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# **DiaSorin Investor Day 2021: Strategic Setting**

Friday, 17<sup>th</sup> December 2021

## DiaSorin Investor Day 2021 – Strategic Setting

**Carlo Rosa:** [00:08:21] Now, let's talk about the market and let's talk about trends. This is a slide that we presented back then and we said when it comes to diagnostic market, there are two opposite forces that are shaping the market. One is consolidation and one is decentralisation. The point is always the same. The point is that the healthcare system that today is extremely onerous for our society is finding ways to be more efficient.

Consolidation makes – means bigger hospitals, bigger labs and looking for efficiency through critical mass. Decentralisation means getting closer to the patient and then getting rid of all these costs associated with dealing with patients in the hospital. And this certainly requires technology.

So what's happening today after the pandemic about these trends? Well, certainly the decentralisation is accelerated. And amusing as an example, two months ago I was in New York, you go to Columbus Circle on the corner of Central Park and you find the iconic Falafel stand that is always there selling hotdogs. Next to it, you find a minivan providing antigen test for COVID.

Well, that to me is the example of how the pandemic really changed the way we perceive diagnostic. It would be – it would've been unthinkable two years ago. Probably is a model that is not going to be repeated after the pandemic is over. But certainly has demonstrated that well, first, what diagnostic is and what is the value of decentralising diagnostic when you really need a quick answer to address a concern, a clinical concern.

But not only decentralisation has accelerated because of the pandemic. It has accelerated also because the governments now have decided to put real money through the infrastructure that is actually fuelling decentralisation. And so, if you think about it, even Italy that over the last 20 years have clearly not spent enough on the – in the healthcare system or well enough in the healthcare system. Today in the P&RR[?], there are €18.5 billion that are going to be spent between '21 and '26 funding proximity healthcare services, which fundamentally means smaller clinics that are going to be serving neighbourhood of around 50,000 individuals. And that's a plan that the government is funding to decentralise the healthcare services.

When it comes to the US, another vivid example. In 2021, just in one year, the US government has dedicated \$8.5 billion to rural hospitals. Again, US was the same story, consolidation, consolidation. They forgot about the decentralised care. Now they are rushing to really 45 decentralised care because it's the only way to serve those rural areas, where people simply have no access to any sort of healthcare.

So what did the pandemic mean for IVD company? And in my opinion, three things. The first thing is that today, as said, you can take a cab and even a cab driver everywhere in the world understand what diagnostic is. And this is very relevant, because prior to that, nobody understood diagnostic. It did represent 10% of the healthcare spending. It was very easy to cut diagnostic because the governments were cutting the work of the reimbursement. And our association was not strong enough to represent our interest. And today, the perception of stakeholders, individuals and governments is completely different.

The second element which is really very important for DiaSorin is that throughout the last two years, a lot of money was dedicated by emergency funding to provide even small hospitals with

equipment the kind that you see over here. And this means that when now the pandemic goes away, you're going to have all this capital equipment, which is placed in these hospitals.

And what we're already seeing is that hospital are in-sourcing diagnostic testing. It used to be that they were outsourcing. Now that they have the system, they are in-sourcing. And they are also in-sourcing specialties, which is what, again, DiaSorin is leader about. Therefore, the opportunity today for us is to really reach also the mid-size and small size hospitals with our specialties because hospital now again are in sourcing this testing.

The third element is that – we need to consider about the industry is that today everybody understand what molecular means. Until yesterday, nobody had a clue unless it wasn't explained[?]. Today, the use of PCR now is – has been – is very well known by everybody, including physicians, including small hospitals. So there is more utilisation of PCR in all kind of setting. This is why you are going to find there the LIAISON NES, which is our next generation small system for molecular diagnostic.

By the same token, everybody goes to a pharmacy and has – can have a swab on antigen test. The technology for the antigen test was developed in 1980 for pregnancy testing. So today, we are living with technology developed 40 years ago. It is very clear that it can work but it's also very clear that you need to move to a next generation of this technology, which is what we have with the LIAISON IQ, where fundamentally is lateral flow adding though trustability and the ability really to get the result and send it to the patient or the physician, wherever the physician can be for a clinical decision.

So – but what has been the impact of pandemic also from a geographical point of view? I believe that if we divide the world, at least our market in the three main economies, so the US, Europe and China, after two year on pandemic, the conclusion is very different. If you look at the business opportunity for a diagnostic company in the US, I think going forward we see a very positive cycle. When do we see positive cycle? During the emergency, during pandemic what the government has done, they've been providing lots of funding with fundamentally two objectives.

