# DiaSorin S.p.A.

## "Full Year 2017 Results Conference Call"

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MODERATORS: CARLO ROSA, CHIEF EXECUTIVE OFFICER
PIERGIORGIO PEDRON, SENIOR CORPORATE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the DiaSorin Full Year 2017 Results Conference Call. After the presentation, there will be an opportunity to ask questions.

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

CARLO ROSA: Yes, thank you operator. Ladies and gentlemen, good afternoon and welcome to our full year 2017 conference call. As usual, I will give you some comments about the business on the full year 2017 and some reference to quarter four results. And then I will allow Mr. Pedron, our CFO to take you through the numbers.

Well, let me first start saying that we are very satisfied of 2017 which has been a very successful year in terms of certainly financials, but also the business progression…or progression of certain projects that we are carrying out in research and development and in conjunction with other partners as well.

First of all, from a financial point of view, we achieved the 2017 guidance both in terms of revenue and in terms of EBITDA number, and we are on track to deliver the growth that we have communicated to the market when we had the Investor Day and we presented a three years plans which I remind you covers 2017, 2018 and 2019.

Now, if we talk about some of the business achievement. 2017 in my opinion has been a very rich of events. First one, as you know, has been the acquisition of Siemens which was actually concluded…sorry the acquisition of an asset from Siemens, their ELISA business which was concluded in October of last year.

And let me remind you that acquisition was strategic for DiaSorin and not necessarily because of the technology, it is an ELISA technology which we have, and we are very well aware of that is a technology that is aging and is a replacement, but that acquisition gave access to DiaSorin to few hundreds of customers located in primary geographies, mainly in Europe and other geographies around the world, where we can now access these customers and convert the customers from the ELISA technology to the chemiluminescence technology that we have on the LIAISON and the LIAISON XL platform.

Plans are in place and in execution to contact customers and propose the switch. And we expect this conversion to happen within the next 36 months. Let me remind you that this conversion is possible because we do have on our platform all the equivalent product that we have purchased through…from Siemens.

The second event which was strategically very relevant for us and was recently disclosed fully, at the JP Morgan conference has been the partnership with QIAGEN around latent tuberculosis. As you well know is a very interesting business. The good majority of this business sits in the US. The second geography will be Europe and then the rest of the world.

QIAGEN certainly has been spending a lot of time and very successfully in promoting the use of this technology switching from [indiscernible] into ELISA. And then through this alliance is the intention of the two companies and to allow customers to move further into a different technology and platform which is the LIAISON platform family starting from the XL, and then certainly including the XS when the XS will be made available to the market early…late this year, early next year.

Pro development is on track and we expect as we announced in San Francisco, the launch of the CE version of the product in Q3 of this year. And certainly for us this is an asset…is an asset, because it goes to an existing customer base we have that is using ELISA and they are interested to convert, it goes to…it gives us access to a customer base that we don't…we are not selling to today which is part of the QIAGEN customer base that is using this technology, but it is not a DiaSorin customer, and conversely it is giving QIAGEN access to thousands of systems that DiaSorin has installed, where the assay is not in use and from now on those customers we do have access to the assay through the LIAISON platform. So as you can see, both companies are very excited because this is a win-win situation for both.

Now, the last project which we have announced is that I name group efficiencies has to do with the fact that in an environment that certainly is becoming very competitive vis-à-vis pricing on the market. DiaSorin has initiated an effort to streamline its cost base to remain competitive and guarantee the same profitability that we are offering today, that as you know is premium, and again in a market environment where price is certainly always under dispute.

And as part of that program, we have initiated redesign of our manufacturing processes. Some of this has already been implemented in our establishments, mainly in Europe. And part of this effort has been communicated as well to the market has been the closure of our Ireland…Irish plant.

The project is on plan, if you have seen that we do have accrued close to €10 million in 2017 to front all the expenses that we will incur into for the closure of the plant. But we as communicated expect annual savings of roughly €7 million from the front…from disclosure, and therefore the

payback is going to be a little bit over one year, and carry forward this will again allow us to become…to stay more focused and with a competitive cost base.

Last but not least, before I get into the different geographies has to do with technology. From a technology point of view, our Vitamin D franchise has been relatively flattish in 2017…actually in Q4 it slightly grew. As this is something that it can happen from year-to-year. We have given an indication to the market that we expect Vitamin D usually year-on-year to decline between 3% and 5%, so which means that it can be good one year, it can be worse the following year. But overall, what we see on the market is that certainly because of competition, price is decreasing in volume, but volume is still increasing so usage of Vitamin D [inaudible].

2017 has been a good year for Vitamin D. CLIA ex-Vitamin D was extremely good. Revenues grew by 13% in 2017, 12.5% in Q4. So we continue to see a double-digit growth of this product family. Now, we have 118 products available on the box. And we launched last year actually three new products on the platform.

Last word on the LIAISON XS, LIAISON XS the plan proceeds as communicated to the market. We are in process of validating…the validation to process the validation units in-house, and we expect launch end of this year, beginning of next year so it is fundamentally on-track.

Now, if we move from immunoassay to molecular, we continue an effort to expand menu on the platform that we acquired through the Focus acquisition. We have launched two new kits Bordetella and Clostridium in 2017, and three new ASR in the…for the US market. And then we completed our onco-hematology panel with the last assay. And again, in

2017, and this will pretty much close the last assay in onco-hematology is closing the panel that now is fully available on our LAMP technology.

