Grifols

Conference Call on Recent False Information on Grifols

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Speakers

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Questions from

Guilherme Sampaio, CaixaBank BPI

Tom Jones, Berenberg

Thibault Boutherin, Morgan Stanley

Niall Alexander, Deutsche Bank

Alvaro Lenze, Alantra

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Charles Pitman, Barclays

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Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Hello, everyone, and thank you for taking the time to join us on such short notice. This is Nuria Pascual, Investor Relations and Sustainability Officer, and I'm joined by the Senior Executive Leadership Team, chaired by Thomas Glanzmann, our Executive Chairman and CEO; Raimon Grifols Roura, Chief Corporate Officer; Victor Grifols Deu, Chief Operating Officer; and Alfredo Arroyo, CFO.

This call will last about 45 minutes and there will be some company remarks of approximately 20 minutes, followed by a Q&A session. For the sell-side - and remember, this is only for the sell-side analysts - if you want to raise a question, press a 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 transcript and webcast replay will also be available on the Grifols Investor Relations website within 24 hours after the end of this conference call.

And with that, I'll turn to Thomas Glanzmann, CEO of Grifols.

Thomas Glanzmann, Executive Chairman and CEO
Thank you, Nuria, for the introduction. Good afternoon and good morning to everyone joining us on this call. We convened this call to address the serious and false accusations made by Gotham, a short-seller, in the report they issued on January 9.

You have probably seen the statements we have sent to the regulators and much of what has already been written. However, we want you to hear directly from Grifols and receive answers to your questions. We will provide information with the same integrity, transparency, and ethical conduct that has characterized Grifols since its inception in 1909.

Additionally, we will be covering the strategic alliance with the Haier Group in China, as well as reassuring Grifols' strong financial position and operational performance in 2023, as we head into 2024.

But first, let's focus on Gotham. It is known that Gotham is speculative and profits from short-selling. In our case, they are repurposing financial information that is several years old, already in the public domain, and has already been reviewed, validated, and signed off by regulators and an internationally renowned accounting firm. What Gotham does is out of pure self-interest and financial gain.

Gotham, the short seller, reduced its short position in Grifols the day the report was issued to 0.06% from 0.6%, thereby financially significantly benefitting from the dramatic fall in our stock. To us, this confirms the speculative nature of the report - which in their report on page 2 even highlights verbatim that "Gotham City Research's interest is to see the price of the issuer's stock decline."

We take these allegations very seriously and would not want this report and subsequent market reaction to affect our reputation, nor the interest of all our stakeholders, including shareholders, employees, patients, donors, and so many others that have been negatively affected. For that reason, the Board, which is fully aligned and supporting the company, has decided to initiate legal action against Gotham, the short seller.

Let me be crystal clear: As a company built on the principles of transparency, integrity, and ethical conduct for more than 100 years, we categorically deny and reject all of these allegations.

With regards to our communication, we try to be clear and open, but there is always room for improvement, if you do your best. Having said that, the Spanish regulator yesterday, in line with their duties, sent us a request for clarifying information that we are in the process of preparing answers to. We will submit our responses shortly.

As a publicly traded company, we maintain the highest standards of disclosure and accuracy in our financial reporting. To this end, our financial statements and controls are robust and subject to rigorous annual audit by a big-four audit firm, which has consistently -- and I repeat -- annually, released unqualified audit reports.

All of the related party transactions and disclosures that appear in the report have been fully disclosed and audited since 2018 and reported to the regulators. We pledge to maintain the highest standards in our accounting and reporting practices, and to that end, our audit committee is also only comprised of independent directors.

We are proud of our governance, and as the governance world and the requirements evolve, we will, I can assure you, continue to diligently upgrade our governance as well.

Building on our corporate governance focus, let me address Scranton. Scranton has proved to be a long-term shareholder of Grifols, having provided support for the company's international expansion on several occasions. Scranton is not a Grifols family office. Indeed, Scranton comprises 22 investors, of which only three are members of the Grifols family, holding less than 20% of Scranton.

I also want to point out that all interactions with Scranton have been made at arm's length. Moreover, the links between Scranton and Grifols relate only to two specific collaborations: rentals of the Grifols Headquarters, which has been in place since 2012 as a consequence of the Talecris acquisition, and Haema and BPC since 2018. There are no other links between the companies.

