Grifols

Q3’23 Earnings Call

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Speakers

Nuria Pascual, VP, Corporate Treasury & IR & Sustainability

Thomas Glanzmann, Executive Chairman & CEO

Victor Grifols Deu, Chief Operating Officer (COO)

Alfredo Arroyo, CFO

Questions from

Tom Jones, Berenberg

James Gordon, JP Morgan

Thibault Boutherin, Morgan Stanley

Alvaro Lenze, Alantra

Guilherme Sampaio, CaixaBank BPI

Jaime Escribano, Banco Santander

Charles Pitman, Barclays

Peter Verdult, Citi

GRIFOLS Q3 2023 Results

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Hello, everyone, and welcome to the Grifols' third quarter 2023 conference call.

Thank you very much for taking the time to join us today. This is Nuria Pascual, Investor Relations and Sustainability Officer. 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 approximately 30 minutes, followed by a Q&A session. So, if you want to raise a question, press the star, followed by 5, when the Q&A session begins and we will kindly ask you to limit your questions to a maximum of two.

As a reminder, this call is being recorded, and the materials for the call are on the Investor Relations website at Grifols.com. The transcript and webcast replay of the call will also be available on the Investor Relations website within 24 hours within the end of the conference call.

Now, if we turn to slide 2. Before we start, I would like to draw your attention to The Forward-looking Statement disclaimer in this slide deck of the release. Forward-looking statements on the call are subject to substantial risk and uncertainties, speak only as of the call's original date, and we undertake no obligation to update or revise any of the statements. Now I would like to turn the call over to Thomas Glanzmann.

Thomas Glanzmann, Executive Chairman and CEO
Thank you, Nuria!

Good afternoon and morning to all on the call. Thank you for joining us today. As you can see from our press release issued this morning, we have reported another strong quarter, further accelerating growth, improving our EBITDA, and meeting our commitments.

But before we go into our operational performance, I want to address up front what is and has been the market's concern about our deleveraging progress. Our commitment to deliver a material deleveraging transaction in 2023 of at least $1.5 billion in cash has not changed, nor has our very focused efforts to reach a leverage ratio of 4 times by 2024.

We continue to give full priority to this.

Regarding the announced transaction in China, we are progressing and working diligently towards getting the agreement signed and expect to announce it before year end 2023, in line with our commitment. As we are dealing with a very highly regulated environment, we expect to get all approvals and closing the transaction during the first half of 2024. Ultimately, this will support the organic results we are currently already delivering to continue deleveraging the company.

Let me now walk you through how we are meeting our other commitments. Q3 was another quarter of strong revenue growth, where we also delivered a 25.1% adjusted EBITDA margin, which is a significant improvement of 480 basis points compared to Q4'22 margin. The revenue growth was primarily driven by Biopharma and our flagship franchises, immunoglobulin and albumin, and we expect that momentum to continue throughout the year.

All the measures to achieve the EUR 450 million cash cost savings from our Operational Improvement Plan have been successfully executed. We are already seeing and will continue to see the related margin expansion throughout Q4 and next year. This is particularly visible in plasma, with cost per liter further declining, while our plasma supply levels continue to grow at a double-digit pace. As a result, we are now committing to the top of our adjusted EBITDA guidance to deliver 1.450 million euros for the year 2023.

Annualizing the Operational Improvement Plan's total savings, our adjusted EBITDA margin is anticipated to increase to 28-29%, which is in line with 2019 EBITDA margins. Our EBITDA and cash flow improvement are significantly contributing in our organic deleveraging progress with our leverage ratio now at 6.7 versus a peak of 9 times last year.

As mentioned, and I strongly reiterate, we will continue to lower this ratio and are very focused on meeting our 4x target, including signing one deleveraging transaction this year.

And last, but maybe most importantly, we are now stepping up our focus on our growth strategy to ensure the creation of sustainable, long-term shareholder value. We are actively accelerating a series of strategic levers to strengthen our industry leadership as a global market-maker, which our recent Egypt and Canada projects are strong example. We have also taken steps to further strengthen the leadership team to drive innovation and digitalization at Grifols by appointing Joerg as our Chief Scientific Innovation Officer and Miguel as our as our Chief Digital Information Officer. Both bring a wealth of experience and have a clear compass to take Grifols to the next level.

We clearly continue to see innovation as a critical strategic value-creating lever for future growth and are, therefore, working towards accelerating our pipeline. A testament thereof is that all our milestones set for the second half of the year are on track, and having completed the Biotest Fibrinogen trial in Q3, we are confident that we will also there be able to provide top-line results soon.

Needless to say, we continue to be very optimistic and excited about both Fibrinogen and Trimodulin and what they represent for Grifols in the future.

Having delivered on all our priorities, and with our fundamentals strong, we are now well on the way to truly reposition Grifols for sustainable, profitable future growth. This is a new chapter for Grifols, and we are very excited to embark on it. With that, I will now hand it over to Victor to take you through the details of our business unit's performance in the quarter.

