DiaSorin S.p.A

"First Quarter 2016 Results Conference Call"

Monday, May 9, 2016, 15:00 CET

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PIERGIORGIO PEDRON, CHIEF FINANCIAL OFFICER

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the DiaSorin First Quarter 2016 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 Quarter 1 2016 conference call. Let me start reminding you that starting from April 28, Mr. DeAngelis retired from his position as CFO of DiaSorin S.P.A. and I want to thank him again for his incredible support in the last five years where we set important pillars for the future success of our Company. And the same…in the same date, Mr. Piergiorgio Pedron was appointed as new Group CFO after having joined DiaSorin as a Group Controller, served as CFO of our North American subsidiary, DiaSorin Inc. for 18 months and then working with Pier Luigi as the Deputy Chief Financial Officer, so welcome Piergiorgio. And then I will turn the microphone to him to comment the main events and financial results.

So first let me just go through the business, the most relevant business points and as usual, I will make my comments at constant exchange rate. As you have noticed, this is the first quarter since few that the exchange rate has been working against the Company, roughly €1 million on the top line and this is not still related to the effect on the dollar, but more on the Brazilian reals and the renminbi. So we expect that in Quarter 2, if the exchange rate with the dollar continues this way, we will suffer from a negative impact of exchange as well from North America.

Now said that, again, at constant exchange rate our revenues in Q1 increased by 6.7% which is slightly above our guidance but in line with our expectations. And as far as the CLIA revenues, we registered overall a growth of almost 12%. And this is clearly confirming the success and the completeness of our CLIA menu that you know have been the strategic assets on which we've built our installed base of LIAISON systems.

Now let me talk a little bit as usual about Vitamin D first and then CLIA ex-Vitamin D. As far as Vitamin D is concerned, revenues grew 1.7% and this has been since few quarters that we have not been seeing this and this is primarily due to the increased volumes driven by the agreement signed last year with Quest Diagnostics. So quarter one is the last quarter where we are comparing results of Vitamin D in the US with…without let me say corresponding revenues in the previous year.

By the same token, as far as Vitamin D is concerned, we have some effects, some negative effects that are counterbalancing the Quest effect and the most relevant one has to do with the fact that we have renewed a contract with Sonic. It's a five years agreement that expired December 2015 and if you remember, we have been exclusive suppliers of Vitamin D to Sonic. We have renewed exclusivity for five years worldwide of Vitamin D. This is a strategic alliance that came with Sonic worldwide. Sonic is a lab chain that is growing aggressively in all geographies and very clearly, in order to maintain this exclusivity, we had to provide Sonic a price concession guarantee in the business again for the next five years.

So overall, the Vitamin D franchise you know slight growth as expected and we will continue to work on it over the next few quarters. Still as far as Japan is concerned, we have not seen the government issuing any reimbursement so, we don't see in this quarter revenues coming from Japan.

As far as CLIA ex-D is concerned, again as we have seen in previous quarters, strong growth 17% and this is pretty much throughout all the panels of tests. And this is due to a combination of geographical success in some key geographies like Asia that I will comment later, as well as the success of products launched in the last 12, 24 months. And one to name is Vitamin D 1,25 where we have captured pretty much 90% of the available market worldwide at very high value.

Now if we go to placements before discussing geography, in Quarter 1, we registered again our successful placement of XL, 132 units installed in the quarter. You know, traditionally Quarter 1 for placements is light because in China, the Quarter 1 is light as well and therefore we see installations pick up in Q2 and in Q3. And we have de-installed also LIASION system continuing our commercial strategy to cannibalize some of this base…residual base with LIASION XL and increasing expectations in terms of revenues per box. The overall installed base today for the Group is close to 6,500 systems installed worldwide.

Now let's get into geographies and I will provide you a managerial outlook on data reported as far as Q1 is concerned. Let me start from Europe. Europe continued to show a solid growth in the main geographies, we are up 4.4% even if…and I would say most of the countries have been growing strongly. Germany grew 6.5%, again driven by success of CLIA…CLIA placements and the stool panel that we have launched in Germany last year, so it works fine. France, finally turned positive and this is due to the fact that the reform that has decreased significantly the volumes of Vitamin D testing in the last few quarters now is completed, the volumes of Vitamin D has stabilized and therefore, we see again return to growth driven by the CLIA x-D products in France.

