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Half Year 2023 Draegerwerk AG & Co KGaA Earnings Call

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PRESENTATION

Stefan A. Drager ***Drägerwerk AG & Co. KGaA - Chairman of the Executive Board - Drägerwerk Verwaltungs AG***

Good afternoon, and thank you for joining our conference call on our financial results for the first half of the year. I have with me Gert-Hartwig Lescow, CFO; as well as Tom Fischler and Nikolaus Hammerschmidt, both Investor Relations. We would like to take you through the results of the first 6 months of the year with a presentation that we made available on our web page this morning. Following the presentation, we will open the floor to your questions. We already published the preliminary figures 2 weeks ago. In the final figures we published this morning, there are no meaningful deviations to the prerelease.

Let's get started on Page 5 with the business highlights. 2023 is a year we will return to growth and profitability. To achieve this, we are focusing on leveraging intact market growth, improving our supply capabilities, increasing our prices, optimizing our free cash flow and strengthening our cost awareness. So far, we have made good progress in this.

In the first 6 months of 2023, our business development has improved significantly after the disappointing year '22. With a strong boost in net sales and clearly positive earnings, we are well on track to return to growth and profitability in 2023 as planned. Our recovery was supported by several factors.

On the sales side, we benefited from our orders on hand, which were extraordinarily high at the beginning of '23. This was due to the strong demand for our products in '22, combined with the global supply chain disruptions, which hindered us from completing and delivering the orders to our customers. Therefore, we had to shift a notable part of the orders from '22 to '23.

In addition to the high orders on hand, we are benefiting from improved delivery capabilities. Thanks to our easier procurement of electronic components, we were able to complete and deliver many products more quickly again and in the end, generate more net sales.

Last but not least, our net sales benefited from the temporary boost in demand for ventilators in China, which increased significantly after the relaxation of the COVID policy and the sharp rise and infection numbers at the end of '22. That said, it is important to notice that in the meantime, the impetus has weakened and demand has normalized again.

The net sales boost in the first half of the year was a major reason for our improvement in earnings, but also our active price management paid off. Inflation remains high, but our price increases have largely offset the negative effects. This had a positive impact on our margins.

When it comes to our order development in the first 6 months of 2023, we are not quite satisfied. Compared to the strong previous year's demand, orders declined slightly due to the weaker demand in the medical division. We do not consider this to be Dräger specific nor being structural. In general, our markets are intact, as demand will recover. But currently, demand development, particularly in the AAA region and our Medical division remained below our expectations.

On the other hand, our European business is performing well overall, especially in our safety division. As of now, our order book remains high, a good basis to continue our growth path in the second half of the year. In addition, we possibly also could see better demand in the Americas region, following the recent approval of new products. In the first half of the year, we received FDA clearance for several products such as the Babylog VN600/VN800, the Babyroo TN300 and the Evita V600/V800 as well as VentStar Helix. And last but not least, earlier this week, we received the important FDA clearance for our Atlan anesthesia devices.

Speaking of new products, let me give you 2 examples of innovations that we have launched in the first half of '23. In our safety division, we expanded our offering in the field of mobile gas detection by launching the portable multi-gas detector, X-am 5800. The device is optimized for personal monitoring of people and depending on the central configuration, measures up to 6 gases simultaneously. The newly-developed CatEx sensor is very robust and can be set to measure flammable vapors such as gasoline, diesel and nonane as well as gases such as methane, propane or hydrogen as well as many others. In addition, the sensor is particularly resistant to poisoning by silicon or pollutants.

The X-am 5800 can be used with our cloud-based software solution Gas Detection Connect, digitizes device management and enables live data transmission. The gas detector transmits data via Bluetooth to a smartphone, which then sends it to the Gas Detection Connect cloud. Users can then securely access their data at any time via the internet.

