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Full Year 2020 Draegerwerk AG & Co KGaA Earnings Call

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## CORPORATE PARTICIPANTS

**Gert-Hartwig Lescow** *Drägerwerk AG & Co. KGaA - CFO, Executive Board Member for IT & Vice Chairman of Executive Board - Drägerwerk Verwaltungs AG*
**Stefan A. Dräger** *Drägerwerk AG & Co. KGaA - Chairman of the Executive Board - Drägerwerk Verwaltungs AG*
**Thomas Fischler** *Drägerwerk AG & Co. KGaA - Head of Treasury & IR*

## CONFERENCE CALL PARTICIPANTS

**Aliaksandr Halitsa** *Hauck & Aufhäuser Privatbankiers AG, Research Division - Equity Analyst*
**Oliver Reinberg** *Kepler Cheuvreux, Research Division - Head of Med Tech Equipment & Services Research*

## PRESENTATION

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

Good afternoon, everybody, and welcome to our earnings call on the 2020 financial results. My name is Thomas Fischler. I'm responsible for Investor Relations here at Dräger.

Before we start, a short remark on the procedure during the call. (Operator Instructions) Please note that this call will be recorded, and we will publish the recording on our website after the call, and we'll consider your participation and consent with this.

So with no further ado, I hand over to Stefan Dräger, CEO of Drägerwerk.

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

Ladies and gentlemen, good afternoon, everyone, and welcome to everyone joining us today. I have with me Gert-Hartwig Lescow, who is our group CFO. Tom Fischler already introduced the -- you for the technicalities of the meeting. And also, we have here Emila from financial communication. And we would like to guide you through the presentation covering our final 2020 full year results, which we made available on our website this morning.

In January, we have already published preliminary results and also the guidance for current year.

Let's get started. 2020 was an extraordinary year in so many ways. 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. At the beginning of the year, and marathon indeed marathon it is. We will start this conference with a short look back on this marathon. Impressions we have put together from all over the world, how Dräger employees excelled this month. After this short trip, I will elaborate on some main developments in 2020 before Gert-Hartwig will take over and go into the financial details of the group and the divisions. Following the presentation, we will open the floor with your questions.

Out of respect of everybody's time, we will end this conference in 1 hour. Let's get started now with this short video clip on the year 2020 from the perspective of the Dräger employees who are around the globe. For those of you who have joined us by phone and cannot see the video, you can access the replay shortly after the presentation on our website in the Investor Relations section.

2020 was an extraordinary year. It was a year that demanded a lot from us, but it was also a year that opened new prospectives and opportunities. For Dräger, 2020 was a year in which our technology for life was more in demand than ever before. Economically, it was the best year in our history. Among other things, we have expanded production, introduced additional ships and hired and trained new employees. We built new protective mask factories in 3 countries. For us, Means all hands on deck.

(presentation)

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

I believe that that Dräger was able to support our customers in fighting the pandemic all around the world in many different areas. At the close of the journey, the marathon was quite demanding and multilayered.

One of our most pressing challenges at the beginning of the year was the expansion of our production capacity. In America, we had an extraordinary high increase in orders for [medicine] but also (inaudible) and patient monitor were increasingly in demand.

With the outbreak of the pandemic, we immediately began to increase our production capacity because the supply of components can quickly become bottleneck in any effort to increase outflow. One important in coordination with our suppliers to get them prepared as well for the higher volumes expected, not an easy task. After all, the assembly for Includes over 500 parts and more than 120 suppliers are involved. Luckily, not too long ago, we had invested heavily in our new factory in Lubeck, where we have agreements with our workers council and the trade unions for great flexibility and capacity.

Let's now take off. At Lubeck, we set up a learning factory to quickly onboard hundreds of temporary workers and hired for protection and logistics. During the year, we have constantly increased our output. And finally towards the end of the year, we have quadrupled our weekly output of high-end ventilators. We believe at our factory, we have the greatest capacity of all intensive care ventilator makers. We will not disclose the exact figures.

While demand currently is normalizing again, we are prepared to ramp down ventilator production as soon as we see just necessary, probably towards the second quarter. Our goal is to return to production that does not run at full capacity and allows the demand to ship all customer orders rather quickly.

