Q&A

OPERATOR: For any questions from the audio call, please press "*" and "1" on your telephone.

ANALYST: The complexity of the business has increased since the pre-COVID period and the last Capital Market Day in 2021, expanding both geographically and technologically through the Luminex acquisition. In light of this, where do you see the greatest opportunities going forward? And on the other hand the potential downside risk.

CARLO ROSA: So the question is what can go wrong and what can go better. I honestly believe that the answer is the same. Clearly, in the next 4 years, we are going to bet on the fact that we are going to develop clinical value and we are going to develop the market to understand the clinical value. MeMed is a very good opportunity. So investing in education and developing the market clearly bears lots of rewards, but certainly, it bears some risk that has to do with the fact that you need to convince the clinical community to adopt a product. I believe that as we've demonstrated with MeMed, we are learning how to do it. MeMed has been a great opportunity to do so. And so, I believe that again it could be faster than what we expect or it can in certain cases take longer than what we expect. I think the good news is that is a very well balanced risk and opportunity because we've more products that we are going to go and introduce to the market. So again, I believe is a balanced risk and a balanced opportunity to do better than what the plan says.

OPERATOR: The first question from the audio call is from Aisyah Noor from Morgan Stanley. Please go ahead.

AISYAH NOOR: Hi Piergiorgio and Carlo. Thank you for taking my questions. My first one is just on the LTG business based on the growth guidance for 2024 versus 2027. It sounds like you expected business to grow the

lower end of the mid to high single-digit growth guidance for 2024, and then accelerating towards the end of the period. How much of this is driven by conservatism based on what you see in the market today and how much of it is, you know, the supply chain issues and market weakness et cetera. That will be really helpful.

My second question is on the LIAISON NES. My understanding was that there was already prototype in place and the product was ready to launch. So is the 2026 launch date now embedding some conservatives on your timeline in getting this to market or are you facing some hurdles in filing this to the FDA? Thank you.

COMPANY REPRESENTATIVE: It was MDx or NES?

CARLO ROSA: Aisyah, just to be clear, are you referring bout the NES or the MDx.

AISYAH NOOR: The NES.

CARLO ROSA: MDx.

AISYAH NOOR: No, no NES…LIAISON NES.

CARLO ROSA: Thank you. Okay. Good. So and you first question was about LTG. Look, let's start from the LTG. We all know that when it comes to 2023, the bio-pharma and the total industry under deliver, and I think has been discussed many times by all our players in the space. The reason has been slowdown in funding and destocking and so forth. So we start I believe 2024 in a better way because certainly the destocking we see has been completed. We see that when it comes to availability of reagents and inventory of reagents that partners carry. Clearly, once they destock they need to buy at a certain rate. So long story short, yes, we look at 2024, and we see that there is a certain growth rate, and then we expect moving forward that is going to be completely de-

risked. Is it conservatism? I don't know. I think we will have a better visibility Q1/Q2 about the LTG.

When it comes to the LIAISON NES, so the small platform. To me, it's very clear that we are in post-COVID and what does it mean we are in post COVID? It means that there is turn of COVID that is happening but diagnostic today is primarily done through antigen testing and in fact you see that molecular testing for COVID is decreasing dramatically, 90% below what it used to be just 2 years ago. And we develop a product on the NES which was Influenza A-B and COVID, because we were under the assumption that COVID testing would continue, but the truth of the matter is that when you go into the post-COVID world, is you also need RSV if you want to decentralize. And so, we decided to go back and add the RSV to the platform and then do the clinical including the RSV because that is the menu that is required to face the decentralization opportunity in the US. So the technology is there. We address the problem in the supply chain. You remember in some of the…on the conference calls, I was concerned about supply. I am not concerned about supply chain any longer on the NES. I believe that some of the hurdles have been addressed. So now, the question is adding RSV to clinical launching the product.

AISYAH NOOR: Super clear. Thank you.

OPERATOR: The next question is from Emanuele Gallazzi of Equita. Please go ahead.

