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PRESENTATION

Stefan Draeger - *Draegerwerk AG & Co KGaA - Chairman of the Executive Board*

Good afternoon, and thank you for joining our conference call on our financial results for the first half of 2024. I have with me today Gert-Hartwig Lescow, CFO, as well as Tom Fischler and Nikolaus Hammerschmidt, both Investor Relations.

We would like to take you through the results with the presentation that we made available on our web page this morning. Following the presentation, we will open the floor to your questions.

Let's get started on page 5 with the business highlights. Following our return to growth and profitability last year, our business performance was solid overall in the first half of 2024. That said, we are well on track on achieving our annual targets. At around EUR1.5 billion, net sales in the first half of 2024 did not quite reach the high level of the prior-year period, which was positively influenced by an improvement in delivery capacity and a surge in demand for ventilators in China.

But thanks to our solid operating performance and some one-time effects, earnings were up by around EUR8 million on the prior year at almost EUR56 million, corresponding to an EBIT margin of 3.7%. This enabled us to make up for the shortfall in earnings from the first quarter. Demand for our Technology for Life remained high in the first six months of 2024, even if things did not run smoothly in all regions.

In the APAC region, order intake fell significantly due to the challenging market environment in China. In Germany and in America, however, our order volume increased. Overall, our group's order intake was above the high prior-year level, but below our expectations.

Our goal remains to improve profitability. To pursue this, we are also withdrawing in individual cases from businesses that are not part of Draeger's core business. In the first half of the year, we not only sold the fire alarm systems business in the Netherlands but also discontinued the business activities of Draeger MSI in Hagen.

Draeger MSI's product portfolio is designed for an analysis of flue gas from furnaces burning fossil fuels. Due to the impending energy transition and the changes in air conditioning technologies, that business does not offer any prospect of long-term profitability. We are, therefore, exiting the fossil fuel flue gas analysis business.

It also remains important to strengthen our innovative power and expand our competence in the areas of interoperability and systems business. We have advanced both goals by launching new products such as the Vista 300 patient monitor. We are also pleased about the approval of our Evita V600/800 ventilators in China.

In addition, we have made further progress and completion of the previously established warning letter commitments. We have completed all activities defined in our warning letter corrective actions and have now respectfully requested from the FDA to lift the warning letter. Prior to this, the FDA will conduct another inspection at the Andover site. Actual timing, scheduling, and execution of this inspection is at the FDA's discretion.

Sustainability has always been deeply rooted in Draeger's corporate culture and is becoming increasingly important for the future. It is a cross-cutting topic and affects all processes and areas of our company. We have strengthened our focus on these topics by appointing a dedicated Board member to take responsibility for group-wide sustainability topics as well as quality management.

I'm delighted to have Stefanie Hirsch as an experienced and committed colleague on the Executive Board. Stefanie is biotechnologist by education and has an extensive track record in quality management in the medical devices industry. She joined Draeger in 2018 and was responsible for quality management in our medical division.

Profitability, innovation, competence, sustainability and quality -- we will continue to drive these topics forward in order to exploit our potential to increase value for our customers. As communicated two weeks ago, we confirmed our annual guidance while narrowing the range for net sales growth and EBIT margin. I will come back to this in the outlook at the end of the presentation.

With that, I turn over to Gert-Hartwig for a view of the financials. Gert-Hartwig, please.

Gert-Hartwig Lescow - *Draegerwerk AG & Co KGaA - Vice Chairman of the Executive Board, Chief Financial Officer, Executive Board Member for IT*

Thank you, Stefan. I also would like to welcome everybody to this conference call of our results for the first half of 2024. Please turn to page 7 for a view on the Draeger Group. As usual, I will be stating currency-adjusted figures whenever referring to growth rates.

As Stefan point out, demand for our Technology for Life remained high. Overall, orders in the first half of 2024 increased by roughly 1% to around EUR1.6 billion. This was primarily due to strong growth in the Americas and the positive development in Germany.

However, we recorded a significant decline in APAC, and our order intake in EMEA was also down on the previous year. Net sales in Q2 rose by about 2% due to the positive development in the EMEA and Americas region. In the first six months, however, net sales were just 0.3% below the prior-year level at around EUR1.5 billion due to base effects which Stefan mentioned.

