REFINITIV STREETEVENTS

EDITED TRANSCRIPT

DRWG.DE - Q1 2022 Draegerwerk AG & Co KGaA Earnings Call

EVENT DATE/TIME: APRIL 28, 2022 / 12:00PM 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

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

Frank Siebrecht *Cyan Invest*

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 Q1 financial results. I have with me today Gert-Hartwig Lescow, CFO; Tom Fischler, Investor Relations; and Peter Müller, Financial Communication.

We would like to guide you through the presentation covering our results for the first 3 months, which 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 pre-release. Nevertheless, in view of the substantially changed conditions for the global economy, thus, of course, also for Dräger, due to the geopolitical risks from the Ukraine crisis but also from China, 2 fundamental topics are particularly important for me for this conference call: firstly, to once again highlight the comparatively high-crisis resistance of our company; and secondly, to emphasize the significant future potential of the portfolio in medical and safety, which we continue to see in the medium to long term.

Now let's get started on Page 3 with the business highlights of Q1. Behind us, by event for months that we would certainly all have wished for differently. The war in Ukraine is rightly the all-dominant topic and has easily displaced corona from the pole position. In addition to the tragic human suffering, the war is also leading to serious economic consequences for many companies, and potentially, serious consequences for hospitals and their patients. Entire markets are collapsing, supply chains are massively disrupted, and clear inflationary tendencies are affecting global business models.

How is Dräger doing in this challenging situation? We are proving our resilience against crisis. We have confirmed our guidance. Our business model is not much dependent on energy and raw materials supplied from Russia and Ukraine. Our business is geographically well balanced with sales in Russia amounting for only 2% of our total revenue. The greater part of our turnover in Russia is generated in the medical segment. At present, we cannot yet assess how strong the impact on turnover will be. However, the direct effects should remain manageable. The only effect that we currently see on a wide scale is the shortage in supply for electronic components that will have an effect for the remainder of this year.

In Q1, which is traditionally weakest quarter of the year, we could already feel first but still minor effects. More significant, this was the first quarter for Dräger that was hardly affected by corona impacts. The last deliveries for FFP masks from the large orders we received during the pandemic times have been delivered on time and finished. And pandemic-driven new business in both divisions, safety and medical, is no longer taking place.

The normalization of business that we had expected and communicated for some time has taken place. This makes the really good development of our order entry all the more clarified. Our orders are clearly above the comparable levels we recorded before the pandemic. Our order intake is at 12% above the previous year and almost 30% above the 2019 level.

And it is a broad-based growth across the businesses. Both divisions contributed similarly well to the increase. Additionally, we posted an increase across nearly the full range of our portfolio of product level within the divisions. This demonstrates that Dräger is well positioned to also handle the new crisis. Due to our broad range of products, we can also benefit from the increase in demand across the board and return to growth even after the pandemic-related boom from which we have after all benefited greatly in the last 2 years.

The very order intake is not yet fully reflected in higher sales. There is a clear and expected time lag here, which currently leads to an increase in the book-to-bill ratio. On the one hand, incoming orders accelerated during the quarter so that we have received significantly higher orders in March than in January and February. Even though this development is not unusual within a quarter, this increase was much more pronounced at the end of the quarter than usual.

The more important factor, however, is the increasingly restricted availability of parts, which has been keeping the global economy in suspense for some time now. It is now also having an impact on our supply situation at Dräger. Until now, we have been able to manage the negative effects of the tense situation on the procurement markets in close cooperation with our suppliers. In the meantime, it is becoming increasingly difficult to procure the required electronic components in sufficient quantities.

The availability of important components is very tight, and procurement costs have risen significantly. In some cases, prices for these parts have increased tenfold when buying via brokers, if parts can be procured at all. While we had already started to take measures to compensate part of the higher cost by adjusting prices last year, it's safe to assume that this situation will not improve quickly but will continue to burn business development in the coming quarters.

Inflation is back, taking place all around us, and this provides an opportunity for an unprecedented price increase. We are currently implementing these measures consistently in all markets, and we'll thus be able to compensate for at least part of the pressure on margins. Whether the opportunity is greater than the threat or the other way around and to what extent is still unclear at the moment.

