Grifols

FY23 Earnings Call

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Speakers

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Thomas Glanzmann, Executive Chairman & CEO

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Alfredo Arroyo, CFO

Questions from

Peter Verdult, Citi

Jaime Escribano, Banco Santander

James Gordon, JP Morgan

Charles Pitman, Barclays

Tom Jones, Berenberg

Graham Parry, Bank of America

Joaquin García-Quiros, JB Capital

Guilherme Sampaio, CaixaBank BPI

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GRIFOLS FY 2023 Results

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Hello, everyone, and welcome to the Grifols year end 2023 conference call. Thank you very much for taking the time to join us today. This is Nuria Pascual, Investor Relations and Sustainability Officer, and I'm joined by Thomas Glanzmann, our Executive Chairman and CEO; Victor Grifols Deu, Chief Operating Officer and Alfredo Arroyo, CFO.

This call will last about 60 minutes. There will be a presentation of 30 minutes followed by a Q&A session. If you want to ask a question, press star 5. When the Q&A session begins. We ask you to limit your questions to a maximum of two. As a reminder this call is being recorded. The materials for the call are on the investor relations website at Grifols.com and the transcript and webcast replay of the call will also be available on the investor relations website at the end of the conference call.

Before we start, I would like to draw your attention to the forward-looking statement disclaimer on slide 2 on the slide deck of our release. The statements on the call are subject to substantial risk and uncertainties. Speak only of the call's original date and we undertake no obligation to revise any statements. Now I would like to turn the call over to Thomas Glanzmann.

Thomas Glanzmann, Executive Chairman and CEO
Thank you,

Good morning and afternoon to all on the call. Thank you for joining us today. Before I start with my presentation, I would like to make you aware that we have filed the Interim Condensed Consolidated Financial Statements earlier today that are prepared in accordance with the IFRS and approved by the Grifols board of directors.

Grifols has received written confirmation from KPMG that it expects to complete its procedures imminently and issue its audited opinion by March 8, 2024, ahead of current Spanish legislation deadline. Consistent with prior years, and confirmed by KPMG, they will issue a clean and unqualified audit opinion.

Now let us turn to our presentation. Victor, Alfredo and I will explain how 2023 was a record setting year and how we plan to accelerate profitable growth as we move into 2024. Since my appointment as the executive chairman in February 2023 and later as CEO, together with the leadership team, we at Grifols have been on a mission. A mission entirely dedicated to executing an ambitious plan to restore our financials, reshape the organization, strengthen our governance, and prepare the company for the next chapter of growth.

Now we are on the path towards a sustainable and profitable growth journey, as we addressed many of the challenges on both the operational and financial fronts while delivering on our commitments. The result: 2023 was a record year. But this is a journey and a turnaround with many pieces. We are committed, and now progressing, to realizing the full potential value of the company.

Reflecting on the progress of the last 12 months, we started by strengthening and simplifying our corporate governance, along with building an investing class leadership team. Second, we executed a turnaround strategy that is leading to a solid financial profile and a strong operating base. Third, we have been elevating our innovation, digital and technology efforts along with focusing on continuous improvements to become a market maker and shaper.

In parallel, we have fostered a culture of excellence, marked by a result-driven performance and continuous improvement with greater accountability. That being said, all that we've accomplished in 2023 does not mean we have arrived at our destination yet. Rather, it is a milestone in our ongoing journey to excel and there is more to come.

This February, we named Nacho Abia as incoming Chief Executive Officer. This is the latest announcement as part of a long-term corporate governance plan put in place in 2022 to separate ownership from senior management. As part of this plan, I became the first non-Grifols family member that assumed the CEO role of the company. Personally, and on behalf of the board of directors, I would like to express my deepest gratitude and appreciation to Raimon and Víctor, not

just for their commitment, leadership and contribution to the growth of the company; but also, to make the thoughtful decision to step out of their executive directorship and going forward acting as proprietary directors of the board.

I would like to welcome Nacho Abia. He brings a wealth of industry experience and a proven track record in operational success which makes him the ideal leader to continue executing on the strategy we have initiated and are implementing.

He will assume his position on April 1, and I will continue as Executive Chairman, working hand in hand with Nacho ensuring that Grifols realizes all its potential in a very important transitional chapter of the company. My Executive Chairman role will convert into a non-executive role in 2025, in line with good governance practices. We have also assembled a team of leaders through new appointments in some key leadership functions, including Innovation, Digital, Human Resources, and Bio Supplies. I'm sure Roland, Miguel, Camille and Laura will be great additions that will boost and elevate their respective areas and complement the existing strong team of experienced Grifols leaders.

As part of our commitment and effort to have the best-in-class governance standards, we will continue to focus on our corporate governance and implement relevant improvements where necessary. We will simplify structures and we will not pursue any new related party transactions. I also want to emphasize our continued commitment to enhancing our communication with the capital markets which also has been a priority for us in 2023.

