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# DiaSorin SpA *(DIA.IT)*

Q3 2012 Earnings Call

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### Martin R. Wales

*Analyst, UBS Ltd. (Broker)*

### Peter J. Welford

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good afternoon. This is the Chorus Call conference operator. Welcome, and thank you for joining the DiaSorin Third Quarter 2012 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 Mr. Carlo Rosa, CEO of DiaSorin. Please go ahead, sir.

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### Carlo Rosa

*CEO, Executive Director & General Manager, DiaSorin SpA*

Yes. Thank you, operator. Ladies and gentlemen, welcome to the Q3 conference call. I will make the usual initial introduction discussing in detail the revenue evolution by product family and then by main geography, and then Mr. De Angelis will give you a snapshot on the financials.

Let's start from the CLIA product line and specifically all the non-Vitamin D products. Again, for the third consecutive quarter, we have experienced an overall strong growth in this product. In fact, in the quarter, growth has been 11.4% and this has been driven mainly by two factors in established economies, so Europe and U.S. [indiscernible] (01:34) line with all the new products in the area of HIV and hepatitis has been the real growth driver.

In emerging economies like China and Middle East, the traditional product lines like oncology with the installation of more LIAISONS have been a positive contributor to the growth.

As far as Vitamin D is concerned, we are seeing a different picture depending on the different geographies, and this is not new but it is something that we have been experiencing over the last three quarters.

In the U.S., Vitamin D in the quarter has been particularly weak due to the seasonal effect, but those are due to the coming into effect of all the renegotiated agreement as we have already discussed many times in the last few calls. Vitamin D decline versus last year has been around 20%. It is important to note that as of September 2012, 84% of the total agreement has been renegotiated and extended 24 to 36 months. We expect therefore that the price erosion, as we said, will continue until Q4 to then smooth out starting from quarter one next year.

In Europe, Vitamin D is down 15% in the quarter versus previous year. This has been quite exceptional since the Vitamin D business in the previous two quarters had been quite stable. We believe that this has been associated with an exceptional order in [indiscernible] (03:06) in a couple countries, and we expect the business to go back to its normal level in Q4. Clearly, also in Europe, there is a seasonal effect related to the low season in the summer.

In Australia, as I reported previously to the re-signing of the Sonic agreement, Vitamin D is around 50% in value versus last year but is up 30% versus previous quarter as a result of getting back in July from a competitor on the Vitamin D business on the second largest lab in the country. So overall worldwide, Vitamin D in the quarter is down 13.4% versus previous year.

Before we move away from Vitamin D, let me comment on the Japanese registration. All documents and responses to the regulatory agency request has been completed and accepted. We are therefore waiting for the Japanese regulatory body to organize a meeting with the main opinion leader in Japan to ask their opinion on the necessity towards this new product registered in Japan. This is a formal step but as I've said, this is necessary for the registration of all new diagnostic devices in Japan.

Due to the support provided in the last three years to DiaSorin by all the local clinical associations involved with [ph] Bone and Mineral expansion (04:29), we have no doubt that this meeting will result positively for the process and for the company, and support will be given to the registration on the Vitamin D [indiscernible] (04:39).

We expect the meeting to open by [indiscernible] (04:42) but since this is something not managed by us, by the company, our ability to affect the timeline is quite limited at this point. Meanwhile, as we already discussed itself, instruments that have been installed at the main customer site waiting for the green light to start testing.

Let me now move to Murex. Murex has been very strong in the quarter and with a record growth of 15% over last year.

Now, let me move now from product line to geography. So let me discuss sales trend in the main geographies. Let me first say that due to the way we are forced to report numbers in 2011 for Murex, my comments may slightly differ from the table presented in the press release. It is because up to the third quarter last year, a portion of the Murex revenues were still obtained through [ph] Abbott and Abbott (05:42) distribution center with a limited visibility from our side to the final destination.

Starting from quarter three this year, however, the material allocation of the Murex revenue by geography is possible, and therefore I will compensate by geography including the Murex revenues of the previous year.

So let's start from Europe. Europe is substantially flat versus last year in the quarter, but the numbers have neutralized that as to the different trends of the underlying businesses. So I would like to discuss then some different geographies.

In fact, Europe is split in three groups of countries. Germany, Austria, the Netherlands showed a growth, respectively, of 11% (sic) [11.6%] (06:30), 50% (sic) [53.2%] (06:31) and 11.6% (sic) [11.3%] (06:33). It is mainly related to the success of the LIAISON XL installation as they're now fully contributing to the sales development. Especially for Germany, the key is in the ability to win business within labs belonging to the Sonic Group and this, we believe, is related to the relationship established through Vitamin D in Australia. So we pay dearly in price for the renewal of the Vitamin D agreement, but now we are getting the contribution back throughout the Sonic Group with other product lines.

France. France after suffering in the first two quarters due to the reentering in the market of a large competitor of Vitamin D is now stable with a very limited loss versus previous year, I mean, around 3%. So quarter-on-quarter, France is down 3%. And we expect that this country will start to positively contribute to the growth starting from quarter 4 [ph] probably (07:32) towards Q1 next year.

Italy. Italy is now in a binder. Data reported from Assobiomedica, which is the Italian Diagnostics Manufacturers Association, show that the market where DiaSorin operates has been declining 5% in the quarter mainly driven by austerity measures. DiaSorin through a number of new customers, one, LIAISON XL has been able to outperform the market but as we speak, Italy is not a positive contributor to the growth. So the sales are stable but it's not contributing to the growth of the region.

