FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Cheplapharm at 'B'; Outlook Stable

Thu 11 Dec, 2025 - 10:52 AM ET

Fitch Ratings - Barcelona - 11 Dec 2025: Fitch Ratings has affirmed CHEPLAPHARM Arzneimittel GmbH's (Cheplapharm) Long-Term Issuer Default Rating (IDR) at 'B'. The Outlook is Stable.

The affirmation balances Cheplapharm's expected high leverage until 2028 and the 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 positive FCF and that its performance will remain adequate over the forecast period, with organic revenue decline contained to low-single digits and stable EBITDA margins. Fitch assumes no material acquisitions in 2026 and only small acquisitions from 2027, which should lead to EBITDA leverage between 6.0x and 6.5x during the next three years.

KEY RATING DRIVERS

Operational Transformation Stabilises Performance: We expect Cheplapharm to execute its operational transformation programme by end-2026, which has already helped stabilise the business and contain EBITDA reduction. We expect EBITDA in 2025 to be just slightly below 2024, with slightly higher revenues offsetting a mild contraction of Fitch-calculated EBITDA margins to 41% from 43.2% in 2024. We project the organic revenue decline will be contained in 2026 as supply chain issues are addressed and commercial performance restored.

Recent commercial weakness from 2024 has been driven by integration problems from large acquisitions and the group's increased complexity following a period of very fast, acquisition-driven growth. We expect the company to refrain from large acquisitions until the transformation programme is fully complete.

Leverage To Stay High: We estimate EBITDA leverage will stay high, within a 6.0x to 6.5x range until 2028, assuming stable margins and the absence of material M&A to partially offset the organic revenue decline of the existing portfolio. Once Cheplapharm resumes its moderate M&A activity from 2027, funded by internal cash flow, the EBITDA contribution of these acquisitions should contribute to moderate deleveraging.

Margins To Remain Stable: We estimate that the organic revenue decline will be contained to the historical low to mid-single digits over 2026-2028, keeping EBITDA margins stable at around 41%. The lower margins compared to the above 50% before 2024 are largely related to the lower portion of transitional service agreements revenue from acquisitions. We expect a gradual recovery of the lost market share once product availability issues abate, given the nature of its portfolio of off-patent drugs, which includes a mix of niche drugs with no or little generic competition and legacy drugs, at least half of which have strong brand recognition and are less affected by generic competition.

Strong FCF Generation: We project that Cheplapharm will continue to generate strong FCF until 2027, enabling it to modestly reduce its debt or self-finance acquisitions. We estimate FCF will average EUR190 million a year in 2026 and 2027, following a weaker 2025 due to large working capital outflows including a moderate increase in factoring usage. The inventory optimisation programme should contribute to positive FCF in 2026 and 2027 of up to EUR100 million.

Leverage Focus as M&A Resumes: The affirmation is based on the assumption that the group will return to making acquisitions from 2H26, albeit at a lower scale and, most importantly, structured in ways that avoid increasing leverage. We previously 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 needs to invest about 8% to 9% of its revenue each year in acquisitions (which we treat as development capex) to offset its structural organic portfolio decline.

PEER ANALYSIS

We rate Cheplapharm using our Ratings Navigator Framework for Pharmaceutical Companies. Cheplapharm is rated two notches above Pharmanovia Bidco Limited (CCC+), with the latter having smaller scale and a comparable asset-light scalable business model but suffering from recent severe operational underperformance and a currently unclear medium-term plan.

Cheplapharm is rated below Grunenthal Pharma GmbH & Co. Kommanditgesellschaft (BB/Stable). Grunenthal's credit profile reflects its more conservative financial policy with 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, albeit 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 co-development, in-licencing, and distribution agreements, but it has smaller business scale and lower operating and cash flow margins, whereas leverage is lower at 5.5-6.0x.

