Grifols

Full Year 2022 Results Webcast
28th February 2023

Speakers

Nuria Pascual, VP, Corporate Treasury & IR & Sustainability

Thomas Glanzmann, Executive Chairman

Victor Grifols Deu, Co-CEO

Alfredo Arroyo, CFO

Raimon Grifols, Co-CEO

Questions From

Peter Verdult, Citi

Rosie Turner, Jefferies

Elizabeth Walton, Credit Suisse

Tom Jones, Berenberg

James Gordon, JP Morgan

Guilherme Sampaio, CaixaBank Equities

Jaime Escribano, Banco Santander

Thibault Boutherin, Morgan Stanley

Charles Pitman, Barclays

Álvaro Lenze, Alantra Equities

Juan Ros, ODDO BHF

Nuria Pascual, VP, Corporate Treasury & IR & Sustainability
Hello everyone, and welcome to Grifols' Full Year 2022 Conference Call.
Thank you very much for taking the time to join us today.

This is Nuria Pascual speaking, Investor Relations and Sustainability Officer, and I'm joined by Thomas Glanzmann, our Executive Chairman; Victor Grifols Deu and Raimon Grifols, our co-CEOs; and Alfredo Arroyo, CFO of Grifols.

We anticipate that this call will last for about 60 minutes. There will be a presentation of approximately 35 minutes, followed by a Q&A session. If you want to book a question press star followed by 5 when the session begins. We will kindly ask you to limit your questions to a maximum of two.

As a reminder, this call is being recorded. The materials for the call are on the Investor Relations section of grifols.com.

Before we start, I draw your attention to the forward-looking statements disclaimer on slide two in the slide deck of our release. Forward-looking statements on the call are subject to substantial risks and uncertainties, speak only as of the call's original date, and we undertake no obligation to update or revise any of the statements.

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

. . . . . .

Thomas Glanzmann, Executive Chairman
Thank you Nuria and thank you everyone for joining the call today.

By now you all are aware that we have had a change of the guard in the position of Executive Chairman. The Board with great respect accepted the resignation of Steve Mayer who made the decision to step down for health and personal reasons.

Effective February '22, I stepped into the role, and I would at this point like to thank Steve for the valuable work and contributions he made over the past months and 12 years as Grifols Board member.

Needless to say, I and the Board wish him all the best as he moves on to another chapter in his life.

For those that do not know me, or I have not had an opportunity to meet at one of our investor meetings, let me briefly introduce myself. I have been on the Grifols Board for almost 17 years and in recent years was the company's Vice Chairman.

I have been associated with the plasma and diagnostic industries since the late 1980s and I have been a CEO of plasma, biologics, renal and diagnostics companies during my career. In the past years my

focus has been on investing in startup companies with innovative new medtech technologies and serving on a number of Boards among them Alcon Inc, which I know some of you also know.

Throughout my career my priority has always been to build and grow companies sustainably and profitably which I also intend to do in partnership and close cooperation with the CEOs, the Grifols Leadership Team and the Board.

Grifols is on the rebound. After some tough years we are now setting up once again for a sustainable and financially sound growth-oriented future with our operational performance plan and the recently announced restructuring.

I want to recognize and thank Steve, the CEOs and Alfredo for making the plans and addressing our challenges head on with tough but needed measures and clear priorities to ensure that we again find ourselves on a winning path.

In our presentation we will update you on the progress and outlook which I personally think is very encouraging although we as a Leadership team recognize that we clearly still have work to do and be assured it will happen and it will get done.

I am committed with the CEOs and Alfredo to stay the course on all the plans, priorities, and measures that we have announced and that currently are being implemented. There is no way back and as you will see in our presentation we are visibly committing to targets and numbers associated with the announced measures.

I would also like to spell it out once again and this is very important, that we are laser focused on deleveraging the company with both improved operating measures and evaluating broader corporate initiatives, which we expect to complete in 2023. Together with the CEOs and Alfredo we will be monitoring our progress on a weekly basis and if necessary, undertake immediate course corrections to ensure we deliver on our objectives.

I am also committed to keep the open communication with you and we, as a team, will, as promised, be updating you regularly on our announced quarterly calls of the business on financial status and progress.

Finally, I want to reiterate, and again this is very important that the Board, which initiated and has guided the creation of the operational improvement plan, continues to be in full support of executing the plans and measures that we have announced recently.

I know that Alfredo, Nuria, Dani and the investor team will continue to address questions you have in between our calls, and I will personally meet a number of you as I on occasion will travel with our Investor team.

As you can hear. we are committed to a seamless transition and optimistic about the future. I am excited to work with Victor, Raimon, Alfredo and the entire Grifols team to make sure that we deliver on our commitments to all our constituents.

Let us now turn to our presentation that I will share with Victor and Alfredo and then we will be happy to take your questions.

So let me start with an overview of our focus areas and Grifols full year 2022 annual results, which we show you on slide four.

2022 was a pivotal year for Grifols and I want to give a lot of credit to the entire Grifols team. We set clear action priorities and took important steps to improve the company's performance. Today we are executing on these priorities.

