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Grifols, S.A. BME:GRF

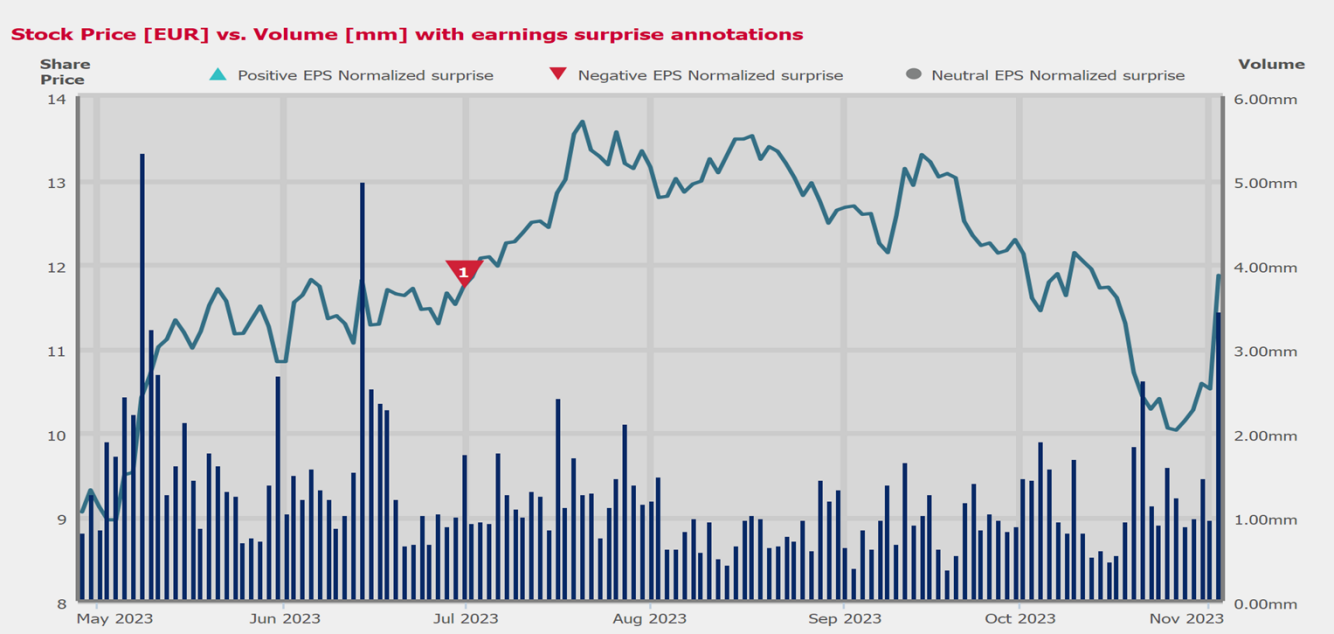
FQ3 2023 Earnings Call Transcripts

Thursday, November 2, 2023 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2023-			-FQ4 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.13	NA	NA	0.24	0.59	NA
Revenue (mm)	1609.06	1597.48	(0.72 %)	1738.67	6623.99	NA

Currency: EUR
Consensus as of Nov-03-2023 7:45 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2022	NA	NA	NA
FQ1 2023	0.07	NA	NA
FQ2 2023	0.13	0.09	(30.77 %)
FQ3 2023	0.13	NA	NA

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Call Participants

EXECUTIVES

Alfredo Arroyo Guerra
CFO & VP

Nuria Pascual Lapeña
VP of Corporate Treasury, Risk Management Investor Relation & Sustainability Officer

Thomas H. Glanzmann
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Presentation

Nuria Pascual Lapeña
VP of Corporate Treasury, Risk Management Investor Relation & Sustainability Officer

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. [Operator Instructions] 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 after 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 statements disclaimer in this slide deck of the release. Forward-looking statements on the call are subject to substantial risks 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 H. Glanzmann
CEO & Executive Chairman

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 upfront 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 EUR 1.5 billion in cash has not changed nor has our very focused efforts to reach a leverage ratio of 4x by 2024. We continue to give full priority to this.

Regarding the in June 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 EUR 1.450 million for the full year 2023. Annualizing the operational improvement plans total savings, our adjusted EBITDA margin is anticipated to increase to 28% to 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 9x 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 examples. We have also taken steps to further strengthen the leadership team to drive innovation and digitalization at Grifols by appointing Jorg Schüttrumpf as our Chief Scientific Innovation Officer; and Miguel Louzan 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 the great opportunity 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 over to Victor to take you through the details of our business unit's performance in the quarter.

