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Q1 2023 Draegerwerk AG & Co KGaA Earnings Call

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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*
Thomas Fischler *Drägerwerk AG & Co. KGaA - Head of Treasury & Investor Relations*

CONFERENCE CALL PARTICIPANTS

Alexander Galitsa *Hauck Aufhäuser Investment Banking - Equity Analyst*
Felix Jonathan Dennl *Kepler Cheuvreux, Research Division - Equity Research Analyst*
Oliver Reinberg *Kepler Cheuvreux, Research Division - Head of Med Tech Equipment & Services Research*

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 and Nikolaus Hammerschmidt, both Investor Relations. 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 a preliminary figure 2 weeks ago. In the final figures we published this morning, there are no meaningful deviations to the prerelease. Let's get started on Page 4 with the business highlights of Q1.

In the first quarter, we made a successful start to the new fiscal year with a strong increase in net sales and clearly positive earnings. The good start was supported by several things. First of all, the higher order on hand situation at the beginning of the year. In the previous year, the high order intake could not be converted to revenue to the usual extent due to the global supply chain disruptions, so that some of the orders had to be postponed for delivery until '23. While this is the main reason for the operational loss in '22, these orders on hand are the main driver for the strong acceleration of the deliveries and hence, the net sales development in the last 3 months.

Naturally, this was only possible due to the higher availability of the necessary parts that were missing throughout the last year. The improvement of the supply chain we had seen in the last couple of weeks in '22 continued also in the first months of this year.

Even if the supply chain is not back to normal yet, we are currently seeing an ongoing improvement. While we are still first to source missing parts via brokers at higher cost, this is no longer necessary to the same extent as last year. Some of our suppliers have invested in the expansion of their capacity, and this elevated output is beginning to ramp up. The supply chain has sufficiently stabilized so that we no longer have unplanned extended production downtimes and we expect to be able to increase our output and accelerate the deliveries on our high orders on hand.

The Q1 development of sales and earnings was further supported by an unplanned tailwind coming from the significant increase in demand for ventilators in China due to a particular -- the reversal of the COVID policy and the rise in infection figures.

This effect is a clear run off. Order entry for ventilators from the region has meanwhile normalized again. And there might even be some further slowdown in ventilator demand in the next couple of months due to the pull forward.

Price enforcement has additionally contributed to high volume and better margins. Price increases have been a focus throughout the entire last year and continue to be so in '23. There is a natural time lag between price increases and seeing the effects trickle down the order book to the P&L.

At the end of Q1, the gross margin of the group was 45% and benefited from positive effects from higher realized prices. Last but not least, the new order entry during the quarter, while slightly below the high prior year's level was nevertheless strong. As a consequence, orders on hand will support our top line also in the current quarter.

If we look deeper into the structure of order entry development, there are noticeable differences between medical and safety. Gert-Hartwig will go into this in a couple of minutes. The successful start to the year makes us confident of returning to growth and profitability in 2023 as planned. We therefore confirm our full year guidance. At this point in time, we are not going to narrow the guidance down to the upper or lower end. The full range of the guidance remains possible.

For the upcoming general assembly, we will maintain the dividend at the current level despite the improved equity ratio. As a reminder, the cancellation of the participation certificates in 2020 initially had a negative effect on the equity ratio. At that time, we had announced that we would keep the dividend constant at the minimum distribution and only increase it once the equity ratio has returned to at least 40%.

Since our equity ratio is now back up above 40%, this requirement for a higher dividend has now been met. However, in light of the negative result, we will refrain from increasing the dividend just yet. Paying out a dividend in times of an operational loss is not compatible with our company culture. We will, therefore, propose to the general assembly to leave the dividend on the current level of EUR 0.13 for a common share and EUR 0.19 for a preferred share. Once we have restored profitability, we will pay out a higher dividend to shareholders.

To finalize my introduction, let me give you an update from the regulatory side. In our last analyst call, we have talked about the delays we have for the approval of some of our devices in the U.S. as the FDA focuses more on biocompatibility.

