

DiaSorin S.p.A.

“Third Quarter 2015 Results Conference Call”

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**MODERATORS: CARLO ROSA, CHIEF EXECUTIVE OFFICER
PIER LUIGI DE ANGELIS, CHIEF FINANCIAL OFFICER**

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the DiaSorin Third Quarter 2015 Results Conference Call. After the presentation, there will be an opportunity to ask questions.

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

CARLO ROSA: Yeah thank you operator. Ladies and gentlemen good afternoon. Welcome to our conference call. As usual I will go through the main highlights of the third quarter and the first nine months, and then I will leave the stage to Mr. De Angelis, who will comment more specifically the numbers.

Before moving to our sales by region, let me start highlighting the fact that we decided to raise our guidance for 2015, on revenues and EBITDA. As you remember, we forecasted a growth of revenues between 4% and 5% at constant exchange rate versus 2014. Consistent with the positive trend that we registered in the first nine months and in the third quarter, we now expect revenues to grow above 5% at constant exchange rate. This is mainly due to the continued success of our CLIA tests and this success we are experiencing all around the world, and by the same time as we discussed in the past the stabilization of our Vitamin D franchise, thanks to the agreement with Quest in the U.S that came into good force and some agreements in Europe.

As per our CLIA test ex Vitamin D, we are more and more considered an important player in the diagnostic field, especially thanks to the breadth of our CLIA Menu and a completeness of the menu in the specialty and in the mainstream areas. I am really confident on our Infectious Disease and on the success of the Infectious Disease that will continue in key countries

like China, where we are very strong and getting stronger on the prenatal screening panel. And in Europe where we have completed the development of the stool line and so far this has been very successful in key markets like Germany, Italy and Spain and we are confident that with a full panel, this success will continue also next year.

We are also experiencing a great success. We have our chronic kidney disease test line that as you remember we consider a pillar to our future strategy and the position of the company moving forward.

Above all, I am very proud of the success of the new Vitamin D 125 test that since launch contributed to...with a turnaround 50 million of euros of total revenues. It's fast adoption by the labs is happening all around the world and is allowing us...has allowed us as we have spelled out last year to get the vast majority of this market worldwide. Now we need to move forward with this with the 125 Vitamin D and as we have discussed during the 'Investor Day' we believe that there is a possibility of using this test in combination with our...with some other CLIA Tests, to provide doctors with an evidence of new clinical investigation for the CKD and we are committed to working in these clinical applications and we expect that this will contribute to further growth in the future years.

In the...specifically related to the 125 in combination with another marker which is called PCH, we have submitted our first clinical result to some key opinion leaders in American community we have conducted a study with over 1000 patients with 5 patent applications and we are going to keep you updated in the future on the next steps with a strategic project that we consider this a key for the positioning and the success of DiaSorin.

Now if we move to the EBITDA, we are going to raise the guidance that we announced previously that I remind you also again in line with revenue

growth 4% to 5% we now expect an EBITDA growth between 6% and 7% at constant exchange rate.

Now the increase is the result of three main elements, higher sales that grew in the quarter and in the nine months by almost 13% at current exchange rate a different geographic and product mix that we had experienced in the first nine months with a strong growth coming from China where we enjoy high numbers with unexpected growth coming from Europe and also the US, the stabilization of the US market.

Last but not least, the increase of EBITDA is related to the fact that our mix is changing to our more specialty and more specialty means higher price and higher value which means a higher contribution on the gross margin level. As a consequence, our gross margin improved by 17.4% in the third quarter and 15.1% in the first nine months. And the incidence of our operating space has decreased by around 1.5% versus last year.

As for instrument installed, we confirm the previous guidance. Our installed base of the LIAISON family continues to grow as you have seen. By the end of September we reached a total of over 6200 systems installed worldwide with above a third of 35% of that which is the LIAISON XL new platform where I think we passed 2000 LIAISON XL installed worldwide.