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

Good afternoon or good morning, everyone, and thank you for joining us today.

Our revenue growth throughout the previous quarters has been remarkable. As we have been mentioning consistently, the sequential progression remains exceptionally strong and positive. Grifols stand-alone delivered a 9.1% growth in Q1, followed by a 6.5% in Q2 and a 9.6% in Q3, all of them a constant currency. All in all, revenues grew 8.4% for the first nine months of the year.

For this first nine months of 2023, we achieved revenues of more than 4.8 billion, up by 11.7% a constant currency. This was primarily driven by performance of Biopharma in our key proteins, as well as Biotest contribution. Please bear in mind that we are consolidating nine months of Biotest in 2023 while only five months in 2022.

Our Biopharma performance was remarkable, driven by growth in our immunoglobulin flagship product, which further accelerated in Q3. With 17.4% sales growth in the quarter and close to 15% year-to-date at constant currency, as well as our albumin franchise.

IG continues to be driven by a strong underlying volume demand and several pricing, especially outside U.S. Our immunoglobulin Xembify, continues to see a strong volume uptick, especially in Q3, backed by higher demand in the U.S. Xembify continues to offer a vast consumer opportunity and we look to further capitalize on this growth with launches in some European countries, in Australia starting in this quarter, in this Q4 2023.

Grifols' strategy is to continue strengthening its immunoglobulin franchise in the U.S. and other selected countries. We are focused on the immunodeficiency market, including the highest growth primary and secondary indications, while remaining leadership in neurology and acute health care.

Earlier this week, we achieved FDA approval for a new IG purification facility, which will increase Grifols' Gamunex capacity to 60 million grams per year. This approval was not only obtained in record time, but it will enhance efficiencies in terms of yield recovery and cost per gram.

In albumin we achieved strong revenue growth year to date, delivering close to 18% increase with a higher demand in China and solid price increases in some key markets.

Alpha-1 and Specialty proteins segment revenue was relatively flat, mainly driven by lower demand of plasma-derived Factor VIII and to a lesser extent, lower alpha-1 volumes due to industry dynamics in some European countries. As alpha-1 demand improves on the back of the solid underlying improving model trends, the current lower growth is expected to be temporary.

At the same time, I would like to highlight the good performance of our most recently launched products, such as Tavlesse, Fibrin sealant and Thrombin, which are growing significantly. In addition, hypers and antithrombin II are also delivering a positive evolution.

As a result of the successful execution of our Operational improvement plan, cost per liter continues to reduce this quarter, declining by 22% as of September 2023, based on its July 2022 peak, driven by decreasing donor compensation, plasma center network and staff rationalization and reduction of other plasma-related costs, such as overheads.

After stabilization of donor compensation in Q2, it continued to decline slightly in Q3. Going forward, we are targeting additional operational efficiencies through process optimization, streamlined operations, and overheads, lean processes, and digitalization.

Plasma supply growth remains solid at 10% year to date versus last year. This plasma supply growth positions the company to continue meeting the growing underlying demand for our products.

In parallel, and since the beginning of the year, our R&D manufacturing and quality teams have been working on a project to significantly improve our yield in IG. We have seen results in pilot-scale production, and we are beginning to implement it in full-scale production as we speak.

In our next quarterly call, we hope to be able to provide more details of this project and its results. We expect these improvements to further improve our margins as it is fully deployed.

Now moving to slide 9. This year, and for the first time ever, the company made a strong commitment to accomplishment 12 innovation milestones, and I am proud to say that we have made very good progress so far. Out of these 12, we have completed 9 and are on track to achieve the remaining in the coming months. Among others, during these nine months of 2023, we have finalized enrollment, both the PRECIOSA and SPARTA trials, the latter ahead of schedule, advanced from single to repeat dose in the Alpha-1 AT 15% SC study and progressed in trials across our IG franchise such as the IVIG-PEG study, the Xembify bi-weekly study and the Xembify SID-CLL study.

Worth mentioning is that in Q3, we signed a collaboration agreement with the National Cancer Institute for our GIGA564 project, whose IND preparation has been submitted this October, which sets the stage for GigaGen's first oncology asset to enter clinical development. Also, in the GigaGen front, we have received positive feedback from the FDA in a pre-IND meeting held in September concerning the GIGA2339 development in hepatitis B.

We recently made important inroads in the Alzheimer space through our company Araclon on the phase 2 trial of its vaccine candidate ABvac40 for the treatment of patients with mild cognitive impairment and very mild Alzheimer Disease, releasing positive final results.

Regarding Biotest, Trimodulin and Fibrinogen trials are advancing as expected, and we are fully focused on capturing its strong growth opportunity. To this end, we have completed the enrollment in the Fibrinogen ADFIRST trial and are now on track to publish top line results early Q1'24. For the Trimodulin ESsCAPE trial, first patients have already been enrolled.

