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DRWG.DE - Q1 2021 Draegerwerk AG & Co KGaA Earnings Call

EVENT DATE/TIME: APRIL 29, 2021 / 1:00PM GMT

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PRESENTATION

Operator

Good day, everyone, and thank you for standing by. Welcome to the Drägerwerk AG First Quarter 2021 Earnings Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Stefan Dräger. Please go ahead.

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

Good afternoon, and thank you for joining our conference call on our Q1 financial results. I have with me today, Gert-Hartwig Lescow, CFO; Tom Fischler, Investor Relations; and Peter Müller, 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 are most certainly aware, we already published the preliminary results 2 weeks ago. In the final figures, which we published this morning, there are no meaningful deviations to the previous release.

Let's get started on Page #3 with the business highlights of Q1. Dräger had a very busy start into the year. Of course, the dominating topic remains helping our customers to fight the pandemic. We are doing as much as we can to serve our mission to protect, support and save lives. Demand for products needed most in the fight against the pandemic were intensive care ventilators, patient monitors and the associated consumables, remained on a high level. Naturally, compared to the record order intake 1 year ago when the pandemic was just starting, the figures are much lower. This basic effect is something we will see all year long. Compared to the record year 2020, order intake figures will be lower.

But in comparison to a normal year, back to 2019, for example, demand is still strong. For the first quarter, this is true for order intake, but not yet for net sales and EBIT. For net sales and EBIT, there is no such strong pandemic-related base effect in Q1. Last year, the pandemic was just started, so -- but despite the higher order intake figures, net sales and consequently, EBIT, was not yet benefiting from the boom in demand because the ramp-up production and output took some time. So growth figures, Q1 2021 versus Q1 2020, look quite impressive for net sales and EBIT.

The absolute net sales and EBIT amount for the past quarter was very strong, too, with EUR 792 million in net sales and EBIT of EUR 129 million. Throughout of -- all of Q1, our ventilator production has been running at full capacity at 4x higher than before Corona. But in light of an expected decline in demand for our ventilators, we are preparing to reduce the production accordingly. As of today, we are expecting to slowly adjust our production outputs down over the next months.

On the other side, our new FFP mask production facilities are up and running on full capacity and will continue to do so for the rest of the year. We have a large amount of orders on hand that require full utilization of the facility during the remainder for the year.

Some weeks ago, we commented on the development of a trigger rapid antigen COVID-19 test. Our test has just successfully completed clinical trials, and we have received regulatory approval for professional users. We will start selling the test within the next weeks to professional users.

And in a few weeks, we will have approval for retail customers for testing themselves. We are convinced that the Dräger test is a great product, most easy to use with the best performance on the market that will be very helpful for people to protect themselves and others and has safe social contacts in pandemic times.

Moving on to a different topic. Just after the quarter, at the beginning of April, we concluded a very promising investment. We acquired the majority share of Swiss Medical technology startup STIMIT AG. With this acquisition, we are further expanding our expertise in the field of lung protective ventilation. STIMIT is specialized in lung activation and noninvasive stimulation of respiratory muscles in intensive care patients. If the body is no longer able to breathe on its own to a sufficient extent, mechanical ventilation can save lives. However, after just a few days of ventilation, there is a risk of weakening the respiratory muscles and diaphragm. For patients to be able to breathe on their own, again, the diaphragm, as the most important respiratory muscle, must be maintained and built up.

STIMIT plans to achieve this in a noninvasive way by means of electromagnetic fields that stimulate the diaphragm. Such a solution is not yet available on the market. By acquiring a majority stake, we secured a head start in the development of stimulation of respiratory muscles that supports our hospital customers in making lung therapy more effective and efficient.

As you might be aware of, we were also quite active on the financial side. The tender offer for repurchasing some of the canceled participations are difficult. We made another significant step to speed up the improvement of our capital structure. This transaction in the amount of EUR 100 million was successfully concluded at the end of the quarter.

Also during Q1, the ESG-linked note loan we issued at the end of last year was paid out to partly refinance the redemption payment of the series A and K and a maturing note loan. Gert-Hartwig will go into some details on this topic later on.

To finalize my introduction, let me give you an update on the status of the FDA. As you know, we have received a warning letter from the FDA early last year. The implementation of measures to remedy this deficiency identified remain a particular focus of mine, and this is work in progress. Our activities are on track. I expect that all issues are resolved until the end of the year.