Next to the number of the ventilator output at our Lubeck production side. We have similarly been working on expanding our output of light respiratory protection, the FFP masks that have become such a permanent companion in all of our lives, to meet the very high demand from all over the world. We have set up additional local production facilities in the U.S., in France and in the U.K.

In addition, we have invested into exciting new capacities in our existing sites in Sweden and South Africa. As governments are seeking more independence from single-source supplier or from foreign country for the supply of personal protection equipment, we see a strong preference for local production. We believe that demand for our FFP masks will remain high also once the current pandemic is overcome. You will see more national stockpiling for this type of product in the future, which will require management solutions because of the limited shelf life.

With our new footprint, we now have a global production network for certified FFP masks that allow us to cater to these needs to become an important part of our safety business model. The production network enables us on the one hand to react very specifically and quickly to national or local needs, and on the other hand, to meet international needs in timely network and flexible manner. With this, Dräger operates a very responsive manufacturing system for a certified FFP respiratory protection mask.

At a beginning of the pandemic, we were not able to meet the sudden demand. Our priority is focused in contributing] the mask was clear. First to serve our customers fighting the pandemic. We did this without heavily increasing prices or even selling to the highest bidder. We are interested in long-lasting relationships and not in the short-term maximization of profit. After being able to increase our output, we were able to start to serve additional and new customer groups, including private customers.

In Q4, we launched our FFP webshop for masks. The acceptance of the shop by private customers exceeded our expectations. We are currently in the holdout of further webshops to several other European countries and working on a similar solution in other regions. All this would not have been successful without our Dräger service technicians. Our service technicians had been and our site day in and day out in the hospitals in order to maintain the operability of the equipment to convert rooms for emergency care of COVID-19 patients and train clinical staff.

The devices are vital for the treatment in the intensive care units such as the ventilators and to be put into operation, regularly serviced and have to be replaced. This is the only way to ensure safety for patients whose lives depend on the full functionality of the devices.

In Europe, the dramatic developments in hospitals in some European countries, we provided ad hoc support in some cases, for example, the 400 M from the Spanish airport was loaded night hours from the supportive ad hoc the ventilators that have been produced for these countries during the day, immediately after the express transport and the installation of the devices in the hospitals of these countries, patients were connected to these devices. There are less than 24 hours between the production of the device and the use in the ventilation space.

Due to this marathon, we faced definite challenges. Our new organization setup that went live at the beginning of last year, January 1, helped us greatly in successfully managing these challenges. The new organization has proven to work well with clear responsibilities, empowerment to make decisions and focus on the customer needs in these dramatic times.

The first pillar of the new Dräger organization is a global sales and service organization. The global sales and service organization is branched out according to the existing regions, Europe, Americas and AAA . Clearly assigned responsibilities lead to high customer orientation, dedication and . All 3 regions are reporting to one Chief Sales Officer (inaudible) countries. Next, the global sales performance, the general responsibilities are allocated here. That's a global key account management and other sales enabling . This is the first.

The 2 other pillars are medical and safety divisions, the strength that our organization had in our headquarters in Lubeck with the medical and the safety business, the full responsibility for the product marketing, product development, the respective supply chain and the quality issuers are all in the sole responsibility of the medical or the safety division. Both divisions are headed by the medical and the safety division.

Next, the many pandemic topics. There were, of course, also some other operational topics on the agenda of 2020. The continued implementation of our R&D process in 2020, we have 12 new safety and 50 new medical. For those, the most important market introduction last year was the new Evita ventilator . The launch was right in time to be able to offer our customers a brand new validator platform to treat COVID patients. After 2019 was a year of the new backlog, 2020 was the year of the new Evita ventilators. While we will be adding new interoperability functionality to our existing therapy and monitoring solutions in 2021, we will not yet be launching the next monitor generation next year, this is still by a development. One issue is receiving the highest attention for PowerSite is the implementation of the corrective and preventive action plan in regard with the warning letter from the FDA issued at the beginning of last year. Our activities are progressing as planned. The progress is on track. There are no news relating to this issue today. We continue to expect to be able to conclude our activity during this year. FDA will then decide when to conduct the necessary inspection.

