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PRESENTATION

Operator

Good afternoon, and welcome to the conference call of Drägerwerk AG & Co. KGaA, which is now starting. At our customer's request, the conference will be recorded. You can listen to the recorded conference for the next 7 days by dialing +49-3-0868-757-330 for German or +49-3-0868-757-360 for English menu navigation. The PIN code for the replay service is 419272, followed by the # key.

The management presentation for the following conference is available on the Dräger homepage, draeger.com. Press Investor, and there you will find the presentation under Financial Calendar.

May I hand you over to Mr. Stefan Dräger, CEO of Drägerwerk AG & Co. KGaA, and the moderator of this conference.

Stefan A. Dräger - *Drägerwerk AG & Co. KGaA - Chairman of Executive Board & CEO - Drägerwerk Verwaltungs AG*

Ladies and gentlemen, good afternoon, and a warm welcome to everyone joining us today on our phone or via the webcast online. I have with me today Gert-Hartwig Lescow, CFO; Melanie Kamann, the Corporate Spokeswoman; Tom Fischler, Investor Relations; and Peter Müller, Financial Communication.

We would like to guide you through the presentation covering our 2018 full year results, which we made available on our home page this morning. In January, we had already published preliminary results and also the guidance for the current year. I will start the call with a high-level review of the main developments in 2018 and elaborate on some changes we were working on concerning the organization. Gert-Hartwig will then go into the financial details of the group and the regions. Following the presentation, we will open the floor to your questions. Out of respect to everybody's time, we will end this conference in about 1 hour.

So Slide 4, business development of Dräger Group. Let's get started with a brief overview of the business development last year. After 2017, which was a year with an overall good development, we had grown the bottom line and sunk with the top line, 2018 was different. 2018 and '19 is a phase of higher investments to strengthen our competitiveness: investments into our organization for innovation and investments into specific sales and service capabilities. We therefore already had planned to see a declined profitability in 2018.

Today, looking back at the financial performance in 2018, one can only be satisfied with the top line development but certainly not with the earnings development. The decline in earnings is more pronounced than expected.

Why is that? We had a quite difficult start into the year. Despite healthy end markets delivering currency-adjusted order growth, our net sales in Q1 were clearly below the prior year, mainly due to the weak delivery performance coming from the logistics issue we had. It took time and money to fix this supply chain disruption. Delivery performance improved in the quarters to follow, but nevertheless, we had started the year with a substantial headwind, which we had to make up for in the time thereafter. In Q2, we had a strong catch-up effect and later in the year, again, a very strong year in the business.

Our net sales for the full year rose on a currency-adjusted basis by around 4%. So top line growth was in line with our expectations. Taking into account the quite substantial FX headwinds we experienced throughout the year, this translates into only roughly 1% growth on a nominal basis.

Currency headwinds are also one of the main reasons why our gross profit margin declined in 2018. Next to this, the scheduled higher expenditures for the strengthening of R&D and sales also played a decisive role in the decline of earnings development. On top of that, unplanned expenses for the logistics issue that I already mentioned and for quality issues to fix before they hit the field at the expense of our reputation have strained earnings. Full year EBIT margin declined to 2.4%, and our Dräger value add is negative territory. In sum, even if they will be delivered on our top line promises, our earnings development in 2018 was disappointing and below our expectations.

Moving on to Page 5, I would like to share some comments on the demand development for the group and the regions. On a group level, our order entry increased by some 6%. All regions contributed to this growth path as well as both product areas, medical and safety. This is a good sign that our markets are still intact and our products and service offerings meet our customers' needs. Order entry was above net sales development. Hence, our order book is above last year's level and gives us a good starting point for the current year.

Nevertheless, the increasing economic worries around the globe led us to be more cautious with our expectations for the demand development going forward. Consequently, we have reduced our top line expectation for 2019 a notch. More to that later when I get to the outlook.

In 2018, the largest contributor to order growth was the region AAA. Here, orders grew by 11.6% on a constant currencies basis. Both product areas, medical and safety, increased by about 10%.

Order growth in the Americas region was strong as well with 10% growth. This is a very good recovery after the only modest growth in the prior year. Especially, our North American business has seen a much better order intake in second half of the year after a quite slow start at the beginning of the year.

In the region Europe, our largest region, order intake growth was only around 2%. However, to be fair, the comparable basis in 2017 is much more challenging when orders had been growing by close to 6%. Nevertheless, order growth is on a low level. And uncertainties, if we think of Brexit, the protest in France, the politics and currency volatility in Turkey, make us a bit more cautious for the region looking forward.