EMANUELE GALLAZZI: Yes, good afternoon everybody. Thank you for the presentation and for taking my questions. I will start with 3 questions. The first one is a follow-up on the LIAISON NES and the point of care market in the post-COVID scenario. I was wondering if compared to your expectation in 2021, do you see a smaller or large opportunity for the point of care market?

The second one is on your pricing strategy. If you can just provide us more details on this and clarify the assumption included in your financial targets regarding specifically the pricing?

And the last one is no MeMed, if you can just provide granularity or more details on the expected contribution by MeMed test in your 2025 and 2027 financial target. Thank you.

CARLO ROSA: Okay. I think I will take the first question, which I believe is the only question I can take, because you would appreciate the fact that there is competition out there and the last thing I want to do is give competitions information about MeMed opportunity what we expect.

So if we go back to question #1, let me just give you a reference point which is very interesting. If we look at the viability in the US market of point of care platforms as a combination of antigen testing and molecular testing prior to the pandemic, so 2019. There were 160,000 platforms that were actually…that have been allocated to doctors, to pharmacists to anything that is decentralized in the US. If you look at that number, after pandemic, it doubled. And we know because other company's reported numbers that some of the platforms like ID now, for example, has been very successful during COVID, taking some of this market.

So I believe that COVID did 2 things. Let me just add one more point of reference. In 2016 in the US, 95% of flu testing, there was no COVID. Clearly, was antigen testing. In 2023, only 70% of flu testing is going to be done in the decentralized setting with antigen, 30% is done with molecular. So it is very clear that 2 things are happening. There is more adoption on one side pushed by COVID, and there is change of technology or let me say change of approach by doctors and pharmacists where ever these tests are run, where a simplified molecular assay is way more received than all the antigen test. And let me also give you an explanation for that in the US. There is also a

reimbursement component because if a doctor is actually testing with molecular is making more money than testing with an antigen platform.

So long story short, I see that it's…decentralisation clearly in the US. I am not going to comment Europe, because I believe is a waste of time, but when it come to the US, it's happening. The only I believe question mark is whether the pharmacy market…there are roughly 60,000 pharmacies in the US and just a very small minority of these pharmacies are doing diagnostic testing after COVID. The big question mark is whether the pharmacy market will develop and by the way in our assumption for the plan, we assume that is not developing significantly over the next 4 years, but a large part of opportunity is whether between Walgreen and CVS they will implement more diagnostic testing that will clearly give another opportunity for the market to develop.

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

MAJA PATAKI: Yes, good evening and thanks for taking my questions and thank you for the event. I am just curious about China. If you could help me understand that again a bit. So China is of course difficult for the whole diagnostic industry, and you are going to be ready in China in 2027 with your own manufacturing. Did I get that correct? In between 2024 and 2027, do you think you can actually generate growth? Is that what you have in your plan? And then the Punch 2 in China, that will come after 2027, after you have established your manufacturing capacity. I just want to make sure that I got China in the right order and how to think about it for your company? Thank you.

CARLO ROSA: Thank you, Maja. I think that you're right. This is what one of the presentations said, but I believe that I need to be more specific. We will complete transfer and launch of all the products on the LIAISON,

the 20 some products in 2027, but the rollout of products to the market will start in 2025. The LIAISON XL manufacturing transfer into China is happening as we speak. We're working with STRATEC to have that completed and we expect that we are going to have the LIAISON XL in China by 2025.

So in terms of expectations, we are very cautious about 2024, because in 2024, we have the effect of…initial effect of value-based pricing on one side and still for the order 551, which means localized manufacturing. We are not in a better situation than today. By the same token, we expect that market will stabilize. So for us, 2024 is going be flat. China. And then starting from 2025 when we have the LIAISON XL and so we are not going to be…we will be allowed to participate to certain tenders and then a roll out of the new products, then we expect China to grow. Just to give you an understanding, at the end of the plan, we expect China to be, to recover what China was in 2019, so before pandemic.

MAJA PATAKI: Okay, got it. Thank you very much.

