Grifols

Q1 Earnings Call
14 May 2024

Speakers

Daniel Segarra, VP IR & Sustainability

Thomas Glanzmann, Executive Chairman

Nacho Abia, CEO

Roland Wandeler, President Biopharma

Questions from

Peter Verdult, Citi

Tom Jones, Berenberg

Charles Pitman, Barclays

Álvaro Lenze, Alantra

Graham Parry, Bank of America

Jaime Escribano, Banco Santander

Thibault Boutherin, Morgan Stanley

Guilherme Sampaio, CaixaBank BPI

GRIFOLS Q1 2024 Results

Daniel Segarra, VP, Investor Relations and Sustainability

Hello everyone, and welcome to Grifols' conference call. Today we'll be sharing a Business Update and our first-quarter financial results. Thank you very much for taking the time to join us.

My name is Dani Segarra, I'm Vice President of Investor Relations and Sustainability. Today I'm joined by Grifols' Executive Chairman, Thomas Glanzmann; Chief Executive Officer, Nacho Abia and Roland Wandeler, President of Biopharma.

Today's call will last about an hour, including a Q&A session.

As a reminder, this call is being recorded. All materials used during the call are available on the Investor Relations website at grifols.com.

The transcript and video replay will also be available on the Investor Relations website within 24 hours.

Turning to slide two. I would first like to share a disclaimer on forward-looking statements.

Forward-looking statements are subject to substantial risks and uncertainties. They are only valid on the day of the call, and the company is under no obligation to update or revise them.

Grifols' financial statements are prepared in accordance with EU-IFRS and other applicable reporting provisions. These include Alternative Performance Measures – or APMs – prepared under the group's financial reporting model as defined by the guidelines of the European Securities and Markets Authority.

Please note that Grifols' management uses APMs to evaluate its financial performance, cash flows and financial position as the basis for its operational and strategic decisions. These APMs are prepared for all time periods presented in this document.

Reconciliation tables can be found in our website. With that I would like to turn the call over to Thomas Glanzmann.

Thomas Glanzmann, Executive Chairman

Thank you, Dani. Good evening, afternoon and morning to all on the call. It is great to be here with you today.

Now, let me start by welcoming our new CEO, Nacho Abia, to Grifols. We are truly pleased to have him on board. He has been on the job for only six weeks but has hit the ground running and has come up to speed quickly, as you will see shortly. We look forward to his leadership as we move into the next successful chapter of the company's history. I also welcome Roland to his first earnings call.

With the changing of the guard, I would also like to take this moment to thank and recognize Raimon and Victor Grifols, who at the end of May will step down from their executive roles and become proprietary Directors of Grifols.

All of their many great contributions to Grifols over the past years have truly left a lasting imprint on the company. I am very pleased and thankful that they will continue to provide their valuable thoughts, insights and advice as members of our Board in the future. Thank you, Raimon and Victor.

I also want to share with you another significant change at the company. Alfredo Arroyo, who recently turned 67, decided and already informed me a year ago that he wanted to pursue his next chapter in life after a successful career of more than 45 years in finance, including the last 17 as Grifols' CFO.

We are grateful to have benefitted from Alfredo's leadership and financial expertise since he joined Grifols in 2007, shortly after the company went public. Alfredo has been an invaluable member of the executive team, overseeing the company's successful evolution during our critical growth years and effectively managing the impacts of the pandemic.

On behalf of the company and the entire Board of Directors, I would like to thank Alfredo for his contributions over the past 17 years.

We have begun searching for Alfredo's successor. The process will be thoughtful and thorough as he or she will be a key part of the Management team taking Grifols into the future. Alfredo will remain with the company throughout 2024 to ensure a smooth transition. Which I personaly very much appreciate

Now let us turn to my presentation.

After closing a turnaround year in 2023 and delivering on all our commitments, this first quarter of 2024, as all of you know, was marked by an unprecedented and completely unwarranted attack by an opportunistic short seller, who this morning again issued a misleading report for their own financial gain.

As you all know, we have already refuted all the false allegations and met all regulatory requirements. The Spanish regulator and our external auditors confirmed and validated our financials and accounting practices. They also confirmed that related-party transactions took place at arm's length conditions.

Also, as part of our ongoing progress to strengthen our communication and enhance our reporting practices with regulators and the capital markets, we have expanded our financial disclosures and simplified the use of Alternative Performance Measures, building on what Dani mentioned.

Throughout all this we have stayed true to our mission and maintained our business focus. We continued to serve donors and deliver our lifesaving medicines and healthcare solutions to our patients and customers. Furthermore, we successfully executed and remained focused on our priorities, implementing a series of improvements to our corporate governance, leadership, debt management and innovation. With this in mind, I am really proud of the entire team, who demonstrated an unwavering commitment to the company and to our mission of making a difference to patients, customers and donors.

On the corporate governance front, and as part of our commitment to simplify our structure, we have - as already mentioned - separated management from ownership. Raimon Grifols and Victor Grifols made the thoughtful decision to transition out of their management roles to serve as proprietary directors on our Board.

Additionally, the Board will soon be reinforced with two new independent members, both of whom will add value in finance and corporate governance. These appointments are pending approval at the upcoming AGM.

Undoubtedly, another key organizational change is the appointment of Nacho Abia as Grifols' CEO, clearly separating the Chairman and CEO roles.

I will continue in my Executive role until February to support the transition, but at that point in time the role of the Chairman will no longer be an executive one. All in line with our plan and good corporate governance.

Now let me talk about our debt management. I am very pleased to confirm that the SRAAS transaction will close in June now that all the domestic and overseas government approvals are in hand.