Over the last months, we have been focused on building an organization with a performance culture that is more efficient, effective, agile, and decisive.

With that in mind we have taken measures to become leaner and more cost-effective which, combined with strengthened financial discipline and cost control, will drive margin expansion.

On February 15th this year, the company also announced an operational improvement plan that will generate €400m in annualized cash cost savings. This initiative, which already is underway and in the implementation phase, will reinforce Grifols competitiveness, reduce the global cost base, and enhance organizational accountability, efficiency, and effectiveness.

Once we have fully executed this Plan which was initiated, endorsed, and now closely tracked by the Board, we will have a solid foundation for profitable future growth.

This Plan is supported by a commitment to invest in our talent through the implementation of new and improved short- and long-term incentive plans, which we are about to roll out.

At the same time, a key priority is the implementation of aggressive measures to increase operating cash flow and reduce our debt. As previously stated, the company continues to evaluate potential transactional opportunities and is committed to reduce our leverage in 2023.
As we focus on our commercial and innovation priorities, we continue to see significant opportunities for our high margin AlphaOne product, Prolastin, and our subcutaneous IG product, Xembify.

In addition, a significant effort is going in to accelerating the approval, and preparation for a successful launch and commercialization of the new Biotest proteins. These proteins, once launched, are expected to have a substantial positive impact on Grifols' financial profile in the coming years. Bringing these products to market with the Biotest team is a key part of our ongoing integration of Biotest.

Let me now turn to slide five on our 2022 performance.

In the third quarter Business Update we provided guidance for the fiscal year 2022 and, as Alfredo will explain in more detail later, I am pleased to confirm that we have met our guidance and even exceeded it in some cases.

Grifols delivered a solid result for the fiscal year 2022 across key metrics, and this demonstrates the strong fundamentals of both the company and the industry.

The figures on this chart speak for themselves. However, I would like to emphasize the sequential improvement of every key figure shown - revenue growth, EBITDA, and leverage ratio.

It is clear that as we leave the impacts from COVID-19 behind us, the investments that we made in the past are now bearing fruit and delivering positive momentum, and our focus on improving leverage is making a difference. We are confident that this trend will continue and that we will meet the guidance which Alfredo will share with you later in the presentation.

Turning now to slide six. 2022 was also a pivotal year for the company with the achievement of several key milestones that should continue to positively impact our future performance.

I would like to highlight the closing of the Biotest acquisition in April. Biotest is a transformational and unique opportunity to integrate and accelerate an attractive pipeline of innovative plasma-derived therapies with exceptional growth and profit potential. It will also enable us to have more of a balanced global footprint by expanding operations and revenues in EMEA, and broadening Biotest products' footprint in the U.S.

In 2022, Biopharma growth momentum was strong, underpinned by a 25% plasma collections increase. Collections are back to 2019 levels, a year which itself marked record levels for Grifols. The negative impact of COVID is now clearly behind us as donor compensation and cost per liter as a whole also continue to decrease. Since its peak in July of last year, donor compensation dropped by 20% in Q4, driving a 10% cost per liter reduction, over the same reference period.

Our recently announced operational improvement plan aims to further address the plasma-related costs through measures that will result in more than €300m in annualized savings. You will hear more about these initiatives later in our presentation.

In the third quarter of 2022, and as part of Grifols' growth strategy, the company also signed a pioneering long-term agreement with Canadian Blood Services to significantly increase the country's self-sufficiency in immunoglobulin. It is the first-ever agreement of its kind and a testament to how Grifols supports self-sufficiency and the access to treatment for patients around the world.

During 2022, Grifols also made good progress with our focus on innovation. We met numerous innovation milestones which will support further growth and margin expansion in the coming years including the European approvals of Xembify and Biotest Yimmugo's in Germany and Austria, as well as some remarkable agreements with third parties to collaborate on R&D developments.

Before turning the call over to Victor, I do want to reiterate that it is of great importance to me personally that we further accelerate our progress and meet our commitments across all areas of business while driving for operational, organization and performance excellence.

Needless to say, the whole Grifols Executive team is committed to achieving meaningful impact and results for all our stakeholders, including creating value for our shareholders.

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

. . . . . .

Victor Grifols Deu, Co-CEO
Thank you, Thomas. Good morning or good afternoon to everyone. And thank you for joining us today.

Now we will turn to slide number eight to talk about the performance at high level of Grifols. I am very proud to say that Grifols performed strongly in 2022, while operating in a challenging macroeconomic environment.

Grifols' total revenues grew by 12.4% at constant currency, 23% on a reported basis, reaching record levels of sales of €6.1bn, and €5.7bn excluding Biotest, driven by Biopharma's performance, robust underlying demand, favourable pricing and product mix, a notable Biotest contribution plus an FX tailwind.

Now turning to slide number 9 to make a deep-dive on Biopharma. Biopharma stood out with full year robust operational growth of 10%, 22% on a reported basis, driven by a strong fourth quarter. In Q4, it delivered a 14% increase in revenues, which was close to 30% on a reported basis. Please note that all those numbers on the slide exclude Biotest.

