Grifols

Q2 Earnings Call

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Speakers

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Thomas Glanzmann, Executive Chairman

Nacho Abia, CEO

Roland Wandeler, President Biopharma

Questions from

Joaquín García-Quirós, JB Capital

James Gordon, JP Morgan

Tom Jones, Berenberg

Charles Pitman, Barclays

Álvaro Lenze, Alantra

Graham Parry, Bank of America

Jaime Escribano, Banco Santander

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Guilherme Sampaio, CaixaBank BPI

GRIFOLS Q2 2024 Results

Dani Segarra, VP, Investor Relations and Sustainability

Hello everyone, and welcome to Grifols' conference call. Today we'll be sharing our second-quarter financial results. Thank you very much for taking the time to join us.

My name is Dani Segarra, I'm Vice President of Investor Relations and Sustainability. Today I'm joined by Grifols' Executive Chairman, Thomas Glanzmann; Chief Executive Officer, Nacho Abia and Roland Wandeler, President of Biopharma.

Today's call will last about an hour, including 30-minutes presentation, followed by Q&A session.

As a reminder, this call is being recorded. All materials used during the call are available on the Investor Relations website at grifols.com.

The transcript and video replay will also be available on the Investor Relations website within 24 hours.

Turning to slide two. I would first like to share a disclaimer on forward-looking statements.

Forward-looking statements are subject to substantial risks and uncertainties. They are only valid on the day of the call, and the company is under no obligation to update or revise them.

Grifols' financial statements are prepared in accordance with EU-IFRS and other applicable reporting provisions. These include Alternative Performance Measures – or APMs – prepared under the group's financial reporting model as defined by the guidelines of the European Securities and Markets Authority.

Please note that Grifols' management uses APMs to evaluate its financial performance, cash flows and financial position as the basis for its operational and strategic decisions. These APMs are prepared for all time periods presented in this document.

Thomas will start the presentation with some opening remarks. And then we will transition to Nacho's' discussion on the business, the financial results for the quarter and his key takeaways following his first 100 days as CEO of Grifols. With that, thank you very much again for joining us today. Thomas, please, over to you.

Thomas Glanzmann, Executive Chairman

Thank you, Dani. Good evening, afternoon and morning to all on the call. . I appreciate you all dialing in for our Q2 call. Before I turn to the quarter, I would like to comment on two filings.

First is the request from the Grifols family shareholders and Brookfield capital partners to perform due diligence as a step towards potentially taking Grifols private. The board has responded to the request accordingly to ensure that all shareholders' interests are warranted and protected throughout this process. It has established a transaction committee comprised of independent directors to oversee the due diligence and evaluate any potential future offer.

The board has retained Latham & Watkins has legal counsel and Morgan Stanley and Goldman Sachs as financial advisors. The board has also agreed on the governance of the potential buyout process respecting the request of conflicted board members to recuse themselves from any deliberations and decisions related to the request and potential future actions coming out of the due diligence.

With the guidance of the advisors an NDA has been agreed upon and the due diligence process has been initiated.

At this time and I want to be clear, there is no offer, agreement or decision regarding a potential transaction or the related terms and conditions, nor is there any guarantee that Brookfield and the referenced shareholders will make an offer for Grifols shares.

Any further update will be communicated to the market in due course and in accordance with applicable laws and regulations.

As always, the Grifols' board of directors and management team are committed to acting in the best interest of all shareholders and we remain very focused and continuing to execute the company strategy and deliver to our commitments in the meantime.

We are not going to make any further comments on this matter on today's call. I thank you in advance and appreciate your understanding.

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

With this communication, the company has provided a response to all information requested by the CNMV. These updates underscore our continued dedication to working closely with regulators and auditors to 45 financial reporting.

Now let us turn to the business at hand and slide 5.

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

We as a board and company, are fully committed to ensuring that we continue to meet best governance and financial practices as we move forward.

As part of this, and as you know, my position as executive chairman is transitioning to a nonexecutive role in line with good governance, practices, and I, alongside the board and management team, stand by that commitment. With regards to the company management, Nacho has established a new executive committee and we have added Rahul Srinivasan as the new Chief Financial Officer to the management team starting in September.

Nacho will share more on his background in a few minutes. But we are pleased to add one of the last remaining pieces in completing our leadership team. Nacho himself joined in April, as you know, and since then, we have had a smooth handover and seamless transition. Our common primary focus has been to meet all of our commitments, execute on our strategic initiatives, deliver the financials with a key focus on free cash flow and continue to evolve the organization for the future.

I also want to touch briefly on the follow-up of the closing of the Haier transaction this June which was a key commitment from us. We are now progressing with a strategic alliance to explore all potential opportunities. We know this partnership will drive synergies by combining our expertise with Haier's innovative technologies.

