09-Mar-2012

DiaSorin SpA *(DIA.IT)*

Q4 2011 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, this is the Chorus Call conference operator. Welcome and thank you for joining the DiaSorin Full-Year 2011 Results Conference Call. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions. [Operator Instructions]

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

Carlo Rosa
CEO, Executive Director & General Manager, DiaSorin SpA

Yes, thank you, operator. Good afternoon and welcome to this conference call, where will discuss 2011 results and the guidance for 2012. In 2011, revenues grew 10.4% at current exchange rates, however we need to look into the different geographies to better understand the trend of the business.

Let's start from Europe. In Europe, revenue grew 5.6% driven by new product introduction in LIAISON XL. I would like to focus on three countries, specifically. In Italy, sales did slow down at the end of the year, affected by the difficult financial situation that has prompted cuts in healthcare expenditures at a regional level. Notwithstanding this, DiaSorin was able to grow nearly [ph] 4% (1:30), thanks to the early introduction of LIASON XL.

In Germany, Germany showed a strong double-digit growth, nearly 12%, since the XL growth was not offset by other adverse effects. Finally, in France, DiaSorin grew over 6%, even if Roche reentered the market with its

Vitamin D test after the summer. Let me remind you that France was one of the countries where DiaSorin did benefit the most from Roche withdrawal of its Vitamin D in 2010.

Now, let's move to the U.S. As you know, the U.S. is heavily dependent on Vitamin D. As discussed before, Vitamin D volumes peaked in quarter two 2011 and in quarter three we experienced a volume drop of nearly 18% in Vitamin D testing, derived both from seasonality and a reduction in doctor visits. In Q4, however, Vitamin D volumes in the U.S. slightly improved versus quarter three, up 6% from the low of the summer, but still lower than what we have seen in peak season in quarter two. Price, however, continues to decline as an effect of the contract extension that we have already discussed in previous calls. I will discuss later about future expectation on vitamin D prices in the U.S.

Finally, in emerging countries we continue to grow strongly, as we had seen before. In China. Our revenue grew over 35%, in South America at 20%. Let me remind you that in China and South America we have not introduced [indiscernible] (3:40), so this is organic growth coming from the traditional strategy based on launch of LIAISON and LIAISON products. The emerging countries now represent almost 20% of the overall DiaSorin business.

Second point I would like to discuss is the R&D pipeline. As explained at the Investor Day Meeting, DiaSorin's future growth relies on the new products that we plan to launch and introduce in the next 24 months. I'm happy to report that the new product introduction in 2011 has been according to plan and let me remind you that we had launched in December, as promised, the first of several products on our stool platform.

Finally, the XL. In 2011, we have installed 128 systems in Europe and Australia with an acceleration in quarter four. The system is well-received by the higher routine customers and is allowing us now to grow in this market segment with the newly-introduced HIV and Hepatitis tests.

Now, let me focus on the 2012 outlook. As explained before, 2012 is a transition year for DiaSorin, where we need to manage on one side a Vitamin D decline in certain key areas, whereas, we need to continue to grow our LIAISON and LIAISON XL install base. In the U.S., as we expect to see a 15% to 20% decline in Vitamin D revenues as an effect of a price decline that is faster than expected due to aggressive pricing from some of the key competitors.

Let me remind you that Siemens and Roche have entered the market in quarter four 2011, and now we have a better visibility on their pricing strategy in the U.S. For this reason, we will not be able to grow substantially the business, the overall business since the growth provided by the LIAISON XL and other new product introductions will be partly offset by the sharper Vitamin D decline in the U.S. and some other geographies.

We expect in 2012, however, to introduce seven new LIAISON tests, including [indiscernible] (6:28) assays and the HTLV that will complete our blood screening panel. Let me remind you that most of the success of the LIAISON XL so far is linked to the launch of the new products in the area of HIV and Hepatitis which happened in the second half of 2011.

Finally, in quarter four we will launch the new molecular platform that we have discussed based on the LAMP technology. The name of the platform is going to be LIAISON IM and it will be launched in Europe with an initial menu of ten products spanning from infectious disease and onco-hematology. I will now leave the podium to Pier Luigi de Angelis, who is our new CFO, who will take you through the 2011 financials. And when Pier Luigi will be done, we will open the session for Q&A. Thank you.

Pier Luigi de Angelis

Chief Financial Officer & Senior Corporate VP, DiaSorin SpA

Okay, thank you Dr. Rosa. Now I'll go through the presentation of the 2011 results, profit and loss. We had an increase of 8.8% in terms of revenues, because 2010 revenues were close to €404 million and 2011, €440 million. So we had an increase of €35.5 million. But if you see this result at common exchange rates, the result is better, because the 8.8% increased to 10.4%. This is due to the fact that the average trend of the United States dollar in 2011 was practically lower than the – versus euro lower than 2010. So we had a negative exchange rate of 6.7.

