Corporate Recovery Ratings and Instrument Ratings Criteria (August 2024)

Related Research

Global Economic Outlook (December 2024)

EMEA High-Yield Pharmaceuticals – Relative Credit Analysis (August 2024)

Recovery Tool

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The downgrade of CHEPLAPHARM Arzneimittel GmbH's (Cheplapharm) ratings reflects high leverage, modest size and slow structural organic decline of its portfolio of off-patent established and niche drugs with strong operating margins and free cash flow (FCF) generated by its asset-light business model in a non-cyclical sector.

The Stable Outlook reflects Fitch's expectation that the group will continue to generate substantial FCF and that its performance will stabilise over the next 12 to 18 months, with organic revenue decline contained to low-single digits and stable EBITDA margins. We assume that the group will stop making acquisitions in 2025 and 2026 to focus on improving its organic performance, leading to an EBITDA leverage of between 5.5x and 6.5x in the next three years.

Key Rating Drivers

Margins Fall; Organic Decline Accelerates: We expect EBITDA to decline by slightly over 10% in 2024, caused by a decline in EBITDA margins to 45% from 52%. This is despite our expectation of low-single digit revenue growth in 2024, driven by the contribution of drugs acquired in 2023 and 2024. The organic revenue decline of the existing portfolio has accelerated from low-single digits to the low teens, due to a mix of temporary product availability issues for some drugs and commercial underperformance.

Recent commercial weakness has been driven by integration problems of large acquisitions and the increased complexity of the group following a period of very fast, acquisition-driven growth, which saw the company almost triple in size between 2019 and 2023.

Leverage Deteriorates: Over 2021–2023, Cheplapharm's EBITDA leverage was moderate compared with private equity-owned peers, at 4.4x in 2021 and 2022 and at 5.2x in 2023. However, we expect gross EBITDA leverage to increase to 6.2x in 2024 as a result of the EBITDA decline and material acquisitions in 2024, including around EUR400 million of new acquisition and EUR330 million in deferred payments related to previous acquisitions.

Stabilisation Assumed: Although the degree of visibility has decreased, we expect management to contain the organic revenue decline to the historical low-to-mid single-digit decline over the next 12-18 months, stabilising margins between 43% and 45%. We expect a gradual recovery of a large portion of market share lost once product availability issues abate, given the nature of its portfolio.

The portfolio of off-patent drugs includes a mix of small niche drugs with no or little generic competition and legacy drugs, of which at least half have strong brand recognition and are less affected by generic competition.

Strong FCF Generation: We expect that Cheplapharm will continue to generate strong FCF in 2025 to 2027, despite lower EBITDA margins than in recent years, enabling it to modestly reduce its debt or self-finance acquisitions. We estimate FCF to average EUR235 million per year in 2025–2027, following a weaker 2024 due to large working capital outflows.

Pause in M&A Activity: We assume the group will stop material acquisitions in 2025 and 2026 and be highly selective on acquisitions to focus on improving its existing portfolio and internal systems. Previously, we expected Cheplapharm to use internally generated cash, combined with the flexibility under its revolving credit facility (RCF), to prioritise inorganic growth. We estimate the group would need to invest about 8%–9% of its revenue each year in acquisitions (which we treated as development capex) to offset its structural organic portfolio decline.

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Defensive Operations: The rating is underpinned by a defensive profile, predictable revenue and high margins from diversified portfolios of off-patent drugs, including niche and legacy ones, although this has reduced. The group has a solid strong performance, supported by a well-managed intellectual property (IP) portfolio, active product life-cycle management and well-executed drug IP rights purchases. Niche specialist pharma companies are positioned to benefit from innovative pharma companies streamlining portfolios by divesting off-patent drugs.

Financial Summary

(EURm)	2021	2022	2023	2024F	2025F	2026F
Gross revenue	1,082	1,280	1,498	1,541	1,567	1,513
EBITDA margin (%)	57.6	53.6	52.0	45.0	43.0	43.7
FCF margin after net acquisitions (%)	-19.7	-12.3	-78.6	-16.8	11.9	17.0
EBITDA leverage (x)	4.4	4.4	5.2	6.2	6.2	6.1
EBITDA interest coverage (x)	7.8	5.0	3.4	2.3	2.3	2.4

Source: Fitch Ratings, Fitch Solutions, Cheplapharm

Rating Derivation Relative to Peers

We rate Cheplapharm using our Ratings Navigator Framework for Pharmaceutical Companies. The company is rated one notch below Pharmanovia Bidco Limited (B+/Stable), despite the smaller scale of the latter and comparable asset-light scalable business model with strong cash flow margins. Pharmanovia has a moderate EBITDA leverage of 4.5x–5.5x, while we expect Cheplapharm's leverage to rise to 6.2x in 2024 and stay elevated for the next 12–18 months.

