REFINITIV STREETEVENTS

EDITED TRANSCRIPT

DRWG.DE - Full Year 2021 Draegerwerk AG & Co KGaA Earnings Call

EVENT DATE/TIME: MARCH 03, 2022 / 2:00PM GMT

CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

Eggert Kuls *Warburg Research GmbH - Senior Analyst*

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

PRESENTATION

Operator

Good day and welcome to the Drägerwerk AG & Co. KGaA 2021 Full Year Results Earnings Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Stefan Drager. Please go ahead, sir.

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

Well, ladies and gentlemen, good afternoon and a warm welcome to everyone joining us today. I have with me Gert-Hartwig Lescow, CFO; Tom Fischler, Investor Relations; and Peter Müller, Financial Communication.

We would like to guide you through the presentation covering our final 2021 full year results, which we made available on our website this morning. In January, we had already published preliminary results, and the guidance for the current year was already published in November last year.

Let's get started. I will elaborate on some main developments in 2021 before Gert-Hartwig will take over and go into the financial details of the group and the divisions. 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.

It was extraordinary year in so many ways. Never before our mission was as important as in these challenging times: to protect, support and save lives. We are doing as much as we can to serve this mission every day. That is how I started my comments last year, exactly 1 year back from now. From today's perspective, 1 year later, this is still true. Even if we have all personally become more or less accustomed to life under pandemic conditions, 2021 was not a normal year for Dräger business. 2021 was still under the special influence of the pandemic, which gave us a boost in some business areas.

I'm sure you know the relevant areas. In particular, Dräger ventilators were in high demand in connection with the pandemic all over the world, especially in 2020, but also in 2021, at least in the first half of the year. And so 2021 was another year characterized by a very high level of activity, but the effort was worth it.

Dräger Technology for Life was once again able to help many of our customers fight the pandemic. We have worked hard for this important mission, and it has also paid off financially. At the beginning of the year, we had expected a significant drop in net sales. A decline of between 7% and 11% had been forecast after sales have grown by 26% in the record previous year.

But the expected normalization did not set in until much later. In the first half of the year, we received major orders without much lead time, especially from some emerging markets. As a result, we started scaling back production capacity, especially in ventilation, much later than planned. At peak times, we had to [double] our production capacity for ventilators and (inaudible). The unexpected demand in H1 then also led us to raise our full year forecast in the summer of 2021.

Eventually, demand began to normalize in the second half of the year. For our customers, the bottleneck sector in combating the pandemic was no longer medical equipment, but nursing staff. The demand and supply environment had also changed for FFP masks. A demand saturation had set in due to the strong global production capacity expansion. Some major orders from the previous year have also been delivered in the meantime. As a result, the second half of 2021 was characterized by lower order entry momentum than in the previous quarters.

But in light of the strong first 6 months, net sales performance for the year as a whole was significantly better than previously expected. Net sales were around EUR 3.3 billion, only just 2% below the record year of 2020. Overall, therefore, sales declined only slightly compared to the previous year. While ventilators and patient monitoring were unable to repeat the previous year's strong performance, almost all other areas showed good growth.

A similar picture emerges for the geographical distribution. The decline particularly affects Europe and Germany. Almost all other regions and countries, also countries in Europe have grown. For many product areas that were not positively affected by the pandemic, 2021 was a successful year as well.

In safety, our core business was able to celebrate successes again after a difficult year due to the pandemic. For example, a nice success was winning the fire department in [Cologne] as a new customer, which had previously been served by the competition for many years. The gas detection business has also developed well. And this is despite the fact that Dräger has, of course, also suffered from the challenges in the global supply chain issue. Even though there have been delays in some areas due to supply bottlenecks, we have been able to keep the situation under control quite well overall so far.

Nevertheless, procurement remains a challenge and poses risk for the current year, not only for Dräger but for the entire company. In fact, the impact on Dräger has so far been much less than the bad news from other industries would led us to fear. Currently, there are some shortages leading to delays. And so far, they have not led to a loss in net sales, only to a delay of delivery.