Last but not least, unfortunately it's Italy and Italy which is our domestic market has always been growing for us between 3% and 4% is an effect of a heavy reform on testing volume that has hit the country in the last quarter, shows a decline of 4.4%. And that was difficult to predict. We believe that it will continue throughout the year and we expect Italy to have a negative contribution for the first time since many years. Difficult to understand the outlook, looking forward for Italy again because this reform is affecting testing volume, has nothing to do with the reimbursement and we will have better visibility later in the year.

Overall Europe grows, again 4.4% and it's…we consider it as our main market; it's 48% of our revenues. And we have invested in Europe opening a subsidiary in Poland and we are positive about the overall results of Italy moving forward in the year.

Now let's turn to North America, the region in Q1 grew 7% boosted by the growth of our…clearly the stabilization of our Vitamin D revenues finally with Quest as well as significant growth, over 30% of our CLIA x-D products mainly driven in the US by Vitamin D 1,25 and our infectious diseases endocrinology panel. So to summarize, stable Vitamin D, increasing growth of CLIA x-D, and so positive outlook as far as US is concerned.

Asia Pacific has proved again to be the fastest growing region for our sales in Qq. In fact we grew 17.7%, almost 18%. The main contributor to the strong positive trend was again China which recorded a growth of 74% in Q1. Now we need to read this number correctly, there has been in Quarter 1 extra shipment of Murex products related to a tender that required the shipping in Q1. And also the comparable to last year quarter probably is comparing a strong quarter this year with a relatively lighter quarter last year.

To make a long story short, we believe that China has the potential to continue to grow in the area of 30%, 35% and 74% which is an outstanding result; clearly it cannot be repeated in the next few quarters. Notwithstanding that, we continue in China to develop our LIASION XL installed base, 26 systems were installed in Quarter 1. We are approaching 800 systems installed in the country and we continue to see a very strong demand for LIASION XL coming from all the geographies that since last years in China, all the provinces that have been covered through renewed distribution network. Let me also remind you that in this result still the effect of the Beckman alliance is negligible, and so there is more fuel for growth coming for China from this alliance with Beckman.

Last, would be Latin America. As far as, Latin America is concerned, I would like to comment Brazil and Mexico which are the most relevant geographies. In Brazil, as you know, last year we decided to retrench because of the local market conditions will not allow an aggressive investment to guarantee growth. We have done few things in Brazil including the fact of redirecting our effort into the private sector in order to make sure that we get paid by our customers. We try to limit our exposure to the public accounts especially in certain regions. Today, in Brazil, the public sectors is clearly under a strained situation and net result is that suppliers don't get paid.

And last but not least, we decided to what outsource services that were provided locally, mainly will be logistics, and so warehousing and administration we were doing ourself before all of this, now we've outsourced to a third-party in order to decrease complexity. In the quarter one, there was still a loss of 6.3% in revenues, but we expect…we have seen an increase of placements. We have seen business rebounding, if you remember last year we had double-digit loss, and we expect by year-end Brazil to turn positive again in terms of growth contribution.

Mexico grew 3.7%, it is a good business for us, and we got awarded a very important tender in Mexico where we will start shipments in quarter 2, quarter 3. So we expect Mexico to provide as usual high single-digit growth for the year.

As far as business development are concerned. Now, let me remind you that in March 30th, we announced the signing of the acquisition of the Focus Diagnostic in Molecular assets. We…as an update, we think, we will be able to close the deal announced in the second quarter of 2016, as we have announced previously. As soon as, we have completed this step, we will work together with our…with the management of Focus and we will come back to the market with our plan for developing this business over the next three years.

Now, let me now turn the microphone to Piergiorgio, who will drive you through the financials. Piergiorgio, please go ahead.

PIERGIORGIO PEDRON: Thank you Carlo. Ladies and gentlemen, good afternoon, the next few minutes, I am going to walk you through the financial performance of DiaSorin in the first quarter 2016.

Let me please start from the P&L. Overall, we are very pleased with our first quarter results, which was in terms of revenues and profitability recorded a solid growth. Revenues grew at current exchange rate by 5.8% or almost €7 million compared to last year and by 6.7% at constant exchange rate.

Carlo has already covered the main business drivers behind this growth. I believe it's just worthwhile to mention, that we've had some FX headwinds from almost all the currencies in which the Group operates with the one exception of US dollar. FX impact is anyway much lesser advanced than what we have experienced in 2015, as Carlo reminded about €1 million.

