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DiaSorin SpA *(DIA.IT)*

Q2 2012 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 2012 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

Thank you, operator and thank you, all. Sorry for the short delay but it's a very crowded conference call today. So welcome to the DiaSorin quarter two conference call. I will make a short introduction covering some of the key drivers of our financial performance, and then Mr. De Angelis will take you through the numbers.

First, let's discuss about major product line performance and let's start from Vitamin D. Vitamin D continues its trend of erosion mainly driven by the market condition in the U.S. However, it is important to understand that the first half of 2011 had two outstanding events that did not replicate after July 2011. First was the surge of Vitamin D volumes in the U.S. that reached their peak in June last year and then to decline sharply in Q3 and then stabilizing afterward. And second event, which is outstanding, was the withdrawal by Roche of their Vitamin D in Q3 2010 that affected positively the next two quarters in 2011.

Now taking these events under consideration, in the second quarter of 2012, Vitamin D is down at constant exchange rate around 20% versus Q2 of 2011. And in the first six months, is down at constant exchange rate around 18%. However, if we look at Vitamin D trends for the last four quarters, we observe a stabilizing trend of Vitamin D factors, very visible in the second quarter of 2012 where worldwide revenues for DiaSorin decreased only by 1.8% versus the first quarter of this year and this is very important for everybody to realize.

This is the result of two phenomena. First one is that we are getting customers back for Vitamin D due to the quality issues of Vitamin D products offered by one of the very large competitors that introduced their product last year. Second, there are increasing volumes of Vitamin D testing in certain emerging countries, and these volumes are starting to positively effect our mix of sales.

Now, let's now discuss on non-Vitamin D LIAISON(r)(r) revenues. So we're now covering sales of products under CLIA technology, ex-Vitamin D. The growth associated with these lines has been very strong. In fact, we reached a 12% increase over Q2 of 2011, but I believe more impressively up 17% growth in quarter two of this year versus the first quarter of this year. The main drivers of the growth have been, on one side, new product lines, which have been launched on the LIAISON(r)(r) XL starting from last year in mainly hepatitis and HIV products. Second one has been the strong performance of all product lines in emerging countries, mainly Asia Pacific.

In Asia Pacific, for example, we see a continuous growth at 30% versus prior year for all the CLIA products. And this growth is pushed by the increasing demand but also the success of our infectious disease lines in these emerging economies. Third element of the growth has been the strong success of the LIAISON(r)(r) XL platform, which was launched in Europe and now the U.S. In quarter two, we installed over 166 systems in all geographies taking the total installed base of LIAISON(r)(r) plus XL LIASION to over 4,500 units worldwide of which over 330 are LIAISON(r)(r) XL only.

Now, if we look at sales by geography, I would like to make two very short comments. In the U.S., as we have discussed before, the Vitamin D trend continues with a price erosion between15% to 20%, and we believe it will continue until the end of the year. And we all know the reason for this, re-negotiation of contracts that took place starting from the end of last year and is becoming expected throughout 2012.

Testing volume of Vitamin in the U.S. is flat to a moderate increase, but certainly immaterial.

In Europe, driven by the success of the LIAISON(r)(r) XL we have seen an acceleration in quarter two, with a growth of almost 2% over the last year, but more important, a growth of 4% over Q1 of this year. So the European countries notwithstanding the very difficult financial situation of Europe is recovering and is outgrowing the market.

In Latin America, year on year comparison, as we have discussed during the last conference call, is still difficult because of a very large ELISA tender in 2011, which ended in Q4, 2011. The tender is being reassigned to DiaSorin, but the first shipment happened in July. So it will be visible in Q3, but unfortunately it's not in the Q2 numbers.

Then last but not least Asia Pacific is delivering an outstanding growth, which is way over expectation. However, in this region, as we have discussed in the last quarter, the price concession that we granted to Sonic labs for Vitamin D at the end of last year is affecting the 2012 numbers. But it has been a strategic relationship with this fast growing lab that has allowed DiaSorin to expand its product offering from Vitamin D to other infectious disease problem in Australia and in other geographies.

