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PRESENTATION

Operator

Good day, and welcome to the bioMérieux's fourth-quarter sales and full-year 2024 results conference call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Aymeric Fichet. Please go ahead.

Aymeric Fichet - Biomerieux SA - Investor Relations

Thanks. So good afternoon, everyone, and thank you for joining us to review the bioMérieux 2024 financial performance. I'm on line with Pierre Boulud, CEO; together with Guillaume Bouhours, CFO.

Before handing the call over to Pierre and Guillaume, please note that this conference call will include forward-looking statements that may change or be modified due to uncertainties and risks related to the company's environment. Accordingly, we cannot give any assurance as to whether we will achieve these objectives. I also remind you that today's call is being recorded and that a replay will be available on our website.

I will now hand the call over to Pierre and then we will open the call to discussion and questions.

Pierre Boulud - Biomerieux SA - Chief Executive Officer, Member of the Executive Board

Thank you, Aymeric. Good day, everyone. Good morning. So let me start with a review of our 2024 business. So first of all, as you know, this is the first year of delivery of the GO•28 plan that we disclosed to the market almost a year ago.

Also first full year for me as CEO of the company. And I'm very glad to report back that on all four dimensions of the GO•28 plan, we are either at target or above the target. So in terms of sales growth, we have a 7% sales growth, compounded growth rate over the next five years. We've achieved 10.3%. In terms of profitability improvement, we've increased profit by 20% at constant exchange rates.

In terms of engagement for our teams, we have actually reached our target, which is to be in the top quartile in terms of engagement of our employees. And finally, the responsibility dimension of the GO•28 plan. We've managed to reduce our greenhouse gas emissions by 13% in absolute terms versus 2019.

So if we go into the numbers, again, a very strong sales performance, a little bit above the revised guidance, 10.3%, driven -- I'll come back to that, by the four growth engines of GO•28. Profitability improvement is above the revised target that was between 12% and 17%, a 20% improvement in 2024, very much supported by the GO•Simple improvement that we've initiated in 2024.

And finally, I'd like to highlight the strong performance in terms of free cash flow, EUR330 million, almost tripling the free cash flow generation that we had in 2023. So all 3 components point towards a very strong financial performance in 2024.

Now if I move into, more specifically, our sales growth drivers. So the first growth driver, as you know, is our BIOFIRE non-respiratory panels. I won't read through all the elements that show in the slide, but I will highlight three of them.

First of all, we -- our cross-selling strategy that we've implemented in the last few years has been working very well in 2024, actually at the same pace than in 2023, improving by 4 percentage points, for instance, the percentage of customers using at least three panels. So we're seeing a very strong continuous execution of that cross-selling strategy.

The second element I would like to highlight is, in terms of new units, I mean as you all know, we are by far the market leader in syndromic testing, be it in sales, be it in installed base. The good news of 2024 is that in terms of new clients or new capacity for existing clients, nobody has installed more units than us in 2024. So still, by far, the market leader in terms of customer expansion.

And finally, continuous innovation, very glad to report that we have two new panels that were approved end of '24, very beginning of '25, tropical fever panel and a new GI midplex panel that allows to address an additional segment of GI patients.

The second growth driver is SPOTFIRE. So for SPOTFIRE, we have actually exceeded our sales guidance that was EUR80 million for 2024, reaching EUR95 million, very glad we've already shared in January the instrument installations in Q4. So after 250 in Q2, 600 in Q3, reaching 900 in Q4, we're seeing a very strong adoption and very exciting traction with regards to SPOTFIRE. And that number allows us to confirm our EUR450 million target for 2028.

The third growth driver, microbiology. We are at the top end of the guidance range that we gave, 6% to 8% in the context of GO•28, slightly above, 8.3%. This year, very much driven by reagent growth because as we've had the opportunity to share in 2024. The new instrument sales in stations have been a little bit slower across all our product ranges for bioMérieux, BIOFIRE, microbiology, VIDAS and industrial applications. So 13% sales growth, demonstrating the value of the use of bioMérieux reagents on our instruments. We are very happy with that together with a good price increase.

The second element I would like to highlight is we keep innovating into this market, sustaining market growth. And probably the highlight of 2024 for us has been the FDA approval of VITEK REVEAL that allows to launch end of '24, beginning of '25, VITEK REVEAL solution in the US.

Finally, the fourth growth driver relates to industrial applications. Again, on the high side of the range, 7% to 9%, we're at 9% growth. Again, very much driven by reagent sales, 12%, and price increase, very positive, allowing and demonstrating the value of the solution.

The other element I would like to highlight for this growth driver is that innovation is also supporting the growth in this segment. GENE-UP is the molecular solution that allows for the food market to improve our diagnostics capabilities. And in pharma, 40% of the sales are coming from recent product launches. So very reassuring factor for me, showing that our capacity to generate sales growth for the future.

And then there are obviously two important segments, even though they are not a growth driver where what we want to do is maximize the value of the installed base that we have. So on BIOFIRE, obviously, respiratory panels are a big chunk of our sales. We are planning to have flat sales. We

are -- that's one of the very good surprises we had in 2024, very strong sales performance in the context of competition that you all know is growing and showing very limited price erosion. So really demonstrating the value and the capacity to be competitive in this syndromic market.

The other area we're going to maximize the value of the installed base is VIDAS. It's probably one of the weaker points for 2024, together with new instruments. We want it to be flat. We are low single digits declining, minus 5%. We're actually flat excluding PCT, but we keep declining on PCT by 20%-ish so it translates into an overall decline of 5% in 2024.

During this period, in 2024, we've launched two new panels. One is traumatic brain injury, the other one is B12.

Moving on to our profitability improvement. So Guillaume will come back to the detailed numbers on the P&L, but I wanted to give you a little bit more qualitative perspective on our GO.Simple initiative. So even though not every action that we've identified, of course, has been completed in 2024, it's a five-year plan, but I'm very glad to report back that 80% of the 50-plus initiatives to improve our profitability have already been initiated. We are working on them and they're already starting to deliver tangible outcomes.

