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Market Intelligence

Grifols, S.A. BME:GRF

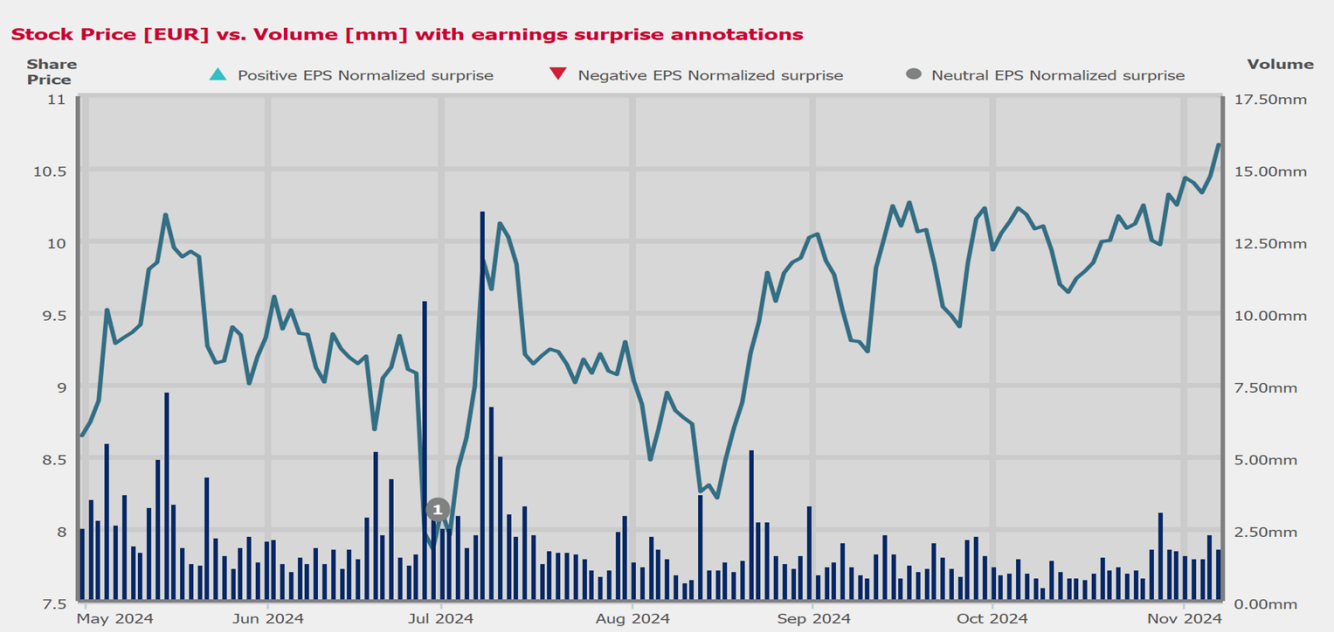
FQ3 2024 Earnings Call Transcripts

Thursday, November 7, 2024 5:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2024-			-FQ4 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.19	NA	NA	0.12	0.62	NA
Revenue (mm)	1768.89	1792.96	1.36	1881.96	7102.33	NA

Currency: EUR
Consensus as of Nov-08-2024 3:34 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2023	0.19	NA	NA
FQ1 2024	0.10	NA	NA
FQ2 2024	0.14	0.14	0.00 %
FQ3 2024	0.19	NA	NA

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Call Participants

EXECUTIVES

Daniel Segarra

Jose Ignacio Abia Buenache
CEO & Director

Rahul Srinivasan

Roland Wandeler
President of Biopharma Business Unit

ANALYSTS

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

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

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

James Daniel Gordon
JPMorgan Chase & Co, Research Division

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

Presentation

Daniel Segarra

Hello, everyone, and welcome to Grifols Third Quarter 2024 Financial Results Conference Call. My name is Daniel Segarra, and I'm Vice President of Head of Investor Relations and Sustainability. Today, I'm joined by Grifols' Chief Executive Officer, Nacho Abia; and Chief Financial Officer, Rahul Srinivasan; as well as Roland Wandeler, President of Biopharma.

Today's call will last about an hour, including a Q&A session. All materials used during the call are available on the Investor Relations website at grifols.com.

Moving to Slide 2. I will first like to share a disclaimer on forward-looking statements. Forward-looking statements are subject to substantial risks and uncertainties. They are only valid on the day of the call, and the company is under no obligation to update or revise them. Grifols financial statements are prepared in accordance with EU IFRS and other applicable reporting provisions. This includes alternative performance measures, also known as APMs, prepared under the group financial reporting model as defined by the guidelines of the European Securities and Markets Authority. Please note that Grifols' Management uses APMs to evaluate its financial performance, cash flows and financial position as the basis for its operational and strategic decisions. These APMs are prepared for all-time periods presented in this document.

On today's call, Nacho will start off shortly with some introductory remarks and a discussion on business performance. Then Rahul will discuss the financial results for the quarter and year-to-date, before turning the call back over to Nacho for his final remarks.

With that, thank you very much for joining us today. Nacho, over to you.

Jose Ignacio Abia Buenache
CEO & Director

Thank you, Danny. Good evening, afternoon and morning to all of you depending on where you are in the world. I appreciate you dialing in for our third quarter results call. Before I turn to the results, I would like to provide you with a few updates on key matters. First, please note that the focus in these sessions will be on Grifols' third quarter results which, as you will see, are reflective of our progress and indicating we are heading into the right direction.

