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Grifols, S.A. BME:GRF

FY 2022 Earnings Call Transcripts

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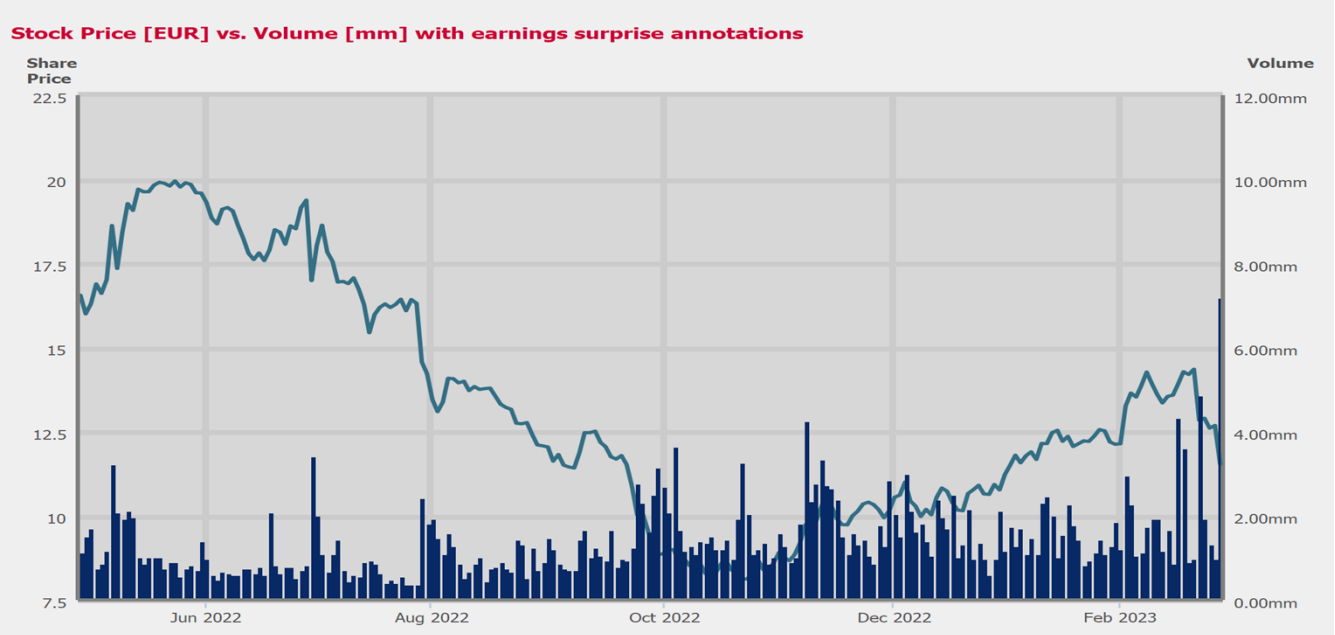
S&P Global Market Intelligence Estimates

	-FQ4 2022-			-FY 2022-			-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	NA	NA	NA	0.55	0.34	▼(38.18 %)	0.73
Revenue (mm)	1595.13	1712.74	▲7.37	5917.87	6063.97	▲2.47	6630.69

Currency: EUR
Consensus as of Mar-01-2023 8:56 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FY 2022	0.55	0.34	▼(38.18 %)

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Call Participants

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CFO & VP

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Presentation

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

Hello, everyone, and welcome to Grifols' Full Year 2022 Conference Call. Thank you very much for taking the time to join us today. This is Nuria Pascual speaking, Investor Relations and Sustainability Officer. And I'm joined by Thomas Glanzmann, our Executive Chairman; Victor Grifols Deu and Raimon Grifols, our Co-CEOs; and Alfredo Arroyo, CFO of Grifols. We anticipate that this call will last for about 60 minutes. There will be a presentation of approximately 35 minutes, followed by a Q&A session. [Operator Instructions] As a reminder, this call is being recorded, and the materials for the call are on the Investor Relations section of grifols.com.

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

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

Thomas H. Glanzmann
Executive Chairman

Thank you, Nuria, and thank you, everyone, for joining the call today. By now, you all are aware that we have had a change of the guard in the position of Executive Chairman. The Board with great respect accepted the resignation of Steve Mayer, who made the decision to step down for health and personal reasons. Effective February 22, I stepped into the role, and I would, at this point, like to thank Steve for the valuable work and contribution he made over the past month and 12 years as a Grifols Board member. Needless to say, I and the Board wish him all the best as he moves on to another chapter in his life.

For those that do not know me or I have not had an opportunity to meet at one of our investor meetings, let me briefly introduce myself. I've been on the Grifols Board for almost 17 years and in recent years was the company's Vice Chairman. I have been associated with the plasma and diagnostics industries since the late 1980s, and I have been a CEO of plasma, biologics, renal and diagnostics companies during my career. In the past years, my focus has been on investing in start-up companies with innovative new medtech technologies and serving on a number of boards among them Alcon, Inc., which I know some of you also know. Throughout my career, my priority has always been to build and grow companies sustainably and profitably, which I also intend to do in partnership and close cooperation with the CEOs, the Grifols leadership team and the Board.

