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PRESENTATION

Operator

Good day, and welcome to the bioMérieux Half Year 2020 Financial Results Call. Today's conference is being recorded. (Operator Instructions)

At this time, I would like to turn the conference over to Sylvain Morgeau. Please go ahead, sir.

Sylvain Morgeau - *bioMérieux S.A. - IR*

Thank you, Diana. Good day, everyone. Thank you for joining us to review bioMérieux's performance for the first half of 2020. Before leaving the floor to Alexandre Mérieux, Chairman and CEO; and Guillaume Bouhours, our CFO, I will just make a very short introduction to provide you a couple of information.

First of all, our press release was published this morning at 7 a.m. The press release can be found in the Investors section of our website, www.biomerieux.com. In addition, please note that the slides of this presentation are also available, and they can be downloaded directly from the webcast. So promptly, after the end of the meeting, the webcast and the call will be available in replay on our website.

I am now going to the presentation content. After reviewing the performance after the first 6 months of 2020, we will hold a Q&A session. Questions can come from the conference call or from the chat of the webcast. (Operator Instructions)

A very last word before starting the presentation. I will not read the slide that is currently projecting, but I recommend that you take note of this content that remind the usual disclaimer about the forward-looking statements.

And with that, I will now hand the call over to Alexandre Mérieux.

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

Thank you, Sylvain. Hello to all. Thank you for joining this call. So I will start with a snapshot on the takeaway messages from H1 performance. As you know, since the beginning of the crisis, diagnostics is at the forefront of the fight against COVID. bioMérieux has delivered well on our mission by developing a comprehensive range of diagnostic solutions. And you can see also that during H1, the strong performance was driven by very strong demand for molecular tests. So we displayed a growth of around 16%, 15.7% in H1, nice price increase and also increase in term of profitability to reach around 17% EBITDA during H1.

I will move to the next slide. So you saw -- you see that we developed a comprehensive range of solution, both in the field of molecular but also in the field of serology and immunoassay.

So looking at the molecular front. We have available the extraction with eMAG and the easyMAG. We developed the PCR test, [monocyte] test with the ARGENE SOLUTION. And also, we have now the syndromic test with RP2.1 in the U.S. and RP2.1plus for Europe and the rest of the world.

Also for serology, end of June, I believe that we have -- we delivered -- we launched the test for VIDAS, both on IgM and also on IgG. So quite a complete range of solutions coming from the portfolio of bioMérieux.

Since the beginning of the crisis, we kept the same priorities. The first one is to ensure safety of our own employees. Second one is to ensure business continuity. So regarding employees, we ensure that -- their sanitary safety, I would say. But also, we took care of them more socially. And also, you see that the Board of Directors has decided to allocate half of the dividend of 2019 to support solidarity actions. Part of it will go to the Mérieux Foundation, which is very active in emerging countries. The foundation has redirected part of its program to fight COVID-19. And also, a significant amount also will be allocated to support local initiatives in the countries where bioMérieux is operating.

So you have seen also an impressive growth regarding molecular biology in general, but more particular for BIOFIRE, which displayed a growth of 60% in the first semester, with an installed base moving from 10,400 instruments to 14,000 units worldwide. 80% of the business being done in the U.S., 20% outside of the U.S. So we see a strong demand for the test, mainly for RP2.1, knowing that this is a very adequate test in the current context, and it will be also very adequate for the upcoming flu season, where it will be critical to detect, identify between what type of virus is impacting the population in the flu season.

We are ramping up our monitoring capacity, not only in molecular, but this is for -- this is in Salt Lake. And you see that in June, we have been able to -- I would say, to put in place or to operate another site for the production of FILMARRAY pouches, working for -- so we are really working to improve the capacity and production.

So strong demand surge in molecular, but it's quite contracted also because regarding vehicle applications outside of molecular but mainly in the field of microbiology and also immunoassay. We have seen in the first 6 months overall reduced hospital traffic with less patients going into the hospital. So we have seen a decline of sales on the ranges, such as VITEK, BACT/ALERT and immunoassay, which is, I would say, consistent with what we see also outside in the world with other competitors.

Looking at the field of industrial applications, which represent 15% of the bioMérieux business at the end of June. Basically, we remember -- there's been a 1% growth. Pharma remains solid. But in the food business, we have been impacted by the fact that the catering services and the restaurants were not able to work. So we had an impact on this with less testing coming from these 2 sectors.

With this short introduction, I leave the floor to Guillaume for the financial results.

Guillaume Bouhours - *bioMérieux S.A. - Executive VP of Purchasing and Information Systems & CFO*

Thank you, Alexandre. So let's review our financial performance in H1. Total sales growth of 15.8%. No major FX effects, actually neutral in H1. No scope effect either. Just to mention that when looking at H2 with the variation of USD, recently, it's likely that the effects on revenues and also on operating profit will be more negative from a foreign exchange impact. Just to keep in mind.