Alfredo in his part will get into all of the details.

Today, I also want to confirm that our underlying performance is very solid and consistently improving. In 2023, we will deliver on all the commitments that we made to the market, including our operational performance, innovation, governance, establishing a performance culture, and signing the China transaction. We will present the 2023 Results on February 29, which we are expecting to be very solid and in line with the latest updated guidance.

As we ended 2023 on a high note with the signing of a strategic alliance with Haier, we today also want to bring that transaction back into focus, as it will tackle one of the market's current and persistent major concerns - our leverage. Raimon will shortly walk us through the highlights, but the transaction is of significance, not just from a monetary perspective, but also from realizing and participating in the significant China opportunity going forward.

Before doing so, Alfredo will now address the main accounting and financial specificities mentioned in the Gotham report.

Alfredo Arroyo, CFO

Thank you, Thomas. In my section, I'm going to clarify the most significant accounting items included in the Gotham report.

First of all, I'm going to talk about the consolidation of Haema and BPC. IFRS 10 clearly stipulates that if a Group has control over a company, it must be consolidated. The assessment of control considers the rights that give an investor power over a company. Power means, among others, holding voting rights or potential voting rights, which, in this case, involves having an exclusive call option.

Since Grifols holds a call option, it is required to consolidate these two companies. This consolidation has been fully disclosed and audited since 2018 and reported to the Spanish regulator. This call be executed can be executed or reported at any time, but there is no obligation.

Grifols acquired back in 2018 Haema and BPC, and subsequently sold these companies to Scranton in the same year for the same price. The total amount was 538 million U.S. dollars. The terms of the sale agreement include a call option to acquire these companies back. Again, this is an irrevocable and exclusive call option, not an obligation.

If Grifols executives the call option, it will be done at the same price at which it was sold to Scranton, same amount, 538 million U.S. dollars. Currently, this price is below market prices.

The consolidation of these two companies added in 2022 approximately 30 million euros to the group's EBITDA, which represents around 2% of the consolidated EBITDA. Here, once again, the Gotham report is absolutely wrong and misleading. The associated cash to this EBITDA belongs to Scranton.

The details of this transaction and the rationale of the consolidation were properly disclosed in Note 3 - Business Combination of our Consolidated Annual Accounts from 2018 to 2020. The transaction was audited and reviewed by KPMG, and detailed information related to the accounting treatment of this transaction was shared with the Spanish regulator early 2019, per their request.

What was the rationale of this transaction? In 2018, Grifols was short of plasma supply due to the strong underlying demand. As these two companies obtained roughly 2 million liters of plasma on an annual basis, this transaction resulted even more important to face later on the significant COVID impact in our collections. Everybody remembers what happened in 2020, '21, '22, in our collections, that we had a significant hit. But thanks to these acquisitions, we were able to navigate through those years.

In addition, in 2018, the leverage ratio of the company was too tight, so, as Thomas explained, Scranton, a long-term committed and reliable Grifols' shareholder, made the investment. In connection with this transaction, Grifols signed the Vendor Loan Agreement with Scranton for an amount of $95 million, at an interest rate of Euribor plus 2% due December 2025. This is a standard financial agreement in which Scranton assumes all financial risks. The details of this agreement were properly disclosed in Note 30 of our 2022 Consolidated Annual Accounts. Once again, Gotham report, by saying that this was not disclosed, made a wrong and misleading statement.

Regarding the consolidation of GDS, considering that Grifols has 55% shareholding on GDS, therefore, control of the company through majority of voting rights, Grifols consolidated, line by line, 100 of GDS. Subsequently, the 45% of GDS is eliminated within the non-consolidated interests P&L caption.

This applies the same to the Haema and BPC, where that EBITDA is fully eliminated at the bottom line of the company in the caption called non-controlling interests or minorities right before they are profit attributable to the Group.

Another part I want to share with you is the related party. Thomas just mentioned the two transactions. So, to be more specific, the first one is the Plasma Supply Agreement in connection with the sale of Haema and BPC, already mentioned, a plasma supply agreement is in place with these two entities. The plasma purchase price has been set following and arm's length principle, which means at market prices. This has been verified by our external auditors.

Please also note that since we consolidate these two companies, these transactions are eliminated in the consolidation process.

