S&P Global
Market Intelligence

Grifols, S.A. BME:GRF

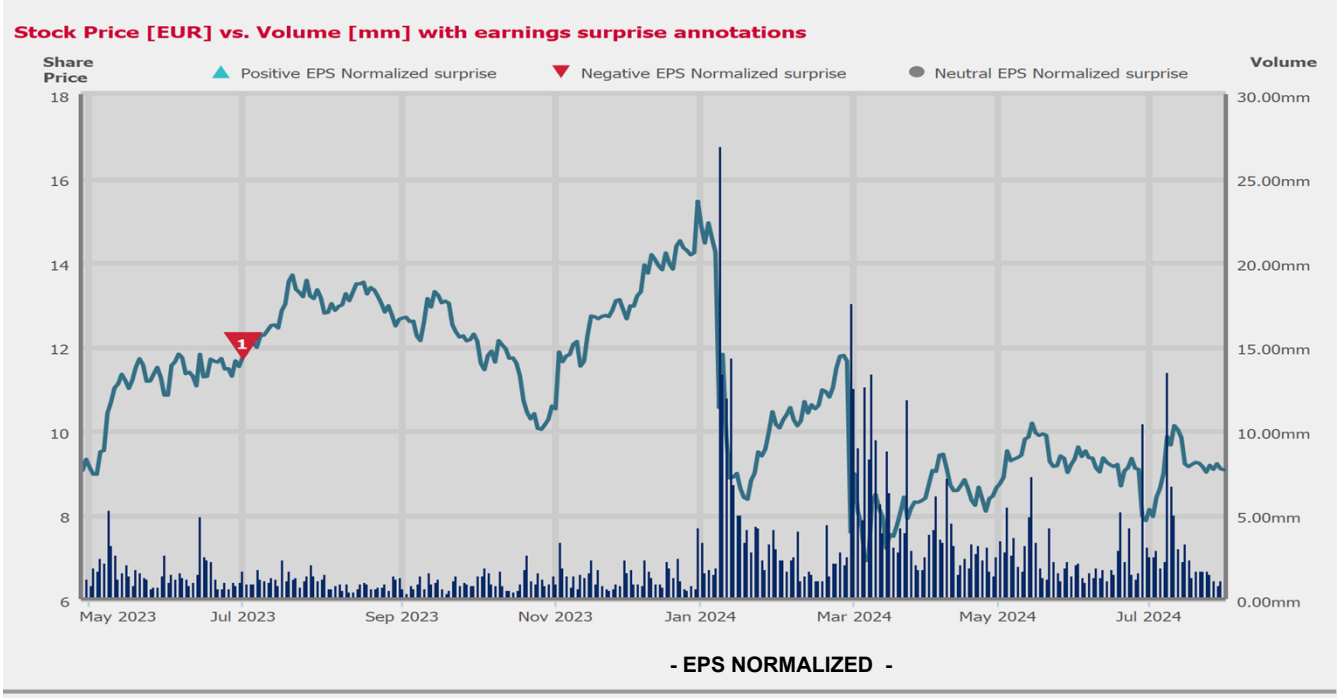
FQ2 2024 Earnings Call Transcripts

Tuesday, July 30, 2024 4:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2024-			-FQ2 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.10	NA	NA	0.14	0.67	NA
Revenue (mm)	1640.17	NA	NA	1786.34	7094.11	NA

Currency: EUR
Consensus as of Jul-26-2024 7:15 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2023	0.13	0.09	1 (30.77 %)
FQ3 2023	0.13	NA	NA
FQ4 2023	0.19	NA	NA
FQ1 2024	0.10	NA	NA

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Call Participants

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Presentation

Daniel Segarra

Hello, everyone, and welcome to Grifols conference call. Today, we will be sharing our second quarter financial results. Thank you very much for taking the time to join us today. My name is Danny Segarra, and 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 30-minute presentation followed by the 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 grifos.com. A transcript and webcast reply will also be available on the Investor Relations website within 24 hours after this call.

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 not under 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 guideline of the European Securities and Markets Authority.

Please note that Grifols management uses APM's 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. Thomas will start the presentation with some opening remarks and then we will transition to Nacho's discussion on the business, the financial results for the quarter and his key takeaways following his first 100 days as CEO of Grifols.

With that, thank you very much again for joining us today. Thomas, please, over to you.

Thomas H. Glanzmann
Executive Chairman

Thank you, Danny, and good evening, afternoon and morning to all on the call. I appreciate you all dialing in for our Q2 call. Before I turn to the quarter, I would like to comment on 2 filings. First is the request from the Grifols family shareholders and Brookfield Capital Partners to perform due diligence as a step towards potentially taking Grifols private. The Board has responded to the request accordingly to ensure that all shareholders' interests are warranted and protected throughout this process. It has established a transaction committee comprised of independent directors to oversee the due diligence and evaluate any potential future offer.

The Board has retained Latham & Watkins as legal counsel and Morgan Stanley and Goldman Sachs as financial advisers. The Board has also agreed on the governance of the potential buyout process, respecting the request of conflicted Board members to recuse themselves from any deliberations and decisions related to the request and potential future actions coming out of the due diligence. With the guidance of the advisers, an NDA has been agreed upon and the due diligence process has been initiated. At this time, and I want to be clear, there is no offer, agreement or decision regarding a potential transaction or the related terms and conditions nor is there any guarantee that Brookfield and the reference shareholders will make an offer for Grifols shares.

Any further update will be communicated to the market in due course and in accordance with applicable laws and regulations. As always, the Grifols Board of Directors and management team are committed to acting in the best interest of all shareholders, and we remain very focused on continuing to execute the company's strategy and deliver to our commitments in the meantime. We are not going to make any further comments on this matter on today's call. I thank you in advance and appreciate your understanding.