Now if you go to gross profit, the gross profit increased 10.2%. And I think it's very, very important to underline the fact that not even is this in absolute value more than €29 million, but in terms of percentage it increased very close to 1 percentage point, it went from 70.4% to 71.3%, what this mean that our industrial structure very – we are very, very strong and also there is a continuous improvement also in terms of managing with the industry.

The total operating expenses then went from €131 million up to €145 million, with an increase very close to €15 million and increase also to – in terms of percentage, 11.1%. But we have to continue two very important things which are, first of all, the fact that we in 2011, we have 12 months in our [indiscernible] (9:50) Murex business, then in 2012 was only 6 months, so we have practically the costs for 12 months in 2011. Then, another point I think that's very, very important to underline is what Dr. Rosa – what Carlo was saying before, that this company is putting in place a very strong plan of renewing products. And we can see this in terms of improved R&D costs, that they increased €2.1 million [ph] plus 11% between 2010 and (10:20) 2011. We are investing in the future. Then if we go to other operating income, we have in 2010 €8.4 million, of this there were non- recurring expenses of €5.7 million, and in 2011 they decreased to €5.1 million.

I want to spend some words in the non-recurring amount for 2010, in this we are constituted one shot for the costs related to acquisition of Murex and we had to pay practically our financial advisor, legal advisor, et cetera. And then when we got the business, we put in place in very short period of time a very strong restructuring action. And this mean that we had practically non-recurrent costs, we had known the benefits in this year, in 2011. [ph] Let's get towards in comments which is the €5.2 million (11:35) We have provisions which have some taxes which are not recoverable. In all this, they are up to €5.2 million. EBIT also increased very, very close to €18 million, plus 12.2%. The EBIT for 2011, it is €163.3 million and the EBIT last year was €145.5 million. Also we can see that the decrease in the gross margin in terms of percentage of 1 point, went down after today's EBIT because it increase 1.1%, so practically we had a very tight also on the costs and we got the benefits up to the EBIT.

So the net financial income expense, this one they increased from €0.6 million negative up to €5.1 million. We have to consider on this I would say a comment on the financial system in Europe, what's happened in Europe. You know that in the last part of the year, Europe had a lot of problems starting from August up to December and is continuing also this year.

The company decided at this point, considering the sovereign debt, decided to factorize some accounts receivable related to DiaSorin in Italy all the receivable related to the sale that we have done through the public hospitals in central and the south of Italy. But the cost of the factoring in the last part of the year, it increased. But in any case, we decide, the factoring, to take away from our balance sheet any risk related to the account receivable with the public hospital.

Then we had also the valuation of fair value of the, you know that we sell the dollar [inaudible] (13:45) and at year-end, considering trend of the dollar, we had a negative value of more than 1.1. then we thought so, now we are at a translation effect of 1.4 in terms of exchange rate in the balance sheet items.

On the income taxes, we had also increase in terms of [indiscernible] (14:20) which went down from 37.6 down to 37.1 or by less. And this is due also to the fact that the contribution in terms of profit, [ph] allowed us through a [indiscernible] (14:32) subsidiary in the States, that contributed less, but in April and – you have to consider that in the States the tax rate is higher because it is very close to 37%, 38%.

Net profit is 99.6% [ph] and which is €5.2 million (14:55) more than 10%. And I think that I would like to underline in terms of percentages that at the end of the day, this group, the DiaSorin group has a net profit which is 22.5% of the revenues, but I think is a number that's not up to me to comment but it could be up to me to underline. And also related to 2010, we increased from 22.4 to 22.5. So even [inaudible] (15:28) scenario, the profit of DiaSorin Group is still remaining very, very significant.

Okay, if we go to the sales by technology, I already comment that the sales which has an increase of 10.9% versus 2010, of this revenue, so we have to consider also that the CLIA technology, it increased from 69.9% in 2010 up to 73.7%. So more and more this company is going to the technology of CLIA. And this increase is due to Infectious Disease, 15.2%, Endocrinology, 12.7%, and in Vitamin D, 10.7%. So you can see that we are investing in this technology and it's growing our profit in also different segments.

ELISA, the total revenue are at 12.8% and we have a decline related to 2010. But if we included Murex, the 12.8%, it increased in 2011 up to 19.2%. On RIA sales, we have a decrease for 5.5% down to 4.5%.