Víctor Grifols Deu
COO & Director

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

Now turning to Slide 6. 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 at constant currency. All in all, revenues grew 8.4% for the first 9 months of the year. For these first 9 months of 2023, we achieved revenues of more than EUR 4.8 billion, up by 11.7% at constant currency. This was primarily driven by performance of Biopharma and our key proteins as well as Biotest contribution. Please bear in mind that we are consolidating 9 months of Biotest in 2023, while only 5 months in 2022.

Now turning to Slide 7. 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 favorable pricing, especially outside U.S. Our subcutaneous immunoglobulin Xembify continues to see a strong volume up peak especially in Q3, backed by higher demand in the US. Xembify continues to offer a vast commercial opportunity, and we plan to further capitalize on this growth with launches in some European countries in Australia starting in this quarter -- in this Q4 2023.

Grifols strategy to continue strengthening its immunoglobulin franchise in the U.S. and other selected countries is robust. We are focused on the immune deficiency market, including the highest growth primary and secondary indications while remaining leadership in neurology and acute care. Earlier this week, we received FDA approval for a new IG purification facility, which will increase Grifols Gamunex total 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 a strong revenue growth year-to-date, delivering close to 18% increase with higher demand in China and solid price increases in some key markets. Alpha-1 and specialty protein segment revenue was relatively flat, mainly driven by lower demand of plasma-derived factor VIII and to a lesser extent, lower alpha-1 volume due to industry dynamics in some European countries. As alpha-1 demand improves on the back of the solid underlying improvements in our successful commercial model, the current lower growth is expected to be temporary. At the same time, I would like to highlight in this segment, the good performance of our more recently launched products, such as Tavlesse, fibrin sealant and thrombin, which are growing significantly. In addition, hypers and antithrombin III are also delivering a positive evolution.

Now turning to Slide #8. As a result of the successful execution of our operational improvement plan, cost per liter continued to reduce this quarter, declining by 22% as of September 2023 versus each July 2022 peak. This has been driven by decreasing donor commitment compensation, plasma center network and staff rationalization and reduction of other plasma-related costs, such as overheads. After a 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 remained 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 gamma globulins. So far, we have seen very good 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 accomplish 12 innovation milestones. And I am proud to say that we have made very good progress so far. Out of this 12, we have completed 9 and are on track

to be achieved the remaining in the coming months. Among others, during these 9 months of 2023, we have finalized the enrollment, both the PRECIOSA and SPARTA trials. The latter ahead of schedule, advanced from single to repeat dose phase in alpha-1, a 15% subcutaneous study and progressed in trials across our different phases such as the IVIG-PEG study, the Xembify bi-weekly study and the Xembify secondary immune deficiency 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 Alzheimer's space through our company, Araclon, on the Phase II trial of its vaccine candidate, ABvac40. For the treatment of patients with mild-cognitive impairment and very mild Alzheimer's 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 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 an increased effort in developing new products and indications, which we plan to continue to accelerate for the remainder of the year onwards. We expect the appointment of Jorg, our Chief Scientific Innovation Officer to enable us to execute on 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 us. However, strong instrument sales in Japan and Indonesia are helping to 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 experienced in China lately. In recombinant proteins, contract manufacturing from our Emeryville plant, we have signed a renewed 10-year supply 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 I will now hand it over to Alfredo, who will go through the group's financial performance.

Alfredo Arroyo Guerra
CFO & VP

Thank you, Victor. Good day to everyone. Slide 13. 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-year growth to 11.7%. Our EBITDA margin continued to show sequential expansion, further improvement to 25.1% from the 23.4% in Q2. On the back of our enhanced profitability, which will continue to improve in the coming quarters, our leverage ratio has declined to 6.7x from 9x peak of last year. Organic efforts have been a key piece so far on our deleveraging path.

Slide 14. Revenue has shown a very positive sequential trend throughout this year. On a last 12 months basis, total revenue has reached more than EUR 6 billion with 11% growth. Biopharma continues to be the key growth driver with a solid underlying demand, particularly in IG and more notably, our subQ product, which continued to gain further 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.

