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Q1 2020 Draegerwerk AG & Co KGaA Earnings Call

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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, this conference will be recorded. You can listen to the recorded conference for the next 7 days by dialing +49-30-868-757-330 for German or +49-30-868-757-360 for English menu navigation. The PIN code for the replay service is 927180#. The management presentation for the following conference is available on the Dräger homepage, www.drager.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 the Executive Board - Drägerwerk Verwaltungs AG***

Yes. Good afternoon, and thank you for joining our conference call on our Q1 financial results. I have with me today Gert-Hartwig Lescow, the CFO; Tom Fischler, Investor Relations; and Peter Müller from Financial Communication.

We would like to guide you through the presentation covering our results for the first 3 months, which we made available on our web page this morning. Following the presentation, we will open the floor to your questions. As you're most certainly aware, we already published the preliminary figures ad hoc some 15 days ago. In the final figures we published this morning, there are no meaningful deviations to the prerelease.

Let's get started on Page #3 with the business highlights of Q1. Q1 was an extremely busy quarter for Dräger. Of course, the dominating topic was and will continue to be the impact of COVID-19 on our business. Never before our mission was as important as in these challenging times to protect, support and save lives. We are doing as much as we can to serve this mission every day. And we will continue to do so for the rest of the year and beyond. The marathon has just started.

On the back of the spreading virus, demand increased sharply in March. As a result, order entry during the quarter is more than double the amount than last year. We have seen similar situations before when virus outbreaks have led to higher demand, especially for our ventilators. That was the case with SARS in 2003 and also in 2009 and '10. But the magnitude this time is extraordinary because it is systemic, a true pandemic outbreak. It is all over world.

Once it became clear that SARS-CoV-2 would not be a Chinese problem but is spreading into other regions, we reacted very quickly. We immediately began to increase our production capacity. Because the supply of components can quickly become a bottleneck in any effort to increase output, one important topic was the coordination with our suppliers to get them prepared as well for the higher volumes expected. Since then, we have seen an unprecedented effort from many sides to help increase the supply. Governments, regulators, suppliers and our employees are all focused on making it possible to expand the output for products that are currently in so much need and help save lives. Luckily, we have invested over EUR 70 million in our new state-of-the-art factory in Lübeck, where we have agreements with our Dräger council and the trade unions for great flexibility in capacity and innovative organizations at the shop floor, and this now pays off.

I would like to share with you a figure that we normally do not share. The absentia rate of our factory workers is down to 2%. That gives you an impression how motivated we all are to do as much as we can to save lives. So far, production ramp-up has worked well, which is not self-evident. After all, the assembly of ventilator includes over 500 parts, and more than 120 suppliers are involved. Nevertheless, we have doubled our output for ventilators and will quadruple it. So far, our supply chain is functional. Of course, there is no guarantee that it will continue to work. The supply chain can be disrupted from several sides. This is difficult to forecast. It remains one of our top priorities to monitor the situation very closely and be able to react in a very timely manner.

As communicated earlier, beginning of this year, we took an important step on our journey to rejuvenate our product portfolio. We launched our new retail ventilators, the V600 and the V800, and the VN version for the neonatal wards. We have immediately begun to ship the new ventilators to customers. So some of the customers in need of ventilators due to the corona outbreak are already receiving the brand-new Evitas. This is a double advantage because, in general, the supply chain for a new product is easier to gear up. However, this is not without any risk either.

One issue that is also receiving the highest attention from our side is the warning letter from the FDA we received beginning of January. Despite these challenging times, we continue to be focused on resolving all topics raised by the FDA. We have provided a plan with corrective and preventive actions to address all issues outlined in the warning letter. As discussed in our last call in March, this is a process that will take several months. So I cannot give you any new information on this topic, except that this is work in progress.

The FDA will only consider the issues closed when we have concluded the agreed-upon actions and our -- and a reinspection has been successfully completed. At this point, we have no insight in when these activities will have been concluded. However, I can assure you that all is on track, and there are no delays in our committed corrective and preventive action plan.

Also, we are in regular exchange with the FDA and have received feedback that they acknowledge receipt of our corrective and preventive action plan, which is our response, as well as our submitted status report submitted to date. And I do have an update for you and some good news from the FDA approval side. As I had explained earlier, the warning letter does not have much impact on our financials because it is related to approval process issues on existing product lines regarding the Infinity Acute Care System.