So I'll give you three elements. The first one is, as you know, we've been working in the last few years on BIOFIRE automation. We have fully validated respiratory panel automation. And we are now in the process of expanding our manufacturing capacity, installing the new lines. So that the panels are fully manufactured in a fully automated model. And it's already, at the end of 2024, 10% BIOFIRE pouches that are fully automated. And of course, it will increase in the next few years, supporting our profitability improvement target.

The second element, we're also working on managing in a better way our G&A cost. And I'm very glad to report that we have generated significant savings with regards to highest nearshoring.

Finally, it's very general. And of course, there are ups and downs, but talking about the headcount of bioMérieux, the number of employees that we have. And of course, it depends by department. But if we look at the overall headcount of bioMérieux, R&D, manufacturing, commercial teams, G&A, we have flat headcount at the end of 2024 when we compare with 2023, which means that we've been able to generate 10% sales growth without increasing the number of employees, which obviously has a financial impact in 2024, but has also an impact moving forward in terms of carry-on impact in 2025. So very positive report on this GO.Simple dimension.

It's been also a busy year, as you know, in terms of product launches. As you know, we invest 12% of our sales in research and development. It's a critical component for us. And for me, as the CEO for the company, it's critical that we maximize the return of that 12% investment. So BIOFIRE, I've just mentioned two new panels announced in the last 12 months.

SPOTFIRE, I remind you that last summer actually, we were capable to launch not only respiratory, but sore throat panel that allows to complement offering for respiratory disease. Microbiology, I've already mentioned the launch of VITEK REVEAL, FDA approval over summer. Immunoassays, two new panels, traumatic brain injury and vitamin B12.

For industrial applications, I wanted to give you two examples in -- for the food market. One is GENE-UP TYPER that allows to better identify the root cause for Listeria contamination for food manufacturers and trusted third party that is also an additional opportunity to work with food manufacturing companies.

Finally, before handing over to Guillaume, a word on the fourth dimension, corporate social responsibility. We've made significant progress over 2024. It's a critical component of our GO-28 ambition. As mentioned, on the positive side, minus 12% of greenhouse gas absolute emission, very much in line with our target to reach minus 50% in 2030. We are making some good progress on different dimensions.

Maybe on the less positive side, it's fair to say that the lost day incident rate or the safety indicator that we are looking at is not where we want it to be. So it's definitely an opportunity for us to improve and to work on in the next few months.

And with this, I hand over with Guillaume, who will give you more granularity on the financial numbers.

Guillaume Bouhours - Biomerieux SA - Chief Financial Officer, Executive Vice President - Purchasing and Information Systems, Member of the Executive Committee

Thank you, Pierre. Hello, everyone. So here, you have a recap. Of course, I will not repeat what Pierre presented already. But the recap of the, let's say, split of the growth for the group.

Just very few comments. You see that now, the whole molecular ranges, BIOFIRE, SPOTFIRE, represents 40%, 37% plus 3% for SPOTFIRE. So overall, 40% of our revenues. And the second big, let's say, family of ranges, microbiology, 33%.

Another comment is that clinical operations. You don't see the sum here, but are 85% of sales and grew 11% organic in 2024, very impressive performance, especially when you compare to market peers that are, let's say, way below that. And industrial applications, we mentioned already, 9%.

In terms of prices, also, if we take everything together, and I'm sure you'll have questions on that. We have a very limited decrease, very limited, actually 1% on respiratory US and very positive, as Pierre mentioned, 4% price increase on microbiology, 6% price increase on industry applications that all contribute to our 10% organic.

So with these few comments, we can look at the more, let's say, geographical view of our sales performance. North America grew 11% organic with, of course, the boost of the biggest part of the SPOTFIRE growth as well as a double-digit respiratory and double-digit non-respiratory in the US.

Latin America is a very dynamic region for us. You see 33%. Of course, that includes hyperinflation from Argentina, which we tend to carve out to see, let's say, a fundamental performance, which is actually 12%, excluding Argentina. So also super strong and dynamic and driven by all the countries and especially on microbiology and BIOFIRE.

EMEA, our second, let's say, core region after the US and North America, pretty dynamic at 7% organic growth, solidly pushed by Central Europe, Spain, France and Middle East in 2024. And as you can read, especially strong on BIOFIRE, which when you combine RP and non-RP, we are together up 20% in EMEA.

Asia Pacific was slightly lower at plus 5% organic with, let's say, more contrasted, let's say, trends in the region. Double-digit growth, very satisfactory in ASEAN, very strong success of SPOTFIRE growth in Japan. And we are glad to report that we are flat actually in China, thanks to the resilience of our microbiology business, which makes the bulk of our China sales, while, of course, and we can come back to that, immunoassay are down in China.

Now turning to the P&L. So below the net sales, gross profit improved at constant exchange rates by 70 bps in terms of margin with several factors there. First, the price increases that we already mentioned, especially on microbiology and industrial application. Second, a favorable mix effect, product mix effect especially with less equipment this year and a higher growth of reagents. But also inside the reagents portfolio, a positive mix.

And also, we can mention a good management of the cost of manufacturing and supply chain. By the way, to make the link with what Pierre mentioned, on the increasing full automation of BIOFIRE manufacturing. This, of course, helps the cost and is part of this improvement of gross margin. All this offsetting, let's not forget that we have higher placement. We'll see that in the CapEx. Higher placement of SPOTFIRE, which of course means higher depreciation as part of gross margin.

Below gross margin, SG&A were up 9.5% on a like-for-like basis, mainly with investment in sales and marketing. And also, we can mention the digitalization of bioMérieux, so it means IS, information systems investments, which also help on efficiency.

R&D is up 7%. And you can see that we are now at the 12.3% of sales invested in our internal innovation in R&D. It's a solid investment, but slightly lower in terms of percentage of sales, in line with our GO•28 ambition.

Overall CEBIT, that is up at constant exchange rate 20% year on year, 150 basis points improvement of the margin at constant exchange rate. And on a reported basis, 10% up and a 30 basis point improvement due to, as we reported and exactly in line with our guidance, an unfavorable foreign exchange of minus EUR59 million.