With that, I would like to turn over to Gert-Hartwig for a review of the financials, and I will come back with a summary and the outlook. Gert-Hartwig, please.

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

Thank you, Stefan. I also like to welcome everybody to our conference call for our 2021 first quarter results. Please turn to Page 6 for a review of the Dräger Group, the order intake June quarter. As Stefan Dräger had mentioned, looking at the growth or decline rates compared to the same period of the last year, the record basis of 2020 has to be considered. So when trying to evaluate the current demand, the comparison with the period not affected by the pandemic 2019, for example, might be helpful. Having said that, the year-over-year order entry decline of roughly 45% is largely a baseline effect, especially since the prior year figure contains the exceptionally large ventilator order from the German government that was restructured in the later course of 2020.

Orders during the quarter were just below EUR 740 million, some EUR 90 million higher than in Q1 2019, a quarter not affected by the pandemic. But this is certainly not a like-for-like comparison either. The 2021 figures include a good portion of pandemic-related orders, which is difficult to quantify. The takeaway from this comparison is that demand, while declining compared to the record levels of last year, is still not back to normalized level, but to some extent, continues to benefit from Corona-related orders. I'll elaborate on medical and safety in a minute.

The sales development in the quarter was very strong and well above the previous year's figure. But also the net sales development needs to be put into perspective. In the prior year's quarter, the demand -- the boom in demand caused by the pandemic had not yet fully affected net sales and earnings. Hence, the strong growth rate of close to 24% is a basis effect as well caused by pandemic-related business. This becomes even more obvious when comparing the net sales figure with 2019, roughly plus 30%, or 2018 levels at roughly plus 60%. The high net sales volume had a substantial positive impact on earnings. The gross profit contribution is up by close to EUR 130 million to EUR 413 million.

This increase is driven by both a strong increase in net sales and the improved gross profit margin of 52.1% comparison. The first quarter of 2020 saw a gross profit margin of 44.2%. Both divisions, medical and safety contributed to this growth as well as all 3 regions. The increase in the gross profit margin is driven by economies of scale resulting from higher net sales. In addition, the good price enforcement and the product mix have contributed as well. The Medical division has, by far, the largest share in this increase.

Finally, lower negative currency effects compared to the previous year also had a slightly positive impact from the gross margin. We do expect to see a lower gross profit margin in the coming quarters. Lower net sales volume and a reduction of the positive mix effects coming from current Corona-related business, for example, a lower portion of device business, will lead to a lower gross profit margin.

Also, below the gross profit line, the lower-than-planned increase of the functional expenses in Q1 supported the strong earnings development. The low expense development is, in spite of the fact that we are seeing a phase of exceptionally high freight rates, burdening our cost base. But due to the pandemic, many expenses are being delayed. For example, travel activity fares and other marketing activities are still not taking place like during normal times. As a result, we will have quite a backend-loaded year-end in terms of expense development.

In total, the substantially higher net sales volume and the higher gross profit margin and the slow expense development were responsible for the strong year-over-year EBIT improvement. At EUR 129 million, EBIT is on a record level for the first quarter. Exchange rates had -- exchange rate changes had a negative impact on the net sales growth rate and on earnings as well. But if currencies remain on today's level, this would result in a negligible full year impact on net sales and EBIT. Due to the good earnings development at Dräger value-added, the DVA improved substantially to EUR 426 million.

Let us now take a look at the development of the Medical division on Page 7. What I said on the order intake for the group is pretty much valid for the order intake in the Medical division as well. The strong decline of order intake is due to the comparable high record level 1 year ago. The decline in demand was most pronounced for ventilators in the hospital consumables business and for patient monitoring. Demand for these products was particularly high a year ago when the pandemic started. The service business almost reached the level of the previous year.

In contrast, orders for firm regulation rose significantly in the first quarter of 2021 after a decline in the same quarter of the previous year. One year ago, many customers shifted priorities away from neonatal towers, ICU and emergency care. Some of the postponed projects are being picked up again now that in some regions of the world the number of COVID patients is starting to decline.

Our net sales in Medical increased by 33.1% in the first quarter. The key driver for this development was the record order backlog with which we started the year. We're still benefiting from many orders received during 2020 that are being delivered now. All regions contributed to this development. Stefan Dräger mentioned, we are currently still on a high output level for ICU ventilators, but we expect that to come down in the coming weeks.

