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DiaSorin SpA *(DIA.IT)*

Q2 2009 Earnings Call - 8/6/2009

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Diasorin's First Half 2009 Results Conference Call. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions. [Operator Instructions]

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

Carlo Rosa

Thank you and good morning or good afternoon and welcome to the Diasorin conference call. As usual, I will make a brief comment on second quarter results and first half and then we'll turn to Mr. Senaldi who's going to take you through the results in more details.

First, I would like to say that this has been another great quarter for the company. We have a very strong growth in terms of revenues and profitability. There has been an acceleration of revenue growth which have peaked at 33% in quarter two. And we're now at 26% over last year when it comes to the first six months.

When it comes to different geographies, let's comment first on North America. North America sales continues to grow strongly driven by Vitamin D demand which is continuing to grow as you see if you follow the result of some of the major labs in the U.S.

We continue to enjoy a very strong position in the market and as explained in the last conference call, we're now moving from the tender lab into the hospital lab, speeding up the LIAISON placement in the U.S. I think it's also relevant to notice that the Biotrin business in the U.S. is growing very steadily in the U.S., 11% contribution on the earnings on U.S. sales.

And by the same token, in the infectious disease panel, on the LIAISON which was approved by the FDA over the last two years, is showing some very promising growth. The growth in first half of 2009 is 40% over its sales of the same product here last year. Excluding LIAISON placement in the last [indiscernible] (02:47) labs, 20% of the [indiscernible] (02:50) LIAISON placement in the U.S. today are carrying a mixed menu of infectious disease and Vitamin D.

We go to registration of four new products in the U.S. these are mainly products in the area of endocrine and these are FDA [indiscernible] (03:11), meaning that it was not necessary to file a clinical study to support these products, but again, they fall under this category of FDA exempt.

In terms to the rest of the world, if we talk about Europe, in Europe we have certain geographies where the business is growing very strongly, mainly in France, which has grown 30% over the last year; Nordic which is growing over 50% over last year into more consolidated countries, like Germany and Italy, we still have some strong growth which is nearing 9% in these two countries, especially in Italy was [indiscernible] (03:59) that this quarter one which was mainly driven by the economical situation was at some sort, we saw different results in quarter two with a double-digit growth in the quarter vis-à-vis last year. So, we are confident that in our domestic market, we will achieve our targets for 2009.

When it comes to geography, the sites, Europe, even with many investments last year to extend our distribution network is growing steadily at 70% compared to last year. We continue to enjoy a very strong position in the mainlands in the value market. China, which is a very strategic market is growing 23% over last year, showing that in those markets where DiaSorin decided to invest in the past years, we're now reaping the benefit of that [ph] invest (04:59).

The last comment on the product mix was around the Biotrin brand, is very successful for us and throughout the world. Sales of Biotrin product are up almost 6% vis-à-vis previous year.

In terms of the LIAISON installed base, generally a strong quarter, close to 140 systems installed worldwide. This is less than 30% on the installed is now going to the U.S. Again, always a strategy to book from the big center labs into their hospital labs where Vitamin D and it [indiscernible] (05:44) volumes is significant and can justify a LIAISON placement.

[indiscernible] (05:51) will comment about the LIAISON plants within the U.S. Again excluding places that we make in central labs, Cardinal Health has been contributing very strongly to the placement, 40% to 50% for LIAISON in the U.S. are going to Cardinal.

This result of the LIAISON technology in Vitamin D is clearly dragging all the other elements of the P&L in terms of profitability and operating margins. The gross margin is up 40.8% and the EBIT is up 65.2%.

Last but not least, when it comes to net earnings, the increase is more than proportional to the top line growth even excluding one-off fiscal events that is deriving from a goodwill step-up that Andrea will describe later on. Earnings in the first half grew 83% compared to last year's, that goes down to 65.9% excluding the one-off effects.

And I will turn to Andrea for the detailed comments with the financial and then we will give room for questions. Thank you.

