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# DiaSorin SpA *(DIA.IT)*

Q1 2009 Earnings Call - 5/15/2009

## MANAGEMENT DISCUSSION SECTION

**Operator:** Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the DiaSorin's First Quarter 2009 Results Conference Call. As a remainder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions. <AudioIndex 00:00:21> [Operator Instructions] <AudioIndex 00:00:28>

At this time, I would like to turn the conference over to Mr. Carlo Rosa, CEO of DiaSorin. Please go ahead, sir.

### Carlo Rosa

Thank you. Ladies and gentlemen, welcome to the Q1 conference call result. As usual, I will give a brief comment to the quarter results and then Andrea is going into details of the presentation and then we'll take your questions.

First, as a general comment, I would say that the quarter one has been from strong, showing an improvement, a growth in revenues of 26%. I would like to comment this growth and be cautious about the growth.

First, we need to understand that there are some extraordinary events that affected this growth. First is the exchange rate re-evaluation of the U.S. dollars. As you know, we have a significant portion of 36% of the turnover during the U.S. A strong evaluation of the U.S. dollar in quarter one has affected the growth by almost 4 percentage points so at constant exchange rate, growth would have been 22%.

Second, you need to understand that the perimeter of the business because of the Biotrin acquisition has been changed, so that you cannot compare quarter one last year to quarter one 2009, and the effect of Biotrin in quarter one this year represents loss of 5 percentage points difference of growth.

So at constant exchange rate and constant perimeter, growth would have been 17% to 18.5% compared to last year which is still very high compared to the market growth and from what I understand some of our – from the growth that most of our competitors have achieved in quarter one this year.

Now what have been fueling the growth? The growth has been fueled by two elements. The first one is the continuous increase of the installed base of the LIAISON. Also in quarter one this year, we have installed 130 LIAISONs worldwide and it's really clear that we are reaping the benefits of the installation of over 400 systems that were done, that was done in 2008.

By the same token, LIAISON Vitamin D especially in U.S. continues to be formidable. There is an improvement in U.S. and in all major markets on the usage of Vitamin D and there is other penetration in the clinical – in the testing because of the clinical – the understanding by the physician of the clinical use of the diagnostic test. So, vis-à-vis, both of these elements with different weight and different geographies have contributed with this, to this strong growth.

Now when it comes to margins, what we have experienced is that again a re-evaluation of the dollar on one side as well the continuous shift of our turnover from ELISA and RIA technology to LIAISON significantly improved the margins in quarter one. Again these are the effect of dollar and mix.

Our gross margins therefore has improved by 36.4% down to the EBIT margin which has improved to 55.6% compared to quarter one last year. Finally, when it comes to net earnings, we had an increase of almost 30% of net earnings vis-à-vis last year, there has been a [ph] patch (5:14) on this. There is a negative impact which is an accounting effect, so it's not really reflected on the way the company operates. But, there's a negative impact due to the fact that we have a debt in dollars. This impact is around €2.3 million in quarter one.

In terms of, I would say the state of the business, very healthy in all the geographies, U.S. with an impressive growth over – almost 73% which would go down, if we take into account exchange rate and the Biotrin acquisition to 50%, still very significant. Europe has been growing double-digits with some countries like France driving the growth and other geographies like China, where in Israel where we continue expansion. These are [indiscernible] (06:17) countries, where we have initiated operating a few years ago and already benefit of our geographical expansion policy. All this said, I will leave now Andrea with the presentation and then we will take your questions.

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## Andrea Senaldi

Thank you, Carlo. Good afternoon. Good morning, ladies and gentlemen. Carlo has already mentioned one of the key highlights of the quarter. I will ask you then to move to slide number 2 and to start commencing the [indiscernible] (06:51) profit and loss for the quarter, the first quarter of 2009. I think that Carlo has already touched on the developments of revenues, the growth and reported by 26% with an effect of exchange rate which this quarter has been favorable and has contributed to the growth by 3.8 percentage point.

Moving down the P&L, you will notice how our growth profits has improved and the growth more than proportionally by 36.4% from €36 million to almost €50 million in quarter one of this year. Moving up also in terms of margins. The margins had moved up from 64.6% of turnover to 69.9%, so 4.5 percentage points, sorry, 5.5 percentage points.

If we then look at the development of operating expenses, operating expense has moved up about 20% versus the previous year, from €20.7 million up to €25 million. Bear in mind that within this increase, we have to take into consideration that consolidation area of the company has changed. We have – we're now consolidating Biotrin as a group which accounts for more than €1 million of this improvement. We have changed and moved and expanded into new subsidiaries as a consequence of our geographical expansion strategy and the result in exchange rate effect as it stands to the operational expenses that are borne by the group in the United States.