Cheplapharm is rated below Grunenthal Pharma GmbH & Co. Kommanditgesellschaft (BB/Stable). Grunenthal's credit profile reflects its more conservative financial policy with a leverage of 3.0x–4.0x and strong FCF margins derived from a portfolio of off-patent and innovative drugs and own manufacturing and distribution capabilities, although with lower EBITDA margins of about 20%.

We rate Cheplapharm at the same level as ADVANZ PHARMA HoldCo Limited (B/Stable). The latter is involved in bringing new niche, specialist and value-added generics to market through codevelopment, in-licencing and distribution agreements, but it has smaller business scale and lower operating and cash flow margins, whereas leverage is lower, in the 4.5x–5.5x range.

Cheplapharm's IDR is at the same level as generics producer Nidda BondCo GmbH (B/Stable). The former has much smaller scale and a more concentrated portfolio, which is mitigated by wide geographic diversification within each brand. Nidda BondCo's rating is limited by high EBITDA leverage at about 8.0x in 2023, but expected to reduce to below 7.0x from 2024 and be only marginally higher than that expected for Cheplapharm in 2024.

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Navigator Peer Comparison

Issuer		Business profile						Financial profile		
	IDR/Outlook	Operating Environment	Management and Corporate Governance	Market Position	Revenue Defensibility	Innovation	Diversification	Profitability	Financial Structure	Financial Flexibility
CHEPLAPHARM Arzneimittel GmbH	B/Stable	aa	bb	b+	bb-	b	bb+	a-	b	bb-
ADVANZ PHARMA HoldCo Limited	B/Stable	aa-	bb	b	bb	bb	bb	bbb+	b	b+
Nidda BondCo GmbH	B/Stable	aa	bb-	bb+	bb	bb	bbb+	bbb-	b-	b+
Teva Pharmaceutical Industries Limited	BB/Positive	aa-	bb	bbb+	bb+	bb+	bbb-	bb+	bb	bb+
Grunenthal Pharma GmbH & Co. Kommanditgesellschaft	BB/Stable	aa-	bbb-	bb	bb-	b+	bb	bbb-	bbb	bbb-
Pharmanovia Bidco Limited	B+/Stable	aa-	bb	b	b+	bb-	bb-	bbb+	b	b+

Source: Fitch Ratings — Relative Importance of Factor: Higher / Moderate / Lower

Issuer		Business profile						Financial profile		
Name	IDR/Outlook	Operating Environment	Management and Corporate Governance	Market Position	Revenue Defensibility	Innovation	Diversification	Profitability	Financial Structure	Financial Flexibility
CHEPLAPHARM Arzneimittel GmbH	B/Stable	+12	+3	+1	+2	0	+4	+8	0	+2
ADVANZ PHARMA HoldCo Limited	B/Stable	+11	+3	0	+3	+3	+3	+7	0	+1
Nidda BondCo GmbH	B/Stable	+12	+2	+4	+3	+3	+7	+5	-1	+1
Teva Pharmaceutical Industries Limited	BB/Positive	+8	0	+4	+1	+1	+2	+1	0	+1
Grunenthal Pharma GmbH & Co. Kommanditgesellschaft	BB/Stable	+8	+2	0	-1	-2	0	+2	+3	+2
Pharmanovia Bidco Limited	B+/Stable	+10	+2	-1	0	+1	+1	+6	-1	0

Source: Fitch Ratings — FactorScore Relative to IDR: Worse positioned than IDR / Within one notch of IDR / Better positioned than IDR

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- An upgrade is unlikely, but could be considered once a viable transformation plan starts to be delivered, resulting in a stabilisation of organic operating performance with organic revenue decline contained to the low-single digits.
- EBITDA leverage below 5.5x on a sustained basis.
- EBITDA interest coverage above 3.0x on a sustained basis.
- Continuously positive FCF margins in the mid- to high teens.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- More aggressive financial policy, leading to EBITDA leverage above 6.5x on a sustained basis.
- EBITDA interest coverage below 2.0x on a sustained basis.
- Positive but continuously declining FCF.
- Unsuccessful management of individual pharmaceutical IP rights leading to material permanent loss of income and EBITDA margins declining below 40%.

Liquidity and Debt Structure

We view liquidity as satisfactory, with EUR379 million in readily available cash as of 3Q24 (excluding Fitch-restricted EUR20 million for operational purposes) and EUR330 million undrawn from its EUR695 million RCF maturing in February 2028. In addition, we expect Cheplapharm to generate strong FCF, which we estimate in the range of EUR200 million to EUR250 million on average from 2025 to 2027.

