DiaSorin S.p.A

"Full Year 2019 Results Conference Call"

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MODERATORS: CARLO ROSA, CHIEF EXECUTIVE OFFICER

PIERGIORGIO PEDRON, CHIEF FINANCIAL OFFICER

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the DiaSorin Full Year 2019 Results Conference Call. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions. Should anyone need assistance during the conference call, they may signal an operator by pressing "*" and "0" on their telephone.

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

CARLO ROSA: Thank you, operator. Good morning, good afternoon and welcome to this conference call. I think we all recognize that these are exceptional times, so what I will do, I will go briefly through the Quarter 4 results and year end, and then I will spend some time commenting on a couple of things, one is how we see the situation in Italy with a lot of questions about business continuity. Then I will cover the corona and the opportunity and comments about corona effects.

So if we go back to the numbers and the status of the business, if we look at Quarter 4 and we look at the different regions, I think what we…we continue to have good results in the direct geography, so overall if I extrapolate the direct countries from export, we continue to see growth which is in line with the low end of the guidance, which is around 5%. And then we have a drag on export as we did comment a few times, we saw lots of visibility in some of the geographies, and certainly that…the volatility in these regions now is becoming even more so because of the current situation. But again going back to Europe, we saw Europe continuing to grow at around 5%, 6% and again driven by the…driven by the QuantiFERON. Clearly, in Europe there is a slow down compared to the first quarters because we are…because of the success of the QuantiFERON program.

We are coming to a situation where we are getting as much business as it's possible, as a result of either conversion from the ELISA, QIAGEN product as well as the send out that hospital decided to bring in-house…clearly and I will…I am going to focus on QuantiFERON a little later when it comes to the U.S. There is a fundamental difference between the U.S. and the European market. The U.S. market is…a lot of it has to do with send-out in the 2, 3 major labs whereas Europe the send-out is very limited, is more in-patient testing and within hospital testing, so the send-out opportunity is not there, overall, though Europe continues to do well.

North America, clearly North America fell slightly short in Q4 from expectation, but that has to do with the fact that we were delayed as you know with the QuantiFERON program. QuantiFERON was just approved, I remind you in late November, early December. When it comes to how we see the opportunity today in the U.S. for QuantiFERON it's doing above expectations and this is because again the strategy of the 2 companies QIAGEN and DiaSorin was to go to the hospital market and capture the send-out opportunity.

The send-out opportunity is big in the U.S. and it's a [indiscernible] opportunity because of a] the send-out cost which allows both company to capture a premium versus what is the average price of TB in the U.S. and the second thing is that the volumes that today are sent out at each institution are high enough that would allow financially speaking a placement of a system. Today, we are going with the XL and clearly when the XS is going to be available second part of the year, there is going to be an XS opportunity. So far, we have been in literally eight weeks, we see 180 offers made and 30 customers already buying, so the ramp-up is significant.

And by the same token, we are working also with major labs together with QIAGEN in order to provide to the core facilities of the big labs, the XS solution. So as far as I am concerned, as far as the U.S. is concerned, the hospital strategy is working, the TB is a driver and clearly we follow suit with…with all the other specialty products that we've indicated in previous calls. Very important to notice that we were able in Q4 to hire all the people we were planning to have, so we have a full staff now of sales people dedicated to the hospital market. So very positive about the U.S.

China…China is…China was fine in Q4, it continues…it did continue the trend, as before we placed last year over 100 systems, XL systems in China, so strategy is working well. I am going to make some comments about China today. But if I need to go back through Q4 China was fine.

Last but not least, LATAM, you notice that in the first couple of quarters we had of last year with an issue with Brazil and that issue eventually resolved itself and Brazil came back to net positive growth. And LATAM actually in the last quarter actually grew by 7%. So again, the direct geographies are all fine, and then the net effect of that is that clearly our gross margin is benefiting significantly from this, and you that the EBITDA of the quarter is in line with what we achieved previously, clearly net off an effect that I am going to comment later which has to do with certain accruals taken in light of the decision to continue consolidation and manufacturing and shutting down one of the plants of the Company.

Now if we move to again major let me call it business development activities, before we get to the corona situation, I think that there has been a lot of attention drawn by the fact that QIAGEN and Thermo Fisher came to I think a conclusion and of their relationship and it has been announced

that Thermo is subject to anti-trust, it's going to buy QIAGEN. And I see there's been a lot of questions that came our way about what it is going to happen. Well, without getting into confidential details, I am drawing everybody's attention to what the CEO of Thermo Fisher said, when he did comment the acquisition. He made a reference…a clear reference to 2 companies that they do business with, one is Lumina, the other is DiaSorin. As far as DiaSorin is concerned, it said we've been doing business with DiaSorin for 10 years, we have great relationship and we want to continue the relation with a company as is, so I am very positive about the fact that the Thermo acquisition is not going to destabilize the current program.

There are 12 to 18 months depending on anti-trust in front of us where we will continue, anyway its business as usual. And then clearly, when we get closer to that…to the deadline then we are going to transition the relationship from QIAGEN to Thermo Fisher. As far as the line is concerned, it's the same situation. We will continue, we agreed to go ahead with the clinical studies which will happen this summer to obtain C marking by the year end. If I see a positive effect of all of this from Thermo Fisher besides the relationship…the financial relationship and the relation between the companies, is the fact that Thermo Fisher is a great company when it comes to sales and marketing, that is…and market creation. So I am excited about the opportunity to working with Thermo and developing the line. This is opportunity together because of the strengths they have clearly in pushing the scientific value of products through their channel and to the customers.