In addition to net sales, earnings were also above our original expectations. With EBIT of EUR 271 million, the EBIT margin is at 8.2%, which is above the original forecast. The fact that the margin is not even higher is also due to a number of one-offs, which impacted earnings, particularly in the fourth quarter. One of these special effects is the write-down of our production capacities in the mask manufacturing area.

We probably all remember quite well the beginning of the pandemic, when personal protective equipment such as FFP masks was a much hyped commodity. Export bans and protectionism suddenly prevailed in the mask market. Heads, ministers showed up in the news unloading cargo aircraft with masks from China. Light breathing protection, which includes FFP masks, had long been part of our portfolio in the safety division.

However, this product area was of small size. When large orders required local production at the beginning of the pandemic, we reacted quickly and decided to build up local production capacity. We invested a total of around EUR 60 million in expanding capacity. This has paid off for us economically. These investments have contributed to the good results in 2020 and even more in 2021 and have thus already amortized and paid off.

In parallel, we have also professionalized sales for light breathing protection so that we continue to believe in the success of this business for Dräger. However, as the global market for masks is currently oversaturated, we had to write down the value of production facilities that are currently not being utilized as planned. Regardless of the write-down, we are convinced that the production network will be successful. Some production lines are currently hibernated and will be reactivated if required.

The situation is different for the Dräger COVID antigen rapid test. Although the Dräger test is clearly superior to other inexpensive self tests in terms of handling, remember the Dräger antigen test works without the user having to handle any [liquids,] the market is not prepared to pay the necessary premium for our test. It probably would in connection with a remote video-based certificate. However, a purely political decision to no longer accept video-based certificates have prevented the success of our test and led to a write-down as well.

These necessary value adjustments for the FFP masks and the antigen tests also prevented our 2021 results from being even better. That is how entrepreneurship works. There are opportunities and risks. And not at all chances -- not all chances eventually materialize. Overall, business development in 2021 was very good as well as the cash flow development. We used around EUR 100 million of the free liquidity to accelerate the improvement of our capital structure. In the first quarter of 2021, we bought back part of the profit participation certificates that already had been canceled, something that benefits the attractiveness of the Dräger share.

In other respects, too, the company is in a good financial position. The equity ratio, which has been falling as a result of the cancellation of the profit participation certificate, has largely recovered much faster than expected. Here again, we have seized the opportunity. We have used the solid financial situation to extend and expand our important credit facility with our core brands at an early stage. Regrettably, this significant improvement is not yet reflected in the share price.

Personally, I also find this development very disappointing. I do understand that the share price development also reflects the subdued outlook for the current year. And I assure you that we will all be working hard to improve the margin profile steadily in the coming years. And due to the improvement in the balance sheet structure, all shareholders will benefit from this as well. And I'm confident that this will also be reflected in the share price.

Now on Slide 5. And before I hand over to Gert-Hartwig for the financials, I would like to share some thoughts on innovation. We continued the implementation of our R&D (inaudible). In 2021, we launched 12 new safety and 9 new medical products. Most of them are explained in the annual report. Let me just share 2 examples with you here.

In medical last year, we launched the ceiling supply units, Ambia and Ponta. Ambia and Ponta help make workflows in the operating room, the neonatal and intensive care units more efficient. They allow for an individual workplace design with user-friendly ergonomics and more important, the design allows for effective infection prevention to help protect patients and caregivers.

Launching products during corona times is quite challenging. For the launch, we hosted a global virtual launch event feed tailor-made where we showcased our extensive medical workplace design, consulting services and new portfolio to 900-plus sales partners and customers all over the globe. The product is well received by customers and has led to good order entry in the workplace infrastructure unit.

In addition to product innovation, one issue to which we continue to devote the highest attention is the implementation of the plan to address the FDA warning letter from early last year. Our activities are progressing as planned, and we continue to expect to be able to conclude our activities during this year. The FDA will then decide when to conduct the necessary reinspection.

Moving on to some innovations from the safety division. In safety, we launched some new personal protection equipment for the firefighter. The PSS AirBoss, our new firefighting SCBA. Ergonomics become continuously more important. As a result of the greatly reduced weight and bearing profile, firefighters can move more freely and perform their heavy missions with less physical strength.