In both reporting periods, our safety division was the growth driver while medical remained weak. Due to the increased share of net sales and the improved gross profit margin of the safety division, our group's gross profit margin increased by 1.3 percentage points in Q2 and 0.8 percentage points in the first six months reaching almost 45% at the end of the first half of '24.

Functional expenses grew moderately by around 2%, particularly due to a higher sales expenses in the safety division. As Stefan said, we benefited from a one-time effect in the second quarter. One effect was the sale of our fire alarm systems business in the Netherlands.

In 2023, this business delivered net sales of around EUR20 million. However, there were few synergies with the main customer groups for our safety products. We have therefore decided to exit this business. In addition, we sold an unused plot land in the US.

In total, the one-off effects contributed around EUR20 million to our EBIT, of which roughly one-third is attributable to medical and two-thirds to safety. Overall, our EBIT increased by EUR22 million to EUR41 million. Consequently, our EBIT margin increased from 2.4% to 5.2%. In the six months, our EBIT rose by around EUR8 million to roughly EUR56 million, which corresponds to an EBIT margin of 3.7%. The rolling 12-month DVA also improved and amounted to around EUR33 million.

Let us now take a closer look at the development of the two divisions, starting with the medical division on page 8. Both in the second quarter and first six months, order intake was slightly below the prior-year level. In the first half of the year, order intake decreased by around 2% to roughly EUR918 million. The main driver of the decline is from the region, APAC, particularly due to a base effect from a decline in ventilator demand in China.

There is an additional effect to consider. As we pointed out in our last call, the current healthcare reform in China is slowing down health care orders throughout the industry. As a result, our China medical business is below our original plan and is one of the main reasons for lowering our top-line expectations for the full year. It is difficult to say when the situation might normalize again. So we are taking a more conservative outlook.

On the other hand, the order intake from the Americas region is quite strong. With the decline of just over 2% compared to the previous year, sales in the second quarter fell not as sharply as in the first quarter, which had still been affected by the strong China effect in the previous year.

Overall, net sales in the first six months were around 7% below the prior-year level at around EUR846 million. In addition to ventilator demand in China, the positive effects of the improved delivery capacity in the prior-year period were missing as expected. Mainly due to lower costs for unplanned field actions, the gross margin in Q2 increased by 1.3 percentage points. After six months, the gross profit margin is roughly on par with the prior year's margin.

As in the same period of the prior year, EBIT in the second quarter amounted to minus EUR12.9 million with an EBIT margin of around minus 3%. After the first six months, our EBIT was around minus EUR24.2 million after minus EUR2.6 million in the prior-year period. The EBIT margin decreased by 2.6 percentage points to minus 2.9 percentage points. The rolling 12-months DVA improved significantly and increased by roughly EUR14 million to minus EUR64.4 million.

I will now turn to our safety division, which recorded another good performance. We are now on page 9. Our safety business continues to grow. In the second quarter, order intake rose by just under 2%. In the first six months, it increased by more than 4% to around EUR704 million. Thanks to a higher demand in almost all product categories, especially occupational health and safety equipment.

In both reporting periods, all regions, except the Americas, recorded higher demand. The order situation developed particularly well in Germany and in the EMEA region. The good order situation also contributed to a higher net sales, which rose by roughly 8% in Q2 and by roughly 9% in the first six months.

At around EUR674 million, order intake of the first half of the year was clearly above the prior-year figure with all regions contributing to growth. The gross margin went up by 0.9 percentage points in Q2. During the first half of the year, it rose by 1.5 percentage points, thanks to a positive currency effect and an effective price enforcement.

Functional expenses were around 9% higher than in the prior-year period, mainly due to higher R&D expenses and higher sales costs in the regions. In the second quarter, EBIT amounted to around EUR53.7 million after EUR31.5 million in the prior-year period. The EBIT margin rose from 9.5% to 15.1%.

In the first six months, EBIT amounted to around EUR80 million, and the EBIT margin improved from around 8% to 12%. To that improvement, the one-off effects mentioned above naturally contributed. Still the operating result, adjusted for these one-off effects was also up on the previous year. The rolling 12-month DVA also improved significantly by around EUR61 million to around EUR98 million coming from EUR37 million in the prior-year period. All in all, a very positive development in our safety business.

