DiaSorin S.p.A

"First Half 2017 Results Conference Call"

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MODERATORS: CARLO ROSA, CHIEF EXECUTIVE OFFICER

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the DiaSorin First Half 2017 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: Yes, thank you, operator. Ladies and gentlemen, good morning or good afternoon and welcome to the quarter 2 call. I will split my speech in two parts. First, I would like to comment on the recent acquisition of certain assets from Siemens. And then I will get into the quarter 2 results.

So discussing the Siemens acquisition, I think it's a typical bolt-on acquisition for DiaSorin. If you remember, when we met with a series of investors and also a month ago when we presented the 3 years' plan and we discussed about M&A strategy, it was very clear to us that there is an opportunity...it is an opportunity for the Company to buy good products, maybe with aging technology, but these products do come with a set of customers that can be converted then to the most updated chemiluminescence technology provided by the LIAISON platform. And we did this already twice. We did it with the Parvovirus line, when we bought Biotrin and we certainly did it with Murex with hepatitis and HIV.

In this case, this asset is extremely strategic for DiaSorin because it provides access to a few hundred customers in Europe. The bulk of the revenues generated with these products are coming from Europe. Europe today is a market that is consolidating. There are less and less customers as a result of the fact that hospitals are getting synergies combining their labs operations. And in certain countries of Europe like Germany and France, private labs are taking, as already happening in the US, the lion's share of the market.

So in a market where certainly there is consolidation, accessing to new customers sometimes is complicated and in this case, through this acquisition, we would access the market. I think it's worth noting that if you look at this ELISA product that today are carried by Siemens and will be transferred to DiaSorin at closing, we do have available on our existing platform 95% of the products. So there is no need to do any product development. All products are available. And so we would be ready almost immediately to proceed with approaching these customers and provide them with a better solution than what they have today.

So in this sense, it's a bolt-on acquisition because it is...it fits like a glove, our existing business. It is strategic because it's directed toward the European market that for us does represent a little bit less than 50% of our revenues. And it is made of products which are all infectious disease products, which as you know are strategic when it comes to DiaSorin. Infectious disease products today do represent over 50% of our overall revenues.

As far as time is concerned, today we have filed with antitrust and we expect clearance by the end of August. And we expect closing to happen at the beginning of October...actually October 1. The implementation, moving forward there is going to be a transfer of customers and then Siemens will continue to supply products to DiaSorin for 3 years after closing and that would give us enough time to proceed with approaching customers and directing customers to our own products.

As Mr. Pedron will comment from a profitability point of view, we expect the profitability provided by this business to be in line with the current DiaSorin profitability. In terms of additional OPEX, we expect to add a few headcounts in Europe to support the expansion of the LIAISON installed base related to the fact that, again, this will become more an additional account for our LIAISON business.

Now, let's go back to our current business and let me comment briefly quarter 2 and then Mr. Pedron will take you through the numbers. Quarter 2, as you have seen, has been a very good quarter from a revenue perspective as well as from a profitability perspective. The Company now is, from an EBITDA point of view, is back to 39 and-a-change percent EBITDA margin, which bring us back to where we were with...when Vitamin D was the lion's share of our revenues.

Certainly the situation has much changed since then. Vitamin D represents only less than 20% of the total turnover. And therefore, the risk exposure today is much less than what it used to be and this level of profitability is related to a series of products as we have discussed many times and not just to 1 product that makes our portfolio attractive for customers. It's a portfolio that is driving growth in different geographies and guarantees very high margins to the Company.

Now if we discuss about different geographies and we start from Europe. As you all know, Europe is a market that overall is consolidating. And if we go to the EDMA statistics at the country level, we see that at best, it's flat, if not declining, as a result of price considerations and the fact that in several countries tenders...public tenders today are grouping several hospitals together and therefore the governments are trying to obtain savings increasing volumes.

So notwithstanding that, our business is growing 8%, which again is very good. And the very good news is also related with Italy because as you have seen in the last part of...in 2016 actually, there was a decline in business in Italy related to the application of certain policies by the government directed to decrease testing volume. Today, starting from Q1 as you have seen last time and now with quarter 2, Italy is back in business, it’s growing again over 3% for us and this is certainly a good news because Italy is our third largest market and it's a very profitable business for DiaSorin.