Andrea Senaldi

Thank you, Carlo. Good afternoon and good morning, ladies and gents. In the usual fashion, I will take you through the key indicators of the profit and loss for the quarter and for the first six months.

If you wish to turn on slide number 2, where the Q2 2009 versus Q2 2008 profit and losses are [indiscernible] (07:34), you will see that the net revenues in the quarter were €79.5 million compared to almost – just less than €60 million last year. That represents growth rate of 33% at [indiscernible] (07:53) exchange rate. The effect of the exchange rates in the course is favorable to the group because – fundamentally because of the revaluation of the U.S. dollar versus the euro and it accounts for about 5 percentage points of growth.

Also, I have to point out that the change between second quarter of 2009 and second quarter of 2008 of the consolidation area due to the Biotrin acquisition which contributes to the growth for about 6 percentage points. So, on a like-for-like basis, however, you still see a growth which is above 20% versus previous year.

In terms of margin, the gross margin is up by more than 5 percentage points. I will come later into the details of what is driving the margin up so significantly. All in all, the gross profit of €56 million has a growth of 45% versus previous year.

Operational expenses continue to grow less than proportionally to the turnover which determines a reduction in the percentage of [ph] corporation (09:05) expenses to turnover by about a couple of percentage points. This results in a growth of the EBIT in the quarter, from €17 million last year to €29.5 million this year with the change in the EBIT margin from 28.4% to 37.1% and similar performance is related to the EBITDA which grew by almost 65% versus previous year with an improvement in the margin from 34.4% to 42.5%.

All in all, in terms of the cost of line, the net results have been for the quarter, €24 million which compares to €10.1 million last year which represent an NPL growth versus previous year of 136%. Now, as Carlo has already explained I will come later into the details, this is strongly affected by a lower than marginal tax rate which I would comment later on.

I will move to the next slides on the half year results or the cumulative results of the first six months, with total net turnover of €150.9 million with a growth of almost 30% versus previous year. Again, the performance is affected both by a positive exchange rate effect and by the contribution of Biotrin in the first six month exchange account for about 4 percentage points of growth. And Biotrin, as I said, already [indiscernible] (10:41) the quarter for about 6.

In the first six months, the growth margin has improved by almost 6 percentage points, moving up from €75 million last year in terms of growth profit to above €100 million with an improvement increase of close to 41%.

Similarly to the quarter, operational expenses grew less than proportionate with turnover and with an incidence which went down by almost 2 percentage points. And as a consequence, the EBIT moved up by – the EBIT margin moved up by more than 7 percentage points and similarly, the EBITDA. So respectively, we closed with an EBIT of €54 million, i.e., 35.7% of turnover and EBITDA of €62 million, i.e., 41.2% of the turnover.

Net financial expenses in the first six months has not been affected by any kind of exchange rate fluctuations on the debt [ph] recurring (11:51) dollar. And net-net, the net result which is close for the first six months of €37 million represent a growth versus previous year of 83%. And we've seen this discounting the net effect of the exceptional tax rate, the growth would still remain 66% versus previous year.

Now, I will move quickly to the driver of the individual lines of the P&L as we move to slide number 4. We can [audio gap] (12:26) the main driver of the growth remains as we've seen in a number of quarters [indiscernible] (12:33). So the LIAISON sales grew versus previous year by 41% in the six months. And this has further shifted the weight of [indiscernible] (12:43) over the overall portfolio of Diasorin. The weight of LIAISON sales was 57% in the first six months of 2008 and it now moved up to 62% in the first six months of this year.

Carlo has already extensively commented on the performance by geography. I would only just mention the four areas where we divide our geographies. So Italy after a slow start at the beginning of the year is now going around 9% versus previous year. The rest of Europe continued to grow above 10% around 13%. The U.S., as we have seen, is growing on a like-for-like basis in terms of currencies around 63%, 86.8% as reported. And the rest of the world is growing 19% and to sum up this, 30% growth for the first six months 2009 versus 2008.