From a sales point of view, we have a mid double-digit growth for our molecular franchise in the US market. As you know, our revenues in the US are skewed toward influenza. And the flu season…well last year it was a good season. Certainly as you have seen it's phenomenal when it comes to 2017-2018, so we continue to see the franchise of flu growing strongly, but certainly its seasonal dependent.

By the same token, we continue to expand access to market of the platform through our European subsidiaries. If you remember, Focus was fundamentally a US company. We've communicated that a value of this acquisition was the ability then to take these products into US through our own network. This continues and we have seen strong growth as a result of that in the European markets.

Now, if we discuss now geography briefly, we continue to see in Europe a very strong growth in this…to the contrary what some other competitors really show about Europe. And also notwithstanding the fact that all the main European markets per se is a net result of consolidation and efficiencies are decreasing in value. And the reason why we continue to see strong growth in Europe is because this consolidation fits very well with our platform on the LIAISON XL which typically fit in bigger establishments, hospitals and labs. And that benefit from the fact that smaller hospitals are closed and the volume is funneled through larger institution where we sit. And therefore we enjoy increase in volume and consequently increase in value.

Last but not least, when it comes to Europe, Italy was a very nice surprise. As you know, Italy accounts for 12% of Group revenues and 2015 was

very sluggish for the market whereas it was a strong growth in 2017 which is almost 7% for the year and 7.3% in Quarter 4. So, our own domestic market is finally getting stronger.

If we go to the US, in the US, we had a 19% growth in 2017, a 6% growth in Q4. Certainly there is an aspect of this aspect related of this growth which is…which has to do with the change of perimeter because in 2016 we accounted for only for…well, we accounted for 7 months of sales of Focus whereas in 2017, it was a full year. But certainly, if I can make a comment on this, we see double-digit growth in molecular where we continue expanding the customer base and we see low single-digit growth in our immunoassay business which again is good at the time where you have a concentration of business in the large reference labs, mainly Qwest, LabCorp, BioReference and certainly we are positioned in this…in these settings allows us to benefit from the increasing volumes that comes through these labs.

Latin America, very good, Brazil had an outstanding growth in 2017, over 20%, mainly driven by again the chemiluminescence strategy that we enjoy, that we have in the country where we are well positioned both in Central Labs as well as in the Primary Hospital Institutions. So Brazil which you know, it is on a positive cycle these days and we are enjoying the fact that we are well positioned in the market.

Now last but not least, I would like to comment Asia Pacific, Asia Pacific for us is primarily China and Australia. Now in China, notwithstanding the fact that the growth for the year has been strong, 15%, we have seen in quarter 4 a slowdown in growth and this is explained by the fact that primarily in China we have our installed base in Class III hospitals and we are developing the base into the Class II.

Now, you are well aware of the fact that Class III hospital are now saturated and the government is making conscientious effort to move patients away from Class III into Class II. And therefore, we see that the volume growth in Class III which was strong in previous years now is not there any longer, so we see the volume is flat in these institutions whereas we see a 15%, 20% growth in volume in Class II.

The net effect of this is that our installed base in Class III which was generating double-digit growth per se just for the sake of being there and enjoying this growth, the growth of the market is not a net growth contributor any longer. And whereas, as I think we have already discussed in the previous quarters, there we are making a conscientious effort now to direct placement into the growing segment of Class II.

The net result is that we foresee in Q1 as well in Q2 of 2018, a slower growth than what we had historically, but then we expect it because of the fact that the…now the installed base in Class II will pickup and will contribute more to the overall revenues. We expect then that in the second part of the year, we will go back to a double-digit growth in the Chinese market.

Now before I turn now the microphone to Mr. Pedron to go through the numbers, I would like to comment on the dividend policy. As you have seen, the Board of Directors have decided to issue the ordinary dividend of $0.85, last year was $0.80 so and historically we've had a policy of increasing the ordinary dividend maintaining it to around 38%, 40% of the net earnings. But by the same token, the Board of Directors have decided to…let me say in a policy to increase value for shareholders, to pay a special dividend of €1.08 with the payment date of December 31st 2018.

And you need to…I think there is…what I would like to comment on this is two aspects. The first one is that is you see for lots of public companies one of the ways to create value for the shareholders is typically a share buyback which is complicated for DiaSorin because as you know our free float is relatively limited and the liquidity is limited, therefore a buyback will not be an option for the Company. And the other option certainly is when possible to issue a special dividend which was a decision made by the Board this year. This although it's very important to remark that does not change at all our appetite for M&A and or limit the ability of the Company certainly to conduct a wise M&A as we have done in the last few years.

Now, Mr. Pedron.

PIERGIORGIO PEDRON: Thank you Carlo. Good afternoon, everybody. In the next few minutes, I am going to walk you through the financial performance of DiaSorin in 2017. And I would also make some remarks on the contribution of the fourth quarter. Before we start, let me please remind you that we began reporting the Focus business since May 2016 and the Siemens' ELISA business from this quarter. So 2017 perimeter of consolidation is different from the one of last year. So with that as usual, I would like to start with what I believe are the main highlights of the period.

As we said, we grew the year with a revenue increase over 2016 at constant exchange rate in line with our guidance, 11.5% or about €65 million without considering the positive impact of the recently acquired Siemens ELISA business, with contribution in the quarter was about €9 million.