So let's review now the 15.7% organic growth of H1 by range and following that by geography. So this shows actually the translation in financial terms of all the trends that Alexandre has just explained. So the -- especially the reduced traffic in hospitals impact microbiology with a minus 4% in H1 and impacted even more immunoassays, minus 14%. We have, let's say, a mix in immunoassay of partly routine in the portfolio more impacted and partly more, let's say, emergency type slightly less impacted.

Molecular, very impressive. We just saw the BIOFIRE figure. Adding the ARGENE and extraction, we go to plus 69% growth. And actually, you have to add potentially the molecular BioFire Defense, which is a gray other 3% on top, to get to actually the plus 80% organic growth of molecular that is mentioned in the press release.

And industry, already commented by Alexandre, pretty solid on pharma, much more impacted on food and overall 1% growth organic for H1.

Now looking at the same by, let's say, region. The main comment is actually that the region trends, let's say, mirror or reflect our exposure or penetration of molecular in the different markets. So obviously, Americas is where we have the best positions in molecular with a huge success of BIOFIRE, so overall, 30% growth. On the other side, Asia Pacific is probably the region where the weight of molecular is least at this stage, and therefore, most impacted by the H1 context with only 2% growth. And EMEA is somewhere in the middle with a slightly better exposure and position of BIOFIRE and molecular than in Asia Pacific, and therefore, a higher growth of 4.5% (sic) [4%].

Now coming to the P&L. So we just commented the first line of sales. Gross profit, you can see, is slightly decreasing percentage-wise from 55.7% to 55.3%. There are 2, I call it, external factors there, which is FX, slightly negative; and also the phantom share impact. With the share price increase, we had to provision more of the phantom shares bonus. When we exclude those 2 effects in gross profit, actually, the percentage is flat year-on-year. And this flat percentage includes, I would say, mix effects that are positive on one side for the FILMARRAY growth, having, again, a positive effect; and negative on the other side with the stronger equipment sales. And as we usually mention, of course, equipments have a lower margin on sales. So that's the different effects for the gross margin.

Then SG&A is up 8% on an organic basis. You will see that it's much lower than sales trend but also much lower than our usual trend, which is -- used to be double digit. Of course, we have there a lot of savings in the lockdown period in the different regions on the less travel, less congress, less promotion on the commercial front.

R&D is up 12%. So that reflects, of course, all the COVID-19 developments, specific developments that we had in Q1 and Q2, but also an effort to maintain as much as we could the pace of innovation for the rest of the business. So all in, margin operating -- current operating margin contributed at 17%, 17.1%, and up organic-wise, 32%.

Just to mention on the next page, some, let's say, exceptionals that you might want to look at differently. So included in this operating margin, the U.S. pensions. So we finalized in June the termination of U.S. defined benefit pension scheme. So it had, if you remember, positive effects last year of plus EUR 10 million or EUR 11 million and negative -- minus EUR 4 million in H1 this year. So year-on-year, it's a variation of minus EUR 14 million. That's one effect. Now it's -- this operation is done. It was over 2 years. And we have, let's say, the usual 401(k) for all of our employees in the U.S. now.

And the second effect is, of course, phantom share plan. I remind everyone, this is a special scheme of long-term incentive bonus, linked -- where the amounts are linked to the share price of bioMérieux. And this scheme will end in Q1, end of Q1 2021, so next year. So we have, of course, with a huge increase of the share price, a pretty significant expense provision for phantom shares, EUR 42 million in H1 this year compared to EUR 26 million last year. So this is a variation of minus EUR 16 million.

And a final point to mention here, minus EUR 7 million on FX. So overall, with some emerging currencies especially that devaluated in Q1.

A few comments on the next slide between contributive operating income and net income. So we have our usual BIOFIRE acquisition-related costs. Amortization flat, EUR 18 million per year, EUR 9 million for the H1. Special line that is new and mentioned by Alexandre in the willingness and decision by the Board to support solidarity initiatives for, let's say, half of the dividend. We already booked EUR 12 million on this, the Fondation

Mérieux amount in H1. It will be -- overall, for the year, it will be EUR 22 million in this line. And these, let's say, special actions are considered as nonrecurring, so that's why they are classified here.

Net financial expense improved slightly to EUR 12 million expense. And the tax rate was at 22%. I will comment on the next slide. So overall, net income group share, EUR 173 million and up 23%, all included.

A quick comment on the tax rate. So we end up just below 22% effective tax rate. We have, of course, the major effect of our mix of countries, especially pretty significant exposure on the U.S. profit with lower tax rate than France. Just to mention the sponsorship. So this EUR 12 million, let's say, solidarity actions funding has a slight impact, let's say, positive, to reduce to 21.7%, reduction of 0.6% nonrecurring.

Let's now look at the cash flow. So a pretty strong cash flow -- free cash flow generation, EUR 144 million as compared to EUR 55 million last year for H1. Of course, the third driver is operating profit, pretty strong. Working capital was up, let's say, only EUR 22 million overall. But still, inside this EUR 22 million, a very significant increase of inventory due to slower sales in microbiology and immunoassay, where the -- let's say, the adjustments of production with the lack of visibility was difficult to go at the same pace, a really good level of collection and AR and days of sales. We also slightly accelerated, and we wanted to accelerate our payment to vendors. And included there, a positive effect of PSOP as we provision more than we cashed out.