Let's turn now to the margin improvement, there are as we have seen in the previous quarter as well, there are numbers of factors which all contribute to drive up the gross margin and the other operational indicators like EBITDA and EBIT.

First of all, the continuing improvement in the mix between technologies, with the heavily increased in weight of generally, the measures of revenues which carry higher margin in our technology continues to improve the mix

and significantly enhance the buyback contribution of vitamin D sales which significantly increased their weight even within the mix of [indiscernible] (14:30).

On top of this, the leverage of the installed base by increasing the revenue per machine attributing into the depreciation of the sales. And the geographical expansion which allows us to claw back margins from distributors which in the first six months regards the opening of subsidiary [indiscernible] (15:00) and Canada is further helped its margin – enough but not [indiscernible] (15:07) I would mentioned that we think there is effect of this [indiscernible] (15:10) the U.S. dollar, which helps driving up the top line as well.

But if you add on top of this the leverage on the big construction from the operational expenses, you achieve the improvement of 7.5 percentage points at EBIT level.

And to the net result, increase, an improvement that we have commented before, let me just add a few details on the tax [ph] rebate (15:42) on the goodwill and effects as on the tax rates.

All in all, a newly-approved law in Italy is allowing companies to render the goodwill deductible for tax purposes, so even if it doesn't go and it's not amortized through the P&L even for [indiscernible] (16:05) purposes, there is an allowance to do it for fiscal purposes. So in the month of June, we have saved tax levies on the goodwill with [indiscernible] (16:17) of €3.6 million and at the same time, we have recognized this P&L €7.1 million of tax assets to P&L in the balance sheet.

The net-net effect of these two items is what [indiscernible] (16:32) in the tax rate so low for the first six months. And since it's not taking place, the tax rate would have been aligned with the use of 36% that the company has recorded.

If we come to the balance sheet, the cash flow, and the net financial position on slide 7, the net capital employed at the end of June for the company for the group is €200 million which compares with €174 million at the end of 2008. The capital employed is financed through €184 million in equity and the remaining part of €16 million in the net debt.

The cash in hand at the end of the period is €26 million. I have pointed out that the net debt and the cash position is recorded after a dividend payment in June this year of €6.6 million with the payment of the corporate factors and the tax, the adjusted tax for the goodwill step-up which is a [ph] suspension (17:42) of €3.6 million and the acquisition for about €3.5 million which happened in quarter one of the distribution rights for [indiscernible] (17:53).

The operational expense grew in 2008. The operational cash flow for the six months after dividend is €25.9 million, before €14.9 million of CapEx. This was €14.4 million in the first part of last year before €6.3 million of CapEx.

And last but not least, there is an indication of the next event where the company will be meeting with the financial community, we will be [indiscernible] (18:28) at the Goldman Sachs Medtech Conference in London on 2nd and 3rd of September. And in the late part of September, we will attend the UBS Life Sciences Conference in New York.

That's all for me. I will leave the floor now to the 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. [ph] Fitzhugh Peters (19:22) of Goldman Sachs. Please go ahead, sir.

Q

Good afternoon, gentlemen, [ph] Fitz Peters (19:28) from Goldman Sachs, here. First question, rather impressive margin improvement. Thank you very much for walking us through kind of the different parts of that. Any reason to expect [indiscernible] (19:42) diminishing in size in the second half?

A

Do you have any other question or that's it?

Q

Oh, yes, sure, sure. I'll give you all of them. It looks like you faced round [indiscernible] (19:56) where I think it's right we didn't get the release until [indiscernible] (20:02). There's about 137 units in the second quarter. I'm wondering if the run rate is still around 100 or if you're expecting inflations to be higher than that now? And also, I'm wondering if you have any update on the launch of LIAISON XL? Thank you.

