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Half Year 2019 Draegerwerk AG & Co KGaA Earnings Call

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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. You can listen to the recorded conference for the next 7 days by dialing +49-3-0868-757-330 for German or +49-3-0868-757-360 for English menu navigation. The PIN code for the replay service is 892126, followed by the # key.

The management presentation for the following conference is available on Dräger homepage www.draeger.com. Press investor, and there you will find the presentation under Financial Calendar. May I now hand you over to Mr Stefan Drager, 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. This is Stefan Dräger speaking, and I have with me today Gert-Hartwig Lescow, the CFO; Melanie Kamann, Corporate Spokeswoman; and Tom Fischler, Investor Relations.

We would like to guide you through the presentation covering our results for the first 6 months, which we made available on our own page this morning. And I will start with a high-level overview over the business development and the demand trends that we have seen in the regions, before Gert-Hartwig will go into the financial details of the quarter and 6-month period. I will close the presentation with an outlook and an update on our ongoing reorganization activities. 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.

Mid-July, we had published preliminary figures. In the final set of figures published today, there are no meaningful deviations to the figures that you already know.

Let's get started on Page #3 with the business highlights of the first 6 months. A short look back where did we stand after Q1. As you are probably aware, we had a very strong start into the year. We reported year-over-year net sales growth of some 20% in Q1. However, we need to put these figures in perspective since we had a very weak net sales development in the first quarter 2018. That means that the comparable figures are not demanding. The substantially higher net sales volume was responsible for the strong year-over-year EBIT improvement in Q1 of some EUR 30 million.

In the second quarter, our business development continued on the growth trajectory, where we compare those the figures of the prior year being back to normal again. The relative year-over-year net sales development is on a more normalized level again. Net sales growth in Q2 is plus 2%, which is fully in line with our full year net sales guidance. For the 6 months period, this adds up to some 10% growth. A slight positive effect from FX brings the normal growth rate to just below 11%. Year-to-date EBIT is substantially above the level 1 year ago, mainly due to this very good top line development. But positive net sales development so far has not yet translated into an overproportional higher gross profit. In addition, functional expenses have increased in line with our investment program to strengthen specific sales capabilities and R&D. EBIT remains negative with some minus EUR 12 million.

Now let's take a look at some of the top line trends within our region.

On Page 4, order development. We start with the group figures on the lower side of the chart. For the 6-month period order intake for the

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Drager Group increased by 3.1% year-over-year on a constant currency basis. We had some slight currency tailwinds supporting our growth. In nominal terms, order intake is up by 3.7%, amounting to roughly EUR 1,320 million. While in the first quarter, demand was characterized by strong growth in safety and declining order entry in medical, the order situation in the second quarter has normalized. In Q2, medical returned on a growth trajectory, so that both product areas, safety as well as medical, reported higher order figures again. In safety, growth for the 6-month period was very good with more than 12% increase. All product areas contributed to the rise in order intake. Gas detection products, safety services business, respiratory And personal protection products and echo detection devices, all saw higher orders, in some cases significantly. Also, all regions contributed to growth. Growth in the regions America and AAA was particularly strong, with some 20% year-over-year increase.

In Medical, order growth for the 6 months period is still slightly negative with minus 2%. But as I said, order entry returned to a growth trajectory in the second quarter. Order entry in the region America was especially strong with some 9% increase, while the regions, Europe and AAA are still below the prior year's level. Product-wise, demand was driven by our service business, vomit therapy devices and hospital (inaudible).

Now some comments on the development within the regions, starting with the region America, on the top of the chart. The Americas region is reporting good order growth. After a decent start into the year with order intake increasing by some 7% in Q1, order dynamics improved further during the second quarter. After 6 months, the region America has increased orders by some 12%. Additional FX tailwind brings the nominal or growth rate to 15%. Orders are increasing in North America as well as in Central and South America. But we do not expect this strong growth momentum to continue in the second half of the year, at least not for the North American market. Against our expectation, at the beginning of the year, we have not received FDA clearance for the software version, VG6, for the Drager Infinity Acute Care System, and we no longer expect to receive an approval for the U.S. market this year. While this clearly is a setback for reaching our growth targets of our medical business in North America, we expect other regions and product areas to compensate for the shortfall this quarter.