As far as the other European countries, again, Germany is growing fast as a result of a very successful acceptance; let me say, of our platforms in the main large chains that do dominate the German market. What is very interesting is that in Germany DiaSorin has always had a disproportionate amount of its business associated with large laboratory chains. And the Siemens acquisition would be very interesting because a good chunk of the Siemens business is actually directed toward the hospital market in Germany.

And so, we see specifically in that market, the opportunity through this acquisition to move from the private lab chains, which is again where we are having lots of success today, also into the hospital market which is a very sophisticated market. Usually, we are talking about very large centers with research and development activities which have been traditional Siemens accounts for the specialty products and now will become DiaSorin accounts. So overall, I would say Europe today is doing very well and strategically with this acquisition, we are providing a further opportunity to grow through the various European countries.

Let's move to the US, US, again it has been a very good quarter. US is, like-for-like, meaning excluding the molecular business, which today make the US still not comparable for quarter two, is growing single-digits which is good, because that growth is you know, is a combination of a declining franchise for vitamin D and a very strong growth. We are talking about 20%...up 20% growth of the CLIA ex vitamin D business in the US, certainly supported by the fact that we won a very large contract last year.

And now, we are...with the month of July, we are at the final implementation of the contract which is starting in full steam in quarter three. So the result of the US is very reassuring, because it's a combination of two good quarters, plus the fact that from the third quarter we expect acceleration because of the full implementation of the infectious disease contract.

As far as...now if we move to South America; South America is a solid business, is growing 12% mainly driven by the success in Brazil which is confirming to be a very good...in a very good cycle as we speak. We continue to develop business, mainly in the big private laboratory chains, as well as, some of the reputable public hospital institutions. And I am happy to report that Brazil is also becoming a very good contributor to the Company profitability. So the mix is right…the customer mix is right, and certainly positioning of the Company as a specialty Company allows in that difficult market, the Company to build a solid...to own a solid spot in this market.

Last but not least is Asia Pacific; Asia Pacific, good growth, 20% in China which is the main driver in that area. The 20%...in the 20% we see that in quarter one and quarter two, compared to last year, we had softening of some of the volume related to some of the products we sell in the prenatal market. And this is because newborns in 2016 were a record year, 17.8 million newborns in China in '16.

The forecast for 2017 is that…it's going to be an average year. So usually an average year means for China around 16 million newborns which certainly leaves some gaps vis-à-vis volume for some of the prenatal testing, but notwithstanding that the Company is growing 20%. So China continues to be an opportunity for the Company. A very solid installed base going to China, we are continuing to install roughly 20 systems per month and we expect to finish-up the year with over 240 systems...new systems installed in the Country, mainly in Class 3, Class 2 hospitals.

As far as...if you look at the product lines, I just would like to comment on vitamin D, and provide the usual guidance for vitamin D. Vitamin D in Q1 and Q2 has been good for us, as you have seen, we are up 1.6% overall versus last year, whereas our typical recommendation about vitamin D is that is a declining franchise as a combination of price pressure happening in the major markets. And so, I would like to avoid that analysts take a bullish view, as far as, vitamin D is concerned. If I don't get [indiscernible] when vitamin D a quarter is down 5%, I'm not getting overexcited if it is up 1.6%.

So we continue to read the market; the vitamin D market, as usual, is a market that is heavily depending on volumes in certain countries. It can be up one quarter, it can be down another quarter, but overall, as outlined in our plan, we expect this franchise to decline over time.

Last but not least, a couple of comments on product development. In the first six months, we launched four new products when it comes to CLIA, and we launched the first three products when it comes to molecular. So we are taking the...we were able to get to DiaSorin Molecular and have an impact on the ability of this Company to develop products, and develop products on time. As you know, this is key, as far as, allowing the Company to enrich [ph] menu and become more competitive for a long-term future growth, and we believe we are on the right path vis-à-vis with that.

I would now give the podium to Mr. Pedron, who will take you through the financials and then we will move to Q&A. Thank you.

PIERGIORGIO PEDRON: Thank you, Carlo. Good afternoon, everybody. In the next few minutes, I am going to walk you through the financial performance of DiaSorin, during the first half of 2017. I will also make some remarks on the contribution of the second quarter.