Now if I can go back to now the elephant in the room, which is the gorilla which is clearly what is with…what makes the future I think of all of us difficult to predict and explains why we decided to qualify our guidance for 2020. I would like to touch base on 2 things; one has to do with

business continuity. Clearly, if you are not Italian and you read the newspapers, you get very alarmed by what the government is doing and the impression is that the country is caged. The truth of the matter is that today the business…all businesses continue, logistic is in place and goods continue to be shipped to hospitals actually with a priority. As far as what DiaSorin has done, we have our primary centers in Italy, we have segregated people, we have created 2 shifts, so that in case of a possible or potential infection of one of the employees, then we can combat [ph] by law. What we have to do is clearly go back and understand all the contacts that the person has, which probably means we have seen with other companies that for a week or so, that if you have segregated, only one part of the company will be closed.

So we have placed 30% of the workforce in smart work. And this is to reduce as much as possible clearly the risk of spread of an infection, and so far so good, we have 2 months inventory, we took inventory directly to customers or to locations outside Italy and namely in the U.S. to serve the U.S. market, in the UK, to serve the European market and in Germany also for the European market. So I think business continuity is not a problem at this point.

Now, let's talk about business effect of the coronavirus. We announced yesterday that we are very close to launching on the MDX platform a coronavirus molecular diagnostic test, and just to make sure that everybody understands, the MDX is a small footprint system, and we have 800 systems placed worldwide, and the majority of these systems is actually placed in hospitals where they do influenza testing in the U.S., and/or they do test like HSV, so herpes virus...cerebrospinal fluid analysis, so for emergency.

So, it's a system that is typically has been designed, because it was originally designed for military use for faster response, clearly low throughput. And it fits like a globe the requirement of healthcare systems today, what we have seen in China, but now we see it in our own country, the typical effect is that hospitals are…the government first elects a certain number of labs to perform the test and then the logistic was crazy and meaning that you have swabs going all over creation, trying to get to the hospitals, then it takes up to 2 days to get response back. But, even if the patient is at the hospital, it takes 6 to 7 hours to get the result back, because they are all batch and then they are sent to the core lab, in the core lab they use high throughput system that typically take that time to generate a response.

So, the excitement we got over here are around the MDX is the fact that, it would be ideal as a system to be placed in the emergency room for triaging patients, you know, at least if you live in Italy and you will see that in all the other countries, what happens immediately is that they need to set up external facilities to test patient not to allow infected patient within the hospital. And in these triage facilities, it would be ideal to place the MDX.

So, that's an opportunity for us, and today we are 2 weeks away by the end of March, we are going to have the CE marking and we're going to launch the system in Europe and submit for EUA. And very clear to understand…very difficult to understand how long an EUA process typically takes…typically it use to take 4 to 8 weeks compared to 6 to 12 months which is a traditional 510(k) approval in the U.S., but it would…signal we get from the government is that they are speeding that up even further under pressure of having products available. So, if everything works well by April we should also have the EUA certification and the ability now to distribute in the U.S.

Now, what would be the potential positive effect of corona assay? Look, I don't have a crystal ball, but we did some quick calculation here, and we believe that having in Italy as a major market and the U.S. that have an installed base of MDX up and running. We think at that point the potential would be between €5 million to €10 million per month for business. Clearly, there is an estimate today that depend on for how many months this would last, but to prevent the question that will come for sure this would be the opportunity.

Now, let's look now about the negative effects. The negative effects are very clear, because of the pressure of the hospitals to have access in bed for the infected patient by Covid. What happens is that, they push people without acute problems away from the hospital. All regular routine tests is performed. All the insurance testing, wherever that's applicable is postponed. And it is very interesting if you listen to what question LabCorp are saying, about how they start to see the business in the U.S. They see in the U.S. exactly the same thing all the insurance checks are postponed and there is more emergency testing for the Corona.

So, all in all, without having a crystal ball, we believe that there is a temporary effect on volumes because hospitals would have less volume, how long it last difficult to say. We saw in China that for the first month, when the infection was at peak it's a heavy effect, and then it tends to go back to regular course of business. But again, you need a crystal ball to understand how long it is going to take.

So, from the corona effect in summary, I see no problems today, as far as, supply is concerned. I see that there is an opportunity for DiaSorin to develop the business around…the molecular business around the corona. And mainly, again focus around the domestic markets in the U.S. and I see

temporary negative effect on volumes, of regular testing, which would be decreased.

Now, last but not least, I would like to make a comment on another press release we had which is…has to do with PPP [ph]. And that is perfectly in line with what we said during our 'Investor Day' meeting, we said, we believe decentralization is the way to go. And to be able to decentralize, you need a technology that allows fast results. And we've been searching for a while and then we found this very promising technology in England we signed it up. We got exclusivity and as we speak, we're working in transferring the knowhow of the platform and the consumables to our facilities. It's interesting, that we made this comment 9 months ago about the necessity to decentralize especially for infectious diseases. And unfortunately, corona virus is one of the best examples where if these systems were in fact available portable [ph], it would clearly allow management of the situations completely different from what…from the mess we are seeing today.

Okay, all said and done. I will leave now the CFO Mr. Pedron to go through the numbers. And then we're going to [technical difficulty].

PIERGIORGIO PEDRON: Thank you, Carlo. Good afternoon, everybody. In the next few minutes, I'm going to walk you through the financial performance of DiaSorin in 2019. And I would also make some comments on the contribution of the fourth quarter. As usual, I would like to start with what I believe as the main highlights of the period. We closed 2019 with an increase in revenues at constant exchange rate of 3.8%, a little shorter than the full year guidance.