Coming back to our guidance, I believe it is worth underlining that both, the so-called like-for-like business and the recently acquired molecular franchise of the Focus business delivered as per our expectations. The first scoring [ph] a full year growth of around 6% and the later with an H2 growth of about 15%.

2017 EBITDA growth at constant exchange rate and adjusted for both the positive effect of the Siemens ELISA acquisitions and the negative one of the Irish divestitures is in line with our full year guidance increasing by 13% or about €28 million, with the ratio of revenues ex-Siemens ELISA of 38.7%. The combine effect of these two events affected Q4 for a total of about negative €3.3 million.

DiaSorin keeps confirming its ability to generate a strong free cash flow €132 million in the period. This allowed us to close the year with the net financial position just short of €150 million, after having paid in May dividend to our shareholders for about €44 million and in September about $30 million for the acquisition of the Siemens ELISA business. As you may recall, the total consideration for this business was around €45 million. The remaining balance would be paid in the decreasing installment during the next three years.

Last but not least, in January 2018, we signed an agreement with the Italian Tax Authority, granting us tax relief under the patent box regime, the so-called patent box regime. As you might remember from our previous quarter calls, this elective tax regime was introduced in Italy in 2015, and it is characterized by five year renewable lock-in periods. The impacts on 2017 will cover 2015, 2016, and 2017 and amounts to about €19 [ph] million, which is better than the original estimate I provided to you in the previous quarters.

Let's now go through the main items of the P&L, in order to allow better understanding of the performance of the underlying business, I will also comment the impact of the two, let me call them outliers of Q4, which were not included in our guidance as we said in Q3, which are namely the Irish divestiture one-off costs on one side, and the Siemens ELISA contribution on the other. We also tried to add few slides in our website which tried to bridge the difference between the business before Siemens ELISA acquisition and the Irish divestiture cost write-off.

So 2017 revenues at €637.5 million grew by 12% or about €68 million compared to last year. The growth at constant exchange rate was 13.1% or €74.4 million, including as said the contribution of the Siemens ELISA business. The growth at constant exchange rate and without considering Siemens ELISA is the 11.5% in line with the guidance. It is worth mentioning that Q4 has been hit by almost €7 million FX headwind, mainly driven by the US dollars and the Chinese yuan.

Gross profit at €431.9 million grew by 11% of €42.7 million compared to last year, closing 2017 with the ratio of revenues of 67.7%. The difference with 2016 which closed at 68.4% of revenues is mainly driven by the Siemens ELISA business, which as we discussed is dilutive at gross margin level, but not again…again not at EBITDA level one. The different mix…pressure on CLIA me-too products, and it is mainly Vitamin D and the slight dilutive effects of the Focus business, which is again dilutive as we discussed on the gross margin level slightly dilutive.

The Siemens ELISA business dilutive effect is more marked in Q4, which closed with a gross margin incidence of our revenues at 66.5% against 68.4% recorded in 2016, besides it is worth mentioning that Q4 was also hit by the FX headwind we just talked about.

Total operating expense is at €231.5 million of 36.3% of revenues have increased by 11.7% compared to last year. Please remember that as we saw in the previous quarters about €30 million of 2017 OPEX has driven by the depreciation of the intangible assets coming from the Focus and Siemens ELISA business acquisitions. Net of these elements, full year OPEX would have grown by about 9.5% and the ratio of revenues would have been 34% against 35% of 2016.

2017, other operating expense is at €16 million are higher than 2016 by almost €7 million. As anticipated during Q3 call, the main reason of such difference is driven by the one-off costs associated with the divestiture of our Irish site. On top of this, some expenses related to legal action in the US concerning the future introduction of certain product into that market. Again, the same element we discussed in Q3 call.

As we will see in a few minutes, the impact of the Irish divestiture at EBITDA level is lower since some of the costs we incurred write-off of fixed assets and so are not impacting EBITDA. As a result of what I just described 2017 EBIT at €184.4 million of 28.9% of revenues has increased compared to 2016 by 6.8% for almost €12 million.

If we considered, however, the adjusted EBITDA excluding the Irish divestiture costs and the Siemens ELISA positive contribution which accounted for negative €7.7 million in the year. We would have a result of about €192 million or 30.6% of revenues with an increase over 2016 of slightly more than 11%. Q4 EBIT has been materially affected by the very same elements does recording €39.6 million of 23.2% of revenues.

Net of the Irish one-off costs and the Siemens ELISA contribution, the adjusted EBITDA of the quarter would be in-line with the profitability recorded in the previous period.

Now, let's move to the tax rate, the tax rate at 21.7% is 11.3 percentage points better than 2016, which closed at 33%, this variance is mainly driven by the impact we just said of the Italian patent box tax regime, which accounted in 2017 for about €19 million.

In order to avoid any confusion, let me please clarify that the patent box contribution in 2017 is the result of the cumulative effects of three years, 2015, 2016, and 2017 since we filed the request with the competent tax [ph] authorities based in 2015. Obviously, we cannot expect a similar impact in 2018, which will indeed benefit on the contribution of one year only. And that contribution I believe will be in the range of €7 million, I will comment later more on 2018 tax rate…expected tax rate.