In addition, reflective surfaces and buddy lights increase individual visibility, and various sensors improve responders awareness of their surroundings. In the digital world, the connected and automated respiratory protection monitoring system ensures continuous and (inaudible) coordination at the scene and the incident command center. This increase the safety of the individual user and that of the entire response team.

With the AirBoss, we also launched our new firefighter helmet, HPS SafeGuard. It has a special shape, offers maximum protection and support with sensors by not restricting hearing and vision. In addition, it has an indicated voice communication system, which facilitates coordination of the team. And at the same time, it is extremely lightweight and offers optimized wearing comfort.

And now I would like to turn it over to Gert-Hartwig Lescow for more color on the financial performance. Gert-Hartwig, please.

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

Thank you, Stefan, and a good day to everyone. As usual, we focus on the development in the markets when evaluating our performance, i.e., unless stated otherwise, I will refer to figures net of currency effects when I mention growth rates.

We're on Page 7, and I would like to start with a view on the Q4. While usually, Dräger seasonality is characterized by a weak first quarter and a very strong fourth quarter, this pattern was different, almost upside down in 2021. After a very strong start into the year, the tailwind support from pandemic-driven orders led to a weakening of net sales and EBIT in the latter half of the year.

In addition, the write-offs on the mask facilities and the COVID test inventories resulted in a disappointingly unusually weak fourth quarter in terms of earnings. This sharp decline in group net sales in Q4 compared with the prior year quarter is mainly base effect. In the prior year quarter, in Q4 2020, we had the strongest quarter in our history in terms of sales with well over EUR 1.1 billion due in particular to strong corona demand.

Against this tough comparable quarter, net sales declined by roughly 17%. The decline concerns the medical business. In fact, net sales in safety were above the previous year's quarter. In safety, the recovery of some core areas overcompensated the net sales decline of the mask business where the deliveries of the large orders that have supported net sales development in the prior couple of quarters are coming to an end.

Driven by the lower volumes, the gross profit margin in Q4 also was substantially lower than 1 year ago, down by 6 points to just below 41%. And this, of course, also includes the write-downs. Currency effects also burned the margin in Q4 by roughly 1 percentage point. As Stefan Drager mentioned, changing market conditions required the write-downs in our facilities and inventories for FFP masks and the COVID-19 antigen test. These write-downs next to some minor one-offs amounted to roughly EUR 35 million. And the Q4 EBIT amounts to only EUR 14.7 million.

On a positive note, at some EUR 850 million, order entry in the quarter was on a very good level, some 12% above the previous year's quarter. Both divisions in all 3 regions contributed to the good order intake. This makes us confident that we will have a good start into 2022.

Let's now take a closer look at the full year quarter. As already mentioned by Stefan, financially, 2021 was much better than originally expected. Compared with the record year 2020, the comparable figures are, of course, of limited significance. Order entry declined by roughly 18% for the full year, with the biggest decline coming from Europe due to the very strong prior year there. Due to the timing delay as a good portion of orders received in 2020 were delivered in 2021, net sales declined much less than order entry by only a modest 1.8%.

In line with the lower sales volume, our gross profit also declined. This development was mainly due to a decline in net sales and margins in the second half of the year compared to a very strong prior year.

In the first 3 quarters, sales and earnings were also positively influenced by the call-off agreement for ventilators for the German Federal Ministry of Health. The lower gross margin of the full year is attributable, among other things, to lower production capacity utilization and a less stable country and product mix. Currency effects only had a slightly negative impact on gross profit and gross margin. At 46.3%, the margin was roughly 1 percentage point below the prior year figure. Adjusted for currency effects, our functional costs were some 5% higher than in the previous year.

Functional costs increased due to higher expenses for external services and research and development in particular and an increase in the number of employees. The research and development activities have a high priority for Dräger, and the R&D expenses increased by some 14%, resulting in an R&D ratio of nearly 10%. We will continue to renew our product portfolio unabated in 2022, and we expect to spend between EUR 320 million and EUR 335 million on research and development.

Overall, earnings in 2021 were impacted by a slight decline in net sales for the year as a whole, with costs coming to rise. As a result, EBIT amounted to a very good level of just below EUR 272 million, corresponding to an EBIT margin of 8.2%. Currency impact on earnings for the full year were negligible on the group level.

