Diasorin S.p.A.

"Third Quarter 2024 Results Conference Call"

Tuesday, November 05, 2024, 18:00 CET

MODERATORS: CARLO ROSA, CHIEF EXECUTIVE OFFICER

PIERGIORGIO PEDRON, CHIEF FINANCIAL OFFICER

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome, and thank you for joining the DiaSorin Third Quarter 2024 Results Conference Call. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions. Should anyone need assistance during the conference call, they may signal an operator by pressing "*" and "0" on their telephone.

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. Good morning, good afternoon, and welcome to the Quarter 3 Diasorin conference call. I'm going to give the usual qualitative comments, and then, Mr. Pedron, our CFO, is going to take you through the numbers.

First, it was a very strong quarter for Diasorin. Excluding COVID, growth was double-digit, 10%. We haven't seen quarters of double-digit growth this way since COVID. And this is…this means that the strategy is sound, launch of products is working fine, and all our 3 legs are performing as expected.

So, I would start from immuno, the immunodiagnostics. We had a very good quarter, 11% growth year-on-year. And I would like to point out that growth was very strong in the 2 main geographies, US and Europe. In the US, we continue to deliver on the hospital strategy that I would like to remind everybody, the commitment of the company was to achieve 600 hospitals by 2027, and we were supposed to deliver 100 new hospitals every year, including 2025. And I confirm that by year-end, we're going to get to 100 new accounts by 2025. And the strategy, again, continues to work and is based on all the new products that we offer to these hospital systems, including MeMed, and I will have some specific comments on MeMed later.

So, North America closed the quarter for immuno with a growth of 18%, which is stronger than some of the previous quarter, but in line with the company expectation. Europe has been growing 10% in the quarter, again, strong. This is due to the fact that we continue to see volume growth in all the different geographies in Europe, specifically with infectious disease, where there has been a couple of outbreaks in Europe of Parvovirus, where we are the dominating company with this product, and for some of the Bordetella pertussis, which, again, we have a very good installed base in this clinical segment. So Europe has been delivering as well.

From an ex-Europe and US point of view, we continue to see strong growth in what we call the primary market. And so, Australia is growing 15%. India is growing double-digit. Brazil and Mexico are also delivering high--single-digit, low-double-digit growth as expected by the plan. So I would like to say that in all these primary ex-US, ex-Europe geographies, the strategy is working fine.

China, we continue to see headwinds as we have seen in all the previous quarters, and we don't see, honestly, any reason why China should improve moving forward. VBP for Diasorin has not been…is not part of our numbers yet. It's not hit the company yet. We will see it starting from Quarter 4. But we continue to see a competitive situation where local companies are favored by hospital systems when it comes to the immunodiagnostic products. So China continued to decline single-digit, and we have no good news moving forward. So we expect that this will continue in 2025 as well.

Now, if we go to molecular, okay, I think that molecular delivered as expected in the quarter, plus 6%. Everybody, I believe, is waiting for comments on PLEX. The PLEX launch is doing very well for the company.

We have short of 100 customers in the final phase of the sales cycle. We already have certain number of customers of these 100 that are already buying from Diasorin. I will not give any more quantitative data because of the competitive situation we are in. And just as a reference, these 100 customers do represent an opportunity to place 500 systems, okay? So just as a reference in terms of number of instruments that we plan to place.

If I look at fixed versus Flex, so customers buying full panel versus adopting the Flex model is 50:50. So 50% are competitive's at fixed. 50% are moving to the Flex algorithm. 50% are new customers. 50% are existing accounts, VERIGENE accounts. Again, let me remind you that it doesn't mean that the VERIGENE account…in this VERIGENE account, we would be cannibalizing the respiratory panel, which is the one we are selling today. It means that they were very thin and they may be using VERIGENE for blood or GI, and then we would get back the respiratory panel from these accounts. And 70% of these 100 customers are hospitals and 30% are commercial labs.

And one more point of reference. If we look at the hospital market and we look at inpatient versus outpatient, 70% are inpatients and 30% will be outpatient, okay? So the program, I think, is working fine. Capacity in manufacturing, as we did comment a few times before, has been addressed. So there is no problem of capacity. So we continue and we're very positive about the program.

I just would like to make a comment about Flexing. It's very interesting to see that some of the competitors just a few months ago stated that Flex would not make a difference in this market. And now, we are seeing some of the same competitors trying to offer a solution which is similar to Flex. So the truth of the matter is that Flexing, the way that Luminex Diasorin has presented it to the market, which is the console digital sample, which allows

full flexibility from the customer and is not, let me call it, a patched-up solution that some of the competitors are putting together where you can run your flexibility in the markets you need to run, but then you need to re-flex and retest, which you don't need to do with Diasorin. So, that Diasorin solution and the Flex solution, I believe, is very well accepted by the market. And the reason is very simple. From a financial point of view, it allows customers to save from 30% to 40% of current cost in implementing multiplexing. So, very, very attractive.