So despite all of these effect, the ratio to the turnover on operational expenses had decreased by 1.5 percentage points. The combined effects [indiscernible] (8:55) margin improvement reflects on EBIT which is growing by 55% versus the previous year and EBITDA which is growing by almost 50% versus the previous year.

And I will then comment more in this and on other components that [indiscernible] (9:11) our margin, but let me just make a final comment on the net results which as compared to the previous year has moved from €10 million to more than €13 million with an increase in results of 30%.

We will then move to the next slide where we analyze the revenue breakdown by technology. As usual LIAISON through the CLIA technology has been the driving force of the growth of the company. LIAISON sales have grown by 35% quarter versus quarter but at the same time, you will notice that the ELISA sales have also been growing on that back basically of the inclusion of the Biotrin products which are on ELISA platform.

As a consequence of the shift, you will now see a portfolio of products which were [ph] chemical luminescence (10:12) account for more than 60% whereas last year, it was just about 55%. ELISA is fairly stable around the 22% or just above 22% at the expense of RIA and the sale of instrumentation.

Now in particular, this last page, instrument has gone down from more than 11% of the portfolio last year to 8.5%, contributing to the improvement of the margin of the company.

If we now move to revenues by geography rather than by technology, you will notice that the growth of 26% is widely spread across areas.

As we turn to Europe and one of the largest market for DiaSorin, Italy. Italy has been growing by 6%. You will remember that last year, Italy was growing above double-digit. In the course of the first quarter of 2009, we have experienced a very low start which is has been partially recovered in the second part of the quarter. So we foresee to see an increase in the rate of growth of the Italian market in the coming part of the year.

When it comes to the rest of Europe, so excluding Italy, we have a solid double-digit growth around 10% with some markets which are growing more than proportionally [indiscernible] (11:50) average in particular, as mentioned France, Nordic and Belgium, all of which you see a very significant growth rate.

As we come to North America, Carlo has already 73% growth versus previous year with a strong contribution from the exchange rate, at comparable FX, it could be more than 50%, however, with the Biotrin contribution around 9% versus the previous year.

And the strong sales growth in rest of the world both in terms of direct operations like Mexico and Brazil where the growth has been in one case more than double than the previous year, and the second one, close to 50% of comparable exchange rate, but also thanks to the contribution of some of the remaining indirect areas or areas which we served indirectly through our distributors, and I would mention particularly Australia and China and the Far East.

Now, moving to slide number 5, I'm talking about these elements of our margin. We have already seen the growth of our gross profit, EBITDA and EBIT and the improvement of margins. I would go into some more details about the guidance of this improvement, but first of all, we continue to experience what is being termed now, long term structural driver of the margin improvement which is the improved technology mix. So [ph] chemical luminescence (13:23) in 2013 over more and more ways versus previous – versus other less profitable technology, in particular ELISA instrument and RIA.

Within, however, the [ph] chemical luminescence (13:39) portfolio itself, there continue to be a shift versus premium price, specialties, and in particular, vitamin D test and these further other improved the margin improvements.

Now, we continue to steer into an operating leverage on the installed base, as our revenue does not continue to go up. And we continue to – or we have experienced over the last two quarters a positive effect coming from the exchange rates.

Last but not least, as you will see in the financial report of quarter one, in this quarter, we have experienced strong economies of scale in our manufacturing plants in those three manufacturing plants in Italy, in the U.S., and in Germany and this is used with very strong production volume, which has helped us to reconstitute the stocks of this strategic byproduct that we manufacture.

So these are the factors which are contributing to the marginal improvement in the gross margin improvement. As you move down and you think about the operating leverage of operational expenses and the desire to make contribution, you will come to the all the factors that have improved our performance at EBIT and EBITDA levels.

So, we'll not comment on the net results. The 12% improvement is still less than proportional to the growth of the operating margin and this is due basically to the effect or the impact of the maintenance of growth for €3.6 million of which, however, €2.8 million are of the non-cash nature but in pure accounting measure and are linked to the mark-to-market evaluation of the debit stock that we carry in dollar, in U.S. dollar on our balance sheet.

This as you know and that we have explained several times in the previous quarters will not have a cash impact simply because we've hedged our cash inflows with necessary cash outflows to pay out the debt. As we move into the balance sheet if you just look at the slide number 6, I will only mention a significant increase or improvement in our net financial position which has moved down or moved up positively from close to €20 million debt at the end of 2008 to €12 million debt at the end of the quarter one.