Slide 15. Our gross margin has significantly improved over the last quarters, reaching 41% in Q3. This quarter show the steepest gross 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 a 22% decline in cost per liter, which is now clearly reflected in our P&L after a 9-month accounting lag. On the right-hand side of this 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 EUR 450 million operational improvement plan.

Slide 16. All of this has culminated into higher EBITDA margin for the group, reaching the 25.1% in the third quarter and more than EUR 1.3 billion on the last 12 months basis. Year-to-date, it has reached more than EUR 1 billion and 23.2% 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 a last 12 months basis, EBITDA has increased by 28% with a significant margin expansion.

Slide 17. 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 this year to be at 25% from the 24%, 25% period range and 24% margin plus for the full year '23. All of this confirms our adjusted EBITDA guidance of EUR 1,450 million by the end of the year. And if we consider the annualized cash savings, the pro forma 23% EBITDA margin would be in the 28%, 29% margin range, bringing us back to the pre-COVID margin levels.

Slide 18. Building on all efforts made through previous quarters, we continue to make solid progress on our deleveraging path down to 6.7x at the end of September of this year. This has been driven by EBITDA improvement backed by business performance, cost savings and operating cash flow improvement. We remain confident to achieve a leverage target of 4x by the end of '24. Our current liquidity is more than EUR 1 billion, including EUR 454 million in cash.

Now I hand over to Thomas for the final remarks.

Thomas H. Glanzmann
CEO & Executive Chairman

Thank you, Alfredo. Maybe to put all of what you have heard in the 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 underway 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. 2, 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 3, driven by all of these improvements and a commitment to delivery deleveraging transaction of at least EUR 1.5 billion still in '23, we will strengthen our balance sheet and are on track to reach our guidance of 4x 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 strength and the best competitive advantage. 2, we will continue operating as a global market maker and shape in our markets, seizing those commercial opportunities that are most promising and hold great potential. 3, 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 Jorg, the architect of Fibrinogen and Trimodulin, we will strategically strengthen innovation as our future growth engine for Biopharma.

4, we will continue to enhance donor attractiveness through personalization of the experience, digitalization and streamlining our processes. 5, we will also continue to improve our business and operations through further process optimization, streamlined operations and digitalization to drive efficiency. And sixth, as a market leader, we will explore new markets and business opportunities, but we enter into agreements to deliver groundbreaking differentiated patient and customer solutions. Importantly, these 6 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 9 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'll now turn it back to Nuria, who will open it up for a discussion. Thank you.

Nuria Pascual Lapeña
VP of Corporate Treasury, Risk Management Investor Relation & Sustainability Officer
Thank you, Thomas, and thank you all for your time. Now let's start the Q&A session.

Question and Answer

Nuria Pascual Lapeña
VP of Corporate Treasury, Risk Management Investor Relation & Sustainability Officer

[Operator Instructions] First question today comes from Tom Jones from Berenberg.

Thomas M. Jones
Joh. Berenberg, Gossler & Co. KG, Research Division

Kind of both of them really relate to the tech transfer agreement that you've recently signed with Biotest. I wanted just a straightforward financial one really. I think you guys have this morning guided towards somewhere around a mid-triple-digit million number payments in total over the '23, '24, '25, '26 time frame. It would be helpful for us to try and understand sort of broadly how that might be weighted just to help us modulate your sort of free cash flow over the next couple of years.

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

Víctor Grifols Deu
COO & Director

Thank you, Tom for your question. Regarding the transfer tech agreement with Biotest. Basically, this is what you have seen in the, I would say, press release is on a stand-alone basis, on a consolidated basis is worse. I mean the payments related to this agreement will be done based on the cash flow needs of Biotest. So it will not be an impact on a consolidated basis.

Thomas H. Glanzmann
CEO & Executive Chairman

Tom, I take the second piece of your question. It's about positioning of Yimmugo. As you know, in Grifols, we have 2 main intravenous brands, one is Gamunex and the other one is Flebogamma. Our idea is to -- due to basically the better years 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 kind of in summary, the strategy we are pursuing.

Thomas M. Jones
Joh. Berenberg, Gossler & Co. KG, Research Division

That's really helpful. Not many, but a really quick one. The EUR 13.7 million of restructuring charges in Q3, which line item were they booked in? Just help us tie up our models.

Alfredo Arroyo Guerra
CFO & VP

Depending on -- if we're talking now about severance, there will come severance for, I would say, for the manufacturing area or from, I would say, corporate structure, they go either to COGS or to SG&A. I mean for further details, you can follow up the -- all the specifics with my team.

