S&P Global
Market Intelligence

Grifols, S.A. BME:GRF

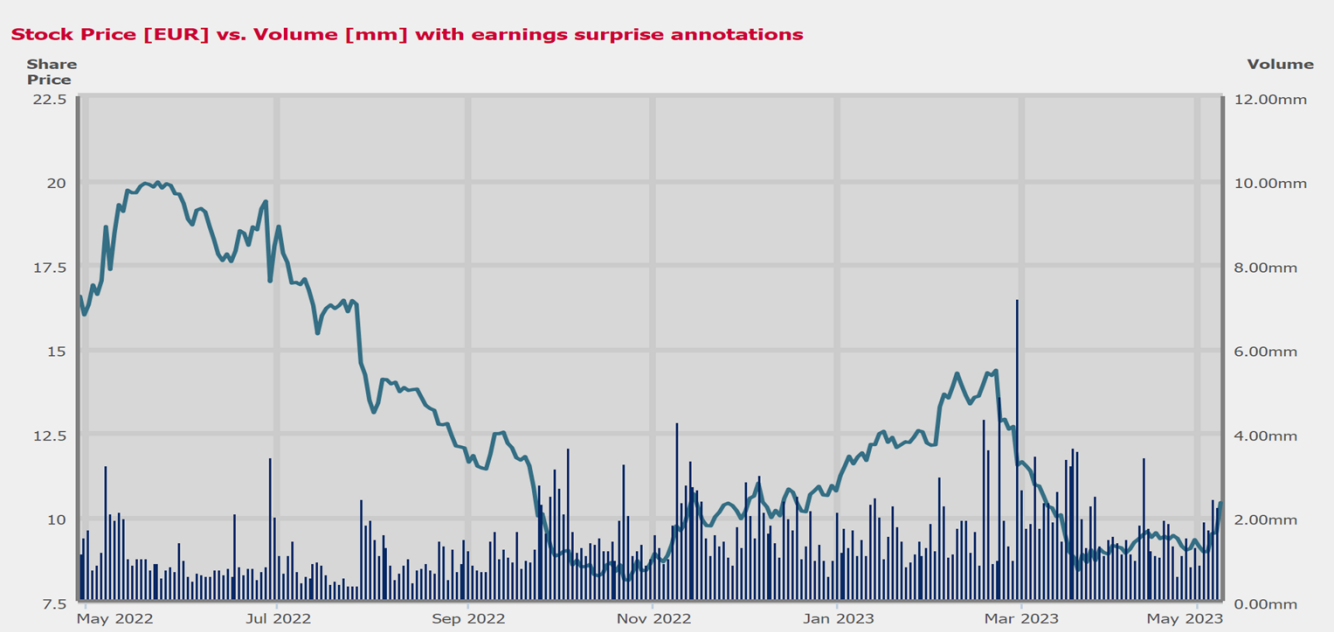
FQ1 2023 Earnings Call Transcripts

Tuesday, May 9, 2023 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2023-			-FQ2 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	NA	NA	NA	NA	0.43	NA
Revenue (mm)	1535.23	1561.49	1.71	1718.20	6581.60	NA

Currency: EUR
Consensus as of May-09-2023 3:49 PM GMT



- EPS NORMALIZED -

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

Table of Contents

Call Participants

EXECUTIVES

Alfredo Arroyo Guerra
CFO & VP

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

Thomas H. Glanzmann
Executive Chairman

Victor Grifols Roura
Chief Executive Officer of Grifols S.A., President of Grifols S.A and Director

ANALYSTS

Charles Pitman
Barclays Bank PLC, Research Division

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

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

James Daniel Gordon
JPMorgan Chase & Co, Research Division

Jo Walton
Crédit Suisse AG, Research Division

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

Vineet R Agrawal
Citigroup Inc., Research Division

Presentation

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

Hello, everyone, and welcome to the Grifols' First Quarter 2023 Conference Call. Thank you very much for taking the time to join us today. This is Nuria Pascual, Investor Relations and Sustainability Officer. And I'm joined by Thomas Glanzmann, our Executive Chairman and CEO; Victor Grifols Deu, our Chief Operating Officer; and Alfredo Arroyo, Chief Financial Officer.

This call will last for about 60 minutes. There will be a presentation of approximately 30 minutes, followed by a Q&A session. [Operator Instructions] As a reminder, this call is being recorded. The materials for the call are on the Investor Relations section at grifols.com, and the transcript and webcast replay of the call will also be available on the Investor Relations website within 24 hours after the end of the live conference call.

Let me turn now to the legal disclaimer on Slide 2. And before we start, I draw your attention to the forward-looking statements disclaimer on this slide of the release. And forward-looking statements on the call are subject to substantial risks and uncertainties, speak only as of the call's original date, and we undertake no obligation to update or revise any of these statements.

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

Thomas H. Glanzmann
Executive Chairman

Thank you, Nuria, and thank you, everyone, for joining the call today.

Before we turn to the specifics of our business performance, financials and full year '23 guidance, I would like to make some introductory comments. Over the past few months, we had the opportunity after many years to meet in person with more than 80 investors and 60 investment houses in London and New York, addressing questions and concerns about performance, debt, governance and whether any fundamental changes will be made directionally at the company of the plans that had been laid out.