These positive developments are testament to our commitment to maintain and increase efforts in developing new products and indications, which we plan to continue to accelerate for the remainder of the year and onwards. We expect the appointment of Joerg as Chief Scientific Innovation Officer to help our objectives and further accelerate our pipeline.

Now, in slide 10, Diagnostic revenues declined 3.1% at constant currency in the quarter, but 0.9% on a year-to-date basis. As mentioned in previous quarters, our NAT technology was negatively impacted due to the pricing concessions given in exchange for extending a large contract with a key

customer of ours. However, strong instrument sales in Japan and Indonesia are helping offset part of this decline.

In Blood typing solutions, we are seeing a strong growth across the U.S., Argentina, and the Middle East, partially offsetting the lower sales of GelCards experience in China lately.

In recombinant proteins, we have signed a renewed ten-year supplier agreement with an important partner in the diagnostic field.

And now moving to slide 11. In Bio Supplies revenues declined 14.1% in the quarter due to lower cell culture sales driven by subdued demand. We look forward to leveraging the acquisition of Access Biologicals and capturing the full potential of this business unit. And now I hand it over to Alfredo, who will go through the Group's financial performance.

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

Overall, we have delivered strong performance across the board, improving revenues, profitability, and strengthening our balance sheet. Our revenues continue to grow sustainably at 9% at constant currency in Q3, bringing the year-to-date growth to 11.7%. Our EBITDA margin continues to show sequential expansion, further improving to 25.1% from the 23.4% in Q2. On the back of this is profitability, which will continue to improve in the coming quarters, our leverage ratio has declined to 6.7 times, from 9 times peak of last year. Organic efforts have been a key piece so far on our deleveraging path.

Revenue has shown a very positive sequential trend throughout this year. On a last twelve-month basis, total revenue has reached more than 6 billion euros with 11% growth. Biopharma continues to be the key growth driver with a solid underlying demand, particularly in IG and more notably our sub-IG product which continues to gain traction as well as our albumin franchise in China.

Our ex-U.S. strategy has been also an important growth lever, together with mid-single-digit price increases.

Our gross margin has significantly improved over the last quarters, reaching 41% in Q3. These quarters show the steepest growth margin expansion in recent quarters, improving by 400 basis points compared to the same period of last year. This is due to Biopharma remarkable performance and the 22% decline in cost per liter, which is now clearly reflected in our P&L after a nine-month accounting lag.

On the right-hand side of the slide, you can see a significant decrease in our SG&A cost as a percentage of revenue. This reduction, which amounts to nearly 120 basis points, compared to Q3 last year, is primarily attributed to operational leverage and efficiencies resulting from our 450 million euros Operational Improvement Plan.

All of this has culminated into higher EBITDA margin for the Group, reaching the 25.1% in the third quarter and more than 1.3 billion on a last 12-months basis. Year-to-date, it has reached more than 1 billion euros and 22.3% margin reflecting sequential improvement of 480 basis points compared to end of '22. Most of the improvement has come from Biopharma, driven by both volume and cost per liter improvement. Our Operational improvement plan has made also significant contribution to EBITDA. On the last 12 months basis, EBITDA has increased by 20% with a significant margin expansion.

Considering this significant margin improvement, we are now very confident in our ability to achieve the high end of our previous EBITDA guidance. We expect full year '23 total revenue growth of 10% to 12% at constant currency, which is supported by Biopharma revenue growth of 12% to 14% at constant currency.

Regarding EBITDA margin, now we expect for the second half of the year to be at 25% from the 24-25% previous range and 24% margin plus for the full year'23. All of this confirms our adjusted

EBITDA guidance of 1,450 million by end of the year, and if we consider the annualized cash savings, the proforma EBITDA margin would be in the 28-29% margin range, bringing us back to the pre-COVID margin levels.

Building on all efforts made through previous quarters, we continue to make solid progress on our deleveraging path, down to 6.7 times at the end of September this year driven by EBITDA improvement backed by business performance, cost savings, and operating cash flow improvement. We remain confident to achieve a leverage target of 4 times by the end of '24. Our current liquidity is more than 1 billion, including 450 million in cash.

Now I hand over to Thomas for final remarks.

Thomas Glanzmann, Executive Chairman and CEO

Thank you, Alfredo.

Maybe to put all of what you have heard into perspective. Last year, we embarked on a journey to turn around Grifols' financial performance, as well as to build an increasingly performance-oriented, efficient, and accountable organization.

The third quarter has been testament to that we are well on our way to meet our objectives. Our fundamentals have never been as solid, and we have delivered a strong performance across the board, executed on our key priorities and, very importantly, delivered on our commitments.

One: We have grown our revenue sustainably. Two: We have enhanced profitability and have sequentially updated our EBITDA guidance for the full year '23 accordingly and remain on track to reach 2019 EBITDA margin levels next year. And three: Driven by all of these improvements and a commitment to deliver a deleveraging transaction of at least 1.5 billion, still in '23, we will strengthen our balance sheet and are on track to reach our guidance of 4 times by 2024.

