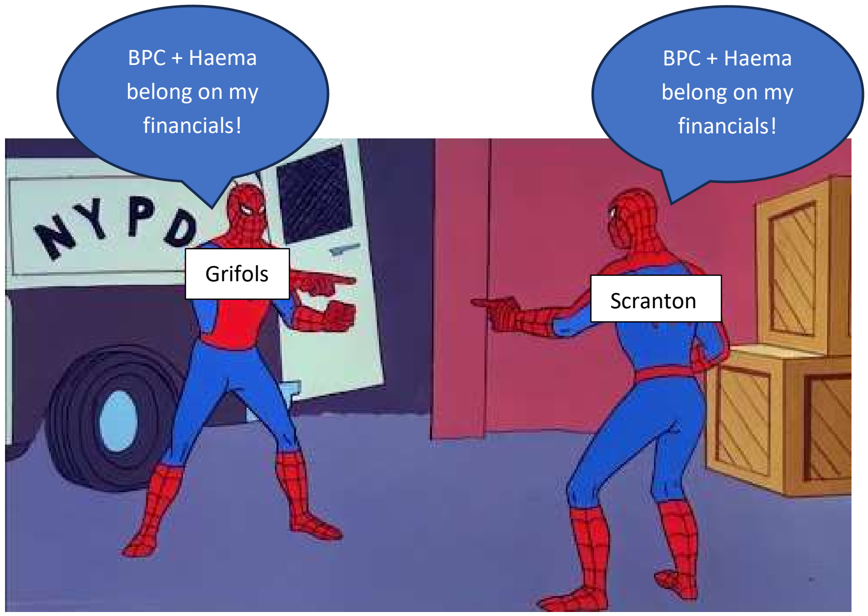
GOTHAM CITY RESEARCH LLC

Grifols SA: Scranton and the Undisclosed Debts



Grifols and Scranton both consolidate Haema and BPC: do their creditors know?

1. Grifols fully consolidate both Haema and BPC Plasma, despite owning 0% of each company. Haema + BPC are material to GRF, as they account for ~40% of GRF earnings from Non-Controlling Interests.
2. Scranton Enterprises, a Grifols-family vehicle, also fully consolidates BPC Plasma and Haema, at the same that Grifols does**.** These entities' earnings appear to account for more than 100% of Scranton's earnings.
3. Grifols' Leverage is ~6x, as reported. We estimate it is closer to ~10x-13x. We calculate Scranton's leverage to be 27x.

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GOTHAM CITY RESEARCH'S OPINIONS

- GRF manipulates reported debt & EBITDA to artificially reduce reported leverage to 6x which we believe is closer to 10x-13x.
- Both GRF and Scranton Enterprises (a Grifols family vehicle) fully consolidate BPC + Haema onto their financial statements. This treatment is materially deceptive and incorrect.
- Should our estimate of the Grifols' true leverage be correct, GRF will face notably higher financing costs.
  Consequently, we believe shares are uninvestable, likely zero.

SUMMARY OF THE BASES OF OPINIONS

- GRF has fully consolidated BPC + Haema since 2018 - despite owning zero percent of each. GRF does not disclose how it accounts for this treatment in its 2022 & 2021 Annual reports.
- 40.1% of 2022 GRF profit attributable to NCIs come from BPC + Haema. 99% of GRF's 2023 YTD profit attributable to NCIs.
- Both GRF and Scranton Enterprises fully consolidate BPC + Haema onto their financial statements.
- Grifols lent Scranton $95 million in 2018. This loan appears tied to the BPC/Haema transaction, yet this loan is undisclosed in Grifols' corporate governance filings .
- Scranton 2021 filing shows an increase in liabilities of EUR 59 million relating to "advance payments from Grifols Worldwide Operations Ltd". This transaction is undisclosed in GRF filings.
- Scranton owns 8.4% of GRF, borrowed EUR350 million against its stake. This activity is undisclosed in GRF filings.
- Scranton is levered ~23x and c.100% of its income come from BPC+Haema.
- GRF engages in reverse factoring and does not disclose this activity in its consolidated financial statements.
- NCI has grown from nearly 0% of earnings in 2017 to nearly 100% of net income as of 2023 YTD. GRF fully includes earnings from NCI in its EBITDA per credit agreement, despite not actually having claim to these earnings.
- Grifols purchase of Bio Products centers makes no sense to us given the implied price per center is $14.8 million per center. We estimate the cost is ~$3 million per center.
- Grifols' EUR124 million advanced payment to Immunotek appears to be an unexplained outflow of cash not relate to the development of these centers.
- Grifols CEO Thomas Glanzmann has been with GRF since 2006. He has been vice chairman since 2017 and on the board when the suspect transactions we describe in this report occurred.

Company: Grifols SA

CEO: Thomas H Glanzmann

Ticker: GRF

Share price: €14.24

Market cap: €8.71B

Enterprise value: €21.67B

52-week high: €15.92

52-week low: €8.37

Shares outstanding: 679M

2023 H1 Leverage: 6.9x

2023 H1 GCR Leverage: 9.6x

2023 H1 net debt: €9.422B

2023 H1 GCR net debt: €8.919B

2023 H1 Adj. EBITDA: €1.361B

2023 H1 GCR EBITDA: €0.928B

2022 FCF: -€1.99B

2004-2022 total FCF: -€4.41B

FYE: Dec. 31

Auditors: KPMG

Analyst ratings: 20 buy, 5 neutral, 0 sell

INTRODUCTION

Gotham City Research first started looking at Grifols SA last spring. On the one hand, Grifols appears to show signs of an irrefutable turnaround story, and the street seems quite optimistic. For example, there are 20 analyst buy ratings on GRF equity[1] (see the appendix for the entire list of analysts with buy ratings).

On the other hand, the company's EBITDA margins have steadily declined over the last 11 years, despite a debt-fueled acquisition binge, with net debt rising 4x from 2012 to Q3 2023[2]:

Grifols is a failed roll-up												
YE December	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Q3 2023
Net debt (EUR mln) *	2,413.1	2,102.6	3,270.2	3,717.7	4,047.1	5,170.4	5,343.1	5,724.7	5,713.6	8,678.0	9,191.3	9,539.8
Reported EBITDA margin **	30.1%	31.5%	31.2%	29.5%	28.2%	28.2%	27.3%	28.1%	24.8%	19.5%	20.1%	18.3%

* Net debt = (Noncurrent financial liabs + Current financial liabs - Noncurrent lease liabs - Current lease liabs) - Cash & cash equivalents

** Reported EBITDA margins incl Biotest acquisition. Q3 2023 margin is YTD 2023.

Grifols' long term margin erosion does not appear to be an industry-wide phenomenon[3]:

Reported EBITDA Margins												
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
GRF SM *	30.1%	31.5%	31.2%	29.5%	28.2%	28.2%	27.3%	28.1%	24.8%	19.5%	20.1%	18.3%
CSL AU	31.3%	34.0%	34.3%	35.5%	27.1%	29.5%	33.8%	33.7%	34.3%	36.1%	34.0%	29.3%

GRF's FY end is in December, with their 2023 margin being their YTD 2023. CSL's FY end is June.

* Reported EBITDA margins incl Biotest acquisition. Q3 2023 margin is YTD 2023.

Upon a deeper investigation of GRF over the last 9 months, we find that the market seems to misunderstand the company. For example, GRF analysts rely on 5–10-year EBITDA figures to evaluate EBITDA and EBITDA multiples. But these 5-10 year figures are irrelevant, as Grifols business has fundamentally changed over the last 5 years - earnings from Non Controlling Interests ("NCI") have grown from nearly 0% of earnings in 2017 to nearly 100% of earnings as of 2023 YTD. We also discovered:

- Material undisclosed related party transactions and suspect accounting, all coinciding with poor, disappointing performance – a pattern of behavior we have observed before.
- Scranton Enterprises NV, a Grifols family entity, plays a critical role to present Grifols in a better light. For example, we have identified undisclosed loans and share pledges tied to Scranton.
- The purpose of these suspect transactions appears to be to present Grifols' leverage at 6x, whereas we estimate leverage is closer to 10x-13x.

Despite a debt-fueled acquisition spree, GRF looks like a failed roll-up, inflecting from bad to worse. The company was in acquisition mode but is now in disposition mode, selling assets because they must not because they want to. The recent SRAAS transaction[4] validates our belief that GRF's debt-field acquisition strategy is a failure, and that the company's true leverage burden is far worse than widely believed.

Grifols reminds us of NMC Health plc. We were short NMC Health because like GRF, NMC had been a debt-financed serial acquiror where we identified suspect accounting, undisclosed related party transactions, and undisclosed debts. NMC Health's hidden debt problem turned out larger than we had previously estimated, and the company filed for bankruptcy.[5] We see an eerily similar fact pattern between NMC and Grifols. Consequently, we find GRF shares uninvestable, and likely worthless.

We estimate Grifols' leverage is closer to 10x-13x not 6x

Grifols claims to be 6.7x levered as of Q3 2023

On the one hand, Grifols claims to be levered only 6.7x per Q323 presentation, pg 33[1]:

In million of euros	LTM Q3'23	LTM Q2'23	LTM Q1'23	FY 2022	LTM Q3'22	LTM Q2'22
OPERATING RESULT (EBIT)	722	672	694	806	668	559
Depreciation & Amortization	(456)	(454)	(447)	(415)	(399)	(386)
Reported EBITDA	1,178	1,127	1,142	1,221	1,067	945
IFRS 16	(103)	(101)	(102)	(100)	(91)	(85)
Restructuring costs	165	171	174	36	46	40
Transaction costs	31	19	28	26	25	29
Cost savings, operating improvements and synergies on a "run rate"	121	121	92	100	34	68
Other one-offs	24	24	4	4	6	6
Total adjustments	238	234	194	66	20	58
Adjusted EBITDA LTM as per Credit Agreement	1,416	1,361	1,336	1,287	1,087	1,003
Leverage Ratio as per Credit Agreeement	6.7x	6.9x	7.0x	7.1x	8.6x	9.0x

The ratings agencies seem to assess GRF leverage at similar levels with GRF's disclosed leverage. For example, Moody's states that leverage "stood at 7.1 at the end of 2022"[2]:

> The company has a USD1.0 billion backed senior secured revolving credit facility (RCF) due November 2025, which is currently undrawn and is subject to a springing leverage covenant (net debt/EBITDA at a maximum of 7x) that is activated if drawings exceed 40%. Grifols' leverage covenant has been above the limit during 2022 and it stood at 7.1 at the end of 2022, still limiting the drawing potential on the RCF to up to USD400 million. Moody's projects that Grifols

This is in line with GRF's stated "leverage ratio as per credit agreement" figure of 7.1x as at FY22 end[3]:

In million of euros	LTM Q3'23	LTM Q2'23	LTM Q1'23	FY 2022	LTM Q3'22	LTM Q2'22
OPERATING RESULT (EBIT)	722	672	694	806	668	559
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We estimate leverage is far higher, 10x-13x, assuming the SRAAS deal goes through

Moody's projects Grifols' leverage to improve to 5.5x-6.0x,[4] assuming the SRAAS sale goes through and the proceeds are used to reduce debt. We estimate that GRF's true leverage as of Q3 2023 is at least 9.6x and could be 13.2x, should the recent sale of SRAAS stake close without complications[5]:

GRF's true net leverage range		
EUR mln (as at H1 2023)	**Low end**	**High end**
GCR adjusted net debt	8,919.3	9,767.1
GCR Adjusted EBITDA	927.6	741.0
Net leverage	**9.6x**	**13.2x**

Adj. EBITDA deducted for the P/L attributable to 20% SRAAS divested.

Gotham City Research's key assumptions and why the true leverage picture matters

We explain in detail why we believe leverage is closer to 10x-13x by examining the components of leverage: EBITDA and Debt. We dedicate the following two sections of this report as to why we believe EBITDA is overstated by at least 32%:

- The market appears to fundamentally misunderstand the company, and its composition of earnings – Non-controlling interests have grown from less than 0% to ~ 100% of Grifols' profits within 5 years, yet the Street models EBITDA and multiples on a 5-10 year basis.
- BPC, Haema, and GDS account for over 100% of profits from NCI. We find their full inclusion in GRF EBITDA overstates GRF's earnings power considerably.
- GRF fully consolidate BPC and Haema despite owning zero percent of each entity.
- GRF fully consolidates GDS despite owning 55 percent of the company.
- GRF adds back "Run rate cost savings, synergies that have yet to be realized" – that is, theoretical cost savings – we find this adjustment to EBITDA highly suspect.

Highlights as to why we believe debt is understated by at least EUR920 million:

- We examine Grifols' actual debt obligation numbers not the financial liabilities numbers as Grifols presents, which we find confusing.
- Then we bring factoring back on balance sheet because factoring is a form of debt.
- We add debt from the haema/biotest parking transaction, as GRF fully consolidate them.
- The presence of undisclosed reverse factoring is concerning, as it was a problem with NMC plc as well. The magnitude of NMC's true debt burden turned out to be worse than expected.
- Material undisclosed related party loans are a never good sign.
- The company has attempted (and failed) to cleverly understate debt before (see the GIC transaction in the debt section). Thus, there is a documented example whereby Grifols attempted (and failed) to understate debt in the past.

Our leverage analysis rests on two assumptions:

- SRAAS sale goes through and Grifols uses those proceeds to pay down debt – should we be wrong, and Grifols encounter some complications with this sale, then our estimates of leverage – 10x-13x – might be understated.
- We use the H1 2023 figures because Grifols does not disclose sufficient details on a quarterly basis for us to accurately assess the true debt picture. We would rather use reliable real numbers of what they owe from H1 2023, rather than opaque and incomplete figures from Q3 2023. We believe the company should provide these details on quarterly basis for us and the public to independently evaluate.

Tunneling transactions: why we believe EBITDA is overstated

Why we believe Grifols' EBITDA is fundamentally misunderstood by the Market

Grifols discloses 6 different definitions of EBITDA[1] (see appendix for more details). We focus on the definition that matters for credit purposes, i.e. "Adjusted EBITDA LTM as Per Credit agreement"[1]:

In million of euros	LTM Q3'23	LTM Q2'23	LTM Q1'23	FY 2022	LTM Q3'22	LTM Q2'22
OPERATING RESULT (EBIT)	722	672	694	806	668	559
Depreciation & Amortization	(456)	(454)	(447)	(415)	(399)	(386)
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Other one-offs	24	24	4	4	6	6
Total adjustments	238	234	194	66	20	58
Adjusted EBITDA LTM as per Credit Agreement	1,416	1,361	1,336	1,287	1,087	1,003

Our review of the credit ratings agencies, such as Moody's, indicates that the agencies work off similar EBITDA levels. Nevertheless, we find even this Grifols "per credit agreement" definition of EBITDA materially misleading and incorrect, and that the market fundamentally misunderstands this business.

For example, NCIs have grown from 0% of Grifols total profits in 2018 to ~100% of profits as of TTM 2023 profits. The composition of EBITDA has clearly changed, yet we find the market analyzes the company's earnings and multiples on a 5-year or 10-year basis, as evidenced by a few analyst reports[2]:

Grifols: target price valuation summary (€)

	SGe	Comments
DCF	22.8	Assumes WACC of 8% (debt-to-equity ratio 2x; cost of equity 4.8%; cost of debt 6.5%) and 2% perpetuity growth
EV/EBITDA multiple	13.2	Assumes a 30% discount to CSL. This compares to the 10y average of a 34% discount as we expect the new Grifols CEO (the first not to be a family member) to develop a more performance led culture
Target price (i.e. average)	**18.0**	
Implied 2024e P/E	26.5x	10-year average = 20x

2024 CMD) **and clear de-leveraging strategy** (SRAAS and organic FCF). Based on our EV/NTM EBITDA multiple-based valuation approach, we estimate that GRF can now return to a premium valuation vs its COVID-19 depressed five-year EV/NTM EBITDA average of 12.5x. **At a c13x EV/ FY24 EBITDA, we raise our price target to €18 from €14.**

Based on our calculations, creditors claim to GRF EBITDA is at least 32% lower[3]:

Adjusted EBITDA LTM as per Credit Agreement: breaking down the overstatement	
EUR mln	**LTM H1 2023**
Adjusted EBITDA LTM as per Credit Agreement (stated by Grifols)	**1,361**
Less: Estimated EBITDA attributable to NCIs	274
Less: cost savings, operating improvements and synergies on a run rate	121
Less: SRAAS 20% share of profit/(loss) divested	38
GCR Adjusted EBITDA	**928**
% delta	**-31.8%**

Grifols adjusted EBITDA includes income the company has no claim to, i.e. non-controlling interests, and then adds back theoretical cost savings the company may never realize. We simply reverse these effects, as by our assessment, creditors have no claim to NCIs nor theoretical cost savings, especially as restricting costs have only seen margin declines follow. The actual overstatement of EBITDA may be worse, but these two adjustments are undemanding and conservative.

We conduct our leverage analysis on a H1 2023 LTM basis – beginning with a close examination of the EBITDA – instead of the Q3 2023 figures, as Grifols does not disclose key debt-related figures on a quarterly basis, and only on annual and semi-annual basis. The rest of this section walks through our assumptions, i.e. how we arrive at our calculations of EBITDA.

Non-controlling interests: from less than 0% to ~ 100% of Grifols' profits within 5 years

We start by taking a closer look at the NCIs and its components: NCIs are highly important as they account for ~100% of profits as of TTM 2023 profits, thus they are critical to understanding Grifols. In fact, the story of GRF is inaccurate and incomplete without examining its non-controlling interests. Historically, non-controlling interests have been a negligible part of Grifols' business, accounting for less than zero percent of profits through 2017[4]:

Grifols: Profit/(Loss) attributable to the parent vs Profit/(Loss) attributable to NCIs							
YE December (EUR mln)	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Consolidated profit for the period	255.4	342.1	467.1	531.4	544.5	661.3	594.4
Profit/(loss) attributable to the parent	256.7	345.6	470.3	532.1	545.5	662.7	596.6
Profit/(loss) attributable to non-controlling interest	-1.3	-3.5	-3.2	-0.7	-0.9	-1.4	-2.2
P/(L) att. to NCIs as % of Consolidated profit for the period	-0.5%	-1.0%	-0.7%	-0.1%	-0.2%	-0.2%	-0.4%

However, non-controlling interests started growing in 2019, currently account for over 100% of profits[5]:

Grifols: Profit/(Loss) attributable to the parent vs Profit/(Loss) attributable to NCIs						
YE December (EUR mln)	**2018**	**2019**	**2020**	**2021**	**2022**	**2023 YTD**
Consolidated profit for the period	594.4	648.6	709.0	265.3	271.1	102.9
Profit/(loss) attributable to the parent	596.6	625.1	618.5	188.7	208.3	3.3
Profit/(loss) attributable to non-controlling interest	-2.2	23.5	90.4	76.6	62.9	99.6
P/(L) att. to NCIs as % of Consolidated profit for the period	-0.4%	3.6%	12.8%	28.9%	23.2%	96.8%

In our experience, High NCI values should be a red flag for investors in general. Most of the market looks at consolidated figures for Debt, Cash, and EBITDA when assessing leverage. When significant NCIs are present it is vital to drill down into the corporate structure to understand what earnings streams were sold and where the debt sits in relation to this.

As investors learned after Muddy Waters Research published about the Casino complex[6], it is very possible to game the consolidation rules via NCIs to make consolidated leverage appears far lower than proportionally consolidated leverage. In the case of Grifols, all the NCIs stem from entities that sit below where the debt of Grifols sits. That is, Grifols sold earnings streams, but still must service 100% of its consolidated debt!

And then among GRF's constituent parts, Haema AG, BPC Plasma, Grifols Diagnostics Solutions and account for more than 100% of profits arising from NCI. And the way in which GRF consolidates these 3 we find highly suspect. We discuss why we find Haema AG, BPC, and GDS suspect, then examine if EBITDA could be dramatically more aggressively overstated.

Haema AG, BPC Plasma, Grifols Diagnostics Solutions = over 100% of NCI profits

Haema AG, BPC Plasma, GDS, and Biotest AG account for more than 100% of Grifols profits from NCI based on the details provided in Note 18: Non-Controlling Interests[7]:

(18) Non-Controlling Interests

Details of non-controlling interests and movement at 31 December 2022 are as follows:

	Reference	Balance at 31/12/2021	Additions	Business combinations / Perimeter additions	Other movements	Translation differences	Balance at 31/12/2022
		Thousands of Euros					
Grifols (Thailand) Pte Ltd		4,417	282	--	(23)	103	4,779
Grifols Malaysia Sdn Bhd		3,059	593	--	--	11	3,663
Araclon Biotech, S.A.		240	(833)	--	--	--	(593)
VCN Bioscience, S.L		97	0	--	(97)	--	0
Kiro Grifols, S.L.		284	(312)	--	3	--	(25)
Haema AG		233,542	(4,858)	--	--	--	228,684
BPC Plasma, Inc		305,276	30,086	--	--	19,140	354,502
Grifols Diagnostics Solutions Inc.		1,234,850	46,719	--	111	71,994	1,353,674
Plasmavita Healthcare		11,724	(1,590)	--	--	--	10,134
Haema Plasma Kft		--	(4,074)	17,080	--	(1,067)	11,939
G Pyrenees Research Cntr		--	(7)	1	--	--	(6)
Albimmune SL		--	(742)	1	--	--	(741)
Biotest AG	Note 3	--	(2,397)	356,386	8	7,599	361,596
		1,793,489	62,867	373,468	2	97,780	2,327,606

On 25 April 2022, the Group acquired 70.18% of the shares in Biotest AG. Consequently, the information relating to Biotest, AG corresponds to the period from 1 May to 31 December 2022.