Now finally, we confirm the launch schedule for the molecular product line which will happen in Q4 with the introduction of the first product for infectious disease. In early October, we will invite all analysts to attend an event, which will be hosted in our molecular facility in Ireland where we will explain the strategy to penetrate this very exciting market.

Now, I will turn then the podium to Mr. De Angelis who is going to drive you through the numbers and then we will have the Q&A session. Thank you, gentlemen.

Pier Luigi de Angelis

Chief Financial Officer & Senior Corporate VP, DiaSorin SpA

Thank you. Thank you, Carlo, and good afternoon, ladies and gentlemen. In the next few minutes, I'm going to bring you to the numbers of our 2012 second quarter and first-half results. Please go to slide number 13 where we will take DiaSorin income statement, net of the NorDiag acquisition effect. In quarter two 2012 and the first half of 2012, at constant business days, we raised our revenues slightly decreased in respect to previous year. And Carlo already commented on the tough comparison with last year, extraordinary elements and the trends we experienced in the second quarter and the first half of this year.

I just want to remind you once again that considering the sequential growth rate of our sales, our business is clearly improving respect to last few quarters. As far as the margins are concerned, the profitability profile has been affected by the huge growth distributors and instrument sales that typically carry a lower margin. Notwithstanding these elements and the contracts on – we faced on Vitamin D revenues, we maintained a very high level of profitability, thanks to the high contribution rate of the rest of CLIA products.

Gross margin amounted to €78.3 million in Q2, equal to 68.3% of the total revenues, bringing it to a cumulative gross margin at the end of June of €153 million equal to 69.5%. The EBITDA amounts to €38.8 million in Q2 2012, €75.9 million in the first half, equal to margin of respectively 33.9% and 34.5%. As far as the total operating expenses are concerned, we generated more bottom line that has been negatively affected by the United States dollar appreciation against the euro in this period. In particular, G&A expenses increased following the reinforcement of the corporate structure. R&D expenses needed to support the development of several new tests that we are going to launch in Europe and in the States this year.

EBITDA amounted to €45.9 million, equal to 40.1% of the total revenues. In Q2, 2012, [indiscernible] (11:08) amounted to €90 million for an incident of 40.9%. The group net result is equal to €24.2 million in Q2 2012 and to €46.6 million in the first half of 2012. And the result of the quarterly element €13 million of income taxes, €27 million during the first six months equal to a tax rate there of 35% in Q2 2012, 37.3% in the first half that has been affected by withholding tax of dividends paid by the subsidiary of United States. Non-financial expense related to the measurement at fair value of forward contracts €623,000 in Q2 and €373,000 in the first half of 2012. Seasonal factors of €600,000 in Q2 and €1.1 million in the first half of 2012.

Now, please, if you can move to slide 14, you can find DiaSorin's income statement, including NorDiag acquisition. That differs from the one that's common for the following items, €480,000 of additional revenues contributing to the gross margin for €282,000, €1.5 million of additional operating expenses, of which €853,000 related to the acquisition process and thus not an incumbent

Now, if we move to slide 15, I would like to comment some of the key elements of our balance sheet. The total assets and net working capital as on December 31st level wise, the net working capital worsened by €6.4 million for the following reason; higher inventory for €5.4 million, of which €1.6 million related to the NorDiag acquisition; improvement of payment performance in Spain where government allocated €35 billion to the Public Healthcare System, partly offset by the worsening payment terms in our other country. [indiscernible] (13:53) last comment on the net financial position which improved €10.4 million moving from €41.6 million as per December 31 to €52 million as per the end of June 2012.

Moving to slide number 16 and talking about our cash flow structure, I would comment that the main drivers of the changing in cash. During first half 2012, the Group generated €54.9 million of cash from operating activity, higher than the first half of 2011 mainly because of improvement in net working capital dynamics.

Cash used for investing activity amounted to €13.3 million, higher by €1.4 million respect to the last year because of LIASION XL placement. The net cash used in financing activity amounted to €28.3 million mainly due to dividend payment of €25 million. I would like also to remind you that during the first half of 2012, the Group obtained €7.6 million for the investment in NorDiag acquisition. The net improvement in cash and cash equivalent at the end of the period was €5.7 million bringing the total amount at the end of June 2012 to €69.8 million respect to the €64.1 million as per December 2011.

