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Half Year 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 customers' request, this conference will be recorded. You can listen to the recorded conference in the Investor Relations section of Dräger's website. May I hand you over to Mr. Stefan Dräger, CEO of Drägerwerk 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 a warm welcome to everyone joining us today on the phone or via the webcast online. I have with me today Gert-Hartwig Lescow, CFO; Thomas Fischler, Investor Relations; and Peter Müller, Financial Communication.

We would like to guide you through the presentation covering our results for the first 6 months, which we made available on our homepage this morning. I will start with a high-level overview over the business development and the demand trends before Gert-Hartwig will go into the financial details of the quarter and 6-month period. I will close the presentation with the summary and outlook. Following the presentation, we will open the floor to your questions. Out of respect to everybody's time, we will end this conference in 1 hour.

Mid-July, we had published preliminary figures. In the final set of figures published today, there are no meaningful deviations to the figures you already know. Let's get started on Page #3 with the business highlights of the first 6 months.

Never before was our mission to protect, support and save lives as important as today. COVID-19 remains the dominant topic for the society, our customers and, of course, also for Dräger. We continue to serve our customers as best as we can to meet these challenging times. We take a lot of pride in this important role to help hospitals around the world fighting the pandemic.

As I said in our last call, we are in the middle of a war zone, and the developments of and effects from this pandemic are far from over. Demand for all products that are important for fighting the pandemic remain high, especially for intensive care ventilators, but also for patient monitoring and for light breathing protection and safety. The strong order intake we experienced in the first quarter has now started to translate into net sales, providing for the 26.5% net sales growth in the past quarter. The high volume but also the favorable mix has supported a strong margin progression in Q2. The Q2 gross profit margin was up to 49%. We remain focused on ramping up our production capacity and managing the entire supply chain needed for doing so.

Receiving the components from our suppliers is critical for reaching our output targets. In the last couple of months, we have managed to resolve several difficult supply situations with some substantial support from our government. So far, the supply chain is intact. In parallel, we are hiring and training the necessary staff. This as well is on track. Again, not a simple task in these times when all interviewers are tied. As a result, we managed to gradually increase our production capacity and the output of ICU ventilators as planned. A big thank you from my side to the whole team, including our suppliers who have made this possible. Our target remains to quadruple our weekly output of ventilators by the end of the year.

Next, to the ramp-up of the ventilator output at our Lübeck production site. We are working on expanding our output of light respiratory protection, the FFP mask. We have received several large orders from governments for the supply of FFP masks. In order to meet the supply, we have decided to set up additional local production facilities in the U.S., in France and in the U.K. As governments are seeking more independence from single source suppliers or from foreign countries for the supply of personal protection equipment, we see a strong preference for local production. In some cases, local production is a prerequisite for the orders. So we are building up these 3 new facilities and are also expanding our 2 existing facilities for FFP masks in Sweden and South Africa. We believe that demand from FFP masks will remain high also once the current pandemic is overcome. We will see more national stockpiling for this type of product in the future, which will require management because of the limited shelf life. Managing these supplies can become a part of our business. In the last couple of months, our FFP mask business has evolved from a small niche to a major product in our safety portfolio.

Next, to the COVID-19-related activities. We are continuing our work in many other areas that are not so much in the public eye at the moment. We continued with our product road map implementation and have launched several new products during the quarter. We have described some of them in the innovation section of our half year report.

Special management focus remains on the implementation of the measures to resolve the findings that the FDA has identified, which has led to the warning letter at the beginning of the year. Our activities are progressing as planned. This is work in progress and on track, and there are no news relating to this issue today.

As most of you are certainly aware, we have taken some major steps to significantly simplify our capital structure by canceling all 3 series of 3 participation certificates and for raising fresh capital for this purpose. Even if most activities were conducted during the second quarter, we had already elaborated on this topic during our last call end of April.

