WHITE FALCON

CAPITAL MANAGEMENT LTD.

April 21, 2025

RE: Q1 2025 Partner update letter

Dear Partners,

While individual client returns may differ based on their inception dates, consolidated performance of all accounts for the period ending March 31, 2025 is as follows:

	Q1 2025	2024	2023	2022	2021*
White Falcon (net of fees)	**-6.7%**	**14.4%**	**36.0%**	**-9.3%**	**-1.5%**
S&P 500 TR (CAD)	-4.4%	35.2%	23.2%	-12.6%	3.3%
MSCI All Country TR (CAD)	-1.2%	26.3%	18.5%	-11.9%	1.5%
S&P TSX TR	1.5%	21.7%	11.8%	-5.8%	-0.6%

*Performance is from Nov 8 - Dec 31, 2021

Our recent quarter's performance was below expectations, as gains from our gold and silver royalty holdings were insufficient to compensate for losses in some of our larger positions. Positively, during the quarter, our portfolio company Converge Technologies (CTS) was acquired at a significant premium. This marks the fourth acquisition of a White Falcon portfolio company in the past three years. Subsequent to the quarter end, market volatility increased due to President Trump's tariff announcements. We believe the portfolio is well positioned and will discuss current positioning and our perspective on the tariff situation later in this letter.

The White Falcon portfolio's construction diverges significantly from popular market indexes. Our primary benchmark for success is generating positive absolute returns adjusted for risk over a complete market cycle, rather than simply mirroring or outperforming a specific index. Notably, over the past 12 to 18 months, we have strategically increased our allocation to smaller capitalization businesses which form a very small part of the indices mentioned above. We have also allocated incremental capital to international equities. We believe that these areas of the market currently present some of the most compelling value opportunities.

We must underscore the inherent difficulty of investing in today's environment, where market sentiment can be dramatically swayed by a single tweet! A single negative tweet can trigger significant market sell-offs, while a positive one can fuel substantial rallies, often with little regard for underlying fundamentals. In such a volatile and news-driven landscape, our core strategy remains focused on identifying and investing in high-quality businesses that possess intrinsic value and offer a margin of safety.

However, in light of the notable shifts of the last few weeks, a more in-depth discussion than our usual briefs on macro is warranted. President Trump's announcement of tariffs was both unexpected and difficult to rationalize. Admittedly, your portfolio manager did not foresee the magnitude of the tariffs that were announced. The reasoning behind them remains unclear. Were they imposed to raise revenue, encourage domestic manufacturing, or isolate China? Frankly, we are as confused as other market participants and doubt the administration itself has a clear strategy. Tariffs as high as 145% on China essentially amount to an embargo, severely restricting trade.

The market's negative reaction to the tariff news was predictable. While market participants must always assess what information is already "priced in" (as the market looks 6-9 months forward), the current concern overshadowing positive headline economic data (employment, inflation) is the uncertain impact of these tariffs. The key question is whether they will be inflationary (leading to stagflation) or deflationary (causing a deflationary shock) or if they will simply be negotiated away.

Ultimately, we at White Falcon are relying on the belief that Trump's instinct for self-preservation will prevent him from allowing a recession ahead of the critical mid-term elections. He has already shown his hand with a 90 day pause on certain countries when the bond market forced him to reverse his policies. Overall, these policies are so destructive that we'll be surprised if they are allowed to continue for any significant time period *and* they are entirely reversible!

"Deals are my art form. Other people paint beautifully or write poetry. I like making deals, preferably big deals. That's how I get my kicks."

- Donald Trump

This tariff war has some similarities to the Covid-19 economic shock like economic uncertainty, disruption to supply chains, and delayed investment decisions. While the government responded aggressively to the Covid crisis, this self-inflicted tariff shock has yet to see meaningful intervention. Although negative news is widespread, the market has yet to see headlines reflecting potential positive developments such as deregulation, tax cuts, or a potential government stimulus. There is also a *potential path* where the US ends this tariff war by announcing hastily negotiated deals. Drawing another parallel with the market's reaction to the COVID-induced downturn, we believe investors will then perceive the present economic slowdown as temporary. With any incremental positive news on tariffs, the market will likely shift its focus to the future, starting to price in the expected rebound rather than focus on the near-term slowdown.

Therefore, our base case remains that while an economic slowdown now becomes unavoidable, a full-blown recession will likely be averted.

In the end, President Trump's leadership has amplified the chances of extreme outcomes. The lesson for portfolio management then is to raise cash during positive right-tail scenarios and deploy cash during negative left-tail situations.

Technical conditions also justify deploying cash now. Record bearish sentiment, high recession expectations, high VIX readings, record outflows from US equities, record flows into gold, and record volume during the down days, to name a few. Historically, these types of conditions often present lucrative forward returns for those willing to adopt a contrarian investment stance.

"Far more money has been lost by investors trying to anticipate corrections, than lost in the corrections themselves."

- Peter Lynch

Accordingly, in the past few weeks, we have deployed our residual cash and concentrated the portfolio into our best ideas.

From a bottom up perspective, it is important to remind ourselves that we own good businesses run by competent management teams. Rather than remain static in the face of adversity, these businesses will proactively adapt strategies, streamline operations, or seek new avenues for growth. The top 5 positions in the portfolio are precious metals royalty basket, NFI, Endava, Nu holdings, and EPAM.