For me and the management team, these meetings were of great value, and I would like to take this opportunity to thank all participants for their honest and often very direct feedback, which was much appreciated. We have indeed taken note of what we heard and were told.

In light of that, I would also like to take this opportunity to reiterate my key messages from these meetings. First, and very importantly, Grifols is committed to creating value for all our shareholders and in restoring our credibility and trust of the financial community. As I noted in our meetings, we understand that to do so, we will need to consistently deliver on our commitments, which we are already doing and will continue to do.

Second, the priorities set with our Board remain the same. We will improve our financial profile, reduce debt, execute and deliver our operating improvement plan, capture commercial opportunities and unlock Biotest's substantial value. Today's Q1 results should give you confidence that we are very focused on doing just that.

Third, we outlined that we would clarify governance, streamline the organization and implement a performance culture that is aligned with our shareholders. In fact, over the last year, the senior leadership team has already made significant strides to reinforce our operational excellence, which the most important first step was establishing a new organizational model.

This involved the creation of 4 strategic business units and the appointment of new management under whom we have refocused our strategic efforts to accelerate growth.

Up in my appointment as Executive Chairman in February of this year, I quickly thought to streamline Grifols' leadership structure, establishing a core senior leadership team with clear responsibility. And now, as yesterday was announced, my appointment to CEO further clarifies our decision-making process to accelerate Grifols' growth and strategic progress.

Victor has been appointed as the Chief Operating Officer, and Raimon Grifols has been appointed as the Chief Corporate Officer. We have now clearly defined the responsibilities of our Senior Executive Leadership Team, enabling us to continue to deliver on our successful transformation with the greatest accuracy and speed. I will return to this key topic in more detail later in the presentation.

And returning to our commitments. Our fourth commitment was to improve our communication with stakeholders, and we are and will certainly do so. We have our quarterly calls, and we will follow up on a regular communication with our global investor base. With the input from some of our investors, we have also decided to expand our IR footprint into the United States to better serve investors in North America. Going forward, we are also determined to expand our reach and continue to engage with equity and fixed income market participants. I hope and trust that you will walk away from this presentation with a sense that Grifols is stepping up and aggressively aligning all the needed pieces to position the company for a successful future.

With that, let me turn to Slide 4 to kick off our presentation. In '22, we set clear priorities to reposition the company and made a number of key commitments in our February '23 call. I am pleased to report that in the first quarter of '23, we are effectively meeting and exceeding our commitments while we continue to execute on key priorities. Grifols is on the rebound, and our operational delivery in this first quarter reflects this, while it also demonstrate the company's strong fundamentals in a growing market.

So let me review a few highlights of the first quarter. As I mentioned earlier, we implemented significant changes to our executive governance, clarifying the leadership structure. In Q1, we also strengthened our performance culture by rolling out new short and long-term incentive plans aligned with shareholders' interest. The new plans award participants for overachievement and for Grifols share price appreciation in the long term.

Now, turning to the numbers. We delivered a solid start to the year, meeting and exceeding on our commitments in some key metrics. Revenues grew by 23% and by 14% on a like-for-like basis, excluding Biotest, driven by a strong performance of Biopharma which delivered an increase of 26% and by 15% like-for-like.

Excluding Biotest, adjusted EBITDA margin for Q1 was 21%, exceeding the 19% to 20% guidance set for the first half of '23. Consequently, we are raising our guidance to above 21% for the first half and for the whole year to 22% to 24%. Therefore, we now expect to exceed the EUR 1.4 billion EBITDA guidance for EUR 2.23 billion.

The execution of our operational improvement plan is also exceeding our expectations with more than 80% of the EUR 400 million already deployed as of today. We have identified additional savings and are raising also here our target to more than EUR 450 million. This achievement has not been easy, and I would like to take this opportunity to express my gratitude to all those working tirelessly on the front lines to make this happen.

The plan, as it stands today, has resulted in a reduction of our cost per liter of more than 15%, driven primarily by a 25% decline in donor compensation, both figures compared to the peak in July of '22. We are laser-focused on further reducing cost per liter, and we expect this to contribute to EBITDA expansion in the range of 200 bps to 400 bps starting in the second half of '23. Additionally, we continue to make good progress on several work streams to meet our debt reduction commitment in order to get to a leverage ratio of 4x by 2024.

Returning to our commercial and innovation priorities, we continue to see significant opportunities for our high-margin Alpha-1, Prolastin and our subcutaneous IG product, Xembify. Additionally, we are making significant efforts to accelerate the approval and successful launch of the new Biotest proteins. Once launched, these proteins are expected to have a substantial positive impact on Grifols' financial performance, and bringing them to market quickly is a critical aspect of our current integration with Biotest.

Turning now to Slide 5. Over the past years, Grifols has made significant strides to reinforce its Board of Directors with diverse competencies, backgrounds and experiences. The Board now consists of 11 members, 6 independents that are led by a Lead Independent Director. The Board operates today very well and decisions are made by consensus, with effective checks and balances while promoting great transparency and accountability.