Moving on to Europe. While region Europe reported order growth in the first quarter, order momentum slowed down a bit during the second quarter. For the 6 months period, order intake rose by 1.3%, net of currency effects. The positive demand trend in Germany and France, for example, was partially offset by a decline in demand in Austria, Spain and Russia. Areas with the strongest growth were gas detection products and the safety service business. The medical business so far was not able to grow in the first half of the year but order entry improved a bit during the second quarter compared to the first quarter. In our AAA region, Africa, Asia and Australia, order intake in H1 was nearly flat year-over-year after a slight decline during Q2. Safety orders came down a bit from a very high levels during the first quarter. And in contrast, medical orders improved during the second quarter after a very slow start into the year. China remains a strong contributor to our order entry growth, where we saw higher orders in our medical and especially, in our safety business.

In the Middle East and Africa, on the other hand, we could not increase our orders against a strong prior year, which included a large medical order from Africa.

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 also would like to welcome everybody to our conference call and the results of this first 6 months. Before I start with 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 ceded otherwise.

As a reminder, the application of IFRS 16 has been mandatory since the beginning of the year. Companies must recognize the leased assets at their respective value and use and recognize the corresponding payment obligations as a liability. These changes affect several of Dräger's key figures. During our last call in April, we had shown the consequences of this change in accounting in some detail. In the appendix of today's presentation, we have added a slide with an overview of the impact of the key figures caused by the accounting changes. Please turn to Page 5 for a review of Dräger profit and loss.

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After we had reported strong net sales growth for Q1, the positive top line development continued in Q2. In the second quarter, net sales grew by some 2% over the prior year's quarter, corresponding to some EUR 50 million additional volume year-over-year. Unfortunately, quarterly earnings did not improve in line with the higher volume. Due to a lower gross profit margin in the second quarter and slightly higher expenses, EBIT stayed at some EUR 4.7 million, below the prior year's level. The gross profit margin in Q2 was 42.6%, a slight improvement over the margin level in Q1, but a decline by about 70 basis points compared to the Q2 level, 1 year ago. Clearly, we would have liked to see an improvement in our relative gross profit in line with the higher net sales. A key reason why this did not materialize is an unfavorable product mix in the quarter, but lower price enforcement also contributed. Currency effects only played a minor role. In total, higher volume, lower gross margin and slightly higher expenses, our quarterly EBIT is still negative -- it's still a negative territory at about minus EUR 1.5 million. Looking at the 6-month period, this adds up to a total top line -- to good top line development. Order intake is growing in all 3 regions and is in line with our full year net sales guidance. Net sales volume has strongly improved, again, reporting growth in all 3 regions, but to be fair, against an undemanding prior year. The year-to-date gross margin of 42.4% is on par with last year's margin. Functional expenses increased as planned and at a lower rate than net sales, resulting in higher earnings for the group. As a result of the higher Q1 EBIT, earnings have substantially improved year-over-year. But after 6 months, EBIT is still negative with some minus EUR 12 million. This is, however, not unusual as we typically generate a high share of our full year profitability in Q4. The net impact from currencies is of minor relevance this year. While FX had a slightly positive impact on the nominal net sales development, there was no meaningful net impact on the gross margin and year-to-date EBIT margin. Based on spot rates, we expect a similar situation for the full year, slight of support for net sales development and no material impact on margins coming from currency effects.

Turning to the expense development on Page 6. In line with the investment plan to strengthen R&D and specific availabilities in sales and service, functional expenses increased by 4.3% for the first 6 months. Including negative currency effects on functional costs, the increase in nominal terms amounted to about 5% compared to the first quarter, when expenses increased by 7.3%. The expense increase have come down during the second quarter. In Q2, expenses increased by 1.6% only. For the 6 months period, expenditure on sales and marketing increased by about 5%. Factors behind this rise include planned increases in sales and service headcount as well as wage and salary increases. Net of currency effects, admin expenses and R&D expenses were nearly flat in the first 6 months compared with the prior year in which R&D expenses have grown quite strongly by about 10%.

For the full year, we continue to expect R&D expenses of up to EUR 275 million, which means we will have a higher run rate of R&D expenses during the second half of the year. This higher run rate includes updated stronger requirements from regulatory bodies, like the FDA, to enhance the cybersecurity features in our software and for driving the development of our technical platform strategy forward.