In the free cash flow, also, let's say, a sustained level of investment, as you can see, EUR 127 million, 9% of sales. It includes, of course, the new manufacturing capacity for BIOFIRE and the new plan that Alexandre showed. But not only, we also invest in the rest of our industrial setup. We also invest in this amount, I remind everyone, on the installed base with all the placements that are considered as CapEx.

With this strong free cash flow, our net debt decreased to EUR 192 million, so a pretty significant decrease to a very low 0.3x leverage. And just to mention that we refinanced our 2013 bond coming due in October with EUR 200 million private placement Euro PP, 8-year (sic) [7- to 10-year] maturity, so pretty long, for a better diversity of our financing maturity and 1.6%, pretty successful transaction.

And with that, I hand over back to Alexandre for the outlook.

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

Thank you. Thank you, Guillaume. So you see that on the (inaudible) bioMérieux has delivered a sound performance in H1. It's true, the market is still -- a lot of uncertainties linked to COVID around the world. So we felt -- we prefer not to issue any new annual guidance as of this date because we have to follow and monitor the evolution of the market and bioMérieux even as we say we are on a good trend.

With this, if it's okay with you, we can open the floor to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will now take our first question from Catherine Tennyson with Bank of America.

Catherine Tennyson - *BofA Merrill Lynch, Research Division - Analyst*

I have 3, if I may. My first one would be, if you could just talk us through the exit rate that you saw on your base business in August in both Europe and U.S., that would be helpful.

Then secondly, we've even seen rapid flow antigen test from Abbott and also from Roche. If you could just help us understand where you see that test getting into the general COVID testing landscape and if you're interested in expanding in that space?

And then finally, on the increase in BIOFIRE placements. I still see in the slides that an ex U.S. increase in the installed base is a key priority. How then should we think about additional investments in selling and marketing and advertising in, say, 2021 to get back on that agenda?

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

Thank you. I'm not sure I understood the first question. Maybe for the first one, you can maybe repeat the first part of your question, please?

Catherine Tennyson - *BofA Merrill Lynch, Research Division - Analyst*

Of course. It's just basically what level of activity are you seeing in your immunoassay and your routine molecular business in Europe and the U.S. in August?

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

Okay. I guess -- okay. I'm not sure we mentioned this. No, as you can see, yes, the work in testing has been impacted. I believe it continues to be. We are not back to what we can call normal, but we are monitoring this situation. So the trend has not completely reversed yet.

For immunoassay, we have launched end of June test for VIDAS COVID. It's a bit early to say. It's a slow ramp-up. It's a bit early to comment at this stage.

Regarding your question around the -- about new tests and the upcoming potential Roche new test, difficult for me to comment especially. I would say it's good to have more players coming with more solutions because there is a strong demand for test, on any type of test all over the world. Today, the standard is PCR, but it's a different technology. So let's wait and see.

I don't believe it will have too much of an impact on bioMérieux since the most of our growth on a push and demand is coming for syndromic testing, which is different. And the idea is to have a comprehensive view of all the potential viruses and bacteria involved in this COVID disease.

And I missed the third question. Guillaume, you have the...

Guillaume Bouhours - *bioMérieux S.A. - Executive VP of Purchasing and Information Systems & CFO*

And the third was on the placement for BIOFIRE. So ex U.S. actually was 25% of the new installations over the first half. So it was a bit more U.S.-focused than in the past years.

And yes, pharma, I think the second part of the question was on the additional investment, sales and marketing investment, to continue to expand the BIOFIRE base customer in 2021. Certainly, we will continue to invest. We will continue to invest, as we mentioned. It's our strategy in the -- outside of the U.S. expansion and market share gain and new customers for BIOFIRE.

Catherine Tennyson - *BofA Merrill Lynch, Research Division - Analyst*

If I could just be very cheeky and sneak in an extra quick one. Also, the new installed bases that we've had in the U.S. and elsewhere, I presume a lot of that is linked to COVID testing. Can you just talk us through the contracts that those new placements have? Do you have specific volume agreements into 2021 for tests on those machines that aren't COVID related?

Guillaume Bouhours - *bioMérieux S.A. - Executive VP of Purchasing and Information Systems & CFO*

So your question is really about BIOFIRE, I guess. Most of the equipments are actually sold to customers. And in this case, I mean there is no specific volume agreement, and the customer buy the system and then can purchase reagents.

What we can say today is that the demand is super high. And we are even, let's say, struggling to deliver at the level of the demand that we see. Yes, so it's more subject to supply in the market. Also referring to what Alexandre said that it's good to have a new test with such a huge demand overall.

Operator

And we will now take our next question from Hugo Solvet with Exane BNP Paribas.

Hugo Solvet - *Exane BNP Paribas, Research Division - Research Analyst*

I have one on the guidance that you have for 2020. Just wondering if we should extrapolate the sustainable impact on financials in H2 from the base of H1 '20, meaning organic growth of 16% or from a base that you had in the second quarter, i.e., your growth of 10%?