As you may see from the relevant increase of LIAISON XL vis-à-vis the LIAISON placements and this is what we...if you remember this is what we report in our result. We started a program of substitution of all LIAISON instruments which come to an end with more performing LIAISON XL on our customer base. So in some of the aging LIAISON installed base rather than being replaced as it has been in the past with existing LIAISONS or extended warranty we decided to conduct a

program in certain geographies to swap those LIAISON with LIAISON XL. This replacement program on our CLIA instrument is not going to be diluted on our revenue growth, in fact every time we swap a LIAISON with a LIAISON XL, we ask the customer to guarantee us 25% revenue growth adopting more products and this is if you notice is in line with our current XD revenue growth. So the placement of LIAISON XL will carry additional growth for the CLIA XD line.

After having commented the rationale behind our guidance increase I would like to just share with you some comments on some product lines and then geographies. As far as our CLIA ex Vitamin D sales, we are continuously growing double-digit, showing a further acceleration in third quarter to a total 22.5% at constant exchange rate.

As far as our Vitamin D line as we've discussed before, the business stabilized in key geographies like the US and it has been ensured in Q3 a small growth 2.5% at constant exchange rate but as we have forecasted before, we expect this business now to be relatively stable in the next quarters.

Last before we move to discuss geographies, I would like to comment on the distribution agreement that we announced and signed in July with Beckman Coulter, these will give us the opportunity to sell our CLIA Hepatitis and HIV tests in China counting with the results we have achieved and confirming the performance which we projected in the previous plan and they are, I would comment as exceptional. So on top of exceptional current results we are starting to see and we will see obviously beginning of next year a further acceleration due to the Beckman agreement.

Now let me move to comment sales by region. In Europe the business is growing as expected or I would say is growing more than we expected initially, thanks to the success in some key geographies in the third quarter by 6.5% at constant exchange rates and in the first nine months at 5% at constant exchange rates. And this growth is a consequence of the adoption of a lot of specialty products by a lot of our large customers in Europe.

Germany continues to be strong with an increase in...of 10.5% mainly again driven by Vitamin D 125 and some significant contracts which have been signed with our growing installed base in Germany also the stool program is very important because I remind you that after the US, is the second largest market for stool worldwide and now we have a complete panel and the penetration on that market is working fine for us. In France finally the sales have been stabilized so after we took a loss on Vitamin D over the last three years. Now the business is stable and so the growth of the XD allows then a positive development of revenues in the countries.

Last but not least, Spain, where after two difficult years now Spain has rebounded back and we now enjoy growth in Spain of 15% in nine months and 23% in the quarter. And we see Spain now as a country where it's worth reinvesting to pure growth. However, there is a country in Italy where we have experienced issues which is our main country which is Italy that for the first time has registered a negative trend in the quarter of 2% versus last year.

This is the result of the fact that there is reform that has been discussed today in the country. They put a lot of pressure and would like to reduce laboratory testing. The reform is not still in place but there is a psychological pressure to doctors who revise the prescription in the way that they use diagnostic tools. And for the time being what we've seen has

been not an effect on pricing, but on effect on volumes ordered by customers and we expect that Italy we are not going to be a growth engine any longer there is going to be more stable in the next year or so until the dynamics within the countries will stabilize.

Last but not least, we have opened our...I would say last or more most recent subsidiary in Europe DiaSorin Poland and we have initiated operating in Poland a month ago. And Poland is a key market for us 40 million people, a fast developing market and we expect growth to come from this country starting from next year.

Now let's move to North America, in the US sales are up 4.8% in Q3 at constant exchange rate and 4% in the first nine months and again we already discussed this many times this is due to the stabilization of the Vitamin D franchise in the country but by the same token our CLIA ex Vitamin D revenues continue to grow strong 39.4% in the third quarter, 43% in the first nine months at constant exchange rate and today they represent pretty much over 35% of the total CLIA revenue. So the effect...the positive effect given by this growth is helping in a stable environment with Vitamin D to fill the growth of the North American market which remains strategic for DiaSorin.