A

I will take the second two questions and then we may comment on the margin. On the – when it comes to the LIAISON rate, you're right, we put 137 systems and I think that today, the difference between a company expectation and the reality in the first half is really matching the success in the U.S. of the strategy that is taking away – let me say, that is going after the business in the hospital market. And we've seen in Q1 and Q2 very strong demand in the U.S. for LIAISON and expect that to continue in quarter two and quarter – on quarter three and quarter four. So, I think that the guideline that we gave of 100 per quarter for the next two quarters should be raised close to 120 per quarter.

When it comes to LIAISON XL, we are on schedule, meaning that as I stated before, it was for the first time introduced to our customers a couple of months ago. Validation testing is ongoing and comes the next fall, we will start with what we call reliability testing in certain select key accounts.

Let me make again, although, the same statement I made before. We are now committing expectations on the LIAISON XL on the market, because of the current LIAISON success. And so we are extremely prudent when it comes to the methods, that – or the system availability that we deliver to our customers. And so, the day we do that, we will pretty much [indiscernible] (22:26) in the main geography the [ph] move (22:28) of the LIAISON. So we are [ph] reviewing that (22:32) very carefully. I keep saying you guys know more about the LIAISON XL than any of our customers. Now, if you want to comment on the margins improvement.

A

Okay. Clearly, out of the four components of margin improvement that I have mentioned, there is one which is the impact of the effects that we cannot forget. So, if you discount the effect of the exchange rates of the dollar vis-à-vis the euro and the other major currencies of the group, of which the second one clearly, is the reais, and all the other components of the margin improvement are not of an exceptional nature. They are clearly structured. So, I believe we will continue to see the same performance in terms of margin percentages in the second half of the year that we have seen a weakness in the first six months.

Clearly, the improvement versus previous year, we will have reduced as all the components have chipped in in the second half of 2008 as well.

Q

Okay. Thank you very much.

A

Thank you.

Operator: Next question, Mr. Martin Wales from UBS. Please go ahead, sir.

Martin Wales

Q

Good afternoon and congratulations on another great quarter. Could I start by just getting a clarification on previous question in terms of the run rate principal placements? You said 120 per quarter. Is that the guidance for Q3 and Q4 or is that the guidance across the year?

A

Martin, no. I think the question was we gave a guidance of the useful guidance of 100 per quarter. And seeing the results for Q1 and Q2, we would like to increase the guidance from 100 to 120 for quarter three and quarter four.

Martin Wales

Q

So that means you will do about 500 units this year?

A

I think that considering the [indiscernible] (24:53) our math still works, yes, I think so, [indiscernible] (24:56).

Martin Wales

Q

Well, so that means that you already talked about, I know you don't make formal guidance, what does that mean to your thoughts for sort of underlying growth for 2009 and the indeed, looking at those machines [indiscernible] (25:12) in 2010 and beyond as well? That's a general [ph] point (25:18) for that.

Carlo Rosa

A

I think that we see that the quarter one – sorry, for the first half results, we expect revenues to exceed the €300 million for year-end. So, we believe that the results in the first half of the year would be repeated in the second half even if traditionally August and December are weak months for certain geographies.

Martin Wales

Q

Okay. And what does that mean for 2010 and beyond given this [indiscernible] (25:55) and huge income with consumable contracts?

Carlo Rosa

A

Well, Martin, as you know, we are you're very prudent and cautious people. So at this stage, I do not feel comfortable giving guidelines for 2010, although I think that if you – as you learn about our business, the installed base, as you get through the year, it's going to give you some contribution for the following year. So we expect that there's 500 systems that hopefully we'll install in 2009. We'll then fully contribute to the 2010 and therefore, I would say 2010, we look optimistic about 2010.

Martin Wales

Q

Okay. And back to the pipeline and the new test and [indiscernible] (27:01) in terms of [ph] cash paid out (27:02) second half of this year and maybe beyond as far as you can in terms of [indiscernible] (27:06)?