Quarter 4, confirms the good performance of all geographies where we have a direct presence, plus 4.8% in the last 3 months of 2019, and plus

6.3% for the full year. Whereas the export business decreased by 13.7%, 12.7% for the full year. Carlo has already covered the drivers behind this variance. Quarter 4, gross margin reaffirms the very good results achieved in the first 9 months of 2019. Therefore closing the full year with a ratio of revenues of 69.2% and the profitability improvement versus 2018 of 110 basis points.

2019 full year EBITDA at €277 million increased by 6.3% constant exchange rate compared to 2018. The EBITDA margin has gained has at comparable exchange rate is 39.1% vis-à-vis 38.2% of the previous year. I believe it is important to underline that during Q4, '19, we booked some one-off restructuring costs net of which 2019 EBITDA margin at comparable rates…exchange rates would have been 39.6% with a growth over 2018 of 7.6%, therefore doing better than the full year guidance. 2019 net results at €176 million or 24.9% of sales records an increase of €80 million or 11.1% compared to 2018.

Lastly, we keep maintaining our ability to generate a very healthy free cash flow, €180 million in the year vis-à-vis €164 million in 2018. The net financial position positive for €173 million has been negatively affected by the introduction in 2019 of IFRS 16 which accounted for about €30 million. This means, we closed the year with no debt and €202 million positive cash position.

Let's now go through the main items of the P&L. 2019 revenues at €706 million grew by 5.5% or €37 million compared to 2018. During the year we enjoyed some FX tailwind, mainly driven by the strengthening of the U.S. dollar against the euro. 2019 gross margin at €489 million grew by 7.2% compared to the previous year, with a ratio of revenues of 69.2%, as I said 110 basis points better than 2018. This increase is a result of 2 major drivers.

On one side, a positive sales mix coming mainly from lower export markets and the instrument revenues and a very good performance of our direct market and specialty test sales. On the other side, lower manufacturing and distribution expenses coming from the several cost reduction initiatives started in the last couple of years. The divestiture of the manufacturing site in South Africa, announcing this quarter which follows the shutdown of the one in Ireland in 2017, goes exactly in the very same direction and is coherent with the journey to safeguard margins that we started a couple of years ago.

2019 operating expense is at €260 million, have increased by 6.1% compared to the previous year. The growth at constant exchange rate is a touch above 4%, therefore in line with a growth in the top line. 2019 full operating expenses ratio of revenues is basically in line with 2018, 36.9%. 2019 other operating expenses is €11 [ph] million are higher than 2018 by €5 million or almost 80%. This increase is driven by some one-off restructuring costs, both in Q4. In particular as I said, I'm referring to the divestiture of our manufacturing site in South Africa and to a structuring program done in Italy, which has been made possible by the introduction in the 2019 budget law. The measure that allows employees to voluntary anticipate their retirement with the support of some monetary contribution from the employer, it's the so-called the Quota Cento [ph]. Both these initiatives are consistent with our efforts as I said to safeguard margins and to streamline manufacturing footprint. And we will start seeing the positive effect from 2020 P&L.

2019 EBIT, because of what described closed the year at €218 million, with an increase compared to the previous year of €30 [ph] million or 6.5%. The EBIT ratio of revenues at 30.8% is slightly better in 2018, which closed at 30.6%. Q4, '19 EBIT decreased compared to Q4, '18 by

€3 million just because of the restructuring costs, we have discussed about.

Full year net financial expenses are higher than 2018 by €1 million. This difference is mainly due to the positive revaluation at fair value of the participation in our Indian subsidiary booked in 2018, after the takeover of full control from the Indian partner. Besides in 2019, we also have to account for the negative impact of the figurative interest driven by the first time introduction of IFRS 16. Net of these elements 2018, net financial expenses would have been close to zero. 2019 tax rate at 18.7% is better than 2018, which closed at 22.6%, because of the booking in Q4 of deferred tax assets related to the intangibles which we moved to Italy in connection with a shutdown of the Irish manufacturing site. Net of this positive one-off, 2019 tax rate would have been substantially in line with 2018. 2019 net results at €176 million or 24.9% of revenues is higher than previous year by €18 million or 11.1%.

Lastly, 2019 EBITDA at €277 million is better than 2018 by €22 million or 8.4%. The ratio revenues of 39.2% vis-à-vis 38.2% of 2018. The volumes at constant exchange rate and net of the one-off costs, we discussed about is positive for 7.6% with that ratio on revenues of 39.6%.

Quarter 4 EBITDA decreased compared to Q4 '18 and this is entirely due to the mentioned restructuring costs. Full-year 2019 improvement…EBITDA improvement compared to last year is driven as we have discussed by higher gross margin and by the first time adoption starting from 2019 of IFRS 16, which accounted for about €7 million. Since there are many moving parts and for the sake of clarity, let me underline that 2019 EBITDA margin is better than full-year guidance, which was calling for 38.2% at constant exchange rate even without

considering the positive impact of IFRS 16, which accounted for a bump of a touch less than 1 percentage point.

Let me now move to the net financial position and the free cash flow. We closed 2019 with a very positive net financial position of €173 million after the introduction of IFRS 16, which imply that the boosting the financial liability for about €13 million. In 2019, the Group generated €180 million free cash flow vis-à-vis €164 million of 2018, therefore, recording an increase of €17 million or 10%. This variance is the result of the good economic performance of 2019 and the positive working capital variance, mainly driven by an improvement in DSO, which is a direct consequence of the different geographical mix we discussed about and the very disciplined collection policy. These 2 positive elements have been partially offset by an higher tax cash-out, mainly coming from the one-off exit tax deriving from the shutdown of our operation in Ireland on one side. And on the other side, from the depletion of the Patent Box tax credit granted by the Italian authorities in 2017.

For the sake of clarity, let me underline that the Italian Patent Box tax regime has been renewed till 2014. What has changed is simply that during 2019 we have exhausted the tax credit accrued for in 2017 and related to the years between ‘15 and ‘17.