Our IT services companies - **Endava** and **EPAM** - have been the main detractors for our portfolio. Tariff uncertainty will likely delay client decision making and affect IT spend. While we have been early, which, we admit, can sometimes be indistinguishable from being wrong, we maintain that Endava and EPAM remain a compelling investment opportunity due to their (1) strong balance sheets, (2) solid position in the growing IT services sector, particularly in digital transformation and AI implementation, (3) founder led management teams, and (4) cheap valuation where we believe they are trading for a trough multiple of trough earnings. Despite weak recent earnings from Wipro and Infosys, their stocks avoided further declines, suggesting the market may have already priced in the current slowdown.

In the appendix of this letter, you will find our investment thesis on **Grifols SA**, a family-owned Spanish multinational and a leading player in the oligopolistic plasma-derived therapies market. Years of mismanagement and poor corporate governance, exacerbated by COVID-19 challenges and high debt, have weighed on its performance. However, we now see the business inflecting due to an operational improvement plan implemented by a new management team. Sid Kapur, an investment analyst intern with White Falcon, authored this report. He has been instrumental in supporting our research efforts and has played a key role in moving many files forward.

It is worth noting that our portfolio's global reach is evident not only in our investment in Grifols but also in our holdings of various non-U.S. companies - Nu Holdings, EPAM, Endava, Rentokil - all complementing our significant Canadian investments. As we've highlighted previously, our portfolio strategy results in a markedly different set of holdings compared to the S&P 500 and other popular market indices.

In addition, as partners know, since the beginning of the mandate, we have had an allocation to **gold** in the form of precious metals royalty companies. Our rationale was that your capital is irreplaceable, and the portfolio needed a hedge to protect against macroeconomic uncertainties. At that time gold was trading around $1,800/oz and our expectation was that, given the debt and deficit situation in the US, gold will slowly appreciate against a basket of currencies as governments try to inflate their way out of this precarious situation. Following a steady climb, gold's price has recently surged, now reaching US$3,400/oz. This benefits the portfolio but also clearly signals significant investor anxiety and market uncertainty.

We maintain that inflationary policies represent a likely path for governments seeking to manage their debt burdens. It is interesting to note that, over the past 3-5 years, equity markets performance when measured against gold has been flat to negative. This underscores the significant divergence between nominal and real returns. It is a difficult investing environment but we maintain our view that a strategic allocation to real assets, namely gold and equities, offers the most sustainable path to safeguarding purchasing power over the long term.

We're pleased to share that White Falcon was recently featured in a blog post by OPMwire. We believe this feature provides valuable insight into investment philosophy, which guides our approach to managing your portfolios.

In closing, I am truly thankful for the partnership we share. Please feel free to get in touch with me at any time for any questions, concerns, or feedback you may have.

With gratitude,

Balkar Sivia, CFA
Founder and Portfolio Manager
White Falcon Capital Management Ltd.

WHITE FALCON

CAPITAL MANAGEMENT LTD.

INVESTMENT PHILOSOPHY

White Falcon's mission is to compound capital on a risk adjusted basis with a value investing philosophy.

We believe in active stock picking and draw inspiration from the teachings of Warren Buffett and Charlie Munger.

Our process is to take advantage of volatility and opportunistically invest in good quality and growing businesses that have durable competitive advantages and are run by aligned management teams.

With our research intensive strategy and a mandate to invest across geographies and sectors, we are focused on generating absolute returns.

We invest with a margin of safety. We are opportunistic and price sensitive buyers of securities.

NO MANAGEMENT FEE

Incentive fee of 15% on profits, with a high water mark - inspired by Warren Buffett's partnership structure

ALIGNED

All general partner capital invested alongside limited partners capital

EXPERIENCED

Balkar has 15 years of investment management experience. He was a Vice President at Burgundy Asset Management and an Analyst at McElvaine Investment Management. He is a CFA charterholder and has an engineering degree from UBC.

SIMPLE STRUCTURE

Separately managed accounts (SMA) with Interactive Brokers. Full transparency on portfolio and balances. No leverage. Minimum investment of $50,000.