Finally, Spain. We have decided to treat commercial activities, stop installations and drive the business in terms of profitability rather than growth. Depending from the outlook of 2013, we may decide to unfreeze the business next year. Otherwise, we will continue to drive margins until we will get a better visibility for this market. As a result of this decision, sales are down around 15% in the quarter. However, receivable are under control and the profitability of the subsidiary is guaranteed.

Now let's move to Asia Pacific. Asia Pacific with the exception of Australia, which we just discussed before, has shown a very strong growth driven as usual by the Chinese market which has grown in the quarter 34% over last year. By year end, the region installed base in China of [indiscernible] (09:05) LIAISON and this is the main reason for the success in the country. But let me also remind you that we've got the registration on LIAISON XL, which should be officially launched in December 8 in Shanghai.

It is also worth mentioning that in the rest of the area that we sent to distributor for the rest of Asia Pacific, we are experiencing a good growth which is 10.5% quarter-to-quarter.

In this region, in Asia Pacific, we have initiated a very strategic program in India as we have discussed in the past from an alliance with the Trivitron group. We have now hired all the necessary staff and will start operating from January 2013, while now we are transitioning the business from our current distributor to our own control.

Now let me do South America. South America is still an important corner in this quarter and this is mainly due to Brazil. In Brazil, the DiaSorin business is divided in three components, each of which is representing a different market segment.

The LIAISON business in the quarter has grown 30%. This is a business mainly related to [ph] research labs (10:18) where LIAISON has been traditionally successfully in the infectious disease product families.

Second is the Murex business which is what we inherited from Abbott. This is mainly a blood bank business. Sales had been traditionally quite stable due to a strategic start of the business in light of the launch of the LIAISON XL platform, which we expect to get approval by the end of quarter one next year.

Finally, there is a seasonal business related to certain large public tenders which are mainly driven by the government. As discussed in the previous quarters, a lot of tenders have finally been awarded in Q3, and we started [ph] seeing progress (10:56) in July. Therefore, you see the results of this tender in quarter three.

Then let's move to the U.S. We've already discussed about Vitamin D previously, so I will not touch again this subject. I would like to focus though on two separate opportunities in infectious disease, on LIAISON and molecular. As far as infectious disease is concerned, this frontline is up 22% versus last year and this has been the popular DiaSorin on the last quarters. We strategically believe that it is an area of future growth for the company, and we intend to invest in this area both bringing new products to the U.S. market.

As you know, we have a program to expand the LIAISON menu by 20 products, which is currently ongoing, but also we are also looking into opportunities of acquiring businesses in this clinical area to [ph] springboard (11:50) growth of our U.S. commercial subsidiary.

As far as molecular is concerned with transition in [indiscernible] (11:56) customers to DiaSorin, it is mainly a small business in HLA typing labs. However, we convinced ourselves that there is an opportunity which is provided by entering into this market, which is not crowded by the traditional big players and fits perfectly with the size of the NorDiag equipment. For this reason, we have decided to hire a dedicated sales force to specifically target the 200 HLA typing labs, which are available in the U.S. and we will start selling product from quarter one next year.

Let me now focus and discuss the XL placement. In the quarter, a total of 126 LIAISON XL have been installed, taking the total installed base of XL to 480 systems around which 60 are under evaluation and will start generating revenues from next quarter. This is something that we have considerably seen every quarter.

So a portion of the installed base is under validation and then starts generating revenues the following quarter. This is in line with our expectations considering that traditionally in Europe, installation do not occur in the month of August.

Let me now move to the R&D pipeline. As stated, DiaSorin pipeline is full of new products, and we've been delivering so far according to the [ph] promised (13:29) timelines.

In Q3, we have released and got a CE Mark for the HTLV-I and II assay which is very important assay to complement our blood bank [ph] final assay (13:41).

For Q4, we expect the new GDH assay for the *C. difficile*, and the Aldosterone assay to be made available to the market. The release of Aldosterone assay will be marking a historical moment for DiaSorin because it will be the 100th assay available on the LIAISON platform.

Now last but not the least, for the molecular line, in October, we have met all the analysts who have been working with DiaSorin in the last few years and we have unveiled our strategy for the molecular product line. This week, we obtained the CE Mark for the first two line products in LIAISON IAM analyzer which has been officially launched in Europe.

Now, let me now move to financials. Mr. De Angelis will drive you through the numbers, and then I will come back and comment on the extraordinary dividends. Luigi?

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## Pier Luigi De Angelis

*Chief Financial Officer & Senior Corporate VP, DiaSorin SpA*

Thank you, Carlo. Ladies and gentlemen, good afternoon. Let me focus your attention on some key relevant finds on the quarter ended of December 30. I would like to spend some minutes on the marginality of the group and our capability to keep our margin high. As we have already said in the last quarter's conference calls, 2012 has been and still is a transitional year for DiaSorin where the Vitamin D trend driven by an increase in price competition in some key markets in United States and Australia is offsetting our double-digit growth in all the rest of our CLIA business.

Anyway, we are still comfortable in keeping constantly our EBITDA marginality at a very high [ph] estimate (15:41) and significant level. Thanks for the fact that all our CLIA products enjoy a standard margin in line with Vitamin D and that their revenue trend is still growing double digit.

The NorDiag consolidation, although absolutely strategic and key to deploy our strategy at 360 degrees on molecular diagnostic, is partly affecting profitability. Said that, if we include the NorDiag business operation, our EBITDA summarized to €42.8 million equal to 41.2% on sales, a percentage in line with what already experienced in Q2 of 2012.