Keep on talking about tax, I would also like to comment on the impact that we will have in 2018 from the recent approval of the US tax reforms. We are still finalizing the calculation, but I believe that we will have a benefit on our financials in 2018 of about $13 million, I will remind you that US and Italy are the two main geographies in which we pay taxes and both of them are benefitting from recent reform in the US the patent box Italy.

Going back to the P&L of the period, net results at about €140 million or 21.9% of revenues is higher than the previous year by €27.3 million or 24.2%...

Lastly, 2017 EBITDA at €237.9 million is better than last year by €20.6 million or 9%. Again, the variance at constant exchange rate and without considering the impact of Irish divestiture and the Siemens ELISA benefit is positive for 13% and is in line with our full year guidance.

Again, we have provided a slide to bridge this gap and to make it more clear to get it. 2017 EBITDA ratio on revenues is 37.3% which adjusted for Siemens and Ireland become 38.4% in line with what's occurred in 2017 in spite of some FX headwind. Q4 EBITDA at €55.8 million or 33% of revenues, once adjusted for Ireland and Siemens and some legal expenses related to the legal action we just discussed about is in line with what's recorded in the previous quarters.

Let me now move to the net financial position and the free cash flow. DiaSorin closed with a net financial position just short of €150 million and €173 million in cash. This confirms the ability of the Group to generate predictable and strong free cash flow, €132 million in 2017, which is broadly in line with 2016. It is worth mentioning that during 2017 DiaSorin cashed out about €8 million more of taxes than in 2016 mainly driven by the tax payment phasing mechanism in Italy and invested about €5 million more in CAPEX.

Please note that the cash impact coming from the Italian patent box regime will start kicking in from 2018. So the free cash flow in 2018, thanks to the patent box in Italy and to the U.S. tax reform should be materially better than 2017.

Lastly, let's move to 2018 guidance. We expect revenues to grow by around 11% and EBITDA to grow by around 13%, at 2017 exchange rate. The guidance is given on 2017 reported EBITDA, not the adjusted one. We will not use anymore this adjusted concept in 2018 because now Siemens is embedded in our numbers, such as the Irish…they tail of the Irish divestiture cost.

Let me please remind you that DiaSorin financials are fairly sensitive to FX fluctuations and in particular to US dollar denominated sales

represents indeed about 35% of our cost of sales. And as we said a few times, for every 1 cent movement of the dollar against the euro, DiaSorin revenues move by about €2 million on a yearly basis.

To conclude, even if not part of our formal guidance, let me share with you that considering the combined assets of Italian patent box in 2018 and the US tax reform, I'm expecting as a Group, the group tax rate in 2018 to be around 23%.

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

Q&A

OPERATOR: Excuse me; this is the Chorus Call conference operator. We will now begin the question and answer session. The first question is from Maja Pataki of Kepler. Please go ahead.

MAJA PATAKI: Good afternoon, I would actually like to start the questions and apologies for that, with clarifying some things that were said on the call because my line is really bad, so please excuse me for making you repeat certain statements. And am I correct that you said that organic growth in 2017 was around 6%; that will be my first question. Second question will be that the Italian patent box impacting 2017 with €19 million for the three years together. And I was wondering if you could explain again why the impact of the extraordinary costs on the EBITDA level was lower than on EBIT. I think you said something and my line is just breaking up, I have to keep dialing in, so I'm really sorry for that. Thank you.

PIERGIORGIO PEDRON: Hi, Maja. I'm going to take your, of course yes right, you understood, right? The growth of the like-for-like business and when I say

like-for-like, I mean without the impact of the Focus molecular business, which we put in May 2016 and the Siemens one is around 6% which is what we expected, it's coherent with our budget assumption and plan assumptions. Then you are also right on the second point. The impact of the patent box regime in 2017 is 19, €19.4 million. Again, please do understand that this is the sum of three years, '15, '16 and '17.

My expectation is that the impact of the patent box, the positive impact we will have on the patent box in 2018 is going to be around €7 million, €8 million. Going to your third question, which was the one regarding EBITDA and why we have a difference between EBITDA and EBIT of the Irish divestiture cost, the answer is that it's driven by the fact that some of those cost are actually write-offs of assets…intangible assets and tangible assets for which you see no impact at EBTIDA level.

MAJA PATAKI: Thank you very much. I'll hop back into the queue.

PIERGIORGIO PEDRON: Thank you.

OPERATOR: As a reminder, if you wish to register for a question, please press "*" and "1" on your telephone. The next question is from Luigi De Bellis of Equita SIM. Please go ahead.

LUIGI DE BELLIS: Yes, good afternoon. Three questions from me. The first one regarding the top line guidance, how do you expect the technology divisional revenues trend to evolve in 2018 compared to 2017, in particular if you can separate Siemens and molecular trend and the rest of the business? Second question on QIAGEN, how much is the expected contribution from the partnership in 2018 and 2019? And the last question on your Strategic Plan, compared to your target on 2019, what is going better and what it was compared to your original expectations? Thank you.

PIERGIORGIO PEDRON: Hello, Luigi De Bellis, this is again Piergiorgio speaking. The first question, top line guidance, as you know, we don't provide a full breakdown in terms of technology, of what's behind the guidance but what you should expect like what we have seen in the past few years is a fairly flattish vitamin D or slightly negative I would say, mainly driven by the price pressure that we have commented so far.