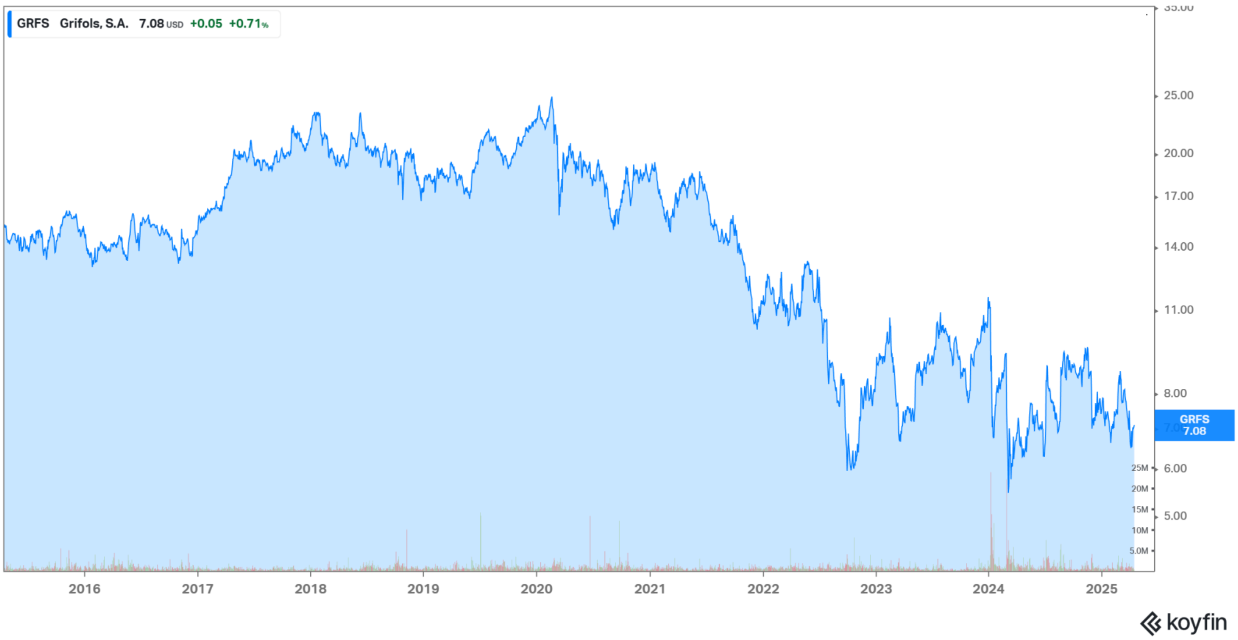
DIGITAL ONBOARDING

Three step onboarding starts with filling out the 'Invest' form on our website

INVEST WITH US

https://www.whitefalconcap.com/invest
416-770-6131
bsivia@whitefalconcap.com

Grifols S.A.



Founded in 1909, Grifols is a family-owned Spanish multinational specializing in plasma-derived therapies. Operating in the arcane hemoderivatives industry, Grifols is a market leader and holds ~70% market share in the U.S. along with its two largest competitors: CSL and Takeda.

The business generates ~80% of its revenue from its Biopharma segment which procures, researches, manufactures, and sells therapeutic products derived from plasma. The proteins in the plasma can be used to treat a variety of autoimmune and neurological diseases. Over the years, Grifols has built substantial infrastructure which is difficult to replicate:

1. Grifols operates 390 plasma donation centers, where they compensate donors for plasma, which constitutes ~35% of raw material costs. This raw material is frozen for two months before being transported to a fractionation site.
2. At their manufacturing facility - a fractionation plant - the plasma is isolated into the individual proteins. Here, they also conduct a variety of tests to meet strict regulations.
3. The proteins are then sent to one of their facilities (U.S., Spain, or Ireland), for final packaging and delivery to their customers which can be hospitals, pharmacies or physician offices.

It is important to note that it takes 9 to 15 months to process a sample of plasma. The main proteins they process include Immunoglobulin (IG), Alpha-1, and albumin. IG accounts for ~60% of revenue and has the highest margins.

The current investment opportunity arises from years of mismanagement and poor corporate governance, which have weighed on performance. The Grifols family, which holds a 38% stake (including 8% via its family office), has engaged in controversial governance practices that raise concerns about shareholder alignment. This includes related-party transactions, conflicts of interest on the board and questionable capital allocation decisions.

During COVID-19, Grifols struggled as plasma procurement costs surged. The business was also highly leveraged and continued to take on more debt which just made the situation worse. In January of 2024, a short report on the company resulted in the stock falling by ~50% and Spanish authorities investigating Grifols.

This investigation as well as pressure from activist investors finally led to the owners finally separating themselves from the management, bringing in a new CEO and CFO. This new management implemented an operational improvement plan which started showing positive results in the third quarter of 2024.

Also in the fall of 2024, Grifols entertained discussions with Brookfield for a potential take-private which severely undervalued the business and seems to be squeezing out public investors. This offer was rejected by the board of directors and now Grifols, under new management and with less oversight from the family, is focused on executing on the operational improvement plan.

Despite the market punishing Grifols for poor corporate governance and performance, Grifols remains a good business that commands a great position in its industry. We believe that this presents a buying opportunity as Grifols operates in an attractive oligopolistic industry with significant competitive advantages. The sector benefits from limited substitutes, strong pricing power, high barriers to entry (capital investment, regulatory approvals, and specialized expertise), and stable long-term demand for plasma-derived therapies.

Key risks include (i) potential U.S. immigration policies under a Trump administration, which could restrict plasma donation supply and drive-up costs, and (ii) the emergence of recombinant protein substitutes, which could erode up to 20% of revenue by 2028.

Business Description

Founded in 1940, Grifols is a family-owned company specializing in plasma-derived products with a global presence. The company procures, researches, manufactures, and sells therapeutic products derived from plasma. It is a market leader in the oligopolistic hemoderivatives (a class of drugs derived from human blood plasma proteins) industry.

Human blood consists of white and red blood cells suspended in plasma, a rich biological material composed of 90% water, with the remaining portion consisting of proteins and clotting factors. Out of the ~3,000 proteins, 20 can be isolated to create plasma-derived therapies. These therapies are primarily used to replace missing or deficient plasma proteins caused by chronic conditions (e.g., autoimmune and genetic diseases) or acute conditions (e.g., blood loss, surgeries, and burns).