When we look at the LIAISON NES, as I reported, we completed the preclinical study in Australia for ABCR. And now, we are conducting the clinical study in the US We started October 01, and we foresee to complete the season as requested by the FDA and then submit the product before the summer, having the product approved, hopefully, by the next flu season next year.

So, from a molecular diagnostic perspective, one more comment. The MDX product line, which is what we call the targeted product line, where we have no more than 4 different targets that we offer on the platform, is the legacy business of Diasorin, has been growing in the quarter more than 20%. And this has to do with the fact that we launched some of the…some very interesting product in the US. One has to do with congenital CMV. And very recently, we got the approval of the Candida auris. We are the only company that has the approval for this product in the US. And so, we believe that this strategy with the targeted…where we offer targeted small panels in the specialty area will continue to deliver very nice growth for the company.

Now, let's go to LTG. Every time we do comment LTG, we need to be aware of the fact that it's a B2B business. So you may have quarter-to-quarter variances related to the fact that, again, we don't sell to final

customers or let me say that we…a small portion of the business is direct to final users is more B2B. So depending on the way that our partners are scheduling, the purchasing of the components, then we may see variations in the quarter. Long story short, the quarter was a good quarter for LTG, plus 8%. And we foresee that by year-end, LTG will be on the…will be positive. And so, we will grow notwithstanding all the headwinds that companies, our partners have in life science. But at the end of the story, we see that increasing consumables and increasing royalties more than compensate the shortage that today the business sees in instrument placements. And as I said before, this is a very favorable mix for the company because on the instrument side, clearly, our margins are less than consumables and royalties.

Last but not least, when it comes to new products introduction, we filed one of the blood panels for PLEX in October. Within the next week or so, we're going to be filing the last blood panel, and we are doing the clinical studies for GI, which are proceeding fine. And so, we are on track to deliver to the US market the full panel as per plan by next year.

On the LIAISON immuno side, as said, we completed the second clinical study as requested by the FDA for the LymeDetect, and we submitted the data. We have not heard back…no feedback from the FDA so far. So typically, in this case, that would be good news. And we expect that Lyme will be approved in the US for the next season.

Okay, now…I'm going to now leave the podium to the CFO, Mr. Pedron, who is going to take you through the numbers, and then we're going to take questions. Thank you.

PIERGIORGIO PEDRON: Thank you, Carlo. Good morning and good afternoon, everybody. Thank you for joining Diasorin Q3 '24 earnings call and for the interest you are

showing in our company. In the next few minutes, I'm going to walk you through the financial performance of Diasorin during the first 9 months of the year, and I will then turn the line to the operator for the usual Q&A session.

Year-to-date total revenues at €876 million are above last year by 4% or €30 million despite the expected decrease in COVID sales, down by €26 million, and a different perimeter of consolidation coming from the carve-out of the Flow Cytometry business in Q1 2023. The business ex-COVID is growing in the first 9 months of the year at constant exchange rate by 7%, which becomes 8% organic, which means if we exclude the Flow Cytometry business, therefore, in line with the higher range of the full year guidance.

COVID sales accounted for €20 million vis-à-vis €46 million in 2023, therefore, broadly in line with our 2024 outlook, which is calling for €30 million, considering that we are expecting the peak of the season in the last quarter of the year. The year-to-date FX impact is not material at all, like it was in H1.

Q3 organic revenues ex-COVID at constant exchange rate grew vis-à-vis 2023 by 10% or €25 million, thus recording an acceleration towards the first 2 quarters of the year, which closed with an increase of 5% and 7%. This variance has been driven by a solid performance of both the immuno and molecular franchises, up by 11% and 6%, and by an acceleration in the LTG business, up by 8%, mainly driven to an easy comp towards 2023, the business-to-business story Carlo just reminded us, and the positive phasing of a couple of bulk orders of consumables.

Despite Q3 nice LTG performance, we continue to see a generalized softness of the life science market, particularly in instrument sales, which

year-to-date are down by about 15% compared to last year. And therefore, we are expecting the overall LTG business to be flattish full year 2024 vis-à-vis 2023.

Year-to-date adjusted gross profit at €578 million or 66% of revenues is better than last year by €25 million or 5% with a ratio of revenues of 66%, slightly better than 2024, which closed at 65%. All the initiatives aimed at improving operational processes and containing costs allowed us to preserve margins despite the inflationary pressure we experienced, as we all know, in the past 18 months, which is now muted, and the manufacturing cost we are incurring into to set up our new plant in Shanghai, which has not started production yet. I believe this to be a remarkable indicator of the success of the efforts we put in place to safeguard our profitability and to actually increase it.