Today, we present our full year financial and operating results, marking a year in which we did not only meet but exceeded the guidance we provided for 2023. I am personally very proud to say that we have delivered on all the commitments we made. Not only was this very important for 2023, but it will be equally important as we look ahead to 2024. For 2023 we have reported all-time high revenues of 6.6 billion, but we also delivered a significant EBITDA expansion reaching Euro 1.47 billion which represents a growth of 26.3% at constant currency.

This exceeded our guidance and closed the year with an EBITDA margin of more than 26%. As a testament to our operational and financial discipline, we have fully executed the operational improvement plan, yielding more than 450 million in savings and transforming Grifols into a more efficient and cost-effective organization. Thanks to this plan, we are now seeing a positive read-through to margin expansion, a trend we expect to continue throughout 2024.

Cash flow generation is one of our top priorities. Operating cash flow improved 300 million Euros throughout the year compared to 2022. This rebound is expected to accelerate in 2024 and onwards as Alfredo will explain. Be assured that this is an area of significant focus of the company going forward as we have work to do here.

Needless to say, deleveraging remains our core strategy with our leverage ratio declining to 6.3 times, driven by organic improvement from the 9 times peak last year. Additionally, the proceeds of the sale of the 20% of Shanghai RAAS, a transaction which will close in the first half of 2024, will be fully utilized to repay debt. The proforma leverage ratio for the transaction stands at 5.4 times in December 2023 which supports our progress towards the 4x target. During this past year, we also have put our focus on initiatives that will be critical to our growth trajectory.

First, innovation, our engine for growth. We take great pride in the achievement of all our ambitious milestones for 2023. Recently, we announced successful top line results, which will be followed during the next month by the full date of rollout. Another important project is the dosing of the second cohort of our phase 1/2 study, evaluating the first in human subcutaneous dosing options for patients with alpha-1 antitrypsin deficiencies.

The second partnership expands our access to the albumin market and supports the growth of biopharmaceutical in China. In Egypt, thanks to the expansion of centers and donor turnout, we are already collecting enough plasma to meet Egypt's needs, a significant milestone in our efforts to help the country and region reach self-sufficiency in plasma derived medicines.

Third, we have optimized and streamlined our U.S. plasma center network, resulting in improved productivity and increased yields for donation. We are very focused on further stepping up our efforts to be the leading in the industry, in this area, and are looking forward to launching new projects in the field.

Fourth, we are and will continue to capitalize on data, digitalization and technology. This year, we established a center of excellence for artificial intelligence, which will play a pivotal role in advancing our initiatives across the company. Having delivered on all our commitments and priorities, we have truly repositioned Grifols for a sustainable and profitable growth phase. This marks a new chapter in our journey, and we are very excited to have begun it.

Before Victor takes you through the details of the performance of our business units, I invite you to also take a moment to look at the annex of our presentation to review Grifols' comprehensive efforts in sustainability through 2023. As we are proud to have been included in the world Dow Jones Sustainability Index for the third consecutive year in a row.

Finally, I would like to conclude by expressing my deepest gratitude to the entire Grifols team for their hard work, passion, and unwavering dedication to deliver 2023.

Victor Grifols Deu, Chief Operating Officer (COO)
Thank you so much.

Good afternoon or good morning to everyone and thanks for joining us today.

Grifols' revenue has reached a record high of 6.6 billion Euro, a 10.9% increase, meeting the guidance set for the year. With revenues growing by nearly 85% in the past two years and positioning us to become a Euro 7 billion company revenues in 2024. Supported by market dynamics, including a strong demand, solid plasma supply, Grifols Biopharma business was the main driver behind our performance. Marking a total revenue growth of 13.3% at constant currency.

This performance was also supported by an improved product mix, with our subcutaneous IG Xembify growing by close to 40%. A robust Europe and the rest of the world and a favorable price increase globally. Now turning to slide 10, Grifols Biopharma sustained the acceleration from previous quarters, delivering in Q4 a growth of 13%, to close the year with an increase of 11.3%. All figures are at constant currency and excluding Biotest.

The IG franchise continued to be the main driver of our growth, representing 55% to 60% of our revenues, with a 2023 growth of 15.8% at constant currency. I will provide additional details of our IG franchise in the next slide.

Albumin delivered strong growth year to date, delivering a 17% increase across all geographies, including higher demand and price increase in China. In fact, our Chinese market experienced a 40% growth.

Let me highlight the growth of Alpha-1, which saw an increase of 2.4% in the fourth quarter of the year, indicating an improvement that we expect to continue in the upcoming quarters. The launch of the first direct-to-consumer buccal swab in the U.S. aims to increase the diagnosis rate of alpha-1. This will continue backing our expansion for this franchise. On the other side, in Europe, we are still seeing some impact due to industry dynamics there.

Grifols obtained Prolastin 4/5 gram vials presentation approved in Europe, providing us an opportunity to increase patients and healthcare providers satisfaction and an overall improvement in the franchise performance as we launch this new vials sizes in 2024. Additionally, I want to emphasize the strong performance of our most recently launched products, such as fibrin sealant, thrombin and Tavlesse, which have shown substantial growth respectively.