Please, let's move on to see how some of the key other ratios have developed in 2019. Please turn to Page 7. In the first 6 months, Drager managed to improve free cash flow by roughly EUR 100 million, delivering a slightly positive free cash flow of EUR 2 million. Cash from operating activities delivered an inflow of EUR 31 million versus a cash outflow of some EUR 67 million out, 1 year ago. This positive development of close to EUR 100 million improvement was driven by the higher profitability. EBIT is roughly EUR 25 million higher as well as a better development of the trade receivables. But also the increase of inventories was below the level last year, with positive effects on cash flow. Next to that, the improvement in operating cash flow also includes an accounting effect. The introduction of IFRS 16 has a strong positive impact on cash flow from operating activities of roughly EUR 20 million. Cash outflow for investment was on last year's level. The strong year-over-year increase in net financial debt of some EUR 92 million has mainly to do with the changed accounting of leasing contracts under IFRS 16.

On a comparable basis, net debt would have improved compared to Q1. Net financial debt, in fact, has slightly improved, leverage of the group remains conservative, net debt-to-EBITDA remains below 1, and last point, the development of the Drager value added. Due to the lower rolling EBIT and higher average capital employed, the 12 months DVA decreased by roughly EUR 22 million to minus EUR 8.1 million year-on-year. Capital employed substantially increased, primarily as a result of the first-time application of IFRS 16, but also higher net working capital was a factor. The increase in receivables of 7.5% in inventories, plus 12.3%, also contributed here. For the full year, DVA will remain in negative territory. With this, I would like to hand back over to you, Stefan.

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

Thank you, Gert-Hartwig. Ladies and gentlemen, let me close the presentation of the financials with the outlook for the current fiscal year. Despite the macroeconomic figures heading South, Drager's market conditions still remained quite healthy. In the past 2 quarters, our top line development is as good, currency adjusted order entry growth remained positive at around 3% and net sales development was strong, with roughly 10% increase over the prior year.

For the full year, we expect to reach the higher end of our net sales guidance of currency adjusted 1% to 4% growth. While currencies are supportive on reported net sales, the impact on the gross profit margin is of minor relevance. And unfavorable product mix, and in some cases, a lower price enforcement, currently are burdening the gross margin. If this environment prevails, the full year gross profit margin would rather trend towards the lower side of our gross profit margin guidance of 42% to 44%. As a result, the EBIT guidance remains unchanged. That means, we continue to expect the full range of our EBIT margin guidance of 1% to 3%. Before we close the presentation, I would like to give you an update on the status of our reorganization activities, which is an evolution of our One Drager program. In that program, we have learned to differentiate between useful diversity, where it makes sense, that is beneficial for the customer, such as dedicated sessions, and unnecessary diversity, that has no benefit, such as different systems for one and the same purpose, such as accounting or a e-mail. What does this mean now? We are keeping the One Dräger global sales organization structure according to the existing regions, Europe, Americas and the AAA.

Remember, 3 years ago, at the beginning of 2016, we already went through a change in our governance model, giving more power to the regions and countries with one single person responsible and in charge for each unit, and shifting much more decision power to the regions, empowering the local entities to operate as entrepreneurs. This has proven to work well, and clearly-assigned responsibilities led to an effective containment of expenses in the regions and countries in 2016. While in headquarters in Lubeck, we needed a mandatory cost-cutting program. In the regions and countries, customer orientation, dedication and entrepreneurship are high. The only aspect we will change here is, going forward, all 3 regions will be reporting to one Chief Sales Officer on the board level. Next, to the global sales performance, additional responsibilities are allocated here like the global key account management and other sales enabling and excellence function.

Now as the next step in our evolution of our organization, we have decided to strengthen our organization regarding our medical business and our safety business at our headquarters in Lubeck. Here in our headquarter, we have become too remote and disconnected for our customer and business needs. We are, therefore, reintroducing business responsibilities for our medical and safety business as divisions, each headed by a board member. The divisions have full responsibility for the product. Product marketing, product development, the respective supply chain and the quality assurance is all in a sole responsibility of the medical or safety division. What they do not have is the sales responsibility, hence, they do not have the sales resources. They are allocated to their third pillar, the global sales and service organization. To allow the divisions to deal with a different nature and diversity of the respective customer base, we have chosen 2 slightly different structures for the medical and safety.