By the way, we have added a slide to give you also additional maybe visibility or updated visibility, I should say, on the FX effect. So the EUR59 million of '24, about 40% of it is linked to the hyperinflation countries, Argentina and Turkey. And then the rest is linked to a lot of currencies that have moved versus euro. I can mention China impact, Japan, a bit US, but not so much, India, et cetera. That's part of the EUR59 million.

We've updated, on the right for the analysts, the exposure. I remind you that we have, as you can see, for example, a very high exposure on USD on the sales because US are 45% of our sales, but a much lower CEBIT exposure on the USD because we have a high base of cost, be it manufacturing, R&D and functions in the US that is a net roll hedge. So we have much higher or much stronger, let's say, sensitivity to, as you can see, China, India, UK, Japan.

When we take the rates at the end of Feb, so actually one week ago, the simulation for 2025 gives us, let's say, simulated minus EUR30 million or around minus EUR30 million guidance as an impact on CEBIT in 2025.

Now turning to the rest of the P&L below CEBIT. The first element to mention is that we had to book a new impairment, an additional impairment of our China immunoassay entity, Hybiome. I remind everyone, it's a very small immunoassay company that we took control of. We have 87% of the company. It's about EUR20 million, EUR25 million revenue.

So really small. But let's say, the company is slightly growing actually in 2024, so not so bad. But the market of immunoassay, as you probably read, is under very strong price pressure from the authorities and from the competition.

So the prospects for this company are not easy. And we've booked this additional EUR49 million impairment, which you should read. It's not easy, minus [26] in other non-recurring or the tangible part of the impairment and minus [23] is part of the amortization of intangibles.

Just to mention that after this, what is left in terms of net book value of Hybiome in our books is only EUR32 million for, let's say, tangible assets such as real estate and equipment. Net financial expense was slightly more negative than last year, especially due to hyperinflation, let's say, bookings as well as some losses on FX, which is part of hedging.

Income tax rate is very similar to 2023 at 26.6%. Just to mention, when we retreat from one-offs such as the impairment, the recurring tax rate is about 24%. And overall, net income group share is therefore up 21% on the published reported basis and even adjusted from FX, plus 36%.

You have seen and read that in line with our dividend policy that we announced at the Capital Markets Day, the dividend policy is to be around 25% payout ratio. The Board is proposing to the general assembly a dividend increase of 6% to 0.9 per share.

With that, and as Pierre stated, it's an important highlight for the year. We believe the cash flow and a very good performance with a free cash flow of EUR330 million, as Pierre mentioned, almost tripled year-on-year. EBITDA explains a big part of that with EUR90 million or so addition. You see that working capital still on a negative consumption way but much more limited than in 2023.

To explain the key constituents of working capital, we increased our inventory by EUR85 million, partly due to the buildup of equipment inventory for the new launches, such as, of course, SPOTFIRE and several other products that Pierre mentioned, but also to, let's say, follow the activity and the growth of our activities, especially BIOFIRE where we added inventory for the BIOFIRE reagents, which we were very glad to have for the January, February respiratory sales.

Receivables are up, so it's a consumption due to the growth of, let's say, November, December '24 versus '23. No issue on the days of receivables. And the big effect on the other side, positive in the other working capital is due to the increase -- when we say social debt, it's actually a lot about variable compensation, we could say, bonus that are much higher with a very good performance in 2024 and will be paid in March, therefore, in provision at the end '24. So all these elements make the minus 47.

Investments are at, as expected, around 9% of sales. As you can see, almost a similar level as in 2023. We invest mainly, first, on the industrial side to increase the automation on -- in [solexity] for BIOFIRE as well as increasing capacity in many of our sites for future growth that we look forward in the GO+28 plan. And also to mention that as part of this CapEx, we have the placement CapEx of the installed base, the SPOTFIRE equipment, especially with our customers that are growing.

So overall EUR330 million of free cash flow that was spent for business development, some minority stakes in SpinChip, minority in '24 and full acquisition in '25. And the acquisition of LUMED and purchase of treasury shares, just only to cover, let's say, our plans with employees and future plans.

Overall, bioMérieux has a very strong balance sheet at the end of '24, EUR41 million debt, which is almost, let's say, neutral cash debt position and a lot of headroom for potential bolt-on acquisitions, which, by the way, makes us talk about our latest bolt-on acquisition, technology acquisition, SpinChip.

Pierre Boulud - *Biomerieux SA - Chief Executive Officer, Member of the Executive Board*

So just a couple of words. Thank you, Guillaume. Just a couple of words on the SpinChip acquisition that we have signed in January and closed actually in the same month of January. We -- as you know, it's a pre-revenue biotech from Norway, which is developing a very elegant point-of-care immunoassay solution, very easy to use because it uses capillary blood. So you take a drop of blood from your finger.

It's also very adapted to the point-of-care market because it gives results in 10 minutes for high-sensitive troponin for myocardial infarction. And a very good quality test because basically, the quality of the performance that we are seeing that, by the way, was published is similar to what you find in biology laboratories. So with this, we've moved forward with acquiring the company and the welcoming Norwegian colleagues at bioMérieux.

There are two main areas of synergies for us. The first one relates to a point-of-care strategy. We've talked a lot about SPOTFIRE. The idea that with SpinChip, it will complement from a commercial perspective investment with SPOTFIRE for SpinChip.

On the other hand, as I said, it's an immunoassay point-of-care so we can also leverage immuno expertise, immunoassay expertise that we have at bioMérieux, be it manufacturing, be it R&D, to really accelerate and support the development of SpinChip in the global markets.

From a financial perspective, we don't -- we are going to embed the development costs from now on into the 12% of sales that we keep investing every year and that we've communicated to you.

From a sales perspective, the very first launch with the first test high-sensitive troponin should happen in the course of 2026. So it's more a revenue growth driver for post-2028. So no significant change to our perspective for 2028.

