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PRESENTATION

Operator

Good afternoon, and welcome to the conference call of Drägerwerk AG & Co KGaA which is now starting. At our customer's request, this conference will be recorded.

The management presentation for the following conference is available on the Dräger homepage,

www.draeger.com. Press Investor, and there you will find the presentation under Financial Calendar.

Let me now hand you over to Mr. Stefan Dräger, CEO of Drägerwerk AG & Co KGaA, and the moderator of this conference.

Stefan A. Dräger - *Drägerwerk AG & Co. KGaA - Chairman of Executive Board & CEO - Drägerwerk Verwaltungs AG*

Good afternoon, and a warm welcome to everyone joining us today on the phone or via the webcast online. I have with me today Gert-Hartwig Lescow, CFO; Tom Fischler, Investor Relations; and Peter Müller, Financial Communications.

We would like to guide you through the presentation covering our results for the first 9 months which we made available on our homepage this morning. I will start with an overview of the business development and demand trends we have seen in the regions, before Gert-Hartwig will go into the financial details of the quarter and 9 months period. Following the presentation, we will open the floor to your questions. Out of respect to everybody's time, we will end this conference in 1 hour.

Already, some 2 weeks ago, we published preliminary figures for the third quarter. In the final set of figures published today, there are no meaningful deviations to the figures you already know.

Let's get started on Page #3 with the business highlights for the first 9 months. I begin with a short review of the quarterly development so far in 2019. We had a very strong start into the year. For the first quarter, we reported year-over-year net sales growth of some 20%. Yet the strong net sales development needs to be seen in light of the very weak net sales development in the prior year's quarter, where we had some supply chain disruption. Substantially, higher net sales volume was responsible for the strong year-over-year EBIT improvement of some EUR 30 million in Q1.

In the second quarter, our business development continued on a growth trajectory. With the comparable figures of the prior year being back to normal, the relative year-over-year net sales development was on a more normalized level again. Net sales increased in the quarter by some 2%.

In the third quarter, we continued to see good net sales development. Growth in the quarter was around about 6.5% coming from all 3 regions and from medical as well as safety.

For the 9-month period, this adds up to some 9% net sales growth. The slight positive effect of FX brings the number of growth rate to 9.8%. Year-to-date, EBIT is substantially above the level of 1 year ago, mainly due to higher volume. The gross profit margin is only slightly above the last year's gross margin for the 9-month period. In addition, financial expenses has increased in line with our investment program to strengthen R&D and specific sales capabilities.

Year-to-date EBIT is substantially above the prior year, which remains slightly negative with some minus EUR 3 million.

But let's take a look now at some of the top line trends within our regions on Page 4, starting with the group figure on the lower side of the chart.

For the 9-month period, order intake amount to roughly EUR 2 billion, corresponding to a year-over-year currency adjusted improvement of 3.5%. Throughout the quarter, we saw steady positive order intake development. The quarterly growth rate are in the range of 3% to 4.5%. That is, overall, a good development.

If we look at the order development in more detail, on the level of the product area, we see a somewhat diverse picture. On the bond side, a constantly high order intake for safety products throughout the entire year. While on the other side, the order intake for medical products, so far, is still below prior year's level. This should not come to you as a surprise. We have been saying that all along the current challenges we are facing and addressing with our reorganization that are more on the medical side of our business.

The good order intake development in the safety business comes from double-digit order growth in each region as well as double-digit order growth in nearly all product area. Only engineered solutions, a business that from its nature is a project business which can be rather lumpy, is still below the prior year's level. All other product area report a very satisfying order development.

As I said, so far, order intake for our medical business was not as strong. Year-to-date, we are still slightly behind the prior year's level, but we are seeing a good pickup in orders over the last 2 quarters. After a very weak start into the year, order intake in the second quarter and also in the third quarter was on the growth trajectory again.

Within the medical product area, order intake for service was strong as well as for thermoregulation. On the softer side was the order development for anesthesia devices. Now this may surprise you at first since we have just launched our new anesthesia device, the Atlan. Please bear in mind that at this point in time, this is just for the CE market. The product is very well-received by customer and we will be reporting first deliveries during Q4. In fact, in the CE market, the order intake for anesthesia where the Atlan is available is already up this year.

Now some comments on the development within the regions, starting with the region, Americas, on top of the chart. Year-to-date, order intake development was positive with roughly 5% growth. Unfortunately, the region had a quite challenging third quarter. Especially in medical in North America, the comparable basis was quite strong. Orders in Q3 were below the prior year's quarter.

During our last call in August, we had already flagged the risk of order momentum cooling off in North America. Much of this shortfall is compensated by a very decent order intake development in Central and South America. Even if the volume coming from this subregion is smaller, a double-digit order growth here helps to compensate for the not growing but flat development in the larger subregion North America.

