Grifols

Q1’23 Earnings Call

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Speakers

Nuria Pascual, VP, Corporate Treasury & IR & Sustainability

Thomas Glanzmann, Executive Chairman & CEO

Victor Grifols Deu, Chief Operating Officer (COO)

Alfredo Arroyo, CFO

Questions From

Jo Walton, Credit Suisse

James Gordon, JP Morgan

Guilherme Sampaio, CaixaBank BPI

Tom Jones, Berenberg

Jaime Escribano, Banco Santander

Charles Pitman, Barclays

Vineet Agrawal, Citi

GRIFOLS Q1 2023 Results

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
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. If you want to raise a question, press star followed by 5 when the Q&A session begins. We will kindly ask you to limit your questions to a maximum of two, please.

As a reminder, this call is being recorded. The materials for the call are on the investor relations section at grifols.com. 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 statement disclaimer on this slide of the release. Forward looking statements on the call are subject to substantial risk and uncertainties, speak only as of the call's original date. And we undertake no obligation to update or revise any of the statements.

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

Thomas Glanzmann, Executive Chairman and CEO
Thank you Nuria and thank you to everyone for joining the call today. Before we turn to the specifics of our business performance, financials and full year 2023 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 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 Operational 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 outline 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, of which the most important first step was establishing a new organizational model. This involved the creation of four strategic business units and the appointment of new management under whom we have refocused our strategic efforts to accelerate growth.

Upon my appointment as Executive Chairman in February of this year, I swiftly sought to streamline Grifols' leadership structure – establishing a core senior leadership team with clear responsibilities. And now, as announced yesterday, my appointment to CEO further clarifies our decision-making processes to accelerate Grifols' growth and strategic progress. Victor has been appointed as the Chief Operating Officer and Raimon has been appointed as the Chief Corporate Officer. We have now clearly defined the responsibilities 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 we'll 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 2022 we set clear priorities to reposition the company and made a number of key commitments in our February 2023 call. I am pleased to report that in the first quarter of 2023 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 demonstrates 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' interests. 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 like0-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 19-20% guidance set for the first half of 2023. Consequently, we are raising our guidance to above 21% for the first half and for the whole year to 22-24%. Therefore, we now expect to exceed the 1.4 billion Euro EBITDA guidance for 2023.

The execution of our operational improvement plan is also exceeding our expectations with more than 80% of the 400 million Euro already deployed as of today. We have identified additional savings and are raising also here our target to more than 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 2022. We are laser-focused on further reducing cost per liter and we expect this to contribute to EBITDA expansion in the range of 200-400 bps starting in the second half of 2023.

Additionally, we continue to make good progress on several workstreams to meet our debt reduction commitment in order to get to a leverage ratio of 4 times by 2024.

Returning to our commercial and innovation priorities, we continue to see significant opportunities for our high margin AlphaOne Prolastin and subcutaneous IG product Xembify. Additionally, we are

making significant efforts to accelerate the approval and successful launch of the new Biotest proteins. One 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 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 Operation 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 turning to slide 6. It is important to know that we have also made changes across the organization beyond the senior executive team. In 2022, a new organizational model was established to increase focus and build the performance culture that is more efficient, effective, agile and decisive and accountable. These changes included the appointments of new management to lead the Biopharma and Plasma Procurement business units, and a new president Diagnostic.

These new leaders have extensive experience in diverse industries, including health care, particularly bio pharmaceuticals 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 have 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 Deu, Chief Operating Officer (COO)
Thank you so much. Good morning, or good afternoon to everyone, and thank you for joining us today. Let's turn now to slide 8 for business performance.

In Q1'23, Grifols revenue grew by 18% at constant currency and 23% on a reported basis, reaching a record level of 1,561 million Euros. If we exclude Biotest, total revenue reached 1,444 million Euros, an increase of 9% of 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 currently and 10% at constant currency like-for-like, excluding Biotest, backed by robust underlying demand, favorable pricing, and product mix.

Now turning to slide nº 9. We delivered a robust first quarter, driven by 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 upward momentum to persist backed by robust underlying demand. Our efforts to grow the market share and revenue of our SCIG Xembify are yielding positive results with increase of 34% in Q1 2023.

Albumin growth was supported by higher demand and price increases in China, offsetting current market 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 and specialty protein delivered a mid-single-digital growth thanks to the higher demand of Alpha-1 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 IVIG; our SCIG commercialized in the U.S. and having received approval in several European countries and Australia for primary (PI) and secondary immunodeficiencies (SID) in 2022; as well as our hyper immunes.