As part of this strategic alliance, our Al distribution agreement has been extended for the next 10 years with an option for a further 10-year extension. This partnership enables us to enhance our diagnostics business with Haier in China, a critical market for Grifols, as we aim to continue our expansion there, and it will also provide us with the opportunity to further leverage China's hemo derivatives market.

On the debt management front, I would first like to take this opportunity to provide additional clarity on the company's commercial engagement with Moody's. Grifols decided to terminate its commercial relationship with Moody's as we believe that having ratings from two international credit rated agencies is sufficient and a common market standard.

The end of this commercial relationship is the sole reason why they will no longer have access to all of Grifols' information and financials.

It should be noted that Grifols has always provided all the required information to Moody's in a timely fashion, as we do with other rating agencies. From now on, we will continue to work closely with S&P global ratings and Fitch Ratings.

As we have previously stated, debt management is one of our top priorities and we have made good progress with the Euro 1.6 billion proceeds from the sale of the 20% stake of Shanghai RAAS, as well as the issuance of the euro 1.3 billion private placement notes due in 2030.

The completion of these initiatives clears our debt profile until 227, which Nacho will review in further detail later in our presentation.

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

Also noteworthy is the traction Xembify, our sub cutaneous IG continues to gain on the back of a strong performance in the US coupled with a commercialization in seven European countries today and additional ones planned for the remainder of 2024.

On a very positive note, the FDA recently also proved extending the label for Xembify to include biweekly dosing. The new FDA approval also covers naive patients, meaning that we are the only 20% sub QIG approved for patients who have never been treated with any type of IG product.

The third update is that following the release of positive top-line Fibrinogen results in February, we completed the clinical study report and found the results to be extremely promising.

This completion triggers the regulatory approval process which we as planned, will begin in fourth quarter of '24. We expect to launch the product in the second half of '25, first in Europe and then in the US.

These milestones represent significant steps on our path towards revenue growth and margin expansion.

Finally, I want to reaffirm our full-year '24 guidance as the strong operational performance reported in the first half of the year is evidence that the company is on the right track to meet its target across all key metrics, revenue, EBITDA, free cash flow and leverage ratio.

Before I turn it over to Nacho for more details, I want to recognize the Grifols team and summarize the progress that the company has made since early last year. We have further enhanced our corporate governance, restructured and delivered on the cost improvement plan, divested 20% of Shanghai RAAS for euro 1.6 billion to reduce our debt, cleared the path our debt until 2027, recruited a new CEO, made significant management changes and additions, and delivered on all our financial commitments to date.

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

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

Nacho Abia, CEO

Thank you Thomas for all those relevant updates. Hello to everyone. Today it marks my fourth month anniversary of CEO of Grifols. And while a lot of things have happened in the last 120 days, as we promised in the quarter 1 call in May, we have been able to focus on business execution and achieve the goals we set for the second quarter of 2024.

I will explain more about this in the next slides. But first I'd like to provide an update about the leadership team.

As part of our efforts to range in the leadership structure for more effective execution of our priorities, we have streamlined Grifols' executive committee which is now comprised of a combination of some external senior executives and some seasoned professionals from within the company.

This executive team which is now by now completed, includes the presidents of bio pharma, plasma and diagnostics along with the chief corporate affairs and legal officer, the chief industrial service officer, the chief human resources and talent officer and incoming Chief Financial Officer.

Regarding the corporate finance function as Thomas mentioned, we are pleased to welcome Rahul on board. With his recent role as head of EMEA leverage finance and capital markets at Bank of America in London, Rahul brings extensive experience in senior finance leadership. His expertise expands advisory services, global capital markets, risk management, financial planning and analysis, compliance, governance and audit.

Rahul will play a crucial role in implement tiff effective cash flow strategies and driving our debt management plan. Two of the company's two priorities.

To compliment and support the senior executive team we have established as well an extended executive committee that includes all the key functions that will work alongside executive committee to further enhance Grifols' value, mission and strategy.

These two groups will become paramount to the definition and implementation of our strategies moving forward and I am very pleased with the caliber and talent of the team that we have so far.

Turning to slide 9, our second quarter performance was strong and supported the delivery of a solid first half start to the year. Given this, as Thomas shared, we are reaffirming our full GR2024 guidance. In terms of revenue we reach 1.881 million euros in the second quarter, bringing the first half to almost 3.5 billion euros - this represents on a constant currently basis an increase in sales in Q2 of 9.3% versus previous year. And a 7.5% in the first half of the year.

Adjusted EBITDA stood at 441 million euros this quarter with a margin of 24.2%, which led to an adjusted EBITDA of 791 million euros for the first half of 2024, which represents a 22% increase of EBITDA value versus last fiscal year.

These results align well with our expectations to meet our guidance for the coming quarters.

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

Finally, for leverage ratio as per the credit facility decline to 5.5 times driven by EBITDA improvement and cash inflow from the Shanghai RAAS divestment. Without including these proceeds, our liquidity improved to 950 million with cash on hand of 568 million.