I would also like to point out our capability in containing our operating expenses. First, if we consider the nine months period, the increase of 5.9% would be [ph] 230 (16:50) basis point lower if we express at current exchange rate. Therefore, a constant exchange rate difference is equal to [ph] 3.6%. (17:00)

Second, bear in mind that OpEx increase already embeds the higher costs that we have to feed our molecular program both in term of R&D and sales and marketing.

To sum up, we are conscious in keeping our cost basis under control and focus in driving the company through 2012 according to what we promised and we committed.

We are also real comfortable to the capability of the group in generating a substantial amount of cash every month. Also, thanks to a wiser management of our net working capita where we have been able to reduce the timing in cash in our receivable while keeping under control also our inventory level. In fact, [ph] 2003, 2012 (17:54) inventory was equal to €86.3 million in line with the previous quarter. While our DSO has improved, notwithstanding the [indiscernible] (18:09) economic conditions in certain market where we operate.

Last but not the least, let me focus on our net results which improved 6.4% versus [ph] 2003 (18:25) of last year totaling €22.3 million ex-NorDiag. This is also the result of the policy that the group adopted concerning the management of the currency effect. And on our net financial position, which was positive for €75 million increasing of about €23 million compared with the positive balance of €52 million as of June 2012, and increasing €33.3 million compared with the positive balance of €1.6 million [ph] at the end (19:07) of 2011.

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## Carlo Rosa

*CEO, Executive Director & General Manager, DiaSorin SpA*

Thank you, [ph] De Angelis. (19:11)

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## Pier Luigi De Angelis

*Chief Financial Officer & Senior Corporate VP, DiaSorin SpA*

Thank you, Carlo.

## Carlo Rosa

*CEO, Executive Director & General Manager, DiaSorin SpA*

Okay before we move to the Q&A, let me just provide some comments on the decision of the Board of Directors to propose to the general assembly the distribution of an extraordinary dividend equal to €0.83 per outstanding share, equal to a total amount of cash of €45 million. If we'll go back to 2011, DiaSorin distributed another dividend of €22 million and both treasury shares for 44.9 million for a total amount of cash equal to €67 million.

If we now look at 2012, as you know, we have already paid an ordinary dividend of €25 million with both NorDiag for €7.6 million leaving a net financial position as of September 30, 2012, of €75 million with €92 million available cash.

Now looking at the substantial and constant generation of cash that we currently generate, and we believe sustainable in the near future due to the high profitability of the business. And taking into account the current net financial position, the Board of Director decided today to propose a distribution of the extraordinary dividend of €0.83 per share.

Let me make clear that this decision does not affect our ability to grow the business by continuing our strategy for smart M&A whenever and wherever we find the target that fits our portfolio of technologies and products as we've been doing so far in the last few years.

Now, I think that we should turn to the Q&A section. Thank you, operator.

## 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 Romain Zana of Exane. Please go ahead, sir.

### Romain Zana

*Analyst, Exane BNP Paribas SA*

Yes. Good evening. Thank you for taking my question. We see that you are approaching, I would say, the inflection point on the top line with a kind of stabilization also on the decline in Vitamin D. Looking forward, I mean, I'm asking about 2013, what kind of organic growth do you think you can achieve now that business is stabilizing in Vitamin D?

### Carlo Rosa

*CEO, Executive Director & General Manager, DiaSorin SpA*

Romain, unfortunately, if you well know, I cannot provide you an outlook to 2013. We plan to provide guidelines in March, I believe, and when we report the year end results. However, I spent a lot of time during this call trying to describe the different trends and the different geographies in detail because I wanted to give you the ability and give all the investors the ability to read through the numbers. As you said and as you have seen today, there are different trends and different geographies where as far as Vitamin D is concerned, as we have always said that from the beginning throughout 2012, there is an effect of stabilization of prices that will continue.

In other geographies – sorry, however, in the U.S., what we have seen is that the quality of the DiaSorin product has been more and more recognized, and it has allowed us especially in Australia to win back certain customers

from competition. So it doesn't mean the quality drives price up unfortunately but in this world at least, quality drives [ph] customer respect. (23:45)

As far as Europe growth is concerned, my comment is very simple. It's a combination of two different stories now as the growth driven by XL in the north of Europe, some growth driven by XL and stabilization of business driven again by XL in Italy, which as we all know today is in a difficult situation. Then very clearly in the emerging countries, the business has been doing well and I believe will continue to do well. But as far as 2013 guideline, it's a little early.

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**Romain Zana**

Analyst, Exane BNP Paribas SA

Q

Okay. I just have a question just on the cash flow and the extraordinary dividend, as always from your side as you – I would say throughout the cash, throughout the shareholder return and because at this time, you don't have identified any specific acquisition target, do you consider that [ph] now to prevent (24:48) you to go for a potential acquisition on the [indiscernible] (24:53) as well?

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**Carlo Rosa**

CEO, Executive Director & General Manager, DiaSorin SpA

A

Well, Romain, the reason for the dividend is simple and I think understandable. We have a lot of cash on hand and we continue to generate a lot of cash. We have – as we've done last year and we repeat it this year, we've invested the portion of this cash when we don't find a target that is suitable. It will try to create value for the shareholder with the buyback program last year as the dividend this year. But very clearly, that doesn't leave the company stranded in terms of financial resources.