Grifols is on the rebound. After some tough years, we are now setting up once again for a sustainable and financially sound growth-oriented future with our operational performance plan and the recently announced restructuring. I want to recognize and thank Steve, the CEOs and Alfredo for making the plans and addressing our challenges head on with tough but needed measures and clear priorities to ensure that we again find ourselves on a winning path.

In our presentation, we will update you on the progress and outlook, which I personally think is very encouraging, although we as a leadership team recognize that we clearly still have work to do and be assured, it will happen and it will get done. I am committed with the CEOs and Alfredo to stay the course on all the plans, priorities and measures that we have announced and that currently are being implemented. There is no way back. And as you will see in our presentation, we are visibly committing to targets and numbers associated with the announced measures.

I would also like to spell it out once again, and this is very important that we are laser-focused on deleveraging the company with both improved operating measures and evaluating broader corporate initiatives, which we expect to complete in 2023. Together with the CEOs and Alfredo, we will be monitoring our progress on a weekly basis and if necessary, undertake immediate course corrections to ensure we deliver on our objectives. I am also committed to keep the open communication with you and we as a team will, as promised, be updating you regularly on our announced quarter calls of the business and financial status and its progress.

Finally, I want to reiterate, and again, this is very important that the Board, which initiated and has guided the creation of the operational improvement plan continues to be in full support of executing the plans and measures that we have announced recently. I know that Alfredo, Nuria, Danny and the investor team will continue address questions you have in between our calls, and I will personally meet a number of you as I, on occasion, will travel with our investor team. As you can hear, we are committed to a seamless transition and optimistic about the future. I am excited to work with Victor, Raimon, Alfredo and the entire Grifols team to make sure that we deliver on our commitments to all our constituents.

Let us now turn to our presentation that I will share with Victor and Alfredo and then we will be happy to take your questions. So let me start with an overview of our focus areas and Grifols' full year 2022 annual results, which we show you on Slide 4. 2022 was a pivotal year for Grifols, and I want to give a lot of credit to the entire Grifols team. We set clear action priorities and took important steps to improve the company's performance. Today, we are executing on these priorities. Over the last month, we've been focused on building an organization with a performance culture that is more efficient, effective, agile and decisive.

With that in mind, we have taken measures to become leaner and more cost effective, which combined with strengthened financial discipline and cost controls will drive margin expansion. On February 15, this year, the company also announced an operational improvement plan that will generate EUR 400 million in annualized cash cost savings. This initiative, which already is underway and in the implementation phase will reinforce Grifols' competitiveness, reduce the global cost base and enhance organizational accountability, efficiency and effectiveness. Once we have fully executed this plan, which was initiated [and doors] and now closely tracked by the Board, we will have a solid foundation for profitable future growth. This plan is supported by a commitment to invest in our talent through the implementation of new and improved short- and long-term incentive plans, which we are about to roll out.

At the same time, a key priority is the implementation of aggressive measures to increase operating cash flow and reduce our debt. As previously stated, the company continues to evaluate potential transactional opportunities and is committed to reduce our leverage in 2023. As we focus on our commercial and innovation priorities, we continue to see significant opportunities for our high-margin alpha-1 product, Prolastin, and our subcutaneous IG product, Xembify. In addition, a significant effort is going into accelerating the approval and preparation for a successful launch and commercialization of the new Biotest proteins. These proteins once launched are expected to have a substantial positive impact on Grifols' financial profile in the coming years. Bringing these products to market with the Biotest team is a key part of our ongoing integration of Biotest.

Let me now turn to Slide 5 on our 2022 performance. In the third quarter business update, we provided guidance for the fiscal year 2022. And as Alfredo will explain in more detail later, I am pleased to confirm that we have met our guidance and even exceeded in some cases. Grifols delivered a solid result for the fiscal year 2022 across key metrics, and this demonstrates the strong fundamentals of both the company and the industry. The figures on this chart speak for themselves. However, I would like to emphasize the sequential improvement of every key figure shown revenue growth, EBITDA and leverage ratio. It is clear that as we leave the impacts from COVID-19 behind us, the investments that we made in the past are now bearing fruit and delivering positive momentum, and our focus on improving leverage is making a difference. We are confident that this trend will continue and that we will meet the guidance, which Alfredo will share with you later in the presentation.

Turning now to Slide 6. 2022 was also a pivotal year for the company with the achievement of several key milestones that should continue to positively impact our future performance. I would like to highlight the closing of the Biotest acquisition in April. Biotest is a transformational and unique opportunity to integrate and accelerate an attractive pipeline of innovative plasma-derived therapies with exceptional growth and profit potential. It will also enable us to have more of a balanced global footprint by expanding operations and revenues in EMEA and broadening Biotest product footprint in the United States.