Where we did see a financial impact on the business was the delay of approvals for products in the United States caused by new and tightened cybersecurity guidelines also affecting time to market for our Class Vi therapy devices, namely the new Atlan anesthesia workstation and the new Evita ventilator V800 and V600 as well as the VN versions of it. In light of the COVID-19 crisis, these devices, in the meantime, have received the EUA, spelled out Emergency Use Authorization, by the FDA and can be used in the U.S. for the time being. In parallel, we are continuing to work on the steps required for the regular 510(k) approval.

And finally, last week, what we did make is new preference shares. We successfully concluded a capital increase in our preference shares to partially refinance the cancellation of the participation certificate. Gert-Hartwig will elaborate on this a bit later.

But now let's take a look into the order dynamic of the quarter on Page 5. The corona pandemic is leaving its mark worldwide. At trigger, it led to an extraordinarily high increase in orders for ventilators and light breathing protection. But also hospital accessories, patient monitoring and anesthesia equipment are increasingly in demand.

In figures, order entry for the Dräger Group increased by 117% year-over-year on a constant currency basis. Naturally, the medical business is the strong driver of this development. Medical orders are up by some 177%. That includes a very large order from the German government for 10,000 ventilators that we received in March. The delivery of this order will take place in the course of the year. Hence -- and the Europe growth was by far the strongest.

Demand also rose very sharply in the regions of Africa, Asia, Australia and the Americas. We sometimes are offended because some people think we are dedicating all our capacity to supply ventilators only to Germany given the large order of 10,000. Let me assure you, the rest of the world gets more than twice of the quantity than Germany.

In March alone, we delivered ventilators to over 50 countries. While usually hospitals are our customers, at present, it is increasingly health authorities or government agencies that ask for our products. Our Technology for Life is in demand like never before in our 130-year history. We are trying everything to make it available where it is most needed. Currently, every ventilator that we make goes out the factories the same day, and despite that our air cargo rates have increased fivefold, the ventilator is the next day on the patient saving lives.

In safety, order intake rose by roughly 32% in constant currency. Here, too, the region Europe made the largest contribution to the growth, while growth in Africa, Asia, Australia and the Americas region was lower. We are seeing a strong increase in demand for respiratory protection masks worldwide. Our production facilities in Sweden and South Africa are working at full capacity and are operating around the clock. We also won a large tender from the U.S. government in April for some 50 million masks. The deal includes setting up a production line for masks in the U.S. This project is running at full speed in order to quickly provide the dearly needed protection of caregivers and others. The model setting up local production lines in conjunction with large mask orders is something that could work well for other regions as well.

In Q1, also other product areas of our safety division had higher order intake. Gas detection, resin protection and PPE in general had higher order intake. Well, that was in Q1. I would cautiously say that is the rear-view mirror. We are quite cautious in regard to what to expect from the path of the safety business that are not boosted by corona, what is ahead of us. Some areas are linked to the general economy or are linked to the oil price. These areas will possibly see lower orders coming in the next quarter. So far, this is not visible. But with declining economic activities, investments into safety equipment could negatively be affected.

Net sales-wise, both divisions are up year-over-year in net sales. But we have only seen very little of the high order entry turn into net sales in Q1 already. Net sales is roughly 7% higher. We will see a much stronger net sales development in the current quarter.

That's it on the order trends in Q1. Now I will hand over to Gert-Hartwig to go through the financials on the group level. Gert-Hartwig, please.

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

Thank you, Stefan. I would also like to welcome everybody to our conference call for our 2020 first quarter results.

Please turn to Page 6 for a view on the Dräger Group. As usual, I will be stating currency-adjusted figures whenever referring to growth rates. Our net sales were up 7.1% in the first quarter to EUR 640 million over a strong comparable basis. So far, the high order entry development has only partially transformed into net sales. Only towards the end of the quarter, COVID-19 orders started to turn into net sales in a meaningful way. We will see a much stronger net sales development in the current quarter in light of COVID-19 deliveries increasing heavily.

As is true for order entry, net sales also increased in March as well as the safety division with medical growth rates only being slightly higher than the growth in safety. Considering the order entry pattern, this difference will be more pronounced going forward.