Carlo Rosa

A

I think that there are two sets that are still to come and that's the [indiscernible] (27:19) virus of the LIAISON. As I said it before, the [indiscernible] (27:23) virus business, even in the LIFO format is very growing steadily in all geographies and especially in the U.S. market. So, the availability of the LIAISON on – the [indiscernible] (27:40) LIAISON, it would be very important to us to continue to establish our presence in specialty infectious disease.

I think that there is another product which we'll probably see life in Q1 of next year in Europe which is 125-Hydroxyvitamin D. It is a product we have a market dominance with the RIA. It's a complimentary product to the current 25-Hydroxy available in the LIAISON. A great majority of our existing customers doing Vitamin D on the LIAISON would also run a 125. So it would clearly be a product that would consolidate our positioning in all those labs that are using 25-Hydroxyvitamin D.

Martin Wales

Q

Okay.

A

When it comes to the XL, the plan is to bring onboard all the screening products for HIV and HPV and HVD. But that's a different story. And we see life in the second part of 2010.

Martin Wales

Q

Okay. One more, obviously you've made great success when you've expanded into new markets such as Brazil and China. What the scope is for direct distribution in new markets for [indiscernible] (29:11)?

A

I think there's – we have two [indiscernible] (29:17) forward. One is in China we are now moving direct in certain geographies. As we speak, we are still serving markets through distributors and we are going to convert our operations in China into a [ph] DRI (29:35) subsidiary starting from early next year. The Chinese market is continuously growing here rapidly and I think it's really relevant to be there. And [indiscernible] (29:48) is very successful and we have 120 LIAISONS already installed in the market and so, it's a plus on the fixed market.

And when it comes to far expanding geographies, I think as I stated Australia, we have very strong presence with specialty products today through our distributor is our next goal and we believe that by end of 2010, we will be direct in Australia.

Martin Wales

Q

Okay, I'll let somebody else ask some questions. Thanks very much.

Carlo Rosa

A

Thank you. Thank you, Martin.

Operator: Question, Mr. Massimo Vecchio from Mediobanca. Please go ahead, sir.

Massimo Vecchio

Q

Good afternoon, sir. I saw complements which are I think obvious. Would you like to add some more color on infectious disease family in the U.S. and how it is ramping up? And my second question is one of my favorites, fixed revenues per box. I know we cannot enumerate by quarter but can you give also some color on how these are developing and how you expect it to develop in the future?

And then [indiscernible] (31:06) on the past month, I saw the HIV [indiscernible] (31:12), can you agree with the fact that the potential market for those test is roughly €500 million? Thanks.

Carlo Rosa

A

I will take one and three and then I will let your favorite question for Mr. Senaldi to address and, well, when it comes to infectious disease in the U.S., today, we have a running rate in the U.S. market which is over 5 million that considering where we started from and [indiscernible] (31:48) is significant improvements and it is really just starting because we have been [indiscernible] (32:00) LIAISON starting from the quarter one of this year. So, we consider this a great success. It proves the fact that when it comes to specialty products in the U.S. in infectious disease in the U.S. the market is very fragmented and we can access a consolidator of these specialty products.

When it comes to the market size for LIAISON for the HIV, HCV and HBV, I think that if you consider the worldwide market, you get very close to €1 billion. Europe alone, Europe 5, so the first – the top five markets meaning the usual Germany, Italy, France and Spain and the UK alone is €450 million. So, today, if you look at the market share that Diasorin has in that – in this market is very, very limited. Whereas in the infectious disease market in Europe, for example, we are very close to a 25% market share. So, we really believe that there is a very strong potential in that segment to grow significantly and generate incremental sales with the use of the same platform.

And now back to your [ph] previous (33:25) question, Andrea would take care of it.

Andrea Senaldi

A

Yes. Dr. Vecchio, good afternoon.

Massimo Vecchio

Q

Good afternoon.