Nuria Pascual Lapeña
VP of Corporate Treasury, Risk Management Investor Relation & Sustainability Officer

We have a question now from James Gordon, JPMorgan.

James Daniel Gordon
JPMorgan Chase & Co, Research Division

James Gordon, JPMorgan. Two questions, please. First one was on divestment plans. 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 5 months since the June update. Is it that you're looking

to do something more complicated like maybe a combined transaction, divesting some of Shanghai RAAS and diagnostics or some factors related to the dynamics in China at the moment? Or why has this taken a bit longer? And why are you still confident?

And then the second question was just on Biopharma growth. So strong performance in the quarter. I think it was 14.5% year-to-date and 13.7% in the quarter, but you're still guiding for the full year to grow 12% to 14%. So that's quite a wide range of only 2 months of the year left, and it does imply potentially quite a slowdown in Q4. So is that just conservatism? Or is there some tougher things going in Q4? I can see you've maybe got a tougher comp for Biotest or is it industry dynamics with alpha-1? Why might things theoretically slow so much in just the last few months of the year?

Thomas H. Glanzmann
CEO & Executive Chairman

James, this is Thomas. I'll take your first question. And first of all, let me just 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 been 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 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.

Víctor Grifols Deu
COO & Director

Okay. I take the second part of your question. No, 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 Daniel Gordon
JPMorgan Chase & Co, Research Division

I think it was just 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? Because to get to just 12%, you'd have to have quite a slowdown versus what you've done in the first 9 months?

Víctor Grifols Deu
COO & Director

We have had a very strong, in fact, Q3 quarter. For Q4, we are stick to our budget. And if it comes as good as Q3, we will try to deliver, of course, but it's kind of this quarterly thing, sometimes the swings are not really, let's say, underlying reality.

Nuria Pascual Lapeña
VP of Corporate Treasury, Risk Management Investor Relation & Sustainability Officer

Next question is coming from Thibault Boutherin from Morgan Stanley.

Thibault Boutherin
Morgan Stanley, Research Division

Just one on albumin to start. The number seems to imply you had a very strong acceleration of our albumin sales in the third quarter. So I just want to understand what happened there. Is there any one-off? That's the first question. And second one on deleveraging. And beyond the Shanghai RAAS stake sale that you kind have confirmed, do you see have an appetite to do another transaction before the end of 2024? And how large this deal would need to be in order for you to get to your leverage target? Like does it need to be as big as Shanghai RAAS or could you do something smaller and get there?

Víctor Grifols Deu
COO & Director

On the first one, on the albumin question. No, we are seeing strong momentum in albumin, both in China and other important regions globally, and we are meeting our demand. As the 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 H. Glanzmann
CEO & Executive Chairman

Thibault, Thomas here. We are actually very focused now 100% on signing the China transaction and are actually, at this point in time, not looking at anything else. We believe that the organic deleveraging combined with the transaction is going to get us to the target that we set for ourselves for '24.

Nuria Pascual Lapeña
VP of Corporate Treasury, Risk Management Investor Relation & Sustainability Officer

Then next question is coming from Alvaro Lenze from Alantra Equities.

Alvaro Lenze Julia
Alantra Equities Sociedad de Valores, S.A., Research Division

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 it's that's 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.

Víctor Grifols Deu
COO & Director

I take the first one. Alvaro, on alpha-1, yes, as we said, we are seeing today kind of flattish evolution in this franchise for us. There are many, many components. As you know, we have a pretty unique, let's say, 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 first piece in the funnel, is the testing piece. Just in May, we launched the new testing tool, which is the AlphaID at Home which is the complement to the health care professional testing model. So we are fine-tuning there. We expect this, let's say, flattish trend seeing recently will be turning around during 2024 as I said, we made some small tweaks in our operating model to adapt to the new times after the pandemic.

Alfredo Arroyo Guerra
CFO & VP

Alvaro, to your question of the cash flow, in the Q1, we have that hit as you all know, the restructuring cost. Most of the payments were done in the Q1. And since then, we've seen a significant positive increase on cash flow. And we're going to see this in not only in Q1 -- Q2 and Q3, but also in Q4. Regarding the inventories, yes, we've seen 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, the sales activity with this double-digit growth did require additional inventory. But for the year end, we're going to see a very positive cash flow before that service.

