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DiaSorin SpA *(DIA.IT)*

Q2 2008 Earnings Call - 8/8/2008

## MANAGEMENT DISCUSSION SECTION

**Operator:** Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the DiaSorin's First Half 2008 Results Conference Call. As a reminder, all participants are in a 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.

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**Carlo Rosa**

Yes, thank you. Good morning or good afternoon. Welcome to everybody for the conference call. I will make a very brief comment to the results and then Andrea will go through in detail of all the financials for the second quarter.

First, I would like to start with a comment on the strategic acquisition that DiaSorin finalized on July 9. I'm referring to the acquisition of the Biotrin Group. Biotrin is a relatively small company, around €10 million in revenue, very profitable, and it is a company that owns a lot of know-how and intellectual property when it comes to our specific disease, the parvovirus, which we deem strategic to complete our product portfolio related to infectious disease. Today, Biotrin is generating €10 million in sales mainly using ELISA technology and a network of distributors. It is very clear that our first objective, will be to turn all the sales from the distributors directly to our own subsidiaries and the effort is already ongoing. We believe that it is going to take between one and two quarters to turn the first important market like Germany from distribution to direct. We envision that we will not have to spend additional money in sales and marketing effort. So, conversion from transfer price to distributor to end user will go directly to the bottom line or [indiscernible] (02:36)

The second effort which will start in the beginning of September will be the development of the LIAISON platform of the parvovirus products will be two products for IgG and IgM determination. And we believe that the two products will be available for launch in Europe within the following 12 months.

Last but not the least, we deem this acquisition strategic because of a license agreement that Biotrin owns from the NIH in the U.S. concerning products who monitor the effectiveness of the papillomavirus vaccination. You know that with the approval in U.S. and in Europe of vaccine for papillomavirus, this area is becoming very hot. And we believe that there will be an opportunity to launch a product within the next three to six months for papillomavirus – for pre or post-vaccination determination. And we believe that this is a very good opportunity for the growth.

Now, going back now to the results of the DiaSorin Group, we will report strong growth also in quarter two in all the main geographies, notwithstanding the impact of the dollar effect. You will see that we've increased revenues since quarter two by 14%, and it would have been almost 19% at constant exchange rate. We've installed worldwide 120 additional LIAISONs. That's together with 90 LIAISONs installed in quarter one, with a total of 200 LIAISON in the first two quarters, in line with that we have projected.

Now, let me comment on the geographies. U.S. continues to make a lion's share in our growth opportunity. But in U.S. dollars, our U.S. operation grew by 35% compared to the same quarter last year [inaudible] (04:56) in euros, the growth is reduced to 17%, but still a very strong growth, driven in the U.S. by the continuous adoption of vitamin D testing by the medical community. But in all the other geographies – the European geographies, the

growth has been over 11%, driven by the success of the infectious disease product line, the continued growth in the infectious disease product line and some specialty products that have been introduced in the last few quarters.

Then, finally, when it comes to distribution, we are experiencing a strong growth in certain geographies. Russia continued to grow substantially after we received approval of all the LIAISON products and we have initiated operations in Russia at the beginning of the year.

Last but not least, you will see that we will have a record EBITDA result for this quarter on an adjusted basis. We went over 35% EBITDA for the quarter.

Now, we'll turn then to Andrea. Andrea will go through all the financials. And then we're going to take the Q&A session.

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## Andrea Senaldi

Thank you, Carlo. Good afternoon or good morning, ladies and gentlemen. What I'll do, as usual, I will take you through the quarter two results starting from cost analysis of the P&L and then going into further detail and then a quick glance on the cumulative results of the first half year.

So, if you start from slide number one, we have here a presentation of the profit and loss accounts for the quarter compared with the same quarter of last year, you can see that revenue – we are reporting revenues just shy of €60 million for the quarter, exactly €59.6 million, with a growth of 14.1% versus previous year.

Now, as Carlo mentioned, this performance has been affected and delivered despite of a negative effect of the devaluation and the U.S. dollars has been particularly strong in the second quarter and quarter exchange rate – growth rate would have been 19%.

