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Market Intelligence

Grifols, S.A. BME:GRF

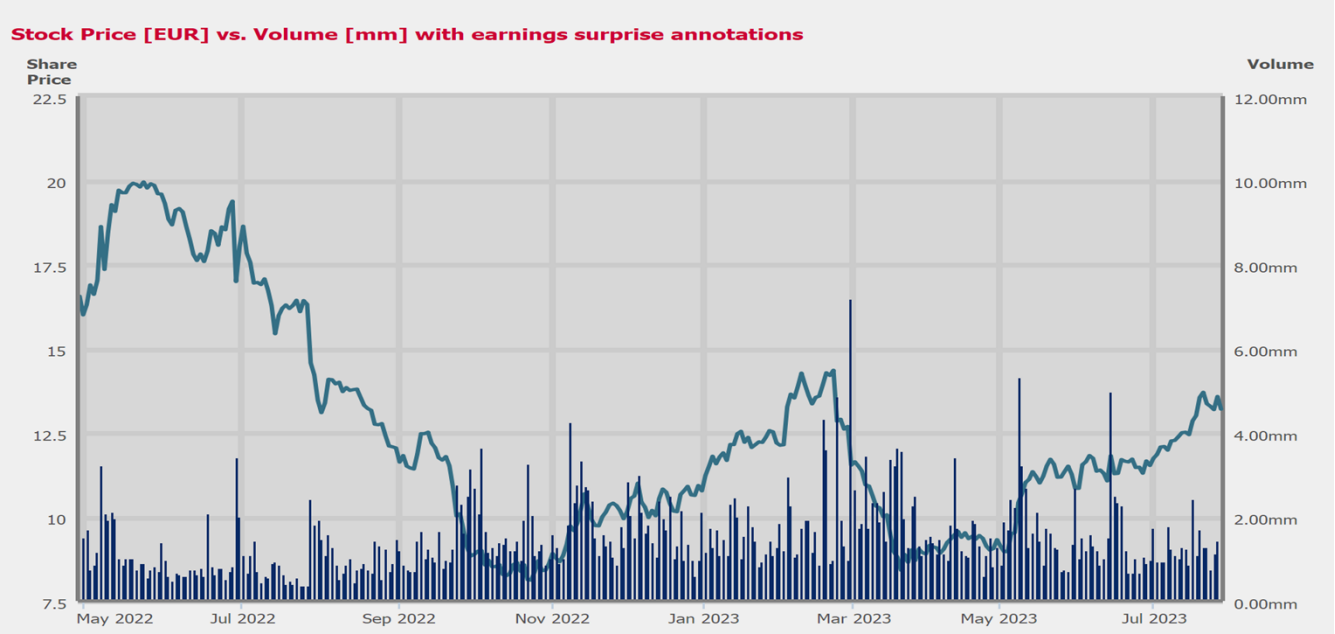
FQ2 2023 Earnings Call Transcripts

Thursday, July 27, 2023 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2023-			-FQ2 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.07	NA	NA	0.13	0.65	NA
Revenue (mm)	1534.42	NA	NA	1659.30	6586.31	NA

Currency: EUR
Consensus as of Jul-28-2023 8:36 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2022	NA	NA	NA
FQ3 2022	NA	NA	NA
FQ4 2022	NA	NA	NA
FQ1 2023	0.07	NA	NA

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Call Participants

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CFO & VP

Nuria Pascual Lapeña
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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 Second 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, and I'm joined by Thomas Glanzmann, our Executive Chairman and CEO; Grifols CFO, Alfredo Arroyo; and Victor Grifols Deu, our Chief Operating Officer.

This call will last for 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.

Before we start, I draw your attention to the forward-looking statement disclaimer on Slide 2 in the slide deck of our release. And 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.

And 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, I'm very pleased to announce the second consecutive quarter of strong results for Grifols. We are not only delivering on our commitments, but accelerating these as a result of our turnaround strategy. Although the first half of the year -- all through the first half of the year, we have excelled in execution, proved financial discipline and enhanced our performance culture. We advanced on all key priorities during this first half of 2023.

Our operational performance continues to improve on a sequential basis. We are reporting sustainable revenue growth, driven by Biopharma, which is supported by solid underlying demand, favorable pricing and product mix, led by Xembify, which grew 26% in the first half of 2023.

We have accelerated margin expansion, reaching an adjusted EBITDA margin of 22%-plus for the first half, mainly driven by our strong business performance and well-executed operational improvement plan. During the first 6 months of 2023, we successfully deployed 100% of the EUR 450 million cash cost savings improvement plan. Evidence of this is the cost per liter reduction, which declined sharply since August of last year.

