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Q2 2022 Draegerwerk AG & Co KGaA Earnings Call

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PRESENTATION

Operator

Dear ladies and gentlemen, welcome to the conference call of Dragerwerk. At our customer's request, this conference will be recorded. (Operator Instructions)

May I now hand you over to Stefan Drager, CEO of Dragerwerk, who will lead you through this conference. Please go ahead.

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

Yes, hello, and good afternoon, and thank you for joining our conference call on our financial results of the first half of the year. I have with me today Gert-Hartwig Lescow, our CFO; and from Investor Relations, Tom Fischler; and Nikolaus Hammerschmidt, the successor of Peter Muller.

We would like to guide you through the presentation covering our results for the first 6 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 previous release.

Let's get started on Page 3 with some business highlights. To say the developments in 2022 so far were challenging or difficult would probably be an understatement, not only for Drager, but for the entire world. The recent events have taught us 3 things. First, the corona pandemic is not over, despite the vaccination successes to date, the availability of personal protection equipment, rapid tests and medication. This is evidenced by the persistently high infection figures and the new virus variants that experts are warning us about. But currently, with lower hospitalization rates, the need for additional intensive care equipment is not on the high levels we have seen at the beginning of the pandemic.

The current phase of the pandemic is affecting us in a different way. Rigorous lockdowns have been imposed in China's major cities and their impact on global supply chains is still being felt. And just as the lockdowns are relieved and behind us, new fears arise that, once again, major Chinese cities may go into a lockdown situation again. This high level of uncertainty is poison for the global economy. Supply chains are massively disrupted and strong inflationary tendencies are affecting global business models. Plus, the sheer number for corona infections and subsequently quarantined personnel is a challenge to keep operations running in the industry, and in particular for caregivers and health care systems.

The second lesson is that war in Europe is unfortunately still possible today. The Russian attack on Ukraine clearly shows this. The direct economic impact of the war on Drager is small because our Russian business is small. Our direct dependence on Russian energy or raw material is very low, and we have no manufacturing in Russia, Belarus or Ukraine. In addition, our very diversified business model helps us to cushion the impact of geopolitical risks. Our business is geographically well balanced, with sales in Russia in a normal year amounting for only about 2% of our total revenue. On a human level, however, we are very concerned about the war and its consequences, in particular the hunger on a global scale.

The third lesson contains a strong positive message. Our Technology for Life remains in demand even in troubled times. Our order intake in the first half of the year was well above the previous year's level and our expectation. And this despite the fact that demand in this period is traditionally weaker than in the second half of the year. Both divisions, Medical and Safety, contributed to the positive order development in the first half of the year. The growth drivers were our core market of Europe and, in particular, the Africa, Asia and Australia region. Order intake here increased by around 20%. The positive trend from the first quarter thus continued in the second quarter.

On the flip side, our net sales declined significantly in the first half of the year despite the strong order intake. On the one hand, this was expected due to the normalization of our corona-related business. One needs to keep in mind when comparing the year-over-year development and last year's net sales and earnings were still very strongly supported by corona-related demand, especially due to the strong delivery performance of FFP masks in safety. But also by ventilator deliveries in medical during 2021. Meanwhile, all orders we had won during the beginning of the pandemic have been delivered. Hence, they are no longer supporting our net sales.

On the other hand, we were unable to realize our revenues from the high order entry as quickly as we had hoped due to the limited availability of components. These supply chain disruptions are affecting us and to our knowledge, all of our competitors on a wide scale. The shortage in supply for electronic components remains our biggest challenge and results in lower net sales and higher purchasing costs. The availability of important components is very tight and procurement costs have risen significantly. We are mitigating these effects with unprecedented broad price adjustments for Drager products. We are currently implementing these price increases consistently in all markets and will thus be able to compensate for at least part of the pressure on margins.

However, the successfully implemented price increases did not yet fully impact earnings in H1, but will have a more relevant positive impact on the profitability in the second half of the year. Another factor was a lockdown-related decline in net sales in China as well as negative impacts from a stricter enforcement of buy local policies. Overall, we had, to some extent, already expected somewhat weaker sales in the first half. Due to the decline in sales volume and the changed product mix in light of weaker corona-related sales, [being] masks and ventilators, our earnings also fell significantly in the first half of the year. Earnings were also impacted by higher costs for materials and logistics and the underutilization in production. However, we expect the supply situation to ease in the second half of the year. This will allow us to work off the existing backlog and shorten our delivery times.

