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# Drägerwerk AG & Co. KGaA (DRW8.DE)

Q1 2025 Earnings Call

## CORPORATE PARTICIPANTS

### Stefan Dräger

*Chairman-Management Board & Chief Executive Officer, Drägerwerk AG & Co. KGaA*

### Gert-Hartwig Lescow

*Chief Financial Officer & Executive Board Member, Drägerwerk AG & Co. KGaA*

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### Virendra Chauhan

*Analyst, Alphavalue SA*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, welcome to the Drägerwerk Q1 2025 Results Conference Call. I am Yusuf, the Chorus Call operator. I would like to remind you that all participants will be in listen-only mode and that this conference is being recorded. The presentation will be followed by a Q&A session. [Operator Instructions] This conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to CEO, Stefan Dräger. Please go ahead.

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### Stefan Dräger

*Chairman-Management Board & Chief Executive Officer, Drägerwerk AG & Co. KGaA*

Good afternoon and thank you for joining our conference call on our financial results for the first three months of 2025. I have with me today Gert-Hartwig Lescow, CFO, as well as Tom Fischler and Nikolaus Hammerschmidt, both Investor Relations. We would like to take you through the results with the presentation that we made available on our Web page this morning. Following the presentation, we will open the floor to your questions.

Let's get started on page 5 with the business highlights. The first quarter is usually the weakest in our fiscal year. Against this background, we delivered robust net sales, slightly positive earnings, and higher operating cash flow. In terms of demand, we delivered the best Q1 since the first quarter of our record breaking year 2020, when we achieved an order intake of nearly €1.4 billion due to the high demand for ventilators and FFP masks.

At around €861 million, our order intake in Q1 2025 clearly surpassed the high level of the prior year period. Net sales at €730 million almost reached the prior year figure, as in the last couple of quarters, and the safety division developed better than the medical division. Despite the seasonal weakness, we achieved a slightly positive EBIT. On the other hand, the EBIT of €0.4 million did not reach the much higher prior year figure of €15.1 million. In addition to the lower net sales volume, this was due to higher expenses.

Regarding the warning letter from the FDA, there has been no relevant change since our last conference call at the end of March. The FDA carried out an inspection of our plant in Andover in the fourth quarter of last year and concluded with zero complaints in the form of 483s. This was a key prerequisite for the warning letter to be lifted.

We continue to be in close contact with the authority, but it is currently not possible to predict when the FDA will finally lift the warning letter. Due to restructuring within the FDA, the process appears to be delayed. As communicated two weeks ago, we confirm our annual guidance. I will come back to this in our outlook at the end of the presentation.

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

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## Gert-Hartwig Lescow

*Chief Financial Officer & Executive Board Member, Drägerwerk AG & Co. KGaA*

Thank you, Stefan. I would also like to welcome everybody in this conference call of results for the first three months of 2025. Please turn to page 7 for review of the Dräger Group. As usual, I will be stating currency adjusted figures whenever referring to growth rates.

As Stefan said, we continue to see good demand for our Technology for Life. Overall, orders increased in Q1 by more than 6% to around €861 million, driven particularly by strong growth in EMEA and positive development in the Americas and in APAC. In Germany, orders were below the prior year, which is mainly a base effect in the safety division. Net sales in Q1 almost reached the prior year figure of around €730 million, with both division seeing a slight decline.

[indiscernible] (00:04:27) margin of the safety division, our group's gross margin increased by 0.5 percentage points to 45.8% at the end of the first three month. Our expenses increased by 4.7% in Q1. Main reason for this was the increase in personnel expenses, partly as a result of a one-off payment for employees in Germany due to collective wage agreement.

Due to the lower net sales volume and the increase in expenses, our EBIT of €0.4 million did not reach the significantly higher prior year figure of €15.1 million. Hence, the EBIT margin amounted to 0.1% after 2.0% in the prior year quarter. The rolling 12-month DVA, which takes into account the development from March 2024 to March 2025, improved significantly to around €39 million.