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

Thank you, De Angelis. Just one more comment before we move to Q&A that has to do with full year 2012 guidance. We confirm the guidance which was provided for 2012 which is revenues in line with 2011 or slightly growing and EBITDA margin in line with 2011 or slightly below 2011 level. We expect an erosion as explained due to the Vitamin D selling from 200 base point and started installed base – we confirm between 500 and 600 new system install as a combination of LIASION and LIASION XL.

Now I will turn to the session of Q&A. Thank you, operator.

QUESTION AND ANSWER SECTION

Operator: Excuse me. This is the Chorus Call conference operator. We will now begin the question-and-answer session. [Operator Instructions] The first question is from Mr. Andrew Olanow of Morgan Stanley. Please go ahead.

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

Q

Good afternoon. Thanks for taking my questions. I wanted to focus a bit around margins and if that's okay. It seems to me that you're explaining that the decrease in EBITDA margin is driven more by an expansion into Asia and selling through distributors than it is by a reduction in Vitamin D price and sales. Can you clarify if that's the case and if so, can you segregate where you're getting margins hit by, by which one of the two in terms of quantity? And then secondarily, I wanted to follow up on a question I think we talked about last quarter which is that your gross margins in Q1 managed to stay quite high and in Q2 that's come down, but there is still reasonably strong. There was some wondering around your inventory which had gone up significantly and whether or not possibly some amortization might being stored in the inventory line out of the gross margin. Could you help us to understand what's happening in inventory specifically around the breakdown between raw material inventory and finished goods inventory that would be very helpful? Thank you.

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

A

Yes, Andrew. Let me just take the question. What has been very visible in quarter two is the fact that we have, let me say, unleashed the XL to certain distribution countries, namely in certain Eastern European countries and so far not yet in Asia Pacific. So this has nothing to do with the XL launch in Asia Pacific, which is scheduled to happen starting from November of 2012. Because of that as we clearly, if you look at quarter two revenues the weight of instrument sales is a couple of percentage points heavier than our traditional weight. And again, this is typical when we start installing this installed base – an install base of LIAISON(r)(r) XL and then we're going to follow up of reagent, which will happen starting from quarter three. Because of that we have a margin, we took a margin erosion in quarter two, which has nothing to do with what we have projected, which is 200 basis points of erosion which has to do with Vitamin D. So the only – the warning we are giving to the community is that do not read too much into the margin erosion for Q2 because some of it is organic, less Vitamin D, but some of it has to do with product mix, which happened in quarter two.

Now as far as in inventory we concern, you need to understand that 70% of our inventory has to do with raw material and semi-finished raw material, whereas inventory of kits is usually very limited. It does represent no more than 20% of our total inventory. So to make a long story short, the inventory of finished products or kits did not change materially in the last few quarters. What we have seen is being an increase of the raw material inventory, but for a very simple reason we have been launching continuously new products over the last few quarters. And every time we launch a product as part of the launching strategy, we bid inventory raw material with validated KLR processes that I should be able to sustain volume surge of that particular product, and we expect to come three, four, five quarters after the launch. And this is to avoid then a very expensive process, which would be revalidation of KLR processes for manufacturing raw material after launch. So what you see here in the surge of inventory that happened in the last quarter is associated fortunately to launch of new products. As you know, in Q1, in Q2, we introduced already three products in Q3 HCV has been – that's launched in July, so it's going to be, you will see it starting in Q3 numbers. But more than that we have launched last year HIV and HCV that is a very complex product, so they require lots of biological and this is what you find in inventory for those.

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

Great. And then just one follow-up on Vitamin D, could you indicate to us where it now stands as a percentage of sales and where you expect for it to stand maybe at the end of 2012 and the end of 2013?

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

I think it stands to, I didn't do the calculation and the problem is that I should do it at the constant exchange rate because of the – clearly it is an effect – I know the U.S. portion of this is affected by the dollar. But I would say it should be around 30% for the revenues, no more. Where is it going to be? Clearly, it is going to be diluted as an effect of – growth of other lines and the decrease of Vitamin D revenues.

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

And then because of effect, it may look more like 33%, 34% at the moment, yes?

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

At constant exchange rate probably, but I would say south of that.