Now let's move to Asia Pacific, Asia Pacific strong growth almost 16% in the quarter at constant exchange rate and 17% over nine months and all...everything points to the success of China. In China, we grew 43% in Q3 and 32.2% in the first nine months so there is an acceleration of our business in China mainly due to the installed base we now will reach 700 systems placed in the country of which 200 are LIAISON XL. We continue to penetrate very successfully the mid large labs throughout the different geographies and we moved into a second phase of the strategy where starting from the big cities like Beijing and Shanghai that has been

already penetrated in the past. Now we are moving into the periphery if you can call it that way even if the periphery in China means hundreds of millions of people through a new network of distributors that allow us now to penetrate those underpenetrated market so we are extremely satisfied about our Chinese franchise.

Let me remind you that this success so far has not been impacted yet by Beckman, the Beckman agreement that was just signed, installations are starting and we expect to see the effect starting from next year.

Finally Latin America, where we had a decrease of 0.6% which means that we have been flat in Latin America and this is mainly due to Brazil. The country is still suffering from a weak economy that is affecting local business at all levels. Up until now DiaSorin was selling consistently its tests to public hospitals that are facing serious economical difficulties in paying back the suppliers.

As a consequence of this situation in the country we decided to move our focus from public sector to private labs and hospitals. And this will require us some effort and some time to develop these new clients. However, we see this.....the only opportunity in accounting where the public system is fundamentally defaulting. That means that we decided to retrench in Brazil waiting for the...hopefully for the next positive economic cycle we have a written off certain receivables that we did not...we decided we are not going to collect on the public system and certain distributors that are working with the public system and this by the way has impacted in Q3 of €1 million so we took a write-off of €1 million of receivable in the quarter now we feel that all the receivables left are clean. These receivables are directed toward hospitals that are working with the public...private sector, sorry, or private laboratories and then we expect Brazil to remain at the current revenue level focus on the cash flow,

focus on the margin until growth will come when the country will start again to recover.

Now let me pass the microphone to Mr. De Angelis and then we will move to the usual Q&A session. Pier Luigi.

PIER LUIGI DE ANGELIS: Thank you, Carlo. Ladies and gentlemen, good afternoon. Let me focus my speech mainly on the good results of our Group, EBITDA in the third quarter and in the first nine months. In the third quarter the EBITDA grew by 12.5% at current exchange rate with an EBITDA margin of 36.5%.

At constant exchange rate the growth was equal to 9.3% and the margin was 37.5%. This result is the consequence of the increase of our gross profit and the lower incidence of operating expenses despite the negative impact of the exchange rate. When we move to EBITDA of the first nine months of 2015, we registered a growth of 15.5% at current exchange rate with EBITDA margin of 37%. At constant exchange rate, the growth of EBITDA was equal to 6.7% and the margin was 36.6%. This important result achieved led us as Carlo Rosa said to raise our guidance to the full year EBITDA growth to range of 6% to 7% at constant exchange rate.

As far as the net financial position as per September 30 2015, our net cash was equal to almost €252 million of euros increasing by €65.5 million euros from the end of 2014 as a result of the continuous cash flow we are able to generate from our operating activities.

Finally, concerning the free cash flow the Group generated €5.5 million of euros in the third quarter and €74.8 million of euro in the first nine months. I think I covered the most important topics of our Q3 and nine months results.

So let me now ask the operator to open the floor for the Q&A section.
Thank you.

COMPANY REPRESENTATIVE: Thank you Pier Luigi. Operator.

Q&A

OPERATOR: Excuse me; this is the Chorus Call conference operator. We will now begin the question and answer session. The first question is from Mr. Massimo Vecchio of Mediobanca. Please go ahead.

MASSIMO VECCHIO: Good afternoon to everybody and my compliments for the results which are I would say very solid. Only one question from my side, can you give us some hints on what you expect for 2016. I'm not talking about numbers specifically, but in terms of business development. Thanks.

COMPANY REPRESENTATIVE: Yes Massimo, I will not give you obviously any hint as far as numbers are concerned. I will give you more strategic interpretation of what we see in 2015. For the time being what we see is that we see...let's start from easy one, we see that our strategy in China is working very well. Today China is representing for our Group by the year-end by year-end 10% of the total CLIA revenue and it's a very strong growth. Today as you know we operate in China as everybody has through distributors, so if you really look at end-user revenues, China today is the second largest market for us after the US, so has passed Italy effectively this year.