Furthermore, hyperimmunes continue demonstrating positive progress. And all this has been partially offset in the by a decrease in demand for our factor VIII products.

Moving to slide 11. Grifols continues increasing the value of its IG franchise with a strong strategy. The revenue trend of our IG, IVIG and SCIG has been very positive throughout the year, culminating with growth of 15.8% and 37.3% at constant currency, respectively, in year 2023.

IG growth was driven by our flagship Gamunex and our SC Xembify supported by strong underlying demand, including faster growth in the US due to improved plasma supply. We are also transitioning to higher yielding IG brands, therefore optimizing our production efficiency. With IG standing as the standard of care in the industry, we remain focused on the immunodeficiency market, strengthening our presence in the primary and secondary immunodeficiency markets while also maintaining our leadership in neurology and acute care.

With nearly 40% growth in sales in 2023, we continue to build momentum with our subcutaneous brand Xembify increasing market share in the US space. We plan to further capitalize on this growth with increased demand from this year's launches in Spain and Australia and obtention of regulatory approvals in 13 European countries. We are preparing for additional launches in 2024 and 2025 backed by these approvals.

Now moving to slide 12. Over the first year, Grifols has been focused on growing its plasma supply, with a robust more efficient and diversified plasma center network. We delivered very positive metrics in 2023. Our plasma volume increased over 10%, positioning the company to meet growing public demand. The implementation of the Operational improvement plan yielded substantial savings with a cost per liter of plasma decreasing by 22% compared to its peak in July 2022. As part of it, we increased our labor productivity by 32% versus year 2022, while manufacturing cost per liter decreased by 5% in the same period versus 2022. We're implementing best-in-class practices to further improve efficiencies within our plasma centers.

Along these lines, we rationalized our network of centers and closed/consolidated lower-performing centers resulting in a more optimized network in the first part of the year. In addition to this, going forward, we are targeting continued operational efficiencies through process optimization, streamlined operations and leaner processes. We also remain focused on employee and donor experiences.

On the one hand, we improved employee recruitment and retention, decreasing by 20% the time to recruit and by 10% the turnover. On the other hand, we're in the process of further enhancing donor attraction and retention, providing a differentiated and personalized experience. In order to do this, we will heavily rely on data, digital and new technologies. Our new Chief Digital Information Officer, we're sure, will bring fresh ideas in this space for us.

All of this was delivered in 2023 with great outcomes for us. Now, as we are enter into 2024, the initiatives to continue driving new improvements and efficiencies in our operations are nothing but expanding.

Further optimizations leveraging on new technologies and processes are either being implemented as we speak and/or being piloted for a thorough assessment before its implementation. On one side, we have two parallel yield improvement initiatives. One on IgG yield optimization that aims to deliver a significant 6% better yield from the manufacturing processes. The other one is at the plasma collection side, where it is expected to improve average donation yield around 10%.

On the other side, we continue focusing and expanding our improvements across Biopharma manufacturing operations. It's a holistic approach across all our manufacturing plants that covers areas such as material planning and plant scheduling, direct procurement, supply chain, product flows, etc. In this case, the expected outcome is a saving of current year run-rate manufacturing expenses, close to 8%.

Now in slide 13, innovation is one of our cornerstones of our future growth and our pipeline, and it includes a wide range of opportunities. Unlocking and accelerating these clinical trials will be instrumental to our success. And we believe Joerg's appointment as Chief Scientific Innovation Officer will be critical in this regard. In this slide you can see our pipeline, which offers a strategic balance between risk and value and includes over 30 clinical trials spread across diverse phases.

These trials are concentrated in four core therapeutic areas where the company has a competitive advantage.

I am proud to say that we have successfully met the 12 innovation milestone set for 2023. In some cases, milestones that are leading to launches and approvals in 2024, like Xembify bi-weekly dosing, Yimmugo in the U.S. or Prolastin 4-5 gram vial sizes in Europe. Additionally, a few days ago, we announced positive results from Biotest's phase 3 clinical trial for fibrinogen concentrate, marking a significant step in treating acquired fibrinogen deficiency.

This positions fibrinogen concentrate for regulatory approval processes in Europe and the U.S., which are expected to begin during Q4 this year. Once this happens it will become the first fibrinogen concentrate approved for acquired fibrinogen deficiency in the U.S., tapping into a global estimated market valued up to USD 800 million.

Biotest advancements, including other innovations like Yimmugo and Trimodulin, reinforce Grifols' position in the plasma-derived medicine field. These developments, not only contribute to future financial performance on the back of the industry plasma economics concept, but also offer promising treatments, underpinning the company's commitment to addressing unmet medical needs with our innovations.

As we did last year, we are making a new commitment to deliver on our near-term pipeline milestones. Number one, starting with our Alpha-1 AT 15% SC study, we have our first patient in screening who will be moved from single to repeat dose.