September year-to-date adjusted operating expenses at €343 million are basically in line with 2023, with a ratio of revenues of 39% vis-à-vis 40% of the last year, confirming the trend we saw and we discussed in H1 results. The fact that operating expenses have not increased despite the investment to support the MeMed acceleration program in the US and the physiological yearly labor cost rise is a clear demonstration of our discipline in managing the cost base and the result of the synergies delivered after the Luminex acquisition and marks a clear path to increasing profitability, once again, in line with the plan we presented during the last Capital Market Day.

Adjusted operating income and expenses negative for €9 million are higher than last year by €8 million. This variance is mainly driven by a tough comparison with 2023, which recorded an income of €3 million and was affected by some non-ordinary one-off elements and by many other moving parts, amongst which I would like to mention a new tax introduced in 2024 by the Italian government on medical device companies equal to 0.75% of

sales made to the institutions covered under the Italian National Health System.

As a result of what I just described, year-to-date adjusted EBIT at €225 million or 26% of revenues is higher than last year by €16 million or 8%, whereas the increase in Q3 is 11%.

Year-to-date, adjusted interest income at €3 million is basically in line with last year, and the same is true for the adjusted tax rate, which closed the first 9 months of the year at 23%. Q3 '24 tax rate is slightly lower than the corresponding quarter of 2023, and I am expecting a further reduction in Q4, similarly to what happened last year, as a result of the true-up of the impact of the R&D tax credit in the US and the Patent Box in Italy.

Year-to-date adjusted net result at €176 million or 20% of revenues is better than last year by €12 million or 8%, whereas the increase accelerates to 12% in Q3.

Lastly, the adjusted EBITDA in the first 9 months of the year at €292 million or 33% of revenues is better than '23 by €15 million or 5%, whereas the increase in the third quarter once again accelerated to 7%.

Let me now move to the net financial position. We closed September '24 with a net debt of €686 million, therefore, recording an improvement of €91 million compared to the end of 2023, mainly as a result of the very sound free cash flow achieved in the first 3 quarters of the year.

Before discussing 2024 guidance and opening the Q&A session, let me give you a brief update on the so-called Italian payback. The short story is that there are no news compared to H1 '24 earnings call and considering the provision we have built over the years in our balance sheet, we are not

expecting any material impact to our financials under the current scenario. We keep on monitoring the situation with our legal advisers, and we will provide you with an update as things progress.

Let me now finish with my remarks, moving to 2024 outlook. Considering Q3 very strong results and what we expect from Q4, we decided to further revise the revenue guidance upward. To be more specific, we expect, at previous year exchange rate, revenues ex-COVID to grow at about 7% with COVID sales at about €30 million and adjusted EBITDA margin at around 33%.

With that said, let me please turn the line to the operator to open the usual Q&A session. Thank you.

Q&A

OPERATOR: Thank you. This is the Chorus Call conference operator. We will now begin the question and answer session. Anyone who wishes to ask a question, may press "*" and "1" on their touchtone telephone. To remove yourself from the question queue, please press "*" and "2." We kindly ask you to pick up your phone, while asking questions. Anyone who has a question, may press "*" and "1" at this time.

The first question is from Aisyah Noor, Morgan Stanley. Please go ahead.

AISYAH NOOR: Hi, good afternoon. Thanks for taking my question. My first one is on the comments you made on LIAISON PLEX, Carlo, that's super helpful, but could you repeat the comments you made? Was it 100 potential systems you could place or 500 potential systems? I think we misheard that.

CARLO ROSA: Aisyah it's 100 hospitals in the funnel with 500 placements.

AISYAH NOOR: Okay. And maybe if I could, I'm not asking for any more numbers, but what did you…when you said 50%, was that 50% of the 100 new hospitals that you were placing in? You said 50% new customers, 50% existing VERIGENE accounts. Was that of the 100 hospitals?

CARLO ROSA: Yes.

AISYAH NOOR: Okay. Alright. And then could you also confirm if these are new users of PLEX testing, i.e., new adopters of multiplex, or is it from existing users? So did you…or do you anticipate winning market share here?

CARLO ROSA: Sorry, I don't understand the question. These are not, okay, these are, to be clear, the multiplexing market is a very mature market. So you don't have people that were not doing multiplexing that all of a sudden are going to, drop culture and do multiplexing with us. I mean, bioMérieux [ph] has been doing a phenomenal job in converting these accounts.

So these are accounts that are doing multiplexing in some form, and some of them are doing...I'm talking about the existing accounts now, I think you're referring to they are doing multiplexing either with the VERIGENE for respiratory or the VERIGENE where they drop us on respiratory because of volume and a lack of full automation and so forth. And then coming back to Diasorin how to do, also respiratory with us.

AISYAH NOOR: Okay. Understood. Thank you. My second question is on the updated guidance of 7% ex-COVID sales growth. So, in the first 9 months 2024, your ex-COVID sales growth was about 8%. So, your updated guidance is 7%, which implies you see a slowdown to about 3% to 4% growth in 4Q. So, is this just embedding some conservatism on the flu season, or do you

see some room for downside on any areas like China or tougher comps in immuno, et cetera?