Next, let's get to the P&L below the EBIT line. At EUR 35 million, interest was on the same level as in 2020. There are 2 unrelated reasons for this. In 2020, the high interest expense includes costs for the cancellation of the participation certificates, which was significantly lower in 2021. In 2021, however, the interest expense includes an adjustment for the repayment obligation to the minority shareholder of Draeger Arabia. This is a one-off effect and will not be repeated in the current year. Hence, the interest in 2022 is expected to be considerably lower and in the range of EUR 17 million to EUR 23 million, mainly due to valuation allowances on deferred tax assets. The tax rate increased to 34.5% -- 34.8%. The tax rate as well should normalize again between 31% and 34% in the current year. Consequently, net profit is down to EUR 154.3 million.

The primary metric with which we see our business is the DVA, the Dräger Value Added. While lower than in the record 2020, the DVA amounted to around EUR 172 million in the last year, mainly due to the lower earnings levels.

Now let's look at some key financial ratios for the last year on Page 8. Cash inflow was again at a very good level in 2021. Even though operating cash flow was lower than in the record year 2020, it was still substantially stronger than in pre-corona years. With a lower cash outflow for investments in 2021, Dräger was able to improve free cash flow by nearly EUR 80 million above the already high level of the prior year.

Overall, we generated a positive free cash flow of EUR 275 million. The main driver for the strong operating cash flow was, of course, the continued high profitability. The year-on-year decline in profitability was offset by a significant improvement in working capital. This was due in particular to the cash inflow from receivables and inventories. These 2 also offset a lower increase in trade accounts payable and other liabilities.

In the previous year, the latter included an advanced payment of around EUR 80 million for call options in connection with our respiratory equipment business. These call options have since expired. The decrease in operating cash inflow is mainly attributable to the decline in other provisions, which include higher variable compensation for 2021 paid out in -- for 2020 paid out in 2021 as well as stronger reduction in tax receivables.

As I said, cash outflow for investments was lower in 2020 than -- in 2021 than in 2020, improving free cash flow by EUR 153 million. The main reason for this is the decrease in cash investments in money market funds. In 2021, we had net investments in such money market funds of EUR 139 million, while in 2021, we had a small redemption of about EUR 9 million. Excluding these changes in money market funds, actual investments were at the level of the previous year.

In the current financial year, the planned volume of capital expenditure will remain roughly at the current level between EUR 120 million to EUR 140 million. This includes investments for the modernization of some of our facilities in Lübeck.

Our cash position at the end of 2021 amounted to EUR 445 million. In addition, about EUR 130 million are currently invested in said money market funds. While this liquidity position is currently very high, please have in mind the cash outflow in January 2023 to redeem the remaining participation certificates in the amount of roughly EUR 208 million.

Due to the strong cash generation, our net financial debt has substantially improved. Leverage of the group remains conservative with a net financial debt-to-EBITDA ratio of minus 0.06. The equity ratio also improved markedly by almost 8.5 percentage points to a total of 39.7. It was not only the high profitability that contributed to this improvement by around 4.7 percentage points, our equity ratio also benefited from lower pension obligations due to an increase in the relevant interest rate and from the reduction in total assets following the redemption of the series K and D profit participation certificates in the first quarter of 2021.

While net profit declined by roughly 38%, the decline in EPS was less pronounced. This is a positive effect of the partial redemption of the participation certificates and the buyback in Q1 last year. Under the assumption of full distribution, the EPS for the common shares is EUR 7.13 and EUR 7.19 for the preferred shares after EPS in the record year 2020 was at EUR 10.19 and EUR 10.25, respectively. The final redemption of the remaining participation certificates will have an additional positive effect on EPS once they're paid back and no longer participate in the earnings for the year 2023.

Let me now come to the business development in the medical division on Page 9. In medical, order intake decreased by more than 22%. The decline reflects the pandemic-driven record order intake of the previous year. For example, order intake for respiratory equipment was down significantly, and order intake in the patient monitoring and data management area and in the hospital consumables business was also well below the very high prior year level.

