S&P Global
Market Intelligence

Grifols, S.A. BME:GRF

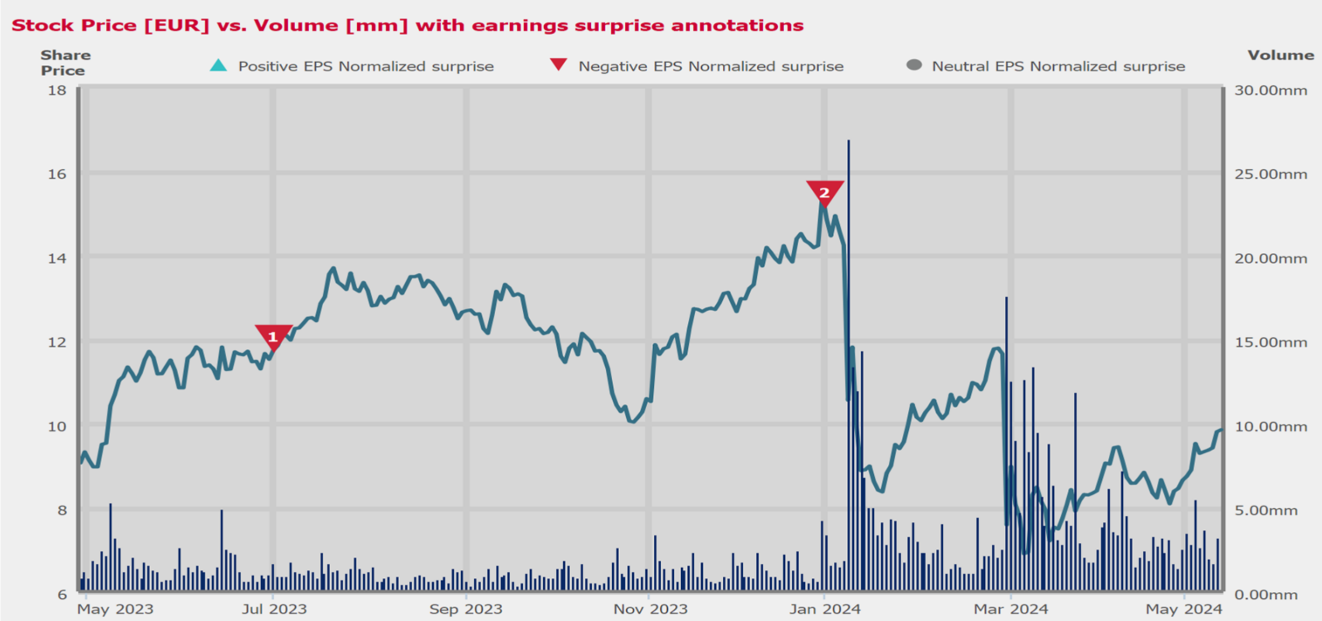
FQ1 2024 Earnings Call Transcripts

Tuesday, May 14, 2024 4:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2023-			-FQ1 2024-	-FY 2023-			-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.19	NA	NA	0.10	0.51	NA	NA	0.77
Revenue (mm)	1755.58	NA	NA	1649.23	6612.96	NA	NA	7082.12

Currency: EUR
Consensus as of May-14-2024 11:08 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2023	0.07	NA	NA
FQ2 2023	0.13	0.09	1 (30.77 %)
FQ3 2023	0.13	NA	NA
FQ4 2023	0.19	NA	NA

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Call Participants

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Jose Ignacio Abia Buenache
CEO & Director

Roland Wandeler
President of Biopharma Business Unit

Thomas H. Glanzmann
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Presentation

Daniel Segarra

Hello, everyone, and welcome to Grifols' Conference Call. Today, we will be sharing a business update on our first quarter financial results. Thank you very much for taking the time to join us. My name is Daniel Segarra. I'm Vice President of Investor Relations and Sustainability.

Today, I'm joined by Grifols' Executive Chairman, Thomas Glanzmann; Chief Executive Officer, Nacho Abia; and Roland Wandeler, President of Biopharma.

Today's call will last about an hour, including a Q&A session. As a reminder, this call is being recorded. All materials used during the call are available on the Investor Relations website at grifols.com. The transcript and media replay will also be available on the Investor Relations website within 24 hours.

Turning 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 or 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 flow and financial position as the basis for its operational and strategic decisions. These APMs are prepared for all time periods presented in this document. Reconciliation tables can be found in our website.

With that, I would like to turn the call over to Thomas Glanzmann.