As a consequence, we were required to conduct further evaluations. Meanwhile, we have resubmitted our 510(k) application for the Atlan anesthesia family and we expect clearance for the Atlan in Q4 '23 or Q1 '24. Besides this, there are no news regarding the implementation of measures to remedy the deficiencies identified in the warning letter from 2020.

Measures are in progress of being implemented as committed to the agency. The next step will be a reinspection of the regulator, which will probably happen between end of this year and next year. We are in close contact with the FDA and keep you updated on all major developments.

With that, I turn over to Gert-Hartwig for a review of the financials before I will come back with a summary and the 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 also would like to welcome everybody to our conference call for our 2023 first quarter results. Please turn to Page 6 for a review on the Dräger Group. As usual, I will be stating currency-adjusted figures and whenever referring to growth rates. At good EUR 800 million, the level of new orders is well above most preceding years, with the exception of 2020 and 2022.

Compared with a very demanding comparable figure 1 year ago, we recorded a moderate decline of close to 2%. That's at this level, the 5G CAGR is about 5%. Noticeable growth in Europe was offset by a significant decline in the Americas and in the AAA region. There was a quite -- there was a pronounced difference in the demand development of the 2 divisions. Orders in the medical division declined by 7.6%, while orders in the safety division rose by 7.2%. I'll get into more detail in a minute.

Due to the improved order intake and the limited ability to deliver during 2022, our order backlog had increased significantly. At the beginning of 2023, orders on hand were roughly EUR 230 million [above] the level 1 year ago. We see incipient improvement in delivery capabilities, sales have now picked up strongly and were 18% above the prior year quarter. Both segments achieved significant growth in almost all regions.

The main growth driver was medical with an increase of 23%. In addition to the high order backlog, higher demand for ventilators from China contributed to the increased sales. This demand is related to the COVID breakout following the reopening.

With the good sales recognition, gross profit has also increased significantly by almost 25%. Both divisions contributed. Gross profit was around EUR 343 million in the first quarter of 2022. Gross margin improved by almost 3 percentage points to 45%. Benefiting from an improved product mix, but also from the positive effect of price increases we implemented last and also this year.

As a result of the sales increase, the higher gross margin and only a modest increase in functional costs, EBIT in the first quarter of 2023 was just over EUR 29 million. Considering the usual seasonality at Dräger -- in the last 5 years, the operating result was only positive in the exceptional corona year 2021. This is a good result. It's slightly above our expectations.

Consequently, the Dräger value added also improved over the course of first quarter, but it's still in negative territory since the DVA takes the earnings of the last 4 quarters into account in Q2 and Q3 contributed negative results.

With the euro having strengthened against the majority of our exposure currencies, there was some negative FX effects on earnings. But if currencies remain on today's level, this would result in a negligible full year impact.

Let us now look at the development of the medical division on Page 7. The decline in order intake is due to the drop in the medical division, where orders did not reach the high level of the previous year. The strong rise in demand in Germany, our largest single market, developed very well with an increase of almost 14%, but it was not sufficient to offset the decline in other countries. The significant increase in certain volumes and higher demand for hospital infrastructure -- this is our business with medical lights and supply units -- was offset by a decline in the other areas. By contrast, net sales developed very strongly and reported growth of 23%.

All regions contributed with double-digit growth rates. As a consequence of the high deliveries of ventilators in China, the development in AAA was particularly strong. Product-wise, our therapy devices were the main growth drivers. And since they usually contribute above average margins, the product mix in the quarter was stable as well.

Besides this, the price increases we implemented throughout the last couple of quarters contributed to the increase in the gross profit margin of nearly 3 percentage points. Due to the significant increase in sales volume and the improved gross margin, gross profit increased by around 30% in the first quarter of 2023. The EBIT in medical was substantially higher than in the same quarter of the previous year, it amounted to around EUR 10 million.

Coming to our safety division on Page 8. Demand for our safety solutions remains healthy. Order intake in Q1 rose by around 7%. This is now the seventh quarter in a row with higher orders than in the respective prior year's quarter. Growth in Q1 was particularly driven by the significant increase in orders for products in gas detection and engineered solutions as well as by the increased demand in the services business.

