Grifols

Q2'23 Earnings Call

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Speakers

Nuria Pascual, VP, Corporate Treasury & IR & Sustainability

Thomas Glanzmann, Executive Chairman & CEO

Victor Grifols Deu, Chief Operating Officer (COO)

Alfredo Arroyo, CFO

Questions from

Peter Verdult, Citi

James Gordon, JP Morgan

Jaime Escribano, Banco Santander

Thibault Boutherin, Morgan Stanley

Tom Jones, Berenberg

Guilherme Sampaio, CaixaBank BPI

Alvaro Lenze, Alantra

Joaquin Garcia-Quiros, JB Capital

GRIFOLS Q2 2023 Results

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Hello, everyone, and welcome to the Grifols' second quarter 2023 conference call.

Thank you very much for taking the time to join us today.

This is Nuria Pascual, Investor Relations and Sustainability Officer, and I'm joined by Thomas Glanzmann, our Executive Chairman and CEO, Grifols CFO, Alfredo Arroyo and Victor Grifols Deu, our Chief Operating Officer.

This call will last for about 60 minutes. There will be a presentation of approximately 30 minutes followed by a Q&A session. If you want to raise a question press star followed by 5 when the Q&A session begins. We will kindly ask you to limit your questions to a maximum of two.

As a reminder, this call is being recorded and the materials for the call are on the investor relations website at grifols.com.

The transcript and webcast replay of the call will also be available on the investor relations website within 24 hours after the end of the conference call.

Before we start, I draw your attention to the forward looking statement disclaimer on slide 2 of the slide deck of our release. And forward look being statements on the call are subject to substantial risk and uncertainties speak only as of the call's original date and we undertake no obligation to update or revise any of the statements.

And now I would like to turn the call over to Thomas Glanzmann.

Thomas Glanzmann, Executive Chairman and CEO
Thank you, Nuria. Good afternoon and morning to all on the call. Thank you for joining us.

Today I'm very pleased to announce a second consecutive quarter of strong results for Grifols. We are not only delivering on our commitments, but accelerating these as a result of our turnaround strategy. All through the first half of the year we have excelled in execution, proved financial discipline and enhanced our performance culture.

We advanced on all key priorities during this first half of 2023. Our operational performance continues to improve on a sequential basis. We are reporting sustainable growth driven by Biopharma, which is supported by solid underlying demand, favorable pricing, and product mix led by Xembify which grew 26% in the first half of 2023.

We have accelerated margin expansion reaching an EBITDA margin of 22%+ for the first half mainly driven by our strong business performance and well executed Operational improvement plan.

During the first six months of 2023, we successfully deployed 100% of the 450 million euros cash cost savings improvement plan. Evidence of this is the cost per liter reduction which declined sharply since August of last year.

By the end of 2024, we expect to have booked the full amount of the 450 million euros in savings on our P&L considering the nine month lag coming from our long inventory cycle, which as you know is characteristic of our industry.

At the same time, plasma supply continues to grow at double-digit growth rates. As a result of this performance, we have exceeded our revenues and adjusted EBITDA guidance for the first half and raised second half and full year 2023 guidance.

We reiterate that leverage is a priority to us, and this includes reaching net debt to EBITDA of 4 times by the end of 2024. As mentioned in previous calls, we have several workstreams in place to deleverage the company and we are working with the intent to close one deleveraging transaction

by year end. We will share more information on this matter when we are able to, including the previously announced China opportunity.

In addition to all these important milestones, we continue to focus on our innovation pipeline where we are making solid advancements. Victor will take you through them shortly.

Grifols is committed to creating value for all our shareholders and restoring goodwill with the financial community. We firmly believe that to do so, we must consistently deliver on our goals and commitments.

One of these commitments was to enhance our communication with stakeholders, and we will continue to do so. In the first half of 2023, we had the opportunity to engage with more than 100 investors to honest and constructive discussions which were much appreciated. Going forward, we will continue to expand our outreach and aim to engage with more equity and debt market participants.

As indicated in the first quarter 2023 earnings call, we made the decision to reinforce and expand our IR footprint in the U.S. to better serve investors in North America and globally.

Now we can announce that this position has been filled, and the onboarding process has started. I'm sure many of you will have the opportunity to interact with our new senior director of U.S. investor relations and sustainability, reinforcing the global team led by Nuria Pascual and Dani Segarra.