Second is the IP filing that we announced before this call. As requested by the CNMV and after being reviewed and agreed upon with our new auditor, Deloitte, we have included some adjustments to the previous year's balance sheet and P&L as of June 30. These adjustments related to the ImmunoTek and Shanghai RAAS transactions at the time of the acquisition back to 2020 have no material impact on the results and no impact on cash flow or leverage ratio.

With this communication, the company has provided a response to all information requested by the CNMV. These updates underscore our continued dedication to working closely with regulators and auditors to fortify financial reporting. Now let us turn to the business at hand and Slide 5.

Over the last quarter, Grifols has continued to deliver on its promises. From a corporate governance perspective, we have implemented all the committed and announced actions to further enhance our corporate policies and governance. With the recent changes in the Board membership, we have reorganized the committees and appointed a new lead independent director, Montserrat Munoz. With her expertise and experience, she will continue to ensure Board independence and she will act as a key liaison among independent directors, all to better serve the interest of minority shareholders.

We, as a board and company are fully committed to ensuring that we continue to meet best governance and financial practices as we move forward. As part of this, and as you know, my position as Executive Chairman is transitioning to a nonexecutive role in line with good governance practices. And I, alongside the Board and management team standby that commitment.

With regards to the company management, Nacho has established a new executive committee, and we have added Rahul Srinivasan as the new Chief Financial Officer, to the management team starting in September. Nacho will share more on his background in a few minutes, but we are pleased to add one of the last remaining pieces in completing our leadership team. Nacho himself joined in April, as you know. And since then, we've had a smooth handover and seamless transition. Our common, primary focus has been to meet all of our commitments, execute on our strategic initiatives, deliver the financials with a key focus on free cash flow and continue to evolve the organization for the future.

I also want to touch briefly on the follow-up of the closing of the Haier transaction this June, which was a key commitment from us. We are now progressing with the strategic alliance to explore all potential opportunities. We know this partnership will drive synergies by combining our expertise with Haier's innovative technologies. As part of this strategic alliance, our albumin distribution agreement has also been extended for the next 10 years with an option for a further 10-year extension. This partnership enables us to enhance our diagnostics business with Haier in China, a critical market for Grifols as we aim to continue our expansion there, and it will also provide us with the opportunity to further leverage China's hemoderivatives market.

Turning to Slide 6. On the debt management front, I would first like to take this opportunity to provide additional clarity on the company's commercial engagement with Moody's. Grifols decided to terminate its commercial relationship with Moody's as we believe that having ratings from 2 international credit-rated agencies is sufficient and a common market standard. The end of this commercial relationship is the sole reason why they will no longer have access to all of Grifols information and financials. It should be noted that Grifols has always provided all the required information to Moody's in a timely fashion as we do with other rating agencies.

From now on, we will continue to work closely with S&P Global Ratings and Fitch ratings. As we have previously stated, debt management is one of our top priorities, and we have made good progress with the EUR 1.6 billion proceeds from the sale of the 20% stake of Shanghai RAAS as well as the issuance of the EUR 1.3 billion private placement notes due in 2030. The completion of these initiatives clears our debt profile until 2027, which Nacho will review in further detail later in our presentation.

Separately, innovation continues to be a key priority and future engine for growth. Given this, there are 3 specific updates I want to highlight. One is the strengthening of our Ig franchise with the FDA approval of Biotest Yimmugo and its upcoming commercial launch in the United States. This marks a significant achievement not only for Biotest, which will have a commercial presence in the U.S. market for the first time, but also for Grifols as it strengthened our commercial strategy in the largest plasma market.

Also noteworthy is the traction Xembify, our subcutaneous IG continues to gain on the back of a strong performance in the U.S., coupled with the commercialization in 7 European countries to date and additional ones planned for the remainder of '24. On a very positive note, the FDA recently also approved extending the label for Xembify to include biweekly dosing. The new FDA approval also covers naive patients, meaning that we are the only 20% subcu Ig approved for patients who have never been treated with any type of IG product.

The third update is that following the release of positive top line fibrinogen results in February, we completed the clinical study report and found the results to be extremely promising. This completion triggers the regulatory approval process, which we, as planned, will begin in the fourth quarter of '24. We expect to launch the product in the second half of '25, first in Europe and then in the U.S. These milestones represent significant steps on our path towards revenue growth and margin expansion.

Finally, I want to reaffirm our full year '24 guidance as the strong operational performance reported in the first half of the year is evidence that the company is on the right track to meet its targets across all key metrics: revenue, EBITDA, free cash flow and leverage ratio. Before I turn it over to Nacho for more details, I want to recognize the Grifols team and summarize the progress that the company has made since early last year. We have further enhanced our corporate governance, restructured and delivered on the cost improvement plan, divested 20% of Shanghai RAAS for EUR 1.6 billion to reduce our debt, cleared the path of debt until 2027, recruited a new CEO and made significant management changes and additions and delivered on all our financial commitments to date.

Needless to say, we have more work to do but we continue to be confident in the fundamentals of our business and the opportunities that we are executing to further improve our financials and sustainably grow the company.

With that, I will turn over the word to Nacho. Thank you for your attention.

Jose Ignacio Abia Buenache
CEO & Director

Thank you, Thomas, for all those relevant updates. Hello to everyone. Today, it marks my 4-month anniversary as CEO of Grifols. And well, a lot of things have happened in the last 120 days, as we promised in the quarter 1 call in May, we have been able to focus on business execution and achieve the goals we set for the second quarter of 2024. I'll explain more about it in the next slides, but first, I'd like to provide an update about the leadership team. As part of our efforts to reengineer the leadership structure for more effective execution of our priorities, we have a streamlined Grifols Executive Committee, which is now comprised of a combination of some external senior executive and some seasoned professionals from within the company.