And with this, I think I have one slide, my final slide on the outlook for 2025, which I'm sure we'll talk about. So from a sales perspective, we guide towards at least 7% sales growth. So of course, very consistent with what we said in the context of GO+28, but you have to understand, on a higher basis for 2024, since we grew 10% in 2024, we still believe we can grow at least [at the floor] 7% in 2025. I won't go through the detail. Non-RP around above 10%.

Microbiology around 7%. Industry applications around 8% Immunoassays, mostly flat. We expect SPOTFIRE to double sales at EUR190 million and we expect the respiratory panel to be flat, again, building on the fact that we are 12% above what we are seeing at the end of 2023.

From a profitability perspective, again, very similar comments to the sales target, very consistent with GO+28 even though we start from a higher basis with a 20% improvement of CEBIT that we displayed in 2024. It's going to be a combination of sales growth, product mix and OpEx management.

Guillaume mentioned the fact that there will be an exchange rate impact that we expect to be significantly lower than in 2024, but still in the range of EUR30 million. While we do this, we'll keep investing into the business in the growth for the years to come by 2028 and beyond 2028. So we expect to invest between 9% and 10% of our sales into the future of the company.

And with this, Aymeric, I think we've covered the slides and we can open for Q&A.

Aymeric Fichet - *Biomerieux SA - Investor Relations*

Yes.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Aisyah Noor, Morgan Stanley.

Aisyah Noor - *Morgan Stanley - Analyst*

My first one is on the SPOTFIRE sales trend for the fourth quarter. And by the way, thank you for the BIOFIRE and SPOTFIRE revenue disclosure. That's very helpful. So yes, the SPOTFIRE sales, if I do the math, it would imply around EUR40,000 per SPOTFIRE system placed. Is this the right way to extrapolate the pull-through potential per system for 2025? Or is this too simplistic? If you could share with us your thought process to getting to the guidance of EUR190 million for 2025, that would be helpful.

The second question is on the placement trends. So obviously, we saw some volatility in your BIOFIRE placements in Q3 versus Q4 on the back of some cancellations or deactivations. Does your 2025 guidance include some conservatism in the event that this slowdown in equipment growth continues? Or how does your experience from this volatility shape your forecast for BIOFIRE in 2025?

My last question is again on BIOFIRE, but more on pricing dynamics. So are you seeing incremental pricing pressure with the entry of new competition in the US respiratory market in Q4? And what pricing assumption are you building into the guidance for RP and non-RP BIOFIRE in 2025?

Guillaume Bouhours - *Biomerieux SA - Chief Financial Officer, Executive Vice President - Purchasing and Information Systems, Member of the Executive Committee*

Okay. So maybe I can answer. So SPOTFIRE Q4 and actually going forward, that's the most interesting, I guess. As you rightly point, I mean the model is a bit complex. And the reason for that is that we, as you saw and as you know, we have a different type of customers and different channels to market linked to that, the hospital market, which we channel directly, we sell directly to and the outpatient market point-of-care, traditional point-of-care market through McKesson in the US.

The consumption on these different type of customers are different from what we see and pretty different. Even the type of panel, the split between RP 15 and RP 5 is quite different. It's also different. It's not that simple, not just 2 segments, but sometimes even the regions or the states inside the US, depending on, as you know, the patchwork of reimbursement is different.

So the model is not simple. So to your right question about maybe too simplistic. The model is changing, is moving. You can definitely see that the consumption direct per, let's say, the global base of placement is changing quarter-on-quarter. We try to take all this into account in the best way we could and we are very confident with our guidance to be doubling in 2025. But it's -- but we don't -- we want to avoid when -- it's very difficult to detail the full model of simulation, I would say.

Maybe on BIOFIRE pricing. So as I mentioned, the price erosion, actually, I mentioned, RP US is very limited, around minus 1% overall in our portfolio, and it's actually better than that on non-RP. We factored the same level, same similar level in 2025 in our budget and therefore, in our guidance. Placement trend. So your question was more on the SPOTFIRE placement trend or more the bioMérieux equipment?

Aisyah Noor - Morgan Stanley - Analyst

BIOFIRE, which we saw shifted quite a bit from Q3 to Q4. So how does this kind of shape your view on the BIOFIRE trajectory for placements and, I guess, sales in 2025?

Guillaume Bouhours - Biomerieux SA - Chief Financial Officer, Executive Vice President - Purchasing and Information Systems, Member of the Executive Committee

So BIOFIRE overall, as Pierre said, we -- yes, you're right, there is volatility from one quarter to the next. That's why we always say, especially as we are, let's say, medium long-term view company that we don't look really at one specific month or quarter. We look at a bit longer trends.

And that's why when we look at the full year, Pierre mentioned that we are very glad with our additions, which I remind you are net additions. So it includes increase of capacity for some customers, and there are quite a number.

It includes a decrease of capacity for some customers. New, let's say, one customer and, of course, lost customers, but it's all this that make up the plus 1,300 net. And we are very confident to be able to grow the sales with these kind of numbers in '25, as Pierre guided and for the next four years of GO•28.

Operator

Odysseas Manesiotis, BNP Paribas.

Odysseas Manesiotis - BNP Paribas Exane - Analyst

Here for Hugo. So firstly, a bit of a follow-up to Aisyah's question on the BIOFIRE placements, given that you're calculating net additions here. How do you feel about many of your five-year rental reagent contracts signed in 2020 expiring this year? I mean back to the volatility point, is there even a chance that we might see, let's say, negative placements for BIOFIRE in a single quarter around the time where you placed a lot of these sort of pandemic-related testing?

And secondly, a quick one on inventories. Thanks for the detail there, Guillaume. But these have remained quite high relative to your COGS compared to the recent past. I mean I understand that a big part of it is because of plenty of product launches you're going through. But does it make sense to assume that this will be going down quite materially proportionately speaking over '25 to '26?

Pierre Boulud - Biomerieux SA - Chief Executive Officer, Member of the Executive Board

Okay. I'll take it. Thank you, Odysseas. So first question on BIOFIRE placements. And I think what I understand is that you're saying the placement that you saw in 2020 that will expire in 2025, what's going to happen.