On the geographic area, we have – I think it's very, very important to underline that Europe and Africa, they go up in constant exchange rate, they go up 5.6%. And they went from €117 million up to €188 million. The same thing in South America, they had a more than double-digit increase because they went up in current rate 20.8%, growing from €25 million up to €30 million. Asia-Pacific, they increased from €33 million up to €42 million and then they increased 26.5%.

In North America we had a decline, but this decline that is underlying as 3.2%, if we consider, as I said before, the negative impact of the exchange rate, really it increased 1.7%. The Murex business we have to consider that we had the six months in 2012, in 2010 and we had one year in 2011. This means that we've got more for the – we had an increase of €15.6 million.

These are the most important comments. On the installed-based enlargement, we arrived at 4,206 machines in terms of LIAISON system installed. We were at 3,642 as of December 2010. The total LIAISON system that we put in place were 565 and the LIAISON – we had a successful LIAISON installed [indiscernible] (19:10).

On the profitability, I think that I already underlined the increase in the gross profit, 10.2%, EBITDA, plus 13.7%, the EBIT, 12.2%. And the net results that went from €90.4 million up to €99.4 million, the 10.2%. Then on the balance sheet and cash flow, on the balance sheet, we had practically net employed capital which is at €351.2 million, and we had total intangible, the intangible are related to goodwill and in materials, which is €122 million. The total tangible assets there are €63 million.

Then we have other non-current assets, which are taxes. Net working capital increased from €106 million up to €134 million, and this is due for two most important factors, one is the tax, and the other one is the account receivable, other non-current assets which is also the provisions for taxes and the provisions for personnel.

The net debt for capital went up from 2.82 up to 3.09. The net financial position from €33 million up to €41 million, and we have also a cash and cash equivalents which went from €62 million up to €64 million. I did have a comment that is very important to you, which is the cash flow statement. This cash flow statement, if we consider how much cash will generate from the operating activity is, in 2011, €108 million, against €95 million, €96 million of last year. We have invested this cash flow in investing activity, which is CapEx material investment, an amount which is €27.5 million. We had also investing €79.3 in financing activity, which, are these financing activity, we bought the shares, the company shares in the month of February, we bought other shares in the month of October and November for the total amount of €44.5 million.

We have paid down the dividends to our shareholders for €22 million and we have reimbursed General Electric of €8 million, the total amount is €79 million. And so the cash probably it went from €62 million up to €64 million. I think another aspect that we have to consider is back in 2011 practically the results of the group, the consolidated net result which is €99.6 million is very, very close to the results of DiaSorin SpA, because DiaSorin SpA is €95 million. Okay.

Carlo Rosa

CEO, Executive Director & General Manager, DiaSorin SpA

Okay, thank you, Pier Luigi. I will make a last comment, the first one has to do with the dividend. The total directors agreed to split the Shareholder Meeting proposal for a dividend of €0.46 per share, which compares to €0.40 per share of 2010, that's a 15% increase. Now the last comment I want to make has to do with the guidance. I already explained to you the rationale for our 2012 guidelines. As far as the revenues are concerned, we expect revenues in line with 2011 or slightly growing. And this is an effect of a strong growth in our LIAISON XL platforms in all product services and decrease in our Vitamin D revenues.

As far as the EBITDA margin is concerned, we expect a margin which is line or slightly below 2011. And this is, again, because of a sharper decline than expected for Vitamin D. In terms of expectation of placements, we reiterate our guidance of between 500 and 600 new LIAISON systems, and this is a combination of LIAISON and LIAISON XL. Clearly, we expect that the vast majority of these placements will be LIAISON XL.

At this point, I will open the Q&A session. Operator?

QUESTION AND ANSWER SECTION

Operator: Excuse me, this is the Chorus Call conference operator. We will now begin the question-and-answer session. [Operator Instructions] The first question is from Romain Zana of Exane BNP Paribas. Please go ahead, sir.

Romain Zana
Analyst, Exane BNP Paribas SA

Q

Yeah, good afternoon. Romain Zana. Thanks for taking my question. Three questions, if I may. The first one on the organic growth. If you could give us some more color on the different organic growth by product division for the full year. Sorry, go to talk into the mic.

Secondly, the organic growth for the group in Q4. Second question is on the new molecular diagnostic platform to be launched in 2013, I was wondering what is in 2012 – sorry, what is the ultimate growth we can assume for 2013, so coming from new products? And last question is on Vitamin D, I think Mr. Rosa mentioned 15% to 20% decline on Vitamin D sales for 2012. I was wondering what kind of pricing pressure assumptions do you use to build this assumption?