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

Okay. Thank you very much.

Operator: The next question is from Romain Zana of Exane BNP Paribas. Please go ahead.

Romain Zana
Analyst, Exane BNP Paribas SA
Q

Yeah, good afternoon. Thanks for taking my questions. Three questions if I may, the first one on Vitamin D. I think you mentioned earlier that Siemens only had 10% impact on your market share and the volume so far, while the growth has been secured through multi-year agreements. So, first, do you expect any impact on your market share and the volume from the imminent launch of Roche test in the U.S. and if yes, it's already included in your full-year guidance.

And secondly, on pricing, do your multi-year agreements contract with big labs such as Cardinal, LabCorp, et cetera based on fixed price or do your customers still have room for further discount negotiations?

Secondly, on the NorDiag profitability, I was wondering if you could give us more details about the level of growth and EBIT margin and maybe an idea of what would be for assumption of the 2012 gross margin for the Group including the NorDiag acquisition. And last question is more technical, and just a clarification on the past CLIA quarterly figures, in today's press release, it's reported that CLIA accounted for around 68% of Q2 2011 sales, while in Q2 2011 press release it was accounting for 74% of sales, so it is not very clear to me in what extent I'm missing a different group of consolidation. So if you can just help me on this? Thank you.

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

Okay. Let me, on the last question, you caught me, you catching me a little bit off guard. What could have happened is the other way to instruments which is not – which goes under other. So is not clear, as again skew the number, but I need to get back to you on this one, because I don't – I really don't have the data handy. As far as now just trailing back to your questions, in NorDiag and the gross margin, I am not really ready as we speak to discuss about margins for a very simple reason. We have just shutdown the plant in Norway. We are moving and we sent out all employees with the exception of the research and development, we are moving everything to our Irish plant that, all the manufacturing item under validation and supposed to be up and running starting from September. At that point, we'll have much better visibility on costing and manufacturing associated with that. My – let me say more than a gut feeling but my expectation is that we will have – we are not going to have a dilution of margin coming from NorDiag, okay. And as far as Vitamin D in Roche are concerned, 80% of our contract has been renegotiated, have been because of the Siemens factor and pricing being taken to the new price area reality. Roche just launched the product, we've been facing Roche in several different geographies. Roche has never come to the market with an aggressive pricing as Siemens did. We have better visibility now on the product and you may understand why Siemens took that route at that point. But I am not going to make any comment on Roche in the US situation until we see them hitting the market and the strategy. The comment I can make is that I don't think that this will have an impact in 2012. So our guidance, yes, we already had some forecast in our numbers assuming Roche approval. So I don't think it will affect the 2012 numbers.

Romain Zana
Analyst, Exane BNP Paribas SA
Q

Would you consider that the Roche test is more competitive than the Siemens one or is it still too early to say?

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

As said, I am not really ready to discuss about fortunes or misfortunes of competitors. So let's wait and see. The U.S. market is very competitive market. When you go to the US market, you're going to rely on them because you have big labs with millions of tax barrier and we've been there for now many, many years. We have redeveloped

Vitamin D three times. In fact we went through three different fighting case in order to optimize our Vitamin D for the US population. And I think other competitors understood sitting there how challenging that market is, so we'll see full scale Roche.

Romain Zana
Analyst, Exane BNP Paribas SA

Q

Just a very quick question, just can you confirm that the EBIT margin guidance for the full year, we are speaking about adjusted EBIT margin now that you have some non-recurring impact?

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

A

I think that we are keeping NorDiag out for the sake of clarity.

Romain Zana
Analyst, Exane BNP Paribas SA

Q

Okay.

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

A

And so we are talking about at comparable business and condition. Keep in mind, as I said, NorDiag is a fairly immaterial addition to the business from a financial point of view as it is strategic for other reasons. This quarter then majority of the negative EBIT contribution has to do as Pier Luigi said by non-recurring cost associated with favoring people and closing plant.

Romain Zana
Analyst, Exane BNP Paribas SA

Q

Okay, thank you very much.

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

A

Thank you, Romain.

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

Peter J. Welford
Analyst, Jefferies International Ltd.