Before Victor takes us through a business update, I would ask you at the end of our presentations to take a moment and review the comprehensive efforts Grifols has also undertaken in terms of sustainability through our six pillars during the first half of 2023.

These pillars represent our collective commitment to drive positive change and make a lasting impact. By reviewing the details of our sustainability initiatives, we trust that you will gain an appreciation of our efforts and progress spanning from environmental stewardship and social responsibility to ethical governance, supply chain excellence and employee wellbeing.

I would like to conclude by reiterating by how encouraged I am by the progress in the first half of the year. I want to thank the entire Grifols team for their hard work, dedication, and perseverance.

With that, I will now hand the call over to Victor.

Victor Grifols Deu, Chief Operating Officer (COO)
Thank you, Thomas. Good afternoon, everyone and thanks for joining us today.

Turning to slide 6, we achieved revenues of more than $3.2 billion for the first half year, growing 13.1% at constant currency and 14.8% on a reported basis. If we exclude Biotest, total revenues reached almost $3 billion and increased 7.7% at constant currency and 9.4% on a reported basis.

Biopharma revenues grew 14.9% at constant currency and 16.7% on a reported basis to reach 2.7 billion, and by 8.4% at constant currency and 3.2% on a reported basis, and to $2.4 billion excluding Biotest backed by a robust underlying demand, favorable pricing and product mix.

Now turning to Biopharma, slide number 7, the significant growth in our IG flagship product in Q1 has continued in Q2 resulting in a half year growth of 13.6% at constant currency. As before, we have seen sustaining momentum supported by higher supply and robust underlying demand coupled with favorable pricing and some product mix.

Subcutaneous IG revenues grew 26% in the first half of 2023. We continue to expand our offering of SCIG globally, and to that end you will have seen that we initiated a launch in Spain a plan to launch Xembify in Australia in the second half of the year, just as two examples.

In Albumin, strong demand and favorable pricing in China and rest of the world are the main drivers of growth, offsetting some weaker volumes in the US.

Going forward overall, we expect volume demand to remain very robust throughout the year.

Finally, our alpha-1 and specialty proteins segment grew 0.3% at constant currency driven by geographic volume performance in alpha-1, with higher volumes in the U.S. partially offset by lower volumes in certain European countries. We are increasing testing volumes in alpha-1 which will trigger further sales growth during the rest of the year.

On the other side, we noted a favorable performance in our hypers portfolio and continued positive strength in our partnerships in bleed management products.

Partially offsetting that, we have lower demand of our plasma derived factor VIII product.

Now turning to slide 8, Grifols is strengthening its IG franchise as we continue to see a solid growth opportunity in the €14 billion IG market, which is growing high single-digits and is expected to continue to do so. We have strong brands and unique strategy to drive further growth.

We're accelerating our commercial and innovation efforts to capture opportunities in our subcutaneous IG products, Xembify, which commands a higher price than IVIG and currently represents only a single-digit percentage of our IG sales, and we expect this to continue increasing over time.

In parallel we are building on our IVIG Gamunex track-record, consolidating our industry leading position in neurology and acute care, while continuing our work to keep IG therapy as the standard of care.

In addition, we believe Biotest Yimmugo will be instrumental in supporting this long-term growth and reinforcing our position in Europe. We continue to remain focused on the immunodeficiency market, which comprises the largest share of the IVIG uses with primary and secondary immunodeficiencies growing ahead the rest of the uses.

As global plasma supply increases, we're anticipating a strong growth with opportunities on core indications, especially PID and secondary immunodeficiency, but also in CIDP. Demand has remained robust and expected to continue to do so.

Many patients, even in top markets, remain underdiagnosed. Demand for treatment of secondary immunodeficiency for which currently there is no competitive threat continues to show growth.

Even though incidences of diseases are similar across geographies, consumption rates can vary very significantly among them. Actually, IG in the U.S. is still consumed at almost three times the rate per capita of population when compared to Europe.

Therefore, IG market growth is expected to outpace potential erosion from disruptive technologies.

Turning now to slide 9, our ambition going forward is to increasingly focus on innovation as a key driver of our medium to long-term growth. To support this objective, we are expanding our existing commercial offering as well as seeking new commercial opportunities especially in the use of IG.