We remain positive as we see this momentum reinforced, evidenced by a strong fourth quarter across all key proteins, especially IG, our flagship, which grew by 18% in the fourth quarter and by 13% in the full year. This was driven by a significant increase in plasma supply with strong growth recorded in our leading IgG brands.

Demand has been robust, and this is expected to continue backed by the fact that many patients remain undiagnosed while demand for treatment for primary immune deficiency and secondary immune deficiency continue to grow.

Also noteworthy is how new products continue to increase their contribution, driven by our plan to grow our subcutaneous immunoglobulin Xembify's market share and revenues. This product in particular offers an improved patient experience for those wanting the convenience of home-based treatments.

The increase in plasma supply also contributed to our albumin portfolio growing by 5% with higher demand in Asia Pacific area driven by China and improved product mix supported by the launch of albumin in plastic container.

Alpha-1 and Specialty proteins delivered a mid to high-single digit growth due to favourable customer mix, higher demand and price increases.

Supplement to the main franchise's growth, I would like also to highlight the increasing contribution to the business unit growth of the recent new launches like fibrin sealant and Thrombin in the surgery and bleeding control market, Tavlesse and the hyperimmune portfolio.

Now moving to slide 10, continuing in Biopharma but deep-diving into plasma specifically. As mentioned, plasma collections' positive evolution continues, increasing by 25% in 2022.

This upbeat trend was driven by greater plasma volumes from existing centres, complemented by new and recently acquired plasma centres. The lifting of the U.S. Border restrictions in mid-September delivered an increase in volumes of plus 32% in that area compared to 2021.

As plasma-collection volumes are meaningfully increasing, we are now focused on cost per liter reduction, tackling donor compensation and optimization of labor as well as fixed costs.

Since its peak in July this year, donor commitment compensation declined by 20%, driving total cost per liter down by 10%.

Managing other plasma operations costs is also key, as these represent close to 65% of the plasma cost. This also contributed, albeit to a lesser extent, to this cost per litre reduction.

We firmly believe that this is a positive sign for ourselves, especially in this challenging macroeconomic context, including an annual inflation impact of around 8 to 10%.

Looking forward, we are confident on a further cost per liter reduction with the aim to re-base it, amplified by our ambitious operational improvement plan in the Plasma area, focused on driving higher efficiencies in our donor centers and creating a leaner and more efficient plasma organization.

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

Now turning to slide 11 to cover innovation for Biopharma. We continue to advance on our innovation pipeline. Personally, I believe that Grifols' R&D pipeline has never been in such a strong position for all clinical trial phases, representing a key lever for sustainable and profitable growth in the short, medium and long-term.

There are several expected milestones marked in capital letters in our 2023 agendas. We expect final results from Xembify bi-weekly dosing study, the first patient enrolled and treated in the Xembify secondary immune deficiency CLL study, as well as final results of our IVIG-PEG study. We also expect to finalize enrolment of the PRECIOSA trial in the first half of 2023, while SPARTA trial for Alpha-1 in the second half of 2023.

For the Biotest Trimodulin ESsCAPE ph.III trial, we expect study initiation in H1'23, while we expect to submit the FDA the BLA application for Yimmugo.

For the Biotest Fibrinogen trial, we expect completed and top line data in the second half of 2023. And also, I would like to mention the milestones for the two GigaGen projects, the 564 and the 2339, as we expect to IND submission and pre-IND submissions, respectively during the second half of this year 2023.

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

Now turning to slide 12 for Diagnostic. Diagnostic performance has been impacted due to non-recurrent sales of the NAT technology to detect COVID-19 and the termination of mandatory Zika-virus testing, which was partially offset by a year from blood typing solutions which delivered strong revenue.

Excluding these two items, the Business Unit declined by 4.6% at constant currency in 2022, impacted by pricing in exchange of extending a large contract with a key NAT Donor Screening customer for 15 years, coupled with weak performance of recombinant proteins resulting from the joint business collaboration on a new R&D project.

Blood typing solutions was the main driver of the Business unit, recording a robust double-digit growth across most geographies, of note U.S. and Mexico, while gaining market share globally for the division.

As I mentioned in the third quarter Business update, I would like to emphasize the importance of launching AlphaID At Home, an OTC free service to assess genetic risk of developing alpha-1 deficiency, in the U.S., as well as the new DG Gel 8 card in the U.S. market.

Now turning to slide 13 to comment on Bio Supplies. Bio Supplies increased by 13% at constant currency, and by 26% on a reported basis, following the acquisition of the remaining 51% capital of Access Biologicals, which positively impacted performance of Bio Supplies cell culture media and plasma for diagnostics.

The rationale of the acquisition of Access Biologicals was to achieve higher margins through vertical integration; to gain commercial knowledge to grow in the cell culture market, in-vitro diagnostics and diagnostic R&D solutions; and to enhance and reinforce the Bio Supplies portfolio with a more robust offering of biological products, while boosting Grifols' standing as a reputable supplier of biological products.

We are firmly convinced of Bio Supplies' potential and that it will be a high future growth engine for the company.

And now I will turn to Alfredo on the financials.

. . . . . .