Depending on where the pandemic was spreading, we had seen order entry. And naturally, with some time delay, also net sales increased with a somewhat different pace. Deliveries in Africa, Asia, Australia and Europe [increased], while in the Americas, they were still slightly below the previous year's figure. The strong net sales development of some 15% in Germany does not yet include a meaningful portion of the large order from the German government. The delivery of that order will pick up in the current quarter and continue into Q4.

Moving on to profitability. Mainly due to the higher net sales volume, the gross profit contribution is up by close to EUR 29 million to EUR 283.2 million. All 3 regions contributed to this growth. The corresponding gross profit margin of the group increased by roughly 2 percentage points to 44.2%. This improvement is in spite of currencies having had a negative effect and entirely due to a positive impact from better mix and other margin effects. Going forward, we do expect to see an even further improvement of the gross profit margin on the back of some positive product mix effects. The higher proportion of device business should result in a higher margin.

Below the gross profit line, the planned increase of the functional expenses prevented the stronger improvement of the earnings. In the first quarter, our functional expenses grew in line with nominal net sales growth.

In sum, the substantially higher net sales volume and the higher gross profit margin was responsible for the year-over-year EBIT improvement. EBIT is only slightly negative with minus EUR 0.6 million, corresponding to an EBIT margin of minus 0.1%.

Exchange rates had a negative impact on the net sales growth rate and more pronounced on earnings as well. The main currencies leading to the negative EBIT effect are emerging market currencies and include the Mexican peso or the Brazilian real, both have devalued against the euro. In total, the negative FX impact on the Q1 EBIT margin is roughly 2 percentage points if you compare it to the FX situation in the same period 1 year ago. And if currencies remain on today's levels, this would result in a full year negative impact corresponding to roughly 1 percentage point in EBIT margin.

The Dräger Value Added decreased by some EUR 22 million to minus EUR 22.3 million year-on-year. The 12-month rolling EBIT declined by some EUR 15 million, while capital costs rose in light of the higher average capital employed. That was primarily due to the initial application of IFRS 16 in 2019 as the right-of-use assets in average capital employed in the prior year were only included on a pro rata basis for 3 months.

Let us now take a look at the development of the medical division on Page 7. As mentioned, there was an extraordinary increase in order intake of some 177% in the medical division. But not only for ventilators. Demand in the accessories business and patient monitoring more than doubled. The rise was also recorded for anesthesia devices. Some customers have started to use anesthesia devices to ventilate COVID-19 patients. So this part of the business is seeing some COVID-19 orders as well. In the first quarter, only orders for thermoregulation equipment decreased, which is understandable because hospitals around the world are fully focused on the COVID-19 situation and projects concerning wards that are not affected by the pandemic, understandably, have a much lower priority.

Net sales increased by 8%, with only the region Americas staying behind the prior year's figure. As mentioned before, there was a time lag in the uptick in COVID orders in correlation to the regional spread of the virus. Hence, the Americas region was the latest geography to place COVID-related orders.

Moving on to earnings. Thanks to a rise in net sales volume and a higher gross margin, gross profit in the Medical division segment improved by close to 10% in the first quarter. An improved product mix resulted in a roughly 1 percentage point rise in the gross margin. Negative FX effects, which were particularly pronounced in the medical division, prevented an even better gross profit margin.

The same is true for the EBIT margin. On a comparable situation, the EBIT margin would have been roughly 3 percentage points higher. EBIT for the medical division improved year-over-year by some EUR 10 million but was still negative with minus EUR 6.9 million in the first quarter. The EBIT margin rose from minus 4.7% to minus 1.7%.

Coming to safety on Page 8. Order intake in the safety division rose by more than 30% in the first quarter. Demand for light respiratory protection, these are the FFP masks, jumped with orders for safety accessories almost tripling. Stefan Dräger elaborated on that earlier.

We are very pleased by the order development of the product areas that are not directly affected by the COVID-19 situation. The service business also grew significantly, and there were rises in the gas detection and alcohol detection businesses. Going forward, it is likely to see lower business activity in these areas since the business of many of our industrial customers is negatively affected by the pandemic. This should, at some point of time, result in lower investments and consequently in lower orders for Dräger products.

In Europe, order intake was particularly strong with Germany the largest contributor. The Americas region is only up by some 3%. The large order for FFP mask is not yet included in the order figures.