And also on the maintained pace of innovation that you had with the level of R&D may -- at above 10% of sales. Could you remind us on the upcoming launch season product that you have in the pipeline and if you've seen any delays here?

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

Yes. For the level of R&D, as we mentioned, we primarily will always invest in R&D. But this year, it's true that we have focused our efforts both on ARGENE, on extraction and also on syndromic to be able to deliver in a few weeks an improved level. Also, immunoassay was not planned in our budget. So we invested to deliver this -- develop this test.

In term of potential delay compared to what we announced, I think, yes, maybe on immunoassay. I think some -- there will be some delays on the tests that were announced such as TB-IGRA on the -- because the clinical trials have been a bit postponed or slowed down during the COVID crisis. So this is, I would say, mainly compared to what we know. This is mainly in that space that we see some delay.

Your first question is around the guidance for 2020, but we don't give a guidance. So I cannot give you more details on -- dynamic is strong. The demand for molecular is very strong. But as you know, it's very -- lots of uncertainties, so difficult for us to project. Otherwise, we would have done it. Very strong for molecular and not yet back to normal. And we don't see it back to normal on the other ranges that are negatively impacted.

Hugo Solvet - *Exane BNP Paribas, Research Division - Research Analyst*

Okay. And just a quick follow-up. Are you seeing different dynamics in the recovery of the immunoassay and micro -- and/or microbiology?

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

Immunoassay is more impacted than micro because of the routine testing but also because of the usual consolidation of labs. Now at this stage, it's difficult to see a difference in recovery.

Operator

We will now take our next question from Delphine Le Louet with Societe Generale.

Delphine Le Louet - *Societe Generale Cross Asset Research - Equity Analyst*

Alexandre, can you be more specific in the breakdown? I tried to figure out in -- when I look at BIOFIRE, how much of BIOFIRE sales is today dedicated to COVID versus the rest of the panels? This is my first question.

Secondly, within the COVID testing, can we get a breakdown of revenue between the extraction and the testing, and meaning between ARGENE testing and COVID-19 or Respiratory 2.1 testing?

And third question will deal with -- I just got the filing that Asia is a bit of a laggard. And effectively due to the immunoassay, we have normal backtracking to hospitalization there in the region. So how do you explain this, the fact that there is no more strong rebound in Asia? And how do you see, more broadly speaking, the sequential take-up in revenue in between April, May, June, July and even August? Just give us a flavor.

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

Okay. So I'll take the last question on -- and I forgot the other one. But okay, the last question is -- so Asia Pacific, yes. As mentioned by Guillaume, Asia Pacific is less exposed to molecular than the rest of the regions. This is where we don't see the same uptake with FILMARRAY. It's not a complete back to normal in Asia.

China, we see a slow ramp-up, but it's a slow ramp-up. I wouldn't say that life is going back to normal, at least in term of hospital traffic. And countries such as India are very -- under a very, very difficult situation. So I believe that the rest of Asia will come back also with a return to normal. Asia is not only China for us. I mean so there are still many, many countries which are under difficult situations.

Your question on the -- in BIOFIRE and...

Guillaume Bouhours - *bioMérieux S.A. - Executive VP of Purchasing and Information Systems & CFO*

Did you want me to take that?

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

Yes, please.

Guillaume Bouhours - *bioMérieux S.A. - Executive VP of Purchasing and Information Systems & CFO*

COVID, non-COVID?

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

COVID, non-COVID, okay. I guess most of (inaudible) the ramp-up in molecular is linked to respiratory and COVID for BIOFIRE or linked also to BioFire Defense...

Delphine Le Louet - *Societe Generale Cross Asset Research - Equity Analyst*

Okay. And with the time, have you seen a switch from Respiratory 2.1 to COVID only and/or from COVID only to Respiratory 2.1? Is it a trend? Is it something that you observe or you have order for both COVID testing indifferently the same? How do we -- how can we think about the next wave or next -- post '21, '22?

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

So just to think about the -- when you say COVID only, I guess you are referring to the BIOFIRE COVID-19 PCR test?

Delphine Le Louet - *Societe Generale Cross Asset Research - Equity Analyst*

Yes. Not ARGENE. Yes, yes, yes.

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

Just to explain this one, this one was developed by a sub called BioFire Defense with the contract and the demand and the financing from the Department of Defense, U.S. DOD, so pretty early in Q1. Then the vast majority of these tests were and are sold to the Department of Defense. We wondered if we should actually sell it broader. But we've been able to add COVID to the RP panel with RP2 becoming RP2.1, including COVID, really fast. BIOFIRE teams have done an excellent job there. And therefore, our approach, our strategy is really to push the syndromic value and the syndromic approach. So we actually sell in the U.S. and everywhere, RP2.1, the syndromic approach. We only continue to sell the single test for the DOD.

Delphine Le Louet - *Societe Generale Cross Asset Research - Equity Analyst*

And the breakdown in selling between the ARGENE test for the extraction and the RP2? Is it well balanced?