Some good news from the regulatory side. In October, we received the NFPA approval for our SCBA for firefighters in the U.S. under the new standards. Therefore, this should also contribute to improving our order intake in the coming quarter.

Moving on to Europe. The region Europe this year is a front runner when it comes to order intake growth. The very strong order intake development in Q3 brings the year-to-date order intake for the region to a nearly 5% growth. A strong development in some of our large markets like Germany, France and Great Britain have contributed to the good order development. Nearly all (technical difficulty) contributed to growth with a similar pattern that we see at the group level. That means strong growth for safety products and only modest growth for most of the medical products.

Also for the full year, we expect the region Europe to be the main contributor to order growth in the Dräger group.

Last, but not least, our AAA region, that is Africa, Asia and Australia. Also in the AAA, the third quarter was rather on the weak side, with order intake not quite reaching the prior year's level. On a year-to-date basis, orders are only flat. In parts with somewhat softer development is due to some base effect as we had won some larger medical deals in Egypt and Botswana last year. But on the other side, business development in general this year is rather challenging in some countries of the Middle East and India. If order intake in the region does not improve in the current quarter, this would result in some headwinds for our start into the next year.

As you can see on the chart, the net sales development is very satisfying in all 3 regions. Also, on the product level, the picture is similar. Good net sales growth in our safety business as well as in our medical business.

With that, I turn over to Gert-Hartwig for a review of the financials, and I will come back with a summary and the outlook. Gert-Hartwig, please.

Gert-Hartwig Lescow - *Drägerwerk AG & Co. KGaA - Vice Chairman of Executive Board & CFO - Drägerwerk Verwaltungs AG*

Thank you, Stefan. I would also like to welcome everybody to our conference call on the results of the first 9 months.

Before I start the financial development of the group, I would like to clarify that whenever referring to growth rates, I will be stating values in constant currencies unless stated otherwise.

Please turn to Page 5 for a review of the Dräger P&L. As Stefan already explained, order entry in Q3 continued to be positive with 4.3% growth over the same quarter last year. Net sales growth, like in the quarters before, outpaced order growth. Net sales increased by 6.4%. On a nominal basis, our sales volume is up by more than 8%. With a higher volume, quarterly earnings improved as well. The gross profit margin in the quarter is 70 basis points, above the level 1 year ago. In the prior year's quarter, our margin was burdened by devaluations in some of the emerging market currencies. These strong FX movements did not reoccur in a similar way during the past quarter this year. In fact, in this Q3, positive currency FX were the main reason for the improved margin. So we cannot yet report a structural gross margin improvement which, for example, would be triggered by a better pricing enforcement. As long as we do not see this kind of structural improvement of the margin, the further development of profitability remains challenging.

In total higher volume, a higher gross profit margin and expense growth below net sales growth, our quarterly EBIT improved to EUR 9.3 million for the 9-month period. This adds up to a very good net sales growth of nearly 9%. In nominal terms, net sales is close to 10% above the prior year's period.

The year-to-date gross margin is nearly stable at 42.6%, some 20 basis points higher than in the prior year. The year-to-date FX impact on the margin is negligible. Negative FX at the beginning of the year now have been compensated for during Q3.

Year-to-date EBIT is still slightly negative with minus EUR 3 million. As with the gross profit margin, FX did not have a meaningful impact on the 9-month EBIT margin. We do not expect any material FX effects in Q4 as well, hence, we continue to expect FX not to have a material impact on our full year EBIT margin.

Turning to the expense development on Page 6. Since 2017, we are increasing investments to secure our innovation road map and to strengthen specific capabilities in sales and service. This is mainly by increasing headcount in sales, service as well as engineers in R&D.

Functional expenses increased in the first 9 months by currency adjusted 3.9%. On a nominal basis, this corresponds to an increase of 4.7%. Factors behind this rise included planned increases in headcount as well as wage and salary increases.

Marketing and sales expenses increased by 5.5%, driven predominantly by the regions AAA and America.

In sales and service, we've added more than 200 new sales reps, service staff and sales back-office support staff this year.

On the expenses, after 9 months are still on par with the prior year's level. This is explained by the high level of R&D expense growth we had during the first 9 months of last year, when R&D expenses had increased by some 13%. For the full year, we continue to expect R&D expenses to pass the level of last year.

Also, going forward into the year 2020 and beyond, we see the need to strengthen specific sales capabilities and to invest further into our innovation road map. Therefore, in spite of the current restructuring activities that are, next to other things, targeted at slowing the expense increase, we will continue to invest into our product development road map. This remains a high priority.