Net sales in the safety division segment increased by nearly 6%, lagging behind the strong order development in the quarter. Gross profit in the safety division segment increased by some 14% due to a rise in net sales volume and a substantial improvement in the gross margin. The gross margin improved by roughly 4 percentage points due to a positive product mix. EBIT in the safety division segment stood at EUR 6.3 million, which is pretty much on par with the prior year's quarter. FX was slightly negative on the margin.

Let's move on to some key ratios on Page 9. During the quarter, we continued to have a favorable cash flow development. Despite a negative cash flow impact coming from higher inventory and trade receivables, the positive cash effects from higher earnings and prepayments received result in operating cash flow improving by some EUR 26 million as cash flow from investments are above last year. Free cash flow is slightly below operating cash flow at EUR 21 million positive.

As you see on the slide, investments are somewhat higher than last year, and we expect this to be the case for the full year as well. To be able to meet the increased demand for Dräger's product resulting from the COVID-19 pandemic as quickly as possible, we will make investments in expanding production capacities that are not included in the original investment forecast. But we cannot yet provide a specific number at this time.

In light of these very dynamic times, it is of utmost importance to have special focus on working capital development. Production has to be prefunded. And with many customers facing economic difficulties, managing collection of receivables have to be monitored very closely. On the other side, we do have large orders from customers like the German or the U.S. government that undoubtedly are punctual payers. This helps to mitigate the risk of seeing too many overdue receivables if the economic downturn should affect collection. But in sum, we do assume that working capital will increase during the year due to higher inventories and receivables.

Cash and cash equivalents of the company at the end of the Q1 amount to EUR 216 million. Due to the cancellation of the participation certificates, net financial debt has increased. At the end of Q1, liabilities for the payback of the series D participation had to be taken into account. Otherwise, we would have seen an improvement of net debt by close to EUR 70 million on the back of a good cash flow development. Also, the significant change in the equity ratio is mainly due to the termination of the participation certificates, which I will get to on the next page.

Slide 10. Dräger's capital structure with the participation certificates is not ideal. The participation certificates were issued as equity under German GAAP starting in the 1980s. Under IFRS, they are shown as hybrid capital. They have, therefore, largely lost the benefits as entity for Dräger. A few years ago, we have already reduced the participation certificates outstanding by around 42% via a reverse tender offer. And of the original 1.4 million participation certificates, we still have more than 830,000 PCs in 3 series outstanding.

Due to the improved business development, the opportunity was now favorable to further simplify our capital structure and to cancel the participation certificates completely as the cancellation potentially would have been significantly more expensive for us at a later date. The payout of the termination value of the series A and K in the amount of EUR 158 million will be due in January '21 and for the series D in the amount of EUR 310 million in January 2023. We will settle the termination value, which will only be due in 2021 or 2023, primarily from operating cash flow. This is supported by last week's capital increase of approximately 6% of the share capital.

The accelerated book offering, which we completed on April 20, generated roughly EUR 76 million additional liquidity for our growth and the repurchase of the participation certificates. After the profit -- after the participation certificates ceased to exist, we will have a simpler capital structure, and the profits will go entirely to shareholders. This will be directly apparent from the earnings per share. The EPS will rise, ceteris paribus, around 27%.

With the cancellation of the PCs, the termination value are recognized in the balance sheet at a discounted value. The difference between this discounted buyback values and the former carrying value of the debt components of the PCs are accounted for as liabilities. As a consequence, the equity ratio came down to 32% as of March 31, 2020, which was significantly lower than the roughly 42% equity ratio as of end of 2019. That change was primarily due to the termination of the series D participation certificates. Other unrelated equity reducing effects come from the actuarial loss from an increase in pension provisions in light of changing interest rates.

In April, after the successful capital increase, we also canceled the series A and K. These 2 series are the smaller series, and hence, have a smaller financial impact on the balance sheet. Taking the cancellation of the series A and K and the capital increase into account, the pro forma equity ratio has declined further to roughly 29%. Facing a potentially dynamic business development in the coming months, we expect the equity ratio to improve quite quickly. This leaves us with sufficient headroom to our financial covenants and sufficient risk buffer in these uncertain times.

That's it from my side. Back to you Stefan.

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

Thank you, Gert-Hartwig. Moving on to the outlook. Due to the very dynamic development in order intake and in connection with the corona pandemic, Dräger has considerable opportunities to significantly exceed its previously planned level of net sales and earnings. At the time, it is impossible to estimate the risks in the supply chain.