While demand in Europe grows by almost 12% and orders also increased markedly in the Americas, order intake in the emerging region AAA remained below the previous year's level. Like in medical, safety division has benefited as well from the significant improvement in supply capabilities. Net sales increased in all regions. The main growth drivers for Europe and the Americas each with significant increase. In addition, sales in the Africa, Asia and Australia region also recorded an increase.

As in Medical, the safety gross margin benefited from a change of mix and the price increases implemented and increased by almost 3 percentage points year-on-year. Together with the significantly higher sales volume, our gross profit consequently increased significantly. Functional expenses in the first quarter of 2023 were slightly below the prior year period after adjusting for foreign exchange. This was due to lower expenses for logistics and sales.

All this resulted in a significant increase in EBIT, which amounted to EUR 18.8 million from Q1 corresponding to an EBIT margin of 6.5%.

Let's move on to some key ratios on Page 9. In line with our better earnings, our cash flow from operating activities has improved in Q1. Positive impact on cash flow on the higher earnings was partly compensated by working capital developments. Inventory levels have improved but are still elevated, while the orders on hand are slowly being transferred into deliveries. Working capital management remains in focus, and we will see further improvement during the coming months with further improving cash flow conversion.

Free cash flow in Q1 still remains negative, however, at minus EUR 25 million. Our cash position at the end of Q1 amounts to EUR 220 million, down by some EUR 90 million at the end of last year. But these, bear in mind the high cash outflow in January 2023 to redeem the remaining participation certificates in the amount of roughly EUR 209 million. This payment was made partly with existing liquidity as well as using our credit lines.

In January, we therefore disbursed a further 5-year loan of EUR 100 million to strengthen our operating liquidity. While the losses of the prior year had increased our leverage, the key ratio of net debt to EBITDA improved significantly again in the course of the first quarter from 4.6% at the end of December to 2.4% at the end of March. We expect to see a further improvement in the course of the year.

With final payment of the EUR 209 million for the remaining participation certificates, simplification of the capital structure is now been concluded. We have concentrated Dräger's market cap for 5 to only 2 securities. The Series D certificates will still receive a final dividend payment in 2023 for the business year 2022.

From the current year on, the profit goes entirely to our shareholders. This will be directly apparent in the higher earnings per share, considering the dilution effects of the capital increase 2020, the EPS will rise through the elimination of all the participation certificates ceteris paribus by around 27%.

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. Dräger had a good start into the year, the supply chain situation is continuing to improve. While we are still procuring parts at elevated cost using alternative more expensive channels, our delivery situation has noticeably improved, resulting in an impressive uptick in net sales development in both segments.

We continue to manage our expense development carefully without being big cost carry exercises which would harm our further development. The financial performance in the first quarter was in line with our expectations and supports our guidance. We reconfirm our expectation that in '23, we will return to positive net sales growth of 7% to 11% and report higher profitability with an EBIT margin of between 0 and 3%.

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 comes from Alexander Galitsa.

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

The first one is on the ventilators orders. If you can provide any more color as to how much did this nonrecurring order help you, how much was this? And also, if there is anything left in the backlog waiting to be converted? Or was it already booked in Q1? That would be the first one.

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

Yes, we can. The additional sales from ventilators in China amounted to a low double-digit million euro figure, and that has also above average margins. So a double-digit million EBIT contribution resulted from that. And the orders, it has happened mainly during the fourth quarter of last year and plus some in the first quarter of this year and the deliveries reach out into this second quarter, but will fade out the tailwind at the -- in during the second quarter for sure. And the overall boost was about, say, the -- I would say, 3 quarters of the year, the business we did in just 1 quarter. So that's about the effect that it had.

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

Okay. And then another question on the performance of your safety division in Q1. The EBIT margin that you showed has been also at least historically looking much higher than usually. You mentioned some of the moving parts, that price increases are feeding through, lower expenses for logistics. I'm just wondering how much of that is really sustainable? And how would you expect this trend to evolve going forward?