Q

Hi, and thanks for taking my questions. I got two last. Firstly, I wonder whether or not you're willing yet to talk about the impact of the U.S. medical device tax and whether or not you've yet had time to run through your numbers for the next year in terms of what sort of impact you think that could have on your business? And then secondly, could I just confirm the revenue target of flat to modest 2% growth? Should we assume does that obviously does not reflect either NorDiag actually said all the favorable foreign exchange? This is an underlying 2% growth for DiaSorin, can we just confirm that please. Thank you.

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

A

Okay. The first one that has to be the medical device tax, to be honest with you are not really ready to discuss about next year numbers. What we know is that we will take a hit very clearly on our U.S. revenues and then as soon as we will have visibility on our U.S. budget usually at this year end, we would be able to better comment on this. Also, it's fairly complicated though because you need to look on one side on a fact which is you will be paying taxes on revenues, but the underlying assumption of the U.S. government is that 40 million potential patients are above the table. So now I think the big assumption we need to make here is what will be the positive impact on volume versus the negative impact of evacuation and clearly it is too early in my opinion to discuss this one in a dedicated way.

The second question was, sorry it was? No, okay, the 2012 revenue guidance. Yes, the revenue guidance is with ex-NorDiag so that it could be taken out and it is at constant exchange rate as we have provided it at the beginning.

Peter J. Welford
Analyst, Jefferies International Ltd. Q

Thank you.

Operator: The next question is from Mathieu Chabert of Bryan, Garnier. Please go ahead.

Mathieu Chabert
Analyst, Bryan, Garnier & Co Ltd. (France) Q

Yes, good afternoon. Two questions from my side. First, can you give us some details of what the profitability was for CLIA test ex-Vitamin D and as well as the level you're targeting for molecular line of products? And secondly, could you confirm that you're still planning to introduce Vitamin D in Q4 in Japan and do you still plan to make for us an acquisition or a JV like you did in India and that region. Thanks.

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

As far as profitability of other CLIA lines as we said and as I believe, the numbers are showing, we have, let me say, between the most profitable test of CLIA and the least profitable which would be a main – I'd say only two mainstream product like cancer marker for example the difference in standard margin is no more than 10 percentage point, very clearly we are launching lot of specialty products these days and these specialty products earlier on upper range of margin very similar or equivalent to Vitamin D. This is the question in terms of the mix.

As far as Japanese companies is concerned from what we know today but we're in hands of the Japanese bureaucracy we have – we expect to get the approval in 2012. Okay, we are installing the LIAISON(r) XL in a couple of big lab chains in Japan during August getting ready as soon as the approval is received to start to allow these labs to provide Vitamin D in Japan. As far as our physicians are concerned, I can give a very generic statement, as we've shown in the past, we do have an active program to bring more assets in terms of technology at NorDiag or in terms of product lines as we did with Murex and whenever we find a reasonable target, we are going to invest shareholder money in order to increase the value for this company. And I don't think I'm ready to disclose anything more than this.

Mathieu Chabert
Analyst, Bryan, Garnier & Co Ltd. (France) Q

Okay. Thank you very much.

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

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

Hello.

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

Yes.

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

Hi. Just a question on the U.S., obviously you have a whole bunch of product launches planned in Q4, do you think you will be able to reverse the revenue decline in the U.S. in 2013, given the opposite Vitamin D pricing hopefully is going to get much worse in 2013 while we are in 2012?

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

You are referring to the program we have discussed where we want to bring – we would like to bring the total number of US products from the total of – I think we had 25 – 25ish products approved to around 50 and will be initiated a registration crash program on LIAISON(r)(r) XL where we expect that the first product will hit the market in the Q4 and then the rollout in Q1. So the intention of these products clearly is to leverage on the existing installed base of LIAISON(r) XL and LIAISON(r) installed in the U.S. anchoring the Vitamin D business. So from a frank perspective, Martin, unfortunately that the figures didn't open and the price has been already negotiated. I think that what this can do is it can allow us to go more on the territory and get customers at the hospital level because they are doing send-out and convince them to take LIAISON(r)(r) XL box which is our product. This is the only thing I can foresee going forward in the US.

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

Okay. Can you anything more about what's driving the growth in Asia Pacific given that, clearly it isn't distributor or something ex-Elliott?