Due to an increased net sales volume and an improved gross profit margin, the gross profit in Medical increased significantly by roughly 64%. The gross margin rose by 11.6% due to higher capacity utilization, better pricing and an improved product mix. As I said, when commenting on the group figures, we expect the gross profit margin to decline during the next quarters, considering a change in product mix.

Functional costs in the first quarter of 2021 were only 3.1% higher than in the same period of the previous year. Due to the favorable impact from currencies, this increase is only 1.4% in nominal terms. The main reason for the increase was higher research and development expenses.

Our R&D activity level remains on a high level with a continuous focus on rejuvenating the portfolio. The EBIT of the medical provision was EUR 97.6 million in the first quarter of 2021 and thus improved significantly compared to the previous year. For the first 3 months of 2020, that comparable figure was minus EUR 6.9 million. The EBIT margin rose correspondingly to 19.2%, up from minus 1.7% a year ago.

In line with higher earnings over the last couple of quarters, the Dräger value added rose significantly as well. The DVA is up by 407.8 million to EUR 373 million as of March 31, 2021.

Coming to safety on Page 7. In safety, incoming orders fell by 15.6% after adjusting for currency effects in the first quarter. As expected, the order intake in the area of consumables, which includes FFP masks, was lower in the first quarter of 2021 after a surge in demand for light breathing protection last year. Compared to 2020, currently, we are seeing a lower level of new orders for FFP masks. The order sizes are much smaller compared to the extraordinary high levels of some of the government orders in 2020. Additionally, there's also a higher level of competition with negative effects on pricing.

Our important gas detection business almost reached demand level of the prior year quarter. And finally, our safe service business grew in the first quarter, and incoming orders also increased in the Engineered Solutions business. Regionally, our order intake in Europe and in Africa, Asia and Australia declined in the first 2 months, while orders in the Americas developed strongly and increased by almost 12%. Shipments increased strongly in all regions. The main drivers were shipments of FFP masks in the U.K., France and in the U.S.A. as well as in Japan.

As a result of these, safety sales were up by 18.5% compared to the first quarter of the previous year. If we exclude the FFP mask sales, then our safety business would have slightly declined versus the prior year.

The higher net sales volume and the improved gross margin meant that gross profit improved by 20.3%. The gross margin increased 1.7 percentage points, mainly due to a positive product mix. Functional expenses are nearly stable at 0.6%. Again, 2021 will be a back-end loaded year when it comes to the expense development. Overall, EBIT amounted to EUR 31.3 million, significantly higher than in the same period of the previous year, which stood at EUR 6.3 million. The EBIT margin rose by 8.4 percentage points to 11.0% compared to 2.6% a year ago.

Also in safety, the DVA has improved with better earnings development. The DVA as of end of March rose to EUR 40.5 million to EUR 52.6 million.

Let's move on to some key ratios on Page 9. Cash flow also continued to develop favorably during the first quarter. In addition to the high EBIT of around EUR 130 million compared to the prior year period, the strong collection of receivables contributed to the positive cash flow. The operating cash flow was negatively impacted by higher inventories and trade payables and other prepaid items, including a purchase option for ventilators granted last year.

Investing cash flow is positive. This has to do with the sale of money market funds, which we had parked -- where we had parked liquidity, which was used in the first quarter for the redemption of the participation certificates, used A and K as well as the partial buyback of Series D in March. In total, during Q1, we have divested money market funds in the amount of roughly EUR 100 million. Remaining investments were mainly made in movable fixed assets such as further investments into our new production facilities for light breathing masks. As a result, the free cash flow is substantially higher than 1 year ago and was just short of EUR 100 million for the first -- in the first quarter.

In the first quarter of this year, a note loan of EUR 60 million was repaid. In addition, about EUR 258 million were used to settle the participation certificates A and K completely and D partially. These cash outflows were partially offset by the inflows from a new note loan in the amount of EUR 100 million we issued in Q4 last year. Cash and cash equivalents of the company at the end of Q1 amounted to EUR 362 million, and the current investments into money market funds, which we consider to be nearly credit light, is roughly EUR 60 million. The substantial improvement in net debt is a result of the good cash flow during the last 12 months.

In light of the strong earnings development, our equity has improved substantially. The equity ratio has increased by 5 percentage points within the first 3 months of the current year. Next to the impact from the earnings, also the necessary adjustment of the discounting rate of the pension obligations as well as the reduction of the outstanding participation certificates had a positive impact on the equity ratio. I'll get to this point on the next page, the simplification of the capital structure.