The company operates through five business units:

1. Plasma Procurement: Focuses on plasma collection activities, including donor evaluation, screening, and center operations. Through donor centers, the company pays donors a fee ranging from $60 to $80 to collect plasma (constitutes ~35% of the raw material cost) which then gets transported and frozen for 60 days before shifting to a fractionation plant (manufacturing facility) where it is processed and distributed.
2. Biopharma: Grifols' largest segment, is responsible for manufacturing plasma derivatives for therapeutic use, including immunoglobulin (IG), Factor VIII, Alpha-1 (A1PI), and albumin. At the fractionation plant, proteins are isolated and put through various tests before being shipped to a site for final processing and packing. This process can take anywhere from 9 to 15 months. In 2023, Biopharma accounted for 84.3% of total net revenue.
3. Diagnostic: Develops and markets in vitro diagnostics products, focusing on transfusion medicine, immunohematology, and specialty diagnostics for blood safety. The two main drivers of this segment are blood typing solutions and Nucleic Acid Testing (NAT). This segment contributed 10.2% of total net revenue in 2023.
4. Bio-Supplies: Provides biological products for non-therapeutic use, generally research purposes; generated 2.4% of total net revenue in 2023.
5. Others: This segment includes manufacturing services, third-party plasma sales, research initiatives, and healthcare solutions, including pharmaceutical products for hospital pharmacies.

Within Biopharma, they primarily sell 3 proteins:

- Immunoglobulin (IG): makes up roughly 60% of their revenue. It is by far their main business given its constant deficit in global markets and high margins. It treats a variety of non-curable autoimmune diseases. There are three main diseases treated by IG which collectively make up around 70% of the total IG demand - Primary immunodeficiencies (PI), Secondary immune deficiencies (SID), and a neurological disorder called (CIDP).
- Alpha-1: treats a genetic disease and Grifols holds the majority of the global market share in the space through their Prolastin franchise. It makes up ~20% of sales.
- Albumin: often used as a replacement for blood or fluid loss due to surgery, trauma, burns, shocks, respiratory distress, etc. Accounts for roughly 15% of revenue.

This is the business's financial performance over the last 10 years:

Condensed Financials	2014A	2015A	2016A	2017A	2018A	2019A	2020A	2021A	2022A	2023A
Revenue	3,355.38	3,934.56	4,049.83	4,318.07	4,486.72	5,098.69	5,340.04	4,933.12	6,063.97	6,591.98
Gross Profit	1,699.21	1,931.00	1,912.29	2,152.01	2,049.56	2,341.23	2,255.17	1,962.60	2,231.53	2,494.57
Gross Margin	*51%*	*49%*	*47%*	*50%*	*46%*	*46%*	*42%*	*40%*	*37%*	*38%*
EBITDA	1,047.16	1,160.13	1,141.28	1,282.51	1,222.73	1,424.85	1,296.87	922.28	963.49	1,031.97
EBITDA Margin	*31%*	*29%*	*28%*	*30%*	*27%*	*28%*	*24%*	*19%*	*16%*	*16%*
Interest Expense	203.20	224.60	228.80	249.50	274.20	324.40	222.90	233.80	362.60	442.50
Operating Income (EBIT)	857.69	970.37	939.41	1,067.02	994.12	1,122.39	975.33	562.51	694.65	735.66
Net Income	**470.25**	**532.15**	**545.46**	**662.70**	**596.64**	**625.15**	**618.55**	**188.73**	**208.28**	**59.32**
Net Debt	3,211.15	(3,532.36)	(3,644.00)	(4,590.50)	(5,209.23)	(5,507.06)	(5,332.27)	(6,228.90)	(7,011.91)	(6,802.13)
Market Cap	11,725.60	12,315.50	13,012.40	14,188.60	14,074.30	18,791.30	13,867.30	10,049.50	6,923.60	5,082.80
EV/EBITDA Multiple	16.2x	15.0x	13.7x	16.7x	16.4x	18.1x	17.8x	15.2x	19.7x	19.0x

Source: CapIQ

What went wrong?

Family

The first and largest concern for any investor in Grifols would be the management and ownership. Grifols has been a family-run business since its founding by Dr. José Antonio Grifols i Roig. The family currently controls 38% of the business, with 8% coming from their family office, Scranton Enterprises. The family had been involved in questionable dealings that suggest personal profit motives. This includes related-party transactions with their family office, such as leasing their Spanish headquarters for €6 million annually and the sale of two subsidiaries, Haema AG and BPC Plasma, which they continue to incorporate by retaining a call option to repurchase them.

In addition to this, the family's involvement with their close advisor, Tomas Daga has raised concerns. Daga started working with Grifols in 1980 as a close friend of the founding family and joined the board in 2000, making him one of the longest-serving board members of a company on Spain's benchmark Ibex-35. Simultaneously, he has been working at Osborne Clarke Spain, a law firm used by Grifols. Since 2014, he has worked on 16 M&A transactions totaling €8.5 billion through his firm. His conflict of interest has been repeatedly raised with the board. Most transactions over €1 billion since 2014 have destroyed shareholder value as they have been financed through debt and haven't resulted in substantial returns. Their acquisitions have been about "adding numbers" rather than creating value. He has been called out for being in "control of the board" and "running everything from the capital allocation to choosing directors, to choosing when to finance the balance sheet, and many of those decisions have been value destructive".

Grifols' attempt at being taken private by Brookfield also seems nothing more than an attempt to squeeze out all public shareholders of the firm. A sale for just €12/share strips public investors of the upside that the business' positive momentum and improved corporate governance can bring.

Mason Capital, a New York-based hedge fund known for control acquisitions, has addressed the Grifols Board of Directors four times. Their letters have addressed the destruction of billions in shareholder value, conflicts with Tomas Daga and Osborne Clarke, Brookfield's bid, and more.

Mason went on to consolidate shares with two other funds, attaining a ~7.7% stake in Grifols. This enabled them to appoint Paul Henderson and Pascal Ravery as independent board members and pressured Tomas Daga to resign voluntarily—an action the board rejected—before his planned retirement on December 31, 2024. While it seems like Mason Capital is growing increasingly frustrated with the board and their handling of the business, they have increased their ownership from 2.1% to 2.5% of the class A shares (ordinary shares with voting rights) over the past 3 months.