We're pleased to announce we have achieved a number of key innovation milestones since the last quarterly update. During Q2 2023, we finalized the enrollment of the PRECIOSA trial and also for the SPARTA trial study, with the latter progressing ahead of schedule.

We have also made significant advancements in our Biotest innovation commitments with both Fibrinogen and Trimodulin phase III trials on track. With regard to Fibrinogen, we completed the ADFIRST trial and presented top line study results, in line with our expectations. The data will be used for clinical submission both in Europe and US where we expect to receive market approval by the end of 2024 and late 2025, respectively.

For Trimodulin, we initiated the ESsCAPE trial study and the first sites have been already activated, and finally we have completed the Yimmugo's BLA submission to the FDA.

Now moving to slide number 10. Diagnostic revenues continue to be driven by blood typing solutions, where we are seeing strong growth across the US, Argentina, Brazil and Spain. It is

noteworthy mentioning the Grifols blood typing solutions is outperforming the market growth and continues to gain market share.

As you saw in Q1, our revenues in NAT technology are somehow affected by the pricing concessions in exchange for extending a large contract with a key customer to up to 20 years. However, a number of factors in Europe and Asia are helping to partially offset this, including strong demand in Japan and instrument sales in Philippines, as an example.

Now turning to slide 11. Bio Supplies revenues grew 57% at constant currency, benefitting from the integration of Access Biologicals. All three subdivisions show strong revenue growth with Bio Supplies Diagnostic revenues more than doubling.

And now I hand it over to Alfredo.

Alfredo Arroyo, CFO
Thanks, Victor. And thanks for joining us today.

Moving to slide 13, we're very pleased to report a continuation of the strong momentum seen in the first quarter. Revenue growth across key divisions and margin came above expectations driven by strong business performance and the execution of our Operational improvement plan, already 100% deployed.

Total revenues increased by 14.8% reaching €3.2 billion or 9.4% like-for-like, excluding Biotest. Biopharma revenues grew 16.7% or 10.2% like-for-like. Therefore, the revenue growth is tracking above our previous full year guidance of 8 to 10% for the Group and 10 to 12% for Biopharma.

Adjusted EBITDA margin improved further in Q2 to 23.4% from a 21% margin in Q1. This translates to a 22.2% EBITDA margin for the first half of the year, exceeding our guidance for the period.

Our leverage ratio declined to 6.9 times by the end of June, supporting our commitment to deleveraging our balance sheet. Plasma supply and cost per liter have both improved sequentially vs. Q1 2023. Plasma supply increased by 12% and cost per liter declined by 20% versus 2022 peak.

This slide shows the sequential improvement across financial key metrics. We continue to see mid-to-high single-digit revenue growth driven by Biopharma, which has benefited from solid plasma supply, robust underlying demand, pricing and product mix. As a result, our top line has reached almost €6 billion on the last twelve months basis, with a 17% growth vs. 2022.

Our profitability is steadily improving shown in the last month EBITDA trajectory, which is now close to €1.3 billion. EBITDA margin reached remarkable 23.4% in Q2, representing 35% growth versus Q2 2022 driven by the strong business performance and the acceleration of the Operational improvement plan. Deleveraging continues improving, now at 6.9 times compared to last year peak of 9, improving by 2.1 times driven entirely by business performance and cost discipline.

The next slide shows the adjusted EBITDA bridge and the progress versus last year, with YTD June EBITDA has reached €655 million. That represents an improvement of €93 million, 22.2% margin which implies an additional 150 basis points versus prior year driven by Biopharma contribution as well as the Operational improvement plan.

And then we have €135 million of one-off charges that include mainly the 145 million euro restructuring charges that we booked in Q1. No additional restructuring costs are expected.

The next slide shows the Operational improvement plan is progressing above our expectations. All the initiatives have been 100% deployed, exceeding the €450 million savings. And we have already achieved €255 million in cash savings in the first half of the year and we're expecting additional €160 million cash savings in the second half.

If we consider that almost 75% of the total savings are plasma cost related and due to the nine months plasma inventory accounting, €75 million savings have been posted through the P&L in H1,

and additional €85 million will come in the second half, and a carryover of €290 million savings will be booked in 2024.

Plasma cost per liter. As shown in this slide, we've made a rapid progress in reducing our plasma cost per liter by 20% from the 10% drop reported in Q4 2022 versus our July peak cost in 2022. Plasma supply increased by 12% in the first half of the year, which is aligned with the plasma needs to support our growth.