As a reminder, last year, we canceled all the outstanding participation certificates in order to optimize our capital structure. Ultimately, this will benefit all shareholders due to the positive effects on earnings per share. EPS will increase (inaudible) by around 27%. This already takes into account the capital increase carried out in April 2020. The final reimbursement of all participation certificates amounts to roughly EUR 468 million and is the main driver behind the increased net debt and reduced equity ratio by end of 2020. This year, in January, with the first payment of the redemption value in the amount of EUR 158 million to the holders of the participation certificates of the Series A and K, these participation certificates are now off the market. That reduces the outstanding PCs to the Series B that will be redeemed in 2 years' time.

In March, we took a step to further accelerate the optimization of our capital structure. We launched a tender offer to repurchase part of the remaining outstanding participation certificates of the Series D. The transaction allows us to use the high liquidity on our balance sheet to redeem some of the outstanding PCs ahead of schedule, whereas pulling forward some of the positive effects on EPS and equity ratio to 2021. The offer was well received so that we are able to repurchase paper in the full amount of EUR 100 million plan for the transaction. The table on this slide on Page 10 gives you an indication of the P&L and balance sheet effects.

Leaving everything else equal and just taking the reduction of the repurchased PCs into account, the buyback has a positive impact on the equity ratio of roughly 1 percentage point, and the EPS increased by roughly 6%. We repurchased 184,530 PCs, and now only roughly 382,000 PCs remain outstanding. These will be redeemed on schedule in January 2023. The remaining redemption value amounts to just below EUR 209 million. Considering the good liquidity position, we could expect that free cash flow and, if needed at all, the possibility for additional debt, we will not require any kind of equity financing for the full repayment of this amount. In fact, we've just signed an additional loan facility for EUR 100 million that could also be used in the case of financing needed.

That's it from my side. Back to you, sir.

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

Thank you, Gert-Hartwig. Moving on to the outlook. Dräger had a very strong start into the year. This is in line with what we had previously said in our last call. On the back of the high orders on hand from the previous year, we currently have a considerable tailwind supporting our Q1 net sales and earnings. In fact, the business development in the first quarter was even better than expected. So while we confirm our guidance of a net sales decline between minus 7% to minus 11% and an EBIT margin of between 5% and 8%, the outlook has somewhat improved. The profitability of -- the probability of reaching the upper end of the guidance or even exceeding the guidance has increased.

On the other hand, the pandemic situation remains very dynamic and decreases our visibility and the further demand. It is hard to imagine when the forecast recovery of the world economy will actually happen. So we will definitely see a decline in business development in the coming quarters, but to what extent remains unclear. Once we gain more visibility on the future development, we will revisit our guidance to be more precise, including a potential upgrade. But not now. At the latest, this will be with the publication of our half year results.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) It appears there are no questions in queue at this time. I'd like to turn it back over to you for any additional or closing remarks. Sorry, we do have 1 in the queue just now. We'll go to Thomas Schießle with EQUI.TS.

Thomas J. Schießle - *EQUI.TS GmbH - Research Analyst*

This is Thomas Schießle. A question on your remarks concerning the profitability in the starting quarter. You mentioned that the pricing power has been increased, could be increased in the Q1. Is this -- could you shed a little bit more light on that? And will this pricing power stay on in the coming quarters?

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

So in the pricing power has -- we have several effects for the higher gross profit margin. And of course, besides the scale effects and the mix effects, we also have seen a lower portion of margin-dilutive tender business. And that is one of the contribution to the better pricing power. So with a normalization of the market, we would -- we do expect that it has in fact normalized. And that means additional pressure on the margin from the pricing.

We do -- we have -- we are working to balance that with a dedicated team that works with our teams to strengthen the pricing power, but the strong effect that we've seen so far is partially actually also Corona-induced. And to that degree, we expect the normalization over the coming quarters.

Thomas J. Schießle - *EQUI.TS GmbH - Research Analyst*

And on the head count, you increased your personnel quite meaningful, 6% plus. Is this the run rate for the next quarters to come?

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

The higher headcount includes a couple of factors. And of course, one is the continued high production in the different sides for the ventilators as well as for the FFP masks. We do -- and that will actually go down with the normalization of our respirator production. It also includes the steady increase for -- from our R&D side since we are planning to increase that portion of our delivery, and that is actually going to continue to increase.