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

Yes, I would say pretty much all of it is sustainable because one factor, we probably did not yet say, to emphasize too much as a large portion of the improvement is driven by better price defense. So price increases where it's made to an extent of approximately 10% in the safety division was much more easy than in the medical division because many of our industrial and safety customers, they can see and feel it in their own environment much better.

And many of the medical customers and hospitals are stuck because on the one hand, they cannot increase revenues when they are tied into a DRG system. And the cost for all factors, including energy, have gone up. So at the end, our price increasing efforts that have -- that we have been pushing for, I was personally quite involved since 1.5 years now, they had more effect on the safety side than on the medical side.

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

Understood. That's clear. And would you say that in Q1, you were already able to annualize sort of the 10% of the price increase you mentioned? Or is there more to come sort of in the -- is it to show up to a large extent in the upcoming quarters? That's what I'm asking?

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

That was compared to the previous quarter in the other business, same quarter in last year. So all the price increases will definitely propagate into the future. They will not go back.

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

And add that to the question, as Stefan Drager has pointed out, also last year, we have seen an increase of the price increase. So the 10% in the first quarter is against the softer price enforcement in the first quarter. So the price increases will stick, the relative gain will be -- will not increase against the 10%, but be in the 10% or high single-digit figure quarter-to-quarter.

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

And last question on the order intake dynamics and your sales development this year. If one looks, as you already pointed out on year-over-year performance, both Q1, Q1 looks relatively soft, especially on the medical end. But compared to the pre-COVID level 2019, I think you're still trending far above, 20% more than you have made back then.

If one sort of compares your performance or your expectations for Q2 through Q4 relative to this pre-COVID level of 2019, do you see the order intake dynamics rather weakening, stabilizing on this level or maybe improving? And whether there is a difference between medical and safety as in terms of your expectations for the remainder of the year?

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

Yes. Gert-Hartwig, could you comment on this?

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

So the question is, do we expect a different seasonality in that sense? Not necessarily. I think the key point here is that the decline on the medical is also against the strong, unusual seasonality last year. The one factor that needs to be kept in mind is the situation in North America where we are -- where we have applied for the application.

So expected order -- normally expected order entry for the North America region will be a bit softer on the medical side, and in particular, in the second half of the year. But other than that, we expect typical seasonality also in order entry in both divisions.

Operator

And the next question comes from Felix Dennl.

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

First of all, congratulations on your Q1 results. I have 3, please. Touching upon the order intake again. In terms of the medical division, which fell by 7.6% at constant currency in Q1 2023, do you have any catalysts lined up for 2023, in which the order intake could improve there? That would be my first question.

The second one relates to personnel cost inflation. To our understanding, personnel cost inflation has not materially impacted the P&L in Q1 2023. Potentially, this will reach your P&L around Q3 of this year. Maybe you can briefly confirm whether this assumption is correct. And once personnel cost inflation does hit your P&L, to what extent are you able to upset this effect? And if so, how?

Third and finally, it's great to see an improvement in your deliverability, which we can especially see in the conversion of orders to sales in Q1 2023. Could you perhaps provide some color on factors or variables that haven't returned back to normal, where you're currently still struggling, i.e., areas you wish to improve over the course of the year?

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

This is Stefan Drager speaking. I'll start with your last question. It depends a little bit on what part it is. In particular, we see for our gas detection systems business, the components we need there. We are still, say, having, say, way too long delivery times and the task force in place to bring that down. And is now a very thought-out plan and still some hard work to do that until October of this year to be back to normal, with the delivery times for gas detection systems and components, which is also an [above] average margin area.

So that sticks out. Then most other areas are more easily back to normal with the delivery times, in fact, to us. Other than the availability of parts and components, there are no other factors that stick out that have a significant influence on our, let's say, conversion in sales delivery performance.

So the next question, the personnel cost inflation in Q3. Gert-Hartwig, could you comment on that?

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

Sure. Your assumption is quite accurate. We see a slight increase in the second quarter and the majority of the factor cost increase is in the third quarter. And as I assume, I am referring here to the, of course, German effect in the personnel cost for the roughly other half of our of our personnel.