Upon the closing of the transaction, all the proceeds – as previously communicated – will be fully allocated to reduce secured debt, in line with our priority and our commitment.

We also made significant progress in addressing the 2025 maturities through the completed issuance in April of €1 billion in senior secured notes due in 2030. This transaction will further streamline our maturity profile and, together with the upcoming closing of the Shanghai RAAS transaction, position us well on our path to address our overall debt.

Turning briefly to innovation, we were pleased to report that our phase three topline results for Fibrinogen have met the primary endpoint. We expect the regulatory approval process in Europe and the U.S. to begin in the fourth quarter of this year and are now on track for the launch in 2025.

Pivoting to our financial results, our first quarter performance was overall aligned with our plan and therefore in line with our FY24 guidance, which remains intact.

Please note all figures are presented on a consolidated basis, which include Biotest, unless otherwise highlighted.

Our first quarter revenues exceeded €1.6 billion, up by 5.5% compared to Q1 2023, a 6.8% increase - excluding the €19 million one-time commercial true-up in our Diagnostic business last year, both figures at constant currency.

Revenue growth was primarily driven by the strength of our Biopharma business unit, which saw a 9.4% growth on a year-over-year basis, in constant currency.

We also delivered solid EBITDA adjusted of €350 million, representing a margin of 21.6%. On a like-for-like basis, which excludes 20% of SRAAS's EBITDA contribution, this represents a 280 basis-point increase.

Our free cash flow was negative EUR (253) million, primarily due to non-recurring impacts in net working capital as we increased our plasma inventory levels to meet expected revenue growth and, simultaneously, a delayed commercial payment of USD 150 million from China that was expected for March but came in early April.

Improving our free cash flow is Grifols' top priority, and we have clear line of sight to a stronger free cash flow generation through the remainder of 2024. Nacho will address this shortly.

Turning to our financial position, the company's leverage ratio, as per the Credit Agreement, increased in the short term to 6.8x due to the non-recurring impacts in working capital. As a reminder, we will use all €1.6 billion of SRAAS proceeds to pay down secured debt. Considering this, the proforma leverage ratio stands at 5.7x at the end of March 2024.

We remain confident of our continued progress and the improvement of all key financial metrics throughout the year as we drive towards our full-year 2024 guidance.

Lastly, our plasma supply increased by 8% versus Q1 2023 and cost per liter declined by 2% in March 2024 compared to December 2023. This cost decline follows a 22% drop from July 2022 to December 2023.

Taking a closer look at our revenue performance, the first quarter growth was driven primarily by a 9.4% increase of the Biopharma business unit as mentioned on a constant currency basis. This figure underscores the very strong momentum of our plasma business.

Led by the growth of Biopharma, Grifols is poised to generate more than €7bn in revenues in 2024, exceeding our record-high revenue in 2023. This growth is underpinned by strong market dynamics, including robust underlying demand supported by a solid plasma supply.

Within Biopharma, our key contributors are our flagship immunoglobulin franchise, which grew by 13% driven by our subcutaneous immunoglobulin, which had a remarkable increase of 62% in the quarter. Albumin increased by 7%; all of these figures are on a constant currency basis.

We are observing and benefiting from a significant market growth ex-U.S., which is offsetting slower growth in the U.S. Our commercial efforts continue to focus on bolstering our growth trajectory in the U.S.

Turning to Diagnostic.

The fundamentals of our Diagnostic business remain strong as we saw a 2.7% revenue growth on a constant currency basis, excluding the one-off revenues from the first quarter of 2023. Our Blood Typing solutions reported low double-digit growth, and the performance of NAT was impacted by the timing of shipments to China.

Turning to Bio Supplies.

Despite reporting a significant decline, Bio Supplies performed as planned, impacted by phasing, which we anticipate to be more than offset by the robust revenue growth we are expecting starting in the second quarter this year.

Now turning to our margin.

Adjusted EBITDA increased to EUR 350 million, representing a 21.6% margin, up 280 basis points compared to Q1'23 like-for-like, which excludes 20% of SRAAS's contribution. Please Bear in mind that since January 1, 2024, in light of the upcoming SRAAS deal, we are considering SRAAS as an asset held-for-sale and consolidating only the 6% of its net profit in 2024 versus 26% in 2023.

Therefore, SRAAS contributes only EUR 0.5 million to EBITDA in Q1'24. For your reference, these contributions represented EUR 11m in Q1'23 and EUR 25m in Q4'23.

EBITDA margin in Q1 was also impacted by the lower absorption of operating expenses as the weight of revenue in Q1 is lower compared to upcoming quarters. This sales pattern had an impact on profitability this quarter, which we were already factoring in as part of our FY24 guidance, and it is the baseline for the sequential improvement throughout the year.

As Nacho will explain, we expect to deliver sequential improvement in profitability in the upcoming quarters driven by increasing revenues, improved product mix, operational leverage, and ongoing benefits from a decline in the CPL throughout the remainder of the year considering the 9-month inventory lag witch characteristic of the industry.

Now turning to cash flow.

As I mentioned in my opening remarks, free cash flow was primarily impacted by non-recurring items that affected net working capital. The negative free cash flow of €253m in the first quarter of 2024 was driven primarily by negative net working capital of €339m. Despite this, I want to emphasize our confidence in upcoming improvements and in our underlying actions to make that happen.

So, let me unpack that figure and give you a sense of what the key factors were triggering this result.

As the company increased inventories to meet expected strong revenue growth in the upcoming quarters, Q1' 2024 working capital includes an inventory build-up amounting to €130 million. We believe that there is still room for improvement to optimize this, as Nacho will discuss later.