Before, we start, again, let me please remind you that we've begun reporting the Focus business since May 2016. And so, the perimeter of consolidation in H1 '17 is different from the one of '16. The Focus business contribution would be normalized starting from the next quarter…quarter-on-quarter, I mean. Said that, as usual, I would like to start with what I believe are the main highlights of the period.

We grew half one revenues in line with our full-year guidance and with a material increase over 2016. This has been influenced by the just mentioned different perimeter of consolidation and by the strong performance of the like-for-like business.

Indeed half one revenue grew [ph] with constant exchange rate and scope of consolidation it did touch [ph] above 7%, and this increase has been fueled by a very strong quarter two. We closed half one EBITDA better than our full-year guidance, with a strong growth over the previous year, about 22% or €23 million at constant exchange rate with an EBITDA margin at 39.5%, better by 110 basis points compared to last year.

This increase is the result of the different scope of consolidation, some positive phasing on operating expenses, lower nonrecurring expenses and most important, our capability to confirm a strong profitability of the like-for-like business.

Lastly, DiaSorin keeps confirming its ability to generate a strong free cash flow, €61 million in the period with a growth of about 13% compared to 2016, which allowed us to close the half year with a positive net financial position of about €90 million after having paid in May dividends to our shareholders for about €44 million.

Let's now go through the main items of the P&L. As we said, half year 2017 revenues at €319.3 million grew by almost 20% compared to last year and by 18.3% at constant exchange rate. During the first six months of the year, we had a positive FX tailwind of €4.3 million, mainly driven by the appreciation of US dollar and Brazilian real, against the Euro, just partially offset by the depreciation of the Chinese renminbi and the British pound.

Gross profit at €219 million grew by almost 20% or €36 million compared to last year. Growth in the first six months of 2017 with ratio over revenues at 68.7%, which is basically in line with 2016, the difference being negative for 20 basis points and in line with what we have seen in the past few quarters.

This is the result on one side of higher sales of specialty products; some positive effects of manufacturing efficiencies and lower depreciation rate of revenues, which almost completely offset on the other side the price pressure on CLIA [indiscernible] products and the slightly dilutive effects of the Focus business.

Total operating expenses at €114.6 million or 35.9% of revenues have increased by 19% compared to last year, whereas the growth at constant exchange rate was just a touch above 17%.

Let me please remind you that, as we saw in the previous quarters and we will see for the next few ones, about €3.2 million of the reported quarterly OPEX is driven by the depreciation of the intangible assets mainly know-how and customer list coming from the Focus business acquisition. Net of this depreciation half 1 reported OPEX would have grown by about 14% and the ratio on revenues would have been 33.9% against 35.6% of half 1 2016. This improvement is the result mainly of operating leverage and some phasing in expenses which lead [ph] to the following quarters.

Half 1 other operating expenses at €3.4 million are lower than 2016 by €1.4 million. Please let me remind you that 2016 was affected by some material nonrecurring expenses, mostly driven by the costs associated to the Focus business acquisition, which explained most of this difference. Besides, please note the H1 '17 is already accounting for some of the one-off costs related to the acquisition of the Siemens ELISA business that Carlo just talked about.

As a result of what's just described, half 1 EBIT at €101.2 million, or 31.7% of revenues, has increased compared to 2016 by 23% or almost €19 million. The tax rate at 32.3% is 70 basis points better than 2016. This variance is in line with our expectations and as already said, is mainly driven by the reduction of the Italian corporate income tax rate from 27.5% to 24%, which took place starting from 2017.

The net result at €66.4 million or 20.8% of revenues is higher than the previous year by €12.4 million or almost 23%. Lastly, half 1 EBITDA at €126.2 million is better than last year by almost €24 million or 23.4%. The variance at constant exchange rate is 22.3%, which is better than our full-year guidance. EBITDA ratio of revenues of 39.5% is 110 basis points better than last year.

This increase has been driven mainly by the following 3 factors: our ability to basically preserve our manufacturing margin offsetting some price pressures suffered on CLIA [indiscernible] products and a slightly lower profitability of the Focus business, with more sales of high-value specialty products on one side and higher manufacturing efficiencies driven by increasing volumes, operational excellence initiatives, and tight cost control, as discussed during the recent Investor Day, our constant effort aimed at delivering operational leverage through a careful cost control, plus as I said, some favorable phasing of operating expenses; and lastly, some positive effect coming from the other operating expenses line, as we said, mainly the nonrecurring expenses for the reasons that we just described.