The group has a medium-term maturity profile with EUR500 million maturing in February 2027, around EUR1 billion maturing in January 2028, EUR1,480 million in February 2029 and EUR1,050 million maturing in May 2030.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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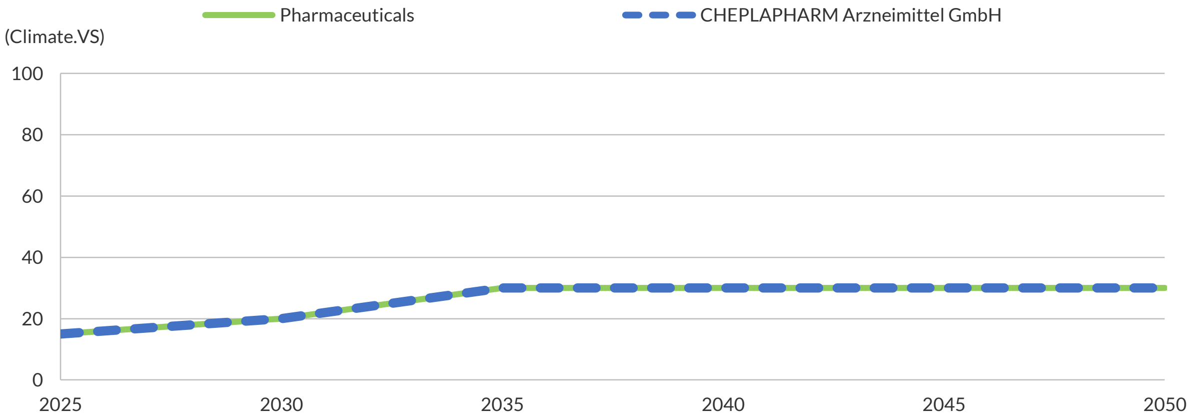
Climate Vulnerability Considerations

Fitch uses Climate Vulnerability Signals (Climate.VS) as a screening tool to identify sectors and Fitch-rated issuers that are potentially most exposed to credit-relevant climate transition risks and, therefore, require additional consideration of these risks in rating reviews. Climate.VS range from 0 (lowest risk) to 100 (highest risk). For more information on Climate.VS, see Fitch's Corporate Rating Criteria.

The 2023 revenue-weighted Climate.VS for Cheplapharm for 2035 is 30 out of 100, suggesting a low exposure to climate-related risks in that year.

Climate.VS Evolution
As of 31 December 2023



Source: Fitch Ratings

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Liquidity and Debt Maturities

Liquidity Analysis

(EURm)	2024F	2025F	2026F	2027F
Available liquidity				
Beginning cash balance	514	200	236	346
Rating case FCF before acquisitions and divestitures	4	186	257	262
Acquisitions (not included into capex)	-263	—	—	—
Other cash flows - deferred payment for acquisition	-330	—	—	—
RCF drawings/repayments	275	-150	-125	—
Total available liquidity (A)	**200**	**236**	**368**	**608**
Liquidity uses				
Debt maturities	—	—	-22	-500
Total liquidity uses (B)	**—**	**—**	**-22**	**-500**
Liquidity calculation				
Ending cash balance (A+B)	200	236	346	108
Revolver availability	420	570	695	695
Ending liquidity	**620**	**806**	**1,041**	**803**
Liquidity score (x)	Not meaningful	Not meaningful	53.7	2.6

Source: Fitch Ratings, Fitch Solutions, Cheplapharm

Scheduled debt maturities

(EURm)	31 December 2023
2024	—
2025	—
2026	22
2027	500
2028	994
Thereafter	2,530
Total	**4,047**

Source: Fitch Ratings, Fitch Solutions, Cheplapharm

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Key Assumptions

- Revenue growth of about 3% in 2024, with an organic decline in the low teens offset by the contribution of drugs acquired in 2023 and 2024.
- Revenue growth of around 2% in 2025 and an organic decline in the low-single digits offset by the annualisation of the contribution of drugs acquired in 2024.
- Revenue decline of about 3.5% a year in 2026 and 2027 in the absence of further M&A.
- EBITDA margin to reduce to 45% in 2024 and 43% in 2025, with a gradual improvement towards 44%–45% by 2027.
- Maintenance capex at about 1% of sales.
- EUR400 million of M&A spend in 2024, followed by no new M&A in 2025–2027. Fitch treats acquisitions accounting to up 8%–9% of the previous year's sales as capex.
- Deferred payments related to previous acquisitions of EUR330 million in 2024 and EUR41 million in 2025.
- One-off costs of EUR20 million in 2025 and EUR10 million in 2026.
- Trade working capital outflows of about EUR170 million a year in 2024, then EUR70 million in 2025 and EUR50 million a year in 2026–2027.
- Common dividends of EUR30 million in 2024. No common dividend payments in 2025 to 2027.

Summary of Financial Adjustments

Fitch treats the EUR500 million shareholder loan as equity but includes its interest paid in its cash flow projections given the group's intention to pay interest in cash. We also treat EUR20 million of readily available cash as restricted cash.