To further enhance its governance, Grifols is currently in the process of hiring a 12th Board member who will be independent and possess strong credentials. In addition, with the latest appointments, all committees of the Board are now led by independent Board members. As I mentioned before, the Co-CEO office has transitioned to the senior leadership executive team, which I'm honored to chair. We have now defined the responsibility of this committee.

Victor, as Chief Operating Officer, is responsible for the day-to-day operations and has all the operating units reporting to him. He will also continue to serve on the Board of Directors. Raimon, current Vice Chairman of Grifols, in addition to his Board duties, assumes the role of Chief Corporate Officer, focused on optimizing the value of our corporate alliances and partnerships as well as leading other key ad hoc initiatives.

The Senior Executive Leadership Team has a hands-on operating approach and meets weekly to ensure that we deliver. Its responsibilities include capital allocation, the strategy, communication, human resources policies, overall business performance and

very importantly, oversight of critical projects and priorities. A key priority right now is obviously our operational improvement plan and delivering on our commitment to further improve our operating performance, and very importantly, reduce our debt level.

Now turn to Slide 6. It is important to note that we have also made changes across the organization beyond the senior executive team. In 2022, a new organization model was established to increase focus and build a performance culture that is more efficient, effective, agile, decisive and accountable. These changes included the appointments of new management to lead the Biopharma and Plasma Procurement business units and a new President for Diagnostic. These new leaders have extensive experience in diverse industries including health care, particularly Biopharmaceuticals, as well as retail distribution channels. Their knowledge will be key to ensure effective product launches, especially considering the key Biotest proteins, while creating the most efficient, advanced, and very importantly, donor-friendly global plasma network.

Finally, as I mentioned before, we have reinforced our performance culture by rolling out short and long-term incentive plans. The new short-term variable remuneration is an important step forward as it further aligns with our current key priorities. The equity-based long-term incentive plan aims to support and accelerate the achievement of the company's long-term strategy while increasing alignment with shareholders as the stock price is a key metric. As you can see, much is happening at Grifols to reposition us across the board for the future.

Let us now turn to Victor and then Alfredo, and then I will be back for the final remarks and then we will be happy to take your questions.

Victor Grifols Roura
Chief Executive Officer of Grifols S.A., President of Grifols S.A and Director

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

Let's turn now to Slide 8 for business performance comments. In Q1 '23, Grifols' total revenue grew by 18% at constant currency and 23% on a reported basis, reaching a record level of EUR 1,561 million. If we exclude Biotest, total revenue reached EUR 1,444 million, an increase of 9% at constant currency and 14% on a reported basis. This growth was mainly driven by the performance of our Biopharma business unit, which grew by 21% at constant currency and 10% at constant currency like-for-like, excluding Biotest, backed by robust and underlying demand, favorable pricing and product mix.

Now turning to Slide #9. We delivered a robust first quarter, driven by the strong performance of our flagship product, IG in both the U.S. and international markets. It experienced a significant 14.5% growth in Q1 at constant currency. We expect this, our momentum to persist, backed by robust underlying demand. Our efforts to grow the market share and revenue of our subcutaneous immunoglobulin, Xembify, are yielding positive results, with an increase of 34% in Q1 2023.

Albumin growth was supported by higher demand and price increases in China, offsetting current marketing dynamics in the U.S. Looking ahead, we expect volume demand to rebound to high single-digit growth mainly driven by China. Also, improved product mix was supported by the Albumin in bags container.

Finally, Alpha-1 & Specialty Proteins delivered a mid-single-digit growth. Thanks to the higher demand of Alpha-1 and a strong demand of -- and favorable customer mix in our Hypers portfolio.

Now turning to Slide 10. We continue to maintain a strong position in the IG market with a diversified product portfolio that includes Grifols and Biotest intravenous immunoglobulins, our subcutaneous immunoglobulin commercialized in the U.S. and having received approval in several European countries and Australia for PID and secondary immunodeficiency in 2022, as well as our hyper immunes.

The global IG market is valued at more than EUR 14 billion, and is expected to grow by high single digits in the upcoming years, mainly driven by primary and secondary immunodeficiencies, which represent approximately 40% to 55% of the total IG market.

Secondary immunodeficiencies have notably increased due to an aging population and the use of immunosuppressive therapies such as immuno-oncology treatments, for which IG is often the preferred and only option. Additionally, the increasing awareness around the benefits of IG therapy and improved diagnosis of primary immunodeficiency have led to more patients receiving treatment with IG therapies. With a broader and top market that is increasing at a pace above the rest of the IG usages, we believe this represents a substantial growth opportunity for our franchises.

Grifols' immunoglobulin strategy is based on key 3 pillars. We are focused on growth in the U.S. and on prioritizing selected countries, in line with our aim to leverage our geo mix. We are focused on the immunodeficiency market, with PID and secondary

immunodeficiency growing ahead of the rest of the uses, while continuing to accelerate our subcutaneous Xembify adoption, building up on the important traction gain over the last quarters.

To leverage on this expected growth, among others, we are dedicating efforts to life cycle management, which includes seeking new indications. One of these lines, we are pursuing the approval of Xembify to treat patients with CLL, which is the fastest-growing indication within the secondary immunodeficiencies. CLL is expected to grow 9.5% from the period '18 to 2025, with a market potential of over USD 1 billion.