By the end of 2024, we expect to have booked the full amount of EUR 450 million in savings on our P&L, considering the 9-month lag coming from our long inventory cycle which, as you know, is characteristic of our industry. At the same time, plasma supply continues to grow at double-digit growth rates. As a result of this performance, we have exceeded our revenues and adjusted EBITDA guidance for the first half and raised second half and full year '23 guidance. We reiterate that leverage is a priority to us, and this includes reaching net debt-to-EBITDA of 4x by the end of 2024.

As mentioned in previous calls, we have several work streams in place to deleverage the company, and we are working with the intent to close one deleveraging transaction by year-end. We will share more information on this matter when we are able to, including on the previously announced China opportunity. In addition to all these important milestones, we continue to focus on our innovation pipeline, where we are making solid advancements. Victor will take you through them shortly.

Grifols is committed to creating value for all our shareholders and restoring goodwill with the financial community. We firmly believe that to do so, we must consistently deliver on our goals and commitments. One of these commitments was to enhance our communication with stakeholders, and we will continue to do so. In the first half of 2023, we had the opportunity to engage with more than 100 investors through honest and constructive discussions, which were much appreciated. Going forward, we will continue to expand our outreach and aim to engage with more equity and debt market participants.

As indicated in the first quarter '23 earnings call, we made the decision to reinforce and expand our IR footprint in the U.S. to better serve investors in North America and globally. Now we can announce that this position has been filled and the onboarding process

has started. I'm sure many of you will have the opportunity to interact with our new Senior Director of U.S. Investor Relations and Sustainability, who reinforces the global team led by Nuria Pascual and Daniel Segarra.

Before Victor takes us through a business update, I would ask you, at the end of our presentation, to take a moment and review the comprehensive efforts Grifols has also undertaken in terms of sustainability through our six pillars during the first half of 2023. These pillars represent our collective commitment to drive positive change and make a lasting impact. By reviewing the details of our sustainability initiatives, we trust that you will gain an appreciation of our efforts and progress spanning from environmental stewardship and social responsibility to ethical governance, supply chain excellence and employee well-being.

I would like to conclude by reiterating how encouraged I am by all our progress in the first half of the year, and I want to thank the entire Grifols team for their hard work, dedication and perseverance. With that, I will now hand the call over to Victor.

Víctor Grifols Deu
COO & Director

Thank you, Thomas. Good afternoon, everyone, and thanks for joining us today.

Turning to Slide 6. We achieved revenues of more than EUR 3.2 billion for the first half of the year, growing 13.1% at constant currency and 14.8% on a reported basis. If we exclude Biotest, total revenues reached almost EUR 3 billion, an increase of 7.7% at constant currency and 9.4% reported basis.

Biopharma revenues grew 14.9% at constant currency and 16.7% on a reported basis to reach EUR 2.7 billion, and by 8.4% at constant currency and 10.2% on a reported basis to EUR 2.4 billion, excluding Biotest, backed by a robust underlying demand, favorable pricing and product mix.

Now turning to Biopharma, Slide #7. The significant growth in our IG flagship product seen in Q1 has continued into Q2, resulting in a half year growth of 13.6% at constant currency. As before, we have seen sustained upward momentum, supported by higher plasma supply and robust underlying demand, coupled with favorable pricing and some product mix. Subcutaneous IG revenues grew 26% in half 1 2023. We continue to expand our offering of subcutaneous immunoglobulin Xembify globally. And to that end, you would have seen that we initiated a launch in Spain and plan to launch Xembify in Australia in the second half of the year just as two examples.

In Albumin, a strong demand and favorable pricing in China and Rest of the World are the main drivers of growth, offsetting some weaker volumes in the U.S. Going forward, overall, we expect volume demand to remain very robust throughout the year.

Finally, our Alpha-1 and Specialty Proteins segment grew 0.3% on constant currency, driven by a mixed geographic volume performance in alpha-1 with higher volumes in the U.S., partially offset by lower volumes in certain European countries. We are increasing testing volumes in the alpha-1, which will trigger further sales growth during the rest of the year. On the other side, we noted a favorable performance in our hyper portfolio and continued positive trend in our partnerships in bleed management products. Partially offsetting that, we have lower demand of our plasma-derived Factor VIII product.

Now turning to Slide 8. Grifols is strengthening its IG franchise as we continue to see a solid growth opportunity in the EUR 40 billion IG market, which is growing high single digits and is expected to continue to do so. We have three strong brands and a unique strategy to drive further growth. We are accelerating our commercial and innovation efforts to capture opportunities with our subcutaneous IG product, Xembify, which commands a higher price than IVIG and currently represents only a single-digit percentage of our IG sales, and we expect this to continue increasing over time.