As Carlo said a few minutes ago, we still saw also in 2017 a growth in terms of volume even though eventually that growth in terms of volume didn't translate into a growth of sales. The driver obviously has been in the past few years of our growth will be clear is the vitamin D franchise. We are not giving, we are not disclosing the impact, not even…not in 2018 and of course even in 2019 [indiscernible] QIAGEN contribution. But maybe Carlo might elaborate on that.

Regarding the three years plan, we just updated the three years long-term guidance after the Siemens acquisition, which was not a while ago, it was in September. So I would say that we are going more or less according to our original expectation. So we are still fairly aligned with what we believe what it would have been in the three years plan?

CARLO ROSA: I will add a couple of qualitative comments to what PG said. As far as QIAGEN is concerned, certainly the contribution in 2018 is very limited simply because of launch of the products happens in the second part of the year, so we don't expect honestly a lot to happen. Although, I believe and also consider that as said, the market, the relevant market, most relevant market to…if we follow what QIAGEN is saying is the US and therefore we will have access to the US market later in 2019. However, I think that what is happening today is that the two companies are collaborating very well in sharing customer information and planning thoughtfully for the

launch of the products. And therefore, I expect that there is going to be a relatively fast pick-up and a positive effect starting from 2019 where we will have 2 players.

Clearly, I am not ready to disclose numbers also because these numbers are also confidential vis-à-vis our contract with QIAGEN. As far as target and the three years plan and what goes better and what goes wrong, look, I think that in a qualitative way. I have seen that today Europe is delivering better than expected, you know our view in Europe has always been that it's a mature market, consolidating market and it's a market where because of the efficiency programs driven by the various countries, it is difficult to grow. You see it from everybody else's numbers.

I think DiaSorin is exceeding the numbers, is exceeding the market growth of everybody else significantly. And again it's a combination of 2 elements. The fist one is that we do have our installed base properly placed where the consolidation is happening. And also consolidation does happen in our specialty business because that carries specialties that today maybe done with technologies or in a customer base that we cannot reach, typically ELISA into central labs where ELISA is not certainly the natural choice and we are there and therefore, we enjoy also for specialties the transition between smaller hospitals and larger institutions.

The second element for Europe which is on the good side is the strong growth in Italy. And if you follow what we said in the previous quarters, we have been very cautious even last year to comment on Italy, but it looks like that certainly there is a trend in the country that is a combination of more efficiency, so less [indiscernible] but the volume is strong and certainly for us that does carry a positive effect because again these is our home market, 12% of total revenue, so we do benefit from this trend and we see it continuing also in 2018.

Now, what goes differently from expected? Somehow I think China because what we did not expect was the fact that the contribution given by our 70%...by 70% of the installed base on the class III hospitals, we would expect their contribution to continue in terms of volume growth and we don't see that happening, right. So we see certainly strong growth from all placements in class II but still that represents only 20% of…30% of our business today, okay.

I think overall the growth of the business is as expected as you can see but certainly there are these two elements, one is positive, the other one is negative. But by the same token, this proof a fundamental concept that DiaSorin in terms of revenues and market seems to be playing worldwide in all markets, sometimes bad news are counterbalanced by good news, so there is not a specific exposure to any specific market, but we are well balanced among different geographies and that help us out when some geographies have problems to balance it with news coming from other geographies.

LUIGI DE BELLIS: Okay, thank you very much. Just a follow-up, could you give us more color on how do you think to increase your installed base in class II in China?

CARLO ROSA: Well, I can give a tactical answer and I can give you a strategic answer. From a tactical answer point of view, we are enrolling distributors today that are more oriented toward the class II market. You need to understand that the class III versus class II is fundamentally very different hospitals because the class III is a hospital that does require automation and so track systems which are popular in Europe and in the US and now picking up as well on that market. And it does require distributors of a certain size and

which have the ability also to take up on their self all the costs associated with that kind of equipment.

Now, there is a specialization of distributors in these two segments and we were certainly working to add to our distribution network more distributors on class II but now certainly, we need to focus on that because that is strategically where we want to go. Also in light of the fact that the LIAISON XS which will launched in Europe in 2020 because of registration, it was certainly designed as we have discussed many times for that segment of the market, okay. So we see our self going to that segment today with the LIAISON XL and new distributors but also we see that segment which is the winning segment, growing segment to be strategically…we see ourselves strategically positioned long term very well because of the LIAISON XS introduction to the market.

LUIGI DE BELLIS: Thank you very much.

OPERATOR: The next question is from Patrick Fuchs of AGI. Please go ahead.

PATRICK FUCHS: Hello, good afternoon. I have a financial question regarding the foreign exchange impact on EBITDA. Are you naturally hedged there or do you expect the lower US dollar to have a bigger impact on earnings. And the second is we are now two months in reimbursement cuts in US, can you give some qualitative comments what to expect in 2018, maybe going forward into 2019. Thank you.

CARLO ROSA: I will…Patrick; I will take question on PAMA first. You are right, we are two months into the year, but as I think with this comment in the past, we see that PAMA will strategically affect the US but from a different angle. As you know and I think has been disclosed for the big labs, namely Qwest, LabCorp that do represent a significant chunk of our US business,

the effect is not going to be so dramatic because there top line revenue is only dependent on Medicare and PAMA just for less than 10%.