One last topic before I hand over. Innovation on our product map is a rapid COVID-19 test, which currently is in the clinical trial. We are preparing the ramp-up of production. So when we receive the regulatory approval and has the CE mark for the test, we are very quickly able to shift to the selective distribution channel. The Dräger test is very easy to use and can be done by nonclinical staff with no hazard and not getting in touch with chemistry by the user.

A short smear in the front of who nose is sufficient with test results ready within 15 minutes. This makes test possible whenever people come together, for example, with family and friends in their free time, at events and in the work environment without professional help. So this rapid test is potentially another great example for our technology product with which Dräger can help our customers and the society in fighting the pandemic.

Now I would like to hand over to Gert-Hartwig Lescow for more color on our financial performance. 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, and good day, everyone. Please note that my comments today, unless stated otherwise, refer to figures net of currency effects, whenever I mention growth rates.

Let's first take a look at the group's performance and fourth quarter. The fourth quarter of last year was, as usual, the strongest in terms of net sales volume. At 747 in all entry, it was roughly the same as the fourth quarter of 2019, an increase of order entry in the Americas was offset by sale development in Europe and the decline in AAA. Please be aware that the Q4 order entry figures include a correction from the ventilator order from the German government. If you exclude this correction, order entry will have exceeded the last year's order entry also in nominal terms.

We had a strong demand throughout the last month, especially from Europe. Our group net sales increased to 26% compared in previous year's quarter and reached EUR 1,115 million from medical as well as safety sales volumes, driven by the higher volumes, gross profit margin, also was substantially higher than 1 year ago. Currency effects only played a minor role in Q4. The fourth quarter generally has the highest earnings contribution of the year and 2020 was no exception.

Q4 EBIT was more than to almost EUR 168 million.

Turning now to group sales for the full year. As already mentioned by Stefan, this is, financially speaking, best year in the company's history. order entry increased by roughly 39% for the full year. The order growth was actually strong for 6 months due to the continuing strong demand driven by COVID-19, the seasonality of the quarters did not play at such state as usual.

Order entry was in Europe, in particular, with increase of 15%. In the Americas and in AAA, we had an increase of 28% and more than 23%, respectively. Group net sales increased by close to 26% due to the higher net sales of EUR 3.4 billion and the higher gross profit margin increase that also improved significantly to almost EUR 397 million.

The positive top line development and the Capacity utilization are reflected in the increased gross profit contribution. At 47.2%, the gross profit margin was significantly higher than in the previous year. Currency effects had a negative impact on both gross profit and gross profit margin.

Adjusted for currency effects, our functional costs were up 9.7% compared with the prior year. Currency effects had a favorable impact on the financial costs, resulting in a low and nominal decrease of only 7.9%. And the recognition of the exceptional as we paid our bonus to all employees globally. This bonus payment was entirely covered by the medical division as the main contributor of the exceptional result. In Germany, the bonus was paid in the form of 5 preference shares. With this, now roughly 85% of the German workforce are -- is a shareholder.

The research and development activities is a high priority for Dräger. The R&D expenses increased by 10.7% to roughly EUR 290 million. Because of the strong increase in net sales, the R&D ratio decreased to 8.5%. For 2021, we'll continue our focus on the product road map. We'll be investing up to EUR 310 million in R&D. The aforementioned bonus payments are one of the reasons of the increase in the administration taxes. The SG&A ratio improved to 27% of net sales, down from 31% in 2019. So roughly minus EUR 5 million. The financial result was only slightly lower than in the previous year.

As a result, our full year EBIT amount stood at almost EUR 397 million and the EBIT margin increased to 11.6%. The first 3 quarters are characterized by the strong devaluation of relevant emerging market currencies against the euros. And even in the fourth quarter, the strong current exchange rate from the previous quarters weakened and were even slightly net positive for the quarter. Currency effects of 2020 for the full year were net negative on earnings by roughly 0.5 percentage point of the EBIT margin.