The family control within Grifols is a potential risk but their actions since the short report - professional CEO, two independent board members & retirement of Tomas Daga - are, at the margin, positive when it comes to corporate governance going forward.

<u>Business Performance</u>

COVID-19 significantly impacted the company's performance. Plasma collection faced significant challenges due to stricter regulations, quarantine measures, tighter border controls under the Trump administration, and reduced donor incentives, as government stimulus alleviated financial hardships for low-income individuals. This, paired with their high debt load (also a result of the legacy M&A) was a disaster for their performance. Grifols sold off assets to meet their obligations, an example of which is the sale of their stake in Shanghai RAAS to Haier. A poor management team coupled with poor performance resulted in a short report in January of 2024. While the report wasn't 100% factual, it reduced investor confidence, resulted in a formal investigation into Grifols by Spanish authorities, and a stock drop of 50%. This seems to have been a blessing for investors as the ownership of the firm finally detached themselves from the management. Most of the business' issues seem to be a result of severely deficient corporate governance in both the long- and short-term; however, this was now finally going to change as a result of the short report.

The other problem with Grifols was the lack of effective investments. Grifols undertook two extensive capital investment programs, increasing their collection centers from 150 to 297 from 2014 to 2019 (14.6% CAGR) and then adding 100 more by 2024. However, these donor centers, which lie at the heart of the entire business, are significantly underinvested. Competitors like CSL and Takeda have created a superior customer experience through digitization, data analytics, etc. According to an expert who has worked at Grifols for 20 years, *"Grifols was slow to adopt new technologies, was slow to trust computer systems, things like that. It fell behind because they were trying to make that up with humans, which is just a lot more expensive and a lot less efficient".* Even when they decided to transition to new technology, they took a manufacturing-like approach and wanted to vertically integrate by "producing their software in-house". On top of using a laborious and manual process, Grifols insists on and is known for 'quadruple checking' at their donor centers. As one can imagine, this is both good and bad!

Why is it interesting now?

Grifols lies at an attractive entry point to own a great business. The company is severely undervalued, which reflects extremely negative investor sentiment. This is a result of the lack of trust in the owners, operations, and performance. However, this doesn't take away the fact that this business is the second-largest player in the space and that they have some of the finest manufacturing facilities that exceed regulatory requirements (e.g. they transport the plasma from donation centers to fractionation sites in -30° instead of the regulator's stance of -20°). The company has made genuine operational improvements and has competent people in the driver's seat who can steer the business in the right direction to gain market share.

The new management launched an operational improvement plan which would help resurrect the business post-restructuring. This entailed cutting redundant positions and selling off non-performing assets like donor centers with low footfall and more. This plan of theirs spans the entirety of 2024 and falls into 2025 but its results have been evident through the very successful third quarter of the year. Here is their 2024 performance which is much improved from 2023:

- Record Revenues: Grifols achieved all-time high revenues of €7,212 million in 2024, growing +10.3% YoY. Q4 2024 revenue alone was €1,976 million (+13.6% cc) - EBITDA and Margins: Adjusted EBITDA reached €1,779 million for 2024, with a margin of 24.7%. This marks ~19% growth in EBITDA vs. 2023, driven by higher Biopharma volumes and efficiency gains. In Q4, adjusted EBITDA margin rose to 26.6%, highlighting ongoing cost improvements. (Reported EBITDA was €1,631m, 22.6% margin, +32% YoY)
- Net Profit: Grifols' net profit nearly tripled YoY, coming in at €157 million for 2024 (≈ +271% vs 2023).
- Free Cash Flow (FCF): 2024 free cash flow was €266 million (pre-M&A), a significant turnaround from negative FCF in 2023. The company exceeded its FCF guidance, with Q4 alone contributing €335 million in FCF through improved working capital management and higher earnings.
- Leverage & Liquidity: Net leverage ratio fell to ~4.6× EBITDA by year-end (down from 6.8× in Q1 2024). This improvement was driven by EBITDA growth, better cash generation, and a €1.6 billion cash inflow from the Shanghai RAAS stake divestment. Year-end liquidity was strong at ~€1.9 billion (cash plus undrawn facilities), bolstering financial flexibility. Management is confident about leverage going forward, see it under control, no refinancing needed till Q4 of 2027.
- Key Business Drivers: The Biopharma division led growth, with particularly robust demand for immunoglobulins. The IG franchise grew ~15% for the full year (Q4 +17.9% YoY), aided by strong volumes and favorable product mix.

Competitive Advantages

The plasma derivatives industry is very interesting when it comes to some distinct characteristics. We see that the market is oligopolistic with CSL, Takeda, and Grifols owning 70% market share. This does limit price wars and fosters competition when it comes to innovation and operational efficiency. The industry benefits from several tailwinds, including growing international adoption and an expanding plasma supply. Outside the Western markets, plasma-derived therapies remain relatively uncommon, but this is gradually changing. A prime example is China, which now accounts for a significant portion of CSL's albumin-based product sales. Additionally, autoimmune diseases are widely underdiagnosed due to diagnostic challenges. However, as awareness improves, demand for plasma-derived therapies is expected to rise accordingly. Finally, various experts anticipate that Europe will ease plasma donation restrictions as its supply deficit with the U.S. widens, allowing Grifols to optimize returns from its German collection centers.

