DiaSorin S.p.A

"First Half 2022 Results Conference Call"

Wednesday, August 03, 2022, 15:00 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 First Half 2022 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: Thank you, operator. Ladies and gentlemen, good morning and welcome to the H1 conference call. I am going to make the initial remarks on the topline by geography and by technology, and then I am going to make a few comments on some of the major events that happened in the quarter, and then I am going to leave to our CFO, the commentary on the numbers.

So, starting from the technology, I will discuss immuno, and we'll discuss molecular, I will talk about license technology and then last but not least I will talk about COVID. When it comes to immuno, which I remind everybody it includes our CLIA reagents as well our residual ELISA business franchise in H1 plus 5% which is in line with our expectations.If we look at CLIA, so we exclude the ELISA franchise that as you know, is a cash count for us and is climbing, CLIA alone grew 7%. If now, I exclude from CLIA, the Vitamin D franchise which also you know is a very profitable franchise but not growing any longer if not slightly declining.

Now, if I look at CLIA standalone growth in XD is growing double-digit and this is fundamentally telling you that when it comes to the immunoassay franchise for DiaSorin, it continues to perform strongly following the usual strategy that we discussed many times, which is

positioning DiaSorin as a specialist and under specialty products that we have been launching in the last few years and we continue to launch moving forward.

Now, if we look at our performance by geography, what is remarkable is that the North American today which as, you know, represents the 50% of our overall revenues is by far the #1 market for the group. In North America, the growth of CLIA is around 30%, if we exclude the Vitamin D. That is remarkable and it is driven by the hospital strategy.

I remind everybody that starting from 2019, the company put together a strategy, a combination [ph] of diversification of revenues from the original footprint we had which was centered around the commercial labs and trying to penetrate the hospital market.COVID hit, and during COVID time on one side, we got some help at the beginning, because there was a lot of interest on serology by the hospital market at the beginning in 2021. Then COVID became more of a problem because of the availability of hospitals to accept new technologies in USA, because they were very busy with COVID.

But all said and done, notwithstanding all of this, we are on the verge of delivering our 3 years' plan, which I was calling for the creation of a new…of 150 new hospitals in US, which was achieved, and this was actually mainly driven by a combination of menu certainly our gastroenterology panel and the QuantiFERON have been driving this strategy.In this achievement we still don't see fully the contribution of the Luminex acquisition and this is because we spent time in at the end of second half of 2021 and beginning of 2022, and rationalizing our commercial salesforce.

As we discussed in the past the Luminex business which is a molecular business was primarily centered in the hospital market. And we expect moving forward that our penetration in that market will accelerate, thanks to the fact that we are going to be able to cross across the different customer groups in the hospital market.

And so, at the end of the story, what is very important for us is that in our #1 market, which plays, as I commented many times for innovation it is recognizing specialist that we are, we continue growth, and I believe that we have a long-long runway in front of the company.

So North America, all good and exceeding expectations. When it comes to Europe, Europe as you know for us is…that represent 30% of revenues. If we look at CLIA, we have more than 2,000 systems already installed. We have good penetration in the market. So Europe for us is more steady single-digit growth, which we continue to see.In the first half, we have actually high single-digit growth for CLIA, again, driven by fundamentally the same strategy menu driven. We have initiated also the launch of the XS, even if I remind everybody that the XS system was designed primarily for the Chinese and the US market notwithstanding.

So we have now over 100 XS place, and now we start to see traction in the US market, where we got approval of on the XS…getting approval very shortly of QuantiFERON, also on the XS. And also, we expect MeMed to be validated by the fall on the same platform on XS. So when it comes to Europe, again, solid growth. Europe for us is a geography very well penetrated, it continues to contribute to the growth of the company.

Now, let's move now to Asia. When it comes to Asia, we continue to see problems in China or China lagging behind. And…the major problem with China has to do with the fact that we have an installed base of over 800

systems in China...LIAISONXL, which are primarily placed in large urban centers. And every timeShanghai is a good example. We have a good chunk of business in Shanghai. And every time there's a lockdown and the lockdown typically, it happens in the urban centers, we really suffer from the lockdown. And this is what we continue to experience.So China continues to...revenues of CLIA continue to decline. The primary driver, again, is volume related. So as soon as China is stabilizing when it comes to the COVID policy and lockdown, we believe that the business will stabilize but still in Quarter 2 unfortunately, China is declining.I remind everybody though, that today, China overall represents around 3% of total revenue. So this effect has been completely de-risked from a group perspective.

Now, let's move to molecular. When we look at the Molecular franchise, let's first discuss molecular ex-COVID, otherwise, it gets very confusing. And we start from the VERIGENE I business, which is a multiplexing business, it is a very resilient business and we have experienced double-digit growth in VERIGENE, which is driven by the fact that there is a stable business when it comes to the blood culture, and there has been a positive effect clearly on respiratory because of the COVID situation.So overall, we have around 700 VERIGENE users. Certainly, some of the accounts are migrating, but the…by the same token, this is overly compensated by the fact that we continue to see a positive effect on volumes. So the franchise itself is growing nicely.

When we look at the...what we call molecular reagents, Single Plex, which primarily has to do with the technology…the old DiaSorin MDX technology. The growth is substantial. On the region side, we are up almost 25%. And this is a combination of 2 things. First, recovery of testing volume, which certainly during COVID, we were affected, because we were actually selling...we are selling here high profitable but highly

specialized products. So now, we are back fundamentally to all the elective surgeries and everything else that is using our products on one side.But by the same token, we see that there is a continuous...there's an acceleration, in my opinion, in the adoption of molecular technology. I think I did comment previously, the fact that one of the benefit of COVID is that there has been a dissemination of molecular platforms even in smaller institutions that were not using molecular before.