We will not be addressing any questions or comments related to Brookfield or any potential transaction. As you are aware, Grifols entered into an NDA with Brookfield, whereby Brookfield was granted access to perform due diligence. And all what I can confirm is that it is ongoing as per today. Any further update will be communicated to the market in due course and in accordance with applicable laws and regulation.

As always, the Grifols Board of Directors and management team are committed to acting in the best interest of all the shareholders. And we remain very focused on continuing to execute the company's strategy and deliver to our commitments. Please understand that we are not going to make any further comment on these matters on today's call. Thank you in advance and appreciate your understanding.

The second key update I want to provide is regarding Spain's National Securities Market Commission, CNMV and on the SEC as well. As we reported last month, CNMV has concluded their review on our financial reporting, having identified no additional elements to those initially reported in March 2024. The SEC has also conveyed that they have completed the review of the company's filing with no additional comments, nor actions.

Finally, I also would like to touch on some leadership changes. In September, we announced that Thomas Glanzmann will transition into the role of Non-Executive Chairman of the Board. This is another step in our previously announced governance enhancements, which we first began in 2022, and allows Thomas to fully dedicate his time to the nonexecutive chairmanship role.

I would like to extend, on behalf of the Board of Directors and the entire company, our deepest gratitude to Thomas for his time and dedication to Grifols in his executive role over the last years. Personally, I also want to show my strong appreciation to Thomas for his invaluable support during my first months at Grifols. Thank you, Thomas, and I look forward to continuing to work with you in your nonexecutive role.

While I will miss sitting next to Thomas on these calls, I'm pleased to welcome our new CFO, Rahul Srinivasan, who has joined me on the call today and will introduce himself shortly. The addition of Rahul marks the completion of a broad management transition

and represents the final piece to complete the new executive management team. Rahul brings a proven track record of financial success and we look forward to benefiting from his expertise.

Finally, and before starting the presentation, I want to take a moment to highlight and appreciate the many initiatives we've taken over the last 2 years as we work to transform the business and deliver strong results in a sustainable basis. Over the last few years, our business has faced a number of headwinds, as it was heavily impacted by the COVID pandemic that led to a reevaluation of our operations and a strategic direction.

Grifols responded by doubling down on the fundamental growth of the business, strengthening corporate governance, refreshing executive management, imposing greater financial discipline and reinforcing a culture of performance and accountability. Such actions are reflected in the positive results we are reporting today and are a direct consequence of the resilience and adaptability we've demonstrated during these times. I'm confident that these actions will keep leading our business to outperform its expectations for years to come.

Shifting to our financial results. We continue to build on our momentum with another strong performance in the third quarter. This quarter results underscore our capacity to capture robust global demand effectively across our key markets and demonstrate how we are well positioned to sustain this trajectory moving forward. Revenue in the third quarter totaled nearly EUR 1.8 billion, representing 12.4% increase on a constant currency basis over the previous year, while year-to-date revenues reached EUR 5.2 billion, representing a 9.1% increase.

Adjusted EBITDA for the quarter came in EUR 462 million with a margin of nearly 26%. This increase is an improvement of 26.7% at constant currency from the previous year. Free cash flow for the quarter improved to EUR 127 million, and we continued our deleveraging path, reducing our leverage ratio to 5.1x from 6.8x in the first quarter.

Looking ahead to our fourth quarter, we view our strong third quarter performance as a positive indicator of our ability to meet full year guidance. While we recognize that the upcoming quarter will be a demanding one, we remain focused in our commitment to ensure we close out the year in a strong manner.

Plasma continued to play a significant role in driving profitability. Our cost per liter continued to decline in 2024, and we expect the trend to continue. We have managed plasma supply to ensure we are able to meet the growing demand. Going forward, we will continue to execute on its initiative to further improve plasma and manufacturing efficiencies, helping to reduce cost and expand profitability.

Grifols continues to view innovation as one of its top pillars, and I am pleased to share that we are on track to achieve all our 2024 innovation milestones. Hitting these targets is key to continue building on our fundamentals for future growth. Of particular importance, Fibrinogen’s regulatory process has seen significant progress, which I will cover in more depth later on this call.

Additionally, I'm excited to announce that we were awarded a U.S. BARDA contract to develop GigaGen recombinant polyclonal antibody therapeutic platform. We have made significant strides in corporate stewardship as we advance our sustainability agenda, achieving our highest score ever in the 2024 Standard & Poor's Global Corporate Sustainability Assessment, and being awarded a gold medal by EcoVadis.

Turning to Slide 6. Let's take a look into our key financial metrics, which shows a clear sequential growth across the board. As mentioned, we achieved nearly EUR 1.8 billion in sales in this quarter, representing a 12.4% increase on a constant currency basis. On the profitability side, adjusted EBITDA for the last 12 months reached EUR 1.7 billion with margins increasing to 25.8% in the third quarter from the 21.6% reported in the first quarter of the year. Free cash flow generation continues to be a priority, and we are pleased with the sequential improvement we've seen over the year.

As discussed on my first quarter earnings calls last May, optimizing of working capital was a pivotal driver for improved free cash flow in 2024. This is reflected in our third quarter positive free cash flow generation of EUR 127 million. We significantly bridged the gap towards our full year 2024 guidance. That said, we expect additional working capital consumption in the fourth quarter as we will be building up inventory to meet the strong underlying demand we expect in 2025.