If we look at the business from a medical and safety view, we see positive order growth in both areas of around 6%, with safety slightly exceeding the order growth of our medical business. As you can see on the chart, both product areas increased orders in all 3 regions. So growth is well balanced from a regional perspective.

Looking at the demand on a product level. Orders are above the prior year's level in all product areas. Order entry in medical was particularly strong for hospital consumables and accessories as well as for anesthesia equipment. Thermoregulation, that is incubators and warming beds, as well as monitoring had a very decent order entry as well.

For our safety products, order growth was strongest for our gas detection business, which increased double digit. Demand growth was also very good for our service business. This marks the second strong growth year in a row for our service business. We also experienced a similar good growth rate for our impairment check devices. The other product fields had a positive growth but on a lower level.

To sum up the order intake trends of the year. Our order development was strong and provides a good starting point for the business development in the current year. All regions are growing, with particular strong growth contribution coming from the AAA and the Americas region. After a strong prior year, growth in Europe was a bit lower. And also looking at growth from a product view, order growth was well-balanced, with both product areas, medical and safety, growing in all regions.

I will now go to Slide 6 and give you a status update on our current investment program. As a reminder, at the end of 2017, we decided to step up our expenditure in certain areas. Dräger's innovations in the capabilities of our sales force are a vital prerequisite to capture the growth opportunities in our markets. These are the areas. R&D and specific sales capabilities, our investment program is targeted at that. We started the program knowing that the expense increase will result in lower profitability for some time. It is only after these investments bear fruit in the year 2020 and beyond that we expect to see higher profitability again.

What have we achieved so far? Our new hub in Krefeld is up and running. From there, we are supporting the growth opportunities in our rental and safety services in Germany and other European countries. And we have seen good results. Our sales business had a solid double-digit growth in 2018. We also strengthened our global key account management for global safety customers. This also has produced positive results in 2018, but more important, this lays out the groundwork for a good further development in the future as customer relationships deepen and business grows.

To better support our gas detection systems business, we hired experts with specific metrical and commercial project skills in different places who will support our safety sales force in designing and commissioning complex fire and gas detection systems. These new support units, combined with our very good recent product innovations in this field, are the drivers for having been able to grow our gas detection business double digit in 2018.

On the innovation side, we have promised to fairly improve our product road map. The launch of a first big product innovation to renew the medical product portfolio is scheduled for the second half of 2019. The project is on track, and we hope to be able to discuss this with you soon as we present the product to our customers. This can only be a snapshot. The entire program is work in progress, and in 2019, we will continue to focus on reducing time to market and driving the development of the road map.

But there are also topics that have not developed as planned. The areas that have disappointed in 2018 have to be addressed. The additional expenses we had for our logistics issues at the beginning of 2018 and the expenses to contain the quality issues have to be avoided going forward. We are putting additional management focus on improving our quality management processes as well as optimizing our logistics processes and setup.

Another main field of activity this year will be the implementation of go-to-market strategies that we have developed for several important countries. This will help us to have more reliability in execution of our growth plans in the future and to focus our sales efforts on the biggest and most promising growth opportunities. These opportunities can be very different from market to market. Hence, the measures are very different from market to market as well. And they include optimizing the sales channels, educating our sales and service staff, marketing activities and other things. Also in 2019, we will continue reviewing go-to-market strategies for key countries. But for competitive reasons, we will not go into detail on these strategies and measures.

The biggest topic for 2019 is the point on the bottom right side of the slide: strengthening the organizational focus on medical and safety. This point, I would like to explain in some more detail on the next page.

When looking at the financial performance of our medical business and safety business, I'm now on Slide 7, then it becomes apparent that the development of the 2 businesses is not well-balanced. While our safety business has developed reasonably well in the last 3 years, this is not the case for our medical business. In safety, our top line has well recovered from the decline we still had in 2016. The 8.5% growth last year was strong. This is the result of a modern, up-to-date product portfolio. Also, the investments we have made into our sales and service infrastructure and the specific skills that I just mentioned, 3 of them, are starting to pay off already, as you can see. All in all, a good development.

A different picture for our medical business. The top line growth rate is only slightly positive and well below our potential. The same is true for our profitability. While profitability of our safety business is more or less stable at around 6% EBIT margin, the profitability in medical has declined in 2018 to an unacceptably low level, being only slightly positive. This needs to change. In part, the investment program is already addressing the issue, mainly focusing on renewing the medical product portfolio. We have said on past occasions that the larger part of our investments in the innovation process is going into our medical portfolio. While the current portfolio still meets the current demands of our customers, parts of the portfolio are due for modernization to better suit the future demands of our customers.