All told, we remain confident in our continued progress and anticipate improvement across key financial metrics throughout the remainder of 2024. In line with the guidance we provided in February and reconfirmed in May.

Diving into the specifics of revenue across all Business Units, as mentioned, total revenue grew by 7.5% in the first half of the year. With a strong second quarter growth of 9.3%, both on a constant currency basis.

Biopharma results were just short of 9% growth in the first half of the year and I will provide more details in the next slide.

This acceleration of revenue growth has been supported by a strong double-digit growth of ex-USA markets and a steady progress in the USA. The diagnostic division delivered a positive second quarter with an increase of 1.2% on a constant currency basis. With blood typing solutions and Immunoassay Donor Screening as the main drivers.

This partially offset the negative growth reported in the first quarter that was due to one off in the first quarter of 2023. Excluding this impact, diagnostics grew by cross close 2% on a constant currency basis in the first half of 2024.

Finally, Bio Supplies delivered a strong performance in the second quarter, leading to an overall growth of 33% on a constant currently basis in the first half of 2024.

Biopharma continued to grow, to drive growth in the second quarter with just short of 9% constant coverage increase in the first half of 2024. Immunoglobulin was the highest growth protein up 13% in constant currency versus previous year due to a strong IBIG command and an increase in sub Kunis traction in the US and Europe with a remarkable 60% increase.

Our subcutaneous IVIG remains a key lever in our product mix and continued EBITDA expansion.

Albumin constant growth current basing driven by higher demand in China and US. Meanwhile Alpha-1 and especially the proteins revenue were flat. Mainly due to some delays in the transition of the Alpha-1 especially the pharma distributor in the US which is expected to be bear fruit starting at the end of 2024.

Switching to a new specialty pharma distributor will enhance the value proposition for our Alpha-1 in deficiency patients and will drive revenue growth over time.

On the plasma front, plasma supply continued to increase compared to the same period in 2023. And we optimize our inventory levels through the management of our network of more than 390 plus centers globally. In pair let the cost per liter has stabilized compared to the first quarter of 2024, after declining by nearly 25% on the peak in July 2022.

Finally, as part of our continuous improvement initiatives we are working to enhance efficiencies in plasma and manufacturing yields and to advance our digital technologies to improve the donor experience.

Thanks to the solid top-line growth and supported by operational efficiencies, our adjusted EBITDA stood at 441 million euros this quarter. With adjusted EBITDA margin of 24.2%, up 320 basis points versus the second quarter of last year. This led to an adjusted EBITDA of 791 million euros for the first half of the year, with a margin of 23%, up to 280 basis points versus one year ago.

Gross margin is 37.8% representing an expansion of 180 basis points compared to the first half of 2023. This on the back of product mix, lower cost per liter from the second and third quarter of 2023 in the nine months lag coming from a long inventory cycle and importantly to a larger operational leverage.

Our performance this quarter served as a bridge to the forecasted sequential growth in the third and fourth quarters this year. This continuing improvement provides further confidence in achieving our full-year guidance reaching adjusted EBITDA of 1.8 billion euro plus for the fiscal year 2024.

I'd like to spend some time now talking about cash flow and debt production which as stated many times remain our top priorities. In the second quarter, the companies generated a positive cash flow of 57 million euros, representative of our cash flow turnaround and expected improvement throughout the remainder of the year.

This figure includes 119 million euro payment to ImmunoTek, associated with the extension of the operational improvement plan and the SRAAS deal. Excluding these items, free cash flow would have been close to euro 200 million.

EBITDA and effective working capital management were the primary drivers of this quarter's improved free cash flow performance. Notable improvements include more patient inventory management and better plasma supply handling. Additionally, receivables benefited from the catch-up of 150 million payment from China in the first quarter and the normalization of payoffs.

Meanwhile CAPEX, IT and R&D expenses remained stable.

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

As I initially presented in last quarter's call, these initiatives will be constant as we continue to execute on improvement of cash flow generation.

On our efforts around working capital a significant achievement this quarter was the improvement of around the management of inventory level of normalization of receivables and payables. Looking ahead, we anticipate a moderate increase in working capital while following continue the strong underline demand across all Business Units and the inventory buildups to prepare for 2025 growth. We will continue paying strong attention to tight working capital management.

On the operational improvement front, we are continuing to streamline operations. This covers not only mainstreams operations but also -- plasmas operations but also operations and all tangible functions. Donor-free optimization and improvement of industrial processes.

We have made substantial efforts to improve our cost structure last year, we remain focused on this continuous exercise in controlling SG&A spend to operate more efficiently.

Looking beyond 2024, we have commented a review of our real estate footprint initiated the comprehensive portfolio analysis to ensure all projects and Business Units met expected performance level. These final two pillars are more complex and take more time. But they will contribute to cash flow improvements in the mid and long term.