A word on the current FX environment. In light of recent discussions about US tariffs, the exchange rate environment has undergone a significant transformation since the end of March. Initially, the US dollar was at parity with the euro during the early days of the new US administration. As of mid-April 2025, euro/US dollar exchange rate is around \$1.15 per euro, reflecting a 5% weaker US dollar compared to last year's average rate.

The weaker US dollar is generally favorable for Dräger since we are US dollar short. On the other hand, weak US dollar has a negative impact on our US sales revenue converted into euros. But on the other hand, the exchange rate [ph] relieves (00:06:11) us on the cost side. However, this fundamentally favorable development of the US dollar for us is accompanied by a prolonged shake-up of the global currency markets.

Contrary to expectations, we are currently seeing a broad-based appreciation of the euro. This, in turn, means that our sales base and markets outside the European Union will be impacted by weaker exchange rate. We're carefully monitoring the development of foreign currencies and limiting negative influences with the instruments available, such as hedging transactions and price adjustments.

Let's now take a closer look at the development of the two divisions, starting with the medical division on page 8. After a decline in prior year quarter, order intake rose by more than 8% to around €474 million, thanks to good demand in nearly all product areas and the significant increase in EMEA and APAC. Net sales were just below the prior year figure at €413 million.

Growth in APAC and Germany was offset by a decline in the EMEA and Americas regions, which was particularly due to lower revenue from anesthesia machines. Most of the growth in APAC came from China, where almost all product areas delivered a strong performance. While this is a good sign, we continue to expect the market conditions in China to remain challenging with only slow growth for Dräger during the year. The result of a less profitable product mix and negative currency effect, the gross margin in Q1 decreased by roughly 1 percentage point.

Expenses increased by roughly 6%, mainly due to higher expenses in the sales regions. Our EBIT amounted to minus €28 million, which was, therefore, significantly below the prior year figure of around minus €11 million. The EBIT margin decreased from minus 2.7% to minus 6.7%. The rolling 12-month DVA fell slightly by about €2 million to minus €67 million.

I will now turn to our safety division, which delivered another good performance. We are on page 9. Demand for our safety products and services remained high in Q1 as order intake increased by more than 8%. This was mainly driven by our Engineered Solutions, which doubled its order volume due to high demand in almost all regions. Orders for gas detection devices, respiratory and personal protection products, and alcohol detection devices also increased significantly.

As a result of these, order intake in the EMEA and Americas regions also rose significantly. While APAC developed well, too, Germany saw a considerable decline. The main reason for this was the drop in demand for occupational health and safety equipment, which had been boosted in the prior year quarter by a major order for NBC protective filters from the German military.

While last quarter we did not receive a single order of comparable size, low double-digit million euro orders are very rare, we received several orders from defense customers. Growth in the business field Engineered Solutions is fueled by this customer group. We continue to see significant growth potential for our defense solutions in the future. As we said on our last conference call, we believe that our net sales in this area will more than triple by 2028.

Net sales in Q1 were roughly on par with the prior year, with a slight decline of around 1%. In the APAC region, net sales increased significantly due to strong growth in the area of respiratory and personal protection products. The Germany and Americas regions also recorded higher net sales. However, this gain did not make up for the decline in the EMEA region. The gross margin went up by 2.2 percentage points in Q1, mainly as a result of the more profitable product mix, improved capacity utilization in production, and reduced scrapping expenses.

Functional expenses were around 3% higher than in the prior year period, particularly due to higher expenses in our sales companies. The EBIT increase by more than 7% to around €28 million, while the EBIT margin improved by 0.6 percentage points to 8.9%. The rolling 12-month DVA improved significantly by around €29 million to around €105 million, coming from €76 million in the prior year period. All in all, very positive development in our safety business.

Let's move on to some key ratios on page 10. In the first three months of 2025, we recorded a significant improvement in operating cash flow despite the lower EBIT. This was mainly due to effective working capital

management, especially better development of trade receivables and personnel provisions made contributions. Operating cash flow amounted to roughly €56 million, coming from around €34 million in the prior year quarter, and roughly €29 million total investments were also considerably above the prior year figure.