In 2022, Biopharma's growth momentum was strong, underpinned by a 25% plasma collections increase. Collections are back to 2019 levels, a year, which itself marked record levels for Grifols. The negative impact of COVID is now clearly behind us as donor compensation and cost per liter as a whole also continue to decrease. Since its peak in July of last year, donor compensation dropped by 20% in Q4, driving a 10% cost per liter reduction over the same reference period. Our recently announced operational improvement plan aims to further address the plasma-related cost through measures that will result in more than EUR 300 million in annualized savings.

You will hear more about these initiatives later in our presentation. In the third quarter of 2022 and as part of Grifols' growth strategy, the company also signed a pioneering long-term agreement with Canadian Blood Services to significantly increase the country's self-sufficiency in immunoglobulin. It is the first ever agreement of its kind and a testament to how Grifols supports self-sufficiency and the access to treatment for patients around the world. During 2022, Grifols also made good progress with our focus on innovation. We met numerous innovation milestones, which will support further growth and margin expansion in the coming years, including the European approval of Xembify and Biotest Yimmugo in Germany and Austria as well as some remarkable agreements with third parties to collaborate on R&D developments.

Before turning the call over to Victor, I do want to reiterate that it is of great importance to me personally that we further accelerate our progress and meet our commitments across all areas of business while driving for operational organization and performance excellence. Needless to say, the whole Grifols executive team is committed to achieving meaningful impact and results for all our stakeholders, including creating value for our shareholders.

With that, I will now turn over the presentation to Victor.

Víctor Grifols Deu
Co-CEO & Executive Director

Thank you, Thomas. Good morning or good afternoon to everyone, and thank you for joining us today. Now we will turn to Slide #8 to talk about the performance at high level of Grifols. I am very proud to say that Grifols performed strongly in 2022, while operating in a challenging macroeconomic environment. Grifols' total revenues grew by 12.4% at constant currency, 23% on a reported basis, reaching record levels of sales of EUR 6.1 billion and EUR 5.7 billion if excluding Biotest, driven by Biopharma's performance, robust underlying demand, favorable pricing and product mix and a notable Biotest contribution plus an FX tailwind.

Now turning to Slide #9 to make a deep dive on Biopharma. Biopharma stood out with full year robust operational growth of 10%, 22% on a reported basis, driven by a strong fourth quarter. In Q4, it delivered a 14% increase in revenues, which was close to 30% on a reported basis. Please note that all those numbers on the slide exclude Biotest. We remain positive as we see this momentum reinforced, evident by a strong fourth quarter across all key proteins, especially IG, our flagship, which grew by 18% in the fourth quarter and by [13%] in the full year. This was driven by a significant increase in plasma supply with a strong growth recorded in our leading IgG brands.

Demand has been robust, and this is expected to continue backed by the fact that many patients remain undiagnosed while demand for treatment for primary immunodeficiency and secondary immunodeficiency continue to grow. Also noteworthy is how new products continue to increase their contribution driven by our plan to grow our subcutaneous immunoglobulin Xembify market share and revenues. This product, in particular, offers an improved patient experience for those wanting the convenience of home-based treatments. The increase in plasma supply also contributed to our albumin portfolio growing by 5%, with higher demand in Asia Pacific area, driven by China and improved product needs supported by the launch of albumin in plastic container.

Alpha-1 and specialty proteins delivered a mid- to high single-digit growth due to favorable customer mix, higher demand and price increases. Supplement to the main franchise growth, I would like also to highlight the increasing contribution to the business unit growth of the recent new launches like fibrin sealant and thrombin in the surgery and bleeding control market, TAVLESSE and the hyperimmune portfolio.

Now moving to Slide 10, continuing in Biopharma, but deep diving into plasma specifically. As mentioned, plasma collections positive evolution continues, increasing by 25% in 2022. This upbeat trend was driven by greater plasma volumes from existing centers, complemented by new and recently acquired plasma centers. The lifting of the U.S. border restrictions in mid-September delivered an increase in volumes of plus [23%] in that area compared to 2021. As plasma collection volumes are meaningfully increasing, we are now focused on cost per liter reduction, tackling donor compensation and optimization of labor as well as fixed costs.

Since its peak in July this year, donor commitment compensation declined by 20%, driving total cost per liter down by 10%. Managing other plasma operations cost is also key as this represents close to 65% of the plasma costs. This also contributed either to a lesser extent to this cost per liter reduction. We firmly believe that this is a positive sign for ourselves, especially in this challenging macroeconomic context, including an annual inflation impact of around 8% to 10%. Looking forward, we are confident on a further cost per liter reduction with the aim to revise it, amplified by our ambitious operational improvement plan in the plasma area, focused on driving higher efficiencies in our donor centers and creating a leaner and more efficient plasma organization.

In summary, we have moved away from a plasma -- from the plasma security of supply mindset we had to adopt during the pandemic to provide life-saving medicines to our patients. We now have evolved into a sustainable plasma collection operation focused on donor center productivity, carefully tailoring volumes to meet sales growth and to drive margin expansion.