Thomas J. Schießle - *EQUI.TS GmbH - Research Analyst*

So all in all, you foresee an increase in headcount year-on-year on the annual basis, I guess.

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

All in, there will be a slight increase. But as I said, it will be a balancing effect of a stronger increase in the areas like R&D, which are strategically important, somewhat muted by a decline in areas that we will scale back with the normalization of the business.

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

Yes. If your flavor, for instance, the ventilator production has about 300 temps, but achieved that capacity that we are currently humming at. And just to pick one example that the new FFP mask factory I visited in France a couple of days ago, there are currently 300-plus people working there because it's not fully, say, developed, the automation that we target for. And again, very soon, 150. But now at the moment, it's about 300 because some steps at the manual, so that they then triple down. But overall, it's a gradual increase year-over-year.

Operator

We'll go next to [Christoph Shaker] with [Falcon Stein.]

Unidentified Analyst

I have a question concerning the Corona rapid tests. Do you have an estimate of the sales volume that can be achieved with these tests in the current year and in the coming year? How large is the production capacity for the tests? And is the approval valid only for the European Union or also abroad in Asia and America?

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

At this moment, the approval is relative for the CE but as actually of today, it is valid in the CE region for professional use and as I said, in a couple of weeks also for the sales test. And the -- at this moment, we do not disclose specific, say, quantities or sales volume. We have said earlier in the last call that it is included in the guidance. And so as we have a clearer view on that, as we go further along, then I suggest that with Q2 first half year, the disclosure, we will have more detailed figures and then also include this in a potential revision of the said items.

Operator

And we'll go next to Martin Pisanti with [Falcon Stein]

Unidentified Analyst

Maybe as an add-on to [Christoph's] question, what's the sensitivity and specificity of your test? And how do you plan to differentiate it from some other tests that are already on the market? And then maybe secondly, in the beginning of the call, Mr. Dräger, you discussed the capacity reduction of the ventilator production. I turned just -- into the call, so I missed that part. So if I recall correctly, you're now at 4x normal production, and maybe you can say again how you want to decline over the year.

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

What was the first one?

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

On sensitivity on the test.

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

Yes, on the test. I can say that the clinical study relative to the figure that to my knowledge unprecedented in the market that sensitivity is 96-plus percent and the specificity is 99-plus percent, and that is at the [lock] minus 6. While some other, market participants gets a figure in lock minus 7 that -- but given the field test data that we have at a test conducted [partiality,] these are all qualified and traces back to a calibration norms because the PCR tests that they shall -- they calibrate them, which is not standard.

We also have all the -- I would say, in English, mutation.

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

Mutation.

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

Derivatives that has come along because they are all sequenced, and we can tell that it detects them all very safely. Plus there is a huge advantage in the handling of the test versus other tests. So these are the U.S. piece that we have to offer and that will give us the ability to achieve a premium price over other tests that are already in the market because we have -- for some applications, we have a great value to offer.

Given the limited capacity that we will have for the manufacturing, I believe that works well together because the market is so gigantic. So on a -- given the nation of worldwide level, that we can only say offer a relatively small or serve a relatively small portion of the market, which I'm convinced able to reward that feature with a premium price.

So then on the ventilation, that currently is still running at 4x the capacity that it used to have at the end of the year 2019. So the plan was to actually reduce it through the course of April, that we come to a level that allows our production to breeze flexibly with the demand. So that is the goal that sometimes in the afternoon, all work is done and people go home. And there is no more work to do on that day.

So that is the situation that we go for that we have more orders that we can fulfill. That is not a healthy situation. So we have to keep that in mind that the state is that is some time of the day in the

(technical difficulty)

as also said, as no customer rate is done longer than it takes in the different steps in the supply chain because every ventilator that we make is made to order and configured from a large amount of options depending on the country and what the actual customer need is.

So the plan was to ramp it down in April already, but now April is already almost over. It's the 29th, and it's still running in full capacity. And I can give you an example, where we have received a few days ago, a large order from India, which -- with over 1,000 ventilators. And that could not be foreseen. In a few days before the order came in, nobody of us saw it coming. And that also explains the challenge how difficult the remainder of the year, the 2021 is to predict. And while we have that limited visibility is that one order illustrates what can happen.

Unidentified Analyst

Yes. Yes. But does this mean that -- I mean once the ramp-down is complete, are you then at, let's say, onetime or 100% of 2019 capacity? Or are you still at 2x capacity of 2019?