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

It's all to do with LIAISON(r)(r), the LIAISON(r) growth with the – our other clients mainly patients in infectious disease and routine testing for oncology and endocrinology in China. That is the main driver. We positioned the company in Asia Pacific as a supplier of infectious disease products and this is – as you know, we have a very successful – we ran a very successful program in Europe first with market shares of 25%, 30%. We are replicating the same model in Asia Pacific and very successfully because thanks to the Murex acquisition. we had established a critical mass with distributors and the right presence in Asia Pacific and now it is allowing us to accelerate the placement of LIAISON(r) in the region. Keep in mind that just China – in China alone, we have now an excess of 350 systems. We're probably going to hit over 415 installed by year end and we are planning to – we're going through registration of the XL and we're launching the XL in China by year end, probably it's going to be the first week of December, there is an event with all the Chinese customers to launch the XL. Again is – I think we are replicating in China the success of our traditional lines that have been in Europe when we launched the LIAISON(r) in early 2000.

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

Q

Okay. And just finally very quickly on NorDiag, now you've actually owned it and you have manufacturing, how much time it's going to take to drive the revenues from your existing business to the level that you indicated bringing to the deal, how do we do?

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

A

So, you are breaking up, how much time we take to?

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

Q

Take the revenues up from NorDiag, such that the business is profitable as you plan to do when you acquire the business, have there been any surprises good or bad there?

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

A

I think as you will see a positive impact starting from 2013. Remember that as far as NorDiag is concerned, we have a tactical opportunity and a strategic one. The strategic opportunity clearly is to position the extraction along with our LAMP products. So we will able to offer full package to customers driven by the LAMP content. However, there is a practical opportunity, which has to do with the extraction business, let's say, which is the one that was pursued by NorDiag. They had €3 million, €4 million of business. We have streamlined their distribution network. We have opened different channels. So we will never become the next key agent, that is not our intent but clearly this market which is estimated to be worldwide in the €500 million to €600 million range that would allow us tactically to get a few millions of additional revenues, but we will see it in 2013. From a margin perspective, as I said, I believe that the overall contribution to our EBITDA level will not be dilutive vis-à-vis our current problems.

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

Q

Okay. Thanks very much.

Operator: The next question is a follow up from Andrew Olanow of Morgan Stanley. Sir, please go ahead.

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

Q

Thanks for taking another couple of questions. Just wanted to follow up one on profitability and ask while I know you don't like to give segment disclosure, could you give us a sense of what the trend of the CLIA division's profitability looks like and that is to say is the underlying growth in CLIA ex-Vitamin D enough to sustain the margin hits on the Vitamin D side of it, firstly? And then secondly with Roche going into the U.S. market, Roche tends to have more of a presence in this order of mid-range lab market, so while Siemens may try to hit price hard on the big guys, you may see Roche aggressing the mid-range players where you have very high prices, how are you thinking about that strategically? Thanks.

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

A

Yes. Let me start from the Vitamin D question. I don't think that the problem has to do with the fact that we are heavily present in mid-size range labs. I think that Roche is a very powerful market organization, and they have a certain installed base of systems in the U.S. and they as it happened in other geographies, are a very heavy and steady send-out chaser. So what you could see is a volume impact because of the send-out. Keep in mind, however, that if you look at the Vitamin D market in the U.S., let me say that you estimate the Vitamin D market around $40 million best give or take, one of the biggest, let me say, how can we say, the beneficiary of send-out today are the big labs, so Quest and LabCorp.

Now, as far as LabCorp is concerned, 75% of their Vitamin D testing comes directly from physicians and only 25% is lab-to-lab business. So it has been – this business is very difficult to intercept as a diagnostic company because it came directly from the physician, so there is no – not unless sending out where you can play assistant. As far as Quest is concerned, my understanding is that the business is different, so they have a lot of send-out coming from small and mid-size labs. So I expect that is the goal for a send-out practice, there is plenty of volume. And I believe my personal estimation is that Quest alone as far as volumes are concerned, probably is today testing around 25% of total Vitamin D testing in the U.S. Again, that's my – the number was never disclosed but typically this is what you would expect from Quest. So I expect to make a long story short, Roche, to be able to go after lot of send-out that is going in the big labs direction and then it would be, in my opinion, the first effect that we would see starting in from next year because it takes time for them to set up customers, set up labs, and so forth.