The global IG market is valued at more than 40 billion Euros. And it is expected to grow by high-single-digits in the upcoming years, mainly driven by PI and SID which represent approximately 40 to 55% of the total IG market. SID have notably increased due to an aging population and the use of immunosuppressive therapies, such as immuno-oncology treatments, for which IG is the preferred and only option. Additionally, the increasing awareness around the benefits of IG therapy, and improved diagnosis of PID have led to more patients receiving treatment with IG therapies.

With a broader, untapped 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 three pillars. We are focused on growth in the U.S. and prioritizing selected countries, in line with our aim to leverage our geo mix. We are focused on the immunodeficiency market, with PI and SID growing ahead of the rest of the uses while continuing to accelerate our SCIG Xembify adoption, building upon the important traction gained over the last quarters.

To leverage on this expected growth, among others, we are dedicating efforts to lifecycle management, which includes seeking new indications. On 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 2018-2025, with a market potential of over 1 billion U.S. dollars.

We also aim to maintain leadership in neurology and acute care within autoimmune diseases, where IVIG remains the standard-of-care. Our flagship Gamunex-C 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 SCIG Xembify, which offers 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 the development, with several key milestones anticipated for 2023.

Now turning to slide 11. As Thomas has already commented, the cost per liter is encouraging and reflects the significant progress we are making in the execution of our Operational improvement plan. Taking the figures that 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 the larger extent in our P&L starting in second

half of 2023, due to the inventory accounting practices of the plasma industry, which entail a 9-month period lag. Initiatives triggering the 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 three months of 2023, 7 underperforming plasma centers were consolidated. As of today, adding up to 18 centers shut down 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 costs per liter to drop to amplify following current in-development and under evaluation 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, phase 1/2 study advanced from single dose to repeat dose phase. In terms of lifecycle management we provided final results for the Xembify biweekly 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 first 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 developments expected for 2023 are a very solid combination of lifecycle management and new proteins such as Trimodulin, Fibrinogen and AT-III in Sepsis, which we expect to contribute significantly to the company plasma economics in the mid-term.

Now turning to slide 13 for Diagnostic and Bio Supplies performance. Blood typing solutions were the main driver of the Diagnostic 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. Recumbent proteins increased by 28%, including a Diagnostic company commercial true-up which was partially offset by lower joint business profits. Excluding this true-up, revenue decreased by 32%.

Bio Supplies increased by 70% 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 R&D solutions. It also strengthened the company's offering of biological products. And now turning to Alfredo.

Alfredo Arroyo, CFO
Thanks, Victor. Hello to everyone.

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 are 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 like-for-like basis, meaning excluding Biotest, while reported Biopharma revenues were up by 26% and by 15% like-for-like, excluding Biotest. FX impact, with no significant impact on this Q1 of 2023.

While our gross margin is still impacted by high cost per liter from the plasma collected in the first half of 2022 due to the 9-month lag 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 7 times with a solid liquidity position of 1.3 billion, and also with a positive operating cash flow excluding the one-off restructuring charge.

Plasma collection increased by 11% in Q1, while cost per liter significantly declined to more than 15% by end-March from 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 400 million Euro cash cost savings, and now we have updated this target to more than 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, by product mixed backed by our sub-Q IG.

Regarding operating performance, as we see in the second chart, adjusted EBITDA on a last twelve month basis reached 1.2 million Euros 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 7 times as of March and we reiterate here our commitment to debt reduction, targeting 4 times by end of 2024. We reconfirm our commitment to deleverage and on the back of EBITDA improvements and deleverage transactions. The adjusted EBITDA bridge shows the improvement in Q1 reaching 299 million Euros 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 125 million one-offs includes 140 million restructuring charge that has been fully booked in this quarter. We have also adjusted 19 million Euros coming from the one-off commercial true-up in the Diagnostic revenues. We do not expect any further restructuring cost in the upcoming quarters.

We are successfully executing our Operational improvement plan. As we speak, more than 80% of the initial 400 million cash cost savings have been already deployed. We have increased this target to more than 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 340 million Euros from the initial expected 300 million Euros.

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 275 million, and cost savings flowing through the P&L will be 130 million. In 2024, we're now expecting additional 175 million Euros cash savings and 350 million cost savings that will be recognized in the P&L. As a reminder, the plasma cost accounting role of this industry which implies a 9-month inventory lag.