Lastly, let's move to 2020 guidance at 2019 constant exchange rate. We expect revenues to increase at around 5% and then EBITDA margin between 38% and 39%. As Carlo already said, please consider that this guidance does not incorporate the effect coming from COVID-19 outbreak. We will review our projection as soon as we will have a better picture of the impact on the different geographies in which we operate.

Before concluding, let me remind please that DiaSorin financials are fairly sensitive to FX fluctuations and in particular to the U.S. dollar and that for every $0.01 movement of dollar against the euro, DiaSorin revenues move by about €2.5 million on an yearly basis.

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

Q&A

OPERATOR: So, thank you, sir. Excuse me; this is the Chorus Call conference operator. We will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone, to remove your question please press "*" and "2." Please pickup the receiver when asking questions. One moment for the first question please.

The first question is from Maja Pataki at Kepler. Please go ahead. Ms. Pataki, your line is open, madam.

MAJA PATAKI: Yes, hi, good afternoon. Sorry. Carlo, I have a couple of follow-up questions to your comment around coronavirus. Apologies, my line isn't too good, so I missed some things. Could you just confirm that you said that in Italy you had full access to hospitals and therefore there was not an interruption of general…revenue generation due to a lack of access?

CARLO ROSA: Do you want me to take this question now or you want to give me both?

MAJA PATAKI: I could give you…I can give you. I would actually have 3 from me. Second of all, the potential that you've given us for COVID test. Is that

correct, you said €5 million to €10 million per month, if that is correct, could you just tell us what kind of volumes you are assuming underlying?

And then the last question. It hasn't been really a topic at the conference call, obviously because there are more pressing topics. But could you please give us an update on what is happening with regards to the negotiation with Quest and what has happened subsequently with the other larger customers? Thank you very much.

CARLO ROSA: Okay. The Corona questions. Yes, so far there has not been any disruption in supply in Italy because of the Corona, what we have seen clearly in some institutions and especially in the north is that the testing volume of regular staff [ph] clearly is going down because you have less people as said accessing hospitals, there is a recommendation not to go to the hospital except for urgent cases, the impact so far access and supply, no problem.

The second, the question as to be potential, yes, we say when we see that look, we see as follows. There are millions of tests today that can and is or prospectively will be done. And I've seen what happens here in Italy, let me just give you a couple of numbers, so the official every night on TV, the Minister of Health goes on TV and gives numbers. And they say that until today officially data form 60,000 swabs [inaudible] we know from a different source because of the volume of swabs supplied that so far suppliers have sent to hospitals over 800,000 swabs, okay. So it is very clear that this market is…this volume in this city is alone is hitting the suppliers as a storm and everybody's on the [indiscernible] from people that are actually synthesizing primers to companies that launch the products, nobody was able to cope with this surge.

So it’s very clear that the way I see this business opportunity is that there is going to be a pie that will be carved-out among different suppliers depending…and it’s going to be a mix of LDT tests. So you're going to have the test performed with labs that’s just buying the stuff. And that's today, the reality in the U.S., as you follow the LabCorp Quest are getting up and they are able to do…to perform LDT testing. And then you are going to have a dissemination of testing in the periphery, in core labs and here you are going to have a bigger system and then in the emergency room where you're going to have a smaller system and we would be the first one, a small system to go. I don't think, by the way, that this is going to be a lot to do, especially in Europe with final testing because it's too expensive, okay. So the real solution here would be a coronavirus test that is either you have Corona or non-Corona this is what you need to know today.

So to make a long story short, I'm saying that if I do all this and I look at what would be the reasonable number of systems we can place, customers we can serve without really [indiscernible] because of you cannot, you know, start with the opportunities and then go back order, we did a quick calculation and that is at full speed. So assume that you have months where Italy’s buying and U.S. is buying because we will try to serve other markets. But eventually the surge is so big that we will try to focus on…initially on these 2 markets.

We believe the potential is €5 million to €10 million, okay. I cannot give you the volume because I would have to disclose the price. And I don't want to do that, okay. But this is how I am carving out this and this is simply say a piece of this volume that DiaSorin can commit to supply and support, okay. Other companies have gone out and take other pieces of this business. And what is very interesting is that the you have seen by the way, and you saw that there have been lots of discussions about the fact

that government are actually pushing local suppliers, local company to start to give priority to their own country, okay. So it won't be surprising what would you see coming is that all the diagnostic companies will have somehow to supply their own domestic market first and then export, okay. But it's very interesting. You already heard in Germany what happened and the situation here.

The third question has do with Quest and big labs. Look, the negotiation with Quest, it's not a negotiation. The negotiation has been done, meaning that we announced that 2 things happen. One is that the contract has been renewed for 18 months and that is the time limit estimated by Quest originally to actually bring up to speed all their systems because the tender has been won by Siemens, so these are 2 official information.

Today, I have a feeling that the implementation of all these changes are going to go through some hiccups because everybody has been hit by a storm. So how this is going to pan out? I have no idea. But facts are that as far as Quest is concerned, Siemens won tender, we kept all the infectious disease, Vitamin D was assigned to Siemens to what we understood and there is a soft landing period of 18 months where our Vitamin D will continue to be used at the current price, okay. And then God knows what happens.

LabCorp, there has been…we are working as said before when I was talking about TB, we strategically want to develop with QIAGEN the business going after sent-outs, but also exploring the opportunity of the centralized labs. And what, you know, with LabCorp we have a great relationship over the years and we are clearly working with them to explain and defend and have them buy into our technology with our friends from QIAGEN. So every time we do have negotiations of this type with customers of the size, we always have a trade-off meaning that,

we provide discount of certain things in order to have opportunities on other products, and I think this is…let me just leave the comment there. So stay tuned to us it is very strategic to have access to these big volumes that the big labs are getting today. So in the next call, we're going to update the market about where we are at.