Let's now move on to some key ratios on page 10. In the first six months of '24, we recorded a slight improvement in the operating cash flow. Next to slightly higher earnings, also working capital management contributed with improved payables, inventory, and receivable management. Furthermore, lower cash relevant investments also contributed to higher free cash flow.

While we expect to see a further improvement in cash generation going forward, free cash flow after six months is still slightly in negative territory. Net financial debt has improved strongly over the year. As a reminder, in January 23, we took out a five-year loan of EUR100 million to strengthen our operating liquidity after the repayment of the remaining participation certificates.

Net financial debt to EBITDA has improved over the course of last year. Now due to the improved profitability, our leverage of 0.9 back to a much lower level. Net working capital was 1% below the prior-year level at around EUR739 million. The significant improvement in the operating result over the past 12 months and the slight decrease in capital employed as at the reporting date also led to an improved 12-months return on capital employed of around 11% compared to 4.4% in the same period of the prior year.

The positive business development next to other things also resulted in the further increase in the group's equity position. As of June 30, the equity ratio was almost 48%.

Now I hand back to Stefan Draeger for the outlook on page 12.

Stefan Draeger - *Draegerwerk AG & Co KGaA - Chairman of the Executive Board*

Thank you, Gert-Hartwig. Ladies and gentlemen, considering the extraordinary improvement in the prior-year period, we had a solid first half of the current year. The extraordinary tailwind from China ventilation orders last year, as expected, did not repeat. This is compensated by some one-off effects from the divesture of non-core assets.

The current headwinds for our Chinese medical business are stronger and are prevailing longer than we had anticipated. Therefore, we are becoming more cautious on our full-year top-line expectations. For 2024, we continue to expect, as previously guided, a net sales growth of 1% to 5% net of currency effects and an EBIT margin of between 2.5% and 5.5%. At the same time, we now mostly expect net sales growth in the lower half and an EBIT margin and DVA in the upper half of the forecasted range.

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

QUESTIONS AND ANSWERS

Operator

Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions)

Oliver Reinberg.

Oliver Reinberg - *Kepler Cheuvreux (Germany) - Analyst*

Yeah, good afternoon. Thanks so much for taking my questions. A few points (technical difficulty) could take them one by one. The first one would be on China. Can you just provide a bit more color, what is now the expected outlook for China for the full year, ideally adjusting for ventilator base effects? I mean, are we talking about kind of 5% decline? Or is it kind of double-digits decline? Just to get some kind of flavor here.

And when you talk about this kind of healthcare reform, are you referring to the anti-corruption campaign or anything else that you're seeing? And also on China, can you just share your thoughts in terms of what you see in terms of this kind of stimulus works that is in preparation. What is your understanding of these kind of process and when this is going to take a full system? Thank you. That's question number one.

Stefan Draeger - *Draegerwerk AG & Co KGaA - Chairman of the Executive Board*

Well, the healthcare reform, we mainly refer to the anti-corruption campaign, which is one of the elements of it. And they're probably, for us, the most important this one. We expect it to end, actually, I think the week before last, but it was announced that continues until further notice.

So that takes longer than expected. So it definitely will remain below our original expectation. And I would think it's a double-digit decline eventually for the full year. And your last point was what? The stimulus or directive? Could you please repeat on that?

Oliver Reinberg - *Kepler Cheuvreux (Germany) - Analyst*

Sure. If you have any kind of insights, how exactly this kind of stimulus discussions are working? What does qualify under this kind of stimulus packages? And where does this process actually stands if you have any insights here?

Stefan Draeger - *Draegerwerk AG & Co KGaA - Chairman of the Executive Board*

I'm not exactly aware of a stimulus campaign. You mean inside China for our businesses -- I'm not aware --- maybe other industries. I'm aware that European Union is collecting data in defending the free trade. And so we have also been asked to contribute what obstacles we see in the free trade. But that's more the contrary of stimulus.