Close to the 50% of the cost per liter decline comes from lower donor compensation and another 50% from other optimization initiatives such as process optimization, streamlined operations, overhead, processes, and utilization.

In line with the previous slide, plasma cost reduction has a very positive impact in the gross margin. But considering, once again, the nine months inventory accounting, those plasma cost savings will mainly impact in 2024 P&L. In the second half of this year we see a potential of more than 250 basis points margin improvement compared to the first half of the year.

We expect further margin expansion in 2024 supported by the Operational improvement plan of the initiatives currently deployed.

Next slide shows our leverage commitment at 4 times leverage by the end of 2024 that remains unchanged. We continue deleveraging organically as a result of our business performance and our Operational improvement plan. The 4 times leverage target will come from 70% of the Operational improvement plan plus EBITDA organic growth. And the remainder 30% will come from deleveraging transactions whose cash proceeds will be used for debt reduction.

We currently have total liquidity of €1.2 billion including €500 million in cash.

Based on the strong first half of the year results delivered, and since we're confident on the second half of the year, we're raising our guidance for the full year revenues and EBITDA.

We expect full year 2023 total revenue growth, including Biotest, of 10 to 12% at constant currency compared to the previous guidance of 8 to 10%. This is backed by Biopharma revenue growth of 12 to 14% compared to a prior guidance of 10 to 12% at constant currency.

Regarding EBITDA, now we expect the EBITDA margin for the second half of the year to be in the range of 24 to 25% and full year EBITDA margin at 24%. Expecting the continuation of a strong sequential quarterly margin improvement.

This should lead to an adjusted EBITDA, including Biotest, of €1.4 to €1.45 billion by the end of the year and considering the annualized cash cost savings, the pro-forma EBITDA is expected to be in the range of €1.7 billion to €1.750 representing 28 to 29% EBITDA margin which basically is coming back to 2019 margins.

Now, I hand over to Thomas for closing remarks.

Thomas Glanzmann, Executive Chairman and CEO
Thank you, Alfredo.

I would like-to conclude by reiterating a few points made. Also I'll highlight the main triggers that support raising guidance for the second half of 2023 and for the whole year. We're pleased with the progress made during the first six months of the year through operational performance both on the commercial and innovation front as well as on the deleveraging. And we will continue to execute on all of these with the same focus in the second half of the year and beyond.

In the second quarter of 2023 Grifols accelerated its delivery further from the very solid momentum seen in the first quarter. We expect the strong sales growth to continue driven by demand for the key proteins, product and country mix.

The company has already successfully deployed 100% of €450 million cash cost saving plan. Testament of the execution of the plan is the cost per liter reduction of 20% while plasma supply grew 12% for the first half of 2023.

As mentioned, we 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 for Xembify and Biotest Yimmugo. We're therefore confident in our ability to deliver in the raised financial guidance in the second half of the year.

Deleveraging remains a top priority, and our commitment to reduce the leverage ratio to 4 times by 2024 is unchanged. We are today advancing on several workstreams supporting our deleveraging efforts.

Finally, I want to reiterate the Board is fully invested and focused on creating value and making our commitments a reality while the executive team is laser-focused on accelerating the execution of the company's strategy.

Key focus continues to be on operational excellence, cash flow improvement and debt reduction., and ultimately on increasing value for all shareholders.

Once again, I want to thank our entire Grifols team for making it all happen. Without everyone's effort, focus, and dedication, the progress made in the first half of 2023 would not have been possible. I appreciate your attention and now turn it back to Nuria who will open it up for questions.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you, Thomas. And thank you, all, for your time.

With that, let's start the Q&A session. As you know, you need to press star 5 to ask a question. We need to stick to two questions per analyst and if you have follow-ups, you can dial star 5 again and you will be placed into the list once more. After your question, we may need to put you on mute to avoid background noise.

So now, our first question comes from Peter Verdult, from Citi. Hi, Peter.

Peter Verdult, Citi
Hi, Nuria. Thanks for taking my questions. I will stick to two. The two are related around the deleveraging point which you touched on, Thomas, in your prepared remarks. Can I just push you, firstly in SRAAS, the partial disposal and anything you want to say more on timing and the number of interested parties would be helpful. The question we often get asked by existing and potential investors.