This executive team, which is now by now completed, includes the Presidents of Biopharma, Plasma and Diagnostics, along with the Chief Corporate Affairs and Legal Officer, the Chief Industrial Service Officer, the Chief Human Resources and Talent Officer and incoming Chief Financial Officer. Regarding the corporate finance function, as Thomas mentioned, we are pleased to welcome Rahul on board. With his recent role as Head of EMEA Leveraged Finance and Capital Markets at Bank of America in London, Rahul, brings extensive experience in senior finance leadership. His expertise spans advisory services, global capital markets, risk management, financial planning and analysis, compliance, governance and audit.

Rahul will play a crucial role in implementing effective cash flow strategies and driving our debt management plan, 2 of the company's 2 priorities. To complement and support the senior executive team, we have established as well an extended executive committee that includes other key functions that will work alongside the executive committee to further enhance Grifols value, mission and strategy. These 2 groups will become paramount to the definition and implementation of our strategies moving forward, and I'm very pleased with the caliber and talent of the team that we have assembled.

Turning to Slide 9. Our second quarter performance was strong and supported the delivery of a solid first half start to the year. Given this first half share, we are reaffirming our full year 2024 guidance. In terms of revenue, we reached EUR 1,881 million (sic) EUR 1,818 million in the second quarter, bringing the first half to almost EUR 3.5 billion. This represents on a constant currency basis, an increase in sales in Q2 of 9.3% versus previous year and 7.5% in the first half of the year. Adjusted EBITDA stood at EUR 441 million this quarter with a margin of 24.2%, which led to an adjusted EBITDA of EUR 791 million for the first half of 2024, which represents a 22% increase of EBITDA value versus last fiscal year.

These results aligns well with our expectations to meet our guidance for the coming quarters. As mentioned in our last call, cash flow was an absolutely priority for me and for the company. And with that focus in the second quarter, we have generated EUR 57 million of positive free cash flow. This was mainly driven by improvements in EBITDA and working capital, and we will provide a more detailed analysis of free cash flow in a later slide.

Finally, our leverage ratio as per the credit facility declined to 5.5x., driven by the combination of EBITDA improvement and a EUR 1.6 billion cash inflow from the Shanghai RAAS divestment. Without including these proceeds, our liquidity improved to EUR 950 million with cash on hand of EUR 565 million. All told, we remain confident in our continued progress and anticipate improvement across key financial metrics throughout the remainder of 2024, in line with the guidance we provided in February and reconfirmed in May.

Diving into the specifics of revenue across all business units. As mentioned, total revenue grew by 7.5% in the first half of the year, with a strong second quarter growth of 9.3%, both on a constant currency basis. Biopharma results were just short of 9% growth in the first half of the year, and I'll provide some more details in the next slide. This acceleration of revenue growth has been supported by strong double-digit growth of ex U.S.A. markets and a steady progress in the U.S.A. The Diagnostics division delivered a positive second quarter with an increase of 1.2% on a constant currency basis, with Blood Typing Solutions and immunoassay donor screening as the main drivers.

This partially offset the negative growth reported in the first quarter that was due to one off settlement impact in the first quarter of 2023. Excluding this impact, Diagnostic would have grown close to 2% on a constant currency basis in the first half of 2024. Finally, Bio Supplies delivered a strong performance in the second quarter, leading to an overall growth of 33% on a constant currency basis in the first half of 2024. Biopharma continued to grow -- to drive growth in the second quarter with just short of 9% constant currency increase in the first half of 2024.

Immunoglobulin was the highest growth protein, up 13% in constant currency versus previous year due to a strong IVIG demand and increasing subcutaneous IG traction in the U.S. and Europe, with a remarkable 60% increase. Our subcutaneous IG Xembify remains a key lever in our product mix and continued EBITDA expansion. Albumin saw close to a 10% growth on a constant currency basis, driven by higher demand in China and in the U.S. Meanwhile, Alpha-1 and Specialty Proteins revenue were flat, mainly due to some delays in the transition of the Alpha-1 Specialty pharma distributor in the U.S., which is expected to bear fruit starting at the end of 2024.

Switching to a new specialty pharma distributor will enhance the value proposition for our alpha-1 antitrypsin deficiency patients and will drive revenue growth over time. On the plasma front, plasma supply continued to increase compared to the same period in 2023, and we optimized our inventory levels through the management of our network of more than 390 plasma centers globally.

In parallel, the cost per liter has stabilized compared to the first quarter of 2024 after declining by nearly 25% from the peak in July 2022. Finally, as part of our continuous improvement initiatives, we are working to enhance efficiencies in plasma and manufacturing yields and to advance our digital technologies to improve the donor experience. Thanks to the solid top line growth and supported by operational efficiencies, our adjusted EBITDA stood at EUR 441 million this quarter, with adjusted EBITDA margin of 24.2%, up 320 basis points versus the second quarter of the last year. This led to an adjusted EBITDA of EUR 791 million for the first half of the year with a margin of 23%, up 240 basis points (sic) 280 basis points versus 1 year ago.

Gross margin stood at 37.8%, representing an expansion of 140 basis points compared to the first half of 2023. This is on the back of product mix, lower cost per liter from the second and third quarter of 2023, noting the 9-month lag coming from our long inventory cycle and importantly, to a larger operational leverage. Our performance this quarter serves as a bridge to the forecasted sequential growth in the third and fourth quarters this year. This continued improvement provides further confidence in achieving our full year guidance reaching adjusted EBITDA of EUR 1.8 billion plus for the fiscal year 2024.

I'd like to spend some time now talking about cash flow and debt reduction, which as I stated many times, remain our top priorities. In the second quarter, the company has generated a positive cash flow of EUR 57 million, representative of our cash flow turnaround and expected improvement throughout the remainder of the year. This figure includes EUR 119 million payment to ImmunoTek and EUR 20 million in restructuring and transaction costs associated with the extension of the operational improvement plan and the Shanghai RAAS deal.