The threat of new entrants remains low due to the high capital requirements for manufacturing facilities and donor centers, stringent regulatory approvals from agencies such as the FDA (U.S.) and EMA (Europe), and the need for specialized expertise. Established players benefit from economies of scale and vertically integrated operations, which are difficult for new entrants to replicate. The barriers to entry are too high for a new player even with enough capital to just set up shop as it takes regulatory expertise, technical expertise, supplier connections, and much more. Even if a new entrant overcomes these barriers and develops a drug that demonstrates clinical superiority, patient dependability, and favorable unit economics, adoption remains a challenge due to high switching costs.

The bargaining power of suppliers is based on how plasma donors are compensated. Their willingness to donate depends on regional policies and economic conditions. The U.S., which has the world's most liberal plasma donation policies, dominates global plasma supply (Canada and Europe run a deficit with the U.S.), but macro-economic trends and border control play a role in the ability and cost of plasma for Grifols. When it comes to the power of buyers, customers, including hospitals and infusion centers don't have as much of a say due to the specialized nature of plasma-derived products and the lack of generic alternatives. While governments and insurers can exert some pricing pressure in negotiations for reimbursement rates experts consider this unlikely.

Grifols' moat is multi-faceted and robust, with several key strengths:

- Cost Leader: As one of the largest plasma collectors globally, their economies of scale and vertical integration make them a cost leader.
- Barriers to Entry: We also see that they operate in a space with high barriers to entry. Through their decades of experience navigating stringent regulations, and employing top talent and expertise, they have gained a significant competitive advantage.
- Brand: Grifols has built a brand on trust and reliability; its reputation for quality and reliability is crucial in the healthcare industry.

Currently, the business is underearning due to elevated costs from COVID-19, high debt levels, and restructuring expenses. In 2023, Grifols' ROE stood at 0.7%, significantly below its historical average of 9.6%. Meanwhile, ROIC was only 3.7%, lagging behind industry leaders like CSL, primarily due to financial leverage and substantial debt obligations. ROCE remained low at 3.8%, reflecting operational inefficiencies and underutilized assets. Notably, ROE was significantly higher than ROIC before COVID-19, indicating that Grifols' debt-fueled acquisition strategy under Tomás Daga substantially amplified equity returns through leverage.

Valuation

During their 2025 Capital markets day, the management laid out their 2025 as well as 2029 guidance. We believe this is realistic:

2025 Guidance:
- Revenues growth will be driven by IG, additionally there will be a focus on improving CPL (cost per liter of plasma) through greater efficiencies at donor centers and improved plasma yield. Revenues projected to grow at ~7%, excluding IRA impact and 5.4% including IRA to €7.7 billion excluding IRA.
- Adjusted EBITDA to grow by ~8% (14% excl. IRA) to €1.9B
- FCF is projected to reach €400M, including IRA, up 50% from 2024. FCF conversion up to 20% (incl. IRA) from 15% last year.

2029 Strategic Plan:
- FCF Generation: FCF conversion to increase to 40% from 2024's 15%. FCF (pre-M&A) to increase at a 35% CAGR to reach €1.2B by 2029, estimated cumulative FCF over next 5 years to be between €3.5B and €3.75B.
o Other Drivers of FCF
- Deleveraging: Plans to significantly organically deleverage through FCF, net leverage target of 3.0x – 3.5x, which should be achieved before 2029. Refinancing in Q4 of 2027 not seen as a concern.
- Revenue: Expected to grow at a 7% CAGR to €10B. Growth to be driven by Biopharma with impactful diagnostics growth expected in the latter years (inflection point expected to reach in 2026/'27).
- EBITDA: 10% CAGR with adjusted EBITDA going from €1.8B to ~€2.9 and EBITDA margin to expand by ~500bps in 5 years, from 24.7% to 29.5% (pre covid margin)
- Cumulative Capex of €2.5B over the next 5 years; €1.1B in growth, €0.7B in maintenance and another €0.7B in capitalized IT and R&D

The financial model assumes 9% revenue growth, based on industry trends, competitor performance, and historical financial data from the past decade. Margins are projected to expand from 40% to approximately 45% over the next three years, driven by declining plasma costs and the new management's operational improvement plan, which aims to turn operations leaner.

Given that free cash flow and lowering leverage are top priorities of the new management team; we can expect them to decrease total debt and remain a going concern. While analyzing FCF over the past 10 years, we have seen that Capex has taken about 60%, debt servicing has taken roughly 30% and dividends have taken about 10%. Going forward, the focus on deleveraging will take up far more of that focus, with roughly 85% allocated towards the payment of debt and interest. However, based on the model and debt schedule, there will be an increased interest expense after 2027 given the sheer number of loans maturing then. This will lead to management focusing on fulfilling cash flow requirements by measures like drawing down inventories to release cash and possibly reducing growth capex.