Gross profit at €85.8 million in the quarter, grew by 8.5% compared to last year. Gross profit ratio of the revenues at almost 69%, is confirming the positive trend of the last two quarters of 2015, both of which were around 69%, and it is better than Q1 last year by 1.7 percentage points. Let me remind you that we closed quarter 1, 2015 with a gross profit of 67.2% of revenues. This variance is mainly driven by a different product mix and the counter mix. In quarter 1, 2016, we've had higher sales of specialty products which enjoyed higher prices, for example Vitamin D 1,25 and stool panel, and lower sales for distributors which usually enjoyed lower prices.

Operating expenses at €45.1 million or 36.2% of revenues have increased by 4.6% at current exchange rate compared to 2015, R&D expenses has mainly driven this increase. The OPEX ratio on revenues has decreased compared to Q1, '15 by 0.4 percentage points.

Other operating income and expenses a €2.5 million in the quarter has been negatively impacted by almost €2 million of non-recurring expenses, mostly driven by consultancy costs necessary to support the project aimed at acquiring the Focus products business from Quest Diagnostics.

EBIT at €38.2 million or 30.7% of revenues has increased compared to Q1, '15 by almost 9%. Quarter 1, 2016 is confirming the ability of DiaSorin to deliver an EBIT around 30% of revenues.

The tax rate at 33.3% is broadly in line with how we close 2015 and lower by 50 basis points compared to quarter 1, 2015, and this is mainly driven by different geographical mix. Net results at €24.7 million or almost 20% of revenues is higher than last year by €2.1 million or 9.1%.

Lastly, EBITDA at €47.2 million with a ratio of the revenues of 37.9% is better than last year by €4.2 million or 9.6%. The variance at constant exchange rate is 10.8%.

Let me now move to the net financial position and free cash flow. We closed the quarter with a very strong net financial position at almost €290 million compared to €268 million of year-end 2015. This means an increase of about €22 million.

Quarter 1, has confirmed our ability to generate a strong free cash flow. We closed the first three months of the year with a cash generation of €28.4 million compared to €26.7 million in quarter 1, 2015.

Lastly, in view of the Group operating performance in the first quarter, we confirmed the guidance for 2016 revenues with a growth between 5% and 6% at constant exchange rate compared to 2015, and we raised 2016 EBITDA guidance to about 8% at constant exchange rate compared to 2015. Let me remind you that the previous guidance was a growth between 6% and 7% at constant exchange rate.

And now, I will 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 Chevreux. Please go ahead.

MAJA PATAKI: Yes, good afternoon. I will limit my questions to three and then join the line again. With regards to your increase in guidance on the margin level but you keep you sales guidance as it was. Is it fair to assume that you have taken a bit of closer look at the various extraordinary lines that were impacting full year results and are taking a conservative approach to margin outlook? That's question one. Second, could you help us understand how big the China tender impact was on Q1 revenues, just to understand how the rest of the year should look like from a seasonal swing? And then, could you give us some indication on US revenues, how much is Vitamin D, and how much is actually CLIA outside of Vitamin D? Thank you.

CARLO ROSA: Yes, I will take the second and third question and then Piergiorgio will cover the first one. As far as China is concerned, I cannot disclose to you the effect of the tender. However, let me tell you that normalized growth in Q1 would have been between 35% and 40%. So taking away the [indiscernible] be consider an unfair comparison quarter-to-quarter, the business would grow between 35% and 40%, and this is what we did is doable in China for the rest of the quarters.

As far as US, no, we don't provide a split of revenues between Vitamin D and non-Vitamin D products for obvious reasons in terms providing information to competitors, and then Piergiorgio you cover the first one.

PIERGIORGIO PEDRON: Yes, I will. Thank you, Carlo. So regarding the margins, I believe it's better to look at gross margin. If you consider our gross margin in the last three quarters we've had a gross margin around 69% let me say, which is mainly driven by the very good contribution to what we call the high value products which are products such as Vitamin D 1,25, the stool panel products for which we have let me say higher prices and even higher margins. On top of that, we have some good economies of scales coming from the increasing volume which is helping us to think that we will be able to have gross margin ratio around 68% and 69%. So considering what happens to our operating expenses, we believe that growth, the EBITDA level in the range of 8% at constant exchange rate, which means in EBITDA ratio just south of 38%, is fair.