The second related party transaction relates to the leasing of our corporate offices. As disclosed in Note 30 of our 2022 Consolidated Annual Accounts, Grifols pays on an annual basis a lease amounting to 6.3 million euros to a related party, which is determined based on, once again, market prices.

Another item I want to share with you is the leverage. In the Gotham report, they challenge our leverage calculation. So, the leverage ratio is calculated on a quarterly basis in accordance with the clauses and terms specified in the Credit and Guarantee Agreement dated November 15, 2019.

Pursuant to this Agreement, the company issues a compliance certificate to the agent bank on a quarterly basis. This certificate includes a detailed breakdown of the calculation conducted in accordance with the terms and conditions of the agreement.

The calculation set by the Agreement involves the exclusion and inclusion on certain items to both EBITDA and net debt.

The main adjustments made to the EBITDA, following the credit agreement, are the following: IFRS 16 (Leases), external items, such as restructuring and transaction costs, as well as cost savings and operating improvements on a run rate basis. For your information, the net impact of these adjustments, which means the difference between the EBITDA reported and the EBITDA used for the leverage calculation, was around 60 million last year. So, therefore this represents less than 5%.

We have consistently reported the leverage ratio over the past years. The resulting leverage ratio over the previous year reflects the deleverage path of the company, which has reduced from 9 times in the first half of 2022 to 6.7 times at the end of the third quarter.

Just to recap, make it very clear, be 100% sure that this company has always been following the IFRS accounting rules.

I will be pleased to further clarify anything else in the Q&A.

Thank you.

Raimon Grifols Roura, Chief Corporate Officer (CCO)
Thank you, Alfredo.

This is Raimon Grifols talking. And thank you, all of you, for joining us today.

Going back to our key business priorities, I would like to touch on the strategic alliance with Haier Group, which tackles two main objectives.

Number one, once executed, the transaction will significantly reduce our debt with the sale of a 20% stake in Shanghai RAAS for close to $1.8 billion U.S. cash consideration. It will accelerate our deleveraging path to reach our target of 4 times this year.

Number two. China remains core to our growth strategy. As a forward-looking transformational alliance with a global leader in innovation and a growing presence in the healthcare industry, it will strengthen China's healthcare system while we drive synergies to contribute to the country's fast-growing plasma market.

Now, going into specifics, the share purchase agreement will result in $1.8 billion U.S. in cash, which represents a premium of approximately 15%. The $1.8 billion will be solely used to repay outstanding debt within the framework of the current credit agreement. We will provide further details upon the closing of the transaction.

As we will still retain a significant 6.6% stake in Shanghai RAAS and a seat on its Board of Directors, we will continue to build on the alliance we initiated three years ago, which has successfully allowed Shanghai RAAS to become a top player in the Chinese plasma market.

Considering China's demand for albumin is expected to continue growing significantly in the coming years, we are also excited to lengthen our exclusive distribution agreement for this protein with Shanghai RAAS through at least the next 10 years, and possibly 20.

We expect to close the transaction in the first half of 2024, as the completion of the transaction is subject to customary and regulatory approvals.

Now I leave it back to you, Thomas. Thank you.

Thomas Glanzmann, Executive Chairman and CEO
Thank you, Raimon. Before going into the Q&A, I would like to briefly make some final remarks.

Following the three announcements we made over the last two days, we hope that this call is another evidence of our commitment to continue communicating effectively with you, in an open and transparent manner. We want to make sure that you walk away from this conference call with a clear understanding of our unequivocal stance on Gotham's report, which had clear speculative interests.

Our accounting practices and financial disclosures comply with international standards that are certified by the annual approvals of our auditors. That is why the entire Board of Directors has agreed to pursue legal action against Gotham City Research to protect the company's reputation, which has been successfully built throughout more than 100 years of history.

Be assured that we are not allowing a report with false allegation to derail our turnaround or our consistent focus on creating value for all our stakeholders. We are committed to our customers and our patients, their well-being, and to continue to build a strong, values-driven growth company.

As someone once said, by doing good, we will do well for all our stakeholders.

Looking ahead, as previously mentioned, we anticipate reporting a robust set of results for the full year '23, marking it a year of a significant turnaround. Throughout this period, we have consistently fulfilled our commitments and are poised to continue this journey of successful value creation for all our stakeholders also in 2024.