Carlo Rosa
CEO, Executive Director & General Manager, DiaSorin SpA

A

Yes, Romain. There are – let me tell you, there are some questions I can answer and others that I will not answer. Let me tell what I will not answer is the plan expectation and the one for 2013. These are looking-forward statements that, as you can imagine, I'm not in the position to make. You know during the Investor Day that we have given an expectation, company expectation, between €15 million and €20 million throughout the plan that we have outlined. And in due time, we're going to comment when we'll discuss about the guidance for 2013, we will then discuss about the effect of sales of molecular in that year. As far as organic growth, I can split it for you in two areas; one is Vitamin D. Vitamin D still grew in 2011 10%, and the rest of the line grew 12%, around 12%.

As far as Vitamin D sales in the U.S. and Vitamin D pricing, as I said, we have more visibility now vis-à-vis pricing conditions which are offered by Siemens and Abbott in the U.S. What we have seen is that both companies have approached some of our accounts, accounts that as we have said were locked with long-term agreement. In an attempt to try to break this agreement they offered prices which were less than what we had expected. And in some cases, we have been forced to go back to those accounts and renegotiate with this account because of the price differential more extension for more price concession.

So, whereas we had foreseen a model whereby we would see a decline in price spread over the next few years, what we have seen in the U.S. and some other key areas, Australia is a good example, is that we will probably take an initial hit in 2012 and then prices are going to stabilize going forward. So it's in anticipation of a price decline that we had expected to work them throughout three years rather than one.

Romain Zana
Analyst, Exane BNP Paribas SA

Q

Okay.

Operator: The next question is from Philippa Gardner of Jefferies. Please go ahead, madam.

Philippa J. Gardner
Analyst, Jefferies International Ltd.
Q

Thank you. I've got a couple of questions, if I could. First of all, I was wondering if you could maybe comment so far on what you're seeing in terms of the impact to volumes on send-outs for Vitamin D testing, if you have any insights there? Secondly, could you just remind us what your dividend policy is, please? And then, thirdly, just in terms of receivables, what was the amount of receivables that you provisioned and is there any future risk of any write-downs? Thank you.

Carlo Rosa
CEO, Executive Director & General Manager, DiaSorin SpA
A

Okay. Now, as far as – sorry, I'm just taking notes. Your first question was on the – on volumes, volumes on send-outs. Okay. Let me start from the dividend, we have announced last year that we have a payout policy of 20% and, therefore – which is in line with the sale – the policy that we used in – to distribute dividend last year. So if you do the calculation, we end up with €0.36 versus €0.40 of last year.

As far as receivables, we don't see a risk in our receivables. What we see is what we already discussed in certain geographies and mainly Spain. We see a buildup of receivables that we expect collection time to be 18 months. And the reason being that all these receivables are against the public hospital, so the government of Spain, that cannot be sold. But clearly, they're asking – the governments are asking companies to finance their net debt over 18 months. We go through legal action and we get the money back from the government with an 11% interest. We expect in 2012 for reference to start collecting through this mechanism €4 million of receivables coming from sales, which were done at the beginning of 2011.

As far as send-out volume, it's quite early, to be honest with you, to see an effect. However, if that can be of any indication, we have discussed with one of our major accounts in terms of expectations vis-à-vis next year and in terms of send-out, and the expectation is that 6% – up to 6% of testing volume which was sent to the central laboratory because of availability of products in periphery through Siemens and Abbott would be now done in smaller hospitals and small private labs. Expectation is that, however, we still expect a volume growth in the U.S. of 4%, 5% of Vitamin D in 2012, so that calculation was the send-out is almost offset by volume increase.

Philippa J. Gardner
Analyst, Jefferies International Ltd.
Q

Okay, thank you.

Operator: Your next question is from Andrew Olanow of Morgan Stanley. Please go ahead, sir.

Andrew E. Olanow
Analyst, Morgan Stanley & Co. International Plc
Q

Hi, good afternoon and thanks for taking my questions. I have a few. Firstly, on Vitamin D, you just said that the market would grow 4% to 5%. Are we to understand that you in the U.S. will grow minus 15% to 20%? Or were you giving us a worldwide number? In that implicit price downgrade, does that stay in line with your four-year view on pricing from your midterm statements?

Secondly, you spoke a bit about it on the call but I wasn't able to hear clearly, and it looks like European organic growth has turned negative in Q4, presumably driven by Southern Europe. What sort of trends are you seeing that quarter to-date? And when do you think we can feel comfortable around European growth or do we need to wait for these things to annualize next Q4? And then lastly on margin stability, with the huge downside that we're seeing to pricing of Vitamin D, can you help us understand where you're getting your sustainable margins from? Thank you.

