03-Aug-2011

DiaSorin SpA *(DIA.IT)*

Q2 2011 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

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

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

Yes. Thank you, everybody, and welcome to the DiaSorin conference call. As usual, I will make some initial comments about the business and then Mr. Andrea Senaldi is going to drive everybody through the numbers.

Let me start first with revenue by geography. In the US, at constant exchange rate, and this very relevant, because as you all understand, the dollar exchange quarter two versus – 2011 versus 2010 is now significantly shifting. At constant exchange rate, revenues are up 5.8% in quarter two versus last year and up 8.1% year-to-date.

Vitamin D volumes, after a weaker quarter one – as we have reported in the last conference call, the quarter one volume was quite weak [indiscernible] (0:01:39). Now, it's up 18% versus last year, year-to-date. So we have seen volume to resume after quarter one. Meeting most of our American colleagues in the last road show that we had in the US, I experienced personally the fact that most of the American now are getting tested for Vitamin D [indiscernible] (2:05) so Vitamin D is becoming part of their routine in the U.S. [indiscernible] (0:02:13).

However, as anticipated in the previous quarter, so we feel more and more the effects of price erosion due to contract extension. This is the price, as we say, that we need to pay to execute the Vitamin D business in the U.S.

in light of the possibility of competitors getting their products approved in the U.S. by year-end or beginning of next year.

So, fundamentally, the trends, as you know, in our U.S. business is driven by volume of Vitamin D increase, but a decrease of the average ASP for [ph] contract extension (0:02:58). In Europe, where we – in quarter two, we are up 6.6% versus last quarter whereas year-to-date we are up over 10%. The thing that we need to analyze separately the direct countries versus the [indiscernible] (0:03:16) activities in secondary market. As you know, we report Europe all together. So, as per market, as per business and direct countries.

In all the major countries, we are growing quarter two as expected, so France and Germany are up quarter-to-quarter 11%, Italy is up 7.3% which is very good considering our penetration that we enjoy in these markets.

However, in certain secondary markets by Turkey, Greece and North African countries, the business is stalling. Stalling means that it's flat compared to last year and this is mainly driven by non-economic conditions.

Last, in Asia-Pacific and South America, which now represent over 20% of our overall business, the growth has been very strong, clearly exceeds all data reported by all our competitors and we're now growing 51% in Asia-Pacific and over 30% in South America, and this is driven by the success of the LIAISON strategy with infectious disease and the oncology products. I think we already talked about this during the last calls, nothing changed in those geographies, still very successful with these traditional products.

As far as [ph] instrument placements (0:04:49) are concerned, we installed 138 LIAISONs in quarter two. However, in order to understand the real situation of the business, we need to take into account that in Europe after the launch of the LIAISON XL, which effectively happened in quarter one, placements of LIAISON there have been significantly reduced due to the launch of XL. So we're now installing XL rather than LIAISONs.

If you know previously, we took the position not to report the XL. However, to allow very clarity to our investors and shareholders, we decided to give visibility to the total XL placement number that so far, as of quarter two, is of 38 units in the geographies where we've initiated placements and these excludes U.S. where, as you know, the placements will start later in the year.

Last remark is for Murex. The business is in line with the previous quarter. So we're not losing business, even if some of this business is operated in certain difficult geographies. However, we see major delays in signing of the national tenders that have been awarded to DiaSorin, [indiscernible] (6:07) product has not started yet for the above mentioned reason. And this is not only now for North Africa. So, so far, we have seen delays in tenders in countries where the political situation is difficult. But now we experience, even in certain regions of Asia-Pacific, delays in shipment of products, because if the tender is awarded, the funding is delayed. And I believe that this is due to difficulties in the financial situation certain governments are experiencing worldwide.

I expect, however, that in Q3, Q4, most of the funds will be released and the trends of the Europe business should go back to what we forecasted. However, sales lost in the first half of the year will not be recouped in the second half.

Now, notwithstanding the slowdown on sales, DiaSorin was able to increase its marketing contribution, as you have seen, mainly for two reasons. First one is what is [ph] physiological our (0:07:11) business model. We're shifting revenues from lower margin technologies to higher margin technologies. So for the LIAISON, it now represents over 72% of the total revenues. So this trend continues and it is beneficial to us.

However, we've been experiencing increased manufacturing efficiencies, especially in Italy and Germany, where increased volumes of infectious disease products and oncology products have been met without an increase in workforce, so the efficiency of the manufacturing side has been contributing to an improvement of the margins.

Last, as you – some of you may have noticed, we revised our guidance and we still feel comfortable to be capable of making the top line number at constant exchange rate, whereas we believe that there is room for improvement on EBITDA contribution. And now, we foresee that the EBITDA contribution by year-end will exceed €200 million.