Accounts receivable finished €154m higher due to a delay in a commercial payment of USD 150 million that I mentioned from our main customer in China, which was subsequently received on April 2.

We also had an increase in our accounts payable in the quarter of €55 million as the accounts payable ratio abnormally increased to 60 days in December 2023. In Q1 2024, it normalized back to 55 days, so we are not expecting such fluctuations going forward.

With the USD 150 million payment collected, and receivables and inventories built-up in the process of being normalized, we expect a meaningful recovery of free cash flow starting in Q2 2024 and continuing throughout the year. As it will be discussed in more detail in a moment, we anticipate significant improvements in upcoming quarters, which will enable us to achieve, at a minimum, the full year 2024 guidance of €5 million positive free cash flow.

It is worth mentioning that we had an impact of EUR 37 million of extraordinary items in the free cash flow in the first quarter. Most of these were related to CAPEX in Egypt, where we continue to execute our growth plan. To a lesser extent, it includes some restructuring costs linked to the extension of the Operational Improvement Plan.

Be assured that generating free cash flow is our highest priority and we are focused on activating all possible levers to enhance cash generation in the short-, medium- and long-term.

With that, I will now turn the call over to Nacho, who will not only introduce himself but also provide you with our priorities and outlook for the rest of the year as we together with the Grifols team continue to move the company forward.

Thank you for your attention.

Nacho Abia, CEO

Thank you,

Thank you, Thomas for your words and thank you to everyone for joining the call today.

First and foremost, as the newcomer to the team, let me begin by sharing a bit about myself.

I am an engineer at heart, driven by challenges. I have a results-oriented mindset and a commitment to facts, this approach has brought me here today as I am convinced Grifols offers an incredible opportunity to unlock tremendous potential, built upon its rich history and solid foundation in an exciting and growing industry.

By building on our legacy, I'm committed to steering the company forward and serving as a catalyst for positive change.

As you know, I am originally from Barcelona, and I have spent most of my career at Olympus, serving for more than two decades in a number of capacities and geographies, including the United States for the last 13 years.

At my former company, I led significant strategic initiatives that transformed and globalized the company, enhanced operations and delivered sustainable business improvements. These experiences will serve me well to define and execute the next chapter of Grifols, first addressing cash flow and leverage, followed by a sustainable plan to increase revenue and expand margins over the years to come, and all that with the strong backbone of our powerful commitment to improve patient's life across the world.

I see a remarkable combination of opportunities and expertise that will take us to achieve those goals. We're a company with an inspiring mission to enhance patients' health and well-being and I have always been passionate about the great mission of the healthcare industry. I feel that this step in my career is a natural personal and professional fit.

I want to begin by telling you what I've learned over my first six weeks in the company and why I am excited for the future to come.

During this time, I visited offices and met with people in Spain and the U.S. These insightful meetings spanned across all functions within the organization. The first thing I noticed at Grifols is that our team has an outstanding dedication and devotion to our mission. This idea of 'human to human' medicine is truly embraced by all Grifols employees and I am convinced that solid commitment of our people has been, and will be, a continuous key success factor.

The company also has challenges and I'll talk later about them, but at same time, the business foundation is extremely solid, we operate in a market which is nicely growing high single digits, and these, paired with the investments the company has done to be prepared for the future, give me confidence that those challenges will be addressed soon.

The Covid-19 pandemic was a difficult period for the plasma industry, and for Grifols as well, but as the saying goes 'never let a good crises go to waste', and Grifols took full advantage from those times to emerge as a renovated company and the efforts and investments that were done following that period will fuel our profitable growth moving forward.

During my first few weeks at the company I also have learn about how capital intensive is this industry and how critical it is to act decisively well in advance in order to be able to meet future demand. Grifols did that and thanks to it we are now well prepared to successfully face the years to come.

However, as you know as well, those necessary investments also increased significantly our leverage and our cash consumption, and I want to reassure all of you that to improve cash flow and reduce leverage will be my most important priority and focus moving forward. We have aligned the organization and started to implement already cash flow improvement measures and I am confident results will be shown soon.

At the same time, we will continue working to strengthen our commercial organization, especially in the US, to harvest on existing strategic initiatives and product launches to secure and enlarge our market share, as I am sure that once concerns about free cash flow and leverage will be substantially mitigated, the focus - your focus as well - will be back to growth and further margin expansion.

From here, let me share with you my views on the business and of what we can expect this year. Allow me to focus in 2024 and not comment beyond that today as I am still working with the team to fully assess our mid and long-term opportunities.

For now, the most important point I'd like to reiterate is that – based on all my conversations and observations - my impression is that the company is well on track to reach its full year 2024 guidance, as Thomas already mentioned.

In order to do that, and following the pattern from previous years, we are forecasting a significant revenue surge in the second half of the year, with growth accelerating to 10-12% on a constant currency basis.

Let me walk you through the factors that will drive this acceleration to give you more clarity about how we plan to achieve it.

The first is growth from our immunoglobulin franchise. We are already seeing a significant growth outside the US and in US, traditionally, the market tend to increase inventory days in the channel towards year end, that normalize in the first half of the year to accelerate again in the second half, the commercial and supply chain teams are working closely to ensure the growing demand will be met.

The second driver is that we expect our highly profitable subcutaneous immunoglobulin to continue gaining traction and contributing to the product mix. This is one of our most relevant products, and despite being launched in 2019, we are seeing it as a critical driver of growth, and we expect to keep untapping its full potential.