We also aim to maintain leadership in neurology and acute care within autoimmune diseases, where IVIG remains a standard of care. Our flagship, Gamunex, remains the most prescribed IG for CIDP as of today. We plan to build on this track record for further strengthening our leadership, especially through continued uptake of our subcutaneous Xembify, which offer an improved patient experience and a vast commercial opportunity for us.

Having said all this, we are well positioned to capitalize on this IG market growth, which is expected to outpace any potential impact from new technologies within the CIDP space. On top of this, the company has a robust pipeline of IG products in different phases of development, with several key milestones anticipated for 2023.

Now turning to Slide 11. As Thomas has already commented, the cost per liter trend is encouraging and reflects the significant progress we are making in the execution of our operational improvement plan. Taking the figures we reported in fiscal year 2022 results, cost per liter and donor compensation declines have notably expanded from 10% and 20% to more than 15% and 25%, respectively.

This positive trend will be reflected at a larger extent in our P&L starting in second half of 2023 due to the inventory accounting practices of the plasma industry, which entailed a 9-month period lag. Initiatives triggering these positive cost per liter trend are donor compensation reduction, optimization and reduction of staffing and overheads, and the rationalization of our plasma center network.

In the first 3 months of 2023, 7 underperforming plasma centers were consolidated. As of today, adding up to 18 centers shutdown in Q4 2022, we have consolidated more than 75% of the total 25 centers to minimize the impact on plasma collection volumes.

Going forward, we expect this cost per liter to drop. We expect this cost per liter to drop to amplify following curing in-development and under evaluation of savings initiatives, focused on implementing lean processes and digitalization.

Now turning to Slide 12. We continue to advance on our innovation pipeline as we are delivering on our commitments on this first quarter. Our subcutaneous Alpha-1 15% Phase I, Phase II study advanced from single dose to repeat dose phase. And in terms of life cycle management, we provided final results of the Xembify bi-weekly dosing study and is being prepared the complete clinical study report.

As well as for the IVIG-PEG study, which has also been concluded and at the same time, we are finalizing our CSR data. Additionally, we expect this patient to be enrolled and treated in the Xembify CLL study very shortly.

In Q2 '23, we also expect to finalize the enrollment of the PRECIOSA trial, while the enrollment of the SPARTA trial will be completed during the second half of this year. Biotest milestones for its novel proteins trials in 2023 continue on track.

For Trimodulin, we expect study initiation in the first half and Fibrinogen trial to be completed, as well as top line study results in the second half of this year 2023.

The development expected for '23 are very solid, at a very solid combination of life cycle management and new proteins such as Trimodulin, Fibrinogen, ATIII in sepsis, which we expect to continue significantly to the company plasma economics in the midterm.

Now turning to Slide 13 for the agnostic and bio supplies performance. Blood Typing Solutions were the main driver of the agnostic business unit with a robust high single-digit growth rate recorded in key geographies, such as the U.S. and China.

Performance of the NAT technology has been impacted by the pricing concessions in exchange for extending a large contract with a key customer for 15 years. Recombinant proteins increased by 28%, including a diagnostic company commercial true-up of EUR 19 million, which was partially offset by lower joint business profits. Excluding this true-up, revenues decreased by 32%.

Bio Supplies increased by 70% at constant currency and by 78% on a reported basis, following the acquisition of the remaining 51% capital of Access Biologicals in 2022. This acquisition of Access Biologicals was driven by the goal of achieving higher margins through vertical integration and gaining commercial footprint to expand in the cell culture market as well as in vitro diagnostics and the agnostic R&D solutions. It also strengthened the company's offering of biological products.

And now turning to Alfredo.

Alfredo Arroyo Guerra
CFO & VP

Thanks, Victor. Hello to everybody. As Thomas mentioned, Grifols delivered solid results for the first quarter of 2023 across all key metrics, beating our EBITDA guidance provided during our last earnings call.

We're very confident to meet our updated full year 2023 guidance, as we will see later. Reported total revenues increased by 23% and by 14% on a like-for-like basis, meaning excluding Biotest -- while reported Biopharma revenues were up by 26% and 15% like-for-like, excluding Biotest. FX impact with no significant, I would say, impact on this Q1 of 2023. While our gross margin is still impacted by a high cost per liter from the plasma collected in the first half of 2022 due to the 9 months like inventory accounting. Now we are in the recovery path.

Operational leverage together with savings from the operational plan drove our Q1 adjusted EBITDA margin to 21%, excluding BioTest, which is above the guidance. Our leverage ratio stands at 7x with a solid liquidity position of EUR 1.3 billion and also with positive operating cash flow, excluding the one-off restructuring charge.

Plama collection increased by 11% in Q1, while cost per liter significantly declined to more than 15% in by end March through its peak of last July. Good news on the execution of our operational improvement plan, which is progressing ahead of initial expectations. We have already deployed more than 80% of the initial EUR 400 million cash cost savings, and now we have updated this target to more than EUR 450 million.

Next slide, Grifols is experiencing a turnaround supported by our strong financial performance. Revenue continues to show sustainable growth with a high single-digit increase in the first quarter driven by solid plasma supply by price increases and by product mix backed by our subcu IG.