I've said that today, we have a net financial position €35 million. We have cash – € 92 million in cash as of September. We plan to continue to generate cash and we have ability to conduct an acquisition campaign as we always done with the resources that we have. In terms of the other problem we need to consider is that as a manager, as a company, holding so much cash these days where and we cannot take any risk, so the yield that we guarantee to the shareholders that's accompanied for the cash is [ph] practically (26:10) zero.

It doesn't make sense, so we believe that we should be returning a portion of it back to the shareholders, so that they improve the yield on the cash themselves and – but we continue to look at the target with a clear intention as I said before when I made a comment specific to the U.S. to buy assets to strengthen our portfolio.

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**Romain Zana**

Analyst, Exane BNP Paribas SA

Q

Okay. Thank you very much.

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

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**Martin R. Wales**

Analyst, UBS Ltd. (Broker)

Q

Hello, good evening. First question on the dynamics of LIAISON XL, if I work through your numbers correctly, I just want to clarify I've got this right. [ph] You sold (26:59) 126 LIAISON XLs and some of those are swaps for LIAISONs because LIAISON number [indiscernible] (27:05) quarter-on-quarter, is that right?



**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

A

Yes, absolutely because – okay if you ask us. Listen, finish up the question and then I will comment on this.

**Martin R. Wales**

*Analyst, UBS Ltd. (Broker)*

Q

Well, the second part of that question is where are we going by year end. You said 500, 600 net systems installed by year end. [ph] At what point of those (27:37) will be revenue generating given that [indiscernible] (27:38) revenue generating units in Q3, maybe just give us a little bit more color on what's going on dynamically here.

**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

A

Yes. We reaffirm I think the number that has been with – that the installation, and we said I believe was going to end up around 550 systems give or take. So in Q4, we have [ph] a final other (28:03) LIAISON XL – LIAISON XL installations.

In terms of the swap that you said, in quarter three, we completed the rollout of LabCorp, and we also completed the rollout of XL in certain key U.S. customers and therefore, we had an outflow of LIAISONs from these accounts that we [ph] create, so that we're fully (28:33) depreciated, cannot be reused and refurbished [ph] and we just toss them (28:38).

Very clearly, to do the math and when you swap systems, it's quite complicated because, as you know, every one, every two LIAISONs, you can place one XL or let me say the ratio is probably 2:3 which means that if you look – when you do the swaps of multi LIAISON platforms with LIAISON XLs, if you just look at the total number of a combination of LIAISON and LIAISON XL, it looks like the company is penalized but this is far [indiscernible] (29:11) mathematics when you put inside a bigger system substituting multiple smaller systems, okay.

In terms of what you asked on the profit generation of LIAISON XL. Yes, we have a rolling, which is usually around 15% of the installed based on LIAISON XL so the total installed based which are there for validation and then they kick in the following quarter. So I would say it should be quite physiological to have between 10% and 15% on a quarterly basis under validation.

**Martin R. Wales**

*Analyst, UBS Ltd. (Broker)*

Q

Okay. Thanks, Carlo. In terms of your revenue guidance, I was being harsh I would say that you've modified that [indiscernible] (29:59) same as last year from same to slightly ahead. But what's driving that, the currency or where you're getting – where you're generating your revenues from or anything more fundamental?

**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

A

Sorry, Martin.

**Martin R. Wales**

*Analyst, UBS Ltd. (Broker)*

Q

If I was being harsh, I would say, that your guidance in terms of revenues is, if anything, modified down slightly because you were saying the slightly ahead, you're now saying the same. I'm just wondering what's driving that, is it simply currency or is there something more fundamental?

**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

A

I think the unpredictability to be honest with you in the current economic environment especially in Europe and therefore, as you know, I'm a realistic conservative guy, and I want to anticipate to the investors what I see as we speak. Unfortunately, as we have the opportunity, I believe, to discuss in the past, these days a good month or a bad month don't mean anything to the trend.

This is the visibility I have on revenues as we speak. What I think is worth noting though is that the – one of the biggest concerns that I think some investors have expressed in the past are related to the profitability of the business in absence of Vitamin D or with the decline in Vitamin D has been proven wrong because notwithstanding as I said that again the 20% Vitamin D decline. The company enjoys an EBITDA margin which is 41.7% and [indiscernible] (31:50) 22%. So I think this is it.

**Martin R. Wales**

*Analyst, UBS Ltd. (Broker)*

Q

Okay. Look, I'll go back in the queue and let other people ask questions. Thanks.

**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

A

Okay, thank you.

**Operator:** Your next question is from Peter Welford of Jefferies. Please go ahead.

**Peter J. Welford**

*Analyst, Jefferies International Ltd.*

Q

Yes, thank you for taking my questions. I have three please. Firstly, just on the dividend, can I just confirm that the extraordinary dividend will have no impact at all on the ordinary dividend policy that will be announced with the full year 2012 results I guess next year?

Secondly, then just on molecular diagnostics, now that you've got sort of launched with the platform there, can you sort of give us any of your initial feedback I guess from after consolidating the NorDiag business? I'm thinking particularly with regards to the U.S. and some of the business you mentioned where that has now come online. Have you sort of seen any or so far any early sign of interest in that line?

And then thirdly, just on the outlook again that Martin was mentioning. Can we just confirm whether or not the in line outlook, is that on a euro basis or is that on an organic local currency basis excluding the impact of foreign exchange? Thank you.

**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

A

Okay. On the dividend is a very quick answer. It does not or it should not have any impact on our ordinary dividend. So we would continue with it and [indiscernible] (33:30) ordinary dividend is 25% of net earnings, and we will continue like that.