Now, in terms of gross profit, we are reporting a €38.8 million versus €34.4 million, with a slight decrease on the percentage of sales to the gross profit which I will come back in more detail in a couple of slides.

The operational expenses of the structural cost of the group have been growing very little versus previous year, 3.4%, and this is delivered to both the operating margins and significant leverage. If you look at the EBIT and the EBITDA adjusted for the non-recurring items that in 2008 are represented by about €0.5 million of costs, which has been sustained for the support to the acquisition Carlo mentioned a few minutes ago, and in 2007 where, as you will remember, related to mainly to the IPO cost.

But if you look at EBIT ex exceptional items on adjusted basis, we are reporting an EBIT growth close to 30% with a percentage of sales, which has moved up by 3.5 percentage points from 25.7% to 29.2%. At EBITDA level, we are reporting an EBITDA growth of 23.4% versus the similar quarter at previous year, with a movement as a percentage of sales from 32.5% to 35.2% in the quarter.

Last but not least, if you look at the net results of the quarter, we are recording a growth of the net results by 45% from €7 million of last year to €10.1 million.

Now, if you turn the slide to the next one, the drivers of the growth, of the top line, I have already mentioned the first point which is the effect of exchange rate. I will basically mention that the growth remains driven and keeps – were driven by the enlargement of the LIAISON installed base. In the quarter, we installed about 120 LIAISON. If you will remember, in quarter one, we installed about 90. So, the total installed base at the end of June globally is

2,280 instruments. We continue leveraging the LIAISON installed base, therefore, we continue recording an increase of the revenues per box. And as you will see in a slide, the U.S. and the European markets are mainly driving the growth in the quarter.

If you look at the development by technology, if you remember the breakdown between RIA, ELISA, CLIA and the rest and our revenue continue to be driven by the CLIA expansion again in this quarter. LIAISON sales had grown by 30% versus the similar quarter of 2007. And this has started shift the weights of the LIAISON within our product portfolio. CLIA accounted for just above 50% in 2007. In quarter two 2008, it accounts for 57.3%.

If we look at the geography on slide number four, as I mentioned, Europe and North America are clearly driving the growth as well in the quarter as the rest of the world. In Europe, I just want to – which has grown by close to 12%, I just want to mention a few countries which have significant performance. France is growing by close to 14%. Belgium is close to 10%. The Nordic countries are growing – almost doubling their turnover versus two years here. And then if you look at the markets where we are not directly present, their third-party distributors market are growing by 61.6%, driven also by a significant contribution from the Russia market where we have opened a new distribution channel just this year.

I believe Carlo has already commented on the performance in the U.S. In North America, plus 16.8% as reported, a plus 35.6% if you use comparable exchange rate. In the rest of the world, I want to mention the two most recent initiatives. Israel is growing 54% versus the similar quarter of previous year. Mexico is growing more than 30%. And I also want to particularly mention Brazil. As you remember, Brazil in quarter one was basically flat in the wake of a delayed tender assignment. The tender has now come through, and we have begun delivering in the quarter. And Brazil versus previous year is now growing at close to 20%.

If we now come to the analysis of the profitability, if you look at the operating margins, they continue to improve. EBITDA, as we said, has moved on restated basis from 32.5% to 35.2% and EBIT from 25.7% to 29.2% as a percentage of turnover. And this performance has been delivered despite of slightly lower gross margins versus Q2 2007.

First of all, I want to mention that the improvement in the margin continues. If you look at quarter one 2008, we are recording in quarter two an improvement of 50 basis points. And the performance versus the quarter one of 2007 has to be analyzed [ph] back (13:24) of two items which are of a temporary nature in our view.

First of all, last year we reported an exceptional event which was due to the different accounting treatment of the leading indemnity in the Italian market which improved on a temporary basis or – sorry, on an exceptional basis, on a one-off basis, the gross margin second quarter of 2007 by 40 basis points.

Furthermore, in the second quarter of 2008, as you may remember from this conference call of the first quarter, we continued to reduce – and increase in the cost for royalties which is mainly due to the negotiation of an important supply contract for PCG.