Administration expenses were on the prior year's level.

Let's move on to some key ratios on Page 7. Cash generation continues to be much stronger than in the prior year. In the first 9 months, Dräger managed to improve free cash flow by close to EUR 120 million, delivering a positive free cash flow of some EUR 32 million. A higher cash flow from operating activities is the key driver for that improvement of some EUR 120 million.

Operating cash flow delivered an inflow of roughly EUR 77 million versus the cash outflow of some EUR 42 million, 1 year ago. This positive development was driven by the higher profitability, EBIT is roughly EUR 38 million higher, as well as a better development of inventories. This year-to-date increase of inventories was below the last year's level with positive effects on cash flow.

Next to that, the introduction of IFRS 16 had a positive impact on cash flow from operating activities of roughly EUR 30 million. Cash outflow for investments was on last year's level.

The aforementioned implementation of IFRS 16 also has a strong effect on net financial debt. The strong year-over-year increase in net financial debt of some EUR 82 million has mainly to do with the different treatment of leasing contracts on the IFRS. On a comparable basis, net debt would've improved by nearly EUR 30 million compared to the same period last year.

Leverage of the group remains conservative though. Net debt-to-EBITDA remains below 1.

Net working capital has increased in the course of the year. While our days of sales outstanding have improved, the increase in net working capital is due to higher inventory levels. The higher inventory levels are in part preproduction of equipment to be delivered during the year end business.

The 12-month average of the days for capital has increased by 5 days to roughly 190 days.

As you may have noted, the equity ratio decreased by 5 percentage points. The main factor was the absent reduction in equity by nearly EUR 70 million. This reduction was due to an adjustment of the interest rate used for discounting pension liabilities from 1.75% to now 0.75%.

The second unrelated factor for the decline of the equity ratio was the balance sheet expansion triggered by IFRS 16. The equity ratio after 9 months stood at just below 40%.

The last point on the development of the Dräger value-added. The higher rolling EBIT was partially offset by a higher average capital employed. Capital employed substantially increased as a result of higher net working capital but also due to the first time application of IFRS 16.

The 12-month DVA decreased by roughly EUR 19 million to EUR 3.2 million.

With this, I would like to hand back over to Stefan.

Stefan A. Dräger - *Drägerwerk AG & Co. KGaA - Chairman of Executive Board & CEO - Drägerwerk Verwaltungs AG*

I think you'll get happy.

During our last conference call, we provided you some details on the reorganization activities currently underway at Dräger. A major goal is to strengthen the customer focus and business drive at our headquarters in Lübeck. To improve business results, cost-containment is an important objective as well.

In September, we have reached an agreement with our labor representative to reduce cost. This agreement will reduce the personnel cost increase in the coming 3 years that is 2020, '21 and '22. Accumulating fee over that period, the personnel costs will be roughly EUR 100 million lower compared to a scenario with a 3% per annum tariff increase because one important cornerstone of the agreement is a salary waiver. Large parts of the German workforce will not immediately receive the collective agreed salary increase. Instead, salary of these employees will return to the collectively agreed salary level in 2023 only.

Depending on the success of the current restructuring and to trigger returning to a higher profitability level again, employees would receive a higher variable compensation for accepting the salary waiver for the period of 2023, '24 and '25.

The agreement also comprises a reconciliation of interest and social plan. So the interest and the social plan that are prerequisites in the German context for the transition to the new organization. And part of that is a reduction of headcount of no more than 50 employees. We, therefore, can now confirm that the restructuring charges of up to EUR 10 million during Q4 are fully included in our EBIT margin guidance.

Ladies and gentlemen, let me summarize today's presentation on Dräger's results for the first 9 months of 2019.

In the past quarters, currency adjusted order entry growth was positive, with quarterly growth rates between roughly 3% to 4.5%. This is a good sign. Our market conditions remain good. So far, our markets have proven to be resilient against many of the macroeconomic headwinds we are all experiencing in these days.

The gross profit margin is only roughly on par with the prior year. But unlike last year, the margin is not burdened by currency headwinds. Taking this into account, we cannot be satisfied with the current cost margin development.

Our year-to-date EBIT currently is still slightly negative. As usual, our business here is very much back-end loaded. The Q4 development is key.

Last year's Q4 development was very strong and at an all-time high. Consequently, the comparable base is very demanding.

On the back of the strong net sales development of the first 3 quarters, we have increased our guidance for the full year development. We expect net sales growth for the full year to be at between 4% to 6% on a constant currency basis. The expectation for the EBIT margin remains unchanged between 1% and 3%. The EBIT margin guidance now includes the -- up to EUR 10 million in restructuring costs.