As a result, the corona impact on the full year guidance cannot yet be assessed precisely. Therefore, we have decided to take the formal guidance off the market. We hope to gain more insight on these topics during the next couple of weeks and months, and we'll provide you with a new guidance for 2020 when we publish the half year results in the summer.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) At the moment, there seem to be no questions. (Operator Instructions) And we have one question coming from Aliaksandr Halitsa from H&A.

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

I'd like to ask on the order intake. How do you sort of think about the order intake you are currently seeing? I mean your average quarterly volumes are in a range of somewhere around EUR 650 million to EUR 675 million. You are running now in Q1 considerably above that range, even stripping out the German order. So I mean now looking into Q2 through Q4, do you sort of think of it as there has been a significant pull forward effect from your base business from the preceding quarters? Or do you kind of see this momentum in the order intake to sustain also in the preceding quarters? If you could share some thoughts on that topic.

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

Yes, sure. I would say it's neither of your hypotheses, not straightforward. So what it definitely is, it's not a pull forward. So it is a lot of additional that when it comes to the [quarter] end, it will be more from today's perspective than what the original plan was. And the distribution will be very different than in a typical Dräger business year. As we are -- in some areas, we are now practically sold out for the full year.

And so if you need a ventilator, it's not so likely that you -- as you are aware, and that would mean now that you would place an order with Dräger when it comes only in 2021. The order intake for ventilators in Q2 may already be lower and definitely in Q3 and Q4. However, the other product lines as the time shifts, so when they realize that anesthesia devices could also be used for ventilation and the approval agencies in the world had one after the other allowed this so-called off-label use, then there was the orders for anesthesia devices surge.

And so that, if not as more in Q2, we will see a March, I would say, ramp in order for anesthesia devices. That may level out in Q3 and 4. So at the end, what counts, I think, is the total of all devices and the total business. And I see it as an atypical curve for the different businesses and not altogether comprise data. And the -- in total, it will be more.

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

And then maybe also on the gross margins. So it helps us a little bit to understand what could be potential impact on earnings. If we talk about the medical side, what kind of gross margins do you see on average in the order intake? I mean the ventilation systems are typically higher-margin products. So could you talk about that? And also this compared to the safety division as well.

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

Yes. So in general, so the additional order, you can expect they are at about the same, say, margin than the average Dräger margin or better because most of the additional business is devices that typically have a better margin than services. And so this mix effect has an improvement on the margin. Plus typically, the prices are also more above the average prices that we used to we have on an average year.

However, cost is also going up. For instance, in -- for the freight and air cargo, the cost has gone up fivefold. And to produce the extra quantities is also more costly because there are supplements in the labor wages and so on. So overall, I would say the margin on the extra business, it's still healthy.

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

It will mainly accrue to the medical part, as Stefan Dräger has pointed out. For the safety side, it's more of a mixed picture. We expect to see in our scenarios a decent development, but we will see a mix. And there, we do see a very good growth in our consumables business. And we see certainly lower growth and a risk of some slowdown also in our fixed gas detection systems business, which is quite profitable, in fact. So on the safety, we do not expect a similar margin improvement for the full year. And there are -- both is possible. An improvement based on pricing and volume but a decline for the safety business is also within the scenarios.

Operator

Then we have another question coming from Jean-Marc Mueller, JMS Invest AG.

Jean-Marc Mueller ***JMS Invest - Co-Founder***

Also a couple of questions on the ramp-up. First, if I look at your competitors on the ventilator side, Getinge and Hamilton, it seems that they ramp more cautiously than you do. I mean from at least the published numbers or the ones that I could find in the press articles, Getinge goes from like 16,000 to 26,000. Hamilton goes apparently from around 15,000 or so to 25,000. You're now talking about doubling initially now, and then by the end of the year, a quadrupling of your capacity. What is the reason for that? I mean do you get more orders than they do? Or do you just assume that this, I mean, peak trend that we are seeing now in ventilator orders will be around for longer?

And the follow-up question then would be, I mean, what do you do once these orders have been worked down? How quickly can you then also kind of wind down the extra capacity that you are now building in this year?

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

Well, it's not that we get more or less orders than our market companions. All of us could get much more orders than we could actually handle. It's an unfortunate situation because we will, of course, very much like to both save more lives and make more money. And we are all working at capacity. So that's not the limiting factor here.