Now turning to Slide 11 to cover innovation for Biopharma. We continue to advance on our innovation pipeline. Personally, I believe the Grifols R&D pipeline has never been in such a strong position for all clinical trial phases, representing a key lever for sustainable and profitable growth in the short, medium and long term. There are several expected milestone marked in capital letters in our 2023 agendas. We expect final results from Xembify bi-weekly dosing study. The first patient enrolled and treated in the Xembify secondary immunodeficiency CLL study as well as the -- as final results of our IVIG-PEG study. We also expect to finalize enrollment of the PRECIOSA trial in the first half of 2023, while the SPARTA trial for alpha-1 in the second half of 2023.

For the Biotest Trimodulin ESsCAPE Phase III trial, we expect study initiation during half 1 of 2023 while we expect to submit the FDA BLA application for Yimmugo. For the Biotest Fibrinogen trial, we expect completed a top line data in the second half of 2023. And also, I would like to mention the milestone for the 2 GigaGen projects, the GIGA-564 and the GIGA-2339, as we expect [to] IND submission and pre-IND submissions, respectively, during the second half of this year 2023.

The financial reading from all those developments achieved in innovation in 2022, plus the ones expected for the year 2023 is a very solid combination of life cycle management strategy to reinforce leadership position in our most cell proteins in terms of plasma liters equivalent, together with a robust and diversified pathway to bring new proteins such as Trimodulin, Fibrinogen or ATIII in Sepsis, that we expect to have a significant contribution in the midterm to the company's plasma economics and hence, to its gross margin improvement.

Now turning to Slide 12 for diagnostic. Diagnostic performance has been impacted due to nonrecurring sales of the NAT technology to detect COVID-19 and the termination of mandatory Zika virus testing, which was partially offset by a year from blood typing solutions, which delivered a strong revenue. Excluding these 2 items, the business unit declined by 4.6% at constant currency in 2022, impacted by pricing in exchange of extending a large contract with a key NAT donor screening customer for 15 years, coupled with weak performance of recombinant proteins resulting from the joint business collaboration on a new R&D project.

Blood typing solution was the main driver of the business unit, recording a robust double-digit growth across most geographies. Of note, U.S. and Mexico with everything gaining market share globally for that division. As I mentioned, in the third quarter business update, I would like to emphasize the importance of launching AlphaID At Home, an OTC free service to assess genetic risk of developing alpha-1 deficiency in the U.S. as well as the new DG Gel 8 card in the U.S. market.

Now turning to Slide 13 to comment on Bio Supplies. Bio Supplies increased by 13% at constant currency and by 26% on a reported basis, following the acquisition of the remaining 51% capital of Access Biologicals, which positively impacted performance of Bio Supplies, cell culture media and plasma for diagnostics. The rationale of the acquisition of Access Biologicals was to achieve higher margins through vertical integration to gain commercial knowledge, to grow in the cell culture market, in-vitro diagnostics and diagnostic R&D solutions, and to enhance and reinforce the Bio Supplies portfolio with a more robust offering of biological products, while boosting Grifols' standing as a reportable supplier of biological products. We are firmly convinced of Bio Supplies potential, and it will be high future growth engine for the company.

And now I will turn now and hand on to Alfredo on the financials.

Alfredo Arroyo Guerra
CFO & VP

Thanks, Victor. Hello to everyone. We're in Slide 15. In Q3 earnings call, we provided guidance on revenues, EBITDA and leverage for the year 2022. And now we can confirm that we met and even exceeded the targets, EUR 6.1 billion revenues, 20.6% margin and 7x leverage. Slide 16 shows the 2022 P&L with an accelerated growth and improved profitability. Revenues on -- Q4 revenues were up by 20.9% at constant currency versus prior year, reaching EUR 1.7 billion. On a reported basis, this growth represented a 34.7% increase. Top line for the full year increased by EUR 1 billion, reaching EUR 6 billion, representing close to 23% increase versus prior year of 20 -- 12.4% growth at constant currency on the back of a strong organic growth of Biopharma, positive Biotest contribution and a positive FX.

On the gross margin, this gross -- the gross margin was impacted by high plasma costs collected in 2021 and the first half of 2022 due to the 10-month lag inventory accounting, higher plasma costs mainly coming from higher donor fee and labor cost inflation. Also the termination of COVID-19 and Zika testing business impacted total gross margin by 200 basis points in 2022 versus prior year. Reported EBITDA grew up to EUR 1.2 billion, 16.5% growth at constant currency with a 20.6% adjusted margin, improvement based on operational leverage, including SG&A cost savings and R&D prioritization that partially offset higher cost of plasma and lower diagnostic margin. Net profit increased by 10.4%, up to EUR 208 million hit by higher financial expenses linked with Biotest acquisition.

Now moving to Slide 17. The 2022 EBITDA reported increased by EUR 237 million to EUR 1.2 billion with a 21% margin. Positive contribution to EBITDA from all business units except diagnostic, coupled with OpEx savings. Slide 18, leverage, deleveraging remains a top priority with a 4x target by the end of 2024. Reported leverage declined to 7x at the year-end. Leverage will further decline in 2023 on the back of higher EBITDA and deleverage transactions. A strong liquidity position amounting to EUR 1.6 billion at year-end with no significant debt maturities until 2025.