And last but not least, I have to mention that for the first time, in the second quarter and the first half, because of the significant increase of exposure on – in U.S. dollar on the U.S. market, the exchange-rate effect is heating up not only at – in absolute amount but also on a percentage-margin basis.

Below the gross margin, as I mentioned before, continues, however, the operating leverage on the structural cost of the company, which had delivered a significant improvement in EBIT and EBITDA.

Now, if we glance quickly at the first semester results, they basically mirror the performance they already mentioned for the quarter. Net revenues, we closed June with accumulative €116 million, a growth of close to 14%. Again, the growth rate is influenced negatively by the exchange rates which account for a little more than 4 percentage points. At comparable exchange rates, the growth would have been close to 18.5%.

The gross profit has grown by 13.5%. The gross margin, if you adjust for the exceptional event that we mentioned just a couple of minutes ago, is in line with previous year and we continue the leverage on the operational expenses which have reduced in the six months – in the first six months of the year that have reduced the incidence of the turnover by 2 percentage points.

If you look at EBIT, again, adjusted for the non-recurring item, EBIT has been growing by almost 24% moving from €26.8 million in 2007 to €33.1 million in 2008. EBITDA, again, adjusted as we have recorded, €40.2 million in the first semester, 34.5% over the turnover with an improvement of close to 150 basis points versus previous year. And last but not the least, the net results for the first six months would be €20.3 million, growing again almost 50% versus previous year.

If you move to slide seven, again, the – where the development of the breakdown by technology mirrors what I've just mentioned about the second quarter. In the first six months, LIAISON has grown by more than 30% and it now represents 57% of the sales of the first six months.

By geography, I would add to the comments that Carlo made before in the U.S., the cumulative growth is 38% at comparable exchange rate. And if you remember what we've been doing in the previous quarter, this is now the third quarter in a row while the U.S. market's growth on a similar rate, clearly driven by the development of vitamin D.

In the rest of the world, aside from the two recent initiatives that I mentioned before, I would like to point out the contribution of the third-party distributor market, which had been growing in the first half year by almost 19% driven particularly by performance in China and in Australia.

Again, profitability, we mentioned and we commented it before, is continuously improved driven by the improvement of the [ph] financial (18:22) margin of the mix of products. So, the premium price is observed by LIAISON products. By continuous leverage on the installed base only partly mitigated by the effect that I mentioned before in terms of royalties and exchange rate. And this is reflected all down the line to the operating margins.

If you move to slide 10, that covers the overview of the balance sheet as of the 30th of June of 2008. Our net capital employed in June is €140 million – €142 million. This is financed by equity for €132.6 million and a net debt of €9.4 million. I have to mention that within the €9.4 million of net financial indebtedness, €5.5 million are represented by dividends, which has been raised to resolve by the board but not paid until the 19th of July. And therefore, they do favor in this first-half year as a financial debt.

If you take out those dividends from the net financial position, and you would be left with a net debt of €3.9 million which compares to the €12.1 million at the end of 2007.

The cash at the end of the period and hence of the group is €14.1 million. The performance of cash equivalents has been driven by the operational cash flow, €8 million in the first half year, having invested €6.3 million in CapEx and having paid up interest of €1.6 million. In the first six months of 2007, the operational cash flow was €4.3 million and interests were at €1.8 million.

I already commented on the net debt and the net financial position and also on the cash position at the end of the year. In terms of net financial investment, I just want to add that, as of the next quarter, you will see a different position because the Biotrin acquisition has been financed entirely with debt. So, we have paid out a total consideration of just above €25 million, and you will find the similar reflection into our net financial position as of next quarter.

Last but not the least, if you look at the forthcoming events of the company, we will meet the financial community in September 3 – on September 3 and 4 at the Goldman Sachs Annual European Medtech Conference and on September 22 and 25 at the UBS Global Life Conference in New York.

That's all for me. And I would like to open up the Q&A session. Thank you very much.