Thank you once again for your trust and support. I now turn the word back to Nuria.

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

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

So, with that, our first question comes from Guilherme.

Guilherme Sampaio, CaixaBank BPI
Good morning. Thank you for holding this conference call.

So, the questions that I have. The first one is on your actual plans to repurchase Haema and Biotest U.S. from Scranton. I know you're not obliged to, would like to know, why do you have planned to buy? (audio breaking up).

Second question is related to the Scranton as a partner for Grifols (audio breaking up). How do you see (audio breaking up) onwards (audio breaking up).

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Guilherme, sorry, we could not hear your second question. It was cracking, the noise was cracking a little bit. Can you repeat the second one, please?

Guilherme Sampaio, CaixaBank BPI
Yes. My second question is how do you see the importance of Scranton as a partner of Grifols in the future?

Thomas Glanzmann, Executive Chairman and CEO
You've been cutting up, but did you say, how do we see Scranton as a partner in the future?

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
For the repurchase of Haema and BPC?

Alfredo Arroyo, CFO
Yes. Right now, we are not planning to repurchase the shares of Haema and Biotest plasma companies.

Thomas Glanzmann, Executive Chairman and CEO
And your question 2. Scranton is a major shareholder for us. We've done these cooperations with them in the past, but right now there is nothing that we are contemplating.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Okay. Thank you, Thomas. And now we have Tom Jones from Berenberg. Hello, Tom.

Tom Jones, Berenberg
Hello, and thank you for taking my questions, and they're kind of related, and one of them is somewhat of a follow-up. But thank you for all the additional detail that you've given us.

I guess the sort of, the bigger-picture question I wanted to ask is, you know, Grifols is a business that we've been following for a long time, and over the years it has become slightly more complex in its holdings. And as you're well aware, that's become an issue for investors. And you had already begun the journey to improve the governance of the company and to simplify its structure.

To what extent do you think or do you feel that the recent attack by this short seller has perhaps given you fresh impetus to improve - further improve, I should say - the corporate governance of the company, and perhaps, accelerate the simplification of the corporate structure of the company?

You know, because there’s clearly two issues that you’re well aware of and have been starting to address, and I’m sure will continue to. But I guess the question is, to what extent do you think the events of the last few days have given you fresh impetus to get on with the job and get it done quicker, I would say?

Alfredo Arroyo, CFO
Thank you, Tom. To your first question, clearly, the company is working to simplify the structure of the company, and moving forward, all the transactions that will be done will be kind of plain vanilla. This good example is this divestment of the 20% of Shanghai RAAS shares, which is a very straight-forward transaction. And you know, that's on one hand.

On the other hand, the best way to counterattack those, I would say, reports, is to deliver our operational results, to deliver our EBITDA, top-line, to deliver the de-leverage and to generate cash flow. So, those are the main arguments against any of those short seller's attack.

Tom Jones, Berenberg
Perfect. And then my second question. I think I already know the answer, but it's one I've received from a lot of investors, so it would be good for you to give an answer as well. In your minds, has the events of the last couple days created any incremental risk to the potential closure of the Shanghai RAAS transaction from either a regulatory or approvals standpoint?

I certainly can't think of any, but a lot of investors have asked me that question, so I thought I'd give you the opportunity to answer it as well.

Raimon Grifols Roura, Chief Corporate Officer (CCO)
Okay, Tom, thank you. This is Raimon. You are correct. We see no issue, no problem in closing this transaction.

Tom Jones, Berenberg
Perfect. I'll jump back in the queue, and let some others ask their questions.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you, Tom. We have now questions from Thibault Boutherin from Morgan Stanley. Hi, Thibault.

Thibault Boutherin, Morgan Stanley
Hi. Thank you for taking my questions. The first one is, on the outlook for cash generation improvements in 2024. So, probably the best way to address our concerns in the midterm, around the quality of profit is through improving cash generation. And we saw the margin improvement through 2023, and our expectations from the market of further margin improvement this year. But I'd just like to know if you could comment on the kind of profile for cash flow generation

improvement for this year. So basically kind of maybe the weight of cash generation between quarters.

And I guess, basically, the question is, at what point this year do you expect that the picture will become clear in terms of cash flow generation improving?