Real estate optimization includes underutilized office space, options for sale and lease back transactions and optimization our leases. And the analysis of our portfolio assesses new opportunities and identifies underperforming assets.

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

However, we remain committed to achieving the previously provided free cash flow guideline of positive for 2024, which included an impact of 480 million from extraordinary items.

I want to address another of our top priorities, debt reduction. In the first half of the year we have reduced our leverage from 6.3 times to 5.5 times as per credit facility. The leveraging process was primarily driven by 1.6 billion euros per sits from the SRAAS transaction as well as second quarter EBITDA improvement of more than 444 million euros.

In the second half of 2024, we anticipate another reaction in our leverage ratio primarily driven by continuous growth in EBITDA and enhanced cash flows. We remain confident to achieve a target leverage ratio of 3.4 times by year-end.

My presentation is about to conclude, but I hope that with all the developments we have shared today, you can agree with us that Grifols is really on track to meet its full-year 2024 guidance. The

company's performance in the first half of the year is clear testament of our ability to deliver on this year commitments.

In terms of revenue, we continue to see a strong momentum in the second half of the year, mainly the IG growth on the back of our strong performance in the US and new opportunities in Europe, as well as sub cutaneous IG continues to gain traction supported by launches in European.

Albumin also increased by improved performance of Alpha-1 at the end of this year will also contribute to this growth.

Adjusted EBITDA suggested to improve rising from 24.2% margin in second quarter, to 27- 28% in the second half. Supported by revenue growth with better product mix, lower cost per liter and increased operational leverage.

And regarding free cash flow, we have delivered on commitment in the second quarter and we continue to be confident that we will reach positive cash flow for the full year.

To finish, let me summarize a few important takeaways. The management approach focused on the execution of clear and simple strategies with solid operational and financial discipline that provide optimized business performance. Trought this, we will grow our businesses and expand our EBITDA levels while improving free cash flow and reducing our debt over time. Many initiatives are already underway in this direction.

Grifols' businesses is underpinned by solid market and product fundamentals and we operate in a high growth industry with compelling market dynamics. This environment offers us significant opportunities for expansion and innovation. In addition, our business operations portfolio and customer base loyalty are a robust base to ensure we remain strong and we continue to grow profitability as we move forward.

Allowing us to deliver substantial value for our shareholders. In this quarter, we have delivered on our commitment, executed the SRAAS transaction to reduce our debt, enhancing our governance, improving our cash flow and accelerating our overall performance, all of which ensures we are on track to reach fiscal year 2024 guidance.

We are implementing a cash flow improvement plan that is already delivering the results in terms of debt management we have addressed our 2025 maturities and cleared a path for financial stability until 2027.

Operational excellence and efficiencies continue to be a focal point for us, as they drive top-line growth, expand our margins and improve our free cash flow, each of which is crucial for Grifols' long-term success.

And finally, our innovation milestones are well on track for 2024. We are excited about the upcoming commercial launch of Yimmugo in the US and the progress made in the Fibrinogen clinical trial which will happen in the first half of the year. And which will continue in the second quarter with the initiation of the approval process.

These milestones mark significant progress in our innovation and growth strategy, enhancing our ability to broaden our offerings and more importantly better serve our patients by addressing main needs with differentiated products.

Thanks for your attention and time today. And with that, Dani, back to you.

Dani Segarra, VP, Investor Relations and Sustainability

Thanks, Nacho. Now, let's turn to the Q&A.

Please remember to press star 5 to ask a question.

We need to place a limit of two questions per analyst. If you have follow-ups, please dial star 5 again to get back on the list. After you ask your question, we will put you on mute to reduce any background noise.

So, I see several hands raised. Our first question comes from Joaquin. Joaquin, JB Capital.

Joaquín García-Quirós, JB Capital

Yes, hello. Thank you for taking two quick questions. First one is on gross margin. If you could please provide a bit more color on why the gross margin declined in the second quarter of the year, both quarter on quarter and year on year, and what can we expect for the second half of the year, as I thought that cost per liter should already run through P&L.

And then regarding the financial expenses, which were very high this quarter as well. Part of it was GIC, but if you can provide a bit more color and then what could be a run rate for the second half of the year for financial expenses once you have used the Shanghai RAAS proceeds to pay some of the debt. Thanks.

Nacho Abia, CEO

Thank you for your question. Let me take the first one and Dani will comment on the second one. As per gross margin, one part of the activities that we have conducted this year has been a thorough analysis of our inventories and as a result of that, we have taken a cautionary approach in inventory management and have recorded some provision in this quarter to care of potential inventory issues. And this has been compensated, as you could see in the EBITDA improvement by operational efficiencies and by controlling well the SG&A levels this quarter. But over the next months, we should expect normalized gross margin levels at the levels of the Q1 and higher.

And the second question, Dani could take it.