Oliver Reinberg - *Kepler Cheuvreux (Germany) - Analyst*

Absolutely. Yeah. I think there's some kind of talks that there's more money to be made available for the replacement of certain medical products, but I think it's quite vague so far. Okay. Thanks so much.

And the second question would just be, I think we discussed the part in last call, I mean, obviously, Philips them moved out of the kind of ventilator market in the US. I think your peer, Getinge, talked about -- they have seen some kind of benefit from this kind of pull out. Can you just update us if you are seeing any kind of benefits here and how well are you positioned with your ventilator product portfolio in the US, please?

Stefan Draeger - *Draegerwerk AG & Co KGaA - Chairman of the Executive Board*

It's not only Philips that has withdrawn, also what used to be Puritan Bennett and Mallinckrodt, then [Nakrova], then Tyco and then [PEA and lightly], Medtronic also announced a withdrawal from the ventilator market altogether. And we are very well positioned to benefit from that. And running campaigns to target these installed base and customers that have traditional relation and our open orders with these players that withdraw -- and we do have all the necessary approvals, in the meantime, for our devices that are relevant for this.

However, we do not yet see it in the numbers. Although our numbers in the US is on the -- it's more the bright side of the first half of the year already. But I would say that it's since more or less the result of the business coming back after. Now, we have the necessary approvals, and the effect from the withdrawal of the competition in the US and also worldwide is still to come. I think it takes some time.

Oliver Reinberg - *Kepler Cheuvreux (Germany) - Analyst*

Okay, perfect. Thanks so much. And last question for me, is any other market developments in Medicare to be called out that -- a bit specialty sense? I mean, if I just look at the Q2 order intake, obviously, the EMEA was down 17%; Germany a bit down. I guess it's probably related to just base effect. But I'm just wondering, is there anything of market dynamics outside China that we should be aware of? Thank you.

Stefan Draeger - *Draegerwerk AG & Co KGaA - Chairman of the Executive Board*

A smaller one in Korea, which is not the greatest -- largest market for us, where all the doctors are on strike, as you may have heard. And that's a real challenge for the country and also, of course, for the market -- for the medical market. And so you should not get sick in Korea these times.

It is because the government wants to withdraw some privileges from the existing doctors, because there's a shortage of doctors. And the existing doctors, of course, they insist on keeping their privileges, and that's just what it is about. So in Korea, a big thing.

Other than that, overarching in the whole region, I'm not aware that any extra effect. On the global scale, geographically, we do also see a decline in Russia. We continue to do business in the medical division in Russia, but it's becoming more and more difficult and declining. And it used to be very profitable. So to make up for that is not an easy challenge.

Oliver Reinberg - *Kepler Cheuvreux (Germany) - Analyst*

And can you just remind us what was the base of the Russian business of medical last year? 2% or so?

Gert-Hartwig Lescow - *Draegerwerk AG & Co KGaA - Vice Chairman of the Executive Board, Chief Financial Officer, Executive Board Member for IT*

That's more to the tune between 1% and 2% overall on the medical side. On the safety side, we don't do any business in Russia.

Oliver Reinberg - *Kepler Cheuvreux (Germany) - Analyst*

Okay. Perfect. Super. Thanks much indeed.

Stefan Draeger - *Draegerwerk AG & Co KGaA - Chairman of the Executive Board*

Already in Russia, that's already down to -- about one-quarter of what it used to be in high times. So 75% decline. While it's interesting to see that the GE is up to my knowledge and the biggest winner is Midray from China.

Operator

Alexander Galitsa, HAIB.

Alexander Galitsa - *Hauck & Aufhäuser Privatbankiers AG - Analyst*

Good afternoon. Thank you for taking the question. Maybe the first one on the medical margin. You mentioned that lower cost for unplanned field campaigns were benefiting the gross profit margin. Can you just maybe add a little bit of color here? Whether you expect a sustainable relief for the margin based off that these costs are normalizing or is it just a one-time benefit to this quarter and then we go back to the sort of normal costs that you typically see from these kind of campaigns in the following quarters? That would be number one.

Gert-Hartwig Lescow - *Draegerwerk AG & Co KGaA - Vice Chairman of the Executive Board, Chief Financial Officer, Executive Board Member for IT*

It's a very good question, but these are typically not planned costs, but they occur once there is a field action or the necessity to plan something. The current outlook for the year is that we also expect reduced cost for, if you will, non-performance also for the full year. And of course, we are working on keeping it at that level.