And this is entirely driven by the strong performance and operational level in all of our cash flow. If you look at slide number 7, operating cash flow for the quarter has been €18.1 million before expenditure on the capital items of €8.4 million in 2008 which compares with previous year [indiscernible] (16:51) €8.2 million in Q1 2008 before the CapEx of €2.7 million.

The strong increase in the capital expenditure is related to more capitalization and more placement of the instruments and the reagents by itself and the expenditure linked to the acquisition of the distributional rights for the Czech Republic. Last but not the least, as a consequence the cash flow, our cash position at the end of quarter amounted to €25.2 million of cash and cash in bank.

Last but not the least, the full-term event where we will submit the financial community will be next week on the 19th – on the 20th where we'll meet in London for the Pan European Bank of America-Merrill Lynch MedTech Conference and the following week, we will travel to New York where we will attend the European MidCap Forum of [indiscernible] (17:58)

That's all for me. I would now leave the floor to a Q&A session. Thank you very much.

## QUESTION AND ANSWER SECTION

**Operator:** Excuse me, this is the Chorus Call Conference Operator. We will now begin the question-and-answer session. [Operator Instructions] The first question is from Mr. Fitzhugh Peters of Goldman Sachs. Please go ahead, sir.

Fitzhugh Peters

Q

Good afternoon, everyone. Thanks taking our call. The first question – I've got just a handful. First question, you mentioned you placed 130 units in the first quarter. Is there any reason to think that the LIAISON placements have been front loaded this year and do you still anticipate, I think before, you had said 400 units for the full year, is that still your general guidance for the unit placement?

Carlo Rosa

A

Do you want to ask more questions or do you...

Fitzhugh Peters

Q

Okay, I'll ask all three. Second question, the LIAISON XL, I'm just wondering if that's still on track. I think on the last call, you mentioned that you're going to have customers to see it this month in May with a soft launch in the fourth quarter. And then I was wondering if there were any changes to the upcoming menu for the LIAISON. Thank you.

Carlo Rosa

A

Okay. Listen, question number one, there is no [ph] true model (19:34) that we foresee. We always said that, on average, we will place 100 systems and when we sell on average, it means that it can go from 90 to 130. So we continue to foresee that we will end up with 400 systems, maybe over – a little bit over 400 but not significantly by year-end.

The second question has to do with XL, indeed in a couple of weeks, we have a very large event hosted in our headquarter. We will have 1,000 customers traveling from around the world, half of which – less than half are Italian and the rest are coming throughout the world, U.S. China, Brazil so anywhere and we will be showing LIAISON XL to these customers so it will [indiscernible] (20:37) and we expect the initial launch, the soft launch end of the year.

Last question in terms of LIAISON menu there have been – as projected, there has been no release of new products in quarter one. As you know, what we expect to do with the next assay that we expect to deliver will be the Parvovirus so conversion over the Biotrin products from ELISA technology to LIAISON and that is going to happen quarter three, so right after the summer and the bulk of the new products namely HIV and HCV will come along with LIAISON XL launch later on this year beginning of next year, really depending on registration time with the [indiscernible] (21:33).

Fitzhugh Peters

Q

Okay, thank you very much.

**Operator:** The next question is from [ph] Matthew Butin of Capital (21:41). Please go ahead, sir.

Q

Hi, and thanks for taking my question and thank you for producing some great results. In your guidance change from 10% to 15%, maybe can you – on the revenue for the outlook for the year. Can you talk a bit about how much of that is currency related and how much of it is organic and if there's a geographic change in your outlook? I presume U.S. is doing a bit better than you thought, but any other particular geographic areas? And then I have a couple more questions after.

Carlo Rosa

A

Okay. Can you ask all the three questions so we understand who's going to take the different questions within the area?

Q

Sure. And then as it relates to the guidance, can you maybe give some comment on the pacing as the year progresses in terms of relative proportions of growth and what parts of the year with which the quarter sequentially or first half, second half? And then if you could also talk a bit about the Vitamin D, size of the Vitamin D market and your thoughts on the competitive position of where you stand relative to [indiscernible] (22:51) and how you see that market evolving?

Carlo Rosa

A

Okay, listen, I will take the first one and the last one and then Andrea may comment on the second one. In terms of the guidance on 15%, we look at this as an overall growth of the company. So we expect that on the average, we should grow by year end 15%. However, we could predict on what the dollar result. I wish I could.