As usual, we will only be guiding 2020 once the full year figures are available. However, we want to share some first thoughts on the further development. Macroeconomic risks remain a factor when seeking about the further development into the year 2020. Even if we do not yet see any negative effects in the current product development so far, one should not automatically expect the top line development to continue at the same pace as this year. It will be rather unlikely that a deteriorating economic situation would not have some effect also on our business at some point in time. From our experience, it also does affect Dräger but with some 12 to 18 months delay.

Profitability should benefit from the fact that our cost base will increase at a slower pace than in 2019.

On the other side, we will continue to invest into important areas like our innovation road map. The [message] to reduce the personnel cost increase should compensate for some of these additional expenses.

So far, we have not seen a structural improvement of the gross profit margin. A structural gross profit margin improvement can only result from a successful implementation of our innovation road map. This still requires some time. Hence, we do not expect to see material benefits resulting from a higher gross margin already in 2020.

With this, I would like to end the presentation and hand over to the operator to open the lines for your questions, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Florian Pfeilschifter from MainFirst.

Florian Pfeilschifter - *MainFirst Bank AG, Research Division - Research Analyst*

First, congratulations on the good results in the safety business and on the overall top line. I have two questions, and I would be interested in the differences in the gross profit margin in medical and safety.

And secondly, I would like to get a first indication of how your current visibility is for Q4.

Gert-Hartwig Lescow - *Drägerwerk AG & Co. KGaA - Vice Chairman of Executive Board & CFO - Drägerwerk Verwaltungs AG*

So the current visibility in the Q4 is good, but not very good. It's based on a couple of factors. It is -- it includes the net orders in hand we already have in the books that you see as well. It includes our funnel that we break down by product group and by region, which we typically use in every quarter and especially the fourth quarter to guide -- to see where we are. And that has been a key factor also for us to upgrade the guidance for the full year of 2019. And at the back of that, of course, it is based on the sentiment, everything on top of that.

So overall, we are confident that we reach the full year guidance. That would include still at the -- the possibility that we do not repeat the full year net sales that we have seen in the last year. And that is, as Stefan Dräger has pointed out, because last year was an exceptionally high year in order entry and in net sales. But it does include the possibility that we, in fact, exceed our guidance for the full year.

Your second question was with regards to the gross profit margin, and what we see there is, overall, just reminding us we have a slight improvement of about 20 basis points last year. Relative share is coming from the safety business, about 30 basis points, about 10 basis points from the medical. So both have improved. And overall, our gross profit margin in safety is slightly above the group average and the medical is slightly below the group average.

Florian Pfeilschifter - *MainFirst Bank AG, Research Division - Research Analyst*

Okay. And one follow-up question on your guidance. Where in this range do you currently see you're coming out with the visibility you have of Q4?

Gert-Hartwig Lescow - *Drägerwerk AG & Co. KGaA - Vice Chairman of Executive Board & CFO - Drägerwerk Verwaltungs AG*

It can be a very lengthy answer because then I will share with you all of the qualifications which I think would not really help you in your modeling.

Stefan A. Dräger - *Drägerwerk AG & Co. KGaA - Chairman of Executive Board & CEO - Drägerwerk Verwaltungs AG*

(inaudible)

Gert-Hartwig Lescow - *Drägerwerk AG & Co. KGaA - Vice Chairman of Executive Board & CFO - Drägerwerk Verwaltungs AG*

It's just in the middle and the full [banquet] is possible. The top line depends on the development across the region in CSA in North America. And similarly, in the profitability, it depends on the realized pricing. And it depends also on the financial expenses. As we have said, we have provided for EUR 10 million, for example, for the restructuring. And of course the final outcome has not been settled. It's an outlook, it's not a reserve yet. Similarly, we are growing our R&D expenses. And to be frank, we are a little bit below what we want to spend from a financial point of view. That's a good thing from actually staffing the necessary project that is not fully a positive thing. So there is some uncertainty. Still, we see the full range in the -- also in the profitability possible at this point. Of course, with a bit of a correlation, the higher the volume, the better the EBIT margin.

Operator

(Operator Instructions)

The next question is from Aliaksandr Halitsa of H&A.

Aliaksandr Halitsa - *Hauck & Aufhäuser Privatbankiers AG, Research Division - Equity Analyst*

Yes, I'd like to ask on gross margin, if you could distill the improvement in Q3 and as of 9-month? So as of Q3, we have 70 basis points. Can you pinpoint what is the FX impact here? And also the same for the 9 months?

Gert-Hartwig Lescow - *Drägerwerk AG & Co. KGaA - Vice Chairman of Executive Board & CFO - Drägerwerk Verwaltungs AG*

It's about 60 basis points.