And based on this accompanying table as well within the same Note 18[8]:

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

At 31 December 2022 and 2021, the main items of the statement of financial positions of the most significant non-controlling interests are as follows:

	Thousands of Euros 31/12/2022				Thousands of Euros 31/12/2021		
	Biotest, AG	**Grupo GDS**	**Haema AG**	**BPC Plasma, Inc**	**Grupo GDS**	**Haema AG**	**BPC Plasma, Inc**
Non-current assets	585,282	4,175,839	126,051	345,906	3,796,855	121,309	263,921
Current assets	619,513	286,153	40,308	30,242	291,371	57,985	74,206
Total Assets	1,204,795	4,461,992	166,359	376,148	4,088,226	179,294	338,127
Non-current liabilities	701,613	292,416	19,673	54,131	278,620	27,137	53,715
Current liabilities	130,193	93,474	72,675	60,638	91,299	84,117	83,592
Total Liabilities	831,806	385,890	92,348	114,769	369,919	111,254	137,307
Total equity	372,989	4,076,102	74,011	261,379	3,718,307	68,040	200,820
Profit/(loss) for the year	(16,036)	140,678	5,972	48,132	198,416	8,100	34,333

Biotest, Haema, and Accounting Magic: tunneling transactions?

GRF purchased Biotest (aka BPC Plasma) & Haema in 2018 for $286 million & EUR220 million respectively.[9]

- On 1 August 2018, Grifols, through its subsidiary Grifols Shared Services North America, Inc. has completed the acquisition of 100% of the shares in Biotest US Corporation for a price of US Dollars 286,454 thousand, after obtaining the consent of the US Federal Trade Commission (see note 3).
- On 19 March 2018, Grifols entered into an agreement with Aton GmbH for the purchase of 100% of the shares of German based pharmaceutical company Haema AG, in exchange for a purchase price of Euros 220,191 thousand on a debt free basis. The closing of this transaction took place in June 2018 (see note 3).

On the 28th of December 2018, just 1 business day before Grifols' fiscal year end, Grifols sold BPC and Haema to Scranton, for the same price as GRF acquired these entities for, earlier within the year[10]:

> On 28 December 2018, Grifols sold Biotest US Corporation and Haema AG to Scranton Enterprises B.V. for the global amount of US Dollars 538,014 thousand (see note 1), Scranton is an existing shareholder of Grifols (see note 31). The current sale of Biotest and Haema to Scranton took place for the same price, at the current US Dollar/Euro exchange rate, and under the same terms and conditions existing when Grifols acquired both companies.
>
> The sale of Biotest and Haema has not resulted in a loss of control for the Group. In assessing the existence of control, Grifols has considered the potential voting rights to determine whether it has power and therefore control. The Group holds potential voting rights arising from the repurchase options of the shares and they are substantive, based on the following:
>
> - The sale contract includes a call option for Grifols which grants the irrevocable and exclusive right (not an obligation) to be able to acquire the shares sold to Scranton (both at the same time) at any time from the effective date of sale.
> - The purchase option has been negotiated jointly in the same sale agreement of the entities.

Yet GRF fully consolidates biotest and Haema, even after its ownership stake shrinks to zero

Grifols justifies this accounting treatment – i.e. fully consolidating BPC Plasma and Haema onto their financial statements, while owning zero percent of each – as the company claims (i) to possess a call option to buy the operations back from Scranton and (ii) exert full control over these two assets.

Interestingly Grifols believes this call option is "in the money" since the projections are for growth and improved results.[11]

> - The price of exercising the call option will be equal to the higher of: a) the price at which Grifols sold them plus costs incurred in the transaction and plus the increase in working capital and (b) the amount of the debt that Scranton owns the date on which Grifols exercises the option (principal plus interest plus any other cost to be able to cancel said loan). Considering that the projections for the entities are for growth and an improvement in their results is expected, it is concluded that said call option is "in the money" since their market price is estimated to be higher than that agreed in the call option.

Grifols indicates that it continues to control both businesses[12]:

> The aforementioned are indicators of Grifols' power over these entities, even after their sale, considering that the repurchase options are susceptible to being exercised and Grifols would have the financial capacity to carry them out.
>
> Consequently, the sale of the entities does not result in a loss of control, which is why the entities continue to consolidate, recording the sale as a transaction in equity without any impact on the consolidated statements of profit and loss.

Grifols does not provide any explanation as to how the company fully consolidates BPC Plasma and Haema, despite owning zero percent of each, in its 2021 and 2022 annual reports. The company provides the details in their 2018-2020 annual reports. See appendix for further details.

This BPC Plasma/Haema transaction could therefore be considered a "tunnelling" transaction since value is effectively being transferred from the publicly listed business, GRF, to the Grifols family, via Scranton. If the projections work out as expected, Scranton can hold onto the business, if not Grifols can buy it back.

What exactly are "Tunneling transactions"?

We believe that Grifols the public company and the Grifols family, through entities tied to the family, may be engaging in tunneling transactions. The BPC Pharma/Haema transaction certainly resembles tunneling transactions to us. So what exactly are tunneling transactions?

"Tunneling is defined as the transfer of assets and profits out of firms for the benefit of those who control them".[13]

In legal terms, this can be a legal or illegal transfer, such as when a group of major shareholders or the management of a publicly-traded company orders that company to sell off its assets to a second company at unreasonably low prices. The shareholders or management typically own the second company outright, and thus profit from the otherwise disastrous sale. While people widely agree that tunneling is unethical, penalties for it vary widely; some states impose criminal sanctions, whereas other states provide either for civil suits only, or for no sanctions at all.[14]

Grifols fully consolidates Grifols Diagnostic Solutions ("GDS") despite owning 55% of GDS

Not only do we find GRF's accounting treatment and inclusion of BPC Plasma + Haema in its EBITDA suspect: we find Grifols' full inclusion of GDS onto GRF EBITDA overstates GRF's earnings power considerably. Grifols sold 45% of its GDS stake as part of its 2020 SRAAS purchase, leaving it with 55%[15]:

						12/31/2022 % shares		12/31/2021 % shares		12/31/2020 % shares	
Name	Offices	Registered Office	Acquisition / Incorporation date	Activity	Statutory Activity	Direct	Indirect	Direct	Indirect	Direct	Indirect
Grifols Diagnostics Solutions, Inc.		4560 Horton Street 94608 Emeryville, California United States	2013	Industrial	Manufacture and sale of blood testing products	—	55.000 %	—	55.000 %	—	55.000 %

- **Grifols Diagnostic Solutions, Inc.**

On 30 March 2020, Grifols closed a share exchange agreement with Shanghai RAAS Blood Products Co. Ltd. (hereinafter SRAAS), through which Grifols delivered 90 shares of its US subsidiary Grifols Diagnostic Solutions Inc. (hereinafter GDS) (representing 45% of the economic rights and 40% of the voting rights), and in exchange received 1,766 million SRAAS shares (representing 26.2% of the share capital). Thus, Grifols became the largest shareholder of SRAAS, while maintaining operational, political and economic control of GDS (see note 10).

GDS is treated as a non-controlling interest, according to a 2019 investor meeting[16]:

Grifols gained as large as possible a stake in SRAAS without having to deconsolidate GDS and lose the GDS revenue / profits from its group results, even though GRF no longer held claim to 45% of GDS[17]:

- **Grifols Diagnostic Solutions, Inc.**

On 30 March 2020, Grifols closed a share exchange agreement with Shanghai RAAS Blood Products Co. Ltd. (hereinafter SRAAS), through which Grifols delivered 90 shares of its US subsidiary Grifols Diagnostic Solutions Inc. (hereinafter GDS) (representing 45% of the economic rights and 40% of the voting rights), and in exchange received 1,766 million SRAAS shares (representing 26.2% of the share capital). Thus, Grifols became the largest shareholder of SRAAS, while maintaining operational, political and economic control of GDS (see note 10).

Note that it appears that Grifols' ownership stake in GDS remains unchanged after SRAAS.

Assuming the recently announced SRAAS sale goes through: we reduce GRF debt by the announced amount (see our debt section for more details), and also reduce GRF's EBITDA by our calculation of reduction in SRAAS earnings contribution, so that the leverage calculation remains apples to apples.

Run rate cost savings, synergies that have yet to be realized

The additional costs excluded are large but have only been split out once, in the H1 23 interim report.[18]

- **Adjusted EBITDA as per Credit Agreement, including Biotest**

In million of euros	H1 2023 LTM	FY 2022	*% Var*
OPERATING RESULT (EBIT)	**672**	**806**	*(16.6%)*
Depreciation & Amortization	(454)	(415)	*9.5%*
Reported EBITDA	**1,127**	**1,221**	*(7.7%)*
IFRS 16	(101)	(100)	*1.4%*
Transaction costs	19	26	*(26.4%)*
Restructuring costs	171	36	*374.5%*
Cost savings, operating improvements and synergies on a "run rate"	121	100	*21.0%*
Other one-offs	24	4	*595.5%*
Total adjustments	***234***	***66***	***253.4%***
Adjusted EBITDA LTM as per Credit Agreement	**1,361**	**1,287**	***5.7%***

We exclude the "Run rate cost savings, synergies that have yet to be realised" adjustments Grifols makes to its EBITDA. Grifols has claimed many run rate cost savings in recent periods but has very little to show in terms of EBITDA uplift.

For us to give a company credit for run rate savings or synergies, a track record of turning savings/synergies into incremental EBITDA is required. In the absence of such a demonstrated ability to reduce costs, it would appear restructuring costs and associated savings/synergies are simply a fact of life for a company that is struggling. Grifols, in our view, must run hard just to remain standing still.

How EBITDA could be overstated by at least 46%

We believe our estimate of adjusted EBITDA is a conservative one. Should the accounting and related party issues run deeper, we could see EBITDA overstated by at least 46%[19]:

Adjusted EBITDA LTM as per Credit Agreement: breaking down the overstatement	
EUR mln	**LTM H1 2023**
Adjusted EBITDA LTM as per Credit Agreement (stated by Grifols)	**1,361**
Less: Estimated EBITDA attributable to NCIs	274
Less: cost savings, operating improvements and synergies on a run rate	121
Less: Restructuring costs *	104
Less: YoY change in "Other financial assets to related parties" and "loans to related parties" **	83
Less: SRAAS 20% share of profit/(loss) divested	38
GCR Adjusted EBITDA	**741**
% delta	**-45.6%**

* Average of FY22 and H123 numbers reported by GRF.

** FY19 to FY22 average of the YoY change in these two accounts in GRF's consolidated reports.

Our prior EBITDA calculation gives the company full benefit of doubt that 'Restructuring costs' should be fully added back, and that the suspicious and undisclosed related party transactions we discuss in this report – such as with Scranton or Immunotek – have no impact on the company's EBITDA. Should these assumptions prove to be overly conservative, then our EBITDA calculation is too high. Thus, we calculate what the impact could be should we be wrong.

Additional adjustments to EBITDA

Restructuring costs are a large percentage of earnings - We remove restructuring costs from EBITDA because Grifols has been embarking on continual restructuring costs over a significant period of time. This indicates that restructuring costs are an ongoing business expense, not unusual nor exceptional expenses.

Furthermore, restructuring costs are typically associated with cost cuts and margin increases. Over the last several years, despite significant restructuring costs flagged and excluded from EBITDA, EBITDA margins have been falling, leading us to believe that restructuring costs are a part of Grifols' business, given they appear to be running very hard, only to end up moving backwards.

In the past, we were short Steinhoff, NMC Health, and Wirecard.[20] We saw unexplained, undisclosed cash outflows turn out to be nefarious and indicative of further issues at these companies. We see a fact pattern with GRF that reminds us of them. It is notable to us that some of Grifols' cash outflows start precisely at the same time as we see Grifols execute questionable transactions that flatter its leverage multiple. Clearly Grifols is under stress: if massaging its balance sheet is acceptable (as we discuss in the next few sections), one might wonder whether these maneuvers flatter the income statement?

Specifically, we find (i) undisclosed cash outflows from Grifols to related parties (such as Scranton) (ii) cash outflows to partners/subsidiaries that don't make economic sense to us, such as to Immunotek and (iii) evidence of a complex circular flow of transactions between Grifols and Scranton (see Bio Products). Concurrently, we see certain cash outflows at Grifols as suspect – notably the "loans to related parties", "other financial asserts to related parties", and "loans to third parties" items.

For these reasons and more, it would be unsurprising to us if cash outflows turn out to be used for roundtripping, a hypothesis we cannot rule out here.

Hidden Debts: Factoring and related party shenanigans

Gotham City Research estimates that Debt is understated by at least EUR 900 million

The company claims "Net Financial Debt as per Credit Agreement" as of Q3 2023 of 9,540 million[1]:

In millions of euros except ratio. Including Biotest	Q3'23	Q2'23	Q1'23	Q4'22	Q3'22	Q2'22
Non-Current Financial Liabilities	10,299	10,203	9,999	9,961	10,397	10,104
Non-recurrent Lease Liabilities (IFRS16)	(928)	(890)	(884)	(915)	(1,058)	(1,006)
Current Financial Liabilities	757	733	761	796	586	484
Recurrent Lease Liabilities (IFRS16)	(104)	(101)	(99)	(102)	(65)	(62)
Cash and Cash Equivalents	(484)	(523)	(426)	(548)	(480)	(525)
Net Financial Debt as per Credit Agreement	**9,540**	**9,422**	**9,351**	**9,191**	**9,381**	**8,994**

This debt figure corresponds with the similarly defined "Adjusted EBITDA as per credit agreement" we started with in the prior section. And Moody's assessment of GRF financial liabilities seems in line with GRF: "Grifols reported EUR 9.7 billion in financial liabilities (excluding EUR 1.0 billion of leases) as of 31 December 2022."[2]

> Grifols reported EUR9.7 billion in financial liabilities (excluding EUR1.0 billion of leases) as of 31 December 2022. This comprises a mix of senior secured debt instruments (term loans, RCF and notes) rated Ba3, two notches above the CFR, and senior unsecured notes that are ranked behind the senior secured debt in the waterfall and are rated Caa1, two notches below the CFR. All these instruments benefit from guarantees of subsidiaries representing about 70% of Grifols' EBITDA. The senior secured debt instruments benefit from collateral which includes among others certain tangible and intangible assets and plasma inventories.

We find that Grifols understates its debt burden and is, therefore, materially more levered than the company indicates. We have identified undisclosed related party loans to Scranton, undisclosed lending activities (e.g., reverse factoring), activity that suggests Grifols de facto may assume responsibility for Scrantons' debts, and a history of trying to obfuscate its true financial position. These observations lead us to believe the true debt picture may be far worse than we are able to presently determine.

That being said, we estimate that true debt, at minimum, is closer to EUR8.9 billion, not EUR8.0 billion[3]:

GRF SM's true debt	
EUR mln	**H1 2023**
Non-current obligations	4,626.3
Senior secured debt (non-current)	3,361.6
Other loans (non-current)	698.2
Other non-current finanical liabilities	825.2
Current obligations	149.4
Senior secured debt (current)	26.4
Other loans (current)	438.5
Other current finanical liabilities	76.6
Gross debt	**10,202.3**
Cash on balance sheet	-523.4
Cash from SRAAS divestiture *	-1,592.9
Net Debt	**8,086.1**
Volume of invoices sold without recourse not collected	367.9
Haema and BPC transaction values parked at Scranton	465.3
GCR adjusted net debt	**8,919.3**

* SRAAS divestiture of RMB 12.5bln converted to EUR as at 29/12/2023.

We examine the actual debt obligation numbers not the financial liabilities numbers as Grifols presents. The highlighted items below are the actual amounts GRF owe claimaints at H1 2023[4]:

(14) Financial liabilities

Details of financial liabilities at 30 June 2023 and 31 December 2022 are as follows:

Financial liabilities	Referencia	Thousands of Euros 30/06/2023	31/12/2022
Non-current obligations	(a)	4,626,278	4,638,444
Senior secured debt	(b)	3,361,631	3,419,058
Other loans	(b)	698,244	336,530
Other non-current financial liabilities	(c)	825,242	887,707
Non-current financial derivatives	Nota 20	4,375	4,003
Non-current lease liabilities	Nota 8	890,458	914,588
Loan transaction costs		(203,641)	(239,768)
Total non-current financial liabilities		10,202,587	9,960,562
Current obligations	(a)	149,399	150,512
Senior secured debt	(b)	26,400	8,904
Other loans	(b)	438,483	477,065
Other current financial liabilities	(c)	76,601	113,680
Current financial derivatives	Nota 20	1,503	733
Current lease liabilities	Nota 8	100,515	102,356
Loan transaction costs		(59,632)	(57,564)
Total current financial liabilities		733,269	795,686

We use the H1 2023 figures because the company does not disclose sufficient details on a quarterly basis to accurately assess the true debt picture. We would rather use reliable real numbers of what they owe from H1 2023, rather than opaque figures from Q3 2023. We believe the company does not provide sufficient disclosure on a quarterly basis for us (or any public investor) to accurately reconcile.

- We start with adding these highlighted up – they are non-controversial and unimpeachable.
- then we bring factoring back on balance sheet because factoring is a form of debt.
- then we add debt from the haema/biotest parking transaction.

As we have discussed previously, Grifols consolidates BPC and Haema, despite the fact GRF only owns 0% of each entities' equity. None of the consolidated revenues, EBITDA, or cash flows of BPC/Haema are available to Grifols or its creditors to service debt.

We believe that it is only fair to adjust Grifols' debt higher for the amount it would require to purchase these two assets, and thus benefit from their cash flows. If you would like to give them credit for the income statements of these two assets, when assessing credit quality, you have to adjust Grifols' balance sheet to replicate what it would take to actually benefit from their income statements.

In the 2018, 2019, and 2020 Grifols consolidated annual reports, Grifols details the "strike price" of this call option. All three annual reports are clear that the price to exercise the call option is the higher of (a) the price at which Grifols sold them plus costs incurred and the increase in working capital, and (b) some amount of the debt that Scranton owns the date on which Grifols exercises the option.

Herein lies where the similarities between the 2018, 2019, and 2020 end: the language between the three annual reports differ on the amount of the debt that Grifols assumes.

We don't know which is correct, but in the event the original 2018 language from the Grifols Annual Report is correct – that Grifols must assume all Scranton debt – then we calculate that GRF debt to be[5]:

GRF SM's true debt	
EUR mln	**H1 2023**
Non-current obligations	4,626.3
Senior secured debt (non-current)	3,361.6
Other loans (non-current)	698.2
Other non-current finanical liabilities	825.2
Current obligations	149.4
Senior secured debt (current)	26.4
Other loans (current)	438.5
Other current finanical liabilities	76.6
Gross debt	**10,202.3**
Cash on balance sheet	-523.4
Cash from SRAAS divestiture *	-1,592.9
Net Debt	**8,086.1**
Volume of invoices sold without recourse not collected	367.9
Haema and BPC related liability	1,313.2
GCR adjusted net debt	**9,767.1**

* SRAAS divestiture of RMB 12.5bln converted to EUR as at 29/12/2023.

Grifols' 2018, 2019, and 2020 annual reports' language may differ on the amount of the debt that Grifols assumes. But suspiciously, these details regarding the BPC Plasma/Haema transaction completely disappear in the Grifols 2021 and 2022 Annual Reports.

So if a new investor were to evaluate Grifols, we don't see how they would know that Grifols fully consolidate BPC Plasma and Haema (which account for a very large portion of earnings), while owning zero percent of each entity. We find this accounting treatment non-obvious and suspect.

Why we believe Grifols debt picture may be far worse

As the NMC Health and Casino examples show, when companies understate debt, the true picture can be far worse than suspected by the public (even to skeptics). The following examples lead us to believe that Grifols true debt may be worse than we estimate:

- **Reverse Factoring** – reverse factoring, and absence of disclosures, was also a problem at NMC Health, a company we were short. We discuss below.
  Undisclosed GDS/SRAAS Guarantee – SRAAS discloses that Grifols has guaranteed GDS EBITDA, a disclosure that is notably absent in Grifols' own filings. We discuss below.
- **GIC Transaction** – Grifols attempted (and failed) to reclassify debt as equity. We discuss below.
- **Debt and leverage-related accounting irregularities –** Some of disclosed figures don't add up. We discuss below.
- **Grifols' undisclosed lending to Scranton** – see next section, Grifols Undisclosed loans to Scranton Enterprises.
- **Grifols has bailed out Scranton before (looks that way to us)** – see the Bio Products section
- Haema and BPC consolidation explanation disclosure absent in 2021 and 2022

Reverse factoring: undisclosed in Grifols consolidated financial statements

NMC Health tried to hide the fact it was using reverse factoring, as pointed out by Muddy Waters Research.[6] We find that GRF does not provide any mention of reverse factoring in its consolidated financial statements. Instead, reverse factoring is mentioned – albeit cryptically – in its parent company financials[7]:

(xi) Reverse factoring

The Company has contracted reverse factoring facilities with various financial institutions to manage payments to suppliers. Trade payables settled under the management of financial institutions are recognised under "trade and other payables" in the balance sheet until they are settled, repaid or have expired.

No additional details about these reverse factoring activities are provided.

Undisclosed guarantees – SRAAS and GDS

SRAAS discloses that Grifols has guaranteed GDS EBITDA of >$1.3 billion from January 2019 – December 2023, In SRAAS H1 2021 report. This potential liability is undisclosed in Grifols' own accounts.[8]

The company does not have control over GDS, but the profitability of GDS will affect the company's investment income and profit level in the same period.

Countermeasures: In response to the above risks, according to the "Underlying Asset Performance Commitment Compensation Agreement" signed between the company and Chilifu, Chilifu promised:

The total accumulated EBITDA of GDS's assets during the period from January 1, 2019 to December 31, 2023 will be no less than US$1.3 billion. As in

If the cumulative EBITDA of GDS achieved during the evaluation period is lower than the committed cumulative EBITDA, then Glib should compensate Shanghai RAAS. Compensation part

The amount shall be equivalent to the fully diluted shares of GDS held by Shanghai RAAS, relative to the total percentage of all fully diluted shares of GDS

(It will be 45% after the delivery of the proposed GDS shares), multiplied by the amount of the deficiency. Chilifu will make the difference adjustment by paying cash.

obligation. "

GIC Transaction

Grifols tried to reduce leverage through a 2021 deal with GIC. Initially ~EUR800 million was classified as equity but the amount was correctly classified as a financial liability after an investigation by KPMG. Grifols received an "emphasis of matter" in its 2021 audit report as a result of this naughty behavior.

