DiaSorin Investor Day 2021: Financials

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Piergiorgio Pedron: [01:06:08] Thank you, Carlo, and thank you, everybody. It's the time for the call numbers now. I will try not to be too boring. So again, good afternoon, good morning and welcome to the DiaSorin Investor Day. It's very good to see so many of you here in person today. It has been a while since we were last able to meet. And I'm glad for the opportunity to discuss DiaSorin guidance with you this afternoon.

Over the next few minutes, I will try to translate from a financial viewpoint, so to say, all the initiatives that we have seen in the past few minutes. Before we start, let me please qualify a couple of technical points in order to better understand the evolution of DiaSorin performance after the acquisition of Luminex.

As you will see, we have broken down our financial results into two steps, highlighting the impact of the change of scope from '21 to '22 and then presenting the expected evolution at constant perimeter of consolidation from '22 to '25. This will allow us to normalise the effect of the change in perimeter and would facilitate a better understanding of both the progression and the performance of our business. Moreover, as usual, all the numbers will be presented at constant exchange rate.

With that, I'd like to start with the top line. To start, I would like to highlight the performance of our business excluding COVID. As you can see, we expect 2022 sales to grow 42% vis-à-vis 2021, as a combination of the change in scope of consolidation and the growth fuelled by all the initiatives we just saw.

Beyond next year, we anticipate a compounded advantage growth rate of approximately 10% from 2022 to 2025. This means, and I believe this to be one of the main take-home messages of this slide, that we project to reach revenue of around €1.5 billion by 2025. Therefore, more than doubling in absolute terms 2019 results, so in a pre-COVID and pre-Luminex world, which were roughly €0.7 billion.

I believe it's also worth noting that 2022 total sales this time, including COVID, will be largely in line with 2021, which means that thanks to the Luminex acquisition, we will avoid the cliff of the top line caused by the expected decline in COVID testing volumes. Also please note from the slide that 2025 projection includes the contribution of nearly €150 million driven by the programmes we discussed a few minutes ago.

I'd like now to spend a few minutes discussing about COVID revenues. In line with many of our industry peers, we share the opinion that it is very – there is very limited visibility regarding testing volumes and the related revenues both in 2025 and beyond. As we all know, the COVID pandemic evolves daily. We all wake up to news regarding changes in variants, the availability and effectiveness of medical treatments, vaccination programmes and so on and so forth.

Given that we share the view of most IVD players and analysts that cover testing volumes, and we believe that sales will decline from the peak of 2021. What is almost impossible to predict is the extent and the speed of this reduction.

Our assumption today, based on what we know today is that we will see a slowdown from the nearly €370 million achieved in 2021 to about €150 million in 2022. Beyond that, we foresee approximately €50 million by 2025 when COVID will potentially become an endemic disease. Consistent with this approach, the following slides discussing the evolution of sales by technology and by geography, will normalise the impact of COVID in order to focus our attention and what we believe matter most, which is all the activities and the initiatives that we have just covered.

So in this slide, you will see a breakdown of revenue projection by technology. Before we dive into the numbers, please allow me to clarify what's the content of each technology at the light of the Luminex acquisition.

The licensed technology bucket represents the sum of the legacy business, flow cytometry and licensed technology of Luminex. Regarding molecular, the graph represent the complete offering from the LIAISON MDX to the VERIGENE, ARIES, the LIAISON PLEX, the LIAISON NES.

Immunodiagnostic represents DiaSorin legacy offering, mainly CLIA and ELISA products. Said that, in 2022, growth rates from Molecular and Licensed Technology is affected by the change in scope of consolidation, while the mono diagnostic of this like-for-like and not impacted in the same manner.

2020 Immunodiagnostic growth is driven by CLIA ex-vitamin D for which we expect an increase between 10% and 15%, which more than offset the slight declines in our vitamin D and ELISA revenues.

2022-2025 mono diagnostic growth is expected to continue at the 7% compound the rate, and is likewise driven demand by CLIA ex-vitamin D products and all the initiatives that we have just seen.