Let me now move to the net financial position and the free cash flow. DiaSorin closed the period with a positive net financial position of €89.2 million and €129 million in cash. This is the result of what we discussed so far and it's confirming the ability of the Group to generate a predictable and strong cash flow. During half 1, the Group has generated €61 million compared to almost €54 million of 2016, with an increase of about €7 million or 13%. I believe it is worth mentioning though that during quarter 2, DiaSorin paid about €11 million of more taxes than in last year, mainly driven by the tax payment phasing mechanism in place in Italy.

Lastly, in view of the Group operating performance the management has decided to raise the guidance for 2017 EBITDA growth at constant exchange rate to about 13%. The previous guidance was a growth of about 11%. The guidance for 2017 revenues which is calling for a growth of 11% at constant exchange rate is confirmed. Please let me remind you that these updated guidance does not take into account the impact of the Siemens ELISA deal, the closing of which should take place as we said at the beginning of October. We will review our 2019 guidance to incorporate the Siemens ELISA business acquisition after the closing of this deal.

Now let me please turn the line to the operator to open the Q&A session. Thank you.

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 Maja Pataki of Kepler. Please go ahead.

MAJA PATAKI: Yes, hi, good afternoon. I have a couple of questions to ask. I'll stick to 3 and go back into the line. Apologies if I've missed that, but could you tell us what the organic growth was for the quarter and for H1 for the Group? And second of all, if we look at the molecular business, there was a pronounced slowdown compared to Q1 which is probably most likely related to the flu season. Can you help us out a bit, how we should think about the remaining 2 quarters of the Focus business. Should we see Q3 being more or less in line with Q2 and in Q4, see a pick-up again, as maybe the flu season starts again? And then the third question would be about the Siemens acquisition. Carlo, how should we think about the next 3 years? Over the next 3 years, you're actually distributing the ELISA test from Siemens to their customers. And can you actually already during this time try to convert some of the customers or is it really like a blocking period of 3 years and then after that customers will be ready to use your already existing portfolio? Thanks.

CARLO ROSA: Yes, Maja, I would take the last question and then Piergiorgio will address the first two. The way you should think about it is very simple. Starting from day one, we do have access to hundreds of accounts in Europe. We need to sort out certainly the size of these accounts, and then we have three years where we can go approach this account and push conversion of technology from our own technology to the...from the existing LIAISON...ELISA technology to the LIAISON product. So there is no blocking period. It's a matter of time at the beginning for us to be introduced to the accounts. The accounts will buy the products from us. And so, they will become effectively DiaSorin customers from day one.

And then again, there is a clock ticking and during that period of time, we are going to approach and move them to our technology. And I see honestly from this these benefits. First one is the fact that as I said before, Europe is becoming a very tough market and you can see it from the competitor numbers. DiaSorin is an exception because of the kind of products that we make. But certainly, there is a shrinking number of customers in Europe, physically shrinking, and therefore, it’s more and more complicated to access a new customer base, and therefore, this acquisition, the real...what is strategic about this is the fact that we get lots of new customers.

And so, we get access to a new customer base. Some of this customer base can be converted one-to-one because we have all the products. And from a financial point of view, they will be able with existing turnover to support on XL. Some of it will require cross-selling meaning that the customer in order to have access to the LIAISON, they will have to add on more products. So there's going to be other possibility, not only to cannibalize but to expand. Last but not least, as you remember for the smaller accounts, we were actually...we are in process of developing the LIAISON XS.

If you remember in the previous calls, we've always stated that LIAISON XL was never going to be really a platform intended for the European market. It was designed for the physician office labs and smaller hospital labs in the US and/or to the emerging smaller clinics and hospitals in China. Well, this acquisition is changing this a little bit because it's adding Europe to the map, because some of the accounts that we will inherit through this acquisition are too small for an XL, but they fit the XS. And therefore again, it is strategic also in a different setting where it provides now an opportunity to the LIAISON XS also in Europe.