In 2021 Grifols entered into a agreement with GIC, in which GIC paid $990 million for 10 class B shares in Biomat USA and 9 class B shares in Biomat Newco.[9]

(d) Other financial liabilities

At 31 December 2021 other non-current financial liabilities include an amount of Euros 829,937 thousand (net of transaction costs) referring to the agreement with GIC (Sovereign Fund of Singapore). In November 2021 approval was received from the pertinent authorities to close this agreement, announced in June 2021, for an amount of US Dollars 990 million in exchange for 10 ordinary Class B shares in Biomat USA and nine ordinary Class B shares in a new sub-holding, Biomat Newco, created for this purpose.

The main terms and conditions of the agreement with GIC at 31 December 2021 were:

- The distribution of annual preferential dividends to GIC equivalent to US Dollar 4,168 thousand per share, following majority approval of the Board of Directors of Biomat USA and Biomat Newco;
- The redemption right with respect to Class B stock for US Dollars 52,105 thousand per share, is subject to unilateral approval of the Class B stockholders (with one share annually redeemable starting as of 31 December 2022);

Continued[10]:

- From 1 December 2036, holders of Class B shares of Biomat USA will have the right to request Biomat USA to redeem up to the total of the Class B shares they hold at a value of US Dollars 52,105,263.16 per share. Class B shareholders of Biomat Newco will have the same right with respect to Biomat Newco.

- In the event that the dividends or the annual redemption at Biomat USA or Biomat NewCo, where applicable, is not approved, is partially paid, or is otherwise not paid, GIC holds the right to obtain in exchange thereof an undetermined number of shares among the following alternatives (i) an additional number of shares in Biomat USA, in lieu of the non-payment occurred at Biomat USA, (ii) an additional number of shares in Biomat NewCo, in lieu of the non-payment occurred at Biomat NewCo; or (iii) a number of ADRs of Grifols, S.A. in lieu of either (i) or (ii).

- Grifols holds the right to redeem all of the Class B stock from the fifth year onwards;

- In the event of liquidation of Biomat USA and Biomat Newco, GIC shall have the right to the preferential liquidation of US Dollars 52,105 thousand per share, but shall not have any rights over the liquidation of net assets of these companies.

Grifols did not have the discretional right to avoid payment in cash and therefore, the instrument was recorded as a financial liability at 31 December 2021.

The Group does not lose control of Biomat USA and will continue overseeing all aspects of the Biomat Group's administration and operations.

We believe this deal was crafted to allow Grifols to "sell" the operations to GIC while retaining 100% control from an accounting and operational standpoint. However, GIC can put the operations back to Grifols, get its cash back. This means the amount is recorded as a financial liability in Grifols' accounts.

Initially the deal was classified as a sale of investments, with GIC becoming an NCI and thus an "equity" transaction. The annual report makes it clear this was the "will of the parties".[11]

a) GIC Transaction

At the date of the reformulation of these consolidated annual accounts, the parties are analyzing the necessary modifications in the terms and conditions of the agreement in order to classify such transaction as an equity instrument, thereby reflecting their initial will of the parties.

After the financial statements were signed by the directors, KPMG did an internal review. It seems they demanded a revision to accurately reflect the arrangement as a financing deal.[12]

At their meeting held on 25 February 2022 the Board of Directors of Grifols, S.A. authorized for issue the 2021 consolidated annual accounts.

These consolidated annual accounts were re-authorized for issue by the Board of Directors on 28 of April 2022 and will be submitted for approval by the shareholders at their General Meeting.

After the signature and authorization for issue of the consolidated annual accounts for the year ended 31 December 2021 and the issuance of the audit report, KPMG Auditores SL identified a balance sheet reclassification related to the non-controlling interest of GIC (Sovereign Fund of Singapore) on Biomat USA and Biomat Newco as a result of an internal review.

The Board of Directors present these consolidated annual accounts, that have been re-authorized for issue, including the reclassification of the financial instrument signed with GIC, described in Note 21, from non-controlling interest to financial liability. Due to this reclassification, net equity has been reduced by 829,937 thousand euros. However, figures for total assets, total equity and liabilities, as well as the consolidated profit for the year have not been affected by this reclassification.

The main impact of the KPMG intervention was a restatement of >EUR800 million from reserves / non-controlling interests into financial liabilities, with a similar effect on the cash flow statement (from an investing activity into a financing activity).[13]

The principal terms and conditions of the agreement reached with GIC at 31 December 2021 were (see note 21.d):

- The distribution of annual preferential dividends to GIC is subject to the approval of the majority votes at the Board of Directors of Biomat USA or Biomat NewCo, as applicable;
- The redemption right with respect to Class B Stock is subject to the unilateral approval right of the Class B Common Stock as of 31 December 2022;
- In the event that the dividends or the annual redemption at Biomat USA or Biomat NewCo, as applicable, is not approved, is partially paid, or is otherwise not paid, GIC held the right to obtain in exchange thereof an undetermined number of shares among the following alternatives (i) an additional number of shares of Biomat USA, in lieu of the non-payment occurred at Biomat USA, (ii) an additional number of shares at Biomat NewCo, in lieu of the non-payment occurred at Biomat NewCo; or (iii) a number of ADRs of Grifols, S.A. in lieu of either (i) or (ii).

At the date of the reformulation of these consolidated annual accounts, the parties are analyzing the necessary modifications in the terms and conditions of the agreement in order to classify such transaction as an equity instrument, thereby reflecting their initial will of the parties.

The main impacts at 31 December 2021 (in thousands of Euros) are indicated below:

Consolidated Balance Sheet	Authorized balance	Reclassification	Restated balance
Reserves	4,710,787	(577,399)	4,133,388
Profit for the year attributable to the Parent	182,803	5,923	188,726
Translation differences	334,649	(1,558)	333,091
Non-controlling interests	2,050,392	(256,903)	1,793,489
Non-current financial liabilities	6,939,013	829,937	7,768,950

Consolidated Statement of Profit and Loss	Authorized balance	Reclassification	Restated balance
Profit attributable to the Parent	182,803	5,923	188,726
Profit attributable to non-controlling interest	82,524	(5,923)	76,601

Consolidated Statement of Cash Flows	Authorized balance	Reclassification	Restated balance
Cash flows from investing activities			
Proceeds from the sale of investments:			
Group companies, associates and business units	845,155	(824,756)	20,399
Cash flows from financing activities			
Proceeds from and payments for financial liability instruments:			
Issue	2,456,534	867,865	3,324,399
Other cash flows from / (used in) financing activities			
Financing costs included in the amortized cost of the debt	(35,056)	(43,109)	(78,165)

As a result of the above KPMG listed an emphasis of matter in Grifols' audit report.[14]

Emphasis of Matter

We draw attention to notes 2 and 21(d) to the accompanying consolidated annual accounts, in which the Directors explain why they have redrafted the consolidated annual accounts of Grifols, S.A. (the Parent) and its subsidiaries (the Group) for 2021. This auditor's report renders invalid and replaces our unqualified auditor's report dated 25 February 2022, issued on the consolidated annual accounts that were originally authorised for issue by the board of directors. Our opinion is not modified in respect of this matter.

In the 2022 AR, Grifols remains aligns with the restatement and classifies the GIC transaction as a financial liability. There's a new "current debt" with GIC too, which "includes Euros 37,432 thousand of accrued interests plus Euros 48,852 thousand related to the share redemption right."[15]

(c) Other financial liabilities

Details of other financial liabilities at 31 December 2022 and 2021 are as follows:

		Thousands of Euros	
Other financial liabilities	**Reference**	**31/12/2022**	**31/12/2021**
Non-current debt with GIC (sovereign wealth fund in Singapore)	*(i)*	833,664	829,937
Non-current preferential loans		4,943	7,029
Other non-current financial liabilities	*(iii)*	49,100	1,860
Total other non-current financial liabilities		887,707	838,826
Current debt with GIC (sovereign wealth fund in Singapore)	*(i)*	86,284	--
Current preferential loans		1,633	2,607
Outstanding payments of acquisitions	*(ii)*	--	39,075
Other current financial liabilities	*(iii)*	25,763	1,552
Total other current financial liabilities		113,680	43,234

As a result of this, in April 2022, GRF released a press release detailing the restatement it had to make[16]:

OTHER RELEVANT INFORMATION

Grifols informs that, after the authorization for issue of the consolidated annual accounts, on 25 February 2022, KPMG Auditores, S.L. carried out an internal review over Grifols' subsidiary, Biomat USA, and due to such internal review the audit firm considered the need to conduct a balance sheet reclassification related to the non-controlling interest of GIC (Sovereign Fund of Singapore) on Biomat USA and Biomat Newco.

As a result of the abovementioned, the Company's board members, today, have proceed to restate the consolidated annual accounts of the fiscal year 2021. Such restated annual accounts include the reclassification of the financial instrument signed from net equity to financial liability.

Due to such reclassification, the total equity has been reduced by approximately €830M. Notwithstanding the above, the figures for total assets and liabilities, as well as the profit for the year have not been affected by this reclassification.

The aim had always been to consider the signed financial instrument as equity. For this reason, at the date of the restatement of these consolidated financial statements, Grifols is analysing the necessary modifications in the terms and conditions of the agreement in order to classify such transaction as an equity instrument, as it has always been the will of the parties.

The restated consolidated financial statements have been filed today in electronic format with the *Comisión Nacional del Mercado de Valores*.

Grifols' debt and leverage-related accounting irregularities

In Grifols 2022 AR, the table in Grifols' annex shows net financial debt of EUR9,010.1 million. However, this divided by EUR1,287.2 million equates to 7.00x leverage, not 7.13x as shown below in the filing[17]:

Millones de euros excepto ratio	2022	2021
DEUDA FINANCIERA NETA	9.010,1	6.480,3
EBITDA AJUSTADO 12M	1.287,2	1.076,8
LEVERAGE RATIO NETO[(1)]	**7,13x**	**6,18x**

(1) Excluye el impacto de la IFRS 16

We encounter the same problem for the 2021 figure (in both the 2022 GRF AR, as shown above, as well as in the 2021 GRF AR, as shown on the next page). 2021 net financial debt and net leverage ratio figures – EUR6,480.3 million and 6.18x, respectively, are displayed above. However, this 6.18x leverage figures make no sense either, as 6,480.3 divided by 1,076.8 equates to 6.02x leverage, not 6.18x leverage as shown below (same problem in 2021 AR)[18].

Grifols' total liabilities (total current + non-current) for 2021 amounts to EUR10,207 million. If we deducting lease liabilities and add back cash, 2021 net debt calculates to EUR8,678 million as shown below. The problem is that the table in the prior page shows EUR5,713 million in net debt, a EUR2.2 billion unexplained variance vs. the figure the company uses in its leverage calculation.

If we use Using this methodology, the 2020 net financial debt is in line (EUR 5,714 million)[19]:

In millions of euros except ratio	12M 2021	12M 2020	% Var
NET FINANCIAL DEBT	6,480.3	5,713.7	
EBITDA ADJUSTED 12M	1,076.8	1,263.9	
NET LEVERAGE RATIO(1)	**6.18x**	**4.52x**	

(1) Excludes the impact of IFRS 16

At December 31, 2021, Grifols' net financial debt totaled EUR 6,480.3 million, excluding the impact of IFRS 16[4]. The net debt leverage ratio over EBITDA stands at 6.2x. Excluding COVID-19 impact, the ratio is 4.1x.

GRF accounts		
EUR mln	**2021**	**2020**
Total non-current financial liabilities	7,769.0	6,602.1
Total current financial liabilities	2,438.3	424.6
Less: Non-current lease liabilities	-825.2	-690.9
Less: Current lease liabilities	-48.6	-42.6
Less: Cash and cash equivalents	-655.5	-579.6
Net financial debt	**8,678.0**	**5,713.6**

	Thousands of Euros	
Financial liabilities	**31/12/2021**	**31/12/2020**
Non-current bonds (a)	2,577,465	2,675,000
Senior secured debt (b)	3,296,025	3,335,415
Other loans (b)	480,836	183,771
Other non-current financial liabilities (d)	838,826	10,272
Non-current lease liabilities (note 9)	825,157	690,857
Loan transaction costs	(249,359)	(293,215)
Total non-current financial liabilities	7,768,950	6,602,100
Current bonds (a)	2,270,474	125,843
Senior secured debt (b)	--	34,035
Other loans (b)	165,139	170,730
Other current financial liabilities (d)	43,234	105,041
Current financial derivatives (note 30)	875	--
Current lease liabilities (note 9)	48,567	42,642
Loan transaction costs	(89,998)	(53,679)
Total current financial liabilities	2,438,291	424,612

(15) Cash and Cash Equivalents

Details of this caption of the consolidated balance sheet at 31 December 2021 and 2020 are as follows:

	Thousands of Euros	
	31/12/2021	**31/12/2020**
Current deposits	--	134,875
Cash in hand and at banks	655,493	444,772
Total cash and cash equivalents recognized in the balance sheet	655,493	579,647

Grifols Undisclosed loans to Scranton Enterprises

Scranton Enterprises, which we first discussed in the EBITDA section, purchased Haema and Biotest, companies which Grifols consolidate despite having fully sold them to Scranton at end 2018. It turns out that Scranton is at the heart of many suspicious transactions, a pattern of behavior that suggests that the GRF public company benefits the Grifols family at the subordination and sometimes detriment of common shareholders and creditors. In this section we discuss cases whereby Grifols secretly lent to Scranton without disclosing these transactions in its own GRF filings or limiting disclosure.

Grifols' $95 million Undisclosed loans to Scranton in 2018 used to finance Haema BPC Sale

Grifols lent $95 million to Scranton Enterprises in 2018. This transaction is disclosed in Scranton's Netherlands filing:[1]

The capital expenditure in subsidiaries, associates and other investments was mainly financed through the EUR 97M net capital repayment and EUR 75M loan made by Quadriga Real Estate, S.L., a new EUR 35M loan facility entered into with BNP Paribas and a EUR 83M (USD 95M) loan from affiliated company Grifols Worldwide Operations Limited.

We believe this $95 million loan from Grifols was used to fund the BPC and Haema acquisitions[2]:

Financial information

The enterprise value of Scranton Plasma B.V., represented mainly by its acquisition of Biotest and Haema lies around EUR 470M whereby the amount paid in excess of the fair value has been recognized as goodwill in the consolidated accounts. The amount of EUR 303M of goodwill recorded accounts for a relatively large component of the balance sheet total of EUR 1,224M and finds its origin mainly in having secured a full supply agreement with Grifols, S.A., that will maintain full access to raw plasma collected. The transaction was mainly financed through a senior secured loan facility at level of Scranton Plasma B.V. for the amount of EUR 315M, provided by Bank of America Merrill Lynch ('BofAML') and funds made available at the level of the Company by sources reflected in the last paragraph above.

Grifols does not disclose that it lent to Scranton in its corporate governance reports

Grifols does not disclose that the company lent $95 million to Scranton in its corporate governance filings in English or in Spanish. We would expect to find clear details about related party loans in Note 11 and Note 31 of GRF 2018 Annual Report. Instead, we find that Note 11 refers to Note 31 for details, and Note 31 refers to Note 11 for details – a circular reference. The details about a loan to Scranton lie buried in Note 31, appearing nowhere else, which we find odd. Note 31 from GRF 2018 AR[3]:

(31) Balances and Transactions with Related Parties

Details of balances with related parties are as follows:

	Thousands of Euros	
	31/12/2018	31/12/2017
Receivables from associates (note 13)	382	3,219
Trade payables associates	(15,796)	(4,583)
Loans to associates (note 11)	50,304	26,654
Loans to other related parties (note 11)	82,969	--
Debts with associates	(7,079)	--
Debts with key management personnel	(4,425)	(6,164)
Payables to members of the board of directors	--	(463)
Payables to other related parties	(7,706)	(9,187)
	98,649	9,476

Note 11, from GRF 2018 AR[4]:

(11) Financial Assets

Details of non-current financial assets on the consolidated balance sheet at 31 December 2018 and 2017 are as follows:

	Thousands of Euros	
	31/12/2018	31/12/2017
Non-current derivatives (see note 30)	--	8,338
Financial investments in shares with stock market (a)	7	38,708
Total Non-current financial assets measured at fair value	7	47,046
Non-current guarantee deposits	5,566	4,820
Other non-current financial assets	1,908	1,346
Non-current loans to related parties (see note 31)	82,969	--
Non-current loans to EEAA (c) (see note 31)	17,151	16,677
Total Non-current financial assets measured at amortized cost	107,594	22,843

Scranton Enterprises 2021 filing shows an increase in liabilities of EUR59 million

Grifols' $95 million loan to Scranton Enterprises in 2018 is not the only loan to Scranton that GRF fails to disclose. Scranton Enterprises 2021 filing shows an increase in liabilities of EUR 59 million relating to "advance payments from Grifols Worldwide Operations Ltd"[5]:

24 Other short term liabilities

Other short-term liabilities can be specified as follows:

	31-12-2021	31-12-2020
	EUR	EUR
Liabilities to other companies	67,816,048	8,624,312
Third parties (not being creditors)	4,560,398	2,775,769
Deposits	471,064	1,908,436
Derivatives	1,925,641	-
Security loan from Deria S.A.	173,696,281	-
Total	248,469,432	13,308,517

Liabilities to other companies

Liabilities to other companies consists of advance payments from Grifols Worldwide Operations Ltd, together with trade payables and services amounting to EUR 67,813,048 (2020 8,605,393).

The above transaction to Scranton is NOT disclosed by Grifols, per our review of the company's corporate governance and annual report filings. We find the fact Grifols does not disclose this transaction suspect, given the fact Grifols has disclosed far smaller transactions with Scranton.

Scranton's 2021 increase in liabilities to other companies of ~EUR59 million relating to "advance payments" from Grifols came at a time when Scranton also borrowed EUR173 million Grifols shares from Deria (another Grifols family entity) i.e. Scranton seems to have been struggling.[6]

45 Securities and investment portfolio

As per effective date 8 March 2021, the Company entered into a loan agreement with Deria S.A., Barcelona, Spain, in which the Company accepted a loan in the form of 10,250,000 class A shares of Grifols S.A. (see Note 19). The market value of the securities at the time of the execution of the agreement amounted to EUR 199,003,750. As at balance sheet date, the market value of the securities amounted to EUR 172,968,750.

Grifols has disclosed smaller related party transactions with Scranton Enterprises in its GRF filings

Grifols did not disclose its $95 million loan to Scranton Enterprises in its corporate governance filings nor its 2021 advance payment to Scranton in any GRF filings. Yet Grifols has disclosed smaller transactions with Scranton before. For example, in 2022, Grifols discloses transactions with Scranton amounting to EUR6.3 million lease payments and EUR3.4 million purchases of PP&E[7]:

Group transactions with related parties during 2022 are as follows:

	Thousands of Euros			
	Associates & joint ventures	Key management personnel	Other related parties	Board of directors of the Company
Net sales	339,170	--	--	--
Purchases	(9)	--	--	--
Other service expenses	(34)	--	(4,343)	--
Remuneration	--	(13,891)	--	(5,316)
Payments for rights of use	--	--	(6,300)	--
Purchase of property, plant and equipment	--	--	3,464	--
Dividends paid/received	10,717	--	--	--
	349,844	(13,891)	(7,179)	(5,316)

And the above transactions between GRF and Scranton were also disclosed in Grifols' 2020, 2021, and 2022 corporate governance reports. From Grifols' 2022 Corporate governance report:[8]

Company name of the related party	Brief description of the transaction and other information necessary for its evaluation	Amount (thousands of euros)
SCRANTON ENTERPRISES, B.V.	These are payments for right-of-use assets between Centurión Real Estate S.A.U. and Grifols, S.A., where Scranton Enterprises B.V. (a significant shareholder of Grifols, S.A.) is the sole shareholder of Centurión Real Estate S.A.U.	6,300
SCRANTON ENTERPRISES, B.V.	This consists of sales revenue from the execution of a delegated construction contract between Grifols, S.A. and Centurión Real Estate S.A.U., where Scranton Enterprises B.V. (a significant shareholder of Grifols, S.A.) is the sole shareholder of Centurión Real Estate S.A.U.	3,464
SCRANTON ENTERPRISES, B.V.	This consists of expenses for services related to an advertising contract between Grifols, S.A. and Club Joventut Badalona, S.A.D., where Scranton Enterprises B.V. (a significant shareholder of Grifols, S.A.) is the significant shareholder of Club Joventut Badalona, S.A.D.	341
SCRANTON ENTERPRISES, B.V.	This consists of expenses for several purchases between Grifols, S.A. and Juve & Camps, S.A., where Scranton	169

This suggests to us that Grifols has selectively disclosed certain related party transactions with Scranton, but not others. Disclosing 3-6 million transactions but failing to disclose much larger related party transaction seems suspect.

Grifols & Scranton consolidate BPC+Haema: do creditors know?

Grifols consolidates Haema and BPC Plasma onto its financial statements; so does Scranton Enterprises

We have discussed Haema and BPC Plasma, companies which Grifols fully consolidate despite owning zero percent of them, throughout this report. Scranton Enterprises' filings reveal that Grifols is not the only company that consolidates Haema and BPC Plasma – Scranton Enterprises does as well, at the same.

Scranton Enterprises 2020 and 2021 annual reports reveal that BPC Plasma and Haema are included in the consolidation (the screenshot on the left is from the 2020, and the screenshot on the right, 2021)[1]:

The following companies are included in the consolidation.