Secondly, on Diagnostic, are you looking to stabilize the business further and demonstrate a sustainable growth rate before considering alternative options that could further accelerate the deleverage? I know you said very clearly at the start of the year 1-2 transactions in 2023, but it feels to me at this juncture it is more likely to be SRAAS divestment in 2023. Feel free to put me back in my box if I am coming to the wrong conclusion -- I just want more color on SRAAS and Diagnostic.

Thomas Glanzmann, Executive Chairman and CEO
Thanks, Peter. Great to hear your voice. Let me basically reiterate some of the things that we've said. The potential China deal on Shanghai RAAS is in progress. Discussions are ongoing. We can't offer more comments at this point, but we will obviously inform you as soon as we have news. We do stand by our June release of the potential transaction that would generate €1.5 billion in cash and would retain a strong position in China.

But I do want to remind you that this is one of our workstreams and also that 70% of fixing our balance sheet, and I'll come back to what Alfredo mentioned, really is on improving our operational performance.

So, with regard to Diagnostic, we're obviously looking. We have a couple of workstreams going. We are looking at a number of things at the moment. We have valuable assets and Diagnostic is one of them at this point in time. As these discussions are ongoing, as you will appreciate, they're obviously very confidential, and I cannot divulge more details on the different workstreams until we actually can make something official.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you, Thomas. Thank you, Peter. We have James Gordon from JP Morgan on the line. Hi, James.

James Gordon, JP Morgan
James Gordon, JP Morgan. Thanks for taking the two questions, both about immunoglobulin please. The first one was immunoglobulin performance this quarter in this year. It looks like maybe immunoglobulin has decelerated slightly but still seems to be growing low double double-digit this quarter, so strong performance. I think I heard a comment about an uptake in sales ex-U.S. So have you seen any softening in US demand growth as one of your peers seem to suggest that they'd seen, and so that's why you're shifting more sales to Europe and how does the profitability compare from selling IG more in Europe than in the US? That's the first question, please.

The second one, I think you alluded to on the call already that Argenx had their Vyvgart CIDP results. So just curious, any thoughts on the data that they generated, whether you think you would see much erosion of your franchise or not, as your perspective on that data, whether we might see significant switching?

Victor Grifols Deu, COO
Hello James, good to hear you as well. I'll take the first question on immunoglobulins. Clearly outside US we see a strong demand and as long as we have now rebound on the plasma supply, we are able to keep supplying that nice growth that we are seeing outside, in fact we're growing very nicely there. In the US, similar case, we continue to see a strong underlying demand in the market and now as well we're able to supply this market.

In addition, we continue to ramp up our subcutaneous product, Xembify, and we're seeing nice growth and stable pricing. Profitability at the end of the day comes to pricing in this franchise, and as we all know, there is a price gap within US and outside of US countries, and this is driving the different kinds of profitability that we see geographically.

Thomas Glanzmann, Executive Chairman and CEO
Hi James, this is Thomas. I'll take the second question. First of all, we believe that the results are actually good for us, because they really reconfirm our position that the Argenx results are going to have little impact on our business. We continue to be very optimistic about the IVIG opportunity with the market growing at high single digits and the opportunities that we have not only in the US but globally with our product range, and particularly, as it was pointed out with Xembify which still represents a very, very small portion of our total IG sales.

As I mentioned before and as has been mentioned in our protocols the profitability of Xembify obviously is significantly higher, and as we shift more or sell more Xembify, that will significantly improve the overall profile of our Biopharma business and profitability.

So we're actually continue to be extremely excited about where we're going, what we're doing, and the future of our IG franchise.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you. Thank you, James. Now we go for Jaime Escribano, from Banco Santander. Hola Jaime.

Jaime Escribano, Banco Santander
Hi, good afternoon. So a couple questions from my side. If you can elaborate a little bit more on the sales performance of 7% growth at constant currency Grifols excluding Biotest in Q2 vs. around 9% in Q1 and reading your slide, IG seems to be growing at double-digits, albumin at around 5%. But then there is this piece that you mentioned growing close to zero: Alpha-1, hyperimmunes, factor VIII. Maybe if you can give us a little bit more color on this. And also how does this reconcile with the increase in the top line guidance for the year? Because you basically accelerate or increase the top line growth to double-digits in plasma. So my question would be, if in the second half are you seeing an acceleration maybe of this part that has been a little bit weaker this quarter.