Our positioning in deleveraging and achieving the 4 times leverage ratio target by end of 2024 has not changed. As we can see in this bridge, considering that 50% of the 1.8 times reduction relates to EBITDA improvement, overall the leverage ratio declining from 7 times to 4 times is coming from 70% of EBITDA improvement and 30% from deleverage transactions. A significant piece of this EBITDA improvement is driven by the 450 million Euro Operational improvement plan.

We are making good progress on the several workstreams of deleverage transactions and we plan to complete one transaction during this year. The cash proceeds will be privatized for debt reduction.

We currently have a total liquidity of 1.3 billion Euros and cash on hand amounting to 400 million Euros.

Based on our solid performance in Q1, we reiterate our full year guidance for topline, and we operate our adjusted EBITDA margin guidance for the first half to more than 21% margin, and for the full year it will be the new margin range between 22-24% excluding Biotest.

As a result of this, we're very confident that we can beat the full year EBITDA Euro 1.4 billion, as well as the 1.7 billion Euro considering the annualized cash cost savings. These numbers confirm that our strong recovery past is ongoing. And with that, I hand over to Thomas.

Thomas Glanzmann, Executive Chairman and CEO
Thank you, Alfredo. I would like to conclude by reiterating a few points that we have already made but 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 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. The strengthened and 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 and improve guidance.

The company has successfully deployed, as Alfredo mentioned, more than 80% of the initial Euro 400 million cash cost savings of its Operational improvement plan and updated its target to more than 450 million mainly driven by plasma initiatives.

Testament of the execution of the plan is to cost per liter reduction of more than 15%.

As also been mentioned multiple times, deleveraging remaining our top priority and our commitment to reduce leverage ratio by 2024 remains unchanged. We are advancing in several workstreams to execute deleveraging transactions.

Adjusted EBITA margin for the full year, excluding Biotest, is again, as Alfredo mentioned, expected to reach the 22-24% range, and we are confident on exceeding 1.4 billion Euro. Pro-forming the additional year 320 million the adjusted EBITDA margin would stand at over 1.7 billion Euros, setting the base for a further expansion of EBITDA in 2024.

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 2023 would not have been possible.

I appreciate your attention, and I now turn it back to Nuria who will open it up for your questions. Thank you very much.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you, Thomas and thank you all. Let's start the Q&A session. Remember you need to press star 5 to ask a question, and we need to limit to two per person. If you have additional questions or follow-ups, then you press the star 5 again and then you can go back to the list.

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

Jo Walton, Credit Suisse
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 to 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? Thank you.

Victor Grifols Deu, COO
Hello Jo, I take the question on the cost per liter. We are comparing to this kind of benchmark from the peak that we had. If we compare it to 2019 it is still above that level, mainly because of two factors, both of them inflation-related. One is the donor commitment compensation or donor fee – it has increased, as we all know. And the same for the labor cost associated to our plasma structure. Excluding those two items, we are still higher than 2019, but narrowing the gap every month that we progress.

Alfredo Arroyo, CFO
To your question regarding the 8-10% revenue growth, as disclosed in the slide, this is including Biotest. Same relates to Biopharma, that 10-12% includes Biotest. So that means that revenue all in is basically including Biotest. Like-for like in Biopharma, we are high-single-digit. So that's our best estimate for the year-end.

Jo Walton, Credit Suisse
My second question if I could, it is a bit more of a perspective on your relationship with Shanghai RAAS. You have talked about China a couple of times as being important. But I think it would be interesting to see how that relationship is going. Many thanks.

Alfredo Arroyo, CFO
First of all, just to remind everybody that the plasma business in China is booming, and Shanghai RAAS results, that are publicly available since it is a listed company, are very impressive, point nº1.

Point nº2, we have an amazing relationship with Shanghai RAAS with full collaboration in all areas, and also to remind everybody that they are our distributors for albumin in Biopharma as well as NAT in Diagnostic. And both business lines in China are booming also.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you, Alfredo. And now we have a question from James Gordon from JP Morgan. Hi James.

James Gordon, JP Morgan
Hello, hope you can hear me. James Gordon from JP Morgan. Thanks for taking the two questions.

The first question is about EBITDA margins. So you took up the H1 margin from 19-20% to 21% plus. But then you didn't take up the H2 margin, so is that because this is more about cost savings being pulled forward or have things gotten a bit better on an underlying business, and could that be a bit conservative for H2? And what has gotten better, something else that got better or that's just phasing? So that's the first question.