In the future, the stronger integration of therapy devices in the hospital will offer additional benefit in terms of workflow support, assisted therapy and ultimately hospital automation. To be ready to offer these benefits to our customers, part of the medical portfolio will be modernized in the years to come. Hence, the larger part of the additional R&D expenses is going into the medical side of the business.

Besides that, the unplanned expenses for quality assurance, which has burned our profitability during 2018, were mostly on the medical side. And even if quality costs are a normal component of any P&L of a medical device manufacturer, the current level of unplanned expenses is unacceptable. We are committed to improve the current unsatisfactory situation. We still need to become faster on the innovation side and make sure that our output lives up to our high quality standards. We have therefore decided to strengthen our organizational focus on our medical business and our safety business at our headquarters in Lübeck.

In headquarters, we have become too remote and disconnected from our customer and business needs. We will therefore reintroduce a business responsibility for our medical and safety business divisions, each headed by a board member. Within the divisions, we will be organized in business units. The new business units will be fully accountable for the respective business, carrying customer and business needs through across borders of functions and countries and legal entities. The goal is for every business-critical issue to have a person responsible that does not sleep until the issue is solved.

Consequently, as we change the steering of the business, we will adapt the financial reporting as well. As of beginning of 2020, the new organization will start, and our financial reporting will be adjusted accordingly. The primary segment view will be according to the divisions, medical and safety. The secondary views will be according to the regions, Americas, Europe and AAA. The global sales organization remains structured according to these regions.

3 years ago, at the beginning of 2016, we already went through a change in our governance model, giving more power to the regions and countries, with one single person responsible and in charge for each unit and shifting much more of decision power to the regions, empowering the local entities to operate as entrepreneurs. This has proven to work well. Customer orientation, dedication and entrepreneurship in the regions are high. And when it was introduced, it helped the cost containment to work well. The only aspect we will change here is, going forward, all 3 regions will be reporting to one board member. Finally, a Chief Sales Officer, fully dedicated to our global sales performance.

All these changes will result in a stronger customer focus in our headquarter functions, headquarter functions that are not necessarily customer-facing. This is especially important alongside the entire innovation process. Our goal remains to improve our time to market, more speed and higher reliability in the road map.

The ultimate goal of changing the organization is to strengthen the focus on growth and profitability of both businesses, medical and safety, at the same time, something we already have within the regions but something that we still lack in our headquarter functions in Lübeck. This change in the organization is the most significant in headquarters since 2007 when we started with the One Dräger program. Since then, we have been working on a two-dimensional merger, bringing together medical and safety in one dimension and all the countries in the world in the other dimension, into one organization. What we have learned is how to respect and work this diversity. Diversity is great when it is beneficial for our customers. Where it adds value, it needs to be strengthened. However, where it does not add value for our customers, it is waste and needs to be eliminated and replaced by standards. After standardization, we can benefit from scale effects and utilize efficiency gains. IT systems are a good example that diversity is waste and standards are desirable.

What the reorganization does not mean is giving up the benefit of One Dräger, what we have learned and the shared resources that we have implemented over the last couple of years. All internal services: accounting, HR, legal, just to name a few, will remain harmonized. While we will have 2 divisions focusing on the different customer groups and businesses, Dräger remains one company. This is also not a restructuring program focusing on cost-cutting and layoffs of people. Innovation speed and increased focus on future customer needs are at the core of this reorganization.

Turning to Slide 8. You will see the need for change is most evident on the medical side. And Toni Schrofner immediately started with restructuring, leading a core team of 10 people representing a broad spectrum of characters, perspectives and experiences. The work packages include product portfolios, strategy and positioning, efficiency and processes and the organization. Once the new organization takes effect, Toni Schrofner will be the board member responsible for the medical division. In order to allow him to fully focus on this task, Reiner Piske has already taken over the management responsibility for the AAA region, formerly managed by Toni Schrofner.

In the course of the year, we will be working out the details of the reorganization also for the safety business. When finalized, Rainer Klug will take charge of the safety division on a board level. With this step, Reiner Piske will be in charge of the global sales and service organization. All 3 regions will be reporting directly to him, and he will be responsible for the global sales performance. All changes will go live as of January 1, 2020. On the path getting there, we have chosen a step-by-step approach rather than a Big Bang implementation. We are trying to keep the time of uncertainty for the organization as short as possible, and we are careful to not break existing processes and collapsing existing governance structure, causing disruption in the operational business with possible implications for our customer interaction before the new processes and structure is in place. We therefore expect to share further details with you in the course of the summer.

Now I would like to turn over to Gert-Hartwig for a more color on the financial performance. Gert-Hartwig, please.