So, for what we think we're on – we think 15% overall is reasonable and we will see Q2 and then we will – I think we understand together the opportunity there. When it comes to Vitamin D, the common question is where do we see it? We have decided that, as you know, we're not going necessarily to comment on the market because I believe that today, we are market leaders. There is lots of new knowhow in this company about the [indiscernible] (24:00) I say. Lot of understanding on this market than I would say and I think I'm getting to point where the knowledge of this market is becoming for us an asset and we really going to go on make a public statement about Vitamin D.

I just one comment though on [indiscernible] (24:17) mass spec. I believe that the real competitor today is not necessarily any immunoassay company out there, I believe it is the [indiscernible] (24:33) mass spec. To a point that if you take the U.S. market as our reference, I think that we own around 60% of the market, 55% to 60% and the rest is [indiscernible] (24:46) mass spec.

I think that now if you look into the [indiscernible] (24:51) in the market and the way the market shapes up, we again focus on the U.S. now and then we'll comment Europe. When it comes to the U.S., we pretty much had a split between our technology in the same aspect with the big labs. We also [indiscernible] (25:08) mass spec in last quarter with the DiaSorin product. I think that the decision there is between FDA-approved assays with all the safety consequences of the decision versus a [indiscernible] (25:25) that's difficult to standardize that are also in the market and this is what we requested.

I'm also commenting on that decision. I think kind of operations are making their own bets in terms of one or the other. And when it comes to the rest of the market, it's very clear today that for us, a midsize hospital is very difficult to justify in the same aspect.

When necessarily from an investment point of view which although requires some capital but from a trading point of view because these [ph] mass spec (26:04) aren't really – were really done, invented for research purposes. It's very complicated and you need trained technicians to run it and we know that one of the big issues in the U.S. hospitals is availability of skilled people these days.

And I believe that there is a trend that we're still looking where Vitamin D, that is a send-out for a lot of hospitals today. And they're really thinking because of volumes to take it in tablets when you take that decision, I think it is much easier to take – to use the LIAISON product rather than embarking yourself into a project where you need to take a research, pretty much greater research group managing the [ph] mass spec (26:51)

When it comes to Europe, it's a total different ball game. It's the same [ph] mass spec (27:00) in a few geographies. I think England is one and a few other countries, but it's not taking at all any market in all the other geographies where a large availability of immunoassay and lack of tradition of again research and development technology like [ph] mass spec (27:19) into the market.

Last but not the least, Australia, which is a very large market when it comes to Vitamin D. We owned over 80% of the market is on LIAISONs – all on long term contracts so I don't certain an aspect playing there. I hope I answered your question.

A

Okay. If I can take your question about the quarterly guidance I'm afraid I'm going to have a very short answer because by our policy, we do not give short term guidance. So I'm not in a position to give you an indication of how the more than 15% growth rate that we have communicated for the full year is going to split in fourth quarter.

I would simply point your attention to the fact that in the second half of 2008, the U.S. dollar which accounts for a significant proportion of our sales which is now close to 30% has inverted its strength and started revaluating against the euro. So the exchange rate effect that you had seen now in quarter one should dilute as we move further into the year.

Q

Thank you.

**Operator:** The next question is from Stéphane Sumar of Exane BNP Paribas. Please, go ahead.

Stéphane Sumar

Q

Hi, good afternoon everybody. This is Stéphane Sumar from Exane in Paris. I've got some question. So the first one is could you please tell us more about the Vitamin D contribution to sales in Q1 and also its contribution to growth of course? And my second question is about the very strong profitability we are seeing in Q1 as your starting level 34% considering the fact that activity is more or less well-spread during the year. Could we extrapolate this very good figure of the full year.

I've got another question which is also related to Vitamin D. Could you update us about what is happening with Medicare and payments of Vitamin D. I know that we have seen some question on specific points. Some people are obviously – we're asking for reduced application and other reendorsement of Vitamin D.

And my last question is about instrument sales, just could you explain to us the 6% hop in instrument and do Vida also applied to your business done with Cardinal? Thank you.

Carlo Rosa

A

I would take the questions on Vitamin D and then Andrea is going to take the other questions. Now let me start with the Vitamin D. As I said before, there are lots of things that are not available to share at this stage with the market on Vitamin D. In terms of what is this, the contribution to growth as we have seen before, Vitamin D is contributing to half of our growth and the rest comes strong or the other lines and strategies that we have put together. When it comes to the overall percentage of sales with the Vida Group I'm seeing that Vitamin D is 25% – 20% to 25% of all-around sales.