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

I would say the 2x or less. If we now go back to the 2019 level, I'm sure it is all of the business would remain at a higher level. But to what detail is very hard to predict because there are some parts are still muted. Our industrial business is less than before Corona with the oil and gas industry, to some extent, some other industries, they are muted. And it's still also worth to note that the lion's share of our business is neither boosted nor muted. So it's just the products that are needed all the time like [self-connect] needed by fire brigades, whether it's [needed] or not these products are just muted.

Unidentified Analyst

Yes. Sure. Very clear. And just to make sure that I understood correctly. You said sensitivity is 96% and specificity is 99%, yes?

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

That's correct. It's compared to [lock] minus 6 million. It means 1 million viruses on a given volume metric unit.

Unidentified Analyst

Yes. I just wondered because I think with screening test like that, sensitivity should be higher, if I'm not -- I think it's worked 99%.

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

If you look in the fine print -- and yet if you look at the little fine print, the [fine print] of some other tests, then you find that it refers to minus -- [lock] minus 7, but the WHO is minus 6.

Operator

We'll go next to Eggert Kuls with Warburg Research.

Eggert Kuls - *Warburg Research GmbH - Senior Analyst*

I wanted to ask about potential orders from India because on the one hand, you said your order intake with regard to Corona product is declining. On the other hand, we read, since a couple of weeks, of strongly increasing impact from the Corona in India. So now you have already told us that you got an order for 1,000 ventilators already.

So my question here is when I compare this 1,000 with the order you got 1 year ago from the German government of 10,000, and keeping in mind that the population in India is, let's say, to a certain times, that of Germany, so I can imagine that there could come still more orders. So what is your feeling here?

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

Well, actually, in Germany eventually only used 1,557 ventilators and not 10,000. And so the question is whether, let's say, how much ventilators India can afford and support because ventilator is only one thing that's unique. You also need a [customer] that can use a ventilator and you need oxygen supply and many other things to treat a COVID patient. So as sad as it is, they -- it's not a one-to-one comparison.

Eggert Kuls - *Warburg Research GmbH - Senior Analyst*

So okay, good. In addition, the quality of the ventilators from the German government and what India ordered is also different. So without going into the details either pricing, the price per ventilator is also different, what we've delivered to India compared to what we delivered to the German government and to the most of your peers.

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

Yes. Yes. And you could be saying, yes, that is both our intensive care in ventilator. It's not the same, not exactly the same, but it is in terms of Dräger ventilators. It add to, let's say, that still -- and if you think of what the U.S. government ordered a year ago, there from this 100,000 that were ordered, that was unfortunately not the case. There only single-digit percentage figure were intensive care ventilators and the other was what I call (foreign language). And that is not what we ship to India.

Eggert Kuls - Warburg Research GmbH - Senior Analyst

Okay. And with regard to light breathing masks, you saw the big orders last year from the U.K. and from the U.S. with very low investments you have to undertake. Could that also be possible for India or for similar markets?

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

Well, I would say, rather no because I say our own capacity to support such production with a network with multiple nodes, it's limited. The manufacturer of the equipment has limited capacity plus the price of the FFP mask that the orders from the countries that you mentioned from the Western world are all in per unit in a figure that every single unit cost more than EUR 1. And I think for India, that would not be appropriate with the math that the -- the dominant market there are only a few cents per unit.

Eggert Kuls - Warburg Research GmbH - Senior Analyst

Okay. And then lastly, so I remember the orders from the U.K. and from the U.S., they included the years 2020 and '21. And then you will stop delivering masks to that country. Is that true? Or do you expect the contracts to be prolonged?

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

No. I -- not exactly these contracts would be prolonged, but I don't think -- so when we decided to invest, then we went from the assumption that we can very well shut off the light when the orders are completed. But I don't see that scenario anymore. Very clearly, we keep the machines running. And maybe we rearrange it a little bit, so we can also -- within the network of manufacturing nodes, we can switch equipment from one place to another and get regular orders from all kinds of different customers in a more normal pattern, not of that size. But I don't see us in the next 24 months to shut it down.

Maybe an additional word to remark, I think we are all in a learning curve. So every individual one, including you, yourselves and every individual learns more about masks every day. And we have knowledge about last -- for over 100 years. So the knowledge will build up and will become more, say, obvious that there are differences between the masks. And the quality is not the same. And how -- what different kinds of approvals and test procedures are and the different quality of the masks.