Thomas H. Glanzmann
Executive Chairman

Thank you, Danny. Good evening, afternoon and morning to all on the call. It is great to be here with you today. Now let me start by welcoming our new CEO, Nacho Abia to Grifols. We are truly pleased to have him on board. He has been on the job for only 6 weeks but has hit the ground running and has come up to speed quickly as you will see shortly. We look forward to his leadership as we move into the next successful chapter of the company's history.

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

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

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

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

On behalf of the company and the entire Board of Directors, I would like to thank Alfredo for his contributions over the past 17 years. We have begun searching for Alfredo's successor. The process will be thoughtful and thorough as he or she will be a key part of the management team taking Grifols into the future. Alfredo will remain with the company throughout 2024 to ensure a smooth transition, which I personally very much appreciate.

Now let's turn to my presentation. After closing a turnaround year in '23 and delivering on all our commitments, this first quarter of '24, as all of you know, was marked by an unprecedented and completely unwarranted attack by an opportunistic short seller who this morning, again, issued a misleading report for their own financial gain.

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

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

Throughout all this, we have stayed true to our mission and maintain our business focus. We continued to serve donors and deliver our life-saving medicines and health care solutions to our patients and customers.

Furthermore, we successfully executed and remained focused on our priorities, implementing a series of improvements to our corporate governance, leadership, debt management and innovation. With this in mind, I am really proud of the entire team who demonstrated an unwavering commitment to the company and to our mission of making a difference to patients, customers and donors.

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

Additionally, the Board will soon be reinforced with 2 new independent members, both of whom will add value in finance and corporate governance. These appointments are pending approval at the upcoming AGM.

Undoubtedly, another key organizational change is the appointment of Nacho as Grifols' CEO, clearly separating the Chairman and CEO roles. I will continue in my executive role until February to support the transition. But at that point in time, the role of the Chairman will no longer be an executive one, all in line with our plan and good corporate governance.

Now let me talk about our debt management. I am very pleased to confirm that the Shanghai RAAS transaction will close in June, now that all the domestic and overseas government approvals are in hand. Upon the closing of the transaction, all of the proceeds as previously communicated, will be fully allocated to reduce secured debt in line with our priority and our commitment.

We also made significant progress in addressing the '25 maturities through the completed issuance in April of EUR 1 billion in senior secured notes due in 2030. And -- this transaction will further streamline our maturity profile and together with the upcoming closing of the Shanghai RAAS transaction, position us well on our path to address our overall debt.

Turning briefly to innovation. We were pleased to report that our Phase III top line results for fibrinogen have met the primary endpoint. We expect the regulatory approval process in Europe and the U.S. to begin in the fourth quarter of this year and are now on track for the launch in '25.

Pivoting to our financial results, our first quarter performance was overall aligned with our plan and therefore, in line with our full year guidance, which remains intact. Please note all figures are presented on a consolidated basis, which includes Biotest, unless otherwise highlighted.

Our first quarter revenues exceeded EUR 1.6 billion, up by 5.5% compared to Q1 '23, a 6.8% increase excluding the EUR 19 million onetime commercial true-up in our Diagnostics business last year. Both of these figures at constant currency.

Revenue growth was primarily driven by the strength of our Biopharma business unit, which saw a 9.4% growth on a year-over-year basis in constant currency. We also delivered solid EBITDA adjusted of EUR 350 million, representing a margin of 21.6%. On a like-for-like basis, which excludes 20% of Shanghai RAAS EBITDA contribution, this represents a 280 basis point increase.

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

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

Turning to our financial position. The company's leverage ratio as per the credit agreement increased in the short term to 6.8x due to the nonrecurring impacts in working capital. As a reminder, we will use all EUR 1.6 billion of Shanghai RAAS' proceeds to pay down secured debt. Considering this, the pro forma leverage ratio stands at 5.7x at the end of March '24.

We remain confident of our continued progress and the improvement of all key financial metrics throughout the year as we drive towards our full year '24 guidance.

Lastly, our plasma supply increased by 8% versus Q1 '23, and the cost per liter declined by 2% in March '24 compared to December '23. This cost decline follows a 22% drop from July '22 to December '23.

Taking a closer look at our revenue performance, the first quarter growth was driven primarily by a 9.4% increase of the Biopharma unit, as mentioned, on a constant currency basis. This figure underscores the very strong momentum of our plasma business. Led by the growth of Biopharma, Grifols is poised to generate more than EUR 7 billion in revenues in '24, exceeding our record-high revenue in '23.