Moving to Slide 19 and 20. In the next couple of slides, I'm going to provide you with some details about the comprehensive improvement plan that we just unveiled a few days ago that will bring more than EUR 400 million of annualized cash savings. This plan is already in deployment and expected to be completed through 2023. Out of the EUR 400 million, about EUR 100 million of these savings will be recognized in 2023 P&L.

The reasons why only EUR 100 million will be in this year's P&L is due to the timing of the initiatives implementation and the 10-month accounting lag of our inventories related to the plasma cost. Many of you may wonder why plasma cost savings take 10

months to flow through the P&L. The explanation is the following: out of 10 months, 3 months for plasma [indiscernible] related to collections, testing, quarantine time and inventory on hold and 7 months for the fractionation, purification, filling, packaging and product release. This 10-month inventory accounting treatment is in line with the industry accounting standards.

Cash savings of EUR 250 million will be captured in 2023. 75% will come from lower plasma costs that will impact in our inventory. So our inventory will be lower, thanks to this lower plasma cost. The majority of the annualized cost savings, EUR 300 million, will be recognized in 2024. So out of the EUR 400 million, again, EUR 100 million will be booked in 2023 million and EUR 300 million will be booked in 2024.

This plan will deliver a more efficient, effective and competitive organization to support Grifols long-term strategy. The plan focuses on 3 major projects. optimizing plasma cost and operations, streamlining corporate functions and capturing other efficiencies across the organization. For the first project, our goal is to create the most efficient technologically advanced, donor friendly, highest quality, world-class plasma procurement operations.

To this end, some of the key initiatives being currently deployed and in deployment are driving efficiencies in our plasma centers by creating more digitalized automation functions, enhance services across functions and business units, which will come in the second half of the year, due to the phasing of the initiatives implementation and loan inventory accounting cycle as already explained. We expect a total revenue growth of 8% to 10% at constant currency and 10% to 12%.

The main reason for this improvement is the meaningful plasma cost decline already started in Q4 2022 plus the continued reduction in 2023 accelerated for the EUR 400 million in cash and cost savings, we will deliver on our guidance and you should see a significant margin improvement in the second half of 2023.
And finally, 2023 is the year where we will deleverage the company [indiscernible] chapter in the company's long growth history. With that also goes our commitment to keep you informed of our progress with these calls which I hope you find our value. So finally, let me thank you for your attention. And I'll now turn it back to Nuria who will open it up for questions.

Question and Answer

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

[Operator Instructions] We have the first question coming from Peter Verdult from Citi.

Peter Verdult
Citigroup Inc., Research Division

Just on the midterm targets. Historically, they've been for EBITDA margins exceeding 30%. So Thomas and team, if you execute to your plan, when do you see this target being reached at the earliest? Is it something that is '25 and beyond? Or could it come sooner? And then Thomas, your last line about looking at accelerating deleverage. I know there's been discussions around a dual share structure collapse [indiscernible] sale or maybe even options with diagnostics. I think they've been put off the table at least near term. But given your comments about the train leaving the building and really being committed to accelerating deleverage, could either of these options still be undertaken in 2023?

Thomas H. Glanzmann
Executive Chairman

[Peter], you don't mind I take your first question regarding the midterm guidance. As I said, the EUR 1.7 billion, which will account for the annualized EUR 400 million, that's 27%, 28%. So if we think about operational improvement in 2024, we can get to 28%, 29%. To come back to the 30s, this will come from 2025 onwards, while at the time that we will launch the 2 new products from Biotest.

Alfredo Arroyo Guerra
CFO & VP

Peter, thank you for the question on the deleveraging. And let me just say, first of all, all options are on the table, and we are looking at them as we go forward here. And the collapse of the shares is also something that we committed to and will do. But the trading value has got to be right, and it's got to be valuable for all shareholders that are involved in such a transaction. But we are very much looking and we will make it happen in 2023.

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

Thank you, Thomas. We have now a question from Rosie Turner from Jefferies.

Rosie Turner
Jefferies LLC, Research Division

Maybe we could go back to what does that mean in terms of the past this year? And I suppose that 4x, does that rely on a transaction coming through? And then just to clarify on your comments to heat. So does that mean you said that there will be a collapse to check...

Thomas H. Glanzmann
Executive Chairman

So Rosie, thank you for the question. I will just address the piece on the collapse and I'll pass it on to Alfredo just to pick up your other point. So on the collapse, it all depends on the trading value of the shares. And right now, where we are, that is obviously not of interest. So we are continuing to monitor how the shares progress, and we will then make the decision at the right time when it makes sense for everybody.

Alfredo Arroyo Guerra
CFO & VP

Regarding the deleverage target that for 2024, the 4x remains intact. And this will be achieved as it will be the combination of both the EBITDA increase plus deleverage transaction.

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

Now we have Elizabeth Walton from Credit Suisse.