And today, this is the incremental volume that we see on our installed base. So there is a very nice growth of that business, which is also a very profitable business, where we are suffering in molecular, which is I think what is happening to everybody in the industry is on the instrument revenue. This is due to the fact that during the COVID time, customers because of the emergency funding were buying instruments. And so, we had higher revenues in 2020 and 2021.On the instrument side, we typically did not carry high margins, but there were positive revenues. When it comes now to post-COVID in 2022, we go back to reagent [ph] rental, and so on one side, we see placement systems, but we don't get the revenues because we go back to the reagent rental moment. So overall, the molecular franchise ex-COVID is growing very nicely for DiaSorin.

Now, let's look at the third leg, which is the license technology. I remind everybody that this is combination of 2 different product lines; we have flow cytometry, which represents around 25% of the total business. And then we have the license technology business, which has to do with partnership with Luminex and now DiaSorin has with all the primary players in the biopharmaceutical and bio-analytical business.

The business overall, I remind you that is on an annual basis for 2022, around €210 million, and we are trailing to hit that target, because our partners are really growing nicely. I believe, driven by the fact that there is

a flow of funding in the biotechnology, biopharmaceutical that is increasing volume consumption of these reagents, and this is notwithstanding the fact that in this business where 25% of the business has to do with instrument sales to the partners [ph].

We are certainly experiencing some issue in terms of shortage of parts.Notwithstanding the fact that there is a shortage, and so we are limited in our ability to supply certain instruments, because of the mix and the ability to carefully plan the shipment of the different systems, we are able to make that anyway the top line, which is strong effort in today's reality of the supply chain and especially of electronic component that, as you know, is pretty much a plague for the business.

I see, now, we have 1 year of Luminex under our belt and we have been establishing...reestablishing some of the strategic relationship with the partners. I honestly, I'm very optimistic about the opportunity to expand the business in the future with the partners through collaboration in developing content and/or platforms. And so, now that we understand the business better than clearly before, I believe this is a very important leg for DiaSorin, it's extremely profitable, and I think is very well positioned strategically.

Now, let's talk about COVID. You have seen that we have decided to increase our guidance to €200 million of COVID revenues for 2022. I believe that what is not...although I think that every player in the industry is recognizing the fact that there is still uncertainty about COVID, but there is more certainty to the use of COVID and the use of molecular technology versus the antigen testing.

And it is very clear today that molecular testing, which is considered more expensive, it is utilized for certain applications, for example, hospital

admission typically is done on a molecule test, follow-up patients is done on a molecular test and so forth. However, I think what we have noticed is that there is...it's a very resilient business, especially for that business that we have today with our platform, and I think it has been highlighted also by other companies that play in that segment of the small equipment.

This equipment and this testing in small, midsized hospitals, which is where today our installed base is resilient and we continue to see on a monthly basis now. We are experiencing a volume that stays constant. And what is very important to understand is that COVID today, which used to be a seasonal disease, you've seen by the current trend is becoming non-seasonal. So it's a respiratory disease, not seasonal.

And I honestly believe that there is an opportunity for future growth of this business that is not indicated in our guidance, which has to do with differential diagnosis. And if you look at what is happening today in Australia where we have the current respiratory and influenza season, we see 2 things. We see a very strong influenza season, indicating that also in the western…anything we are going to have the same effect coming in the fall.But most important, what we see is what is the co-infection, which is now expected, it's called Florona, and fundamentally indicates the fact that when patients are going to show up in the winter with a respiratory infection symptoms, not only is important to be sharing diagnosis, but also it's important to understand if there is a co-infection, because it does guide the treatment differently.

So it's going to be very interesting to understand what kind of protocols hospitals will adopt for differential diagnosis. As said, our projection today is not really indicating or is not including this potential, and I believe we're going to be able to quantify this potential better at the end of Quarter 3.

So when it comes to COVID in summary, resilient business, we have 1,500 systems today that continue to run COVID. We lost some business but relatively small in very large accounts where initially, they were using the box, because they needed multiple suppliers, because of volume, but now with more viability of high throughput system, clearly, we lost that business, which did correspond to 15%, 20% of our customer base but now the remaining customer base is again extremely resilient, okay.And my view is that at least for 2023, we are going to have COVID testing and the use of COVID, which is different from what actually the whole industry has projected just 1 year ago, we were looking at how long COVID is going to stay with us.

Now, let me move away from revenues. Let me comment more some of the effects that happened in the quarter. First, and I believe it's very important for us is that we got finally approval in the US of the MeMed test. It is very relevant, because as discussed many times, MeMed is in...is a test that is clearly performed in the hospital segment. The hospital traffic is the key strategy for the US.So this assay in the US is key to the future strategy.

Our partner MeMed is working in the US, in the promotion with the medical doctors and is also working on obtaining the reimbursement. And so this approval, which came unexpectedly in a sense, because we really didn't know how long FDA [ph] will take, but it took a relatively short time, 6 months. Now it's putting us in a very good position to gain from incremental revenues from the product.

The second comment I would like to make is to do with integration in Luminex. The integration is proceeding as expected. And synergies are in line with the goal that we have outlined during our Investor Meeting or the

5 years plan meeting, which I remind everybody was to achieve $55 million in savings by end of 2023, so a running rate in 2024. We are in line with the goal. And so, I feel very comfortable about the savings that we promised as a result of this acquisition.

Let me also remind you that saving is…does not necessarily represent...does not necessarily mean cost savings, but it means also a better way to do business, because one of the problems that we found in Luminex sometimes is that it was very convoluted and in a way it was managing the business. So streamlining some of the processes really improve productivity and therefore, are really allowing us to serve a growing business with a lower cost base.

The third element that I would like to discuss has to do with the fact that is inflation. And I know that our CFO Piergiorgio is going to get more into the numbers, but let me just give you a couple of remarks. Inflation so far for DiaSorin has been manageable, I would say, and we have calculated that on an annual basis, it will represent an increase of the cost base of roughly €15 million, which certainly is an increase compared to previous years. But if you look at the cost base of DiaSorin is less than certainly other industries or other competitors.The primary driver for the inflation for DiaSorin is the logistic cost, which does represents almost a third of this one.