Carlo Rosa
CEO, Executive Director & General Manager, DiaSorin SpA

A

Okay. Now let me tell you, Andrew, what I will not comment is quarter-to-date, clearly. So quarter-to-date in Q1 2012 you need to wait for a couple of months where we'll discuss that. Now, as far as Vitamin D, we see that [indiscernible] (34:48) effect of Vitamin D pricing, mainly in the U.S., but in a few other geographies, Australia is a good example. We expect the revenues – worldwide revenues for Vitamin D to decline between 15% and 20% in 2012. And this is the reason why since, by the same token, we have a strong growth in our product lines with LIAISON XL, the combination of these sharp decline in 2012, Vitamin D will not allow us to grow as expected.

So as I commented before, I believe that in our business model we have foreseen that if prices would have declined slowly over three years, whereas, I believe that there is a price correction – an immediate price correction which is taking place and then prices will stabilize by year-end beginning of 2013. And on that point, once the base is stable, then volumes which are still growing will kick in and our revenues coming from the area of broad lines are all going to be [indiscernible] (36:08) from the Vitamin D decline.

Andrew E. Olanow
Analyst, Morgan Stanley & Co. International Plc

Q

Does that mean that in the U.S. we've seen prices for non-LabCorp business go to a level that's kind of in line with Europe for 2012 and so we don't need to expect to see a lot more deterioration from there?

Carlo Rosa
CEO, Executive Director & General Manager, DiaSorin SpA

A

This is what I tried to say, maybe in broken English, but this is what I said. So the decline in prices in small accounts in the U.S. is sharper than what we expected and is getting to a level that we have seen in the rest of the world.

And let me just make a comment here so that we avoid confusion. With a really few exceptions, in the U.S. so far we have not lost any business, and what we have seen however is that to keep some of this business, because of this foolish price that have been floating around by Siemens, especially by Siemens, we had to make more concession, however, we are getting more time to accomplish.

We have committed to move some of these accounts to the LIAISON XL – from LIAISON to LIAISON XL as part of this new renegotiation. And having the neurological platform there, we have now initiated a program that I think we already discussed to bring by year-end 2012. It will distribute 20 new products to the U.S. market, mainly in the area of endocrinology. We believe we then will start to grow starting from 2013 on our installed base. Key for us is to keep the installed base in the U.S., and for these reasons we are not going to lose accounts to Siemens or Abbott simply based on price.

Operator: The next question is from Ian Douglas-Pennant of UBS. Please go ahead, sir.

Ian Douglas-Pennant
Analyst, UBS Ltd. (Broker)

Q

Hi, it's Ian Douglas-Pennant here at UBS. [indiscernible] (38:30). I was just wondering could you give us your initial feedback, now presumably you've had time to market on the blood testing and the stool testing tests, on how those are being received in the market?

Carlo Rosa
CEO, Executive Director & General Manager, DiaSorin SpA

A

Yes, two things. Firstly, on the stool test, we are really at the beginning of this strategy. And the reason being the launch of the first products, so we have saving accounts with the LIAISON in Europe. We will get a much stronger franchise through 2012 because we will introduce two more products. One is going to be available in three weeks. It's the H.Pylori test. And the last one, which is [indiscernible] (39:18), will be launched in quarter four. The concept however, is clearly a winning concept, a full automation of our laboratory area that today is less to low-end technologies, usually mainly on technologies. So our initial concept that this would have been the driver of placement, it is proven right.

Now, as part of the LIAISON XL and the hepatitis is concerned, the strategy is working fine because we are starting to work with our installed base, as I said. The strategy is very simple. We go to customers that do carry on our LIAISON platform infectious disease products, other infectious disease, and we lock on the LIAISON XL that exists in the infectious disease business plus all the additional hepatitis business. And the majority of the placements of all LIAISON XL that we've done so far are all driven by this strategy. So the strategy is working for us.

Ian Douglas-Pennant
Analyst, UBS Ltd. (Broker)

Q

Great. Sorry, just one more question, which I hope is really quick. Is it fair to say that the Vitamin D prices ex-U.S. and Australia are pretty stable? Is that a fair comment?

Carlo Rosa
CEO, Executive Director & General Manager, DiaSorin SpA

A

Yes.

Ian Douglas-Pennant
Analyst, UBS Ltd. (Broker)

Q

Thanks.

Operator: The next question is from Mathieu Chabert of Bryan, Garnier. Please go ahead, sir.

Mathieu Chabert
Analyst, Bryan, Garnier & Co Ltd. (France)

Q

Hi, good afternoon. Just one question from my side. Given your solid cash position and the fact that sales for next year will be basically flat or slightly growing, can we imagine that you would we'd be ever active in terms of acquisitions?