Second question is on the debt payment priorities. Just if you could share with us, which bonds or loans you would prioritize the repayment for with the proceeds from the sale of the stake in Shanghai RAAS? So, would you focus on the 2025 maturities, or is there anything in your creditor agreements that would make you repay some of the later maturities, like 2027, for example? Thank you.

Alfredo Arroyo, CFO
Related to the cash generation 2023-2024, basically it's the same approach, where the main driver of the cash flow, as you know, is the EBITDA generation. The EBITDA improvement in '23 versus '22 and '24 versus '23 is and will be very significant. Therefore, this will have a very positive impact on the cash flow.

And another item that we always take a close look is the inventory variance. And as we speak, you know, we have put in place this year a plan to improve the inventory, or reducing the cycle on one hand. On the other hand, the lower cost of plasma is one of the main drivers of reducing the inventory. So, that's about the cash flow.

Regarding the debt repayments, all I can tell you right now is that 100% of the cash proceeds coming from the sale of the 20% of Shanghai RAAS shares will be used, fully used to repay debt. You know, when the time comes, we will figure out, based on the market dynamics, if we will repay in '25 secure, the unsecure, we can refinance the unsecure, can repay also the pro-rata versus the secure.

There are many options that when the time comes, we will tackle that. But clearly, the two maturities that are now on our way, which is in 2025, will be removed.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you, Alfredo. Next questions are coming from Neil Alexander from Deutsche Bank. Hello?

Niall Alexander, Deutsche Bank
Hi. Neil Alexander from Deutsche Bank. Can you guys hear me?

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Yes. Thank you.

Niall Alexander, Deutsche Bank
Hi. Thank you for taking my questions and apologies if this has already been stated. Wanted to confirm if Grifols plans to provide the exact contribution of consolidated entities, such as BPC and Haema and to their consolidated group EBITDA, and/or if you'll provide a split of the earnings to non-controlling interest and to those respective companies? That's the first question.

The second question, I know you slightly touched on it in the previous one, but again, operating working capital and inventories saw a material drag on negative cash flow. So, I'm just wondering when this is exactly going to begin reversing? Thanks.

Alfredo Arroyo, CFO
Okay, to show the EBITDA contribution of these two companies at EBITDA consolidated level is around 30 million euros. And then, remember, this is at EBITDA. So, at the non-controlling interest - just so everyone understands the accounting standards - we eliminate the net profit of the non-controlling share of the company. What it means is that, in the case of Haema and Biotest, we'll eliminate 100% of the net profit of these two companies, and in the case of GDS, 45% of the net profit of these companies under the caption non-controlling interest.

Regarding your second question, the inventories. The 2023, basically, and some in 2024, the reduction or the contention of the inventory increase is basically based on cost reduction. However, in 2024, as we said, the approach of this Plan in place is to reduce - usually, we talk about ten months. So, we're trying to squeeze this inventory cycle to optimize our working capital. This will take place in 2024. We are fully devoted to optimize our inventory levels.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Okay. And now we have Alvaro Lenze from Alantra Equities. Alvaro, hello?

Alvaro Lenze, Alantra
Hi, thank you for taking my questions and holding this call. My first one would be, if I understand the accounting principles of your non-controlling interests, I think that the bigger question that is raised here is, what is the balance sheet situation at the parent company and the Group that does not have non-controlling interests?

So, if you could provide the separation between the net debt at those subsidiaries in which you do not have full control, and what is the free cash flow generation at the parent company, to see how easily you can meet the upcoming maturities, which are 100% concentrated at the parent company. I think that would really help put the concern to rest, regardless of the accounting policies that you are using.

And if I can just follow up on the previous question. So, I understand that you're looking to reduce the inventory levels with this, just to understand whether the free cash flow outflows from working capital will revert into working capital inflows, or are you still looking to some additional investment in working capital, although smaller than what we have seen the last couple of years?

Alfredo Arroyo, CFO
No. We are trying to, for 2024, to balance the liter, so make the two main proteins grow in line, in order to avoid excess of inventory. At the same time, trying to adjust our collections to the required plasma supply to meet our demand.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
And sorry, Alfredo, the first question was on the balance sheet.

Alfredo Arroyo, CFO
Well, in the balance sheet, you have the details within the non-controlling interest, which is part of equity, and shows the same disclosure that we have in the P&L, in the line before the profit attributable to the Group. We have the same for the case of GDS. This is part of the equity of the company, where we disclose the non-controlling interest.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Okay. Next, we have Jaime Escribano from Banco Santander.