Another innovation in the first half of '23 was our medical software solution, Lung Protective Ventilation Analytics - Anesthesia LPV-A, which empowers clinicians to analyze interoperative ventilation for a wide range of patients, helping to improve patient outcomes and overall safety during anesthesia. In addition, the software facilitates training to improve adherence to lung protective ventilation strategies.

This is beneficial for patients because it can reduce postoperative pulmonary complications and support faster recovery. For health care providers, it can result in cost savings by helping to reduce the occurrence of costly cases by proactively monitoring and identify ventilation problems. Both products are great additions to our portfolio.

Ladies and gentlemen, as you certainly know, quality and innovation is at the heart of our company, which is the reason why Drager has an excellent reputation all over the world. Our products are developed to meet even the highest standards. And when we become aware of a potential risk, we do everything we can fix potential problems at our products and keep harm away from our customers. One such case is a recently published corrective actions on our Carina ventilators. The Carina is ventilator we produced up to the year 2019.

During standard tests, concentrated to a particular volatile compound that measures that exceeded the acceptable uptake levels during continuously for over 30 days in pediatric patients. While there have been no injuries or death related to this issue, we move certainly to implement corrective actions once we became aware of the potential risk from the use.

Meanwhile, the TÜV Süd has conducted a special audit and confirms the appropriateness of our action. We are well on track to implement these actions and the expected cost for this feared action is in a low single-digit million euro figure.

In May our Annual General Meeting approved the dividend proposal, which due to the operational loss of last year, only was the minimum dividend. I would like to reaffirm that we are going to increase the dividend forward if we succeed in delivering our plan to return to profitability in 2023.

Another point, I want to highlight again is our progress in regard to sustainability. We have recently established a global sustainability office that reports directly to me. This is to manage our sustainable activities in the future in a targeted way that is aligned to our impact. We are expanding our plans to achieve climate neutrality, preparing for the requirements of the CSRD and implementing the ESG criteria step by step in our operations.

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

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

Thank you, Stefan. I also would like to welcome everybody to our conference call for our results for the first half of 2023. Please turn to Page 7 for a view on the Drager Group. As usual, I will be stating currency-adjusted figures whenever referring to growth rates. Following the trend of the first quarter order entry was around 1% below the high prior year figure in the second quarter. When we look at the first 6 months of 2023, order entry amounted to some EUR 1.6 billion, which is slightly about 1.5% below the prior-year figure but well above most preceding years.

Growth from Europe in Q2 was offset by a decline in the Americas and AAA. There was a pronounced difference in the demand development of the 2 divisions. Orders in the medical division, declined by 5.3%, while orders in the safety division rose by around 5%. I'll get into more detail in a minute.

In contrast to order entry, net sales increased strongly against the prior year. In Q2, net sales grew by around 21%, to approximately EUR 771 million, bringing the total after 6 months to more than EUR 1.5 billion, an increase of 20% against the prior year. Both divisions achieved considerable growth in all regions, thanks to the very high order backlog at the beginning of the year and the improved delivery capabilities. In addition to this, the Medical division also benefited from China as Stefan mentioned earlier.

Gross profit margin in the second quarter was also well up from the year-on-year. This improvement of 4.5 percentage points to 43.1% was due to more effective price management and higher capacity utilization and production service. This brings the gross profit margin to 44% after 6 months, an improvement of 3.6%. Based on the higher net sales, which came at a higher margin, the absolute gross profit grew strongly to EUR 332 million in the second quarter to roughly EUR 675 million in the first 6 months. A growth of around 28% compared to the first half of 2022.

Cost control remains high priority throughout the organization. In the second quarter, financial costs were actually more than 2% lower than in the prior year quarter, resulting in a stable cost development at constant currencies for the half year. As a result of significant increases in sales and gross margin and effective expense management, our EBIT in the first half of '23 was clearly above the prior year figures in both quarters. With EUR 18.7 million our EBIT in the second quarter led to an EBIT margin 2.4%, bringing the total EBIT of 6 months to roughly EUR 48 million, 3.1% of net sales.