Number two, we completed enrollment of the PRECIOSA study in 2023, and we expect top line results in the first half of the year, with last patients finalizing treatment phase.

Number three, we are expecting to start GLP pre-clinical studies of OSIG in Dry Eye Disease, for which we currently have already initiated start-up activities with a contract research organization.

Number four, the BLA FDA approval is expected by June.

Number five, the approval of the bi-weekly Xembify study is expected in the second half of 2024, as we continue to advance our trial, following the FDA submission completion in June 2023.

Number six, on the GigaGen front, our project in Hepatitis B has begun pre-clinical activities to support the IND submission for a phase 1 study later in the year.

Number seven on the albumin front, PRECIOSA topline results are expected in the second half of the year, with last patients finalizing the treatment phase.

Number eight, for Gamunex in bags, progress is on track for Conformance Lot production in the second half of the year.

Number nine, following positive topline study results in February this year, we continue to advance with our Fibrinogen trial for congenital and acquired deficiency. We expect the MAA/BLA submission in the second half of the year and the regulatory approval process in Europe and US to begin in the fourth quarter.

These milestones are a testament to our commitment to increasing efforts to develop new products and indications, which we plan to continue accelerating through 2024 and beyond.

Now moving to slide 16, our diagnostic revenues bounced back in the fourth quarter, increasing by 6.4% at constant currency, bringing our full-year growth to 2.3% on a year-to-date basis. As mentioned in previous quarters, our NAT technology was negatively impacted due to pricing concessions given in exchange for extending a large contract with a key customer of us.

However, strong revenue in the Asia Pacific and instrument sales in Japan and in the U.S. are progressing well and are contributing to try to mitigate these negative impacts.

Additionally, we achieved successful tender wins across key regions, while partnering with the Australian Red Cross to become the first facility in the world to operate a fully automated NAT testing facility.

In blood typing solutions we're seeing a strong growth across the U.S., Argentina, Spain, Brazil and Saudi Arabia, for example. Key contracts are awarded with large GPOs, IDNa and commercial labs in the U.S. All that is very positively continuing to deliver market share gains for us in the Blood typing space.

Concurrently we're expecting FDA approval for a new red blood cell ad gel card highly automated manufacturing facility in San Diego. In Recombinant proteins we have signed a new 10-year supply agreement with an important partner for us.

Now moving to Bio Supplies. Bio Supplies reported a full-year growth rate of 11.3% at constant currency. The main drivers of profitable growth in this business are a combination of higher demand from current customers together with new customers being supplied with our existing products, plus the additional products to our portfolio, as a consequence of the Access Biologicals acquisition.

This leads me to talk about the milestones reached in 2023. We undertook a commercial consolidation, focusing on target markets, as well as an operational consolidation in terms of facilities in the U.S. As a consequence of a synergistic exercise by combining Access Biologicals and operations for this division.

We look forward to leveraging these integrations and capturing the full potential of this high-margin business unit. And now I will hand over it to Alfredo.

Alfredo Arroyo, CFO
Thanks, Victor. Good day to everyone.

Slide 19. As already mentioned, we have executed our transformational strategy, turning the company around in 2023, and setting the basis for a robust operational and financial performance in 2024 and onwards. In the following slides I will detail how the company has achieved sustainable revenue growth, enhanced profitability, improved cash flow and made significant progress in our deleveraging plans.

I want to emphasize that we have met our revenue targets and exceeded our EBITDA expectations in 2023.

Slide 20. As you can see on the left-hand side of this chart, the significant sequential improvement in EBITDA was primarily driven by both gross margin and SG&A.

Gross margin improved by 570 basis points to 41.4% while SG&A decreased as a percentage of sales by 220 basis points, excluding restructuring charges related to the more than 450 million euros annual savings.

Our adjusted EBITDA reached 1,474 million euros, exceeding guidance and increasing by 26.3% at constant currency compared to the previous year. Adjusted margin excluding Biotest stood at 24% for the full year and a 26.1% in the fourth quarter, marking a significant improvement of 580 basis points compared to the same period in 2022. The successful execution of the Operational Improvement Plan drove the reduction of the cost per liter by 22%, versus July 2022 peak. And this has been steadily reflected in our P&L, considering the nine-month lag coming from our inventory cycle. Most of the savings from our plan will flow into the P&L in 2024.

Slide 21. Cash flow generation is a high priority for a company. As you can see in this graph, cash flow generation trended upward in 2023 driven by strong momentum across the businesses. We increased operating cash flow by close to 300 million euros, excluding restructuring charges. Free cash flow accelerated in the second half of the year and is expected to further improve in the upcoming years. Going forward, we anticipate a significant increase in our capacity to generate cash and this will be achieved by inventory optimization based on an improved balance per liter approach by EBITDA improvement and CAPEX normalization.