In parallel, we are building on our IVIG Gamunex track record, consolidating our industry-leading position in neurology and acute care, while continuing our work to keep IG therapy as a standard of care -- as the standard of care. In addition, we believe Biotest Yimmugo will be instrumental in supporting this long-term growth and reinforcing our position in Europe. We continue to remain focused on the immunodeficiency market, which comprises the largest share of IVIG usage with primary and secondary immune deficiencies growing ahead of the rest of the users.

As global plasma supply increases, we are anticipating a strong growth with opportunities on core indications, especially PID and secondary immunodeficiency, but also in CIDP. Demand has remained robust and is expected to continue to be so. Many patients, even in top markets, remain underdiagnosed. Demand for treatment of secondary immunodeficiency, for which currently there is no competitive threat, continues to show growth.

Even though incidences of diseases are similar across geographies, consumption rates can vary very significantly among them. Actually, IG in the U.S. is still consumed at almost 3x the rate per capita of population when compared to Europe. Therefore, IG market growth is expected to outpace potential erosion from disruptive technologies.

Turning now to Slide 9. Our ambition going forward is to increasingly focus on innovation as a key driver of our medium to long-term growth. To support this objective, we are expanding our existing commercial offering as well as seeking new commercial opportunities, especially in the use of IG. We are pleased to announce that we achieved a number of key milestones since our last quarterly update. During Q2 '23, we finalized the enrollment of the PRECIOSA trial and also for the SPARTA trial study, with the later progressing ahead of schedule.

We have also made significant advancements on our Biotest innovation commitments with both Fibrinogen and Trimodulin Phase III trials on track. With regard to Fibrinogen, we completed the ADFIRST trial and presented top line study results in line with our expectations. The data will be used for clinical submission, both in Europe and U.S., where we expect to receive market approval by the end of 2024 and late 2025, respectively. For Trimodulin, we initiated the ESsCAPE trial study and the first sites have been already activated. And finally, we have completed Yimmugo's BLA submission to the FDA.

Now moving into the diagnostic, Slide #10. Diagnostic revenues continues to be driven by blood typing solutions, where we are seeing a strong growth across the U.S., Argentina, Brazil and Spain. It is noteworthy mentioning the Grifols blood typing solution is outperforming the market growth and continues to gain market share. As you saw in Q1, our revenues in NAT technology are somehow affected by the pricing concessions in exchange for extending a large contract with the key customers to up to 20 years. However, a number of factors in Europe and Asia are helping to partially offset this, including a strong demand in Japan and instrument sales in Philippines, as an example.

Now turning to Slide 11, the Bio Supplies division. Revenues grew 57% at constant currency, benefiting from the integration of Access Biologicals. All three subdivisions have reported a strong revenue growth with Bio Supplies' diagnostics revenues more than doubling.

And now I hand it over to Alfredo.

Alfredo Arroyo Guerra
CFO & VP

Thanks, Victor, and thank you for joining us today. Moving to Slide 13. We're very pleased to report a continuation of the strong momentum seen in the first quarter. Revenue growth across key divisions and margin came in above expectations, driven by strong business performance and the execution of our operational improvement plan already 100% deployed. Total revenues increased by 14.8%, reaching EUR 3.2 billion, plus 9.5% like-for-like, excluding Biotest. Biopharma revenues grew 16.7%, or 10.2% like-for-like. Therefore, the revenue growth is tracking above our previous full year guidance of 8% to 10% for the group and 10% to 12% for Biopharma.

Adjusted EBITDA margin improved further in Q2 to 23.4% from a 21% margin in Q1. This translates to a 22.2% EBITDA margin for the first half of the year, exceeding our guidance for the period. Our leverage ratio declined to 6.9x by end of June, supporting our commitment to deleveraging our balance sheet. Plasma supply and cost per liter have both improved sequentially versus Q1 '23, where plasma supply increased by 12% and the cost per liter declined by 20% versus 2022 peak.

This slide shows the sequential improvement across financial key metrics. We continue to see mid- to high single-digit revenue growth, driven by biopharma, which has benefited from solid plasma supply, robust underlying demand, pricing and product mix. As a result, our top line has reached almost EUR 6 billion on the last 12 months basis, with 17% growth versus Q2 2022. Our profitability is steadily improving, shown in the last 12-month EBITDA trajectory, which is now close to EUR 1.3 billion. EBITDA margin reached remarkable 23.4% in Q2, representing 35% growth versus Q2 2022, driven by the strong business performance and the acceleration of the operational improvement plan. Deleveraging continues improving now at 6.9x compared to last year peak of 9, improving by 2.1x, driven entirely by business performance and cost discipline.