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

Thank you, Stefan, and good morning, everyone. Please note that my comments today will be on numbers net of currency effects whenever I refer to growth rates.

Let us start with a quick review of the Q4 development of the group. As you probably know, we generate a high share of our net sales in Q4, usually more than 30% of our annual net sales in the final quarter. The pronounced back end-loaded nature of our business comes especially from our medical customers, which tend to place orders for delivery before the end of the budgeting cycle. As in prior years, our net sales and profitability in Q4 2018 was very strong. In addition, we have also seen a very good order entry. Order entry in Q4 was some 12% higher than in the prior year's quarter. So our book to bill for the full year was 1.04. So this gives us a solid basis for at least a good start in terms of net sales growth this year.

Net sales development was favorable in the fourth quarter as well. Our net sales increased by nearly 6%. All regions contributed to growth in the fourth quarter. Growth in the regions Americas and AAA were particularly strong with growth rates above 10% each. In Europe, the net sales development was only stable, but this compares to a quite strong prior year's quarter.

As usual, the fourth quarter had the highest earnings contribution of the year. But despite the about EUR 32 million higher top line volume in the quarter, gross profit contribution was only stable compared to last year's quarter. The gross profit margin in Q4 remained below the prior year's margin in all 3 regions. The increased cost base below gross profit led to a slightly lower Q4 EBIT of EUR 104 million compared to last year's EUR 112 million.

Changing the view to the full year results now. Order entry for the full year increased by some 6%. Order growth was continuously positive throughout the quarters, with the strongest increase tapped towards the end of the year. With an increase of close to 4%, full year net sales development was positive as well. The net sales development over the quarters is more seasonal than our order development. In addition, our growth in Q4 was significantly burdened by the logistic issues already mentioned by Stefan Dräger.

We saw a catch-up effect in the second quarter followed by a slowdown during Q3 again and finally a very strong year-end business. This adds up to currency-adjusted net sales growth of 3.9%, which, due to the FX headwinds, only translates into nominal growth of roughly 1%. Despite the positive top line development, our gross profit contribution is below the prior year.

The margin was lower in all 3 regions. Adverse currency development, a significant increase in quality costs for our medical products and a decline of the service margin all contributed to the poor margin development. Ongoing negative price pressure for medical products also had a substantial negative impact on the gross margin.

In total, the gross margin -- the gross profit margin declined year-over-year by some 2 percentage points. Our functional expenses increased at a higher rate than net sales. I'll provide some details on this a bit later. The other financial result of minus EUR 3.2 million had a slightly positive impact of about EUR 1.3 million in the year-over-year comparison.

As a result of the decline in the gross profit margin, the higher expenses and the adverse currency development, our full year EBIT of EUR 62.6 million is substantially lower than last year. The margin declined to 2.4% and was negatively impacted by FX to the amount of 1 percentage point.

Due to the exchange rate changes during 2018, mainly caused by the strong euro versus many different currencies, predominantly emerging market currencies like the Argentinian peso, the Turkish lira or the Brazilian real, we incurred negative impacts on our earnings. The only noteworthy positive impact came from the weaker U.S. dollar since we have a net U.S. dollar short position. Here, the weakening of the U.S. dollar versus the euro was beneficial for us. Considering current exchange rate levels, we do not expect similar negative FX effects for the full year 2019. Based on the exchange rates at the start of the year 2019, we expect no meaningful FX impact on the nominal net sales growth and EBIT margin for the full year.

Coming to the P&L below the EBIT line. The interest result improved by some EUR 2 million, and the tax rate was 32.4%. As a result, net profit is just below EUR 35 million.

2018 capital costs were up relative to the prior year mainly as a result of higher inventory levels. This increase in capital costs, together with a large reduction in EBIT, led to a negative DVA, the primary metric, which -- with which we steer our business, of minus EUR 26.5 million for the total year 2018.

On the following 3 pages, we take a look at the development within the regions, starting in the West with the region Americas on Page 11. First, look at Q4. The region Americas had a very strong top line in Q4, very solid order growth practically from any angle you look at it, double-digit growth -- order intake growth in medical as well as safety. And also regional-wise, order intake grew double digit in North America as well as South America. Quite similar picture on the level of net sales growth, net sales increased by some 13.5% in Q4.

The full year -- for the full year, the region America had a quite pronounced back end-loaded year. When we now shift to full year, we see that the full year figures are not quite as good, especially North America. Net sales development in the first half of the year was clearly disappointing. We did have a recovery during Q3 and Q4 but not enough to compensate for the very slow start into the year. On the other hand, Central and South America had a strong top line development, nearly all year long. But to be fair, this compares to a rather sluggish development in the prior year. So part of that good development is basis impact.