Our Dräger value added also improved over the course of the first 6 months, but it's still in negative territory since the DVA takes the earnings of the last 4 quarters into account including Q3 and Q4 2022, which contributed negative results. Overall, we achieved good results in the first half of '23 especially against the backdrop of the headwinds from currency effects as the euro strengthens against several foreign currencies that are relevant to us.

Despite currency hedging, our earnings were burdened by the exchange rate development of the Chinese yuan, the South African rand and the development of the 2 hyperinflationary currencies in the Turkish lira and the Argentine peso. Consequently, the reported nominal top line figures are roughly 2% to 3%, below the currency adjusted figures.

Considering the usual seasonality at Dräger in the last 5 years, the operating results of the first half of the year was only positive of the exceptional [COVID] years '20 and 2021. The current H1 development is a very good result.

Let's now take a closer look at the development of the 2 divisions starting with medical division on Page 8. In the second quarter, order intake of the medical division fell by around 5% year-over-year due in particular to a significant decline in AAA as well as lower demand in the Americas, which the only slightly higher demand from Europe was unable to offset. Looking at it in the first half of '23 order intake decreased by around 7% as demand did not reach the high level of the previous year, especially with regards to anesthesia devices and patient monitoring. By contrast, demand for our services increased noticeably. Sales in Q2 remained strong in all regions. Thanks above all to the high orders on hand and the better supply situation.

Overall, medical sales rose by roughly 16% in Q2. The first 6 months growth was even higher as net sales increased by almost 20%, driven by double-digit growth in all regions, but particularly in Europe as well as AAA where sales in the first quarter benefited from the China effect. This demand for ventilators in China has returned to normal in Q2. Overall, and in addition to ventilators, anesthesia devices, thermo regulation and hospital infrastructure products were the main growth drivers in the first 6 months.

And the improved production and service utilization as well with more effective pricing led to an increase on the gross margin by 1.7

percentage points in Q2 and 2.4 percentage points in H1. This improved gross margin on the higher net sales resulted in a strong increase in the absolute gross profit in both quarters. So the increase of around 80% in the second quarter led to an increase of 24% after 6 months.

Cost containment continues to be effective. In the quarter financial costs decreased by around 3%. High net sales and improved gross profit margin, slightly lower expenses led to an improved profitability compared to the prior year period. In Q2, our EBIT in the Medical division was around minus EUR 13 million, corresponding to an EBIT margin of minus 2.9%. After the first half year, we are close to breakeven to around minus EUR 2.6 million, a substantial improvement against the prior year value of minus EUR 80.3 million.

Coming to our safety division on Page 9. In the second quarter, business development and safety continued to be favorable. Our intake increased by more than 5% with the decline in AAA offset by growth in Europe and the Americas. Product-wise, demand was driven in particular by our service business and mobile gas detection devices. After six months, order entry is up by more than 6%.

In line with the further normalization of supply chains and with an increase of almost 30% sales growth in Q2 was significantly stronger than in Q1 when sales rose by roughly 11%, lifting the net sales growth after 6 months to 20%. This acceleration of growth is due to the improvement in delivery capability as well as a positive order trend.

After 6 months, all regions recorded high growth. The gross margin went up due to effective price enforcement as well as better production and service organization. The increase of 8.1 percentage points in the second quarter led to an overall increase of 5.5 percentage points after 6 months. As a result of a strong net sales growth and the higher gross margin, gross profit result increased by over 53% in the second quarter, leading to an overall increase of more than 1/3 after 6 months.

Financial costs continue to trail favorably and were roughly 2% below the prior year, mainly due to lower administrative costs that reduced logistic expenses, higher sales and improved gross margin and lower expenses supported a strong EBIT improvement in sales. The EBIT margin consequently increased by nearly 20 percentage points to 9.5%, and the EBIT amounted to EUR 31.5 million in Q2. The improvement from the first quarter is thus continuing at a stronger base. After 6 months, EBIT improved significantly to EUR 50.4 million, coming from minus EUR 31.4 million in the prior year period. At the same time, the EBIT margin increased from minus 6% to plus 8.1%.