And I'll now let Andrea drive you through the numbers and then we will take questions. Thank you.

Andrea Alberto Senaldi

Chief Financial Officer & SVP, DiaSorin SpA

Thank you, Carlo. Good afternoon or good morning, ladies and gentlemen. What I will do is to take you through the usual presentation, with a strong focus on the first six months and some details [indiscernible] (0:08:41) as P&L is concerned, of the second quarter of the year.

Let me start on slide number one, where we recapped the highlights of the quarter and the first six months. As Carlo already extensively commented on revenues, I would just like to recap the quarter-versus-quarter, the second quarter of 2011 grew 15% at current exchange rate, with a growth rate at constant and comparable exchange rate of 20%. Similarly, in the first six months of the year, we grew 21% as reported, with an adverse exchange rate effect of about 2 percentage points. So constant exchange rate, growth would have been 23.3%.

The growth was driven significantly by the emerging markets, which grew well above the double-digit mark, as well as from the steady enlargement of the LIAISON installed base that Carlo commented already, during the quarter by 138; 271 in the first six months. We have now available an installed base of LIAISON of 3,912. As Carlo already mentioned, this installed base does not include the installed base of LIAISON itself that in Europe now accounts for some 38 instruments.

And coupled with the growth of top line, we continue to experience an improvement in gross margin levels. Our gross margin grew by 16%. EBIT margin, so revenue margin, grew by some 14% quarter-versus-quarter, 25% first six months versus first six months. And all in all, we recorded in the quarter an increased net earnings of 19% and in the first six months, of 31%.

I would like just to spend a couple of minutes reminding you what are the key events that occurred during the first six months of the year. As far as the XL is concerned, [indiscernible] (10:56) we received, in the first quarter of 2011 clearance, of the FDA and we foresee the launch on this market later on this year. We had a couple of very important long-term agreement with key customers or key laboratory chains like Sonic Healthcare and Laboratory Corporation of America [indiscernible] (0:11:25). And last, but certainly not least, as you may remember, we have announced to have reached an agreement with PSS, the Japanese manufacturer of instrumentation for the development of an instrument to be run together with our Nucleic Acid Testing panel.

Now, if we go more into the details of the P&L, I will invite you to turn to slide number three. We have already talked about the net revenue growth. As far as gross profit is concerned, we recorded €84 million in the quarter, which represents a ratio over turnover by 73%, which is an improvement not only versus previous year – so that's quarter two of 2010 – but also quarter-over-quarter. So very positive month as far as our [indiscernible] (12:20) is concerned.

As far as operational expense is concerned, we had estimated spending-light quarter in quarter one which is traditional. We had recorded €37.7 million in operating expenses with a slight increase of the ratio versus the previous year. I would like to point out that the quarter has been, to some extent, heavy because – was heavier than the previous one because we executed one of the five – one of the major events that takes place at the second year [indiscernible] (0:13:02) the gathering of almost 1,000 customers in Italy.

Other operating income expenses have been in line versus the previous year for the same comparable quarter, which results all-in-all in an EBIT margin, so an operating margin of 39% – that's €45 million – and an EBITDA margin of 44.5% – that's €51.5 million. The [ph] network (0:13:30) growing by 16% versus the similar quarter of 2010.

Net financial expenses, almost a €1 million in the quarter. You may remember that in quarter one, [indiscernible] (0:13:43) financial expenses. So all-in-all, this – for six-month results, still positive financial income and the major driver of the difference between this year and previous year is the trend of exchange rate and the results of the quarter – of the forward quarter that you [indiscernible] (0:14:04) of the dollar. And [indiscernible] (0:14:07) leaves the tax in the quarter €16 million [indiscernible] (0:14:11) comparable to previous year with a tax rate which is around – which is 37% and a net profit of €28 million.

If we move to the next slide, where the first six months are represented again, €227 million at the end of June, our revenues growth of 21.3%. Murex contributed for almost €18 million to this growth. The gross margin is positive versus the first six months of 2010, strong improvement in the margin, as Carlo has already pointed out. It's provided by efficiencies in the manufacturing side as well as the structural improvement of the mix of the product itself.

Total operational expenses are growing by almost €12 million versus the €60 million in 2010, which results, however, in a lower [ph] incidence (0:15:12) versus the turnover. So we're moving from 32% last year, just down 0.3 percentage point. I would like also to remind you that the first six months include now full consolidation of the Europe and the newly opened operations in Australia, as well as the two manufacturing sites that last year were consolidated as of the closing of the Murex acquisition in the second half of the year.

Again, operating expenses are in line with the first six months of 2010, which results in a growth of EBIT of 25% with an improvement of one percentage point as far as margin is concerned and a similar growth – higher growth of EBITDA, which is in the first six months above €100 million, so €101.4 million with an EBITDA margin of 44.7% versus almost 43% last year.