Jaime Escribano, Banco Santander
Hi. Good afternoon. So, one question I get also from investors is what would be the minorities contribution in terms of EBITDA of Grifols Diagnostics? So of the 45%, basically, if you can refute that the minority interest contribution, in terms of EBITDA, that Gotham is saying of $270 million -- what's the number? What's the true number that compares to this $270 million?

Then, I think it would give comfort on the Shanghai RAAS deal if you can confirm that there is penalties in place if, for whatever reason, Haier decides to broken the deal. And also if you have hedged the price, the 1.8 billion dollars.

And then, a final question, if I may. I also got the question, if you can explain the acquisition of BPL in 2021, which initially, it seems it was going to be acquired by Scranton, but in the end, it was Grifols that ended up acquiring these collection centers.

Thank you very much.

Alfredo Arroyo, CFO
Okay. Regarding the EBITDA of GDS. Clearly, Gotham has no clue of the business and the numbers, so they invent everything. But just to tell you that the GDS EBITDA is below $200 million, right. So, therefore, the 45% is clearly below $100 million. So, I don't know why they come up with that number. That's at the EBITDA level. Remember, what we eliminate from the non-controlling interest is the 45% of the net income, okay?

Raimon Grifols Roura, Chief Corporate Officer (CCO)
This is Raimon. Just to confirm, there are no penalties.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Sorry, before Alfredo answers, Jaime, you have been the only one to ask three questions, but we will allow you to answer the third one.

Alfredo Arroyo, CFO
Regarding BPL, we talk about Grifols, and we acquired the donor centers of BPL at the market value, and market price with an independent third party and that's what they're going to tell you. I don't know about the others.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Okay. We have Joaquin Garcia-Quirós from JB Capital. Hello, Joaquin.

Joaquín García-Quirós, JB Capital
Yes, thank you for taking my questions. I have two. The first is, does Grifols has loaned more money to Scranton aside the $95 million that's being talked about for the deal between Haema and BPC?

And then, if you could provide us any update on the A-to-B structure, if this report and this turmoil has changed or accelerated the ideas of the company, or if the company remains with the same idea of doing it in the future, once the stock reaches a certain level higher than it is right now? Thank you.

Alfredo Arroyo, CFO
To the first one, as I said, disclosed in the financial statement, our vendor loan remains at $95 million. And regarding the A-B shares consolidation, you know, as you said, it's on the table. So, when the prices comes back, we will seriously think about it.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Okay. Thank you. We have also a couple of questions - sorry, a couple of emails coming from sell-side analyst who had some issues with the connection. We have, from Graham Berry from Bank of America, a first question: Timing of submission of request and review of clarification points requested by a Spanish regulator. That's one.

And a second one, the related party transactions with Scranton being discussed mostly took place prior to last year management and board restructure change. So, while these were audited and in compliance with IFRS, they are perhaps not to the taste of many investors. Can you explain the company's current stance of such transactions going forward? Or even given undertaking that such transactions won't take place going forward?

Thomas Glanzmann, Executive Chairman and CEO
I'll take the first one. The regulators, we got the questions yesterday, we have ten days to respond and we will respond ASAP.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Okay.

Alfredo Arroyo, CFO
Sure, sure. Regarding these related party transactions that I already mentioned to you, it's a coincidence that they took place before changes in the Board. And as I explained, right now, these transactions are audited in compliance with IFRS, and the call option will be executed when the company decides.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you, Alfredo. There was a third question by Graham, but I think this has already been answered, so we can skip that one. So, we have Alvaro Alantra again from Alantra Equities. Sorry, I was surprised to see you again so soon. Hi, Alvaro.

Alvaro Lenze, Alantra
Thank you for letting me jump back in the queue.
I wanted to rephrase the question I asked earlier. I fully understand your thinking in terms of consolidation. I just wanted to know how confident you are that the cash flow generation at the parent company, plus the dividends that you can pay maybe from GPS, you can pay the 55% of dividends will go to the parent company. How content are you with the current cash position and free cash flow, plus the percentage from Shanghai RAAS at the parent company that you are able to meet the upcoming debt maturities? Thank you.