## 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 Mr. Martin Wales of UBS. Please go ahead, sir.

Martin Wales

Q

Hi. Good afternoon. Good afternoon. Congratulations on another great quarter. Can I start by just getting a little bit more color on how we should be thinking about Biotrin going forward? You talked about €10 million in revenue, which, I guess, which should add about €5 million to the 2008 forecast, and give some sense of what distribute in-house could mean for 2009 revenue? Could you also talk about [ph] incremental (22:32) profitability and obviously also the tax rate given the [indiscernible] (22:37) and to a low taxes there, also give us a sense of what physicals assets you've acquired apart from the IPO around parvovirus? Thank you.

Carlo Rosa

A

Now, let me just comment on this. When it comes to additional revenues for 2008, it's going to be, you're right – I think it's going to be €5 million from total areas, from July, from the time of acquisition through December. If you look at the sales of the company, they have a little bit over \$5 million in the U.S. then they serve the market direct. And then the rest of the sales, they have, let me say, a little bit over \$1 million direct in France through a subsidiary and the rest are all done through distribution. So, you may assume that distributors usually carry a 40% margin. So, just turning those sales to the right should have an impact which is estimated to be around €3 million on additional – €3 million to €4 million of additional revenues.

When it comes to the intellectual property, Biotrin has an intellectual property, a long-lasting patent in the U.S. that will protect the business throughout 2017. If I'm not wrong, they have a European patent that will stop – will expire in 2010. And by then we will have developed the LIAISON version of the [indiscernible] (24:35) And therefore, we believe that we are going to defend a position any way, and we have the first automated LIAISON parvovirus.

Martin Wales

Q

Thanks. Can you talk a bit about profitability of Biotrin in your organization? You made some comments that you can sell through your existing sales organization. Also, can you talk about other assets other than the intellectual property you acquired with Biotrin?

Carlo Rosa

A

Sorry, Martin. When it comes to the profitability of the company, the company has – let me say, if you do running 12 months and you exclude any extraordinary cost that the company took in 2008, we have estimated that the company has an EBIT around €3 million. You know and I know very well about the tax rate in Ireland. So, underneath that EBIT, there is a 12.5%, and then everything else goes down to the net income. Other than the intellectual [indiscernible] (00:25:51) asset that we purchased, as I mentioned before, the other relevant asset the company has is an exclusive worldwide license from the NIH on the use of a recombinant protein or the [indiscernible] (26:10) or the papilloma virus strain 16. Then as you know, the vaccine companies today have developed vaccine with strain 16 and strain 18. So, we would be in – the company would be in the position to develop exclusively a product to the fact with the vaccination when a patient should be vaccinated and after vaccination whether the patient is responding to vaccination. Therefore, we believe that this would be a great potential market to expand the operation in infectious disease area over DiaSorin.

Martin Wales

Q

Okay. Can you just remind me of what – of extra operating costs we will see in 2008 in relation to this acquisition beyond what we've already seen?

Carlo Rosa

A

I think that the addition of one would be a [indiscernible] (27:09) which should fall into – in the third quarter around €280,000.

Martin Wales

Q

Okay. Going back to your results ex-Biotrin, it's obviously very impressive. What does that mean for how we should be thinking of how the rest of the year? I mean, you've – in the first half, you've done €160 million. I know Q3 is always your weakest quarter, but if the consensus, let's say, is ex-Biotrin is around about €225 million, €226 million of the revenue line, is that putting pressure on that? And then, of course, what does it mean for our profitability in 2008?

Andrea Senaldi

A

Listen, Martin, I'll take this. I believe, if you remember the guidance that we normally give, we always tell you that – tell you, guys, that we estimate an improvement all down the line close to 100 basis point [indiscernible] (28:07) on average for the next two years.

Now, it is clearly that this forecast is now heavily affected and positively affected by the performance of the vitamin D market, because vitamin D is an assay with a strong profitability, with a profitability above the average. So, why is that I would continue to envisage an improvement at gross margin for about 100 basis points? I do



believe that, down the line, it will reflect at least in the double performance in EBITDA level. This is our current estimate of the end of 2008.

As far as Biotrin is concerned, we will consolidate their results only from the closing date and starting with the quarter three results. That will mainly exclude the impact of exceptional cost incurred in Biotrin prior to the acquisition.