So a couple of comments there, maybe three. The first one is, actually, we don't do that many placements on BIOFIRE. They're mostly sales. So there is a thing, good level of renewal of reagent selling that is actually very strong because we have a high proportion of BIOFIRE instruments that are sold. So less volatility, if you wish, that what you see probably in the point-of-care segment.

The second element is we are not pessimistic based on what we're seeing in 2024 in terms of competitiveness versus the competition. We are not pessimistic about 2025 and we feel we can still hold a very significant share.

The third element that makes us relatively confident is that you mentioned the fact that we have limited price erosion and probably the most competitive intensive panel, which is ERP. So we believe that we can hold share while maintaining prices. So yes, that's what I would say to answer your question on placements of BIOFIRE done in 2020.

On your inventory question, you're right to say we've still increased -- even though we have significantly improved the cash flow generation, we have still increased a little bit our stock, not at the same pace in 2023, but still. We don't give a guidance on stock or cash flow, as you know.

And we are working on improving the level of stock that we have. The teams are working on it. There are a number of actions that are being initiated. So even though we don't guide for that, I want to reassure you that this is something we are working on and looking at very closely.

Operator

Marianne Bulot, Bank of America.

Marianne Bulot - Bank of America - Analyst

Just two questions for me. The first one is, could you talk in the respiratory season that you're seeing so far in Q1, is it fair to -- we can assume a sequential growth versus the Q4 numbers given the season was a little bit late into this year? And also wondering if you have seen some stocking from your customers on the respiratory side in Q4?

And then my second question, you had a good contribution from other income, which is R&D tax credit to your EBIT line in 2024. And I think you mentioned the R&D tax credit as well in the working capital movements. So just wondering if you could explain a little bit what it refers to and whether we should consider it to be a recurring item going forward?

Pierre Boulud - Biomerieux SA - Chief Executive Officer, Member of the Executive Board

Thank you, Marianne. So I'll take the first one. Guillaume try to answer your question for the second one. So respiratory season, the big usual question, I would say, because as you pointed out, it has an impact. So for us, you have to understand the respiratory season has an impact in Q1 and Q4.

So those are the two quarters where we see the impact. As you could see, Q4 was strong from a respiratory season perspective, and it shows in our sales and it's likely -- I mean, we are not at the end of Q1, but what we're seeing is Q1 is relatively stronger.

What we have accounted for is Q2, Q3 being back to normal and Q4 to be moderate in 2025. So moderate comparing with high respiratory season in Q4 '24. Overall, that will be a favorable comparison in Q1, a less favorable comparison in Q4. And to your question on stocking. No, the answer is a straight no. We haven't seen any specific stocking impact in December that will have an impact on January sales.

In the R&D tax credit question, it's a bit complicated, but I leave it to Guillaume.

Guillaume Bouhours - Biomerieux SA - Chief Financial Officer, Executive Vice President - Purchasing and Information Systems, Member of the Executive Committee

Thank you. No problem. So definitely, you are -- for everyone, you are referring to other income and expenses, which is a positive line in our P&L, thanks to already tax credits and specific grants. This line was, as you can see, much higher in 2024. We had a special, let's say, one-off grants and the additional recognition of R&D tax credit, especially positive in 2024. It should come back in 2025, probably lower, I would say, slightly closer to the earlier years.

Marianne Bulot - Bank of America - Analyst

Okay. And just to make sure I understand clearly on the respiratory season. So Q1 should be sequentially better than Q4 in terms of the strength of the season, Q1 '25, Q4 2024?

Pierre Boulud - Biomerieux SA - Chief Executive Officer, Member of the Executive Board

Okay. No. Sorry, you didn't get me. Q1 and Q4 are both strong respiratory seasons. They are very, very high for -- a relatively high for those two quarters, not stronger Q1 than Q4.

Operator

Maja Pataki, Kepler.

Maja Pataki - Kepler Cheuvreux - Analyst

I actually have a couple, if I may. I would just like to start with SPOTFIRE. You've indicated that 85% of the instruments placed in the US are outside of the hospitals. Now I was wondering if you'd be able to provide us a bit more color on how much of your reagent revenues of SPOTFIRE were on the 5-plex versus the 15-plex? And also, how much of your revenues were in hospitals and more in the outside hospital point-of-care setting? That's number one.

Number two is a question related to the recommendation of the CDC that was put out beginning of this year that is supporting or basically indicating that hospitalized patients, particularly in the ICU, should get a subtyping of influenza to allow for further subtyping of potential avian flu cases. Do you believe or have you seen any support for respiratory syndromic high plex testing in the US coming from this CDC recommendation?

Third question, you still continue to have good placements in the US. And I was wondering, is it the entire portfolio that is driving the interest from your customers? Or what is it that keeps you as an interesting partner within the US setting?

And then lastly, a very big picture question that you may or may not answer at this point in time. But looking at what is happening currently in the US with the COGS to USA with statements coming from RF Kennedy Jr. How do you anticipate this to impact the infectious disease market nearer term and longer term?

Pierre Boulud - Biomerieux SA - Chief Executive Officer, Member of the Executive Board

Okay. So let's -- Maja, let me start with the first question, which is SPOTFIRE, give you a little bit more granularity. So. Our split of 5-plex, 15-plex in value is 60% of the sales are on the 15-plex, 60%, and 40% are on the 5-plex. So that's the split in value, obviously, since we have different price, volume is slightly different.

And to -- and Guillaume mentioned that when we were talking about the model for SPOTFIRE, obviously, this mix is changing and we are seeing, to your point, significantly more 5-plex use in -- outside of the hospital and significantly more 15-plex use inside the hospital.

So the setting mix has an impact on this product mix. Even though I have to say, we are also seeing a very decent use in outpatient settings for 15-plex. The reimbursement is sometimes possible. It depends on the location.

If you're far away from the hospital, if you are immunocompromised patient. So there are actually opportunities for the patients to have access even outside of the hospital to 15-plex.

And I mean we kind of keep saying, you have to keep in mind, we've been 18 months in these markets. Our installed base is relatively fresh. So we're still learning the market. And that's why we don't give too many details because there are so many drivers into the model that it's easy to make mistakes in extrapolations.