So that, for instance, you may have noted some masks has strings over here, it flips around the ear and some will go behind the head. And that's not behind -- flip behind the head is more comfortable, but the only way to make it tight. And this knowledge will build up, so the different users and consumers, and I think this works in our favor.

Operator

And we'll go next to Manfred Piontke with MPPM.

Manfred Piontke

Three questions. First, on order backlog, you did not disclose it as always. But could you give us an indication how order backlog is currently? Second, on the ventilator business, how much or what -- to get a feeling, how much, if you're selling 1 ventilator, how much consumable service you're selling afterwards, mainly in this situation where the ventilators are heavily used?

And the last question on the notable improvement in the gross margin, how much of this improvement is sustainable? And how much is -- from this windfall situation?

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

Well, maybe I get happy just searching for the ventilator, we can say that approximately the sale price for the original ventilator is, let's say, our sales, say, in the after sales, however, that is on average on a -- on the globe from the past. So on anesthesia equipment, it's a little higher because the anesthesia machine consume solar line. On a ventilator, it's about the same as ventilator initial purchase price.

I would think that in these cases in the pandemic situation in countryside India, it could be lower because of the different environment the unit is used. But to give you a flavor, it's about -- historic ratio is about 1:1.

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

And to your question regarding the net orders on hand. At the end of the first quarter, we stood at roughly EUR 840 million net orders on hand, which is, of course, down from a year ago, where, after the very strong first quarter, we had an unused really high order book of our more than EUR 1.2 billion. And -- but it's almost at a similar level as at the end of last year.

At the end of 2020, our order books stood at roughly EUR 880 million. So about EUR 40 million less, which is still roughly EUR 300 million, EUR 350 million higher than what we would normally expect if this was a regular year. And to your question on the normal development, the Corona-induced gross profit uptake is roughly 4 to 5 percentage points.

Manfred Piontke

Okay. As on this order backlog of EUR 840 million, by how long you are working on with, how long it takes to fulfill these orders?

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

That's very different. For instance, some portion of that is for the FFP masks, as we mentioned. And these so throughout the whole year '21. And so as we said, the ventilator, it has already significantly decreased. We expect it to be back to normal by April, which now will not happen. And some -- we have some other products like also still monitors on the medical side. We have above average backlog. But that is the way it is the business is reduced, it's very different from what it is.

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

A large significant reduction will take place over the second and third quarter. So by the end of the third quarter, it will -- a large portion will have normalized.

Manfred Piontke

Without any, unfortunately, development from Corona that you get in fourth and fifth wave here?

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

Quite right. Assuming the normal development, whatever that is.

Manfred Piontke

To get the conclusion out of this is will be the second quarter from the today point of view as strong as the first one and the decline will come throughout the third quarter and big question mark behind the fourth quarter. Is that what we could expect?

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

Qualitatively, that is how it could play out. It continued a strong second quarter. I wouldn't like to comment on exactly like the first quarter. That's a bit hard to predict. But a strong second quarter. And in all likelihood, we expect also in this year, strong support for the fourth quarter. Since this year, as in most years, many of our customers would like to complete their orders by the end of their fiscal years.

And please keep in mind that even though Corona is a large impact, a large part of our business is normal business as well. And so we expect a relatively strong fourth quarter, probably not the same share as in a normal year. And as you indicated, the third quarter could in such a scenario, be a relatively weak quarter certainly compared to a normal year.

Manfred Piontke

Then maybe really the last question, what must happen that you fall back to an EBIT margin of 5% in the current business year?

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

If in addition to a weaker demand and given the recent order we received from India, of course, that makes it less likely. But at the same time, what we have seen last year, where in addition to weaker demand also an interruption in the supply chain, that would prolong our delivery lines. And we should not rule that out entirely since we do see that happening to some other industries. To be clear, there's no indication at this point, we do have clarity on our supply chain as of we speak.

Operator

And there are no further questions in queue at this time. I'd like to turn it back over to you for any additional or closing remarks.

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

Well, thank you very much to everyone online for being with us today and for the lively discussion. So I look forward to hearing from you or even more so seeing you sometime in the, hopefully, not-too-distant future. Take care, stay healthy and have a pleasant remaining day and evening. Thank you, and goodbye.

Operator

And that concludes today's conference. Thank you for your participation. You may now disconnect.

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