Carlo Rosa
CEO, Executive Director & General Manager, DiaSorin SpA

A

For us, acquisitions have never been driven necessarily by cash availability. Yes, we are looking into, as I said, continuously into opportunities and we have openly stated that we signed up a Japanese bank to look for certain opportunities in Japan. It's a long and painful process as you can imagine, but it's an ongoing process. And then we have continued the discussions with smaller companies [ph] by offering like to see if there is a feat (41:42) for some of the targets with DiaSorin. However, I keep saying that in order to deliver the plan that we have promised to our shareholders, we have all the assets internally. As I said before, our future growth is mainly the reason by research and development and product that are currently in development with technologies that we have on hand.

Mathieu Chabert
Analyst, Bryan, Garnier & Co Ltd. (France)

Q

Okay, thank you very much.

Operator: The next question is from Elisa Corghi of Intermonte. Please go ahead.

Elisa Corghi
Analyst, Intermonte Sim SpA

Q

Yes, thanks. Can you please share with us the ForEx assumptions behind your guidance for 2012? Thank you.

Carlo Rosa
CEO, Executive Director & General Manager, DiaSorin SpA

A

The ForEx assumption for 2012 is at constant exchange rate.

Elisa Corghi
Analyst, Intermonte Sim SpA

Q

Okay, great. Thank you, thanks a lot.

Operator: Your next question is from [ph] Stephanie Butcher of Pascal Advisors (42:49). Please go ahead.

Q

Yes, good afternoon. Going back on this pricing pressure in the U.S., I want to understand how well you are protected by this [inaudible] (43:00) customers in the U.S. are locked into this long-term contract? This is my first question.

And second question is how much are you protected with this contract? Because if I understand you well, I mean, you had to renegotiate prices for this specific contracts that were supposed to protect you. And what kind of price declines did you give to these customers, is it minus 20% I understand or am I fully wrong on that? Thank you very much.

Carlo Rosa
CEO, Executive Director & General Manager, DiaSorin SpA

A

We have by now, I believe 80% of our business protected by contracts. We already had all these contracts in place as of the end of last year. Now, you need to understand what is a contract in the United States. A contract binds DiaSorin and the party with contract to buy Vitamin D from DiaSorin under certain conditions. And according to that agreement, the price is set. However, it's very clear to me that unless there is a keen intent by U.S. hospital or U.S. laboratory, it would be difficult for me to sue that lab based on the agreement. And I don't intend to do so because it would expose the company to a liability and a reputation that is not typical in our industry.

However, the contract said fundamentally the economic terms under which the two parties intend to collaborate going forward. Now, what happens is that when Siemens and Abbott found on these agreements which they did not expect, they tried to force customers out with some generous price pressures. Now, I had two possibilities; one was to tell the customers, no, you are locked with DiaSorin for the remaining 24 months and so you stay – the conditions stay as is. And probably I would have got the two results out of it, one is that for sure after 24 months the customers would have dropped completely DiaSorin from the customer list, and this is very clear to me. And, yeah, second, I would have retained the current pricing. We consulted internally and we decided that since we have a long-term view about the U.S. market and its 500 accounts that we have in the U.S. are the key accounts in the U.S. market, so very renowned private laboratories and hospitals, we decided to initiate a discussion with them, help with pricing when necessary.

Because, as I said, the biggest asset that a company has in a market is customer base, and in our LIAISON install base in particular. So we intend to rebuild our revenues in the U.S. based on the 20 products that we bring to the market in phase 1, and 15 more that we intend to bring in 2013. But I need that capital base, and I don't intend to go in court with each of those 500 accounts.

Q

And this price discount, it was around 20% discount you granted to your customers? And how confident you are there won't be further strong pricing pressure? Because I believe there is room for pricing pressure considering the margin you do on Vitamin D.

Carlo Rosa
CEO, Executive Director & General Manager, DiaSorin SpA

A

I don't know if there is room for more price concessions or not. And I think that's for the major accounts, we went to one revision after Siemens has been aggressive, and the customer decided to sign up and stay with us. That's the only thing I can tell you.

Again, I think that differently from we had expected, other than a price decline that's happening in the following – in the three years after launch, we are thinking there is year one. Okay. We have seen – and at this point, all the players are in the U.S. and the price has been reset to a level that in my opinion is at market condition. Then from thereon, is pure competition based on services, based on systems, based on products.

Operator: [inaudible] (48:05) [ph] Global Investments (48:10). Please, go ahead sir.

Q

Hello. I have a question regarding the margins sensitivity that you provided, so you mentioned same to slightly lower EBITDA margin. Is that a kind of safety caution or how does this – where does this sensitivity come from?