Nuria Pascual Lapeña
VP of Corporate Treasury, Risk Management Investor Relation & Sustainability Officer

We have a question from Guilherme Sampaio from CaixaBank.

Guilherme Macedo Sampaio
Banco BPI, S.A., Research Division

So first one, a follow-up on this previous question. In terms -- specifically in organic deleveraging. So we keep seeing net debt going up. When should we see a decline in net debt already next quarter or something for the next year, actually the cost effect of 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 Guerra
CFO & VP

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, but we need to deleverage to reduce basically the interest expense.

Víctor Grifols Deu
COO & Director

On the diagnostic question, you talk about the slowdown in this quarter. If I understood correctly, it's good to remind that in Q2, we had an exceptional, let's say, revenue or income coming in this one that, of course, is an exceptional one, and it's not happening in the next -- in this quarter or the others to come.

Nuria Pascual Lapeña
VP of Corporate Treasury, Risk Management Investor Relation & Sustainability Officer

Okay. Good. And now we have a couple of follow-ups. So Tom, I think you have some additional questions.

Thomas M. Jones
Joh. Berenberg, Gossler & Co. KG, Research Division

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 2 GIGA products, 564 and 2339, you've got the Alkahest, the AMD product, the 4290 product, then the 6019 and 6021 I think from Alkahest as well, plus you've got the Alzheimer's vaccine. You got all these sort of non-plasma, like some of the Alkahest ones and plasma products, but you've got a lot of kind of noncore 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 the 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 to keep these, take them all the way through to 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 this kind of big picture here is because at the moment, they're all cost and no benefit from the equity markets perspective.

Víctor Grifols Deu
COO & Director

Thank you, Tom. Yes, it's a very, very good question from your side. Yes, 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 developments. So plasma clearly will be on the core with those 2 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, I should say, was in line with our gamma globulin product portfolio. We saw that an interesting opportunity in the way we can obtain gamma globulin or specific gamma globulins from this technology. It happened that, that company came also with this 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.

Nuria Pascual Lapeña
VP of Corporate Treasury, Risk Management Investor Relation & Sustainability Officer

Now Alvaro, also follow up.

Alvaro Lenze Julia
Alantra Equities Sociedad de Valores, S.A., Research Division

Thanks for allowing me to jump back in the queue. Just 2 questions. First is on capacity and considering the fast growth in activity, if I am not mistaken, I believe, in Q2, you mentioned that 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 like profits attributable to noncontrolling interests. They have been trending a little bit higher than I expected. There's a little visibility as some of the companies here do not have a reported EBITDA like the collection -- plasma collection networks of Haema and Biotest US. So whether we could extrapolate this EUR 30 million per quarter like indefinitely? Or you could provide some guidance for this year and next year?

Alfredo Arroyo Guerra
CFO & VP

Okay. I take both questions. Regarding capacity, yes, we confirmed in the last call, the 60% capacity for this year. And based on the upcoming sales growth and our projections, we expect that the next wave of CapEx expansion will take place in 2028, okay. So we have clear path of lower spend from now to 2028.

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

Nuria Pascual Lapeña
VP of Corporate Treasury, Risk Management Investor Relation & Sustainability Officer

Okay. Apparently, there were 2 persons who are trying to access and we're having some kind of problems. We will try to give access from our side. We have Peter Verdult, Citi. Can you hear us, Peter? No. Okay. We'll try again later. And then Charles Pitman from Barclays. No? Okay. While we solve this, let's continue with Thibault, you also had some follow-up. Can you hear us?

Thibault Boutherin
Morgan Stanley, Research Division

Can you hear me?

Nuria Pascual Lapeña
VP of Corporate Treasury, Risk Management Investor Relation & Sustainability Officer

Yes, we can.

Thibault Boutherin
Morgan Stanley, Research Division

So first question on the funding of the Alzheimer's vaccine potential Phase III. Just wanted to know if you're kind of open to out-licensing this or finding a partner to fund the R&D or if you're willing to fund it yourself? And then second question, when we think about the underlying adjusted EBITDA this year, pro forma, including savings, the EUR 1.75 billion, how comfortable are you with kind of consensus using this as a base going forward and using it as an underlying profitability guide for next year? Is there any kind of accounting elements or business elements we need to think about that would make it not a good approach to do that?