On the other hand, some areas that did not perform well in the prior year performed better again. These include, for example, our thermoregulation business and also our workplace infrastructure business. And our service business also recorded stronger demand. In regional terms, we have recorded the largest declines of order intake and sales in Europe, where we have just recorded the largest increases in the year before.

In line with the sharp decline in net sales of nearly 10%, the gross profit of the medical division also decreased by 11%. Due to the high share of respiratory care, particularly in the first 9 months, the gross margin decreased only slightly by 0.3 percentage points.

Functional expenses increased as planned and were 3% higher than in the previous year. The key driver were higher expenses in research and development. In consequence, medical EBIT amounted to EUR 191.6 million, corresponding to an EBIT margin of 9.3%. The DVA declined with the lower earnings to EUR 132 million.

Moving on to the safety division on Page 10. In safety, order entry in 2021 was down 8.8% year-on-year. The decline was due to lower demand for light breathing protection, predominantly FFP masks compared to the pandemic-related strong prior year. As already mentioned, we are facing a massive oversupply of masks on the global market. In this environment, it is extremely challenging to win new orders and to fully utilize the existing product capacities.

On a positive note, there was stronger demand for many of our other core product areas particularly our service business and the gas detection business. We also recorded higher order volumes for respiratory and personal protection products following a decline in the previous year. In regional terms, the decline in order entry was mainly from Europe, where we again had won the bulk of the large mask orders in 2020.

After declines in previous year, our net sales in safety rose by 14.5% in 2021. Deliveries increased significantly in all regions. As a result of the strong increase in net sales, gross profit improved by 10%, mainly due to the volume effect particularly from the FFP mask business and a positive product and country mix. Gross margin, nevertheless, decreased by 1.8 percentage points. This was mainly due to the write-downs in our production equipment and inventories for FFP masks and the Dräger COVID-19 antigen rapid test.

Just to clarify, despite these write-downs, the FFP mask business buildup in the wake of the pandemic was successful and made a significant positive contribution to earnings in 2021. Mainly due to the increased expenses in the local sales organization and in research and development, financial expenses were up by about 9%. Safety EBIT increased by roughly EUR 13 million to EUR 80 million. The EBIT margin was slightly higher at 6.3%, and DVA increased to just below EUR 40 million.

In light of the very good business development during the pandemic, the opportunity was taken in Q1 and Q2 2020 to simplify our capital structure and to cancel all participation certificates. In total, the payment of the further redemption of all participation certificates amounts to approximately EUR 470 million. More than half of this has already been paid in Q1 last year, namely EUR 157 million for the series A and K in January '21 and a further EUR 100 million for part of series D, which we bought back in Q1 last year below their refund amount. The transaction was successfully closed and with immediate positive benefits on the equity ratio and EPS.

The final amount of EUR 208 million for the remaining participation certificate series D is due in January next year and will be paid in full by existing liquidity. These certificates will still receive a final dividend payment in 2023 for the business year 2022.

After the elimination of the participation certificates next year, the future profit goes entirely to our shareholders. This will be directly apparent in higher earnings per share. Considering the dilution effects of the capital increase, the EPS will rise (inaudible) by about 27%.

That's it for the financial overview. Thank you. Back to you, Stefan.

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

Thank you, Gert-Hartwig. Coming to our dividend proposal and outlook. The cancellation of the participation certificates of 2020 resulted in a strong increase of net debt and a sharp fall of the equity ratio. Against this background, we have decided for a higher profit retention until the equity ratio had risen again to a level of over 14%. The good business development of the last 2 years has considerably improved the situation. We are not quite at the previous levels again. However, we expect to surpass the 40% equity ratio in the current year and will then propose a higher dividend.

For now, the dividend proposal will remain on the current level of EUR 0.13 for a common share and EUR 0.19 for a preferred share.

Now before we go into the Q&A, let me share with you the outlook for the current year 2020 (sic) [2022.] The outlook is unchanged to the guidance we communicated in November last year. As we are all aware, with the war in Ukraine, the world now faces its worst global securities yet since decades. While a human tragedy beyond worse, it is our responsibility to evaluate the economic implications for Dräger.

Ukraine and Russia, our combined sales are less than 2% of the group. Today, it is unclear how strong the net sales and earnings will decline from this region in the current year. The conflict has not been factored into the guidance and naturally poses headwinds for the guidance.