For the full year, the entire region Americas showed currency-adjusted top line growth of some 10% for order entry and some 4.5% for net sales. To be fair, the currency-adjusted growth rates this year are supported by some high inflation rates in South America. Hence, the nominal development is less positive. In fact, on a nominal basis, net sales in the region Americas contracted by 2.2%. Both business areas, medical as well as safety, developed favorably.

Orders increased in almost all product areas. In medical, important areas like anesthesiology and ventilation increased by some 10%. Orders declined for our patient monitoring offering. We're still awaiting FDA approval for our IACS VG6 release. In safety, our business with safety gas detection systems was a main contributor to order entry growth. This is one area where our investments into the business are showing good results, as Stefan Dräger pointed out earlier.

The gross profit margin of the total region Americas declined by nearly 4 percentage points, mainly due to some negative currency effects but also due to some price decline and higher quality costs. Negative mix and other margin effects also had a negative impact but to a lesser extent.

The investments into our sales organization were a big driver for functional expense increase by some 3 percentage points, above the growth rate of net sales. The achieved gross profit contribution at the higher cost base resulted in a negative EBIT of some minus EUR 30 million for the full year.

Moving on to the region Europe on the next page. Again, let me start with some comments on the Q4 development. Order intake in the fourth quarter was positive with an increase of some 3% in the region. Both medical and safety contributed, with order growth being a notch stronger in safety than in medical. Especially in Germany, year-end order intake was very strong on the safety side of the business.

Despite the decent order entry development, net sales growth in Q4 was only stable. Especially, net sales development in medical was lower than in the prior year's Q4. In addition, due to FX headwinds, the currency-adjusted stable net sales development translate into a nominal net sales volume, which was below last year's level.

Moving on to the full year development. Considering the size and maturity of the markets, the increase of the top line of the region Europe was quite satisfactory. Orders were up nearly 2%, and net sales increased by 2.8%, whereby safety developed more favorable than medical. In medical, especially order entry for our anesthesia devices was very favorable, but it was in part compensated by declines from other product areas. In total, orders in the medical business only increased by about 1% for the region. Safety increased in order entry to -- by some 3%. Order growth for Dräger's safety offerings was particularly strong for gas detection and even more so for our service business.

The growth in our safety service business is also a result of our infrastructure investments in our Krefeld site, which we have concluded last year. Krefeld supports our European rental safety and service business, like shutdown projects and short-time rental, a business which we expect to continue to grow going forward.

Despite the higher net sales volume, profitability has declined. The slightly lower gross profit margin and higher functional expenses overcompensate the effects from the higher net sales volume. EBIT declined from EUR 108 million to EUR 82 million, which corresponds to a margin decline of nearly 2 percentage points.

Coming to the third sales region, AAA, Africa, Asia and Australia. First, the view on the development in Q4. The AAA region had a very strong last quarter. Order intake increased by some 20%. Order growth was mainly driven by good demand for our medical offerings. Medical orders increased by 30%. Net sales growth during the quarter was good as well. Here, the safety business surpassed the development of the medical business.

The full year figures benefit from the strong year-end business. Currency-adjusted order entry of the full year 2018 increased by 11.6%. From a geographical point of view, basically all subregions delivered higher order entry figures. Frontrunners in this regard were China and the Middle East with double-digit growth rates.

Within the region, both business areas, medical and safety, had order growth rates roughly in the area of 10%. In medical, nearly all product areas contributed to growth. In safety, growth was particularly strong in our gas detection business as well as in respiratory and protective systems. Net sales development is lagging behind the order development a bit. Net sales increased by roughly 6%. The development in safety is -- was especially favorable, with net sales increasing by roughly 14%.

Despite the higher net sales volume of close to EUR 20 million, profitability has declined. Gross profit margin has declined by nearly 3 percentage points. The main reason for this decline are negative FX effect; adverse product mix, i.e., missing net sales volume from higher-margin products like anesthesiology and ventilation; and some price decline. In addition, AAA is the region with the highest increase in functional expenses.

In line with our investment program, we have increased investments into our sales capacity, leading to increase of our selling and marketing costs of 7%. As a consequence, EBIT had a sharp decline in AAA. The EBIT margin was 1.6% only.

On the next slide, Page 14, we provide full details on the key development of the functional expenses. On a constant currency basis, our functional costs increased by 7%. Currencies had a favorable impact on the cost base. Nominally, functional expenses were 5.1% over the level 1 year ago. Planned expense increases for innovation as well as for sales activities were a major part of the year-on-year increase. The higher spending for these activities was planned, however, with expectations of a better gross profit margin. In addition to planned expense increases, we saw substantial unplanned increases in freight expenses and logistics costs associated with problems at the distribution center in the course of 2018.