Elizabeth Walton
Crédit Suisse AG, Research Division

Just one clarification on the transaction this year. Can I check if you are also considering just a straight equity raise? I know that's been also discussed by many investors. You talked about the dual share collapse and potential divestments of business units that you have, but can we just triple check on a straight equity raise? And then maybe you can help us understand a little bit more as to what's driving that EUR 250 million of cash savings you're expecting this year. We see your peers reporting weak cash flow as they're rebuilding inventory. Perhaps you can remind us where you are in terms of level of inventory that you hold and if you expect to return to pre-COVID level?

Thomas H. Glanzmann
Executive Chairman

I will just address briefly the first part of your questions and then pass it on to Alfredo. As I said before, everything is on the table, and it all depends on the value that we can create and what makes the most sense for the company.

Alfredo Arroyo Guerra
CFO & VP

Regarding the cash savings this year, the EUR 250 million plasma cost reduction that, as I said, it takes time to go through P&L. However, we take it as a lower inventory upfront in 2023. And the rest, up to EUR 250 million will come from the G&A, I would say, savings and other savings across the board. I already mentioned. So that accounts for EUR 250 million. Regarding your inventory, yes, as you saw in our cash flow in 2022, we built up a significant inventory just to recover the levels of the pre-COVID time. So for the 2023 cash flow year, the inventory growth will be very limited because we're already in line with the inventory that we need to commit our sales, okay? So that's on inventory side. We'll see, I would say, positive trend versus the previous year.

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

we have next question coming from Tom Jones of Berenberg.

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

I had 2. Firstly, I was just wondering if we could come back to one aspect of the guidance for 2023. You talked about 10% to 12% constant currency growth in your plasma business. But I wonder how you reconcile that with the growth in collections that you've said, you've been running at probably 20%, 25% up on collections yet. You're only pointing to [indiscernible] environment, that seems fairly conservative given the amount of plasma you've got. So I was just wondering if you could sort of reconcile those 2 figures for me. And then the second question, maybe one for Alfredo.

I guess it pertains to the leverage, but I was just wondering if you could clarify exactly how you calculate the EBITDA number that you've used to calculate your year-end leverage ratio. I think it caught us by surprise and probably caught you by surprise, given you were guiding to 7.9x midyear and you came in at 7.1x. So the debt hasn't changed much, but obviously, something has gone on with EBITDA. So if you could just clarify exactly how you calculate the EBITDA that you use in your leverage ratio, that would be helpful for us all, I think.

Víctor Grifols Deu
Co-CEO & Executive Director

Thank you, Tom. This is Victor. I will be answering your first question about the linking the 25% volume growth in plasma for 2022 compared to the 10% to 12% sales growth in biopharma for 2023. The 25% volume growth that we have seen and realized during 2022, basically, as Alfredo was saying in the previous question, has been devoted to rebuild our inventories that were affected very highly by the pandemic. So basically, this has been financing the inventory buildup. So part of that 20% growth [indiscernible] to that. And then as I have said, some centers are going to be consolidated. Therefore, we don't need that much amount of plasma for 2023 to meet our sales. So there is really, we are now tackling sales really directed to the volume needed.

Alfredo Arroyo Guerra
CFO & VP

Tom, good to talk to you again. Regarding the leverage calculation, the 7.1x for the year-end 2022. I mean we are consistently calculating the leverage ratio based on the current credit agreement that clearly states that in addition to, I would say, the standard adjustments related to IFRS 16 and others, they specifically disclose the nonrecurring items on one hand, basically restructuring charges and transaction costs and all these things. And in addition to that, they allow you to include as part of the EBITDA covenant, the amount of cost savings associated to operational improvement plans like this one on a run rate basis for the upcoming 12 months with a cap of 10% of the EBITDA. So that's the way that it is being calculated, but happy to provide you with a detailed reconciliation in case that you needed.

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

Perfect. And then so just a follow-up question on the leverage. You obviously gave us a target at the CMD for leverage this year, and you've given us a target for leverage at the end of next year. Would you be fair to give us any kind of steer for what you expect leverage to look like at the end of this year? And I guess it probably includes whether you do a large transaction or not, but maybe some qualitative commentary you can give us around the sort of stepping stones between the 7.1 and the 4.0...

Alfredo Arroyo Guerra
CFO & VP

I mean, obviously, I mean, you can do a quick math with the EBITDA that I provided to you with the adjustment that mainly to be included. But as you said, clearly said that it will depend on the size of the transaction, and it is going to be 1 or 2. So finally, those will be the one that will move the needle in 2023, but we'll reiterate the 4x leverage target for 2024.

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

Let's move now to James Gordon with JPMorgan.

James Daniel Gordon
JPMorgan Chase & Co, Research Division

James Gordon from JPMorgan. I think some of the key ones have been asked, so I just do 3 quick clarifications. One was on the biopharma revenue guide, so the 10% to 12% growth, even though you could grow quicker than that and that you'd have enough plasma to do so. Is that because that's where demand is, that demand is actually the limiting factor, and there isn't even of easy comps or is it more demand than that? Or is it more about the fractional economics that you could grow more quickly than that, but you wouldn't be able to maintain the sort of EBITDA margins do you want to now get to? And that was the first one.