So when we see our installed base more stabilized, the mix of products more stable, of course, we'll be in a better position to share more granular numbers. But at this stage, this is what we can share with you.

CDC and the kind of what they issued in terms of guidelines. Maybe I should say that we don't see a significant impact on syndromic testing. What we can do is the subtyping allows to have with a 15-plex and regulatory RP -- regular RP panel. We can actually already subtype between FLUA and FLUB. And in case of avian flu, we can also identify it even though we cannot subtype it.

It shows that FLUA. So we think we are relatively well equipped in case there is more implications. But at this stage, we don't see a significant business impact for us based on CDC guidelines.

Your third question was relating to placement in the US, but I'm not sure if you are speaking in general of bioMérieux business, BIOFIRE or SPOTFIRE?

Maja Pataki - *Kepler Cheuvreux - Analyst*

It's on BIOFIRE. Given the fact that your competition has stepped up last year with panel launches but also [DISOR] being new in the market. I was wondering, what is it that the hospitals are saying, like, okay, that's why we go with BIOFIRE despite the fact that we have a cheaper alternative or different kind of alternatives in the market?

Pierre Boulud - *Biomerieux SA - Chief Executive Officer, Member of the Executive Board*

Okay. So it's actually a competition question on BIOFIRE. As you're saying, the numbers don't lie, right? There are lots of talks in the last 12 months on renewed competition, and we've kept saying that we have a very competitive syndromic offering in the market be it time to results, be it menu, be it quality of service, reliability of the instruments.

So what we see in the market, and I think it's confirmed by the numbers, is that we have a very strong position in the market. Maybe I'd like to highlight three elements that for me are elements of reassurance with regards to the competitiveness of BIOFIRE. The first one is our cross-selling strategy is actually working as well in 2024 as it was in 2023. So we keep increasing the proportion of clients that use at least three banners, which shows that the new launches have not changed that dynamic.

The second element I would like to highlight is our growth in terms of new instruments is still, even though the market was lower, very dynamic and at least based on the information that is disclosed in the market by far, we are the market leader in new installations. So I'm not even talking about reagents, new installations.

And the third element is we have very limited price erosion. Guillaume mentioned 1% on RP, very limited on the other panels, which means that we managed to do all of that without discounting and compromising on our price points.

So as we've said repeatedly in the last few quarters, we are very confident in our capacity to hold a very strong market share. And of course, we have a formidable competitor. So we are looking very closely on the situation and monitoring it on a regular basis. And if and when we see there is a need for a change, we'll activate them. But so far, I think so good.

Finally, the kind of big picture question on new Trump administration and potential impact. Maybe first general comment, which is new news every day, I would say. So a lot of different talks, a lot of -- and sometimes information that are not always confirmed.

So we keep monitoring the situation. But in general, I would say, too early to say if there is any impact for us because we haven't seen yet very concrete measures. Probably the one topic that is most talked about these days is potential tariffs. And as you know, there are now very active discussions with regards to tariffs with Canada and Mexico and already in place for China.

So as far as bioMérieux is concerned, it's 85% of our sales are manufactured in the US. As you know, BIOFIRE is 100% manufactured in the US SPOTFIRE, 100% manufactured in the US. Microbiology, VITEK REVEAL 100% manufactured in the US. So because of our very strong manufacturing and R&D footprint in the US, our exposure to US tariffs is relatively moderate.

But of course, I mean, a very evolving situation. So we monitor it very closely, and we'll make sure with the supply chain and manufacturing teams that whatever happens, we'll try to make sure that patients keep having access to our diagnostic solutions.

Aymeric Fichet - *Biomerieux SA - Investor Relations*

Okay. Sorry, [Roberto], we go for one question on the app. So actually, two questions from Arnaud Cadart, CIC. The first one is, are you increasing prices in non-US countries to offset the revaluation of US dollar? The second one is, will you comment on the patent dispute with QIAGEN on the tuberculosis and remind us of the size of this business?

Unidentified Company Representative

Not patient, but patent?

Aymeric Fichet - *Biomerieux SA - Investor Relations*

Patent, patent. Sorry.

Pierre Boulud - *Biomerieux SA - Chief Executive Officer, Member of the Executive Board*

You take the price question, Guillaume.

Guillaume Bouhours - *Biomerieux SA - Chief Financial Officer, Executive Vice President - Purchasing and Information Systems, Member of the Executive Committee*

Yes, of course. So the price question is about the countries with the devaluation. So as we already mentioned in previous calls, especially on hyperinflation countries, and I think we detailed in H1 results. We are able to increase prices in Argentina and Turkey notably to be able to offset the devaluation of the currency and therefore, the increasing costs from euro based or US dollar base.

And we do confirm that for the full year for those countries, for the hyperinflation countries. Then for some countries that have, let's say, more moderate fluctuation and devaluation such as India, China or Japan, it's more difficult, and we are not always able to increase prices in those competitive markets to offset the devaluation.

Pierre Boulud - *Biomerieux SA - Chief Executive Officer, Member of the Executive Board*

There is another one just as we are on FX. And then we move to QIAGEN patent dispute. There was there other question online on the expected FX impact on the top line and the CEBIT for 2025. So just -- and especially the question is on US dollar.

Guillaume Bouhours - *Biomerieux SA - Chief Financial Officer, Executive Vice President - Purchasing and Information Systems, Member of the Executive Committee*

So just on the top line, again, we have a huge exposure on US dollar, 45% of our revenues. I didn't mention -- it's very difficult for us to guide because it's moving very fast. And actually, you see the US dollar moved from [1.04 to 1.08] in a week, which is really an amazing swing.

So seen from today, but again, it moves faster for the top line. I would say the sales impact would be kind of around neutral on our top line, FX impact on our top line neutral. It's not a guidance because that changes a lot. We are not hedged on the top line, and it can move very fast.

Our guidance is really on the CEBIT net impact because for the US dollar, we are -- we have a natural hedging of localized costs that are very significant in the US. We hedge a number of the exposure, at least for one year where we can hedge on most of the rest of the world.