Next, we will get to the P&L below the EBIT line.The interest costs are significantly higher in 2020. The increase of approximately minus EUR 90 million to roughly minus EUR 36 million is mainly due to the cancellation of the participation certificates. This is a one-off effect, will not be repeated in the current year. The tax rate was slightly lower at 30.6%. Consequently, net profit is roughly EUR 230 million. The primary metric which we see now is in our business is the value added, which managed to around EUR 297 million in the last year. This is an increase by roughly EUR 327 million in 2020 versus the year before. With the capital costs remaining unchanged, this increase is mainly related to the significant higher margins. Of course, the special effect is the inventory on hand, obviously we adopted the price level, which gives us a strong tailwind for the year for the start of 2021. But we expect the special interest will decrease over the course of the year, as we are already seeing currently.

Now let's look on the same key financial ratios for the last year on Page 15. In 2020, cash generation was substantially stronger in the previous financial year. Dräger was able to improve the free cash flow by EUR 95 million and generated a positive free cash flow of EUR 197 million. The main driver is a higher cash flow from operating activities with an improvement of EUR 296 million compared to 2019. The operating cash flow resulted with cash inflow of EUR 460 million.

This very strong cash generation was predominantly driven by the higher profitability. At the same time, significantly higher business volume led to the increase in trade receivables by EUR 95 million ending inventories by EUR 162 million. These 2 factors offset by higher profitability, still higher trade payables and the sharp increase in other liabilities, especially with taxes of around EUR 176 million, led to the strong growth in operating cash flow. Please also note that the underlying include prepayments received of roughly EUR 80 million for purchase options related to our ventilators. This amount will only be recognized as revenue in the current financial year, mainly due to the cancellation of participation certificate, the tax expense was largely [unchanged]. This also had a positive impact of about EUR 72 million on our working capital.

Cash outflow for investments was roughly EUR 200 million higher. The main reason for this is that as of December 31, the sum of EUR 139 million was invested into money market funds. And it's where we live with short-term investment with a high credit quality. We took this as a short-term investment of accessibility to award the negative interest on current account balances. Despite the short-term nature of these investments accounted for in the invested cash flow. The remaining investments were mainly made with movable fixed assets such as the investing into our new production lines for .

At the current fiscal year, Dräger investment volume should decrease somewhat. We will focus on investments on expanding our infrastructure, i.e., taking into account the liquidity and outflow from the investments into money market funds, our cash position at the end of 2020 amounted to EUR 497 million. In the first quarter this year, over EUR 60 million that must be paid in addition and a retention value of EUR 158 million, which was made Participation certificates of the Series A and K value for 2021. These cash outflows are partially offset by the inflows of a new note loan of the amount of EUR 100 million we issued in Q4 last year.

Our net financial debt increased in the financial fiscal year 2020 to roughly EUR 187 million. The background here is that as a result of the cancellation of the participation certificates, the repayment obligation due for the beginning of 2021 and 2023, respectively, are shown in the liabilities for 2020. Leverage of the group remains consistent with the net financial debt to EBITDA ratio of 0.36%. In view of operating free cash flow of things, we expect net financial debt to improve in the financial year. The high earnings and positive effect on the equity increase in Q2, the equity ratio decreased by almost 11 percentage points to a total of 31.3%. The main driver for the significant reduction was the cancellation of the participation certificates in the first and second quarter of last year. I will go into details with it later. And the assumption of our full distribution on EPS for the current share is EUR 10.19 after EUR 1.38 in 2019. The EPS per common share is $0.06 higher at EUR 10.25. Please know that the cancellation of the participation certificates was a bonus to us could have a positive effect on EPS once they are paid back

I will now come to business development, the medical division highlights. We were confronted with an unprecedented . In 2020, order entries in the medical division rose by almost 49% by highest demand with an increase of almost 65% was in Europe. Germany, in particular, contributed to this result, the regions Americas and AAA followed with an increase in order entry of more than roughly 23%. We launched new products like EVITA V600 and V800 as well as the VN600 and VN800 at the turn of the year 2020. These are new devices for the intensive care patients of and , we were thus able to meet part of the contract delays worldwide without ramping . Next ventilators also monitoring the were in high demand due to the pandemic.