When it comes to competitors and their ratios, we see:

Company	P/S	EV/EBITDA	EV/EBIT	Revenue (M)	Gross Margin	EBITDA Margin
CSL	6.8x	21.3x	25.8x	14.08	55%	31%
Takeda	2.5x	8.1x	17.0x	27.78	69%	29%
Sanofi	2.9x	11.2x	16.0x	48.45	73%	26%
Average	4.1x	13.2x	19.6x	30.10	66%	29%
Grifols	2.4x	12.1x	16.3x	7.00	41%	18%

These are the financials and assumptions on which the DCF was built:

Period	2014A	2015A	2016A	2017A	2018A	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E
Revenue	3,355.38	3,934.56	4,049.83	4,318.07	4,486.72	5,098.69	5,340.04	4,933.12	6,063.97	6,591.98	7,053.42	7,688.22	8,380.16	9,134.38
% Growth	0%	17%	3%	7%	4%	14%	5%	-8%	23%	9%	7%	9%	9%	9%
Gross Profit	1,699.21	1,931.00	1,912.29	2,152.01	2,049.56	2,341.23	2,255.17	1,962.60	2,231.53	2,494.57	2,821.37	3,305.94	3,687.27	4,110.47
SG&A	660.77	736.44	775.27	860.35	814.78	942.82	985.62	1,061.51	1,190.42	1,366.67	1,208.50	1,307.00	1,424.63	1,552.84
R&D	180.75	224.19	197.62	224.65	240.66	276.02	294.22	354.88	361.14	395.28	356.50	461.29	586.61	639.41
EBITDA	**1,047.16**	**1,160.13**	**1,141.28**	**1,282.51**	**1,222.73**	**1,424.85**	**1,296.87**	**922.28**	**963.49**	**1,031.97**	**1,410.68**	**1,922.06**	**2,178.84**	**2,466.28**
D&A	189.47	189.76	201.87	215.49	228.61	302.46	321.53	359.77	268.85	296.32	600.42	648.86	709.19	766.74
EBIT	**857.69**	**970.37**	**939.41**	**1,067.02**	**994.12**	**1,122.39**	**975.33**	**562.51**	**694.65**	**735.66**	**1,259.37**	**1,537.64**	**1,676.03**	**1,918.22**
Income Tax Expense	122.60	158.81	168.21	34.41	131.44	168.46	169.64	85.13	90.11	43.35	154.47	231.39	269.14	330.08
Effective Tax Rate	14%	16%	18%	3%	13%	15%	17%	15%	13%	6%	12%	15%	16%	17%
NOPAT	**735.09**	**811.56**	**771.20**	**1,032.61**	**862.69**	**953.93**	**805.69**	**477.38**	**604.53**	**692.31**	**1,104.90**	**1,306.25**	**1,406.90**	**1,588.14**
(+) D&A	189.47	189.76	201.87	215.49	228.61	302.46	321.53	359.77	268.85	296.32	600.42	648.86	709.19	766.74
(-) Capex	(235.90)	(522.60)	(249.40)	(251.50)	(232.00)	(310.40)	(280.20)	(247.40)	(266.50)	(209.50)	(209.90)	(461.29)	(502.81)	(548.06)
(-) Change in NWC	(48.60)	169.01	271.54	(145.60)	239.26	392.61	(284.50)	188.64	1,164.58	1,590.01	(336.65)	12.31	19.85	28.33
Unlevered Free Cash Flow	**640.06**	**647.72**	**995.21**	**851.00**	**1,098.56**	**1,338.60**	**562.53**	**778.39**	**1,771.46**	**2,369.13**	**1,158.77**	**1,506.13**	**1,633.13**	**1,835.15**
(-) Interest and Debt Paid	499.07	595.26	505.49	2,596.76	1,110.52	1,429.91	137.39	172.20	165.87	93.39	842.27	919.64	698.43	559.66
% of UFCF	78%	92%	51%	305%	101%	107%	24%	22%	9%	4%	73%	61%	43%	30%
Levered FCF	**141.00**	**52.47**	**489.72**	**(1,745.76)**	**(11.96)**	**(91.31)**	**425.13**	**606.20**	**1,605.59**	**2,275.74**	**316.50**	**586.49**	**934.70**	**1,275.49**
Discount Rate											0.10	0.10	0.10	0.10
Discount Period											-	1.00	2.00	3.00
PV of UFCF											**1,158.77**	**1,369.20**	**1,349.68**	**1,378.75**

Terminal Growth Method	
WACC	10.00%
Terminal Growth Rate	2.00%
Implied Exit Multiple	9.5X
PV of UFCF	$5,256
Terminal Year UFCF	$23,396
PV of Terminal Year	$17,578
% of EV	77%
EV	$22,834
Less: Debt & Leases	($10,650)
Less: Minority Interest	($2,145)
Add: Cash	$645
Equity Value	**$10,684**
S.O	679.6
Implied Price	**$16**
1-Yr Target	**$17**
Current Price	$8.28
Implied Return	**109%**

Exit Multiple Method	
WACC	10.00%
Exit Multiple	10.0X
Implied Growth Rate	2.38%
PV of UFCF	$5,256
Terminal Year EBITDA	$24,663
PV of Terminal Year	$18,529
% of EV	78%
EV	$23,786
Less: Net Debt	($10,650)
Less: Minority Interest	($2,145)
Add: Cash	$645
Equity Value	**$11,635**
S.O	680
Implied Price	**$17**
1-Yr Target	**$19**
Current Price	$8
Implied Return	**127%**

The main assumptions include a WACC of 10% and an exit multiple of 10x, something which is below its current and historic value. All in all, the DCF shows an upside of 103% with a price target of €17 through the terminal growth method and an upside of 109% with a price target of €19. Grifols presents a unique opportunity to purchase a fundamentally strong business at a significant discount, driven by historical mismanagement and inefficient capital allocation.