MAJA PATAKI: Thank you.

OPERATOR: The next question is from Mr. Peter Welford of Jeffries. Please go ahead, sir.

PETER WELFORD: Sorry, I was on mute. Apologies, I was on mute. And just a follow-up please on the coronavirus situation. And you mentioned I think, I'm right in saying there were 800 systems that have been placed at the moment worldwide. And I wonder if you could give us some sort of geographical breakdown of those systems that have been placed so far. And also whether or not the capacity to actually supply the systems is potentially a limiting factor to also the coronavirus test as you roll them out. And equally then, I wonder if you looked into…are there any supplies of any reagents, or third-parties that you rely on? Where you see risk there and if you…I just don't conducted due diligence of your suppliers to determine whether or not there's any risk from a raw material input point of view, to your business longer term.

And then, just on the QuantiFERON business, you mentioned there. You talked about, I think the opportunity there in the U.S. and the ramp up that you've seen so far there based on I think 180 offers you said. And I guess, could you guys give us some insight into those customers that didn't choose to buy, what the…what sort of dynamic is there, and what sort of negotiation and discussion centered around the QuantiFERON-TB in the U.S.? Thank you.

CARLO ROSA: Okay, let me start from the last one, it's easy to remember. On the QuantiFERON for the U.S., as said today we have a position with our partner QIAGEN and this position is look guys, we bring tremendous benefits when we upgrade…either if we upgrade you to from ELISA to fully automated system and/or if we allow you not to send out, but to do all testing in-house, and we believe that it is fair for the customer and fair for DiaSorin and QIAGEN to split the gains.

So, today we are positioning our pricing into an area which is very interesting for the send-out, because today the send-out cost is between $50 to $70, and therefore there is lots of space for the customer to gain efficiency and for us to gain the right value for the product. And when it comes to customers that we convert from ELISA to LIAISON, we ask for premium. And we make…we took with QIAGEN in a very hard stem saying if customers don't want or don't understand the value of the technology, we are not going to…we are not going to make concessions. I have to say today that again 180 offers and with few exceptions, we see pricing as an issue, but if they have to say where we are not going to bend is above value for this product, okay.

Now going to supply chain, I see, honestly today as we speak, I don't see issues. So keep in mind there fortunately for us we are a manufacturer, so we don't buy raw material. I've always been very proud of saying that we make all our stuff our self in terms of biology otherwise we will not be a diagnostic company. The only area where I think there is…there could be an uncertainty. But again, this is just a presumption [ph] it's not what we see today is simply what we hear, is that when we come to…when it comes to some of our instruments it is very clear that some of this…some which are actually bought in Europe as you know, some of the sub-assemblies may be coming from you know, other parts of the world,

maybe China, which is very interesting about this corona effect, is that everybody is now discovering that the supply chain is global and never local. So even if you think you're buying something in Europe at the end of the story a sub-component it's coming from somewhere else. So if I have to look forward, it would be interesting to understand whether and how long is it going to take for the Chinese supply chain of parts to be activated and may available to you.

For the time being, we see no issue with instruments viability. And so, we continue to be alert with static [ph], but if I need to point my finger somewhere as a potential risk of some back order in the future not only for us but for a lot of companies could…really could be instrumentation.

Now, working back the list, the first question was on corona. Can you help me out one second? What was the first question?

PETER WELFORD: Yes, sorry, the 800 instruments, just whether or not you could potentially give us a breakdown of where they are, I guess, and whether or not you see, you've got enough supply of the actual instruments to meet demand of the tests. When obviously the CE mark in the EUA is approved?

CARLO ROSA: Look, needless to say that this business was a U.S. business. We bought it from Focus…from Quest because 90% U.S. developed business. So as you can imagine, a good chunk of the installed-base is in the U.S. and it fits in hospitals and that's the perfect location to exploit the opportunity because hospitals are the one that will do testing in the U.S.

In Italy, we do have an installed base, but the problem is that the way now in Italy the system is positioned or now they want us to position this is more on the triage emergency room. And so, what we are doing is we are dedicating to this a certain number of systems that we have in inventory or

we are taking away from certain customers where today the priority is not what they do. It would be more the corona in reposition this base into the emergency room. So to make a long story short, in U.S. installed-base in hospitals or right installed based in Italy systems we are in inventory or were taken away and put in inventory to make sure that we deploy into the emergency room in the…in as soon as the product is available.

PETER WELFORD: That's great. Thank you.

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

ANDREA BALLONI: Yes, good afternoon everybody and thanks for taking my question. Obviously, a lot of question about the COVID positive and negative side. On the positive side, I've understood the impact of a COVID new test should be in the range of €5 million to €6 million per month…or €5 million to €10 million per month, which is a pretty huge amount and this should be at full speed coming from Italy and the U.S., and correct me if I'm wrong. I have understood that the impact in Italy should be very soon due to current situation. About the U.S., when you think to receive the approval. Usually, it's a pretty, pretty long period to receive an approval from FDA. But in this case, could be pretty soon as well. So just to calculate the full speed could be calculated starting from probably already in May is something doable?

My second question is about negative impact of COVID, you've mentioned that so far. You are normally supplying the hospital, but the level of volume of testing the hospital is lower…dramatically lower compared to [indiscernible] in Italy. I would like you to help me in modeling this. So in China, where we have, let's say, one mouth ahead of Italy, what has happened, I mean, which is the drop in term of volume sold

to the hospital you have experienced in Q1 in China. And I would like to know if this is something which could be repeated even in Italy.