This growth is underpinned by strong market dynamics including robust underlying demand, supported by a solid plasma supply. Within Biopharma, our key contributors are our flagship immunoglobulin franchise which grew by 13%, driven by our subcutaneous immunoglobulin, which had a remarkable increase of 62% in the quarter. Albumin increased by 7%. All of these figures are on a constant currency basis.

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

Turning to Diagnostics. The fundamentals of our Diagnostics business remained strong as we saw a 2.7% revenue growth on a constant currency basis, excluding the one-off revenues from the first quarter of '23. Our blood typing solutions reported low double-digit growth, and the performance of NAT was impacted by the timing of shipments to China.

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

Now turning to margin. Adjusted EBITDA increased to EUR 350 million, representing a 21.6% margin, up 280 basis points compared to Q1 '23, like-for-like, which excludes 20% of Shanghai RAAS' contribution. Please bear in mind that since January 1, '24, in light of the upcoming Shanghai RAAS deal, we are considering Shanghai RAAS as an asset held for sale and consolidating only the 6% of its net profit in '24 versus 26% in '23. Therefore, Shanghai RAAS contributes only EUR 0.5 million to EBITDA in Q1 '24.

For your reference, these contributions represent EUR 11 million in Q1 '23 and EUR 25 million in Q4 '23. EBITDA margin in Q1 was also impacted by the lower absorption of operating expenses as the weight of revenue in Q1 is lower compared to upcoming quarters.

This sales pattern had an impact on profitability this quarter, which we were already factoring in as part of our full year '24 guidance, and it is the baseline for the sequential improvement throughout the year.

As Nacho will explain, we expect to deliver sequential improvement in profitability in the upcoming quarters, driven by increased revenue, improved product mix, operational leverage and ongoing benefits from a decline in the CPO throughout the remainder of the year, considering the 9 months' inventory lag, which is characteristic of the industry.

Now turning to cash flow. As I mentioned in my opening remarks, free cash flow was primarily impacted by nonrecurring items that affected net working capital. The negative free cash flow of EUR 253 million in the first quarter of '24 was driven primarily by negative net working capital of EUR 339 million.

Despite this, I want to emphasize our confidence in upcoming improvements and in our underlying actions to make that happen. So let me unpack that figure and give you a sense of what the key factors were triggering this result.

As the company increased inventories to meet expected strong revenue growth in the upcoming quarters, Q1 '24 working capital includes an inventory buildup amounting to EUR 130 million. We believe that there is still room for improvement to optimize this as Nacho will discuss later.

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

We also had an increase in our accounts payable in the quarter of EUR 55 million as the accounts payable ratio abnormally increased to 60 days in December '23. In Q1 '24, it normalized back to 55 days. So we are not expecting such fluctuations going forward.

With a EUR 150 million payment collected and receivables and inventory buildup in the process of being normalized, we expect a meaningful recovery of free cash flow starting in Q2 '24 and then continuing throughout the year.

As it will be discussed in more detail in a moment, we anticipate significant improvements in upcoming quarters, which will enable us to achieve, at a minimum, the full year '24 guidance of EUR 5 million positive free cash flow.

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

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

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

Jose Ignacio Abia Buenache
CEO & Director

Thank you. Thank you, Thomas, for your words, and thank you, everyone, for joining the call today. First and foremost, as a newcomer to the team, let me begin by sharing a bit about myself.

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

By building on our legacy, I'm committed to steering the company forward and serving as a catalyst for positive change. As you know, I'm originally from Barcelona, and I have spent most of my career at Olympus, serving for more than 2 decades in a number of capacities and geographies, including the United States for the last 13 years.

In my former company, I led significant strategic initiatives that transformed and globalized the company, enhanced operations and delivered sustainable business improvement. These experiences will serve me well to define and execute the next chapter of Grifols.

First, addressing cash flow and leverage, followed by a sustainable plan to increase revenue and expand margins over the years to come. And all that with the strong backbone of our powerful commitment to improve patients' life across the world.

I see a remarkable combination of opportunities and expertise that will take us to achieve those goals. We are a company with an inspiring mission to enhance patient health and well-being. Having always been passionate myself about the great honor and responsibility to be part of the health care industry, I feel that this step in my career is a natural, personal and professional fit.

I want to begin by telling you what I've learned over my first 6 weeks in this company and why I'm excited for the future to come. During this time, I visited offices and met with people in Spain and in the United States. This insightful meetings span across all functions within the organization.