Now let's take a look into the order dynamic of the quarter and year-to-date on Page 4, starting with the group figures on the lower side of the chart on the page. After we had exceptionally high order intake in Q1 with growth of more than 100%, growth in the second quarter was lower with only 36%. The somewhat lower growth in the second quarter has to do with the big order from the German Ministry --

(technical difficulty)

that the company has ever received in its over 130 years of history. Something like that does not repeat itself so often.

On the other hand, order dynamic in general has come down a bit since we are practically sold out for ventilators for the year. Already today, part of our order book have delivery dates not before Q2 '21. So orders for COVID-19 products remain on a high level, but intake is below the exceptionally high levels we saw right after the outbreak of the pandemic in Q1.

During Q2, the order intake was quite well balanced between the 3 regions, with all 3 regions showing growth of 30% to 40% over the prior year's level. For the 6-month period, order intake for the Dräger Group increased by 76% year-over-year on a constant currency basis, amounting to roughly EUR 2.3 billion.

Our medical business was the main driver for this development. Medical orders are up by some 106%. That includes the just mentioned very large order in Q1 from the German government. But also in the second quarter, medical order growth was very strong with 42%.

Product-wise, obviously, demand for ventilators has multiplied, but there is very strong demand for patient monitoring and consumables as well. On the other side, some product areas that do not immediately support the treatment of a COVID-19 patient have declined, warming therapy for workplace infrastructure, for example. Many customers are still quite in an emergency mode, prioritizing their energy on the treatment for COVID-19 patients and postponing many other projects. That is very understandable in the current situation. In some hospitals, it is just not possible to implement these projects since we are not allowed to enter the hospital premises for other than emergency service.

In safety, our order intake also rose significantly by 29% after adjusting for currency effects. Here, too, the Europe region made the largest contribution to the growth, but especially the Americas region showed a strong performance during the second quarter. As I mentioned, we are seeing a strong increase in demand for respiratory protection masks worldwide, and we are investing in the expansion of our capacities. We won a large tender from the U.S. government in April that includes setting up a local production. This model, setting up local production lines in conjunction with the large mask orders, is something that other governments are thinking about as well. We are doing the same for the French government. And in July, we won a large tender from the U.K. government of roughly EUR 100 million. This large order is not yet included in the order entry figures shown here for the H1.

But also in safety, we do have product areas not contributing to growth. In fact, most product areas in safety have no COVID-19 relation, but are, in some degree, linked to the general economic value. It is very hard to predict how this will evolve going forward.

Fire and gas detection systems business does not benefit from a negative oil price. And the personal protection equipment, which is not used for COVID-19 purpose, is affected by the subdued economic activity on our industrial customers. Like I said, the order intake has started to translate into net sales. On the group level, net sales were up by 17% in the first half of 2020. Both divisions contributed with a higher impact coming from medical. Especially in Q2, we have seen a higher transition of the strong Q1 order intake into net sales. Q2 net sales were some 26% higher than 1 year before.

With that, I'll 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***

Thanks, Stefan. I would also like to welcome everybody to our conference call on the results of the first 6 months.

Before I start with the financial development of the group, I would like to clarify that whenever referring to growth rates, I will be stating values in constant currencies, unless stated otherwise. Please turn to Page 5 for a review of the business development of the Dräger Group.

After we had reported a strong order intake in Q1, which was very much back-end loaded, we had already expected to see a much more pronounced net sales development in the second quarter compared to the EUR 640 million we had reported for Q1. In Q2, net sales amounted to EUR 788 million, which is 26.5% above the figure a year ago. Net sales increase were strongest in Europe, especially in Germany, since the majority of the Q1 orders came out of this region.

From a divisional point of view, net sales development was particularly strong in medical. Medical net sales rose by roughly 38%. The higher volume and positive mix effects led to a strong increase in the group's gross profit margin to just above 49%. In combination with the lower expense increase in relation to net sales growth, the earnings before interest and tax substantially improved to EUR 102.2 million for the quarter.

Looking at the 6-month period, this adds up to a very strong net sales development, 17% higher than the comparable figure 1 year ago. While net sales growth was by far the strongest in Europe, net sales was also up in the other regions, Americas and AAA. This again corresponds to the order dynamic in Q1 when European orders increased strongest. So going forward, we expect the net sales development of the regions America and AAA to increase, in line with the increased order intake of Q2.