Aliaksandr Halitsa - *Hauck & Aufhäuser Privatbankiers AG, Research Division - Equity Analyst*

In Q3 as well as the 9 months?

Gert-Hartwig Lescow - *Drägerwerk AG & Co. KGaA - Vice Chairman of Executive Board & CFO - Drägerwerk Verwaltungs AG*

In the third quarter. In the full 9 months, it's about 10 basis points as we had some currency headwind at the beginning of the year.

Aliaksandr Halitsa - *Hauck & Aufhäuser Privatbankiers AG, Research Division - Equity Analyst*

Understood. And then also I was wondering, with regards to investment program where you have increased R&D expenditures as well as sales and marketing, so you also mentioned that there is still a need to invest I guess above normalized rate in 2020 and beyond. Can you somehow guide us to the magnitude, I mean, in terms of as a percentage of sales on -- yes, any color on that? How much extra do you want to invest above the normal run rates?

Gert-Hartwig Lescow - *Drägerwerk AG & Co. KGaA - Vice Chairman of Executive Board & CFO - Drägerwerk Verwaltungs AG*

Please bear in mind, we are still in the process of finalizing. And it will be, in the most likely scenario, slightly above the net sales growth. And that if you want to put it in the model, I understand that doesn't quite help you because we haven't guided the net sales growth for 2020 either. So we will share that -- the full figure at the beginning of 2020. Bear in mind, as we have said today, that the net sales growth that we currently see is really in 2019 impacted by the 2018. So going into 2020, we have more normalized ratio. And from that point of view, the order entry growth is more useful guidance. We will share more detailed quantification at a later point.

Aliaksandr Halitsa - *Hauck & Aufhäuser Privatbankiers AG, Research Division - Equity Analyst*

Okay. And then maybe if I build up on that, assume the cost ratios R&D and sales and marketing, you mentioned that probably they will grow slightly above the net sales volume, so you're not expecting any scale effect there? And then as you have already pointed out, the gross margin probably won't improve next year either, just struggling to understand how do you expect to improve then profitability in 2020?

Gert-Hartwig Lescow - *Drägerwerk AG & Co. KGaA - Vice Chairman of Executive Board & CFO - Drägerwerk Verwaltungs AG*

Again, there is going to be some leverage in the administration and the relative growth depends on the net sales growth. However, the -- there will be a gradual improvement in profitability. And your -- the description is -- includes the possibility of gradual improvement by the continued improvement of profitability beyond 2020. So if your expectation -- if your summary is there will not be a steep increase in 2020, then that is -- I would not argue against that.

Operator

(Operator Instructions)

There are no further questions in the queue.

Oh, we have another question. This question is from Aliaksandr Halitsa of H&A.

Aliaksandr Halitsa - *Hauck & Aufhäuser Privatbankiers AG, Research Division - Equity Analyst*

Yes. I'm sorry, one more if I may. You mentioned that in this year, you probably -- or the remaining Q4, you probably won't invest in R&D as much as you had planned to. Can you elaborate why is that? Are there any delays in project or ...

Gert-Hartwig Lescow - *Drägerwerk AG & Co. KGaA - Vice Chairman of Executive Board & CFO - Drägerwerk Verwaltungs AG*

Thank you very much for the follow-up question. What I meant to say is we are flat on the R&D growth overall and we will see an increase in our R&D spending. We would also have been prepared to see a slight increase already in the first 9 months. And facing that uncertainty that, of course, projects into the fourth quarter as well. So depending on the ramp-up of the different projects, there will then -- there is some uncertainty around the R&D spend. But if I -- if the misunderstanding is, this is not, if you will, an uncertainty only in the fourth quarter, but already the result we already see in the current R&D spend.

Stefan A. Dräger - *Drägerwerk AG & Co. KGaA - Chairman of Executive Board & CEO - Drägerwerk Verwaltungs AG*

Yes. Your suspicion that could there be substantial delays in the road map that is actually not the case. So yes, we might not spend the full planned amount, but wait for Q4. And don't be too concerned about significant delays and changes in the movement, that's not the case.

Aliaksandr Halitsa - *Hauck & Aufhäuser Privatbankiers AG, Research Division - Equity Analyst*

Okay. And then since there are no other questions, I might throw in another one with regards to medical division. What are your expectations? By when and how will you be able to turn around the currently weak order intake that we are seeing?

Gert-Hartwig Lescow - *Drägerwerk AG & Co. KGaA - Vice Chairman of Executive Board & CFO - Drägerwerk Verwaltungs AG*

It will also be a longer period on the positive side at the back of the recently launched, Atlan, the A350. We expect an uptick in the CE markets in the anesthesia. And comparably, we will see, with the launch of new products, we expect gradual better development over the course, but not reaching the full potential, if you will, yet in -- not early 2020 in any case.