The gap between higher procurement costs and the delayed realization of net sales from the high order backlog due to the poor availability of parts also makes us more cautious about the expected future business development in 2022. Therefore, although we have confirmed our forecast for the year, we have already indicated that the lower end of the guidance has become more likely both for the net sales realization and for earnings.

It is still early in the current financial year. So we will not provide any further detail on our annual forecast at this stage. Of course, if we see a normalization of this low-risk situation, we will adjust or reverse the qualification on the forecast.

Our optimistic perception from a profitable mid- and long-term growth are not affected by these, hopefully, time-limited impacts. Our confidence is partially driven by our strong innovation focus. During the quarter, we launched several new attractive products and have also upgraded several products to improve the performance for our clients.

For example, in the safety division, we introduced the OPC UA connectivity of the REGARD 7000. OPC UA, that is Open Platform Communications, independent service-oriented Unified Architecture, integrating all the functionality of the individual OPC classic specification into one extensible framework, a game changer to industry in process control and asset management.

For our medical portfolio, we have launched a new generation of filters for anesthesia and ventilation equipment made in Germany. Breathing system filters must support and protect patients and staff just as reliably as the rest of Dräger's medical devices. With our new generation of filters, we are underlining this claim. 13 different breathing system filters and heat and moisture exchanges are produced on a highly automated line. The new filter generation is manufactured in a clean room at the main site in Dubai. At the same time, each filter is fully tested for tightness, filtration efficiencies and resistance. The new filters are perfect addition to our wide range of hospital consumables and accessories.

To finalize my introduction, let me give you an update on the status of the FDA topic. The implementation of measures to remedy the deficiencies identified remain a particular focus of me and my colleagues in the Board. It is still work in progress. We believe we are on a good track. An indication of this is the approval of the IACS [Regine] 4.2 we received a few months ago. The FDA has just now completed a reinspection at our Andover site, close to Boston. Andover is our main site where we develop and produce our patient monitoring solutions. The inspection has been completed in April with a total of 2 findings, so-called (inaudible), after a total of 10 inspection days and after conducting an in-depth analysis of our quality system.

None of the 2 findings represent repeat observations to the prior citations by the FDA, and we were able to demonstrate that the previous findings of the warnings that has efficiently been addressed through actions implemented today. As a next step, we will develop a formal response to FDA outlining how we will address the identified points in our effort to continuously improve our processes and quality system overall. The successful completion of this reinspection is a major milestone on the way to being cleared from the warning letter. It confirms our expectation that the warning letter could be withdrawn in the course of 2022. The further process and the timing on the closing of the warning letter is at the sole discretion of the FDA. The FDA has also announced a quality system inspection of our website here in Lubeck in Q3. We will keep you up to date on the progress in our quarterly earnings calls.

With that, I would like to turn over to Gert-Hartwig from a -- for a review of the financials before I will come back with a summary and outlook later. 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. I'd also like to welcome everybody to our conference call for our 2022 first quarter results.

Please turn to Page 7 for a review on the Dräger Group. As usual, I will be stating currency-adjusted figures whenever referring to growth rates. Our order intake increased by around 10% in the first quarter of 2022. This is a strong development, particularly against the background of seasonal aspects. At around EUR 826 million, the intake was also significantly higher than in the first quarter of 2019, the year before the corona pandemic.

While our AAA region saw the strongest push in the recent quarter and our European business grew as well, the demand in America was in a decline. Nevertheless, both divisions contributed to the positive order development group level. And I will elaborate on this on the next slides.

As expected, sales in the first quarter of 2022 did not reach the all-time high of the prior year period and declined by around 20%. The end of the pandemic boom is particularly noticeable in the medical division. Nevertheless, sales were still significantly higher than in the first quarter of 2019, i.e. well above the pre-pandemic level. At around EUR 650 million, that topped the corresponding pre-pandemic figure by almost EUR 50 million or 8%.

Our gross profit decreased by around 1/3 to EUR 274 million in the first quarter of 2022 compared to the prior year. This was due to the decline in net sales as well as the lower gross profit margin, which dropped by around 10 percentage points to 42.2%, mainly as a result of the changed product mix and higher purchasing cost. The normalization of the business comes with lower net sales shares of ventilators and lower mask sales. Both categories provided well above-average profit margins during the corona pandemic. Stefan Drager had already elaborated on the reasons for the higher purchasing costs.