And my last question is about tax rate. You have mentioned a renewal of a patent box, which is your guidance on 2020 tax rate, please?

CARLO ROSA: Long question. And I think in your comments, you already have a lot of the answers. So let me just try to add some, I think, you said €5 million to €6 million, but I think you did understand what the number was we said €5 million to €10 million. That's my first comment.

As far as the opportunity is concerned, then you asked about the negative impact on volumes. I said, I wish I had a crystal ball, I will play lotto. I think that what I caution the market is that we are doing, we have seen is that in certain hospital in Lombardi that clearly is the region that has been, first we saw a 30% drop in existing volumes. We have not seen this so far in the south. So Italy is a complex situation because it's a blend, you know, today you have the North that has been hit by a storm and the South so far that has been preserved. Okay, so but I'm saying what we saw right now is around 30% drop in volume.

China is a different situation, because China was…everything was very much concentrated in 4 weeks…4 to 6 weeks and at the peak of negative effects, you could see certain hospital even down 70%. But in China also you need to understand that fortunately for all of us, they were able to impose certain restrictions right away. Right, and so the effect was immediate, it didn't last long. And then you see a recovery…slow recovery, but you see a recovery. I don't know if this can help you to model it. Believe me, I wish I had a crystal ball to model it myself. How this is going to be translated into Europe. I've no idea until yesterday in France, that we are still celebrating in the streets as if anything is

happening, Germany has been hit hard and I saw a picture of Frankfurt Airport completely empty. This is what I am saying the crystal ball. How long this is going to last and what we've seen so far is what I told you. About the Patent Box…

PIERGIORGIO PEDRON: Yes, so as I told you, the Patent Box has been renewed. So what we are shooting at in terms of tax rate for 2020 is a similar number of 2018 which is between 22% and 23% tax rate at the Group level.

OPERATOR: The next question is from Mr. Scott Bardo at Berenberg. Please go ahead, sir.

SCOTT BARDO: Yes, thanks very much. Yes, few questions, please. So I am a little bit confused, so I just want to be 100% clear on a few things. So firstly, encapsulated within your around 5% Group revenue guidance, do you include this new coronavirus test that you have within the portfolio. That would be helpful to get some understanding on whether this is excluded. The second question, actually, it would be wonderful for you to answer that one first to me please, if possible.

CARLO ROSA: Very simple, no. It's excluded positive and negative effect. So the guidance we gave…we tried to give is what we saw in the business trends with regular course of business, then on top of that what we excluded, so we don't know and we will be able to quantify better moving forward is the positive effect and we tried to give you what we estimate would be the opportunity that we will look at as our…the side of the business we can get which is in a full month €35 million [ph], and then the negative one which would be the volume. But all of these is not included in the 5%.

SCOTT BARDO: Understood. Thank you for that. And then…and I appreciate it's an evolving situation, but you already then a very established routine

diagnostic business and the test that you talk about here is a new test which hasn't…if you like, established itself in the market yet. So what I am trying to understand is at this point, do you consider yourself a net beneficiary if you like of the coronavirus tests and contain the outbreak or should we expect even including this test some negative impacts to your business, you know in which case, just help us understand is this a couple of percent on the topline? Is this a 100 basis points additional margin compression to your guidance? I think it would be useful in this environment just to get a little bit more clarity as to what is a more realistic scenario for us to embed at this point.

CARLO ROSA: You know, honestly, Scott, we will be working together for few years, so if I knew, I would give it you. I don't know and I am trying to explain to you what the uncertainty is and why it is so difficult to evaluate. It is difficult to evaluate because you don't know how long is it going to last, okay. It's now shifting in by different geographic regions and so how long is it going to last, we know…we now know or we can predict what is the effect in China, okay? But I don't think that the Chinese model is reproducible unfortunately because [indiscernible] reacting with the same speed as the Chinese did. So I am telling you, I am giving you some guidelines for what I see in Italy. So far, in Germany and France, we have not seen decrease in testing volumes, business as usual, but we both know that it is getting there, it's hitting hard and you are going to see the same effect. And certainly nobody knows what is going to be the effect in the U.S. I mean that I think is the first statement. So I am telling you I've no idea how…but one thing is for sure, it is temporary. It is temporary because it's just decreasing volume, patients not being admitted but they will be admitted, insurance testing is being postponed, but it will be done.

SCOTT BARDO: Okay. Understood. And maybe then just following on from this, I mean, you've commented about China, you know routine testing falling quite

considerably in the month of February. I mean these are if you like again established profitable product lines, is it fair to assume that the new test that you launch is of a profitability profile that can compensate for some of these losses or in a sense is this is a more of the revenue generator than a profit generator for the Company?

CARLO ROSA: Again complicated to tell you. Look, I think that we made a decision as a company with social responsibility. We decided that we are going to provide this test to organizations at a reasonable price. And so we are not going to try to exploit the opportunity and the emergency. And so and that's you know an ethical decision that was made by the Board this morning. So we are going to sell this product at the same price that is actually paid for our regular influenza test which is the only established reference you can use today. So this is as much as I can tell you.

SCOTT BARDO: Alright, maybe a last question on the coronavirus side. I think your guidance excluded these impacts. It is at the lower end of your midterm aspiration for mid to high single-digit. I think you also mentioned some comments about renegotiations with reference laboratories. I just wonder if you could share a little bit more about this dynamic because it was my understanding you had previously reached some agreement with some reference laboratories, so just some comments about how water tight these negotiations on previous contracts are and whether the end goal is still very much in sight to become a high single-digit organic growth business.