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Financial Data

(EURm)	2021	2022	2023	2024F	2025F	2026F
Summary income statement						
Gross revenue	1,082	1,280	1,498	1,541	1,567	1,513
Revenue growth (%)	69.2	18.3	17.1	2.8	1.7	-3.4
EBITDA before income from associates	624	685	780	693	674	661
EBITDA margin (%)	57.6	53.6	52.0	45.0	43.0	43.7
EBITDA after associates and minorities	624	686	780	694	674	662
EBIT	293	286	257	228	199	176
EBIT margin (%)	27.1	22.3	17.2	14.8	12.7	11.7
Gross interest expense	-136	-200	-256	-305	-293	-280
Pre-tax income including associate income/loss	153	179	-43	-66	-89	-100
Summary balance sheet						
Readily available cash and equivalents	87	150	514	200	236	346
Debt	2,713	3,045	4,047	4,322	4,172	4,024
Net debt	2,626	2,895	3,532	4,122	3,936	3,679
Summary cash flow statement						
EBITDA	624	685	780	693	674	661
Cash interest paid	-80	-137	-232	-305	-293	-280
Cash tax	-11	-16	-51	-35	-34	-33
Dividends received less dividends paid to minorities (inflow/outflow)	0	0	—	0	0	0
Other items before funds from operations (FFO)	-19	-12	-18	-20	-20	-20
FFO	515	522	493	345	332	332
FFO margin (%)	47.6	40.8	32.9	22.4	21.2	21.9
Change in working capital	-215	-79	-141	-170	-70	-50
Cash flow from operations (CFO) (Fitch-defined)	300	443	352	175	262	282
Total non-operating/non-recurring cash flow	—	—	—	—	-20	-10
Capex	-65	-103	-127	—	—	—
Capital intensity (capex/revenue) (%)	6.0	8.0	8.5	—	—	—
Common dividends	—	—	-30	—	—	—
FCF	235	340	195	—	—	—
FCF margin (%)	21.7	26.6	13.0	—	—	—
Net acquisitions and divestitures	-448	-498	-1,372	—	—	—
Other investing and financing cash flow items	212	3	594	—	—	—
Net debt proceeds	6	217	1,007	275	-150	-147
Net equity proceeds	—	—	-50	—	—	—
Total change in cash	4	63	374	-314	36	110
Calculations for forecast publication						
Capex, dividends, acquisitions and other items before FCF	-513	-601	-1,529	-434	-76	-25
FCF after acquisitions and divestitures	-214	-157	-1,177	-259	186	257
FCF margin after net acquisitions (%)	-19.7	-12.3	-78.6	-16.8	11.9	17.0
Gross leverage ratios (x)						
EBITDA leverage	4.4	4.4	5.2	6.2	6.2	6.1
CFO-capex/debt	8.6	11.2	5.6	0.8	4.9	6.6
Net leverage ratios (x)						
EBITDA net leverage	4.2	4.2	4.5	5.9	5.8	5.6
CFO-capex/net debt	8.9	11.8	6.4	0.8	5.2	7.3
Coverage ratios (x)						
EBITDA interest coverage	7.8	5.0	3.4	2.3	2.3	2.4

Source: Fitch Ratings, Fitch Solutions, Cheplapharm

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How to Interpret the Forecast Presented

The forecast presented above is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

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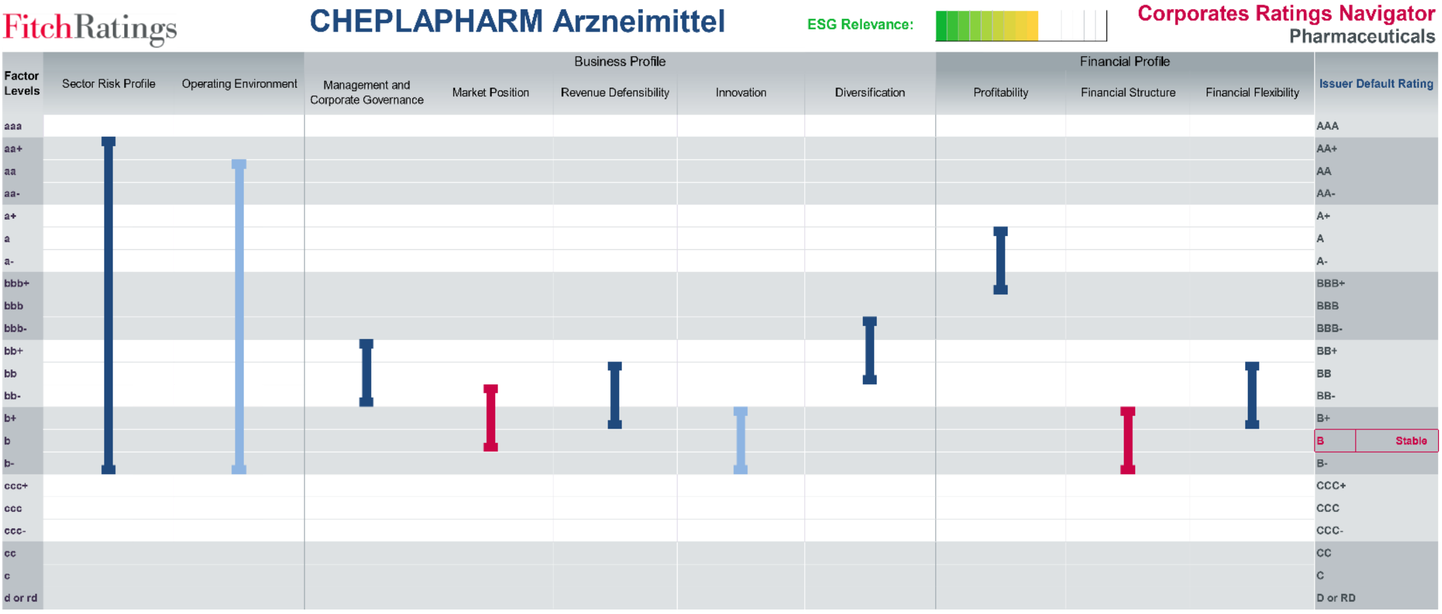
Ratings Navigator