Now first question is profitability of CLIA. The profitability of our CLIA line is, as I said, on average is good; very clearly Vitamin D is one of the assays that fit on the upper range of our profitability into products and because of that we would see an erosion, but the erosion is that is fairly moderate as we have seen so far and it can be counterbalanced partly by the rest of the line.

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

Okay, thanks a lot.

Operator: The next question is from Luigi de Bellis of Equita SIM. Please go ahead.

Luigi de Bellis
Analyst, Equita SIM SpA Q

Yes, thank you for taking my question. Just a follow-up on Vitamin D market, how much today you're feeling about Vitamin D market price in U.S. are higher than routine generic test for U.S. market? Thank you.

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

Sorry, can you just repeat the question because the line is very noisy.

Luigi de Bellis
Analyst, Equita SIM SpA Q

Sure. How much today the Vitamin D market prices in U.S. are higher than routine generic test?

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

I honestly don't know the answer to be honest with you because depends on the definition of routine. If it is a clinical chemistry assay, is gazillion cents because it goes by cents per test If you talk about immunoassays and you go quite daily high routine, testing like for example, a TSH product, it would be probably three times higher. If you're going – if you're now going to an infectious disease product line which is where the reimbursement is better, so the price is higher, it's probably 20%, 30% higher. If you go to certain endocrinologist specialties, it's 30% lower.

Luigi de Bellis
Analyst, Equita SIM SpA

Q

Perfect, thank you. It's sufficient, thank you.

Operator: [Operator Instructions] . The next question is from David Robinson of DSP. Please go ahead.

David A. Robinson
Analyst, Dalton Strategic Partnership LLP

Q

Yes, good afternoon. I just had a quick question regarding the high level of equipment and the revenue which you said it impacted the margin. Looking at the number of installations in the quarter, it was a bit higher, but I mean, not hugely, so I think it went from 150 to 163. So could you just explain why the impact was so much bigger than the first quarter or indeed the fourth quarter when you delivered about 13 more machines?

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

A

Because there is a difference between – two effects, first one is that don't forget that we have – we provide all with the net number of a system which is a combination of system we install or sell and system that we take off the market, okay? And therefore, the number of systems that we sold can be higher proportionally...

David A. Robinson
Analyst, Dalton Strategic Partnership LLP

Q

Right.

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

A

...of a number. Second thing is that, I've said in the quarter – in this quarter, the proportion of systems that were sold versus placed is higher than what we had seen in the previous quarter.

David A. Robinson
Analyst, Dalton Strategic Partnership LLP

Q

Okay. Thank you.

Operator: The next question is from Elisa Corghi of Intermonte. Please go ahead.

Elisa Corghi
Analyst, Intermonte Sim SpA

Q

Thanks, thanks for taking my questions. Well, first one really, can you comment about your joint venture in India, about your project in this country? Thanks.

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

Yes. Thank you, Elisa. Yes, I said there are two geographies where DiaSorin is now present, one is Japan and the other one is India and starting from our – let me say a few quarters ago, we said strategically emerging. We wanted to continue our expansion in these geographies through joint ventures or acquisitions. For India, the opportunity was provided by setting up a commercial JV with this group; Trivitron is a local, is an Indian company that does commercialize products in the medical device area, as well as diagnostic. They have also joint ventures with several other European and American group. In this case, the business very simple, the asset that we provide are products, so LIAISON(r) XL and all the products we want to launch. The asset that they provide is a very sophisticated network of warehouses and facilities that are strategically placed throughout India.

As you have seen in the last few days, India is a difficult place to do business, difficult place to guarantee storage and transportation at four degrees and so in order to be successful, it is key that you find a partner that has warehouses four degrees located in all the country and this is what the partner is providing us with. JV is 51:49, can clearly control the traffic and we have an option long-term if we wanted to buy back the Indian partner and then continue as a fully-owned independent like that's what I mentioned.

Elisa Corghi
Analyst, Intermonte Sim SpA
Q

Thanks.

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

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

Okay, operator. Thanks a lot.

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