When it comes to Medicare, it is a very factual situation, so there is no interpretation by the group, by the way, Mr. Sumar, I profoundly disagree with [indiscernible] (31:32). No, because [indiscernible] (31:34) you really continue to tell us notwithstanding the results we have and I don't understand what you're doing but all said and done, what I don't – what I disagree about is the fact that you said that it is a group interpretation. There is nothing to interpret about this. As long as you get into the public, the government – U.S. government website, you can get the whole story, which I will summarize for you.

In the United States, there are regional Medicare groups. And it is fairly common for this regional Medicare group to review their reimbursement systems there, the way they look at usage of diagnostic products in their regions. And it was very clear that because of the surge of the Vitamin D starting from I would say last summer, one of these regional group that comprised of some the states in the East Coast and some in the states in the Central Coast, has sent out a proposal, which is public, to reduce the clinical areas by which Medicare will reimburse the product.

Maybe I need to make it clear. Today, there are different medical codes that allow Vitamin D to be used for lots of diseases related to bone and mineral metabolism, and they uses generic code that allows for Vitamin D testing for insufficiency.

Questions was put out to the medical community of whether there was a need to discriminate the clinical status by which the government was going to reimburse Vitamin D. It was a proposal which was circulated and it is required by law in the U.S. It was given 60 days to everybody to respond to this proposal.

Well, what happened is that you've got – pretty much the Medicare was flooded by all the medical association – the American Medical Association, the American Endocrinology Association, the American Cardiology Association completely refusing their approach and saying that Vitamin D testing not only should not be restricted but should be [ph] expanded (34:18) because the medical evidence is so high in terms of the benefit of taking Vitamin D that the government should help rather than split.

As again, it is required by the U.S. law 50 days after the process was concluded, Medicare issued a final ruling and again, they are pretty much leaving the things as they are today saying that in fact, it is allowed to test Vitamin D for Vitamin D deficiency as well as stating that local Vitamin D can be tested but also the 125 Vitamin D, which is a hormone that is generated after Vitamin E is processed in the liver, 125 Vitamin D is going to be clearly reimbursed so not only did they not change but they also were clarified the situation with the 125 Hydroxyvitamin D. Let me also remind you that when it comes to reimbursement level, the reimbursement was actually raised so from \$41 to \$42, so there's been an adjustment in the reimbursement rate. Then, I hope this fulfill your curiosity and I strongly advise you get to government site and get the whole story which is with public [indiscernible] (35:56) in the United States, so please if you could revise your draft, it is not a good interpretation with what the government decided in the United States.

And now I'm going to need Andrea for the last question.

Andrea Senaldi

A

Okay. As far as the interpretation of margin, I think that during my presentation, I cautioned the audience to extrapolate some positive margin improvement which not necessarily will repeat in the future. In particular, the exchange rate in France I have already commented before and the positive contribution coming from higher than average production volume may not necessarily replicate in the future as well.

The structural fact though, as we have always said and guided, will continue according to our belief. All in all, this will reflect in the guidance that we have provided in terms of margin, which said that all the margin will grow more than proportionally to the sales which is apart in terms of guidance as we have prepared today.

Now there was a fourth question on [indiscernible] (37:09) which I didn't get. Could you repeat it, please?

Stéphane Sumar

Q

No, I was wondering so when we look at your instrument sales, it's done 6%, so it's nothing something important, but just to check part of the sales you are doing with instrument – you sold instrument to Cardinal in U.S. I would like to know if we can all supply the continents that you have declined in sales of instrument to Cardinal.

Carlo Rosa

A

The sales to Cardinal are in line with what we expect the difference, which is a still very healthy difference, in that we are placing most shipping them direct than through Cardinal in the U.S. If you know we are again an indication that we would have expected Cardinal to do [ph] systems (38:00) by the year end and they are in line with quarter one with that number. The difference is that, again, we place more shipping direct in the market than to Cardinal.

Stéphane Sumar

Q

Okay. Thank you very much.

**Operator:** The next question is from Mr. Martin Wales of UBS. Please go ahead, sir.

Martin Wales

Q

Hi. We've had a lot of talk about, I guess, Vitamin D and instruments, and Biotrin is driving the growth in the quarter. Can you give us some color what's happening to the rest of the portfolio because of the implication of perhaps it could be that things are doing so well, other things are doing less well, and how satisfied are you with performance of the rest of the business? And maybe you can give us some comment too on that?