Martin Wales

Q

All right. So, you got – you clarified the precise closing date, sir?

Andrea Senaldi

A

The closing date was the 9th of July. We will consolidate Biotrin results, so from revenues down to net profit after that date and starting with quarter three reported results.

So, the effect of Biotrin on the results of DiaSorin, as compared to the usual consolidation area, will not significantly affect it, with the exception of the net profit because, in Ireland, we got a corporate tax of 12.5%, whereby the average of the group today is 37%. So, that will be an effect which will be reflected on to our accounts. Now, it is very difficult for me now to give a precise indication because Biotrin is reported – is reporting according to Irish GAAP, and we are currently in the process of translating Irish GAAP into IFRS.

Martin Wales

Q

Okay. Can you just give me a sense of how your business is going in Q3, but also where it could be going longer term? And one question we're asking every time at the moment is are you seeing any pressures either on the consumables side or perhaps more relevantly on the instrument side the result of the economic slowdown in the United States, i.e., if people are buying pure instruments, are you hacking to, say – basically pricing more and selling less because people can't commit to consumables? I mean, how is – are you seeing any impact? What do you expect to see?

Carlo Rosa

A

No, we don't see an effect in the U.S. in the traditional business nor clearly we see it from vitamin D. Vitamin D, as you know, the demand – the clinical use is increasing very rapidly. So, it does not suffer from any slowdown of the economy nor [indiscernible] (31:18) for the consumer added.

Martin Wales

Q

When do you expect competition at the vitamin D market over and above the existing competition for mass spec already exists, i.e., when do you expect your competitors as the Roche test to arrive there?

Carlo Rosa

A



I have no idea because I don't have a crystal ball. The only thing I know is that I think competition is already there. As you know, the two large in the – two largest labs today, LabCorp and Quest, one is using the DiaSorin products and the other one is using an in-house mass spec. There has been a lot of controversial data presented at the AACC a couple of weeks ago about the use of mass spec. Mass spec is a home-brew test. And the [indiscernible] (32:04) position of home-brew testing with licensed products are available, so we continue to put pressure on customers to adopt our tests.

When it comes to Roche, I cannot comment. We have no news when it comes to their approval in the U.S. We know that we have not seen them much around the work where they've already been distributing their products for almost one year.

When it comes to the other companies, everybody says that they are working on it, but we haven't seen much, so I have no idea.

Martin Wales

Q

Okay. Well, I'd better leave it for the time being, and that's all [ph] I have for (32:41) questions. Thank you.

Carlo Rosa

A

Thanks.

**Operator:** Your next question is coming from Massimo Vecchio of Mediobanca. Please go ahead, sir.

Massimo Vecchio

Q

Good afternoon, gentlemen. First of all, a little clarification, if I understand correctly expect a margin improvement of 2 basis points for 2008, that's the first question.

Secondly, if you can expound a little bit on revenues per box, they seemed to be very high in Q1. What do you expect for the rest of the year, and can you explain what's going on there?

And the third question is on the pattern of foreign exchange on the gross profit if you can go a little bit more in detail on this. It seems to me that it's not just an exchange rate issue, but it's the fact that your sales in U.S. are probably going stronger than you were expecting at the beginning of the year. Thanks.

Andrea Senaldi

A

Hello, Massimo. I'll take all of your questions. First of all, yes, you understood right. We expect a 100-basis-point improvement at gross margin versus the average of 2007. And as I said, we expect 200 basis points operating margins improvement. Your second question was about the revenue per box, I believe I already answered in the similar session in quarter one. Yes, indeed, we have a very high revenue per box indicator in the first six months. On top of my head, it should be close to €60,000. But as I did last time, I always have to warn you not to use that average to project the full year. The full year will show an improvement versus previous year, but it's not going to be €60,000 per machine on average. It is also clear that the revenue per box is strongly driven by the placement of LIAISONS with vitamin D which has a very high throughput per machine.