Higher financial expenses also weighed on our earnings development. An increase in investments in R&D and the expansion of our sales organization as well as higher freight costs resulted in year-on-year increase of around 8%. As a result of the decline in net sales volume and gross profit margin as well as higher functional costs, our EBIT at minus EUR 35.1 million was significantly below the level of the first quarter of 2021.

Exchange rate changes had a slight positive impact on earnings, but this is mainly due to the closing of existing ruble hedges in light of the lower expected sales volume. As currencies remain at the base level, this would result in negligible full year impact on net sales and EBIT. Due to the decline in earnings, the Dräger value-added DVA amounted to around EUR 8 million at the end of the first quarter of 2022 compared to around EUR 426 million in the prior year period. Please recall that those are always 12 months rolling figures.

Let's now take a look at the development of the medical division on Page 8. As already mentioned, both divisions contributed to the increase in order intake. With a growth rate of roughly 11%, the medical division was just slightly ahead. Demand increased in almost all product categories of this division. The strongest growth was seen in our business with anesthesia machines, workplace infrastructure, consumables and services. But also the thermal regulation business as well as patient monitoring and data management registered higher order volumes.

On the other hand, orders for ventilators declined as expected after a very strong corona-related development in the past 2 years. Almost half of the orders in the medical division came from customers in Europe. The increase of 4% in this region was mainly driven by the German market, where orders rose strongly by almost 17%. But also outside of Europe, our business picked up. With gains of roughly 37%, the AAA region grew even stronger than Germany. Only in the Americas did we see fewer orders than the prior year period.

Against the background of the corona-driven extraordinary high net sales in the first quarter of 2021, net sales in the medical division were roughly 26% below the prior year figure in the first quarter of 2022. All regions contributed to this development. The decline is primarily a base effect due to the high volumes from a year ago. Compared to Q1 29 (sic) [2019], the year before corona, net sales were roughly 5% higher.

As a result of the decline in net sales and the lower gross margin, which fell by around 12 percentage points due to the changed product mix and higher purchasing costs, gross profit decreased. Financial expenses were around 7% above the prior year figure, mainly caused by higher expenses in R&D and logistics. Our EBIT in the medical division amounted to around minus EUR 30 million and was, therefore, significantly below the prior year figure of around EUR 98 million. Consequently, our EBIT margin decreased from 19.10% to minus 7.8%. Our Dräger value added for the past 12 months amounted to EUR 5 million at the end of March after a DVA of around EUR 373 million in the prior year period.

Coming to our safety division on Page 9. In safety, incoming orders increased by roughly 10% after adjusting for currency effects in the first quarter. This development was mainly driven by the clear jump in orders from breathing and personal protection products like SCBAs, but also our service business saw high demand. On the other hand, our engineered solutions business, Alcotesting devices and live breathing protection, such as N95 or FFP breathing masks, were on a decline. Demand in the first quarter increased in all regions, especially in Europe, which contributed roughly EUR 200 million or 63% of the total order intake. With a share of around EUR 87 million and an increase of around 11%, Germany was the main growth driver in this region.

While America gained only 3% more orders than the prior year quarter, the AAA region delivered a clear outperformance with a boost of roughly 17%. Net sales in our safety division decreased by around 8% after the strong development in the prior year quarter. At the same time, deliveries declined in all regions. The prior year's quarter still reported significant deliveries for FFP masks, which only played a minor role in Q1 2022. Meanwhile, all of the large public orders for FFP masks we received during 2020 have been delivered.

Like in the medical division, the gross profit margin was burned by the changed product mix and higher purchasing costs. Therefore, it was 5.8% below the prior year quarter, together with the drop in net sales has led to a significant gross profit decrease of around 18%. Financial expenses increased by around 9% in the first quarter. This was due to higher sales and freight costs. Our safety's EBIT amounted to minus EUR 5 million and was therefore significantly below the corresponding figure of the prior year period. Consequently, the EBIT margin dropped by 12.9 percentage points to minus 1.9%. The Dräger value added for the last -- for the past 12 months decreased by around EUR 50 million to around EUR 3 million [end] of March.