And could that be a bit conservative if you've also got operational leverage and underlying improvement and the EUR 400 million of savings? And then the final clarification was just divestment. I think you said that everything is on the table. But is it now less likely that you look to divest some of older Shanghai RAAS given you want to retain exposure to China for strategic reasons? Or is that still as likely is doing a share collapse?

Víctor Grifols Deu
Co-CEO & Executive Director

Thank you, James. This is Victor. This is a combination of many factors. We have, as you know, our hemophilia franchise, for instance, has been in the recent years impacted, and this continues to do so. meaning by that, that IG, which is the lion's share of our sales and Alpha-1, both are growing nicely. in a way above this 10% to 12%. So this kind of gives an indication that really there is solid demand there. We have the plasma that we need to fulfill those sales. And basically, this is the answer to your question, the third one.

Alfredo Arroyo Guerra
CFO & VP

To your question regarding the margin, the 28%, 29% for next year, which would be 1.7%, 1.8% with organic growth, biotest contribution up to the time that we will launch the new products will be the minimum. So it's all about stand-alone and combined is pretty much the same.

The operational leverage, yes, obviously, this EUR 400 million is basically, as you said, this is the result of a bunch of initiatives, a lot of initiatives to achieve operational leverage, especially on the plasma cost and across the whole organization.

Thomas H. Glanzmann
Executive Chairman

And let me just come back on the question Shanghai RAAS and any of the other transactions that we are looking at or contemplating or that you might consider, we will obviously do nothing if it doesn't create value, and that also goes for the capital raise because obviously, we're looking at this very carefully to make sure that we create the most value for the company. So I just want to make sure that we're very much aligned on the fact that we -- it is one of the options, but it is not necessarily the preferred option.

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

Thank you, Thomas. We have Guilherme Macedo from CaixaBank.

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

So the first one on your plasma collection capacity versus prepandemic in 2023 following the restructuring that you plan to undertake. If you can compare it with your targets in terms of plasma collections that you mentioned that you don't need that much plasma for 2023 to fulfill met? And the second question is about the EUR 400 million savings. Should we think about them on gross terms or in it, including perhaps potential needs to reinvest in the business that you might have?

Thomas H. Glanzmann
Executive Chairman

I will take the first question. Again, now with Grifols, we are in a stage regarding plasma collection that we have the availability to collect the plasma volume that we need to meet our sales growth for the year. So on that side, we are basically now focusing on improving the productivity per center, meaning that we get the same plasma volume that we need, but if possible, at a better efficiency and productivity levels to help us the margin expansion...

Alfredo Arroyo Guerra
CFO & VP

Regarding your question, the EUR 400 million, there are net and no additional investments would be required was all basically streamlining all our operational cost.

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

And from Banco Santander, we have Jaime Escribano on the line.

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

So a couple of questions from my side. Regarding the target of EUR 1.7 billion, which at first sight could look low. But obviously, you are not including Biotest EBITDA or any incremental EBITDA coming from sales growth in 2024. Would it be fair to say that when you add up these levers also product mix and others, the EBITDA could be more closer to EUR 1.9 billion, EUR 2 billion EBITDA or at least close to the consensus in 2024, which is right now EUR 1,850 million. The second question would be regarding the [donor fee]. How much downside from current levels do you see? So is there room for further improvement or capping the donor fee more? And final question regarding free cash flow generation in 2023. How should we think about that figure? If you can provide any kind of magnitude range or at least qualitatively, how do you see the free cash flow improving this year?

Alfredo Arroyo Guerra
CFO & VP

2 questions. So first question on the EBITDA levels, on an annualized basis, as I said, this is EUR 1.7 billion for 2023. For 2024, you need to add the organic growth. So clearly, it will exceed by far this EUR 1.7 billion. So maybe we'll be close to your expectations. The donor fee, yes, we see that donor fee can be further optimized by discrimination of donor centers depending on the area, depending on there are competitors across the street or not. So this is like any other business with pricing management. So there is a room for improvement on the donor fee.

On the cash flow generation, this year is going to improve significantly versus 2022. First of all, because on the back of higher EBITDA, point number 1. Point number 2, lower working capital consumption because the inventory growth will be very limited.

Lower CapEx, the EUR 100 million lower CapEx than the previous year. So basically, due to those, I would say, key 3 levers. The cash flow generation will be significant. But at this point of time, we'll not provide with the specific details.

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

Thank you. We are close to the final time of this call, but we have 4 questions, so 4 persons still willing to as we'll try our best to answer your questions for this for at least. So now it's Thibault Boutherin from Morgan Stanley.

Thibault Boutherin
Morgan Stanley, Research Division

So just one on the plasma collection for 2023. So I understand that you are managing the level of plasma you're going to collect going forward with the closure of some centers and the improvement in productivity in the remaining centers. And I guess, if you think about the growth rate of collection in '23, probably on the first half of the year is going to be relatively high because your base is lower. But from the normalized base that you achieved in the fourth quarter of 2022, what is your ambition to grow collection further when we think about beyond 2023. So basically, should we see again an ambition to grow the volume and for example, expanding to new centers? Or are we going to remain in a mode where you're trying to manage your productivity by center rather than trying to expand [indiscernible] centers.