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

In the Q3 earnings call we provided guidance on revenues, EBITDA and leverage for the year 2022 and now we can confirm that we met and even exceeded the targets. €6.1bn revenues, 20.6% margin and seven times leverage.

Slide 16 shows the 2022 P&L with an accelerated growth and improved profitability.

Q4 revenues were up by 20.9% at constant currency versus prior year reaching €1.7bn. On a reported basis, this growth represented a 34.7% increase.

Top line for the full year increased by €1bn reaching €6bn, representing close to 23% increase versus prior year or 12.4% growth at constant currently, on the back of strong organic growth of Biopharma, positive Biotest contribution and positive FX.

On the gross margin, the gross margin was impacted by high plasma cost, collected in 2021 and the first half of 2022, due to the ten month lag inventory accounting. Higher plasma cost mainly coming from higher donor fee and labor cost inflation.

Also the termination of COVID-19 and Zika testing business, impacted total gross margin by 200 basis points in 2022 versus prior year.

Reported EBITDA grew up to €1.2bn 16.5% growth at constant with a 20.6% adjusted margin. Improvement based on operational leverage, including SG&A cost savings and R&D prioritization, that partially offset a higher cost of plasma and lower diagnostic margin.

Net profit increased by 10.4% up to €208m, hit by higher financial expenses linked with Biotest acquisition.

Now moving into slide 17, the 2022 EBITDA reported increased by €237m to €1.2bn with a 21% margin. Positive contribution to EBITDA from all business units, except diagnostic, coupled with opex savings.

Slide 18, leverage. Deleveraging remains a top priority, with a 4 times target by the end of 2024. Reported leverage declined to 7 times by year-end. Leverage will further decline in 2023 on the back of higher EBITDA and deleverage transactions. A strong liquidity amounted to €1.6bn by year-end; with no significant debt maturities until 2025.

Moving into slide 19 and 20. In the next couple of slides I'm going to provide you with some details about the comprehensive improvement plan that we just unveiled a few a days ago, that will bring more than €400m of annualized cash savings. This plan is already in deployment and expected to be completed throughout 2023.

Out of the €400m about €100m of these savings will be recognized in the 2023 P&L. The reasons why only €100m will be in this year's P&L is due to the timing of the initiatives implementation and the ten month accounting lag of our inventories related to the plasma cost.

Many of you may wonder why plasma cost savings take ten months to flow through the P&L, the explanation is the following; out of the ten months, three months for plasma raw, related to collections, testing, quarantine time and inventory on hold and seven months for the fractionation, purification, filling, packaging and product release. This ten month inventory accounting treatment is in line with the industry accounting standards.

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

This Plan will deliver a more efficient, effective, and competitive organization to support Grifols' long-term strategy.

The Plan focuses on three major projects: optimizing plasma costs and operations, streamlining corporate functions, and capturing other efficiencies across the organization.

For the first project our goal is to create the most efficient, technological advanced, donor-friendly, highest quality, world-class plasma procurement operations. To this end, some of the key initiatives being currently deployed and in deployment are, driving efficiencies in our plasma centres by creating a more digitalized and efficient set of processes to reduce donor flow time, increasing throughput, decrease staffing costs and opening hours, while enhancing donor experience. Another one would be donor compensation optimization.

Another initiative will be closing and consolidating underperforming donor centres, with 18 centres already closed in the fourth quarter of 2022 and several additional centres scheduled to be closed or

to be consolidated in the first half of 2023. This initiative, together with others, will increase the productivity by center, the collections by center.

Also to create a leaner, more accountable, and more effective plasma organization. Total annualized savings in plasma will amount to 300m.

The second project of this Plan, that amounts to €60m annualized cost savings, is focused on streamlining corporate functions, reducing indirect spend and headcount and covering other cost savings initiatives, including centralizing, automation functions, enhancing shared services across functions and business units, consolidating vendors, streamlining reporting structuring, delayering the organization, and eliminating redundant activities.

And the third project of the plan, that amounts to €40m annualized savings, targets direct and indirect procurement on strategic sourcing; also targets logistics, capturing cost improvements through greater supply chain flexibility trough new routes; and also in facilities, rationalizing the real estate footprint.

A one-time charge of approx. €140m will be required to deliver this cost savings initiatives. This charge will be booked in Q1 2023.

Moving into slide 21, 2023 guidance. We are confident on this guidance, strong sales growth and further margin expansion, where most of this improvement will come in the second half of the year due to phasing of the initiative's implementation and long inventory accounting cycle, as I already explained.

We expect a total revenue growth of 8 to 10% at constant currency and 10 to 12% for Biopharma. The main drivers for this will be plasma supply, strong underlying demand, pricing, and product mix.

In the first half of 2023, we expect EBITDA stand-alone margin around 20%, still impacted by high plasma cost from 2022 considering the inventory accounting of these ten months. However, this will be followed by significant margin expansion in the second half of the year, when we expect an EBITDA margin of 23-25%.

The main reason for this improvement is that the meaningful plasma cost decline already started in Q4 of 2022, plus the continuous reduction in 2023, accelerated by the execution of the operational improvement plan. As I already mentioned, we expect to recognize €100m cost savings in the P&L of 2023, mostly in the second half.