Dani Segarra, VP, Investor Relations and Sustainability

On the financial expenses. Joaquin, this quarter, as long as we are repaying a significant portion of our TLB in the range of 1.1 billion, there is more an accounting entry here that we have to recognize or bring from the balance sheet into the P&L, the deferred financial expenses. So, this is a non-cash item that hits the P&L.

And the second question on the financial expenses on a run rate basis. Certainly, I will not take second quarter as a run rate, I will take more the first quarter. Certainly, in the second quarter, we issued some new debt, but it's true, as I was mentioning, that as soon as in July we repay this 1.1 billion from the TLB and we expect to repay the remaining proceeds from the Shanghai RAAS section, the 1.6 billion, so the whole amount of financial expenses is going to be lower. So, offsetting this new debt with higher rates.

Thank you. Now it's going to be James Gordon, JPMorgan. James, please.

James Gordon, JP Morgan

Hello. James Gordon from JPMorgan. Thank you for taking the question. One question and one clarification. On the question, so free cash flow is a lot better today and I heard you were committed to positive free cash flow for the year. But I think the previous target was only very slightly positive, I think it was 5 million euros in cash generation. You think it will adjust to the positive or given all the initiatives you were talking about, could it be more than that, you could you have material cash generation this year? You previously said 2-2.5 billion in free cash flow 2025 to 2027 and that's under review. Should we soon get an update on that at the October event, is that the plan there?

Another the clarification was on the situation with Brookfield, is there any deadline by which we might get an update or we have to have an update so we get clarity, or is it diligence just open-ended. Can you remind me how it works in Spain, can they do due diligence as long as they want or is there a deadline when we get clarity?

Nacho Abia, CEO

Thank you for your question. On the free cash flow and as I have mentioned, we are actively working on that. We are not ready to provide any guidance and we are going to try to maximize cash flow this year but we remain at this point still with our guidance of positive cash flow during the year.

The activity will continue and the focus on cash flow is going to continue being the more relevant focus for the company. But as I mentioned, I think there's still a lot of unknowns and we remain committed to the positive cash flow this year. And we will try to make it better if we can, but definitely not a commitment at this point.

As for the next year's cash flow, I think that it was mentioned in the last call and, again, we are not ready to provide just guidance for that. October at the capital markets day might be a good occasion for providing that guidance, and I expect to be ready by then.

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

Thomas Glanzmann, Executive Chairman

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

James Gordon, JP Morgan

Thank you

Dani Segarra, VP, Investor Relations and Sustainability

Thank you, James. Tom Jones, please, we are looking forward to hearing your question, please.

Tom Jones, Berenberg

Good afternoon, I have got two. One operational and one other one. So, on the operational side, I just wanted to see if you could have more detailed comments around the outlook for the NAT business and the Alpha-1 franchise too of your revenue generation which have been struggling a bit; when you expect those to return to sort of a more normalized glowing pattern?

The second question, I hate to hop back to the free cash flow and the working capital items, I just wondering if you could give us a little bit more in terms of specifics on some of the things you are working on, particularly around inventories and receivables. You know, I wonder if there's been any change in your approach to factoring receivables, whether you're going to be a bit more enthusiastic with that.

And then around inventories, one of the reasons that Grifols has historically carried high inventory levels is it tended to operate in a fairly cautious basis. It liked to carry significant safety stocks to take advantage of commercial opportunities; it typically had a longer hold and look-back period on the raw plasma, carried more inventory for a rainy day, which, to be fair, saved you in 2020. To what extent is your policy around free cash flow perhaps slightly got to be balanced against the increased

risks of running tighter inventories or, perhaps paying up to factor a few more receivables here and there?

Nacho Abia, CEO

Let me comment on that and the free cash flow and Roland will make comments about the Alpha-1 situation.

On NAT, the NAT business is pretty much flat versus previous year at this point. And we think we have reached the bottom of the situation. And from here, we have positive expectations based on tenders and based on business prospects that the business will start growing again. So, this is about NAT.

On the free cash flow activities, as I mentioned in the last call, obviously, in order to improve in the short term, the main levers that had were working capital and mostly inventory. Compared to Q1, there has not been a substantial change in policy from receivables or payables, but in the case of inventory we have worked very close to the teams across, in a cross-functional efforts with the plasma collection team, the Biopharma team, finance, in order to tie the inventory management, We are very much aware that we still have to be able to face opportunities of the market, the market is growing nicely, and we have to take advantage of that. But at the same time, there are opportunities to make more efficient the way to handle inventory. And that's what we have been doing and that's one of the biggest reasons for the free cash flow this year.

That's from me. And maybe Roland can comment on the Alpha-1 situation.

Roland Wandeler, President Biopharma

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

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

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

Tom Jones, Berenberg

Thank you. I have got a couple more, but I will get back in the queue.

Dani Segarra, VP, Investor Relations and Sustainability

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

Charles Pitman, Barclays

Thank you. Charles Pitman, from Barclays, thanks so much for taking my questions. Just starting off, a quick question on your non-current financial assets and just wondering what the key driver is for that increase in the quarter.