And then the second element, which is important for us is with the cost of labor inflation, especially in the US market, where we know there has been a shortage of people and that clearly demand higher [indiscernible], okay. So overall, yes, there is an inflationary effect on our numbers, we already have almost half of the €15 million in our H1, but it's certainly manageable and for the time being, is not an area of concern.

Last but not least, we finally have a management in placing Luminex. Our President joined the company, now has been 3 months with the company. Angelo is with us, and is taking the helm of the company. And I'm very happy about this, because I believe that Luminex has a ton of opportunities in the future in terms of technology carriers, in terms of products, in terms of opportunity to improve profitability and key was to have a senior leadership in place. Now, we have it, and welcome Angelo. And I'm very comfortable with the fact that you're going to be delivering growth of this business in the next 3 years.

Now I'm going to leave the rest of the financial comments to Piergiorgio and then start our Q&A session. Piergiorgio.

PIERGIORGIO PEDRON: Thank you, Carlo. Good morning and good afternoon, everybody. In the next few minutes, I'm going to walk you through the financial performance of DiaSorin during the first half of 2022. And I will make some remarks on the contribution of the second quarter.Let me please remind you that consistently with what we did over the last calls in order to better understand the performance of the business, I will refer to adjusted P&L items therefore sterilizing the impact of the following Luminex deal, so to say related elements.

The one-off acquisition and the integration costs, the purchase price allocation and the cost of financing, and lastly, the tax impact of all of these components. The press release available on our website, we are providing a line-by-line bridge between adjusted and IFRS items. So that, as usual, I would like to start with what I believe are the main highlights of the period.

H1 '22 total revenues at constant exchange rate grew by 25% or €129 million vis-à-vis 2021. The immunodiagnostics franchise, ex-COVID

grew by 5%, driven by a low teens increase in CLIA ex-Vitamin D partially offset by the expected slightly negative performance of vitamin D and ELISA.

The molecular business ex-COVID growth is mainly driven by the difference in network consolidation, and by the very good performance of DiaSorin Molecular reagents. The license technology franchise variance year-over-year is all due to Luminex's contribution.

Moving to the second quarter. The total revenue growth at constant exchange rate is 22%, and the business drivers behind these variants are very much the same discussed for H1. To be noted that Q2 '22 growth ex-COVID is broadly in line with the result achieved in Q1 '22.

Now moving to COVID. Sales did better than expected and recorded a decrease in the first half of the year of 21% and in the second quarter of 35%, both variances at constant exchange rate. This is a result of a material decline of Immuno COVID sales, though in line with our expectations and a better performance or a lower decline if you wish than anticipated of the molecular business for all the reasons that Carlo just talked about.

H1 adjusted EBITDA at €269 million recorded an increase of €25 million or 10% compared to 2021, with a margin of 39% on revenues compared to 47% of 2021. The expected decrease in marginality is the result of the combination of a diluted gross profit, mainly driven by a different product mix and a lower operating leverage, mainly driven by Luminex contribution and lower COVID sales.

Both these elements are in line with the assumptions we made at the time of Luminex acquisition and are embedded in the outlook shared during the

recent Capital Market Day and the updated guidance we have released today. We keep confirming our ability to generate a very healthy free cash flow, almost €140 million year-to-date with an increase compared to 2021 of €13 million or 10%.

As you might remember, when we released Q1 '22 results back in May, we announced that DiaSorin Board of Directors resolved to launch a share buyback program for a total maximum of 1.5 million treasury shares to support the potential settlement of the outstanding convertible bond and the management equity plan. Within that program, as of the end of June, DiaSorin bought back about 530,000 shares for an equivalent amount of €62 million.

On a different note, and before moving to the main items of the P&L, I would like to provide some comment on the impact of the inflationary pressure on the DiaSorin total cost base. If I well remember, during Q1 '22 call with the market, we said this impact to be around €7 million, €8 million on top of what's already embedded in our 2022 budget projection.

Now everybody understands that this is a moving target, and there is a certain degree of approximation, and nevertheless, we reviewed our assessment and as just confirmed by Carlo, we confirm our estimate at about €15 million impact in 2022 full year compared to 2021, of which €7 million, €8 million on top of our budget projection as we said, in Q1 2022.Therefore, 2022 inflation-driven increase compared to last year is less than 2% of the total cost base or about 1% of the top line.

This increase is mainly driven by energy costs, transportation, distribution, utilities, labor, mostly in the US and some components of our reagents and instrument sourced from third parties. We have put in place several initiatives to contain this inflationary pressure, and therefore, the overall

impact on our margin will be muted as confirmed by our reviewed guidance.

Now moving to the P&L. H1 '22 total revenues at €685 million grew by 33% or €170 million compared to last year. Luminex products revenues in the period amount to €185 million, in line with our initial assumptions. COVID revenues amount to €150 million vis-à-vis €177 million of 2021, therefore, recording a decrease of €28 million or 16%.

In the first 6 months of the year, we have seen some €41 million FX tailwind, mainly driven by the USD appreciation Considering H2 2021, USD-Euro exchange rate and the current FX trend, I think it is fair to expect that a similar positive tailwind will continue for the remainder of the year.

H1 '22 adjusted gross profit at €451 million, driven by 27% compared to last year, closing the first 6 months with a ratio of revenues of 66% compared to 69% for the same period of 2021 and in line with Q1 '22. The contribution of Luminex and the reduction in COVID sales are the main drivers of this variance, which is in line once again with our expectations and modeling, and these are reflected in 2022 outlook.

Adjusted operating expenses at€226 million, grew by 66% compared to the same period of 2021 with ratio of revenues of 33% vis-a-vis 26% of H1 '21. This increase, once again, in line with our expectations, is mainly driven by the different perimeter of consolidation and the higher COVID sales booked in 2021 that generated back then a very material operating leverage.

Let me remind you that before Luminex acquisition in COVID, DiaSorin OPEX ratio was running at around 37%, 38%. We are expecting synergies

to reach the revenue structure on Investor Day as the integration process will move forward. H1 '22 adjusted other operating expenses are substantially in line with 2021. As a result of all of these elements, H1 '22 adjusted EBIT at €221 million or 32% of revenues has increased compared to last year by 3%.