Looking at the mid-term projection for our Molecular business, we anticipate a compounded growth rate of 23%, which is mainly driven by the launch of the LIAISON PLEX and the LIAISON NES on top of the additional sales deriving from the conversion of the single low plex platforms to the LIAISON MDX Plus and from an acceleration of the business in Europe, where we will leverage the COVID-driven install base.

To conclude with this slide, I believe the main take-home message is that our growth is very well distributed across all three of our different technologies, with Molecular being the top performer, thanks to the new programmes we just saw.

Moving on to the next slide, here we can see how we anticipate the revenue trends across the different geographies in which we do business. As mentioned, 2022 growth is affected by the consolidation of Luminex, which is clearly affecting the increase in North America. I think though that the main take-home message of this chart is indeed that if we consider 2022-2025 expected progression, North America, and to be more precise, the US will be the geographical engine of our growth, with Molecular and Immuno business and the key projects therein fuelling our performance.

As you can see, in Europe, where DiaSorin market penetration has been historically higher, we anticipate a compounded growth rate of 7%. We will achieve this by leveraging the new immunodiagnostic programmes, by selling Luminex products via our broad direct commercial presence in this geography. And lastly, by building on the COVID-driven molecular install base.

Now since North America and Europe will represent approximately 80% of our total sales, we have decided to cluster all the remaining geographies on one single bucket represented here as the rest of the world. This area includes Asia-Pacific direct, LATAM direct and our distribution business.

I would highlight that APAC is the main contributor of growth in this geography, with mid-term compounded growth rate of almost 9%, mainly driven by China. Overall, our rest of the world business is showing a compounded growth rate of 6%, which lags the other geographies as a result of a lower impact of our multiplex offering in these geographies and the lower growth rate in those countries where we do not have a direct presence, meaning the export business.

I believe also this slide is very interesting. And with this one, I will close my slides on sales. Because what I would like to do here with you is to share three snapshots of the change in our revenue profile from 2019 to 2025. So considering a pre-COVID and pre-Luminex acquisition starting point.

Beginning with the first snapshot, I believe it is important to highlight, our DiaSorin sales in North America will increase from just shy of 30% of total revenues in 2019 to almost 50% in 2025, with a 2022 ex-COVID already at about 45%.

Let me please remind you that this is in line with what we defined back then aspirational target. And I believe this was happening two years ago when we last had our Investor Day. The second snapshot shows the breakdown of sales by technology. Here, I would like to highlight how, in 2019, almost 90% DiaSorin sales relied on a single technology, Immunodiagnostics.

Looking forward to 2025, we will have a more balanced and diversified portfolio of product offerings with Immunodiagnostic representing around 55% of our business, Molecular about 25% and Licensed Technology 20%. Please note that 2022 breakdown does not really look much different from 2025 with strong growth across all the technologies not changing the mix significantly.

The third snapshot I'd like to share with you is intended to present recurring revenues, meaning reagents, consumables and royalties vis-à-vis non-recurring revenues. Here, I would like to emphasise that in spite of the change in the composition of sales by geography and technology that we just discussed, the share of recurring revenues is substantially stable at 90%. Therefore, confirming the predictability and the resiliency of DiaSorin business.

Let me now move to this slide. So before going ahead with the EBITDA guidance, I'd like to spend a couple of minutes on how we see the progression of synergies related to the Luminex acquisition over the next few years.

Back in July, when we announced the Luminex deal, we anticipated achieving approximately USD55 million in cost synergies within the third year after closing. Since July, we have had the opportunity to work with the Luminex leadership. To review our assumption and thanks to a deeper understanding of the combined business, we are revising our cost synergies estimate upward to USD60 million by 2025, confirming the target of 55 million within the third year after closing.

In addition to cost synergies, we also believe the integration of the two businesses will provide a further USD30 million in revenue synergies. This will be driven mainly by sales in the US to hospitals served by Luminex, which do not overlap with those served by DiaSorin today, and by the opportunity to leverage DiaSorin direct commercial presence outside the US to promote Luminex product.