All in all, we expect a full year 2023 adjusted EBITDA margin of a range 21-23% reaching 1.4bn. Considering the €400m annualized cash cost savings, we estimate that the EBITDA will boost up to €1.7bn, with 27-28% margin.

With this, now I hand over to Thomas for the closing remarks.

Thomas Glanzmann, Executive Chairman
Thank you, Alfredo.

In closing I want to first thank our entire Grifols team for making it all happen. Without everyone's efforts, focus and dedication we would not be able to make the progress we are able to report today.

We are delivering a step-change in performance and as we enter 2023, we are very well-positioned and confident that we will keep building on this positive momentum.

Looking at 2023, we believe the company has a solid foundation to build Grifols' future, with an organization that is more accountable, efficient, agile and effective.

I want to make it clear that both Grifols' long-term strategy and the measures in place have not changed at all and we are executing on our plans and commitments with the full support and at the direction of the Board.

Our focus for 2023 is also crystal clear. We will execute on our operational plan and deliver the €400m in cash and cost savings. We will deliver on our guidance, and you should see a significant margin improvement in the second half of 2023.

And finally, 2023 is the year where we will deleverage the company. You should know that there is no way back for us. As they say, the train has left the station and is accelerating. Management and the Board are fully invested and laser-focused on creating value and making our commitments a reality.

In closing, Grifols is on the rebound and we are excited about taking the company forward and writing another successful chapter in the company's long growth history. With that also goes our commitment to keep you informed of our progress with these calls, which I hope you find of value.

So finally let me thank you for your attention. And I now turn it back to Nuria, who will open it up for your questions.

Questions and Answers

Nuria Pascual, VP, Corporate Treasury & IR & Sustainability
Thank you, Thomas, and thank you all for your time.

Let's just start the Q&A session. To remind you that you need to press *5 if you want to ask a question, and to limit it to two questions. So, if you have follow-ups, we'll try to accommodate and to go to the end of the list again. After you've placed your question, we may need to put you on mute to avoid background noise, okay.

So, let's start. We have the first question coming from Peter Verdult from Citi. Please, Peter.

. . . . . .

Peter Verdult, Citi
Thank you, Nuria. Can you hear me?

. . . . . .

Nuria Pascual, VP, Corporate Treasury & IR & Sustainability
Perfectly.

. . . . . .

Peter Verdult, Citi
Thanks for the call. Much needed. Just on the mid-term targets, historically, they've been, for EBITDA margins, exceeding 30%, so, Thomas and team, if you execute your plan, when do you see this target being reached at the earliest? Is it something that is FY25 and beyond or could it come sooner?

And then, Thomas, your last line about looking at accelerating deleverage, I know there's been discussions around a dual-share structure collapse, a SRAAS stake sale or maybe even options with diagnostics. I think they've been put off the table, at least near term, but given your comment about the train leaving the building and really being committed to accelerating deleverage, could either of these options still be undertaken in 2023? Thank you.

. . . . . .

Alfredo Arroyo, CFO
Peter, I'll take your first question regarding the mid-term guidance. On the €1.7bn, which will account for the annualised €400m, that's 27-28%. So, if we think about operational improvement in 2024, we can get to 28-29%. But to come back to the 30%s, this will come from 2025 onwards while, you know, at the time that we will launch the two new products from Biotest.

. . . . . .

Thomas Glanzmann, Executive Chairman
Peter, thank you for the question on deleveraging, and let me say, first of all, all options are on the table and we are looking at them as we go forward here, and the collapse of the shares is also something that we committed to and will do, but the value, the trading value's got to be right, and it's got be valuable for all shareholders that are involved in such a transaction. But we are very much looking at everything at the moment and working very hard to make it happen here, and we will make it happen into FY23.

. . . . . .

Nuria Pascual, VP, Corporate Treasury & IR & Sustainability
Thank you, Thomas. We now have a question from Rosie Turner from Jefferies. Hi, Rosie.

. . . . . .

Rosie Turner, Jefferies
Hi. Thank you very much for taking my questions. Maybe we could go back to the leverage target, I think you said, so, 4x by the end of 2024. What does that mean in terms of the pass this year and I suppose that 4x, does that rely on a transaction coming through?

And then, just to clarify on your comments to Pete, you said that there will be a collapse of the share class, so can I just confirm is that this year or that's just at some point in the future? Thank you.

. . . . . .

Thomas Glanzmann, Executive Chairman
So, Rosie, thank you for the question. I will just address the piece on the collapse and then I'll pass it on to Alfredo to pick up your other point.

So, on the collapse, it all depends on the trading value of the shares, and, right now, where we are, that is obviously not of interest, so we are continuing to monitor how the shares progress, and we will then make the decision at the right time when it makes sense for everybody.

. . . . . .

Alfredo Arroyo, CFO
We've got the leverage target that the 2024, the 4x remains intact, so on this, it will be achieved. You know, it will be the combination of both the EBITDA increase plus deleverage transactions.

. . . . . .

Rosie Turner, Jefferies
Thank you. Great.

. . . . . .