The first thing I noticed at Grifols is that our team has an outstanding dedication and devotion to our mission. This idea of human-to-human medicine is truly embraced by all Grifols' employees, and I'm convinced that solid commitment of our people has been and will be a continuous key success factors.

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

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

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

However, as you know well, those necessary investments also increased significantly our leverage and our cash consumption. And I want to reassure all of you that to improve cash flow and reduce leverage will be my most important priority moving forward.

We have aligned the organization and started to implement already cash flow improvement measures, and I'm confident results will be shown soon.

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

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

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

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

Let me walk you through the factors that will drive this acceleration to give you more clarity about how we plan to achieve it. The first is growth from our immunoglobulin franchise. We are already seeing a significant growth outside the U.S. that will continue. And in U.S., traditionally, the market tends to increase inventory days in the channels towards year-end that normalize in the first half of the year to accelerate again in the second half. The commercial and supply chain teams are already working closely to ensure the growing demand will be met.

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

Our revenue projections are also supported by the improved performance of albumin as we know, China will continue to grow in the coming quarters. We also see our alpha-1 franchise continuing to show a stronger positive momentum in key markets following the switch of a new specialty pharmacy partner in the U.S., which further enhance our service offering.

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

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

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

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

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

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

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

Let me address that now the elephant in the room, the cash flow. As I mentioned before, this is going to be my top priority, and we have already started to work on it. Despite the negative free cash flow in Q1 2024, which, as Thomas explained, was impacted by nonrecurring impact of EUR 150 million, the cash flow development follows the established plan, and the company remains on track to deliver positive free cash flow as per the guidance provided back in February. From now on, we expect a slightly positive free cash flow in Q2 and a clear improvement in the second half. Please note that this 2024 free cash flow trajectory includes extraordinary investment CapEx items, like the payments related to the acquisition of ImmunoTek in Q2 and Q3 as well as other items, including restructuring and transaction costs, which add up to EUR 480 million for the year.

The primary drivers that will bridge to our fiscal year '24 guidance are: first, the EBITDA expansion, followed by working capital normalization. But in addition, we have started already an organization-wide cash flow improvement plan, our plan to significantly increase free cash flow generation, not only in 2024, but in the years to come. As a result of those efforts, we plan to update our fiscal year '24 guidance accordingly as we gain more visibility into any potential upsides broaden that plan in this year.

Our cash flow improvement plan started with a simple but solid and acceptive analysis of the current situation that has already identified opportunities comprised of 5 main levers: working capital normalization, continuous operational improvement, SG&A and spend control, optimizing real estate and a thorough portfolio analysis. Some of these initiatives will have an impact sooner than others. Some will be recurring improvement and some just onetime off. But altogether, we must consider and plan this exercise as a new mindset for the company. And this will be our most important priority until our cash flow generation and our leverage will be at the required level.

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

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

In addition, and while the company has made good efforts to rebase its cost structure over the past few years, we will continue to focus on SG&A and spending control to operate more efficiently with a continuous improvement on zero-based budgeting mentality. Finally, and although these 2 efforts will most likely impact only 2025 and beyond, we have already started the process to look into our real estate footprint which offers some interesting opportunities and initiated the portfolio analysis of all our projects, affiliates and businesses to ensure all of them deliver at the expected level.

I know you probably will have a lot of questions about this. But let me manage expectations and say that at this point, there is still work to do before being able to provide information regarding specific activities or to provide guidance for our future cash flows beyond 2024. Please be patient and give us the time to work in all this matter. Most importantly, it is clear to me that the company has the levers to improve its cash flow profile and generate additional and substantial free cash flow in the years to come.

Ultimately, cash flow generation will be key to others our leverage, and so our deleveraging path will continue moving forward. Our focus remains on reducing our leverage ratio below 4x. And this year, we are expecting to bring our leverage down to 4.5x by the end of 2024, mostly thanks to the proceeds from Shanghai RAAS divesture, EBITDA and cash position improvement. As an immediate and important step, as it has been explained already, we are well addressing our 2025 maturities, and this will be primarily accomplished by using the EUR 1 billion private placement to repay the 2025 unsecured notes and the Shanghai RAAS proceeds to reduce the 2025 and 2027 secured notes.