Excluding these items, free cash flow would have been close to EUR 200 million. EBITDA and effective working capital management were the primary drivers of this quarter's improved free cash flow performance. Notable improvements include more efficient inventory management and better plasma supply handling. Additionally, receivables benefited from the catch-up of 150 million payment from China in the first quarter and the normalization of payables. Meanwhile, CapEx, IT and R&D expenses remained stable.

On this note, I would like to update you on the progress we are making on the cash flow improvement plan. As you know, the company is actively implementing the plan focusing on the 5 main levers. Normalization of our working capital, continuous operational improvement, stringent control of SG&A, spending optimization of real estate and thorough portfolio analysis. We have progressed well since kicking off this project at the beginning of April.

As I initially presented in last quarter's call, these initiatives will be constant as we continue to execute on improvement of cash flow generation. On our efforts around working capital, a significant achievement this quarter was the improvement around the management of inventory level of the normalization of receivables and payables. Looking ahead, we anticipate a moderate increase in working capital following continued strong underlying demand across all business units and the inventory buildup to prepare for 2025 growth, but we will continue paying strong attention to tight working capital management.

On the operational improvement front, we are continuing to streamline operations. This covers not only plasma operation, but also manufacturing operation and all-time gen functions, including deals enhancement, donor fee optimization and improvement of industrial processes. While we have made substantial efforts to improve our cost structure last year, we remain focused on this continuous exercise in controlling SG&A spend to operate more efficiently. Looking beyond 2024, we have commenced a review of our real estate footprint and initiated a comprehensive portfolio analysis to ensure all projects and business units met expected performance level.

These final 2 pillars are inherently more complex and take more time, but they will contribute to cash flow improvements in the mid- and long term. Real estate optimization includes consolidating underutilized office space, option for sales and leaseback transactions and optimization of our leases. And analysis of our portfolio assess new opportunities and identifies underperforming assets.

To finish the chapter, let me say that Grifols possesses the necessary levels to enhance its cash flow profile and generate substantial additional free cash flow in 2025 and beyond. Currently, some key aspects of the free cash flow improvement plan are under detailed assessment, which require further work before we can provide specific updates or guidance on future cash flows.

However, we remain committed to achieving the previously provided free cash flow guideline of positive for 2024, which included an impact of EUR 480 million from extraordinary outcomes. Moving on to Slide 14. I want to address another of our top priorities, debt reduction. In the first half of the year, we have reduced our leverage from 6.3x to 5.5x as per credit facilities. The deleveraging process was primarily driven by the EUR 1.6 billion proceeds from the Shanghai RAAS transaction as well as second quarter's EBITDA improvement of more than EUR 440 million. In the second half of 2024, we anticipate another reduction in our leverage ratio, primarily driven by continuous growth in EBITDA and enhanced cash flow.

We remain confident to achieve a target leverage ratio of 4.5x by year-end. My presentation is about to conclude. But I hope that with all the developments we have shared today, you can agree with us that Grifols is well on track to meet its full year 2024 guidance. The company's performance in the first half of the year is a clear testament of our ability to deliver on this year commitments. In terms of revenue, we continue to see strong momentum in the second half of the year, mainly due to IG growth on the back of a strong performance in the U.S. and new opportunities in Europe as well as subcutaneous IG continues to gain traction, supported by launches in Europe.

Albumins increase, thanks to a strong underlying demand in China and improved performance in Alpha-1 by the end of this year will also contribute to this growth. Adjusted EBITDA is expected to sequentially improve to over EUR 1.8 billion, rising from a 24.2% margin in the second quarter to 27% -- 27%, 28% in the second half, supported by revenue growth with better product mix, lower cost per liter and increase operational leverage. And regarding free cash flow, we have delivered on commitment in the second quarter, and we continue to be confident that we will reach positive cash flow for the full year.

To finish, let me summarize a few important takeaways. My management approach focused on the execution of clear and simple strategies with solid operational and financial discipline that provide optimized business performance. Through this, we will grow our businesses and expand our EBITDA levels, while improving free cash flow and reducing our debt over time. Many initiatives are already underway in this direction. Grifols' businesses is underpinned by solid market and product fundamentals, and we operate in a high-growth industry with compelling market dynamics. This environment offers us significant opportunities for expansion and innovation.

In addition, our business operations product portfolio and customer base loyalty are a robust base to ensure we remain strong and we continue to grow profitability as we move forward, allowing us to deliver substantial value for our shareholders. In this quarter, we have delivered on our commitment, executing the Shanghai RAAS transaction to reduce our debt, enhancing our governance, improving our cash flow and accelerating our overall performance, all of which ensures we are on track to reach fiscal year '24 guidance. We are implementing a cash flow improvement plan that is already delivering the results.

And in terms of debt management, we have addressed our 2025 maturities and cleared the path for financial stability until 2027. Operational excellence and efficiencies continue to be a focal point for us as they drive top line growth, expand our margins and improve our free cash flow, each of which is crucial for Grifols long-term success and competitiveness.

And finally, our innovation milestones are well on track for 2024. We're excited about the upcoming commercial launch of Yimmugo in the U.S. and the progress made in the fibrinogen clinical trial during the first half of the year, which will continue in the second half with the initiation of the approval process. These milestones marks significant progress in our innovation and growth strategy, enhancing our ability to broaden our offerings and more importantly, better serve our patients by addressing unmet needs with differentiated products.
Thanks for your attention and time today. And with that, Danny, back to you.

Question and Answer

Daniel Segarra

Thank you, Nacho. Now let's turn to the Q&A. [Operator Instructions] So I see several hands raised. So our first question comes from Joaquin, JB Capital.