Our revenue projections are also supported by the improved performance of Albumin, as we know the phasing suffered in Q1 in China will be resolved in the coming quarters. We also see our Alpha-1 franchise continuing to show stronger positive momentum in key markets following the switch of a new specialty pharmacy partner in the USA, which further enhance our service offering.

In addition to all of this, we have as well a solid deal pipeline that provide good expectations in Diagnostics and Bio Supplies divisions, and Biotest, will be launching some key products in the second half of the year.

All in all, I believe we have strong drivers to continue building momentum and to deliver as committed in the upcoming quarters and in the full 2024.

Pull in revenue growth and all this will be translated into a significant EBITDA sequential improvement throughout the year, going from 23-24% adjusted margins in the first half to 27-28% in the second half, allowing to achieve the EUR 1,800 million+ EBITDA adjusted for the whole year, as we previously guided.

The most relevant driver for this will be the increase in revenues in the second half of the year, also be supported by an improved product mix, including more subcutaneous immunoglobulin, Albumin, Alpha-1, specialty proteins, and Bio Supplies, all of them higher-margin items.

Equally important will be the contribution of lower cost of goods, as the cost per liter initiatives and the yield improvement efforts has been delivering and improving our inventory cost significantly.

And finally, as revenue increases throughout the year, it will trigger a higher absorption of operating expenses, thus having a significant positive impact on our EBITDA.

So to conclude with this slide, and for the reasons explained, I am very confident we can achieve the guidance that was provided for 2024.

Let me address now the elephant in the room, the Free Cash Flow.

As I mentioned before, this is going to be my top priority and we have already started to work on it.

Despite the negative free cash flow in Q1 2024, which as Thomas explained was impacted by a non-recurring impact from a three-day delay in receiving a USD 150 million commercial payment, the cash flow development follows the established plan, and the company remains on track to deliver positive free cash flow as per the guidance provided back in February.

From now on, we expect a slightly positive free cash flow in Q2 and a clear improvement in the second half. Please note that this 2024 FCF trajectory includes extraordinary investment capex items, the all-in payments related to the acquisition of ImmunoTek in Q2 and Q3, as well as other items including restructuring and transaction costs, which add up to EUR 480 million for the year.

The primary drivers that will bridge to our FY2024 guidance are first, the EBITDA expansion, followed by working capital normalization but in addition, we have started already and organization-wide Cash Flow Improvement Plan. A plan to significantly increase free cash flow generation not only in 2024, but in the years to come.

As a result of those efforts, we plan to update our FY24 guidance accordingly as we gain more visibility into any potential upsides brought by that plan in this year.

Our Cash Flow Improvement plan started as a simple but solid and exhaustive analysis of the current situation that will identify opportunities comprised of the 5 main levers: working capital normalization, continuous operational improvement, SG&A and spend control, optimizing real estate and portfolio analysis.

Some of these initiates will have an impact sooner than others, some will be recurrent improvements and some just one time off, but all together we must consider and plan this exercise as a new mindset for the company and this will be our most important priority till our cash flow generation will be at the required level.

Particularly important in 2024 will be to optimization of our working capital, our inventory levels will be reduced as revenue will increase in upcoming quarters, especially in the second half. In addition, as previously mentioned, in the second quarter we are already seeing a normalization of our receivables and payables, that we expect to continue throughout the year.

Another important contributor to cash flow in 2024 and beyond will be the implementation of the continuous improvement program that started last year, which includes more than 50 business-led initiatives to streamline our operations. Some of these projects have already showed impacts in our financials and its incremental impact in upcoming years is expected to be significant. These initiatives include improvement of yields in both plasma donations and our manufacturing operations, including donor fee optimization and industrial process improvements.

In addition, and while the company has made good efforts to re-base its cost structure over the past few years, we will continue to focus on SG&A and spending control to operate more efficiently with a continuous improvement and zero base budgeting mentality.

Finally, and although these two efforts will most likely impact only 2025 and beyond, we have already started the process to look into our real estate footprint, which offers some interesting opportunities, and initiated a portfolio analysis of all our projects, affiliates and businesses to ensure all of them deliver at expected level.

I know you probably have a lot of questions about it, but let me manage expectations saying that at this point, there is still work to do before being able to provide information regarding specific activities or to provide guidance for our future cash flows, beyond 2024, please be patience and give us time to work in all these matters.

Most importantly, it is clear that the company has the levers to improve its cash flow profile and generate additional and substantial free cash flow in the years to come.

Ultimately, cash flow generation will be key to address our leverage and so our deleveraging path will continue moving forward.

Our focus remains on reducing our leverage ratio below 4x, and this year we are expecting to bring our leverage down to 4.5x by the end of 2024, thanks to the proceeds from Shanghai RAAS divestiture, EBITDA and cash position improvements.

As an immediate and important step, as it has been explained already, we are well addressing our 2025 maturities, and this will be primarily accomplished by using the €1 billion private placement to repay the 2025 unsecured notes and the SRAAS proceeds to reduce the 2025 and 2027 secured notes.

Well, enough of numbers and figures for today, and I'd like now to share some of my views on what will be the key priorities for Grifols in the years to come. As I already said, I am a pragmatic person that like things simple, focus and with clear expectations, as this help the organization to align and progress.

Based on that thought at the core of our activities will be a solid financial discipline and focus in cash flow generation, but this itself will not be effective unless we can continue focus to meet the need of our patients and donors, to continue improve our commercial operations to better meet customers and markets demand, and to leverage and continue the operational improvements already started.