Cheplapharm's IDR is at the same level as generics producer Nidda BondCo GmbH (B/Stable). Cheplapharm 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 7.5x in 2024 but expected to reduce towards 6.5x from 2025, to the leverage comparable with Cheplapharm.

FITCH’S KEY RATING-CASE ASSUMPTIONS

-Revenue growth around 3% in 2025, driven by mild organic growth and the annualisation of sales of drugs acquired in 2024

-Organic revenue decline of 2%-3% over 2026-2028

-EBITDA margin to remain around 41% by 2028

-Maintenance capex at about 1% of sales

-No new material M&A in 2025, M&A of EUR50 million in 2026 and EUR150 million a year in 2027 and 2028. Fitch treats acquisitions accounting to up 8%-9% of the previous year's sales as capex

-Deferred payments of EUR54 million in 2025

-One-off costs of EUR20 million in 2025 and 2026, reducing to EUR10 million a year in 2027 and 2028

-Trade working-capital outflows of about EUR139 million a year in 2025, then cash inflow of EUR25million to EUR45 million a year in 2026 and 2027 due to the working capital improvement programme

-No common dividends payments in 2025 to 2028

RECOVERY ANALYSIS

We expect that in a hypothetical bankruptcy scenario 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 the EUR695 million RCF, which we assume will be fully drawn prior to distress. This indicates a 'B+' instrument rating, one notch above the IDR. We project factoring financing to remain in place at and after distress given the nature of its established products with a steady patient pool.

RATING SENSITIVITIES

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

- A 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%

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

- An upgrade is unlikely in the near term. We could consider an upgrade once the ongoing transformation plan has been delivered, resulting in a stabilisation of operating performance with organic revenue decline contained to low-single digits and steady to improving EBITDA margins

- 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

LIQUIDITY AND DEBT STRUCTURE

We view liquidity as comfortable, with EUR137 million in readily available cash as of 3Q25 (excluding Fitch-restricted EUR20 million for operational purposes) and access to its EUR695 million committed RCF (of which EUR150 million was drawn at end-September) maturing in February 2028. In addition, we expect Cheplapharm to generate strongly positive FCF, which we estimate in the range of EUR50 million to over EUR200 million between 2025 to 2028.

The group has refinanced its closest maturities originally due in 2027 with a new issuance of EUR750 million due June 2031. The company has no immediate maturities until January 2028 when EUR753 million come due. Thereafter EUR1,480 million will mature in February 2029 and EUR1,050 million in May 2030.

ISSUER PROFILE

Cheplapharm is a Germany-based pharmaceutical company focused on the life-cycle management of off-patent niche and legacy drugs, which it acquires from big pharmaceutical companies.

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.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Sector Forecasts Monitor data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

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.

RATING ACTIONS

ENTITY / DEBT	RATING			RECOVERY	PRIOR
CHEPLAPHARM Arzneimittel GmbH	LT IDR	B Rating Outlook Stable	Affirmed		B Rating Outlook Stable
senior secured	LT	B+	Affirmed	RR3	B+

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Xavier Taule Flores
Director
Primary Rating Analyst
+34 93 492 9513
xavier.tauleflores@fitchratings.com
Fitch Ratings Ireland Spanish Branch, Sucursal en España
Av. Diagonal 601 Planta 4 Barcelona 08028

Marina Ionova, CFA
Director
Secondary Rating Analyst
+49 69 768076 178
marina.ionova@fitchratings.com

Elena Stock
Senior Director
Committee Chairperson
+49 69 768076 135
elena.stock@fitchratings.com

MEDIA CONTACTS

Tahmina Pinnington-Mannan
London
+44 20 3530 1128
tahmina.pinnington-mannan@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 02 Aug 2024) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 27 Jun 2025) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 27 Jun 2025)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.2.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

CHEPLAPHARM Arzneimittel GmbH	EU Issued, UK Endorsed

DISCLAIMER & DISCLOSURES

or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

READ LESS

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

Fitch's solicitation status policy can be found at www.fitchratings.com/ethics.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.