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

Yes, I have 2 quick questions. First one is on gross margin. If you could please provide a bit more color on why did the gross margin decline in the second quarter of the year, both quarter-on-quarter and year-on-year. And what can we expect for the second half of the year as I thought that cost per liter should already run through P&L? And then regarding the financial expenses, which were very high this quarter as well. Part of it was the GIC but if you can provide a bit more color and then what could be the run rate for the second half of the year for financial expenses once you've used the Shanghai RAAS proceeds to pay some of the debt.

Jose Ignacio Abia Buenache
CEO & Director

Let me take the first one, and Danny will comment on the second one. As the gross margin, I mean, one part of the activities that we have conducted this year has been a thorough analysis of our inventories. And as a result of that, we've taken a cautionary approach in our inventory management, and we recorded some provision in this quarter to take care of potential inventory issues. And this has been compensated, as you could see in the EBITDA improvement by operational efficiencies and by controlling well the SG&A levels this quarter.

But over the next months, we should expect normalized gross margin levels at the levels of the Q1 and higher. And the second question, Danny, could take it.

Daniel Segarra

The financial expenses. Again, this quarter, I mean as long as we are repaying TLB, a significant portion of our TLB in the range of EUR 1.1 billion, there is more an accounting entry here that we are recognizing or bring from the balance sheet into the P&L, the deferred financial expenses. So this is a noncash item, but it hits the P&L. And the second question is more on the financial expenses on a run rate basis. Certainly, I will not take second quarter as a run rate. I will take more the first quarter. Certainly, in the second quarter, we issued some new debt.

But it's true, as I was mentioning, that as soon as in July, we repaid this EUR 1.1 billion from the TLB, and we expect to repay the remaining proceeds from the Shanghai RAAS transaction, the EUR 1.6 billion, so the whole amount of financial expenses is going to be lower. So offsetting this new debt with higher rates.

So now it's going to be James Gordon, JPMorgan.

James Daniel Gordon
JPMorgan Chase & Co, Research Division

James Gordon, JPMorgan, one question, 1 clarification. On the question. So free cash flow, that's a lot better today. And I heard you were committed to positive free cash flow for the year. But I think the previous target was only very slightly positive. I think it was EUR 5 million of cash generation. But are you still thinking it might be only just into the positive? Or given all the initiatives, you were talking about, could you actually quite a bit more than that? Could you have material cash generation this year? And on the -- you previously said EUR 2 billion to EUR 2.5 billion of free cash flow 2025, 2027, and that's under review. Should we assume we get an update on that at the October event?

Is that the plan there? That was the question. The clarification was just on the situation of Brookfield. Is there any deadline by which we might get an update or we have to have an update, so we get clarity? Or is diligence just open ended? Can you remind me how does it work in Spain? Can they just do due diligence as long as they want? Or is there a deadline when we get clarity?

Jose Ignacio Abia Buenache
CEO & Director

Thank you for your question. On the free cash flow, and as I have mentioned, I think that we're actively working on that. We are not ready to provide any guidance and we're going to try to maximize cash flow this year but we remain at this point still with our guidance of positive cash flow during the year. The activity will continue and the focus on cash flow is going to continue being more relevant focus for the company.

But as I mentioned, I think that there's still a lot of unknowns, and we remain committed to the positive cash flow this year, and we will try to make it better if we can, but definitely not a commitment at this point. As for '20 -- the next year's cash flow, I think that it was mentioned in the last call, and again, we are not ready to provide guidance for that. October at the Capital Markets Day might be a good occasion for providing that guidance, and I expect to be ready by then.

As for your second question, No, there is no deadline. There is no time that we know. And as Thomas has mentioned, there is no further comments on that topic because we don't know more than what has been disclosed.

Thomas H. Glanzmann
Executive Chairman

James, I think as Nacho just said, there is no deadline, but it's important to make sure that the Brookfield gets all the relevant information that they need to really to assess what they're looking at in the due diligence. So there is no deadline that has been set.

Daniel Segarra

Tom Jones, please. We're looking forward to hearing your question, please.

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

I've got 2, sort of 1 operational and 1 other one. On the operational side, I just wondered if you could share some more detailed comments around the outlook for the NAT business and the Alpha-1 franchise to your reasonable revenue generators, which have been struggling a bit of late and when you expect those to return to sort of more normalized growth pattern. And then the second question, I hate to harp back to the free cash flow and the working capital items. But I was just wondering, if you could give us a little bit more in terms of specifics on some of the things you're working on, particularly around inventories and receivables. I wondered if there's been any change in your approach to factoring receivables, whether you're going to be a bit more enthusiastic with that.

And then around inventories. One of the reasons that Grifols has historically carried high inventory levels, is it tended to operate in a fairly cautious basis, it like to carry significant safety stock to take advantage of commercial opportunities. It typically has a longer hold and look back period on the raw plasma, carried more in inventory for a rainy day, which to be fair, saved you in 2020. To what extent is your policy around free cash flow perhaps, slightly got to be balanced against the increased risks of running tighter inventories or perhaps paying up to factor a few more receivables here and there?

Jose Ignacio Abia Buenache
CEO & Director

Let me comment on that on the free cash flow and Roland will make some comments about Alpha-1 situation. On NAT, I mean, the NAT business is pretty much flat versus previous year at this point. And we think we have reached the bottom of the situation from here, I mean, we have positive expectations based on tenders and based on business prospects that the business will start growing again. So this is about NAT.

On the free cash flow activities, as I mentioned in the last call, I mean, obviously, in order to improve in the short term, the main levers that we had was working capital and mostly inventory. It has not been a substantial compared to Q1, has been not a substantial change in policy from receivables or payables. But in the case of inventory, we have worked very close to the teams cross-functional efforts, I mean, with the plasma collection team, the biopharma team, the supply chain, finance in order to tie the inventory management. It's -- we are very much aware that we still have to be able to face opportunities at the market. The market is growing nicely, and we have to take advantage of that.