In fact, orders increased in all product except for ventilation, where many new products that were put on hold, either due to the priorities of our customers. Our medical net sales have increased by EUR 560 million to EUR 2.3 billion. For the last year, this results in sales growth of around 36%. All regions are Nearly all product are Especially respiratory care, monitoring and consumable, showing a very strong development.

The gross profit margin improved sharply by 5.5%. In addition to the strong increase in volume, this was due to a positive country and product mix, lower portion of margin-dilutive large tenders and volume-related differential effects of production. Nominal functional expenses were 8% higher than in the previous year. A key driver were higher logistics costs and variable payments. Consequently, EBIT improved to EUR 329 million, corresponding to a high EBIT margin of almost 14%. The DDA reached nearly EUR 270 million.

Moving on to safety division. We have recorded currency-adjusted growth in order entry of roughly 23%. The demand was particularly strong for FFP masks, which are half our respiratory care production volume . Overall, the safety division is the more sensitive product business to individual economic trends. Nevertheless, order entry slightly increased in the gas detection service business and other product areas suggest we solutions, orders remained below last year's level.

From a regional perspective, the regions Europe and Americas contributed with a solid growth rate of 33% and 17%, respectively. Only the region AAA grew at a clearly lower rate. Net sales development is still lagging in some countries . Growth came mainly from the Europe. Region Americas remained stable with a slight decline in net sales. Altogether, net sales increased by 8.5% compared to the previous year.

I would like to mention that all 3 of the new mask production facilities have already started their production in 2020 and have contributed to last year's net sales. The last facility in the United Kingdom only started to operate in December 2020 so that most of the U.K. tender will be delivered in the current year. At 2.7 percentage points of gross profit margin, the increase was higher than last year. Also in safety, the increase in volume and the positive country and product mix had a positive impact on margin.

Functional expenses were up at nearly 13%. This is a result of the increased expenses for logistics services and higher personnel expense. Safety EBIT increased by roughly EUR 14 million. EBIT margin rose by 1 percentage point to a total of 6%.

An important topic for last year was the optimization of capital structure. several years ago that our capital structure with we see ways of profit share with participation certificates in addition to shares was no longer appropriate. Participation certificates were issued as equity on the German starting in the 1980s. Under IFRS and shown as hybrid capital they are therefore largely loss for shareholders such capital structure needs that a significant share of the goes to these types of patient certificates. In the case of full distribution, 30% of the distribution goes to the participation certificates, and that's our shareholders.

The distribution of market capitalization instrument is also not efficient from a liquidity point of view. This is why we withdrew around 40% of the original 1.4 million participation certificates from the market a few years ago, to reverse tender offer due to the improved business development. The opportunity was now favorable to further simplify our capital structure to cancel all of the remaining participation certificates validity as the cancellation potentially will have significantly be more expensive for us at a later date. This is explained by the termination conditions, which typically basis for calculating the prepayment amount is the average price on the shares for the last 3 calendar years. We were thus able to cancel the last Series D in March in 7 February.

After we secured the refinancing of the repurchase value capital increase of more than 60% of the share capital as part of placement process, we also canceled Series A, K and D. The final reimbursement of all participation certificates amounted to EUR 467.6 million. The difference between the discounted amount book values debt component of the participation certificates increases long, short-term debt. This is the main driver of the significant increase in the net financial liabilities and the significant reduction in the equity ratio of just under 42% to 31.3%.

Benefit offset by capital structure without of debt after the elimination of the participation certificates in profit flows entitled to our shareholders. This will be directly apparent in higher payments per share, taking into account the dilution effects, capital increase, the EPS will rise by around

In a related note, we took another step to further accelerate the optimization of our capital structure by announcing a tender offer to of all the canceled participation certificates of the Series D. Let me point out that this solicitation is not made to any U.S. personnel located or resident in the U.S.A. The solicitation will be operating pursuant to the terms and conditions set by the tender offer memorandum dated March 1, 2021, and is subject to further restrictions and conditions as contained therein. Once selection the PCs current trading were the day before the announcement of the tender offer at roughly EUR 533 a piece. We are offering to buy them back at EUR 452, which should be a win-win situation for us but also for the PCs and also for the Dräger shareholders. The benefit for the whole PCs is obvious. They receive liquidity immediately instead of ] another 2 years until they have redeemed depending on the individual. The investment possibilities, the early redemption will be very favorable for Dräger.