And then just secondly Nacho, you have been in the door for months now, I would love just to get more of an idea of how you are thinking about Grifols and now you have had more of a look around, and what degree of work you believe is still needed to be complete to execute this Grifols turnaround story starting back in Q3'22 and to really convince investors that you are in a position to prevent any of the actions that have created recent overhangs to shares mentioned in press releases from repeating. For example, in relation to the accounting misinterpretation as you highlight in the press release from today. Thank you.

Nacho Abia, CEO

Thank you. I will take the second question. I will ask Dani to take on the first one. But, you know, my impression after four months in the job is that this is a phenomenal company with a fantastic business model, very solid business fundamentals with opportunities that started to develop back in the beginning of 2023 and that we continue enjoying. And I think that the results that we are seeing in this quarter, and in this half, I think are a testament of that. All financial indicators are improving, are showing the right direction. Profit, EBITDA. We know we have to work on free cash flow and we are working on that, but everything else is really moving well, and most importantly for me, I think when I see this 9% growth in Biopharma, that's a phenomenal springboard to continue generating efficiencies and increasing our EBITDA margin.

So, how to convince investors? I think this is a loaded question. I think that the way to convince investors is to continue delivering. I mean, delivering on our promises, making sure that we have reasonable targets and guidance and we deliver on them without surprises and making sure that we operate in a way that our business is well understood by all the stakeholders. That's the plan and that's what we are planning to do moving forward.

Dani Segarra, VP, Investor Relations and Sustainability

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

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

Charles Pitman, Barclays

Thank you.

Dani Segarra, VP, Investor Relations and Sustainability

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

Álvaro Lenze, Alantra

Hi. Thanks for taking my questions. The first one is if you could help us reconcile the evolution of net debt during the quarter. I see your net debt has fallen by 1.5 billion, that's after having received

1.6 proceeds from SRAAS, and you mentioned that you have generated 57 million of free cash flow. So, there's probably 100 million shortfall there. If you could help us understand where is that.

And the second question is, if you could please give us some indication of what could be potential scenarios for Class B shares. Imagine that in a hypothetical scenario that there were to be a merger of the shares or a delisting of the shares or a voting for Class A and Class B shares to receive different prices in a potential takeover bid, how would that work from a governance standpoint? I don't know, the voting rights for each shares, the number, the minimum voting result that would be needed to make any changes to the current regulation regarding B shares. Thank you.

Nacho Abia, CEO

As Thomas mentioned and I mentioned, I mean, we are not going to make any comment or any speculation on what could happen. This is definitely not a question for us to answer and we will not comment further on that.

As for your first question on the 100 million that are missing, I think I see Dani raising hand to answer.

Dani Segarra, VP, Investor Relations and Sustainability

I am going to get this one. Pretty much as you say, the net debt has declined by close to 1.6 billion. This is pretty much the net proceeds that we got from the China transaction. It's true that our free cash flow was positive by 57 million, which is important, you know, compared to what we reported in the first quarter. But at the end it's not that big amount when you are considering other kind of adjustments like exchange rate impacts, some of them noncash, which are bringing any differences between the free cash flow generation for a specific quarter and how the net debt change, again, in this case Q2, versus Q1. But if you want, we can elaborate a little bit more. We can bring a little bit more details, but this is pretty much the answer.

Álvaro Lenze, Alantra

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

Dani Segarra, VP, Investor Relations and Sustainability

Yes, as I was saying with the question from Charles, you know, this increases because we reclassified the 1.1 billion that we repaid last week, early this July, but after the second quarter. Following accounting principles, we got to reclassify it as a current liability. That's pretty much the main reason why it has increased.

The 1.6 billion, which you can see, taking the picture at the end of the second quarter is more on our cash and cash equivalents and, as we said, we are going to repay debt on a pro-rata basis: 1.1 TLB, as said, and the remaining 500 million is something that we are going to repay next week.

Álvaro Lenze, Alantra

Thank you.

Dani Segarra, VP, Investor Relations and Sustainability

Now, if I am getting correctly, it's time for Morgan Stanley. Thibault, please.

Thibault Boutherin, Morgan Stanley

Yes, thank you very much. My first question is on the ImmunoTek facilities that you are acquiring. The agreement indicates acquisitions of centers in April and July '24, so are these centers already operating today, contributing to your plasma supply? What is the kind of stage of ramp-up of these centers?

And then, the second question is just on the phasing of free cash flow for the remaining of the year. In one of your slides in Q1, you suggested a progressive improvement of cash flow generation in Q3 and in Q4, with Q4 being the strongest quarter. Is it still how you see the rest of the year playing out or could patterns be different?

Nacho Abia, CEO

On the ImmunoTek question, the answer is yes. Some of the centers are already producing and it's part of our plasma collection plan. So, it's producing as planned and as expected.