And so we are in the fortunate situation in Dräger that we have invested only recently EUR 70 million in a new factory in Lübeck. That is state of the art and very flexible, where we have agreements already in place by last year with the work council and the trade unions that we have flexible capacity and operating hours and an innovative organization of labor at the shop floor. And altogether, it gives us this flexibility that we do have the ability to immediately double the capacity in a matter of 2 weeks at the beginning of the year when it took off in China and quadruple the capacity, which is the daily or weekly output during the course of the year.

And please be aware that quadrupling the capacity means the daily or weekly output. So if we have quadrupled it towards the end of the year, that does not mean that we can actually make 4x more ventilators than we did last year. But it will ramp up. That's a little jump at the beginning using the existing flexibility that we luckily have because of the previous investments and agreements. And then there is additional that takes more time, and that is included and figured in the delivery schedules for the large order for the German MOH that has been considered.

And I would also like to make the point, I think I did already in my presentation, that despite this 10,000 unit orders, there are additional orders from other German customers. And we are still selling more than twice the amount of ventilators out of Germany than we do inside.

Jean-Marc Mueller ***JMS Invest - Co-Founder***

Sure. And what does quadrupling of the capacity mean? I mean I understand that you have your suppliers and that ventilator -- I mean you mentioned the 500 pieces that are now basically assembled. So this is -- what you do is basically purely assembling and testing them, of the ventilator?

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

That is basically correct, plus we are making some of the components where we have deep knowledge and know-how of the technology ourselves. And we combine it with more than 500 parts from over 120 suppliers all over the world. That is the limiting factor. It's not so much our plant. So it is the total supply chain, as you say. I don't know the English term. (foreign language) is the technical term for supply chain experts. What it takes to make the very last part needed because if there's one part missing, there's no ventilator coming off the shop floor.

We had -- there was -- we are very close to this earlier this week when Turkey, say, held hostage of the ventilation hoses that are made as a supplier in Izmir. So 14 -- 18-wheeler trucks had been stuck in Turkey with enough hoses to supply Turkey for the next 10 years, I would say. And now after, say, long negotiations with the Turkish authorities, these were released. And so if we have no hoses, then the ventilator will not come out the shop floor. It's the same as we have a car plant and there are no tires, there are no cars released.

Jean-Marc Mueller ***JMS Invest - Co-Founder***

But from what I understand, what you said is that the doubling of the capacity so far, that was possible. So the supply chain managed to cope with this 100% increase in demand from your side.

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

That is correct. And it's also -- together with our suppliers, we are quadrupling. And so a lot of attention is on the bottlenecks that are in the supply chain. But it's so far -- so we are confident that this will work, but we can never be sure like with the incident in Turkey. So when a supply chain breaks, we are working hard to fix it.

And I'll give you another example from -- we had an incident in China with our supply chain, and we had this -- I'll say it in German. (foreign language) So talking with the Chinese ministers and authorities. But you are never sure whether we can do it another time.

Jean-Marc Mueller ***JMS Invest - Co-Founder***

And the winding down, that basically includes mainly that you would reduce the workforce. I mean you use now temp workers, I assume, for the assembly? Or how do you manage that?

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

Yes, that is correct. We hire approximately 400 additional workers, temp workers, for 1-year duration, of which already 200 are aboard. These need to be carefully selected because they must have some knowledge how to actually make a ventilator that they gain in a training. We have a special learning fabrik, so a training factory where they get some training, a couple of weeks before they actually are allowed to go in the real factory that is, let's say, also with tight protection against any COVID-19 outbreaks that might, say, affect that. To avoid that, we have some security measures, of course, in place.

And the people who work there, they know what they are doing. And so before you can go in, you have to undergo the training and the learning factory. And so as I said, 200 out of the 400 additional staff are already aboard. And they get a contract for 1 year typically and then we see.

Jean-Marc Mueller ***JMS Invest - Co-Founder***

Okay. I will continue with some questions. I think there are not too many questions in the line. So then if we look at this now top down, I mean, I understand that there are roughly maybe some 450,000 to maybe 500,000 ventilators out there globally. And the assumption is now that this number might go to 1 million or so. So there is basically an additional 500,000 ventilators or so that will have to be built in 2020 or '21 or so. But if we now assume 2021 or 2022, and maybe there is no COVID-19 crisis in such a specific year, it means that this equipment just sits somewhere, right? I mean sits maybe in the cellar of hospitals or, I don't know, in some (foreign language) depots or -- I don't know. It just sits there. So just that those countries are basically ready if another pandemic should strike.