Now on the first slide, this is Page 9, we have illustrated the rough structure of the Medical division. In the Medical division, we basically have only one vertical segment, the hospital that we serve. So of course, within the hospital, the requirements can be very different, whether, for example, you are talking about installing a new intensive care unit or if you are supplying consumables to a nearly just-in-time based. But the organization of the Medical division does not need to take completely different verticals into account, like it is the case in the Safety division. The Medical division will operate in five business units. Each business unit forms a group of employees that are fully dedicated and passionate for their product and the customer needs associated with the type of business. The largest unit in terms of net sales and employees is the business unit therapy. This business unit combines our traditional core business has this anesthesia devices, ventilators and thermoregulation equipment. This is an area where we have strong market positions and long-standing business relationships. The unit operates from our locations in Lubeck, Shanghai and Telford, which is near Philadelphia in the U.S. In patient monitoring, we currently do not have the same strong market share, like in the other therapy product areas. So here, the challenges are different. And that is why we are organizing the management of this business in a separate business unit. Patient monitoring is an essential part of our hospital strategy. It will be focusing on driving forward network systems in close cooperation with the business unit therapy and also with the business unit IT and systems, the next business unit on the chart. This business unit, IT and systems, will be focusing on developing and marketing new digital- and data-driven services. That means, software applications and

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system products that work on or with our therapy devices. This is a business that today does not have a similar net sales share, like the other business units, but it is a strategic growth area, which we will build new business models that are asset-light and technology-intensive and at the interface of our devices to IT systems. The business unit will operate in: Lubeck; Andover, that is near Boston and Massachusetts; and Telford, as I said, in Philadelphia. So the next business unit, workplace infrastructure, combines the business with infrastructure supply units, medical lights and gas management system. This is predominantly project business with special business mechanics. And therefore, it makes sense to manage this business separately.

Next to the operations here in Lubeck, the business unit will also use our plant in Shanghai and our facility in India, in Mumbai, to better cater the needs of customers from the emerging markets. And finally, the business unit, hospital consumables and accessories, focus on the fast turning business with device-specific and generic consumables and accessories. The requirement from customers in this business are very different compared to the device business. Key for being successful is an efficient supply chain to guarantee high availability. This is also one of the reasons why, unlike to the structure and the Safety division, we have included the full responsibility for the supply chain into the business units. Management of the business unit has full decision power to design the supply chain according to the needs of this kind of fast-turning business.

Page 10, the safety division. In the structure for the Safety division, as I said, we have chosen a slightly different approach for the safety business, as there we are serving customers from many different markets and industries, each with specific customer requirements. And we have therefore defined 3 business fields that each have similar requirements when it comes to the sales channels, supply chain and key products they require. The main criteria here were the channels, how to access the respective business field.

The first business field is processing industries. It combines customers from industries like oil and gas, chemical, pharmaceuticals and others. These customers are often multinational global industrial companies. Their key topic when it comes to safety is process and asset management as well as safety outcome. Many of them are following a vision-zero approach. That means, designing their processes and workplaces to reach a level of zero accidents. These customers require high-value service offerings, often with outsourcing and OpEx-oriented business model. Many of these customers are served best directly through a global key account management organization with high consulting expertise. Product-wise, the gas detection business, mobile and fixed gas detection is the most relevant for these customers. We have, therefore, given this business field, the responsibility for managing these products. Remember, the products are not the main, but only the secondary criteria. And the product assigned to one field are also needed by the other fields.

The second business field is manufacturing industries. It combines customers that are often small- and medium-sized enterprises. They come from a broad spectrum of industrial markets. Hence, in this business field, we have the highest number of customers. Often, their demand is driven by the need to comply with increasing safety regulations. Easy access and fast availability are key success factors to meet these requirements. In many cases, indirect distribution through channel partners is the best choice, but also digital distribution channels will become more important in the future. Product-wise, personal protection equipment and light breathing protection are managed in this field. Last but not least, the third business field is emergency and rescue services, a combination of customers from fire services, mining, defense and law enforcement. These customers are predominantly public authorities, like fire departments or police authorities. Sourcing by these customers is often financed from governmental and public ports through tender processes and within standard fiscal budgeting frame. So for us, that means to focus on a norm- and regulation-driven technical requirements. Product-wise, heavy breathing equipment is one of the key products for these customers, and hence, these products consequently will be managed in this business field. The safety division is best served with continuing the functional setup in R&D, production and quality assurance. Therefore, and to minimize complexity and to maintain Dräger mark, these responsibilities will not be included into the management of the business fields.