H1 '22 adjusted interest income expenses at €4 million are higher than last year by 60%, mainly because of commissions paid on the share buyback program and Luminex IFRS 16 impact, whereas the adjusted tax rate of 23% is in line with 2021. Adjusted net result at €169 million or 25% of revenues is higher than previous year by €6 million or 4% whereas Q2 grew last year by €3 million or 4%.

Lastly, H2 '22 adjusted EBITDA at €269 million or 39% of revenues is higher than last year by 10% or €25 million. The variance at constant exchange rate is positive by 4% with a ratio of revenues of 39%. Q2 adjusted EBITDA at €120 million or 37% of revenues is better than the same period of last year by €5 million or 4%.

Let me now move to the free cash flow and the net debt position. In the first 6 months of 2021, DiaSorin generated just short of €140 million free cash flow, which means €13 million better than last year or 10%. I believe it is worth to underline that Q2 has been negatively affected by the buildup of some safety stock and some anticipated payments to Italian vendors that we did to manage the [indiscernible] of the Italian operating activities to a wholly-owned new direct subsidiaries of DiaSorin S.p.A. as communicated with several press releases over the last few months. Both these elements are temporary and will be absorbed in the second part of the year.

At the end of June 2022, the net debt of DiaSorin was negative for €1,003 million with a negative…vis-à-vis a negative €986 million at the end of 2021. The difference has been driven by a strong generation of operating cash, as we said, which has been more than offset by the following items. Share buyback for about €65 million, about €63 million of negative translation FX effect mainly due to the USD denominated term loan to finance Luminex acquisition and about €56 million dividend to our shareholders.

Lastly, let me move to 2022 full year guidance. As usual, as previous year constant exchange rate, because of the higher COVID sales during the first 6 months of the year, mainly driven by all those elements that we just talked about, the outlook for the year has been increased. Specifically, the updated guidance is calling for total revenues to grow by about 2%, with the next COVID business growth confirmed at about 24% and COVID sales at around €200 million, adjusted EBITDA margin at about 38%.

Before concluding, please like always remember that DiaSorin financial are highly exposed to US dollar and even more so now that sales denominated in USD represents more than 50% of the total Group ones. Therefore, [indiscernible] consider that for every $0.01 movement of the dollar against the euro, DiaSorin revenues move by about €6 million on an yearly basis.

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

Q&A

OPERATOR: This is the Chorus Call conference operator. We will now begin the questionand answer session. Anyone who wishes to ask a question may

press "*" and "1" on theirtouchtone telephone, to remove yourself from the question queue, please press "*" and "2."Please pick up the receiver when asking questions. Anyone who has a question may press"*" and "1" at this time.

The first question is from Emanuele Gallazzi of Equita. Please go ahead.

EMANUELE GALLAZZI: Yes, good afternoon everybody. A couple of questions from my side. The first one is on MeMed test. You got the approval in the US. Can you give us more color on the next, let's say, commercial steps in the US and your expectation in terms of contribution for the coming quarters. And still on MeMed, during the last conference call, you mentioned positive feedback from your European clients, if you can just provide an update on deals?

And the second one is a clarification on the guidance, and in particular, on the profitability side. In the press release, you stated that the profitability has been increased, mainly thanks to the COVID-19 business. So I just would like to understand which are the other drivers, if any? Thank you.

CARLO ROSA: Piergiorgio, why don't you take second one and then I'll comment on MeMed?

PIERGIORGIO PEDRON: Yes, sure. Hi, Emanuele. Obviously, the most important driver of increasing profitability like it was in Q1 is increasing the top line. Then there are additional moving parts like always, which consists in all those initiatives that we have put in place to offset the inflationary pressure we discussed about. But I would say that most of the increase in profitability is related to the increased COVID revenues.

CARLO ROSA: Okay, when it comes to MeMed, look, MeMed or the DVSA [ph] is a new diagnostic algorithm. And therefore, there is a component of the…in terms of generating revenues, which is the education [ph], 2 things. One is to do with education application because last day, we have hundreds of hospitals that can do the testing today in the U.S., but they need to get the tests to get ordered specifically by the emergency room because typically [ph] this test is done on patients and kids who show up in an emergency room with fever and the doctor there has to decide on antibiotic treatment. Therefore, there is a component here and this is the responsibility of our partner, MeMed, which has raised $90 million to do so to put together a sales force that goes and educate the physician and this is in progress.

I believe, by the way, that we have agreed upon with MeMed we will contribute to the education process, and we decided to start a pilot program where we are hiring medical reps that will have the responsibility to go and hit on the customers that today have a LAISON XL in the U.S., and they have an emergency department and we have to explain to them the use of the test.

When it comes to this…to the specific use on the emergency room, this is actually covered under DRG, so certainly their investment does not play necessarily at all here. But what you need to send to the hospital is the health economics about the adoption of the test versus mixed [ph] treatment and so forth. By the same token, MeMed is actively working to get a code approved for reimbursement. And I believe that by year-end, they've indicated that we are going to have the first code that will also allow specific reimbursement for this test. So it takes time because it's education. But by the same token, the reward is very significant because pricing of the assay is more in line with what a high-value molecular panel usually gets and it is that way rather than the traditional immunoassay. So

there is an investment by the same token, there is a higher reward vis-à-vis what you get once the volume is generated.

The second element they ask in Europe. In Europe, we have today the first 2 customers using the assay and I think that they are in Italy. What is happening in Italy, we have a target of 100 hospitals that we already…we have already contacted and we are proceeding into local evaluation, local evaluation means that hospitals notwithstanding the fact that there are over 20, I believe publication by MeMed with thousands of patients, hospitals, they always want to generate their own data to do their internal validation. So there are validation efforts which are happening in Italy. And the ones that are concluded, are really showing that the results that hospital get are completely in line with what MeMed has been promoted and clearly what has been approved by the FDA.