PIERGIORGIO PEDRON: Hey Aisyah, hi, this is PG. I'm going to take this one. First of all, I believe we need to make, to clear a potential confusion because when we gave the guidance, we gave the guidance including the Flow Cytometry business, which we divested in February of last year. And if you look at the growth without...and then we also commented the organic growth, which is taking that part of the business out, right? So, what I believe we are trying to say is that September, including this Flow Cytometry business, which is how we get the guidance, 7%, right? And what we are saying is that we confirm that part of the guidance. The 8% you are mentioning is without. I'm sorry for the confusion, but this is you know we saw the part of the business is without the Flow Cytometry.

So long story short, this means that we are not seeing overall the acceleration in Q4 compared to what we saw in the first 3 months of the year overall, all in. Then said that, if we dissect Q4, what we believe is going to happen, we're going to see a deceleration of the LTG business, which is my comment about the fact that in spite of having a very nice Q3 plus 8%, we believe full year the LTG business is going to be flattish. So that is going to work against us in Q4. We are expecting the immuno business in Q4 to do you know as good as it did for us in the first 3 quarters of the year.

Once again, some moving parts about instrument sales to export back you know to the peanuts or small numbers if you wish. And then our assumptions on the flu season is that it's a regular flu season. We don't know what's going to happen, what we built in our assumption is a regular flu season, meaning very similar to what we had last year.

AISYAH NOOR: Okay, thank you very much. My last question is just on 2025. So I understand it's very early days, but based on what you have communicated today, so no good news on China, [technical difficulty] on the immuno business, and then software life sciences. How do you feel about moving into your midterm guidance range of growth of high single-digit to low double-digit growth in 2025? Just some early thoughts would be super helpful. Thank you.

PIERGIORGIO PEDRON: Yes, again, very early thoughts, as you said, right? And we are completing the budget process. But as Carlo said at the beginning of the call, we do really believe our strategy is very, very sound and everything is going according to our plans, which is good. Then you know we are not obsessed with one quarter earlier or one quarter later. There are moving parts, but I would say that we still feel very comfortable with our 2027 guidance, which is calling for a growth high single-digit, low double. And I do really believe that 2025 will go into that direction. Again, we might have some moving parts, but the overall strategy and trajectory is the one we discussed about on the Capital Market Day.

CARLO ROSA: Yes, I would like to make a comment. I think everybody understands now that half of the business, 50% of the business is in the US. So at the end of the story, if you look into 2025 and behind, our US strategy is counting on products and programs that are already in place, and they've been in place already for a few years, and they work.

Like the hospital strategy, we have a very…we have a couple of very interesting products, again, MeMed and Lyme. Lyme, I cannot be too specific, but we will get back to the market next year with a commercialization strategy because we are actually putting together a strategic alliance with a partner that is going to help us out to do the education.

MeMed, look, when it comes to MeMed, I always said that it is a matter of not if but when. And the main difference in what I'm starting to see today that makes me more optimistic is that what really takes a long time is the clinical studies that each individual hospital want to run before adopting the product. And that takes typically 4-5 months. We expect that starting from 2025, we mean hospitals, there is going to be enough data out there.

By the way, I didn't comment before, but the Juno Study [ph] released, and the data are outstanding. There is a 65% reduction of use of antibiotics, So it's perfectly in line with the antibiotic resistance programs. Being Juno, a smaller study than Jupiter, but significant…from a statistical perspective, significant enough in terms of number of patients, you would expect that Jupiter will come up with very similar results.

Okay. So, I believe that in 2025 there is going to be enough customers that are adopting this product, and there is going to be enough new data, clinical data, convincing clinical data that customers will start to adopt like a regular product, so without doing all the clinical validation. And that will accelerate the growth of this product. I didn't make a comment, specific comment before on MeMed, so let me just use the opportunity right now.

Today, by year-end, we expect to have 20 hospital systems adopting MeMed, and I'm referring specifically to hospital systems because the way it goes with MeMed is that you have our XL placed in the core lab of the hospital, and then we have a distribution of the MeMed Key, which is the small system designed for the emergency room department. And so what we are…the strategy that is working very well for us today is hub and spoke, where in the hub we have the XL and the XS, and then we deploy the MeMed Key in the periphery of the hospital. So we have multi placements when it comes to…when it comes to MeMed, which is something we never

experienced clearly before. And our target next year is to get between 75 to 100 counts, so hospital systems adopting this technology. Okay.

So, going back to your questions, how do we see the plan? We see that we are delivering on what we...on main component…strategic components of the plan. So far, we see that the numbers that we promised to the investors in the LTP are going to be there.

AISYAH NOOR: Okay. Super clear. Thank you very much.

OPERATOR: The next question is from Maja Stephanie Pataki, Kepler Cheuvreux. Please go ahead.