To sum it up, we believe that the setup chosen for our medical and for our safety business, together with one sales and service organization, is the best solution for Dräger. It will facilitate the improvements that we are working on, and it will enable us to achieve the goal of being first choice for our customers by having the right diversity and specific channels to serve our customers and markets and still benefit from synergies and scale effects where diversity does not add value. In the headquarters in Lubeck, we're introducing a clear allocation of responsibilities. Small passion groups that are driven by a joint responsibility for a defined product area and the high degree of identification across the various departments of the respective units. Teams with clear goals , increased visibility of individual contribution and team success will reinforce customer focus, in the regions, yet keeping the empowerment, which we introduced in 2016

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and which has proven to work well. In the next months, we will finalize the setup on a more detailed level, including the assignment of the right resources needed in each unit. Therefore, the open question on possible restructuring charges is not finalized yet. But as we have said before, do not expect a lay of program similar to the one that we did in 2016. We do not expect restructuring charges to have a material impact on the financial results and have included the effects in our annual guidance. A new organization, that go-live as of January 1, 2020. And we already announced that we will then report our primary segments as medical and safety and keep the regions as a secondary report for your information.

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) And the first questioner is Falko Friedrichs from Deutsche Bank.

Falko Friedrichs ***Deutsche Bank AG, Research Division - Research Analyst***

I would have 3, please. Firstly, at the beginning of the year, you mentioned that you might have to incur a few additional restructuring costs in relation to this reorganization of your segments. So did you actually incur some of these in the first half? And if not, do you still expect some in the second half? Then secondly, could you elaborate a bit more on the drivers behind the improved performance in medical in the second quarter? And do you expect this positive development to continue in the second half of this year? And then thirdly, how good is your visibility into 2020 developments at this point in time? And without giving a specific guidance, obviously, do you continue to be positive that we should see improvements on your margins and -- again next year?

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

Okay. Stefan Dräger speaking. On the restructuring cost, yes, you remember that correctly, that we were not -- sorry, we did not guarantee that there would not be any restructuring cost coming. And we did not qualify either. Where today, as I just said, at the end of my little presentation, do not expect restructuring charges to have a material impact, and we have included the effects in the annual guidance. So no surprises at this time, we can actually exclude the surprises. And so that's the story of first question.

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

And to your second question, we have overall seen a better development in many areas, especially on the after sales side of the business, services, consumables and accessories, but also on some of the equipment side in ventilation areas that are still not as strong, include our monitoring business.

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

And we have, in the meantime, launched the Athlon, new anaesthesia family of products, and that -- and in our last call, I remember, we could not disclose this as we were shortly before the launch in public, and we did so on our Annual General Assembly of the Shareholders that was a day after the official disclosure. So that is now disclosed. And it's received very well by the public and the customers, and we expect to see some relevant sales on that for the remainder of the year as well. It's not yet in the second quarter figures included, but it's now officially disclosed.

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

And for your third question, why we will not give a concrete guidance for 2020 at this point. There are clearly some positive elements, including the restructuring that Stefan Dräger presented. On the flip side, we have seen in the second quarter, a weaker gross profit margin. And while this will -- while with -- this will see improvement with new products, like the Athlon, it may be growing steadily into 2020. So the gross profit margin improvement from new products may not be as rapidly as previously expected, but there is an area of uncertainty around it. So we will inform the clear -- the concrete guidance with the publication of the full year result to the latest for 2020.

Operator

And next up is Florian Pfeilschifter from MainFirst Bank.

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

Yes. I have 4 questions. The first one would be on safety? And what reasons do you see for the very strong development of safety over the recent quarters? My second question, again, about safety, whether you do see a slowdown in the safety's momentum as order intake this quarter was significantly below sales growth here? Then the third question was, would it be possible to -- yes, accelerate the product launch schedule? You mentioned a bit this in the call to improve margins more quickly. Then -- I actually have 5 questions, I just realized? And then do you see any indication that markets in Europe will turn better again in the second half, I mean, this has been by far the weakest markets so far in the first half of the year? And finally, when will we see results from restructuring in the numbers? And how will we notice them?