On the free cash flow, we have generated 59 million this quarter, but we started the first quarter with minus 250 so we still have 200 million negative that we have to overcome and we are working on that. Plus, as I mentioned before, now is the time of the year that we are going to have to increase a little bit our inventory levels in order to prepare and build up inventories for 2025. That's as well why we keep committing with the positive cash flow at this point because we still have work to do in order to fix the year. Thank you.

Dani Segarra, VP, Investor Relations and Sustainability

Thank you so much. Jaime from Santander, please, you can share your question.

Jaime Escribano, Santander

Hi. Good afternoon. A couple of questions from my side. The first one is to try to reconcile your guidance of 1.8 billion for the full year. So, if the gross margin you mentioned is going to recover to the levels of Q1, so close to 40%, let's assume 40%, in order to get to the 1.8 billion, does it not make sense that you have to grow the sales significantly or is it – so we have three moving parts, right? The top line, the gross margin and the Opex. So, in order to get to this 1.8 billion, if the gross margin does not go up to 42-44%, this means that you are going to need this guidance because of much more top line growth, and if this is the case, maybe you can elaborate on what is what you are seeing, what is the visibility you have in the second half, so you are so confident in this robust top-line number. Sorry, this is a little bit elaborated, but it's just one question.

And then, the second question is regarding the - you mentioned that there was also a possibility to sell plasma to third parties, if needed, in order to boost a little bit the free cash flow. Is it still on the table? Do you think you will end up needing to do it in the second half, or do you think you don't need to do it? Thank you very much.

Nacho Abia, CEO

Thank you. On the second question, a quick no. That's not on the table. And we will continue our regular operations that we have initiated in order to work on the free cash flow.

On the first one, let me give you more color. I understand the question, but the accruals that we have taken in order to prevent some potential inventory issues have impacted on our gross margin in about 250 basis points. So, if you add this 250 basis points to our gross margin of the year, then the number is even higher than the Q1 and the next quarters are progressively going to be even better, again because of the cost of plasma. The supply is going to be positively impacted. In the second half we expect to a product mix that will favor higher margins, and on top of that, yes, higher

sales as well in the second half than in the first half. So, when you put that out in combination at the end, we are confident to achieve the margins expected in the second half of the fiscal year.

Jaime Escribano, Santander

Thank you very much.

Dani Segarra, VP, Investor Relations and Sustainability

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

Graham Parry, Bank of America

Thank you for taking my questions. Just going back to the financial expense. So, wonder if you could give us specific guide there. You previously said you expected a fall in financial expenses from 574 million last year. If we use the Q1 as the guide for the quarterly run rate in Q3, Q4, that would imply more like 650-660 for the year. So, just to be clear you're not expecting an increase of financial expense y-o-y in 2024.

And the other clarification point, just on the 250 basis point margin impact, just to be clear, that was for Q2 specifically not for the full, you mentioned both.

And then second question is on CIDP market dynamics. So we've got now Vyvgart approved. Just your thoughts on the latest market intelligence on positioning of assets and the kind of impact on your CIDP IG franchise. Thank you.

Dani Segarra, VP, Investor Relations and Sustainability

Graham, I'm going to take the first two and then Roland is going to take on the CIDP.

I mean, I was providing some sort, I mean, no guidance, but trying to bring some clarity, some reference about the financial expenses. And I remember that in the first call, we were saying that financial expenses in absolute figures it's going to be lower on an annualized basis. It's true that's it's still in Q3 and part of the second half of this year there are still different pieces that are moving at the very same time. We are repaying 1.6 billion, but we are not doing it at the very same time that we were receiving this 1.6 billion from China that I was mentioning. But when you are putting all the pieces together, you will see, probably more from a P&L perspective in 2025, that the whole financial expenses, you know, as per the P&L, putting any deferred one-off financial expenses non-cash items that I was mentioning, when I was taking a previous question, is going to be lower.

The cost of debt is going to be slightly higher. The new debt is, obviously, more expensive than what it was the old one. We expect some decline in terms of the interest rates but, all in all, we should be expecting something lower. Said that, still think that if you are taking Q1, this is a good reference to project for the rest of the year.

On the gross margin, yes, 250 is the right way to see the impact of the provisions that Nacho was mentioning. Excluding this impact, you will see a sequential improvement around 50, 60 basis points versus Q1, giving strong evidence that we shall keep expecting a lower cost per liter. Or let's put it that way, that the lower cost per liter that we were seeing last year, we are going to see a better, positive evolution in terms of the gross margin throughout the year.

Roland, please, on the CIDP.

Roland Wandeler, President Biopharma

Yes. On the FcRn approval in CIDP, we estimated a limited impact, and this is what we are seeing in the marketplace today. There are really two factors to it. On one hand, looking at the patient

population. As you know, within IG, CIPD is about 20-25% of the IG market. There's only a subset of patients that are suitable for FcRn and within that, we would expect a gradual uptake.