Direct investments, ,
BCN Housing Place, S.L., Spain, 66.00%
BeCorp Holding B.V., The Netherlands, 100.00%
Centurion Real Estate, S.A., Spain, 100.00%
Club Joventut Badalona, S.A.D, Spain, 85.50%
Digital Business Investments B.V., The Netherlands, 100.00%
HEMAV Technology, S.L., Spain, 70.07%
Huitres Amelie Holding, S.A.rl, France, 50.29%
Iberboard Mill, S.L., Spain, 62.53%
J&C Prime Brand, S.L., Spain, 76.00%
Qardio Inc., United States of America, 54.50%
Quadriga Real Estate, S.L., Spain, 100.00%
Scranton Plasma Holding B.V., The Netherlands, 100.00%
Tamani Trade, S.L., Spain, 100.00%

Indirect investments
Modolell Residencial, Spain, 50.00%
Aurea Arrendamientos de Viviendas., S.L., Spain, 100.00%
HEMAV Training and factory, Spain, 100.00%
HEMAV Brasil, Brasil, 100.00%
Huitres Amélie Espania, S.L. , Spain, 97.00%
Huitres Amélie Restauration , Spain, 100.00%
Huitres Amélie Italia, S.R.L. , Italia, 100.00%
Juvé & Camps, S.A., Spain, 100.00%
Propietat d'Espiells, S.A., Spain, 100.00%
Anoia Industrial, S.L, Spain, 100.00%
Pago de Anguix, S.L.U., Spain, 100.00%
Finca Campo Goticos, S.L., Spain, 100.00%
Distribuidora Primeras Marcas, S.A., Spain, 100.00%
Scranton Plasma B.V., The Netherlands, 100.00%
Haema AG, Germany, 100.00%
BPC Plasma Inc., United States of America, 100.00%
Haema Plasma Kft, Hungary, 100.00%
Zona Deportiva Mas Ram, S.A, Spain, 96.00%

The following companies are included in the consolidation

Direct investments, ,
BCN Housing Place, S.L., Spain, 66.00%
BeCorp Holding B.V., The Netherlands, 100.00%
Centurion Real Estate, S.A., Spain, 100.00%
Club Joventut Badalona, S.A.D, Spain, 85.50%
Digital Business Investments B.V., The Netherlands, 100.00%
HEMAV Technology, S.L., Spain, 72.57%
Huitres Amelie Holding, S.a.r.l, France, 50.29%
Iberboard Mill, S.L., Spain, 62.53%
J&C Prime Brand, S.L., Spain, 76.00%
Qardio Inc., United States of America, 54.50%
Quadriga Real Estate, S.L., Spain, 100.00%
Scranton Plasma Holding B.V., The Netherlands, 100.00%
Tamani Trade, S.L., Spain, 100.00%

Indirect investments
Modolell Residencial
Quadriga Holding Pirenaica, S.L.U.
Aurea Arrendamientos de viviendas, S.L.
HEMAV Training and factory
HEMAV Brasil
HEMAV Inc.
SAS Huitres Amélie
Huitres Amélie Espania, S.L.
Huitres Amélie Restauration S.L.
Huitres Amélie Italia, S.R.L .
Juvé & Camps, S.A.
Propietat d'Espiells, S.A.
Anoia Industrial, S.L.
Pago de Anguix, S.L.U.
Finca Campo Goticos, S.L.
Distribuidora Primeras Marca, S.A. (merged with Cubero)
Juve & Camps Hong Kong Limited
Scranton Plasma B.V.
Haema AG
BPC Plasma Inc.
Haema Plasma Kft
Zona Deportiva Mas Ram, S.A.
Grogasa 22, S.L.

Note the following observations:

- Scranton Enterprises' 2021 annual report is the latest available, as Scranton has not filed its 2022 Annual Report.
- We did not observe Scranton disclosing that it consolidates BPC and Haema anywhere else in its filings, other than in the section shown in the above screenshots.
- Scranton Enterprises' Annual Reports do not disclose that Grifols also consolidates BPC and Haema at the same time it does.
  Grifols' Annual Reports do not disclose that Scranton Enterprises also consolidates BPC and Haema at the same time that the company does.

Haema and BPC are very material to both Grifols and Scranton's reported results. Do Grifols and Scranton's creditors know that both companies fully consolidate BPC and Haema?

Haema and BPC are both very material to Scranton Enterprises and Grifols' financial statements

We have already discussed how important Haema and BPC are to Grifols consolidated financial statements. The importance of Haema and BPC Plasma consolidation onto Scranton is made clear if we compare Scranton's 2018 results against its 2019 results. Turnover grows nearly 10x from 2018 to 2019[2]:

Scranton Enterprises B.V.

Consolidated profit and loss account for the year 2019

			2019		2018
		EUR	EUR	EUR	EUR
Net turnover	25		440,559,628		47,623,745
Cost of sales	26	298,420,222		18,344,468	
Expenses of employee benefits	27	31,220,269		9,110,190	
Depreciation and amortisation	28	44,974,200		5,420,031	
Other operating expenses	29	69,813,373		16,280,119	
Total of sum of expenses			444,428,064		49,154,808
Total of operating result			(3,868,436)		(1,531,063)
Dividend and other financial income	30	14,626,190		13,690,487	
Interest income	31	15,309,000		1,890,183	
Interest expense	32	(46,687,840)		(7,782,406)	
Currency exchange result		(2,915,342)		111,803	
Financial income and expense			(19,667,992)		7,910,067
Total of result of activities before tax			(23,536,428)		6,379,004
Income tax expense	33		(12,505,146)		(426,433)
			(36,041,574)		5,952,571
Share in result investments	34		(36,101,293)		(9,297,289)
Total of result of activities before tax			(72,142,867)		(3,344,718)
Result non-controlling interest	35		8,779,199		(349,316)
Total of result after tax			(63,363,668)		(3,694,034)
Accumulated result legal entity			(63,363,668)		(3,694,034)

Scranton Enterprises mentions this dramatic increase in 2019 sales, explaining that the Haema and BPC were acquired in late 2018, thus not consolidated in 2018[3]:

Financial information
The main assets of the Group's consolidated balance sheet consist goodwill with carrying value of EUR 306M deriving mainly from the acquisition of the plasma activities located in Germany and the USA back in December 2018, a short-term loan receivable of EUR 356M from Bio Products Laboratory Holdings Limited, Hertfordshire, United Kingdom (third party) and (financial) fixed assets such as real estate and the minority interest in Grifols, SA, both carried historical cost values of EUR 210M and EUR 209M respectively. Assets are financed by equity (EUR 127M), leveraged with external debt (EUR 1,469M) obtained from credit institutions. The consolidated result for the period amounted to a loss of EUR 64M (2018: profit of EUR 3.6M). Pursuant to the late acquisition of the plasma activities (end of December 2018), the plasma activities were not consolidated in the profit and loss account for the year 2018 and therefore comparative figures in Profit and Loss are not fully comparable to the results for year 2019 presented herewith.

Haema and BPC Plasma appear to account for most of Scranton Enterprise's revenue and all of its EBITDA since 2019. Without the full consolidation of Haema and BPC, we believe that Scranton Enterprise's EBITDA would have likely been negative in 2021.

Grifols provides net income figures for BPC Plasma and Haema[4]:

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

At 31 December 2022 and 2021, the main items of the statement of financial positions of the most significant non-controlling interests are as follows:

	Thousands of Euros 31/12/2022				Thousands of Euros 31/12/2021		
	Biotest, AG	**Grupo GDS**	**Haema AG**	**BPC Plasma, Inc**	**Grupo GDS**	**Haema AG**	**BPC Plasma, Inc**
Non-current assets	585,282	4,175,839	126,051	345,906	3,796,855	121,309	263,921
Current assets	619,513	286,153	40,308	30,242	291,371	57,985	74,206
Total Assets	1,204,795	4,461,992	166,359	376,148	4,088,226	179,294	338,127
Non-current liabilities	701,613	292,416	19,673	54,131	278,620	27,137	53,715
Current liabilities	130,193	93,474	72,675	60,638	91,299	84,117	83,592
Total Liabilities	831,806	385,890	92,348	114,769	369,919	111,254	137,307
Total equity	372,989	4,076,102	74,011	261,379	3,718,307	68,040	200,820
Profit/(loss) for the year	(16,036)	140,678	5,972	48,132	198,416	8,100	34,333

Comparing the above profit figures for BPC and Haema to Scranton Enterprises income statement reveals the importance of Haema and BPC to Scranton's income statement[5]:

Scranton Enterprises B.V.

Consolidated income statement for the year 2021

		2021		2020	
		EUR	EUR	EUR	EUR
Net turnover	25		500,291,755		448,447,867
Cost of sales	26	351,592,394		315,550,063	
Expenses of employee benefits	27	38,181,182		36,983,169	
Depreciation and amortisation	28	53,952,027		54,430,985	
Other operating expenses	29	60,715,303		48,886,319	
Total of sum of expenses			504,440,906		455,850,536
Total of operating result			(4,149,151)		(7,402,669)
Dividend and other financial income/(expenses)	30	9,572,763		1,357,278	
Interest income	31	6,589,079		15,939,077	
Interest expense	32	(37,527,412)		(41,884,401)	
Currency translation differences		(6,212,007)		(16,250,298)	
Financial income and expense			(27,577,577)		(40,838,344)
Total of result of activities before tax			(31,726,728)		(48,241,013)
Income tax expense	33		(9,636,023)		(12,454,755)
			(41,362,751)		(60,695,768)
Share in result associates	34		12,272,883		(10,714,173)
Total of result of activities after tax			(29,089,868)		(71,409,941)
Result non-controlling interest	35		7,863,095		8,560,727
Total of result after tax			(21,226,773)		(62,849,214)
Accumulated result legal entity			(21,226,773)		(62,849,214)

Gotham City Research wonders what specific terms and conditions, as well as covenants, that Scranton Enterprise has on its loans.[6] What we know for is this: in a distressed scenario, Grifols and Scranton cannot both claim Haema and BPC Plasma as their own.

Scranton is levered 27x, with undisclosed share pledges

Scranton: leverage upon leverage

As our report has explained thus far, the line between Grifols the publicly traded company, and Scranton Enterprises, the Grifols family's Netherlands entity can be, at best, blurry. What would happen if something were to go wrong with Scranton? What are the interdependencies between Grifols and Scranton Enterprises? It turns out that Scranton is highly levered:

- Scranton Enterprises is highly levered, between 27x and 31x, over the last several years.
- In March 2019 Scranton drew down a EUR350 million loan from BNP. This loan was secured by a pledge over Grifols shares. EUR150 million was repaid in late 2021 and early 2022, leaving EUR200 million outstanding.
- Scranton consolidates Quadriga assets, so Quadriga's EUR115 million debt facility should be included in Scranton's borrowings as well. However, we do not find a reference to this debt in Scranton's filings.
- Scranton's 2022 AR has not been filed.
- Scranton has contributed ~10% of the capital of Medical Technology Venture Partners, which has Grifols CEO Thomas Glanzmann on its board.
- Osborne Clarke, a law firm that has advised Grifols, has lent money to Scranton as a short term bridging loan.
- Scranton is the landlord of Grifols' headquarters, via Scranton subsidiary Centurion Real Estate.

Scranton is highly levered: we calculate 27x as of 2021

Scranton has been levered between 27.2x-31.1x, in 2020 and 2021 (Scranton has not released its 2022 annual report yet)[1]:

Scranton Enterprises		
YE December (EUR mln)	**2020**	**2021**
Net debt *	1,464.8	1,353.7
EBITDA **	47.0	49.8
Net debt / EBITDA	**31.1x**	**27.2x**

* Net debt = Non-current "debts to credit institutions" + Non-current "affiliated companies" debt + Non-current "related parties" debt + Current "debts to credit institutions" + Current "liabilities to other companies" - Cash & cash equivalents

** EBITDA = Total operating result + Depreciation & amortisation

Scranton provides their own stated EBITDA but does not provides a bridge. We cannot reconcile FY21.

2022 Annual report not yet published.

Scranton and its undisclosed margin loan: we estimate 200 million outstanding loan

In March 2019 Scranton borrowed EUR350 million from BNP Paribas. This loan was secured by a pledge on Grifols shares that Scranton owns. EUR150 million was repaid in late 2021 and early 2022, leaving EUR200 million outstanding.[2]

BNP Paribas S.A.
On 27 March 2019, the Company entered into a credit facility agreement with BNP Paribas S.A. for a maximum amount of EUR 350,000,000. The credit facility, originally maturing on 27 March 2022, was extended to 27 March 2023 and bears interest at a rate of 3M EURIBOR plus 1.75 per cent per annum. The effective interest is 1.87%. The loan is secured by virtue of a pledge of a number of Grifols S.A. shares and bank accounts of the Company.

The Company drew down the full amount and used the proceeds to repay the loan and outstanding interest related to the loans the existing from Nomura International Plc and BNP Paribas S.A. On 1 December 2021, the Company repaid EUR 20,000,000. After balance sheet date, on 8 February and 20 April 2022, the Company made repayments of EUR 30,000,000 and EUR 100,000,000 respectively. This amount has been transferred to short term debts to credit institutions.

In March 2021 Scranton borrowed 10.25 million Grifols shares from Deria SA, another Grifols-family business. We suspect Scranton borrowed shares to cover margin loans and prevent a forced liquidation of its Grifols shares.[3]

Security loan from Deria S.A.
As per effective date 8 March 2021, the Company entered into a loan agreement with Deria S.A., Barcelona, Spain, in which the Company accepted a loan in the form of 10,250,000 class A shares of Grifols S.A. (see Note 10). The market value of the securities at the time of the execution of the agreement amounted to EUR 199,003,750.

Interest is calculated at the rate of 50 basis points per annum plus any distribution of dividends or any other amount paid by Grifols S.A. in related to the shares on the basis of the average stock price of the shares from the effective date until a) the repayment of the loan or b) the maturity date of 9 September 2021, whichever comes first.

On 9 September 2021, the loan was amended whereby the maturity date was extended until 9 March 2022 and the rate of interest reduced to 25 basis points per annum.

As at balance sheet date, the market value of the security loan amounted to EUR 172,968,750 and interest amounted to EUR 727,531 remained outstanding.

Between March 2021 and December 2021 GRF share price declined from ~EUR24/share to ~EUR17/share, i.e. the market value of the borrowed shares were significantly lower than the book value.[4]

45 Securities and investment portfolio
As per effective date 8 March 2021, the Company entered into a loan agreement with Deria S.A., Barcelona, Spain, in which the Company accepted a loan in the form of 10,250,000 class A shares of Grifols S.A. (see Note 19). The market value of the securities at the time of the execution of the agreement amounted to EUR 199,003,750. As at balance sheet date, the market value of the securities amounted to EUR 172,968,750.

Securities and investment portfolio

	Fiscal value 31 December 2021	Market value 31 December 2021	Book value 31 December 2021
	EUR	EUR	EUR
10,250,000 class A shares of Grifols S.A.	199,003,750	172,968,750	172,968,750

The Curious Case of Quadriga: where is Quadriga's debt accounted for?

Quadriga owns an otherwise unspecified property in Madrid, valued at EUR33 million, and this property was for sale at the end of 2021. Thus, this Madrid building was classified as held for sale in 2021, hence real estate investments account declined to just EUR0.5 million.[5]

QUADRIGA REAL ESTATE, S.L.
Balance Sheets as of December 31, 2021 and 2020
(Expressed in euros)

ACTIVE	Note	2021	2020
NON-CURRENT ASSETS		37.286.336,30	37.343.468,96
Real estate investments	**5**	464.426,72	**33.339.768,96**
Land		464.426,72	29.216.013,68
Constructions		0,00	4.123.755,28
Long-term investments in group and associated companies	7, 8 y 14	8.078.762,31	**4.000.000,00**
Equity instruments		4.528.000,00	4.000.000,00
Loans to companies		3.550.762,31	0,00
Long-term financial investments	8	28.743.147,27	**3.700,00**
Loans to companies		28.739.447,27	0,00
Other financial assets		3.700,00	3.700,00
CURRENT ASSET		**112.306.144,04**	**133.436.044,46**
Non-current assets held for sale	6	33.052.686,05	0,00
Trade and other receivables		326.847,25	**2.519.120,12**
Customers for sales and services		0,00	44.250,96
Customers, group companies and associates		0,00	61.732,32
Sundry debtors		4.443,54	5.038,71
Current tax assets	13	312.839,25	192.740,16
Other receivables from public authorities	13	9.564,46	2.215.357,97
Short-term investments in group and associated companies	7, 8 y 14	63.369.730,90	**84.411.033,72**
Loans to companies		63.369.730,90	84.411.033,72
Short-term financial investments	**8**	**15.360.045,12**	**45.601.106,60**
Loans to companies		15.360.045,12	45.601.106,60
Short-term accruals		0,00	231.900,00
Cash and cash equivalents	10	196.834,72	672.884,02
Treasury		196.834,72	672.884,02
TOTAL ASSETS		**149.592.480,34**	170.779.513,42

6. Non-current assets held for sale

The detail of this caption at year-end 2020 and 2021, expressed in euros, is as follows:

	2020	2021
Non-current assets held for sale Total assets	0,00	33.052.6 8 6
	0,00	33.052.686

In the year 2021, the Company has initiated active negotiations for the sale of a building located in Madrid, recorded until the end of the year 2020 as investment property, for this reason it has been decided to transfer it to non-current assets held for sale (see note 5).

Other than the Madrid property, Quadriga's current assets consist of (i) EUR75 million loan to Scranton which should have matured in February 2021 but EUR61 million remained outstanding at year end, as well as (ii) a smaller EUR15 million loan to an unspecified 3rd party.[6]

	2020	Additions	Transfers	Transfers	2021
Loans to companies					
Loans to group companies	84.411.034	6.203.730	(23.275.033)	**(3.970.000)**	**63.369.731**
Total	84.411.034	6.203.730	(23.275.033)	(3.970.000)	63.369.731

On October 31, 2019, a credit account was formalized with the sole shareholder Scranton Enterprises B.V., maturing on October 31, 2020, extendable. During the 2021 fiscal year, the credit account was cancelled. This credit account has accrued interest in 2021 at market prices in the amount of 139 thousand euros, with an accrued balance of 65 thousand euros in the interest receivable account at the end of 2021.

Additionally, on March 1 1, 2019, a credit facility in the amount of 74,961 thousand euros was formalized with the sole shareholder Scranton Enterprises B.V., which matures on February 28, 2021 and can be extended. The balance at December 31, 2021 of this credit facility is 61,001 thousand euros, having accrued in 2021 as interest at market price 931 thousand euros, which is pending collection at December 31, 2021 (941 thousand euros corresponding to 20ii0 and settled in 2021).

	2020	Additions	Retirements	Transfers	2021
Loans to companies	45.601.107	609.561	(2.011.887)	(28.838.736)	15.360.0 4 5
Total short-term financial investments	45.601.107	609.561	(2.011.887)	(28.838.736)	15.360.045

On January 4, 2021 the Company signed an addendum to one of the loans to third parties extending the maturity date to 2023, causing the transfer of the long-term debt. The loans to third parties have accrued an annual market interest rate. These loans have accrued interest in 2021 of 610 thousand euros, part of this amount is an integral part of the outstanding debt at December 31, 2021.

On Quadriga's liability side, the entity has a credit facility of EUR135 million of which EUR115 million was outstanding as of year end 2021. EUR135 million seems quite large in the context of only EUR33 million real estate holdings. Recall that EUR61 million was loaned to Scranton thus this entity seems to be a vehicle for Scranton to borrow funds[7]:

During 2019, on August 2, the Company entered into a credit facility for an initial amount of 135,000 thousand euros, which bears interest at market rates and matures on August 2, 2022. The nominal amount due at the end of 2021 is 115 million euros (135 million euros at the end of 2020).

Since Quadriga is consolidated by Scranton, the above liabilities should be included in Scranton's debt. Scranton's accounts clearly include the Madrid building[8]:

Assets held for sale
During the year under review, the Group initiated active procedures for the sale of two building located in Madrid, registered until the end of the previous financial year as real estate investments. The buildings are valued at EUR 33,052,686 and EUR 20,162,149 respectively. For this reason it has been decided to reclassify as assets held for sale.

However, we found no mention of the EUR135 million loan facility. The only reference to Quadriga's debt is a EUR50 million Santander credit line which was repaid in 2022.[9]

On 15 July 2022, the Company signed a new three year term financing with Santander bank for a principal amount EUR 250M, proceeds of which were used to repay the EUR 200M remaining debt outstanding under the EUR 350M BNP Facility and EUR 50M to repay the Santander credit line owed by Quadriga. Terms and Conditions of the new Santander loan were substantially similar to previous transactions.

The EUR115 million outstanding may be included somewhere in Scranton's borrowings as shown below but we are unable to reconcile it:[10]

	31-12-2021 EUR	31-12-2020 EUR
BBVA	69,892,812	120,484,032
Caixabank	196,823,859	76,345,165
Banco Santander	12,746,162	136,364,725
Bankia	82,041	94,240
Bank of America	384,308,921	457,507,480
BNP Paribas	199,999,657	349,782,642
Other banks	40,810,039	24,940,455
Discount acquired bank loans	2,936,337	3,725,973
Total	907,599,828	1,169,244,712

Scranton borrowed from Osborne Clarke – Osborne Clarke is Grifols' law firm

In December 2021 Scranton received a EUR3 million loan from Osborne Clarke. The loan was repaid 23 days later, just before the year end, although accrued interest remains outstanding[11]:

	31-12-2021 EUR	31-12-2020 EUR
54 Liabilities to third parties		
Loan from Osborne Clarke España S.L.P.	2,567	-
Security loan from Deria S.A.	173,696,281	-
	173,698,848	-

Loan from Osborne Clarke España S.L.P.
On 1 December 2021, the Company entered into a loan agreement with Osborne Clarke España S.L.P., Barcelona, Spain for the amount of EUR 3,000,000. The loan matured on 23 December 2021 and was repaid in full. Accrued interest, at the rate of 1.4% per annum and amounting to EUR 2,567, remained outstanding as at balance sheet date.