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

You kind of already made the point. I would like to point out what is counted as a ventilator in your account. That's not all the same piece because the -- our market companions that you have mentioned earlier, they are making also, say, reasonably good ventilators. They are -- so quite similar to the ones that we make as my great, great grandfather has invented the ventilator. But there are others that you did not mention that make, say, home care ventilators and other devices that are typically -- that would not be used in a developed country, in an ICU, in a normal operation.

So it is -- for instance, look at this large order from the U.S. government of 137,000 ventilators. I would say only 10% of these will be continued to be used after the crisis. And the rest, as you say, may go in stockpile or I suggest (foreign language).

Jean-Marc Mueller ***JMS Invest - Co-Founder***

Okay. Yes. But if the ventilator comes too late, then it will never be used basically.

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

It depends what type it is. So a truly good intensive care ventilator, I think, will always be used in the future or kept in service, and say, in standby. So when -- at the very first moment, when I receive this large order from the German MOH, I was with Gert and I was thinking, well, what do we do after this? In the meantime, I got more insight in the different situation with different systems worldwide, and I'm more optimistic that it would not go back down to the level before the crisis because the awareness for a good health care systems and also over the next coming months, the appreciation for a truly good ventilator will increase.

Jean-Marc Mueller ***JMS Invest - Co-Founder***

Okay. Then maybe a quick question on the U.S. order, the facility that you are going to build. I mean are you paying for that facility? You will own that facility on the East Coast to produce those masks? Or will the U.S. government own that facility? How does that work, the implementation of that contract? And how big is that again?

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

It's a higher -- it's a million -- double-digit million dollar figure. And so it works that it actually is an order on 50 million masks. And the U.S. government -- and that's conditional to that contract that must be produced on U.S. soil. So at the end, the U.S. government will have 50 million masks that had been produced on U.S. soil. And so we have a factory that sits on U.S. soil. And then we...

Jean-Marc Mueller ***JMS Invest - Co-Founder***

Do you own the factory? You have the CapEx as well?

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

Yes, we do.

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

Yes.

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

It is our factory.

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

Our factory. It's on our books. And so if the demand is plunged to 0, then I think it will still be a good business.

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

So we can hop back into the queue. We have other questions, please.

Operator

Yes, we have one more question coming from Aliaksandr Halitsa from H&A.

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

We have seen over the past weeks there were press articles not only from you but also from your peers that manufacturers are in contact on the political level with different countries. Among others, I think there was the king of the Netherlands. So I was just wondering if those -- if any of these contacts, except for the German government one, found already its way in your order intake that you reported in Q1?

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

To a lesser extent, in multiple countries, yes, the MOH have placed orders or has asked agencies that, on their behalf, place orders. So the -- and most of the contacts actually that reach out to me, including the king of Netherlands, were just asking for ventilators.

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

What do you mean by just asking for ventilators?

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

Yes, that's what they said. We need ventilators. How many can we get? And there was no discussion on price, and it didn't get to a status of an order because that was already at the time when we were, say, in an important position that only very few ventilators could be delivered for a time.

But by the way, this morning, we kept another, say, orders of 50 ventilators to Spain -- to help Spain, the Spanish government ordered. And earlier this week, we shipped 50 to France. It's also from the order from the French government. So some smaller orders, not in the same order of magnitude as the U.S. commitment orders that was mentioned earlier of so many. We could not participate because at the moment, when the RFQ came out, we were already, say, close to sold out and the quantity that we were able to offer was below the minimum required to be considered.

Operator

At the moment, there seem to be no further questions. (Operator Instructions)

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

We do have 3 more minutes, so if you have an additional question, you are very welcome to ask.

Operator

(Operator Instructions) There are no more questions from the audience.

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

Okay. If there are no more questions, then I would really like to thank everyone online with us today for being with us, for your interest. And I look very much forward to hearing from you, and stay in touch. Thank you very much, and have pleasant afternoon, and stay safe, and get well into the month of May coming tonight. Bye-bye.

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