But at the same time, there are opportunities to make more efficient way to handle inventory. And that's what we have been doing. And that's the reason why -- one of the biggest reasons for the free cash flow this year. That's from me, and maybe Roland can comment on Alpha 1 situation.

Roland Wandeler
President of Biopharma Business Unit

Of course, Tom, Alpha-1 is a key franchise for us and will remain a key franchise for us, both as a market leader in the space with 70% share, but also looking at the large unmet need with 90% of patients still undiagnosed. We are working to further strengthen our position as a leader in this marketplace over short and long with the European launches of 4 and 5-gram vials and in the U.S. through the strengthening of our service offering by our specialty pharmacy partner.

As you know, in the U.S., home care is an important pillar of the value that we can provide for patients. And it's there where we saw an opportunity to further strengthen our offering. We transitioned to a new specialty pharmacy provider in the second quarter. And as with any transition like that we expected and saw that there are some temporary impacts through the reauthorization of patients. Having said that, we are at the tail end of this transition, and we are very encouraged by the feedback we're getting from the marketplace and expect that this change will bear fruit towards the end of this year.

Beyond that, we are working to further increase convenience for patients with developing our subcu dosing option as well as advancing the body of evidence through our SPARTA trials. And beyond that, of course, making sure that we can continue to be the leader to make sure that we can help identify and treat patients with Alpha-1 antitrypsin deficiency. So from our side, it's a marketplace we stay committed to and where we expect growth over the long term. And we believe that with the transition that we had in Q2, we are set up for a better position moving forward.

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

That's all very clear. I've got a couple of more, but I'll get back in the queue.

Daniel Segarra

Thank you, Tom. Thank you, Roland. Now I would like to move to Barclays, Charles Pitman.

Charles Pitman
Barclays Bank PLC, Research Division

Charles Pitman from Barclays. Just starting off, a quick question on your net financial, your noncurrent financial assets. Just wondering what the kind of key driver is for that increase in the quarter? And then just secondly, a question for Nacho, given you've been in the door for 4 months now. And just I'd love just to get more of an idea of how you're thinking about Grifols and now you've kind of had more of a look around. And what degree of work do you believe still needed to be complete to execute this Grifols turnaround story started back in 3Q '22 and to really convince investors that you are in a position to prevent any of the actions that have created recent overhangs to shares mentioned in press releases from repeating. For example, in relation to the accounting misinterpretation as you highlighted in the press release from today.

Jose Ignacio Abia Buenache
CEO & Director

Thank you. I'll take the second question. I will ask Danny to take on the first one. But my impression after 4 months in the job is that this is a phenomenal company with a fantastic business model, very solid business fundamentals with opportunities, opportunities that started to develop back in the beginning of 2023 and that we continue enjoying. And I think the results that we are seeing in this quarter and in this half, I think, are a testament of that. I mean all financial indicators are improving, are showing in the right direction.

I mean profit, EBITDA, we know we have to work on free cash flow, and we are working on that. But everything else is really moving well. And most importantly for me, I think when I see this 9% growth in biopharma, that's a phenomenal springboard to continue generating efficiencies and increasing our EBITDA portfolio. So how to convince investors, I think that this is a loaded question. I think that the way to convince the investor is to continue delivering. I mean, delivering on our promises, making sure that we have reasonable targets and guidance, and we deliver on them without surprises and making sure that we operate in a way that our business is well understood by all the stakeholders.

I think that's the plan, and that's what we are planning to do moving forward.

Daniel Segarra

Charles, on the second one, maybe I'm going to ask you to elaborate a little bit more. As per balance sheet, I mean, there are no significant changes. If you are more looking at our assets, you will see EUR 2 billion part of our cash line. This is -- the EUR 1.6 billion already includes EUR 1.6 billion we got from the Shanghai RAAS transaction as explained. The announcement was done in mid-June and the closing, including funds were by the end of the second quarter.

If you are looking more at the liabilities, you will see that the current financial liabilities increase because we are going to repay -- actually, we already did EUR 1.1 billion from the TLB. That's why it was reclassified as a current.

Thank you so much, Charles. Now it's turn for Alvaro Lenze, Alantra.

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

The first one is if you could help us reconcile the evolution of net debt during the quarter. I see that your net debt has fallen by EUR 1.5 billion that's after having received EUR 1.6 billion from Shanghai RAAS. And you mentioned that you have generated EUR 57 million of free cash flow. So there's roughly EUR 100 million in shareholder so if you could help us understand where is that? And the second question is, if you could please just give us some indication of what could be the potential scenarios for Class B shares.

I mean imagine that in a hypothetical scenario that there were to be a merger of the shares or a delisting of the shares or voting for Class A and Class B shares to receive different prices in a potential takeover bid? How would that work from a governance standpoint, I don't know the voting rights for it shares, the number, that the minimum voting result that would be needed to make any changes to the current regulation regarding B shares?

Jose Ignacio Abia Buenache
CEO & Director

As Thomas mentioned and I mentioned, I mean, we are not going to make any comment or any speculation on what could happen. I mean this is definitely another question us to answer and we will not comment further on that. For your first question on the EUR 100 million that we are missing, I think I see Danny rising hand to answer.

Daniel Segarra

Alvaro, I'm going to take this one. Pretty much, as you said, I mean, the net debt has declined by close to EUR 1.6 billion. This is pretty much the net proceeds that we got from the China transaction, it's true that our free cash flow is positive by EUR 57 million, which is important compared to what we reported in the first quarter. But then it's not that a big amount when you're considering other kind of like adjustments like exchange rates impacts, some of them noncash that is bringing any difference between the free cash flow generation for a specific quarter and how the net debt change, again, in this case, Q1, Q2 versus Q1.

But if you want, we can elaborate a little bit more, we can bring a little more details, but this is pretty much the answer.