If you move down to the bottom line, the net result is now up 31%, so €56 million versus €43 million last year with a tax charge of €33 million in the first six months [indiscernible] (0:16:36) of the tax credit.

Now, if we move to some of the details of the profit and loss [indiscernible] (0:16:46) you can find the usual representation of the composition of our portfolio by technology. So here we can see [indiscernible] (16:53) if you take out the effect of Murex which is still – which is accounting for 33%, up five percentage points of consolidation versus last year, clearly at the expense of the traditional – traditionally mature markets like RIA and ELISA whereas the Instruments remained fair strong at around the 10% mark.

And the LIAISON sales have been growing 20% current exchange rate in the first six months of this year versus previous year, driven clearly by the continued expansion of bone and mineral metabolism products, infectious disease, and the [indiscernible] (0:17:39) and we already discussed the enlargement of the installed base.

As we move to geography, Carlo already mentioned some of the performance by area. Let me just recap the first six months. Europe and Africa up 10% versus 2010; Latin America, 45% versus 2010; Asia-Pacific, more than 50% versus previous year. And North America is 2% at current exchange rates, but strongly affected, adversely, clearly, by the devaluation of the U.S. dollar, particularly at the start of second quarter of the year. In fact, at comparable exchange rate, the growth of the North American market is 8.1%. Couple of outliers in Europe, France continued steadily to grow above 20% and Germany is very close by with a growth rate, six months versus six months, of 17%.

Brazil experienced the strongest contribution to Latin American growth, but Mexico is reporting growth rate of 25% at comparable exchange rate. And China is strongly contributing to the success of the Asia-Pacific region.

I already commented most of the improvement in profitability, let me just recap. Gross margin at 22%, six months, half year versus half year; EBITDA, 20%; and EBIT, 25%. So all the key margin indicators are growing more than proportionately to the top line. It's clearly an improvement in the ratio to total sales as well as the net result.

As far as the balance sheet is concerned, I would like to mention a couple of things. First of all, the net financial position, which we have reported, is positive for €23 million at the end of June. Let me just remind you that the deterioration versus the position at the 31 of December has been forced by the buyback exercise of our shares, which cost us some €25 million, plus the distribution of dividend, which took place in the second half of June, if you remember, €22 million. We continue to deliver significant cash flow at the traditional level. In the first six months, we delivered €49 million, almost €50 million of operational cash flow before CapEx of €12 million, which compares to the performance of €40 million in previous year before CapEx of €12 million.

The net working capital is driven fundamentally by increase of inventory and of the receivables, following mainly the development of our business. We do experience some deterioration in the DSO in particular areas, which are subject to some tension in liquidity. I am referring to some of the European markets, although we don't see [indiscernible] (21:10) an increase in the risk of our receivables. And inventories are growing also on the back of a continuous movement and a continuous conscious effort in increasing the safety stock of some very key raw materials for the growth of the company.

As we move, I think we have commented most of the financial – or the cash flow performance. Let me point out, at the end of the quarter, we had [ph] €35 million (0:21:42) in cash available at banks.

And as we move to the guidance, Carlo has already pointed out that we have confirmed revenues in the – for between €465 million to €475 million, which represents a growth rate of 15% versus previous year. And we continue to feel comfortable about the number – yearly placement of 600 units between LIAISON and LIAISON XL. And on the base of the strong performance of EBIT and EBITDA margins in the first six months, we are now raising the guidance of EBITDA above €200 million from the previous year range of [ph] €200 million (0:22:28).

Now, last, but not least, let me use the conference just to remind that in October we will hold in three sessions in three different location in Milan, London and New York an Investor Day, which will be aimed to represent what we think is the next course of [indiscernible] (22:54). And I believe that by now all of you should have already received [indiscernible] (23:03) on the dates which are 17, 18 and 20 of October.

This is as much as I wanted to say on the presentation. I would now leave the floor to a question-and-answer session. Thank you very much for listening.

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 Andrew Olanow of Morgan Stanley. Please go ahead.

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

Q

Hi. Good afternoon and thank you for taking my questions. I just have three quick questions. First, on developed markets, you made some commentary about the fact that the growth rates that you've generally been guiding to weren't realizable in the first half and that that would be recoups. Could you then give us some sense of what you think on a year basis growth rates in Europe and North America should look like?

And then secondly, if we look at the emerging markets, you've had supernatural growth in terms of how fast it's growing. Is that something that we should think about as sustainable over the period of the year?

And then thirdly, on the LIAISON XL, clearly, your placements are a little bit behind so far this year. Your guidance during the second half mirrors the first half. Have you seen, as far as the last couple of months go, an indication that we will see the kind of instrument pick up that we need to meet [indiscernible] (0:24:57) guidance? Thanks.