Stefan A. Dräger - *Drägerwerk AG & Co. KGaA - Chairman of Executive Board & CEO - Drägerwerk Verwaltungs AG*

Yes. I will share more thoughts on that. So Gert-Hartwig already mentioned Atlan, which we launched this year. And there is a significant launch on the ventilation field that is approximately 1 year later. And then it was significant on the monitoring field, maybe another year later. And launch means not immediately impact or jump because it takes time to get the approval for the different countries and all the different versions to actually have significant sales on that. So that having said, the -- I mentioned that the agreement that we have reached, I mean that's public, with our, say, labor force, that they waive salary increases in the year '20, '21 and '22. And they get it back in the years '23, '24 and '25. So you can take some indication from that timing.

Operator

Our next question is from Florian Pfeilschifter of MainFirst.

Florian Pfeilschifter - *MainFirst Bank AG, Research Division - Research Analyst*

Yes. Another follow-up question from my side as well. You say you intend to save, in your scenario, EUR 100 million over the next 3 years, so it's just assuming like EUR 33 million per annum. And the question I was just having here is that you basically say you would save around EUR 6,000 to EUR 7,000 per employee in Germany with this restructuring program. Is this about right?

Stefan A. Dräger - *Drägerwerk AG & Co. KGaA - Chairman of Executive Board & CEO - Drägerwerk Verwaltungs AG*

That's about right.

Florian Pfeilschifter - *MainFirst Bank AG, Research Division - Research Analyst*

(inaudible)

Gert-Hartwig Lescow - *Drägerwerk AG & Co. KGaA - Vice Chairman of Executive Board & CFO - Drägerwerk Verwaltungs AG*

However, it is not on a pro rata basis, since it is the -- is based on a flat salary development. So the base case is, of course, a gradual increase in the salary. So it's lower in the first year and higher in the last year than what you described.

Florian Pfeilschifter - *MainFirst Bank AG, Research Division - Research Analyst*

Okay. And so the wage increase would be -- would have been 3% per year.

Stefan A. Dräger - *Drägerwerk AG & Co. KGaA - Chairman of Executive Board & CEO - Drägerwerk Verwaltungs AG*

That is exactly right. So if the actual agreement is lower, our saving is lesser. And if it's higher, then we save more because we have agreed to keep it flat.

Operator

The next question is from Oliver Reinberg of Kepler Cheuvreux.

Oliver Reinberg - *Kepler Cheuvreux, Research Division - Head of Med Tech Equipment & Services Research*

Starting with Q4, can you actually share with us the order book or orders on-hand that you currently have year-on-year either reported or constant currency change?

And secondly, can you just remind us what percentage of your safety sales would you consider to be macro sensitive? So if you feel [bouncing] which percentage of safety would be affected here?

And thinking about sales growth next year, I mean it's a basic expectation, normalized sales growth on the back of some support from the product road map or should we think about there is rather kind of high base effect hence macro sensitivity and that would probably imply that we have very low sales growth here in 2020?

And last one, if that is the case, is there also a meaningful chance that we see no margin improvement at all?

Gert-Hartwig Lescow - *Drägerwerk AG & Co. KGaA - Vice Chairman of Executive Board & CFO - Drägerwerk Verwaltungs AG*

So taking your first question, the orders on-hand at the end of the third quarter is about EUR 480 million or so for the current year and full is about -- it's slightly below than what we had in the prior year -- in the prior year period.

Stefan A. Dräger - *Drägerwerk AG & Co. KGaA - Chairman of Executive Board & CEO - Drägerwerk Verwaltungs AG*

On the safety sales macro sensitivity, then -- that is quite different from the markets that are -- multiple markets that we all together call safety. What I recall from the last, say, real test in the year 2009 is we had some areas product and market where we had a decline of up to 70% in things like filters for light reading protection that directly go into the industry that really, to a larger extent, canceled existing orders and such. And overall, at that time, it totaled -- that actually was around, I would say, 3% for the whole of safety, where we were lower than we had originally planned. So some areas has a significant effect. But overall, it is quite some time delay and not -- and rather resilient, say, compared to other industries, is our safety. So I hope that gives you some let's say orientation, Mr. Reinberg, for your model.

The third question was -- could you help us with that?

Gert-Hartwig Lescow - *Drägerwerk AG & Co. KGaA - Vice Chairman of Executive Board & CFO - Drägerwerk Verwaltungs AG*

If we expect no margin improvement at all.

Oliver Reinberg - *Kepler Cheuvreux, Research Division - Head of Med Tech Equipment & Services Research*

That was actually a twofold question.