And then my second question is regarding the Biotest licensing agreement that was announced back in May, if you can give us a little bit more details and how is this going to be implemented and how should we think about the P&L, if there's anything we should bear in mind going forward? Thank you very much.

Victor Grifols Deu, COO
Hello Jaime. I will take the first question. In this third bucket we call Alpha-1 and specialty proteins, it's a bucket that contains many different, let's say, product lines. The main one, of course, being Alpha-1. Clearly, it's a mix of performance on those different business lines. As you know, Alpha-1 is highly related with diagnosing potential patients to be put on therapy. And during 2022, what we experienced as we were exiting the pandemic, we were ramping up our testing in the franchise. You have seen that we have reinforced this testing approach with the home kit to expand the progression. And there is a lag time between diagnosis to truncate that to be put on therapy.

Back to your point, we expect this ramping up and in testing that started second half last year and that is continuing during this semester, we expect this to deliver more patients to be put on therapy. And this will help the improvement in performance and growth during the second half.

In addition to that, to your broader question about second half, for instance, albumin, you see this 5.1%. We expect this to continue to be accelerated, and we expect to see better performance than 5.1%. And this makes the overall year to look higher than what it looks today.

Alfredo Arroyo, CFO
Jaime, to your second question about Biotest, yes, we signed this transfer agreement on license and development agreement by which it's going to cover the exchange of technology, know-how, so therefore working together between Grifols and Biotest. To your point to the P&L, there is no P&L or cash impact at all as a result of this transfer agreement.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you, Alfredo. Now we have a question from Thibault Boutherin from Morgan Stanley.

Thibault Boutherin, Morgan Stanley
Thank you very much for taking my question. The first one is on immunoglobulin versus other proteins. We are seeing more growth right now of immunoglobulin. If you could just tell us a bit about your thinking, the context of your last liter economic logic, how you're thinking about balancing growth between proteins going forward? Is it an issue at some point in terms of profitability if immunoglobulin continues to grow faster than other proteins?

My second question is if you could just talk a little bit about the cost of treating CIDP patients. We know already that the annual cost of Vyvgart in CIDP is going to be similar to myasthenia gravis, so probably a little bit more that 200 thousand dollars payment per patient. So, if you could contrast this with the average annual cost to treating a CIDP patient today in the US with immunoglobulin? And if you could comment on IG potentially having or not a cost advantage compared to new innovation in CIDP. Thank you.

Victor Grifols Deu, COO
It was a little hard to understand the whole question. But on the first one is on the balanced growth of our proteins. I should say that we are working towards a goal, a strategy to rebalance our protein growth, both especially the top ones which as we know are IG and albumin. There is still a gap, but we are targeting during this year 2023, and the coming year 2024, to rebalance as we were in pre-pandemic as it is the optimal scenario from the profitability standpoint. It's not yet there, but we are working toward balancing those two proteins.

Thomas Glanzmann, Executive Chairman and CEO
Okay. I'm not sure I heard your questions very clearly. But if I think I got it, you were asking about the pricing differential between the new product that was just went through clinicals and our IVIG. Is that right?

Thibault Boutherin from Morgan Stanley
Can you hear me?

Thomas Glanzmann, Executive Chairman and CEO
Yes. Okay. Did I get this right?

Thibault Boutherin from Morgan Stanley
We already know, I think Argenx commented that the price, the cost in CIDP is going to be similar to myasthenia gravis, so we know already it's going to be in the tune of $200,000 or a bit above that. So if you could just compare this with IG implication in terms of reimbursement and access treatments.

Thomas Glanzmann, Executive Chairman and CEO
First of all, obviously the treatment for IVIG is about 80,000 which, compared to the 200 we've heard or even much higher numbers than the 200 for a full treatment of the patients. So IVIGs are significantly lower in cost to the system and the patients than what we had expected. And actually, if we take the 600,000, the cost differential could be ten times. So depending on what number they state, they tell you, we think that there is a significant difference.

We also think that this is going to be something that people will look at closely as we move forward. So that gives us another very optimistic view of the fact that our IVIG will do very well going forward even in the CIDP segment.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you. We have now on the line Tom Jones from Berenberg. Hi, Tom.