CARLO ROSA: Okay. If you go back to our regular course of business and we forget corona, so let's look 2 effects in 2020. One which is to do with discontinuation of Siemens' ELISA. As you know, when we have discussed, we are proceeding and we have an acceleration of the cannibalization of the last accounts from the Siemens' ELISA to the LIAISON. The contract allows Siemens to stop supplying products to us

by mid to the second part of 2020. This is when the last lots will be actually shipped to DiaSorin and to customers. So when we had bought this business, there were 2 segments of the market we bought…of the customer list we bought that we would have lost. One were 3 very large blood banks that were still using ELISA and we knew that when this would convert they would convert to another technology, not DiaSorin because we are not [indiscernible] company. So this happened…we are supplying, still supplying ELISA to them but in the next few months this is going to disappear. They are going to be move to different technology, and then the long tail of smaller customers where we don't have solution for the small customers, too small even for the XS and we are going to lose them.

Net-net, all this discontinuation effect that is going to happen in 2020. And so that's a one-off drop that you know this is. The other one, look it's a qualitative comment that we made. For us, it is very clear that and we said it many, many times, we are vulnerable on certain larger contracts on Vitamin D with these big, big, big accounts because it's high volume, it's Me-too and so forth and it was very clear when Quest made a decision to automate all their immunoassay that we will be not…certainly not vulnerable on specialties, actually we would gain more specialties like Calprotectin but we will be…we will lose Vitamin D.

When it comes to Vitamin D, then with this very large accounts it is for us better in my humble opinion to trade some Vitamin D value which is always at threat of being reduced by you know any of the large competitors putting in front of these labs, I am not surprised and/or the concept of Vitamin D being Me too and being at this point automated on a [indiscernible] system. So to make a long story short, every time I have a chance to get more business at a better value with a good contract, and if I need to do that take an existing assay and exchange some value to get

more value, we always do it, okay. So what I am saying is if I need to use our Vitamin D existing business in order to speed up or make more comfortable [ph] a large customer than to introduce another product of…that gives me more stability and more value, I think it is worth for DiaSorin to do it. One is compensating the other, so if you give financial incentive with Vitamin D, that is going to be compensated way….than more than compensated by what you get in return from the lab. And I would like to leave it here because it's confidential information, but it's a principle that we have used in the past and we want to use in the further to secure strategic opportunities with the large labs.

SCOTT BARDO: Okay. Thanks.

OPERATOR: The next question is from Catherine Tennyson of Bank of America Merrill Lynch. Please go ahead, madam.

CATHERINE TENNYSON: Hi, thank you for taking my questions. I have 3, if I may. My first one is on China. Of your 2019 revenue number, what proportion of that came specifically from China? And if of your Chinese business if you could just to remind us what portion of that is these 2 tests versus specialty tests. That will be my first one.

And then if we look at Q1 for China, have you seen a number of new coronavirus cases start to decline a bit in March. Have you seen an increase in activity there? Secondly, if I could look at the increase in operating expenses in 2019, could you give us a little bit more color as to what those were and if that stepped-up level is what we should expect for 2020. And then my third one is on your Siemens' ELISA customers that are looking to convert CLIA. What proportions of those have been done as of late? Thank you.

CARLO ROSA: Okay. Let me say, we never disclose what China is but I think we say that APAC is around 15% of total business and China is a good chunk of that business, so you can, I think have enough to make your own assumption. Quarter one in China what we saw is January is, which now seems 10 years ago but in January we didn't see much simply because there was the, the New Year, then we saw in February, we saw deep dive in testing volume when the country fundamentally frozen is not only the one region, but as you follow everywhere the country across.

And now we see in March a recovery, we can measure in…where we can, today I see the recover coming from the fact that we are back into business of installing new systems, because hospitals have open up now, access to engineers to for installations and that's very positive. And then, we…but again still very difficult to get data from hospitals, but we from the…from the data point, we have we see a recovery in testing volumes still well below last year, but certainly not to the dramatic levels that we have seen in February.

OPEX, the vast majority of OPEX has to do with the investments we have discussed on commercial and the prep up of the U.S., organization. We have hired over 20 people to be dedicated to the hospital segment and to push the QuantiFERON. And that's a major effect that we have seen plus some value based care initiatives online, because we are hiring people also support that program.

Last is Siemens, I think to this stage, we have converted roughly 75% of the installed-base of the convertible customers and we're going to wrap all up by June. Was that…was that alright?

CATHERINE TENNYSON: Very helpful. Thank you.

CARLO ROSA: Thank you.

OPERATOR: Next question is from Luigi De Bellis with of Equita SIM. Please go ahead, sir.

LUIGI DE BELLIS: Yes, afternoon. Two quick questions for me, the first one on the QuantiFERON-TB, how much of the Italian and European revenues growth in 2019 has been related to the TB test? And the second question on the molecular test. Could you elaborate on the decentralization process affecting large hospitals, served by DIA and the impact expected for 2020? Thank you.

CARLO ROSA: In fact, look…I'm talking about the decentralization. The impact that we discussed is embedded in a corona number. The concept is very simple; you are Italian so unfortunately you do see what we see every night on TV. The net effect today is that the hospital are trying to fence out the intake of patients, every day you read on a newspapers that if they cannot filter patients even acute care people that come in for other diseases there was a case a couple days ago about a hospital in Torino, acute case a guy with a heart stroke come in and then he is not tested, because he's rushed in and then he is positive. And then, they need to pretty much run cardiology. So they are building senses today to avoid that these people getting inside, and but they cannot do it, because the only way to do it is to stop them outside, you know, they built this tent…awful tent, they put people inside, they take the swab, and then if they don't have a way to test the swab right here.