So I'm not expecting MeMed to be a driver in revenues in the second half of 2022. And I don't think that MeMed will be a significant contributor in 2023, simply because the sheer size of the DiaSorin business. But to me, which is more relevant in…between '22 and '23 is get a feedback back from the prescribers. So the doctors that the algorithm makes sense because I know that when that happens, then you start to generate significant demand with a very high price and then you're going to have a significant contribution to the DiaSorin business.

Keep in mind that there is another strategic factor here. And we continue to expand our customer base in hospitals where today, they are using all the specialty [indiscernible] QuantiFERON. And, so we…the more we add to their hospital base in terms of hospital products, the more we anchor the business. And this is the bread and butter of DiaSorin, and this is what is actually driving the profitability. So no story short, today. I believe that we need to look at MeMed in the next 12 months and not

necessarily as a contributor of revenues, but in terms of how much demand we are able to generate and interest we are generating as a combination of our effort and MeMed's effort in the medical community.

EMANUELE GALLAZZI: Thank you very much.

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

MAJA PATAKI: Yes, good afternoon. Thanks for taking my questions. Carlo, I would like to get back to your statement about the respiratory season and how COVID is now and endemic and how the differentiation diagnosis is probably going to get a foothold. And I'm trying to put that into context with your guidance because if we look at what you generated on COVID testing in H1 and what you're guiding for in H2, you're clearly expecting volumes to decline. Now my first question is, is it because you anticipate that the differential diagnosis will start to take momentum because we're seeing we're entering the flu season, so we're probably going to have more than one respiratory pathogen floating around or is it that you anticipate pricing pressure because so far, to my understanding, you have not been facing any pricing pressure in your COVID molecular testing?

And the second question is, you clearly said that things are changing, and we're learning by the month. And we probably have to, going forward, to try to understand the underlying respiratory pathogens, not just by COVID then a single flu test, but from both perspectives. So do you think that on a long-term perspective, this offers upside to your medium term guidance? Did I get that right or did I maybe just misunderstand you. Thank you.

CARLO ROSA: Thank you, Maja. Listen, let me give you some high end remarks, okay? I believe that if you just look at the industry, what everybody is doing. And

everybody is very cautious about COVID because we've been burned by COVID few times already, right? So I believe that you should be looking at our guidance as an indication still amidst some cloud and uncertainty that we have recovered. And let me just qualify my statement, as we speak, I don't see…start with price pressure. As we speak, we don't see a material price pressure. But this has to do specifically with the positioning, as I discussed many times of our systems, right? We have lost all the business that were sitting in the large hospitals because today and last week, I was in the U.S. and I did visit a couple of accounts. I did visit hospitals, small one, and then I went to a very large lab that is serving a hospital chain of 20 hospitals that are served by this core lab. .And what you see is very interesting.

So this…if you look at the 20 hospital core lab, you find lines of high throughput systems. And you find the [COBAS] you find [Panthers] you find everything, but you also find sitting idle though some MDX. This is an account we had at the beginning when there was an emergency until we have lost because of the excess capacity. And what is very interesting is that you see all these high-profile system sitting today and working at 20% capacity, okay? So they need to consolidate in the high throughput…high-volume accounts into this total capacity that had forced us out from those revenues. No problem with that. But that did represent only around 20% of the customer base fortunately, because very rapidly, we moved away from the emergency situation where we were serving certainly our customer base, and we had very large customers and there were two more tailor-made and strategic placement.

And now we went into mid small-sized hospital, which is the second hospital I visited where we…and typically another box, small box is sitting there and we share the testing volume. That business is very resilient. And that business today is to do fundamentally with guidelines.

Guidelines means any COVIDpatient is followed up and released, which is hospitalized is followed up in release using molecular. The medical…the healthcare personnel is tested on molecular and not necessarily with antigen, because of the issue with known issue of sensitivity. And then you have the admittance, admittance today is a combination of…if you go to the emergency room, typically, it's antigen test, because a ton of people that get into the hospital, but they know they are 90% are released. But then admittance to the ward, then bed, that is under [ph] molecular. So there is that resilience of COVID today that we still see. And because of the placement of the installed base we have, it sticks, okay?

How long will it stick? I think will stick longer than expected, because of the prevalence of this COVID and the fact that it's non-seasonal. We are also learning all of us that we are in the middle of August and…or beginning of August, and we have a pick in COVID cases, because this has nothing to do with respiratory disease or respiratory season, okay? And this is what we are projecting with cautious, okay?

Then you have another opportunity where that clearly is not in our projections yet. And that has to do with differential diagnosis, and because they're all learning. And you're all learning from what's happening now in Australia, as I did comment. And typically differential diagnosis in our industry was intended, okay, I need to rule out one or the other, right. I want to really understand if you have COVID or you have flu.

Now, when there was a high prevalence of COVID and low prevalence of flu customers fundamentally were doing COVID, because they had a very good chance to be…to have a COVID positive. So they will say no need to test for flu. Now what we are seeing is different, because we are seeing now the high prevalence of flu as well, okay? So I believe that when it

comes to diagnostic value, there is going to be more use of differential diagnosis but intended in 2 ways. Diagnostics COVID versus flu, same symptoms, but also when you are learning from Australia is the [indiscernible] which now is more and more prevalent, because of the prevalence of the COVID infection.

So in all honesty, the differential diagnosis, opportunity is not embedded in our numbers, as I honestly believe is not embedded in anybody's number, because we are all learning okay. And I think we're going to be able to comment on this one in Quarter 3. I think the good news of DiaSorin, which is…which was a big question to all of us, how resilient was installed base, right, because clearly, we almost doubled the installed base in 18 months. And what I'm seeing is that, that installed base is resilient, and I see more adoption of other tests. And in fact, -- you saw that our molecular…what I call the legacy DiaSorin MDX business, and I did comment on going 25%. That is the installed base, non-COVID that is actually growing, which means that there is more adoption of products with other products with DEPI [ph].