On the other hand, and I would say even more importantly, we are confident that IG will remain the standard of care for first line therapy. This is what we hear from OLs who comment that IGs are just very suitable for this multifactorial disease. And with the high response rate, proof and safety, and long-standing experience of Gamunex in this space, we remain confident, and as a matter of fact, are increasing our engagement in the space.

But with all the focus on CIDP, I don't want to take away from the fact that, beyond that, if we look at immunodeficiencies, primary and secondary, that's where we see and are very excited about the growth potential moving forward.

Graham Parry, Bank of America

Thank you

Dani Segarra, VP, Investor Relations and Sustainability

Thank you, Graham. Thank you, Roland. We have two more questions. Guilherme, please go ahead.

Guilherme Sampaio, BPI

Thank you for taking the question. So, the first one, if you could update us on the situation of IG in the U.S. Maybe you could provide us some market share evolution over the past quarters.

And second one, just a clarification is on an accounting topic. First the Shanghai RAAS capital gain, the one that was reported vs. the 250 million that were initially alluded to. And the changes in the accounting treatment of the 20% SRAAS stake sold in H1 versus the treatment that you already had in Q1 in the contribution of the adjusted EBITDA and what we should consider for the year.

Dani Segarra, VP, Investor Relations and Sustainability

I'm going to take this question, on the Shanghai RAAS contribution, we reported what was the estimated capital gain back in December 2023. At that point we ran some estimations and the number that was provided at the time was compared to the acquisition price, as stated in the filing.

And then we did the same kind of numbers, the same kind of process but on a consolidation basis, considering how the profits, losses, and exchange rate impact, any accounting impact that we had since the acquisition back in 2020 and at the end of the day, the capital gain that we included in the second quarter, it has been lower than initially expected. It was more in the 30 to 40 million range.

And I'm going to wrap up on the EBITDA contribution. In Q1, we only considered the 6.6% EBITDA contribution from Shanghai RAAS because at that point Shanghai RAAS was still considered as an asset held for sale. Now, at the end of the second quarter, by the end of June, the asset was sold, so following accounting rules, we were able to recognize the whole contribution from this asset.

Nacho Abia, CEO

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

Roland Wandeler, President Biopharma

Of course. Without going into the details on the market share numbers, what we can say is that we are very encouraged with the momentum in the US. You saw the growth of our SCIG Xembify, which is very encouraging. And we're very pleased also with the feedback that we get from both healthcare professionals and from patients. And in addition, we also see strong momentum on the Gamunex

side, where we see new accounts coming online. And as a matter of fact, the growth potential that we see in both Gamunex and Xembify are the reason why we decided to give distribution of our new IG in the US Yimmugo to a third-party distributor.

This setup allows us to maximize the uptake as part of the overall group channel strategy, where the Grifols team will continue to focus on growth for our 10% Gamunex across all indications: CIDP, PID and ITP, and of our sub-Q Xembify in PID, and drive the momentum there while we have Kedrion, with whom we have a long standing partnership, focused on establishing Yimmugo in the broader marketplace with expected sales of 1 billion dollars over seven years.

Dani Segarra, VP, Investor Relations and Sustainability

Thank you so much, Roland. Thank you. We are going to take one last question before closing. Álvaro, please.

Álvaro Lenze, Alantra

Hi, thanks for allowing me to jump back into the queue. I see that the performance on albumin has been very strong. I wanted to know whether this is just better commercial performance on your side or that you are seeing more demand for albumin as a volume expander or whether you are actually seeing some increased demand for new therapeutic areas and in that context, what should we expect or if you could provide us any update on the clinical trials you are conducting for Albumin. And the second question was just to clarify what the adjustment to EBITDA you have done for Shanghai RAAS 20% stake which is not the one regarding the capital gain, that overadjustment of 27 million, what that is, I didn't really get that. Thank you.

Roland Wandeler, President Biopharma

For albumin, we are encouraged with the momentum and the demand that we see, especially from China, as you know, the highest priced market, where Grifols is very well-positioned to continue to capitalize on the growth. And with the newly signed contract with the 10-year exclusivity plus a 10-year option beyond, we see continued growth there.

And on the body of technical evidence, you're right. In terms of PRECIOSA, our study on liver cirrhosis enrollment that we completed in 2023, led to the last patient finalizing treatment in May, and we expect top-line results there in Q4. And we will be communicating these afterwards.

Dani Segarra, VP, Investor Relations and Sustainability

Alvaro, I'm going to take the second part. As I was mentioning before, you can see, a capital gain of 30 to 40 million and then you will see the contribution, which is close to 30 million, if I'm not wrong. But for further details for some specifics, I will refer more to the Annexes and you will see the full reconciliation. Otherwise, we can follow-up offline. Thank you very much.

With that, we arrive at the very end, again, thank you very much for joining us today. As I said, if you have any follow-up questions, please feel free to mail the IR team.

Thank you.