Carlo Rosa

A

Martin, do you have any other question or...

Martin Wales

Q

Hello? Can you hear me?

Carlo Rosa

A

Yes, yes, yes. No, listen. Is this your only question or you have more?

Martin Wales

Q

I may have more but I kind of want to hear to answer for this one first , if that's okay, Carlo?

Carlo Rosa

A

Yes. Yes, thanks. I'll comment on that. It is clear that the growth that we got is related not only to the success of Vitamin D but to the continuous expansion of the rest of sales as well.

When it comes to – I think I would divide this in three buckets. When it comes to the infectious disease, specialty infectious disease probably the growth is strong, continues to be strong in all the geographies including the U.S. where, as you know, we just initiated our marketing activities with those.

When it comes to some of the, let me say, more [indiscernible] (39:58) infectious disease products, the growth is there, not as much in the past. But for a reason in this quarter, the reason is that Italy which is one of our major market for the routine infectious disease setting has slowed down in quarter one. As you've seen growth has been 6% compared to double-digit growth 2008.

I think this has to do with budget approval and a situation that will not continue throughout the year. So, we will see those that [indiscernible] (40:37) with infectious disease growing more I think in the following quarters.

When it comes to the endocrinology specialty products, that clearly go or usually go along with Vitamin D, the growth is strong again driven by the success of the Vitamin D. Last bucket, relevant bucket because then we have others but the last relevant bucket which is tumor market and thyroid which is really something that we inherited from [indiscernible] (41:09) products where we don't have much specialties, the growth is double-digit growth which is good and driven by expansions in territories outside Europe, and so pretty much is Russia and – sorry, it's China that is driving this – and Iran, where we almost approached 90 LIAISON system placed all on the thyroid and oncology. Okay.

So again as a general comment, yes, there is a continuous growth in the whole LIAISON line [indiscernible] (41:50)

Martin Wales

Q

Okay. And I guess my other question then is if we look at the uses of the machines that are – the LIAISONs as being priced in the U.S., can you give us a sense of how much of it really is just the use of Vitamin D and the trend which it's being used for other products in the portfolio?

And secondly, to what extent you think there's no so many takers of chemical luminescence based-Biotrin product for parvovirus. I guess what I'm trying to do is getting a sense of what leaders there is in the model in terms of pushing more of non-Vitamin D products through the instruments and you have that already.

Carlo Rosa

A

Are you talking about U.S., am I right?

Martin Wales

Q

I'm talking about U.S. in particular.

Carlo Rosa

A

Listen, I think as we just commented during the last conference call, the U.S. really is on installed base as you can imagine is pretty much all Vitamin D driven. And because we got initiated the infectious disease so percentage wise, if the amount of products that are placed on the installed base of infectious disease, is very small compared to Vitamin D. By the same token, these Vitamin D units out there in the U.S. are pretty much filled up with the running very, very high volumes, and so I don't think that installed base, specifically the one sitting in the larger commercial labs can be used by infectious disease.

The different story is the installed base which is sitting in the hospital base, where the users is less and there is an opportunity to fill up with infectious disease which is clearly something that we are starting to do. These are very so-called low end use, too, when it comes to this.

One will comment though is that the strong relationship we have with some very large accounts in the U.S. Vitamin D is clearly creating the opportunity to put additional symptoms on infectious disease. We have a series of very large evaluations ongoing in the U.S. which we hope we will conclude at the end of quarter two, beginning of quarter three which we carry significant volume of infectious disease products in the large commercial labs.

Martin Wales

Q

Okay. So they say there's lots of leverage potential, perfect relationships and provisioning as you roll out...

Carlo Rosa

A

Absolutely. Absolutely. And very honestly, it's difficult to use the installed base and the big labs is already pretty much saturated in Vitamin D. Vitamin D is a key door opener when it comes to the relationship in credibility that DiaSorin built in the market in terms of its ability to serve very large commercial labs.

As we have discussed, clearly, the LIAISON was not intended to be a system to serve very a high throughput account. Initially, there was some concern from a larger account in terms of our ability to support them. Vitamin D and our continued supplement of their request has made DiaSorin as one of their strategic partners, opening up opportunities with all other products.

Martin Wales

Q

Okay, that was fantastic. Thank you very much and well done on the quarter.

Carlo Rosa

A

Thanks a lot, Martin.