So the good news eventually, is that we now have an installed base that is there to stay behind COVID and we have a volume of COVID testing, which is there to stay, and you saw many comments related to the fact that there is an endemic situation with COVID.

Last but not least, but I think it will come so far, no price pressure. Significant, I think eventually, we're going to sit. So you're going to have, I believe, in the next quarters, combination of some price pressure, but I believe now the seasonality of the differential diagnosis that will kick in. I hope long story, but I hope is short for you.

MAJA PATAKI: Okay, great. And that's very helpful, and maybe just another question. You've mentioned that you were not able to fulfill the demand on the licensed technology side, because there have been some supply constraints on some parts of the product and basically indicating that the demand is significantly stronger. Can you tell us when you think that you will be able to deliver on any incoming order? So basically, when do you think the supply situation will ease so that you can now fully deliver on what is really coming as an order?

CARLO ROSA: Listen, Maja,the proof of the matter is that the supply…the supply issue is far from being resolved. And in our sector and the fact that other industries like the car industry has actually invested billions in trying to support their supply chain is not necessarily helping us, because its focusing, you know, we are relatively small customers for the suppliers. So I don't see, to be honest with you, a solution that is going to be…is going to come our way soon.

Although what I indicated is that we've been able to juggle some of the parts, because on the part are common components. And we've been able to shift in some cases, our manufacturing from one line to another onealso utilizing the workforce that we have without increasing workforce. And that has allowed us so far in the mix of products to make the revenue line. Clearly, guaranteeing more continuity and more paths to those products and those instruments that we just launched recently, by name IntelliFlex, for example, is a good example.And leaving behind some of the more legacy products where unfortunately, we've not been able to make the supply.

But notwithstanding all this, notwithstanding the complexity as said, that we have a €210 million, target for 2022. And I believe that notwithstanding this, we're going to be able to make that number. In terms

of when the supply chain is going to free up, I think we need to talk about it on a quarterly basis.

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

ODYSSEAS MANESIOTIS: Hi, there. Thanks for taking my question.Follow-up on [technical difficulty].

CARLO ROSA: Excuse me. It's very difficult to hear you. You're breaking up.

ODYSSEAS MANESIOTIS: Okay, can you hear me now?

CARLO ROSA: No, it's not improving at all.

ODYSSEAS MANESIOTIS Let me start by [technical difficulty]. Thanks.

CARLO ROSA: Thanks operator, please go to the next question.

OPERATOR: The next question is from Hugo Solvet [ph] of BNP Paribas.

HUGO SOLVET: Hi, hello. Thanks for taking my questions.I have a few on Verigene, Carlo, you mentioned some customers migrating. Just to clarify them migrating to competitors' platform or you're moving them to VERIGENE II. Can you maybe clarify that?

Second, you alluded to some flow of funds in the biotech and pharma industry, which seems a bit content based on what we observe at the moment in the market. So just curious to hear your thoughts on more details on the type of clients, maturity of projects that you have for your licensed technology business that helps you not to be impacted by that?

And lastly, on profitability and just a follow-up on the question that was asked earlier for the 2022 guidance. It's COVID-driven, as you mentioned. But in the press release, you also mentioned some less dilutive impact from Luminex, which seems to suggest that you're tracking ahead of your synergies target. Can you elaborate on that, please? Thank you.

PIERGIORGIO PEDRON: I will take the profitability one. I believe comments that Carlo made on synergies…cost synergies are pretty comprehensive. What makes us very comfortable is that we have a project with a name of responsible timing and those projects are leading us to a number, which is in line with the number we gave to the market during the Capital Market Day back in December. And I believe we said $60 million, increasing by $5 million compared to the timing when we announced the Luminex acquisition and 55% by the end of 2023.

All of those, again, initiatives, we see them happening. The timing is in line with our expectations. And all of that is embedded in our guidance. It was already in the beginning, but as you might understand, when we started those €55 million or €60 million depending on where you want to put yourself on the time line. were you know more rough in terms of estimates. Now we have projects, specific time lines and name, people accountable to deliver the numbers. So, we feel very comfortable with those numbers. And those projections are embedded in the profitability.

Then when I say mainly driven by COVID like always you have 20 different moving parts. So it's impossible to pinpoint to just one element, the changes in profitability from one guidance to the other because it would mean that all the other parts would not move at all. But what I say mainly is most of it, right? So that I believe is the way in which you need to read then mainly that you saw in the press release.

CARLO ROSA: If I go back to the other 2 questions, I think it was…if I understood correctly, you are somewhat surprised on the fact that our license technology is doing well in the space of biotechnology, bio research and academic. Is that correct? Is that your concern?

HUGO SOLVET: So yes, not much of a concern, it's just that you mentioned a flow of fund helping the business, which seems a bit conservative which is based on what we observed. So just wondering what end markets helps you, probably resist better to weakening biotech environment we are seeing at the moment?

CARLO ROSA: Look , we… keep in mind that we have a slew of partners. And so, it's not only one company we are serving, but we are serving some of the top-notch companies in the industry with our instruments and components. So you're talking about the spare [ph] buyer or you name it, all the major companies are carrying our technology. And what we are seeing is that there is a high demand of these platforms fundamentally in all the different sectors that these companies are serving. From a geographical point of view, keep in mind, we don't have visibility on the end user placement because we serve the central warehouse and then they place it in the different geographies. But if I think my educated guess is that today, the US is really driving most of these applications and placements.

The other thing which is very interesting is that we are talking about high-end piece of equipments. And so, the Intelliflex, which we just launched, which is more expensive in terms of price positioning compared to some of the legacy systems that Luminex was supplying before. That one is in high demand as well. So… and that one I know is… has to do a lot with US academic and US pharmaceutical. So at the end of the story, our data do indicate that there is more capacity of spending in research in the US

and therefore, there is more adoption of this technology. By the same token, if you think about it, what we are seeing is that or what we believe is that China is suffering clearly. So some of the partners that were actually exporting some of the products to China are really….they are under pressure for the same reasons we have discussed before because China closed down.