The corona pandemic has provided substantial economic opportunities for Dräger in the last 2 years. However, this tailwind has faded and order development has normalized again. This results in the expected lower net sales development than during the pandemic. Hence compared to the high level of '21, we expect a currency adjusted decline in net sales of between 5% and 9%. Despite the decline, the net sales level is well above the prepandemic levels. The net sales decline will be more pronounced in medical than in safety.

In the last 2 years, the pandemic-driven orders also had a positive effect on realized prices and product mix and hence on the gross profit margins. The current normalization of the top line and product mix has, therefore, a negative effect on the gross margin. We expect the gross margin to be between 44% and 46% this year. We do see improvement potential of the gross margin in the future when the new products gain more volume. Profitability is also being impacted by significantly higher prices for energy, raw materials and electronic components and continued high freight and logistic costs.

In the interest of stronger medium-term growth, Dräger is also making targeted investments in selected focus markets to expand structures and specific sales capabilities. At the same time, Dräger is continuing its innovation initiatives in the medical division and is, therefore, investing in R&D projects for the medium-term benefit. Taking all this into account, we expect the '22 full year EBIT margin to be in the range between 1% and 4%.

Following the decline in net sales and profitability in '22, we expect a steady increase in net sales and an improvement in earnings in the following years. Starting '23, Dräger will return to revenue growth and also increase its profitability again. The implementation of the gradual renewal of our product portfolio and the expansion of our offer will support both revenue and gross margin. We also expect additional leverage when our functional costs will only increase at a rate below the growth rate of sales from then on.

We consider the net term effects from the pandemic to be, economically speaking, net positive for the year. We expect to see higher investments into ICU infrastructure in the coming years when new ICU capacity is built up or modernized in many different areas of the world. Dräger is well positioned to benefit from such a structural improvement of hospital investments. We also see an increased demand for safety and security in the future to the benefit of our safety business at Dräger.

With this, I would like to end the presentation. You can find some additional [clarity] figures like investments, R&D budget, et cetera, in the appendix of the presentation. All guided figures are based on the assumption of stable exchange rates at the beginning of the year.

And now the floor is open to your questions, please ask them now. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll now take our first question from Eggert Kuls from Warburg Research.

Eggert Kuls - *Warburg Research GmbH - Senior Analyst*

I have a question regarding your, again, heavy R&D budget for 2022. I can remember some 5 years ago or so, you have started to increase your R&D budget heavily. And at that time, I understood that this will last maybe for 2 or 3 years. But meanwhile, the budget has become bigger and bigger year-by-year. So meanwhile, we are at roughly 10% of your sales volume, and when I go back 10 years back, it was, yes, 7% to 8%. So the question is, can we expect any time in the future to come back to old levels with regard to the R&D budget? Or is that something we should expect forever?

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

You are correct [with regards] to the -- your observation, and that was, to some extent, a deviation from our own expectation. And to a significant extent, that's due to the FDA warning letter that we received at the beginning of 2020 that pointed out some weak points that we had historically with us in the U.S. operation. And we are still in the course of remediation of this as I pointed out. And so our expectation is that this extra effort should come to an end during the course of this year. So from '23 on, we expect that the R&D expenses will only grow underproportionally and we will return to a more normal ratio. So this going out of proportion very clearly will not go on forever.

Eggert Kuls - *Warburg Research GmbH - Senior Analyst*

Okay. That's good to hear because in the past, I got always the impression that after a heavy R&D cycle, your margin improved significantly afterwards due -- of the contribution of the new products. But anyway, regarding the dividend. So I was initially expecting a higher dividend only from 2023 onwards when all participation rights have been canceled. So did I understood it right that you have spoken about a higher dividend already in 2022?

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

Indirectly. Because we said at all times that we will consider a higher dividend when it cost is -- the equity cost is a 40% mark. And I said earlier that we expect it to happen now already during the course of this year because of the very good business development in '20 and '21. So the good news is that it will happen faster, that we can go to a different level.

Eggert Kuls - *Warburg Research GmbH - Senior Analyst*

I think you spoke, when you brought the common shares to the market in 2010 or 2009, about a payout ratio of some 30%. So is that something we can expect already then for 2022 to make a rough calculation for the possible dividend?