**Operator:** The next question is from [ph] John Ward (45:35) of Bank of America Merrill Lynch. Please go ahead, sir.

Q

Thanks, good morning. This is [ph] Brendan Colby (45:41) actually John this morning. Could you give us an update on the U.S. installed base of LIAISONS or how many placements in the quarter were attributable to the U.S. versus international countries?

Carlo Rosa

A

Sorry, [ph] Brendan (45:56), we do not provide that kind of detail. I consider that as a very strategic information. I don't want to give any heads up to competition so that detail I don't want to provide. But let me just make a comment, the rate in quarter one that you see, the percentage of the U.S. placement vis-à-vis the overall placements is not insignificant or different from what we have seen historical. So if your question is did you really put 80% of those results in the U.S. the answer is no.

Q

Okay, fair enough. Could you give us a sense if you could quantify the tailwind that FX, the foreign exchange provided to either gross margins or operating margins in the period from a dollar basis?

Carlo Rosa

A

Okay. If you think about the dollar base, I can give you scant indication. Now, if the gross margin level and the FX effect are considered the two major turnkey. That contributed for about 30 basis points in the improvement, okay?

Where there's much more significance is the improvement in operating margin, so EBIT and EBITDA while we're still down close to 50, 60 basis points.

Q

Okay. Thanks. And on the M&A environment do you see any opportunities to add additional menu content in 2009 particularly given your stronger cash balance?

Carlo Rosa

A

Well, you put us in a difficult situation so let me give you a generic common sense answer. It's very clear that and you have seen it from our dividend policy that we don't intend to put our cash at work for the business. It is very clear to me as for the Biotrin acquisition that there are opportunities which are either small companies or [indiscernible] (48:10) very large conglomerate that has been created in the last couple of years.

And throughout the consolidation process of the conglomerate, there are overlapping companies that they acquired and they would be I think available to disposal. And we continue to look into opportunities to put our cash at work for the shareholders.

Q

Great. Thank you so much.

**Operator:** The next question is from [ph] Mr. Mike Hsu, Pacific Global (48:38). Please go ahead, sir.

Q

My questions have been answered. Thank you.

**Operator:** [Operator Instructions] We have a follow up question from Mr. Stéphane Sumar of Exane BNP Paribas. Please go ahead, sir.

Stéphane Sumar

Q

Hello, its Stéphane again. Just a follow up question regarding the organic growth, the growth of 15% you mentioned, at least 15% top line growth you mentioned. Do we have the understand that it is a constant [indiscernible] (49:25) excluding change in parameter or is it reported growth? Thank you.

Carlo Rosa

A

You have to understand what is described in the press release which is based on the current ratios of the U.S. dollars to the euro.

Stéphane Sumar

Q

Okay, so it's constant [indiscernible] (49:42)?

Carlo Rosa

A

Is there any other questions?

**Operator:** Yes sir, excuse me. The next question is from David Robinson of Dalton. Please go ahead sir.

David Robinson

Q

Good afternoon, thanks for taking my call. I just wanted to get a sense, the extent to which the very rapid growth in Vitamin D testing in the U.S. is being replicated elsewhere in Europe, Australia. Would you anticipate the U.S. is leading the way and the penetration should increase in other markets in Europe?

Carlo Rosa

A

Again, I'm sorry in terms of – I don't know if I'm able to – if I'm able to answer to the question precisely but let me give you a generic question – a generic answer to this that I hope will help you understanding on these market. In terms of penetration I think the U.S. is one of the countries where the penetration is still relatively small. And penetration measured number of tests per total population so there are other countries in Europe, outside Europe and, for example, Australia where the penetration is much, much higher than the U.S., okay?

There are also other countries in Italy, as an example, where the penetration is less than the U.S., and those business to do a with two things. One is education and distributions and the other one is [ph] viability (51:37) supplementation. Don't forget that Vitamin D treatment works as long as the physician can easily [ph] supplementation (51:45)

In Italy, for example, whichever is the second largest market in Europe after Germany, you can go to a pharmacy, you cannot get those very nice 1,000 unit sales that you can get and target in the United States. And we are working, in that sense, in providing a viability of supplementation in order to help our marketing campaign in different countries, okay.

So, is the U.S. leading the pack? I don't think so. I think this is – in terms of usage, I think U.S. is growing nicely and can grow and can still grow. And is the U.S. leading the pack when it comes to science? Absolutely. Most of the good scientific work around Vitamin D is done, as is usual when it comes to sciences, in biology, it is coming from U.S. institution.

David Robinson

Q

Okay. Thank you very much.