The transaction is also payable due to the strong free cash flow. We have a high balance sheet liquidity on our balance sheet, which we used to invest in money markets rather than deviate the liquidity on the balance sheet until the redemption date in January '23, we want to use some of the liquidity to further redeem some of the ]. We expect to redeem up to EUR 100 million. Depending on the pickup rate of the offer, we will go forward with the interest factors using the profit year by year by leaving that profit in the next year. The net interest effect is positive due to the lower off price, EUR 542 versus the amount of EUR 546 and 20% additional, again, on the pickup rate positive effect of EPS and the equity ratio up all forward to 2021.

The table on the slide, Page 22, gives you an indication of the P&L and balance sheet effects if we buy back the transaction amount of EUR 100 million, that equity ratio will improve everything else equal Pro forma basis in the 2020 figures by roughly 1%. The EPS should increase by roughly 6%.

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

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

Thank you, Gert-Hartwig. Now we move on to dividend proposal and outlook. The calculation of the participation certificate of 2020 resulted in an increase in net The equity ratio fell from 41.9% at the end of 2019 to 31.3% at the end of the last year. Against this backlog, we have decided to propose a higher retention of process to the Annual General Meeting on the 7th of May. Until the equity ratio reaches a level of over 40% again, Dräger will keep the dividend at the previous year's level. Currently, we will post a dividend of EUR 0.13 for the common share and EUR 0.19 for preferred share for .

Now to the outlook before we go to the Q&A. Overall, the corona pandemic has provided substantial economic opportunities for Dräger in 2020. And the higher point certainly support our business in both divisions during in the first half of 2021. Even if the further development of the corona pandemic is still somewhat unclear, we assume that the tailwind from the pandemic will decrease Business development in 2020 will not be repeated in this in 2021. After the year with exceptional strong growth, we are now in the phase of a normalizing situation again. Bottleneck in many hospitals today is less with technical equipment but much more with trained medical staff.

I think it is well understood that parts of our business are negatively affected by the difficult economic environment caused by the pandemic. Many areas, of course, safety business, for example, are burdened by lower demand for potential customers. Also in medical, there are business lines that are facing headwinds the COVID-19 situation, either because our people are not allowed to enter the hospital or because customer funds are reallocated to other areas that have higher priority in fighting the pandemic. This situation will only slowly revert to normal again.

For the 2021 financial year, we expect net sales to be well over EUR 3 billion ] currency adjusted decline in sales of between 7% and 11% compared to the record figures of . We expect the full year EBIT margin to be in the range between 5% and 8%. We consider the mix currency effects to be economically speaking, net positive for the year. We expect to see higher investment into ICU infrastructure for the coming years, maybe not as soon as next year. But over the coming years, we should see new ICU capacity being built in many areas of the world. Dräger is well positioned to benefit from the special structural improvement in hospital environment. And learning we take over from this pandemic event, the essential pattern has contributed to our activity to seize the opportunities that arise and to make good use of them, and that is slack, diversity and capital. Slag means that capacity utilization and cooperation shall have room from in the event of disruptions or . Diversity means that in general, Dräger will time to sort corona and no customer contributed more than 1% of sales, no product more than 3% of sales and no suppliers will provide more than 5% of the production volume. That increases our resilience. And finally, the equity capital go for decisions to also invest countercyclically. Just as we did, so when we decided early on to build a future factory without this earlier investment, we will not have been able to almost quadruple the production of ventilators in a very short time.

So with this, I would like to end the presentation and open the floor for your questions. So with Tom on our left, we are very much looking forward to your questions. The floor is all yours, please raise your hands and ask your questions now.

## QUESTIONS AND ANSWERS

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

(Operator Instructions) We have the first question from Oliver Reinberg.

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

Can you hear me?

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

Yes.

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

Loud and clear.