Bar Chart Legend:	
Vertical Bars = Range of Rating Factor	Bar Arrows = Rating Factor Outlook
Bar Colors = Relative Importance	⇧ Positive
Higher Importance	⇩ Negative
Average Importance	⇳ Evolving
Lower Importance	□ Stable

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FitchRatings

CHEPLAPHARM Arzneimittel

Corporates Ratings Navigator
Pharmaceuticals

Operating Environment

aa+	Economic Environment	aa	Very strong combination of countries where economic value is created and where assets are located.
aa	Financial Access	a	Strong combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	aa	Systemic governance (eg rule of law, corruption; government effectiveness) of the issuer's country of incorporation consistent with 'aa'.
b-			
ccc+			

Management and Corporate Governance

bbb-	Management Strategy	bb	Strategy generally coherent but some evidence of weak implementation.
bb+	Governance Structure	bb	Board effectiveness questionable with few independent directors. "Key person" risk from dominant CEO or shareholder.
bb	Group Structure	bb	Complex group structure or non-transparent ownership structure. Related-party transactions exist but with reasonable economic rationale.
bb-	Financial Transparency	bb	Financial reporting is appropriate but with some failings (eg, lack of interim or segment analysis).
b+			

Market Position

bb	Revenue	b	$<2 billion
bb-	Market Position	b	Weak national and global market positions.
b+	Reimbursement Environment	bb	Negative and/or worsening reimbursement environment.
b			
b-			

Revenue Defensibility

bb+	% Sales and Profitability at Risk (Innovative)	bb	Significant level of sales and profitability at risk from patent expiry
bb	Sales Opportunity (Generic) From Expiry	b	Sales opportunities insufficient to sustain near-term growth
bb-			
b+			
b			

Innovation

bb-	Pipeline Profile	b	Sparse and very narrow, requiring a strategic acquisitions to drive profitable growth at a level to remain competitive with its peers.
b+	R&D Productivity (Innovative)		N/A
b	R&D Productivity (Generic)		N/A
b-			
ccc+			

Diversification

bbb	Geographic Diversification	bb	Some presence in one of the following markets: U.S., Europe, Japan and Emerging.
bbb-	Top Product Concentration	a	Top product: 25%-35% of total sales.
bb+			
bb			
bb-			

Profitability

a+	EBITDA Margin	aa	36%
a	EBIT Margin	bbb	16%
a-	FFO Margin	a	23%
bbb+			
bbb			

Financial Structure

bb-	EBITDA Leverage	b	5.5x
b+	EBITDA Net Leverage	b	5.0x
b	(CFO-Capex)/Debt	b	2.5%
b-			
ccc+			

Financial Flexibility

bb+	Financial Discipline	bb	Financial policies in place but flexibility in applying them could lead to temporarily exceeding downgrade guidelines.
bb	Liquidity	bbb	One-year liquidity ratio above 1.25x. Well-spread maturity schedule of debt but funding may be less diversified.
bb-	EBITDA Interest Coverage	b	2.5x
b+	FX Exposure	bbb	Some FX exposure on profitability and/or debt/cash flow match. Effective hedging in place.
b			

Credit-Relevant ESG Derivation

CHEPLAPHARM Arzneimittel has 10 ESG potential rating drivers

- Water usage in manufacturing process
- Management of product lifecycle and potential impact on food/water supply; supply chain management - product/APIs
- Wellbeing of clinical trial participants; patient access and affordability
- Drug safety & side effects; ethical marketing; data safety in clinical trials; counterfeit drug management
- Impact of labor negotiations and employee (dis)satisfaction; employee recruitment and retention
- Pressure to contain healthcare spending growth; highly sensitive political environment

Showing top 6 issues

			Overall ESG
key driver	0	issues	5
driver	0	issues	4
potential driver	10	issues	3
not a rating driver	2	issues	2
	2	issues	1

For further details on Credit-Relevant ESG scoring, see page 3.