MAJA PATAKI: Okay, thank you very much. Carlo, just to double check with you on the US, I fully understood that you don't want to give us a split, but is it fair to assume that revenues outside of Vitamin D are now meaningful?

CARLO ROSA: Oh, yes. Revenues outside Vitamin D are significant absolutely and they are rapidly growing, so they do start to affect the overall performance of a country. You also need to take into account that we are discontinuing worldwide our RIA product line and this is to really streamline our operations in the US where we are short with space with this boom of Vitamin D volumes and therefore, in the US there was still a residual RIA customers that we are taking out and they do affect in fact their performance negatively, obviously the performance of the US market and they will affect in 2016.

MAJA PATAKI: Okay, great. Thanks a lot.

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

PETER WELFORD: Hi, thanks for taking my questions. Just firstly, I'm looking at the cost base. If you look at it, sort of going quarter-to-quarter, I think, I guess, particularly the R&D was a little bit lighter and perhaps, I guess we just try and think about the run rate. Is the quarterly spend in the first quarter, do you think, representative for the full year? And then secondly just on the Focus Diagnostics acquisition, I appreciate, it's yet to close, but can you provide some sort of breakdown, perhaps in terms of what proportion of the revenues of Focus Diagnostics are in the molecular segment and what proportion of immunoassay, just to give us an idea for modeling purposes? And then thirdly, just returning to China, for me obviously very impressive results in the quarter and obviously you've highlighted 30% to 35% long-term. I wonder therefore are you seeing any impact at all from some of the pressures that some competitors fighting and equally is most of your business coming from, would you say the medium sized hospitals, the local hospitals or where do you think this sort of incremental growth you are seeing in China is coming from? Thank you.

CARLO ROSA: Yes, Peter, I will take the last two questions. Focus, now we cannot provide any information, it’s not our business as we speak, and it belongs to Quest Diagnostics and its confidential information. Regarding China, we do sell into what fortunately is the booming market in China, which is midsized hospitals and we are removed from the larger hospitals where you see consolidations and you see that Beckman Siemens…how this guy is going head-to-head and interestingly enough, we used to talk about Class 3 hospitals being the hospitals and the Class 2 being possibility and the Class 1 being no possibility because of size, well it looks like that because of continuous growth in testing volumes in China. It’s the result of the influx of people moving away from villages into the cities, now clearly, Class 2 hospitals are becoming a very accessible market for the LIAISON XL. And the Class 1 hospitals are becoming very accessible market for LIAISON XS. And today, we are trying to serve with LIAISON, the old LIAISON system.

So I think that the difference between us and the rest of the competition is that especially the larger players they get into a segment that is becoming very competitive, whereas we stay away from that segment fortunately enough and with the LIAISON XL we go after the booming business in China.

On top of that, I think that we were very wise in terms of devising our product strategy because we continue to be now very solid #1 for prenatal testing with infectious disease that if you remember is how we really started this, our presence in China. And then, we are playing in the very large market of hepatitis and HIV where there are only three to four foreign companies having the full menu approved. You have 200 million hepatitis B-chronic patients in China, so there is a very large pool of patients and testing volumes accessible for this product. So a combination of these very wise strategies are allowing us to stay away from the big fight and playing into a very interesting and developing market for China. Then Piergiorgio, on R&D.

PIERGIORGIO PEDRON: Sure, so usually if you look at our historical rate, we have R&D costs of about 6% of revenues and this is give or take the ratio we are experiencing in 2016 quarter one. Q1 last year was kind of low, so I would say that you could you know, expect the 2016 ratio if you take aside phasing issues around again the 6% mark, but there is not a change, a material change in past in terms of our R&D investments.

PETER WELFORD: Okay. That's great. 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. Congratulations for the results. First question just relates to gross margin please, and I understand you've confirmed now three quarters or so of 69% gross margins. I think looking back reflecting also the Q1 is the lower revenue volume quarter for the year for DiaSorin; it also historically has been the lower gross margin quarter. And I just wonder now when that this 69% or so percent you see in the first quarter, should it be an expectation that you follow you know, normal trend and progress gross margin from the space over the course of the fiscal year? So perhaps if you can just talk about some of the dynamics there, it would be appreciated. Also Mr. Pedron welcome, I just wanted to ask two things very specifically on the financial side. Obviously, you've taken a little bit of cost for Focus within this quarter, if I understood your comments correctly. Could you give us some sense then please on how you see other operating expense, how that's encapsulated to your guidance, if you can give us an absolute number there. And I just wonder if you have had any thoughts on tax and whether you have been able to have a more favorable tax outlook as compared to your predecessor, so any opportunity or structures there, which could benefit the Group tax rate? I have one follow-up for Carlo, if possible. Thank you.