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

To give you the breakdown, so you have -- in the slides, you have EUR 557 million of molecular. You see that on Slide #15 or 16. In this, that includes all the ARGENE and extraction. That represent about almost EUR 70 million. And then you have to not forget -- don't forget the BioFire Defense. We classify it in others. It's in the gray bar, and it's about EUR 40 million. It's not included in the EUR 557 million.

Operator

(Operator Instructions) We will now take the next question from Scott Bardo with Berenberg.

Scott Bardo - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

So first question, please. I think there is sort of a broader expectation that as we come into the winter months that life will get a bit more difficult for respiratory cases, those with combined flu or presenting with flu symptoms. Is it flu? Is it COVID? But I really wanted to point to your thoughts on the development in Australia, where there seems to be a very benign season indeed, with not many people presenting with respiratory symptoms. Is this a potential concern to you that -- in a sense or an observation that we might not see that strong pickup in cases into the back end of the year, thus limiting the demand for BIOFIRE and FILMARRAY consumables? So some thoughts on the Australian dynamic and read across would be helpful, please.

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

You want to -- I'll start with this one. Australia, for me, it's difficult to know what it means, in fact, because I think the country has been in lockdown also during part of the summer months, summer for us and winter for them. So this -- when you're in the lockdown, I'm not sure this is where respiratory diseases are spread a lot. So I think it's difficult to see a correlation between what happens in Australia and what will happen in the upcoming winter. Whatever happens, I believe -- so the syndromic approach is the right one to detect, as you mentioned, COVID (inaudible) or the other but difficult to make a correlation at this stage.

Scott Bardo - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Understood. And you've communicated then that you are ramping up production of FILMARRAY consumables. And obviously, I note that these are uncertain times, and you're not giving any explicit guidance. But could you help at least us to piece together some of these things by providing a sense of what your ramp-up of consumables will be at full capacities? Some sense of perspective as to where we are today would be helpful, please.

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

So first, it's a site. I mean we have not initiated that the site will (inaudible) it was planned before, anticipating the future growth of BIOFIRE. I would say that now -- I don't know what we need to say. We should be -- soon be able to produce around 1 million tests, 1 million pouches per month. And we are working hard to keep on improving this production capacity.

Scott Bardo - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Understood. And that compares to several hundred thousand today or something like that? Is that correct?

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

Most -- sorry, what you say?

Scott Bardo - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Sorry. I'm trying to understand the incremental step-up. So that 1 million pouches is compared to where are we today as of Q2? About 700,000, 800,000 per month or something like this?

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

I should know -- I'm not sure. I know we are improving. We are progressing. The site is operational since June.

Guillaume Bouhours - *bioMérieux S.A. - Executive VP of Purchasing and Information Systems & CFO*

(inaudible) the other site.

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

Yes. So it's not the only site. It's an extra site for production.

Scott Bardo - Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst

Okay. Understood. Maybe an additional question on BIOFIRE, please. Obviously, you've been a very important part of the solution in containing the virus and giving optimal clinical diagnosis. Has there been any evidence of a significant channel shift in North America, testing a lot of nursing patients or in the -- nursing home patients or in the outpatient setting? Has there been any change in the mix? Or has it remained predominantly hospital-related business?

Alexandre Mérieux - bioMérieux S.A. - Chairman & CEO

To be frank, I didn't follow this exactly. We have been -- we have no way to know if it's hospital or if there is a change between inpatient or outpatient. We can guess that there are more outpatients currently, but it's just a guess at this stage. I don't have the data. It has to come from the hospital.

Scott Bardo - Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst

Okay. And last question for me, please. I note that your selling and marketing costs have fallen year-over-year. And I think you explained that there was obviously some lower travel and congresses and things helping reduce that total expenditure. But as we go forward and we think about the business into the second half of the year and into 2021, could you help describe these cost reductions? Are they relatively transitory and just related to near-term COVID impacts? Or could this indeed be some more structural change or lowering of your selling and marketing costs going forward?

Alexandre Mérieux - bioMérieux S.A. - Chairman & CEO

I think it's linked to -- it's mainly linked to COVID. The sooner I can travel, the happier I will be. So it's linked to COVID mainly.

Scott Bardo - Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst

So we should assume that SG&A ratios sort of return to historic levels at some point?

Alexandre Mérieux - bioMérieux S.A. - Chairman & CEO

Depending on the sanitary situation next year.

Guillaume Bouhours - bioMérieux S.A. - Executive VP of Purchasing and Information Systems & CFO

At some point, when we can travel.

Operator

And we will now take our next question from Peter Welford with Jefferies.

Peter James Welford - Jefferies LLC, Research Division - Senior Equity Analyst & European Pharmaceuticals Analyst

Yes. A couple of questions. I'll take them in turn. Firstly, just sticking with the sales and marketing, if I may. You mentioned that it was the usual double-digit trend that was decreased for SG&A due to lockdowns. I guess looking beyond there for 2020 and given your plans to expand ex U.S., the BIOFIRE rollout, should we consider that double digit should be a trend that will likely continue for sales and marketing for a few years?

Or I guess if you could perhaps balance that with also some of the factors you mentioned, such as the change in the U.S. pension and the phantom share plan. And perhaps give us some sort of idea how we should be thinking about the sales and marketing trend beyond 2020 if possible.