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

Number 1. Reason for the safety being strong is the -- that, in general, that -- the markets are healthy and have a very good underlying the -- perspective, and we have a competitive product portfolio. And the third element, we have strengthened our specific channels and skills needed in the organization. As we have announced at the end of 2017, we said we will invest in specific sales capabilities. And so that is already starting to pay off. In all three together, healthy markets, say, competitive product portfolio offering and, say, a capable and specific sales channel can contribute to the good development. And your second question, do we see a slowdown coming. Not a material or significant slowdown. As always, some little up and down in the noise. And in general, we keep repeating that the quarterly figures should not be over interpreted. So if we look at the longer terms, the underlying trend it puts -- still it's a very strong. That's not guarantee that it's actually expressed in each and every single quarter. But the general trend is positive, if these elements are considered, and we do not see a slowdown coming. So that's your first 2 questions. And next was, can we accelerate the launch schedule. Of course, this would be desirable. And that is the other element of our investment program that we announced at the end of 2017. Why we have reduced profitability for '18 and '19. That's what we said. Because we have beefed up our expenses and spend more for R&D to accelerate the launch schedule. That is exactly the purpose, but it can only be done to a limited extent, say, for general resource reasons. And it is obvious that this is always a compromise. So it's already somewhat accelerated and it's not reasonably possible to do it much faster than it actually is. So fourth question, Europe. Gert-Hartwig...

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

For Europe, please do not take the second quarter, necessarily as an indicator. There are quarterly fluctuations. We're in line to achieve our overall growth for Europe for the full year. And even in -- within Europe, it's a difference between the different countries. There are countries that were -- that are currently developed quite well, Germany and France. Some at this point are more challenging, like Russia. And in Russia, we also have larger tenders that then influence the quarterly outcome. So overall, we expect to reach our target there. From a product point of view, also in Europe, our safety business is developing very favorably. So a similar pattern and as globally. And we -- and also, please keep in mind that Europe as a region, based on the maturity of the markets, our high market share is generally not developing as fastly -- not growing as fastly as the 2 other large regions.

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

When can we expect results from the restructuring, was your last question. Well, to -- probably, overall, it's good to not expect a jump in any parameter, in particular, not in bottom line regard, because the effect of the restructuring is systemic. I mentioned, we are not planning mass layoffs or some other of that type. It affects more the way we work and work together and how our efforts then translate into output for our customers. And this then translates into improved bottom line. It will work gradually. We will see the effects. And some of that, say, of course can start immediate, but it takes time strategic to fully develop and unfold all the effects over essentially several years.

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

Okay. Maybe one follow-up question to your competitive product portfolio in the safety area. I mean, your gas detection business is very, very new. This is also apply for the other products, like firefighter equipment or personal productive equipment and self-containing pressing -- [presselisers] as well?

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

You mean up to date. And of course, we have invested across the portfolio. In fact, we are in the process for our SCBA, the breathing apparatus for the approval in the U.S. market and expect to receive the approval. We have to see with the rest also. But the sales

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initiatives we're geared for, on the gas detection systems in particular. But there's no, if you will, significant difference in the newness of the portfolio.

Operator

The next question comes from Aliaksandr Halitsa from

H&A.

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

Just one question on your investment program. You already mentioned that the R&D expenses will trend higher in the second half of the year. Could you comment how should we expect other functional costs to develop, in particular personnel?

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

So the overall -- the expectation of functional cost is within our guidance. We have, for the R&D, about EUR 275 million and the sales and marketing costs, also the other key elements for our functional cost will grow on a similar -- with similar speed as in the first half of the year. Your other question, I think, refers more to the cost type, personnel cost versus other costs. The personnel cost is in Germany driven by the (inaudible) EGM. So we're talking about around 3% growth on the cost type, which affects all different costs, so R&D, sales and marketing. In some countries outside of Europe, the cost -- the personnel cost inflation is even higher. Overall, the cost -- personnel cost will, of course, also increase by the higher headcount that we expect for the full year, mostly driven by service, sales and R&D.

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

So you still expect higher additional personnel in the second half of the year?

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***

And then another one, just a clarification. You -- I think you've mentioned that your EBIT margin guidance already includes potential reorganizational restructuring charges. Yet, in your presentation, you have the footnote, we thought that the -- any associated costs are excluded. If you could clarify that better?

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

Yes. Thank you for the opportunity to clarify that. So smaller adjustments that we currently see are included in the guidance to the degree that a larger restructuring results that may be in addition to the guidance. Currently, we have no concrete plans for that.

Operator

(Operator Instructions) Gentlemen, there are no further questions.

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

Okay, if there are no further questions, then we would like this opportunity to thank everyone being with us today for your interest. And so please stay with us, and look forward to meet and hear from you again. For now, thank you all, and good afternoon to you, and goodbye.

Operator

The conference is no longer being recorded.

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