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

Great. Great. Three questions for me. Firstly, can you just talk about what kind of demand you see for high-end ventilators at the current point in time? Secondly, can you just provide any kind of insights on the new antigen test in terms of pricing point capacity? So ultimately, what kind of sales we can expect from that? And thirdly, on the FDA reinspection, can you just share any kind of expectation when the FDA may return to your plant? And is that the triggering point for filing the application for the launch of new products?

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

Great. I start with the first question on the ventilators. We currently still see a higher demand than before corona. However, given that we quadrupled the production output, we are, say, eating up the backlog that we have carried forward into the year 2021, which is good. And I keep telling my production people that we eventually should achieve a normal condition, which means that sometimes we ask them as a whole process, there's no one left, we will go home. Some stay a little bit earlier, some stay a little bit later. But the product basket is empty every day. The customer gets the product quickly.

So we are not yet back to that normal. We still protect the production full capacity at the and removed in the output. And the product intake is less than 4x the normal. It's still above normal, but we expect to come back to normal lead times sometime after Easter.

And for the COVID-19 antigen rapid test. So it had great differentiation against all other tests that are available so far. So it will have a CE mark sometime soon, a true CE mark. It's not an emergency approval by the big pharm . CE mark, the manufacturer takes full responsibility and liability for the functionality of the test. All the clinical trials are done in group. So we have European data compared with, say, market components that have data from China and Korea.

And the handling is very different and much easier as it is derived from the work check that was developed with with very easy handling outdoor situation. So there will be a premium price. We have not yet fixed the final price yet. We are in the process of building and ramping up the production capacity. They're starting in Lubeck and then in other European countries. And the overall effect that it will have in the sales and EBIT, that is included in our guidance.

So if a region, as we stated this morning, 150 million tests a month in Germany alone, we've given that quantity, our contribution. Unfortunately, there can't be very big to this amount. We see the opportunity. We're building our production as fast as we possibly can. We need to make best use of this opportunity. However, given the overall size of the very many different businesses in Dräger, the contribution will not be so significant that it will be outside the guidance for Dräger.

Last question on the FDA that we have, as I said, no news. All work is on track. So I get regularly letters from the FDA concerning this, like every month. And also -- and so during the course of the year, it's very difficult to make an exact prediction, but I would expect during the course of the year, we should get this behind us and be able to slowly concentrate on our efforts on the development of the new products, including the new monitoring line. And so the FDA, it said it's a little bit handicapped due to COVID-19 as they have many other things to do, plus operating mode with heavy COVID-19, say, restrictions in the U.S. is also not, let's say, improving the productivity of the FDA, the cooperation works from perspective is quite well. Unfortunately, it takes time.

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

So the next question is from Aliaksandr Halitsa from Hauck & Aufhäuser.

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

Yes, I hope you can hear me well. I'm not sure if you can hear me.

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

Yes, not very clear, unfortunately.

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

We seem to have interference from somebody else. (Operator Instructions) Alex, can you try again, please?

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

Can you hear me now, right?

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

Yes.

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

All right. Maybe a broader one. If we look back on 2018, '19, that was probably the low point of the business development with the EBIT margins falling into the low single-digit area. Now pandemic is obviously making it hard to reconcile what has improved structurally. So I'm keen to understand how different is Dräger today. Would you say then what we have seen over the last 2 years? So if you could share some thought on that?

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

Yes. Happy to do so. And the -- maybe a surprise in the greatest difference from my perspective is a soft one because we had a new structure in place. We decided from this by the end of the year 2018. We worked all year 2019 with the workers council and what have you, to put it in place by January 1. We have the good structure of the high end that we actually had reviewed in the presentation that we have clear responsibilities for every challenge. every problem with customer business. And this has a blessing through this year because it allowed us, in many different levels n places, to take decisions. And it really us that behavior. So many different things throughout the organizations.

We have grown, have good feeds to make decisions. And if the decision is wrong, then we adapted to the changed environment. And this, we will not unlearn for a couple of years, this experience. That's deeply in the mind of the organization and see the part that is a benefit for this for the future and other opportunities that come along will be seized.

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

Okay. And is there something you can point out as the structural changes more tangible that will give you confidence that once the sales levels normalize following the pandemic, pull forward the fact that we're not going to drop back again into the single-digit, low single-digit margin area?