Let's move on to key ratios on Page 10. Starting with cash flow. Earnings after tax were more than EUR 100 million above the last year's quarter. This improvement drove a substantially higher cash flow generation. Operating cash flow increased by more than EUR 200 million. The positive effect on cash flow from the higher earnings was further supported by working capital development. While inventory levels have slightly improved working capital management remains our focus for further improvement in the coming months. We therefore expect to see further improving cash flow conversion in the current quarter.

Investments were on a planned level, mainly for replacement investments. While still negative in H1 with minus EUR 44 million, we expect free cash flow to turn positive in the second half of the year. Next to free cash flow, our liquidity development was further impacted by the high cash outflow that we deemed with remaining participation certificates in the amount of roughly EUR 209 million, which was only partially financed by a new loan of EUR 100 million. Both transactions took place in the first quarter and concluded improvement of the capital structure.

Drager's balance sheet is in good shape. Net financial debt-to-EBITDA has further improved quarter-over-quarter. After 4.6% at the end of the last year, mainly due to the [recurring] development last year. Leverage improved to 2.4% in Q1 and further improved to 1.5% at the end of Q2. First, the company is back to healthy leverage levels. The equity ratio has improved as well, inclined by roughly 2.5 percentage points to just above 45% in the last 6 months.

That's it from my side. Back to you, Stefan.

Stefan A. Drager ***Drägerwerk AG & Co. KGaA - Chairman of the Executive Board - Drägerwerk Verwaltungs AG***

Thank you, Gert-Hartwig. Let's move on to our outlook. As I said in my introduction, we are well on track to return to growth and profitability in '23. But further efforts are needed to achieve this tone. Therefore, we will continue focusing on leveraging intact market growth, improving our supply capabilities, defending and increasing our prices, optimizing our free cash flow and strengthening our cost awareness.

We expect the economic environment to remain challenging overall, particularly due to the continuing high inflation, the Russian war against Ukraine, and the slow growth in the global economy. On the other hand, we see opportunities, for example, through a further reduction in inflation. This could in particular reduce the increase in our procurement and logistics costs. We also expect supply chain problems to decline further.

Resulting improved availability of electronic components could enable us to complete our products even faster, deliver them to customers and generate corresponding sales. In the first half of '23, we have already seen progress in regard to this very issue.

All in all, our business performance in the first 6 months of '23 makes us confident to well deliver within our guidance. Therefore, we confirm our expectation that in '23, we will return to positive net sales growth of currency adjusted 7% to 11% and report higher profitability with an EBIT margin between 0% and 3%.

The first half of the year has been on the upper side of our expectations. There are some headwinds to consider for the second half of the year like current order intake rate in medical, FX headwinds and a higher cost run rate due to higher labor cost and tariff increases effective in June. But if business development continues as expected, I would say that the upper end of the guidance is more likely than the lower end.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from the line of Felix Dennl with Kepler Cheuvreux.

Felix Jonathan Dennl ***Kepler Cheuvreux, Research Division - Equity Research Analyst***

Four, if I may. The first one relates to orders. Your medical orders were down in Q2 despite a non challenging comparable base in the past year's Q2. This is now the second quarter in a row where medical orders have contracted. Given that medical orders, for example, in China are soft, how do you plan on overcoming the softer medical orders for the rest of the year?

The second question relates to the Atlan. First of all, congratulations that you received FDA clearance. When do you plan on generating the first revenues with the Atlan in North America?

The third question relates to costs. You are likely to face a higher functional cost rate in the second half of the year, especially in light of German personnel cost inflation in Q3. Could you provide some color as to what percentage increase in COGS and OpEx you are anticipating for the second half of 2023 compared to the first.