However, there is some uncertainty, as I said, these are not, if you will, planned campaigns, but our reactions are to deficits that we find in the field. So we typically work with an average over a few years. And currently, we would work with the same average. So this development is probably more on the positive side. But again, it's also -- for the full year, we do not expect that it comes in the second half of the year, if that's your question.

Alexander Galitsa - *Hauck & Aufhäuser Privatbankiers AG - Analyst*

Yes. That's clear. Maybe staying on the margin, for the group, I wonder why you would not specify the gross profit margin guidance to the upper half following the rather strong development in H1, especially considering that the second half should clearly benefit from greater cost coverage, et cetera. If there is any specific reason that makes you more cautious -- significantly more cautious for the second half.

Stefan Draeger - *Draegerwerk AG & Co KGaA - Chairman of the Executive Board*

Well, we did say that the EBIT margin would be more in the upper half of the guided range. And please keep in mind that in the first half of the year, there were some one-time effects like a sale of a plot of land or a business which we do not plan for the second half. That's on the EBIT margin.

Alexander Galitsa - *Hauck & Aufhäuser Privatbankiers AG - Analyst*

Understood. And then maybe on the patient monitoring franchise, in terms of innovations, you mentioned the launch of this -- the 300-patient monitor. I just wonder whether this is a meaningful enhancement and of your patient monitoring portfolio that makes you more competitive or is there still more to come in this area?

Stefan Draeger - *Draegerwerk AG & Co KGaA - Chairman of the Executive Board*

Well, in this field, it is meaningful in the mid-size monitoring. And so our organization is quite excited in now having this that it's coming together with an OEM partner. And so that will last for quite a while -- the benefit from this one.

On the longer run, there's more to come on the upper end of the monitoring portfolio. We are still working on that. And that will still take a while, as we said in the past. So it is not this year and not next year.

Alexander Galitsa - *Hauck & Aufhäuser Privatbankiers AG - Analyst*

Understood. And then the very last one for me, just back to the medical division. Just wondering, in Q2 -- or rather in Q1, you seem to have had some progress on controlling OpEx in this division. Now in Q2, if you basically back out the benefit that you suggested was in there from the one-off, and it seems that the OpEx has grown again -- around -- about by 4% year on year, despite again, lower revenues, just wonder why there is sort of no -- not consistent success keeping the costs in this division tight.

Stefan Draeger - *Draegerwerk AG & Co KGaA - Chairman of the Executive Board*

Well, in general, the growth is -- a smaller portion is coming from added resources that we need to cover the added volume. And particularly, in the safety division, they're mostly in the COGS as we play to service and installations or direct sales, where people -- customer facing.

And there is quite new cost or expense increase that we did plan for as a tariff increase coming -- being effective, say, in the late part of H1 and will be effective for the remainder of this year. I think it's around 6.9% or something. It's from the -- it's negotiated with the trade union already a while ago. So we planned for this.

Operator

(Operator Instructions) Christian Ehmann.

Christian Ehmann - *Warburg Research GmbH - Analyst*

Hello, everyone. Thanks for taking my questions. So I have just one left. I would like to understand under what circumstances you could feel comfortable -- would feel comfortable probably raising your guidance? I mean, appreciate the fact that you have given us more precise range for now, but what kind of development are you looking for where you can translate this kind of, let's say, qualitative indications into a more concrete evidence. Thank you very much.

Gert-Hartwig Lescow - *Draegerwerk AG & Co KGaA - Vice Chairman of the Executive Board, Chief Financial Officer, Executive Board Member for IT*

Let me get a start and I think Stefan Draeger will add to that. Clearly, one -- in particular, if you look at the more positive development and a tighter quantification, if more positive development were to occur in China, in particular in the Q3 to be effective also for this financial year, that would give rise to a more optimistic outlook for the net sales development and would directly translate also in profitability as China normally is also a profitable market.

And in addition, as some of the, if you will, lower net order entry development in other product categories could also lead to that and also a continued strong development in the Americas. So we already see very good order entry. If this continues at that level and I think on this tunnel point of view, there is even some upside if this were to translate as that would again lead to that.