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

A

Okay. Listen, I will answer in a reverse order. Starting from the XL, I don't think that we are behind our guidance. We've said that the combined number of LIAISON and LIAISON XL for the year would exceed 600. And I think that if you put – if you add the LIAISON and the XL for the first half, you will see that the trend is going to take us – it's taking us exactly where we said we're going to be. Keep in mind that as far as the XL is concerned, [ph] and the menu (0:25:41), which is fundamentally HIV and hepatitis and HCV, because of the liability of the product there is an evaluation phase, which typically lasts longer than other, let me say, commodity products, okay. So if you take that in consideration, then you may estimate that in the second half, clearly, the number of LIAISON placements should increase versus what we exited in first half.

Now, the second question was Asia-Pacific, Latin America, yes, I think that we've been [indiscernible] (0:26:27) in those trends consistently over the last few quarters. And from what we see right now, unless there is anything in the geographies that [ph] – a very sharp (0:26:39) evolution from a financial point of view, so nothing to do with the business, I expect this trend to continue. Now, your third question was related to...

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

Q

Just to developed – to the developed world.

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

A

So you are saying that now, developed market means Europe and the US...

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

Yeah. I think clearly – sorry, please go ahead.

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

Okay. So as far as U.S. is concerned, I think that – I foresee a volume of Vitamin D, which traditionally slowed down over the summer holidays and then it picks up again. So, overall, if you measure it over Q3 and Q4, I see no reason why the trend should not continue in terms of volume increase. This is what I believe also the labs reported during the conference calls.

However, what we see is an effect of our pricing. And to be honest with you, this is quite difficult for us to estimate on a quarter-to-quarter basis because it has to do in the rollout of all different agreements. It has to do with the fact that certain customers delay orders until the new agreement is signed because then they would benefit from the new price. So, let me say, predicting on a shorter base or on a month-to-month basis, what is the effect of this, is quite difficult.

However, if you – if I look to give you my estimate, I think that we have an increase of volume that overall will sit between 15% and 20%. And we will have for Vitamin D an increase of revenues that should be below 10% as an effect of pricing now becoming full – [indiscernible] (0:29:06) full effect or full impact on our U.S. revenues.

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

[indiscernible] (0:29:13).

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

Philippa J. Gardner
Research Analyst, Jefferies International Ltd.
Q

Hi there. I've got a couple of questions, if I could. First of all, I was just trying to sort of understand some of the underlying trends in the LIAISON placements. Now, on the first quarter, you did – you said that there had been a hold up in around 20 machines because of an issue of a component. And I was just wondering, did you see that rebound back in the second quarter?

And then my second question is just on some of the comments regarding increasing the manufacturing efficiency, can you maybe quantify what that might mean in terms of margin improvement, please? Thank you.

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

I'll take the first question and then Andrea will take the second question. As far as the LIAISON is concerned, so without the XL, yes, in fact, we had a 20-system rollout Q1 to Q2. However, we had roughly the same number of systems stuck in custom in Brazil. In fact, this is seen also in our inventory level. Our inventory level, as of June, was particularly high because we had this system in transit which was stuck, so rather than going to customers, are sitting in our inventory, which were then released in July.

We had – I think that what is important to realize here is the launch of the LIAISON XL, as we have predicted, has fundamentally frozen placements in Europe. And so – and this was expected because customers at this point don't want to get the old box. They wanted the new box. And so the geography now where these LIAISONs are going – the LIAISON, the traditional LIAISON is always going is very different from what we have seen in 2010. So the European number is fairly low and the systems are going a lot in the emerging markets. So Asia Pacific and in Latin America, where we don't proceed to launch the XL, so customers, let me say, don't slowdown orders because of the XL and [indiscernible] (0:31:43) placements.

Now, Andrea, as far as the first question is concerned?

Andrea Alberto Senaldi
Chief Financial Officer & SVP, DiaSorin SpA
A

Okay. And, Philippa, as far as the contribution from manufacturing synergies, in the quarter, you can account by about one percentage point which represent the difference between quarter one and quarter two in terms of revenue. Now, this is really an effect that is sustainable in the future quarters as well, although you should not expect any additional improvement.

Philippa J. Gardner
Research Analyst, Jefferies International Ltd.
Q

Okay. That's great. Thank you.

Operator: The next question is from Massimo Vecchio from Mediobanca. Please go ahead.

Massimo Vecchio
Research Analyst, Mediobanca
Q

Yes. Good afternoon to everybody. Carlo, you spoke about price erosion between the – taking this by the side for a moment, can you elaborate a little bit more on the underlying trend in the U.S. market? Many company in the United States are talking about a slowdown, I was wondering if you can expand on that?