I think that's enough of numbers and figures for today. And I would like now to share some of my views on what will be the key priorities for Grifols in the years to come. As I already said, I am a pragmatic person, I like to set goals in a way which is simple, focused and with clear expectation. So I'm convinced this helps the organization to align and progress. Based on that thought, the core of our activities will be a solid financial discipline and focusing cash flow generation. But this itself will not be effective unless we can continue meeting the need of our patients and donors, continue improving our commercial operations to better meet customers' and market demand and to leverage and continue the operational improvements already started. Also very critical will be to accelerate innovation in a pragmatic and strategic way and bring to market new products, new indications in a time- and cost-efficient manner, in order to create a self-reinforcing cycle that will aim not only to enhance financial metrics, but also to ensure enhanced competitiveness.

Over our next interactions, you will hear me to talk a lot about these foundational pillars, and I'll be happy to share more as the specific action plans are developed and implemented. For now and in the short term, in addition to the cash flow improvement plan already explained, our immediate focus will be to strengthen our commercial operations to be able to successfully face forthcoming product launches, to work in a talent assessment across the organization to make sure we have the right people in the right place and to initiate a process that should aim to reduce company complexity, both in our processes and in our structures. I think this slide is a good summary of what you can expect from me and Grifols in the months and years to come, and I look forward to our continuous dialogue about all these important topics.

As a summary of what has been said, and before we move on to Q&A, I'd like to reemphasize a few points that we have already made but that are worth repeating. The Board of Directors of Grifols asked me to join the company as CEO to lead Grifols by building upon its previous success. To achieve this, we must, first of all, improve cash flow generation and reduce leverage. And while doing this, we must continue enhancing operational execution, maintain financial discipline and improve business performance overall. Thanks to our cumulative efforts, today Grifols operate in a solid growing market, is well invested in plasma centers, production facilities, a global footprint and cutting-edge technologies. This positions the company to drive significant and sustainable growth. And therefore, I'm convinced that by acting decisively and with a strong focus on execution, we can significantly unleash shareholder value as well. This is my mission, and this is what I plan to do.

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

Thank you all for joining us today and for your continued support and engagement. I look forward to meeting many of you in person over the next weeks and months to come. And with that, I'll turn it back to Danny.

Daniel Segarra

Thank you, Nacho. With regard to our agenda for the rest of the year, we have several key dates to share with you. First, on July 30, we will discuss our financial performance for the second quarter of 2024. As mentioned just now, on October 10, we will host our annual Investor and Analyst Day here in Barcelona. Finally, on November 7, we will be reporting our third quarter financial results.

These events play an essential role in our efforts to strengthening our communication and ongoing dialogue with market participants. Now I will open it up for questions.

Question and Answer

Daniel Segarra

[Operator Instructions] Our first question come from, I think it's Peter. Peter from Citi.

Peter Verdult
Citigroup Inc., Research Division

It's Pete Verdult here from Citi. Two questions. Nacho, I appreciate you giving us your first impressions after only being at the helm for a matter of weeks.

To give me for pushing, but I think the market is very focused on free cash flow. And I understand that you can't give guidance beyond this year, but it's also fair to say that the prior management team were also communicating a message that they were very focused on free cash flow. So just what low-hanging fruit is there this year that allows you -- makes you confident that you can accelerate efforts to improve free cash flow? And if I could chance my arm, what have you liked that you've seen as you travel around the Grifols sites?

And then just secondly on -- because we got Roland on and that you are calling out product mix as a big driver, can we just make sure that we're all on the same page. I mean my assumptions are that Xembify is probably a 50% premium to IVIG, but it only represents sort of 5% of IG sales currently. So can you correct me where I'm wrong?

And if I could squeeze one last one in because I think it's important. You called out the specialty pharma switch benefiting alpha-1. Could you maybe just explain that a little bit more?

Jose Ignacio Abia Buenache
CEO & Director

Peter, this is Nacho. And I think I cannot add much more than what I already say, I think that the free cash flow or the cash flow focus in general is very well established in the company. I think in the last 6 weeks, we've been working across the organization to make sure that the mindset is there. And I see a lot of activity already moving forward in that direction. And it's not rocket science.

To be honest, I think it's mostly the 5 levers I mentioned before. And if I think in 2024, clearly, working capital is going to play a very significant role as this is probably the highest impact, but we've been working already for months in a lot of operational improvements that will also generate a significant benefit in the year. And ultimately, I think we need to control well all our expenses and the things we can control within this year.

So I -- there is no magic, Peter. I think that this is all about focus, it's about attention. It's about mindset, it's about aligning the company in that direction, and that's what we are doing.

I think the next question Roland would love to answer.

Roland Wandeler
President of Biopharma Business Unit

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

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

Daniel Segarra

Now we are going to go with Tom Jones from Berenberg.