At the same time, we are not losing sight of what's ahead of us, beyond '23. We are now very focused on realizing Grifols' full potential, and in doing so, maximizing value for all stakeholders. Our efforts will concentrate on a number of strategic levers.

One: We will build on where we see our core strengths and the best competitive advantage.

Two: We will continue operating as a global market-maker and shaper in our markets, seizing those commercial opportunities that are most promising and hold great potential.

Three: We will continue to accelerate and bolster innovation, focusing on a select number of therapeutic areas and prioritizing those projects in our pipeline that will boost our profitability and differentiate us with our customers.

Under the leadership of Joerg, the architect of Fibrinogen and Trimodulin, we will strategically strengthen innovation as our future growth engine for Biopharma.

Four: We will continue to enhance donor attractiveness through personalization of the experience, digitalization, and streamlining of processes.

Five: We will also continue to improve our business and operations through further process optimization, streamlined operations, and digitalization to drive efficiency.

And six: As a market leader, we will explore new markets and business opportunities, while we enter into agreements to deliver groundbreaking, differentiated, patient and customer solutions.

Importantly, these six strategic pillars will be backed by a performance-oriented management team and a strong people and talent development culture. We will build on the current progress and momentum, while maintaining strong financial discipline, both with regard to P&L and balance sheet management to ensure strong, sustainable, long-term financials.

In the coming quarters, we will give you more details of all our strategic levers and update you on the progress as we continue to deliver to our commitments in the short term. I want to conclude by reiterating how encouraged I am by all our progress in the first nine months of the year, and I do want to thank the entire Grifols team for their hard work and dedication.

I appreciate your attention, and I now turn it back to Nuria, who will open it up for discussion.

Thank you.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you, Thomas, and thank you all for your time. Now, let's start the Q&A session. Just as a reminder, you need to press star 5 to ask a question, and we need to stick to two questions per analyst. And if you have follow-ups, you can dial star 5 again, and then we will place you once again in the list.

After your question, we may need to put you on mute to avoid background noise. So, we have already a few requests for questions. First question today comes from Tom Jones from Berenberg. Good day, Tom. Hello.

Tom Jones, Berenberg
Good morning. Or good afternoon. Thank you for taking my questions. They both really relate to the tech transfer agreement that you've recently signed with Biotest. I wanted to get it straight for a financial one, really. I think you guided to somewhere around a mid-triple-digit million number payments in total over the '23, '24, '25, '26-time frame. It'd be helpful for us to try to understand broadly how that might be weighted to help us model free cash flow over the next couple years.

And sort of related to the master distribution agreement, you also have with them, just wondering how you're intending to position Yimmugo, your novel IG product, against your existing Gamunex and Xembify brands, and make sure you don't cannibalize each other and create the most revenue and value across the entire IgG franchise with all those products. So, some ideas of sort of commercial marketing strategy for those different IgG products would be helpful, I think.

Alfredo Arroyo, CFO
Thank you, Tom, for your questions. Regarding the transfer tech agreement with Biotest, basically, what you have seen in the press release is on a stand-alone basis. On a consolidated basis, it's a wash. The payments related to this agreement will be done based on the cash flow needs of Biotest. So, it will not impact on a consolidated basis.

Victor Grifols Deu, COO
Hi Tom. Good afternoon. I'll take the second piece of your question about the positioning of Yimmugo. As you know, in Grifols, we have three main intravenous brands, one is Gamunex and the other is Flebogamma. Our idea is to, due to basically the better yields that Yimmugo has compared to Flebogamma is to, with time, once the product is approved in different countries, to commercially switch from Flebo to Yimmugo. This is the strategy we are pursuing.

Tom Jones, Berenberg
That is really helpful. And another quick one, the 13.7 million of restructuring charges in Q3, which line item were they booked in? Just helps us tidy up our models.

Alfredo Arroyo, CFO
It depends. If we are talking about severance, there are severance booked for the manufacturing area or from corporate structure. They go either to COGS or to SG&A. For further details, you can follow up all the specifics with my team.

Tom Jones, Berenberg
Okay. Will do. Thanks very much.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you, Tom. We have a question now from James Gordon, JPMorgan. Hello, James.

James Gordon, JP Morgan
Hello, James Gordon, JPMorgan. Thanks for taking the questions. Two questions, please. First one was on divestment plans. And the question was just, what is the cause of it taking maybe a little bit longer than we thought to close? It has been about five months since the June update. Is it that you're looking to do something more complicated, maybe a combined transaction, divesting some of Shanghai RAAS and Diagnostic, or some factors related to dynamics in China at the moment? Or why has this taken a bit longer and why are you still confident?