Coming back to cost synergies, we anticipate the following initiatives to be the key drivers: platform consolidations, think about the LIAISON MDX Plus and the LIAISON PLEX that we saw a couple of minutes ago; the rationalisation of the geographical footprint; the integration and the right-sizing of the two organisation; and operations and supply chain optimisation.

Let's now move on and discuss the adjusted EBITDA margin. I believe this chart helps to put things into perspective to understand the margin evolution from a pre-pandemic world, which means 2018 and 2019 to the period covered by our plan.

Here, I think it is very important to remember the starting point, which is before COVID and Luminex acquisition, DiaSorin was enjoying an EBITDA margin around 38-39%. 2021 EBITDA margin is a kind of outlier. As discussed several times during quarter-end calls, it has been largely impacted by the very high COVID sales, which generated a very material operating leverage.

In addition, 2021 includes only six months of Luminex business that as we know enjoy lowest margin compared to DiaSorin.

Now, looking forward to 2022, we expect to experience a dilution in our gross margin and higher operating expenses ratio over revenues compared to 2021. Why that? The gross margin dilution will be primarily driven by the fact that we will replace higher margin COVID sales with a lower margin Luminex sales and by the addition of an absorbed cost linked to the investment on our manufacturing site in China that we saw again a few minutes ago.

The higher OpEx ratio is attributable to the fact that 2022 will be the first year full inclusive of Luminex expenses with synergies not yet fully realised with total revenues, if you look at the top line, as we saw, which are broadly in line with 2021. And this is simply the reason why, we believe the EBITDA margin in 2022 will set at around 35%.

Looking past, next year by 2025, we believe the EBITDA margin will climb back to 38%, which is in line with our pre-COVID and pre-Luminex acquisition performance, but with an EBITDA value that will have doubled in absolute terms compared to 2019.

We will achieve this through the full realisation of the synergies outlined in the previous slide and the additional operating leverage coming from the growth in the top line. The gross margin will improve compared to 2022, but I don't believe will go back to the pre-COVID years because of the different product mix, which now will be most skewed towards molecular products that we now enjoy lower margin. And let me call them partnership products such as latent tuberculosis, MeMed, Lyme detector, which carry higher royalties rate.

In summary, we believe that we will be able to return to our historical level of profitability once COVID is behind us. And the Luminex business is fully integrated with an EBITDA value, which in absolute term, again, will be slightly more than twice what we had in 2019 and above €550 million.

Now before moving to the next slide, please allow me to make two technical comments associated with the impact of the Luminex acquisition on our financial reporting, which I deem will be useful for modelling purposes.

First, in 2021, we began to highlight an adjusted EBITDA. However, we expect that by 2023 the difference between the EBITDA and adjusted EBITDA will be completely negligible. Second, our estimate of the purchase price allocation amortisation impact coming from the Luminex acquisition on the net result will be about €60 million per year.

This chart shows the evolution of the net debt ratio adjusted EBITDA. Based on our projection, we believe the ratio will decrease to 0.5 in 2025 from 1.9 at the end of 2021. Therefore, confirming a quick deleverage of the company, as a result of the free cash flow generation across the period.

The anticipated small leverage ratio increase in 2022 is simply the result of the reduction in that year of the adjusted EBITDA that we just discussed in the previous slide.

With that, I'd like to move to my last slide. In this slide, I will conclude my remarks on the financial translation of the plan described by Carlo and highlight summarises what we have seen in the previous slides. More precisely for the period 2022-2025, we project revenue compounded average growth rate of 10%, excluding COVID and 7% with COVID.

The adjusted EBITDA compounded growth rate will be at 10%. The cumulative free cash flow generation over '22 to '25 will be above €1.1 billion and the leverage ratio will decrease to 0.5 by 2025.

So let me close my remarks saying that based on the initiatives and strategy presented today, we are very excited with the positioning of DiaSorin as we emerge from the pandemic. As the financial highlighted, we are confident that we will continue to drive a sustained growth and value as we have done in the past.

With this, let us open the Q&A session. And thank you.