Nuria Pascual, VP, Corporate Treasury & IR & Sustainability
Now we have Elizabeth Walton from Credit Suisse. Hi, Elizabeth.

. . . . . .

Elizabeth Walton, Credit Suisse
Hi. Thank you so much for taking my questions. Just one clarification on the transaction this year. Can I check if you are also considering just a straight equity raise? I know that's been also discussed by many investors. You talked about the dual-share collapse and potential divestments of the business units that you have, but can we just triple-check on a straight equity raise?

And then maybe you can help us understand a little bit more as to what's driving that €250m of cash savings you're expecting this year? We see your peers reporting weak cash flow as they're rebuilding inventory. Perhaps you can remind us where you are in terms of levels of inventory that you hold and if you expect to return to pre-COVID levels? Thank you.

. . . . . .

Thomas Glanzmann, Executive Chairman
Elizabeth, thank you. I will just address briefly the first part of your questions and then pass it on to Alfredo.

As I said before, everything is on the table, and it all depends on the value that we can create and what makes the most sense for the company.

. . . . . .

Alfredo Arroyo, CFO
Regarding the cash savings this year, the €250m, around 80%, around €200m will come from plasma cost, plasma cost reduction that, as I said, it takes time to go through P&L. However, we'll take it as a lower inventory, you know, at front in 2023, and the rest up to €250m will come from the G&A, I would say, savings, and other savings across the board that I already mentioned, so that accounts for €250m.

Regarding your inventory, yes, as you saw in our cash flow in 2022, we built up a significant inventory to recover the levels of the pre-COVID time. So, for the 2023 cash flow year, the inventory growth will be very limited because we're already in line with the inventory that we need to commit our sales. We will see, I would see a positive trend versus the previous year.

. . . . . .

Nuria Pascual, VP, Corporate Treasury & IR & Sustainability
Okay, and we have the next question coming from Tom Jones at Berenberg. Hi, Tom.

. . . . . .

Tom Jones, Berenberg
Hello. Thank you for taking my questions. I had two. Firstly, I was just wondering if we could come back to one aspect of the guidance for 2023. You talked about 10% to 12% constant currency growth

in your Plasma business, but I wonder how you reconcile that with the growth in collections that you've seen? You've been running a probably 20-25% up on collections yet you're only pointing to 10% to 12% growth on the Plasma revenue side. Given the price environment, the demand environment, that seems fairly conservative given the amount of plasma you've got, so I was just wondering if you could, sort of, reconcile those two figures for me?

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

. . . . . .

Victor Grifols Deu, Co-CEO
Thank you, Tom. This is Victor. I will be answering your first question about the linking that 25% volume growth in Plasma for 2022 compared to the 10% to 12% sales growth in Biopharma for 2023.

The 25% volume growth that we have seen, realised during 2022 basically, as Alfredo was saying in the previous question, has been devoted to rebuilding our inventories that were affected very highly by the pandemic, so basically this has been financing the inventory build-up. So, part of that 20% growth goes over to that, and then, as I have said, some centers are going be consolidated therefore we don't need that much amount of plasma for 2023 to meet our sales. So, we are now tackling sales really directed to the volume needed.

. . . . . .

Alfredo Arroyo, CFO
Hi, Tom. Good to talk to you again. Regarding the leverage calculation, the 7.1x for the year in 2022, we are consistently calculating the leverage ratio based on the current credit agreement that clearly states that in addition to the standard adjustments related to IFRS16 and others they specifically disclose, the non-recurring items, on one hand basically restructuring charges and transaction costs and all these things.

And in addition to that they allow you to include, as part of the EBITDA covenant, the amount of cost savings associated to operational improvement plans, like this one, on a run-rate basis for the upcoming 12 months with a cap of 10% of the EBITDA. So, that is the way that it has been calculate it, but happy to provide you with a detailed reconciliation in case you need it.

. . . . . .

Tom Jones, Berenberg
Perfect. So, just a follow-up question on the leverage. You obviously gave us a target at the CMD for leverage this year, and you've given us a target for leverage the end of next year, would you be prepared to give us any kind of steer for what you expect the leverage to look like at the end of this year? And I guess it probably includes whether you do a large transaction or not, but maybe come qualitative commentary you could give us around the sort of, steppingstones between the 7.1x and the 4.0x?

. . . . . .

Alfredo Arroyo, CFO
I mean, obviously, you can do quick maths with the EBITDA provided to you with the adjustment that may need to be included, but, as you said, you know, clearly said, that it will depend on the size of the transaction and if it's going to be one or two. So, finally, those will be the ones that will move the needle in 2023, but we reiterate the 4x leverage target for 2024.

. . . . . .

Nuria Pascual, VP, Corporate Treasury & IR & Sustainability
Okay. Let's move now to James Gordon with JP Morgan. Hi, James.

. . . . . .

James Gordon, JP Morgan
Hello. Thanks for taking the questions. I think some of the key ones have been asked so I'll just do three quick clarifications.