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

Yes. It's related to the earlier question. But again, the decrease or savings was linked to COVID, to lockdown, to the impossibility to travel, to access customers and to organize congress and events. So again, our ambition remains the same: to continue to expand the base, the customer base in the U.S. but even more -- and even more internationally, outside of the U.S., which will require, of course, sales and marketing, let's say, expenses and trends in a significant way. Then, let's say, the way this becomes reality depends on, yes, the sanitary crisis and when we can travel or reorganize events that potentially are not digital events.

Peter James Welford - *Jefferies LLC, Research Division - Senior Equity Analyst & European Pharmaceuticals Analyst*

Okay. And then the second one, just on BIOFIRE. When we look at the new placements that we've seen during the first half of the year, perhaps you can just talk about -- are the majority of those placements new customers, so new labs or new hospitals or physician offices? Or are the majority of those placements from existing customers looking to increase their testing capacity beyond the -- what they currently have? And also, has there been -- sorry, carry on.

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

Yes. It's clearly a mix. Of course, we are gaining new customers for sure, especially outside of the U.S. But there are also a lot of existing customers that have increased their capacity to do more. We can tell you that approximately for the U.S. only, only the U.S., about 75% of the new installations are with existing customers. That's for U.S.

Operator

(Operator Instructions) We will now take our next question from Manon Coulon with Erasmus Gestion.

Manon Coulon;Erasmus Gestion;Analyst

I have 2. Well, first, on immunoassay microbiology industry. Could you give us maybe the exit rate, I mean the growth in these 3 segments in June?

Second question would be on BioFire Defense. On the COVID tests that you sell to the Department of Defense, can you remind me what the agreement you have with them? I'm just thinking that -- could they maybe at some point switch for the ultra-fast summary conversion of the PCR test? I mean BioVax now -- the BioVax now solution?

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

Okay. Maybe just the trends on the micro and immunoassay, I think end of June, it was minus 4% for micro.

Guillaume Bouhours - *bioMérieux S.A. - Executive VP of Purchasing and Information Systems & CFO*

Yes, but I think the question was on the month of June. So probably, we don't give the month of June, but just maybe a comment. As you have seen, so microbiology for Q2 was at minus 14%, immunoassay at minus 18%, which obviously, Q2 is the most impacted, with both Europe under lockdown most of the period, U.S. under either lockdown or measures, Latin America, India, et cetera.

So Q2 was the most impacted. So when we monitor internally the speed of recovery, what we were discussing earlier, we kind of look at how we get back from there. And as we said, it's contracted. It's slow recovery. So even without giving you a figure, it's a bit better, let's say, June and then July, but not a fast recovery at all, probably because, again, hospital traffic has not fully recovered and lockdown measures in different countries reduced also maybe [ID] transmissions.

Your other question was?

Manon Coulon;Erasmus Gestion;Analyst

The other question was on the Department of Defense agreement and BIOFIRE agreement. Can you refresh my memory on what is it exactly? Because I'm just thinking that now they have a...

Guillaume Bouhours - *bioMérieux S.A. - Executive VP of Purchasing and Information Systems & CFO*

I'm not sure what you...

Manon Coulon;Erasmus Gestion;Analyst

Can they switch from your solution to other solution?

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

There is no link with (inaudible). I don't understand why you switch -- how can they switch. Anyway, in broad terms, so BioFire Defense is a specific fab with strong links with DOD that existed before we acquired BIOFIRE and remain, so specific contracts with the DOD. So in this case, actually, the DOD asked for development of the COVID test and funded it. As I said in Q1, we were able to actually develop it very fast. That led to this single COVID test that was sold and is still sold to the DOD, and that's our -- the main term.

Guillaume Bouhours - *bioMérieux S.A. - Executive VP of Purchasing and Information Systems & CFO*

And they also funded recently an increase in the capacity. So it means that they are interested in continuing to be supplied by BioFire Defense.

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

Yes. But we cannot really give more details on that. Yes. These are the broad terms. And as I said, this represented EUR 40 million revenues, so pretty significant compared to the past, in H1.

Operator

We will now take our next question from Christophe Ganet with ODDO.

Christophe-Raphael Ganet - *ODDO BHF Corporate & Markets, Research Division - Head of Equity Research*

Can you hear me correctly?

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

Yes.

Christophe-Raphael Ganet - *ODDO BHF Corporate & Markets, Research Division - Head of Equity Research*

Perfect. Actually 3 of them, mainly qualitative answers requested. The first one would be, how would you qualify maybe region-by-region the gap between demand and supply currently for COVID tests? And what's your view in terms of overcapacity, undercapacity, given what we have seen as approved tests on the market? That's one.

Second question would be related to your guidance. I'm wondering if the biggest reason why you haven't precised your guidance is related to price evolution related to market share competition or specific political decision. That's the second question.

And the last question, maybe a more general question regarding the current position now of bioMérieux. Would you consider that after this sanitary crisis, the global competitiveness of bioMérieux has increased, has stabilized or has declined and why?