Now, the journey starts. So the swab is sent if lucky to the reference lab to the core lab in the hospital, and that takes itself 6 hours to comeback. If they are not lucky, meaning that they've not been allowed to do testing, so it goes to another hospital it takes 12 hours, and the patient is stuck

outside, and this is why today, when yesterday we announced and we got caught by complete surprise by the…to be honest with you by the reaction of the system…of the political system, of the hospital system everybody immediately understood the value of the test because they want to triage people right there in right way. And this is the value I see of the decentralization and by the way, you know, I hate to say this, but 6 months ago when we were discussing about why decentralization is strategic, and why point of cares more system are strategic. We referenced this, we said, in case of epidemic, this is what you need and again you know, it happened. So this is the only thing…but again, just watch TV at 8 o'clock, and you see what I see.

PIERGIORGIO PEDRON: And Carlo I don't believe we give a breakdown of the contribution of related to the close of sales and the growth of Europe, right. This is a confidential information. So it is a contributor that is, you know, alongside with all the other CLIA-ex Vitamin D test that we have.

LUIGI DE BELLIS: Okay, thank you very much.

OPERATOR: We have a follow up question from Maja Pataki of Kepler. Please go ahead, madam.

MAJA PATAKI: Yes. Thank you to…for taking my follow up questions. Carlo, you mentioned, you know, the…all the tests that are related to insurance…life insurance. And there is a certain proportion of your test volumes that are not necessarily linked to acute conditions of patients. Do you have…could you provide us a bit of a number guidance, how much of your tests in general are more used for checkups that could be, you know, that should be actually recuperated in the second half of the year? And then a second question, is very helpful to get the understanding of you know, what the potential could be from Covid-19 tests per month. So

shall we just think that if you know, new countries start to see really dramatically increasing numbers we should add anything between 2.5 million and 5 million per country to that potential? Thank you.

CARLO ROSA: Maja, very difficult to answer to your question. Look, let me just give an example. So we have market leaders of prenatal testing for infectious disease. CMV [technical difficulty] rubella testing and so forth. There are guidelines that Italy and France are good example, where as this testing is done every Trimester, okay. They are not done, meaning that if today a physician has to recommend to a pregnant women to go to the lab and get tested versus [technical difficulty]. So this is why I'm saying routine versus no-routine today it is becoming a very loose definition Vitamin D testing. Everybody knows in the U.S., that the vast majority of Vitamin D testing is actually related to the 40 million screening insurance programs that are done every year in the U.S.

Again, read [indiscernible] saying, they are seeing all of these postpone, okay. So I think if you look at our portfolio of Vitamin D, is vast majority of it is actually related to…is clearly a non acute case situation and a lot of it in the U.S., is related to insurance programs. And I see that to be postponed after the tsunami hit and things will revert to our regular course of business. On the infectious disease prenatal again, I see some of it for this period of time not to be done. Other infectious disease for hospital admission, for example, for hepatitis, they do it every time patients are admitted. So in this case, more patients are admitted, more infectious diseases done, more hepatitis test is done now versus the future. But the truth of the matter, I'm saying is that we are…everybody is looking carefully to what is happening in China, because it's the first country where it's happened and now they recovered. Again, as we discussed before, China was relatively short.

In Europe, we don't know how long it's going to start…how long it's going to take before it starts, it peaks and it reverse. I think you are going to have an effect in Italy in the next few weeks because now they're going through draconian measures. They're pretty much shutting down all the north, you cannot leave your house. And then let's see, how long is it going to take before the relatively small number of cases, we are talking about 10,000 cases up to yesterday, but still increasing by about 2,000 to 3,000 per day. Let's see how long it's going to take to peak and go back. Italy, will, in my opinion, provide a good example to everybody of what a democracy can do under certain democratic roles.

MAJA PATAKI: Thank you very much for that.

OPERATOR: Due to lack of time, the last question is from Mr. Scott Bardo, a follow-up from Berenberg. Please go ahead, sir.

SCOTT BARDO: Thanks very much. [Indiscernible] just a very quick follow-up. Yes, so boiling this all together and some of the puts and takes and moving parts, and you have highlighted that you are, again, looking to file for approval for your coronavirus tests and you have some renegotiations with reference laboratories and some Chinese impact. If I were to boil this together or distill it, is it fair to say that we are likely to have a pretty weak soft start for DiaSorin from a revenue perspective or do you expect it to be broadly in line with your full year guidance? And also maybe some…Piergiorgio, maybe some comments on margin, would margin, in your opinion be down in the first quarters or half of the year as compared to the prior year or are you expecting a stable development, if you could just comment there, that would be helpful?

CARLO ROSA: Scott, clearly, I think Q1 is going to be difficult because Q1 is pretty much a tsunami. So you have China, you have Italy, now looks like you have in

Germany. So I think Q1 first half for everybody...forget DiaSorin…for everybody it is going to be complicated. Unless you are in the business of supplying reagents to labs to do corona. So if you just do that, you are doing very well because you enjoy the peak of the demand. If you also have with your regular business…diagnostic business, you will suffer from the decline in volumes.

So the answer is, yes, I believe Q1 and Q2 will be soft. By the same token, I believe that, as far as margins are concerned, we see, clearly, you're going to have less, I mean, since we are investing...since we believe all of this is temporary stuff, were in we continue to invest to fuel programs. And so, our OPEX rate will go up because we are value based care, because we have [indiscernible] clinical, because in the U.S. we have all the good people to push programs. So at the level of the...of gross margin, I think you're going to see...continue to see very good margins. At the level of EBITDA, you make at a dilution simply because the weight of your OPEX since we don't want to stop it, because it's the future of the company, you're going to have in the first 2 quarters a margin compression [indiscernible] because of the OPEX certainly.

SCOTT BARDO: Very clear. Thanks very much indeed.

OPERATOR: Mr. Rosa, back to you for any closing remarks, sir.

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