Finally, we continue to reduce our leverage ratio per our credit agreement, led by the repayment of senior secured debt following the receipt of EUR 1.6 billion in Shanghai RAAS funds as well as the significant EBITDA improvement. Rahul will dive deeper in this and other relevant financial metrics later in the presentation.

Turning to top line, you will see that total revenue year-to-date has increased 9.1% on a constant currency basis, driven by strong performance across all business units. Revenue growth has continued escalating from 5.5% in Q1 to 9.3% in Q2 to a remarkable

12.4% in Q3, all in constant currency basis. This acceleration was steered by Biopharma, growing at 12.1% for the quarter and 9.1% year-to-date. The immunoglobulin franchise continues to show strong results with double-digit growth driven by IVIG and subcutaneous IG.

Our Alpha-1 trend is improving as well in Q3, reversing the impact of prior quarters, and albumin also performed well. Growing demand in the U.S., Canada and rest of the world give us confidence in our upside potential moving forward.

In Diagnostics, we saw a 1.3% uptick on a constant currency for the quarter, landing at a 1.7% advance year-to-year on a like-for-like basis, guided by Blood Typing Solutions. I will also cover more on this business unit later.

Biopharma continued to be the main growth driver in the third quarter. The IG franchise remains the highest growth protein with up to 16.6% in the third quarter and 14.3% in this year, both on a constant currency basis. IVIG growth was driven by strong demand in the U.S. and international market. At the same time, subcutaneous IG continues to gain traction and grew a remarkable 52% on a constant currency basis year-to-date, reinforced by a strong performance in the U.S. and multiple launches within the European Union.

Albumin was up 11.7% in the third quarter and 10.3% year-to-date, both on constant currency basis, caused by a higher demand in China. Alpha-1 and specialty proteins revenue improved by 3.8% on a constant currency basis from last quarter, bringing our year-to-date growth to 1.3%. In the U.S., our Alpha-1 franchise is regaining momentum following the transition of a specialty pharma distributor, while demand for rabies treatment has increased this quarter.

Now I would like to show an overview of our priorities to further enhance our performance, which focus upon efficiencies to strengthen our leading market position in both the commercial and plasma center operations. First, we further build out our portfolio as our subcutaneous IG Xembify gains further traction in the European market with eight launches executed so far in 2024. We see that our IG product offering with both Gamunex and Xembify is well received, reflected by momentum in pull-through across geographies. In addition, we are reinforcing the value proposition for Alpha-1 patients, which is already offering expanded capabilities to our Prolastin users.

We're seeing increased momentum in the U.S. and our commercial strategy continues to focus on growth, both in existing and new key accounts. In Europe, our teams again excelled, reporting another quarter of double-digit growth. Product life cycle management paired with new product development also continues to be key. We secured approval for Xembify bi-weekly dosing from FDA in July and enrolled our first patient for alpha-1 antitrypsin, 15% subcutaneous Phase I and II. Furthermore, we are progressing in our filing for fibrinogen, as I will cover in the next slide.

Finally, we're enhancing the performance and accentuating the talent of our teams. In line with our strategic efforts across the company, we're currently building skills and new capabilities in our commercial team in the U.S., while enhancing customers' and patients' engagement. In addition to these key efforts that are fueling our strengthening market positions, we continue to improve our operational effectiveness. As part of this, we are optimizing our global plasma center network, which comprises 405 plasma centers around the U.S., Europe, Canada and Egypt.

Additionally, we're working to leverage new technologies and implement process efficiencies. We've been increasing our IG yields through the deployment of nomogram and development of a road map to expand continuous improvement initiatives. While implementing these strategies, we are also prioritizing enhancing the donor experience and improving donor satisfaction.

Turning to Slide 10. Let me reiterate that innovations continue to be one of our main cornerstones. And as I mentioned earlier, we're on track to accomplish our 2024 innovation-related milestones. For the first 3 quarters of the year, we've completed all but two of these milestones, which we anticipate will see positive updates by year-end. In July, Xembify biweekly dosing received FDA approval; in September, Gamunex in bags began conformance lot testing.

In fibrinogen, there are some exciting advancements in the European Union, where the marketing authorization application was successfully submitted through a decentralized procedure, including several countries. Additionally, the U.S. regulatory pathway is progressing well, maintaining the scheduled pace. This development marks important milestone in bringing this protein to the markets, ultimately benefiting patient care on a broader scale. We have also begun clinical start-up activities for investigational new drug application of GIGA2339, which is a next generation antibody drug targeting anti-hepatitis B virus following the receipt of FDA approval.

We're excited as well with the contract awarded to GigaGen by the U.S. BARDA to develop a recombinant polyclonal antibody therapy for 2 proteins. These contracts marks a milestone and will additionally support Grifols in the manufacturing and Phase I trial and has a value up to $135 million over the next 6 years.

Turning to Slide 11. Our Diagnostic business remains an important part of our operations, and I wanted to shine a spotlight on the business and what we vision for further growth. Currently, our primary segments in transfusion medicine are blood typing solutions and nucleic acid testing donor screening. The transfusion medicine market is a critical field that ensures a safe and effective supply of blood and plasma to patients in need.

Within the BTS segment, Grifols' focus is to become the leading player through capitalizing on our current position and expanding through improved profitability, execution of our commercial plan, focusing on our core markets and continue our development of the next generation of instruments. Our performance in the third quarter is reflective of our progress. We have grown double digits in our core market. Our flagship Eflexis instrument continues to gain market share in conjunction with successful tenders in key markets.