Last but not the least your question on exchange rate, if you look at our margins of 2008, the exchange rate effect on the dollar is now affecting the gross margin by about 20 basis points, versus the previous year. If I have to comment on the total effects or total exposure on the U.S. dollar that we currently carry, this has significantly increased versus what we said related to 2007. If you remember we said that at EBIT level, did balance between revenues and costs in U.S. dollar was leaving us exposed at the EBIT level for €1.6 million on a 10% devaluation of the dollar. And if you think about devaluation in the first six months which has been 15%, we are now looking at a €2.2 million or €4 million on a yearly basis exposure. So, 15% accounts for about €4 million less at EBIT level.

Massimo Vecchio

Q

Okay. Thank you very much.

**Operator:** [Operator Instructions] The next question is from Stéphane Sumar of Exane. Please go ahead.

Stéphane Sumar

Q

Hello. Good afternoon, gentlemen. Thank you so much for my comment. A quick question again [indiscernible] (36:41) just mentioned on the operating margin. Just to make sure what are clearly the trends. You are mentioning that you clearly are having a 100 basis points improvement compared to last year. I mean, you restated you are now expecting 200 basis improvement in operating margin?

Carlo Rosa

A

Yes.

Stéphane Sumar

Q

Yes. So, the basis for last year, what do you consider, do you consider you are – we are talking of the restated operating margin? I mean, you took [indiscernible] (37:10) 25%. I am right?

Carlo Rosa

A

We are always speaking about adjusted indicator. So, that is true for EBIT as well as for EBITDA.

Stéphane Sumar

Q

Okay.

Andrea Senaldi

A

Okay. Right.

Stéphane Sumar

Q

And the 100% improvement was on EBITDA, I didn't really catch what you've said that's why I'm asking the question.

Andrea Senaldi

A

I said that both at EBIT and EBITDA, we will record an improvement of 200 basis points.

Stéphane Sumar

Q

Okay. And what about going forward because your initial guidance was 100% improvement over the next three years? Obviously, we have already achieved your exquisite guidance which was more or less 28%. Can we expect this trend to continue, I mean, this 100-basis-point improvement?

Carlo Rosa

A

I will take the question. I think that, as Andrea explained, the over achievement has been driven by vitamin D, so we would like to keep growing forward our original assumption which is 100 basis points per year. We don't feel comfortable about expanding this improvement. We believe that vitamin D today, the way the market grows, is completely outside the control of the company and it has been said before. Competitors may arrive and market conditions may change. I remind you that vitamin D to us today represents less – around 20% of our turnover. Before there's still a relatively marginal when it comes to the total revenues. Although we cannot expect that it will continue to grow at its rate. So in a very pragmatic way, my recommendation will be just to use 100 basis points as we stated before.

Stéphane Sumar

Q

Okay. And I guess another question regarding the change in the royalties' agreement you have mentioned. Could we expect some other new contract being signed in the next few months which will be done, obviously, in light of favorable condition for you?

Carlo Rosa

A

No. This is a contract with a company called BRAHMS...

Stéphane Sumar

Q

Yes.

Carlo Rosa

A

...which was signed 11 years ago. The original contract actually was signed by [indiscernible] (39:50) so not by us. The original contract expire – would have been expired in 2009. We renegotiated the contract, but the favorable terms which we're negotiating years ago were not renewed. PCT is a license which has been given by BRAHMS to many companies including bioMérieux, including Roche at certain conditions. And so, our conditions have been level to market conditions. We don't foresee any other renewal of royalties or licensees from anybody else.

Stéphane Sumar

Q

Okay. And just coming back to the margin story, so you are expecting more or less 28% operating margin in H1. You are guiding more or less 29% – 27% over the full year. Why do you expect [indiscernible] (40:39) profitability in H2?

Andrea Senaldi

A

Because, Stéphane, if you look at the historical performance of the company, we'll find that in the second half of the year, revenues are slightly lower than in the first half. And therefore, you have a leverage effect on the operating expenses and on the installed bases, which is certainly lower than what you have witnessed in the first half.

Stéphane Sumar

Q

Okay, okay. Thank you very much, sir.