And second question is on the XL placement, and did I understand correctly that you have started to place the new machine in US, that you started already at the end of Q2?

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

Okay. Let me comment on the U.S. first. I think that if we look at, let me say, all the other products that we sell in the US, I think that our business is suffering the same way everybody else, I believe, is reporting by the slowdown, okay. So since – again, we all serve the same customers. So if other companies are reporting, it is what we are experiencing. However, the vast majority of our business in the U.S. is, as we reported, Vitamin D. So the trends that we see in Vitamin D are the ones that we have discussed before, so increase in volume and price effect.

There is one more component that makes this Sudoku extremely difficult to understand which is the mix in terms of sales to LabCorp which does follow a certain price versus the mix of sales that is going to direct customers and other labs that clearly – or Cardinal, which clearly enjoy a different price structure. And this is why depending on [indiscernible] (0:34:28) get awarded with large confidence so far, the average unit price that you can measure on Vitamin D on the month can significantly swing. So it is very difficult for us to predict where the AUC trend really is and it's going to be on a month-by-month basis.

Now, your second question was on the LIAISON XL. As you know, in the U.S., we have an agreement with our main customer in the U.S. [indiscernible] (0:35:15). And we have scheduled the initial installation and evaluation of XL in summer. So [indiscernible] (0:35:33) in quarter two for their own internal reason and installation is foreseen to start now and to be completed by the end of September. And after the evaluation [indiscernible] (0:35:47).

Massimo Vecchio
Research Analyst, Mediobanca

Q

Okay. So am I correct in saying that the XL, it's ideally – it's an ideal machine for the U.S., so I may expect very good uptake in placing when you will be selling that in U.S. or is it almost as the old machine?

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

A

Let me say it in a different way. Yes, the U.S. is – sorry – the XL is a system that has been design for high-throughput labs and it's been a system that has been specifically designed for the defensive strategy on Vitamin D because of the throughput [indiscernible] (0:36:42). So it is ideal for us in the U.S. because it allows to go the very large U.S. customers and replacing LIAISON and fend off competition. An argument the competition may have on the fact that the current LIAISON platform may be not [indiscernible] (0:36:58) for large throughput labs.

It is also a system that it is viable for the U.S. market because of the size. However, please remember that in the U.S., we decided to run a strategy which is a strategy focused on two clinical areas, which is – one is infectious disease and the other one is bone and mineral and Vitamin D. So for the typical infectious disease account that we've seen at the hospital level, the LIAISON is good enough and this is why, in the U.S. you are going to see placements of LIAISON XL [indiscernible] (0:37:39) Vitamin D than LIAISON [indiscernible] (0:37:40) infectious disease. It may vary [indiscernible] (0:37:43).

Massimo Vecchio
Research Analyst, Mediobanca

Q

Okay. Thank you very much. Very clear.

Operator: The next question is from Martin Wales of UBS. Please go ahead.

Martin R. Wales
Research Analyst, UBS Ltd. (Broker)

Q

Good afternoon. Just a follow-up on your previous comments. It seemed rather gloomy on the prospects for infectious disease in the U.S. with LIAISON XL. Can you sort of elaborate a little bit more on where the opportunity lies in infectious diseases? Obviously, the LabCorp contract captures that?

Secondly, in terms of launch of new tests into the U.S., could you talk what tests we could expect to see in the U.S. on either instrument over the course of the coming months?

Thirdly, I note in your statement that there's transaction fees captured in interest, other financial expense. Can you elaborate on what they are, because I don't think I've ever seen you comment on that before?

And finally, there seems to be quite a big difference between your cash tax paid and your P&L tax paid, maybe Andrea could address. I know you've highlighted that you are [indiscernible] (0:38:56) by U.S. and South African subsidiaries, but maybe Andrea could sort of give us a little more color on that one as well? Thank you.

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

Martin, I'll take the first one. To me, gloomy, these days, is a different definition, to be honest with you. I just said something different. I said that in the U.S., they – the LIAISON XL fits very well the large accounts that today need very high throughput for the Vitamin D. That doesn't mean that for these kind of accounts, the infectious disease will go on the LIAISON XL. This is, in fact, the plan. [indiscernible] (0:39:41) these large labs the LIAISON XL opportunity, but then we ask them to [indiscernible] (0:39:48) XL also for the infectious disease volume, which is very significant. However, when you go down to the hospital level, where the infectious disease business – the infectious disease volumes is not as high as in the [indiscernible] (0:40:03) labs, the LIAISON is good enough. And this is why I am saying that, in the U.S., I can see the two platforms co-existing on – more driven by the account size rather than the clinical area. So I'm not doing it at all on the LIAISON XL.