Víctor Grifols Deu
COO & Director

I take that just part of a question about the Araclon vaccine. Yes, this was an important milestone for us that we have been waiting, the Phase II 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, yes, we are very open to study potential out-licensing this product for the Phase III.

Nuria Pascual Lapeña
VP of Corporate Treasury, Risk Management Investor Relation & Sustainability Officer

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, Research Division

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

Nuria Pascual Lapeña
VP of Corporate Treasury, Risk Management Investor Relation & Sustainability Officer

Thibault, we could hear you well this time.

Víctor Grifols Deu
COO & Director

Thanks for repeating the question. Yes, we are comfortable with this EUR 1,750 million considering these cash savings that they're going to go into 2024. So therefore, yes, the -- remember that out of the EUR 450 million operating cash savings, EUR 150 million

roughly will flow through the P&L this year and EUR 300 million next year. So that's how we come up with this EUR 1,750 million. So yes, we reaffirm that we're confident.

Nuria Pascual Lapeña
VP of Corporate Treasury, Risk Management Investor Relation & Sustainability Officer

We have a question from Jaime Escribano, Banco Santander.

Jaime Escribano
Banco Santander, S.A., Research Division

So 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 saving plans. I wonder and how do you see this 46% gross margin for the volume following quarters? And even if we could think about a gross margin higher than that? That would be my first question.

Alfredo Arroyo Guerra
CFO & VP

Okay, Jaime, yes, as you know, we need to consider in our industry, this 9 months accounting lag for the plasma cost. And as I said, out of the EUR 450 million, EUR 500 million -- EUR 300 million are coming next year. So they're going to go through the P&L. Most of these EUR 300 million, the majority relates to plasma costs. So yes, we're going to see that this gross margin is going to keep growing on sequential basis, which basically this higher gross margin is, at the same time, is going to -- has a very positive impact on the quarterly EBITDA improvement in the coming quarters.

Nuria Pascual Lapeña
VP of Corporate Treasury, Risk Management Investor Relation & Sustainability Officer

And you had a second, Jaime?

Jaime Escribano
Banco Santander, S.A., Research Division

Yes, my second, sorry, I think there is some echo. Yes. No, it 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?

Thomas H. Glanzmann
CEO & Executive Chairman

We were there a few months ago, the whole team meeting with -- 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 in -- during 2025.

Nuria Pascual Lapeña
VP of Corporate Treasury, Risk Management Investor Relation & Sustainability Officer

Now I think we have recovered from Barclays, Charles Pitman. Charles, can you hear us now? And whether we can hear you. Hello?

Charles Pitman
Barclays Bank PLC, Research Division

Can you hear me now?

Nuria Pascual Lapeña
VP of Corporate Treasury, Risk Management Investor Relation & Sustainability Officer

Yes. Apologies for that.

Charles Pitman
Barclays Bank PLC, Research Division

Just a couple on the Shanghai RAAS deal. I was wondering if you could just 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 -- and kind of -- if you could just reiterate what gives you

confidence that you're able to sign this by the end of the year? And then just secondly, on the kind of $1.5 billion of cash realization, can you confirm if this is a pre or post tax amount? And what gives you the confidence that you can, in fact, realize that? And can you overall can you just reiterate that you are confident you will be able to realize that cash and you'll be able to use that to pay down debt?

Víctor Grifols Deu
COO & Director

So let me take the first part. First of all, 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, it is the regulatory -- some of the regulatory pieces will come in next year, in the first half of next year. So that's not preventing us from the signature as such. So we're going to sign, and we are pursuing the regulatory. And as we said, we expect that both at the closing will take place in the first half of next year.

Alfredo Arroyo Guerra
CFO & VP

Regarding the cash proceeds, the at least $1.5 billion, this cash proceeds will be used in full to reduce debt.

Nuria Pascual Lapeña
VP of Corporate Treasury, Risk Management Investor Relation & Sustainability Officer

Okay. Also we have Peter Verdult from Citi. Hello?

Peter Verdult
Citigroup Inc., Research Division

Nuria, can you hear me?

Nuria Pascual Lapeña
VP of Corporate Treasury, Risk Management Investor Relation & Sustainability Officer

Yes, perfectly. Thank you.

Peter Verdult
Citigroup Inc., Research Division

Peter 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 and ask what in your view is a significant shareholding still in RAAS post the transaction?