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

Okay. If I may squeeze one in exchange for the Class B shares. When I look at your short-term liabilities, on the short-term financial liabilities, I see EUR 2.7 billion. I assume that you have reclassified some of the debt that you're going to cancel as short term. But if I were to take out EUR 1.6 billion out of that, you still have EUR 1.1 billion in short-term maturities. Is that right? And if so, are you comfortable with your current liquidity position and cash flow generation profile to meet that EUR 1.1 billion in short-term maturities.

Daniel Segarra

Yes. As I was saying, with the question from Charles, this increase is because we reclassify the EUR 1.1 billion that we repaid actually, it was last week, earlier this July, but after the second quarter. And for accounting -- I mean following accounting principles, we got to reclassify as a current liability. That's pretty much the main reason why it has increased. The EUR 1.6 billion, which you can see, taking the picture at the end of the second quarter is more on our cash and cash equivalents. And as we said, we are going to repay that on a pro rata basis, 1.1 TLB as said, and the remaining kind of like EUR 500 million is something that we are going to repay next week.

Now if I'm getting correctly, this is time for Morgan Stanley. Thibault, please?

Thibault Boutherin
Morgan Stanley, Research Division

Yes. My first question is on the ImmunoTek facilities that you are acquiring. I think the agreement indicates acquisitions of sometimes in April and July '24. So are these centers already operating today, contributing to your plasma supply. What is the kind of stage of ramp up of these centers? And then the second question is, just on the phasing of free cash flow for the remaining of the year. In one

of your slides in Q1, you suggested a progressive improvement in free cash flow generation in Q3 then in Q4, with Q4 being the strongest quarter. Is this still how you see the rest of the year playing out? Or could the pattern be a bit different?

Jose Ignacio Abia Buenache
CEO & Director

Yes. On the ImmunoTek question, the answer is yes. I mean, some of the centers are already producing, and it's already part of our plasma collection plant. So it's producing as planned and as expected. On the free cash flow thing that still, I mean, we have generated 59 million this quarter, but we started the first quarter with a minus EUR 250 million, so we still have EUR 200 million negative that we have to overcome, and we are working on that.

Plus, as I mentioned before, now is the time of the year, we're going to have to increase a little bit our inventory levels in order to prepare and build up inventories for 2025. So that's as well why we keep committing with a positive cash flow at this point because we still have work to do in order to fix the year.

Daniel Segarra

Jaime from Santander, please, you can share your question.

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

Couple of questions from my side. The first one is to try to reconcile your guidance of EUR 1.8 billion for the full year. So if the gross margin you mentioned is going to recover to levels as of Q1, so close to 40 -- let's assume 40%. In order to get to EUR 1.8 billion, does it not make sense that you have to grow the sales significantly? Or is it -- so we have 3 moving parts, right? The top line, the gross margin and OpEx. So in order to get to this EUR 1.8 billion, if the gross margin does not go up to 42%, 44%, this means that you are going to meet this guidance because of much more top line growth.

And if this is the case, maybe you can elaborate on what is what you are seeing, what is the visibility you have in the second half? So that you are so confident in this robust top line, Sorry, this is a little bit elaborated, but it's just one question. And then the second question is regarding the -- you mentioned that there was also a possibility to sell plasma to third parties if needed in order to boost a little bit the free cash flow. It is still on the table? Do you think you will end up needing to do it in the second half? Or you think you won't need to do it?

Jose Ignacio Abia Buenache
CEO & Director

I mean on the second question is a quick no, that's not on the table. And we will continue our regular operations that we have initiated in order to work on the free cash flow. On the first one, let me give you a little bit more color because probably the -- I understand the question, but the accruals that we have taken in order to prevent some potential inventory issues would have impacted our gross margin in about 250 basis points. So if you add this 250 basis points to our gross margin of the year, then the number is even higher than the Q1 and the next quarters are progressively going to be even better, again, because of the cost of plasma is -- the supply is going to be positively impacted.

Second half, we expect to have a product mix that will favor higher margins. And on top of that, yes, higher sales as well in the second half than in the first half. So when you put that out in combination at the end, we are confident that to achieve the margins expected in the second half of the fiscal year.

Daniel Segarra

Thank you, Jaime. Now we would like to get the questions from Graham, from Bank of America, please.

Graham Glyn Charles Parry
BofA Securities, Research Division

So just going back to the financial expense. So wonder, if you could just give a specific guide there. So I think you previously said you expected a fall in financial expense from the EUR 574 million last year. If we use the Q1 as the guide for the quarterly run rate in Q3, Q4, that would imply more like EUR 650 million to 660 EUR million for the year. So just to be clear, you now expect an increase in financial expense year-on-year in 2024. And the other clarification point, just on the inventory. You said -- sorry, just on the 250 basis point margin impact, just to be clear, that was for Q2 specifically, not for the full year, you mentioned both. And then second question

is on CIDP market dynamics. So you've now got Vyvgart approved. Just your thoughts on the latest market intelligence on positioning of the asset, any kind of impact on your CIDP IG franchise.

Daniel Segarra

Graham, I'm going to take the first 2 and then Roland is going to take on the CIDP. I mean I was providing some sort of -- I mean, no guidance, but trying to bring some clarity, some reference about the financial expenses. I remember that in the first call, we were saying that financial expenses in absolute figures, it's going to be lower on an annualized basis, right? It's true that it's still in Q3 and part of the second half this year, still there are different pieces that are moving at the very same time, we are repaying a EUR 1.6 billion, but we're not doing at the very same time that we were receiving this EUR 1.6 billion from China that I was mentioning.