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

Which one to take? I think the reason for the guidance, it's not linked to price or volume. I think it's linked, I would say, to some uncertainties on the market. It's a very volatile environment. So the demand is there for molecular, but it's difficult to predict the rest. So this is more linked to that to make sure that we don't -- we have the facility to follow the market evolution.

Your last question, I believe bioMérieux, but I would say, maybe diagnostic companies will be stronger because I think this crisis has shown the value of diagnostics. It's all in the case of a pandemic but also in the [role] of thinking of patients. And I believe also that we have increased our positioning in molecular, which is a very promising technology in that space. So I would say that we should be with stronger positions. But let's wait for the market dynamics and what comes after COVID. But for us, it's a -- for bioMérieux, I think it's a recognition of the value of diagnostic.

And the first question, the gap demand has evolved a bit. I would say now we need tests. We need tests. I think we are sitting with a strong demand for our -- I believe the more test available on the market, the better it will be to go back to normalized and to use the trace, isolate and detect, but it takes time now to get some result sometimes. So it's good to have more tests.

Operator

And we will now take a follow-up question from Scott Bardo with Berenberg.

Scott Bardo - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

A question just related to progress with the BIOFIRE approval, FILMARRAY approval in China. I understand that there's been a lot of flexibility from the regulatory authorities, particularly in this COVID environment. And I wonder whether that's enabled some more momentum with approval in this important growth region? If you can comment on progress there, please, that would be appreciated.

Second question, please. And again, I appreciate you're not giving a quantitative guidance, but if you could help me with the logic path? If one is seeing some recovery in your routine business, microbiology and immunoassay, industrial application and your expanding capacities for BIOFIRE pouches, could that indeed mean that we see accelerated growth to what we've seen in the first half -- in the second half of the year? Would you agree with that statement? Or if not, could you please provide some reasons why?

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

I think the 16% growth is quite -- it's linked, I would say, to exceptional circumstances. So I wouldn't use this as a -- we don't extrapolate this for the coming years for bioMérieux. And the recovery, to do it at this stage, we told you we don't see strong signs of recovery on the rest. So we don't expect things to happen overnight or for 1 month to -- I forgot the first question.

Guillaume Bouhours - *bioMérieux S.A. - Executive VP of Purchasing and Information Systems & CFO*

BIOFIRE in China.

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

BIOFIRE in China. No specific progress to report on the validation or the certification or the figure at this stage.

Guillaume Bouhours - *bioMérieux S.A. - Executive VP of Purchasing and Information Systems & CFO*

(inaudible) by the slowdown.

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

Yes. There are clinical trials for this. So no boost from this side regarding the clearance.

Sylvain Morgeau - *bioMérieux S.A. - IR*

Maybe we will take a couple of questions from the webcast. The first one was the recovery trend in bacteriology in industrial application in recent weeks versus the end of lockdown. That's coming from Murielle at HSBC and the CapEx intensity that we have to expect for H2.

Guillaume Bouhours - *bioMérieux S.A. - Executive VP of Purchasing and Information Systems & CFO*

So the recovery in immuno and microbiology, I think we commented already that we see some recovery as compared to the Q2 trend, but a slow recovery, not at all back to normal in July, August on these ranges.

CapEx. CapEx should be probably sustained still and probably at a similar level overall than H1.

Sylvain Morgeau - *bioMérieux S.A. - IR*

A second question from (inaudible). Why was there a sequential decline in sales of BIOFIRE in Q2, about EUR 225 million from EUR 265 million in Q1? Was it due to a net decrease as there were more test COVID to singles like tests before the launch of RP including non-COVID?

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

So it's actually -- no, it's not price. Price was very stable, actually. It's more a question of inventory and capacity on our side to manufacture. So we ended the year 2019 with a pretty high inventory. I think that's also something we commented with you. So high inventory, especially on RP, to prepare for the flu season. And actually, these were totally sold, especially in, I think, March, April, when RP was used, RP without COVID as a first line, let's say, detection or negative detection of non-COVID patients. So that boosted actually our Q1 revenues.

And then in Q2, we also had the switch effect. We had a month of strange revenues, where we announced the launch of RP2.1. And suddenly, the demand moved massively and very quickly from RP without COVID to RP2.1 with COVID. So that explains also maybe a slight time line of about 2 weeks, I think, in Q2.

Sylvain Morgeau - *bioMérieux S.A. - IR*

And then we have a question from Dariusz from Kepler, but I guess he's also queuing on the phone, so maybe we can switch to the phone.

Dariusz Ubik - *Kepler Cheuvreux, Research Division - Equity Research Analyst*

It's Dariusz Ubik from Kepler Cheuvreux. Two...

Sylvain Morgeau - *bioMérieux S.A. - IR*

We can't hear you very well. Can you speak a little bit louder, please?

Dariusz Ubik - *Kepler Cheuvreux, Research Division - Equity Research Analyst*

Is it any better now or...

Guillaume Bouhours - *bioMérieux S.A. - Executive VP of Purchasing and Information Systems & CFO*

It's okay.