We are aware that this means a significant operational ramp-up for the second half of the year as we also expect the good order situation to continue. This will result in higher sales in the second half of the year. And, since the positive earnings effect from our price increases will have a proportionally greater impact in the second half of the year, we also expect improved EBIT and cash flow. We are therefore confident that we will achieve our targets for the year, and we reiterate our guidance but continue only to expect the lower end, as previously communicated with the Q1 results. So no change here.

Moving on to innovation. In H1, we have invested some EUR 167 million into our R&D activities and launched several new attractive products and have also upgraded several products. In our Q1 call, I had chosen some examples of new medical products from our consumables portfolio. Today, I will put the focus on software innovations that help our customers optimize internal workflows and efficiency. This is a very important topic for hospitals, which are facing growing shortages of care-giving personnel. We have upgraded the Drager Hospital Capacity Board with an analytics model helping hospital customers analyze utilization levels as well as tracking how the incidence of infections has developed historically at ward level. We also launched the second version of Alarm History Analytics, our database solution that enables in-depth analysis of alarms on acute care wards and can thus make an important contribution to optimizing process workflows, staff planning and efficiency.

For the safety portfolio, I would like to feature the new closed circuit breathing apparatus, BG ProAir. The BG ProAir protects firefighters or mine rescue teams during long duration operations. The breathing apparatus continuously supplies the wearer with positive pressure even as breathing frequency increases, so that no hazardous substances from the ambient air enter the closed breathing system. The weight of the device is evenly distributed across the body, making it comfortable and easy to wear, even during extended missions. Various cooling options and reduced breathing resistance make breathing easier. Even with breathing apparatuses, digitalization is becoming common in the Drager portfolio.

The BG ProAir can wirelessly connect to external devices, for example to configure settings or download data. It also supports monitoring of the respirator and absorber by means of integrated data telemetry and RFID.

To finalize my introduction, let me give you an update on the status of the FDA topic. In our last call, I had elaborated on the inspection at our Andover site that had taken place in April and had resulted in 2 findings so-called 483s. None of those findings represent repeat observations to the prior citations by the FDA. And we're able to demonstrate that the previous filings of the warning letter have effectively been addressed through actions implemented to date. The site inspection is a major milestone on the way to be getting cleared from the warning letter and supports our expectation that the warning letter might be closed in the course of 2022. It goes without saying the further process and the timing on the closing of the warning letter is at the sole discretion of the FDA.

Today, I'm happy to announce that the recent site inspection here in Lubeck also has successfully been concluded at the beginning of the month, resulting in only one finding, a so-called 483, in one of the quality subsystems we have established in regard to fulfilling the requirements of the U.S. Code of Federal Regulation. All other inspected quality sub-systems resulted in no findings. We will formally responding to the finding and outline our actions for correction and improvement and to confirm that the finding has no negative impact on safety and effectiveness of our products.

In parallel, we are continuing our activities to submit new products to the U.S. FDA for regulatory review, a key milestone to launch new products into the FDA market. These planned launches are important factors also in our plan to improve our profitability in the year 2023 and beyond. We will keep you posted.

And with that, I turn over to Gert-Hartwig for a review of the financials before I will come back with the summary and the outlook. 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 would also like to welcome everybody to our conference call for the results of the first 6 months. Please turn to Page 4 for a view on the Drager Group. As usual, I will be stating currency-adjusted figures whenever referring to growth rates.

In the second quarter of this year, order entry remained on a very good level, with some EUR 822 million order entry in Q2 was on the level of the first quarter, mainly driven by strong order development in safety. Already in Q1, pandemic-related orders no longer played a role, and demand for corona-related products such as ventilators and FFP masks were also significantly lower in the second quarter when compared to the previous year.

However, this was more than offset by higher order intake for other products, like gas detection, safety and anesthesia devices in medical. Versus 2019, a year not affected by the pandemic, order entry is up by more than 20%. This is a good indication that, despite the very challenging macroeconomic environment, the business remains intact.

From a regional perspective, the biggest growth driver for order intake will be Africa, Asia and Australia region, with an increase of 11%. Demand also increased noticeably in Europe. The Americas region recorded a slight decline. Both divisions, medical and safety, contributed to the positive order development in group level, but with a much stronger contribution from the safety division.