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

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CHEPLAPHARM Arzneimittel

Corporates Ratings Navigator
Pharmaceuticals

Credit-Relevant ESG Derivation

CHEPLAPHARM Arzneimittel has 10 ESG potential rating drivers

- CHEPLAPHARM Arzneimittel has exposure to water management risk but this has very low impact on the rating.
- CHEPLAPHARM Arzneimittel has exposure to waste & impact management risk and supply chain management risk but this has very low impact on the rating.
- CHEPLAPHARM Arzneimittel has exposure to access/affordability risk but this has very low impact on the rating.
- CHEPLAPHARM Arzneimittel has exposure to patient accountability risk but this has very low impact on the rating.
- CHEPLAPHARM Arzneimittel has exposure to labor relations & practices risk and employee recruitment & retention risk but this has very low impact on the rating.
- CHEPLAPHARM Arzneimittel has exposure to social pressure to contain costs but this has very low impact on the rating.

Showing top 6 issues

ESG Relevance to Credit Rating

key driver	0	issues	5
driver	0	issues	4
potential driver	10	issues	3
not a rating driver	2	issues	2
	2	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	2	Energy use in manufacturing	Profitability; Financial Structure; Financial Flexibility	4
Water & Wastewater Management	3	Water usage in manufacturing process	Size and Market Positioning; Profitability; Financial Structure; Financial Flexibility	3
Waste & Hazardous Materials Management; Ecological Impacts	3	Management of product lifecycle and potential impact on food/water supply; supply chain management - product/APIs	Size and Market Positioning; Profitability; Financial Structure; Financial Flexibility	2
Exposure to Environmental Impacts	2	Manufacturing facilities and inventory exposure to extreme weather events	Size and Market Positioning; R&D Product Pipeline; Profitability; Financial Structure; Financial Flexibility	1

How to Read This Page

ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	3	Wellbeing of clinical trial participants; patient access and affordability	Size and Market Positioning; R&D Product Pipeline; Profitability; Financial Structure; Financial Flexibility	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Drug safety & side effects; ethical marketing; data safety in clinical trials; counterfeit drug management	Size and Market Positioning; R&D Product Pipeline; Profitability; Financial Structure; Financial Flexibility	4
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction; employee recruitment and retention	Size and Market Positioning; Profitability; Financial Structure; Financial Flexibility	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Pressure to contain healthcare spending growth; highly sensitive political environment	Size and Market Positioning; R&D Product Pipeline; Profitability; Financial Structure; Financial Flexibility	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance	5
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance	4
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance	3
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

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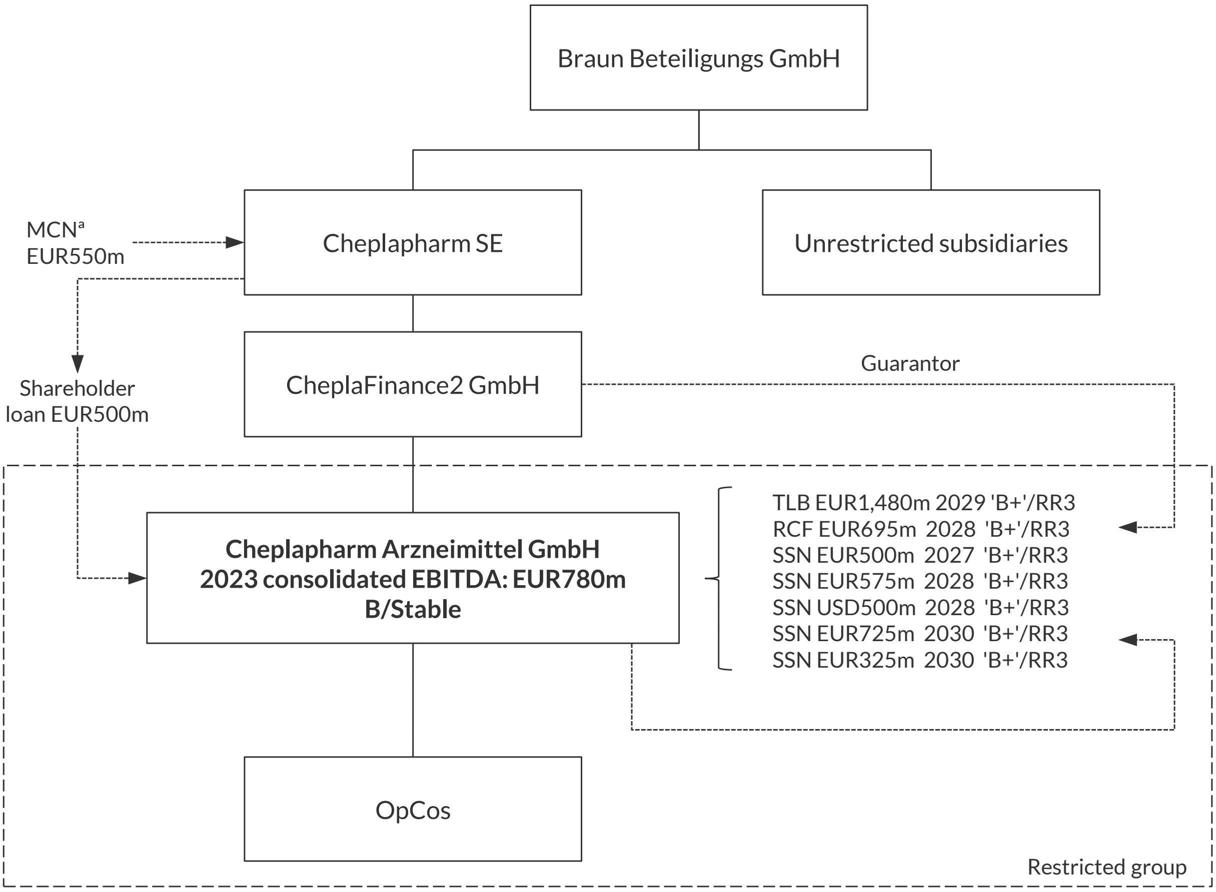
Simplified Group Structure Diagram