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

Alfredo Arroyo, CFO
Ok, to the first question on the EBITDA margin, the improvement is based on basically the underlying business, which was better than expected. I already mentioned about pricing, country mix, product mix, as we see better operational performance on the plasma cost and manufacturing cost. And then, it is true that, in the case of Opex, we are ahead of the budget. It is not because of the phasing,

it is because we are upgrading our target. That's why I said that this EBITDA sequential improvement that we have seen in Q1 versus Q4 last year, it is going to continue in the upcoming quarters.

To the cost savings that you mentioned, 80% already fully deployed, and we have upgraded the target on that sense. So that's why we are very confident that we can beat the 1.4 billion by the end of the year.

Victor Grifols Deu, COO
There was a comment regarding plasma centers and further centers closing. No, this is not the case. We think we have done already all the efforts in the front of closing or consolidating plasma centers. Now, the improvements that we are pursuing in the plasma network are at center level. The restructuring has already taken place. 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 types of activities.

James Gordon, JP Morgan
Thank you. Just as a follow-up. I think that Alfredo was saying that things were actually better on an underlying basis on the first half. So things were going better than originally planned in the first half or you expect them to. So why would that not also mean profitability is better than you originally thought in the second half?

Alfredo Arroyo, CFO
As a matter of fact, we think that in the second half it is going to be within the range 23-25%. And once we close the second quarter, we will 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 1.4 billion by the end of year will be better.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you, Alfredo. And we have Guilherme Sampaio from CaixaBank BPI.

Guilherme Sampaio, CaixaBank BPI
Yes, good morning. Thank you for taking my question. So the first one on donor fees, if you could provide some color on your expectations for additional reduction in donor fees. And second, if you could go through the dynamics in the albumin market in China and the U.S. right now. Thanks.

Victor Grifols Deu, COO
On the donor fees, as you have seen, there is a 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, a positive trend in the sense of lowering the donor fee.

For the second question regarding albumin. As Alfredo tried to instill on his previous comments on China, the market is 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, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you, Victor. Now is the time for Tom Jones. Hi Tom.

Tom Jones, Berenberg
Hello. I do have two questions. The first is just on the balance of revenue growth between the three key proteins or three key franchise areas in Q1. IG was trending well ahead of the other two. Is that a dynamic that you expect to continue broadly for the rest of the year, and what is driving the sort of excessive pricing in IG, is it just kind of pricing mix or is there volume component to it, too. I guess it pertains to kind of revenue per liter.

And then my follow-up question, which is a more longer-term one on margins. I think we are all well aware of the margin uplift potential for IgM and the Fibrinogen products. But the one that doesn't get a lot of discussion is Biotest's IVIG product, Yimmugo. Given it is a relatively new product, one would assume that it has probably a higher manufacturing yield than the incumbent products out there. So just wondered, given how significant – given a tiny improvement in yield can be on IVIG manufacturing, whether there is any longer term margin upside potential, I guess, coming from the Yimmugo technology. And I know you are going to distribute it for them in the U.S., but I just wondered if there is any kind of technology transfers you might be considering into your Grifols IVIG franchise where you can potentially push the yields on your IVIG manufacturing up a bit?

Victor Grifols Deu, COO
Hello Tom. On the first question on the balanced growth among our proteins, clearly IG is driving the race here for us. We expect this trend will continue throughout the year, but the goal of the company after all the turmoil of the plasma availability is to kind of converge the growth, the pace of growth of the three main proteins for us, IG, albumin and Alpha 1. The idea is to go and to rebalance our growth for those three proteins in the coming months and during 2024 as well.

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

Tom Jones, Berenberg
Perfect, that's very helpful. And one follow-up question on margins for Alfredo. Help me understand the dynamics of this – when you gave the guidance for 1.4 billion Euros 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 A, have I got that correct? B, does that not imply that the underlying increasing guidance is probably slightly high that that revealed by the figures you'd given this morning. And then C, might it also partially explain your caution regarding margins in the second half of the year, because optionally the dollar impact will be more significant in H2 than it will be in H1, at current rates.

Alfredo Arroyo, CFO
Currently, in the first quarter, the FX impact of EBITDA is slightly positive and if we somehow project the, let's say, 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 doesn't have anything to do with FX, but on the contrary, we expect that the EBITDA margin will continue to increase and expand every other quarter. Okay? And as I said, once we close the Q2, we'll have more visibility and we'll provide with you an updated guidance.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you. And our next call is coming from Jaime Escribano at Banco Santander. Hello Jaime.