Therefore, yes, we see an attempt of these labs to get leniency from suppliers and certainly because of the longstanding relationship we have with these labs, we made our self available to discuss with them business terms in exchange certainly of business as we have done in the past, but let me say I don't expect that we will have a significant impact on PAMA when it comes to that business. As far as the rest of the business that we have which is smaller private hospital…private labs and hospitals, we tend to sell in that setting specialty assays, and I don't expect again that on the…that these assays are going to be dramatically impacted by the PAMA reimbursement.

Conversely, as I stated before, I see that this PAMA reimbursement is dramatically changing the business scope of some of the hospital market. Today, you know hospital market does represent over 50%...I think 56% of the total lab testing business in the US and we see more and more the hospital, really wondering whether it makes sense to them now that…now 30% of the revenue…35% of the revenue will get significant cut.

Starting to wonder whether they will continue to run the lab or give it one way or the other to one of the commercial labs. And in that sense certainly it means that that segment of the market does shrink by the same token if you well positioned in the large labs, you do benefit from the fact they gain volume and they gain market accessibility. By the same token, I see that polarization is happening also on the small…smaller labs because certainly the business model is big and efficient versus smaller and closer to my patient base. And this is why I see that the decision of DiaSorin to invest into physician office labs, so that segment of the market is strategic, because as a result of this polarization the segment in the middle is the one

suffering and changing, and we really will have to change business attitude, whereas the big and the small eventually will benefit from this.

PATRICK FUCHS: Yes, maybe just a follow on to that. I mean you basically mentioned that you are largely exposed to the Qwest and the LabCorp in the US that is the business that you have with hospitals generally higher margin for you as, I mean, keeping simple as you, as smaller hospital cannot negotiate to the extent than the larger labs can? Just, I mean, you mentioned you are not exposed but in general?

CARLO ROSA: Look certainly the business with hospitals is higher margin.

PATRICK FUCHS: Okay.

CARLO ROSA: Okay, by definition…but again I said it is mainly specialty, so there we do have protection there. But I also would like to go back one second to the concept that the commercial led business is lower margin. It depends how you do your calculation, because it does drive phenomenal volumes of products through your manufacturing facility. And therefore it does really have an impact on your cost base and your efficiency, okay. So I keep always challenging our management control team, to really consider what is the impact of that business…the commercial business, which I consider extremely beneficial, not only strategically because they do gain market share and they will get more market share going forward but also financially because it drives all the synergies and efficiencies and such.

PATRICK FUCHS: Thank you. And the foreign exchange on earnings?

PIERGIORGIO PEDRON: Yes, Patrick. We have kind of a natural hedge there, because our two biggest plants are in Italy and in US. So we also had a significant cost base which is US denominated…US dollar denominated. So there you

have obviously some kind of a natural hedge between your cost and revenues.

PATRICK FUCHS: Okay. Thank you very much for that.

CARLO ROSA: Thank you.

OPERATOR: The next question is from [indiscernible] of Exane BNP Paribas. Please go ahead.

ANALYST: Yes, good afternoon, it's actually almost an hour; sorry I missed the beginning of the call. I have two questions, the first one is actually a follow-up of Patrick on PAMA just trying to quantify. I was wondering, if your top-line guidance including any impact from PAMA at all. And if, yes, what is your assumption…your underlying assumption for that? And second one, just a clarification on the EBITDA growth guidance for 2018. Is the FOREX assumed is the spot rate or do you have basically assumption for evaluating assumption for 2018? Thank you.

CARLO ROSA: I'll give you the one…I'll just take the one on the PAMA. No, we don't, for the 2018 numbers and guidance sorry we don't expect to have an effect on PAMA. And simply because of the nature of the contracts we have with customers in lab. However, I foresee that moving forward especially with some of the large labs and because of the partnership we will have with them certain discussions which I expect to be associated with increasing amount of business. Okay, but in 2018 guidance we don't expect to have an impact of PAMA.

ANALYST: Okay. And just, do you think that…I am just curious, but beyond the potential pricing impact, I mean, your camp could be a limited impact given the small proportion of Medicare reimbursements. But beyond that,

do you think that the labs might, let's say, be more inclined to delay there are some replacement of the equipments just in wait and see impact to have a clear picture of PAMA on the P&L. Do you think it could be a risk?

CARLO ROSA: You mean the larger labs or……

ANALYST: Yes, yes.

CARLO ROSA: Look, I see that the larger labs today are continuously engaged into efforts of streamlining their cost base. And there is…and one way or the other, but this through all across the world that they are making significant efforts to move to more efficient systems and platforms and automation and so forth. You would be surprised how legal automation you find in some of these labs, but the reason being that they are so big that the industry per se has not designed solutions that fit their need, to the point that some laboratory chains like Sony, for example, has elected to build their own systems. And I have a feeling that when it come to Qwest and LabCorp, they would have to go into the same direction. But they are certainly commitment to streamlining their manufacturing processes. And I see…I don't see an effect in delaying CAPEX, because that CAPEX goes against more efficiency.

ANALYST: Okay.

PIERGIORGIO PEDRON: I will take the one on EBITDA, the guidance on EBITDA. Every time we provide guidance on EBITDA and revenue, the guidance is at constant exchange rate of the previous year. So in this case the guidance is at constant exchange rate for 2017.