Second question is on your XLs. You mentioned vast majority of the new placements are the XL, is it more 60% or 80%? And the question is what will be or what do you expect the share of Vitamin D versus other tests as in Europe basically it has been mainly hepatitis or HIV? Thanks.

Carlo Rosa
CEO, Executive Director & General Manager, DiaSorin SpA

A

I don't think I understood your second question. Can you just repeat it?

Q

He did not understand the second question, so the second question was the 500 to 600 machines that you are planning to place next year, you mentioned the vast majority is XL. Is it more 60%, it is more 80% [indiscernible] (49:13) the question, and what do you think – or what is expected, where is it used, in Vitamin D or outside Vitamin D?

Carlo Rosa

CEO, Executive Director & General Manager, DiaSorin SpA

A

Yes, thank you. The XL LIAISON for 2012, is going to be the vast majority is going to be in XL. And the LIAISON today is lesser to certain geographies, mainly emerging markets, where the LIAISON continues to have a life strategically. However, even in some of these geographies, like China for example, we plan to have the LIAISON XL accelerate the launch in Q4 2012. So basically the LIAISON starting from the end of this year, beginning of next year will be phased out as our technology.

Placements in 2012 will be mostly driven by HIV and hepatitis C. We have, with one exception, we have agreed with LabCorp to start conversion of all their laboratories starting from March 15. So part of the LIAISONs that I discussed before will go to LabCorp to substitute the installed base of [indiscernible] (50:48) Vitamin D. But, again, the vast majority of the XLs will be new business and hepatitis and so forth.

As far as the margins, to me it is quite difficult at this stage and this is why there is ambiguity in terms of the guidance, it is difficult for me to understand their rate by which the price concessions will get in place in the U.S. So depending on [ph] which manner of disposition (51:25) will hit the market, it will have or not an effect on the margin. However, we have on the other side, we have growth coming from LIAISON XL of lines like hepatitis and the HIV and specialty endocrinology, we do carry also high margins.

So I expect the margins to be in line or slightly eroding from 2011, mainly, again, depending on timing on the application of new Vitamin D prices. And as far as the U.S. is concerned, our average AUP really depends highly on the amount of business that goes through two channels, one is Cardinal and the other one is our direct business versus the amount of business that we do through a couple of large laboratories that buy products in high volume at clearly discounted price. So it is quite difficult for us to predict in order to be conservative. But due to the market, the right indication we have indicated a possibility of a slight margin erosion in 2012.

Operator: Your next question is a follow-up Andrew Olanow from Morgan Stanley. Please go ahead.

Andrew E. Olanow

Analyst, Morgan Stanley & Co. International Plc

Q

Hi, thanks for taking the follow-up question. Rather than just a focus on Vitamin D, I'd love to get an update on some of your core product portfolio. Firstly, if we look at your guidance for next year for flat growth, the 15% to 20% decline in Vitamin D implies that you're sort of growing 7% to 10% in the rest of your business. Is this the right assumption to make? And when are we going to see back-end loading of that growth as new products come on line? How should we think about that? And then, secondly, could you talk to us a little bit about the Japanese market entry and where you stand in getting approval? And then, thirdly, how China is developing as a Vitamin D market? Thanks.

Carlo Rosa
CEO, Executive Director & General Manager, DiaSorin SpA
A

Okay. Sorry, Andrew, but it's difficult for me to do the math. But I think – I expect that the rest of the catalogue, the total catalogue will go well over 10% in 2012 to compensate the decline of the Vitamin D. And this is what we are seeing occurring in the last few months. Now as far as how the growth is going to be, let me say it's going to be positioned throughout the four quarters. I expect that it's going to be back loaded because it takes time for the installed base of Liaison XL that we are installing on a weekly basis to pick up and start generating revenues, whereas it takes only one signature from one day to the other to decrease your Vitamin D pricing from X to Y. And since we are in the process of renegotiating or we have already renegotiated some of these agreements, the Vitamin D hit will be seen at the beginning of the year, whereas the kick of all the other product lines will be seen throughout the year.

Now, as far as your second question was marketing the products into Japan, we have sent – as of the end of last year we have sent all the documents and applications and clinical data which have been requested by the Japanese government. Typically, it takes six months to nine months to get the approval of the product and then 90 days after that to get reimbursement, because as we speak there is no reimbursement in Japan for Vitamin D products.

We believe that starting from the summer we will start placing systems in some of the large labs in Japan in order for them to be ready to receive the Vitamin D orders when the Vitamin D is going to be approved in Japan. We believe that, fundamentally, the Japanese market will develop in a very similar way to what happened in the U.S. where you need to go first for send-outs, which are not centralized in big labs, and then in Phase 2 to the periphery to the middle labs and hospitals that we see their volume growing.