Also very critical, will be to accelerate innovation in a pragmatic and strategic way, and bring to markets new products and new indications in a time and cost efficient manner in order to create a self-reinforcing cycle that will aim not only to enhance financials metrics, but also to ensure enhanced competitiveness.

Over our next interactions, you will hear me to talk a lot about these foundational pillars and I'll be happy to share more as the specific action plans are developed and implemented.

For now, In the short term, in addition to the cash flow improvement plan already explained, our immediate focus will be to strengthen our commercial operations to be able to successfully face fore coming product launches, to work in a talent assessment across the organization to make sure we have the right people in the right places, and to initiate a process that should aim to reduce company complexity, both in our processes and in our structures.

I think this slide is a good summary of what you can expect from me and Grifols in the months and years to come and I look ford to our continuous dialogue about all these important topics.

As a summary of all what has been said, and before we move on to the Q&A, I'd like to re-emphasize a few points that we have already made, but that are worth repeating.

The Board of Directors of Grifols asked me to join the company as CEO to lead Grifols by building upon its previous success. To achieve this we must, first of all, improve cash flow generation and reduce leverage, and while doing this, we must continue enhancing operational execution, maintain financial discipline and improve business performance overall.

Thanks to our cumulative efforts, today Grifols operates in solid growing market, is well-invested in plasma centers, production facilities, a global footprint and cutting-edge technologies. This positions the company to drive significant and sustainable growth, and therefore, I am convinced that by acting decisively and with a strong focus in execution, we can significantly unleash shareholder value.

This is my mission, and this is what I plan to do.

Finally, I'm pleased to announce that we will be hosting an Investor and Analyst Day on October 10, 2024, where we will dive deeper into some of the things mentioned today and in our future plans, with the aim to provide a comprehensive view of the company's long-term goals and strategies.

Thank you all for joining us today and for your continued support and engagement. I look forward to meeting many of you in person over the next weeks and months to come.

With that, I will turn it back to Dani.

Daniel Segarra, VP, Investor Relations and Sustainability

Thank you, Nacho. With regard to our agenda for the rest of the year, we have several key dates to share with you.

First, on July 30, we will discuss our financial performance for the second quarter of 2024.

As mentioned earlier, on October 10, we will host our 2024 Capital Markets Day in Barcelona. As always, it will be an excellent opportunity to meet institutional investors.

Finally, on November 7, we will give our last financial update of the year, with an overview of our third-quarter results.

These events play an essential role in our efforts to strengthen our communication and ongoing dialogue with market participants.

Now I'll open it up for questions. Our first question comes from Peter from CITI.

Peter Verdult, Citi

Thank you. It's Peter Verdult here, from Citi. Two questions, and Nacho appreciate giving us your impressions after only being at the helm for a matter of weeks. Forgive me for pushing, but given market is very focused on free cash flow and I understand you can't give guidance beyond this year, but it's also fair to say that the prior management team were also communicating the message that they were very focused on free cash flow.

So, just what low-hanging fruit is there this year that allows you, makes you confident that you can accelerate efforts to improve free cash flow? And if I could change my arm, what have you seen as you travel around the Grifols' sites?

And secondly, because we have Roland on and that you are calling out product mix as a big driver, can we just make sure that we're all on the same page? I mean, my assumption is that Xembify is a 50% premium to IVIG, but it only represents 5% of IG sales currently.

But I only represent sort of 5% of IG sales currently. So can you correct me where I'm wrong and if I could speak one last one. It's important, you called out this specialty pharma switch, benefitting Alpha-1. Could you maybe just explain that a little bit more? Thank you.

Nacho Abia, CEO

Peter, this is Nacho. I think I cannot add much more to what I already said. I think that the free cash flow or cash flow focus in general is very well-established in the company. I think in the last six weeks we have been working across the organization to make sure that the mindset is there. And I see a lot of activity already moving forward in that direction, and it is not rocket science. To be honest, is mostly the five levers that I mentioned before. And if I think in 2024, clearly working capital is going to play a very significant role, as this is probably the highest impact.

But we have been working already for months in a lot of operational improvements that will also generate a significant benefit in the year. And ultimately, I think we need to control, well, all our expenses and the things we can control within this year. So, there is no magic, Peter, I think this is all about focus, it's about attention. It's about mindset. It's about aligning the company in that direction and that's what we're doing.

I think the next question Roland would love to answer.

Roland Wandeler, President Biopharma

Absolutely, thank you Nacho. And Peter, to your first point, on Xembify, you're correct on both points that, yes, there is a price premium, and especially with Xembify currently at 5%, we see tremendous growth potential for the future for this very important pillar of our immunoglobulin franchise.

And to your second questions on Alpha-1 switch, our specialty pharmacy partner will allow us to dramatically enhance our service offering for patients currently on therapy in a big part of the market that is counting on home infusion as their way to receive their treatment. And, as well, help us onboard with new patients, as we aim to further expand diagnosis rates in this market that still has a lot of untapped potential with 90% of patients not diagnosed yet.

Daniel Segarra, VP, Investor Relations and Sustainability

Thank you so much, now we are going to go with Tom Jones from Berenberg. Tom, please.

Tom Jones, Berenberg

Thank you for taking my questions. I had two really, one was just on the potential for future cost savings. You talked quite a lot about them in the prepared remarks.

And you're looking to spend 110 million euros on one-off costs related to the extension of the Operational Improvement Plan. That's quite a decent number to spend so it'd be helpful if you could try at least to give us some steer of kind of what future cost savings you might be expecting to come from these projects and perhaps, in what areas.