OPERATOR: The next question is from Giorgio Tavolini of Intermonte. Please go ahead.

GIORGIO TAVOLINI: Hi, good evening everyone and thanks for taking my questions, a couple if I may, for Piergiorgio. I was wondering, if you could walk us through the free cash flow generation in terms of major moving parts. Your previous plan envisaged €450 million cumulative CAPEX envelope, and some, let's say in excess of €1.1 billion free cash flow on a cumulative basis. So I was wondering if you can give us more color on that?

And the second question is on the gross margin dynamics in 2024, putting on the one end the lack of COVID sales that was one of the major contributors to the higher profitability in the previous years.

And on the other end, the presence of the inflationary headwinds and the impact from China? Many thanks.

PIERGIORGIO PEDRON: Giorgio. Thanks for the question. So let's start with the main components of our free cash flow. So in our plan, we have give or take every year, €100 million of CAPEX investing, including, you know, as you might remember, all of our instruments, our install base, belongs to our CAPEX, because we own the instruments we place. And that is the biggest ticket item, if you wish, in a sense. Usually, if you look at past history of the company, we have been able to transform 60%, 62% of our EBITDA in free cash flow. And that is give or take, the ratio that you will see if you do your calculation in our plan.

One thing, though, that I'd like to highlight regards tax, which is another big element, tax cash out, which is another big element of our free cash flow. As you might remember, in the past, we in Italy enjoyed the benefit of the patent box, which during the first one delivered for us, give or take €40 million of lower tax cash outs. We very recently have been able to sign an extension with the Italian tax authorities which means that we're going to get an additional keys, if you wish in a sense of €40 million, €45 million over the years of the plan.

But by now, the law is over, there is no possibility anymore to extend the free cash flow at the patent box, which means that by 2025 that benefit will be over, which means once again that if you think about our free cash flow in 2025, our tax rate is going to move from 23% to 25%. And that covers free cash flow, I believe.

The second question, I think it was regarding gross margin. So, you know, we have many moving parts in our gross margins, but I believe if I can summarize them, I would do it in the following way. It is true we see inflationary pressure by all means. We factored into our financials 2.5% increase in our cost base, cost structure in a sense,

which we believe is going to be completely offset by all the initiatives that we are delivering in terms of creating additional manufacturing efficiencies. As I believe I mentioned in my remarks, we are also considering, you know, to further streamline our manufacturing footprint, which is going to help us to offset that pressure.

On the other hand, what you might remember we also did starting from this year, we implemented the new initiatives to manage in a more proactive way, let me put it in that way, pricing towards customers to gain some price power in a sense. And that is going to offset the natural price pressure in terms of pricing that we apply to customers we have seen in the past. And all of those elements will basically offset each other.

So, what we are left with, which is going to eventually dilute in our calculation by 1 percentage point, our gross margin is royalties. As you have seen during these presentations, a material growth driver, let me put it in that way, for our sales over the years…by the plan, is MeMed, is Lyme,, is latent tuberculosis, and those very nice programs and products come with additional royalties. And that's why in our assumptions, we should move from 65-ish percent gross margin of 2024 to 64%, give or take, or there about at the end of the plan.

What we will have, though, obviously, is you know, a much better operating leverage, because in our projection, the top line is going to grow at a faster, pace compared to our operating expenses. And that's why eventually we think we will be able to get back to an EBITDA margin of 36%, 37% by the end of the year that covered by the plan.

GIORGIO TAVOLINI: Many thanks, Piergiorgio.

OPERATOR: The next question is from Peter Wellford of Jeffries. Please go ahead.

PETER WELLFORD: Hi, thank you for taking my question. I've just got, I think, 2 left. Firstly, can I just ask just in regards to the deleveraging comments and the incremental growth projects, I guess, what sort of leverage ratio do you feel comfortable with, and so far as potentially pulling the trigger? I mean, I think you're already going to be at around 2 times, as you said, completely deleveraged by '27. What sort of level, I guess, is the comfortable level for the board as a sort of run rate for Diasorin? And equally, is there any…is there appetite, and it sounds like the way you talk about it, appetite to invest more in the LTG business? Or should we think very much more about, you know, this is going to remain the sort of non-organic options within diagnostics?