As far as molecular diagnostic is – let me just answer two questions you had. First one is a consolidation NorDiag [ph] down (33:50) – we've done it. The manufacturing has been moved to Ireland. So the products, as we speak, have been – are manufacturing in Ireland, and we're in the process of – we're completing the reorganization

which will leave us with no more than four people in Norway, which are the R&D people which are contributing now to the new product which is a development of the new platform, the consolidated platform for molecular diagnostics.

As far as launching the product, there are two components to this. There is a U.S. business I was discussing, is an extraction business. It's a business that NorDiag had developed. To be honest with you, my intention was to just close it because I thought it didn't make any sense. But when we look into it, we understood that there is an opportunity in those HLA labs. And therefore, we decided to invest. We are hiring a dedicated small sales force, but we continue – but we believe is a very nice opportunity there.

As far as the new products is a little early because I think we have scheduled the first 20 installations, but they are [indiscernible] (35:09) these days. So, sorry, but we will comment on it probably and for sure on the next call.

In terms of the outlook, the outlook that I'm giving you, the current exchange rate as we see it, we believe that revenue should be in line with what we had in 2011. And again as I discussed before with Martin, there is a way I see this is that the environment is very unpredictable, and so I prefer to be cautious in the way I see it.

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**Peter J. Welford**

*Analyst, Jefferies International Ltd.*

Thank you.

Q

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**Operator:** The next question is from Andrew Olanow of Morgan Stanley. Please go ahead.

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**Andrew E. Olanow**

*Analyst, Morgan Stanley & Co. International Plc*

Hi, good afternoon. Thanks for taking my questions. A couple of things, one is that I was a little bit late to the call unfortunately. Would you mind explaining to me exactly what happened with Vitamin D in Europe in terms of the slowdown and why you feel confident that, that's a blip for of a quarter to start?

Q

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**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

In Europe, as I told you, the Vitamin D is down 15% in the quarter, okay, and 15%, 1-5. And this has been exceptional, meaning that if you look at the history of Vitamin D in Europe, we took a hit in the first quarter versus last year, but simply because last year was inflated by the fact that we had a business that we got from [indiscernible] (36:45) and we've grown the product. It was not the market and, et cetera, et cetera, which we already discussed.

A

And then it did stabilize going forward. And in Q3 in a couple of geographies, yes, there is a seasonal effect but we also saw some slowdown, which obviously I don't think it has nothing to do with lost business, nothing to do with anything, so I believe it is – or let me say nothing to do with change of reimbursements [ph] or other (37:13) things. We try to do probably with an exceptional effect [indiscernible] (37:19) so I believe that Europe will go back to let's say a stable Vitamin D starting in quarter four.

Don't forget that the underlying – however, if you look into the Vitamin D trend in Europe, stability doesn't mean stability at the end of the story. Stability means that as a consequence of competition, you win some, you lose some; some price erosion but increase in volume in certain geography, net-net effect of all these, it means that the business is stable which is a condition that you have not been experiencing in the U.S. or in Australia for a very

simple reason. For those markets, volume already got so high to 20% penetration that is not driving the growth any longer. So this is what we discussed during – regarding Europe.

**Andrew E. Olanow**

*Analyst, Morgan Stanley & Co. International Plc*

Q

And then can I ask you looking at your Vitamin D – sorry, your CLIA ex-Vitamin D growth, it's obviously been very strong for the sum of this year. Is it safe to assume that the growth that you've gotten is not generated by the new products that you've gotten approved in stool testing and infectious diseases and in bone metabolism, and that instead that's just XL placements and if so, what kind of bolus of growth are you expecting and when do you expect that to come through from the products that you've launched in Q1, Q2 and Q3?

**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

A

Okay, two questions, I believe in one. No I don't think that this is a – you can attribute this to a single product. I think that the whole line has been growing but we did [indiscernible] (39:12) in one geography and this is a comment that I made before. So it's infectious disease in certain areas whereas emerging market is oncology stuff. [indiscernible] (39:23) say in Europe but you can say that in emerging countries, we could use [indiscernible] (39:28) new business associated with this.

To be honest with you, yes, we have a strong growth with double digits but you should take in consideration that we had a strong growth notwithstanding the fact that in Europe, volumes of testing in general is clearly suffering. So what I'm saying is that if there is a stabilization of the current situation, you would expect stronger, even stronger growth of the [indiscernible] (40:03) business.

Now we are launching products by year end and throughout next year [indiscernible] (40:11). But as usual, the contribution that you get from new products usually comes six months to one year after launch because it takes time to get customers and the validation and so forth. So the growth that you see in a certain period of time is only related to product that you launched usually the year before.

**Andrew E. Olanow**

*Analyst, Morgan Stanley & Co. International Plc*

Q

And then finally, there's been a mix of interpretations according to the guys I talked to on the sell side of what analysts walked away from your molecular day with in terms of the revised 2015 guidance for the kind of revenues that you could generate given the NorDiag acquisition, and now using not just extraction but also amplification technology. Could you possibly give us a bit more specifics around where in 2015 your previous guidance of €15 million to €20 million should go?

**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

A

You know the answer, right?

**Andrew E. Olanow**

*Analyst, Morgan Stanley & Co. International Plc*

Q

I only ask questions; I don't know the answers yet.

**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

A

Right. I can't. No, I cannot do it. If you remember, when we had a meeting there in Ireland, the intention was not to provide a guideline in firm numbers but was to provide an understanding of the features of the technology, the reason why we want to where we believe we can be successful against [indiscernible] (41:45) like PCR and then provide some expectations in terms of number of operations and so forth so that you guys could, let me say, build your own numbers.