The next slide shows the adjusted EBITDA bridge that progresses -- and the progress versus last year were year-to-date June, the EBITDA has reached EUR 655 million. That represents an improvement of EUR 93 million, a 22.2% margin, which implies an additional 150 basis points versus prior year, driven by Biopharma contribution as well as the operational improvement plan. And then we have a EUR 135 million of one-off charges that includes mainly the EUR 140 million restructuring charges that we booked in Q1. No additional restructuring costs are expected.

The next slide shows the operational improvement plan is progressing above our expectation. All the initiatives have been 100% deployed, exceeding the EUR 450 million savings. And we have already achieved EUR 235 million in cash savings in the first half of the year, and we're expecting additional EUR 160 million cash savings in the second half.

If we consider that almost 75% of the total savings are plasma cost related and due to the 9 months plan by inventory accounting, EUR 75 million savings have been posted through the P&L in H1. An additional EUR 85 million will come in the second half, and a carryover of EUR 290 million savings will be booked in 2024.

Plasma cost per liter. As shown in this slide, as of June, we made a rapid progress in reducing our plasma cost per liter by 20% from the 10% drop reported in Q4 2022 versus all July peak cost in 2022. Plasma supply increased by 12% in the first half of the year, which is aligned with the plasma needs to support our growth. Close to the 50% of the cost per liter decline comes from lower donor compensation and another 50% from other optimization initiatives, such as process optimization, streamlined operations, overhead processes and digitalization.

In line with the previous slide, plasma cost reduction has a very positive impact in the gross margin. But considering, once again, the 9 months inventory accounting, those plasma cost savings will mainly impact in 2024 P&L. In the second half of this year, we see a potential of more than 250 basis points margin improvement compared to the first half of the year. We expect further margin expansion in 2024, supported by the operational improvement plan of the initiatives currently deployed.

Next slide shows our leverage commitment at 4x leverage by the end of 2024 that remains unchanged. We continue deleveraging organically as a result of our business performance and our operational improvement plan. The 4x leverage target will come from 70% of the operational improvement plan, plus EBITDA organic growth. And the remainder 30% deleverage will come from deleverage transactions, whose cash proceeds will be fully used for debt reduction. We currently have a total liquidity of EUR 1.2 billion, including EUR 500 million in cash.

Based on the strong first half of the year results delivered. And since we are very confident on the second half of the year, we're raising our guidance for the full year revenues and EBITDA. We expect full year '23 total revenue growth, including Biotest of 10% to 12% at constant currency compared to the previous guidance of 8% to 10%. This is backed by Biopharma revenue growth of 12% to 14%, compared to a prior guidance of 10% to 12% or at constant currency.

Regarding EBITDA, now we expect that EBITDA margin for the second half of the year to be in the range of 24%, 25% and the full year EBITDA margin at 24%, expecting the continuation of a strong sequential quarterly margin improvement. This should lead to an adjusted EBITDA, including Biotest of EUR 1.4 billion to EUR 1.45 billion by the end of the year. And considering the annualized cash cost savings, the pro forma 2023 EBITDA is expected to be in the range of EUR 1.7 billion to EUR 1.75 billion, representing 28%, 29% EBITDA margin, which, basically, is coming back to 2019 margins.

Now I hand over to Thomas for closing remarks.

Thomas H. Glanzmann
CEO & Executive Chairman

Thank you, Alfredo. I would like to conclude by reiterating a few points we have already made. I will also highlight the main triggers that support raising guidance for the second half of 2023 and for the whole year. We are pleased with the progress made during the first 6 months of the year through operational performance, both on the commercial and innovation front, as well as on the deleveraging. And we will continue to execute on all of these with the same focus in the second half of the year and beyond.

In the second quarter of 2023, Grifols accelerated its delivery further from the very solid momentum seen in the first quarter. We expect the strong sales growth to continue, driven by demand for the key proteins, product and country mix. The company has already successfully deployed 100% of EUR 450 million cash cost -- of the cash cost saving plan. Testament of the execution of the plan is the cost per liter reduction of 20%, while plasma supply grew 12% for the first half of '23.

As mentioned, we also made good progress with our focus on innovation. We met numerous innovation milestones, which will support further growth and margin expansion in the coming years, including the European approvals for Xembify and Biotest Yimmugo. We are, therefore, confident in our ability to deliver on the raised financial guidance in the second half of the year. Deleveraging remains a top priority, and our commitment to reduce the leverage ratio to 4x by 2024 is unchanged. We are, today, advancing on several work streams supporting our deleveraging efforts.

Finally, I want to reiterate the Board is fully invested and focused on creating value and making our commitments a reality, while the executive team is laser-focused on accelerating the execution of the company's strategy. Key focus continues to be on operational excellence, on cash flow improvement and debt reduction and ultimately, on increasing value for all shareholders.
Once again, I want to thank our entire Grifols team for making it all happen. Without everyone's effort, focus and dedication, the progress made in the first half of 2023 would not have been possible. I appreciate your attention, and I now turn it back to Nuria, who will open it up for questions.