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

Yes. In general, if I look at the different categories and businesses that we host, then I would say then the business has benefited from the pandemic from COVID-19, is still a minor part. So ventilators and monitors were the big help and FFP masks, but still there is the minor part, a majority of the Dräger business, are both stable. Like the PPEs for firefighters, these are always needed. Even during crisis, and there is not a significant decline, like in other industries, only some areas of the business have seen the decline, for instance, the will depend on the oil and gas industry, the negative price in March last year, if not timed correctly.

We also suffered somewhat. But given this structure, there is more benefits in the downsize. And after, the latest turmoil behind, my assessment is that it remains -- what will remain is also more positive than negative. And even if the decline that we see for this current year, benefit of -- and in both the sales and EBIT margin, that is still above our original expectations that we internally have projected for 2021.

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

And maybe one more question. On the operating cost side for 2021, despite the sales projections, expected sales decline by 10% roughly, your guidance basically range of scenarios imply OpEx -- incremental OpEx growth of $15 million to $35 million excluding R&D. I would be -- it would be helpful to understand why is that the case. How in general we think about your cost structures, how well can you control this, and if you can share what is the share of variable cost in there.

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

Yes. They So I think the question about the development of the operating costs, so as we have seen in 2020, in fact, excluding some of the one-off we have continued to implement our initiatives on the innovation side to deliver new products, especially on the medical side and on the sales and service side. There are 2 overlying factors here. One is a steep rise in logistic costs. We see that continuing into 2021. And with the continuation of the measures on R&D, we expect a similar increase as previously expected, in fact, on our functional cost base.

And we will grow profitability correspondingly in 2021 and also reaching out to 2022 but will lay the foundation for continued strong growth in both divisions beyond that phase.

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

Are there any further questions? (Operator Instructions)

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

I'd suggest that we are already beyond the arranged time schedule. There should be one more question, and we have time for one more question if there is.

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

It doesn't seem to be the case. Oh, yes, we do have a follow-up from Aliaksandr Halitsa.

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

Yes. On R&D costs, maybe, you've grown those quite considerably over the last couple of years, and even on pandemic supported revenue volume, you haven't achieved any scale effects. So what would you say are you in the R&D development cycle? Do you feel like you have now reached somewhat of a peak in terms of R&D costs? Are there any projects that come into an end that would make you see more leverage effect coming through? If you can share anything on that front.

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

Yes, we did see scale effect. The percentage result of -- our key cost of sales have declined because of the increase in sales. So yes, we did see that.

The absolute spending for R&D has increased continuously and will increase this year as well and next year, again because the -- what we saw in the [approved situation that was [ that our strategy that we had for the medical division was on track to develop devices that can be networked to a system using an common standard that we have hoped to conceive the actually organization for a system that shares the data and also a basis outside the hospital in the cloud. There's a -- test in the expertise that is available all over the world to eventually say, help the care givers with assisted therapy and also automation alternatively that they help the hospital operators, let's see, say, staff shortage that has become obvious or they train people and in the pandemic situation.

So that has -- this is confirmation that we are happy to follow through, but we have begun already a couple of years ago, and they will not be finished this year either.

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

Okay. So if I understand correctly, the R&D expenses could become a significant drag on your margins going in the next 2, 3 years because if -- I think the scenario where you achieve only flat revenues in 2022 or even maybe slightly declining is not out of reality or real. And you continue to expand R&D cost. And we probably would get into the highest-ever ratio of R&D expenses you ever had.

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

So there's a bit of speculation. It's coming back to your original question. Are we, if you will, at an inflection point? There is more moderate development to be expected on the safety side but certainly on the medical side. We continue to invest to the degree that there is impact on the top line that would lead to an increase of the ratio possibly in the scenario as you've just outlined.

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

Okay. Then we are already beyond the scheduled time. So with that in mind, we ask everyone online for your participation. Thank you for being with us, and this not over because there is a survey to get your feedback also in the format, how we can -- how you like this and how we can further improve and look forward to continue the discussion and eventually meet you in person. So have a pleasant afternoon. Thank you. Bye-bye.