And my second question was just on the leverage target. You did previously have a target of 4 times by year-end 2024 and I know on previous calls you said that was pretty much out of range unless you considered further asset sales and the slide today suggests 4.5 times is where you're going to land for the year-end. Can we conclude from that that further asset sales are probably not on the cards now for this year? And, you know, are they still kind of projects that are underway or should we just forget about them forever, really?

Nacho Abia, CEO

Hi, Tom, just to give you a little bit of color. On the Operational Improvement Plan, this is something that started last year and most of the restructuring cost are the last part of the cost of the Plan that started to be implemented. And, as it has been explained in the past, this Plan was across the entire organization, mostly on the operational part and industrial part, but also focused on procurement activities, generating additional yield in all areas, etc.

So, I think that the last money that you will see in terms of restructuring is coming from the last payment related to efforts that have been done and all that is already visible in either our inventory or operational costs, and as we move forward. As per the leverage, I will make some comments and I'm sure that Thomas probably would like to complement.

What we have shown today, 4.5x is what we believe is a very realistic expectation based on the 20% SRAAS divestiture plus the operational improvement that we are seeing. Of course, we remain committed to 4x leverage or below and it will come over time. But I think that at this point, and realistically speaking, 2024, we can commit to 4.5. And maybe Thomas wants to complement that.

Thomas Glanzmann, Executive Chairman

No. Happy. Hey, Tom, how are you? Great question. Let me just go back that to the fact that we said when we started 2023, that 4 was the target that we were aiming. At that point in time, we also were assuming that we would do a major sale of Shanghai RAAS. Actually, selling all of it. And as you know, at this point in time, we're only selling 20% of it. But as Nacho now said, for this year, 4.5x. We're still targeting to get below the four. I think at this point in time, we're not expecting to do any other asset sales. For this year, really just focusing now on cash flow generation and free cash flow generation as we address the year.

Tom Jones, Berenberg

Good, that's perfect. And one cheeky follow up, if I may, on the IG strategy. Kind of reading between the lines, it looks like Yimmugo is probably going to take over as one of your primary brands of IG. But it feels like this ramp-up in production of that is perhaps running a little bit behind plan. Any kind of color you can share, comfort you can give us on that ramp up and maybe in addition else you can share on this point on the sort of pathway to replacing some of your older legacy IG products with Yimmugo, which I assume has a higher yield and therefore significantly higher margin on a sort of per liter basis?

Roland Wandeler, President Biopharma

Yes, Tom, Yimmugo indeed adds to our portfolio of immunoglobulins. In addition, of course, to our Gamunex flagship that we have and our Xembify. And as we look at time, we see that Yimmugo can play an important role in substituting our Flebogamma in the market, which is an older version of our IG. But with Yimmugo in addition to our portfolio, this opens for us a set of quite interesting strategic possibilities as we think about positioning in the marketplace and is a key part of our plan to further growth our immunoglobulin franchise.

Thomas Glanzmann, Executive Chairman

I just want to reiterate the point that Yimmugo had a growth of 62% in the first quarter. And, as Roland said, it only represents 5% of our IG franchise.

So, the opportunity obviously is significant for us, particularly when you think of 40% of our competitors are in sub-Q. I know Roland and team are extremely focused on driving the growth of this product.

Roland Wandeler, President Biopharma

And just adding Yimmugo as an IVIG, of course, will help us on the IV side and Xembify, as mentioned before.

Thomas Glanzmann, Executive Chairman

I’m sorry, I meant Xembify, obviously. So let me just correct that.

Tom Jones, Berenberg

That’s all right, I caught that

Thomas Glanzmann, Executive Chairman

There's so many Ys here. so I got a little confused.

Daniel Segarra, VP, Investor Relations and Sustainability

Now we are going to go with Charles Pitman from Barclays. Charles, please.

Charles Pitman, Barclays

Hi guys, thank you very much for taking my questions. Charles Pitman from Barclays, a couple from me.

Just clarify, can you just confirm on the Shanghai RAAS asset sale, I think when you put out a release recently you announced features of this deal. Can you confirm that likely related to the comments made on this call, using those to address your FY25 and FY27 senior secured bonds?

And then, secondly, coming back to Biotest. The Next Level project and the general consolidation of that part of your business, can you talk us through how we've got it from being so dilutive in the past, when you expect it to become accretive and what the delay has been since the completion of the project FY22 and the reason for the contribution to the working capital impacts of Q1'24 as you have building up inventory? Yes, I think that would be helpful based on the conversations we've been having with investors.

Thomas Glanzmann, Executive Chairman

First of all, we will close the transaction in June, and we will use the proceeds as you outlined and we said in our documents. On Biotest, clearly the focus is to bring the new products to market, which they're doing. I mean, I mentioned the Fibrinogen trial that has gone extremely well. They're also in the process of ramping up.

Now I'll say the right thing, Yimmugo which they've launched it in Europe and they expect to launch it later in the US. Clearly one of the things we said all along is they're actually not going to be contributing to EBITDA until basically the launch of Fibrinogen and the new products that take place. And we stand by at this point in time. So, Biotest still has got a bit of runway until it will contribute significantly to the Group.

Charles Pitman, Barclays

Thank you.

Daniel Segarra, VP, Investor Relations and Sustainability

Now it's time for Alvaro Lenze, please.

Álvaro Lenze, Alantra

Hi, thanks for taking my questions, the first one would be if you could update us on the capacity situation, both in plasma collection and industrial capacity in terms of fractionation and purification before and what will it look like after you complete the extraordinary CAPEX efforts that you're doing.