And I believe that some good work has been done. I mean, I think, we've been good and you guys have been good in understanding what our intentions are. One comment I can make, I believe that €15 million to €20 million of the previous guidance was conservative, and I believe with the products we have and the technology, we can do better than that.

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**Andrew E. Olanow**

*Analyst, Morgan Stanley & Co. International Plc*

Okay. Thanks very much.

Q

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**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

Thank you.

A

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**Operator:** The next question is a follow-up from Martin Wales of UBS. Please go ahead.

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**Martin R. Wales**

*Analyst, UBS Ltd. (Broker)*

Yes. Molecular diagnostics, I understand it's very early days, but we have had some clarity on how reimbursement for molecular diagnostics in the U.S. is going to be going forward. This is a scenario we haven't really [indiscernible] (42:44) HLA typing plan or could you give us any detail of any plans? Have you had a chance to look at the proposed reimbursement going forward? And does that encourage you to get more involved in the United States market on molecular diagnostics?

Q

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**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

Listen, we really started this venture preparing for tough times. This has been my – my vision is that, as you know, in this world – even Obama cannot afford expensive technologies. And therefore, we prepared ourselves with times where reimbursement will get tougher than it is today. But still, we can play in this environment making a substantial amount of profit.

A

Now, these are general comments. So am I looking at the business from a reimbursement perspective? No. There is clearly though a positive effect in terms of acceptance of molecular diagnostic as viable technologies, absolutely yes. But again, the problem is that lots of customers cannot afford it because it's too expensive as it is today. So I believe this is the right time for us to enter the market because we are able to price these products at a good price and get an immediate acceptance by the market.

Specifically for the U.S., as you know, our strategy is limited in the U.S., meaning that, yes, there is the HLA typing business which honestly where the issue is not reimbursements, so it's a fairly rich market for refraction. And then, it's limited in a sense that we have not decided yet to bring to the U.S. the infectious disease products with just one exception, which is the CDs, the complement of the full strategy.

And these days, the significant reimbursement is good. There is a trend at the FDA level to block all immunoassays [indiscernible] (44:55) and force everybody to move to molecular. And we know this very simply because when we try to bring to the U.S. the LIAISON [ph] CD (45:04) products, we have been rejected not because we are DiaSorin but because the FDA said, from now on, we only accept molecular diagnostic product. So we give them [indiscernible] (45:15) we gain more and more consensus. However, prices have been driven and are currently driven to substantially lower levels.

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**Martin R. Wales**

*Analyst, UBS Ltd. (Broker)*

Okay. Thank you very much.

Q

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**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

Thank you, Martin.

A

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**Operator:** The next question is from Mathieu Chabert of Bryan, Garnier. Please go ahead.

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**Mathieu Chabert**

*Analyst, Bryan, Garnier & Co Ltd. (France)*

Yes. Good afternoon, one question on the profitability side. We perfectly understood that [indiscernible] (45:45) profitability is basically in line with Vitamin D. I wonder if you could give us some details on the profitability by geographies and especially in the emerging markets.

Q

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**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

Listen, let me try to help you out. The problem of looking at profitability in emerging markets is that you need to split the geographies between areas with actual distribution and areas where we're at. So let me first comment on [indiscernible] (46:22) assume that Mexico and Brazil and China are emerging markets, okay? Today, pricing in these geographies is in line with what you get in Europe and in the U.S.

A

Actually, as far as China is concerned, pricing is fairly a premium for a very simple reason, which is there are no big, private customers. So you sell to hospitals, mid-size hospitals, and mid-size hospitals usually are very good customers because small volume high price. So in terms of profitability, China is a market that is a very profitable market.

Cost of operating in China also is relatively low because it is improving but still cost of labor is lower whenever as what you would pay in Europe or in the U.S. So it's a very good profitable business for us.

Now areas where we work out distribution, I think that you need to distinguish between commodity products and LIAISON products, and let me say that the Murex line in certain areas is a commodity product, okay?

So as a commodity when you sell a commodity product through distribution, the margin is significantly lower clearly than what you get with your own business, the LIAISON business. However, clearly you don't have all the costs associated with the distribution, and therefore when it comes down to the EBITDA margin, it is clearly lower than what we have as a group but not substantially lower. I think we did comment in the past that if we just look at the EBITDA contribution of the overall Murex [indiscernible] (48:22) which is a combination of some good

business that the Chinese won and some distribution business margin which are the ones that we experience in Africa, for example. The overall contribution for Murex from this perspective is more than 30%.

Okay. So it's below what we get from the other lines but it's still a very profitable business in 2012. I hope I was able to answer to the question.

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**Mathieu Chabert**

*Analyst, Bryan, Garnier & Co Ltd. (France)*

Q

Yes. Thanks, Carlo.

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**Operator:** The next question is from Maura Garbero of One Investments. Please go ahead.

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**Maura Garbero**

*Analyst, One Investments Holding SAGL*

Q

Hi, good afternoon, and thanks for taking my questions. The first one is really a clarification on your guidance because if I look at the nine month [indiscernible] (49:12), you have EBITDA margin which is down 380 bps, and your guidance for the full year in the margin seemed in line to slightly below 200 bps below, so what should happen in the fourth quarter to basically assume that such a margin is recovering?