Regarding operating performance, as we see in the second chart, adjusted EBITDA on a last 12 months basis reached EUR 1.2 billion on the back of operational leverage and savings from the operational plan, showing a sequential improvement both in absolute terms and in margin. This sequential quarterly EBITDA improvement is going to continue throughout 2023.

Leverage ratio stood at 7x as of March, and we reiterate here our commitment to debt reduction, targeting at 4x by end of 2024. We reconfirm our commitment to deleverage and on the back of heavy improvements and deleveraged transactions.

The adjusted EBITDA bridge shows the improvement in Q1, reaching EUR 299 million at 21% margin, excluding Biotest supported by positive performance of Biopharma and Bio Supplies as well as OpEx reduction. As we explained in the last earnings call, the EUR 125 million one-off charge includes EUR 140 million restructuring charge that has been fully booked in this quarter. We have also adjusted EUR 19 million coming from one-off commercial true-up in the diagnostic revenues. We do not expect any further restructuring costs in the upcoming quarters. We are successfully executing our operational improvement plan.

As we speak, more than 80% of the initial EUR 400 million cash cost savings have been already deployed. Furthermore, we have increased this target to more than EUR 450 million on the back of further improvements, especially in the plasma operations. All-in-all, annualized total plasma-related savings now are more than EUR 340 million from the initial expected EUR 300 million.

On the left-hand side of this slide, we can see the previously announced plan, and on the right-hand side, the updated plan. In 2023, cash savings will now amount to EUR 275 million and cost savings flowing through the P&L will be EUR 150 million. In 2024, we are now expecting additional EUR 175 million cash savings and EUR 320 million cost savings that will be recognized in the P&L. As a reminder, the plasma cost accounting rule of this industry, which implies a 9 months inventory lag.

Our position in deleveraging and achieving the 4 leverage ratio target by end of 2024 has not changed. As we can see in this reach, considering that 50% of the 1.8x reduction relates to EBITDA improvement, overall, the leverage ratio declining from 7x to 4x is coming from 70% of EBITDA improvement and 30% from deleverage transaction. A significant piece of this EBITDA improvement is driven by the EUR 450 million operational improvement plan. We are making a good progress on the several work streams of deleveraging transactions and we plan, as already mentioned, to complete one transaction during this year.

The cash proceeds will be prioritized for debt reduction. We currently have a total liquidity of EUR 1.3 billion and cash on hand amounting to EUR 400 million.

Based on our solid performance in Q1, we reiterate our full year guidance for top line and we upgrade our adjustment EBITDA margin guidance for the first half to more than 21% margin. And for the full year, it will be in the new margin range between 22% and

24%, excluding Biotest. As a result of this, we are very confident that we can beat the full year EBITDA EUR 1.4 billion as well as the EUR 1.7 billion, considering the annualized cash cost savings. These numbers confirm that our strong recovery path is ongoing.

And with that, I hand over to Thomas.

Thomas H. Glanzmann
Executive Chairman

Thank you, Alfredo. I would like to conclude by reiterating a few points we've already made, but that are worth repeating.

My management style is to keep returning to the most critical priorities, those that make us strong and those that need changing, to ensure that these are absolutely clear and that we continue to effectively execute against them. The company has clarified its governance and leadership structure and made significant progress in defining the responsibilities of the senior leadership team, ensuring focus and accountability. The company has introduced a new operating organizational model, which has resulted in a stronger and more efficient structure. This is supported by a strong focus on a performance-driven culture which will continue to make the company more efficient, effective, agile, decisive and accountable. The new short and long-term incentive plans will play a key role here.

To strengthen a new leadership will be instrumental in driving change and ensuring that the organization is more responsive to the changing market dynamics. Grifols delivered a solid financial start to the year, and we are on track to meet an improved guidance.

The company has successfully deployed, as Alfredo mentioned, more than 80% of the initial EUR 400 million cash cost saving of its operational improvement plan and updated its target to more than EUR 450 million, mainly driven by plasma initiatives. Testament of the execution of the plan is the cost per liter reduction of more than 15%.

As also been mentioned multiple times, deleveraging remains our top priority and our commitment to reduce leverage ratio to 4x by 2024 remains unchanged. We are advancing on several work streams to execute deleveraging transaction.

Adjusted EBITDA margin for the full year, excluding Biotest, is again, as Alfredo mentioned, expected to reach the 22% to 24% range, and we are confident on exceeding EUR 1.4 billion. Pro forming the additional EUR 320 million, the adjusted EBITDA margin would stand at over EUR 1.7 billion, setting the base for a further expansion of EBITDA in '24. As promised, we are delivering a step change in performance as we advance in 2023. We are increasingly better positioned and confident that we will keep building on this positive momentum. As mentioned, and I'll repeat, Grifols is on the rebound.

Finally, I want to thank our entire Grifols team for making it all happen. Without everyone's effort, focus and dedication, the progress made in the first quarter of '23 would not have been possible.
I appreciate your attention, and then I'll now turn it back to Nuria, who will open it up for your questions. Thank you very much.

Question and Answer

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

Thank you, Thomas, and thank you all. Let's start the Q&A session. [Operator Instructions]

So let's start with Jo Walton from Credit Suisse.