Our net sales remained on a subdued level and clearly lagged behind the development of orders in the second quarter as well. Net sales in Q2 decreased by roughly 25%. Stefan Drager had already pointed out, the main reason for this is the difficult supply chain situation, especially the limited availability of electronic components as well as the longer-than-expected lockdown in China, which has massively disrupted global supply chains. The decline in net sales affected all 3 regions in both segments. That said, the decline in medical was significantly steeper than in safety. When looking at the year-on-year development, one needs to take the demand and base effect into consideration, as Q2 2021 was still supported by strong corona-related deliveries.

In the second quarter, gross profit of some EUR 252 million was down significantly year-on-year. The gross margin also fell significantly compared to the prior year quarter by nearly 8 percentage points. The decline is mainly due to lower net sales volume compared to the pandemic-driven good volume from the previous year. Furthermore, the product mix as well as higher purchasing costs for electronic components weighed on the gross margin. Both medical and safety were affected by the decline. The changed product mix is mainly due to lower net sales shares of ventilators and lower mask sales. Both categories provided well-above-average gross margins during the corona pandemic. Higher functional 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 a year-on-year increase of around 4%. As a result [of the decline] (added by company after the call) in net sales volume and gross margin as well as higher transport costs, our Q2 EBIT was significantly below the level 1 year ago.

For the 6 months period, our net sales decreased by 22% at constant exchange rates compared to the record level of the previous year. The reasons for the lower gross profit margin are the same as for the single quarter. Lower volume, unfavorable product mix due to the fading corona-related sales and higher production and logistic costs. Functional expenses for the first 6 months are up by some 6%, resulting in a substantially lower 6-month EBITDA of minus EUR 112 million. Due to the decline in earnings, the Drager value added, the DVA, is also substantially below the prior year's level. The impact of FX on the result is of minor relevance. The U.S. dollar, in particular, continued to soar against the euro. By contrast, the relevant currencies of Central and South America weakened against the euro. Overall, we are still in a slightly more favorable exchange rate environment than in the same period of the previous year. If currencies remain on today's level, this would result in a neglectable full year impact on net sales and EBIT.

Let us now look at the development of the medical division on Page 5. In the second quarter, the Medical division remained on a growth trajectory, but order entry growth came down from the very good growth levels of the first quarter. In AAA as well as in Europe, order intake was slightly above the level of the prior year period, whereas in the Americas region, demand remained stable. Compared to the prepandemic second quarter of 2019, order entry in the quarter is still nearly 15% higher in reported terms. As for the group, also in the Medical division, the transition from order entry into net sales is lagging. And there is the biggest concern for the current business development. Net sales in Q2 were 28% below the level 1 year ago. All 3 regions contributed to this development to a roughly equal extent.

In the second quarter, gross profit as well as the gross profit margin decreased. The gross profit margin decreased by 6.5 percentage points. Here too the significantly lower profitability from product mix had a negative impact. Lower expenses from quality measures were offset by increased expenses for purchased materials. Q2 EBIT was just below minus EUR 50 million, corresponding to an EBIT margin of minus 12.8%. For the 6-month period, order intake in the Medical division increased by some 6%, thus exceeding our expectations. Growth was driven, in particular, by products in the areas of workplace infrastructure, anesthesia, thermoregulation and hospital accessories. As expected, orders for ventilators declined significantly as the corona-related business returned to normal and is now on the pre-pandemic level again.

Against the challenging prior year base, net sales were down by roughly 27%. All regions and most of our product areas are affected. As a result of the lower net sales volume, gross profit contribution declined. In addition, the gross profit margin declined as a result of the unfavorable product mix, again, comparing to a prior year product mix supported by pandemic-driven sales of high-margin products, but also higher purchasing price and production costs contributed to the lower margin. With functional costs up by roughly 6%, mainly caused by expenses in R&D and logistics, EBIT declined to a disappointing level of minus EUR 80 million. The lower EBIT is the driver for the lower DVA of minus EUR 93 million at the end of the period.