And my second question would be regarding the free cash flow guidance. You mentioned that it's a bit too early to provide guidance beyond 2024. But if I'm not mistaken you had a previous guidance of 2 to 2.5 billion of free cash flow cumulative over 2025 and 2027. Just to know whether that guidance still holds, thank you.

Nacho Abia, CEO

Hi Alvaro, this is Nacho. Let me comment on capacity in my observations on these first weeks. And, again, Thomas might want to complement. I think what I've seen is that, as I mentioned before, the company's well-positioned in terms of capacity on investment in plasma collection centers and also in the footprint. It's well-established. We don't see a significant need of significant investments at least in the next three, four years to come as both, the plasma collection and the industrial footprint is ready for the growth that we are expecting to have in the next years. So, I think we're in good shape in that front.

As for FY25 and beyond cash flow, as I say in my remarks, please be patient, right? So, I just have just started to work on this. I think that we're doing good progress. 2024 looks good. Next step will be to focus in 2025, 2026, 2027, and we will provide you an update on the information as soon as it's ready.

Thomas Glanzmann, Executive Chairman

So just to complement what Nach said, our capacity, particularly on the fractionation, is about at 70%. So, we got significant room to grow in the coming years. And with regard to the plasma centers, we're well set up right now and we do not expect to add any new centers until basically 2027, where we think we will probably start to need to implement about 20 centers going forward. So, you know, we're well-positioned. I also do want to mention obviously the Egypt project, where there are going to be 20 centers; there's 10 centers now. And we also got the Canada project which also is not only going to add capacity but also centers as we move forward. So overall, I think we're very well positioned to take advantage of the significant opportunities that we see in front of us in the coming years.

Álvaro Lenze, Alantra

Thank you very much and welcome Nacho.

Daniel Segarra, VP, Investor Relations and Sustainability

Thank you so much. Now it's time for Bank of America, Graham, please.

Graham Parry, Bank of America

Thanks for taking my questions. Firstly, on the CMD that you're planning for October. Is there a timeframe at which we could potentially expect to see some concrete mid-term sales, EBITDA or EPS guidance from the company. I think that's something that investors would definitely welcome.

Secondly, on 2024, I guess in your EBITDA guidance, if you could just give as a feel for the level of confidence you have now that, presumably, you've collected the majority of the plasma and you know your costs for the year. So what are the variables that could derail you from the achievement of that guidance or is that pretty much in the bag now?

And then, just lastly, just wonder if you could comment on the latest report from your friendly short seller that Grifols funnels cash to Scranton via BPC, if you could just address that point and confirm all payments to BPC were for plasma at market rates as validated by the CNMV investigation? Thank you.

Nacho Abia, CEO

Thank you. I'll take the first two and Thomas will take the last one. As per the Investors Day, we are building the agenda as we speak and obviously, we plan to provide as much as possible information to the market but it's early to say how much and what could be the level of detail. Obviously we'll be talking to all of you and providing definately our strategies and our directional goals, and probably some specific figures in the areas we can but I think it's early to confirm right now what will be those metrics.

As per the EBITDA generation this year, for what I think -- pretty much what I explained in my presentation, right? I think, I mean, in my first six weeks, I've spent significant amount of time trying to understand our 2024 situation with a team, both the commercial team and the finance team. And for the reasons I explained, I feel quite confident that the EUR 1,800 million plus that we committed at the beginning of the year will be delivered.

As per the short seller report, maybe Thomas wants to comment?

Thomas Glanzmann, Executive Chairman

Yeah, happy to. Well, first of all, the short seller keeps on dishing out misleading reports and statements. Grifols has provided full detail of all its transactions in its financial statements and in specific reports. All the information is public. It's been verified by both the regulator and our auditors, and we really stand by. We got nothing more to add to that than standing by that statement. I mean; it's quite amazing to having continuation from the short seller like we're seeing right now.

Daniel Segarra, VP, Investor Relations and Sustainability

Thank you, Graham, Thank you, Thomas. Jaime, please, from Banco Santander.

Jaime Escribano, Banco Santander

Hi. Good afternoon. So, a couple of questions from my side. The first one, regarding liquidity, is at around EUR700 million. So, I just wanted to know how comfortable you are with this liquidity; you have ImmunoTek commitments for Q2, Q3, amounting around 500 million, and building on this, would you consider to use part of SRAAS proceeds be more comfortable on your short-term quiddity? This would be my first question.

And the second one, in terms of strategic assets, not sure you probably had time to do an assessment. Is there anything you have identified as you can maybe sell in order to further reduce debt?

And another question that probably investors want to know is whether you would consider a capital increase to further delever the balance sheet. Thank you very much.

Nacho Abia, CEO

All right, so on the liquidity level, again, as you can imagine, this has been one of my focus on the first weeks to understand where we are. I think we're operating at the liquidity level that is comfortable at anything above 500 million. I think is something that we can comfortably operate. We are on the 700 million plus and with prospects to increase it over the year. So, I think we feel confident on that.

On the strategic assets, I knew the question would come, and I already anticipated it in my remarks. It's too early to say. We are doing a portfolio analysis. I don't know what the conclusions will be. We are looking at all our, not only strategic assets, but projects, initiatives, affiliates, and, I mean, there is not only about potential or not divestitures or acquisitions, it's also about making sure all the projects that we have running in the company operate at the expected level as well. Too early to confirm anything, the only thing I can assure you is that we are doing the analysis. We are looking everywhere, and we will be doing the work and provide information as it comes.

As per the capital increase, there is absolutely no plan at this point to consider a capital increase. Thank you, Jaime.

Jaime Escribano, Banco Santander

Thank you very much.