Free cash flow doubled to around €32 million. Net financial debt was further improved during the quarter, [ph] so ahead (00:11:57) net financial debt to EBITDA with 0.4, leverage is on a healthy level. Net working capital was around 4% above the prior year level at just below €700 million. The significant improvement in the 12-month rolling EBIT and the slight increase in capital employed as at the reporting date also led to an improved 12-month return on capital employed of around 12% compared to 10% in the same period of the prior year.

As at March 31, the equity ratio remained stable at almost 50% compared to the end of 2024. Due to this healthy level and our increased net profit, we will distribute a higher dividend for the past fiscal year. Subject to the approval of Annual Shareholders' Meeting on May 9, our shareholders will receive a dividend of €1.97 per common share and €2.03 per preferred share. Provided the equity situation remains positive as it is now, we will continue to distribute at least 30% of net profits in the coming years.

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

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## Stefan Dräger

*Chairman-Management Board & Chief Executive Officer, Drägerwerk AG & Co. KGaA*

Ladies and gentlemen, despite the seasonal weakness of the first quarter, we had the best first quarter in terms of demand since the record year 2020. The high order intake for our Technology for Life makes us confident that we will make up for the seasonal shortfall in the net sales over the course of the fiscal year. Therefore, we confirm our forecast with net sales growth in the range from 1% to 5% and an EBIT margin between 3.5% and 6.5%. DVA is expected to be in the range of minus €30 million to plus €80 million. The potential impact of US customs policy on our business performance is not yet foreseeable, and is therefore not included in our forecast. This also applies to the potential impact of exchange rate effects.

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

## QUESTION AND ANSWER SECTION

**Operator:** Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] The first question comes from Oliver Reinberg from Kepler Cheuvreux. Please go ahead.

**Oliver Reinberg**

*Analyst, Kepler Cheuvreux SA /Germany/*

Q

Good afternoon and thanks for taking my questions. Three, if I may. I'll probably start with the first question. In terms of tariffs, is there any kind of color you can provide in terms of multi-tariffs? One, have you seen any kind of pull forward effects? And do you actually now pay tariffs since the 1st of April or have you stocked up significantly before so that there will be kind of a time delay before the impact is really impacting you? And can you give us any kind of color on the mitigation strategy? That would be first question on tariffs, please.

**Gert-Hartwig Lescow**

*Chief Financial Officer & Executive Board Member, Drägerwerk AG & Co. KGaA*

A

Okay. I'll take that right away. So, for first question, do we pay tariff? Obviously, for products that we bring in. But to your question, there is, of course, for the business in April a significant portion of products that have been brought in previously from inventory. So, that's going in. I would not be able to give you the exact figure at this point, and I don't think it's meaningful to comment on the April per se.

**Stefan Dräger**

*Chairman-Management Board & Chief Executive Officer, Drägerwerk AG & Co. KGaA*

A

And plus, indeed – [ph] this is Reinberg (00:16:08) – we did stock up a little bit on some parts, but that's not really significant, because most of our goods are produced on demand, custom – specific, made to order.

**Gert-Hartwig Lescow**

*Chief Financial Officer & Executive Board Member, Drägerwerk AG & Co. KGaA*

A

Yeah. And the reaction is also different depending on where we produce. The majority of our products, obviously, comes from Europe and from Germany. We have some that comes from China and partly we will address that with surcharges to be borne by our customer. That's also still in development. So, it's not good to provide like a specific figure on that. But overall, we expect the impact – that there will be an impact, but that we can moderate that impact as far as we view the situation now, since it is usually a floating situation with many changes over the course of April. It is, of course, possible that also we will see changes over the course of May or June.

**Oliver Reinberg**

*Analyst, Kepler Cheuvreux SA /Germany/*

Q

Okay, that's helpful. Thanks very much. And then two other questions. I think a competitor of yours has seen quite significant order growth in medical in North America, I guess partly due to pull-forward effect, but also because there was a very strong flu season. So just wondered if you can provide any kind of color. The order intake in the Americas for medical was rather flat. Why you have not seen any kind of benefit from the flu season and also change in the competitive dynamics?