Martin R. Wales
Research Analyst, UBS Ltd. (Broker)
Q

Good.

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

Okay, Andre?

Andrea Alberto Senaldi
Chief Financial Officer & SVP, DiaSorin SpA
A

All right. Martin, let me first of all address taxes, because I am not sure I understand the point. You are referring to what we paid according to the financial statement versus what we accrued in the P&L?

Martin R. Wales
Research Analyst, UBS Ltd. (Broker)
Q

Yes, it seems to be a larger difference than usual.

Andrea Alberto Senaldi
Chief Financial Officer & SVP, DiaSorin SpA
A

I think you're talking about €1.5 million probably.

Martin R. Wales
Research Analyst, UBS Ltd. (Broker)
Q

I thought it was larger than that, but I'll bow to your judgment.

Andrea Alberto Senaldi
Chief Financial Officer & SVP, DiaSorin SpA
A

First six months, it's €32.8 million; cash flow statement is €31.3 million. Now, the difference is clearly related to the tax settlements that we've had to follow in order to pay taxes. You know in Italy, to an extent, we do pay taxes in installment. We have a balance on the previous year which is paid in June, as well as the first advance payment which, again, is based on the profit of the previous year. And the balance is then paid in the second installment in

November and in the third installment during the following year. So that is fully explained by the difference between what we accrued...

Martin R. Wales
Research Analyst, UBS Ltd. (Broker)
Q

Okay.

Andrea Alberto Senaldi
Chief Financial Officer & SVP, DiaSorin SpA
A

I think that's the reason [indiscernible] (0:41:32).

Martin R. Wales
Research Analyst, UBS Ltd. (Broker)
Q

On [ph] absorption (0:41:34) costs?

Andrea Alberto Senaldi
Chief Financial Officer & SVP, DiaSorin SpA
A

On – you are referring to the financial expenses.

Martin R. Wales
Research Analyst, UBS Ltd. (Broker)
Q

Yes.

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

Now, the majority of this is explained by the movement of the previous quarter between – and the effect of the mark-to-market pricing versus the dollar. Now, as you may remember, quarter one closed still with a very favorable dollar [indiscernible] (0:42:03). Now, we do hedge our cash flow in dollars and that's the only currency fundamentally that we hedge using forward [indiscernible] (0:42:15) sales. Now, the mark-to-market value of those sales has moved in very different ways in the two quarters. And therefore, we noted that in the first six months in a positive – at positive 1.8.

Now, there is a second element to this in the quarter, which has to do with a cost we have to bear for factoring out our receivables in Italy. In the second quarter of the year, we have factored out at a higher-than-normal amount, simply because we had a dedicated [indiscernible] (0:42:50) receivables related to some regions of the Italian health care system. And so in the second quarter, we had found something like €800,000 additional – in euros – of additional commission from factoring operations.

Martin R. Wales
Research Analyst, UBS Ltd. (Broker)
Q

Okay, great. I'm sorry, just to come back rather into a question about the U.S. in terms of test approvals and rollouts. Well, anything particular we should be expecting that you're prepared to highlight?

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

Yes, [indiscernible] (0:43:31), so in certain market, [indiscernible] (0:43:36) MMRV panel, which is the one which is generally used in the big labs for [ph] measles (0:43:42) testing. So that, for us, is an opportunity in the business. And then we decided to initiate a program whereby to – by the end of next year, we will – we are going to take to the U.S. a series of endocrinology products that will stick well with our [indiscernible] (0:44:09) in the installed base, but I think this is something that I really want to cover more during the Investor Day. And this is why I'm a little stingy on the information we are releasing. Otherwise, we take away the flavor of the Investor Day.

Martin R. Wales
Research Analyst, UBS Ltd. (Broker)
Q

Okay. I'll be patient until then.

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

Be patient; we'll give.

Martin R. Wales
Research Analyst, UBS Ltd. (Broker)
Q

Thank you very much.

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

Thank you.

Operator: The next question is from Brigitte de Lima of Merrill Lynch. Please go ahead.

Brigitte D. de Lima
Research Analyst, Merrill Lynch International Ltd.
Q

Good afternoon. I just have another follow-up question on the LIAISON XL. It's just really a clarification there on something you said. But in the press release, it says somewhere that you've installed the LIAISON XL at over 20 Benchmark labs in Europe and Israel. Should I understand that you've placed at least 20 systems, or are these systems that are currently placed in lab for initial assessments, but they are not covered by contracts yet and therefore not generating revenue, so how should I interpret these installments?

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

Well, I think you should interpret this differently, meaning that we placed 38 systems in – at customer sites, but in certain customer site, we had multiple installations.

Brigitte D. de Lima
Research Analyst, Merrill Lynch International Ltd.
Q

[indiscernible] (0:45:32) the key question then is-?