The trajectory is very positive, the strategy works very well and we are very confident that we will continue to hold the business in the Class II in mid size Class III hospitals and we are fond of the alliance with Beckman because we believe that in the Class III hospital where there is

consolidation and need of automation, this alliance is going to deliver for us very good results as far as hepatitis HIV is concerned, so very positive on China.

I am in a certain...to a certain respect; I am pleased and somehow surprised by the very good solid result on Europe and again let me remind you that when we show 6-7% growth in Europe, this includes default in Italy. So in Italy that is declining 2%, but this is the result of our specialty position of the company in the northern part of Europe. So today we are experiencing very strong growth and success in the Nordic countries. In Germany it is a solid market and in Austria and in the Czech Republic, so that positioning is clearly paying...paying out.

Last but not least, to report for Europe very good sign coming from Spain, Spain I think is back. They are paying...they've not been paying for two years, now they are paying. They are...their hospitals have been reorganized, their reforms have happened and our business it really benefits significantly from this growth as I told you 15% year-to-date growth and 23% in Q3. So.....Spain will come back and again I think the black eye of Europe is going to be Italy for at least for a while in my opinion. But, you know, solid Europe and I continue to see solid Europe also next year.

US, I think is.....the success was announced pretty much the day that we were able to lock in the Quest business because it did very good to us in terms of solidifying our Vitamin D franchise giving us time to continue to expand and increase the weight over our ex-V business that is becoming significant for us and as I told you as you saw is growing 20, 30, 40% quarter-to-quarter. So very, very good when it comes to that, so my outlook at this point is positive after a quarter like this and also the other thing that I would like to underline is the fact that is the growth margin as

you know in the last three years, since we had to pay the dues for the Vitamin D price war, we experienced some erosion of the gross margin.

By the way, the erosion that has been less than what forecasted by some of the analysts in the space but because as we always stated under the Vitamin D there was a strong pipeline of specialty products. Now that.....again, the Vitamin D erosion is more contained and the strong pipeline of specialty products are contributing more and more to the revenue...the revenue mix and you see that there is a very positive effect on the gross margin. So, that to me is a signal that is very positive, we were expecting it and finally we see.....we see the effect of it in the business.

MASSIMO VECCHIO: On China, I read an interview you gave to Italian press this week, you were very bullish on that....can we, in terms of magnitude right now is a third of the US. Long-term where it could go, I mean can we envisage you know which is going to be as big as US or it's probably being too bullish? And again in terms of business development, can we expect for 16 the usual 5, 6 new launches in terms of tests or probably you overachieved in '15, so probably I have to expect a scenario over number of new tests in the next year?

COMPANY REPRESENTATIVE: Listen, let me just make a comment you are referring to an article where if you read the article, it says....if you read the article but you read the title, they are....they are not the same. So the title says we are going to sell to 20,000 Chinese hospitals but then the interview says something different. I'm very bullish about China for the mid term. I think that China is a market that can be strategic for the next three to five years and I think we are very well positioned in the country to be successful because the fundamental of the business which again, I remind you is

fundamentally products for facility and for newborns, which today is very well received by the country.

And now Hepatitis and HIV which is an endemic product...an endemic problem in the country allow us to be positive about the future in China. The other thing that....the other element to keep in constant....to keep in mind when looking at China potential for us is that there are vast regions of China that we have not reached yet and so the effort that we took two years ago was to expand....extend our reach behind Beijing and behind Shanghai and this is paying off. So the revenue growth that you see today is the effort of increasing distribution network done and now we are reaping the benefit of that. So, yes, I think that for the next few years I think China is an opportunity.

Long-term it's difficult to say, long-term meaning behind five years because China is a country that is in continuous development, so we will see then.

MASSIMO VECCHIO: And on the new test launch next year, what can we expect?

COMPANY REPRESENTATIVE: I think that we are going to stick to the plan, so in the three years plan we have stated what is the pipeline and so far I see no risk on the pipeline, so five, six new products should be coming.....in the R&D by... from R&D next year.

MASSIMO VECCHIO: Okay. Thank you very much and compliments again.

COMPANY REPRESENTATIVE: Thank you.