PIERGIORGIO PEDRON: Hi, Maja. So your first question regarding the like-for-like growth. So what I said is that in half one, it was a touch above 7% like-for-like, helped by very strong and healthy Q2 at more than 7.5% like-for-like. I believe this is at constant exchange rate. I am quoting to your numbers at constant exchange rate.

Your second question, I believe it was regarding molecular sales. I believe it's not possible still to make a comparison on molecular sales, because the Focus' business was acquired in May last year, but what I can tell is that molecular products are growing double-digits overall year-over-year, which is in line with our expectations.

MAJA PATAKI: Thank you very much for that. Just a quick follow-up on molecular, I understand that you know, Focus was just acquired last year, but then again the previous DiaSorin molecular business was small. So it shouldn't really make a difference. So I am just trying to understand, if there...if the slowdown is related to the flu season, so we should see the seasonal patterns throughout the year or whether there was something else in there?

PIERGIORGIO PEDRON: I still don't understand how you can say it's slowing down.

MAJA PATAKI: On Q1...no, just on Q1, if we compare Q1 revenue...

PIERGIORGIO PEDRON: Quarter-to-quarter, yes.

MAJA PATAKI: Yes, quarter-on-quarter, I am sorry, yes, not slowing down on last year, just quarter-on-quarter.

PIERGIORGIO PEDRON: Quarter-on-quarter, it is certainly flu. I mean, a good chunk of that business that we brought is flu related. And so, you expect Q1, Q4 to be higher and Q2 and Q3 to be softer, yes.

MAJA PATAKI: Okay, brilliant. Thanks, that's what I was trying to understand. Thank you.

PIERGIORGIO PEDRON: Thank you.

OPERATOR: The next question is from Scott Bardo of Berenberg. Please go ahead.

SCOTT BARDO: Yes, thanks very much for taking my questions. So first question or a series of questions, relate to clarifying the Siemens ELISA acquisition. And apologies for relatively simplistic questions, but I am sure you will be able to bridge my understanding. Firstly, the question is, how were you able to buy this business 2.5 times EBITDA, it seems very cash generative and relatively stable business. So I mean, is there something structurally wrong with this business, is it also deteriorating rapidly? Second part, and following on from that, Siemens to my understanding already [indiscernible] CLIA based technology with ADVIA Centaur. So why is it they didn't convert their existing customers instead selling it to you cheaply? And last and related question, just to understand actually the structure of their customer relationships. Why is it you need to acquire this business to convert these customers to your platform, why can't you just do so in free market today, without having this business within your current mix? So perhaps, if you could just talk a little bit about that and complete my understanding, I would appreciate and I have a follow-on?

CARLO ROSA: Okay, I will take this, Scott. First one, why a small price? I don't think you should ask us, you should ask Siemens. But let me just give you a hint, we have a history of acquisitions where…when you...and I think that Murex one was also paid in line with these numbers, where…when you go to a very large conglomerate and you a piece of it which is a non-strategic...usually you know, the conglomerate…the large Company is valuing this in terms of decrease in the entropy of the system, and providing them which is more a strategic focus, you know, all these intangible benefits that are...that comes through this dismissal and for that reason the tangible value that they attach to this asset usually is smaller.

And again, it's not only Siemens with this asset, it's Abbott with ELISA. And in a way also the acquisition of Focus has been, if you compare to market prices and multiple has been a very good acquisition. So this is part of you know, when we talk about it…about our M&A strategy and we keep saying, guys, you know, we don't go after the traditional...the traditional assets, because it's too simple. When you go after a traditional asset then you have Thermo Fisher and Danaher competing with you, and then you are left at square one. These are the kind of very good acquisitions that you can make to create value for your shareholders. Now, for non-strategic asset that can be strategic for you.

Now the second question is, why you guys...why Siemens didn't convert? It's very simple because they don't have that menu. So Siemens went through conversion of part of this business with the exception of those products which are specialty products, that they don't have on their center platform but they had on the ELISA. Don't forget that this ELISA line was...is actually a glorious line, it was the Baring [ph] line and it was...this was us DiaSorin and Baring and [indiscernible] were the first companies that launched this kind of products in the world 30 years ago.