Question and Answer

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

Thank you, Thomas, and thank you all for your time. With that, let's start the Q&A session. [Operator Instructions] So now our first question comes from Peter Verdult from Citi.

Peter Verdult
Citigroup Inc., Research Division

I will stick to 2, and then go back in the queue. But the two are related around the deleveraging point, which you touched on, Thomas, in your prepared remarks. But can I just push you, firstly on RAAS, the partial disposal? Anything you're willing to say more on timing and the number of interested parties would be helpful, the question we often get asked by existing and potential investors.

And then secondly, on diagnostics. Are you looking to stabilize this business further and demonstrate a sort of sustainable growth rate before considering alternative options that could further accelerate deleverage? I know you've said very clearly at the start of the year one to two transactions in 2023, but it feels to me at this juncture that's more or like to be RAAS divestment in 2023. So feel free to put you back in my box if you feel I'm coming at to the wrong conclusion, but I just wanted to get a bit more color on RAAS and diagnostics.

Thomas H. Glanzmann
CEO & Executive Chairman

Thank you, Peter. Great to hear your voice. Well, let me basically reiterate some of the things that we've said. The potential China deal, or Shanghai RAAS, is in process. Discussions are ongoing. We cannot offer more comments at this point, but we will obviously inform you as soon as we have news. We do stand by our June release of the potential transaction that would generate $1.5 billion in cash and would retain a strong position in China. But I do want to remind you that this is one of our work streams, but also that 70% of fixing our balance sheet, and I'll come back to what Alfredo mentioned, really is on improving our operational performance.

So with regard to the diagnostics, we're, obviously, looking -- we have a couple of work streams going. We are looking at a number of things at the moment. We have valuable assets, and diagnostics is one of them at this point in time. And as these discussions are ongoing, as you will appreciate, they're, obviously, very confidential, and I cannot divulge more details on the different work streams until we actually can make something official.

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

We have James Gordon from JPMorgan on the line.

James Daniel Gordon
JPMorgan Chase & Co, Research Division

James Gordon, JPMorgan. Both about immunoglobulin, please. The first one was immunoglobulin performance this quarter and this year. It looks like maybe immunoglobulin has decelerated slightly, but it still seems to be growing low double digit this quarter, so a strong performance. But I think I heard a comment about an uptick in sales ex-U.S. So have you seen any softening in U.S. demand growth as one of your peers seem to suggest that they'd seen? And so that's why you're shifting more sales to Europe. And how does the profitability compare of selling IG more in Europe than the U.S.? That's the first question, please.

And the second one, I think you alluded to it on the call already, the Argenx, they had their headline VYVGART CIDP results. So just curious, any thoughts on the data that they generated? Whether you think that would see much erosion of your franchise or not, as your perspective on that data, whether we might see significant switching?

Víctor Grifols Deu
COO & Director

Hello, James, good to hear you as well. I take the first question on immunoglobulin about the, let's say, the geographic. Clearly, in Europe -- I was over in Europe. Outside U.S., we see a strong demand. And as long as we have now rebound on the plasma supply, we are able to keep supplying that nice growth that we are seeing outside. In fact, we are growing very nicely there.

In the U.S., a similar case. We continue to see a strong underlying demand in the market. And now as well, we are able to supply this market. In addition, we -- as you know, we are ramping up -- continue ramping up our subcutaneous product, Xembify. And in both, we are seeing nice growth and stable pricing. And profitability, at the end of the day, comes to pricing in this franchise. And as we all know, there is a price gap between U.S. and outside U.S. countries, and this is driving the different kinds of profitabilities that we see geographically.

Thomas H. Glanzmann
CEO & Executive Chairman

James, this is Thomas. I'll take the second question. Well, first of all, we believe that the results are actually good for us because they really reconfirm our position that the Argenx results are going to have very little impact on our business. We continue to be very optimistic about the IG opportunity with a EUR 14 billion market growing at high single digits and the opportunities that we have with not only in the U.S., but globally, with our product range and particularly, as was pointed out, with Xembify, which still represents a very, very small portion of our total IG sales.

And as I mentioned before, or as has been mentioned in our protocols, the profitability of Xembify, obviously, is significantly higher. And as we shift more or sell more of Xembify, that will significantly improve also the overall profile of our Biopharma business and profitability. So we're actually continue to be extremely excited about where we're going, what we're doing and the future of our IG franchise.

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

Now we go for Jaime Escribano from Banco Santander.