PIERGIORGIO PEDRON: Okay. Thank you. So starting from the gross margin ratio, it is true Q1 was…the gross margin in Q1 was not particularly high at 67.2%, but if you look at the trend you see a pick up starting from Q2 '15, 68.4% reaching then to 69%. More than anything else, I believe you know, more than the lower revenue in the Q1 '15, I believe this increase is driven by different mix of products whereby again thanks to Quest Vitamin D pickup, and Vitamin D is a product with a very good margin and Vitamin D 1,25 pickup as well. We are now are at full steam, at full speed with Vitamin D 1,25. The growth of the stool panel, which we've completed recently all of these high value product strategy is really helping us in…at gross margin level. So I believe that the 68%, 69% is a fair mark where I see our business in the next few quarters. Also considering that we are enjoying some economies of scale as a result of the increasing volume.

Regarding the non-recurring expenses, yes, most of those non-recurring expenses are driven by costs to support the project to acquire the Focus business from Quest Diagnostics and our guidance takes into account the costs related to the acquisition. It does not take into account the guidance in the non-recurring expenses, any costs we might have during integration process, but at the same time, our guidance does not take into account the revenues and the margins coming from the Quest business. So you should consider our guidance at let me say at constant perimeter.

And regarding the tax question, we are not going to provide you know, details on the results on our tax rate coming from our Focus acquisition, but when we will release the new plan which will be done at the beginning of next year exactly as we did last year, you will see our view in terms of tax rate for the Group. Let me just remind you that when we did the last plan, three year plan, we forecasted a tax rate at 34% and now we are running at 33%, give or take.

SCOTT BARDO: Thanks for the clarity. And I just wondered…sorry to press on this issue, but I mean I would regard costs preparing to acquire a business somehow one-time in nature. So is it possible just to quantify what you expect from the base business as of today the other operating expenses to be, so I can get a feeling of what the underlying EBITDA progression is ex these sorts of additional costs? That would be very helpful.

PIERGIORGIO PEDRON: We don’t provide this kind of details, I'm sorry.

SCOTT BARDO: Okay. No problem. Last one; please Carlo, if I may. Encouraging that you are feeling confident about closing the deal in Q2. I think you highlighted this before. Am I right to assume then that all energies internally then will now be turned towards Focus on the integration or do you still have good scope capacity within your corporate development team to consider other opportunities even this year. If you could perhaps just comment on the flexibility within the organization? Thank you.

CARLO ROSA: We do have…certainly we will spend a lot of time in order to manage properly the integration of our businesses granted, I think I made a comment last time, we are buying a very successful small Company, and I have seen many…a lot of value destroyed in the past when larger corporations have tried to take in smaller companies. So lots of effort is placed on our side to really leave Focus as an independent Company able to continue their business and develop their own strategy.

Now, as far as our ability to continue M&A, look as…if you remember, I spent the last three years trying to defend our position, which has always been…we need to be strategic in this acquisitions. We cannot use the usual channels, we don't work with banks, and we work through our network. Clearly, and we always said when an opportunity comes we always ready to take it. And for that reason we have accumulated quite a lot of cash and then we found good way to put it to work. We continue to look at opportunities and certainly there is a commitment by our main shareholders that if an opportunity comes we will certainly spend time and dedicate time to analyze it, and if it make sense as we always did, we will try to find a way to pursue it.

SCOTT BARDO: Thanks very much.

OPERATOR: The next question is from Stephanie Bobtcheff [ph] of LFDE [ph]. Please go ahead.

STEPHANIE BOBTCHEFF: Yes, thank you. I've two questions. The first one would be on Italy, if you can come back on the low and the impact you expect from it, and where does it come from because I was not aware of this? And the other one is on the Japan on Vitamin D, when do you expect the reimbursement code and when do you start…do you expect to see this business starting in Japan? Thank you.