Víctor Grifols Deu
Co-CEO & Executive Director

Thank you for the question. You nailed it at the end of your question. It's about we will manage volume, of course, by existing centers, but especially through productivity. We are not back to pre-pandemic levels productivity-wise. So there is plenty of room for improvement to use the level of productivity per center to get the volume that we need and to align the volume needs with the sales needs. So it has been in the past, and now we expect this to be the case. And the [indiscernible] has been the pandemia.

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

Thank you, Victor. We go now to Charles Pitman from Barclays.

Charles Pitman
Barclays Bank PLC, Research Division

Two quick ones from me. Firstly, just on the deleveraging options. Can you just talk about the potential considerations you'll have to think about when thinking about exiting either part or all of the Shanghai RAAS stake? Are there any limitations there? Would you have to find a local player to sell the stake to? Just any more information around how that could actually be taken forward would be great. And then just secondly, on the potential impact of new competitors, say, you've got CIDP as competitive threat this year. I'm just wondering to what extent you've reflected that in your kind of near and midterm guidance?

Alfredo Arroyo Guerra
CFO & VP

Your first question, there are no limitation on the potential Shanghai RAAS divestment.

Víctor Grifols Deu
Co-CEO & Executive Director

And regarding the competitive landscape in the immunomodulation market, FcRn blocker [indiscernible] to be more precise, due to the mechanism of the disease itself, it's a very complex disease. Many factors are implied in the disease modality. And we really don't expect that this may have a huge impact in our CIDP franchise. Therefore, we are not modeling as well that impacting our midterm projections. We expect this to be limited for CIDP.

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

And now from Alantra Equities, we have Alvaro Lenze.

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

Real quick. Just if you could give us some indication of the EUR 300 million expected cost savings on the plasma side. How much of this could come from lower donor fees and the overall operating leverage of recovering volumes? And how much from the actual layoffs and the more inorganic measures, so to speak, in the restructuring. So how much organic, how much the actual restructuring?

Alfredo Arroyo Guerra
CFO & VP

Okay. It will be 50% coming from optimized donor fee and 50% from the rest basically, as I said already gave you some details about [indiscernible] initiative, 50-50.

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

And Juan Ros from ODDO BHF.

Juan Ros Padilla
ODDO BHF Corporate & Markets, Research Division

I have 3 very quick ones. First one is regarding plasma collection centers. You've been adding new centers in the last few years, and you've said in the past that some of those centers had kind of legacy contracts with higher costs. And I'm wondering what's the impact of the renewal of those contracts once [indiscernible] and they are renegotiated with better terms, are the impact of those already embedded in your cost saving guidance? Second, regarding the surprise collapse, sorry, to be bothersome with this, do you have any kind of share price level at which you start considering the collapse? Is it 15 per share? Is it 20 per share? And finally, another bothersome question, just to clarify, could you please tell us if you are involved in any kind of talks, even if they are very preliminary to dispose any business of the Grifols Group?

Thomas H. Glanzmann
Executive Chairman

I'll take the first one. Thanks for the question. Yes, the operating performance improvement plan on plasma contemplates is a blended of this kind of new centers that we have acquired in the pandemic plus some third-party contracts to get plasma from it. So yes, everything is contemplated. And as I said in previous questions, as an answer, regarding the footprint, whatever center that makes sense to consolidate or to close, we have yes done or we will continue to be doing during this year 2023 to really fine-tune precisely this balance between volume and productivity.

Alfredo Arroyo Guerra
CFO & VP

Okay. So I'll take the others. Regarding the [AMB] unification, obviously, we need to look for the right spot, the right time and the right spot will be with the right gap and the right stock price for the time being, we have not decided yet on these 2 factors. And then of course, we will not disclose any talks for the potential deleverage transaction.

Víctor Grifols Deu
Co-CEO & Executive Director

And I'll take the last one, and that is your specific question on where we are on any transaction. Obviously, that's very confidential, and I cannot go there. However, I want to again reiterate one point just to be very, very clear and is that we are not considering a capital raise at all, and that's not a favorite option at the current valuations that we have. So unless something dramatically changes in the valuations or our trading prices going forward, that is not really on the table. So it's not something that, we're putting that really as a very last option.

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

And very quickly, we have one follow-up from Peter from Citi.

Peter Verdult
Citigroup Inc., Research Division

Well, I think it will be very fast because I was looking for a clarification because I got worried about the comments last year at the CMD being no capital raise to all options being on the table. But I think Thomas has clarified that in terms of his previous comments, so I won't waste any more time.

Nuria Pascual Lapeña
VP of Corporate Treasury, Risk Management Investor Relation & Sustainability Officer
Thank you anyway. And with that, we'll end the our call today. You know that any other questions, the IR team, it's always available and any other conversations we can follow up in the next few days. Thank you very much for taking part. Bye.