Let's now look at the development of the safety division on Page 6, starting with the development in the second quarter. As we've just noted for the Medical division, also in the Safety division, order entry is above the prior year's level. In safety, the order entry in the second quarter was particularly strong with orders increasing by some 18%. Continuously good demand across the Drager portfolio drove this good development. With the exception of impairment checks, all product categories grew double digit. Regional-wise, AAA and Europe are growing, while the region Americas is below the prior year's level. Due to the limited availability of parts, we are not able to translate the good order entry into net sales. Net sales in the second quarter declined by roughly 19%. All regions reported lower net sales.

In parallel with the substantially lower sales volume, the gross profit margin was also around 10 percentage points lower. Together, these 2 developments resulted in a significant 34% decline in gross profit in Q2. The decline in gross profit is mainly due to the product mix. As 1 year ago, the revenue share of high-margin mask sales was significantly higher. In addition, higher procurement costs for electronic components weighed on the margin for the safety division. In total, Q2 EBIT amounted to minus EUR 26 million only.

Looking at the 6-month period, strong development in order entry with an increase of roughly 14%, but lagging net sales development with a decrease of 14%. The gross profit margin decreased by close to 8 percentage points for the same regions just mentioned for the Q2 margin. Higher functional expenses of roughly 7% for higher sales activities as well as higher logistic costs contributed to the decline in EBIT. EBIT of the first half of the year was minus EUR 31 million corresponding to an EBIT margin of minus 6%. Due to the lower earnings, DVA declined to just below minus EUR 57 million.

Let's move on to some key ratios on Page 7. After very strong cash generation last year due to the corona-related high earnings, the much lower earnings development this year has resulted in a substantially lower cash generation so far. In the first 6 months of 2022, Drager generated a cash outflow from operating activities of nearly EUR 215 million.

Next to the weaker earnings development as the main reason, also a buildup of inventories, which increased by some EUR 46 million, as well as the lower cash inflow from the reduction of trade receivables, which decreased by some EUR 44 million, also contributed to the higher cash outflow. Investing activities generated a cash inflow of nearly EUR 40 million in the first 6 months.

This inflow resulted, among other things, from the divestment of money market funds held for liquidity management purposes in the net amount of nearly EUR 90 million. In the prior year period, we had a very similar situation with cash inflows from investing activities of roughly comparable amount due to the disposal of money market funds. A total of around EUR 43 million was spent for investments in intangible assets and property, plant and equipment.

While free cash flow is negative after 6 months due to the operating outflow, we expect a strong recovery in cash flow development due to the expected strong recovery in net sales and earnings development in the second half of the year. In light of the liquidity development over the past 12 months, net financial debt increased to around EUR 257 million at the end of June this year. But as already mentioned, with the expected improvement in cash generation, net financial debt and the ratio of net financial debt to EBITDA will improve again in the second half of the year. Net working capital increased by around 15% to roughly EUR 728 million at the end of March. In consideration of the high order entry and lagging net sales development, inventories of products in installation and half-finished goods have increased. Here as well, we expect an improvement in the second half of the year when deliveries pick up again.

The equity ratio has strongly improved to just below 45%. The increase is mainly due to the adjustment of the calculation parameters for pension provisions. The increase in the discount rate from 1.2% to 3.4% in Germany reduced pension provisions, with a strong positive effect on the equity ratio. So 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. If we leave aside the very promising order development, the business development during the first half of the year in terms of sales development and earnings were disappointing. Nevertheless, we confirm our guidance. In comparison to the very high levels of 2021, Drager 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. So that Drager continues to forecast an EBIT margin of between 1% and 4%. And while we have said that the lower end of the net sales and earnings is more likely, that still leaves us with a necessary strong recovery in the coming 2 quarters. How can that work?

After several months with much stronger order development than the net sales development, our order backlog is very high. Our current challenge is that we are not able to translate all orders into net sales due to the very high limited availability of the necessary parts. Meanwhile, we have good indications that the supply chain is improving, and we expect this improvement to continue during the remainder of the year. This will allow us to realize our net sales more quickly and significantly improve operating cash flow again. In addition, we will see more positive earnings effects from our price increases in the upcoming months. The continuous further improvement of the supply situation makes us confident of achieving our targets for the year.

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

(Operator Instructions) And the first question is from Oliver Reinberg, Kepler Cheuvreux.