In 2017, the average exchange rate of the US dollar which is the currency to which we are most exposed was $1.13. As said, every time there is a movement of $0.01 it means that plus €2 million or minus €2 million revenues at the EBITDA level give or take that translates to $1, $1.2, $1.3 it depends. But our guidance is provided constant exchange rate. Then we have our own assumption for the budget in terms of what will happen to the US dollar and the other currencies, but I guess my estimate is as good as yours.

ANALYST: Okay. Thank you.

OPERATOR: The next question is from Scott Bardo of Berenberg. Please go ahead.

SCOTT BARDO: Yes, thanks very much for taking my questions. So first question please, just with respect to the revenue growth of the 11% constant currency. Would you be kind enough to call-out please what the expected acquisition contribution is within that? Is your implicit assumption something like 3% or 4%, just to help us better understand what that implies to organic growth expectations? Also on financial guidance please, I am a little bit surprised given that you call-out an adjusted EBITDA for the first time that you don't provide guidance based upon it, given there is lots of one-off costs here. So I just wondered, if you can clarify that it is still your expectation to track alongside your midterm guidance framework that you have outlined to the market, I think, in September last year. I think last conference call you highlighted that the Irish restructuring should provide an additional potentially 100 basis points EBITDA margin improvement on top of the 38.5 you isolated for 2019. I just wondered, if that's still the expectation from the board today. So just a couple of questions there and then a couple of strategic ones, please, for Carlo. Thank you.

CARLO ROSA: Hey, hello Scott. I will start taking the one regarding the financials. So let's start with the revenues, more or less the impact of the difference in perimeter considering the fact that we had €9 million of Siemens sales in 2017, considering what we are factoring in, in 2018, that should be around €30 million or slightly less. I would say revenues coming from the Siemens ELISA business remember that as we discussed in the last call, we are not selling Siemens instruments, but we are focusing on reagents because our overall strategy is to covert Siemens customer base, which is an ELISA customer base to CLIA customer base.

Regarding the EBITDA and the guidance, so what's happening is that in 2018…in 2017 the impact of the Irish divestiture shutdown was pretty material, and it was not included in our 2017 guidance. And what's why we thought it would have been better to help you out, guide to understand what was happening to sterilize the impact of the Irish site shutdown. In 2018, we will just have a small tail of the shutdown cost related to the Irish facility and that tail is already embedded in our guidance, but the value is not…it's not as material here as it was in 2017. So, we thought it would have been better just to give a simple guidance to make life easy for every so that every time we will comment our quarterly numbers, we just have one EBITDA to comment, which is the one we will report and the one you will see.

SCOTT BARDO: Okay, thank you. Then, just on this question of mid-term targets and I think you are highlighting the benefits of these restructuring activities, it should mean even better margins than the 38.5% you have isolated in your last plan. I was just wondering if you could still confirm that statement, by 2019 is that still the expectation?

PIERGIORGIO PEDRON: Yes, so what we said is that the impact of the savings, we think we are going to get out from the Irish site shutdown will be €6 to €8 million once

the whole operation is completed, which will be done by the end of 2018, beginning of 2019. So that's when you will see the real savings…the full effects of the savings kicking-in. But what we said in our three years guidance is that nevertheless we still stick to our 38.5% EBITDA contribution even after this…taking into account the Irish closure, the shutdown and here you really you have to allow me a little bit of flexibility, you know, I don't have the possibility to tell you it would be 50 basis points better.

We are talking about €2 million to €3 million more EBITDA, €4 million more EBITDA in 2019 and even though our business is fairly predictable, you know, it's a very tall order to say that, you know, it would be 39%. I wouldn't be surprised, but I speak to the guidance which is 38.5%.

CARLO ROSA: Yes, by the token, if I may just as the comment, as said, I think today companies that do not see what's coming and what has been happening in the last few years which is one side a consolidation, concentration, on the other side certainly more and more price attention [ph]. Companies that are blind to this and do nothing to improve their efficiency are actually companies that are doomed to fail in this market, so, from our point of view, if you think about it, if you look at our EBITDA margin and that's probably in the top 5% of the industry, almost unbeatable.

But I believe that in order to preserve this very high margins, there are two things that need to happen and they need to happen together at the same time. One, you need to be innovative and develop new products that provide advantages to Europe customers, because I believe that the market today is shifting and it's more and more of able to pay for innovations. The second thing that you have to do is that you need to fight for efficiency.

And these two things have to go together, this is why I am saying closure of the Irish plant and streamlining in operation in Europe is for us a crucial investment in order to be able to sustain profitability to the levels which are top of the industry.

SCOTT BARDO: Thank you very much. Just a couple of very quick follow-ups, if I may. If I understand your comments on top line growth guidance, it implies around a 5% acquisitive contribution, then around a 6% organic growth. And if this math is correct, I just wonder if you could sort of help us to understand why that growth wouldn't accelerate on the prior year, given that you are placing LIAISON XL instruments very well, which are higher throughput. Vitamin D is diminishing as a percentage of contribution for the group. I mean you have got some other growth contributors coming in? So I just wanted to understand, is this conservatism from your side or is this a few sort of one-off effects or impacts that we should be mindful of? So that's a question…quick follow-up question 1? Follow-up question 2, 23% tax rate, does that make sense going forward in your opinion as an ongoing assumption, I understand the US seems more structural, but what would your guidance be for the midterm? And I'll leave it at those two. Thank you.