Looking at the development in the different functions. Sales and marketing expenses are up by 7% over the prior year. The strongest increase were in the region America and AAA. Countries like China or the United States are areas where we are investing into our sales capabilities and capacities. But also, the biggest portion of the unplanned logistic costs are for the delivery to our customers that's burdening our sales and marketing costs.

In line with the major goal of our investment program to update our product portfolio with innovative offerings, the highest expense increase was for R&D. R&D expenses increased by currency-adjusted 8.4%, thereby bringing the R&D ratio to 9.7%. Also, for 2019, we are planning with a further increase in R&D. After expenses of EUR 252 million in 2018, we are planning to spend up to 10% more in 2019. R&D expenses are budgeted in a range of EUR 260 million to EUR 275 million. The lowest expense increase is in the administrative functions, which increased by 3%, corresponding to 0.4% increase in nominal terms. The SG&A ratio is slightly up at 30.5%.

Moving on to some key additional ratios for last year on Page 15. Cash flow development is disappointing. The very weak development in the first half of the year could not be compensated for by the improvement in H2. For the full fiscal year 2018, operating cash flow was very weak indeed, amounting to roughly EUR 4 million only.

There are 2 main reasons for the lower cash flow. First and foremost, it is the substantial lower -- substantially lower profitability. The EBIT is EUR 93 million lower than last year. The second-largest impact comes from increasing inventories, with negative impact on operating cash flow of nearly EUR 50 million. The buildup of inventories is also a result of the logistical issues we had at the beginning of the year. In order to mitigate the risk of not being able to deliver product to end customers, we have increased decentralized stock. Now that the delivery performance is back to normal, we are managing down inventories again.

Besides the impact from inventories, there was also a negative impact from the development in trade receivables and payables, which could not fully be compensated for by other positive effects on cash flow. You can also see these effects in the higher net working capital, which has increased by some 20%.

To make sure there is full management attention on the improvement of cash flow, we have included the cash flow development of 2019 as part of the management incentive on a board level. We expect to substantially improve operating cash flow in the current year. Investments of some EUR 78 million, are largely related to replacement investments. There were still some EUR 6 million that went into the finalization of our new service facility in Krefeld, but the majority was replacement investments and the increase of inventory of devices in the rental business. Also, in the current year, the guided investment volume between EUR 85 million and EUR 100 million comprises mainly replacement investments.

Despite investments being below the prior year's level, the decline in the operating cash flow results in free cash flow declining. Free cash flow is negative with roughly minus EUR 60 million. Liquidity has declined by some EUR 68 million, mainly due to the negative free cash flow. Net financial debt has therefore increased to EUR 43.3 million, corresponding to a net financial debt-to-EBITDA ratio of 0.3%.

In light of the substantially lower EBIT and higher capital employed, our capital efficiency declined. Return on capital employed is 4.7%. Under the assumption of full distribution, the earnings per share for the common share is EUR 1.42 and -- after EUR 4.12 in 2017. The earnings per share of the preferred share is EUR 0.06 higher at EUR 1.48.

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

Stefan A. Dräger - *Drägerwerk AG & Co. KGaA - Chairman of Executive Board & CEO - Drägerwerk Verwaltungs AG*

Thank you, Gert-Hartwig. Here, from the earnings, come to Slide 17, our dividend proposal and then the outlook. Last year, we have introduced our new dividend policy, which states that we'd distribute at least 10% of group net profit to our shareholders and to participation certificate holders. Consequently, we will propose to the Annual Shareholders' Meeting in May EUR 0.13 for a common share and EUR 0.19 for a preferred share, equivalent to a payout ratio of 12.7%.

Coming to Slide 18, outlook and guidance. No doubt, 2018 is a disappointment, but it is a disappointment concerning the EBIT development, not necessarily concerning the top line development. Currency-adjusted order intake of some 6% is a sign that the poor earnings development is not a question of deteriorating market conditions or a lack of focus on our customers. The reason for the unfavorable earnings have to do with some homemade issues, which we need to address and which we are addressing. I'm convinced the path towards higher profitability in the midterm is improving our innovation agenda and improving our sales capabilities to better cater to changing customer needs.

That is exactly what we are targeting at with our investment program 2018/'19. Stopping the investment program would harm our midterm profitability. The investment program still work in progress, but despite the disappointing earnings development, we have made good progress in many operational areas. The investment into specific sales capabilities is already bearing fruit as we can see, for example, in the good development in the gas detection business or the hospital accessories and consumables business. But a lot of work is still ahead of us. The improvement in innovation will take longer than anticipated, and we have therefore initiated the restructuring.