And finally, guidance. As you just said, the upper end of the EBIT guidance seems very likely now given the strong H1 and what is required in H2 to achieve it. Are you confident to assert that the upper end of the margin guidance for the full year is now a real possibility? And perhaps you could further explain what potential headwinds could pose a challenge in achieving the upper end of the EBIT guidance?

Stefan A. Drager ***Drägerwerk AG & Co. KGaA - Chairman of the Executive Board - Drägerwerk Verwaltungs AG***

Okay. There is Stefan Drager starting. So the orders in the medical, you're correct, it's down in the second quarter, while it was already down in the first quarter. However, coming from a very high level in the previous year. So the magnitude for the downshift is far less than it was last year up. So it's still at a level which overall, I would consider reasonably good and would not prevent us from meeting the plan and fulfilling the guidance that we gave.

So now your second question on the Atlan, where we are quite happy to report that earlier this week we received the FDA clearance. So we can now start with the preparation of the launch for actively selling it in the U.S. So my expectation is that, yes, we will see some revenue from Atlan in the U.S. in '23, but not significant because just the ramp-up time that it takes for making it happen.

So you can be assured that our colleagues in the U.S. are very happy. And so am I and many others involved here, and we will do it as fast as we can. However, to be realistic that the expectation should not be too much for the remainder of the current year. So third question, the cost for the second half of the year. So I pass this on to Gert-Hartwig, the question was how much increase would we expect for the second half, taking into account the wage increases from the IG Metall and the other factors.

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

Yes, it's a very good point. And in fact, we expect this higher cost base. It translates of an increase in personnel costs of around 6% to 7% against the current run rate. So that by itself is a low double-digit million euro figure and will be added to our cost base. So from that, we do not expect that the current positive trend of cost development against the prior year will continue unabated in the same way.

And for the outlook, I'm going to start, and Stefan Drager can add to that. The question is, what factors -- how do we view that? And Stefan Drager has already pointed out, we view the higher end as somewhat more likely. On the flip side, please keep in mind the cost increase we just talked about. In addition, that is changing unfavorable FX development that had started in the second quarter.

If this continues, it will also add against our original expectation and that's to be subtracted from the positive result in the Q1 results. We already see that without the positive demand from China and the medical, the EBIT for the medical alone has turned negative in the second quarter. First quarter was still strongly in the positive.

And in addition to that, not only is the China ventilator business going away, which is a positive mix effect. We also expect a higher project -- higher share of project business in the medical, in particular, and that has 2 consequences. One is that also translates into a negative mix effect, but that's a large part of our order book, and it has a higher execution risk in and of itself.

So they are -- the equipment business has a higher likelihood of being executed on time. Project business relies on the little to be ready, and there is a risk that, that may shift into '24. We will have more color on that as the year progresses.

Stefan A. Drager ***Drägerwerk AG & Co. KGaA - Chairman of the Executive Board - Drägerwerk Verwaltungs AG***

Yes. This is Stefan, that's the major factor. I would also the first currency effect plus what gets (inaudible) because project business is actually infrastructure project. So sometimes that is confused because a large number of ventilators in a single hospital we also call it project, but in this case we mean infrastructure project. This has a different nature. And generally, there are lower margin than device business plus the risk of not being completed in this year because some elements of the [billings] such are not very -- for excalation that's also higher risk for institution. So that's about it.

Operator

The next question comes from the line of Alexander Galitsa with Hauck.

Alexander Galitsa ***Hauck Aufhäuser Investment Banking - Equity Analyst***

I'd like to ask on order intake. So as you already mentioned, Q2 is somewhat weaker, although comparably strong given the base you're facing. Could you maybe share any indication or what signals do you get in terms of order dynamic is going now into Q3, please, in particular in Medical division?

Stefan A. Drager ***Drägerwerk AG & Co. KGaA - Chairman of the Executive Board - Drägerwerk Verwaltungs AG***

Nothing beyond what we already said. Order intake is weaker, whether -- in general, the market is intact. So that's about -- not every quarter is exactly the same.