OPERATOR: The next question is from Anastasia Karpova of Kempen. Please go ahead madam.

ANASTASIA KARPOVA: Good evening and congratulations on solid results. Two questions, if I may. First, can you provide an update on the status of your collaboration with Roche and MegaLab's integration? And second question is on EBITDA margin, in the second quarter you massively expand that your EBITDA margin driven largely as I expect by positive effect. However, the increase in the third quarter was less significant, is that due to seasonality in cost allocation, or is that an impact of higher sales Quest and based on some of the tests you show in that? Thank you.

COMPANY REPRESENTATIVE: Okay. Let me just...let me first take your second question. You need to keep in mind as I stated in my comment and I think has been also covered by television. The fact that in the quarter Q3, we took, we had two effects, one is the write-off of receivable which is a little bit over 1 million and has to do with the Brazil situation. The second one is that because of the fluctuation of the Reais, which if you follow the currency has been tremendous over the last few months. We experienced 3 million of as an effect, which is a one-off effect on current currency effect on the intercompany receivable, intercompany receivable is between what we sell to our Brazilian subsidiary. Right, so there is an effect on this commercial receivable, which is 3 million and there is an effect of 1 million which is a write-off of some third party receivable. So net-net 4 million give or take that fell in the quarter. So this quarter is which is good, notwithstanding the fact that the true EBITDA claim from this effect should be close to €49 million, which is almost 39.5% EBITDA.

So there is...there are....these events that stating notwithstanding later extremely positive quarter at EBITDA level. As far as the first question on the collaboration with Roche, we expect to have the initial placement starting from Q1 of next year. The reason being that we have commercial meetings, there are projects but these are very large standards to

participate tool, so we believe that we are going to see the first effect of this starting from quarter one of 2016.

ANASTASIA KARPOVA: And expanding on the Roche collaboration when do you expect this collaboration to reach peak capacity in terms of throughputs on the systems? Yeah, I mean it maybe a far out question but....shall we expect some rapid acceleration and throughputs on the system placed in those MegaLab's or it should be a slow and gradual transition in terms of pursuable growth?

COMPANY REPRESENTATIVE: It is a good question. And I will give you a very candid answer....it's difficult to say because these are very....MegaLab's equal mega deals means long-term stability but slow....but slow to happen. So, my expectation is that probably the adoption is going to be slow but then it gives us the stability for long-term revenues because these typically are five to several years tenders, there is also CAPEX that companies need to commit to....to place in the lab and that clearly requires standard processes of 5 to 7 years.

ANASTASIA KARPOVA: Thank you for taking my question.

COMPANY REPRESENTATIVE: Welcome.

OPERATOR: The next question is from Maja Pataki of Kepler Cheuvreux.

MAJA PATAKI: Yes, good evening gentlemen, thanks for taking my question. I was wondering if you could give us maybe an update on what the pricing outlook is in the US as I understand there are discussions currently ongoing for an overall cut in diagnostic test prices over the next four years. I understand that there is also a study which considers 20 tests. And first question is could you tell me where we are exactly in the process

and second of all how much do you think you would be impacted if something like that was to come through.

COMPANY REPRESENTATIVE: Yes, I think you are referring to the PAMA and the discussion that is currently ongoing in the US, but first, my comment, I think I need to follow the path my customers and maybe the big labs, that did take a position on this and they are really part of the discussion because our suppliers are not part of that. And to my understanding today there is a proposal and there is a mechanism to assess a dateline for certain Medicare reimbursement. And the discussion really is happening on the mechanism because as you know for the PAMA....for the PAMA today the CMS is really proposing to use only as a reference the reimbursement that the big laboratory chains are getting from the insurance companies and we are at the position of the big labs, which I think is correct. Is that if you need to establish a baseline, you can not only take the companies today, he few real labs that are buying million of....that are buying million of patients from insurance companies and therefore are able to negotiate or you may say the insurance company is able to negotiate a certain reimbursement with the proper lab. And same thing that today as it all happens in the US, there is a heated discussion in terms of the mechanism.