Jo Walton
Crédit Suisse AG, Research Division

Perfect. I wonder, in order to put some context on it, whether you can tell us what the cost per liter is now not in relation to July '22, but a pre-COVID world?

And a couple of clarifications, please. In terms of your sales growth for this year, the 8% to 10%, is that including the 2.5% or so benefit that we get from the first-time consolidation of Biotest or on a clean underlying basis?

Victor Grifols Roura
Chief Executive Officer of Grifols S.A., President of Grifols S.A and Director

Jo, I take the question on the cost per liter. We are comparing to this, like, kind of benchmark if this is a word from the peak that we had. We -- if we compare this to 2019, it's still above that level mainly because of 2 factors. The one is -- well, it's kind of inflation related, both of them. One is the donor commitment compensation or donor fee, it has increased as we all know, and the same for the labor cost associated in our plasma structure. Excluding those 2 kind of items, we are still higher than the '19 but narrowing the gap every month as we progress.

Thomas H. Glanzmann
Executive Chairman

Sales? Sales growth, 8% to 10%.

Alfredo Arroyo Guerra
CFO & VP

To your question regarding the 8% to 10% revenue growth. As disclosed in the slide, this is including -- this including Biotest. Same relates to Biopharma. That 10% to 12% include Biotest, so that means that revenue all-in is basically including Biotest. Like-for-like in Biopharma, we're a high single digit, so that's our best estimate for the year-end.

Jo Walton
Crédit Suisse AG, Research Division

My second question, if I could, is a bit more of a perspective on your relationship with Shanghai RAAS? You've talked about China a couple of times as being important, but I think it would be interesting to see how that relationship is going.

Alfredo Arroyo Guerra
CFO & VP

First of all, just to remind everybody that the plasma business in China is booming and some high results that are publicly available since they -- that is a listed company. I mean, they are very impressive, point number one.

Point number two, we have a great and amazing relationship with Shanghai RAAS, with full collaboration in all areas. And also to remind everybody that they are our distributors for Albumin and in Biopharma as well as NAT in Diagnostic, and both business lines in China are booming also.

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

Now we have a question from James Gordon from JPMorgan.

James Daniel Gordon
JPMorgan Chase & Co, Research Division

James Gordon from JPMorgan.

The first question was about EBITDA margin. So you took up the H1 margin from 19% to 20% to 21% plus, but I don't think you took up the H2 margin. So is that because this was more about cost savings being pulled forward? Or have things actually got a bit better on an underlying basis? And could that be a bit conservative for H2? And then while that has got better, is it something else that's got better? Or is it just phasing? So that's the first question, please.

And the second question, also related to cost savings. So I think you're saving more on plasma operations. I read though that there may be smaller cuts in Spain than originally planned. So is that going to be offset or more than offset by bigger cuts in the U.S.? And are we going to see further U.S. plasma centers being shut? Or are you done on the closures there? Where are the further savings coming from, please?

Alfredo Arroyo Guerra
CFO & VP

Okay. So to the first question on the EBITDA margin, the improvement is based on, basically the underlying business, is better than expected. I already mentioned about pricing, country mix, product mix as well as we see a better operational performance on the -- also on the -- on plasma cost, manufacturing cost. And then the -- it's true that in the case of OpEx, we're ahead of the budget. It's not because the phasing, it's because we are upgrading our target. So that's why I said that this EBITDA sequential improvement that we've seen in Q1 versus Q4 last year, this is going to continue in the upcoming quarters.

To the cost savings that you mentioned, well, as I said, there are 80% already fully deployed and we have upgraded the target on that sense. And so that's why we are very confident that we can beat the EUR 1.4 billion by the end of the year.

Victor Grifols Roura
Chief Executive Officer of Grifols S.A., President of Grifols S.A and Director

Okay. And I think -- was kind of a comment regarding a plasma centers and further cost savings or further -- sorry, centers closing.

Now this is not the case. We think we have done all the -- already all the efforts in the front of closing or consolidating plasma centers. Now, the improvements that we are pursuing in the plasma network, it's, let's say, at center level because again, overhead staff above center level, the restructuring has already taken place as well. And now, we are focusing on improving efficiencies at center level, aligning opening hours with donors flowing in, improving the donor flow time at the center level and these type of activities.

James Daniel Gordon
JPMorgan Chase & Co, Research Division

I don't know if you can still hear me, but just as a follow-up which would be, I think Alfredo was saying that things were actually better on an underlying basis in the first half so things were going better than you originally planned in the first half, or you expect them to. But why would that not also mean profitability is better than you originally thought in the second half?

Alfredo Arroyo Guerra
CFO & VP

Well, we are -- as a matter of fact, if we look at the slide, we are also upgrading the -- we think that the second half is going to be within that range, 23%, 25%. And on the -- once we close the second quarter, we'll be in a position to provide you with additional color about the second half. But clearly, we are very confident, as I said, that the EUR 1.4 billion by the end of the year will be, I would say, will be better.

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

We have Guilherme Sampaio from CaixaBank BPI.

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

So the first one is on the fees. If you could provide some color on your expectations for additional reduction in dollar fees? And secondly, if you could go through the dynamics of Albumin markets in China and the U.S. right now?

Victor Grifols Roura
Chief Executive Officer of Grifols S.A., President of Grifols S.A and Director

Maybe I take those 2 questions on the donor fees.