Let's move on to some key ratios on Page 10. In the prior year's quarter, cash flow was very strong due to the corona-related high earnings. In line with the substantially lower earnings this year, cash flow from operating activities amounted to around minus EUR 25 million in the first quarter of 2022. The lower EBIT could not be compensated for by a lower increase in inventories. While in the last year's quarter, free cash flow was supported by the sales of money market funds held for liquidity management purposes, this year's quarter does not have a similar effect. Investments in Q1 had a cash impact of roughly EUR 30 million, resulting in a negative free cash flow of some EUR 55 million for the first quarter 2022.

Cash and cash equivalents amounted to around EUR 385 million, an increase of around 6% compared to the prior year figure. And the current investments into money market funds, which we consider to be near liquidity-like, is roughly at EUR 130 million. In light of the good liquidity development in the last 12 months, net financial debt dropped significantly by around 76% to around EUR 36 million at the end of March this year. Capital employed amounted to around EUR 1.42 billion and was slightly below the corresponding prior year figure. Net working capital decreased as well by around 13% to roughly EUR 555 million at the end of March.

With 40.5%, our equity ratio has slightly improved compared to the level at the end of 2021. In addition to the increase in revenue reserves from retained earnings in 2021 and increase in revenue reserves from actual adjustments for pension of provisions also contributed to the increase in equity in spite of the profitability loss.

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 you are all aware of, the one-off effects of the coronavirus pandemic have subsided, and we returned to a normalized business trend as was before the pandemic. As a result, in comparison to the record levels of 2021, Dräger still anticipates net sales on a currency-adjusted basis of between minus 5% and minus 9% below the previous year in the current fiscal year. With that, Dräger continues to forecast an EBIT margin of between 1% and 4%.

While our financial performance in the first quarter was certainly in line with our expectations that supports our guidance, we now consider the lower end of the net sales development as well as the EBIT margin to be more likely due to the increasing difficulties in the supply of electronic components. After the transition year of 2022, we will return to positive net sales growth and higher profitability again.

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

We take our first question from Oliver Reinberg with Kepler.

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

Three, if I may. Firstly, on the order situation. I mean the orders are truly encouraging, this growing despite the kind of base effects. Can you just talk to what is actually driving that? Is there any kind of topic that you can isolate? And can you share any kind of views how the CapEx environment may develop going forward? I mean there are some kind of headwinds in North America. Hospitals are suffering from significant pressure on, first, the cost inflation, interest and other headwinds. And obviously, also in the European market, the governments have now other buckets of spending on defense, energy crisis, et cetera, et cetera. So what has been driving this kind of strong order intake? And what are your thoughts on the CapEx environment going forward?

Second question, just on the supply chain. Can you just talk to how broad-based is this kind of challenge to the kind of components? Is this isolated for specific products? Or is it really affecting the kind of whole product range? And how much has it gotten worse in the first weeks of Q2? And any ability to navigate around that?

And then the third and last question, please. I mean, obviously, the world is changing. The challenges become significantly worse. China inflation, supply chain and probably personnel cost inflation is going only to kick in next year. So I guess weapon #1 is trying to push through price increases. But can you just talk about are you also working on any kind of incremental new efficiencies that gives you the confidence that the situation is significantly turning out next year?

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

Well, thank you, Mr. Reinberg, for your question. So what is driving the order intake with -- generally to say across the board, but it's more -- let's say, we can see that our investment in innovation and also in the capabilities in the sales organization do pay off. So there's, for instance, our new anesthesia devices still, let's say, relatively new. The Atlan is selling well. And in the safety division, there is successes from the newer versions of our SCBAs. So there is not one single, say, cost that pushes it across the board, say, paying off our effort in innovation and specific capabilities in the sales organization, our "Fleißarbeit", auf Deutsch.

And your second order -- and yes, there was a specific aspect. You mentioned it's -- can we see benefit from the added attention to defense spending. We don't, at this point in time, see such effect. It is only a minor part of our business is defense business, and there is no significant effect at this moment. We do at all times have, let's say, committed that we have as part of the business, but it's relatively small. And so at this point in time, there is no certain, say, significant impact in the order intake.