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

I had 2 really. One was just on the potential for future cost savings. You talked quite a lot about them in the prepared remarks, and you're looking to spend EUR 110 million this year on one-off costs related to the extension of the operational improvement plan. That's quite a decent number to spend.

So it would be helpful if you could try and at least give us some steer of kind of what future cost savings you might be expecting to come from these projects and perhaps in what areas?

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

Jose Ignacio Abia Buenache
CEO & Director

Tom, I mean just to give you a little bit of color, right? So on the operational improvement plan is something that was started last year. Most of the restructuring costs are the last part of the cost of the plan. They started to be implemented. And as has been explained in the past, I think that this plan was across the entire organization, mostly on the operational part and industrial part, but also focusing procurement activities, generating additional yields in all areas, et cetera. So I think that the last money that you will see in terms of restructuring is coming from the last payment related to the efforts that has been done and all that is already being visible in -- either in our inventory or in our operational cost and as we move forward.

As per the leverage, and I will make some comments, and I'm sure that Thomas probably would like to complement. What we have shown today, 4.5x is what we believe is a very realistic expectation based on the Shanghai RAAS divestiture -- on the 20% of the Shanghai RAAS divestiture plus the operational improvements that we are seeing. Of course, we remain committed to 4x leverage or below, and it will come over time. But I think at this point and realistically speaking, 2024, we can commit to 4.5x. And maybe, Thomas wants to complement that.

Thomas H. Glanzmann
Executive Chairman

No, happy. Tom, great question. So, let me just go back to the fact that we said when we started '23, that 4% was the target that we're aiming at. At that point in time, we also were assuming that we would do a major -- that we would do a major sale of Shanghai RAAS, actually would be selling all of it. And as you know, at this point in time, we're only selling 20% of it.

But as Nacho now said, we're -- for this year, 4.5x, we're still targeting to get below the 4x. I think at this point in time, we're not expecting to do any other asset sales for this year, really just focusing now on cash flow generation and free cash flow generation as we address the year.

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

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

Roland Wandeler
President of Biopharma Business Unit

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

Thomas H. Glanzmann
Executive Chairman

I just want to reiterate the point that Yimmugo had a growth of 62% in the first quarter. And as Roland said, it only really represents 5% of our IG franchise. So the opportunity, obviously, is significant for us, particularly when you think that almost 40% our competitors are already in subcu. So we see this as one of our significant, really big opportunities. And I know that Roland and team are extremely focused on driving the growth of this product.

Roland Wandeler
President of Biopharma Business Unit

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

Thomas H. Glanzmann
Executive Chairman

I'm sorry, Xembify obviously. So let me just correct that. There's so many Ys here. So I got a little confused.

Daniel Segarra

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

Charles Pitman
Barclays Bank PLC, Research Division

It's Charles Pitman from Barclays. Couple from me. Just firstly, can you just confirm on the Shanghai RAAS asset sale, I think when you put out a release recently you're talking about announcing features of this deal. Can you just confirm that those features likely related to the comments made on this call about using those to address your FY '25 and FY '27 senior secured bonds?

And then just secondly, just coming back to Biotest, the next-level projects and the general consolidation of that part of your business. Can you just talk us through like how we've got from it being so dilutive in the past, when you expect it to become accretive and what the delay has been since the completion of the projects in FY '22 and the reason for the contribution to the working capital impact of 1Q '24 as you've been building up inventory?

Yes, I think that would just be helpful based on conversations we've been having with investors.

Thomas H. Glanzmann
Executive Chairman

Well, first of all, we will close the transaction in June. And we will use the proceeds, as you outlined and as we said in our document. On Biotest, clearly, the focus on Biotest right now is to -- for them to bring the 2 new products -- or the new products to market, which they're doing. I mean I mentioned the fibrinogen trial that has done -- gone extremely well. They're also in the process of ramping up, now I'll say the right thing, Yimmugo, which they intend to be launching here in the U.S. later. They've launched it in Europe, and they expect to launch it later in the U.S.

Clearly, one of the things we've said all along is that they are actually not going to be contributing to EBITDA until basically the launch of fibrinogen and the new products that take place. And we stand by that at this point in time. So Biotest still has got a bit of runway until it will contribute significantly to the group.

Daniel Segarra

Now it's time for Alvaro.

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

The first one would be, if you could update us on the capacity situation, both in plasma collection and industrial capacity in terms of fractionation and purification before and what we -- it looked like after you complete the extraordinary CapEx efforts that you are doing?