Osborne Clarke is Grifols' law firm. Who gets loans from their legal advisors?

Scranton is the landlord of Grifols' headquarters, via Centurion Real Estate (Scranton's subsidiary)

Grifols did a sale and leaseback of its properties to Scranton back in 2011[12], and has paid rent to Scranton-owned entity, Centurion. Although expenses with Scranton (only broken out in Grifols' Corporate Governance report, not its annual report) appear to have peaked in 2020, we note some unusual new items in 2022 i.e. payments to advertise with football club Joventut Badalona (owned by Scranton) and purchases from wine merchant Juve & Camps (owned by Scranton).[13]

Grifols Corporate Governance Reports: stated significant transactions with Scranton Enterprises					
YE December (EUR mln)	**2018**	**2019**	**2020**	**2021**	**2022**
Construction contract between GRF and Centurion *	0	0	13.5	7.3	3.5
Rent to Centurion ("Payment for right-of-use assets")	5.5	7.1	5.1	5.3	6.3
Advertising contract between GRF and Joventut Badalona	0	0	0	0	0.3
Purchases between GRF and Juve & Camps	0	0	0	0	0.2
Sale of financial assets **	469.9	0	0	0	0.0

* 2020 type of transaction was called "purchase of tangible fixed assets"

** Sales of Haema AG and Biotest US to Scranton

Bio Products and KedPlasma Kft: Did Grifols bail out Scranton?

Bio Products and KedPlasma Kft: do these rhyme with Haema and BPC Plasma?

The Grifols-family vehicle, Scranton Enterprises, plays a critical role in the Haema and BPC transaction with Grifols, as previously discussed. It turns out that Scranton is also at the heart of other suspicious transactions along with Grifols. In this section, we focus on how Grifols and Scranton are involved in Bio Products and KedPlasma Kft. We find these deals suspicious for the following reasons:

- Grifols appears to bail out Scranton, in a transaction that otherwise makes no sense for GRF in our opinion, as we estimate that GRF overpaid for Bio Products
- GRF paid ~15 million per center for Bio Products centers. Our investigation reveals that it cost $3 million per center to construct these centers. We are unable to reconcile this 5x difference.
- We have identified accounting irregularities involving Bio Products.
- Goodwill is very high as a percentage of purchase price, in both BPL and Kedplasma transactions.

Scranton extended a loan of $400 million (EUR386 million) to Bio Products, with no reason given

Bio Products Laboratory Ltd was previously owned by Creat, the same Chinese former owners of Biotest.[1]

> **Creat Said to Near Sale of Blood Plasma Firm Biotest to Grifols**
>
> Eyk Henning, Aaron Kirchfeld and Manuel Baigorri, Bloomberg News
>
> (Bloomberg) -- China's Creat Group Corp. is nearing the sale of German blood-plasma supplier Biotest AG to Grifols SA of Spain, according to people familiar with the matter.

Scranton first mentions Bio Products Laboratory Holdings Limited in its 2019 annual report. Scranton extended a loan of $400 million (~EUR357 million) to Bio Products. No explanation is given as to why the loan was extended. While the loan is secured by BPL Plasma Inc and Bio Products Laboratory Limited, the borrowers will have to settle through the supply of blood if payment is not made.[2]

> On 17 July 2019, the Group entered into a loan facility agreement with Bio Products Laboratory Holdings Limited, Hertfordshire, United Kingdom (the Borrower), for an amount of USD 400,000,000 (EUR 356,792,436). The loan is secured by BPL Plasma Inc. Delaware, United States and Bio Products Laboratory Limited, Hertfordshire, United Kingdom (the Guarantors). The loan bears interest at a rate equal to the weighted average of the interest rates of the Groups long term debt, with a maximum of 5% per annum. After balance sheet date, on 24 March 2020, the maturity date of the loan was extended with six months to 31 December 2020. If on the maturity date the Borrower does not pay all amounts due (inclusive of due and unpaid interest) in cash, the Borrower and the Guarantors are, jointly and severally, subject to supply the Group with 3,000,000 litres of blood plasm, being the equivalent to a price of USD 133.33 per litre. As at balance sheet date the loan was valued at USD 400,000,000 (EUR 356,160,906).

In Scranton's 2020 annual report, some explanation is provided for – Scranton lent Bio Products $400 million as an advanced payment whereby Scranton would purchase Bio Products' US business BLP Plasma Inc for $680 million from Bio Products.[3]

> In July 2019, the Group reached an agreement to acquire BPL Plasma Inc. (USA) for an amount of USD 680M from Bio Products Laboratory Holding Limited (United Kingdom), the Seller. In anticipation of CFIUS and FDA approvals, the Company advanced a loan to the Seller/Borrower to finance the deal ahead of closing date. After balance sheet date, CFIUS and FDA approved the transaction, but under certain conditions stretching beyond those agreed upon in the share purchase agreement (SPA). Hence, it was decided to cancel the transaction and, as the Seller/Borrower is still in the process of selling its remaining USA donor centers (to another buyer) (the proceeds of which will be used to prepay the outstanding amounts under the BPL Loan Agreement), the maturity of the loan was extended to 31 January 2022.

However the deal fell through in 2021, apparently due to CFIUS / FDA conditions. By this time Bio Products was unable to repay the full loan, hence it was extended to January 2022. Bio Products was "still in the process of selling its remaining USA donor centers (to another buyer)" and the proceeds would be used to repay the loan.[4]

Plasma business
In the months after balance sheet date it was decided not to expand the USA plasma business through acquisition of collection centres from the BPL group. Hence, with no further direct use for the money advanced in anticipation to the acquisition, Bio Products Laboratory Holding Limited repaid USD 200M on the outstanding USD 400M loan in March 2021. Proceeds thereof were used to redeem the Group's senior loan facility payable to Bank of America by EUR 165M. In May 2021, the Borrower redeemed another USD 50M and proceeds equal to EUR 40M after conversion of the full amount were (again) used to redeem the senior loan facility, leaving a principal loan balance of EUR 489M. Final maturity of the loan against Bio Products Laboratory Holding Limited is set at 31 July 2021 but since it is not expected that the loan will be repaid in full prior to said date, the Group obtained extension of the Maturity Date under the BPL Loan Agreement with Bank of America to 31 January 2022.

Grifols emerged as the buyer of these USA donor centers. Bio Products' 2021 annual report shows that 25 (of 51) BPL plasma centers were sold to Grifols for gross proceeds of $370 million. Note that the implied price per center for Grifols' 25 center purchase was $14.8 million per center, while Scranton attempted $680 million acquisition of Bio Products would have implied $13.3 million per center for 51 centers. $300 million of the proceeds was used to repay the loan to Scranton in 2021, while the remaining $100 million was settled in early 2022.[5]

Review of the business and future developments (continued)

The BPL Group continues to operate under the 2019 National Security Agreement (NSA) agreed with the Committee on Foreign Investment in the United States (CFIUS). The sale of 25 BPLP plasma collection centers to Biomat USA Inc (an affiliate of Grifols S.A.) for a gross consideration of $370m before taxes was a significant step towards satisfying the divestiture requirements in that agreement. The sale also allowed the BPL Group to also divest itself of its 3rd party plasma supply forward obligations and related customer liabilities dating mainly from 2017 and 2018. $300m of the sale proceeds were used to pay down the term loan the BPL Group held with Scranton Plasma BV, with only $100m left to pay at the end of December 2021. This debt was in turn re-financed with HSBC in January 2022 under a $100m 2-year term loan facility (extendable by 1 additional year), which provides the Group with good near-term visibility to focus its cash generation on investments needed for its long-term growth.

Scranton filing[6]:

Loan agreements with third parties
On 17 July 2019, the Group entered into a loan facility agreement with Bio Products Laboratory Holdings Limited, Hertfordshire, United Kingdom (the Borrower), for an amount of USD 400,000,000. The loan is secured by means of a pledge on certain assets and rights of BPL Plasma, Inc., Delaware, United States of America and Bio Products Laboratory Limited, Hertfordshire, United Kingdom (the Guarantors).

The loan bears interest at a rate equal to the weighted average of the interest rates of the Group's long term debt with a maximum of 5% per annum. In 2021, the maturity date of the loan was extended to 31 January 2022. During 2021, a total amount of USD 300,000,000 (EUR 248,764,997) was repaid. As at balance sheet date, the remaining loan amounted to USD 100,000,000 (EUR 88,261,253).

The loan was repaid in full on 13 January 2022, therefore the Group continues to carry the loan receivable under current assets. Upon repayment the right of pledge was lifted.

Based on our analysis and investigation of per center economics, it's cheaper to construct them organically. We estimate that it cost $3 million per center to construct plasma centers, pre-covid[7]

Oddly Grifols' own disclosures state a higher price paid of $385 million in the notes to the accounts, but $370 million elsewhere in the same report.[8]

- **BPL Plasma, Inc.**

  On 28 February 2021, Biomat USA, Inc. the Group's American subsidiary, acquired 25 plasma donation centers in the United States from BPL Plasma, Inc. a subsidiary of Bio Products Laboratory Holdings Limited, for US Dollars 385 million.

> **Grifols acquires 25 U.S.-based plasma centers from BPL**
>
> In March 2021, Grifols acquired 25 plasma donation centers in the U.S. from BPL Plasma Inc. for USD 370 million. The transaction, financed from own resources without issuing debt, enabled Grifols to immediately increase its plasma supply for fractionation by an additional 1 million liters.

The acquisition accounting in Grifols' annual report shows a consideration paid of $384.5 million. Since GRF acquired 25 plasma donation centers, we are surprised that the purchase was treated as a business combination rather than as an asset purchase. Even more surprising: the fair value of the PP&E acquired was just $17.4 million. Seeing that BPL had de minimis assets other than PP&E, the remainder is $366 million allocated to goodwill – **95% of the transaction price is goodwill![9]**

- **BPL Plasma, Inc.**

  On 28 February 2021, Biomat USA, Inc. the Group's American subsidiary, acquired 25 plasma donation centers in the United States from BPL Plasma, Inc. a subsidiary of Bio Products Laboratory Holdings Limited, for US Dollars 385 million.

  The transaction has received the necessary regulatory approvals and has been financed with its own resources, without issuing debt.

  Grifols will obtain approximately one million liters of plasma per year from these centers.

  The Group has recognized transaction costs of Euros 2,764 thousand in operating expenses in the consolidated income statement.

  Aggregate details of the cost of the business combination, the provisional definitive fair value of the net assets acquired and the provisional definitive goodwill at the acquisition date are shown below:

	Thousandss of Euros	Thousands of US Dollars
Consideration paid		
First payment performed	9,921	12,000
Cash paid at the transaction closing date	308,016	372,548
Total consideration paid	317,937	384,548
Fair value of net assets acquired	15,039	18,190
Goodwill (excess of the cost of the business combination over the fair value of net assets acquired) (note 7)	302,898	366,358

The amounts determined at the acquisition date of the assets, liabilities and contingent liabilities acquired are as follows:

	Fair value	
	Thousandss of Euros	Thousands of US Dollars
Property, plant and equipment (note 10)	14,406	17,424
Non-current financial assets	85	103
Inventories	557	674
Total assets	15,048	18,201
Current liabilities	(9)	(11)
Total liabilities and contingent liabilities	(9)	(11)
Total net assets identified	15,039	18,190

The resulting goodwill has been allocated to the Bioscience segment and includes the donor database, licenses and workforce.

Bio Products' disclosures reveal discrepancies between its and Grifols' treatment of this transaction[10]:

- $48.1 million of PP&E, which is 2.5x-3.0x higher than the $17.4 million Grifols disclose, even though Grifols' figure represents "fair value". We wonder if GRF under-states PP&E here, so that it can enjoy a lower depreciation expense in future periods, which would benefit earnings.
- Customer claim provision of $20.0 million. Grifols does not recognise this in its accounts.
- Lease liabilities of $24 million. Grifols does not recognize lease liabilities from Bio Products in its accounts.

5. Asset group disposal (continued)

The analysis of the gain on sale is set out below,

Disposed net identifiable assets and liabilities

At 1st March 2021	At 1st March 2021 $'000
Property, plant and equipment	(48,124)
Goodwill	(33,933)
Inventories	(512)
Contract penalty provision	(2,536)
Other	(741)
Customer claim provision	19,956
Capital lease liability	24,122
Total cost of disposal	**(41,768)**
Sale proceeds	370,000
Gain on sale before tax	328,232
Income tax expense on gain on sale	(78,938)
Profit on disposal after tax	**249,294**

Sale proceeds satisfied in cash and settlement of the loans with Scranton.

As part of the agreement, Bio Products purchased 647k litres of plasma from Grifols. **Grifols itself does not mention this part of the arrangement in its annual report.** We wonder if this recycling of investment spend into Grifols' P&L was reflected in the purchase price.[11]

Bio Products Laboratory Limited

DIRECTOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

Going concern (continued)

Plasma collections outlook for 2021 remains very challenging due to prolonged COVID-19 impact, in particular that of two successive rounds of US fiscal stimulus that largely benefits the lower- and middle-income segments of the population, which include most of the active plasma donors.

The sale at the end of February 2021 of 25 of its 51 US plasma centres to Biomat USA Inc a fully owned affiliate of *Grifols S.A.* for a pre-tax amount of $370m significantly improved BPL Group's liquidity position and has allowed it to pay down a significant portion of its financial debt. The BPL Group expects to have significantly lower levels of Net Debt by year-end 2021 and to benefit from a comfortable liquidity position by year-end.

It should be noted that the sale of these centres has not impacted materially the availability of plasma supply for use within BPLT ('the Group') as the collections from these centres roughly equated to the level of 3rd-party plasma sale commitments; and all of BPLP's obligations to provide normal source plasma to third parties were terminated as part of the sale. Additionally, as part of the overall agreement to sell the 25 plasma centres, BPL has purchased 647K litres from *Grifols* to mitigate the effects from lower collections as a result of the COVID-19 pandemic. Of this amount, 294K litres were already received by end of 2020 and the remaining 352k litres has now been received in 2021.

On the other hand, the sale has impacted the Cost Per Litre (CPL) levels as the fixed cost support structures of BPLP had to be right-sized for the new level of collections going forward. This has resulted in a restructuring effort which is expected to generate $7m of savings per year, which at the time of this report is nearly complete.

Grifols states that it will obtain 1m litres of plasma per year from the 25 facilities. Thus 647k litres of Plasma appears to be a material amount for Grifols to recycle back into its revenue.[12]

- **BPL Plasma, Inc.**

  On 28 February 2021, Biomat USA, Inc. the Group's American subsidiary, acquired 25 plasma donation centers in the United States from BPL Plasma, Inc. a subsidiary of Bio Products Laboratory Holdings Limited, for US Dollars 385 million.

  The transaction has received the necessary regulatory approvals and has been financed with its own resources, without issuing debt.

  Grifols will obtain approximately one million liters of plasma per year from these centers.

Bio Products also talks about securing a plasma supply agreement with the "future owner" – it is unclear if this is referring to Scranton or if they are already referring to Grifols here. That is, was the plan, all along, for Scranton to immediately transfer Bio Products to to Grifols?[13]

In late 2017, the Group's immediate parent Bio Products Laboratory Holdings Limited (BPLH) and its shareholder entered into an extensive review with the US Government's intra departmental Committee on Foreign Investment in the United States (CFIUS). The objective of the review was to address a series of national security concerns that were raised regarding Chinese control (through BPLH) of a US based plasma collection business. This review was completed in early 2019 and resulted in the signing of a National Security Agreement (NSA) by which BPLH has agreed to divest its US plasma collection business BPL Plasma Inc. (BPLP). In July 2019, BPLH reached an agreement to sell the equity interests in BPLP and all of BPLP's subsidiaries to Scranton Plasma BV for an undisclosed amount, while securing a long-term plasma supply agreement with the future owner so that BPLT can continue to operate at similar volume levels as it does today. Based on its interest in acquiring BPLP, Scranton Plasma BV provided financing to the BPLH business in the form of a term loan worth £303.4m ($400m). The loan will be repaid and terminated with the completion of the sale of BPLP. The proceeds from the term loan have allowed BPLH to re-finance its debt structure and repay £196m of shareholder debt with Tiancheng International Investment Limited (TII) in 2019.

Bio Products Laboratory Holdings Limited
Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2019

5. Discontinued operation

In late 2017, BPLH and its ultimate shareholder entered into extensive review with the US Government's intra departmental Committee on Foreign Investment in the United States (CFIUS). The objective of the review was to address a series of national security concerns that were raised regarding Chinese control (through the Group) of a US based plasma collection business. This review was completed in early 2019 and resulted in the signing of a National Security Agreement (NSA) by which BPLH has agreed to divest itself within a set timeframe of its US plasma collection business, while securing a long-term plasma supply agreement with the future owner so that the Group's BPL Therapeutics business can continue to operate at similar volume levels as it does today. The Group's US based Therapeutics business is unaffected and will continue to remain under current ownership structure as is.

As a consequence of this decision, the BPL Plasma (BPLP) financial results have been classified under Discontinued Operations for the purposes of these financial statements for the year ended 31 December 2019 and 2018.

Scranton Enterprises purchased a Hungarian SPV called KedPlasma Kft

Scranton Enterprises states in its 2019 annual report that in August 2020, it purchased a Hungarian SPV called KedPlasma Kft.[14]

Subsequent events in the management report
Plasma business
In August 2020 the Group purchased a 100% stake in dormant entity KedPlasma Kft, a Hungarian SPV, which acquired seven Hungarian blood collection centers.

In 2020 the name was changed to Haema Plasma Kft and this company was "supplied the means" to acquire 7 blood donation centers. The month has changed to December.[15]

plasma' to worldwide customers in the pharmaceutical and diagnostic industries, hospitals and medical practices. In December, the Group purchased a shelf company in Hungary which was later renamed Haema Plasma Kft and supplied the means to acquire 7 licensed donor centers in Hungary.

In May 2021 a EUR21 million loan from Scranton to Haema Plasma Kft was converted to capital.[16]

Also, in the second quarter in 2021, the Group entered into a revolving short-term loan of EUR 25M from Bank of America (monthly renewable), to keep working capital at par. In October 2021 an amount of approx. EUR 21M was repaid, pursuant to a loan repayment of the for the same amount (in USD) by Bio Products Laboratory Holding Limited Also, the USD 20M loan to Haema Plasma Kft was converted into capital effectively May 2021.

In February 2021 Haema acquired 7 donation centers, and generated EUR15 million sales in its first year of operation.[17]

Plasma business
Pursuant to the acquisition of a Hungarian shelf company in December 2020, the plasma division headed by Scranton Plasma B.V. started its plasma collection activities in Hungary through seven donation centers. Also, the Group relocated the Hungary head office from Gödöllo to Budapest to ensure high level back-office staff and quality of work. As per 31 December 2021, the plasma division owns 76 licensed donor centers of which 41 (2020: 41) licensed donor centers located in Germany, 28 (2020: 27) in the United States of America and seven (2020: 7) in Hungary dedicated to the collection of blood and plasma and supply of 'hyper immune plasma', 'normal source plasma', 'high-quality blood preserves' and 'special preparations made of blood and plasma' to customers in the pharmaceutical industries, hospitals and medical practices. BPC Plasma Inc., USA continued its operations under its long-term supply agreement with the Grifols group, committing to sell its plasma (almost) exclusively to Grifols Worldwide Operations Limited. Total sales amounted to EUR 223M (USD 264M) (2020: EUR 220M (USD 247M)) whereas Haema AG and Haema Plasma Kft generated a total income from sale of EUR 156M (2020: 145M) and EUR 15M (2020: nil) respectively. In light of COVID-19 pandemic still being very relevant throughout the year 2021 the sale results are considered strong.

Also in February 2021, Grifols signed a call option on the shares of Haema Kft. This was not disclosed in the 2021 annual report, only in 2022. As with Haema / Biotest, the option "empowers" Grifols hence it consolidates the business. However the plasma produced apparently "will be used almost entirely to cover Grifols' needs" i.e. presumably most sales are eliminated on consolidation. Note that since the loan from Scranton was converted to equity, Grifols avoids having to consolidate this debt.[18]

b) Haema Plasma Kft.

On 1 February 2021, Scranton Plasma B.V. acquired 100% of the shares of Haema Plasma Kft. Scranton is a shareholder of Grifols.

On 1 February 2021 the Group signed a call option on the shares of Haema Plasma kft, exercisable by the Group only 12 months after signing and with an expiry of 48 months from the date on which the option becomes exercisable. The option price was set at thirteen times EBITDA minus net debt.

The Group has potential voting rights arising from the option to purchase the shareholding and these are substantive, based on:

- A call option for Grifols which gives it the irrevocable and exclusive right (not an obligation) to acquire the Haema Plasma Kft shareholding at any time after 1 February 2022.
- Grifols is committed to providing support services in the business of collecting, processing and distributing plasma from the donation centres. There is also a Plasma Supply Agreement whereby the plasma produced by these entities will be used almost entirely to cover Grifols' needs. There is no sales exclusivity.
- There are no shareholder agreements that provide for relevant decisions to be approved in a manner other than by majority vote.

The above are indicators of the power that Grifols acquires over this entity, considering that the call option is likely to be exercised and Grifols will have the financial capacity to carry it out.

Consequently, at the time the option becomes exercisable, the option empowers Grifols, even though it has not yet been exercised, and Haema Plasma Kft. is therefore included in Grifols' consolidated financial statements from 2022.