Second -- your second point, supply chain issues. Has it become, say, worse in, I think you said the first weeks of this year. So -- or now, basically after the war, if I may interpret your question. Actually no, it was a continuous deterioration starting by the mid of last year. And the good part, we are not, say, overly dependent on specific raw materials or energy that has become very short in these days or specific materials that are very hard to get. So it's a continuous deterioration that I don't see will go away for the remainder of this year. And with some time delay (inaudible) our supply chain, and we can now seal it.

There is not -- there's so much -- it cannot be easily circumvented. If you know that, I'm sure. If a certain semiconductor is not available, it cannot just specifically replaced by another one because we operate in highly regulated markets, and it needs quite some redesign and reapproval effort to do so.

Now to mitigate this effect, coming to your last question, the -- of course, we are continuously working on efficiency measures. And by the beginning of this year, we have beefed up our efforts to some extent to save more. But the lion's share of the -- either improvements or downside, they will come from the market in the volume. And both is affected by, as you rightfully mentioned, the price increase where I said in my introduction and comments and speech that we do have an unprecedented opportunity for a price increase of not before seeing magnitude by our customers be accepted in the environment where inflation is all around us. And that we said it's more than we would be, say, coming into our expenses because our longer and midterm futures, it depends on our innovation. And we are convinced that it does not make sense to go -- to completely stop this effort because it would be very inefficient and a waste of time and resources and to go in a stop-and-go mode with the innovation effort. So yes, there is some efficiency gains in addition but ever, the largest part of the improvement will come from implementing innovation and from price increases.

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

And if I may add to the latest one, to the efficiencies, yes, they are included also in the more precise outlook to balance some of the effects. And I believe, Mr. Reinberg, regarding your second question on the supply chain, you also asked, have we specific products? Well, they're not individual products, but of course, it's products that have a high electronic component content in there. And that is, in particular, on the safety side of the portfolio.

And while as Mr. Drager pointed out, the situation has deteriorated or has tightened over time, so it's a gradual process. Our outlook has, in particular, in the beginning of the second quarter led to the conclusion that contrary to prior estimates, we will not be able to fully compensate that. And we already see that to a degree in the net sales realization in March, in particular, that we could probably have had sold some more in the first quarter had delivery been more timely in the period. And we expect the same over the course of the year, and that's in particular realization of the last few weeks of March and the beginning of April.

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

That's helpful. And if I can squeeze in last question. Any color where we should expect the gross margin to come in, in the full year? Any kind of range?

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

Yes. Sure. We expect actually -- that has actually not changed significantly. We will see a slightly lower end of the gross margin. And that is, as we have said, between 44% to 46%. And again, since part of our lower profitability is due to mix effects from high value-add products with high electronic components, that will lead to a mix effect that will lead to the lower end of 44% to 46% gross profit margin. So implied is a better gross profit margin for the remainder of the year.

Operator

(Operator Instructions) It appears we have no further questions at this time. I'd like to turn the call over back to you, Mr. Drager, for any additional or closing remarks.

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

Yes. I would actually say -- get the opportunity to ask one more question. If there is anyone, say, for last opportunity because we have sufficient time left. So if you have a question, you can still ask it now.

Operator

We do have one question in the queue. Mr. Frank Siebrecht with Cyan Invest.

Frank Siebrecht - *Cyan Invest*

I have one question regarding your FDA warning letter and the impact you have imposed so far on your P&L due to this specific audit and also to improve the quality. Can you quantify how much additional cost you have to bear on an annual basis since you received this letter in early 2020? And on the other hand, can you elaborate on once you get fully cleared, what this will mean for your business, especially in the U.S. going forward? And if we can, a bit of -- get a sense on what is the impact on your P&L just from this warning letter.

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

Unfortunately, not as easy. I do understand the question. It's a good question. However, please bear in mind that the reasons that we have used are to a large degree internal resources. So if I were to include that, perhaps the intent of the question is what -- to what degree can actually we expect the lightening of the P&L right away after the warning letter. Because it's not likely that this is going to happen.

What in fact has happened is we have used resources that would otherwise have worked on our road map. So the consequence is, in fact, a delay in the road map. And the ending of the warning letter will, first and foremost, lead to a reprioritization. There are some external costs that will go away, and then they are in the 7 digits certainly. But the total -- this underestimates the total cost of the total burden that it has on the organization.