Andrea Senaldi

A

In terms of revenue per machine, if you think say, in the first six months, we had sold more 90 million on the LIAISON platform [indiscernible] (33:42). And if you annualize drug sales over the average of the installed base, you'll come to a revenue per machine which is €70,000. I remind you that last year was about 61. Now as I usually do, I warn not to take the quarterly number of the ancillary number on an annualized basis. This number is, as you can imagine, SKU by significant number of placement in the U.S. which had higher revenues per bulk than the rest and particularly by the Vitamin D booking.

Massimo Vecchio

Q

All right. Thank you very much.

Andrea Senaldi

A

Thank you.

Operator: The next question is from Frazer Hall from Berenberg. Please go ahead.

Frazer Hall

Q

Yes, hello, it's Frazer Hall from Berenberg. Just a question, trying to get some sort of clarity on your growth in Vitamin D testing, Quest Diagnostics have some issues with its test early this year. I'm just trying to get a sense of where do you think demand that you – across the first half and is that where real demand reflecting real growth from same market? Or to what extent there may have been additional growth from the issues faced by one or more of your competitors in the Vitamin D testing market?

Carlo Rosa

A

I will give a very pragmatic answer. I don't think we got a single test out for Quest for a very simple reason. As you know, when it comes to patient in the U.S., the patient himself is not dictating or the physician is not dictating where the testing goes. Testing goes where the insurance is extending the doctor to send the [indiscernible] (35:47).

So I think that when it comes to Quest, Quest will retain on testings. I think those – when it comes to the mass spec technology which is the technology used by Quest, that has a [indiscernible] (36:05) has created some questions which we were asked publicly into [indiscernible] (36:17) about standardization of our Vitamin D testing.

And due to the fact that our assay is considered the reference standard for Vitamin D and considering the ease of use of our technology compared to mass spec, lots of hospitals that we are evaluating which technology we should bring in house elected to go to the LIAISON. So the real benefit that we saw from the debacle was not that we took away business from Quest, but we had a better way in selling the LIAISON versus the mass spec to the hospital basis. And we see that result from very strong growth in install base in the U.S.

Frazer Hall

Q

Okay. Thank you.

Carlo Rosa

A

In terms of the quotation of the market, I think that if you followed what Quest and Labcorp have reported, the market – the demand of Vitamin D testing continues to grow very strongly in the U.S. And the market penetration of Vitamin D testing, meaning the number of sales performed on the total U.S. population, it is still half of what it is. And today in other geographies like Australia, like some Northern European countries are like [ph] cigarettes. (37:43) So, I believe [ph] some side (37:47) that the Vitamin D demand will continue to grow. By the same token, I believe there is a strong need [audio gap] (37:55) when it comes to decision on Vitamin D testing and whichever is – it is especially in terms of what being sufficiency – or sufficiency means.

Q

Okay. Thanks very much.

A

You're welcome.

Operator: Next question Mr. [ph] John Woods (38:13) from Merrill Lynch. Go ahead, sir.

Q

Thanks. This is [ph] Brian Cluddard (38:18) actually in for John this morning. Can you give us – could you recap the mix of LIAISON instruments that went to hospital labs in the U.S. in the period?

A

We can. I consider that honestly as a cultivation information. Although, when it – just to give you an indication on the percentage, if you take new LIAISON installed in the first half of the year, 25% went – of the installed base went to the big labs. Big labs, meaning labs like LabCorp or ARUP, all those big labs that are using our technology and that was to face volume increase. 75% of the LIAISON, of the new different installation were done in hospitals.

Q

Thanks. Could you give us the interest expense and interest income for the period?

Andrea Senaldi

A

I can't revenue adaptation [indiscernible] (39:37)?

Q

Maybe perhaps an update on tax and operating cash flow guidance.