Mainly due to the higher net sales volume, the gross profit contribution was up by close to EUR 147 million to EUR 671 million. All 3 regions contributed to this growth. The year-to-date gross margin was 47% and was substantially above the prior year's margin. This improvement was entirely due to scale effects and the positive impact from better mix and other margin effects. Currencies, having had a slightly negative effect, the positive mix effects were mainly due to the higher portion of device business, but also the country mix was beneficial. The 6-month margin was some 2 percentage points below the Q2 margin. But nevertheless, it is more appropriate to expect the 6-month margin, so roughly 47%, as the run rate for the next quarters since the Q2 margin had some especially positive effects that should not necessarily repeat in the next quarters.

Below the gross profit line, the functional expenses have increased below the net sales growth, adding additional leverage to earnings. Due to the lockdown situation in some areas of the world, we have experienced lower expense levels than planned. We expect to see some pickup effects in the second half of the year with business trips, marketing activities and hiring slowly recommence.

In sum, the substantially higher net sales volume and the higher gross profit margin, in combination with the leverage below gross profit, was responsible for the better pronounced year-over-year EBIT improvement. EBIT amounts to EUR 102 million, corresponding to an EBIT margin of 7.1%.

Brief word on currencies. The first 6 months of the year showed an unfavorable development of exchange rates for Dräger. Exchange rate changes had a negative impact on the net sales growth rate and on earnings. The main currencies leading to the negative EBIT are emerging markets' currencies devaluing against the euro, and those include the Brazilian real, the South African rand, the Mexican peso and among others. In total, the negative FX impact on the H1 EBIT margin was roughly 1 percentage point if you compare to the FX situation of 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.

Dräger Value Added is a key metric by which we see our business. Due to the positive earnings development, the Dräger Value Added increased by some EUR 90 million to EUR 81.4 million year-on-year.

Let us now take a look at the development of the medical division on Page 6. Stefan earlier mentioned the strong order intake in medical continued in the second quarter, but at a lower overall level. The opposite is true for the net sales development. The net sales growth in Q2 was particularly strong in medical. All regions contributed with the highest increase coming from Europe with net sales up by more than 50% versus the quarter last year. The highest volume and an improved gross profit margin drove strong earnings development. Q2 EBIT was close to EUR 85 million.

Also, for the 6-month period, net sales increased in all regions. Practically all product areas contributed with positive growth, with the strongest contribution coming from the ventilation business. But also other product areas that are needed for treating COVID-19 patients are growing, namely patient monitoring and the consumables business. A portion of the device business is momentarily higher than usual. This has positive effects on the gross profit margin, which was 5 percentage points above the level in the prior year, but also positive country mix effects and leverage effects from the higher production utilization contributed to the higher margin.

Despite some negative FX effects, EBIT for the first half of the year improved to EUR 78 million, contributing to a strong improvement of the DVA. The DVA is up EUR 95 million to just above EUR 60 million.

Moving on to safety on Page 7. The safety division has one field of business that is benefiting from COVID-19-driven demand, light respiratory protection. The other areas are, however, burdened by the pandemic and the downturn in the economic activity of many customers. In light of this, we are content with still being able to report growth in the safety division. Net sales in the second quarter increased by 7 -- by roughly 7.5%. This growth came exclusively from Europe. The regions America and AAA declined. But since their order intake in the quarter was growing, we expect to see a better net sales development from these regions in the coming months. This should at least be the case for the region America when production at our new mask plant goes into operation towards the end of the third quarter. The other 2 new mask production sites in France and the U.K. will only start contributing to net sales in the course of the fourth quarter.

As already mentioned during our last call, there is a risk that we will continue to see lower business activities in areas that are not benefiting from COVID-19. This could, at some point in time, result in lower investments and, consequently, in lower orders for Dräger products.