Frank Siebrecht - *Cyan Invest*

And with regards to the potential that you see thereafter in the U.S., what will it mean for your business once the letter is cleared?

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

There are several consequences. In fact, we have seen some lightning. Stefan Drager, I believe, has pointed out that we have received the approval for the 4.2 IACS software version. We -- and with that, we can already work on the market. A key element not directly related to the warning letter is the approval process for our therapy devices. And this will -- we expect end of this year or early 2023. So this will broaden our offering for the U.S. market, effective for 2023, not being effective for 2022. And of course, it will help us to accelerate the road map. And I believe Stefan Drager can add to that.

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

Yes. More clearly speaking, the Atlan is currently not yet approved for sale in the U.S. by the FDA, and we are working on that. And as I said earlier, that is selling very well in the CE countries. And so we have to work hard, need to close up to that with our sales in the U.S., as Gert-Hartwig said, probably not before the end of this year.

Operator

We take our next question -- follow-up question from Oliver with Kepler.

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

I think you just answered the first one. So basically, on Atlan, that was the one where you expect approval early 2023. Is that correct? I think you so far worked on the software. Once that is done, then you engage in filing. Is that the correct way of understanding? And if so, when do you expect the software to be completed?

Secondly, on pricing, can you provide any kind of color? I guess this is a kind of gradual process in terms of how increased prices is ramping through the organization. So I mean I don't expect any kind of quantified details, but can you just give us any kind of feeling? Of the price increases that you expect to be done by year-end, how much of these have already been implemented in Q1, just to get a kind of feeling for how much of this kind of related benefits we still get going forward? And the -- probably leave it there.

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

Okay. First, on the Atlan, yes, that is correct. The delay is due to the revised cybersecurity guidelines of the FDA that, say, has an effect on the -- this part of the world that it is not so easy and quick to implement. And that is what we believe will be finished by the end of this year at the latest. And then it can also be launched in the U.S., and we are very much looking forward to that.

So pricing, Gert-Hartwig?

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

Yes. As you've pointed out, the pricing approach is a gradual one and will be -- we'll show strong results over the course of the year. Bear in mind that of the net sales that we have realized in the first quarter, a significant portion has actually been in the sales funnel since the third, certainly the fourth quarter, of 2021. So the impact is limited.

And overall, without going into too much detail, the impact in the first quarter is relatively small compared to what we expect for the first year -- for the full year and has been overcompensated by other factors leading to the decline in the gross profit margin. We expect that to change over the course of the year, at least on a quarterly basis.

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

And the Atlan, is it the 510(k) or full PMA approval?

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

No. 510(k).

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

510(k). Okay. And the last question on the FDA warning letter. Can this be lifted despite the new 483? Or do we need another reinspection before that?

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

It's -- eventually, it's all at the discretion of the FDA. So it is possible that the FDA might review our reply to the 483, and they'll be satisfied with that and lift it. That is a very optimistic case. So -- and the pessimistic case is they keep it open until they inspected the Lübeck site, which has nothing to do with the warning letter and the other inspection. We did not have an inspection of the Lübeck site for 7 years, and they come typically every 3 to 7 years. So it's overdue anyway, and it was probably delayed also due to corona. And it's standard operating procedure. It is being done. And who knows? The FDA may keep the warning letter open until everything is completed. They're feeling better that they still have something open in their hand. It's up to them. We make sure that we have a good working relationship and do whatever is required and whatever it takes. And it has a gap much management attention for through the (inaudible), and we keep you posted.

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

Sorry, what was the plant which is overdue of an inspection? Was it Lubeck or what did you say?

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

Yes. We didn't have an inspection for the last 7 years, which is about the longest period I can remember since I'm in the business.

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

Sorry, in Lubeck, you said all?

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

Yes, in Lubeck.

Operator

(Operator Instructions) It appears there are no further questions at this time.

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

Okay then. For this, I would like to thank you all for joining us this afternoon for being with us and look forward to some time, hopefully soon, meet you again, hopefully in person. So have a pleasant afternoon and evening, and the call is adjourned.