So it's mostly driven by regional developments translating in demands on the medical and on the safety side. And clearly, in order to then quantify that, we would like to see that. So already today, I would say if we have that more clarity in the course of the third quarter, we will strive to provide you and the colleagues with a more concrete outlook for the year to the degree that that's possible.

Stefan Draeger - *Draegerwerk AG & Co KGaA - Chairman of the Executive Board*

Yeah. I can just confirm that. I would say since Putin started to attack the Ukraine, since then we have more, say, risk than opportunities in general. And so that is factored in for the remainder of this year. If that would reverse, and we have the more opportunities than risk, then we can exceed our guidance.

Operator

Oliver Reinberg.

Oliver Reinberg - *Kepler Cheuvreux (Germany) - Analyst*

Well, yeah, thanks for taking my follow-up. You announced, again, some kind of divestment this quarter. Can you just talk about is this process already completed or is there more to come or is there anything that would be sizable.

And then on safety, I mean, this is really kind of quite impressive growth engine for quite some while. I guess, Q2, we have seen a slight tick down sequentially in terms of orders. I guess there is not much to be read into that, but I'm just checking, is there anything -- any areas of weakness in the order intake and safety or looks that future continuously bite here. Thank you.

Stefan Draeger - *Draegerwerk AG & Co KGaA - Chairman of the Executive Board*

Well, that is correct. It's a bright side for quite a while now. However, of course, then that light, that supports in particular our -- the big boost that our FFP mask business hit in the pandemic times. And so we had expected that when the dust settles, probably the market shares will be distributed differently than before the crisis where clearly 3M is undoubted market leader.

So then the way they treat some channel partners, in particular in Africa, were so disgusting that there was a idea we can have a larger share after the dust settles. That has unfortunately not so much materialized. As you are aware, sometime back, we had some overcapacities in the FFP factory.

And so that is not so ideal side of the safety business. Other than that, it is -- in itself, it has a very great diversity and there is no bigger spare parts, I would say, that they set out for future. Other than the divestments that we already now have announced with MSI in Hagen making the flue gas analysis and the smoke detector business in the Netherlands -- other than that, there are no sizable sale to expect that have a significant impact on the overall business.

That does not mean that we leave everything as it is. We continue to scrutinize the business and identify parts of the portfolio that can be products of businesses or locations. We do have a location consolidation program for our German sites at the moment. So it's a continuous process of improvement to improve our profitability.

Oliver Reinberg - *Kepler Cheuvreux (Germany) - Analyst*

Okay. Super. And if I can squeeze in a last one, I think GE Healthcare is a listed [basis] since the beginning of last year. I guess the overlap in the product portfolio is not too meaningful. But I'm just wondering, is there any kind of difference in the market behavior that you have seen since they became a kind of listed independent company.

Stefan Draeger - *Draegerwerk AG & Co KGaA - Chairman of the Executive Board*

Not at all. No difference in their behavior still from -- with all its various aspects.

Operator

Alexander Galitsa.

Alexander Galitsa - *Hauck & Aufhäuser Privatbankiers AG - Analyst*

Yes, thank you. Just a quick one on the one-offs, if you are able to provide any color as to the allocation of the one-off between -- is that fully OpEx or is there any meaningful part of that has been booked in gross profit per division?

Stefan Draeger - *Draegerwerk AG & Co KGaA - Chairman of the Executive Board*

I have my [wishes] one-third goes to America and two-thirds of the impact goes to safety -- that's by division. And there is a negative impact on the COGS that is about 1 million in size. And on the functional expenses, it's a little bit more or less close to 2 million. So it's relatively small.

Operator

It seems to be no further questions at the moment, and I would like to turn back to Stefan Draeger for closing comments.

Stefan Draeger - *Draegerwerk AG & Co KGaA - Chairman of the Executive Board*

Well, as there are no further questions, I would like to thank everyone being with us today for your time, your attention, your interest in Draeger. So I wish you all a pleasant remainder of the day, and wonderful summer days, and look forward to see or meet you again in the, hopefully, not-so-distant future. And for now, say, bye-bye.