Question number 2, maybe for Victor. I think it would be helpful for us in the market, good growth on Xembify, it's a long-term growth driver. I think historically, you've said 5% to 10% of sales coming from of IG sales are Xembify. Are you willing to put a ballpark number as to where we are end of this year, where we are on Xembify?

And then lastly, I joined late, apologies, but I did hear James Gordon's question about the guidance. Can I just invert it and make it more simple. Is it fair to say that the risks, given the trends you're seeing so far in Q4, that the risk to your guidance is very much to the upside rather than downside as James is implying in terms of mechanically going -- keeping that 12% to 14%. So 3 questions on RAAS, Xembify and upside risk to guidance given the Q4 trends you're seeing.

Thomas H. Glanzmann
CEO & Executive Chairman

Thomas. 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 album in 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 proceed with this deal, all of these pieces will be a very important part as we conclude and sign the deal with -- on Shanghai RAAS.

Víctor Grifols Deu
COO & Director

On the second question, Peter, yes, as you probably can see in the presentation we released to date, the growth pace of subcutaneous versus our IV product, it's clearly higher. So this is as we move every month, every quarter, the share of subcutaneous versus the

overall, it's 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.

Nuria Pascual Lapeña
VP of Corporate Treasury, Risk Management Investor Relation & Sustainability Officer

Alfredo on the guidance and the risk.

Alfredo Arroyo Guerra
CFO & VP

Regarding the guidance, as you know, the growth is very important to understand that it's based on the baseline, okay, the previous year and also on -- when you look at on a reported basis on the FX. For the Q4, we expect that we still expect a strong quarter, but the reality is that when we 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 Lapeña
VP of Corporate Treasury, Risk Management Investor Relation & Sustainability Officer

We are coming close to the hour, but we have 2 follow-ups, one from Jaime, another from Charles. Please, if you can make kind of one question each so that we conclude with that session. First, Jaime.

Jaime Escribano
Banco Santander, S.A., Research Division

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 that they were going to review the guidelines and that in 2023, they would start recommending again products. Is this something that could be on the table again to try to revive the AMBAR project with ASFA or you don't have a lot of expectations on that?

Víctor Grifols Deu
COO & Director

Yes, on the Alzheimer's, the Araclon vaccine, there was a question previous, and yes, it's a program that we are open to out-license the financing of this Phase III trial that it should go now. So that's the status as of today on Grifols regarding this vaccine looking for a 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 that it's a procedure that can be used out there for patients. Regarding the AMBAR in general for Grifols, we are kind of in a standby mode. We are 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, S.A., Research Division

Okay. I'm sorry, Victor, just 2 follow-ups. But then is there any opportunity to monetize AMBAR through this recommendation of the ASFA or to get it into the insurance or any growth potential coming from there?

Víctor Grifols Deu
COO & Director

At this stage, we are, let's say, moving cautiously, I should say, in the sense of a slow, okay? We are trying to understand which are the potential possibilities that we can see for this program in relation with the inclusion of the protocol in the ASFA guidance -- guidelines.

Nuria Pascual Lapeña
VP of Corporate Treasury, Risk Management Investor Relation & Sustainability Officer

Okay. And last question for our today's session, Charles. Hello, Charles Pitman?

Charles Pitman

Barclays Bank PLC, Research Division

Just very quickly, can I just -- want to just to get the understanding clear. The $1.5 billion you expect to receive and to pay down that's a post-tax amount? And then just the actual question I had follow-up was just talking about the expected potential for other cost savings given you've now hit the kind of top end of your target for FY '23. Kind of what other further levers are there that you're seeking to identify going forward? Or is the focus very much just on normal operational efficiency?

Alfredo Arroyo Guerra
CFO & VP

Okay. For the $1.5 billion, this is -- it's going to be cash, no taxes when you receive the cash, there is no taxes on this. And then regarding the operational improvement plan, as we said, this year, we're going to achieve through P&L, the EUR 150 million, plus the EUR 300 million, as I said, for next year, the EUR 450 million, I think that we continue working to exceed that EUR 450 million. 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 Lapeña
VP of Corporate Treasury, Risk Management Investor Relation & Sustainability Officer

Thank you, Alfredo, and thank you, everybody, for joining us today, and I 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 H. Glanzmann
CEO & Executive Chairman

Thank you very much, everybody.

Víctor Grifols Deu
COO & Director

Thank you. Bye-bye.

Alfredo Arroyo Guerra
CFO & VP
Thank you. Bye-bye.