Alexander Galitsa ***Hauck Aufhäuser Investment Banking - Equity Analyst***

Understood. And then also on Atlan clearance. So with this product now being due for launch, what does it mean for your profitability in the coming years?

Stefan A. Drager ***Drägerwerk AG & Co. KGaA - Chairman of the Executive Board - Drägerwerk Verwaltungs AG***

It's a plus definitely, when that comes into play to a small extent later this year, but then more in the years to come. And we benefited already in other regions. And there was also a larger share of anesthesia product in the orders processed in the first half of the year because of backlog from last year because of missing components. So -- but these are, say, smaller factors. There is no significant overall change in the market environment here.

Alexander Galitsa ***Hauck Aufhäuser Investment Banking - Equity Analyst***

Okay. And then last on the -- I guess, in the context of the Atlan clearance, I think the FDA warning letter at least in part has to do with this product. Could you just provide an update where do we stand in terms of clearing the FDA warning letter?

Stefan A. Drager ***Drägerwerk AG & Co. KGaA - Chairman of the Executive Board - Drägerwerk Verwaltungs AG***

Good question. It has nothing to do with the Atlan FDA 510(k) plus all the others that I mentioned, the VN600 and 800 and the Babyroo, which are all important clearances that we received. The delay that we had experienced here was due to the new cyber security guideline that had to be implemented and required a different operating system and hardware and software to be able to fulfill the authentication requirements coming with the new standard.

And the warning letter is on a different subject. The warning letter is on the utilization of the letter to file approval procedure from the past that was not in full accordance with FDA requirements. And it has -- there's still some work to do. I think we have now the 14th letter going back and forth and working on all the different points that's being remediated and still work in progress. However, it has no current effect on the business. It's just more work to get this historic deficit say, eliminated and corrected.

Operator

(Operator Instructions) The next question comes from the line of Oliver Reinberg with Kepler.

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

Three, if I may. Firstly, there has been some kind of discussions around China in the industry that demand trends there have significantly softened. So wondering if you just can share -- if you can share with us your observation what's actually happening currently in this kind of market environment.

Secondly, in your press release, you had talked about, I think twice about the kind of stronger service business. Just wondering is this kind of normal fluctuality? Or is there any kind of structured trends that are driving this kind of [valuation]?

And the third question would just be a bit longer term. I fully acknowledge obviously early days, but I'm just wondering if you can share any thoughts in terms of margins for next year. I mean I'm just trying to get a feeling for the puts and takes. I guess inflation which will kick in on the personnel cost side in the second half will carry over into next year and overall inflation continues. The China Q1 benefit is not going to reoccur.

I guess you have also seen the kind of support this year from a stronger order backlog conversion to sales and you try to be slim on costs. So I'm just wondering what are the kind of elements that are offsetting this kind of headwinds moving to next year, I guess, the launches, including the Atlan as one element. But just trying to get any kind of color what is the potential support factor for next year.

Stefan A. Drager ***Drägerwerk AG & Co. KGaA - Chairman of the Executive Board - Drägerwerk Verwaltungs AG***

Yes, good point, Mr. Reinberg, so I'll start with China. So there is very I would say, weak signals of what's happening actually. And the onetime effect of the extra demand from the 180 degrees change in corona policy is now a thing of the past. And what we see and observe is a long-term trend that medical technology is now considered strategic by the communist party and the government.

However, you will never find any point where it's really put on paper or in written, it just is the general impression that things are becoming more difficult. And I know it from other industries, where previous -- various market leaders has more and more hard time because China wants to push this industry and puts up the difficulties for non-Chinese companies.

So we are currently following all these extra restrictions and whereas we could so far pass for localization of our products and the extra requirements for improvements. However, we see the point coming when we would no longer say -- we are comfortable when we are asked to provide the source code for the approval for instance this is something we will not do.