**Operator:** We have a follow-up question from Mr. Martin Wales of UBS. Please go ahead, sir.

Martin Wales

Q

Just to come back to the full-year 2008 revenue points But getting around Biotrin for a second, are you expecting anything different this year on the revenue trends in the second half versus the first half versus previous years? Or should we just assume that it's a similar proportion of what we've seen in 2007?

Andrea Senaldi

A

I think it's fair to assume they're proportion.

Martin Wales

Q

Good. In terms of machine placed, there's obviously about 210 machines placed this year, if I can add up. You typically talked about 400 a year, any change of that guidance here? I think you will see us slow in – typically slow in Q3. We'll see you coming out around about the 400 level? Because 120 is probably a big number in the second quarter.

Carlo Rosa

A

No. We project 400. We get close to 400 systems as the projected at the beginning of the year.

Martin Wales

Q

And how are you tracking on that in Q3, I guess, if you're not going place an awful lot of or – you place here in August, how is it tracking July?

Carlo Rosa

A

We are tracking good, Martin.

Martin Wales

Q

Okay. Just coming – just so I understand the margin point, you think you will add 100 basis points to your operating margin in 2009, just to be absolutely clear on that?

Carlo Rosa

A

Yes.

Martin Wales

Q

That's perfect. Thank you very much.

**Operator:** The next question is from Massimo Vecchio of Mediobanca. Please go ahead, sir.

Massimo Vecchio

Q

Yes. Last time I didn't – a question [indiscernible] (42:46) at the end of Q1, you announced Biotrin's [indiscernible] (42:50). What's your position now on the M&A side? Are you still looking for something which could be very similar as accounted to Biotrin, so basically buying technology and not that much sales, or is there a difference? And are you seeing prices, multiples going down following the stock market.

Carlo Rosa

A

Sorry, Massimo, I don't know if you broke up, but the first question is about M&A activity. We always tell you that we are very logical in our M&A activity. We are looking for companies that are adding portfolios to products to give us a chance like Biotrin to move technology from other technologies to the LIAISON and gain in price and profitability.

I think the Biotrin acquisition was the perfect example of this strategy because it's a small company. It's easy to integrate in the group, very profitable itself and allow us even more profitability growing forward.

When it comes to M&A activity, as I stated, we are looking into opportunities the company can spend more leverage. But again, we don't rush. We will never rush because we have everything we need to continue to grow as we have done in the past.

When it comes to multiples and evaluation of the stock, if I knew that answer, I think I will be home buying and trading with my computer. I have no idea.

Massimo Vecchio

Q

Okay. Thank you very much.

Carlo Rosa

A

You're welcome.

**Operator:** We have a follow-up question from Stéphane Sumar of Exane. Please go ahead, sir.

Stéphane Sumar

Q

Hi, everyone. It's Stéphane again. I've got a first question on vitamin D. I was wondering was the contribution – what would have been the operating margin if we exclude the contribution of vitamin D?

Andrea Senaldi

A

I don't think that we look at our business that way, so we have not done this calculation and it's very difficult to do because, with the exception of the U.S. in all other countries, vitamin D is sold as a package.

Stéphane Sumar

Q

[indiscernible] (45:19), but you said in all other countries, vitamin D is sold? Sorry.

Carlo Rosa

A

As a package.

Stéphane Sumar

Q

Okay.

Carlo Rosa

A

So, the U.S. is the only market in the world, as we speak, where the vitamin D friendliness is driving single placement of boxes in a strategy to go to central lab, as well as to the periphery with Cardinal in acquisition of its labs.

In all other countries, vitamin D is part of a package. So, we sell it with all the other products, and we look at overall profitability of the box placement.

Stéphane Sumar

Q

But just to check that – if I do better than your calculation, if I consider that you are realizing 20% of your sale in vitamin D, can we assume that operating margin on the [indiscernible] (46:06) is 35%, or I'm right, I'm wrong?

Carlo Rosa

A

I don't know. How do you do this?

Stéphane Sumar

Q

[indiscernible] (46:14) the purpose of my question was just to get a sentiment of what would the – what is the contribution that [indiscernible] (46:23).