That's, of course, not so much tied to specific dates, but the increase from the IG Metall is as you said, will increase in the third quarter. And that has, of course, has, of course, been included in our planning, but will lead to an increase in the functional cost in a little bit in the second and in particular in the third quarter.

And perhaps I start off with your first question also. There is one area in particular, and that should support our demand, and that is the expected approval for our latest ventilator also in the U.S. market. We have applied for it. We have addressed all the questions that have been posed to us.

And at the current time line we assume or -- and we can assume that we receive, that we will receive approval early in the third quarter. So that should allow us to address the North American or the U.S. ventilation market more effectively, and that should also support our demand on the medical side.

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

And the fact that you mentioned rightfully so, that the order intake is down by 7%, that is -- of course, that's a fact that cannot be debated. However, that you have to consider that the comparable -- the first quarter of last year was a particularly good quarter, concerning order intake.

And so our own say, indicators that go beyond order intake, they look into our CRM system and the funnel and the perspective of having these proves that as Gert-Hartwig mentioned, they support our guidance that the overall sales growth will be between 7% and 11%.

And one comment on this lower order intake and sometimes also make here internally, we should not be too sad if one day, our orders are below our sales because it must be that way, it's trivial. Otherwise, we'll never get down from our too high order backlog and return to normal delivery times for our customers. So it's a normal procedure that someday it is that way.

Operator

And the next question comes from (inaudible) Johan.

Unidentified Analyst

Yes. So the first one is, you touched upon margins a while ago, and I think there was a substantial benefit from the ventilator -- nonrecurring ventilator orders. So one, can you just give some sense of what would be the normalized margins, excluding that business, both at a medical level and overall group level?

And then from there, is it fair to assume that given the order book tailwinds from a pricing perspective and as well as the fact that you still have to reverse some of those and we'll get the volume benefits as well that margins will continue to improve from this normalized level through 2023? That's the first question.

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

I was not sure the second part of your first question. So whether we could understand that correctly. What was your assumption? Could you please reiterate what you think would be safe or unsafe to assume?

Unidentified Analyst

Yes. So my first bit of the question was what is the normalized margin? And the second one was that given that you will still have the order book to deliver, which is still above normalized levels. And then pricing tailwinds as well as using the inflation, particularly on the freight side through the year. It looks like it is starting to ease. So is it fair to assume that your normalized margin will actually continue to improve through 2023? That was the second assumption.

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

It's hard to quantify the benefit from ventilator tailwind and definitely that did some work in corona times. But even then, the major benefit is that we benefited from in the corona times was our very high utilization of capacity.

So while our -- all of our fixed costs remain the same, the volume was much higher that we were able to produce with the same fixed cost. So that's why the EBIT margin was so much better. And so gross margin was only slightly improved. The ventilator business in general is slightly better than our average margin.

And also the discounts given in the corona times were less. It's a fine line as my reputation on the line. And my name is on every machine we sell, I can proudly say that even in the worst corona times, we did not sell a single ventilator at a price that was higher than before the corona days. And there -- probably most other of the manufacturers cannot say that.

So this is for our long-term reputation and a very important part, and we also never overpromised on the delivery times. There was a lot of blame and shame when we could not fulfill our wishes, but all the times that we gave, we could confirm and we could actually also deliver at the dates that we gave. So the major benefit was from the capacity utilization.

And now to the second part of your question. Yes, you are right, the pricing tailwind will prevail, as I mentioned earlier. On the other question from Alexander Galitsa, the -- in particular, in the safety division, where we were able to have a better price defense than yet on the American division. That will prevail. However, in general for the -- for all of our businesses on average, yes, there is some benefit from better pricing, higher prices. However, we also have higher costs for some of our components, for energy and raw material, for personnel. So costs have also gone up for both in COGS and expenses. So it's a daily fight whether the better pricing or the higher cost will take, let's say, will dominate the factor.

And also, at this time, I would say, in the Q1, a major contributing factor for the improvement over in the past, was the better capacity utilization that we had from the increased delivery performance.

Unidentified Analyst

Thanks, Stefan. So my question was also a bit to -- just following up on this, is that -- is it possible for you to give me a normalized margin for Q1? Like if you exclude the nonrecurring orders.