And then just secondly on the PLEX, just so I understand, given obviously the existing legacy Verigene customers, if approval clearance comes in, in early part of the year, is the aim to try and, you know, convert as many of those customers as possible before the '24-'25 cough/cold season? So I mean, I guess, could we potentially see quite a, you know, reasonably well installed customer base by that season? Or realistically, should we anticipate a slower ramp up of the installed base? Thank you.

CARLO ROSA: Let me start from the second one. I honestly don't know, because the problem with our respiratory panel is that there is a season, there is a part of the season where hospitals are hit by the patient flow, and they don't have time to validate. And typically there is a time of the year, when they…have the time to do validation and on a new platform which is the tail of the season and the beginning of the next season.

PETER WELLFORD: Right.

CARLO ROSA: So, in our assumption we have that we are going to be starting marketing at the end of the second quarter. Clearly, we are doing pre-clinical studies already in the US in several centers in order to build consensus and publications around the technology. And then the full

launch is going to happen around the September timeframe when you know, you enter into the season customers are doing validation and so forth. So, to be honest with you, I don't expect in 2024 that on an earlier approval would necessarily change its dynamic of the contribution of the platform in '24.

Second question is…the first question is was about the leverage. And look, it's really difficult to say because leverage also depends on cost of capital and today, you know, raising debt is expensive and we expect that moving forward, you know, it may get cheaper. But just to give you…I think you should use the…what we did with Luminex as an example of what the shareholder and the company are willing to do when it comes to an acquisition.

My personal opinion is that our leverage in today microeconomic environment that sits between 2, 3 times the EBITDA is sustainable. Sustainable meaning that it doesn't stress the company into the internal development to the spending money and investing for internal growth. Above 3 is getting complicated. But see this is my personal view, it will have to be discussed with the board and the main shareholder when it comes to targeting.

Again difficult to say, but today if I look at the portfolio we have, I believe that when it comes to molecular is execution. We have all the platforms that we need for decentralization for syndromic, and I would never get this company involved into the high throughput segment of the market which I think is very, very well served by companies like Cologic [ph] and Roche, and I don't see honestly the opportunity for anybody to get into that, and so we are missing that platform, but it is on the area where we don't intend to go.

When it comes to immuno, we have products, systems the XXL is coming. We have the technologies. So, the only opportunity, I would say, if there was an opportunity to buy content and so add to our

portfolio products value in clinical areas where there is IPN protection. There is not a very…there is any large assets on the market with those characteristics. So, if we go down that path, I think would be more tactical.

When it comes to LTG, it's…I think that the jury is out. You have seen recently a transaction that was completed by or announced, not completed by Thermo Fisher and you have seen the multiple in the sector we are talking about 16 time revenues, which is not an exception, when you look into technology in a growing space, I think that these days is what you have to pay. So, it will mean that if you want to buy a business that already has a significant revenues and significant revenues means anything between €100 million to €200 million with growth, we are talking about a very large investment.

So, I don't think that we would be looking into something of that size, but certainly LTG, what we need to understand if there is any adjacent technology, so it would be more a technology play that we had to put to the portfolio…of the portfolio of our partners by the way, because we don't serve the end-user. So, is there any technology that we can add to the portfolio of the partners that…for a market that they can develop? So, this made €0.02 to be honest with you, but Diasorin you know, I think, has always surprised the market because when you…when everybody thought that we were quiescent and so not doing much then we announced an acquisition. So, stay tuned.

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

ANDREA BALLONI: Hi, good evening. Can you hear me?

CARLO ROSA: Yes, we can.

PIERGIORGIO PEDRON: Andrea, ciao.

ANDREA BALLONI: Hi, ciao. Ciao Piergiorgio, ciao Carlo. Thanks for taking my question. I have 3 actually, and my first one is on margin. The target you gave on 2027 is around 100-250 basis points lower compared to the one on previous Capital Markets Day. Is this only related to a cost inflation and price pressure in China or there are also other reason for this reduction?