Carlo Rosa

A

Listen, as I told you, we don't look at the businesses where clearly vitamin D has a high contribution. But by the same token, since vitamin D is sold a lot in the U.S., it's the product that suffers a lot from the exchange-rate effect. So, I think the calculation is more complicated than what you think.

Stéphane Sumar

Q

Okay. So, can I expect a positive impact next year as the current environment's becoming probably a bit more stable?

Carlo Rosa

A

Yeah, as Andrea told you, at this stage, as we are today, at 10% or 15% reevaluation of the dollar, would give us €4 million more at the EBIT level.

Stéphane Sumar

Q

And much is on vitamin D, I guess?

Carlo Rosa

A



Not necessarily because we have vitamin D, and then you have – vitamin D, in the U.S., represents a little less than 50% of the total turnover. You have all the rest...

Stéphane Sumar

Q

Vitamin D in the U.S., what did you say?

Carlo Rosa

A

Represents a little less than – between RIA and the other technologies. And the LIAISON represents a little less than 50% of the turnover today. All the rest are the other products.

Stéphane Sumar

Q

And does that including growth?

Carlo Rosa

A

Sorry. Say it again.

Stéphane Sumar

Q

What was the – and if you look at the growth in U.S., what was the percentage explained by vitamin D? I remember in Q1 it was quite a high figure. So, I guess that it's more or less something in Q2.

Carlo Rosa

A

It's a high figure, Stéphane, but we are going into information that I consider I really don't want to release or make public because I think that there is competition out there.

Stéphane Sumar

Q

Okay. Thank you very much, Carlo.

Carlo Rosa

A

You're welcome.

**Operator:** We had a follow-up question from Mr. Martin Wales of UBS. Please go ahead, sir.

Martin Wales

Q

Hello again. So, vitamin D is guiding placements of box or placements on the sales of boxes in the United States, how can you exploit that in terms of getting more consumables on those boxes? What are you missing at the moment that's not enabling you to do that? It sounds like it is entirely vitamin D that's going through a lot of these instruments in the United States? And then, what – when will you be in a position to more fully exploit it in terms of getting more consumables through those box – through those instruments?

Carlo Rosa

A

Martin, what is happening in the U.S. today for vitamin D, it is that – there are a lot – the majority of the consumption of the testing is in the center laboratories. And for us, it would be Labcorp, who is our number customer when it comes to vitamin D; ARNP, which is our number two customer; and [indiscernible] (49:31) been a small number of labs – reference labs.

So, the impact of the vitamin D in the U.S. is not necessarily on placement – on LIAISON placement. But the impact is that the throughput of the LIAISON installed in the U.S. market is just going through the roof because the usage of this test in the center laboratory, which is very efficient, they work on three different shift. So, they usually – they maximize the throughput on this boxes. And this is affecting heavily the group average. And this is why Andrea is telling – is warning you not to use the 60,000 of the average because that is affected by the novel usage in the U.S. market, which is diluted when you place more boxes at the more regular conditions outside the U.S. market.

Martin Wales

Q

So, unless you talk a more general question then, how – in what timeframe will you have a appropriate product offering in the U.S. to a – in terms of test to exploit LIAISON more fully in terms of consumables away from vitamin D, i.e., what are you missing in, say, your vector's set of tests in the United States and when can you explore that?

Carlo Rosa

A

Today, we have – our infectious disease sales just doubled quarter-on-quarter compared to last year and they continue to increase in the U.S. market. We have the remaining infectious disease products at the agency. And as we have stated, we expect that they will be – that the approval will be granted by year-end. So, we expect that we will start 2009 with a full and complete menu of infectious disease on the box. So, the impact on the growth of the infectious disease will be more significant in 2009. Keep in mind that, as I stated before to Sumar, today's vitamin D is a combination of RIA, and LIAISON will represent less than 50%. The remaining 50%, vast majority is infectious disease in more traditional technologies already today. So, we have a base of infectious disease business in the U.S. market.

Martin Wales

Q

Okay. Thanks a lot.

Carlo Rosa

A

Welcome.

**Operator:** [Operator Instructions] Excuse me, gentlemen. There are no more questions registered at this time.

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Carlo Rosa

Thank you very much, everybody.

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

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