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

I would say the safest assumption is that the margin would stay. And so -- there are many factors that contribute to the -- ultimately to the margin. And the -- I would say, the best assumption is that it would stay.

Unidentified Analyst

Okay. And just quickly 2 comments around -- one was the pricing one. I just want to check that I heard you right earlier. You said that you had about a 10% impact in Q1. And so sequentially, do you expect it -- like do you still expect some more pricing effects to play out over the remaining quarters?

And another question was on the increase in net financial debt during the presentation, I think you mentioned that by the end of the year, you expect it to reduce. Is that right?

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

Well, first, to the 10% is referring to the safety division of the price improvement. And yes, it will not be reversed, it will stay, but the second quarter will not be 10% over the first quarter. So -- but it remains throughout the next quarters to come, that's for sure. And for the net debt, I hand over to Gert-Hartwig.

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

And let me again repeat that the pricing level will stick. The 10% is meant as a quarter-to-quarter comparison. And in the prior year, the first quarter saw a very weak effect. That means on a quarter-to-quarter comparison on the safety side, we will have a similar price level and margin, yet the increase compared to the prior year quarter will be lower at the end of the year since the price increases also increased in the last year throughout the year.

And on the medical side, we have a lower price increase. It's roughly in the first quarter, north of 4%.

Unidentified Analyst

And the second question was on debt.

Thomas Fischler ***Drägerwerk AG & Co. KGaA - Head of Treasury & Investor Relations***

Can you please repeat your question on net debt.

Unidentified Analyst

Yes. So my question was that I think during the presentation, you mentioned that though the debt is higher right now versus Q1. Do you expect it to get used by the year-end? Because that's what I heard.

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

Yes. And that's what we expect. It's still relatively low and perhaps also in addition to the question that we had earlier, which is still not back to normal. That's our inventory level, in line with the delays in the delivery and reliability that will further improve. And we expect that together with profitability, we will also with our focus on working capital, deliver for cash flow to reduce the net debt.

Operator

And the next question comes from Oliver Reinberg.

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

Three, if I may. The first 1 would be on safety and gas detection in particular. So it was quite encouraging to hear that you are here on a kind of a quite sustainable trajectory of stronger growth. So gas detection seems to be one of the kind of key drivers. Can you just give us any kind of magnitude of the growth that you're seeing in gas detection and also how sustainable that is? I guess that's a meaningful driver because it also has above average margins.

Second question, please, would actually be on next year. I mean, I fully appreciate we're just down to the first quarter, but I'm just trying to get any understanding of the dynamics. So when I think about next year, we have 2 potential headwinds. One is it disappearing on nonrecurring of the China's business support?

And secondly, obviously, you see this year also the onetime contribution from a stronger order book conversion into sales. So both will not repeat itself next year. So should we assume any kind of [margin plan]? Or can you just talk about what kind of other dynamics we have to factor in to gain some kind of confidence that the margin will stabilize or potentially progress further?

And third question, please, that may not play a big role, but we haven't discussed it in a while. So you set up, I think, a small M&A team quite some time back. Now the capital structure is sorted. The earnings are improving and the debt level is also on a quite lower basis. I mean, is M&A anything that you're looking into? Or if it's unlikely that we're seeing any transaction here?

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

Mr. Reinberg, I'll start with your third question. There is no bigger thing that we are looking in. Just so as in general, it has not been the very, let's say, worthwhile for Dräger to buy market share.

I think we discussed this before, but there are at times, there can be specialties that are an order of magnitude what we normally not would even dare to discuss because it was so small, these are technology specialties where we sometimes they have a smaller stake to begin with. When it is a start-up company and sometimes we even have options and increase our share when it becomes a more substantial part of the business.

And then when it becomes relevant, we will communicate it in due time. So the -- but the very -- that's not a source for a fantasy to -- but a reason for a sustainable business development for our technology for life for a longer term.