In our NAT segment, testing for diseases and viral markers are critical to ensuring a safe blood and plasma supply. This is an important segment. We are focused on driving steady growth through life cycle management of our Procleix Panther instrument, maintaining and strengthening our strategic accounts, and developing immunoassay technology for blood and plasma screening.

Our performance in the third quarter reflects our near-term goal through steady levels of donations in the U.S., solid progress in the tissue and organ testing segment, and successful tenders in growth market. With our near-term focus of strengthening and growing our core BTS and NAT segment, we envision a broader expansion by our Diagnostics business. Leveraging our expertise in transfusion medicine, we view expansion into the clinical diagnostics segment as a natural progression. Driven by increasing prevalence of chronic disease, emphasis on preventive health care and advancement in technology, this segment is growing and an area where we can explore leveraging our IVD expertise and focus on the development of new testing platforms.

Finally, an additional area of growth is expanding our testing capabilities internally to provide the best-in-class and seamless support model for our Biopharma business. Creating further synergies between our largest businesses will allow for accelerated testing and new drug development.

And with this, I now would like to turn the call over to Rahul. Rahul?

Rahul Srinivasan

Thank you, Nacho, for the warm welcome and for all your help with my transitioning since my start at Grifols a few weeks ago. It is an absolute privilege to be here in this capacity for Grifols. And I'm aware, with this privilege comes the huge responsibility towards the company and all its stakeholders, including the critical institutional investors across our equity and debt complex.

Moving to Page 13. As some of you might be aware, I have followed the Grifols story for a number of years from a different vantage point, from where I developed much admiration for the company's commitment to its inspiring mission of improving patients' lives globally and serving our donors, as well as the company's growth mindset. And by doing so, delivering not only for all our stakeholders, but also to society. The strong momentum and growth prospects that the company benefits from today is as a result of the bold and visionary actions taken in the past, giving us a solid foundation and a market-leading position with significant scale in a highly attractive industry that is characterized by secular tailwinds and high barriers to entry.

Notwithstanding all the challenges and considerable distractions that the company has faced this year to grow our top line by almost double digits and EBITDA by circa 25% speaks to the attractive business fundamentals and the resilience of our over 23,000 teammates and the company as a whole. As a senior management team, we are now in a fortunate position to be able to harvest, over the coming years, this highly defensive portfolio with very exciting growth levers and related cash flow prospects. And in this fortunate position of being able to harvest our various growth legs, there is a much greater focus on analytical rigor and general discipline, be it financial, cost or capital allocation discipline, and to continue our relentless efforts on deleveraging and improving free cash flow generation.

An aspect that has been particularly great to see in these initial weeks since I started is the organization's focus and progress on continuous improvement and operational excellence to drive efficiencies. The success of the operational improvement plan and evidencing its conversion into significant actual cash EBITDA has been the catalyst for this mindset change across the organization, and it bodes well for the quarters and years ahead.

Moving on to the last point on this page, from everything that I've seen in my first few weeks here, I continue to have a very strong conviction for the Grifols story. And I believe that we have a significant communication and engagement opportunity to share the strength of the story in the coming months with each of our various stakeholders.

For all these reasons, I have no hesitation in making the significant professional change after receiving Nacho's and the Board's offer and to leave the safety and the considerable comfort of my prior role to take on this invigorating challenge and deciding to relocate my family from London to Barcelona.

With that, let's now go through our Q3 and year-to-date financial performance on Page 14. Before I go into our Q3 and year-to-date financial performance in 2024, please consider 2024's relative performance to what was a record financial performance in 2023, given the sales and adjusted EBITDA records that Grifols achieved in 2023. With that important context to frame our 2024 performance, year-to-date and Q3 2024 revenues are up very strong versus our record 2023 by over 9% and 12.3% on a constant currency basis, respectively, taking our year-to-date sales up to EUR 5.237 billion and very much tracking to our EUR 7-plus billion revenue guidance for the year. Year-to-date gross profit was up 14.5% versus 2023, and year-to-date adjusted EBITDA was up 25% versus the record 2023.

Three of Grifols' best ever quarterly adjusted EBITDA results have been achieved in the last 4 quarters, which hopefully is not lost on all our stakeholders that follow our financial performance. I will elaborate on the drivers of this growth on the next page. As a result, our year-to-date reported net result has swung from being meaningfully negative in 2023 to positive EUR 88 million.

That said, financial expenses in our P&L are higher than 2023 year-to-date for three reasons: one, noncash one-off impact of deferred financial costs of EUR 50 million that is linked to the redemption of senior secured debt from the Shanghai RAAS proceeds in keeping with our commitment to delever; two, noncash one-off FX impact of over EUR 30 million related to the Shanghai RAAS transaction; and three, higher cash interest expense from the EUR 1.3 billion senior secured notes principally used to repay the senior unsecured notes maturing in 2025.

As Nacho mentioned earlier, the free cash flow generation, excluding the effect of the Shanghai RAAS transaction, continues, as we expected, with a strong Q3 and year-to-date free cash flow being significantly higher than 2023, and we remain on course to achieve our guidance. I will go into more detail about the free cash flow generation in a subsequent slide.