MAJA STEPHANIE PATAKI: Yes. Good afternoon. Thanks for taking my questions. I have a few here. First is on the licensed technology commentary about the 15% decline in the instrument sales. And have you seen a deterioration in the market sentiment in Q3, or was it pretty much throughout the year similarly bad?

The second question is around China. Carlo, you sound really down to earth when it comes to China? I'm not expecting any growth when it comes to China, yet? I mean, China is somewhere featuring as a growth opportunity for you in the long run? You're moving there with manufacturing. How do we consolidate you know what is happening currently? Why do you think it's going to improve at some point in time and it's worth all the hassle?

Then the third question would be your commentary about your LIAISON MDX, strong growth of, you said, close to 20%? Can you help me understand how you know, the different drivers, when we look at molecular growth, what has been growing very strongly, what has been declining, what has been flat or slightly positive, just so we know the different drivers?

And then lastly, coming back, Carlo, to your commentary around the MeMed placements, the 75 to 100 accounts that you anticipate or hope or plan to have by the end of 2025? What kind of a revenue target would you attach to that?

CARLO ROSA: Thank you. Your voice was fully [ph] robotic, so quite difficult to understand. So let's hope that I caught your 4 questions, Maja. Okay. Let me start from the fourth one. I'm not going to give a monetary…I will not associate a value in dollars to MeMed. I gave you an indication of placements and opportunity, and I don't want to do it. I'm not going to give, again, any value to this. I think that what we are saying is that if we go 20 hospital systems, and please focus on the concept of hospital system and not hospital, because the way, again, this is working is multiple placements within these hospital systems. So MeMed is going…I mean if we get from 20 to 75 or 100 systems next year, it means that there is traction on the market, and that's a very good signal, in my opinion, for the launch of a new product.

Now, if I take China, China you know I'm so happy that China is only 3.5% of our revenues that you cannot believe. China is becoming a non-market. It's not a market any longer, because Chinese companies are clearly favored, because pricing is going down the drain, cut by 60%. Because the current economic situation in China, the stimulus that everybody talks about is not really a stimulus that goes in favor of healthcare, so we don't see an increase in volume.

Last but not least, we see Legit [ph] Chinese companies today that at Chinese price, they are taking market share from everybody, including the Diasorin. We just did a review on the Chinese market, and whereas in the past, we used to lose customers, we didn't lose. We always win, we always lose, but we used to lose against Roche, Siemens, Abbott, simply because

of the sheer size of the business was moving from a single LIAISON's… single LIAISON XL business to a track system. When that happens, there is nothing that we can do to defend our business.

Now, I see the same thing, but they're all Chinese. And to be honest with you, when you walk now into these hospitals, you see less and less and less of products coming from the West, American or European. So how can you be optimistic about China? I have no idea. There's a different concept. The concept is, do you want to be there and see what the heck is going to happen moving forward?

Yes, but to be there, there are certain rules you need to obey, including the fact that (5:16) you need to become a local manufacturer. But as we discussed many times, and we've been very honest about China since a couple of years ago, we bought a US asset because we saw too much risk in China, and what we saw is happening, right. So God bless China, but God bless America. This is what I'm saying, because today 50% of our business is in the US.

When it comes to the MDX, which is our last question, look, the MDX is a beautiful strategy because it's the only place where we can be the legacy DSR, meaning a specialist. We stay away from the gorillas, what I call the gorillas, the very last competitors. We keep going after sizable opportunities, sizable for specialists, where the other companies don't go to.

Okay, and again, the [indiscernible], for me, is a great example where we spent a significant amount of money to get it registered, and we got a letter from the CDC saying thank you very much, you guys did a phenomenal job. This is going to be a new issue that is going to impact the healthcare system in the US, and you are the first one to have a product approved. So these are the kinds of products. The congenital CMV on urine for congenital

CMV infection, the only product approved in the US is the DSR product, right.

And that strategy is clearly paying out in terms of profitability, in terms of growth. But we said, why did we buy Luminex, because we targeted products, we need to have multi-plex products, because this is the future of molecular diagnostics. Alright, so we have a very complete panel of technologists.

PIERGIORGIO PEDRON: There was one on, if I can just complement on the molecular one, because I believe Maja was also trying to reconcile you know the data that you mentioned, which is MDX targeted businesses is going double-digits, whereas the overall molecular franchise is not. I think there, Maja, you should also consider, as we mentioned, I believe in the past a few times, that since when we did the due diligence of Luminex, we knew we would have lost some material business with a very big lab chain in the US, a business which was built on an old Luminex technology, cystic fibrosis business, which we did, which is kind of diluting the growth that you see in that franchise.

You might remember, we discontinued Aries as well. And it is true that we converted most of those customers to the MDX, but some of those customers were lost. So that, as expected [indiscernible]. And then on the remaining of the business, you see, since we don't have yet the impact of the new program, such as the PLEX, you see low single-digit growth. So if you put all of these elements in the mixer, then you know, you can reconcile the double-digit growth of the MDX with the single-digit growth of the overall molecular franchise.