Some of it has been cannibalized, but then what's remaining is...are the specialties that we do have on the platform and Siemens, Roche, both don't have. And at that point the only...if you look at Siemens they only had two opportunities. One was to, if it is non-strategic you shut it down, but then you leave a good customer base with a problem. The other one is, you know, get a value from these assets, but also get a value for your customers, because I...we have not seen the customer base, but I expect that these are Siemens customers. So they are not only people buying ELISA, they are people that most likely have lots of products bought from Siemens.

And so, Siemens being a big...a good supplier for the customer base, had to find a solution that allows these customers to someone that could continue to supply. And actually that was a long part of the discussion with Siemens, the fact that they wanted to make sure that we would continue to provide service and support to their loyal customer base. Okay, so this is why they didn't convert.

Why is it difficult? Why do you need to buy this and why you cannot go after this asset? Yes, but this is a Siemens customer base. This is, again, we expect that to go in these labs, their labs in Germany, in Austria, in Eastern Europe where there is Siemens pretty much; there is a Siemens acceptance over a full product line. So these were good products in ELISA for these accounts. We were winning some of these accounts, but certainly it would take more time to simply getting the list and go visit, and you are a supplier at this point of theirs with ELISA. You are there with the Siemens blessing, because you bought this business from Siemens and you promised pretty much in the contract that you will continue to supply and service these accounts. So it's different than just trying to sort out through statistics, where the businesses go after it.

SCOTT BARDO: Okay, very good. Thank you for clarifying. So just to think about then the...how we think about the phasing of this sort of transition. Did the revenues for this business decline over the next few years, and so, you effect the conversion or do you see it sort of stable at this €47 million level and growing and perhaps just a few comments there? And also, are you done actually with respect to your ELISA asset acquisitions in Europe to support this LIAISON XS endeavor? Thank you.

CARLO ROSA: Okay, first question, ELISA is traditionally a declining business, but you should really split...I think, when it comes to this business you see that the European core business that they have is relatively stable because again, in specialties, and there are a few blood banks in Germany that are using some of the ELISA products, so that portion of the business is relatively stable. There is a portion of the business...this business that is more related to very large tenders in the so-called export market, typically Middle East and some other countries. And that kind of business is less, let me say, stable because you can get the tender for 3 years, you can lose the tender for 3 years. So overall, we see that this business as standalone, probably it’s a historical decline of 3% to 5%, but again, as a combination of stability in Europe and then up and down vis-à-vis the international markets.

SCOTT BARDO: Thank you.

OPERATOR: For any further questions, please press “*” and “1” on your telephone. The next question is from Luigi De Bellis of Equita SIM. Please go ahead.

LUIGI DE BELLIS: Yes, good afternoon, two quick questions from me. The first one, could you quantify the phasing of OPEX expected in the second half? And secondly, this deal on Siemens acquisition, I know it's too early, but could you give us a rough indication of conversion rate expected from ELISA to CLIA in the next 3 years' period and the churn rate expected? Thank you.

CARLO ROSA: Look, I will take the second one. I think you will need to wait because we are going...after closing, we are going to revisit the 3 years' plan and we're going to give an indication of what we expect this business to add to the plan just presented a month ago. So I cannot today comment on conversion.

PIERGIORGIO PEDRON: Yes, hi, Luigi, the question on OPEX, I cannot give you the exact number, but historically what happens is that H2 usually is higher in terms of OPEX compared to H1, and on top of that, we also had some, let me say, projects which were expected to happen in H1, which will actually happen in H2. So that's why we're seeing in my remarks that we're going to see, you know, we had a positive impact in H1 coming from raising of OPEX. So that's it, I cannot give you our budget number.

CARLO ROSA: If I may make a qualitative comment on the OPEX, I see [indiscernible] that explains why we expect an increase, I think due to mainly for 2 reasons. If you remember, we have discussed about initiatives intended to increase efficiency. When it comes to manufacturing these initiatives are that...we were expected to incur some of the costs in Q1, Q2. Some of this cost has moved to Q3, Q4, that's one example.

The second one has to do with DiaSorin Molecular because we, as you know, have changed all management in DiaSorin Molecular, replaced it. We are getting to full staff now. Actually we hired a General Manager and we hired some senior people, and therefore, the running rate of cost vis-à-vis in molecular that you've seen in Q1 and Q2 is a little light compared to what you will see in Q3 and Q4. This is why I think Piergiorgio was hinting that historically our cost base in the second and third...in third and fourth quarters is higher than the first 2.