And the second question on Biopharma growth. So strong performance in the quarter, I think it was 14.5% year to you date and 13.7% in the quarter, but you're still guiding for the full year to grow 12% to 14%. That's quite a wide range with only two months of the year left and it potentially implies a slowdown in Q4. Is that just conservatism or are there other things going on in Q4? I can see maybe you have a tougher comp for Biotest or is it industry dynamics with Alpha-1? Why might things theoretically slow so much in the last few months of the year?

Thomas Glanzmann, Executive Chairman and CEO
Hi, James. This is Thomas. I'll take your first question. First of all, let me remind you that Shanghai RAAS, which obviously is the asset we're talking about, is extremely attractive and there have been many, many people that have had an interest in this asset. Now, also, this being a China transaction, it's a very complex environment to negotiate.

We do want to make sure that, you know, that this turns out to be a good transaction, both in the short and long term for Grifols, so that has taken time. And we obviously want to make sure we cross all the Is and Ts, but it's really not more than the fact that getting anything done in China does take a lot more time than if you were to do it in Europe or the United States.

Victor Grifols Deu, COO
Okay. I'll take the second part of your question. We are fully committed to meet our targets of revenue growth, both combined with Biotest and Biopharma on a stand-alone basis. It's fully there.

James Gordon, JP Morgan
Thank you. I think the full breadth of the range would imply that there might be quite a slowdown. So, is it just you don't want to change the range at this time? If you would get to just 12%, you'd have to have quite a slowdown versus what you've done in the first nine months?

Victor Grifols Deu, COO
We have had a very strong, in fact, Q3. For Q4, we stick to our budget, and if it comes as good as Q3, we will try to deliver, of course, but it's kind of, quarterly, sometimes the swings are not really underlying reality.

James Gordon, JP Morgan
Thank you.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you, James. Next question is coming from Thibault Boutherin from Morgan Stanley.

Thibault Boutherin, Morgan Stanley
Hi. Thank you for taking my questions. Just one on albumin. The number seems to imply you had very strong acceleration of albumin sales in the third quarter, so just want to understand what happened there. And the second one on deleveraging. Beyond the Shanghai RAAS stake sale that you kind of confirmed, what about any another transaction before the end of 2024, and how large would this deal need to be in order for you to get to your leverage target. Would it need to be as big as Shanghai RAAS, or could you do something smaller and get there? Thank you.

Victor Grifols Deu, COO
On your albumin question, we are seeing strong momentum of albumin both in China and other important regions globally, and we are meeting our demand. As plasma is coming back, we are meeting this demand that is out there for us, so it's perfectly in line and it's fully, let's say, controlled.

Thomas Glanzmann, Executive Chairman and CEO
Hi Thibault, Thomas here. We are focused 100% now on signing the China transaction and are actually at this point in time not looking at anything else. We believe that the organic deleveraging, you know, combined with the transaction, is going to get us to the target that we set for ourselves for 2024.

Thibault Boutherin, Morgan Stanley
Thank you.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Then our next question's coming from Alvaro Lenze from Alantra Equities.

Alvaro Lenze, Alantra
Hi. Thanks for taking my question. The first one is if you could provide some additional detail on the evolution of Alpha-1? Sales seem to be a bit weak, I don't know whether is that final demand or increased competition from other plasma players.

And the second is if you could provide some guidance on cash flow. I see that investment in working capital remains very high. I don't know if we should expect continued investment in Q4 and also into 2024. Thanks.

Victor Grifols Deu, COO
I'll take the first one. Good afternoon, Alvaro. On Alpha-1, we are seeing today kind of flattish evolution in this franchise. There are many, many components. As you know, we have a pretty unique business model when it comes to commercial, especially in the U.S. and our historical markets. After the pandemic, we are fine-tuning this model. As you know, a key important factor for the model is the fifth piece in the funnel is the testing piece. Just in May, we launched the new testing tool, which is the Alpha ID at home, which is a complement to our healthcare professional testing model. So, we are fine-tuning there.

We expect this flattish trend seen recently will be turned around during 2024 as we, as I said, make some small tweaks in our operating model to adapt to the new times after the pandemic.

Alfredo Arroyo, CFO
Hola Alvaro, to your question of the cash flow. In the Q1, we had the restructuring cost and most of the payments were done in Q1. And since then, we've seen a significant positive increase on cash flow, and we're going to see this not only in Q2 and Q3, but also in Q4.

Regarding the inventories, yes, we're seeing some increase in this quarter, but year-to-date, we are in the same days, inventory days around 300, which is in line with the previous year. Remember that, just by maintaining the number of days, but due to the increase of the activity, with this double-digit growth, this requires additional inventory. But for the year end, we're going to see a very positive cash flow before debt service.

Alvaro Lenze, Alantra
Thank you.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you, Alvaro. We have a question from Guilherme Sampaio from CaixaBank BPI. Hello.

Guilherme Sampaio, CaixaBank BPI
Hello. Thank you for taking my question. So, first of all, following up on this previous question. In terms of the organic deleveraging. So, we can see net debt going up, so when should we see a decline in net debt, over next quarter, or something for the next year, assuming the deleveraging transaction that you are anticipating.