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

Jose Ignacio Abia Buenache
CEO & Director

Alvaro, this is Nacho. Let me comment on capacity rates, again on my observations of these first weeks. And again, Thomas might want to complement.

I mean I think what I've seen is that, as I mentioned before, the company is well positioned in terms of capacity. I mean, our investment in plasma collection centers and also in our industrial footprint is well established. I mean we don't see a significant need of significant investments, at least in the next 3, 4 years to come as both the plasma collection and the industrial footprint being ready for the growth that we are expecting to have in the next years.

So I think it's -- and that good -- I think we're in good shape in that front. As for fiscal year 2025 and beyond cash flow, as I say in my remarks, please be patient, right? So I just haven't started to work on this. I think that we're doing good progress. 2024 looks good. Next step will be to focus in 2025, '26, '27, and we will provide you an update on the information as soon as it's ready.

Thomas H. Glanzmann
Executive Chairman

So just to complement what Nacho said, our capacity, particularly on the fractionation is about at 70%. So we got significant room to grow in the coming years. And with regard to plasma center, as Nacho just said, we're well set up right now, and we do not expect to add any new centers until basically '27, where we think we will probably start to need to implement about 20 centers going forward.

So we're well positioned. I also do want to mention, obviously, the Egypt project, where we're going to have -- there are going to be 20 centers, there are 10 centers now. And then we also got the Canada project, which also is not only going to add capacity, but also centers as we move forward.

So overall, I think we're very well positioned to take advantage of the significant opportunities that we see in front of us in the coming years.

Daniel Segarra

Now it's time for Bank of America, Graham.

Graham Glyn Charles Parry
BofA Securities, Research Division

Great. So firstly, on the CMD that you're planning for October, is that a time frame which we could potentially expect to see some concrete midterm sales, EBITDA or EPS guidance from the company? I think that's something which investors would definitely welcome.

Secondly, just on 2024, I guess, in your EBITDA guidance, if you could just give us a feel for just the level of confidence that you have in that now. Presumably, you've collected the majority of the plasma, so you know your cost per liter for most of your cost of goods for the year you're contracted to sell at. So what are the variables that could derail you from the achievement of guidance? Or is that pretty much in the bag now?

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

Jose Ignacio Abia Buenache
CEO & Director

I'll take the first 2, and Thomas will take the last one. As for the Investors Day, I mean, we are building the agenda as we speak. And obviously, we plan to provide as much as possible information to the market, but it's early to say how much and what will be the level of detail. I mean, obviously, we'll be talking to all of you and providing definitely our strategies and our directional goals and probably some specific figures in the areas we can, but I think it's early to confirm right now what will be those metrics.

As per the EBITDA generation this year, I think for what I -- pretty much what I explained in my presentation, right? I think -- I mean, the first 6 weeks, I've spent a significant amount of time trying to understand our 2024 situation with the team, both the commercial team and the finance team, and for the reasons I explained, I feel quite confident that the EUR 1.8 billion plus that we committed at the beginning of the year will be delivered.

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

Thomas H. Glanzmann
Executive Chairman

Yes, happy to. Well, first of all, the short seller keeps on dishing out misleading reports and statements. Grifols has provided full detail of all its transaction in its financial statements and in specific reports. All the information is public. It's been verified by both the regulator and our auditors, and we really stand by -- we've got nothing more to add to that than standing by that statement.

So I mean, it's quite amazing to having continuation from the short sellers like we're seeing now.

Daniel Segarra

Jaime, please from Banco Santander.

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

A couple of questions from my side. The first one regarding liquidity is at around EUR 700 million. So I just want to know how comfortable you are with this liquidity, you have ImmunoTek commitments for Q2, Q3 amounting around EUR 500 million. And building on this, would you consider to use part of Shanghai RAAS proceeds to be more comfortable on your short-term liquidity? This would be my first question.

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

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

Jose Ignacio Abia Buenache
CEO & Director

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

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

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

Daniel Segarra

Now we will have to take any question from Thibault from Morgan Stanley.

Thibault Boutherin
Morgan Stanley, Research Division

Yes. So my first question is on financial [forecasts]. I think you previously -- I mean, Grifols previously suggested that interest expenses could decline in '24 versus '23 and it's difficult to reconcile this with that being refinanced at a higher rate even with the Shanghai RAAS proceeds being used to repay. So just if you could comment on this. I know that you have a bit more visibility on the refinancing rate.

And second question connected to this, you provided a helpful free cash flow bridge after the full Q3 results. And just wondering if there is any elements that now look materially different from when you issued this bridge, this reconciliation, if there are elements that are meaningfully higher or lower in terms of cash consumption.