Andrea Senaldi

A

Okay. Of the total first six months of interest is €1.3 million and this is interest rates on the debt that we carry plus the commission we saved for the same operation. We have [indiscernible] (40:08) interest on the pension fund for about €400,000 and interest income for about another €400,000.

In terms of CapEx, you have seen a higher than normal CapEx which is written by a couple of things. The – as far as intangibles are concerned, this is an event which is limited to the first half of the year and accounts for about €3.5 million out of the €5.6 [audio gap] (40:42) CapEx and whereas the higher expenditure on instrument is placed to two things.

First of all, the fact that we are increasing or have increased the rate of placement in the first six months and, secondly, the fact that following the strategy on geographical expansion, we now place more instruments directly

either relevant through our distributors. So, out of the normal rate of expenditure which is all in all around €16 million, I would probably see this year, expenditure for the full year higher than above €30 million.

Q

That's great. Thank you.

Operator: We have a follow-up question from Martin Wales from UBS. Go ahead, sir.

Martin Wales

Q

Hello? Just a little more on Vitamin D. Can you give us some update on the competitive situation more generally in the U.S. [indiscernible] (41:45) are you seeing any new competitors emerge potentially in that market.

Secondly, in the UK, first of all some coverage of our small UK company offering relatively a low throughput Vitamin D tests, could you maybe talk a little bit about them and whether they'll really compete with you or not?

Carlo Rosa

A

Okay. When it comes to U.S. competitors, as I stated before, Martin, we have a very strong competitor which is LC mass spec today. So is it true that the other diagnostic companies are not there, but by the same token, we are sharing Vitamin D testing with a home-grown methodology which is expensive and requires a lot of attention by the user. But still, customers elect to use LC mass spec as well.

And this is just to diffuse the concept that in the U.S. today, we are not challenged. We are heavily challenged by mass spec. And notwithstanding that, we are really enjoying lots of success in this market. When it comes to [ph] ADS (42:57), [ph] ADS (42:58), I think, is a relatively small company with [indiscernible] (43:03) which they have this new system which, by the way, is not new. It's been there for many years as our technology developed by [indiscernible] (43:16) company.

And I do see IBS as a threat and I think yes, is really looking into different segments which are much smaller account. And they do not have an impressive menu to compete with DiaSorin. So, to be honest with you, I'm much more concern when it comes to Mustek and also I'm more concern about the Division on Education rather than the threat that [ph] IBS (43:57) can pose to us.

Martin Wales

Q

Okay. Thank you.

Operator: We have another follow-up question from [indiscernible] (44:06) Merrill Lynch. Please go ahead.

Q

Thanks, just two more questions on the tax rate, should we assume this lower rate for the back half of the year and – would that be a run rate to consider going forward?

A

No. the run rate you have – as I said, this is absolutely a one-off of the second quarter. And for the remaining part of the year, you should – you shall see that the tax rate going back to where it was previously. So we're talking about 35% to 36%, more like – closer to 36%.

Q

Okay. And then lastly, would you care to comment on the M&A environment. Do you see any opportunities to add any additional contents – menu content in 2009 particularly given your stronger cash balance?

A

I think it's very difficult to make a comment that makes some sense here. Yes, so we clearly have cash and we need to put this cash to work and yes, we are constantly looking at opportunities and also [indiscernible] (45:17) more content to our platform. Yes, it would make sense for us to direct our attention towards some of the infectious disease products and HIV and hepatitis C products where we intend to enter the market with the LIAISON XL.

All said and done, I don't think we have anything to report if not the fact that we are very careful buyers as we have shown in the past when we acquired foreign companies.

Q

Thank you.

Operator: [Operator Instructions] Gentlemen, there are no more questions at this time.

Carlo Rosa

Okay, Thank you.

Andrea Senaldi

Thank you everybody.

Carlo Rosa

Grazie arrivederchi.

Operator: Ladies and gentlemen, thank you for joining. The conference is now over. You may disconnect to your telephones. Good-bye.

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