The first objective was to increase testing capacity because there has been a high demand of testing capacity. The second one is to develop new technologies. With the RADx programme, the government put \$1.5 billion in nine months to fund new generation point of care technologies. And that certainly has developed a positive spread, a positive feeling about diagnostic technologies and infrastructure in the US.

And the second thing, which is very relevant, and I believe has a lot to do with the way the Trump administration has looked at this is the fact that the FDA all of a sudden transformed themselves into an Agency that is working with companies to approve products and not just with the bureaucratic approach but the approach today is let me work with you because if the product makes sense, then it is good that the public will have access to that product.

And I think MeMed is a very good example of a company that has been working with the Agency. They got approval with an incredible claim for their product. And I've never seen in my life the FDA, after giving the approval, going public and saying we are so fond of having worked with a company that brought innovation and is addressing a medical issue in the US. So this is very different from what the FDA used to be just 24 months ago.

Now, let's talk about Europe. Europe, we all know that when it comes to vaccination, at least we were able to have central purchasing and negotiating vaccine for all Europeans. But this is it. When it comes to diagnostic, there was no effort whatsoever or there was not unified strategy. Each country pretty much went where they really wanted. Certainly, in Europe, there is more awareness of PCR testing as we've discussed before.

Certainly, Europeans that were resistant to the concept of investing into expensive technologies like multiplexing, now they understood what multiplexing is, but overall Europe post-pandemic, as far as we are concerned, is pretty much equal to the Europe pre-pandemic. So nothing really change in that market.

And then finally, China. Finally, China – China is a problem. And China is a problem because of the way they decided to respond to the pandemic. First, it's the only county in the world that did decide not to approve a single test coming from an American or European company for COVID. So over the last 24 months, they've been dealing with local suppliers. Second, there has been an acceleration of a trend, which was there even before, which tends to favour Chinese companies versus foreign companies and suppliers of hospital.

I remind you that there was a plan called 2030, where the objective was by 2030 they really wanted to buy 50% of medical devices, Chinese-made. The feeling and what you see today in China is that there is an aspiration to accelerate that. So what does it mean? It means fundamentally the China is becoming a very difficult market. And certainly the only way to survive in China is to become more Chinese. And this is why we believe that the fact that we have a manufacturing site, we will have a research and development in China is the only way to survive in a market that honestly is becoming very complicated.

Today, after the Luminex acquisition, China does represent less than 5% of DiaSorin revenue. So we've been de-risking China as a market with the Luminex acquisition.

Now let's reflect on something else. The diagnostic market, all-in, with all the different test that you can find in the lab, before the pandemic was around \$65 billion. So a relatively small market. And that market was growing 1-2% per year, a little bit more volume, pressure on price. A market – the market was developing, but nothing exciting. And then the pandemic hit.

And then in 18 months, a \$65 billion market became a \$100 billion market. It hardly happened that a market that is mature all of a sudden is increasing by 30%. Now what does this mean if you look at cost? Now if you do the math, usually an hospital that pays a \$1 for a product, then the cost to deliver the test result is pretty much three to four times that. So that means that, if today, we, as an industry, sees \$35 billion of revenues coming from COVID testing between molecular and antigen testing, the system – the healthcare today is paying annually \$150 billion to deliver the testing. And keep this in mind because we are talking again on cost and cost and cost piling up on the healthcare system.

Now if you look at treatment, so what is the effect of the pandemic on the cost of delivering healthcare, so treatment plus testing? Now what this shows is that in 2020, the weight of healthcare costs versus GDP worldwide on average has increased by 1%. Okay? So – and if you look at the US, it's even more dramatic because when it comes to the US is a net-net result of the fact that in the US hospitals are private. They were actually leaving off elective surgeries that didn't happen during the pandemic and actually they were loaded with patients that are

COVID patient that are very expensive and they are not really remunerated well by the insurance companies.

All the hospital were going belly up. And what the government had to do is to pour \$100 billion in funding coronavirus aid to make that industry survive. And as said, as part of the \$100 billion, \$8 billion just to keep their overall hospitals open.

So if you think about this and you think about the environment post-pandemic, what is the environment? The environment is cost effectiveness. So whoever is going to be operating in diagnostic has to consider that element. The system is broke and the system will only pay for innovation, if that innovation will carry two things. One, certainly clinical value, but the other one, which is very relevant, cost-effectiveness.

And so more and more companies that are bringing new products and new systems to the market not only have to demonstrate it is good for the patient but they also need to demonstrate with the real data that it's very good for the healthcare system.

So when are we? In 2019, we said value-based care is coming. We believe that value-based care is accelerating. So how is DiaSorin now responding to this environmental changes?