Tom Jones, Berenberg
Good afternoon. I had a couple of questions, probably one for Alfredo, a pretty boring one, but on operating and free cash flow. Obviously, business is improving but free cash flow is still pretty weak and negative, you're still by the looks of it continuing to invest in inventory. When should we expect those drags on working capital to either abate or become a bit of a tailwind and start printing some positive cash flow? Is this a 2024 story or do you think you can do it in the second half of the year?

And the second question, kind of aligned to cash flow, but tied to the deleverage story. I think we're all fairly confident there's a clear path to how you can knock two turns of EBITDA off your leverage by organic EBITDA growth, but you still need one third to come from asset sales which to some degree, not entirely within your control, you need parties to play ball on that. So given the end of 2024 is only 18 months away, how are you thinking about plan Bs at this point with deleverage if

the asset sales don't come to pass? Just wondering what your kind of thinking might be at this point in terms of trying to hit that 4 times target.

Alfredo Arroyo, CFO
Hi Tom, good to hear you again. Regarding the cash flow, if we think in terms of operating cash flow, basically in Q1 we have a negative cash flow mainly driven by the restructuring cost, even if we adjust the restructuring cost, Q1 was slightly negative, around €25 million. In the year to date, the operating cash flow excluding the restructuring costs has been positive in €72 million. That means that in Q2 we have turned €100 million positive operating cash flow. So, if you take a look at the annexes we have published, remember that that cash flow, free cash flow, includes the interest expenses because the calculation starts from the net profit.

But operational cash flow-wise, we have already moved into second quarter positive, and in the second half of the year on the back of higher EBITDA and then the absence of any further restructuring cost, we expect the operating cash flow will continue to keep improving from now through the second half of the year.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
And the second question on deleverage and asset sales, what's the plan B?

Thomas Glanzmann, Executive Chairman and CEO
Plan B is we're going to execute on what we said. So we have one transaction that we've announced. As you pointed out, Tom, a significant part of it is operational, from operational performance. So we're very set on delivering on those two things to get to the 2 times by 24.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Okay. Thank you. We have Guilherme Sampaio from CaixaBank BPI.

Guilherme Sampaio, CaixaBank BPI
Hello. Thank you for taking my question. So the first one on cost per liter, so you talked about some efforts going forward to continue increasing cost per liter. With the announced 150 million cost savings already deployed, what else should we get in terms of additional savings?

The second question about plasma collections, how should we think about growth over the remaining part of the year? Thank you.

Alfredo Arroyo, CFO
Regarding the cost per liter, as we said, as of today, we are 20% below peak of cost per liter last year during the summertime. And we expect that it will be slightly better, so that means we expect the cost per liter finally will decline around 25%. But not on the back of donor fees, but on the back of other opportunities and other initiatives that we have launched.

So that's going to further help in the gross margin. Regarding the collections, we're monitoring, remember there is high correlation between donor compensation and collections. Of course, we need to make sure that we fine-tune the corrections in terms of volume to make sure that the volume that is coming is enough to support our growth.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you. And next question coming from Álvaro Lenze from Alantra Equities.

Alvaro Lenze, Alantra
Thanks for taking my questions. The first one is on guidance. I believe that the increase, I would have expected from the increase that you're providing on top line guidance and being in the upper range of margin, I would have expected that total EBITDA in euro terms to be upgraded more. I guess that it seems that the increase in the EBITDA guidance from over €1.4 billion to €1.4-1.45 is not that much of an increase. So I was wondering whether this is due to good performance in Grifols stand-alone but worse performance in Biotest? How is the increase in the EBITDA that low for two additional percentage points of top line?

And also continuing with the guidance of the last call, you indicated that you were comfortable with the consensus on 2024 EBITDA which was somewhat above €1.8 billion. How does this increase in the guidance for 2023 reach into 2024? So whether this is just an acceleration of the cost savings or whether this could also imply better performance in 2024? Thanks.

Alfredo Arroyo, CFO
Thanks for the question. So the first point, the guidance for this year, remember that even though we have already achieved and deployed those €450 million, as I said, especially since the more than 70% of the savings are coming from plasma costs, it takes time to go through the P&L. So that's why, as I said, most of the plasma cost savings will hit the 2024 P&L. So we have increased from 1.4 to 1.450, because the phasing of the savings flowing through the P&L. Regarding next year, we will provide you with guidance at the later stage.