And finally, on leverage. Our total net leverage per the credit agreement has declined further from 6.8x in Q1 to 5.5x in Q2 and now to 5.1x at the end of Q3, with the debt repayment from the Shanghai RAAS proceeds and our continued strong momentum in EBITDA driving the significant deleveraging in only a couple of quarters. In addition, I also wanted to draw your attention to our net secured leverage ratio, which stands at 3.1x per our credit agreement and at one of the lowest levels that I can ever remember it being for Grifols, and the significant secured capacity buffer that exists to the extent that it is ever needed and in contrast to the past. So the meaningful strengthening of our balance sheet continues at pace and continued deleveraging and improved cash flow generation remain key priorities for Grifols.

Moving on to Page 15. We highlight the significant momentum in our adjusted EBITDA. Adjusted EBITDA margin for Q3 '24 is 25.8%, with the margin up 260 basis points versus Q3 2023, and a quarter-on-quarter growth of 26.7%. We see similar strong momentum, if you consider the year-to-date performance, with year-to-date adjusted EBITDA being up 25% on our record 2023. This momentum across gross margin and adjusted EBITDA margin is primarily being driven by volume growth in Biopharma, the continuing improvement in the cost per liter, the benefits of our operational improvement plan coming through via plasma and manufacturing yield improvements, and finally, from operational leverage, which I will touch upon on the next page. As Nacho mentioned, we need to achieve similar growth versus 2023 in this final quarter to achieve guidance. The momentum within the business is certainly there and the entire organization remains very focused on that objective.

Moving on to Page 16. Notwithstanding the very robust bounce back in adjusted EBITDA margin from the COVID years, we remain below our pre-COVID margin levels. We expect an improving trend in our margin levels in the years to come and we will share more details in our next earnings call with respect to guidance and targets for 2025. The drivers of the adjusted EBITDA margin over the years are similar to the drivers I mentioned on the prior page.

In addition, it is our expectation that the adjustments to EBITDA will reduce as our transaction activity and the restructuring activity reduces. And finally, our track record of converting adjusted EBITDA to actual cash flow quickly is very positive, often occurring in less than 12 months. On the right-hand side of the slide, you see the clear benefit of our operational leverage momentum coming through. These numbers appropriately exclude the one-offs, and you see that our OpEx as a percentage of sales is even lower than our pre-COVID levels, and we believe that there is an opportunity to continue to squeeze that going forward. Equally, we do expect some of our SG&A savings to be reinvested into R&D in the coming years to be able to better monetize some of the exciting opportunities that we see in front of us.

Page 17, the all-important free cash flow slide. The bottom line of this page is that we are very much still tracking to our guidance to the market to be free cash flow breakeven by the end of the year. We took a big step forward towards achieving that guidance with

EUR 127 million of free cash flow generation pre-Shanghai RAAS in Q3. Whilst it might be tempting to extrapolate the Q2 and Q3 free cash flow progression to an even bigger number in Q4, we would caution against that approach and would simply reiterate our breakeven target. The various cash flow optimizing initiatives that have been implemented are yielding results, be it our working capital and inventory management focus, or our disciplined approach with respect to cash across the board.

Like we saw in Q2, you will see interest paid in Q4 to be higher than Q3 to reflect the interest periods of our debt instruments. And at the bottom of the page, the extraordinary growth CapEx is almost entirely due to ImmunoTek payments, and I will touch on this further on the next page. Transaction and restructuring cost, whilst elevated in 2024, is expected to decline significantly in 2025. Our liquidity at the end of Q3 stood at EUR 704 million. We used some liquidity during Q3 to repay debt at the Biotest level and, in doing so, optimize our consolidated interest expense.

Page 18. On the left-hand side of this slide, we show our CapEx evolution over time, and I also make the distinction between maintenance and growth CapEx each year. We have typically guided the market to annual CapEx that includes both maintenance and growth CapEx to be around EUR 300 million, some years slightly lower and other years higher, but around EUR 300 million on average. The extraordinary growth CapEx in 2024, which we expect to be around EUR 280 million for the full year, almost entirely relates to ImmunoTek, and we expect this extraordinary growth CapEx to halve in 2025, and then further halve again in 2026.

On the right-hand side of the slide, we summarized the evolution of stock turnover days to show progress on inventory management. As you might be aware, in 2020 and 2021, during COVID, we suffered inventory shortages that resulted in artificially low inventory levels. Given the characteristics of the industry, as you are aware, the length of stock turnover period is quite high, which is entirely normal, but what this chart does reflect is some of our recent improvements on the back of initiatives to better balance per liter. Given the strong growth tailwinds, we do expect to continue to invest in having the right levels of inventory, but the combination of our operational improvement as well as taking a more dynamic approach to our inventory levels, the aspiration continues to be to remain efficient going forward.

Page 19. We've had a number of questions about how we use the Shanghai RAAS proceeds. The entirety of the net proceeds we received went to prepay our secured debt as shown in this table. And we summarized the tranches that were paid down. This contributed significantly to our deleveraging progress. And finally, our near-term priorities: number one, achieving 2024 free cash flow and adjusted EBITDA guidance; number two, continue our relentless focus on deleveraging; number three, the process to extend our RCF is already underway, and we have received very supportive feedback from our bank syndicate in general; number four, terming out our 2025 senior secured debt maturities, for which we have a number of different options, unsurprisingly, given the strong momentum we continue to see and the lowest secured leverage that we have had that I can remember.