Slide 22. We continue to make solid progress in our deleveraging efforts, reducing our leverage ratio from 7.1 times at the end of 2022 to 6.3 times at the end of 2023. This reduction has been organically driven by EBITDA improvement, which remains the main pillar in our ongoing progress towards our 4x leverage target.

Furthermore, considering the upcoming $1.8 billion cash proceeds from the SRAAS transaction that will be fully used to repay debt, our 2023 pro forma leverage ratio would decrease to 5.4 times at year end. The company expects to address the 2025 maturities in the first half of 2024 and will seek to do this in an efficient manner, taking into account both the planned disposal proceeds and the various other options available to us, including refinancing these maturities whilst remaining consistent with our deleveraging objectives.

Regarding our liquidity position, at the year end, our liquidity exceeds 1.1 billion euros, including over 500 million euros in cash, strong enough to support our growth.

Slide 23. We're expecting to see revenue growth of more than 7% at constant currency, driven by Biopharma, which is estimated to grow in the 8% to 10% range at constant currency. Main contributors will be robust underlying demand, strategic pricing management, product mix especially since our SCIG will gain further traction, and continuing expansion of growth products and market expansion.

For 2024, we expect EBITDA adjusted to reach more than 1,800 million euros, excluding Shanghai RAAS contribution, of close to 50 million Euros in 2023. This implies a like-for-like amount of more than 1,850 million euros. This represents 27% to 28% margin excluding Biotest. This improvement mainly reflects the positive impact of our Operational savings plan, considering the 9-months accounting lag of the plasma industry. This is expected to be partially offset by some commercial efforts that the company is strategically implementing to reclaim core market accounts.

As we advance into 2024, we will be in better position to update guidance accordingly. Now I hand it over to Thomas for final remarks.

Thomas Glanzmann, Executive Chairman and CEO
Thank you, Alfredo.

As mentioned throughout this presentation in 2023, we closed the record year having delivered on all our commitments that now set us up well for a strong 2024. We've strengthened our corporate governance, reinforced our execution and delivered all our stated goals thanks to our turnaround strategy. We're committed to creating a sustainable, high-performance company with a culture that is focused on results and fosters continuous improvement and accountability, while operating with the highest governance standards.

Having focused on strengthening the underlying foundation of the company, we are now in a position to further improve our financials. Equally important, is also to accelerate the execution of the five strategic levers that will set us up for long-term growth and success while delivering to the expectations of all our stakeholders.

As you recall from previous presentations, the strategic drivers are, first, focus on core areas where we have true competitive advantage, Biopharma, Diagnostics and Bio Supplies.

Second, continue to accelerate our innovation efforts by strengthening our plasma pipeline and expanding into non-plasma opportunities where we feel we are differentiated. To achieve these goals, we will leverage new technologies to expand our innovative ecosystem.

Third, strive to not only participate in the global market, but to shape it. Our strategy involves focusing on the most promising commercial opportunities and actively seeking high impact strategy partnership. Examples of this are Egypt, Canada, and our strategic alliance with the Haier Group announced at the end of last year.

Partnering with Haier Group ensures that China remains central to our growth strategy, and it will be key to expand our commercial footprint, accelerate development of new products, and broaden our portfolio.

Fourth, we will achieve best in class donor experience, while digitizing processes and making our operations more efficient. This approach ensures our donors enjoy a more personalized, seamless and rewarding experience.

Fifth, optimizing operations continuously lies at the heart of everything we do. And we will continue to pursue efficiency, to excel in our business and operations.

These five pillars must be underpinned by a world class and performance-oriented team, committed to fostering a culture of talent, development, and accountability.

Importantly, it must also be reinforced by culture of delivering to commitments year after year while upholding the company's over 115 years of integrity, high ethics and focus on sustainability. The end result will undoubtedly create significant value for all shareholders.

With this in mind, I am confident that the progress we have made in 2023 will be repeated and further improved in 2024 and into years to come.

Finally, I want to take this opportunity to say that I'm incredibly proud of our entire Grifols team. None of our achievements would have been possible without their dedication, relentless efforts and talent which have been the bedrock of this record year. I now turn it back to Nuria who will open it up for question, thank you.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you, Thomas.

We better start our Q&A because we're tight in terms of timing. You need to press star 5 to ask a question. Please limit to 2 questions per person and then we can go back to the list.

Let's start with Peter Verdult from Citi.

Peter Verdult, Citi
Thanks, two questions, please. Thomas, a little bit unfair, but when can we be more confident Spanish regulators are not going to have to escalate anything following the Gotham report. I know you responded to their questions but it's weighing on the stocks. Anything you can say there will be helpful. Secondly, for Alfredo, just in terms of giving us some hard numbers or ballpark numbers on free cash flow expectations. I know you've given guidance, but can I push you to give us some sort of ballpark free cash flow expectations for 2024? Thank you.

Thomas Glanzmann, Executive Chairman and CEO
Thank you, Peter. On the first one, we have responded in a timely and really complete fashion to all the questions that we received from the regulators. And they are now working and doing their work. My assumption is that we will hear when they are ready.