And the last question [indiscernible] (00:17:45), if you assume that currency remain where they currently are, can you just give us any kind of feeling what would be the kind of overall impact on the group margin, please?

**Gert-Hartwig Lescow**

*Chief Financial Officer & Executive Board Member, Drägerwerk AG & Co. KGaA*

A

So, firstly for the Americas, we do see a good order entry, but mostly actually in fact on the safety side, if we look at North America in particular, we have also seen good growth. Perhaps not to the same tune and I'm not sure the flu season per se would actually be a driver for our product portfolio. Typically, [p] it hasn't (00:18:29); more serious respiratory infections could be, like COVID or any other things, but that has so far not been a key driver for that.

To your second question on the FX, again, we've seen a steep decline coinciding with the announcement of the US president. To the degree that currencies stay at that level, we would expect a sizable impact to – regarding our FX. So, on the net sales, based on the spot rates that we saw in mid of April, that could be up to 2 percentage points and that would translate into an EBIT margin impact potentially of roughly up to 1 percentage point. But again, that was a very unusual reaction. We will also work with the markets to see how we can compensate for that. But to your question, if currencies stay at that level and our pass-through would be limited, that would be the impact.

**Stefan Dräger**

*Chairman-Management Board & Chief Executive Officer, Drägerwerk AG & Co. KGaA*

A

I would like to expand on that [indiscernible] (00:19:56). The US dollar, as you probably are already aware, per se is not the issue, because we have very fine natural hedging for the US dollar versus the euro. However, there's a lot of – third currencies around the globe have dropped and the [indiscernible] (00:20:18) is coming from these third currencies from all over the globe.

**Oliver Reinberg**

*Analyst, Kepler Cheuvreux SA /Germany/*

Q

Perfect. That's very helpful. Thank you.

**Operator:** [Operator Instructions] The next question comes from Virendra Chauhan from Alphavalue. Please go ahead.

**Virendra Chauhan**

*Analyst, Alphavalue SA*

Q

Hello. Hi. Thanks for taking my questions. Just two questions on my side. First would be, do you have any kind of supply constraints on the safety side? In other words, what is your current utilization rate? That's with respect of the production. And the second question is on the medical side, what is the typical lag you would expect for seeing your order intake growth translate into sales growth? Thank you.

**Stefan Dräger**

*Chairman-Management Board & Chief Executive Officer, Drägerwerk AG & Co. KGaA*

A

[indiscernible] (00:21:19) supply constraints specific to the safety division, at the moment there are no, say, sizable supply constraints. Supply chains work normal around the globe. And so, we depend on [indiscernible] (00:21:42) supply chains. There is no reasonable workaround in case they fail. And then on the medical side, typical time between order intake and shipment, it was typical. It can be – I would say typical is maybe two months, but it can be between two days and one year. It is also discussed at the time of the order with the customer what that situation is.

**Gert-Hartwig Lescow**

*Chief Financial Officer & Executive Board Member, Drägerwerk AG & Co. KGaA*

A

And on – go ahead.

**Virendra Chauhan**

*Analyst, Alphavalue SA*

Q

Yes, please go ahead. Go ahead, please.

**Gert-Hartwig Lescow**

*Chief Financial Officer & Executive Board Member, Drägerwerk AG & Co. KGaA*

A

No, on average, please keep in mind that our business from a net sales point of view is somewhat seasonal as there are some customers that put their orders in for delivery by year end. So, our order entry is typically more homogeneous or more equal throughout the year. And if I then take your question, say, how long does it take from order entry, exactly as Stefan Dräger said, it's about two months, give or take, but sometimes customers put orders in throughout the year with the expectation of having them delivered over the course of the year or even into the next year.

**Virendra Chauhan**

*Analyst, Alphavalue SA*

Q

Perfect. Sorry, I just want to maybe rephrase the first question. My question was specifically around what is your production utilization rate on the safety side?