Let me wrap this up by leaving you with the following final points. The momentum of the Grifols story has meant that it has grown back into its capital structure rapidly after a once in 100-year pandemic. The resilience of this business is very clear and has been proven. The outlook continues to be very encouraging, and the entire Grifols team is focused on capturing the tailwinds that we observe across our different business segments led by Biopharma. This next phase of the Grifols story is very much a harvesting one and capturing the full value of the portfolio that enjoys high growth potential, strong margins, and high cash flow conversion prospects with meaningful momentum from our operational improvement initiatives that are clearly yielding results. The entire organization remains very focused on continued deleveraging and improving free cash flow generation.

I have significant conviction for the Grifols story. And as a senior management team, we look forward to discussing our perspective with all stakeholders in the coming months and quarters.

And with that, I will hand over to Nacho to conclude the presentation.

Jose Ignacio Abia Buenache
CEO & Director

Thank you, Rahul. As we wrap up our call, I want to take a moment to emphasize several important points. Despite many unprecedented events having transpired this year, we remain steadfast in our commitment to executing our strategy and optimizing our business. With our new management team now fully in place, we are optimally positioned to drive our initiatives forward. Our Q3 results have been strong, placing us to meet our fiscal year '24 guidance. We are laser focused on delivering a successful Q4, while not losing sight of our top priorities, generating free cash flow, reducing leverage, and efficiently allocating capital.

These efforts are not just about numbers, they are about ensuring that we have the financial strength to continue growing and navigating any uncertainties. The plasma industry is engaging in expansionary momentum, fueled by strong underlying demand in core markets. We see this as a prime opportunity to continue widening our footprint and further strengthening our market share. Furthermore, we are dedicated to improving our operations through increased efficiencies and leveraging the growing use of

technology in our plasma centers and manufacturing facilities. Streamlining processes and adopting innovative solutions have been and will remain instrumental going forward.

Finally, I want to emphasize our commitment to innovation. We're making significant progress in our R&D pipeline, which will enable us to broaden our product offerings, add new indications and launch new products. This focus on innovation is crucial for staying competitive and meeting the evolving needs of the market.
And with this, thank you again for your continued support. And Danny, back to you.

Question and Answer

Daniel Segarra

Thank you, Nacho. Now let's turn to the Q&A session. [Operator Instructions] Our first question comes from Tom Jones from Berenberg. That's not going to be Tom Jones, that's going to be James Gordon.

James Daniel Gordon
JPMorgan Chase & Co, Research Division

James Gordon, JPMorgan. One question is about immunoglobulin and how it's doing in CIDP, because argenx now have their U.S. CIDP approval. And they said about half of U.S. plans are now covering it. And they said they got 300 patients by the end of September on therapy and that 85% or 90% of them are from IG. So does that tally with what you're seeing? And are they coming from -- partly coming from Grifols' IG? Or are they coming from somewhere else? And I saw that you still had 17% growth this quarter. So that does look good. Do you think that's sustainable? Or is there anything exceptional about how you grew so strongly with maybe a bit more competition?

The second question was China. A number of Western health care and consumer companies have talked about a slowdown in demand for their products in China, maybe partly local competition, co-pay issues in terms of economic sensitivity and some other things going on. So are you seeing anything there? I saw a comment that China is still doing well, but any impact on albumin demand or Shanghai RAAS? And if I could squeeze in just a clarification, because someone asked me. Is this still a target to get to 4.5x net debt to EBITDA by the end of the year? Or where are we on that target? Is that part of the guidance that you reiterated?

Jose Ignacio Abia Buenache
CEO & Director

Let me address the China question. I would like Roland to talk about CIDP and what we are seeing there. And finally, the last question, Rahul will comment on that, James.

So I just came back from China. I was there last week, and I can see that -- I understand the comment, I understand the concerns, but that's not what we are seeing in our business. We see the business growing. And in our conversations with our partners there, at least for albumin products and plasma-derived products, we see a continuous demand and we are planning the next year based on that.

As for CIDP, Roland, would you like to comment?

Roland Wandeler
President of Biopharma Business Unit

Of course. James, thanks for the question. Yes, indeed, we have, as expected, seen some trial for CIDP patients in second line for patients that have -- the few patients that have not been responding or tolerating IG. So in second line, as per our expectations, we continue to see growth in that segment, and we remain very confident that IG will remain the standard of care for CIDP.

We hear from OLs that the suitability for IGs in this multifactorial disease is one aspect that really stands out with its multimodal mode of action. We also see the high response rate, our proven safety, long-standing experience and expect that pricing of FcRns, while with increasing payer coverage, will really put that treatment more into the second-line space. So in addition, we are increasing our engagement in this space. We build on increasing awareness and our long-standing experience with Gamunex. And while we remain absolutely confident in the role that IG play in CIDP, we also want to highlight that our continued growth in prime immune efficiency and secondary immune deficiency are very encouraging beyond that.

Rahul Srinivasan

And then on the question about the 4.5x target by year-end. The short answer is we remain on course to achieve that, James, and it is inextricably linked to us achieving our EBITDA guidance, because most of the deleveraging is coming from EBITDA expansion. One other point of detail that I think will be helpful to most of you guys is that the delta between adjusted EBITDA and credit agreement adjusted EBITDA will be much lower as at the end of Q4 than it is currently the case and has been for the last couple of quarters. And that's probably what has perhaps thrown some of the numbers when you guys do your back of the fact back calculation. So very much remain on course to achieve the 4.5x.