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

So a couple of questions from my side. So just if you can elaborate a little bit more on the sales performance of 7% growth at constant currency Grifols excluding Biotest in Q2 versus around 9% in Q1? And within [U.S.], IG seems to be growing at double digits, albumin at around 5%, but then there are risks that you mentioned, growing close to 0, alpha-1, hyperimmune Factor VIII. Maybe if you can give us a little bit more color on this. And also, how does this reconcile with the increase in the top line guidance for the year? Because you, basically, accelerate or increase the top line growth to double digits in plasma. So my question would be, in the second half, are you seeing an acceleration maybe of this part that has been a little bit weaker this quarter?

So -- and then my second question is regarding the Biotest licensing agreement that was announced back in May. If you can give us a little bit more details on how is this going to be implemented? And how should we think about the P&L? If there is anything we should bear in mind going forward?

Víctor Grifols Deu
COO & Director

I will take the first question. In this, let's say, third bucket that we call it alpha-1 and Specialty Proteins, really, it's a bucket that contains many, many different, let's say, product lines. The main one, of course, being alpha-1. Clearly, it's a mix of performance on those different business lines. As I said, we precise on alpha-1. As you know, alpha-1 is highly related with diagnosing potential patients to be put lately on therapy. And during 2022, what we experienced, as we were exiting the pandemic, we were ramping up our testing in the franchise. You have seen that we have kind of reinforced this testing approach with the home kit to expand the progression. And there is a lag time between diagnosis to truncate that into -- to be put on therapy.

And back to your point, we expect this ramping up in testing that started second half last year. And that is continuing during this first semester. We expect this to deliver more patients to be, let's say, put on therapy. And this will help the improvement in performance in growth during the second half.

In addition to that, to your broader question about second half, for instance, albumin, you see this 5.1%. We expect this to continue to be accelerated, and we expect to see a better, let's say, performance than the 5.1% in albumin also. And this makes the overall year to look higher than what looks today.

Alfredo Arroyo Guerra
CFO & VP

Okay. So Jaime, to your second question about Biotest. Yes, we signed this transfer, taken license and development agreement, by which it is going to cover the exchange of technology know-how. So therefore, working together between Grifols and Biotest. And to your point to the P&L, there is no P&L or cash impact at all as a result of this transfer tech agreement.

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

Now we have a question from Thibault Boutherin from Morgan Stanley.

Thibault Boutherin
Morgan Stanley, Research Division

The first one is on immunoglobulin versus other proteins. I mean we are seeing more growth right now of immunoglobulin. If you could just tell us a little bit about your thinking, in the context of the last liter economic logic. How you're thinking about balancing growth between protein going forward? And is it an issue, at some point, in terms of profitability if immunoglobulin continue to grow faster than other proteins?

My second question is, if you could just talk a little bit about the cost of treating CIDP patients. We know already that the annual cost [indiscernible] in CIDP is going to be similar to myasthenia gravis. So probably a little bit more than $200,000 payment per patient. And so if you could compare this with the average annual cost of treating a CIDP patient today in the U.S. with immunoglobulin? And if you could comment on IG potentially having or not a cost advantage compared to new innovation in CIDP?

Víctor Grifols Deu
COO & Director

Okay. It was a little bit hard to understand the whole question. But on the first one, if I understand is the imbalance or balanced growth in our proteins. I should say that we are working towards a goal, a strategy to rebalance our protein growth, both especially the top ones, which, as we know, are IG and albumin. There is still a gap. But we are targeting during this year 2023 and the coming year 2024, to rebalance as we were pre-pandemic, which is the optimal, let's say, a scenario from the profitability standpoint. It's not yet there, but we are working towards balancing those two proteins.

Thomas H. Glanzmann
CEO & Executive Chairman

Okay. I'm not sure I heard your questions very clearly. But if I think I got it, was you were asking about the pricing differential between the new product that was just went through clinicals and our IJV. Is that right?

Thibault Boutherin
Morgan Stanley, Research Division

Okay. Can you hear me?

Thomas H. Glanzmann
CEO & Executive Chairman

Now we can hear. Yes. Is that -- did I get this right?

Thibault Boutherin
Morgan Stanley, Research Division

Okay. Yes, you get it. I mean we already know. I mean Argenx, I think, commented that the price, the cost in CIDP is going to be similar to myasthenia gravis. So we know already it's going to be in the tune of $200,000 or maybe a little bit above that. And so if you could just compare this with IG and implication in terms of reimbursement and access to treatment?