CARLO ROSA: On the Japan one, look over the last five years, I learned the heard way that trying to guess what the Japanese authorities do. I think you have a better chance at wining the lottery in the US, and therefore, I will refrain for making precise comments to this. We were supposed to have received the reimbursement already quarter ago. But then there this committee that is difficult to understand, who makes the committee that is back analyzing the clinical utility for the assay, because depending on the clinical utility then they assign different values of reimbursement.

And as, you know, as far as Vitamin D is concerned, there are some consolidated data related to osteoporosis, which are clear cut and acceptable. And then, there is a general use for screening for Vitamin D. So using for Vitamin D is a general marker for health. And that's the difference between Vitamin D being endocrinology markers specialized for bone diseases or Vitamin D being an assay that it is used…as it is used in certain countries, it is used for screening purposes and for general supplementation. I think the…result and a decision that the Japanese authorities have to make, and I don't want to guess when they are going to make it. So we stay here, and as soon as, we know we will let, you know.

As far as Italy is concerned, there is…there has been quite a lot of press dedicated to this, fundamentally this decree is a decree that intends to make sure that physicians do ordered diagnostic procedures in vivo and in vitro in an appropriate way. In fact, the name of the decree is the decree of being appropriate, translated in English. And that pretty much is providing guidelines very confusing guidelines to physicians of what to test and what not to test. And it is also introducing a concept whereby improper testing is going to be…is going to be used to find physicians. And they are introducing controls using electronic records.

So it's a very, very confused situation where physicians don't know what to do. And as a net-net results, they don't order test we have seen, declines in volumes in order of 10% in certain regions. And this is why it's very difficult to understand, how this is going to grow. So far as suffered declining revenues in north of 4%, if I need to give you my guesstimate, I think we will end up loosing 4% to 5% by year end, but we will get better visibility when quarter two is over, and we will see where the trends are.

OPERATOR: The last question is from Anastasia Karpova of Kempen. Please go ahead.

ANASTASIA KARPOVA: Good afternoon and congratulations on very good results. Two questions, if I may. First on margins, I remember in the beginning of the year, you were quite cautious on margin improvement driven by the products mix. What has changed during the first quarter that allowed you to upgrade the guidance and change your…take more positive stance on the margins? And for the second question, can you provide some color on how collaborations or partnership with VD and Beckman Coulter and Roche are ongoing, and whether you have already seen the tangible impact on revenues and profitability? Thank you.

CARLO ROSA: I will take the second call, and then I will leave Piergiorgio again to cover the first one. I understand that the gross margins there are some questions because we have seen very good gross margins. So PG, I think you covered…you have discussed most of it. But, please cover this again.

As far as collaborations alliances, the truth of the matter is that because of the sheer size of our business the net-net effect of Roche and Beckman is still relatively small. Roche, again we really literally just started, there are couple of tenders that we have been won together, there is an interesting funnel of opportunities, mainly in Europe that we pursue, we cannot disclose how many and simply because it's confidential to Roche. But in the current numbers, the effect is relatively limited, so opportunity to grow more.

Beckman, we started Q4 last year, they bought a certain amount of instruments already, and they are installing the systems in the large labs. I believe that there are two very large hospitals that we consider showrooms where our system and the Beckman system are working together. So working in progress again, net-net effect on Q1 results, negligible in China, and this is why we keep saying we are seeing this very interesting growth right now, and then we have the opportunity long term guarantee. The growth in China because then we are going to have reservoir of opportunities that is coming through this Beckman alliance. As far as margins are concerned big issue you want to…

PIERGIORGIO PEDRON: Sure. So really what convinced us that, you know, the 69%...68%-69% is the fair number…is the trends…is the trend coming from actuals. If you look at our 2014 numbers, we were running at a gross margin around 67%, then we launched Vitamin D 1,25, we won the Quest deal with Vitamin D. And the stool panel picked up. So those elements together with some economies of scale driven by volume convinced us that the rate…gross margin rate between 68% and 69% is sustainable also in the foreseeable future. So basically it's actual trend…

ANASTASIA KARPOVA: And…Thank you for taking my question. If I may, quickly follow-up, does your margin forecast going forward includes negative impact from the price concessions you have given to Sonic or should we expect just minor negative, not really impacting overall profitability?

CARLO ROSA: It does already in quarter one, because the new contract started with the 2016. So already Q1 is considering the impact of Sonic discounts.

ANASTASIA KARPOVA: Okay. Thank you for taking my questions.

CARLO ROSA: Thank you.

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

CARLO ROSA: Thank you.