The EUR14.7 million in goodwill from the transaction is very high compared to the EUR2.2 million of net assets acquired. The option price was set at 13x EBITDA less net debt – Since the $20 million loan from Scranton to Haema Kft was converted to equity in May 2021 i.e. well before the date on which Grifols' option became exercisable we would be surprised if there is a large amount of additional debt.[19]

	Reference	Thousands of Euros	Thousands of Hungarian Forint
Call option price		16,948	6,228,796
Total consideration		16,948	6,228,796
Fair value of net assets acquired		2,209	812,371
Goodwill (excess of the cost of the business combination over the fair value of net assets acquired)	Note 6	14,739	5,416,425

We note also only EUR1.3 million in PP&E in the acquisition accounting[20] – this seems low as we would have expected the majority of the $20 million loan to have been invested in physical assets, since the loan was advanced for the company to "acquire 7 donation centers". Note also that $20 million for 7 donation centers works out to roughly 3 million per center, which is roughly in-line with our estimate for how much it constructs a store.

Immunotek: we find Grifols' EUR 124.1m payment suspect

Grifols and Immunotek enter into an agreement, makes payments of EUR42.3 + EUR124.1 million

In July 2021, Grifols announced an agreement with Immunotek Bio Centers. Soon after, Grifols made a prepayment to Immunotek, totaling EUR42.3 million as of December 2021. In 2022, GRF disclosed an additional EUR124.1 million payment relating to the Immunotek-Freedom Plasma project, up nearly 3x from the in 2021 EUR42.3 million payment. We believe that this EUR124 million advanced payment does not relate to the development of these centers; rather we see the payment as an unexplained outflows of cash, just as Grifols' has demonstrated in other transactions. The following support our opinion:

- The EUR124.1 million payment to Immunotek is not consistent with our estimate of the per center requirements (~3 million per center) for opening plasma centers.
- Our per center estimate implies that Grifols is planning to fund the opening of ~44 centers under Freedom Plasma, but we were unable to verify evidence for such a large opening.
- We cannot reconcile the actual evolution of the Immunotek-Freedom Plasma project with a EUR 124 million payment.

Grifols announced an agreement with Immunotek Bio Centers where Grifols would "fund the development" of 21 plasma centers in the US, with Immunotek managing them once constructed in July 2021. The agreement indicated that 5 centers were operational already, with the remaining 16 to be operational by October 2022.[1]

> Grifols informs that it has signed an arrangement whereby, with the collaboration of the US company ImmunoTek Bio Centers LLC, it will develop 21 new plasma collection centers in the United States to exclusively serve its manufacturing needs. Grifols will fund such development and the expectation is that all 21 plasma collection centers will be operating by October 2022. All centers will be licensed by the U.S. Food and Drug Administration (FDA) and the European Authorities. 5 of the 21 plasma collection centers are already operating and are currently in the ramp-up phase. When ramped-up, the 21 plasma collection centers are expected to collect in the aggregate 1 million liters of plasma annually.

In November 2021, Immunotek announced the launch of "Freedom Plasma".[2]

Freedom Plasma is a collaboration between Immunotek and "a global healthcare company and leading manufacturer of plasma-derived medicines".[3] We believe this "global healthcare company" is Grifols.

ABOUT FREEDOM PLASMA

Freedom Plasma was developed and is operated by ImmunoTek Bio Centers LLC in partnership with a global healthcare company and leading manufacturer of plasma-derived medicines. Freedom Plasma provides donors within the communities it serves the freedom to improve their financial position and help positively impact patients' lives who rely on plasma-based therapies. Each plasma donation is essential and provides patients the freedom to live healthier and happier lives.

Freedom Plasma's website, on 8th August 2022, showed exactly 21 centers listed as "accepting donors" (locations highlighted in yellow below).[4] This indicates that the centers were opened in line with Grifols' expectations stated in their July 2021 press release ("all 21 plasma collection centers will be operating by October 2022"). This supports our belief that Grifols is the partner that Freedom Plasma mentions:

Additionally, our field research reveals that all 21 centers were open as at 27th April 2023.

Surprisingly though, in their 2022 annual report, Grifols disclosed a large increase in advance payments relating to the Immunotek / Freedom Plasma project of EUR124.1 million, up nearly 3x from EUR42.3 million in 2021**.** It makes no sense that, more than 4 months after all 21 centers were already open and accepting donations, Grifols still recognized an additional EUR124 million "advanced payments related to this project" on its balance sheet.

The 2022 EUR124.1 million advance payment disclosure from the Grifols 2022 consolidated AR[5]:

(a) Other non-current and current financial assets

Details of other non-current and current financial assets are as follows:

	Reference	Thousands of Euros 31/12/2022	31/12/2021
Other financial assets with related parties	Note 30	318,890	220,947
Other financial assets with third parties		188,098	2,066,216
Total other non-current and current financial assets		506,988	2,287,163

In 2021 Grifols closed a collaboration agreement with the U.S. firm ImmunoTek Bio Centers, LLC, specialized in the opening and construction of plasma centers, to open 21 plasma centers in the United States. At 31 December 2022, the Group has made advanced payments related to this project for an amount of Euros 124.1 million (Euros 42.3 million).

The 2021 EUR42.3 million advance payment disclosure from the Grifols consolidated AR[6]:

(a) Other non-current and current financial assets

Details of other non-current and current financial assets are as follows:

	Thousands of Euros 31/12/2021	31/12/2020
Other financial assets with related parties (see note 31)	220,947	114,825
Other financial assets with third parties	2,066,216	4,066
Total other non-current and current financial assets	2,287,163	118,891

"Other financial assets with third parties" is mainly composed of the cash received from the new bond issue, which will be used to acquire the existing share capital of Tiancheng (Germany) Pharmaceutical Holdings, owner of approximately 90% of Biotest ordinary shares and 1% of Biotest preferred shares. The transaction is subject to regulatory approvals and conditions and is expected to close by the end of the first half of 2022. Therefore, the received amount is restricted until official approval is obtained (see note 15 and 21).

Additionally, Grifols closed a collaboration agreement with the U.S. firm ImmunoTek Bio Centers, LLC, specialized in the opening and construction of plasma centers, to open 21 plasma centers in the United States. At 31 December 2021, the Group has made advanced payments related to this project for an amount of US Dollars 47.5 million (Euros 42.3 million).

EUR124.1 million payment inconsistent with our review of Freedom Plasma center evolution

We tracked the evolution of Freedom Plasma centers. From August 2022 until December 2023, we see, at most, 6 centers opened by the end of 2023:

1. the Freedom Plasma website showed 9 centers as "Coming Soon" as of 8th August 2022[7]
2. As of 15th December 2023, the Freedom Plasma website showed that 7 of those prior "coming soon" centers have now opened[8]:
   - 2 centers were opened by October 2022 (Benton Harbor, MI and Louisville, KY).
   - 4 centers were opened at some point between November 2022 and June 2023 (Roanoke, VA, Zanesville, OH, Clarksville, TN, and Paducah, KY).
   - 1 center was opened between October 2023 and December 2023 (Newark, OH).
3. A couple of those "coming soon" projects were abandoned:
   - 2 former projects in Johnson City, NY and Syracuse, NY.
   - There was also another NY project in North Syracuse that was labelled "coming soon" but got discarded too.

We don't believe that that the EUR124 million in an advance payment at year-end 2022 makes any sense for the opening of 6 centers.

We don’t find A EUR124.1 million prepayment for new centers consistent with Grifols’ initiative to close and consolidate underperforming donor centers, as indicated in February 2023[9]:

> Another one would be donor compensation optimization. Another initiative will be closing and consolidating underperforming donor centers, with 18 centers already closed in the fourth quarter of 2022 and several additional centers 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 EUR300 million.

EUR124 million advance payment not consistent with per center funding requirements

We believe a EUR124 million advance payment is out of line with the funding requirements of opening plasma centers in the USA. Based on our analysis and investigation of the economics per plasma center, it’s cheaper to construct them organically. We estimate that it cost $3 million per center to construct plasma centers, pre-covid.[10]

Grifols’ advanced payment as at December 2021 was $47.5 million. Based on Grifols’ press release which stated that 16 centers were yet to be constructed, then this equates to ~$3 million per center (which is in line with our estimate of how much it costs to construct these centers, on a per center basis).

EUR124 million or $131 million as at December 2022, at a cost of $3 million per center, would imply Grifols was planning to fund the opening of ~44 centers under Freedom Plasma.

We see no such plan in place by Grifols (to the contrary, we see GRF focusing on closing or consolidating centers, as shown above!).

or Freedom Plasma itself, which now shows 28 plasma centers open and “accepting donors”, while zero locations are labelled as “coming soon” on its website.[11]

We believe the below images depicting the construction timeline of an ImmunoTek plasma donation center also suggest minimal capex requirements:

In March 2022 this building was some kind of retail store[12]

In February 2023 there was construction work in progress[13]

In March 2023 the center opened, with what looks like an ImmunoTek sign above the door[14]

Finally we note that in June 2021 i.e. before the announcement of the deal with Grifols, **Immunotek's website already listed all 21 center locations that to become Freedom Plasma centers.** (see green highlighted centers on the next page). Using the Wayback Machine, we can see that most of these facilities did not have opening times included as of 17th June 2021.

We believe that these centers were not open at that time (for the most part), which is consistent with the timing of Grifols press release announcement. Nevertheless, we believe this shows that the sites had already been secured, with construction/development work possibly already in progress, hence requiring minimal additional capex from Grifols. Thus, the 2022 EUR 124 million advanced payment makes even less sense to us.[15]

"Accepting Donors" Locations	
Immunotek centres (as at 17/06/2021)	Freedom Plasma centres (as at 8/8/2022)
Albany, GA	Cleveland, OH
Anniston, AL	Fayetteville, NC
Clarksville, TN	Goldsboro, NC
Cleveland, OH	Greenville, SC
Cleveland, TN	Greenwood, SC
Cocoa, FL	Hueytown, AL
Columbia, SC	Killeen, TX
Columbus, OH	Lancaster, PA
Fayetteville, NC	Mansfield, OH
Florence, SC	Memphis, TN
Forest Park, GA	Nacogdoches, TX
Fort Pierce, FL	St. Petersburg, FL
Goldsboro, NC	Statesboro, GA
Greenacres, FL	Stonecrest, GA
Greenville, SC	Sumter, SC
Greenwood, SC	Toledo, OH
Harper Woods, MI	White Settlement, TX
Hendersonville, NC	Wichita, KS
High Point, NC	Williamsport, PA
Horn Lake, MS	Winter Haven, FL
Hueytown, AL	Wood River, IL
Indianapolis, IN	
Jackson, MS	
Jeffersonville, IN	
Killeen, TX	
Lancaster, PA	
Lithia Springs, GA	
Louisville, KY	
Mansfield, OH	
Memphis, TN	
Nacogdoches, TX	
Pine Bluff, AR	
Port Orange, FL	
Pueblo, CO	
Roanoke, VA	
Rocky Mount, NC	
Salisbury, NC	
Sanford, FL	
Slidell, LA	
St. Petersburg, FL	
Statesboro, GA	
Stonecrest, GA	
Sumter, SC	
Toledo, OH	
Waco, TX	
White Settlement, TX	
Wichita, KS	
Williamsport, PA	
Wilson, NC	
Winter Haven, FL	
Wood River, IL	

Green highlight indicates the same locations

Glassdoor and Indeed reviews for Immunotek indicate "shady business decisions" and selling off plasma centers to competitors.

From Glassdoor[16]:

1.0 ★☆☆☆☆ 31 May 2022

LMAO just don't

Anonymous Employee
Former Employee

✗ Recommend ✗ CEO Approval — Business Outlook

Pros
Met some great coworkers and donors here

Cons
You're extremely overworked and understaffed 90% of the time with zero relief, but you are expected to go to other centers when they are understaffed, leaving your coworkers to suffer more. Work hours do not give you any type of work-life balance. Inconsistent with company policies. Poor Communication. Poor training. Company does not care about their employees well being or safety. They will try to guilt you for setting boundaries and shame you for doing so. The company allows aggressive donors to donate who continue to treat staff terribly, after promising staff that they would never have to put up with verbal abuse from donors. There are a lot of shady business decisions made behind closed doors from the corporate staff that the company tries to cover up. I would not recommend this shady company to my worst enemy.

Advice to Management
Listen to your employees and stick up for them when it comes to the higher ups. Stop treating staff like they're machines and give them a healthy work life balance. Defend your staff when donors are being hostile. Stop rewarding staff who don't do their job and stop rewarding donors for verbally abusing staff.

From Indeed[17]:

1.0 ★☆☆☆☆

Worst place to work

Phlebotomist (Former Employee) - Cocoa, FL - February 6, 2023

Management is a joke, they play favorites and let certain people who have been there longer get away with anything and everything especially treating other coworkers like complete trash. They don't care about you. The place is a joke. And turn around is unbelievable there. Never enough help. And very unorganized.

1.0 ★☆☆☆☆

Not what they claim to be

Remote Talent Acquisition Partner (Former Employee) - Remote - July 6, 2022

This company isn't what they seem to be. They underpay their employees. They won't tell them the real hours of operations and most people quit right out of training.

It's unfortunate because there is such a need for what they do but they have the wrong thought process on how it should be successful.

The CEO: with Grifols since 2006 and strong ties with Scranton

Claim: "The Spanish billionaire family is no longer at the helm"

Grifols has tried to regain the market's respect by ushering in a "new era" of leadership under CEO Thomas Glanzmann. In a widely circulated story, there is the claim that "The Spanish billionaire family is no longer at the helm"[1]:

> **Billionaire Dynasty Built on Blood Ends Reign at Troubled Empire**
>
> The Spanish billionaires' company, which relies on the US for most of its plasma-based products, no longer has a family member at the helm.
>
> By Clara Hernanz Lizarraga and Benjamin Stupples
>
> (Bloomberg) -- Over the last several decades, the Grífols family has turned the collection of blood – often from impoverished Americans and Mexicans looking for quick cash – into one of the world's largest medical fortunes.
>
> Now, for the first time in the Grífols business empire's century-old existence, the Spanish billionaire family is no longer at the helm. Last week, Executive Chairman Thomas Glanzmann took over as chief executive officer, replacing two family members who were co-CEOs, ending the reign of four generations of Grífols.

We find this claim to be technically true – the CEO does not bear the Grifols surname – however, we find this substantially false, based on our review and analysis of documents outside of Spain, pertaining to entities under the ownership and/or control of Grifols family members. In fact, Thomas Glanzmann is not new to Grifols: he's been with Grifols since 2006. His interests are so tied to Grifols and related entities (for example, Scranton), Glanzmann appears to be a Grifols in everything but name only.

Thus, in our opinion, the prevailing promoter's narrative – out with the old, in with the new" - is not supported by the facts.

CEO Glanzmann has been with Grifols since 2006

Thomas Glanzmann is neither new nor independent to Grifols, the public company and the family. Glanzmann has been a director at Grifols since April 2006. He has been vice chairman since 2017 and on the board when the suspect transactions we describe in this report occurred.

Thomas Glanzmann has been director since 2006, per the 2016 20-F filing[2]:

Directors

Set forth below are the names and current positions of the members of the Board:

Name	Age	Title	Type	Director Since	Term Expires
Víctor Grifols Roura	67	Director, non-executive Chairman of the Board	Proprietary	July 1991(1)	May 2017
Víctor Grifols Deu	40	Director and Chief Executive Officer	Executive	May 2016	May 2020
Raimon Grifols Roura	53	Director and Chief Executive Officer	Executive	May 2015	May 2019
Ramón Riera Roca	62	Director	Executive	April 2000(2)	May 2017
Tomás Dagá Gelabert	61	Director and Vice-Secretary of the Board	Other External	April 2000	May, 2019
Thomas H. Glanzmann	58	Director, Vice-chairman of the Board of Directors	Other External	April 2006	May 2020
Anna Veiga Lluch	60	Director	Independent	December 2008	May, 2019
Luís Isasi Fernández de Bobadilla	60	Director	Independent	May 2011	May 2020
Steven Francis Mayer	58	Director	Independent	January 2011	May 2020
Belén Villalonga Morenés	49	Director	Independent	May 2013	May 2018
Marla E. Salmon	67	Director	Independent	May 2014	May 2018
Carina Szpilka Lázaro	48	Director	Independent	May 2015	May 2019
Iñigo Sánchez-Asiaín Mardones	53	Director and Lead Independent Director(3)	Independent	May 2015	May 2019
Nuria Martín Barnés	58	Secretary non-member of the Board of Directors	n/a	May 2015	n/a

Thomas Glanzmann has been director since 2006, per the 2017 20-F filing[3]:

Thomas H. Glanzmann

Mr. Thomas H. Glanzmann has served as a director of Grifols, S.A. since April 2006 and on January 1, 2017 he was appointed non-executive Vice Chairman of the Board of Directors. He also serves as a Director on the Boards of Sulzer AG, Alkahest Inc., is a Healthcare Advisor to Madison Dearborn and Partners and is the General Partner in the Medtech Venture Fund in California. From 2006 until 2011 he was the Chief Executive Officer and Chairman of Gambro AB. Prior to this Mr. Glanzmann was the CEO and Managing Director of HemoCue AB. Between 1988 and 2004 he held various positions at Baxter Healthcare: Senior Vice President and Corporate Officer of Baxter Healthcare Corporation; President of Baxter Bioscience; Chief Executive Officer of Immuno International; and President of the European Biotech Group. Between 1984 and 1988 he worked at Philip Morris where he amongst other was the country manager for Norway, Denmark and Iceland. He also was a Senior Advisor to the Executive Chairman and a Managing Director at The World Economic Forum in Davos from 2004 - 2005 and the Chairman of the Plasma Protein Therapeutics Association (PPTA) between 2000 and 2001. Mr. Glanzmann holds a M.B.A. from IMD in Switzerland, a B.A. in Political Science from Dartmouth College, USA. and a Board of Directors Certification from the UCLA Anderson School of Management, USA.

Glanzmann has been vice chairman since 2017 – 6 years ago – He was appointed vice chairman of the board in 2017, per the 20-F filing of Grifols[4]:

Thomas H. Glanzmann

Mr. Thomas H. Glanzmann has served as a director of Grifols, S.A. since April 2006 and on January 1, 2017 he was appointed non-executive Vice Chairman of the Board of Directors. He also serves as a Director on the Boards of Sulzer AG, Alkahest Inc., is a Healthcare Advisor to Madison Dearborn and Partners and is the General Partner in the Medtech Venture Fund in California. From 2006 until 2011 he was the Chief Executive Officer and Chairman of Gambro AB. Prior to this Mr. Glanzmann was the CEO and Managing Director of HemoCue AB. Between 1988 and 2004 he held various positions at Baxter Healthcare: Senior Vice President and Corporate Officer of Baxter Healthcare Corporation; President of Baxter Bioscience; Chief Executive Officer of Immuno International; and President of the European Biotech Group. Between 1984 and 1988 he worked at Philip Morris where he amongst other was the country manager for Norway, Denmark and Iceland. He also was a Senior Advisor to the Executive Chairman and a Managing Director at The World Economic Forum in Davos from 2004 - 2005 and the Chairman of the Plasma Protein Therapeutics Association (PPTA) between 2000 and 2001. Mr. Glanzmann holds a M.B.A. from IMD in Switzerland, a B.A. in Political Science from Dartmouth College, USA. and a Board of Directors Certification from the UCLA Anderson School of Management, USA.

The Grifols family is invested in Glanzmann's VC medtech fund

Scranton Enterprises, a Netherlands-based entity tied to the Grifols family, contributed ~10% of the capital of Medical Technology Venture Partners[5]:

In March 2017, the Company made a capital commitment to Medical Technology Venture Partners I L.P, Delaware, United States of America (hereinafter 'MTVP') for an amount of USD 2,500,000. On 23 March 2017, the Company transferred 20%, being USD 500,000 (EUR 462,663). On 1 November, the Company paid 25%, being USD 625,000 (EUR 538,236). As at balance sheet date, the Company has made investments in MTVP for a total amount of USD 1,125,000 (EUR 1,000,899), being 10.53% of the total capital commitment.

Thomas Glanzmann as a partner of Medical Technology Venture Partners[6]:

Team | Investment Advisors | Clinical Advisors

Team

Radu Cautis

Partner & Managing Director

Radu has been in technology and healthcare for over 20 years...

Thomas Glanzmann

Partner

Thomas has 30 years of experience in healthcare with medical devices...

Read more

Thomas Glanzmann

Partner

Thomas has 35 years of experience in healthcare with medical devices, biologics, and diagnostics. He has worked with global public companies, private equity, startups, and nonprofits.

He was CEO of Gambro and led the company in the largest private equity transaction in Europe at the time. Previously, Thomas was CEO of HemoCue, which he led to a successful exit. Prior, he was Senior Vice President of Baxter Healthcare / Baxter International and President of Baxter Bioscience. He has also been CEO of Immuno International, a leading global plasma and vaccines company. He was a Managing Director at the World Economic Forum, Davos and for 10 years also served as Healthcare Advisor to Madison Dearborn+Partners, a Chicago based Private Equity firm.

Currently, Thomas is Vice Chairman of Grifols SA and the Chairman of the Grifols Sustainability Committee. He is also a Board member of Alcon Inc., where he chairs the Innovation Committee and is a member of the Compensation and Governance Committees.

Thomas is a graduate of Dartmouth College and holds an MBA from IMD in Switzerland. He has a Board of Directors Certification from the UCLA Anderson School of Management. Currently he commutes between the US, Switzerland, and Sweden.

Scranton's CEO is also a Medical Technology Venture Partners executive, along with Glanzmann

Scranton's CEO, Luca Tassan, is also listed on the Medical Technology Venture Partners website as an Investment Advisor to the venture firm.[7]

Luca Tassan

Investment Advisor

CEO of Scranton Enterprises, a diversified holding enterprise with interests in Healthcare, Real Estate and Fast Growing companies. Invests in enterprises and supports their growth in becoming market leaders.