And second, if you could touch upon the slowdown in the Diagnostic area that we've seen specifically in this quarter?

Alfredo Arroyo, CFO
Okay, for the first question, the net debt reduction will be seen primarily on the back of the cash proceeds coming from the divestment, because even though we see that our operational cash flow is going to keep improving during this year and next year, we need to deleverage to reduce the interest expense.

Victor Grifols Deu, COO
On the diagnostic question, it's good to remind that in Q2 we had an exceptional revenue, or income coming in this one that, of course, is an exceptional one, and it's not happening in this quarter or the others to come.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Okay, good. And now we have a couple of follow-ups. So, Tom, I think you have some additional questions?

Tom Jones, Berenberg
I do. I just wondered; it was a broader follow-up question around your kind of building pipeline. And if I look across everything, you've got a building number of assets, whether it's the two Giga products 564 and 2339, you've got the Alkahest AMD product, the 4292 product, then the 6019 and 6021 I think from Alkahest as well, plus the Alzheimer's vaccine. You've got all these sort of non-plasma -- well, some of the Alkahest's are plasma, but you've got a lot of non-core products building up in the pipeline, which is great. But I just wondered kind of what your long-term thinking around the development of these products is.

Because to be frank, at the moment, the market just puts a multiple on the R&D spend. I don't think anyone's got a penny of revenue in anybody's model for any of these products. So, as it sits today, they're a bit of a drag on the equity story. So, I just kind of wonder what the long-term strategy is. Is it keep these and take them all the way through development and marketing, or at some point, do you think you'll start out-licensing some of these products and tying up with people who might have more expertise in late-stage oncology drug development? I just wonder what kind of the big picture here is, because at the moment, they're all cost and no benefit from the equity market's perspective.

Victor Grifols Deu, COO
Thank you, Tom. Yeah, it's a very, very good question from your side. Clearly, Trimodulin and Fibrinogen will play a key role here as plasma will be in our core, both in the day-to-day in commercial and manufacturing, but also for our future development, so plasma clearly will be on the core with these two products. And the complement coming from our life cycle management that we are doing in different products.

On those new technologies, for instance on GigaGen, when we made the acquisition of this asset or this technology, was in line with our Gammaglobulin product portfolio. We saw that as an interesting opportunity in the way we can obtain Gammaglobulin or specific Gammaglobulin from this technology. It happened that that company also came also with these oncology interesting initiatives or programs there, and we just wanted to continue them.

Going forward, if some of them are successful, we are clearly open to define and decide whether this remains in our core and we, let's say expand to oncology, or we kind of out-license, whatever is the form for those, let's say non-plasma programs.

Tom Jones, Berenberg
Okay, that's very clear.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you. Now, Alvaro, also a follow-up. Hello?

Alvaro Lenze, Alantra
Yes. Thanks for allowing me to jump back in the queue. Two questions. First, on capacity and considering the fast growth in activity, if I am not mistaken, I believe in Q2, you mentioned you were around 60% capacity or something like that. If you could provide us an update on how is that

trending and when should you return to higher CapEx spending as CapEx is currently running lower than it has in the past?

And the second question is just if you could provide some guidance on the evolution of minority profits attributable to non-controlling interests. They have been trading a bit higher than I expected, as little visibility as some of the companies here do not have a reported EBITDA like the plasma collection networks of Haema and Biotest U.S. So, whether we could extrapolate this 30 million per quarter, like indefinitely, or if you could provide some guidance for this year and next year. Thank you.

Alfredo Arroyo, CFO
Okay. Yeah. I'll take both questions. Regarding capacity, yes, we confirmed, in the last quarter, this 60% capacity for this year. Based on the upcoming sales growth and our projections, we expect that the next wave of CapEx expansion will take place in 2028. So, we have a clear path of lower spend from now to 2028.

Regarding the minority line within our P&L, for your model, you can extrapolate 100 million per year.

Alvaro Lenze, Alantra
Thank you.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Okay. Apparently, there were two persons who were trying to access and were having some kind of problems. We will try to give access from our side. We have Peter Verdult from Citi. Can you hear us, Peter? No? Okay. We'll try again later. And then, Charles from Barclays? Nope? Okay. While we solve this, let's continue with Thibaut, who you also had some follow-up. Can you hear us?

Thibault Boutherin, Morgan Stanley
Perfect. So, follow-up question on the funding of the Alzheimer vaccine potential phase 3, just wanted to know if you're kind of open to out-licensing this or finding a partner to form the R&D or if you're willing to fund it yourself?

And then, second question. When we think about the underlying agitated EBITDA this year, proforma including savings, the 1.75 billion, how comfortable are you with kind of consolidating this as s base going forward and using it as an underlying profitability guide for next year? Is there any kind of accounting element or business element we need to think about that would make it not a good approach to do that? Thank you.