I believe your last question was on LTG.

MAJA STEPHANIE PATAKI: Yes, that was super helpful already.

PIERGIORGIO PEDRON: Okay, so for the LTG, you asked you know, what's happening on, if I got your question right, instrument sales. I believe it is, you know, we have consistently been seeing across all of the year, you know, this softness in instrument sales, which is what we see in the overall market and what most of the big players in this space are seeing. Good thing is that the growth of consumables is pretty, pretty solid and sound, which means that the business, which has been developed by our partners using Luminex technology, is doing good for them and doing good for us. What's going to happen next year, very difficult to say. I mean, if I'm just…I mean, just reading what, you know, the big players in the space are saying is that 2025 likely is not going to be an exclusive year in the sense of growth for the life science business. But there, you know, we follow the market.

MAJA STEPHANIE PATAKI: Okay, that's super helpful. Thank you very much.

OPERATOR: The next question is from Kavya Deshpande, UBS. Please go ahead.

KAVYA DESHPANDE: Hi, Carlo, hi PG. Thank you for taking my questions. I have a couple please. So the first one is on immunodiagnostics. As your hospital strategy has been progressing, could you give us a sense if the acceleration and the test consumption or revenue [indiscernible] that you are seeing on the LIAISON machines that you have been placing in the US Hospital setting. And would this in anyway, like, support a similar strong cadence of growth for immunodiagnostics next year at least in the US.

And then my second question is just on margins. So the topline upgrade and margin reiteration seems to imply that you are probably exciting the year on a level margin versus what we've seen year-to-date. Could you

please remind us of the drivers of that, and is there anything we should take from that as implications for next year or is it more the one off.

And then if I just could squeeze in a third actually, on LIAISON PLEX. As we look in to the rollout and how it progresses next year, could you please remind us if you are expecting any incremental sales and marketing investments to support the commercial strategy there? Thank you.

CARLO ROSA: Hi Kavya. Hi, listen, I am going to take the PLEX and the immunoassay question, right. And then PG is going to take care of the margin.

On the immunoassay, I think…I hope I understood well your question. You are saying if we are seeing an increase of pull through, right?

KAVYA DESHPANDE: Yes, exactly.

CARLO ROSA: On the install base, look, we see an increase of pull through in Europe, right. And to be very honest with you, this now is continuing for more than one year and I cannot explain…can I give a good reason why not, I can't. It looks like after COVID there is more testing done, okay, and there is no effort in Europe for the time being to curb this volume increase. You also need to consider that when it comes to 2024, there has been a couple of outbreaks in Europe, parvovirus outbreak and there has been outbreak on Bordetella…sorry Mycoplasma. Now, there is an outbreak in Bordetella and we did benefit quite a lot because we dominate these 2 markets. In parvovirus, I think we have 80% market share, right. So there has been small increase of volume related to these outbreaks and now, we see the tail end of it.

But overall, Europe has its own dynamic and again is across geographies. This is what is very interesting. You don't see the same in the US. US, after

COVID, you see the recovery in testing volume. I mean, you saw recovery in testing volume but is not going above 2019 numbers, okay. And again, my…if not I understand. So to try to figure out what is going to happen in the future in Europe, I have no idea. I don't know if it will continue or it will start to tail off. I don't know.

When it comes to PLEX, right, more investments. Let me…as you know, DiaSorin is fairly diligent when it comes to control expenses and so if there is an increase, but first, we don't envision any increase in headcounts because as we…I think as we discussed few times, in the last when we bought Luminex, Luminex had full sale force that was dedicated to the launch of PLEX that didn't happen, and so what we decided to do is not to let people go to then having to rehire them at launch and so we have the necessary people in the sphere to launch and support the launch of this product.

I think there are going to be marketing cost improvement but any cent that goes out in marketing comes back as a saving R&D, because we have been spending tens of millions of dollars in developing these new platforms and now we are at the end of the development. And so, overall, I believe, yes, we are going to be spending more to support the launch. That's obvious, but the money will come from internal savings and other functions that have been spending significant amount of funds over the last 24, 36 months, okay.

Margins…

PIERGIORGIO PEDRON: Yes, the one on margins. Hey, Kavya. Good to talk to you. I believe what we see in Q4 is an EBITDA margin more or less in line with what we saw in Q3 and this quarter, meaning 33% or thereabout. You know, here you need to allow me some flexibility, couple of million can move decimals and

you know, around that numbers in a different direction. And usually, what we see in Q4 and you see it very well if you go back and you look at our historical results. What we see in Q4 is an acceleration of OPEX, which is driven mainly by 2 reasons. The first one is that in our company we have the salary increase what we call the merit increase kicking in, in July. You don't see it in August and September because we had people taking vacation, right, you don't maybe see it there. But then you see the full impact usually in Q4 and that is one of the drivers.