So even more, this is pushing the fact that I believe there is a surge in the viability of funds to fund research mostly in U.S. And I really don't know about Europe again because we don't have visibility on the end user European business.

As with…as far as your question about VERIGENE I, my comment was related to the fact that it's a resilient business. Keep in mind, VERIGENE I has been a platform that has been on the market for many years, solid, it's a platform that is very well known by customers and any other platform that for certain products is on average 20% cheaper than what some of the competitors do offer. And that explains, in my opinion, the resilience of the technology.

So when I'm saying we lost some customers, typically, we lose customers when there is consolidation and volume pressure, okay, and it's always the same story. Verigene 1 clearly is more manual than some of the…from the BioFire platform, for example. And every time there is pressure on volume because of consolidation because the platforms within a core lab and more hospitals are consolidated. That is where clearly manual and price versus more cost to more expensive solution, but automated is pushing customers towards the automation. But the balance today between increase in volume and usage, increase in the respiratory…and keep in mind, it's a respiratory without COVID here. So, it's a traditional respiratory versus some of the higher volume account lost, today it's

favorable to our platform. And so this business is still growing, again, 10%, which is…and it tells us today, the Verigene base is all located in the United States.

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

ODYSSEAS MANESIOTIS: Yeah. Thanks for taking my questions again. And sorry for the line issue. Can you hear me better now?

CARLO ROSA: Yes, we can. Thank you.

ODYSSEAS MANESIOTIS: Great. So, yeah, I had a couple on MeMed, actually. I want to get a better idea of the competitive dynamics here. I mean, I understand this is the first test of its kind to be FDA cleared. But in terms of getting share over traditional technologies, is it right to think that you'll be mostly competing with PCT testing and it's time to resort to your main advantage here? Sort of what is…what are clinicians hardest to convince on here?

CARLO ROSA: I don't think I necessarily agree with…I don't think that this is a position as an alternative to PCT because PCT has more to do with diagnosis but follow-up of infection and treatment. And this is the most recent claim that actually brands Thermo Fisher was able to get on PCT.

This is really today a first-line screening product. And it goes together with nonspecific marker, C-Reactive Protein is a good one. I think probably is a good one. White blood cell count is another one, which although were general indication of an inflammatory situation, but we're not able really to distinguish between either via viral or origin or bacterial origin. So to be honest with you, we have an interesting PCT business,

but we never position this in our …and MeMed is not positioning this as in any way substitutive or in competition of PCT.

I believe that today, there is a lot of attention about this viral versus bacterial. I believe that there has been a recent announcement by Beckman**,** if I'm not mistaken, our collaboration that they're having in the U.S., I believe with the NIH on of the CDC. I don't remember which one or two where they are trying to validate the application of flow cytometry. So imagine trying to distinguish between viral infections versus bacterial infection. This to my knowledge, is the first marker where you look at protein expression.

So…and I don't see anything honestly competing with this today. And by the way, don't forget when it comes to this MeMed already spent 10 years on this one, they have thousands of patients already tested and more than anything, they convinced the FDA that there is great value on this product. So I honestly don't see competition as an issue, to be honest with you. The burden we need to go through is more on the education side, educating physicians, that it's really good to use this test, which is not so difficult and then educating payers that you spend more and longer [ph] pricing this asset MeMed at a very high price, but eventually you save money because of antibiotic resistance, unnecessary use of antibiotics that are [indiscernible].

ODYSSEAS MANESIOTIS: Thank you very much. That's very clear. And a quick one on the molecular ex-COVID sales. I know you've touched on this quickly before. I mean, it did seem slightly higher than consensus expectation and I wanted to get a better idea of how much of your…how much your respiratory panels that also tests for COVID contributed here. So would you say demand for panels that tests for COVID exceeded your expectations, earlier in the year? Was there another key driver here?

CARLO ROSA: Well, Hugo. I'm not sure I understand the question. So if you are saying, if you go back to my comment on multiplexing and saying that, certainly today, when it comes to symptoms there is use of COVID frontline and then reflex or COVID together with respiratory panel wherever the reimbursement is there too and payers also by the way are recommended to the multiplexing approach and that is a fact. Okay. The other thing that in our COVID business or COVID…in our molecular ex-COVID business that we saw is flu because there's been eventually a flu season, which interestingly enough, the flu season was up in January and February, but really it was more in April, May. Then so, we saw in U.S. and Europe, a spike in revenues, which are non-COVID, but flu related, which have to do with this flu, late flu season that we have experienced. That was my comment.

ODYSSEAS MANESIOTIS`: All clear. Thank you very much for the answers.

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

PETER WELFORD: Hi, thanks for taking my questions.I just got 2 quick ones left, please. Firstly, justreturning to COVID again, and I appreciate this is a black box, and it's kind of difficult to predict. But I just want to come back to your comment on the fact you're seeing a very resilient business now. So if we look at the guidance for the second half of the year, you're basically implying about €50 million. Given that you now say you know, a large amount of this business is resilient. And I think you know, understand the drivers there. Do you think, therefore, we should be thinking longer term that rather than I think you guided originally to a 50 million, 60 million COVID number, 100 million as a base for COVID in the long term or midterm, should we say, is more reasonable at this point? And I guess, if not, looking at your crystal ball, why should we anticipate, do you think

this very resilient business to perhaps half again, do you think going into the next few years?

Secondly, then I would you…just give us a quick update on the COVID sales ex-molecular, any rough sort of number to what your sales are on the CLIA for COVID now this quarter?

And then just finally, just on VERIGENE 2, can you give us an update, please, on the path to potential FDA approval of the LIAISON PLEX? Is that all very much in line with the price commentary you've given. Thank you.

CARLO ROSA: Okay. Let me try to tackle this COVID story again. If we look at the long-term plan, when we said the COVID will become a €50 million business, okay? Long term, which means 2 years from now, I cannot comment because I really don't have the crystal ball. What I'm saying is that, the tail that the industry sees, forget me, but look at what has been published by everybody. What everybody sees is that there is a tail, which is more significant than anybody else is expecting for 2023.Okay. So start from 2023, and this has to do with the fact fundamentally of the…has to do with the variant, which was unforeseeable by any of us. And now we are seeing…we are learning that the virus is very rapidly new hitting and surviving anything we really try to do to keep the little one at bay, okay.