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

A quick question from me. Firstly, can you just talk to what kind of visibility you have on the supply chain improvements? The second question, it's probably early days, but can you just share any kind of thoughts that you have for the puts and takes moving into 2023? So I guess there is support from pricing taking more effect, also next year you referred to a kind of positive order situation. On the other side, we have some kind of labor inflation and general inflation headwinds. So can you just talk to how confident are you for a recovery of margins into 2023 phase? And the last question, can you just remind us what is your exposure to cyclical industries within safety, and have you seen any kind of a cooling effect there? Or is that not the case at this stage?

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

Stefan Drager speaking. Thank you, Mr. Reinberg, for your question. On the third question, just for clarification. What industries? Chemical industry. What industries did you refer to?

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

Yes, cyclical industries.

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

Perhaps I just take it. And so as you're aware, in both. Of course, on the medical side, there's, if you will, no such exposure. And on the safety side, we have an exposure to a wide area of industries, including -- but also including public customers like fire departments. Each individual like the chemical industry or the steel industry, if I qualify them as cyclical, has only a very limited share and the total share of those cyclical industries in the safety is below 50%. In addition, the amplitude of the effect that we typically see is not very pronounced. And if any -- we do have an exposure like the chemical industry and from experience, we -- I would say, it's probably more late cycle. So we would not be the first company to be hit if a negative development occurs. We would also not be the first to benefit if an uptick occurs.

But overall, some effect, not very pronounced from those effects. Please bear in mind that perhaps this, if you call it downturn, may be different. You also added the question, do we see a decline already? Not at this point. In fact, we do see a very strong order entry for our portfolio on the safety side. So from our order entry position, one would not conclude any negative impact when it comes to demand from our customers.

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

Yes. And to build on that what Gert-Hartwig said, from -- Stefan Drager speaking. You have this great diversity of markets, industries and business mechanics, geographies and it included in our safety portfolio is somewhat defense-related portfolio, keep all that in mind. So that's probably anticyclic at the moment. So the overall effect is quite manageable, so to your third question. All 3, Mr. Reinberg, I think are very, very good questions. And in particular, I like the first one. I think it's key. What kind of visibility do we have on the supply chain, what makes us confident that it will get better in the second half of the year. So I'm not confident that the world will get better or easier. My confidence is related to Drager. As we have seen the supply chain getting difficult already during the course of last year, it's not overnight towards February 24. But long term before, it has become difficult.

So we have already for almost a year, we have worked very hard with our procurement to secure parts, components that we need for our production and already spent most of the brokerage cost that is included in the year-to-date expenses to secure the parts and components. And we now have a high degree of confidence secured for the second half of the year that the components that we need for our production. Plus in anesthesia, for example, I will share this in more detail, we have originally geared for a number of devices, for anesthesia devices that we now have the parts for 30% more than we had originally planned for this year. That's justified by our order intake.

And the last but not least, we have geared our protection to run in 2 shifts starting after the summer break. So we will double the weekly output by the end of the summer. And with this, that makes us confident that we can manage the steep increase from the first half to the second half of the year by sales and output and see a number of devices that we have the component supply and the labor for us, the production capacity already to go, which we have proven 2 years ago when we quadrupled the weekly output of devices over a relatively short period of time. So we are confident that it will work for this year to get the improvement for Drager for the output for the second half of the year.

Looking further ahead in your second question into '23, so there is, of course, a great degree of uncertainty, and I'd put it this way. So with the inflation, so the euro numbers are all on the news. It is a -- so not a bad idea to fall back to the count of the units. So for our planning, the unit count that we plan to sell and to produce, so that has not changed with the inflation. It is a matter of discipline and a passion to enforce the price increases and adapt all lines of the P&L with the -- then coming forward of the approvals by the FDA for certain of the devices that are still waiting for it. I'm confident that we can have a recovery in the year '23.

So with an improved profitability probably not yet, of course, to the degree we all wish it should be. But turning around from the current decline to an improvement into next year '23. So the details, we will communicate in due time.

Operator

The next question is from Christian Ehmann, Warburg Research.

Christian Ehmann ***Warburg Research GmbH - Analyst***

I have a question on your cash flow situation. Can you give us a little bit more detail on the expectations you have for the second half of 2022, considering that the planned refund of the participation certificate is planned for January 2023.