And then on top of that, usually what you see also in Q4, you see some kind of acceleration…that were in some discretionary spending because that's simply the way in which some of our vendors invoice us. But what I would say, those are the 2 main reason which lead us to think that at the end of the year, we will close around 33%. Again, would it be 33.5% I don't know, please allow… I have no crystal ball there.

KAVYA DESHPANDE: Thank you very much. That's very clear.

OPERATOR: The next question is from Marianne Bulot, Bank of America. Please go ahead.

MARIANNE BULOT: Thank you very much for taking may question and good afternoon. Just a couple on my side. The first one on the LIAISON PLEX. As we get into the respiratory season, do you assume any contribution from this LIAISON PLEX and the related test on your molecular sales for the next quarter or is it more a question of, you know, building install base for 2025?

And then the second question is on the US Hospital strategy, and I was wondering if you could just share an update on where you stand versus your target of adding a 100 new hospitals for this year? Thank you.

CARLO ROSA: Yes, hi. Look, PLEX is not going to be a significant contributor in Q4 because we have a substantial respiratory business so with the other technologies, we don't expect…that is not going to make…is not going to move the needle in Q4. Clearly, is going to be very relevant for the 2025 numbers. When it comes to the US Hospital, I made a comment before, we have a target of 100 hospitals that we are going to be closing by year end and we are on target. So yes, we are going to…we will add in 2024, 100 hospitals in the US. The strategy for…the hospital strategy is working, I think for Diasorin. And I think what is very relevant is that we map 2,200 accounts in the US that we can go after with the current manual we have, and today we…at the end of the…we will deliver the plan of 600 systems, we still have a very long runway. And this is why we need to continue to build on this program and MeMed and LIAISON and LymeDetect are clearly 2 pillars to continue to strengthen this strategy. So very sound product.

MARIANNE BULOT: Thank you very much.

OPERATOR: The next question is from Dylan Vanhaaften at Stifel. Please go ahead.

DYLAN VANHAAFTEN: Hi, guys. Thanks for taking my questions.

OPERATOR: Excuse me sir, we cannot hear you. Could you please get closer to the receiver please.

DYLAN VANHAAFTEN: Okay. Can you hear me now?

OPERATOR: Yes, please go ahead.

DYLAN VANHAAFTEN: Perfect. So sorry. Had some issues with my headphone. So good afternoon. So just questions for me on Flex as well. So just…I was

intrigued by this Flex versus fixed 50-50 rate. Could you tell me why customers are going for fixed at all and what other considerations and is there a chance to go for Flex later?

Second question just on reflecting on that competitive behavior, I think, you were referring to. Is that related to price action or is that related to the masking technology that is sort of emulates, let's say, from the customer side what the Flex pricing is doing.

And then, maybe just a final one. Just on the business you're pushing out on the new business side, is this low PLEX or high PLEX systems you're pushing out? And could you also maybe confirm if there is any consolidation of systems happening? Thanks.

CARLO ROSA: Okay. So, let me take…you had a lot of questions. So, let me take Question #1, the 50:50. Why should a customer would even consider a Diasorin platform for fixed? The reason is very simple. When you have a company that owns 70%, 80% of the market, I believe there are enough customers that have been using the product for long enough that they want to upgrade. And if you consider the ends of time of the current solution on the market and what the LIAISON PLEX represents for a customer, and I think that there is…at our Investor Meeting, we presented a very nice video, which was taking competitor system, how manual the system is compared to what the PLEX is offering. It's a new generation of technology.

And so, you're going to find a number of customers at the beginning, you know what we call the low-hanging fruit, that simply are ready to move forward, right? And this is what we are seeing today. I don't think that long term, the competitive…Diasorin is going to become competitive in this market going on fixed versus the market-dominant company. It's never

going to happen. I believe that when we move forward, you're going to see more and more Flex, right, offerings.

Question #2 has to do with...

DYLAN VANHAAFTEN: Competitive behaviors. You made a…

CARLO ROSA: The competitive behavior. Competitive behavior, I think refers…I was…when we launched the concept of Flex, I was honestly very surprised by the fact that some of the competition reacted saying you know Flex is unneeded, right? The major comment was we don't understand why Flex is needed Fixed is fantastic. And now, you see companies moving in the Flex direction in 2 ways. You see Roche, for example, on the Cobas are offering Flex, right, on a high throughput system for respiratory. And you see other companies now going to mini panels, which is the cheap version of Flex, right, because you're still forcing the customer to repeat testing, whereas with the true flexing capability that LIAISON PLEX can offer, you don't need to retest with this concept of digital sample that we are working on.

So, I find fascinating how within a couple of quarters, right, competition moved from, hey, don't look at Flex because it's irrelevant to, well, maybe it's a good idea. And I kept saying, it's a good idea not because you're going to win a Nobel Prize on technology. It's a good idea because in today's environment, it allows customers to save 30% to 40% of their cost in Flex. And since I keep saying BioMerieux did a phenomenal job explaining to the clinicians, biologists, to the hospitals that you need to drop the older technologies like culture and move to multiplexing. Everybody did that. But at the end of the story is millions and millions of dollars spent in multiplexing, and today, you can find an alternative, which is very convenient, is easier to use and financially makes a ton of sense, right?