We feel comfortable that this year we're going to close the year at 24%. And then, as I said, we have provided already pro-forma EBITDA 2023 based on the savings, which is 1.750. Later on, let me first close the year, and then early next year we will keep you posted about 2024 guidance.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Okay. We have a question coming from Joaquin García-Quiros from JB Capital. Hi Joaquin.

Joaquín García-Quirós, JB Capital
Yes, hello. Thank you for taking my question. Just a follow-up regarding the free cash flow. You didn't say anything about working capital. So when can we expect reversing of working capital, especially in inventories? Is it more for the second half of this year, or should we expect more of a reversal during next year due to the reduction of the plasma cost? Thank you.

Alfredo Arroyo, CFO
On one hand, the inventory is going to grow in line with the activity. As you know, that's the way that working capital works, especially inventory. At the same time, as of today, the days inventory outstanding, the DIO, are declining. So for the second half of the year, we expect that volume-wise the inventories are going to increase, however, due to this cost savings plan, the cash cost savings associated to plasma will offset that volume increase.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Great. We have a couple of follow-up questions. First from -- he was the first to be again on the list. Tom, I think you have something else.

Tom Jones, Berenberg
Yeah. Thanks for taking my follow-up. It's a very quick one. I was wondering if you could remind us when the price concessions related to the renegotiated contract with CTS kicked in? From memory it was mid-level last year the contract was signed. But I guess I'm just trying to figure out when the price headwind drops out of the comparator quarters, whether it's Q3, Q4 or we should wait until next year before that happens?

Alfredo Arroyo, CFO
As of today, during this year, the price concessions are going through P&L. We signed this agreement in Q1 last year if I recall right. So as of today is the only reason why the gross revenue of Diagnostic is slightly declining. But remember, in exchange of that, we have signed a contract up to 20 years. So we have secured the largest and the most profitable client of all.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Okay. Also another follow-up from Jaime Escribano. Jaime?

Jaime Escribano, Banco Santander
Hi, yes, it's a quick one. Just to make sure I understand slide 18 properly, where you say that the gross margin excluding Biotest could increase in the second half 250 basis points. Although you do it with base 100, but if we take the gross margin of the first half ex-Biotest, which is around 37.5%, my question would be, would it be fair to think about a gross margin in the second half for Grifols excluding Biotest of close to 40%, so 37.5% plus this 250 basis points? Is that the way we should think about this slide? Thank you very much.

Alfredo Arroyo, CFO
For the second half of the year, basically what is going to happen, we're going to see a strong growth, on one hand. I'm going to give you what are the main growth drivers. Strong growth volume-wise, IG, but especially albumin in China, point number one. Point number two, the plasma cost savings will start flowing to the P&L. Number three, all the other non-plasma cost savings, basically opex savings are going to also impact the P&L. And since the second half of the year sales will be higher, the operational leverage will be higher, therefore all of these components will support that increase of EBITDA margin.

You're going to see sequentially that we moved from 21% to 23%, and then Q3 and Q4, further quarterly margin improvement on a sequential basis.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you. I just have here one final, so Peter, you open and close the Q&A session. Can we have your follow-up question?

Peter Verdult, Citi
Thank you. Final question on innovation. When you do the Biotest deal, the fibrinogen and the IgM opportunities were highlighted as significant. I was under the understanding that the ADFIRST fibrinogen phase III data was imminent. I think you cited the H2 event. I'm trying to push you, Victor, or Thomas, when do you expect the data to be in house or the top line data to the market? Can you remind us again your comfort of the 400-800 million revenue opportunity was quoted at the time of the deal? I believe CSL does about 300 million fibrinogen sales off label. But can you remind is, is it still 400-800 million you believe is the peak sale of fibrinogen.

Victor Grifols Deu, COO
Thank you. We expect to provide the data probably starting next year, 2024 during the first half, I should say. This is the expectations that we are targeting. Regarding the peak sales remain similar to what we have announced.

Thomas Glanzmann, Executive Chairman and CEO
400 to 800 million, yes.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
And with that, I think we will close today's call. And we hope to see you or hear you again in our next quarterly calls. Meanwhile, for those of you who have not been yet on holiday, enjoy summer. And speak to you soon. Thank you.