Alfredo Arroyo, CFO
Okay, to the second question of the free cash flow. We expect that for 2024 to generate additional free cash flow and basically, we are targeting to be slightly below breakeven; the cash flow before the interest will increase significantly. And then adding the interest rates, that tells you that our free cash flow will be around break even.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you, Alfredo. We have now Jaime Escribano from Banco Santander. Hola Jaime.

Jaime Escribano, Santander
Hi. Good morning. So, a couple of questions from my side, as well. So, SRAAS, could you update us where do you stand in the process? Have you finished the due diligence? What is left for closing and when can we expect the closing.

The second question would be in terms of the cost savings plan. Have you found any more cost savings? Because I remember you -- in the last guidance you were providing 400 and then 450, is there any target for 2024? Thank you very much.

Thomas Glanzmann, Executive Chairman and CEO
Jaime, thank you for your questions. On Shanghai RAAS and Haier, the due diligence concluded today and I'm pleased to say that the deal is moving forward towards closing. We're waiting for the regulatory approvals, but closing will take place in the first half of 2024. And I want to reiterate that all proceeds will go to pay down our debt.

Victor Grifols Deu, COO
Regarding the second question, the Operational Improvement Plan that was announced and executed in 2023, we consider this to be closed. We estimate that we may see some improvements still in the plasma cost per liter, not of course the 22% that we have experienced in 2023, but see some positive inertia there. What I would like to remark based on this question is that probably you have noticed we're talking about some new initiatives we are going to implement during 2024 related to efficiencies. Two of them are related to yields, and another one, a new one in the Biopharma manufacturing operations that we estimate will be around 8% of run-rate cost savings.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you, Victor. From JP Morgan we have James Gordon now. Hi, James.

James Gordon, JP Morgan
Hello, James Gordon from JP Morgan, thanks for taking my questions. One question on the 2024 margin guide, you said ex-Biotest 27% to 28%, but in 2023 pro forma was 28% to 29%. The reasons why even with a higher top line presuming operating leverage, the margin is actually down a little bit. Is some of that Shanghai RAAS going? Or I think you made reference to increased commercial efforts. How much are you ramping up sales and marketing and why exactly are you doing that now? I think there was a comment about having lost some accounts? So, supply is now exceeding demand and you're having to stimulate demand? What is the assumption there in terms of marketing or any other factors of the margin?

Just on the margin. I've had questions about Biotest. Why does the company breakdown the margin with and without Biotest? At what point do you think Biotest is not going to be a drag on margins and you just have one overall margin?

The second question is: IG growth is pretty strong, half one a bit less though. What about for 2024, do you think you can sustain this level of IG growth? Do you think Alpha 1 could accelerate? Are these temporary issues? We'd like to know the reasons for alpha 1 might be slower than IG. I know that's a very profitable product.

Alfredo Arroyo, CFO
I take the first two, thank you. The EBITDA margin in 2024, as I said, will be positively impacted by the plasma cost savings that are already in the balance sheet but this will be partially offset by commercial efforts. What does that mean? Basically, additional marketing activity to fuel the growth of both IG and alpha 1 and at the same time, the company is going to regain key accounts that we lost the year that we didn't have enough plasma. So that's why you see this slight decline of the margin.

On the second topic of Biotest, Biotest will still be dilutive from the margin perspective until 2026-2027 when Biotest will launch Fibrinogen and right after –Trimodulin.

Victor Grifols Deu, COO
Regarding the commercial questions, first on the IG franchise, regarding subcutaneous, we are confident we're seeing continuous great momentum for this franchise, both in the U.S. and also in Europe. We're planning to launch new products in the countries that we got the approval during 2023. So good momentum for our Xembify product. Regarding the IV formulations, we are seeing strong demand in the U.S. market.

For instance, at year to date, October data (public data), it's growing around 11%. So very strong growth. In this market, I think we are already repositioning, and some let's say healthy pricing environment in the sense of competition, I think it's very healthy and we are all repositioning ourselves. And for U.S., in this case, for the IV formulation, we continue to see a really strong momentum, a lot of underlying demand. And now that we have plasma and therefore product to deliver to those markets, we are meeting this strong demand in the U.S.

And for alpha-1, outside U.S. or Europe I should say more precisely, we expect to rebound from the recent industry dynamics that have happened during 2023 coming from 2022. And we feel very, very confident that new launches of the 4-5 gram vials will be nothing but supportive of these expectations.

Further, for the U.S., we are seeing a recovery, as you have seen in Q4 2023. We have shown growth in that franchise. We expect to continue to see good momentum thanks to the alpha 1 buccal swab testing that we launched at the beginning of 2023. And at the same time, we're enhancing our direct to patient Prolastin direct experience with our patients together with our partners in the field.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Okay, thank you. From Barclays we have Charles Pitman. Hello, Charles.