17 years of Investment Banking in the US and Europe with JPMorgan, RBS, Lehman Brothers and Nomura. Rose to Co-Head of Acquisition and Leveraged Finance for EMEA. He started in the TMT financing practice of JPMorgan and then developed a multi-disciplinary skillset in areas such acquisition financing, debt capital markets, restructurings, debut HY issuers, US and Euro senior and subordinated private placements, Leveraged buy-outs, and real estate financing. Ultimately responsible for M&A, LBO and HY capital raising for some of the most prestigious European. Corporates and Underwriting/raising over $50bn of capital during his tenure in Investment Banking.

Luca has a Cum Laude Bachelor of Science degree from Bentley College and an MBA from Georgetown University. He is fluent in Italian, English, and French.

Also, in the standalone 2011 and 2012 annual reports of Grifols SA, there is the following which states that Thomas Glanzmann is the "majority partner at Glanzmann Enterprises GmbH, a company which has been rendering advisory services to the Group (i.e., Grifols SA) since 2011".[8]

Personal or corporate name of Director

MR. THOMAS GLANZMANN

Company, Director or shareholder with whom there is a connection

GRIFOLS, S.A.

Grounds

His relationship does not match the current definitions of executive Director, proprietary or independent Board member. He is the majority partner at Glanzmann Enterprises GmbH, a company which has been rendering advisory services to the Group since 2011.

Valuation: Grifols shares uninvestable, likely worthless

Valuation of Grifols:

Gotham City Research believes that the shares of Grifols are uninvestable and likely are worth zero, based on our analysis of Grifols and its related entities.

Should our estimate of the company's true EBITDA, debt, and leverage turn out to be correct, we estimate that Grifols shares are overvalued by 34% to 75%, (applying the market's current EV / EBITDA valuation multiple on Grifols share price). This 34%-75% calculated range assumes Grifols' interest expenses do not rise because of the higher leverage situation.

If, on the other hand, the market reprices Grifols interest rates to reflect higher leverage, then Grifols' interest payments would rise. In that scenario, Grifols debt would yield 10%, in line with peers levered 10x and more. We do not think the financial position would be sustainable. This exercise shows clearly that Grifols has never produced cash flows to support its potentially much higher interest burden. Indeed since 2014 GRF has on average only produced 50% of the cash flow required to service its debt if its debt yields 10%. Simply put at 10% yields Grifols' debt is unsustainable, leaving shares worthless or subject to massive dilution due to the capital raises required to bring Grifols' debt to sustainable levels.

Further to the above calculations, we note the various red flags discussed in this report – e.g., Grifols' undisclosed related party transactions – reveal that at the bare minimum, Grifols earnings quality leaves much to be desired. In the worst case, there are severe deficiencies with Grifols' financial statements. Given the potential impacts the related party transaction could have on underlying earnings power, we believe that shares are uninvestable.

Impact of Leverage on implied equity valuation:

Currently Grifols shares trade at an EV / EBITDA multiple of 15.3x. The market assumes Grifols is levered 6.7x per its own disclosures in its filings. We have yet to see a model take into account Grifols' hidden leverage. Indeed, even ratings agencies S&P and Moody's use Grifols' published leverage numbers when discussing this metric. This implies the market believes that 15.3x EV/EBITDA is the correct multiple for Grifols. 15.3x – 6.7x also indicates the market attributes 8.6 turns of EBITDA to the equity of Grifols[1]:

EUR mln	
Grifols Enterprise Value (latest) [A]	21,666
Grifols reported Net Debt (LTM as at Q3 23) [B]	9,540
Grifols Adj. EBITDA LTM as per Credit Agreement (as at Q3 23) [C]	1,416
Grifols EV / Adj. EBITDA LTM multiple [D = A/C]	15.3x
Grifols LTM Net Debt / Adj. EBITDA LTM multiple [E = B/C]	6.7x
Grifols Implied Equity / Adj. EBITDA LTM multiple [F = D-E]	8.6x

As we have shown in our work on the debt situation at Grifols, we believe a more accurate depiction of Grifols' leverage position is that it is levered 10x to 13x, due primarily to the fact that Grifols consolidates many earnings that it does not own, while all its disclosed debt is held at 100% owned entities. Given this much higher leverage, assuming the market is correct in valuing Grifols at 15.3x EV/EBITDA, this implies that Grifols' equity is actually only worth 2.1x to 5.7x of EBITDA; e.g 15.3x – 9.6x = 5.7x.[2]

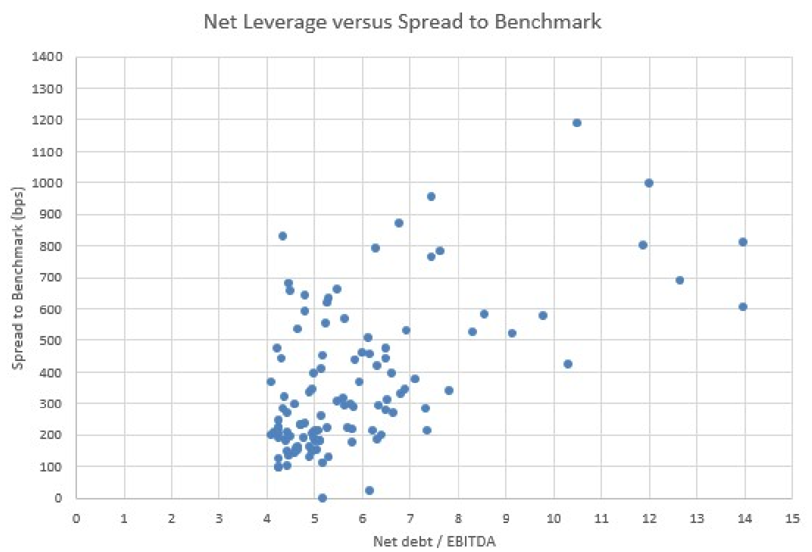
EUR mln	Low end	High end
Grifols EV / Adj. EBITDA LTM multiple [D]	15.3x	15.3x
GCR Grifols Adj. EBITDA (LTM as at H1 23) [G]	928	741
GCR Grifols Net Debt (LTM as at H1 23) [H]	8,919	9,767
GCR Grifols LTM Net Debt / Adj. EBITDA LTM multiple [I = H/G]	9.6x	13.2x
GCR Implied Equity / Adj. EBITDA LTM multiple [J = D-I]	5.7x	2.1x

We believe that once the market digests that Grifols' leverage is higher than reported, it will have to downwardly adjust the value it attributes to Grifols equity, assuming it keeps Grifols EV at 15.3x EBITDA. Our calculation shows that GRF equity would decline by 34% to 75% to adjust for this.[3]

EUR mln	Low end	High end
Grifols Implied Equity / Adj. EBITDA LTM multiple [F]	8.6x	8.6x
GCR Implied Equity / Adj. EBITDA LTM multiple [J]	5.7x	2.1x
Equity downside [K = (J/F) - 1]	**-34%**	**-75%**

Impact of cost of debt rising:

We have observed that the cost of debt for companies levered more than 10x tends to be significantly higher than Grifols' current cost of debt. As we can see in the below scatter plot, companies with leverage greater than 10x have spreads that are c.800bp, implying a cost of debt greater than 10%.[4]



At a 10% cost of debt, GRF cash flow would have to cover 1bn Euros in annual interest, given its net debt position of ~10bn Euros. We believe that this increase in the cost of debt of Grifols is likely, given markets will need to reassess Grifols creditworthiness, similar to how markets reassessed the credit worthiness of the Casino complex after similar issues were pointed out. Unfortunately for Grifols, it has since 2014 been unable to generate 1bn Euros in cash flow in any given year and has averaged c.500mn Euros of cash flow. This clearly indicates that Grifols debt is unsustainable and shares are either worthless or will face significant dilution in order to rightsize the debt burden to more sustainable levels via capital raising.

Appendix

Many different definitions of EBITDA: is the purpose to obfuscate?

All the most recent definitions of EBITDA from the Q3 23 presentation are summarized in the table below. We find them all materially misleading as they recognize income they don't own:

EBITDA Measure	Definition provided by Grifols
Reported EBITDA (Excl Biotest)	Defined as operating result (EBIT), excluding depreciation of property, plant and equipment, depreciation of right of use ass ets, amortization of intangible assets, and impairments of property, plant and equipment, right of use assets and of intangible assets. use assets and of intangible assets. It is used to evaluate the company's results over time, allowing it to be compared with other companies in the sector. Exlcuding impact of Biotest acquisition.
Reported EBITDA (Incl Biotest)	Defined as operating result (EBIT), excluding depreciation of property, plant and equipment, depreciation of right of use ass ets, amortization of intangible assets, and impairments of property, plant and equipment, right of use assets and of intangible assets. use assets and of intangible assets. It is used to evaluate the company's results over time, allowing it to be compared with other companies in the sector. Including impact of Biotest acquisition, which have been consolidating since May '22.
Reported EBITDA LTM	Defined as EBITDA related to the last 12 months.
Adjusted EBITDA (Excl Biotest)	Defined as EBITDA, excluding one offs and items related to unique events and are not expected to be repeated periodically and not, including restructuring and transaction costs. It provides a useful measure for period to period comparisons of the business, as it is not indicative of Grifols' ongoing operating performance. Exlcuding impact of Biotest acquisition.
Adjusted EBITDA (Incl Biotest)	Defined as EBITDA, excluding one offs and items related to unique events and are not expected to be repeated periodically and not, including restructuring and transaction costs. It provides a useful measure for period to period comparisons of the business, as it is not indicative of Grifols' ongoing operating performance. Including impact of Biotest acquisition, which have been consolidating since May '22.
Adjusted EBITDA LTM	Defined as Adjusted EBITDA related to the last 12 months.
Adjusted EBITDA LTM as per Credit Agreement	Defined as net income on a consolidated basis for the Group, plus (i) all financial results, (ii) any losses on ordinary course hedging obligations, (iii) any foreign currency translation, transaction or exchange losses, (iv) any loss of any equity accounted investee, (v) tax expense, (vi) depreciation, (vii) amortization, write offs, write downs, and other non cash charges, losses and expenses, (viii) impairment of intangibles, (ix) non recurring losses, (x) transactions costs, (xi) extraordinary, unusual, or non recurring char ges and expenses including transition, restructuring and "carveout" expenses, (xii) any costs and expenses relating to the Issuer's potential or actual iss uance of Equity Interests and (xiii) the amount of cost savings, adjustments, operating expense reductions, operating improvements and synergies, in each case on a "run rate" basis and in connection with acquisitions, investments, restructurings, business optimization projects and other operational change s a nd initiatives; less (i) interest income, (ii) non recurring gains, (iii) any income or gains on ordinary course hedging obligations (iv) foreign currenc y translation, transaction or exchange gains and (v) any income of any equity accounted investee, in each case, for the last 12 months.

- **Adjusted EBITDA** is defined as EBITDA, excluding one-offs and items related to unique events and are not expected to be repeated periodically and not, including restructuring and transaction costs. It provides a useful measure for period-to-period comparisons of the business, as it is not indicative of Grifols' ongoing operating performance.
- **Adjusted EBITDA LTM as per Credit Agreement** is defined as net income on a consolidated basis for the Group, plus (i) all financial results, (ii) any losses on ordinary course hedging obligations, (iii) any foreign currency translation, transaction or exchange losses, (iv) any loss of any equity-accounted investee, (v) tax expense, (vi) depreciation, (vii) amortization, write-offs, write-downs, and other non-cash charges, losses and expenses, (viii) impairment of intangibles, (ix) non-recurring losses, (x) transactions costs, (xi) extraordinary, unusual, or non-recurring charges and expenses including transition, restructuring and "carveout" expenses, (xii) any costs and expenses relating to the Issuer's potential or actual issuance of Equity Interests and (xiii) the amount of cost savings, adjustments, operating expense reductions, operating improvements and synergies, in each case on a "run rate" basis and in connection with acquisitions, investments, restructurings, business optimization projects and other operational changes and initiatives; less (i) interest income, (ii) non-recurring gains, (iii) any income or gains on ordinary course hedging obligations (iv) foreign currency translation, transaction or exchange gains and (v) any income of any equity-accounted investee, in each case, for the last 12 months.
- **Adjusted EBITDA LTM** is defined as Adjusted EBITDA related to the last 12 months.
- **EBITDA** is defined as operating result (EBIT), excluding depreciation of property, plant and equipment, depreciation of right-of-use assets, amortization of intangible assets, and impairments of property, plant and equipment, right-of-use assets and of intangible assets. It is used to evaluate the company's results over time, allowing it to be compared with other companies in the sector.
- **EBITDA LTM** is defined as EBITDA related to the last 12 months.

BPC Plasma and Haema consolidation explanation undisclosed in the 2021 and 2022 Grifols Annual reports, call option details are inconsistent between the 2018-2020 Annual Reports

Despite how aggressively GRF consolidates two entities they don't own via this call option justification, they don't even disclose this detail in the most recent years' annual reports (2021 and 2022).

2021:

On 28 December 2018, the Group sold Biotest and Haema to Scranton Enterprises B.V (shareholder of Grifols) for US Dollars 538,014 thousand (see note 3). For the payment of the mentioned amount of the sale, Scranton signed a loan contract dated 28 December 2018 for an amount of US Dollars 95,000 thousand (Euros 82,969 thousand) with Grifols Worldwide Operations Limited. The compensation is 2%+EURIBOR and due on 28 December 2025.

2022:

On 28 December 2018, the Group sold BPC Plasma, Inc and Haema, AG to Scranton Enterprises B.V (shareholder of Grifols) for US Dollars 538,014 thousand (see note 3). For the payment of the mentioned amount of the sale, Scranton signed a loan contract dated 28 December 2018 for an amount of US Dollars 95,000 thousand (Euros 82,969 thousand) with Grifols Worldwide Operations Limited. The compensation is 2%+EURIBOR and due on 28 December 2025.

The Spanish AR21 contains shortened disclosure on Haema and Biotest (like the English AR21):

El 28 de diciembre de 2018 el Grupo vendió las sociedades Biotest y Haema a Scranton Enterprises B.V (accionista de Grifols) por 538.014 miles de dólares americanos (ver nota 3). Para el pago del mencionado importe de la venta, Scranton suscribió un contrato de préstamo con fecha 28 de diciembre de 2018 por importe de 95.000 miles de dólares americanos (82.969 miles de euros) con Grifols Worldwide Operations Limited. La retribución es del 2%+EURIBOR y con vencimiento el 28 de diciembre de 2025.

The Spanish AR22 contains shortened disclosure on Haema and Biotest (like the English AR22):

El 28 de diciembre de 2018 el Grupo vendió las sociedades BPC Plasma, Inc. y Haema, AG a Scranton Enterprises B.V (accionista de Grifols) por 538.014 miles de dólares americanos (ver nota 3). Para el pago del mencionado importe de la venta, Scranton suscribió un contrato de préstamo con fecha 28 de diciembre de 2018 por importe de 95.000 miles de dólares americanos (82.969 miles de euros) con Grifols Worldwide Operations Limited. La retribución es del 2%+EURIBOR y con vencimiento el 28 de diciembre de 2025.

We find this highly suspect, given that within the fiscal year of the transactions, GRF AR 2018 provides disclosure. Same as with 2019 AR and 2020 AR. From the 2018 AR (Spanish):

El 28 de diciembre de 2018, Grifols ha vendido Biotest US Corporation y Haema AG a Scranton Enterprises B.V por un importe total de 538.014 miles de dólares (ver nota 1). Scranton es accionista de Grifols (ver nota 31). La venta de Biotest y Haema a Scranton se ha realizado por el mismo importe, aplicando el tipo de cambio dólares/euros actual, y en los mismos términos y condiciones en que Grifols adquirió ambas empresas.
La venta de Biotest y Haema no ha dado lugar a una pérdida de control para el Grupo. Al evaluar la existencia de control, Grifols ha considerado los derechos de voto potenciales para determinar si tiene poder y, por tanto, control. El Grupo posee derechos de voto potenciales que surgen por las opciones de recompra de las participaciones y los mismos son sustantivos, en base a:

- El contrato de venta incluye una opción de compra para Grifols que le otorga el derecho (no una obligación) irrevocable y exclusivo de poder adquirir las participaciones vendidas a Scranton (ambas a la vez) en cualquier momento a partir de la fecha efectiva de venta.

- La opción de compra ha sido negociada conjuntamente en el mismo acuerdo de venta de las entidades.

- El precio de ejercitar la opción de compra será igual al mayor entre: a) el precio al que Grifols las ha vendido más costes incurridos en la transacción y más el incremento del capital circulante y (b) el importe de la deuda que tenga Scranton a la fecha en que Grifols ejerza la opción (capital más intereses más cualquier otro coste para poder cancelar dicho préstamo). Considerando que las proyecciones para las entidades son de crecimiento y se espera una mejora de sus resultados, se concluye que dicha opción es "in the money" ya que el precio de mercado de las mismas se estima superior al pactado en la opción.

- Aun cuando se incluye una cláusula de nulidad de la opción en el caso de default por parte del comprador (cláusula estándar que se incluye en acuerdos de financiación), la misma se ha considerado remota dado que Grifols tendrá la capacidad de ejercitar dicha opción de compra en el período de remediación de 90 días.

- No existen acuerdos entre accionistas que establezcan que las decisiones relevantes se aprueben de una manera diferente a por mayoría de votos.

- Existe un compromiso de Grifols para prestar servicios de apoyo en el negocio de recolección de plasma de los centros de donación para su posterior venta y así asegurar que dichas sociedades seguirán operando efectivamente, además de asegurar la continuidad y crecimiento de dichas entidades. Asimismo, existe un acuerdo de "Plasma Supply Agreement" donde el plasma que producirán dichas entidades será en su práctica totalidad para cubrir las necesidades de Grifols. No hay exclusividad de venta.

Lo anteriormente mencionado constituye los indicadores del poder que mantiene Grifols sobre dichas entidades, aún después de su venta, considerando que las opciones de recompra son susceptibles a ser ejercitadas y Grifols tendría la capacidad financiera para llevarlas a cabo.

Consecuentemente, la venta de las entidades no da lugar a una pérdida de control, motivo por el cual las entidades se continúan consolidando, registrándose la venta como una transacción en patrimonio sin impacto alguno en la cuenta de pérdidas y ganancias consolidada.

Same as the English AR19, the new text in 2019 AR (Spanish) is in bold in the following sentence: Grifols adds "el importe de la deuda que tenga Scranton **relacionada con esta adquisición** a la fecha en que Grifols ejerza la opción …"

El 28 de diciembre de 2018, Grifols vendió Biotest US Corporation y Haema AG a Scranton Enterprises B.V por un importe total de 538.014 miles de dólares (ver nota 1). Scranton es accionista de Grifols (ver nota 31). La venta de Biotest y Haema a Scranton se realizó por el mismo importe, aplicando el tipo de cambio dólares/euros de diciembre 2018, y en los mismos términos y condiciones en que Grifols adquirió ambas empresas .

La venta de Biotest y Haema no dio lugar a una pérdida de control para el Grupo. Al evaluar la existencia de control, Grifols consideró los derechos de voto potenciales para determinar si tenía poder y, por tanto, control. El Grupo posee derechos de voto potenciales que surgen por las opciones de recompra de las participaciones y los mismos son sustantivos, en base a:

- El contrato de venta incluye una opción de compra para Grifols que le otorga el derecho (no una obligación) irrevocable y exclusivo de poder adquirir las participaciones vendidas a Scranton (ambas a la vez) en cualquier momento a partir de la fecha efectiva de venta.

- La opción de compra ha sido negociada conjuntamente en el mismo acuerdo de venta de las entidades.

- El precio de ejercitar la opción de compra será igual al mayor entre: a) el precio al que Grifols ha vendido más costes incurridos en la transacción y más el incremento del capital circulante y (b) el importe de la deuda que tenga Scranton relacionada con esta adquisición a la fecha en que Grifols ejerza la opción (capital más intereses más cualquier otro coste para poder cancelar dicho préstamo). Considerando que las proyecciones para las entidades son de crecimiento y se espera una mejora de sus resultados, se concluye que dicha opción es "in the money" ya que el precio de mercado de las mismas se estima superior al pactado en la opción.

- Aun cuando se incluye una cláusula de nulidad de la opción en el caso de default por parte del comprador (cláusula estándar que se incluye en acuerdos de financiación), la misma se ha considerado remota dado que Grifols tendrá la capacidad de ejercitar dicha opción de compra en el período de remediación de 90 días.

- No existen acuerdos entre accionistas que establezcan que las decisiones relevantes se aprueben de una manera diferente a por mayoría de votos.

- Existe un compromiso de Grifols para prestar servicios de apoyo en el negocio de recolección de plasma de los centros de donación para su posterior venta y así asegurar que dichas sociedades seguirán operando efectivamente, además de asegurar la continuidad y crecimiento de dichas entidades. Asimismo, existe un acuerdo de "Plasma Supply Agreement" donde el plasma que producirán dichas entidades será en su práctica totalidad para cubrir las necesidades de Grifols. No hay exclusividad de venta.

Lo anteriormente mencionado constituye los indicadores del poder que mantiene Grifols sobre dichas entidades, aún después de su venta, considerando que las opciones de recompra son susceptibles a ser ejercitadas y Grifols tendría la capacidad financiera para llevarlas a cabo.

Consecuentemente, la venta de las entidades no dio lugar a una pérdida de control, motivo por el cual las entidades se continúan consolidando, registrándose la venta como una transacción en patrimonio sin impacto alguno en la cuenta de pérdidas y ganancias consolidada.

Same as the English AR20, the new text in 2020 AR (Spanish) is in bold in the following sentence: Grifols adds “el importe de la deuda que tenga Scranton **relacionada con esta adquisición** a la fecha en que Grifols ejerza la opción …”

El 28 de diciembre de 2018, Grifols vendió Biotest US Corporation y Haema AG a Scranton Enterprises B.V por un importe total de 538.014 miles de dólares (ver nota 1). Scranton es accionista de Grifols (ver nota 31). La venta de Biotest y Haema a Scranton se realizó por el mismo importe, aplicando el tipo de cambio dólares/euros de diciembre 2018, y en los mismos términos y condiciones en que Grifols adquirió ambas empresas.