Now the second question, looking forward in 1 year from now, what would you say then in Q1 '24? As we have no more of the China ventilator boost and no more there's the opportunity to work from backlog from the previous year. I think there are very good chances that Q1 '24 will also be a good one. When we eventually have the long wanted approval for the Atlan that is a big seller in all other non-FDA markets. So there will be other reasons to benefit and to look forward to that quarter.

So -- and for the FGDS magnitude, Gert-Hartwig, could you say something on that?

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

Yes, sure. While we do see an exceptional growth in the first quarter, overall, to your question, I can confirm that we see a long-term growth trend already prior to corona. And on the long term, we see the growth, we have a growth expectation in the high single digits.

There may, of course, be some fluctuations as last year and this year. But also going forward, this is a good estimator for growth beyond 2023.

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

And is it fair to say that gas detection is meanwhile 35%, 40% of safety?

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

Not quite, I would say. But it's more on the 3-years plus, that's right, [4 year is].

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

Okay. Super. If I just can come back to the margin discussion. I mean just to clarify, there was not specifically a question for Q1 year-on-year comparison to next year versus this year. It's just like a general question, like would you have enough room to maneuver that you are not -- that you see also the potential for at least that improving margin next year. There's nothing that would stand against it despite this kind of 2 comp effects. Is that fair?

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

Perhaps to add to what Stefan Drager said, the Atlan would add to the margin. It's a high -- it would be a very profitable product since it's anesthesia in the U.S., which is profitable and very well suited to compensate for the falling away of the China business. And the other piece with, I believe, it could be kept line. Our order entry is below last year, the book-to-bill is still larger than 1. So we have in fact in the first quarter added to our order book as is usual with the seasonality. But to the degree that, that is perhaps a perception that we are -- if you were living off of the order book, I would think that's an excellent [duration] since we have actually won more orders than we have delivered net sales in the first quarter.

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

Sure. No, it was just a point adopted, this kind of extra boost is not going to reoccur.

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

Yes. But that's quite right because that will fall away, and we believe that it can be balanced. And at this point, of course, I do understand the question going beyond that with already, I believe, opened up like a guidance discussion, but qualitatively to your question, we believe we should be able to actually compensate for what's falling away as we move into 2024.

Operator

And we have a follow-up question from Alexander Galitsa.

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

Yes, appreciate it. Could you just remind us when was this Atlan system launched in other regions in Europe, in particular? And how much revenue in the ballpark does this already generate in other regions?

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

The launch was in fact in other regions in around the year 2020, a little bit early in summer in 2019 in some markets and 2020 in other markets. So it's already in the market, but there is a delay in the US market. We do not disclose the individual net sales of specific parts.

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

Okay. And is this year in total as a percentage of medical?

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

I do apologize, I ask for your understanding. The same applies here. Our market companions do not disclose their respective net sales on a product area level. We actually refrain from doing so themselves. I do understand that, that will be an interesting question but looking at the wider audience, we refrain from disclosing that.

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

Understood. Yes. But if our understanding the significance of Atlan, I think it's fair to say that it's probably from all the different products in [this tier] the most important one. And so the delay between the CE approval and the FDA approval is a very unusual long time because the FDA changed their cybersecurity guidelines.

So the original design of the Atlan was not able to meet the changed cybersecurity guidelines and then had to undergo a complete redesign. So that's why it took so long. Normally, it should only be a few months and less than 1 year later.

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

Understood. And maybe as a quick follow-up to that, broadly speaking, like you were running late with the market launch. Does that put you in any way at a sort of competitive disadvantage? Have the systems since then maybe evolved further what you see from the competitors? And how do you -- how would you assess that? Does this delay really undermine this in any way the sort of prospects of this product?

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

I would say is from a strategic positioning, it's not a big disadvantage. So the most significant disadvantage is just simply that for over 2 years, we do not have the revenue that we would otherwise have to finance other good things for our future.

Operator

So at the moment, there seem to be no further questions. So let me hand back over to your host for some closing remarks.

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

Okay. Thank you very much to the moderator and for all of you being with us today, for your lively interest, for your questions and for being with us. I wish you all a pleasant long weekend and look forward to see you and meet you again, hopefully in person some near time in the future. Bye-bye.