And we have, let's say, of course, remaining exposure. But overall, we have this minus EUR30 million -- around minus EUR30 million FX guidance for CEBIT impact in 2025.

And now moving to the QIAGEN patent topic.

Pierre Boulud - *Biomerieux SA - Chief Executive Officer, Member of the Executive Board*

QIAGEN patent, I won't be able to say much, but I can share a few comments. First of all, maybe a general comment, which is bioMérieux, of course, I mean we spend 12% of our sales in research and development. We generate a lot of intellectual property and we are very committed to protecting the intellectual property rights of any third party. I should state that first because it's an important topic for us and a very important topic, I think, for the industry.

The second element is we don't actually know much more than you guys because to our knowledge, as of today, the proceedings have not started. So what I can tell you is bioMérieux has not been officially been served with anything. So we don't have the material supporting the disputes from QIAGEN.

The one element we believe we understand is that it would relate to a TB IGRA test, related to tuberculosis test. If that were the case, it stands for less than 0.1% of our sales. So definitely not material. But again, we need to know more about what QIAGEN is concerned with.

And by the way, we're a little bit surprised of how the information was circulated in the context where we don't even know what the dispute is all about. That's what we can say on the topic.

Aymeric Fichet - *Biomerieux SA - Investor Relations*

Okay. We can maybe come back to live questions.

Operator

Natalia Webster, RBC.

Natalia Webster - *RBC Capital Markets - Analyst*

I have a couple, please. The first one is to follow up on SPOTFIRE. You saw better-than-expected revenues in 2024 and guiding to double -- more than double revenues in 2025. Are you able to give us an idea of what you expect in terms of phasing across 2026 to 2028 to reach that EUR450 million target by 2028? Does that look a bit conservative now? Or are you expecting some impact from more players entering the market later this year and into 2026?

My second question is around the lower instrument sales in microbiology and industrial applications in particular. Do you expect this to pick up into 2025? And if so, are you expecting some mix reversal impact on your margin if instruments start to perform better?

And then finally, in terms of CEBIT growth and margins, are you able to give us an idea on the factors that contribute to phasing to hit that 20% margin target by 2028? You say more than 80% of your initiatives have already started and some are already delivering. But do you expect more implementation costs through this year in 2026?

Pierre Boulud - *Biomerieux SA - Chief Executive Officer, Member of the Executive Board*

Okay. Thank you, Natalia. So I'll start with the first two questions. Guillaume will take the third one. So SPOTFIRE, I mean to your point, it's a long way to 2028.

So what we see for us is the EUR190 million is very much on the right trajectory to reach EUR450 million in 2028. We don't give a specific guidance for the following year, '26 and '27. I mean there are multiple factors that can play in favor or against the upside and downside with regards to what can happen between now and 2028. So for now, we think it's more reasonable and prudent to keep the 2028 guidance at EUR450 million based on what we're seeing in the market. That's the answer to your first question.

The second question, low instrument sales in 2024. It's fair to say that -- let me say it this way, what we've seen post-COVID in 2023 is a bit of a rebound in terms of instruments because, I mean, for obvious reasons, our clients were very much focused on dealing with COVID during the years 2020 to 2022. And in 2023, we've seen a bit of significant amount of investments for -- and we benefited from it for microbiology and industrial applications and also, by the way, molecular.

In 2024, it went lower, probably a bit in contrast with the higher 2023. So probably the -- what we kind of assume for 2025 is to come back to something neutral in between '23 and '24. So a little bit better than '24, maybe not as high as '23, but getting a little bit better than 2024.

With regards to profitability and how we get to the 20% in 2028. Maybe, Guillaume, you can give some color?

Guillaume Bouhours - *Biomerieux SA - Chief Financial Officer, Executive Vice President - Purchasing and Information Systems, Member of the Executive Committee*

Yes, it was a pleasure. So I remind you and everyone, so the 20% at constant exchange rates. So it was the commitment to improve by 340 basis points, which, when we look at the 150 already done in 2024 is a significant part of the way. But still four years to go and a lot to improve. As we stated during Capital Markets Day, the earlier years, of course, we have some implementation costs.

I mean it can be systems, the information systems. It can be a start-up cost of new organization, new departments, et cetera. So implementation costs that then will generate savings and efficiency. We have stated some in '24, probably more in '25. It can mean several millions of that type that we included in our budget and therefore in our guidance for 2025.

We remain very committed, as we said, to the minimum 10% CEBIT improvement year-on-year, which we confirmed for 2025 despite a very strong achievement in '24. So actually on a much higher base, we confirm still a minimum 10% CEBIT improvement, and we'll pursue that for the plan to reach the 20% margin improvement.

Operator

Ed Hall, Stifel.

Edward Hall - *Stifel Financial Corp. - Analyst*

I guess my first question would just be coming back to the respiratory panel in the fourth quarter. I guess a similar question to what you answered before in regards to prebuying, and I think I appreciate you've cleared that up. But on our math, I think influenza-like symptoms were down. So I was just curious, what is the driver for this sort of strong end to the year? And then just a couple of questions, financial questions.

First one would just be on progress in working capital. Obviously, congrats on the free cash flow number that's very strong. How much more is that to go in this regard? And then finally, just on sort of the FX headwind, just looking at our math, it should be less than maybe the EUR30 million. Is there perhaps any sort of tariff related reflection or conservatism baked into this? That's all.

Pierre Boulud - *Biomerieux SA - Chief Executive Officer, Member of the Executive Board*

Okay. So I'll start with the first one. So your question was on SPOTFIRE Q4 sales. Now what we've seen is actually the flu season started late, but it was stronger. So November, December were actually strong and to be -- given the market share we have with respiratory panels in syndromic, I mean we kind of benefit from it kind of mechanically. So we've seen a strong flu season in Q4. And as I was sharing with Marianne a little bit earlier, we see that continuing in the first two months of the year, January and February.