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

Yes. Also, your memory is correct. And I remember that your colleagues were instrumental in making this happen that we IPO-ed the common shares at that time in 2010. However, then -- things have changed since then. And so many unexpected things happened like the opportunity to -- for the cancellation of the participation certificates. And where we get to in the future, we will see when we cross the 40% mark.

Operator

We will now take our next question from Oliver Reinberg from Kepler.

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

Three, if I may. Firstly, on the geopolitical situation, thanks for the color that you provided. Can you just talk about what are the potential impacts that you see in your business, not in terms of quantifying it, but where could you face headwinds? I mean it's obvious that the demand from Russia may decline. But is there any kind of incremental concerns in terms of supply chain or inflation pressure or any kind of other indirect implications from these kind of developments? I mean it's early and tough to call, but if you just can share your thinking on that.

And I noted that in the annual report, you talked about that there's strong expected demand for ventilators in Russia. And I think you also pointed out a strong chemicals industry in Russia. So I'm just cross-checking in the guides that you provided. Was this based on an early assumption of a strong significant growth, which was to have increased the exposure to Russia (inaudible) towards north of 2%? That's the first question for me.

Secondly, on FDA, can you just clarify, have you had any kind of specific discussion with the regulator at this point in time? Also, what kind of progress have you made in terms of the kind of software launches for monitoring? And any update when you would be willing to file for approval of the Atlan anesthesia device in the U.S.?

And third and last one, if I may, just on the order intake. The 12% growth looks actually quite encouraging even if we adjust for minor support from base effects. But is it broad-based? Can this continue? And also, you indicated you see a chance for ICU capacity being ramped up. Are there any kind of specific projects you're already seeing? Or is it just an expectation for future years?

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

Well, thank you for your questions, Mr. Reinberg. I start with the first one, and I'm happy to share some thoughts on the effects of the Ukraine. There was, first, far beyond the business implications -- it's an emotional and humanitarian catastrophe, that invasion of Russia into Ukraine exactly 1 week ago on Thursday morning. We woke up in a different world, very different from what we experienced for the last 77 years.

And so -- and we have no owned organization, subsidiaries in Ukraine. However, we do have in Russia 110 colleagues of us, and quite a number of them, I know personally. And they all have different opinions. They all differ and is not the same from what the government's opinion is or one from the other. And to me, it is of utmost importance to treat -- that we treat all -- each other with respect and tolerance and expect to accept different opinions here to avoid a further falling apart of the society as we already experienced during the COVID times and which may be the ultimate target of the aggressor.

And the business impact we have evaluated and as I've -- we said, the elements that you mentioned, the growth potential for ventilators in Russia and for the chemical industry, that was figured in the figures that we gave. And so what we expect that we have opportunities in other areas of the world as well, it would not bring us far north of the 2% portion of the share -- of sales that we have in Russia.

And please keep in mind that as we are making Technology for Life, that we firmly believe -- deserves all human beings in the world in all countries, no matter what government they have. We will continue to serve Russia as a country, observing all rules and regulations for business all over the world and all sanctions. And typically, we get exemptions for medical equipment. So this 2% will not drop to 0. And that -- so the sales impact is, I would say, not too significant.

We did try to evaluate the supply chain that you mentioned. We are not overly dependent on energy and not too energy-intensive, our business operations. And so far, we could not find any other significant raw material or component. The biggest share of our supplies that we actually -- where the value creation is in Russia is software development. And here, we work with a global partner in our contracts with the U.S. So -- however, the employees, they are Russians, are located in Russia that work for Dräger on the job. So that will not have an immediate impact on the products that leave our -- the plant and the contract is with the U.S. So that is not too bad either.

However, the indirect effects that can result from disruption of the supply chain in some other areas, I think, we are not overseeing today can be much, I would say, more significant than 2%. The whole world economy could have an impact that is far beyond 2%. And that's not figured into our guidance. Of course, not. As I mentioned, that's the exemption. These effects can't be -- cannot quantify and do not know yet are not included. So that is the -- I think the number 1 question, effects of the geopolitical crisis and the war in Ukraine.