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

I know [they're] -- very gladly. So the key components are really twofold for the cash development, and I'll get back to that since I believe, helps to draw a picture for the second half. The key driver is the lower profitability. And added to that is an element for inventories in particular, also for receivables, due to the fact that we have a higher share of, if you will, worked-on material than we would normally have. With the recovery in the second half, with a strong ramp-up in profitability will come also a corresponding higher cash flow, and that will reverse the negative cash flow in the first 6 months to a large degree. And that will be supported also by a better inventory development due to the fact that we will ship more in the second half of the year.

In combination, we are well geared to -- for the down payment of the EUR 200 million, roughly EUR 209 million for the participation certificates in January 2023. And have, in any case, a sufficient credit facility, but based on our outlook, we will not need that in full for that down payment.

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

I think there is a question coming.

Operator

Yes. It is from Mr. Reinberg. It is a follow-up. Please go ahead.

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

Can you just talk to the potential you see in the U.S. market? I mean, so far, the portfolio is waiting for refresh from both anesthesia and the ventilation side. So any kind of more color when you expect this kind of product refresh to materialize? And also what kind of upside potential you see for the profitability in the U.S.?

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

So starting off, firstly, as Mr. Drager said, we are -- we have now submitted all of the products with the FDA, and the same applies, as was said, for the warning letter, it's in the discretion of the FDA to grant approval. We expect the approval in the first half, possibly early 2023. And that will bring us into position to also offer in the U.S. our latest product in anesthesia and in ventilation, and they will support the growth. We do not share the individual volumes for those segments, but it is one of the components that will support our expected growth trajectory. And you will recall that the U.S. market, and those products in particular, are in the intersection of a high relative profitability. So it will also support our volume. And of course -- it will support the bottom line. And of course, we are talking about in excess -- double-digit million figure here.

Operator

We have another question coming in. It is from Thomas Schießle, EQUI.TS.

Thomas J. Schießle ***EQUI.TS GmbH - Research Analyst***

A question on your customer group, the hospitals. In the light of the shortage of labor and the coronavirus hurdles these customers are facing, what makes you so optimistic, so to speak, if it comes to the future demand of this customer group?

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

That's a very good question, Mr. Schießle. Thank you for that, because our strategy goes for networked products and interoperability of devices to what's a system that supports assisted therapy and eventually hospital automation. And this strategy has been proven exactly right during the corona pandemic.

So we couldn't have wished a better proof point, that what you mentioned, the shortage in caregivers, both doctors and nurses, during the corona times has shown that this is much needed plus the need there for remote, not only monitoring, but for controllers, which requires a different technology. To have controllers via the FDA-approved, say, data connection is not trivial, and we paved the way for this with our IEEE 11073 sdc service-oriented device connectivity standard that is now adopted by more suppliers.

So that's not a Drager standard. So we are quite active in the global standard setting community, including the DIN, the IEEE and the other consortia and working with the EU Commission in making that effective. That will allow [they] to stay away from infected patients and to take some actions from remote from outside the room via the FDA-approved system. So that is why we see that the effect of the pandemic strongly supports our strategy, and we are looking forward to a very good, the unfolding of the potential of what we have started many years ago to be seen in the future.

Thomas J. Schießle ***EQUI.TS GmbH - Research Analyst***

This sounds good, but who will do the funding for this intensive investment for the hospitals? Will there be extra funding sources from the EU or from the local governments?

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

Yes, the same sources that do the funding today. So however, the idea is that EU funding or EU-wide tenders should request a certain minimum connectivity or standards. So we are working on this. So that's what gives Europe an advantage versus other bigger blocs like the U.S. or China, where this is already happening. The standardization plays an important role in the economic power of the affected bloc. So I think we can cope with this in Europe quite well to make this a requirement. Plus the private organizations, they can clearly see and calculate the benefit. So as they will probably not buy the latest and greatest ventilator with the most bells and whistles on it, they fully understand the benefit of a connected and interoperable system that it has for the benefit of their patients for the shortening of the duration of the stay, plus everything is documented for quality control and improvement.

And last but not least, everything gets built to the ones who pay because it's well documented what has been done to the patient.

Operator

We have no further questions in the line.

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

Okay. Then this time, we close the call and thank everyone for being with us this afternoon, and we look forward to meet you again and hopefully, some time in person. And stay in touch for the further communication. Please feel free to contact us any time. And for now, I wish you a pleasant afternoon and a good summer. Thank you, and goodbye.

Operator

Ladies and gentlemen, thank you for your attendance. This conference has been concluded. You may disconnect.