China Vitamin D is the beginning of the story. Today is education. So we continue to educate physicians in this case to order the Vitamin D. We already have a program of continuous education for [indiscernible] (56:48) testing. And because, as you know, one of our projects which is working very nicely in China is to introduce in connection with these products for testing during pregnancy and these have been very successful due to the One-Child Policy. Our target base is OB-GYN. And which it is the same target base because of Vitamin D and osteoporosis. So part of the campaign, we believe we will see the effect in the second part of 2012.

Operator: The next question is a follow up from Romain Zana of Exane BNP Paribas. Please go ahead.

Romain Zana
Analyst, Exane BNP Paribas SA
Q

Yeah, hello. Just a follow-up question on the guidance actually, because looking at both 2012 and 2015 guidance, it seems that the implied average growth per year you need to reach your 2015 goal is around 10%, both on sales and EBITDA. So the latest quarter showed rather weak trends, so my question is when do you expect to see the growth? I mean, when do you expect the growth to pick up significantly driven by product alone, I guess? And I'm just wondering how back-end loaded can be the 2015 guidance?

Carlo Rosa
CEO, Executive Director & General Manager, DiaSorin SpA
A

Listen, I don't think I'm ready to discuss about the guidance for 2015 with the exception of one comment which I think is fair. In our 2015 guidance, we had expected a Vitamin D slowdown, a decline in pricing worldwide of 7% throughout four years of the plan and an increasing volume of 10%. And the net-net effect would have been Vitamin D would grow slightly at 2%. Well, the reality of the market, especially in two markets, is that I think this is not going to happen. I think that 28% decline in price will not happen in five years, in four years. It's going to happen in 12 months to 18 months. At this point there's going to be a reset, as I said, and then volume kicks in and I think the dynamics that we have foreseen was the key.

As you said, we were expecting already in the trend a growth from the LIAISON and LIAISON XL – sorry, from LIAISON XL from the new products and the molecular, and then I keep reiterating that. The fact is that the LIAISON XL is a very successful platform. As we speak, you can see it from the numbers. And the fact is that for HIV and hepatitis, which was a big bet for us because we are going against the gorilla, we are showing signs that our strategy of not waking up the gorilla but going to our installed base is really showing benefits.

Romain Zana
Analyst, Exane BNP Paribas SA
Q

So should we have to understand that in 2015 guidance will have to be updated?

Carlo Rosa
CEO, Executive Director & General Manager, DiaSorin SpA
A

At this stage, I don't think that I'm ready to update the guideline, to be honest with you. Because, again, I think that we need to wait until 2012, we need to wait and to see that the Vitamin D will go where I project it to go and the success of LIAISON XL, and then we will have a better understating of what is the run-rate for the business and then we should be able to comment on expectations and future expectations.

Romain Zana
Analyst, Exane BNP Paribas SA
Q

Okay, thank you.

Carlo Rosa
CEO, Executive Director & General Manager, DiaSorin SpA
A

You're welcome.

Operator: [Operator Instructions] The next question is from Andrea Balloni of Fidentiis. Please go ahead, sir.

Andrea Balloni
Analyst, Fidentiis Equities Sociedad de Valores SA (Italy)
Q

Hi, good afternoon, everyone. Only one question left. I missed the point about Murex. Could you please give us an idea about the profitability that Murex achieved in 2011? And which are your guidance and your target in terms of sales growth and margin on 2012? Thanks.

Carlo Rosa
CEO, Executive Director & General Manager, DiaSorin SpA
A

Murex was very strong in the second part of 2011. In quarter four we experienced record sales for the Murex line, mainly driven by the sales in Asia-Pacific, whereas sales in the Middle East are – they're still sluggish, stabilizing, but are far from expectations. We believe that in 2012, however, as an effect of us having learned the business, having identified the right channels of distribution, we expect that we have a positive contribution to grow the Murex line.

As far as profitability, as we've said it before, we do not report profitability separately. However, I think that we've always commented to the fact that once the manufacturing [indiscernible] (1:02:27) streamlined and the capital was streamlined, that we were expecting an EBITDA margin contribution in the mid-30% and I think I confirmed that this is what we are seeing today.

Andrea Balloni
Analyst, Fidentiis Equities Sociedad de Valores SA (Italy)

Q

Thank you.

Operator: [Operator Instructions] Mr. Rosa, there are no more questions registered at this time.

Carlo Rosa
CEO, Executive Director & General Manager, DiaSorin SpA

Okay, thank you all for attending. Thank you all. Bye-bye.

Operator: Ladies and gentlemen, thank you for joining. The conference is now over, you may disconnect your telephone.