One was on the Biopharma revenue guide, so the 10% to 12% growth, even though you could grow quicker than that you'd have enough plasma to do so, is that because that's where demand is, that demand is actually the limiting factor and there isn't, off the easy comps, there isn't more demand than that? Or is it more about the fractional economics that you could grow more quickly than that, but you wouldn't be able to maintain the EBITDA margins that you want to now get to? And that was the first one.

The second one, I think you said 28% to 29% EBITDA margin next year. Is that with or without Biotest, please? And could that be a bit conservative if you've also got operational leverage and underlying improvement and the €400m of savings?

And then the final clarification, was just divestments, I think you said that everything's on the table, but is it now less likely that you look to divest some or all of Shanghai RAAS given you want to retain exposure to China for strategic reasons, or is that still as likely as doing a share collapse?

. . . . . .

Victor Grifols Deu, Co-CEO
Okay, thank you, James. This is Victor. I may take the first question about the 10-12% Biopharma revenue growth for this year. This is a combination of many factors. We have, as you know, our haemophilia franchise, for instance. This has been, in recent years, impacted, and this continues to be. Meaning by that, that IG, which is the lion's share of our sales, and Alpha-1, both are growing nicely in a way above this 10% to 12%, so this gives you an indication that there is really a solid demand there., that we have the plasma that we need to fulfil those sales.

. . . . . .

Alfredo Arroyo, CFO
But to your question regarding the margin, the 28- 29% for next year, which will be €1.7-1.8bn with the organic growth. Biotest contribution, up to the time that we will launch the new products, will be de minimis. So, it's all about, you know, stand-alone and combined is pretty much the same.

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

. . . . . .

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

. . . . . .

Nuria Pascual, VP, Corporate Treasury & IR & Sustainability
Thank you, Thomas. We have Guilherme Sampaio from CaixaBank. Hi, Guilherme.

Guilherme Sampaio, CaixaBank Equities
Yes, good morning. Thank you for taking my questions. So two, from me. First one on your plasma collection capacity versus pre-pandemic in 2023 following the restructuring that you plan to undertake, if you can compare it with your targets in terms of plasma collections that you mentioned that you don't need that much plasma for 2023 to fulfil the demand?

And the second question is about the €400m savings. Should we think about them on gross terms or in net terms, including, perhaps, potential needs to reinvest in the business that you might have? Thank you.

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

Alfredo Arroyo, CFO
Regarding your question, the €400m, they are net, and no additional investments would be required, so it's all basically streamlining all our operational cost.

Nuria Pascual, VP, Corporate Treasury & IR & Sustainability
Thank you. And from Banco Santander, we have Jaime Escribano on the line. Hima?

Jaime Escribano, Banco Santander
Hi, good morning. A couple of questions from my side regarding the target of €1.7bn which at first sight could look low, but obviously you are not including Biotest, EBITDA or any incremental EBITDA coming from sales growth in 2024. Would it be fair to say that, when you add up these levers, also product mix and others, the EBITDA could be more close to €1.9-2bn EBITDA or at least close to that consensus in 2024, which is, right now, €1.85bn?

The second question would be regarding the donor fee, how much downside from current levels do you see? So, is there room for further improvement or cutting the donor fee more?

And final question, regarding free cash flow generation in 2023, how should we think about that figure? If you can provide any kind of magnitude range or at least qualitatively, how do you see the free cash flow improving this year? Thank you very much.

Alfredo Arroyo, CFO
Three questions. So, first question, the EBITDA levels, on an annualised basis, as I said, this is €1.7bn for 2023. For 2024, you need to add the organic growth. So, clearly, it will exceed, you know, by far, this €1.7bn, so maybe we'll be close to your expectations.

The donor fee, yes, we said that the donor fee can be further optimised by discrimination of donor centers, you know depending on the area, depending on if there are competitors across the street or

not. So, this is like any other business with pricing management, so there is room for improvement on the donor fee.

On the cash flow generation, this year is going to improve significantly versus 2022. First of all, on the back of higher EBITDA, point number one. Point number two, lower working capital consumption because the inventory growth will be very limited. Lower capex, the €100m lower capex than previous year. So, basically, due to those key three levers, the cash flow generation will be significant, but this at this point of time, we will not provide specific details.

. . . . . .

Nuria Pascual, VP, Corporate Treasury & IR & Sustainability
Thank you. We are close to the final time of this call, but we have four questions. We'll try our best to answer your questions for these four at least.

So, now it's Thibault Boutherin from Morgan Stanley. Hi, Thibault Boutherin.

. . . . . .

Thibault Boutherin, Morgan Stanley
Yes, thank you for taking my question. So, just one on the plasma collection for FY23. So I understand that you are managing the level of plasma you're going to collect going forward with the closure of some centres and the improvement in productivity in the remaining centres. And I guess, if you think about the growth rate of collection in FY23, probably in the first half of the year is going to be unnaturally high because your base is lower. But from the normalized base that you are achieving in the first quarter of 2022, what is your ambition to grow collection further when we think about, you know, beyond FY23? So, basically, should we, you know, see again an ambition to grow the volume and then possibly expanding to new centers, or, are you going to remain in a mode where you're trying to manage your productivity by center rather than trying to expand the number of centers? Thank you.

. . . . . .