[a] Subordinated mandatory convertible loan of Cheplapharm AG, of which EUR500m is a shareholder loan to the restricted group.
Source: Fitch Ratings, Fitch Solutions, Cheplapharm, as of December 2024

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Peer Financial Summary

Company	Issuer Default Rating	Financial statement date	Gross revenue (EURm)	EBITDAR margin (%)	FCF margin (%)	EBITDA leverage (x)	EBITDA interest coverage (x)
CHEPLAPHARM Arzneimittel GmbH	B						
	B+	2023	1,498	52.0	13.0	5.2	3.4
	B+	2022	1,280	53.6	26.6	4.4	5.0
	B+	2021	1,082	57.7	21.7	4.4	7.8
ADVANZ PHARMA HoldCo Limited	B						
	B	2023	763	43.1	2.3	4.1	4.1
	B	2022	574	40.8	17.7	5.7	3.3
	B	2021	301	42.5	-28.7	9.5	3.8
Pharmanovia Bidco Limited	B+						
	B+	2023	401	40.5	33.0	4.8	5.3
	B+	2022	289	40.2	13.2	5.7	4.1
	B+	2021	265	44.4	33.8	5.7	6.1
Nidda BondCo GmbH	B						
	B	2023	3,735	20.2	-0.6	8.0	1.8
	B	2022	3,797	22.5	6.4	7.1	2.8
	B	2021	3,250	22.3	3.8	8.9	2.9
Roar BidCo AB	B						
	B	2023	1,299	14.0	-2.8	8.5	1.9
	B	2022	1,176	12.2	-18.2	10.4	2.2
	B	2021	1,043	19.5	0.9	7.5	3.7
Grunenthal Pharma GmbH & Co. Kommanditgesellschaft	BB						
	BB	2023	1,819	22.6	2.7	3.1	6.6
	BB	2022	1,654	25.6	13.2	2.9	9.5
	BB	2021	1,467	24.1	15.5	2.9	9.7
Teva Pharmaceutical Industries Limited	BB						
	BB-	2023	14,463	25.8	14.0	5.3	3.8
	BB-	2022	13,993	25.0	9.5	6.1	3.9
	BB-	2021	14,039	25.6	12.2	5.9	4.4
Grifols, S.A.	B+						
	BB-	2023	6,592	20.0	-2.8	8.8	2.5
	BB-	2022	6,064	17.9	-10.9	10.7	3.2
	BB-	2021	4,933	18.4	-2.8	9.7	6.8