But when you're putting all the pieces together, you will see probably more from a P&L perspective, in 2025 that the whole financial expenses as per the P&L, putting any one of the financial expenses, noncash item that I was mentioning. When I was taking previous question is going to be lower. The cost of debt is going to be slightly higher. The new debt is obviously more expensive than what it was the one. We expect some decline in terms of the interest rates. But all in all, we should be expecting something lower. Say that, I'm still thinking that if you're taking Q1 as a good reference to project for the rest of the year. On the gross margin, yes, 250 is the right way to see the impact of the provisions that Nacho was mentioning. Excluding this impact, you will see a sequential improvement, around 50, 60 basis points versus Q1, giving strong evidence that we should keep expecting a lower cost per liter or let's put it that way, that the lower cost per liter that we were seeing last year, we are going to see a better -- a positive evolution in terms of the gross margin throughout the year.

Roland, please on the CIDP.

Roland Wandeler
President of Biopharma Business Unit

Yes. On the FcRn approval in CIDP, Graham, we estimated a limited impact, and this is what we're seeing in the marketplace today. There's really 2 factors to it, on one hand, looking at the patient population. As you know, within IG, CIDP is about 20%, 25% of the IG market. There's only a subset of patients that are suitable for FcRn. And within that, we would expect gradual uptick. But on the other hand, and I would say even more importantly, we are very confident that IG will remain the standard of care for first-line therapy. This is what we hear from OLs, who comment that Igs are just very suitable for this multifactorial disease.

And with the high response rate, proof and safety and long-standing experience of Gamunex in this space, we remain confident and as matter of fact, are increasing our engagement in this space. But with all the focus on CIDP, I don't want to take away from the fact that beyond that, if we look at immunodeficiency, primary and secondary, that's where we see and are very excited about the growth potential moving forward.

Daniel Segarra

We have 2 more questions. Guilherme.

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

So the first one, if you could update us on the situation of IG in the U.S. And if you could provide us some market share evolution over the past quarters. And second one, the clarification on an accounting topic. First, the Shanghai RAAS capital gain, the one that was reported versus the EUR 250 million that you initially alluded to. And the changes in the accounting treatment, the 20% Shanghai stake sold in H1 versus the treatment that you had in Q1 in the computation of adjusted EBITDA and what we should consider for the year?

Daniel Segarra

Okay, I'm going to take this question. On the Shanghai RAAS contribution, I mean, we reported what was the estimated capital gain back in December 2023. At that point we ran some estimation, a number that was provided at the time was compared to the acquisition price as a state in the filing, right? Then we did the same kind of numbers, the same kind of process, but on a consolidation basis, considering how the profits, losses, and exchange rate impact, any accounting impact that we had since the acquisition back in 2020. And at the end of the day, the capital gain that we included in the second quarter, it has been lower than initially expected.

It was more in the 30 to 40 million range, okay? And on the -- I'm sorry, I can wrap up on the EBITDA contribution. This is -- I mean, in Q1, I mean, we only consider the 6.6 EBITDA contribution from Shanghai RAAS because at that point, Shanghai RAAS was

still considered as an asset held for sale. Now at the end of the second quarter, by the end of June, the asset was sold. So following accounting rules, we were able to recognize the whole contribution from this asset.

Now the market share side, Roland, would you like to comment?

Roland Wandeler
President of Biopharma Business Unit

Of course, without going into the details of market share numbers, what we can say is that we're very encouraged with the momentum that we're seeing in the U.S. You saw the growth numbers of our subcu IG Xembify, which is very encouraging, and we're very pleased also with the feedback that we get from both health care professionals and from patients. And in addition, we also see very strong momentum on the Gamunex side, where we see new accounts coming online. And as a matter of fact, the growth potential that we see in both Gamunex and Xembify are the reason why we decided to give distribution of our new IG in the U.S., move to a third-party distributor. This setup allows us to maximize the uptake as part of the overall group channel strategy, where the Grifols team will continue to focus on growth for our 10% Gamunex across all indications, CIDP, PID and ITP and our subcu Xembify in PID and drive the momentum there, while we have Kedrion with whom we had a long-standing partnership, focus on establishing Yimmugo in the broader marketplace with expected sales of EUR 1 billion over 7 years.

Daniel Segarra

Okay. Thank you so much, Roland. Thank you. We are going to take 1 last question before closing. Alvaro, please.

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

I see that the performance on albumin has been very strong. I just wanted to know whether this is just better commercial performance on your side or that you're seeing more demand for Albumin as a volume expander or whether you are seeing actually some increased demand for newer therapeutic areas. And in that context, what should we expect? Or if you could provide us any update on the clinical trials you're conducting for albumin. And the second question was just to clarify what the adjustment to EBITDA that you have done for Shanghai RAAS 20% stake, which is not the -- regarding the capital gain, that other adjustment of EUR 27 million, what that is, I don't really get that.

Jose Ignacio Abia Buenache
CEO & Director

Yes, on Albumin, we're encouraged with the momentum and the demand that we see, especially from China, as you know, the highest price market where Grifols is very well positioned to continue to capitalize on that growth. And with the newly signed contract with a 10-year exclusivity plus 10-year option beyond, we see continued growth there. And on the body of clinical evidence, you're right, in terms of PRECIOSA, our study on liver cirrhosis enrollment that we completed in '23 led to the last patient finalizing treatment in May, and we expect top line results there in Q4. We will be communicating afterwards.

Daniel Segarra

But I'm going to take the second part. As I was mentioning before, you can see a capital gain of EUR 30 million to EUR 40 million. And then you will see the contribution, which is close to EUR 30 million, if I'm not wrong. But for further retail for some specifics, I will refer more to the annexes and you will see the full reconciliation. Otherwise, we can follow up offline. Okay. I will bring you all the details. So with that, we arrive at the very end. Again, thank you very much for joining us today. As I said, if you have any follow-up questions, please feel free to email the IR team. Thank you so much.

Jose Ignacio Abia Buenache
CEO & Director

Thank you all for joining.

Roland Wandeler
President of Biopharma Business Unit

Thank you. We appreciate it.

Daniel Segarra
Thank you. Bye-bye.