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**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

A

Listen, I think that we are referring to year end 2011 EBITDA margin. So the year end 2011 EBITDA margin was a little bit north of 43%. So I think 43.2%, okay? We believe, as we said, that there is an erosion of 200 bps from that number and so we believe that by year end, we should close with an EBITDA margin which is around 41%.

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**Maura Garbero**

*Analyst, One Investments Holding SAGL*

Q

Right. And considering that had the nine months you are at [ph] 42%, (50:23) that would assume an improvement in the last quarter of the year.

---

**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

A

So you are talking full year. We are talking full year. Don't forget that in 2011, you're comparing [indiscernible] (50:35) because in 2011, we had, as I've said many times, Q1 and Q2 which were extraordinary. I mean we have Q1, Q2 with an EBITDA margin of 44%, 45%. I'm going by memory but it was very high.

And the reason for that, as we discussed in the past, was extraordinary level, some extraordinary events associated with Vitamin D level that went through the roof. Roche was not there with the product. There are lots of different reasons, okay. The margin then readjusted itself in Q2 and Q3 – sorry, Q3 and Q4 last year. And overall, the margin last year was 43.2%. So what I'm saying is that comparing to the 43.2%, we will end up probably a little bit north of 41% this year.

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**Maura Garbero**

*Analyst, One Investments Holding SAGL*

Q

Okay. Thank you.

**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

A

You're welcome.

**Operator:** The next question is from Elisa Corghi of Intermonte. Please go ahead.

**Elisa Corghi**

*Analyst, Intermonte Sim SpA*

Q

Thanks for taking my questions. The first one regarding Aldosterone, can you elaborate a little bit on this product and the reason why you consider this launch will be a key one? And second question, I'm not sure if I've understood it properly, did you say that you were awarded business from Sonic in Germany and also you were winning back a key client in Australia? And, well, finally, did you have any ins about the kind of strategy that Roche explained on Vitamin D in U.S.? Thanks.

**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

A

Okay, Elisa. Let me just – so first one was Aldosterone. Aldosterone for us is a key product as we're explaining because it completes the panel that we have but it's a quick one which is the hypertension panel. So we have today a very good running business and we want to – but we have been partially about to enjoy this market because we could not provide a full solution, so [indiscernible] (52:40) will be launched in weeks to complete the panel.

And we would be able then to enjoy the full market potential for the assay. Keep in mind that Aldosterone is also a key because it allowed us to play a role into these endocrinology specialty labs where we have a lot to offer and we are present today with Vitamin D. We are present with all the other products. So these are combination of – and basically to continue to grow and serve that market as well as the ability to anchor the Vitamin D business.

Now, the second question that you had was related to Australia and Sonic, right?

**Elisa Corghi**

*Analyst, Intermonte Sim SpA*

Q

Yes, and also I didn't understand properly that – did you say that you won business from Sonic also in Germany?

**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

A

Yes, two things regarding Australia. In Australia, we, last year, there was the second largest lab that because [ph] of trial in (53:43) Australia – that because of prized possessions by a competitor decided to switch and move away from us and then they really experienced [indiscernible] (53:55) problems came back and we signed them up for 24 months.

And they are back starting from July with LIAISON XL and Vitamin D. Okay, so this is what I'm seeing and we've seen instances like these where – the issue is very simple. It's not that Vitamin D is a key vital assay from a clinical perspective. So, you don't die from misdiagnosis of Vitamin D.

However, if you don't have consistency of result because Vitamin D is faster routinely more than one time on the same patient, if the assay that you use is not consistent, then the doctors complain a lot to the lab because from the same patient, they will see one value, one day then three months later, they send another sample. They get a completely different value. They send another sample and get another value. And so they get a flood of complaints



coming from doctors and for that reason, they decided to come back with LIAISON because with our products, they never get a problem.

**Elisa Corghi**

*Analyst, Intermonte Sim SpA*

Okay.

Q

**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

Okay?

A

**Elisa Corghi**

*Analyst, Intermonte Sim SpA*

Yes.

Q

**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

So, this is again something we saw in Australia and something we saw also in the U.S. Unfortunately, when we get – then basically get them at [indiscernible] (55:13) price which is today the market price, which is allowing us very good margins but is below what we clearly used to sell Vitamin D.

A

As far as Sonic is concerned, we have won the contract for Vitamin D as stated exclusively throughout on the geographies and then we started – then we swapped all the LIAISON with LIAISON XL in the labs to do Vitamin D. They liked the platform and then we negotiated with them an expansion of volume of assays from Vitamin D to other products mainly in infectious disease area.

So there has been already a process of conversion going on in Australia, and there is a process of conversion that have started in Germany in some labs starting in quarter three and then it will move to the U.S. starting from quarter four. So my point has always been the renegotiation with these large labs have been very thankful for Vitamin D. I mean, it did cost us 44% of price concession.

However, [ph] we fortify (56:34) the relationship and we are expanding business behind Vitamin D which is the real intent, the real strategy of the company today and this is what Vitamin D is good for. Okay. So Vitamin D today is a fantastic [ph] cash cow. (56:48) As we said, still is a very profitable business for us, but the real strategic [indiscernible] (56:55) for Vitamin D is to allow us to exploit the LIAISON XL with Vitamin D and add more to the [ph] dose (57:01).

**Elisa Corghi**

*Analyst, Intermonte Sim SpA*

Okay. Very clear. And can you provide an answer also on the last point which was about the kind of strategy that Roche explained on Vitamin D in the U.S., did you have any ins during the summer?

Q

**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

To be honest with you, not much.