For the 6-month period, net sales increased by roughly 6.5%. The gross profit contribution even increased by more than 15%. Positive product and country mix effects resulted in 4 percentage points higher gross margin. EBIT for the first 6 months was EUR 23.6 million, corresponding to an EBIT margin of 4.7%. FX has a slightly negative effect on the margin on the safety as well. Due to the higher earnings, DVA improved and increased to just below EUR 21 million.

Let's move on to some of the key other ratios of the group. Please turn to Page 8. The ramp-up of production in light of the higher -- high order intake as well as the just recent -- just recently higher deliveries have burned operating cash flow with increasing levels of inventory and receivables. This so far has been compensated by the strong increase of EBIT and some other effects. Cash flow from operating activities is roughly on the level of the prior year.

We're keeping a strong focus on cash collection and expect to see improving operating cash flow in the coming quarters. In fact, working capital ratios in relation to net sales have improved. Days working capital have come down by 5 days. Even if the year-over-year investments were still on the same level after 6 months, due to timing differences, the cash outflow from investments in the cash flow statement were higher this year by roughly EUR 19 million. In consequence, free cash flow is still below the prior year's level by roughly EUR 16 million.

Stefan mentioned the new FFP mask production we are setting up. We will be investing a double-digit million euro amount into expanding our production capacity. Obviously, these investments were not included in our previous guidance from the beginning of the year before the pandemic started. So the full year guidance for investments was updated from originally EUR 85 million to EUR 95 million to now EUR 125 million to EUR 145 million.

Moving on to net financial debt. Due to the cancellation of the participation certificates, net financial debt has increased. Liabilities for the payback of the participation certificates had to be taken into account, which is the dominant reason for the steep increase in net financial debt. Also, the significant decline in the equity ratio is mainly due to the termination of the participation certificates.

Just as a short reminder, since we already talked about that in our last call, in March and April, we made a big step towards simplifying our capital structure with the cancellation of all outstanding participation certificates. The payout of the termination value of series A and K in the amount of EUR 158 million will be January 2021 and for the Series D in the amount of EUR 310 million in January 2023.

To support the settlement of termination value, we conducted a capital increase of approximately 6% of share capital in April, which generated EUR 76 million. The rest of the amount due in Q1 2021 will come from operating cash flow and new debt. To what extent we will raise new debt, we will be evaluating once we have a clearer picture on the expected cash flow development until year-end. After the profit participation certificates cease 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 this, I would like to hand back over to you, Stefan.

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

Thank you, Gert-Hartwig. Ladies and gentlemen, let me close with summary of the financial and the outlook for the current fiscal year.

The COVID-19 pandemic creates a massive disruption to the economy and our society. Dräger, as a market leader in many areas of acute care, is helping hospitals around the world in their fight against the pandemic. Our products face demand like never before. This provides considerable economic opportunities for the company. When the pandemic started, we withdrew our guidance during the first quarter since it was obvious that we had the potential to significantly exceed our previously planned level of net sales and earnings provided we could succeed to manage the risks in the supply chain and keep it intact.

So far, we have managed well, and our production is running at full throttle. Many uncertainties remain, and we still are facing big difficulties in judging the demand for our products in the months to come. Often, our customers do not know themselves what to expect from the upcoming months. Despite these uncertainties, we are sold out for ventilators for the current year and we therefore do have a good portion of our expected 2020 net sales in our current order book.

The assessment of the rest of the business is extremely difficult, so that our guided bandwidth is wide. For the full year 2020, we expect net sales growth of, currency adjusted, 14% to 22%. The high volume and the expected mix effect will result in a considerably higher gross profit margin than originally expected. And despite some expected negative effects from currencies on earnings, we expect the EBIT margin for the full year to be between 7% and 11%. The extent to which we can maintain the significantly higher level of net sales in the following year depends not only on the sustained demand for products in connection with the coronavirus pandemic, but also on the general economic recovery, which affects many industries, and therefore, plays an important role in our business.