Thomas H. Glanzmann
CEO & Executive Chairman

Well, first of all, obviously, the treatment for IJV, it's about 80,000 or compared to the 200, we've heard even a much higher numbers than the 200 for a full treatment of the patient. So IJVs, obviously, are significantly lowering cost to the system and the patients than what we had expected. And actually, if you take the 600,000, the cost differential could be 10x. So depending on what number [state] tell you, we think that there is a significant difference. And we also think that this is going to be something that people will look at

closely as we move forward. So that gives us another very optimistic view of the fact that IJVs will do very well going forward, even in the CIPD segment.

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

We have now on the line Tom Jones from Berenberg.

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

I had a couple of questions. Probably one for Alfredo, actually. Just pretty boring one, but on operating and free cash flow. Obviously, the business is improving, but free cash flow is still pretty weak and negative. You're still, by the looks of it continuing to invest in inventory. When should we expect those drags on working capital to either abate or become a bit of a tailwind and need to start printing some positive free cash flow? Is this more a 2024 story? Or do you think you can do that in the second half of the year?

And then the second question, kind of like to cash flow, but tied to the leverage story. I think we're all fairly confident or that there's a clear path to how you can knock two turns of EBITDA of your leverage by organic EBITDA growth, but you still need 1 further whole turn to come from asset sales, which, to some degree, not entirely within your control. You need third parties to play ball on that. So given the end of 2024 is only 18 months away, how are you thinking about kind of plan B at this point with the leverage if the asset sales don't come to pass? I'm just wondering what your kind of thinking might be at this point, in terms to try to hit that 4x target?

Alfredo Arroyo Guerra
CFO & VP

Tom, good to hear you again. Regarding the cash flow, I mean, if we think in terms of operating cash flow, basically in Q1, we have a negative cash flow, mainly driven by the restructuring costs. Even if we adjust the restructuring cost in Q1 was slightly negative, around EUR 25 million. In the year-to-date, the operating cash flow, excluding the restructuring costs, it's been positive EUR 72 million. That means that, in Q2, we have turned into EUR 100 million of positive operating cash flow. So you take a look at the annexes that we have published, remember that, that cash flow -- free cash flow include the interest expenses that because it starts from the -- it starts the calculation from the net profit. But operational cash flow-wise, we have already moved into second quarter positive. And in the second half of the year on the back of higher EBITDA, point #1. And then the absence of any further restructuring cost, and we expect that the operating cash flow is going to keep improving from now to the second half of the year.

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

On the leverage? And there was the second question that was on the leverage and the asset sales? And what's the plan B?

Thomas H. Glanzmann
CEO & Executive Chairman

Well, plan B is we're going to execute on what we said. So we have one transaction that we've announced. And as you pointed out, Tom, a significant part of it is operational -- from operational performance. So we're very set on delivering on those two things to get to the [2024].

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

We have Guilherme Sampaio from CaixaBank.

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

So the first one on cost per liter. So you've talked about some efforts going forward to continue reducing cost per liter. We've announced EUR 450 million cost savings already deployed. What else should we get in terms of additional savings? And the second question about plasma collections. How should we think about growth over the remaining part of the year?

Alfredo Arroyo Guerra
CFO & VP

Regarding the cost per liter, as we said, as of today, we are 20% below peak of cost per liter last year, that was during the summertime. And we expect that it will be in a slightly better. So that means that we expect that the cost per liter finally will decline around 25%, okay? But not on the back of donor fees, but on the back of other -- I would say, other opportunities and other initiatives that we have launched. So that is going to further help in the gross margin.

Regarding the corrections, we are monitoring -- remember that there is a high correlation between donor compensation and collections. And of course, we need to make sure that we fine-tune the collections in terms of volume to make sure that the volume that is coming is enough to support our sales growth.

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

And next question coming from Alvaro Lenze from Alantra Equities.

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

The first one is on guidance. I believe the increase -- I would have expected from the increase that you have provided on top line guidance. And being in the upper range of margin, I would have expected that total EBITDA in euro terms to be upgraded more. I guess it seems that the increase in the EBITDA guidance from over EUR 1.4 billion to -- EUR 1.4 billion to EUR 1.45 billion is not that much of an increase. So I was wondering whether this is due to good performance in Grifols stand-alone, but a worse performance in Biotest. How is the increase in the EBITDA that low for two additional percentage points of top line?

And also, continuing with the guidance of the last call, you indicated that you were comfortable with the consensus on 2024 EBITDA, which was somewhat above EUR 1.8 billion. So how does this increase in the guidance for 2023 reads into 2024? So whether this is just an acceleration of the cost savings or whether this could also imply better performance in 2024?

Alfredo Arroyo Guerra
CFO & VP

Okay. Thanks for the question. So to the first point, the guidance for this year, remember that even though we have already achieved and deployed those EUR 450 million, as I said, especially since the -- more than 70% of the savings are coming from plasma cost. It takes time to go through the P&L. So that's why, as I said, most of the plasma cost savings will hit 2024 P&L. So we have increased from EUR 1.4 billion to EUR 1.45 billion because the phasing of the savings flowing through the P&L.