Gert-Hartwig Lescow - *Drägerwerk AG & Co. KGaA - Vice Chairman of Executive Board & CFO - Drägerwerk Verwaltungs AG*

Sorry, say that again, please.

Oliver Reinberg - *Kepler Cheuvreux, Research Division - Head of Med Tech Equipment & Services Research*

That was actually a twofold question. I mean if we consider that the sales base 2019 is relatively strong, we're probably safe to some extent the kind of base in particular from safety last year and compare that with some kind of macro uncertainty. Is there a chance that we may actually get the low-end of what you normally show in terms of sales growth? And if that is the case, do you also see a chance that we see no margin improvement at all?

Stefan A. Dräger - *Drägerwerk AG & Co. KGaA - Chairman of Executive Board & CEO - Drägerwerk Verwaltungs AG*

No, we don't think so. We -- since we rather believe that we will continue in that trajectory next year for the safety business.

Oliver Reinberg - *Kepler Cheuvreux, Research Division - Head of Med Tech Equipment & Services Research*

Okay. And sales growth overall, do you also expect rather kind of normalized year in terms of growth?

Gert-Hartwig Lescow - *Drägerwerk AG & Co. KGaA - Vice Chairman of Executive Board & CFO - Drägerwerk Verwaltungs AG*

Qualitatively, yes, and -- as I said earlier, but -- and we will share a more detailed quantification at a later point.

Oliver Reinberg - *Kepler Cheuvreux, Research Division - Head of Med Tech Equipment & Services Research*

Okay. So you're not concerned about the base effect? Because in particular, in safety, we had a strong year 2018 when you were growing I think 8% constant currency. Now you put 12% on top of 9 months. So that is an area where we face, probably, to some extent a kind of double year base effect plus some macro -- uncertainty?

Gert-Hartwig Lescow - *Drägerwerk AG & Co. KGaA - Vice Chairman of Executive Board & CFO - Drägerwerk Verwaltungs AG*

Yes. Still, there are no significant large tenders or anything that, if you will, which in the usual logic is one of the key reasons if there is a tender situation or so that would go away that would lead to a decline. And the driver is across all regions and in addition, the expansion in also some emerging markets like China.

Stefan A. Dräger - *Drägerwerk AG & Co. KGaA - Chairman of Executive Board & CEO - Drägerwerk Verwaltungs AG*

Yes and keep in mind that at the end of 2017, we decided to invest specifically in sales capabilities for, say, noncore, say, the capabilities where we needed some specific capabilities like, for instance, fire and gas detection systems sales and other specialties. And now -- what we see now is that the -- I can see that the fruit from these activities. So there's no reason to believe why that should not continue into the next year.

Oliver Reinberg - *Kepler Cheuvreux, Research Division - Head of Med Tech Equipment & Services Research*

That's great. And last question for me. When you said like there will not be a steep increase in terms of margin improvement, I mean if we assume normalized 100 basis points for the coming years, it's more likely a lead that we are going to see a kind of lower improvement in 2020 but you're committed to a margin improvement. Is that a fair description?

Gert-Hartwig Lescow - *Drägerwerk AG & Co. KGaA - Vice Chairman of Executive Board & CFO - Drägerwerk Verwaltungs AG*

You're referring to the EBIT margin?

Oliver Reinberg - *Kepler Cheuvreux, Research Division - Head of Med Tech Equipment & Services Research*

Correct.

Gert-Hartwig Lescow - *Drägerwerk AG & Co. KGaA - Vice Chairman of Executive Board & CFO - Drägerwerk Verwaltungs AG*

And yes, against the midpoint of the current guidance. Bear in mind that, clearly, depending on the outcome, there is some uncertainty in the fourth quarter. But against the midpoint of the guidance, yes.

Oliver Reinberg - *Kepler Cheuvreux, Research Division - Head of Med Tech Equipment & Services Research*

So just to clarify, normalized, we expect 100 basis points, and that is also possible next year? Or you're based on the midpoint?

Gert-Hartwig Lescow - *Drägerwerk AG & Co. KGaA - Vice Chairman of Executive Board & CFO - Drägerwerk Verwaltungs AG*

Okay. Based on the midpoint, to your earlier questions, we are committed to an improvement against, if you will, the midpoint of the guidance. Again, we haven't quantified it yet, and we will share the quantification of the guidance with -- at the beginning of 2020.

Operator

The next question is from Aliaksandr Halitsa.

Aliaksandr Halitsa - *Hauck & Aufhäuser Privatbankiers AG, Research Division - Equity Analyst*

Yes. To follow up on this expected margin progression from the midpoint, if we take midpoint to adjust the midpoint from the expected EUR 10 million of restructuring costs or how do you see that?