Then you had a third question. Can you remind me what…

PIERGIORGIO PEDRON: I believe he was asking, you know if I well understood, the 50% new customers we're getting, where are they coming from? I think that was the gist of the question. But Dylan, please tell me if I got it wrong.

DYLAN VANHAAFTEN: Thanks, you got it right. But just the distinction between low PLEX and high PLEX, and if there's any sort of box consolidation happening? I'm hearing some people say that people are going from like 3 systems to 2 systems. Are they pushing out 2 systems and putting in 1 sort of like PLEX system, for instance? Just any color there on what kind of boxes you're pushing out will be outside of the classical sort of big competitor? But is there anything other that might be unexpected or that was, let's say, that you guys learned?

CARLO ROSA: Look, I think it's too early for us to comment on box consolidation, because we've not been on the market enough to see these trends. But I honestly don't believe that the story of the box consolidation because every time…and I keep referring to the immunoassay…you walk into any lab and you find 5 immunoassay systems, right, all technology being there for 50 years and customers could have consolidated that 10 times already. And the only way…the only thing I really draw consolidation in a sense has always been the track system, right?

So, once the very large companies put in this laboratory these humongous investments of millions of millions, then they are…of hardware and software, then they are pushing for consolidation through that investment, right? And to the customer, it makes a ton of sense because of the benefit that the track system is providing. This is a complete different ball game. You're talking about small system, the BioMerieux, the Qiagen, the DiaSorin solution, the ePlex from Roche, they're base systems. So, I don't

buy this consolidation story. I would be very surprised if that is a driver. But again, too early on the market from DiaSorin to make a better comment on this one.

DYLAN VANHAAFTEN: Thanks for taking my questions.

OPERATOR: The next question is from Odysseas Manesiotis with Berenberg. Please go ahead.

ODYSSEAS MANESIOTIS: Hi , thanks for taking my questions. So, firstly, we've heard some of your competitors say that it was a bit of a difficult quarter in terms of multiplex instrument placements due to project constraints or CAPEX conservativeness from customers. Has this been something you've also seen in field? Or put another way, how are you tracking against your end-of-year placement target for LIAISON PLEX placements? And how dependent is that on CAPEX?

And secondly, could you…I know it's not that big of a part of your business anymore, but could you give us an update of how you're thinking about VBP in China? I mean you did say it's not part of numbers, but we've been seeing them moving forward with thyroid function tests and tumor markers, but guessing it's not that big of a part of the business you're doing in China for now. What's the situation there? Thanks.

CARLO ROSA: Listen, I believe that…when it comes to your first question, I don't think it would be fair for Diasorin to make a comment. You should ask that question to the incumbent. Clearly, if you have an installed base of 20,000 systems, right, you're going to see the trend first. If you're launching a product and you're building the installed base, I don't think you're going to see this megatrend issue hitting you in the first 2, 3 years at launch because your installed base is…you're building installed base, and so your installed

base is small. So, I would rely on the comments coming from the companies that have been in this field for a long time. And I heard the same…I heard BioMerieux comment about this, and it could certainly be, but we can't comment on that. It will not make sense for us.

VBP, look, we can talk about VBP. For Diasorin, it's peanuts. I mean it's €2 million, €3 million, €4 million when it finally hits Diasorin. But VBP, in my opinion, is the tip of the iceberg. China traditionally had high pricing, right? And VBP is very honest, transparent. And I keep saying, if I would be elected in Italy to be the Minister of Health, you know, this is something you have to do because it's fundamentally consolidating your suppliers and asking them to give a price that is serving now the country, right? But it's just a small issue because what VBP will do will fundamentally take the Chinese pricing, which was high to be more in line with what you would pay for a TSH, thyroid, or oncology in the US market.

I mean I keep saying, we keep telling our people, if you go to one of the big labs in the US and you try to sell TSH, you're going to be…actually, you're going to be facing a price which is a fraction of what the Chinese price is. So, that's not the problem. The problem today is that, I keep saying, the quality of the Chinese companies in this space when it comes to this generic immuno-oncology and thyroid products is as good as it gets. And now, they're also building their own track system. And guess what, the track system they build in China is costing a third of what the track system that we build…we meaning collectively Western companies, build somewhere else, okay?

And so, you're really facing…and again, so the hardware is cheaper. The pricing is okay. But then, the attitude of the accounts is changing completely. So VBP, again, long story short, for us is not much, but it's not the only and the real issue I think companies will be facing in China.

ODYSSEAS MANESIOTIS: Very clear, thank you.

OPERATOR: That was the last question. I turn the conference back to the management for any closing remarks.

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

PIERGIORGIO PEDRON: Thank you. Bye.