Okay. So this means that I believe in 2023, we may have more business than all of us as an industry have indicator. And you start to see some of the competitors already giving some indications about the 2023 opportunity. Now, if we…if now we're talking about the second half, I'm saying that there is still uncertainty. And so, in the uncertainty that we embedded here in our guidance has to do with the opportunity, as said, of the differential diagnosis and the flu COVID and everything else.

So far…by the way, the numbers that we've indicated, if you look at what all other companies already reporting numbers have done, pretty much we all look at this COVID business second half same way with a qualified guidance. And this is as much as I think I can say about COVID. Again, I believe that we have not included here the opportunity of differential diagnosis, but I want to see first that what Australia is experiencing, we're going to be experiencing here, because there is what may really increase the usage of COVID behind what is in the guideline of today.

The second comment that you have on the VERIGENE 2. Remember that we were talking about a submission in 2023, and we are talking about initial soft launch. And so, for the time being, I'm not commenting on the program, I honestly don't know about the approval and when this will come to the market as a consequence of the regulatory approval. And this is also in light of the fact that today, we are seeing the FDA opening up, which is good, but being very selective, meaning that if you file with the FDA a very innovative assay, like MeMed you get the time. But it goes from assay to assay. Sothere is an uncertainty in the registration process today in the US, which is not primer. We don't know what is going to happen in terms of resources and attention to products starting from next year.

But as I said before, the very good news, again, we are learning this business is that VERIGENE I is really holding up and is actually continued to grow in light of the fact that this product has been on the market for many years. And also, this is a consequence of the fact that is a combination of DiaSorin and Luminex now we have a commercial force out there, especially in the US, fairly significant that is able clearly to nurture and retain this business and continue to grow this business.

PIERGIORGIO PEDRON: Peter, you also had a question on the size of the immuno COVID business in Q2. More or less, we are talking about €5 million, give or take in Q2.

PETER WELFORD: Excellent. Thank you.

PIERGIORGIO PEDRON: You're welcome.

CARLO ROSA: Yes, if I may add, unfortunately I don't know what to say about it, how to comment this. But the serology never picked up. And so, we have a residual business for serology, which has to do with the long term…which we have to do with admitted patients to hospitals. It has to do with some studies on vaccination or long-term immuno response to COVID, but it never made the typical panel that would have made of this business a very significant business. And this has to do fundamentally one reason, the fact that regulatory agencies started from the FDA refused to accept any concept of associating antibody titers to protection. And this was not to confuse people about vaccination. The net result is that the regulatory agencies themselves in Europe and in the US have been actually promoting against the use of serology. So just get a vaccine and don't bother about your antibody testing that was the message.And this, I believe, has negatively influenced the opportunity at serology.

OPERATOR: The last question is from Andrea Balloni of Mediobanca. Please go ahead.

ANDREA BALLONI: Yes, good afternoon, everybody. Thanks for taking my question.Actually, just a couple left. The first one is a quick one for Piergiorgio. I'm sorry, probably I lost part of your comment. Can you confirm that for every basis point of change in FOREX, the impact on EBITDA is in the region of €3 million?

And the second question is for Carlo, is much more complicated, I guess, is on the Chinese market. I remember last conference call, you commented that the issue in this market was mainly represented by Chinese policies to protect local player from competition. And I remember you are pretty skeptical about the penetration in this market in current condition. Today, you also added the issue represented by lockdown related to COVID. So in the end of the story, what should we expect for DiaSorin in term of trend over the next 3 years in this region, I know, it's not material compared to Europe or NAFTA, but in any case, which strategy will you put in place, also in order to benefit from a local production plant, but if I'm not wrong, you should have in the country shortly?

CARLO ROSA: Look, PG is going to confirm what you just said about the effect of the…pretty much on the exchange rate. But let me just comment on China. Today, whatever I said in the previous quarters, is still there. So you have this Chinese pressure to do more with local suppliers, right? That's there. You do have a pricing effect in place, which is reducing by an average 30% reimbursement and as a consequent pricing of some of the high-volume commodity products. My comment was specifically on lock down because everybody knows there is a lock down. But one of the reasons why we were more exposed to lockdowns is, because we have revenues concentrated on big cities, right, because it was actually going through volumes and growth or how the volumes have been penalized by lockdowns. And if you look at the different regions that we are serving today, there are certain regions which are more rural, where local didn't happen, and you don't see this volume effect.

Clearly, Beijing, Shanghai and some of the big cities, every time they close them up. We have debt, because the vast majority of our business is thereso. When I look at the…there are 2 effects pricing and local competition, which are there are systemic about China. And then there is

an effect of volume dependency, which is high for us, which has to do with a lockdown. And this is why I'm saying there are 2 things we will need to address, one of which and we are ready to address it as discussed, is that we are becoming more Chinese with a local manufacturing site, and the program is actually respecting deadlines, and we will start doing all the validations in 2023. And so ready to start commercializing starting from 2024. That's no problem.

What will benefit us is the decision of the government, and we are all waiting for the Congress [indiscernible]. We need to understand whether they're going to be changing their policy, because if that happens, it's going to be an immediate benefit to our revenues, because we're not going to see these volumes also in the big cities. That was the comment.

And PG, do you want to comment on exchange rate?

PIERGIORGIO PEDRON: Sure, Andrea. Yes, you're right. Its €6 million on the top line for every cent on an yearly basis, I did not comment on EBITDA. On EBITDA is slightly lower than €3 million simply because after the Luminex acquisition, you know, the margin, if you wish dilution compared to the pre-Luminex, pre-COVID world is happening in the US, which is where basically Luminex cost pay is concentrated. So long story short, if you need to model it, I would stay more on the 2.5, just north of €2 million on EBITDA level.

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

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