**Stefan Dräger**

*Chairman-Management Board & Chief Executive Officer, Drägerwerk AG & Co. KGaA*

A

We don't give that figure for the capacity utilization. So, as we make typically products made to order, we have to have some flexibility in the production capacity and that we can, say, do reasonably effective and efficient, because our production is mainly an assembly which is not, let's say, very capital intensive and does not require much investment. And with the staff, we have quite flexible agreements, also the collective agreements that we can, say, [indiscernible] (00:24:32) with the demand.

**Virendra Chauhan**

*Analyst, Alphavalue SA*

Q

Perfect. Thank you.

**Operator:** The next question comes from Alexander Galitsa, HAIB. Please go ahead.

**Alexander Galitsa**

*Analyst, Hauck Aufhäuser Investment Banking*

Q

Yes, good afternoon. Thank you for taking the questions. I have a few. Maybe the first one on CapEx. I think for the full year, you outlined a guide of €110 million to €130 million. Q1 came on the lighter side with €14 million. Just if you can provide a color whether it's just seasonally lower CapEx or should we rather expect less CapEx for the full year? Some color to that would be helpful.

And then the second question is with regards to the one-off payment you recorded in Q1 for employees in Germany. Just wonder how much was that and whether that was isolated to Q1 or whether any other quarters have a similar effect. Thank you.

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**Gert-Hartwig Lescow**

*Chief Financial Officer & Executive Board Member, Drägerwerk AG & Co. KGaA*

A

So, for your first question for the CapEx, yes, there is perhaps some seasonality, but overall, most of the investment is replacement. At this point, we do not expect a total lower overall investment for the year. So, I would just take it as somewhat lower investment in the first quarter, but that is not to be read as lower overall investment.

Your second question for the one-off payment that – the low-to-mid €1 million digit figures and that's per se restricted to the first quarter. It is, as you may know, part of the collective bargaining agreement. So, there is, of course, an overall increase in Germany for our workforce that falls under that agreement. But [indiscernible] (00:26:48) the one-off payment, that actually took place in February and also settles that.

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**Stefan Dräger**

*Chairman-Management Board & Chief Executive Officer, Drägerwerk AG & Co. KGaA*

A

And was part of the collective agreement with [indiscernible] (00:26:58).

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**Alexander Galitsa**

*Analyst, Hauck Aufhäuser Investment Banking*

Q

Okay. Thank you. And then maybe another question on safety division order intake. Could you provide any color with regards to this Engineering (sic) [Engineered] (00:27:12) Solutions what, I guess, verticals do you serve or whether you see increase in demand from? That's the first part of the question.

And the second part related also to safety order intake. I think EMEA and Americas have seen quite substantial jumps in order entry. Just wondering whether you can provide any context to the backdrop what is driving that strong growth. Thank you.

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**Gert-Hartwig Lescow**

*Chief Financial Officer & Executive Board Member, Drägerwerk AG & Co. KGaA*

A

So, generally the higher order intake on Engineered Solutions is also supported by a higher demand. It's not exclusively [indiscernible] (00:27:56) supported by higher demand from customers in the defense industry at large, so with a variety of products and components.

For your question for the order entry, quite right, our order entry saw very good growth in North America and in the EMEA region, but that is not necessarily restricted to any particular product order. We did see a very good order growth in our gas detection systems business in the EMEA region. We saw good growth across the portfolio in North America.

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**Operator:** [Operator Instructions] Ladies and gentlemen, that was the last question. I would now like to turn the conference back over to Stefan Dräger for any closing remarks.

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**Stefan Dräger**

*Chairman-Management Board & Chief Executive Officer, Drägerwerk AG & Co. KGaA*

Well, thank you very much for all of you being online with us today and for your interest and the questions and lively discussion. Look forward to hearing from you or seeing you, well, maybe at our Annual General Meeting of the shareholders. So, have a pleasant rest of the afternoon, and goodbye.

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**Operator:** Ladies and gentlemen, the conference is now over. Thank you for choosing chorus call and thank you for participating in the conference. You may now disconnect your lines. Goodbye.

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