Daniel Segarra

Thank you very much, James. I appreciate that. Now yes, Tom Jones, please?

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

I had one on the PRECIOSA study and one on free cash flow. Just on free cash flow, it's a question for both of you really. Both of you kind of having an opportunity to look at the business with fresh eyes when it comes to free cash flow. I appreciate you're doing a lot of things to kind of improve the day-to-day free cash flow. But having followed this business for over 20 years now, I have been through several cycles of kind of poor cash flow in advance of growth. And then the growth slows a bit and the cash flow improves and then more cash goes back into growth and then the cash flow comes down and goes up. We go through these cycles. But across the whole cycle, it's always been a very capital-intensive business.

Beyond sort of small operational improvements that you're clearly trying to implement, have either of you had any thoughts or got any ideas about how you can improve the structural free cash flow of Grifols, be that through geographic mix, business mix, industry mix, however you may go about it? Because we can look at short-term free cash flow trends. And I know you're doing everything you can to improve it given your leverage situation, but there's short-term small margin improvements you can make. But is there anything you've, with the opportunity to look at this business with completely fresh eyes, thought about in terms of improving the sort of through-the-cycle structural cash flow nature of the business.

And then on the PRECIOSA study, I just kind of wondered what your -- assuming the results are good, which I think probably will be, what your kind of approach to commercializing that data is likely to be. I think it was the 2018 Capital Markets Day, there was a whole session dedicated to albumin and liver failure, both chronic and acute on chronic. And we didn't hear much since. So I just wondered kind of how you're thinking about taking this data to market and leveraging it. Do you see it as a volume driver or a price driver? Just some thoughts on that would be interesting.

Jose Ignacio Abia Buenache
CEO & Director

Thank you for your question, Tom. And as for the first question, I would say that definitely, cash flow generation has been on our radar, or my radar since the beginning of my tenure, and definitely on Rahul's since he's here. You are right. I mean, this business capital intensive and requires significant amount of working capital to operate, and we see the answer to that question in two ways, right? So I think that one is, to optimize cash flow, we definitely need, among other things, to optimize working capital.

And to do that, first of all, I think that there is some efficiency that can be seen just by doing a better job working on an end-to-end supply chain business model, right? So I think that we can really work across different steps in the life of the business in order to identify where working together, and not in silos in the different areas, we can be more optimal. That's what we have been doing this year, and that's what we can see improved working capital this year.

In the mid or long term, I think that there are considerations that can be made in terms of streamlining manufacturing site and considering product portfolio. And those might have significant implications as well in working capital, and we will explore those and the potential impact of those decisions as we move forward. Definitely, we will keep an eye on this area and free cash flow generation will continue being our top priority in the years to come.

Daniel Segarra

Second question on albumin is going to be Roland?

Roland Wandeler
President of Biopharma Business Unit

Yes. On PRECIOSA, as we shared before, the study is finished, and we said that we'll be sharing top line results in Q4. We're still awaiting the final data, and we're on track to actually sharing the data later on this quarter. We are happy to contribute to the understanding of the role of albumin in liver disease with this study. But keep in mind that albumin is used in a wide range of diseases and conditions, and we continue to educate and aim to differentiate the use of our albumin, albumin in bags across our markets beyond liver disease around all of these stages.

Daniel Segarra

Thank you very much. We are going to switch to Santander. Jaime, please?

Jaime Escribano

Banco Santander, S.A., Research Division

So two questions from my side. The first one regarding working capital. There is one line of other working capital adjustments of EUR 158 million. So if you could elaborate what substantiates this line, because it's obviously a big amount that allows us to generate quite a lot of free cash flow. And how should we think about this line in Q4?

And then the other question is regarding the guidance of EUR 1.8 billion for the year. This means that in Q4, you need to do an EBITDA adjusted of around EUR 550 million. So it's a big jump. Obviously, we are mid-November. So probably you already have quite a nice visibility to year-end. So my question basically is what drives this EUR 550 million EBITDA in Q4? Is it more than the top line is coming very strong? Is it that we should expect a very high increase of gross margin or further operating leverage. I know you are going to tell me it's a combination of the three, but if you can give us a little bit more color on how these three moving parts should make the EUR 1.8 billion EBITDA?

Jose Ignacio Abia Buenache
CEO & Director

Jaime, I'll take the second question, and I'll pass to Rahul the first one. And the second one, I think that as has been said, we know that Q4 will be a demanding quarter and that we have to continue performing well, as well as we have been performing in Q1 to Q3 in order to deliver that EBITDA. And indeed, it's a combination of the three, right? So we have expectations for strong sales in the quarter. The gross margins will continue improving, as they have on the back, on the reduced plasma cost per liter that we have been enjoying through the year, thanks to the efforts done in previous periods. And finally, a strong cost control and expenses control. So I think that, as I say, we are committed to deliver those numbers. We believe they are feasible, but we still have to work a lot in the quarter, and we are doing that.

As for the first question, Rahul?

Rahul Srinivasan

Yes. Jaime, if you're referring to other adjustments and other changes in working capital, the EUR 110 million versus EUR 34 million in 2023 year-to-date, most of that difference relates to the noncash adjustment of the noncontrolling interest result. That's, I would say, 70% of that difference. And if there are sort of further aspects of detail related to that question that you have, we can take that offline with our Investor Relations team.