My second question is about PLEX. Since I would expect that you are going to replace the former Verigene 1. Do you expect some extraordinary cost such as in the case of a substitution replacement of the Aries you have mentioned before?

And my very last question is about multi-omics. It was very interesting slide and sorry, I am not familiar with this kind of business. Just we would like to understand how this business is a part of Diasorin segment if I understand correctly is a part of licensed technology, but wanted to understand if this may add further growth or this…or if this represent another opportunity in the future for Diasorin? Thank you.

CARLO ROSA: I think this will be a question for Angelo Rago, but I'll try to do myself my best to explain. It's very clear that these days, basic research is moving from genomics to proteomics, which is a very interesting application for our technology and in fact if you look at what is happening in transplantation when some of the traditional HLA testing where we play through partnership has been cannibalized by sequencing.

In parallel, there has been a raise of applications where protein analysis, antibody analysis is actually important to characterize from the donors and patients. So, I believe that what we are saying here is that…you know, if we think about it, genomics…you look at the gene, but then the actual vector for the disease is always a protein. So,

eventually you should be testing protein and protein testing it is what today the pharmaceutical companies are doing and there is where we see a particular opportunity with our platform.

When it comes to the PLEX, no, I don't think so. PLEX is…you know, when we bought Luminex, there was a commercial sales force in the US that was very well structured and we were looking ahead at the following 2 years when we were making an investment in building products, but the catalogue that we had available in molecular was relatively small in the US and…but we decided conscientiously to maintain the commercial sales force as it was.

Some of other…of our competitors typically cut and first and then honestly, the basis they rehire, we decided to make an investment and keep the people because first we have very good people and very knowledgeable in syndromic.

So, now what we have which I think is what PG was saying before, we do have the critical mass in molecular necessary to expand the business without expanding the cost. So, long story short, I don't expect any significant investment with the exception clearly of certain chunk of money that our…it is a one-off events when you launch a particular platform, but certainly is not significant in the long term. From a margin perspective, which I believe is the third question.

PIERGIORGIO PEDRON: Yes, I'll take that obviously. And so, Andrea there are obviously many moving parts, right? And we are talking about 2027. So, like always, you really need to build some flexibility into the modelling so to say, but I would say the 2 main elements that we were not aware about obviously when we made the 2021 projections are #1 China, you know, over the volume-based procurement story that we discussed about, that goes straight to the bottom line. So, we built some assumptions into our modelling in terms of how much that is going to worth.

And the second one is we now leave in an inflationary environment and that was not you know, when we…back in 2020/2021, it was a completely different world. So, we believe that now we built into our model very fair assumptions, and I would say those are the 2 main factors that could explain why from the 38% of the previous plan, we now move to the 36%-37%.

ANDREA BALLONI: Okay, thanks a lot. Very clear. And just a follow up about China. Can you remind me the weight of China sales this year?

PIERGIORGIO PEDRON: Yes, it's…Andrea, it's less than 5%. Let me say between 3% and 4%. So, it's really not material. I believe Carlo mentioned that by the end of the plan, we believe China should go back to where it was in 2019, give or take which is obviously you know, helping our top line, but eventually I believe the main point that we need to underline is that China is, by all means, an opportunity, but we have completely de-risked the company for under growth in China, right? So, that's not like something which is going to move the needle for the old company at all. It's more opportunities, I would say, than risks in a sense.

ANDREA BALLONI: Very clear. That's all guys.

PIERGIORGIO PEDRON: Thank you, Andrea.

OPERATOR: There are no more questions at this time.

CARLO ROSA: Okay. So, I would like to thank everybody for taking the time late on Friday to participate to the event. And last but not least, I would like to thank everybody who has been helping to put together this presentation. Has been hard work on good quality. Thank you. Thank you everybody and I think we'll…we're going to talk to each other for the year-end results.

PIERGIORGIO PEDRON: Thank you all. Take care.