So it's greater uncertainty in China than in the past with the possibility that Medical technology goes the way of the railway industry, for instance, in the past, that has become strategic 20 years ago. So that is not affecting all of Dräger business, but some and some other may develop quite well. So I'm not in a position to give you a more exact or a hard proven answer. I wish I could, but that's some uncertainty left with the possibility of a downturn.

Your second question was on the development of services. In general, services developing better than device business. However, I see there is still quite some room for improvement that we have some geographies where we can -- and will continue to develop our services faster than the device business. With this, I would include data business and the data-driven business, which is also in our focus.

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

And perhaps to add to that, I think your question also was there anything specific that drove that? Or is that the regular expansion of the business? And I can confirm that it is in fact the regular growth trajectory on which we are with our after-sales business. There's no specific effects to be included in the prior year or this year that would -- if you would explain that. But there is -- that's just generally less volatility that the result of the consistent working with the markets.

Stefan A. Drager ***Drägerwerk AG & Co. KGaA - Chairman of the Executive Board - Drägerwerk Verwaltungs AG***

And on your last question, a general outlook on the margin for the next year and beyond. Of course, first, please understand that we are not giving figures for next year. So with that, we will give the figures when we published a preliminary results for '23.

In general and from the trend, I would think of 2 contrary elements. The first is that you should not underestimate the effect of our efforts that we took for better price defense so to establish a culture of price defense and selling value and for this -- for instance, we started 1.5 years ago with the direct call of myself to all the country managers, so we set out awards for the best price increase. The last week I was in the U.K. handing over the first price increase award, and it has quite some effect. And these effects are here to stay very clearly.

I hear from friends in other industries that sometimes they have to lower the prices like in the logistics business, food industry as well. Very same as in Tesla lowering the prices. But not us, I don't see that coming in the near future. The higher prices are here to stay. So that will improve the margin. However, cost is also on the rise.

And Gert-Hartwig already mentioned the tariff increase for the IG Metall is 8.2% rate increase of which the largest part is now becoming effective in the summer '23. And this is also here to stay plus energy price, for instance, in the kilowatt hour of electricity in our Lubeck main plant went from EUR 0.069 to EUR 0.46 in new years eve.

So these both effects are probably about the same magnitude, they fight each other. And we are doing our best to increase prices as much as we can and to have other efficiency improvements to offset the margin to deteriorating effects that we see in other places. So that's some light on that point.

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

That's very helpful. If I could just squeeze in one more. Can you just provide any kind of color where the ventilation business is currently tracking? I mean, if we exclude the kind of China business in Q1 of all the demand for ventilators. Is that similar to pre-pandemic levels? Or is it above or below?

Stefan A. Drager ***Drägerwerk AG & Co. KGaA - Chairman of the Executive Board - Drägerwerk Verwaltungs AG***

It's about the pre-pandemic levels. So this year that I had that we will see a big saturation effect did not materialize. So that's the good news. However, same as I would say, bad news and at the same time, opportunity as that, in my point of view, it does not reflect the position where we should be in, in the market.

We in the past couple of years did not say fully exploit the potential and we are not in a position where we already have been during the time when I myself in the years from the '99 to 2002, when I was responsible for Drägers in terms of care ventilation business. So I think there is still some possibility to catch up and to regain some positions. So this is why we still have the high spending on innovation on R&D.

Operator

(Operator Instructions) There are no further questions at this time. I will hand over back to Dragerwerk for any closing remarks. Please go ahead.

Stefan A. Drager ***Drägerwerk AG & Co. KGaA - Chairman of the Executive Board - Drägerwerk Verwaltungs AG***

Okay. Then if there are no further questions, then we close this call here on time and [what's that 3 minutes late from the] hour. Thank you very much, everyone being with us today for your interest and look forward to hear from you again and then hopefully meet you some time in the near future. So enjoy the rest of the day and a happy summer.