Regarding next year, we will provide you with guidance at a later stage, and we feel comfortable that this year we're going to close the year at 24%. And then, as I said, we have provided already with pro forma EBITDA 2023 based on the savings, which is EUR 1.7 billion, EUR 1.75 billion. And later on, let me first close the year and then early next year, we'll keep you posted about 2024 guidance.

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

Okay. We have a question coming from Joaquin Garcia-Quiros from JB Capital.

Joaquin Garcia-Quiros
JB Capital Markets, Sociedad de Valores, S.A., Research Division

Just a follow-up regarding the free cash flow. Do you said that working -- you didn't say anything about working capital. So when can we expect reversal of working capital, especially in inventories? Is it more for the second half of this year? Or should we expect more of a reversal during next year due to the reduced costs coming from plasma cost?

Alfredo Arroyo Guerra
CFO & VP

On one hand, the inventory is going to grow in line with the activity. As you know, that's the way that working capital works, especially inventory. But at the same time, as of today, the days -- the DIOs, the days inventory are declining. So for the second half of the year, we expect that the -- volume-wise, the inventories are going to increase. However, due to this cost saving plan, the cash cost savings related to plasma will offset that volume increase.

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

Great. We have a couple of follow-up questions, first from -- he was the first to be again on the list. Tom, I think you have something else?

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

It was a very quick one. I was just wondering if you could remind us when the price concessions related to the renegotiated contract with CTS kicked in? From memory, it was sort of middle of last year that the contract was signed. But I guess I'm just trying to figure out when the price headwind drops out of the comparative quarters, whether it's Q3, Q4 or we should wait until next year before it happens.

Alfredo Arroyo Guerra
CFO & VP

As of today, I mean, during this year, we are -- the price concessions are going through the P&L. We signed this agreement. It was Q1 last year, if I recall right. And so that, as of today, is the only reason why the gross margin of diagnostic is slightly declining. But remember, in exchange of that, we have signed a contract up to 20 years. So we have secured the largest and the most possible client of all.

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

And also another follow-up from Jaime Escribano.

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

Yes, it's a quick one. So just to make sure I understand Slide 18 properly, where you say that the gross margin ex-Biotest could increase in the second half 250 basis points. Although you do it with raising 100, but if we take the gross margin of the first half ex-Biotest, which is around 37.5%. My question would be, would it be fair to think about gross margin in the second half for Grifols excluding Biotest of close to 40%, so 37.5% plus this 250 basis points? Is that the way we should think about this slide?

Alfredo Arroyo Guerra
CFO & VP

Well, for the second half of the year, basically, what is going to happen, we're going to see a strong growth. On one hand, I'm going to give you what are the main growth drivers, strong growth, volume-wise, IG, but especially, [coming in] China, point #1.

Point #2, the plasma cost savings will start helping the P&L -- flowing through the P&L. Number three, all the other non-plasma cost savings, basically, OpEx savings, are going to also impact the P&L. And since the second half of the year sales will be higher, the operational leverage will be higher. Therefore, all of these factors, all these components will support that the increase of EBITDA margin, you're going to see sequentially that we move from this '21 to '23, and then in Q3 and Q4, further quarterly margin improvement on sequential basis.

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

And I guess that here we have one final. So Peter, you open and you close the Q&A session. So -- can we have your follow-up question?

Peter Verdult
Citigroup Inc., Research Division

Peter Verdult, Citi. Just a final question is on innovation. When you did the Biotest deal, the Fibrinogen and the IGM opportunities were highlighted is significant. So I was under the understanding that we add, first, Fibrinogen Phase III data was imminent. I think you've cited the H2 event. But can I just push you, either Victor or Thomas, when do you expect the data to be in-house? Or when do you expect to at least top line data to the market? And can you remind us again your comfort of EUR 400 million to EUR 800 million revenue opportunity was quoted at the time of the deal. I believe CSL does about EUR 300 million of bringing sales off label. But can you remind us if it's still EUR 400 million to EUR 800 million that you believe is the peak sale opportunity for Fibrinogen?

Víctor Grifols Deu
COO & Director

Yes, we expect to provide the data, probably starting next year, 2024. During the first half, I should say this is the expectations that we are targeting. And regarding, yes, the peak sales remain similar to what we have announced.

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

And with that, I think we will close today's call. And we hope to see you or hear you again in our next quarterly call. And in the meanwhile, for those of you who have not been yet on holidays, so enjoy summer, and speak to you soon. Thank you, all.

Víctor Grifols Deu
COO & Director
Thank you, all. Bye-bye.