Andrea Alberto Senaldi
Chief Financial Officer & SVP, DiaSorin SpA
A

You are right in thinking that we do not include those numbers in the overall installed base because they are yet not generating revenues.

Brigitte D. de Lima
Research Analyst, Merrill Lynch International Ltd.
Q

That's what I was relating to. But are they already covered by a contract or the customer is still evaluating them, so you don't actually know if these systems will stay in the labs where they've been installed at the moment?

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

These systems will stay in the labs. Some of those are covered by contract and started generating revenues. Some are there because – especially in the [indiscernible] (0:46:06) business, so there has been an evaluation, successful trend that we're [indiscernible] (0:46:18) start selling. Listen, we don't take a piece of equipment [indiscernible] (0:46:20) into our lab just for the fun of showing it. So usually – you install it in places where you know there is the biggest opportunity and a suitable space there.

Brigitte D. de Lima
Research Analyst, Merrill Lynch International Ltd.
Q

Now, I was just wondering – so I presume some customers try different systems and they're happier with one than the other and they may return systems that they're not interested in. But it does sound like the systems are installed, you're just saying they will start generating revenues at some point. That clarifies it. Thank you.

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

Yep.

Operator: The next question is from [indiscernible] (0:46:51) of Banca Akros. Please go ahead.

Q

Hello. [indiscernible] (0:46:57) from Banca Akros. Just three questions. The first is on an overall feeling on the market. Some diagnostic companies are saying that they have seen some pressure due to the, let's say, economic environment and saw some potential of slowdown in demand from public spenders. And also, due to the unemployment in U.S., some demand for diagnostic could slow down, if you can comment on that overall.

Second, if I understood right, your guidance is at currency exchange, right? So for the time being, currency exchange, not at the beginning of the year, I didn't understand it quite clearly.

And last thing on buyback, I think that you did some buyback in the first quarter – in the first half, if you have any indication for the rest of the year? Thank you.

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

Listen, I will take two of those. Buyback done, completed and there's no intention to do another buyback. As far as the economical situation and impact on business, I think we have already commented on that. As far as the U.S. is concerned, we are not different from anybody else. There is a slowdown and this has [indiscernible] (0:48:16) our business. We've been suffering from that. But Vitamin D is fortunately presenting us with different dynamics, bringing on volume increase, okay.

As far as Europe is concerned, to be honest with you, we've not seen any financial impact on business per se. What we are seeing in certain countries is a delay in payment terms. And so, even in countries where usually payment terms are very good, there has been a delay of few days. The only country that is outstanding, as far as payment is concerned is Spain, for some very known reasons. And now, we are collecting in Spain over 355 days. Fortunately enough, Spain represents a very tiny proportion of our business.

Andrea Alberto Senaldi
Chief Financial Officer & SVP, DiaSorin SpA

A

As far as the guidance is concerned, I think, as Carlo hinted before, so that's why the best guidance is built on a constant exchange rate assumption vis-à-vis last year, which means if the dollar further deteriorates and continues to deteriorate as it did in the second quarter, that guidance will be difficult to achieve.

Q

Okay, thank you very much.

Operator: The next question is from [indiscernible] (0:49:53). Please go ahead.

Q

Hello. I have again a question to the U.S. We saw a slowdown to 6% constant exchange rate growth in the U.S., sure, on the back, on high comps on the last quarters. But looking forward, you mentioned 10% for Vitamin D and you have a, let's say, company guidance of growing double-digit or stronger than 10%. What is your look on – what is your view on the U.S. going forward once now the comps get not so tough anymore?

The second question is relating to the costs in Q2, you said it was [ph] average to the contrary (0:50:42). Can we assume that this is a peak in Q2 on the OpEx cost side? And just to clarify on the XL launch in US, what tests are approved in U.S. to be run on the XL? I saw on the FDA site the HIV test, but what about the others? Thanks.

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

A

Let me take care of the XL and then Andrea will talk about the OpEx. The XL, as you know, there is a policy in the US, whereby – it's called migration policy, which means that it's [indiscernible] (0:51:36) – so the products stay the same, maybe just change the system, as long as you can prove equivalency of the results, you can – you don't need to file. So the products which are available on the LIAISON are available on the LIAISON XL. [ph] It's not material (0:51:56) in terms of validation, so no further filing is required.

Q

Okay.

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

A

Now, as far as the growth rate in the US, I think that we exclusively covered this before and the [ph] closings (0:52:13) all are driven by the volume and mix – the volume, so – and price decrease of Vitamin D. And so, Vitamin D again represents the majority of U.S. business. If you take what I said before, Vitamin D could match your view on what we expect from our U.S. revenues in 2011. OpEx?.