And what can you expect from the current fiscal year? Economic uncertainties are rising in many areas around the world. Even if Dräger is a company that you will believe is quite resilient against economic downturns, the modest economic outlook makes us a bit more cautious with our own business expectations for the current year.

We reiterate and confirm the guidance we communicated in January. For 2019, we expect net sales growth of 1% to 4% net of currency effects. Fortunately, from today's perspective, we should not see last year's substantial currency headwinds repeat again this year. Nominal growth should be on a similar level as the currency-adjusted growth rate this year. We do not see big improvement potential for the gross profit margin just yet. Only after new products hit the markets, we should be able to see an improvement in the gross margin.

Our expense base will increase in line with our continuing investment program. The full year EBIT margin is forecast to be in a range between 1% to 3%. The guidance does not include possible restructuring charges in light of the announced reorganization of our divisional structure into medical and safety. Hence, from today's point of view, we do not expect material financial implications.

You can find some additional guided figures like investments, R&D budget, et cetera, in the appendix of the presentation. All guided figures are based on the assumption of stable exchange rates at the beginning of the year.

With this, I would like to end the presentation and open the floor for your questions. Please ask them now.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Oliver Reinberg.

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

Yes. Oliver Reinberg from Kepler Cheuvreux. Three questions if I may. Stefan, can you actually talk around the mandate that you gave to Mr. Schrofner for the reorganization of medical? Can you talk around that, how exactly the mandate looks like? Have you also asked for specific financial targets that need to be achieved in a certain time frame? And does the mandate also include to look at more kind of larger strategic changes to the division? Second question, can you just talk around pricing on a like-for-like basis, so excluding any kind of country or product mix effect? And thirdly, what do you expect in terms of cost inflation for personnel costs on a like-for-like basis?

Stefan A. Dräger - *Drägerwerk AG & Co. KGaA - Chairman of Executive Board & CEO - Drägerwerk Verwaltungs AG*

Okay. First question, Mr. Reinberg, the mandate that I gave to Toni Schrofner was to lead the restructuring effort of the medical business and, later on, the resulting medical division. And I would like to put it in perspective, the efficiency program that we had in the year 2016 was a pure efficiency improvement, so we cut costs and also headcount through all functions and areas across the board, like with a lawnmower. So 5% headcount reduction in Lübeck and eventually also for the rest of the world was the target that we gave at that time, but we did not touch, let's say, the structure at the time in the headquarters. We did develop the governance structure in the countries and the regions at that time and gave responsibility for each country to one person, ultimately responsible for all aspects and the whole business and all customer matters in that country. So we strengthened already the customer focus in the organization in the countries and the regions in 2016, but we did not change and touch the headquarters. So that is due now this time. And other than in 2016, the mandate for this time is in the restructuring to cover all 3 elements that a restructuring typically has. So first element is addressing the strategy and portfolio to review with what products and services we reach out to whatever customer groups and markets. The second element is the -- indeed, the efficiency and processes as we had in 2016. And the third element is organization structure and culture, on which we also work. So all 3 elements need to be balanced. It's -- the restructuring is not a pure cost-cutting program, and it's not a pure reorganization. It is addressing all 3 elements, and it does -- so not include a specific, say, improvement target nor does it include a specific, say, amount to be spent or if we rebrand for the restructuring, a specific cost is not the case. So in the -- Toni Schrofner is working with a core team to balance all 3 elements, and we will get to that and give you more details in summer, as I said in my little explanation.

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

Just a quick add-on to your second question, the pricing impact. We see that mainly on the medical side of the portfolio, and there, for the equipment side, it's about 1% to 2% for -- of net sales. And for the cost inflation, of course, that differs, but if we look at the personnel costs in Germany, we see a cost inflation of around 2% to 3%.

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

Okay. If I may just follow up, the 1% to 2% for equipment in medical, is it slightly higher than the past? And to the second follow-up. When you're talking about the results of the program in summer, can we expect also any kind of midterm targets for the total organization anytime soon?

Stefan A. Dräger - *Drägerwerk AG & Co. KGaA - Chairman of Executive Board & CEO - Drägerwerk Verwaltungs AG*

Second part...

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

First question first. So for the pricing impact, it's in the same magnitude, perhaps on the higher end of the range what we have seen in 2018.

Stefan A. Dräger - *Drägerwerk AG & Co. KGaA - Chairman of Executive Board & CEO - Drägerwerk Verwaltungs AG*

And yes. Other follow-up question, we can disclose more in summer as we then know more. We will share the more details about the goals that we know by then. In -- but midterm planning, we'll only have in due time as we have more clarity in the future but not this summer.