Jaime Escribano, Banco Santander
Hi, good afternoon. So a couple of questions from my side. One regarding immunoglobulin volumes. The question would be, you are selling higher volumes already than in 2019 or there is still room to catch up, for example in Europe or rest of the world or other countries, or you are already selling pre-COVID volume levels?

Second question would be, regarding free cash flow, which obviously has been negative this Q1 because of the cost savings plan, but my question would be, if you can give us some visibility on how we should think about Q2. So probably 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? Thank you very much.

Victor Grifols Deu, COO
Hello Jaime. I 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 close after our plasma recovery.

Alfredo Arroyo, CFO
Regarding the operating cash flow, in Q1 we ended up with positive operating cash flow excluding the one-off restructuring charge. So that gave us a positive sentiment that in the Q2 and upcoming quarters to show a positive operating cash flow. That means including working capital and Capex.

Jaime Escribano, Banco Santander
Okay. Thank you very much. And a final question if I may. Regarding the donor fee, 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 and you said it was minus 20%, this means that the donor fee has kept going down in Q1. What I think I wonder, and the rest of analysts, is 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 declining in the donor fee? Thank you.

Alfredo Arroyo, CFO
First of all, from the cash savings perspective, we expected and what we have seen in these days is that after a significant decline of the donor fee, now we are focusing on the rest of the cost. Labor cost and other fixed costs. So that's point nº1. The good thing is that the market now is, somehow, 'wind-tailing' our donor fee because we see that there is 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 bag 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 expect higher margin than the first half of the year.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Okay. Thank you. We have Barclays now, Charles Pitman. Hello Charles.

Charles Pitman, Barclays
Hi. Thank you for very much for taking my questions. I've got two please. Maybe just on the deleveraging. I know you said that you can't give us any specifics, but was wondering if you can give us any kind of directional, like expected target internally for the level of funds that you expect to raise. I know you said 30% of the target was going to be achieved through deleveraging transactions. 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 second one on the refinancing. So in 2025 you are going to have obviously to pay down your debts. I understand that you are going to use your deleveraging transactions to help pay that down. One of the questions that we have been getting from credit investors is how rating agencies are viewing your ongoing performance, 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 to lay down their concerns, as for example I know that Moody's has a negative outlook right now. Thank you.

Alfredo Arroyo, CFO
Your first question on deleverage. As I said, when we compare the current 7 times versus the 4 times, there is 1.8 times that appears in the bridge which is a combination of organic and nonorganic. So, 50% of this, which is 0.9 times, relates to EBITDA improvement, and the rest is coming from deleveraging transactions. 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 this deleverage is coming from sale of assets.

To the question of refinancing in 2025. Yes, we hold on a quarterly basis or yearly basis, conversations with the rating agencies and we update them with the current development. And clearly, the reason why we want to be at 4 times by the end of 2024 is precisely to get an upgrade in our rating, 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, VP, Corporate Treasury, Investor Relations and Sustainability
And now we have a final question from Vineet Agrawal, from Citi. Hello.

Vineet Agrawal, Citi
Yes. Hi. This is Vineet Agrawal on behalf of Peter Verdult. I have two questions. The first one is, we have two important read-outs coming over the summer. The first Biotest Fibrinogen and FcRn data from Argenx in CIDP. Maybe can you remind us how you are thinking about the commercial potential of Fibrinogen, the revenue exposure in CIDP and why do think your IG business in CIDP would not be impacted by FcRn?

And then just wanted to better understand how much of a growth margin driver Xembify can be and wondering if you could remind us of what percentage of your IG franchise revenues come from subQ. And where would you like this to go over time? Thank you.

Victor Grifols Deu, COO
Regarding Fibrinogen, 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. And 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, it is kind of wait and see, what they bring as news to the market. But putting this aside, it is, as we have said in one of our slides for today, it is a huge market, the IG market – currently at this level of 14 billion Euros, fast-growing historically, and the prospects signaling this 8-9% range of growth for the market. So we think there is plenty of room for all of us to capture value from this market. We're very confident that with the lifecycle management that we have in place, that we'll 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, VP, Corporate Treasury, Investor Relations and Sustainability
Okay. Thank you. Thank you, everyone. And with that we are coming to our hour. Two 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.