Alfredo Arroyo, CFO
Okay. On one hand, these are the two main streams and sources of cash. One would be the $1.8 million dollars coming from the 20% sale of Shanghai RAAS, and then currently, as we disclose in the Q3 numbers, our liquidity's above $1 billion. So, with these two, will be enough to settle these two maturities in 2025.

Alvaro Lenze, Alantra
Thank you.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Thank you. Charles, we have you here, I think on the line, Charles Pitman from Barclays. I was going to read your email, but you can proceed with your questions. But remember, we need to limit to two, please.

Charles Pitman, Barclays
No worries. Thank you very much for taking my questions and apologies for the confusion and apologies if I missed any of this. But if you could just maybe - one of the key things you've been highlighting is that everything has been signed off by your auditor. I was just wondering if, in line with trying to build best practices and build confidence with investors, if you could confirm what your policy is around regularly rotating your chosen auditor as is considered best practice as far as ESG factors are concerned?

Then, just one of the other things that we've been speaking a lot to investors about is just in terms of trying to simplify their accounts, which was mentioned earlier. I was just hoping if you could provide some insight into kind of what practices you would be looking to improve, now that the overhang of debt has been roundly kind of addressed with Shanghai RAAS and, if you could just give us some insight into, you know, are you looking to address your number of EBITDA reported metrics?

When could we expect you to report solely on an inclusive Biotest perspective? Interested in your thoughts. Thank you.

Alfredo Arroyo, CFO
So, many things, but I'm going to try to tackle your questions. Regarding auditor rotation. Since, you know, this is going to be the last year that KPMG will audit the consolidated accounts. Starting a couple years ago, Deloitte started auditing individual accounts. And in 2024, Deloitte will be the auditor for both, individual and our consolidated accounts, following the practice of auditor rotation in Spain.

Regarding simplifying the accounting. I mean, basically, as we said, we have SOX control. We fully comply with all the SOX compliances and internal controls. In addition to that, a few years ago, we set up a very strong technical accounting department, and also we engaged for complex transactions with a third-party, I would say, accountant/advisor. And therefore, the EBITDA, you know, following the ESMA and the European regulator, Spanish regulator rules, lately we have improved the detailed reconciliation between EBITDA reported and adjusted.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Okay. Then since we are coming to the end of our call today, we have a final question from Abhishek Raval from Alpha Value. Hello?

Abhishek Raval, AlphaValue
Awesome. Thank you for taking my question. So, my first question is that, an issue of non-controlling interests being a high proportion of the bottom line was raised by Gotham. Regarding that, in your adjusted numbers, 45% of the bottom-line was contributed by non-controlling interests. So, I just wanted to have some clarity on if there are any issues or temporary issues going on at the 100%-owned subsidiaries, or are we going to see this 45% of non-controlling profits being contributed by non-controlling interests, as a sort of near to medium-term trend? This is my first question.

And the second question is regarding debt maturity. So, from what I can understand, 2 billion euros of debt are about to mature in 2025, and another 4 billion and 2 billion euros in 2027 and 2028. So, regarding debt maturities in '27-'28, do you see chances of Grifols having to restructure those rates, or are you confident of the cash flows, internal cash flows, as well as divestments? Are you confident that these cash flows will be able to service two sets of obligations in '27-'28?

Alfredo Arroyo, CFO
Okay. Regarding the NCI - the non-controlling interests - I mean, we can have to separate to provide you a full reconciliation of what are the items included there, but I already explained the math on how this minorities line is composed, okay?

Regarding the debt, the debt maturity in 2025, which is 1.8 billion euros, this will be, as I said, we'll use those, basically, the Shanghai RAAS cash proceeds from the sale.

But we are not planning, just to make it clear, to refinance the existing debt. That is not due in 2025 because we have a great terms, okay? So, when the time comes in 2027, we'll take a look at, you know, obviously, the cash flow position of the company will be strong, and then we will take a look at the market, and then we will decide what to do, how much will we pay off or pay down, and then how much will we refinance. But still a way to go to 2027.

Nuria Pascual, VP, Corporate Treasury, Investor Relations and Sustainability
Okay. Thank you, Alfredo. Thank you, all that have been joining us in the call today. As always, the IR team, we remain at your disposal, should you have additional questions, and hope to speak to you all very soon. Thank you all!