Dariusz Ubik - *Kepler Cheuvreux, Research Division - Equity Research Analyst*

It's Dariusz Ubik from Kepler Cheuvreux. Two, if I may. My first question would be on the positioning of different testing alternatives. And what's your view on what populations or what applications do you see for the antigen test? And maybe where do you think that PCR tests are absolutely necessary? And maybe also positioning all of multiplex increase?

And my second question, if you could please share your view on what is the risk that the FILMARRAY instruments will no longer be used once the pandemic period is over?

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

Just by pushing as a test, I would say, for me, the most additional value, I believe the most comprehensive test is done with FILMARRAY. It's done with FILMARRAY. This is where you get the most indication. It is also important for showing symptoms. I believe PCR today is a standard thing in the lab, so it will remain. And this new antigen test is using a different technology with different, I believe, performance. But I think it can be useful. But if I understand clearly, it's for people without symptoms at this -- with symptoms at this stage. So it's a bit different. I believe there will be room for everyone. But because medical value, I believe, will be for the syndromic one.

Guillaume Bouhours - *bioMérieux S.A. - Executive VP of Purchasing and Information Systems & CFO*

The second question was about the risk that FILMARRAY instruments will no longer be used after the pandemic.

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

We don't know. Plus today, the focus is, of course, a lot on RP2.1. But we have a very comprehensive range of tests for FILMARRAY. We have gastrointestinal. We have meningitis. We have a pneumonia test. So that's -- it's a menu impact that we have with the FILMARRAY. There, the focus is on RP, but the menu is much, much broader with strong indications for other type of disease.

Operator

And we will now take a follow-up question from Delphine Le Louet with Societe General.

Delphine Le Louet - *Societe Generale Cross Asset Research - Equity Analyst*

Yes. 2 additional question. One regarding the industrial application. Can you give us the sense of the business? I mean Q2 was poor, and effectively, we -- everybody understand that. What do we see in that space since summertime? Any recovery? And can you quantify that or clarify this recovery?

Secondly, on the European business. It sounds like very, very strange for a European company not to be more present in Europe and especially regarding BIOFIRE. How do you explain that? What's your take-up from the discussion you have with the government? Everyone is in dire need for testing everywhere. And it's a bit difficult in understanding, at least to my point of view, why Europe is not more reactive with a European company like yours and why we have such a performance in Europe. Can you elaborate a bit on this one?

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

Yes. We have a good growth of FILMARRAY in Europe. You don't see the same results as we see in the U.S., in the Americas because in the Europe, we are more impacted by the decline of immunoassay into the routine testing, business presence also (inaudible) the position. But FILMARRAY is increasing in a -- quite steadily, I would say, with the COVID in Europe. It's not at the level of the U.S. for many reasons. It could be reimbursement. The focus also on the value-based health care, which I believe is stronger in the U.S. than it is in some countries in that in Europe. But this is -- I think the crisis that has or is accelerating the penetration of FILMARRAY in Europe.

Regarding your question on -- too early to tell for food business because, as we mentioned, I think part of the business which is into catering or in France, restauration collective, has not really started yet again. So we'll have to monitor this. It could be -- we expect things to improve, but we have to monitor.

Operator

And we will now take a follow-up question from Manon Coulon with Erasmus Gestion.

Manon Coulon;Erasmus Gestion;Analyst

Just one for me, please. Looking at your BIOFIRE system installed, looking at your installed base, do you know the average capacity utilization rate before COVID? And what is the capacity utilization rate today?

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

I don't think we have looked at it like this. We don't communicate it externally. It has increased for sure. And that's why we explained earlier that a lot of our existing customers have increased their capacity by buying new BIOFIRE instruments. So yes, the consumption has increased for instruments.

Sylvain Morgeau - *bioMérieux S.A. - IR*

And maybe we have a last question coming from the webcast. And what is the installed base potential for BIOFIRE in the U.S. and ex U.S.? And where do we stand regarding the market penetration?

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

I don't think we will be quantitative on this. But from a qualitative point of view, as we said, we believe there's potentially still a lot of growth outside of the U.S. Clearly, we are continuing to gain a lot of new customers in Europe, in Latin America. There's still a lot to grow, for sure, in Asia Pacific. By the way, Japan that we entered more recently proved really good success. Australia as well, also entered maybe more recently. So clearly, still a lot to gain, and in the U.S. probably as well, even though it's more difficult to say because our penetration is, of course, much stronger. So that's something to see when all this settles in the U.S.

Sylvain Morgeau - *bioMérieux S.A. - IR*

Very good. Thank you very much. I think we don't have any more question both from the call and from the webcast.

Thank you, everyone, for attending this meeting, for very good interactions. And we're looking forward to speaking to you in the next couple of days or weeks for the Q2 results.

Guillaume Bouhours - *bioMérieux S.A. - Executive VP of Purchasing and Information Systems & CFO*

Q3 results (inaudible).

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

Thank you very much. Thank you.

Guillaume Bouhours - *bioMérieux S.A. - Executive VP of Purchasing and Information Systems & CFO*

Thank you.

Alexandre Mérieux - *bioMérieux S.A. - Chairman & CEO*

Bye.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

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