Source: Fitch Ratings, Fitch Solutions

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Fitch Adjusted Financials

(EURm as of 31 December 2023)	Notes and formulas	Standardised values	Cash adjustment	Fair value and other debt adjustments	Lease treatment	Other adjustments	Adjusted values
Income statement summary							
Revenue		1,498	—	—	—	—	1,498
EBITDA	(a)	780	—	—	-1	-0	780
Depreciation and amortisation		-523	—	—	0	0	-522
EBIT		258	—	—	-0	-0	257
Balance sheet summary							
Debt	(b)	4,018	—	29	—	—	4,047
Of which other off-balance sheet debt		—	—	—	—	—	—
Lease-equivalent debt		—	—	—	—	—	—
Lease-adjusted debt		4,018	—	29	—	—	4,047
Readily available cash and equivalents	(c)	534	-20	—	—	—	514
Not readily available cash and equivalents		—	20	—	—	—	20
Cash flow summary							
EBITDA	(a)	780	—	—	-1	-0	780
Dividends received from associates less dividends paid to minorities	(d)	—	—	—	—	—	—
Interest paid	(e)	-233	—	—	0	0	-232
Interest received	(f)	15	—	—	—	—	15
Preferred dividends paid	(g)	—	—	—	—	—	—
Cash tax paid		-51	—	—	—	—	-51
Other items before FFO		-18	—	—	—	—	-18
FFO	(h)	494	—	—	-0	-0	493
Change in working capital		-141	—	—	—	—	-141
CFO	(i)	352	—	—	-0	0	352
Non-operating/non-recurring cash flow		—	—	—	—	—	—
Capex	(j)	-12	—	—	—	-115	-127
Common dividends paid		-30	—	—	—	—	-30
FCF		311	—	—	-0	-115	195
Gross leverage (x)							
EBITDA leverage	b/(a+d)	5.2	—	—	—	—	5.2
(CFO-capex)/debt (%)	(i+j)/b	8.4	—	—	—	—	5.6
Net leverage (x)							
EBITDA net leverage	(b-c)/(a+d)	4.5	—	—	—	—	4.5
(CFO-capex)/net debt (%)	(i+j)/(b-c)	9.7	—	—	—	—	6.4
Coverage (x)							
EBITDA interest coverage	(a+d)/(-e)	3.4	—	—	—	—	3.4

Note: The standardised items presented above are based on Fitch's taxonomy for the given sector and region. Reported items may not match the Fitch taxonomy, but they are captured into corresponding lines accordingly.
Debt includes other off-balance sheet debt.
Debt in the standardised values column excludes lease liabilities of EUR5.079m.
Source: Fitch Ratings, Fitch Solutions, Cheplapharm

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B+ and Below Considerations

Factors	b+	b	b-	ccc+	ccc	ccc-	cc
Business model	Robust	Sustainable	Intact	Redeemable	Compromised	Disrupted	Irredeemable
Execution risk in strategy	Limited	Moderate	Meaningful	Challenging yet achievable	Uncertain	Highly speculative	Not credible
Cash flow profile	Consistently positive	Neutral to positive	Volatile	Mostly negative	Constantly negative	Accelerating cash outflow	Irreversible outflow
Leverage profile	Clear deleveraging path	Deleveraging capacity	High but sustainable	Significant outlier	Unsustainable	Disproportionate and increasing	Unrecoverable
Governance and financial policy	Committed	Some commitment to deleveraging	Aggressive	Ineffective	Uncommitted	Hostile	Inevitable balance sheet restructuring
Refinancing risk	Limited	Manageable	High	Off market options	Excessive	Unavailable	Imminent
Liquidity	Comfortable	Satisfactory	Limited	Minimal headroom	Poor/partly funded	Unfunded	De facto insolvent

Source: Fitch Ratings

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Recovery Analysis

Issuer	CHEPLAPHARM Arzneimittel GmbH		
Issuer Default Rating	B	As of	30 09 24
Sector	Pharmaceuticals	Currency	(EURm)
Country	Germany	Country group	A

Going concern (GC) enterprise value (EV)	
GC EBITDA	600
EBITDA multiple (x)	5.5
GC value from alternative method	-
Additional value from affiliates, minority interest and other	-
GC EV	**3,300**
EV for claims distribution	
Greater of GC enterprise or liquidation value	3,300
Less administrative claims	330
Total EV	**2,970**

Liquidation value	Book value	Advance rate (%)	Available to creditors
Cash	399	0	-
Accounts receivable	547	80	438
Inventory	539	50	269
Net property, plant and equipment	48	50	24
Liquidation value of off-balance sheet assets	-	100	-
Additional value from affiliates, minority interest and other	-	100	-
Total liquidation value			**731**

Distribution of value

					Before country-specific considerations			After country-specific considerations		
Priority	Amount	Concession allocation	Value recovered	Recovery (%)	Recovery Rating	Notching	Rating	Recovery Rating	Notching	Rating
First lien secured	4,719	0	2,970	63	RR3	+1	B+	RR3	+1	B+

Source: Fitch Ratings

We expect that in a bankruptcy Cheplapharm would most likely be sold or restructured as a going concern (GC) rather than liquidated, given its asset-light business model.

We estimate a post-restructuring GC EBITDA at about EUR600 million, which includes the contribution from the recently closed drug IP acquisitions. Cheplapharm would be required to address debt service and fund working capital as it takes over inventories following the transfer of market authorisation rights, as well as making smaller M&A to sustain its product portfolio to compensate for a structural sales decline.

Fitch applies a distressed enterprise value/EBITDA multiple of 5.5x, reflecting the underlying value of the group's portfolio of IP rights.

After deducting 10% for administrative claims, the allocation of value in the liability waterfall results in a Recovery Rating of 'RR3' for the existing senior secured debt, including its EUR695 million RCF, which we assume will be fully drawn prior to distress. This indicates a 'B+' instrument rating with a waterfall-generated recovery computation of 63% versus 62% previously.

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