Victor Grifols Deu, COO
I'll take the first part of the question on the Araclon vaccine. Yeah, this was an important milestone for us that we have been waiting, the phase 2 clinical trial, and data out of that, as you have seen very positive data across the board.

The idea, and this is linked to a previous question, we are very open to study potential out-licensing this product for the phase 3.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you, Victor. And apologies Thibault, but we could not hear you very well, the second part of your question. Can you summarize? It was on the accounting?

Thibault Boutherin, Morgan Stanley
Yeah, of course. It was just, are you comfortable with kind of analysts and consensus using the 1.75 billion of underlying adjusted EBITDA margin that you are guiding, including all of pro forma savings? Are you comfortable with this being used as a base when you think about EBITDA next year for basically increasing growth for next year? So, basically what consensus is using this number as a base for this year going into next year? I just want to understand if you're comfortable with this approach.

Alfredo Arroyo, CFO
Thanks for repeating the question. Yes, we are comfortable with this 1,750 million, considering this cash savings that are going to go into 2024. So, therefore, out of the 450 million operating cash savings, 150, roughly, will flow through the P&L this year and 300 next year, so, that's why we come up with this 1,750. So, yes, we reaffirm that we are confident.

Thibault Boutherin, Morgan Stanley
Thank you.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
We have a question from Jaime Escribano, Banco Santander.

Jaime Escribano, Banco Santander
Hi, good afternoon. A couple of questions from my side. Regarding the gross margin Grifols stand alone, 41% in Q3. We look at 2019 where Grifols was making 46%. But the cost of plasma keeps going down, and I remember you mentioned that in Q4, we should see the fully loaded or almost fully loaded impact of the cost savings plan. I wonder, how do you see this 46% gross margin affordable in following quarters, even if we could think about a gross margin higher than that? That would be my first question.

Alfredo Arroyo, CFO
Okay, Jaime. Yes, as you know, we need to considering in our industry this accounting lag for the plasma cost. And as I said, out of the 450, 300 are coming next year, so they're going to go through the P&L. Most of this 300, which majority relates to plasma cost, so yes, we're going to see that this gross margin is going to keep growing on a sequential basis, which, basically this high gross margin is at the same time going to have a very positive impact on the quarterly EBITDA improvement in the coming years.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
And then you had a second, Jaime?

Jaime Escribano, Banco Santander
Yes, my second question was regarding the Canada plant. When do you think we can start seeing revenues coming from the new manufacturing facility there and what could we expect?

Victor Grifols Deu, COO
We were there a few months ago, the whole team meeting in our Canada plant. I can tell you that the CapEx is progressing – the finishing of that. We can expect to see some production coming out of this facility during 2025.

Jaime Escribano, Banco Santander
Okay. Thank you.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you. Now, I think we have recovered Charles Pitman. Charles, can you hear us now? And whether we can hear you. Hello?

Charles Pitman, Barclays
Hello. Can you hear me now?

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Yes, yes. Apologies.

Charles Pitman, Barclays
No, no worries. Thank you very much for taking my question. Just a couple on the Shanghai RAAS deal. I was wondering if you could provide us with a little bit more detail around what the regulatory hurdles and approvals are that you are currently navigating with this deal, and what approvals do you need and when to kind of get confidence that you can announce this signing that, you know, and kind of, if you could just reiterate what gives you confidence that you are able to sign this by the end of the year.

And then secondly, on the 1.5 billion dollars of cash realization, can you confirm this is a pre or post tax amount? And what gives you the confidence that you can, in fact, realize that? And overall, can you just reiterate that you are confident you'll be able to realize that cash and you'll be able to use that to pay down debt? Thank you very much.

Thomas Glanzmann, Executive Chairman and CEO
So let me take the first part. At this point, we are very confident that we can take the transaction across the finish line before year end, because at the end of the day, some of the regulatory pieces will come in next year, in first half of next year, so that's not preventing us from the signature as such. So, we're going to sign and we're pursuing the regulatory. And as we said, we expect that both, that the closing will take place in the first half of next year.

Alfredo Arroyo, CFO
Regarding the cash proceeds, at least the 1.5 billion dollars. These cash proceeds will be used in full to reduce debt.

Charles Pitman, Barclays
Thank you.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
And also, we have Peter Verdult from Citi. Hello?

Peter Verdult, Citi
Nuria, can you hear me?

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

Peter Verdult, Citi
Thank you. Pete Verdult, Citi. Three questions, please. Thomas, for you firstly. When you initially put that press release out in June, you talked about the transaction and remaining a significant shareholder in Shanghai RAAS. So, could you maybe reconfirm that or have things changed? And can I be cheeky to ask, what in your view is a significant shareholding still in RAAS for the transaction?

Question number two, maybe for Victor. I think it would be helpful for us in the market -- good quote from Xembify -- it's a long-term growth provider. I think historically, you said 5% to 10% of IG sales are Xembify. Are you willing to put a ballpark number on where we are end of this year on Xembify?