It is certainly true that this will end up in one way or the other into a reduction, which I don't expect to be so drastic to be honest with you, on the Medicare reimbursement keep in mind that the Medicare reimbursement represents typically in our customer base 30% of the business of our customers, when it comes to the big labs and when it comes to the hospitals usually it is less than that. So, to expect an effect on pricing, honestly in.... I don't take that in consideration or let me say is that drastic effect I don't see it worse than what we see today in a sign that because of competition, we go and renegotiate contracts in the big laboratory chains in order to get the business, so the answer is so far for

the visibility here our business model that has been already...that takes into account some price reduction is not contemplating any further reduction because of this.

MAJA PATAKI: Okay. Just to recap so, yes, there is something ongoing but even if it comes through you believe there is not much change to your big business practices in the US because the prices anywhere are driven by the negotiations you have at the big lab? Is that correct?

COMPANY REPRESENTATIVE: Yeah, if you think about it what happened to Vitamin D, Vitamin D is an effect of competition and nothing to do with Medicare reimbursement. The price pretty much was decreased almost 80% through his life I mean if you take the last four or five years of negotiations and aggressive market pricing that has killed the price much more than any Medicare reimbursement, Medicare today is still by the way reimbursing Vitamin D at 42,000 (ph) tests as we speak. The vast majority of the Vitamin D business that is enjoyed by labs is as has to do with private insurance, which is paying far less than that. So, again, my concern is more with pricing, second competition, then the current reimbursement system.

MAJA PATAKI: Thank you, very much.

OPERATOR: The next question is from Peter Welford of Jefferies. Please go ahead.

PETER WELFORD: Hi yes, thanks for taking my questions. So, I think most of them have been answered, but just so I can understand the other expense lines, €5 million. So, I think I understand around 4 million of that relates to Brazil? Is that right? And so the remaining if you would like 1 million expense is underlying sort of non-Brazilian related recurring part of OPEX expense. And the secondly, just on the gross margin, obviously a very impressive

trend during the last three quarters. I guess looking both into the fourth quarter and then into 2016....I'm not saying the third quarter run rate at the third.....where we are tracking actually during the nine months. Do you see that as a sustainable level into the future? And I guess, does this get a comment on the sort of pressures and pulls and pushes you see to gross margin in the longer term? Thank you.

COMPANY REPRESENTATIVE: Let me just comment on the first one, easy, that the one million missing is that pretty much the medical device tax. For us the medical device tax, which is you know, what we paid in our US revenues, on our US revenues. We are putting in that line as other....other operating expenses. And that is a million and a click so you get to the five with the four when explained that is one more that is test. As far as the gross margin sustainability and listen I think is a little bit too early to comment on that. I think that I take what we got I see that the explanation as I told you before is geographic mix of good growth in geographies where the end user prices is good. In geographies also where the mix of products is good. On top of that the fact that as we again have stated over and over in the last years, our development plan is our pipeline is full of specialties and the good thing about the specialty is that you are going to enjoy a higher price. The best thing about the specialty is that you need to spend a bit more in the clinical studies in order to create demand and get regulatory approval. So, too early to comment, I think that there is an intrinsic growth margin sustainable improvement. But, we will comment on it when we discuss about it 2016 outlook.

PETER WELFORD: Hi, just one follow up, which is regards to R&D. I guess in a similar vein to some extent R&D as far as the percentage of sales, while it has increased on the prior years, I think it's probably not quite tracking at the level that you indicated in May in the future. I guess, given the pipeline of

products you want to bring out, I mean should we anticipate the intensity of investments in R&D to perhaps pick up in the future?

COMPANY REPRESENTATIVE: And I'm not necessarily concerned about the idea. It is not R&D per se. It has to do with the clinical studies. So, if there is a cost that could increase in our future practice as related to the clinical studies which are necessary to generate clinical evidence for all the products, very new, very innovative products that we have shown, we have explained in the three years plan presentation let me remind you Sclerostin let me remind you the ratio between 125 in PTH that dividend is going to cost, but by the same talking is going to be paid back by very hefty margins.

PETER WELFORD: That's right. Thank you.

COMPANY REPRESENTATIVE: Mr. Rosa, there are no more questions registered at this time.

CARLO ROSA: Thank you, operator. Bye-bye.