**Operator:** The next question is from Mr. Mike Chu of Pacific Global. Please go ahead, sir.

Mike Chu

Q

Hi. I have two questions. One is, I apologize if I misheard, but the 15% growth for your calendar 2009 revenue growth, that's reported basis or did I hear it with a constant currency basis? And then, just back to the equipment revenue, the reason it was down again, I know you said it was because you were placing more directly and not through Cardinal. Was there any change to ASPs outside the United States and when you sell through Cardinal, they buy it from you, I assume, and do they place it with the end customer? Do they sell it through end customer? Thank you.

Andrea Senaldi

A

Okay, Mike, listen. To your third question, you are correct. This is on a reported basis and other folks talk about constant exchange rate. The only reference to exchange rate I mentioned is that that projection in guidance is based on the assumptions that the rate of currency between the euro and the U.S. dollar will remain as current.

As it comes to the higher rate of CapEx and the market utilization, I don't think, as Carlo has explained before, I don't think this has anything to do adversely with Cardinal. Cardinal has -we continue to sell instruments to Cardinal as the space has foreseen in the plan, in the plan that we have with Cardinal. I believe that Cardinal has a business model by which they tend to sell their instrumentation to their customer, and they're also providing them financing. But I cannot guarantee that this applies to 100% of Cardinal's placement.

Mike Chu

Q

Okay. So just so I'm clear, the reason the equipment revenue was down in spite of placings being up is you are placing more directly in the U.S. on a reagent rental basis, is that the right way to look at it?

Andrea Senaldi

A

The reason why the instrument is slightly down for this year is the fact that we have sold the net instruments to our third-party distributors than quarter one 2008 but this has nothing to do with [indiscernible] (55:08). It had more to do with other markets, one in particular which is Russia that as you know is one of the countries which are most hit by the financial crisis at the moment which is suffering in their capability to expand for capital. [indiscernible] (55:26)

Mike Chu

Q

Okay, thank you.

**Operator:** The next question is from Mr. Martin Wales of UBS. Please go ahead, sir.

Martin Wales

Q

Hi. A lot come out in the instrument question on the top line guidance question again because if you place the 130 instruments, more of those have been placed presumably with consumables contracts rather than sold. The assumption will be that that's going to be bring you a lot of revenues, not just in 2009 but beyond.

Secondly, can you just clarify this guidance issue again? It says – I think the press release said greater than 15% rather than 15%. It would be great if you could clarify that issue for me as well.

Carlo Rosa

A

Okay.

Martin Wales

Q

Project revenue growth of more than 15% for the current year so...

Carlo Rosa

A

I can say...

Martin Wales

Q

...15% or are you seeing more 15%?

Carlo Rosa

A

I thought that the press statement was very clear but I'd say again, we are foreseeing that this business or our business will grow more than 15%...

Martin Wales

Q

Yes, thank you.

Carlo Rosa

A

...on the basis of the current level of the exchange rates between...

Martin Wales

Q

No, no.

Carlo Rosa

A

...the euro and the dollar.

Martin Wales

Q

The exchange rate is clear. I just want to make sure that it's more than 15% because some of your comments...

Carlo Rosa

A

This is...

Martin Wales

Q

...just 15%.

Carlo Rosa

A

No. This is what we said and we relayed, we anticipate the growth which is above 15%.

Martin Wales

Q

And coming back...

Carlo Rosa

A

In terms of your question, no I don't think that the amount of return in sales isn't independent from the fact that we didn't sell our instruments or we placed them under reagent rentals. Remember these are closed systems, so you buy it or you are simply borrowing the instrument if they can put it this way, the amount of recurring revenue is generated the same it was in a similar way.

Martin Wales

Q

I thought you have more certainty surely at not borrowing the instrument because you're already lending it to them on the basis that you'll get a level of revenues per machine surely.

Carlo Rosa

A

Sorry, if your question is if there's a higher proportion of direct placements for all those distributors then you're right.

Martin Wales

Q

I'm talking about the certainty of future revenues from the consumable side. If you use your analogy if you have lent somebody a machine, if have borrowed it from you, you're earning, are you prepared to lend it to them as they are committed to certain buying a certain level of consumables.

Carlo Rosa

A

That is correct.

Martin Wales

Q

We have great certainty of future revenues.

Carlo Rosa

A

Yes. If you put it in terms [indiscernible] (58:28) then you're correct.

Martin Wales

Q

Thank you.

**Operator:** [Operator Instructions] Mr. Rosa, gentlemen, there are no more questions at this time.

Carlo Rosa

Thanks a lot operator. Take care. Thank you, everybody.

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