La venta de Biotest y Haema no dio lugar a una pérdida de control para el Grupo. Al evaluar la existencia de control, Grifols consideró los derechos de voto potenciales para determinar si tenía poder y, por tanto, control. El Grupo posee derechos de voto potenciales que surgen por las opciones de recompra de las participaciones y los mismos son sustantivos, en base a:

- El contrato de venta incluye una opción de compra para Grifols que le otorga el derecho (no una obligación) irrevocable y exclusivo de poder adquirir las participaciones vendidas a Scranton (ambas a la vez) en cualquier momento a partir de la fecha efectiva de venta.

- La opción de compra ha sido negociada conjuntamente en el mismo acuerdo de venta de las entidades.

- El precio de ejercitar la opción de compra será igual al mayor entre: a) el precio al que Grifols ha vendido más costes incurridos en la transacción y más el incremento del capital circulante y (b) el importe de la deuda que tenga Scranton relacionada con esta adquisición a la fecha en que Grifols ejerza la opción (capital más intereses más cualquier otro coste para poder cancelar dicho préstamo). Considerando que las proyecciones para las entidades son de crecimiento y se espera una mejora de sus resultados, se concluye que dicha opción es “in the money” ya que el precio de mercado de las mismas se estima superior al pactado en la opción.

- Aun cuando se incluye una cláusula de nulidad de la opción en el caso de default por parte del comprador (cláusula estándar que se incluye en acuerdos de financiación), la misma se ha considerado remota dado que Grifols tendrá la capacidad de ejercitar dicha opción de compra en el periodo de remediación de 90 días.

- No existen acuerdos entre accionistas que establezcan que las decisiones relevantes se aprueben de una manera diferente a por mayoría de votos.

- Existe un compromiso de Grifols para prestar servicios de apoyo en el negocio de recolección de plasma de los centros de donación para su posterior venta y así asegurar que dichas sociedades seguirán operando efectivamente, además de asegurar la continuidad y crecimiento de dichas entidades. Asimismo, existe un acuerdo de “Plasma Supply Agreement” donde el plasma que producirán dichas entidades será en su práctica totalidad para cubrir las necesidades de Grifols. No hay exclusividad de venta.

Lo anteriormente mencionado constituye los indicadores del poder que mantiene Grifols sobre dichas entidades, aún después de su venta, considerando que las opciones de recompra son susceptibles a ser ejercitadas y Grifols tendría la capacidad financiera para llevarlas a cabo.

Consecuentemente, la venta de las entidades no dio lugar a una pérdida de control, motivo por el cual las entidades se continúan consolidando, registrándose la venta como una transacción en patrimonio sin impacto alguno en la cuenta de pérdidas y ganancias consolidada.

2018 AR (English):

On 28 December 2018, Grifols sold Biotest US Corporation and Haema AG to Scranton Enterprises B.V. for the global amount of US Dollars 538,014 thousand (see note 1), Scranton is an existing shareholder of Grifols (see note 31). The current sale of Biotest and Haema to Scranton took place for the same price, at the current US Dollar/Euro exchange rate, and under the same terms and conditions existing when Grifols acquired both companies.

The sale of Biotest and Haema has not resulted in a loss of control for the Group. In assessing the existence of control, Grifols has considered the potential voting rights to determine whether it has power and therefore control. The Group holds potential voting rights arising from the repurchase options of the shares and they are substantive, based on the following:

- The sale contract includes a call option for Grifols which grants the irrevocable and exclusive right (not an obligation) to be able to acquire the shares sold to Scranton (both at the same time) at any time from the effective date of sale.
- The purchase option has been negotiated jointly in the same sale agreement of the entities.
- The price of exercising the call option will be equal to the higher of: a) the price at which Grifols sold them plus costs incurred in the transaction and plus the increase in working capital and (b) the amount of the debt that Scranton owns the date on which Grifols exercises the option (principal plus interest plus any other cost to be able to cancel said loan). Considering that the projections for the entities are for growth and an improvement in their results is expected, it is concluded that said call option is "in the money" since their market price is estimated to be higher than that agreed in the call option.
- Even if a nullity clause on the call option is included in the case of default by the buyer (standard clause included in financing agreements), it has been considered remote since Grifols will have the capacity to exercise said call option in the remediation period of 90 days.
- There are no agreements between shareholders that establish that the relevant decisions are approved in a different manner than by majority vote.
- There is a commitment from Grifols to provide support services in the plasma collection business of the donation centers for their subsequent sale and thus ensure that these companies will continue to operate effectively, as well as ensuring the continuity and growth of said entities. Likewise, there is a "Plasma Supply Agreement" agreement whereby the plasma to be produced by these entities will be almost entirely to meet the needs of Grifols. There is no exclusivity of sale.

The aforementioned are indicators of Grifols' power over these entities, even after their sale, considering that the repurchase options are susceptible to being exercised and Grifols would have the financial capacity to carry them out.

Consequently, the sale of the entities does not result in a loss of control, which is why the entities continue to consolidate, recording the sale as a transaction in equity without any impact on the consolidated statements of profit and loss.

2019 AR (English): “Scranton owns **related to this transaction** at the date on which Grifols exercises…”

On 28 December 2018, Grifols sold Biotest US Corporation and Haema AG to Scranton Enterprises B.V. for a total of US Dollars 538,014 thousand (see note 1). Scranton is an existing shareholder of Grifols (see note 31). The sale of Biotest and Haema to Scranton took place for the same price, at the December 2018 US Dollar/Euro exchange rate, and under the same terms and conditions existing when Grifols acquired both companies.

The sale of Biotest and Haema did not result in a loss of control for the Group. In assessing the existence of control, Grifols considered the potential voting rights to determine whether it had power and therefore control. The Group holds potential voting rights arising from the repurchase options of the shares and they are substantive, based on the following:

- The sale contract includes a call option for Grifols which grants the irrevocable and exclusive right (not an obligation) to be able to acquire the shares sold to Scranton (both at the same time) at any time from the effective date of sale.

- The purchase option has been negotiated jointly in the same sale agreement of the entities.

- The price of exercising the call option will be equal to the higher of: a) the price at which Grifols sold them plus costs incurred in the transaction and plus the increase in working capital and (b) the amount of debt that Scranton owns related to this transaction at the date on which Grifols exercises the option (principal plus interest plus any other cost to be able to cancel said loan). Considering that the projections for the entities are for growth and an improvement in their results is expected, it is concluded that said call option is "in the money" since their market price is estimated to be higher than that agreed in the call option.

- Even if a nullity clause on the call option is included in the case of default by the buyer (standard clause included in financing agreements), it has been considered remote since Grifols will have the capacity to exercise said call option in the remediation period of 90 days.

- There are no agreements between shareholders that establish that the relevant decisions are approved in a different manner than by majority vote.

- There is a commitment from Grifols to provide support services in the plasma collection business of the donation centers for their subsequent sale and thus ensure that these companies will continue to operate effectively, as well as ensuring the continuity and growth of said entities. Likewise, there is a "Plasma Supply Agreement" agreement whereby the plasma to be produced by these entities will be almost entirely to meet the needs of Grifols. There is no exclusivity of sale.

The aforementioned are indicators of Grifols' power over these entities, even after their sale, considering that the repurchase options are susceptible to being exercised and Grifols would have the financial capacity to carry them out.

Consequently, the sale of the entities did not result in a loss of control, which is why the entities continue to consolidate, recording the sale as a transaction in equity without any impact on the consolidated statements of profit and loss.

The new text in 2020 AR (English) is in bold in the following sentence: "the amount of debt that Scranton owns **related to this acquisition** at the date on which Grifols exercises the option…"

On 28 December 2018, Grifols sold Biotest US Corporation and Haema AG to Scranton Enterprises B.V. for a total of US Dollars 538,014 thousand (see note 1). Scranton is an existing shareholder of Grifols (see note 31). The sale of Biotest and Haema to Scranton took place for the same price, at the December 2018 US Dollar/Euro exchange rate, and under the same terms and conditions existing when Grifols acquired both companies.

The sale of Biotest and Haema did not result in a loss of control for the Group. In assessing the existence of control, Grifols considered the potential voting rights to determine whether it had power and therefore control. The Group holds potential voting rights arising from the repurchase options of the shares and they are substantive, based on the following:

- The sale contract includes a call option for Grifols which grants the irrevocable and exclusive right (not an obligation) to be able to acquire the shares sold to Scranton (both at the same time) at any time from the effective date of sale.
- The purchase option has been negotiated jointly in the same sale agreement of the entities.
- The price of exercising the call option will be equal to the higher of: a) the price at which Grifols sold them plus costs incurred in the transaction and plus the increase in working capital and (b) the amount of debt that Scranton owns related to this acquisition at the date on which Grifols exercises the option (principal plus interest plus any other cost to be able to cancel said loan). Considering that the projections for the entities are for growth and an improvement in their results is expected, it is concluded that said call option is "in the money" since their market price is estimated to be higher than that agreed in the call option.
- Even if a nullity clause on the call option is included in the case of default by the buyer (standard clause included in financing agreements), it has been considered remote since Grifols will have the capacity to exercise said call option in the remediation period of 90 days.
- There are no agreements between shareholders that establish that the relevant decisions are approved in a different manner than by majority vote.
- There is a commitment from Grifols to provide support services in the plasma collection business of the donation centers for their subsequent sale and thus ensure that these companies will continue to operate effectively, as well as ensuring the continuity and growth of said entities. Likewise, there is a "Plasma Supply Agreement" agreement whereby the plasma to be produced by these entities will be almost entirely to meet the needs of Grifols. There is no exclusivity of sale.

The aforementioned are indicators of Grifols' power over these entities, even after their sale, considering that the repurchase options are susceptible to being exercised and Grifols would have the financial capacity to carry them out.

Consequently, the sale of the entities did not result in a loss of control, which is why the entities continue to consolidate, recording the sale as a transaction in equity without any impact on the consolidated statements of profit and loss.

20 analysts have a buy rating on GRF shares

Brokers with a "Buy" rating on GRF
1 Alantra
2 Alphavalue
3 Banco Sabadell
4 Bank of America
5 Barclays
6 Berenberg
7 Bestinver Securities
8 BNP Paribas Exane
9 CaixaBank
10 Citigroup
11 Invest Securities
12 JB Capital
13 Jefferies
14 Kepler Chevreux
15 Mirabaud
16 Morningstar
17 Oddo BHF
18 Renta 4
19 Santander
20 Societe Generale

Grifols refers to Scranton Enterprises as a related party

Grifols refers to Scranton as a related party in its corporate governance filings. From its 2022:

D. RELATED-PARTY TRANSACTIONS AND INTRA-GROUP TRANSACTIONS

D.1 EXPLAIN, WHERE APPLICABLE, THE PROCEDURE FOR THE APPROVAL OF TRANSACTIONS WITH RELATED PARTIES AND INTRA-GROUP TRANSACTIONS.

Pursuant to article 5 of the Regulations of the Board of Directors, the Board in full shall reserve the competence to approve, among others, those transactions which the Company may carry out with directors, significant shareholders or those represented on the Board of Directors or with persons related to these.

This authorization of the Board shall not, however, be understood as necessary in those related-party transactions which may simultaneously fulfil the three following conditions:

1) the ones carried out pursuant to contracts with standard conditions and applied on a large scale to a large number of clients;

2) performed at prices or rates established on general terms by those supplying the goods or services in question; and

3) that their amount does not exceed 1% of the Company's annual income.

The Board of Directors will approve related-party transactions only after the Audit Committee issues a favourable report. The directors which are affected by said related-party transactions, in addition to not exercising or delegating their voting right, are to leave the meeting room while the Board discusses and votes on these matters.

D.2. GIVE DETAILS OF SIGNIFICANT TRANSACTIONS DUE TO THEIR AMOUNTS OR WHICH MAY BE RELEVANT DUE TO THEIR SUBJECT AREAS WHICH HAVE BEEN CARRIED OUT BETWEEN THE COMPANY OR ENTITIES OF ITS GROUP, AND SIGNIFICANT SHAREHOLDERS OF THE COMPANY:

Personal or corporate name of the significant shareholder	Personal or corporate name of the company or entity of its group	Nature of the relationship	Type of transaction	Amount (thousands of euro)
SCRANTON ENTREPRISES B.V.	Grifols, S.A.	Contractual	Sale of financial assets	469,881
SCRANTON ENTERPRISES B.V.	Grifols, S.A.	Contractual	Operating leases	5,469

End Notes

Introduction

1. Bloomberg and Grifols website: https://www.grifols.com/en/analyst-coverage
2. Grifols consolidated annual reports. The Q3 2023 column is from Grifols Q3 2023 presentation
3. Grifols consolidated annual reports and CSL's annual reports. GRF's 2023 column figure is from the company's Q3 2023 presentation
4. https://www.grifols.com/en/view-news/-/news/grifols-reaches-strategic-alliance-with-haier-group-and-raises-approximately-usd-1-8-billion
5. https://www.ft.com/content/dd71ea1c-92a7-4f88-81f4-c3602c0c65dd

We estimate Grifols' leverage is closer to 10x-13x not 6x

1. Grifols Q3 2023 presentation
2. Moody's report dated 17th March 2023
3. Grifols Q3 2023 presentation
4. Moody's report dated 4th January 2024
5. GCR calculations explained in sections below

Tunneling transactions: why we believe EBITDA overstated

1. Grifols Q3 2023 presentation
2. Broker reports
3. Grifols H1 2023 interim report. The "estimated EBITDA attributable to NCIs" is our estimate that is derived from the net income attributable to NCIs (LTM as at H1 2023)
4. Grifols consolidated annual reports
5. Grifols consolidated annual reports. The 2023 YTD figure is derived from Grifols H1 2023 interim report and Q3 2023 presentation
6. Muddy Waters report dated 16th December 2015
7. Grifols 2022 consolidated annual report
8. Grifols 2022 consolidated annual report
9. Grifols 2018 consolidated annual report
10. Grifols 2018 consolidated annual report
11. Grifols 2018 consolidated annual report
12. Grifols 2018 consolidated annual report
13. TUNNELLING By Simon Johnson, Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer January 2000 Harvard University
14. "", The Law and Economics of self-dealing by Djankov, S.; La Porta, R.; Lopez-De-Silanes, F.; Shleifer, A. (2008), https://web.archive.org/web/20070312191341/http://www.praguepost.com/P03/2003/Art/0424/busi2.php

15. Grifols 2022 consolidated annual report
16. 2019 Grifols Investor and Analyst meeting presentation
17. Grifols 2022 consolidated annual report
18. Grifols H1 2023 interim report
19. Grifols H1 2023 interim report. The “estimated EBITDA attributable to NCIs” is our estimate that is derived from the net income attributable to NCIs (LTM as at H1 2023). The “YoY change in other financial assets to related parties and loans to related parties” is derived from Grifols consolidated annual reports from 2019 to 2022.
20. https://www.ft.com/content/38bf866b-380b-4917-98f4-ce32a1b8c4fb

Hidden Debts: Factoring and related party shenanigans

1. Grifols Q3 2023 presentation
2. Moody’s report dated 17th March 2023
3. From Grifols H1 2023 interim report except for: (i) “Haema and BPC transaction values parked at Scranton” value is from Grifols 2018 consolidated annual report, and (ii) “Cash from SRAAS divestiture” figure is based on Grifols’ 29th December 2023 press release
4. Grifols H1 2023 interim report
5. From Grifols H1 2023 interim report except for: (i) “Haema and BPC related liability” value is from Scranton Enterprises 2021 financial accounts, and (ii) “Cash from SRAAS divestiture” figure is based on Grifols’ 29th December 2023 press release
6. Muddy Waters report on 17th December 2019
7. Grifols SA parent 2022 annual report
8. SRAAS H1 2021 interim report (translated to English using Google translate)
9. Grifols 2021 consolidated annual report
10. Grifols 2021 consolidated annual report
11. Grifols 2021 consolidated annual report
12. Grifols 2021 consolidated annual report
13. Grifols 2021 consolidated annual report
14. Grifols 2021 consolidated annual report
15. Grifols 2022 consolidated annual report
16. Grifols press release dated 28th April 2022
17. Grifols 2022 consolidated annual report (Spanish)
18. Both screenshots are from Grifols 2021 consolidated annual report
19. The numbers in our exhibit, as well as the screenshots below, are all from Grifols 2021 consolidated annual report.

Grifols Undisclosed loans to Scranton Enterprises

1. Scranton Enterprises 2018 financial accounts
2. Scranton Enterprises 2018 financial accounts
3. Grifols 2018 consolidated annual report
4. Grifols 2018 consolidated annual report
5. Scranton Enterprises 2021 financial accounts
6. Scranton Enterprises 2021 financial accounts
7. Grifols 2022 consolidated annual report
8. Grifols 2022 Corporate Governance report

Grifols & Scranton consolidate BPC+Haema: do creditors know?

1. The left-hand sided screenshot is from Scranton Enterprises 2020 financial accounts. The right-hand sided screenshot is from Scranton Enterprises 2021 financial accounts.
2. Scranton Enterprises 2019 financial accounts
3. Scranton Enterprises 2019 financial accounts
4. Grifols 2022 consolidated annual report
5. Scranton Enterprises 2021 financial accounts
6. Scranton Enterprises 2021 financial accounts

Scranton is levered 27x, with undisclosed share pledges

1. Scranton Enterprises 2021 financial accounts
2. Scranton Enterprises 2021 financial accounts
3. Scranton Enterprises 2021 financial accounts
4. Scranton Enterprises 2021 financial accounts
5. Quadriga Real Estate SL 2021 financial accounts
6. Quadriga Real Estate SL 2021 financial accounts
7. Quadriga Real Estate SL 2021 financial accounts
8. Scranton Enterprises 2021 financial accounts
9. Scranton Enterprises 2021 financial accounts
10. Scranton Enterprises 2021 financial accounts
11. Scranton Enterprises 2021 financial accounts
12. Grifols 2011 consolidated annual report
13. Grifols Corporate Governance reports

BioProducts and KedPlasma Kft: Did Grifols bail out Scranton?

1. https://www.bnnbloomberg.ca/creat-said-to-near-sale-of-blood-plasma-firm-biotest-to-grifols-1.1653411
2. Scranton Enterprises 2019 financial accounts
3. Scranton Enterprises 2020 financial accounts
4. Scranton Enterprises 2020 financial accounts
5. Bio Products Laboratory Limited 2021 financial accounts
6. Scranton Enterprises 2021 financial accounts
7. Gotham City Research investigation
8. Grifols 2021 consolidated annual report
9. Grifols 2021 consolidated annual report
10. Bio Products Laboratory Holdings 2021 financial accounts
11. Bio Products Laboratory Limited 2020 financial accounts
12. Grifols 2021 consolidated annual report
13. The first screenshot is from Bio Products Laboratory Limited 2019 financial accounts. The second screenshot is from Bio Products Laboratory Holdings 2019 financial accounts
14. Scranton Enterprises 2019 financial accounts
15. Scranton Enterprises 2020 financial accounts
16. Scranton Enterprises 2020 financial accounts
17. Scranton Enterprises 2021 financial accounts
18. Grifols 2022 consolidated annual report
19. Grifols 2022 consolidated annual report
20. Grifols 2022 consolidated annual report

Immunotek: we find Grifols' EUR 124.1m payment suspect

1. Grifols press release dated 30th July 2021
2. Facebook post on their page: https://www.facebook.com/ImmunoTekBioCenters/
3. https://www.immunotek.com/immunotek-bio-centers-opens-60th-donation-center/
4. Wayback Machine: https://web.archive.org/web/20220808122807/https://freedomplasma.com/locations/
5. Grifols 2022 consolidated annual report
6. Grifols 2021 consolidated annual report
7. Wayback Machine: https://web.archive.org/web/20220808122807/https://freedomplasma.com/locations/
8. Based on our review of the Freedom Plasma website on 15th December 2023: https://freedomplasma.com/locations/
9. Grifols earnings call dated 28th February 2023
10. Gotham City Research Investigation
11. Freedom Plasma website: https://freedomplasma.com/locations/

12. Google Maps screenshot
13. Google Maps screenshot
14. Google Maps screenshot
15. Wayback Machine: https://web.archive.org/web/20210617195011/https://www.immunotek.com/locations/ and https://web.archive.org/web/20220808122807/https://freedomplasma.com/locations/
16. https://www.glassdoor.co.uk/Reviews/ImmunoTek-BioCenters-Reviews-E1302900_P2.htm?sort.sortType=OR&sort.ascending=true&filter.iso3Language=eng
17. https://www.indeed.com/cmp/Immunotek-Bio-Centers,-LLC-1/reviews?sort=rating_asc

The CEO: with Grifols since 2006 and strong ties with Scranton

1. Bloomberg article dated 17th May 2023
2. Grifols 2016 20-F filing
3. Grifols 2017 20-F filing
4. Grifols 2017 20-F filing
5. Scranton Enterprises 2017 financial accounts
6. Screenshot on the left: https://www.medtechvp.com/team-advisors and screenshot on the right: https://www.medtechvp.com/thomas
7. https://www.medtechvp.com/luca-tassan
8. Grifols SA parent 2011 and 2012 annual report

Valuation: uninvestable, likely worthless

1. Grifols Enterprise value is from Bloomberg as at 08/01/2024. The Net debt and Adjusted EBITDA LTM figures are from Grifols Q3 2023 presentation.
2. GCR Grifols Adjusted EBITDA and Net Debt figures are derived from prior sections in this report
3. Figures in this exhibit obtained from prior exhibits in the same section to calculate the equity downside
4. Gotham City Research analysis