Charles Pitman, Barclays
Hi, thanks very much for taking my question. Yes. So, two questions for me. First one just going back to free cash flow. I think Alfredo you said that you were targeting breakeven free cash flow for this year and just to square the circle on the expected net debt leverage target If we're going to work back to 4 times expected level given the 5.4 times pro forma post Shanghai RAAS for 2023 that suggests you need around 400 million to 500 million of free cash flow to pay down debt. Are you saying that that's the breakeven level in order to meet your target or you're trying to suggest that post interests, there will be no free cash flow to pay down debt. How should we think about reaching that 4 times target including Shanghai RAAS impact.

My second question is on AATD, I would be interested to hear how you're thinking about the potential risk from Inhibrx on the Sanofi, and maybe if you could touch on how you expect this part of the trial to help to offset this potential risk, thanks.

Alfredo Arroyo, CFO
Okay, on the free cash flow question. I reiterate that our target is to be around break even for this year. To your question on the target, organically speaking our year-end estimate is to be between 4 and 4.5 times. However, we're considering selectively other potential divestments. So organically, again, between 4 and 4.5 times and considering then other disposals.

Victor Grifols Deu, COO
Regarding the question on alpha 1, we believe it's still clearly an underdiagnosed condition. We estimate that around 90% of those patients are not being diagnosed, and therefore are not served with proper treatment. So Grifols as you know, we're leading efforts constantly in this front. We have the healthcare professionals test, and as I said earlier, we launched the buccal swab and it's already in the U.S. and it's a very good progression. So, testing we're seeing it's a great tool to continue developing this market.

And then in addition to that, again, the new 4 & 5 vials it's a great tool to defend our franchise. SPARTA, as was indicated, is an efficacy trial that will position Grifols if results are positive with the only product in the market with efficacy data clearly being an advantage to compete in the market. And the additional tool that we are pursuing is to develop a more convenient formulation for patients, which is the subcutaneous 15% Alpha 1 product. With this portfolio of initiatives, we feel very confident this franchise will continue contributing greatly to Grifols.

Thomas Glanzmann, Executive Chairman and CEO
Regarding Inhibrx It's still early days, right? In addition to the fact that it is early days for them, and we are doing all of these things and accelerating things that Victor just mentioned now, we feel very confident about the position for the alpha 1 franchise going forward.

Charles Pitman, Barclays
Brilliant, thank you so much.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you. We have questions from Berenberg, Tom Jones. Good afternoon.

Tom Jones, Berenberg
Good afternoon, thanks for taking my two questions. First one on the EBITDA guidance, I think there was a bit of a debate on precisely what you meant by 1.8 billion plus. The way I think of it is, we should think of that 1.8 number more as a floor rather than a target. I was wondering if you were thinking kind of along the same lines.

Secondly, I want to follow up on the free cash flow comments. I'm struggling to see how you get from 1.8 billion EBITDA to zero free cash flow. If you take off 5-600 million for interest, another 100 or so for tax, 200 or 300 for CAPEX, there's still a billion left. Where are you intending on that to go? Particularly given your comments around improving inventories. I'm struggling to kind of reconcile your comments there.

Alfredo Arroyo, CFO
To the first question, thanks, Tom. 1.8 billion, yes. I'm aligned with your comments. This is our floor, that's why we said plus. Remember that in 2023 we started about the same, 1.4 plus and then we updated quarter over quarter this guidance. And the 50 million from Shanghai RAAS, accounting-wise, when you book this investment in assets held for sale you cannot consolidate the 26% on Shanghai RAAS profits. That is point number one.

Point number two, here it comes the inventory. This year, as you saw, the inventory grew more than 400 million. For this 2024, we expect it to be flattish. So that is one of the main levers to achieve close to a break even at the free cash flow level.

Thomas Glanzmann, Executive Chairman and CEO
Just one addition to what Alfredo said. I think we are extremely focused on making sure we hit our commitments. Historically, this is going to be really key for us. And when we say it's a 1.8 floor, obviously it is the floor. And as Alfredo said, we increased our forecast last year three times. And as we see the market, and as we see the progression of the business, we will obviously also address the EBITA as we go. We're very very focused on making sure that we deliver on the commitments that we give to you and the market.

Tom Jones, Berenberg
Maybe I could ask the cash flow question in a slightly different way. What do you specifically mean by break even on free cash flow? Zero cash flow? Or debt free cash flow will be roughly the same as EBITDA number? I'm still a bit puzzled about what appears to be the lack of any expectation for any free cash flow this year.

Alfredo Arroyo, CFO
That means that if we think in terms of cash flow before interest rates, that means that it's going to be around 400 and something which basically is the interest expands that we estimate for this year 2024 on the back of the pay-off of the 2025 maturities.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you. We have four questions more, so we'll try to accommodate even if we go a few more minutes over the one-hour timeline that we have. We have Bank of America, Graham Parry, hello.