PIERGIORGIO PEDRON: Yes, so I will start taking the tax one. Yes, 23% is sustainable in 2018 because the patent box will still be there and the recent US tax reform is there. And it is the same for 2019, because the elective tax regime will last until 2019. But again, this is a five years tax regime, which means that after these five years we will have to go back and renegotiate with the tax authorities.

What will happen for the patent box after 2019? I really don't know, it's a big question mark. You know we have had recently new elections in Italy.

So I really don't know what is going to happen after 2019. Now it is low, it's a law, it is a law of the state, so until 2019 we are set.

For the US tax reform, you know, again you will be…you tell me what's going to happen for the US tax reform. As long as, this will last, we will enjoy this tax benefit obviously but until 2019 it is locked, let me say to summarize after 2019 at least for the patent box we will have to wait and see.

CARLO ROSA: And I will take the first one. Look, it is difficult to say, if there is a conservative forecast. I think is a very pragmatic expectation as a combination of event of continues change in environment, and what we see are the strength of DiaSorin in a different geography. So as if we see the trends could improve as we have done in 2017. We will let the market know and increase our guidance, but for the time being, I think, this is a sustainable number.

SCOTT BARDO: Very good and perhaps very last one from me, gross margin contracted 60 bps for the year. We sort of broke the trend of improvement that you have seen in recent times. Anything to get concerned about there or what is the expectation going forward?

PIERGIORGIO PEDRON: I believe, Scott we have always said in the last few calls and none of you believed me, and we also said in it during the three years plan is that we were expecting to see some gross margin deterioration. The point that we also disclosed the price pressure that we saw on the three different buckets of the product, how we cluster them, the me-too and the differentiating specialties and so on and so forth. So what we are seeing is what we are expecting and all the initiatives we are putting in place in terms of getting some operating leverage out of our operations and streamlining some of those activities are specifically meant to offset the gross margin pressure

and to keep on delivering an EBITDA margin, so at EBITDA level around 38.5%, and be more specific, what you saw in 2017 and more…even more in Q4 2017, is the impact of the Siemens business which is a very good business for us. But I said it is dilutive at gross margin level, but it's accretive at EBITDA margin level, because of a lower level of OPEX ratio. So this is going, just to summarize…this is going exactly where we are expecting it to go.

OPERATOR: Once again. If you wish to ask a question, please press "*" and "1" on your telephone. The next question is a follow-up from Scott Bardo of Berenberg. Please go ahead.

SCOTT BARDO: Thank you very much for taking my follow-ups. Yes just, very quickly on the LIAISON XS, I think if I look back to your Capital Markets Day in 2017. You had a picture or had some communication around commercial activities commencing towards the end of 2018 and contributing into 2019. If I am correct, you said that you don't expect European approval now till 2020. So I wonder, if this is a delay. If so, could you talk a little bit as to why or whether this is my misunderstanding? Thank you.

CARLO ROSA: No, actually Scott, this is due to the fact they had a five year…five hours Board this morning. So when I was referring to 2020, it is China, it is not Europe. So sorry for the mistake, you picked it as usual. So it's, let me rephrase it, we will expect launch late 2018 early 2019. And what I am saying the difference in quarters is simply to do with the fact that you do have a soft launch, so the product…the system is made available, but then you start placements with selected number of customers and effective launch starting from next year, but in Europe CE marking launch is foreseen as explained at the Investor Day in Milan.

SCOTT BARDO: Very good. And very lastly then please, obviously there has been a lot of heavy R&D lifting to develop the infectious disease portfolio for the North America market, the HIV and hepatitis products. I think you referred to previously that some of this R&D will get reallocated if you like, this year into other areas? I just wondered, if you could give us a bit of a status update, how that program is developing and also how some of the other development programs that you have for new buyer market and specialties are progressing within the organization. Thanks.

CARLO ROSA: Okay. As far as, the program HIV, hepatitis is progressing as expected. We are conducting clinical, so we initiated the clinical studies for some of the markers that the first wave is expected to be filed with the agency by the end of this year and then you will have hepatitis C and then finally you have HIV so the program is going as we have expected.

Now, as far as strategically where we are going to…I think that there are two areas where we will refocus our attention. The first one has to do with tick-borne diseases. And this is because, it is a very interesting market that today we are dominating with our Lyme disease assay. But also when we bought Focus and to be honest with you, we completely missed this because we bought Focus for the molecular line. But Focus Lab and Focus Diagnostic, they were known for specialties in the infectious disease area. And this by the way was one of the reason why Focus Lab was actually bought by Qwest. And in this portfolio of products we found very interesting set of products for thick borne diseases, which where…they are dominating in the market in the US and these are older technologies that we plan to reconvert to the LIAISON, because through specialties they follow the Lyme disease and they grow exactly in the same setting where we are today.

The other area where we continue to invest, but now, it's more on the clinical side is CKD. This is today is product development meaning that we have FGF 23 has been launched. We have Sclerostin that is going to be made available for clinical studies, and then we have Vitamin K. Now, today, we are spending quite a lot of money in clinical studies in order to prove the validity of certain algorithm that includes Vitamin D, Vitamin D125, FGF 23, and now we will add the Sclerostin to this. So stay tuned as we have discussed previously this is basic fundamental clinical research but it takes time in order to the see the benefit of this.

SCOTT BARDO: Very good. Thank you very much.

OPERATOR: Mr. Rosa, there are no more questions registered at this time.

CARLO ROSA: Okay, thank you operator. Bye-bye.