Daniel Segarra, VP, Investor Relations and Sustainability

Thank you, Jaime. I think that it was very clear. Now, we would love to take any question from Thibault, from Morgan Stanley.

Thibault Boutherin, Morgan Stanley

Yes, thank you very much. So, my first question is on financial costs. Grifols previously suggested that interest expenses could decline in 2024 versus 2023, and it's difficult to reconcile with debt being refinanced at the higher rate, even with the Shanghai RAAS proceeds being used to repay. So, just if you could comment on this, that you have a bit more visibility on the refinancing rate?

And the second question connected to this; you provided helpful free cash flow bridge after the FY23 results. And just wondering if there are any elements that now look materially different from when you issued this bridge reconciliation. Is there elements that are meaningfully higher or lower in terms of cash consumption? Thank you.

Nacho Abia, CEO

Let me answer the second one, and Dani will talk about the financial rates.

So, no, there are no items which are material on the free cash flow bridge that we presented. I think that by now we have identified all the key elements, and the free cash flow is going to be mostly determined by operational ratios, mostly the working capital and improvements in the operations, as I mentioned. And for the financial rates, Dani, if you want to mention.

Daniel Segarra, VP, Investor Relations and Sustainability

The financial expenses for the year are expected to be lower compared to the current situation. As Thomas was saying, we are going to close the Shanghai RAAS transaction in June, which is going to be the most important lever to see a reduction of our debt.

As Thomas was mentioning as well, we are going to go repay part of the 2025, but also part of 2027. Especially, under 2027, we are paying a variable interest expense. So, when you are putting all in all, even including the private placement for 1 billion at 7.5%, the total financial expense is expected to be lower.

Thibault Boutherin, Morgan Stanley

Thank you.

Daniel Segarra, VP, Investor Relations and Sustainability

Thank you so much. And we are going to go with one of the last one is going to be Guilherme from CaixaBank. Guilherme, please.

Guilherme Sampaio, CaixaBank BPI

Hello. Thank you for taking my questions. So, one, I don't know if it is too early, but could you provide us a sense of where you expect the leverage or where do you want to put the leverage of this company? Over the mid-term, we understand it's going to about 4x over, perhaps beginning 2025, but over the mid-term, where do you feel comfortable with?

And second one is a small question. If you could provide some reconciliation of the free cash flow, generated in the quarter with the increase in net debt that you reported, I think some increase in the IFRS16 liabilities? If you can provide some color on this? Thanks.

Nacho Abia, CEO

Yeah, on the leverage level, I think that, I mean, there are many probably opinions about what is the adequate level of leverage that companies should have. If you ask my opinion, and this is a general statement not only applicable to Grifols, I think, between 3-3.5 is a reasonable level to operate. I think it also depends on what are the strategic considerations that you are having. So, at some point you might need to lower your leverage if you are facing some potential opportunities of acquisitions. But our work as the first step is obviously is our committed 4x leverage and we will work towards that. Once we get there, then we will provide guidance about what is the next step. As for the free cash flow, Dani, you want to mention?

Daniel Segarra, VP, Investor Relations and Sustainability

Sure. On the free cash flow and net debt, this first quarter, the increase that we had is pretty much in connection with the free cash flow, basically on the net working capital impacts. The non-recurring items, that we were disclosing and it brought to have this net debt increase.

As Nacho was mentioning, on the deleveraging path, you will see that we expect to recover this piece. It's going to be part of our deleveraging path, so as long as we expect to generate more cash flow in the next three quarters, it's going to help, it's going to support our deleveraging path in connection not only with an improvement in terms of EBITDA, but also reduction in terms of net debt, on top of SRAAS transaction that has been well discussed.

Okay. Thank you so much, Guillerme. We're going to take the last one. It is going to be, Charles, your second kind of like opportunity here. Charles, please.

Charles Pitman, Barclays

Hi guys, just a couple of clarifications. Just earlier, when you said capacity on fractionation is at 70%, can you confirm, that current utilization of your full capacity and that the centers that you've got to 2027 before you start adding centers, that's just on top of what you've already announced? And then did you address the comment around your mid-term cash flow cumulative guidance, or based on the fact that, Nacho, you're still getting to know the company, are we just kind of not talking about that one today? Could you reiterate that, or should we wait for Q2? Thank you.

Thomas Glanzmann, Executive Chairman

The 70% is current capacity, number one, and the 20 centers that I mentioned, that's not until 2027. We're well situated today with the centers we have. And again, I reiterate, we got centers coming online in Egypt, and we got centers coming online in Canada. And obviously, the key focus for us is to continue to improve the efficiency of our current centers in the U.S., which we are in the process of doing.

Nacho Abia, CEO

As part of the cash flow projection, Charles, I think I mentioned already several times. I think for now, I'm focusing a lot on 2024, and this is where we provide the guidance today. I'm comfortable. I see a lot of opportunities. I see a lot of things that we can do. We have to do the work. But I'm very comfortable and confident about the cash flow we can generate in the years to come. But I'm not ready yet, to give you a number.

Charles Pitman, Barclays

Perfect. Thank you so much.

Nacho Abia, CEO

Thank you.

Daniel Segarra, VP, Investor Relations and Sustainability

Thank you, Charles. With that, I think that we took all the questions, so I just want to say thank you all for joining us today. If you have any follow-up questions or further inquiries, please contact the IR team. It is a dedicated one to keep engaging with you. Thank you so much.

Nacho Abia, CEO

Thank you, all. Thanks, everybody.

Thomas Glanzmann, Executive Chairman

Thank you, everybody, thank you. Bye-bye.