Management

Since the new management team has stepped in, there has been a very large focus on the operations of the business. Given the leverage on the business, there doesn't seem to be significant Capex, as expected. Key management members include:

- Nacho Abía (Chief Executive Officer): Appointed after the ownership stepped away from management, Abía transitioned from his role as Executive Officer at Olympus. He brings extensive experience in the healthcare sector and is focused on enhancing corporate governance and operational performance. He focused on the strategic transformation of Olympus by shifting its focus from consumer products, such as cameras, to becoming a leading medical technology company. He also played a pivotal role in globalizing Olympus's operations. He emphasized the importance of evolving from a predominantly Japanese company to a truly global enterprise, leveraging talent and resources worldwide. Both these initiatives could be crucial in bringing Grifols on the right path through greater adoption of technology and globalization as the rest of the world increases its consumption of plasma derivative products.
- Rahul Srinivasan (Chief Financial Officer): On September 16, 2024, Srinivasan joined Grifols as CFO, succeeding Alfredo Arroyo, who retired after 17 years. He previously served as Head of EMEA Leveraged Finance and Capital Markets at Bank of America, bringing over 25 years of financial expertise. This was a breath of fresh air for investors as the previous CFO had contradicted himself during presentations, leading to inaccuracies about the firm's plans and stances; things that deterred investor confidence.
- Thomas Glanzmann (Executive Chairman): Formerly the CEO, Glanzmann transitioned to Executive Chairman in February 2024.

When it comes to insider transactions; in December 2024, CEO Nacho Abía, CFO Rahul Srinivasan, and Executive Chairman Thomas Glanzmann purchased shares worth €140,700, €50,500, and €81,134 respectively, demonstrating confidence in the company's prospects. In March 2024, Nacho Abía, Thomas Glanzmann, Tomás Dagá, Gelabert (Director), and Raimon Grifols Roura (Executive Director) purchased shares worth $688,628, €352,560, €660,000 and €196,500 respectively.

Lastly, in terms of compensation, executive compensation comprises base salary, performance-based bonuses, and long-term equity incentives. Performance metrics include

EBITDA growth, free cash flow generation, and debt reduction. In 2023, SBC expenses were approximately 2% of revenue, consistent with industry norms.

Risks/Miscellaneous

The two main risks in this business would be the management team and the threat of substitutes. Some things to keep an eye out for in 2025 will be: how transparent the management team is with investors, the family's involvement in the business, and innovation in the synthetic/artificial protein space.

Looking deeper into substitutes, after speaking with experts and industry veterans, we see artificial proteins as the future of the industry, however, none of the big players have managed to create a cost-effective solution that has seen large-scale adoption. Recombinant Proteins, however, show great promise. They are lab-made proteins produced through genetic engineering instead of being extracted from natural sources, allowing for large-scale production with improved stability, longer half-life, and enhanced safety. Down the road, recombinant proteins could rival traditional plasma-derived therapies in all properties, which include different protein concentrations, effective half-lives, absorption/bioavailability profiles, patient efficacy, side effects/tolerability, shelf-lives, and administration methods. In recent years, Grifols has seen the sale of its drugs treating hemophilia go down and this has been a result of successful recombinant alternatives coming into the market.

Competitors such as CSL, Takeda, and Sanofi have been at the forefront of the development of such technologies. While CSL has been investing quite a bit into the development of artificial proteins, its main priority remains the discovery of practices to extract more proteins (also known as indication) from the current plasma samples. Sanofi on the other hand seems to be leading the charge by focusing on recombinant technologies and advanced protein engineering. This, however, comes at a huge cost as they spend roughly $1 billion annually to keep up with innovation, modernizing and digitizing their manufacturing and supply network.

Sanofi has numerous recombinant protein products in clinical trials and have also acquired 'Inhibrx', which has an artificial solution from alpha-1 proteins (which accounts for ~20s% of Grifols' biopharma revenue). Their product termed SAR447537 (formerly INBRX-101) is undergoing Phase II clinical trials in January of 2025 and may see adoption as early as 2028, if successful. This is a major risk as they could see their entire alpha-1 protein business dissolving since even the most loyal customers would likely switch to a significantly cheaper, safer, and more effective product. Additionally, both CSL and Takeda already have products in the recombinant space and more in the pipeline.

Disclosure: *White Falcon has a position in Grifols. This article is for informational purposes only. We may be wrong in our analysis and encourage all readers to come to their own conclusions.*

Disclaimer

- Past performance is not necessarily indicative of future results. All investments involve risk including the loss of principal. It should not be assumed that any of the transactions or investments discussed herein were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the investments discussed herein. Specific companies or investments shown in this presentation are meant to demonstrate White Falcon's active investment style
- White Falcon may change its views about or its investment positions in any of the securities mentioned at any time, for any reason or no reason.
- White Falcon disclaims any obligation to notify the market of any such changes.
- The information and opinions expressed in this presentation is based on publicly available information about the securities.
- The letter and thesis includes forward-looking statements, estimates, projections, and opinions, as well as more general conclusions. Such statements, estimates, projections, opinions, and conclusions may prove to be substantially inaccurate and are inherently subject to significant risks and uncertainties beyond White Falcon's control.
- Although White Falcon believes the data and numbers are substantially accurate in all material respects, White Falcon makes no representation or warranty, express or implied, as to the accuracy or completeness of any written or oral communication. Readers and others should conduct their own independent investigation and analysis of the thesis of any and all companies mentioned in this document.
- The letter is not investment advice or a recommendation or solicitation to buy or sell any securities. White Falcon undertakes no obligation to correct, update, or revise the Presentation or to otherwise provide any additional materials.
- White Falcon also undertakes no commitment to take or refrain from taking any action with respect any of the companies mentioned in this letter.