And lastly, I joined late, so apologies, but I did hear James Gordon's question about the guidance. Could I just inverse it and make it simpler? Is it fair to say that the risks, you know, given the trends you're seeing so far in Q4, that the risk to your guidance is very much to the upside rather than the downside, as James is implying, in terms of mechanically going, yet keeping that 12% to 14%? So, three questions on RAAS, Xembify and outside risk to guidance, given the Q4 trends you're seeing.

Thomas Glanzmann, Executive Chairman and CEO
Okay, I'll take the first question, and appreciate it. With regard to our ownership and all of that, we're going to let you know all of the details once we announce and once we sign. But I do want to remind you that we have a strategic alliance with Shanghai RAAS, and we have an albumin distribution agreement, both that are very important to us and also our future position in China is important to us in a strategic market. So, as we, you know, proceed with this deal, all of these pieces will be a very important part as we conclude and sign the deal on Shanghai RAAS.

Victor Grifols Deu, COO
For the second question. Hello, Peter. Yeah, as you probably can see in the presentation, we released today, the growth pace of subcutaneous versus our IV product is clearly higher. So, this is as we move every month, every quarter, the share of subcutaneous versus the overall is increasing, and we expect this to continue. I don't know exactly up to which level, but we expect this to represent with the time a significant mix in our IG portfolio.

Alfredo Arroyo, CFO
Regarding the guidance. As you know, the growth is very important to understand that is based on the baseline of previous year, and also on when you look at on a reported basis on the FX.

For the Q4, we still expect a strong quarter, but the reality is that when you look at the amount, the amount of the fourth quarter is going to be higher than the previous quarter. However, the baseline varies from one quarter to another quarter when you compare with previous year. But said that, we reiterate this range for net revenue guidance for the year end.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you. We are coming close to the hour, but we have two follow-ups, one from Jaime, another one from Charles. Please, if you can make kind of one question each so that we can conclude with that the session. First, Jaime?

Jaime Escribano, Banco Santander
Hi. Thank you. Mine is fairly quick. It is regarding the pipeline. So, you announced the Alzheimer's vaccine results first readout quite recently. Just to know, what could we expect, following steps? And is this a big opportunity for you or can you try to give us some kind of sense how excited you are with this? And just a very quick one also related with the pipeline, which is the ASFA in 2018 said they were going to review the guidelines and that in 2023 they wouldn't start recommending again products. Is this something that could be on the table again, you know, to try to revise the AMBAR project with the ASFA or you don't have a lot of expectations from that? Thank you.

Victor Grifols Deu, COO
Thank you. On the Alzheimer, Araclon vaccine, there was a question previously, it's a program that we are open to out-license the financing of this phase 3 trial that it should go now. So, that's the status as of today regarding this vaccine, looking for kind of a partnership here.

On the ASFA inclusion of the AMBAR protocol into their guidelines, yes, it has been included in one of the guidelines, so now it's a procedure that can be used out there for patients.

Regarding AMBAR in general for Grifols, we are kind of in a standby mode. We're in talks with regulatory agencies to see opportunities on how to proceed. But to the ASFA question, yes, it has been included.

Jaime Escribano, Banco Santander
Okay, and I'm sorry Victor, just two follow-ups. But then, is there an opportunity to monetize AMBAR through this recommendation of the ASFA or to get it into the insurance or any growth potential coming from there?

Victor Grifols Deu, COO
At this stage, we are moving cautiously. We are trying to understand the potential possibilities that we can see for this program in relation with the inclusion of the protocol in the ASFA guidelines.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Okay, and last question for today's session. Charles Pitman Hello, Charles.

Charles Pitman, Barclays
Hi. Thank you very much. Just very quickly, can I just, wanted to just get something clear. The 1.5 billion you expect to receive, that's a post-tax amount? And then just the actual question I had to follow up was just talking about the expected potential for other cost savings, given you've now hit kind of the top end of your target for 2023. What are the further levels that you're seeking to identify going forward? Or is the focus very much just on mobile operational efficiency? Thank you.

Alfredo Arroyo, CFO
Okay, for the 1.5, this is going to be cash, no taxes on this when you receive it. And then, regarding the Operational Improvement Plan, as we said, this year we're going to achieve through P&L the 150, plus the 300, as I said for next year, the 450. I think that we continue working to exceed that 450. There are some opportunities already mentioned by Victor on the manufacturing side. So, this

is a nonstop, I would say, working. And I'm pretty sure that more savings will come in the upcoming quarters.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you, Alfredo. And thank you, everybody, for joining us today, and expect to talk to you very soon. As always, any follow-up, any other questions you may have, you can contact us at the Investor Relations and Sustainability Department, and we'll be happy to take other questions also from all participants. Thank you very much.

Thomas Glanzmann, Executive Chairman and CEO
Thank you very much, everybody. Bye bye.