Jose Ignacio Abia Buenache
CEO & Director

Let me answer the second one, and Danny will talk about the financial rates. So no, there is no items which are material on the free cash flow bridge that we presented. And I think that by now, we have identified all the key elements and the free cash flow is going to be mostly determined by operational ratios, mostly the working capital and improvements in the operations, as I mentioned.

And for the financial rates, Danny, do you want to mention?

Daniel Segarra

The financial expenses for the year are expected to be lower compared to the current situation. The thing, as Thomas was saying, we expect we are going to close the Shanghai RAAS transaction in June. It's going to be the most important lever to see a reduction of our debt that, as Thomas was mentioning as well, I mean we are going to go repaying part of 2025, but also part of 2027. Especially in the '27, we are paying a variable interest expense. So when you're putting all in all, even including the private placement for EUR 1 billion at EUR 7.5 billion, the total financial expenses is expected to be lower.

And we are going to go with one of the last one. It's going to be Guilherme from CaixaBank.

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

So, one, I don't know if it is too early, but at least, could you provide us a sense of -- or where do you expect the leverage? Or where do you want to put the leverage of this company over the midterm? We understand that it's going to about 4x over perhaps we can have 2025. But over the midterm, when do you feel comfortable with?

And the second one is a small question. Just if you could provide some reconciliation of the free cash flow generated in the quarter with the increase in net debt that you reported. I have seen some increase in the IFRS 16-related liabilities. If you can provide some color on this.

Jose Ignacio Abia Buenache
CEO & Director

Yes. On the leverage level, I think that, I mean, there are many, probably, opinions about what is the adequate level of leverage that company should have. If you ask my opinion, and this is a general statement, not only applicable to Grifols, I think, I mean, around -- between 3x and 3.5x is a reasonable level to operate.

I think it also depends a lot on what are the strategic considerations that you are having, right? So I think at some point, you might need to lower your leverage if you are facing some potential opportunities of acquisitions, but our work as the first step is obviously our committed 4x leverage, and we were working towards that. Once we get there, then we will provide guidance about what is the next step.

As for the free cash flow, Danny, do you want to mention?

Daniel Segarra

so on the free cash flow and net debt, I mean, this first quarter, pretty much the increase that we had is pretty much in connection with the free cash flow that we had, basically, on the net working capital impacts the nonrecurring items that we were disclosing, and it brought to have this net debt increase.

As Nacho was mentioning on the leveraging path, you will see that we expect to recover this piece. It's going to be part of our deleveraging path. So as long as we expect to generate more cash flow in the next 3 quarters, it's going to help, it's going to support our deleveraging path in connection, not only with an improvement in terms of EBITDA, but also a reduction in our -- in terms of net debt on top of the Shanghai RAAS transaction that it has been well discussed.

We are going to take the last one. It's going to be Charles, your second kind of like opportunity here.

Charles Pitman
Barclays Bank PLC, Research Division

Just a couple of clarifications. Just earlier where you said capacity on fractionation is at 70%. Can you confirm that's the current utilization of your full capacity and that the centers that you've got to '27, before you start adding centers, that's just on top of what you've already announced?

And then did you address the comment around your midterm cash flow cumulative guidance or based on the fact that, naturally, you're still getting to know the company, are we just kind of not talking about an today? Could you reiterate that or to should we wait for 2Q?

Thomas H. Glanzmann
Executive Chairman

So let me just -- the 70% that is current capacity, number one. And the 20 centers that I mentioned, that's not until '27. So we're well situated today with the centers we have. And again, I reiterate, we got centers coming online in Egypt, and we got centers coming online in Canada.

And obviously, the key focus for us is to continue to improve the efficacy -- our efficiency of our current centers in the U.S., which we are in the process of doing.

Jose Ignacio Abia Buenache
CEO & Director

As per the cash flow projection, Charles, I think I mentioned already several times. I think for now, I'm focusing a lot in 2024, and this is where we provide the guidance today. I'm comfortable. I see a lot of opportunities. I see a lot of things that we can do. We have to do the work, but I'm very comfortable and confident about the cash flow we can generate in the years to come.

But I'm not ready yet to give you a number.

Daniel Segarra

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

Thomas H. Glanzmann
Executive Chairman

Thank you all. Thanks, everybody.

Jose Ignacio Abia Buenache
CEO & Director

Thank you, everybody.

Daniel Segarra
Thank you. Bye-bye.