As you have seen, there is a kind of progressive trend of lowering those donor fees versus the peak in July. We are expecting this to continue in a way throughout the year and to reach a lower level than today's level, let's say, by December 2023. And in the environment in the market regarding donor fees, we are seeing -- in certain specific types of donor fees, we are seeing kind of a positive trend in the sense of lowering the donor fee.

For the second question regarding Albumin. As Alfredo, in a way, try to instilled in his comments -- previous comments on China, the market is kind of booming for Albumin. There is plenty of need and demand from the market and from Shanghai RAAS, which is our distributor. So it's overall very positive there. And in the U.S., we are seeing more -- not challenging, but there is more product in the market, and we are all now repositioning ourselves in the U.S. in a way.

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

Now, it's the turn for Berenberg, Tom Jones. We have lost him.

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

I'm sorry. I'm here. So you cut off just after you said the next caller comes from, and then it stops. I couldn't hear. Sorry, I do have 2 questions.

The first is just on the balance of revenue growth between the 3 key proteins or 3 key franchise areas in Q1. IG was trending well ahead of the other 2. Is that a dynamic you expect to continue broadly for the rest of the year? And what's driving the sort of excessive growth in IG? Is it kind of just price and mix? Or is there a volume component to it too? I guess it pertains to kind of revenue per liter.

And then my follow-up question, which is more of a longer-term one on margins. I think we're all well aware of the margin uplift potential from Trimodulin and the Fibrinogen products. But the one that doesn't get a lot of discussion is Biotest's IVIG product, Yimmugo. Given it's a relatively new product, one would assume that it's probably got a higher manufacturing yield than the incumbent products out there.

So I just wondered given how significant even a tiny improvement in yield can be on IVIG manufacturing, whether there's any longer-term margin upside potential, I guess, coming from the Yimmugo technology? I know you're going to distribute it for them in the U.S., but I just wondered if there's any kind of technology transfers you might be considering into your Grifols' IVIG Franchise where you could potentially push the yields on your IVIG manufacturer up a bit?

Victor Grifols Roura
Chief Executive Officer of Grifols S.A., President of Grifols S.A and Director

Okay. Tom. On the first question about the balanced growth among our proteins, clearly IG, it's driving the race here for us. This trend will continue for the year, we expect. But the goal of the company, after all the turmoil of the plasma availability and so on, is to kind of converge the growth -- the pace of growth of the 3 main proteins for us, IG, Albumin and Alpha-1. The idea is that to go and rebalance our growth for those 3 proteins in the coming months and during '24 as well.

And the second question about Yimmugo and the yields, yes, we have launched the product in Europe. It's very well accepted in the markets that they are starting. Manufacturing wise, they are ramping up. But on the yield side, yes, we are seeing and learning from them about their yield and the performance they have and trying to get all the knowledge and possibly incorporating into some other product lines. But all in all, it's a great product, and it gives us a lot of flexibility now with Gamunex, Flebogamma and Yimmugo product to, let's say, play with all those brands and use them as needed in a wise manner, let's say, from the geographical standpoint.

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

Perfect. And then -- that's very helpful.

And then one follow-up question on margins for Alfredo. Just help me understand the dynamics of this. When you gave the guidance for EUR 1.4 billion, that was back in February. Since then, the dollar has weakened somewhat against the euro, which is normally bad for your reported EBITDA and even worse for margins. So have I got that correct? Does that not imply that the underlying increase in guidance is probably slightly higher than that revealed by the figures you've given this morning? And then so you might also partially

explain your caution regarding margins in the second half of the year because, obviously, the dollar impact will be more significant in H2 than it will be in H1 at current rates?

Alfredo Arroyo Guerra
CFO & VP

Currently, in the first quarter, the FX impact of EBITDA is slightly positive. And if I -- if we somehow project the, let's say, the [110] for the rest of the year, the impact versus the current trend of EBITDA will not be material. So the fact that we want to be prudent is, does it have anything to do with FX?

But on the contrary, as I said, we expect that the EBITDA margin will continue to increase and expand every other quarter, okay? And as I said, once we closed in Q2, we'll have more visibility and we'll provide you with an update guidance.

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

And our next call is coming from Jaime Escribano at Banco Santander.

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

So a couple of questions from my side. One regarding immunoglobulin volumes. The question would be if you are selling higher volumes already than 2019? Or there is still room to catch up, for example, in Europe or rest of the world or some countries that were less than the unattended or you are already selling pre-COVID volume levels?

And the second question would be regarding free cash flow, which obviously has been negative this Q1 because of all the cost saving plan. But my question would be, if you can give us some visibility on how should we think about Q2? So probably operating -- positive operating free cash flow. And the question is also positive free cash flow after CapEx or this will come later on in the year?

Victor Grifols Roura
Chief Executive Officer of Grifols S.A., President of Grifols S.A and Director

I'll take the first one. We are, let's say, grams-wise being sold for us compared to 2019. We are not yet there but we are very closed after our plasma recovery.

Alfredo Arroyo Guerra
CFO & VP

So regarding the operating cash flow, in the Q1, as I said, we ended up with a positive operating cash flow, excluding the one-off restructuring charge. So that gave us, I would say, a positive sentiment that in the Q2 and coming quarters to show a positive operating cash flow. That means including working capital and CapEx.