Andrea Alberto Senaldi
Chief Financial Officer & SVP, DiaSorin SpA

A

As far as OpEx is concerned, [ph] Patrick (0:52:46), you had the right intention that [indiscernible] (0:52:49) sort of peak if you account for the commercial business expenses. In fact, if you look at the budget for the next six months of the year – so the following six months of the year, on average, we are going to be around that mark.

Q

Okay. Thanks.

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

A

Thank you.

Operator: The next question is from [ph] Maura Garbero of One Investments (0:53:13). Please go ahead.

Q

Good afternoon. You have been talking about the [indiscernible] () LIASION and the LIASIOM XL in the U.S. market. So I was wondering if you can give us an overview for the European markets and also whether you have seen any...

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

A

Excuse me, for interrupting, could you just repeat your question and raise a little your voice because it's very low.

Q

Yeah. Let me try again. I was wondering if you can give some color on the coexistence of the LIAISON and LIAISON XL in Europe and whether you are seeing any sort of cannibalization from the new launch, as you've been saying that, for example, some of your customers decided to put on hold their orders because they are waiting for the new machine? Thank you.

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

A

In Europe, as we've stated from the beginning, we are using a different strategy in order to minimize the cannibalization. We are launching the systems fundamentally for HIV, HCV and hepatitis, which is not available in the LIAISON. And so, we are trying to drive placements using this strategy versus new customers simply because the LIAISON is not there. And this is regarding, let me say, the new business.

Now, as far as the infectious disease is concerned, those accounts [indiscernible] (0:54:46) LIAISON for infectious disease. Rather than ordering LIAISON, they order the LIAISON XL. So in that sense, you increase the availability of LIAISON once you make the LIAISON XL available. The only example – in terms of cannibalization of these 38 accounts, very minimum. The only things we are [indiscernible] (0:55:11) we are voluntarily cannibalizing the LIAISON again is in these few large labs, especially in certain geographies like France or Germany where there is a certain volume of Vitamin D and for the same reasons that are clear in US, high volume of Vitamin D [indiscernible] (0:55:38) and therefore LIAISON XL is a relief for the customer. But again, the big difference is that the number of this launch – in doing high volume Vitamin in Europe is much small, but much smaller than what happens in the US.

Q

And – thank you. And then a follow-up if I may. Are you still requiring a higher percentage of volumes when you place LIAISON XL compared to the normal LIAISON?

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

Yes. The guideline that we gave for placement to our commercial organization, s that we expect a certain threshold of sales, which is 25% over – 30% over – so 30% over what really – the guideline that we have been using for the LIAISON.

Q

Thank you.

Operator: [Operator Instructions] There is a follow-up question from Andrew Olanow of Morgan Stanley. Please go ahead. Mr. Olanow, your line is open.

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

Sorry, sorry. I'm having a bit of phone difficulties. So I just went to the AACC conference last week. And broadly, what I was hearing around the market is that things have been slowing within immunoassays in clinical chemistry. Now, that's, of course, driven a little bit by price as volumes continue to grow fast. While you guys are focused on the specialty market, so you stand out in your ability to get growth, are you seeing anymore incremental pressure because of the current recessionary environment? And if so, how – what are the ways around it?

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

Sorry, I believe we covered this before. Yes, basically the traditional [indiscernible] (0:57:56) basic traditional business, we have seen a slowdown in immunoassay consumption. In the non-traditional business, which is some of the infectious disease like [indiscernible] (0:58:12) and so forth, we have not seen that because though these tests are not screening assays, but clearly are associated with the clinical situation of patient, so that is not – we have not seen. [indiscernible] (0:58:31), as we said, [indiscernible] (0:58:32) pharmaceutical dynamic.

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

Q

Okay. And – again, sorry, the line quality is a little bit poor, so I can't always hear exactly what's being said. And then just one more follow-up question on Vitamin D, given the price discounting that you've been doing in order to procure longer-term contracts, when more or less could we expect the negative price effect to annualize, would it be to Q2 of next year or would it be not until Q3?

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

A

Listen, I believe that we should get to our lining rate by Q4 of this year. So we have – so at this point, we will have the full effect of pricing. I will be, I think, more precise during the discussion with quarter three result because the problem we are having today, as I said, [indiscernible] (0:59:31) very big difference between what some of the large labs are paying and some what hospitals [indiscernible] (0:59:37) is paying, depending on the way the monthly order goes and the ability of these large labs to win very large contracts. Of the total increase, the Vitamin D volume which still swings today, but are not really certain. So I believe that by the next conference call, we will be able to give you a better guidance on this. [indiscernible] (1:00:06) quarter four should see the, let me say, the bottom of the pricing.

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

Q

Okay. Thanks a lot.

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

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

Okay. Thank you very much.

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