The second, on FDA. So the major effort is on the remediation of the signings that were laid out in the warning letter. That's all being addressed and worked on continuously with close communication with the FDA. And we expect that we are ready for reinspection after remediation of all the issues during the course of this year. When the actual reinspection does take place and we get the clearance, that is not completely in our hands, and we will not compromise the authority of the FDA when they actually have time to do that.

Yes, we do have some progress on the market. So for the U.S., a very important step was that we have received the official clearance that we can resume the marketing of the Infinity Acute Care System VG4.2 version that we had subdued marketing for a period of over 2 years. So that can now resume. That -- and that information is not -- 2 or 3 weeks old only. So that's some progress. But we are still working on the Atlan software [added to] -- remember very correctly. That is not affected.

But by the warning letter, that's a separate issue. That is the cybersecurity guideline that requires authentication mechanisms for each and every device to be secure in itself and not depend on the hospital network to be secured by firewall. And that is very deeply in the design and the -- that is still in the works. And so Atlan sales will not significantly contribute to the U.S. success of Dräger in this year. And...

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

The last question was for the composition of the net order entry. And if -- as you have observed and we have pointed out, our net order entry was quite strong in the fourth quarter 2021. It was about 16% higher on the safety and was about 13% higher on the medical compared to the fourth quarter of the prior year, and that includes better order entry really across the portfolio for many areas that were weaker during corona and which have now recovered. So we see that also as an indication of continued robust development.

It includes our GDS business on the safety side, our safety respiratory care protective systems business and also our services, which were all up double digits on the safety side and on the medical side as well, other products from our therapies, so including anesthesia and thermoregulation. But also our workplace infrastructure business were up more than 10% and often more than 20% compared to the fourth quarter of the previous year. And again, on medical as well, our service business progressed quite nicely with double-digit growth as well.

So overall, to your question, robust growth across the portfolio, with a few exceptions. I shouldn't avoid, patient monitoring was weaker. Since that had strongly benefited from corona, it doesn't do to the same degree. And our HCA business, which actually has seen very strong growth, was just barely on the same level as in the fourth quarter, just indicating that this is not an -- but really robust growth across the portfolio.

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

Super very helpful. And sorry, if I just can ask on this ICU projects. I mean, is there any kind of tender projects you're seeing?

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

There are no particularly large projects that would stand out. Our demand is for many products that go into the ICU. So yes, there is demand from the ICU, but not -- no large individual projects that would be worth mentioning at this point.

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

Super. And last question for me. On ventilators, the current demand and the order intake, is that significantly below prepandemic level? Or is it still at around normal levels?

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

That's around normal levels. So other than the -- consider during the pandemic, remember when we received the 10,000 ventilators order, I might say -- see some saturation effects after that did not happen. So in some, say, regional markets, a slight situation, I would say. But in other geographical areas, an increased awareness of how important a good ICU equipment is. So that levels off. And it is at or slightly above the level that we would have had with no pandemic.

Operator

(Operator Instructions) We'll now take our next question from [Fabian Kletch] from [Wahlburg Equity.]

Unidentified Analyst

I only have one question. Does Dräger have any exposure to the defense industry? And is there any upside potentials foreseeable in respect of safety equipment for national defense budgets?

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

It is very limited. We do have products, obviously, especially our technical products, that go into other military goods. But if we look at it from a commercial point of view, it's less than 1% of our group sales and -- which really supports [thesis] in both directions. Our downside is limited and similarly is our upside from the discussion. And I would -- Stefan Drager can add some more color to that.

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

Yes. Not so much more to add. So the overall sales is less than 1% is for defense. And we do not see here an immediate upside. I had a call this morning, somebody asked for helmets. We said, "Well, we don't have ballistic helmets. We have -- we do develop and manufacture helmets for firefighters." And the answer was, "No, we don't need these."

Operator

As there are no further questions in the queue at this time, I'd like to turn the call back to your speakers for any additional or closing remarks.

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

Well, thank you very much. Then we can close this call on time. Thank you very much all for being with us today and for the lively discussion and look forward to hearing from you or one day meeting you again in person. So for now, have a pleasant rest of the day, and goodbye.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.