A

Elisa Corgi

*Analyst, Intermonte Sim SpA*

Okay.

Q

Carlo Rosa

*CEO, Executive Director & General Manager, DiaSorin SpA*

The only thing that we understand is that Johnson & Johnson which has a product approved in Europe for Vitamin D has decided not to take it to the U.S. and withdraw it from U.S. submission process. But as far as Roche is concerned, today, we have no visibility but Roche is, as I said, is very – is a company that drives quality and value.

A

Elisa Corgi

*Analyst, Intermonte Sim SpA*

Yes.

Q

Carlo Rosa

*CEO, Executive Director & General Manager, DiaSorin SpA*

Okay. So I don't think we will see an effect on pricing coming from Roche.

A

Elisa Corgi

*Analyst, Intermonte Sim SpA*

Thanks a lot. Thank you.

Q

**Operator:** [Operator Instructions] Mr. Rosa, there are no more questions registered at this time – sorry, there's another question from Laurent Saglio of Zadig. Please go ahead.

Laurent M. Saglio

*Founding Partner & Chief Investment Officer, Zadig Asset Management LLP*

Yes, thank you for taking my question. In the number of installed base, I missed the beginning of the call but I just wanted to see if you said something. I mean it seems to me 4,605 indicates that the number of LIAISON machine has come down by 40, and XL went up by 126 in the quarter. I'm reading it correctly, correct?

Q

Carlo Rosa

*CEO, Executive Director & General Manager, DiaSorin SpA*

Yes, you are because as far as LIAISON is concerned, we had the swaps of the LIAISON based in some very large accounts. So we took LIAISON out in quarter three.

A

Laurent M. Saglio

*Founding Partner & Chief Investment Officer, Zadig Asset Management LLP*

Okay, understood, understood. Do you think it's – for the fourth quarter, because I had in mind that at the year end, we should finish at a certain number. So, I want to see the fourth quarter, do you see this same phenomena happening, i.e., your cannibalization of the LIAISON with XL and which kind of numbers do you have in mind for year end?

Q

**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

A

I think that by year end, we expect to take the guidance which is around 550 systems, total net systems in the market.

**Laurent M. Saglio**

*Founding Partner & Chief Investment Officer, Zadig Asset Management LLP*

Q

Sorry, I didn't hear you very well, you said 500 and...

**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

A

50.

**Laurent M. Saglio**

*Founding Partner & Chief Investment Officer, Zadig Asset Management LLP*

Q

550 net sales? Net new machine install?

**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

A

Yes.

**Laurent M. Saglio**

*Founding Partner & Chief Investment Officer, Zadig Asset Management LLP*

Q

And with still in the fourth quarter, the LIAISON at zero or negative?

**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

A

So the LIAISON should be a non-contributor, let me say. But because again, the net inflow in quarter three was heavily impacted by a couple of events and one which is last one quarter which is for a [ph] medical (01:00:32) affiliation and the other one was a couple of large U.S. accounts.

**Laurent M. Saglio**

*Founding Partner & Chief Investment Officer, Zadig Asset Management LLP*

Q

Okay. Okay.

**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

A

And keep in mind though that we probably need a discussion but every time you swap, use only XL, in terms of net installed base, you lose because you – if you have two LIAISONS, you usually put one XL and then if you have three LIAISONS, you put two. So it's not really one to two, okay? But in terms of net installed base, you lose because [indiscernible] (01:01:01) install a bigger machine and you take out the smaller systems.

**Laurent M. Saglio**

*Founding Partner & Chief Investment Officer, Zadig Asset Management LLP*

Q

Yes. But net-net, you sell more in terms of product into XL, right?

**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

A

Absolutely. Absolutely. I'm saying is that the quality is very linear the way we look at installed base when we just had one box because it was net LIAISON. Now, they do have a mix of new customers, or take for example Sonic where we had to swap LIAISON a certain number X of LIAISONs with LIAISON XL, a smaller number. But then we loaded LIAISON XL with infectious disease products. So yes, if you just look at that account, you see [ph] man, (01:01:42) they reviewed the installed base but we reviewed the installed base that increase revenue. So it's a fairly complicated way to look at the business these days. So we are providing the LIAISON XL number isolated for you to understand how the LIAISON business – the LIAISON XL business is doing and then we provide a total number, so you can do the math on its loss.

**Laurent M. Saglio**

*Founding Partner & Chief Investment Officer, Zadig Asset Management LLP*

Q

Okay. And on the 550 which would imply a quite – actually a very good fourth quarter contrary to what you said. You have good visibility.

**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

A

Yes. But not very exceptional compared to what we have done in quarter one and quarter two.

**Laurent M. Saglio**

*Founding Partner & Chief Investment Officer, Zadig Asset Management LLP*

Q

No, indeed. Indeed, you're right. You're right. Yes, you're right. But things are getting tougher. So the 550, you have good visibility.

**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

A

Yes. And again, keep in mind that, again, the 126 that we did in Q2 – sorry, Q3 had a seasonal effect because fundamentally, we [ph] missed (01:02:46) one month because August in Europe is bad.

**Laurent M. Saglio**

*Founding Partner & Chief Investment Officer, Zadig Asset Management LLP*

Q

Fair enough. Yes, fair enough. Fair enough. Okay. Thank you very much. Good luck. Good luck, and thanks.

**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

A

Thank you.

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

**Carlo Rosa**

*CEO, Executive Director & General Manager, DiaSorin SpA*

Thank you. Thank you, operator. Good night.

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