Daniel Segarra

Thank you, Jaime. Alvaro, please?

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

First, welcome Rahul and congratulations on relocating to Barcelona. Hopefully, you will enjoy beautiful city and the good weather.

My first question would be on your first thoughts and your top priorities as the Group's new CFO, whether you are more focused on cost cutting or getting a closer grip to working capital or liquidity or negotiating with the banks. And in particular, I would like to know if you could provide some more detail on your current liquidity position? And how do you see the revolving credit facility being extended? I don't know if you can provide some time line on that?

And then my second question would be, if you feel now some comfort to provide free cash flow guidance for 2025. I think you mentioned something on the extraordinary growth CapEx, which should have for next year, but that's actually higher than what I had in mind. I thought it should go down to some EUR 70 million. So if you could clarify -- if you can provide free cash flow guidance or some ballpark number and clarify the extraordinary CapEx.

Rahul Srinivasan

Okay. So let me start off with the first question, which was just around general impressions as well as giving you a little bit of an update around status of the RCF extension. Look, as I think about general impressions, I think you had -- you saw my -- there was a slide that talked about my first impressions. But as I think about priorities, let me start with the priorities from a financial perspective. From a financial perspective, in the short term, it is all about continuing to deliver the strong business performance and continuing to delever and improve free cash flow generation.

I see meaningful opportunities across the board to be able to do that. And I also think that there is an opportunity to be a lot more analytical and rigorous in our approach, as part of which I certainly look forward to contributing to better discipline, whether it's cost discipline, whether it's financial discipline, whether it's capital allocation discipline. I think there are opportunities there in my mind. Another point that I would say is risk management. I've, in my prior seat, spent a long time just managing risk. And I believe I can contribute to that quite considerably in the coming months.

I also referred in my initial impressions about the opportunity or the communication opportunity that we have here. I fundamentally believe that there is an opportunity to better understand the Grifols story. And I look forward to engaging and sharing my perspective on the Grifols story in the coming months and quarters. One final thing I would also say is, to the extent that we can simplify, whether it's business dealings, financial interest, and so on, just in terms of whether it's a simplified structuring, I think that is something that, frankly, might be helpful for the various stakeholders to better understand and engage with us on the Grifols story. And of course, that does not talk about the long list of business improvements that Nacho has touched on previously, which clearly remains a priority that I think we can develop a good story around together.

I think your second question -- was your second question -- did it relate to guidance for 2025 or...?

Daniel Segarra

It was on the RCF.

Rahul Srinivasan

Yes. So on the RCF, as I mentioned in my remarks, the process of extending the RCF has already commenced. And I think our -- the general sort of feedback has been very constructive and positive. Clearly, the Q3 results here is helpful in that respect. And now with the Q3 results out, my expectation is that we will have this wrapped up rapidly in the coming weeks.

And as you think about the RCF extension, I touched on this in my presentation, secured leverage at Grifols today per the credit agreement is at 3.1x. It is going to be in the 2s, in the 2s by the end of Q4. So the extension of the RCF or liquidity and so on, I have no concerns about and we'll be able to demonstrate that very effectively in the coming weeks. So I feel very well supported by the bank groups on that front.

The second question?

Daniel Segarra

The last question on the guidance, free cash flow.

Rahul Srinivasan

Okay. So free cash flow guidance, certainly for -- we expect to provide free cash flow guidance at the next earnings call for 2025. And we look forward to discussing that in more detail at the time.

Daniel Segarra

Very clear. Thank you, Rahul. Thank you, Alvaro. Now Guilherme, please go ahead.

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

So the first one still on cash flow guidance. You previously had guidance for 2025, 2027. Are you still planning to provide an update on this guidance, or just going to release an update on 2025 guidance alone for cash flow with the next earnings call?

And the second question is a bit related to Q4 again. So IG has been outperforming in terms of growth to other proteins, which is not optimal to gross margins. How do you see the proteins growth balance in Q4? Similar to Q3, or there could be some changes here?

Jose Ignacio Abia Buenache
CEO & Director

Yes. Thank you, Guilherme. As per the cash flow guidelines, I think that, as Rahul just said, I think in the next earnings call, as is customary, we will provide guidance for the year, including free cash flow for 2025. As for projections for cash flow for the next years, we are still evaluating this position and having internal discussions. And in due time, we will communicate with the market. As for the protein question, Roland will comment.

Roland Wandeler
President of Biopharma Business Unit

Yes, indeed we are very pleased with the momentum that we see in IG, and especially in the U.S. building within IG. But one thing I want to double-click, and if you look at the split between IVIG and subcu IG, we're very pleased with the growth rate that we see with subcu IG with a premium pricing and with significant potential to further grow given that we only launched a few years ago. So as you think about IG, we see this as a very important contributor and a growth driver for the future.

And as we think about the rest of our portfolio and proteins, similarly, we see us continue to build where, of course, for Alpha-1, we are after the transition of the specialty pharmacy provider in the U.S. in a position to rebuilding growth. And the one thing, perhaps to add for Q4 is that rabies naturally has seasonality. That's the one thing to keep in mind. But the takeaway is really, I think the one point is the growth potential and the momentum that we see behind subcu Xembify.

Daniel Segarra
Thank you, Roland. Thank you so much. Thank you, Guilherme. With that, we took all the questions today. As Rahul said, please feel free to contact the IR team for any follow-up. Thank you so much for joining us today.