LUIGI DE BELLIS: Thank you very much, very clear.

OPERATOR: The next question is a follow-up from Scott Bardo of Berenberg. Please go ahead.

SCOTT BARDO: Thanks very much for taking my follow-up. Yes, so I am on to the fact we didn't get, if you like, the second part of your second question, which was well, there's an expression that good things coming through as you have done two acquisitions more recently, but this latest one not really materially denting your capital position. So are there more acquisitions to come do you foresee or do you have enough on your plate now to focus on internally? So that's a question for Carlo, please. And the second question for Mr. Pedron. I think at the beginning of the year, if I recall correctly, you were somewhat cautious about gross margin pressure or deterioration year-on-year and suggesting you would compensate that with operational leverage. We've seen relatively stable gross margin. So could you give us an update on where you foresee the gross margin on a full-year basis and whether this is the principal driver of your improved guidance? Thank you.

PIERGIORGIO PEDRON: Yes, I would start with the gross margin one, Scott. We don't give guidance on gross margin, we give guidance on EBITDA, and it's not very easy to forecast the gross margin ratio when you have so many moving parts. Here we are talking about a difference of €1 million, €2 million over revenues of €319 million. Said that, the overall trend which I see is that again, I believe the gross margin would be flattish at best, we lost 20 basis points, which is not much, but still we lost 20 basis point compared to H1. As a result as said, of several plus and minus, amongst the plus we have the fact that we have been able to do well on the manufacturing margin because of the fact that we are selling a lot of high specialty products which deliver to us better margins.

As you've heard, we sold more Vitamin D in the first two quarters than what we expected, which is kind of helping the margin. And we start seeing [indiscernible] positive effect of the operational excellence initiatives we discussed about during Investor Day. And also there, it's a new projects, it's not very easy to be really accurate on gross margin. So I believe you should allow us a little bit of flexibility there.

I believe the main message we intend to deliver is that at EBITDA level we are in a very good position to maintain the 39%...38.5%, 39% profitability that we basically gave. I believe the other question was on the --?

CARLO ROSA: Acquisitions. Look, as said, we do not participate to traditional acquisitions, let me call it the road shows, because we know that if we go for these kind of assets, competition is fierce and we are not prepared as we speak paying for certain multiples that today market for certain very hot assets is demanding. And also as I keep saying, we are not forced into an acquisition spree, because we have...within it, we have the technologies, we have ideas, and we have products with people. And so our acquisition strategy has always been, let me call it predatory, if I may, meaning that it may be that for a couple of years you don't see much as it happened. Then it may be that through our channels and alliances, we sourced assets.

Now we come to, I mean Focus last year, this asset in 2017. I cannot honestly foresee whether we are going to find one tomorrow or two years from now. You know, what we are interested to buy and you know that there is a very serious commitment by our main shareholder to allow the Company to pursue its strategic interest when it comes to strategic assets. So it's a wait-and-see, it's very complicated to say when it is going to happen again, Scott.

SCOTT BARDO: Thank you for your answer. Perhaps this very one quick follow-up, I may be asking in a slightly different way, does this Siemens acquisition you made provide enough infrastructure or addressable opportunity for a self-supporting, self-sustaining LIAISON XS model in Europe, or do you need to add additional relationships to make that a standalone model in Europe? Thank you.

CARLO ROSA: No, standalone will never be standalone because as said, if you compare Europe to the potential for this platform in other geographies, it's still small, but the difference fundamentally is that it used to be...we were not considering Europe at all in our strategy whereas today it's back on the map, meaning that this is why I did comment before, Europe strategically for DiaSorin is very well positioned because short-term you see that we are enjoying growth mid-term which means for the next 3 years, we now have a business.

This acquisition is fundamentally to support our European business where we get lots of new customers, a good customer base and now also allows us to put a play the LIAISON XS. Not to mention the fact that when it comes to Europe, as you know, we also have the full opportunity for Molecular, because Quest was not playing at all in the European arena. This why I'm saying, Europe strategically is very well set as far as what it needs to continue to contribute in a positive way to the growth of our business.

SCOTT BARDO: Thanks very much, indeed.

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

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