Gert-Hartwig Lescow - *Drägerwerk AG & Co. KGaA - Vice Chairman of Executive Board & CFO - Drägerwerk Verwaltungs AG*

Again, we will share the outlook and the quantification of our guidance for 2020 at the beginning of 2020.

Stefan A. Dräger - *Drägerwerk AG & Co. KGaA - Chairman of Executive Board & CEO - Drägerwerk Verwaltungs AG*

Yes. And the restructuring cost, we already gave the projection on the last conference call in August and that most likely will be included. And then now this time, we confirmed, it is included.

Aliaksandr Halitsa - *Hauck & Aufhäuser Privatbankiers AG, Research Division - Equity Analyst*

Okay. And then maybe on another topic with this salary waiver program. Does this also apply to newly-hired employees?

Stefan A. Dräger - *Drägerwerk AG & Co. KGaA - Chairman of Executive Board & CEO - Drägerwerk Verwaltungs AG*

Yes.

Gert-Hartwig Lescow - *Drägerwerk AG & Co. KGaA - Vice Chairman of Executive Board & CFO - Drägerwerk Verwaltungs AG*

Yes.

Aliaksandr Halitsa - *Hauck & Aufhäuser Privatbankiers AG, Research Division - Equity Analyst*

Okay. And this program that you are pursuing currently to enhance certain sales capability, does it also spread on Germany? I'm just trying to understand whether it's kind of plays against you in a way because it certainly undermines your attractiveness as an employer for perspective hirees.

Stefan A. Dräger - *Drägerwerk AG & Co. KGaA - Chairman of Executive Board & CEO - Drägerwerk Verwaltungs AG*

Yes, but that could be, say, we've considered, on an individual basis. So, so far, we have never really elaborate in this point. What we rather see is a beneficial situation because it makes technology for life, and that makes great sense, and that is what more and more people ask for.

Aliaksandr Halitsa - *Hauck & Aufhäuser Privatbankiers AG, Research Division - Equity Analyst*

Okay. And then just to confirm lastly, on the constantly high safety order intake that you're seeing, very strong dynamic. So you would kind of expect it to be a more or less sustainable going into your next quarters? Is that what you were saying?

Gert-Hartwig Lescow - *Drägerwerk AG & Co. KGaA - Vice Chairman of Executive Board & CFO - Drägerwerk Verwaltungs AG*

Thank you for the opportunity to clarify that. We expect a continuous momentum in our safety orders. I would caution, and I would be cautious myself, to use, if you will, a quantified method. I'm sure you didn't mean that, but you could -- we do not plan the same level quantified in order intake growth given that we do see some macroeconomic risk that are rising. And I want to confirm what we have said earlier, yes, we do see safety growing into 2020 given that we see very good growth of our safety business in 2019 and in 2018. And that is supported by the -- our competitive product portfolio and our investment in certain sales capabilities, among other things.

Operator

The next question is from Oliver Reinberg of Kepler Cheuvreux.

Oliver Reinberg - *Kepler Cheuvreux, Research Division - Head of Med Tech Equipment & Services Research*

Do you allow me one follow-up? I was just wondering the comment that you made at the beginning in terms of giving some kind of color for 2020, I think normally you don't do that. So what actually triggered the decision to issue some kind of cautionary remark? Is that also related to the fact that you may not feel fully comfortable where stood the expectations are? I think on Bloomberg, we currently find a margin of 3.8% for next year?

Gert-Hartwig Lescow - *Drägerwerk AG & Co. KGaA - Vice Chairman of Executive Board & CFO - Drägerwerk Verwaltungs AG*

As I said earlier, we will provide the full year guidance for 2020, as we usually do for 2020, and we do share, within that boundary condition, we share our outlook for the fourth quarter and for 2020, which we also normally do. And of course, the question always comes up at the end of the year and in Q3. From my memory, it's not unusual to the degree that, that is perceived as perhaps more than the last third quarter, then that's not intentional. And I'm quite certain that we are committed similarly, also in prior years, on the development not only for the current year. We are a bit cautious, and I ask for the understanding that we do not quantify the outlook for 2020 at this point, since we are still in the planning process and haven't finalized it yet.

Operator

There are no further questions in the queue.

Stefan A. Dräger - *Drägerwerk AG & Co. KGaA - Chairman of Executive Board & CEO - Drägerwerk Verwaltungs AG*

Okay. So if there are no further questions in the queue, at this point in time, I would like to thank everyone on line with us for being with us today, for your question, your interest in today's call. So I look very much forward to seeing -- talk to you soon. Thank you very much. Have a great afternoon and bye-bye.