Graham Parry, Bank of America
Great, thanks for taking my questions. Firstly, just to clarify on the leverage targets. You previously said less than four times by the end of 2024, and you don't seem to specify in '24 anymore. So, can you confirm if that is the leverage target for 12 months the end of December this year? And then you just mentioned 4 to 4.5 times organically. So, I just want to check, is that 4 to 4.5 times by the end of this year? Organically, does that include 1.8 billion coming in from higher or excluded? That's a question on leverage target.

Second one is on the auditing issue with KPMG. Perhaps just any further clarity you can give us on why it's not ready to issue an audit opinion now. Thomas, I just wanted to again clarify your statement at the beginning of the call when you said they will issue a clean and unqualified opinion. Is that a certainty? Do you have line of sight on that and are there just some administrative issues that are stopping that being in your press release today or your audited accounts being published today?

Alfredo Arroyo, CFO
For the first question just to clarify, our best estimate for the year end is targeted between 4 and 4.5 times. That includes the organic deleverage coming from the 1.8 plus, and also including the Shanghai RAAS cash proceeds. If we consider all the potential divestments (right now we're working on that), this means that we may, hit the four times or below.

Thomas Glanzmann, Executive Chairman and CEO
On the second question on KPMG, yes, it is administrative matters we're dealing with. And yes, they have confirmed that they will issue a clean and unqualified audit opinion.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Joaquin García-Quiros from JB Capital.

Joaquin García-Quiros, JB Capital
Thank you for taking my questions. I just wanted to know if there's going to be more investments left regarding the Biotest next level project for 2024. And then, sorry to come back again to the free cash flow figure. But doing some numbers you said that working capital is going to be relatively flat. So, even taking into account 600 million in costs, there's still 900 million left. Let's say 300 million or 400 million from CAPEX, it's still 500 million. Is there going to be a 500 million one-off cost of something everyone is missing? if you can explain bit on that, thank you.

Alfredo Arroyo, CFO
Basically, this year, the profit of the group is 50 something million. But it's been heavily hit by the restructuring cost of 160. So that means this year will not have any major restructuring costs. Point number one.

Point number two. So that means with 1.8, our bottom line is going to be almost 10 times so that means that we have to pay much more taxes, many more taxes. So, you have to add those numbers, plus we have to move some additional CAPEX commitment in our Canada plant. When you add all those numbers, that leads you to this break even amount I mentioned to you.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
From CaixaBank we have Guilhermo Sampaio.

Guilhermo Sampaio, CaixaBank BPI
Thank you for taking my question. Yes. The first one, can you be more precise in terms of what are your expectations regarding taxes payment and CAPEX this year? And second question, if the asset sales that you are considering, are you talking about a single larger bill or several small amounts?

Alfredo Arroyo, CFO
For the second one, selectively we'll identify from our balance sheet those assets that can be disposed. But right now, I cannot confirm there's going to be one or two transactions. We're working on it.

On the tax side, taxes are going to be at least, more than 100 million additional taxes. And in the case of CAPEX we're going to see another additional 100-150 million.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Okay. This is probably our last question today from Alantra. Hello Álvaro Lenze.

Álvaro Lenze, Alantra
Thanks for taking my questions. Just to clarify on the commercial efforts you mentioned within the guidance, whether those 150 basis points of EBITDA margin are already included in the adjusted EBITDA guidance for the year. And also, if this basically represents lowering prices and how this can have ripple effects across the industry. I don't know if you could expect competitors to react to this commercial strategy and become more aggressive on pricing.

And second question, if you could give us a ballpark estimate of what the non-reoccurring results will be in 2024, thank you.

Alfredo Arroyo, CFO
Okay, regarding this investment, it's a combination of two types of commercial investments. One is that for certain key accounts, as I said we're going to invest in pricing to regain those accounts and then, everybody knows that everybody wants to be in the U.S. market, During the times that we didn't have enough plasma we lost some key accounts. But now we are trying to regain those accounts.

And then at the same time as I said, additional marketing efforts to further increase the growth of alpha-1 and IG. What was the second question? Say again?

Alvaro Lenze, Alantra
Non-reoccurring items for 2024. If you could provide guidance on the restructuring plus Biotest Next Level plus whatever, what's the total number?

Alfredo Arroyo, CFO
Biotest Next level for this 2024 we expect it to be around 30-40 million and then we expect it still, on the back of those additional savings plans mentioned by Victor, that we may have around another 50 million of cash out items. And then, on the back of these potential refinancing we may also incur in additional transaction costs associated to refinancing as well as the closing of the Shanghai RAAS transaction.

Alvaro Lenze, Alantra
So, 80 million in EBITDA and then another extra in financials?

Alfredo Arroyo, CFO
You know, like all in, 150 million, including, again transaction costs, restructuring costs and Next Level.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Okay. Thank you all, thank you for taking part. Thank you all for your questions. As always, we remain at your disposal, IR team and the whole management team as well. Should you have any additional questions. With that I think we can close, Thomas?

Thomas Glanzmann, Executive Chairman and CEO
Thank you very much for dialing in today and we'll look forward to seeing or hearing you at the next call. Thank you.