Guillaume Bouhours - *Biomerieux SA - Chief Financial Officer, Executive Vice President - Purchasing and Information Systems, Member of the Executive Committee*

So on free cash flow, definitely a strong improvement. We have not given guidance on free cash flow during Capital Markets Day nor do we do it today yet we committed to improving free cash flow. So we did it in 2024. It's going to continue to be a focus to manage the let's say, better and stronger and closer cost control on working capital. So again, we don't give precise elements, but we believe we can continue to improve on that front, especially probably on the inventory management.

FX headwinds. So again, we gave you this table that you've seen after the P&L to give as much clarity as we can on the sensitivity of our operating profit to FX on the different zones. Normally, you should be able to, I would say, play with it, test it as the rates move. I don't think we are especially conservative. We try to really factor the best possible way.

The latest simulation -- obviously, our estimation was much different on the rates at the budget time for us in November. It changed a lot. But here, we factor the latest rates of two weeks ago with the forward rate because, of course, our emerging currencies, you have to look at the six months forward, which is a better picture than the SPOTFIRE. You should find, let's say, around this -- around EUR30 million impact in 2025.

Operator

Jan Koch, Deutsche Bank.

Jan Koch - *Deutsche Bank - Analyst*

I have three, if I may. The first one is on microbiology. Obviously, a very strong reagent performance in 2024, which was probably partially driven by some supply chain issues at one of your competitors. How do you view the risk that this could turn into a headwind in 2025?

And then secondly, on your food testing business. Have you benefited from some kind of similar tenders in China? We heard from some peers that some of them have seen a tailwind over the last few months.

And then finally, potential NIH cuts is a pressing topic at the moment. I guess you only have a limited exposure, if any at all, with your industrial business. But could you remind us of your exposure to the US academic channel, please?

Pierre Boulud - *Biomerieux SA - Chief Executive Officer, Member of the Executive Board*

Okay. So let me try to take them. Microbiology, I suspect you refer to challenges of backorders for [BT, BD] with hemoculture. To be transparent with you, the microbiology business, most clients are -- have one sole supplier. So it's either BD or bioMérieux, they change contract somewhere every 5 to 10 years.

So we haven't benefited from it. If we were to benefit from it, it would be in the years to come. But there is no specific -- the performance of 2024 cannot be explained by the changes of the competition. Hence, we don't see any particular headwind with regards to 2025. So that's the first answer to your question.

Flu business in China. Yes, we don't have. Sorry?

Jan Koch - *Deutsche Bank - Analyst*

The food quality testing business?

Pierre Boulud - *Biomerieux SA - Chief Executive Officer, Member of the Executive Board*

The food quality testing. Got you. I mean, unfortunately, we haven't -- I mean we are always very supportive of any regulation that aims at strengthening food quality. And of course, we have good stations to support the industry. But we haven't seen any, unfortunately, any positive impact yet into our Chinese business on food testing.

The third element, NIH cuts. Well, our business has very limited exposure to direct NIH spending or investments. So I guess it's -- we could argue if it's good news for science and for NIH and for the future, but from a business perspective, for bioMérieux, a very limited impact.

Maybe last question.

Operator

Kavya Deshpande, UBS.

Kavya Deshpande - *UBS - Analyst*

I just have two quick ones. On guidance (inaudible)

Aymeric Fichet - *Biomerieux SA - Investor Relations*

I'm sorry. Sorry. the line is too bad. Can you quickly put your question in the chat?

Kavya Deshpande - *UBS - Analyst*

Yes, sorry. Is this any better?

Pierre Boulud - *Biomerieux SA - Chief Executive Officer, Member of the Executive Board*

Yes, now it is.

Kavya Deshpande - *UBS - Analyst*

Sorry. Yes, my question was just to you. So first on guidance, so the starting point of your sales outlook of 7% growth is a little bit higher than in previous years. But for your profitability guidance, you've stuck to the starting point of at least 10% CEBIT growth at constant currencies. So should we view this as conservative with you aiming to beat this CEBIT guide like you did in 2024? Or are there investments that we need to factor in that limit operating leverage?

And then just my second one was a quick one on SPOTFIRE. It would be great if you could give us an update on the momentum that you're seeing with the McKesson distribution contract and whether you expect this channel to continue performing at the pace we've seen in recent quarters?

Guillaume Bouhours - *Biomerieux SA - Chief Financial Officer, Executive Vice President - Purchasing and Information Systems, Member of the Executive Committee*

Thanks very much. So maybe to comment on the guidance. I would like to rephrase what Pierre said, the guidance is not 10% CEBIT increase. It's at least 10%. So it's really bottom of the range at 10%.

We don't give a top of the range given also the, let's say, geopolitical environment and uncertainties in the current environment that everybody knows. But clearly, it's a bottom of the range at 10%. That is our guidance. It's not the guidance at 10%, it's the floor. It's important in the way you look at it.

And it's definitely the way we look at it. So it's important that you all get that from us.

Pierre Boulud - *Biomerieux SA - Chief Executive Officer, Member of the Executive Board*

Thank you, Guillaume. And with regards to McKesson, I mean we are -- I mean you've seen the traction, we are seeing -- which is also, of course, along the year where we are getting into the respiratory season, we have a strong number of installations. That's the feature of that market. So the answer to your question is, yes, we expect to see McKesson still performing strongly.

It's -- we still have a very -- I mean we are very happy with our sales performance. But to be honest, we have a very small market share. So there is a lot more to do. So we are working hard to keep that momentum and excellent collaboration, I have to say, with McKesson. It's proving to be very effective, very good dynamics between the teams in the US.

So yes, we're excited with 2025.

Aymeric Fichet - *Biomerieux SA - Investor Relations*

Okay. So with that, we can end there. So thanks a lot.

Pierre Boulud - *Biomerieux SA - Chief Executive Officer, Member of the Executive Board*

Thank you, everyone.

Guillaume Bouhours - *Biomerieux SA - Chief Financial Officer, Executive Vice President - Purchasing and Information Systems, Member of the Executive Committee*

And we'll see some of you in road shows. Thank you very much.

Pierre Boulud - *Biomerieux SA - Chief Executive Officer, Member of the Executive Board*

See you soon. Bye-bye.

Operator

That will conclude today's call. We appreciate your participation.

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