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

Okay. A final question, if I may. Regarding the donor fee, and it relates a little bit with some of the questions that were raised around the guidance for the second half of the year. If the donor fee has declined by minus 25% from peak, as of February, you said it was minus 20%. This means that the donor fee has been -- has kept going down in Q1. And what I think -- I wonder on the rest of analysis because of this in the second half of the year or at least in Q4, should we not see a positive impact of this further decline in the donor fee?

Alfredo Arroyo Guerra
CFO & VP

No. The -- first of all, from the cash savings perspective, we expected and we see those days is after a significant decline of the donor fee. Now we are focusing on the rest of the cost, I mean, labor cost and other fixed costs. And so that's point number one.

The good thing is that the marketing -- I mean, the market now is somehow wind tailing our donor fee because we see that there is a collective -- kind of a collective decrease across the markets in donor compensation. But also, to your point of when this is going to go through the P&L, you need to wait until early Q1 of 2024. However, as all the savings that we have already in the back from this -- from the end of 2022 and Q1 2023, those will flow through the P&L this year. So that's why in the second half of the year, we expected higher margin than the first half of the year.

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

We have from Barclays now, Charles Pitman.

Charles Pitman
Barclays Bank PLC, Research Division

I've got 2, please. Maybe just on the deleveraging. I understand you can't give us any specific. I was wondering if you could give us any kind of directional like expected target internally for what level of funds you expect to raise? I know you said 30% of the target was going to be achieved through deleveraging. I mean, what portion of that is going to be organic free cash flow versus what you intend to raise from some form of transaction?

And maybe just a second one on the refinancing. So in 2025, you're going to have to obviously pay down your debt. I understand you're going to use your deleveraging transaction to help pay that down. But just thinking in terms -- some of the questions we've been getting from credit investors is how rating agencies are viewing the ongoing performance? And I was just wondering if you could update us on your conversations with them? And what you think you need to show this year as we see margins improve and more fundamental improvements to continue, just to allude their concerns. As I know, for example, Moody's has a negative outlook right now.

Alfredo Arroyo Guerra
CFO & VP

Your first question on deleverage. As I said, when we compare the current 7x versus the 4x, there is 1.8x that appears -- that appears in the bridge, which is a combination of organic and non-organic. So 50% of this, which is 0.9x, relates to EBITDA improvement and the rest is coming from deleverage transaction. So all-in-all, this represents that 70% of the total deleverage is coming from EBITDA improvement that includes both organic EBITDA improvement plus the operational plan, and 30% of these deleverage is coming from sale of assets.

To the question of the refinancing of 2025, yes, we hold on a quarterly basis or yearly basis a conversation with the rating agencies. And there, we update those agencies with the current development. And clearly, the reason why we want to be at 4x by the end of 2024 is precisely to get an upgrade in our rating and then ahead of a potential refinancing. But there might be other options like paying off the debt ahead of the due date with the cash proceeds from the transaction, which will be our top priority.

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

And now we are -- we have a final question from Vineet Agrawal from Citi.

Vineet R Agrawal
Citigroup Inc., Research Division

Yes. Hopefully you can hear me. This is Vineet Agrawal on behalf of Peter Verdult. Just have 2 questions.

So the first one is, we have 2 important Phase III readouts coming over the summer, the first Biotest Fibrinogen data and the FcRn data from Argenx and CIDP. Maybe can you remind us how you're thinking about the commercial potential of Fibrinogen? The revenue exposure in CIDP? And why do you think your IG business in CIDP is not impacted by FcRn?

And then I just wanted to better understand how much of a gross margin driver Xembify can be? And wondering if you could remind us what percentage of your IG franchisee revenues come from subcu? And where would you like this to go over time?

Victor Grifols Roura
Chief Executive Officer of Grifols S.A., President of Grifols S.A and Director

Okay. Regarding Fibrinogen, yes, the project is on track, and we expect to finalize the trial by the end of 2023, get the readout and clinical study report and ready to launch for next year 2024 in Europe. This is on track and we expect this to be a great success for us.

Regarding CIDP and one company delaying the results until July, we'll -- it's kind of wait and see what they bring as news to the market. But taking this into -- not into account or putting this aside, it's -- as we have said in one of our slides for today, it's a huge market, the IG market. Currently, it's this level of EUR 14 billion, fast-growing historically and the prospects signaling this kind of 8%, 9% ranges of growth for the market. So we think even any competitor are being successful, there is plenty of room for all of us to

capture value from this market. So we are very confident that with the life cycle management that we have in place that will come in the short and mid-term, we will be able to capture significant value of this market growth.

Today, Xembify in our current IG portfolio accounts for around 5%.

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

Okay. Thank you. Thank you, everybody.

And with that, we are coming to an hour, 2 minutes above it, so quite on time. Thank you, everybody, for taking part, and let's continue talking. Any questions, you have the full IR team to your disposal, and let's speak very soon. Thank you and bye.

Thomas H. Glanzmann
Executive Chairman

Thank you very much.

Alfredo Arroyo Guerra
CFO & VP
Thank you.