

Discharge of board of directors at Grifols SA

July 2024

Company: Grifols SA (Grifols)

Meeting date: June 14, 2024

Proposal(s): Item 4: Approve Discharge of Board

When we identify material risk oversight failures, the Vanguard-advised funds will endeavor to engage with the company to express our concerns and understand actions the company and its board are taking to address the underlying issues. Our focus is on understanding how boards aim to effectively identify, monitor, and manage material risks and take appropriate action in response to materialized risks.

How the funds voted

At the 2024 annual meeting of Grifols SA (Grifols), a multinational pharmaceutical and chemical manufacturing company listed in Spain, the Vanguard-advised funds did not support the discharge of directors due to concerns about the board's oversight of a materialized risk related to the company's financial reporting in 2023.¹

The funds' proxy voting policies

As articulated in the funds' proxy voting policies, the Vanguard-advised funds assess matters of material risk oversight failure on a case-by-case basis, taking into consideration the facts and circumstances at the company in question. If there are instances in which it has been determined that a board has failed in its oversight role, the funds may not support the election of directors deemed responsible, generally based on their functional or committee-level responsibilities.

Analysis and voting rationale

In analyzing the items on the agenda at Grifols's 2024 annual meeting, we noted the allegations made by Gotham City Research LLC (Gotham City) that Grifols had inaccuracies in its financial reporting. Gotham City is a financial research company that uses their findings to make investment decisions. When the allegations first surfaced in January 2024, we engaged with Grifols leaders about this topic and also discussed board composition and executive remuneration. Grifols leaders denied the allegations made by Gotham City, affirmed the accuracy and transparency of the company's financial reporting, and explained that the board had held regular meetings regarding the allegations since the report was published.

¹ Vanguard's Investment Stewardship program is responsible for proxy voting and engagement on behalf of the quantitative and index equity portfolios advised by Vanguard (together, "Vanguard-advised funds"). Vanguard's externally managed portfolios are managed by unaffiliated third-party investment advisors, and proxy voting and engagement for those portfolios are conducted by their respective advisors. As such, throughout this document, "we" and "the funds" are used to refer to Vanguard's Investment Stewardship program and Vanguard-advised funds, respectively.

Later in the year, ahead of the 2024 annual meeting, we engaged with Grifols leaders to discuss the board's oversight of risk, with particular attention paid to the allegations made by Gotham City. Since the allegations first materialized, an investigation by Comisión Nacional del Mercado de Valores (CNMV), the regulatory agency responsible for securities markets in Spain, found no errors in Grifols's reporting, but identified some deficiencies in the level of detail provided in the reports. Accordingly, CNMV highlighted opportunities for Grifols to improve its reporting. They proposed that Grifols increase the level of detail in the explanatory notes that support the figures in the financial information for some financial years, enhance the breakdown of and details regarding related-party transactions, and provide greater detail regarding the presentation of non-accounting financial performance indicators.² In response, Grifols committed to adopting financial reporting improvements proposed by the CNMV and improving its internal governance practices, which included a refresh of its board through the appointment of two new independent directors, enhanced disclosure of board skills via a skills matrix, and updates to its related-party transactions and board evaluation policies.

At the time of our engagement, we observed that the company's stock price had shed significant market valuation since the initial allegations made in January and had not yet recovered. During the five-month period since Gotham City's initial allegation, Grifols's share price had fallen by approximately 35%.

While we observed that the board was taking steps to enhance the company's internal governance practices, based on our research and engagement with company leaders, we were not adequately reassured that the board's level of financial reporting oversight in 2023 was sufficient. As a result, we determined that it was not in the best interests of the Vanguard-advised funds to support the discharge of directors at the 2024 annual meeting.

We did, however, note the commitments that the board has made and the ongoing improvements in board composition, board oversight, and financial reporting. As a result of these actions taken by the board to strengthen the board's independent oversight, the funds supported the election of directors at the company's 2024 annual meeting. We will continue to monitor the company's governance practices going forward to assess whether the changes adopted result in material improvement of company performance.

² <https://www.grifols.com/documents/6155538/6352233/cs-20240321-en.pdf/08d74e83-2454-065e-3c86-dc30e12ae8d6?t=1711051152096>