Operator

The next question comes from Falko Friedrichs.

Falko Friedrichs - *Deutsche Bank AG, Research Division - Research Analyst*

Yes. Three questions, please, from my end. Firstly, on the 6% order intake in 2018, does this imply you won market share? Or is the end market demand simply so higher? Secondly, can you quantify the expected restructuring expenses this year, even though there might not be that much, or give us at least a ballpark figure? And then thirdly, now that we are in March of 2019, can you give us a more specific indication on the launch timing of the new products this year?

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

So overall, to your first question, we have -- so we see a development on the safety side in '18 as well net sales and order entry, which is on the higher end and was a main contributor to the growth on the net sales side. On the medical side, all in, we would see there is some positive development, perhaps market share, but there's some average development. So I would not necessarily conclude that we have market share. But on the safety side, we are probably growing with the market perhaps on the higher side compared to other listed competitors. For your second question, currently, from what we see in our restructuring program, that's covered in our guidance and the measures are part of the normal operating budgets. We'll -- we are going to share additional details with the additional details on the program in the summer of the year, possibly with the Q2 results that is to be seen. We have not quantified that separately at this point, and it would be prematurely to just point -- to plug a specific figure out there. For the launch...

Stefan A. Dräger - *Drägerwerk AG & Co. KGaA - Chairman of Executive Board & CEO - Drägerwerk Verwaltungs AG*

For the launch plan, well, you can expect there's some new, say, innovation to be shown on the DAC, that is the Deutscher Anästhesiecongress. And by that, you can guess the date and also what kind of product that might be.

Operator

The last question comes from Aliaksandr Halitsa.

Aliaksandr Halitsa - *Hauck & Aufhäuser Privatbankiers AG, Research Division - Equity Analyst*

I just want to clarify on the previous question regarding your EBIT margin guidance of 1% to 3%. You just mentioned, if I heard you correct, that this guidance implies already or reflects the potential restructuring measures. Yet you have this footnote in the presentation that, that does not assume the -- yes, any potential charges from restructuring. If you could clarify.

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

Thanks for the opportunity to clarify. The footnote is correct, the guidance of 1% to 3% does not include potential restructuring measures. At this point, we have not specified the program to a detail -- to a degree detailed enough to see what it is. And it is, in that sense, a disclaimer. It may include larger restructuring measures, which are not included. Smaller changes in the organization are, of course, part of the operating budget, which is why I have answered to the question of what's the part in the budget, there's no specific part in there because any large measures are not included yet. But it's not that we don't share it with you, we just don't know it at this point because that's work in process.

Stefan A. Dräger - *Drägerwerk AG & Co. KGaA - Chairman of Executive Board & CEO - Drägerwerk Verwaltungs AG*

What we do know is that the program is not tailored as something like a mass layoff program. And therefore, we do not see, from today's point of view, the significant charges that come with it. There may be, say, individual, you can say, let-gos, but that's on a normal level in some parts, probably discontinued and no longer needed. But on other parts, we will invest in the future. So overall, from today's point of view, we can say is that's included in the financial guidance from what we know.

Aliaksandr Halitsa - *Hauck & Aufhäuser Privatbankiers AG, Research Division - Equity Analyst*

Understood. And lastly, you spoke about R&D, your expectations for R&D costs. That's very much appreciated. Could you also talk about SG&A? Would you expect SG&A to decline year-over-year in absolute terms given the fact that in 2018, you faced these extraordinary high costs for quality and logistics, and considering the fact that in 2019, they will be lower only partially? Or is that not your expectation?

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

Firstly, let me clarify. The quality costs mainly go into the COGS since they affect changes on the product portfolio in this total period. So they don't -- the actual field corrective actions do not go into the SG&A. They go into the COGS, and they're partly a reason for the decline in the gross profit margin. Secondly, we have -- and from -- in 2018, we had about EUR 15 million additional quality costs, mainly field corrective action. We expect 2/3 of that also to translate into 2019. The other element, which did go into the SG&A, is the higher logistics costs, again, about EUR 15 million but a different EUR 15 million obviously. And again, we expect about 2/3 of that to translate into 2019. So bottom line, we do not expect SG&A to decline in 2019.

Operator

There are no more questions in the queue.

Stefan A. Dräger - *Drägerwerk AG & Co. KGaA - Chairman of Executive Board & CEO - Drägerwerk Verwaltungs AG*

Very good. We have reached 1 hour sharp. So we thank you all for being with us. Good day, and look forward to hearing from you, meet you in the future. Thank you very much, everyone online, and goodbye.