Victor Grifols Deu, Co-CEO
Thank you for the question. You nailed it at the end of your question. We will manage volume, of course, by existing centres, but especially through productivity. We are not back to pre-pandemic levels productivity-wise, so there is plenty of room for improvement to use the level of productivity per center to get the volume that we need and to align the volume needs with the sales needs. So, it has been, in the past, and now we expect this to be the case, and the parenthesis has been the pandemic.

. . . . . .

Nuria Pascual, VP, Corporate Treasury & IR & Sustainability
Thank you, Victor. We go now to Charles Pitman from Barclays. Hi, Charles.

. . . . . .

Charles Pitman, Barclays
Hi. Thank you very much for taking my question. Two quick ones from me. Firstly, just on the deleveraging options, can you just talk about the potential considerations you'll have to think about when thinking about exiting either part of or all of the Shanghai RAAS stake? Are there any limitations there? Would you have to find a local player to sell the stake to? Just any more information around how that could actually be, you know, taken forward would be great.

And then, just secondly, on the potential impact of new competitors, particularly, you've got CIDP as a competitive threat this year. I'm just wondering to what extent you've reflected that in your, kind of, near and mid-term guidance? Thanks.

. . . . . .

Alfredo Arroyo, CFO
To your first question, there are no limitations on the potential Shanghai RAAS divestment.

. . . . . .

Victor Grifols Deu, Co-CEO
And regarding the competitive landscape in the immune modulation market, FcRn blocker, precisely on CIDP, due to the mechanism of the disease itself, it's a very complex disease, many factors are implied in the disease modality, and we really don't expect that these may have a huge impact in our CIDP franchise. Therefore, we are not modelling as well that impact in our mid-term projections. We expect this to be limited for CIDP.

. . . . . .

Nuria Pascual, VP, Corporate Treasury & IR & Sustainability
Okay, and now, from Alantra Equities, we have Álvaro Lenze. Hola, Álvaro.

. . . . . .

Alvaro Lenze, Alantra Equities
Hi. Thanks. Just really quick, just if you could give us some indication of the €300m expected cost savings on the plasma side, how much of this could come from lower donor fees and the overall operating leverage of recovering volumes, and how much from the actual layoffs and the more inorganic measures, so to speak, in the restructuring, So how much organic, how much the actual restructuring? Thanks.

. . . . . .

Alfredo Arroyo, CFO
Okay, it will be 50% coming from optimized donor fee and 50% from the rest, basically, as I said already, to give you some details about the different initiatives, 50/50.

. . . . . .

Nuria Pascual, VP, Corporate Treasury & IR & Sustainability
Okay. Thank you. And Juan Ros from ODDO BHF.

. . . . . .

Juan Ros, ODDO BHF
Hello. Thank you for taking my questions. I have three very quick ones. The first one is regarding plasma collection centers. You've been adding new centers in the last few years and you've said, in the past, that some of those centres had, kind of, legacy contracts with higher costs, and I'm wondering what's the impact of the renewal of those contracts once they expire and they are renegotiated with better terms? Are the impacts of those already embedded in your cost saving guidance?

Second, regarding the share price collapse, sorry to be bothersome with this, do you have any kind of share price level which you start considering the collapse? Is it 15 per share, is 20 per share?

And, finally, another bothersome question, just to clarify, could you, please, tell us if you are involved in any kind of talks, even if they are very preliminary, to dispose any business of the Grifols Group? Thank you.

. . . . . .

Victor Grifols Deu, Co-CEO
I take the first one. Thanks for the question. Yes, the operational performance improvement plan on plasma contemplates - it is a blended of these new centers that we have acquired in the pandemic plus some third-party contracts to get plasma from it. So, yes, everything is contemplated and, regarding the footprint, whatever center that makes sense to consolidate or to close, we have, yes, done or we will continue to be doing during this year 2023, to really finetune precisely this balance within volume and productivity.

. . . . . .

Alfredo Arroyo, CFO
Okay, so, I'll take the others. Regarding the A and B unification, obviously, we need to look for the right spot, the right time. The right spot will be with the right gap and the right stock price. For the time being, we have not decided yet around these two factors. And then, of course, we'll not disclose any talks for the potential deleverage transaction.

. . . . . .

Thomas Glanzmann, Executive Chairman
And I'll take the last one and then that is your specific question on where we are on any transaction. Obviously, that's very confidential and I cannot go there. However, I want to, again, reiterate one point, just to be very, very clear, and it's that we are not considering a capital raise at all and that's not a favoured option at the current valuations that we have.

So, you know, unless some dramatically changes in the valuations or our trading prices going forward, that is not really on the table. So, we're putting that really as a very last option.

. . . . . .

Nuria Pascual, VP, Corporate Treasury & IR & Sustainability
Okay, and very quickly, we have one follow-up from Peter from Citi. Please, Peter, but be really fast.

. . . . . .

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

. . . . . .

Nuria Pascual, VP, Corporate Treasury & IR & Sustainability
Thank you anyway. So, with that, we'll end the call, our call today. You know that any other questions, the IR Team is always available, and any other conversations we can follow up in the next few days. Thank you very much for taking part.

. . . . . .

END