We expect 2021 to be better than originally expected, however, not the same as the extraordinary 2020. It goes without saying that the guidance is under the assumption that we continue to keep our supply chain functional. Any disruption would have massive effects on the guidance. 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) We can now take our first question from Aliaksandr Halitsa from H&A.

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

I'd like to ask on the order backlog profile. Could you tell us what -- how -- or what is the furthest delivery for ventilators you have currently within your order backlog?

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

The furthest is around May in 2021. So that does not mean that product and some orders could not be shipped before. So it depends a little bit, but that's where we stand.

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

Okay. And then maybe on the kind of ramp-up of capacity, how much of the ramp-up costs were already effective in H1? Because if one looks at the OpEx, that would -- that has been -- that hasn't grown too much relative to sales. So how should one think of second half of the year? Should we see a significantly different picture? Or are you able to more or less keep a good grip on OpEx?

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

You can expect the latter to the ramp-up of the ventilator production. That includes mainly direct costs within our ventilation business, so that's directly absorbed in the cost. And in fact, due to the high volume, we see -- we have the benefit of averaging our other fixed costs over the higher volume. So we will continue to see impact from the higher volume. When -- to the degree that you're referring to the [method] to the cost for the expansion of the mask production, most of that will go through the investment and only some, of the course, has to be invested in the second quarter. We will see the remainder in Q3 and Q4 and a small portion in 2021.

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

And since this is investment, we are not (inaudible) not expense.

Operator

(Operator Instructions) We can now take our next question from [Albert Wesselton] from [Wesselton Asset Management].

Unidentified Analyst

There was some comments in the press lately in Germany on the 10,000 ICU respiratory ventilator order, that there could be some adjustments to that order. Could you elaborate? Is it really a firm 10,000-unit order? Or could it be less than that in the end?

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

Well, it is a firm 10,000-unit order. However, on the one side, we are in discussions with customers all over the world where the demand still is considerably higher than the production capacity of all the manufacturers combined. And on the other hand, we are, of course, also in discussions with this one big customer in Germany, who has provided us with this 6,000 -- 10,000-unit order. And so we will see how these discussions go. However, I said the worldwide demand is still considerably above the production capacity. There will be no effect on the result.

Unidentified Analyst

Okay. One more question. On your EBIT margin guidance, the 7% to 11%, where you cautioned that, that is based on exchange rates at the start of 2020. In your presentation today, you mentioned that there is a 1% margin hit looking at where currency stands today. Does that mean the adjusted currency margin is rather 6% to 10% then?

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

No. That must then be a misunderstanding, let me clarify. The 7% to 11% EBIT margin is with regards to the current FX regime.

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

All in.

Unidentified Analyst

Okay. Fine. And I'm not sure whether I remember correctly that, that a stronger dollar for you is actually good news. Or is it -- has that changed? A weaker dollar is actually good news?

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

Not changed. Overall, just as a brief reminder, for almost all currencies, that we are long in the currencies with just 2 exceptions. And the one is the U.S. dollar, where we are short due to the fact that a substantial portion of components that we source globally, the invoice is denominated in U.S. dollar. And overall combined, with the development and production work we do in the U.S., that's of course also denominated in U.S. dollar, we are U.S. dollar short, and our cost in the U.S. dollar space is, in fact, higher than the net sales. That may shift a little bit with the mask production that is coming up. But for the current period, the picture is unchanged exactly as you described.

And the other exception is the British pound, where we are roughly balanced. And again, at least for the period '21, that situation may change due to the large order that we have received from the British government.

Unidentified Analyst

Okay. Could you elaborate what the net U.S. dollar exposure is on a yearly basis?

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

It's about USD 100 million.

Operator

We can now take our next question from Jean-Marc Mueller from JMS Invest.

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

Yes. Just one for now. On the ventilator capacity, it seems that you're ramping this business according to the plans that you set out in March when we were really in the middle of the storm and demand was huge. And also referring to the previous question about the German government now questioning whether they really need the 10,000 ventilators, and here in Switzerland, I also read about the Swiss government having ordered too much ventilators too many. Does it still make sense to ramp that business in that speed? I mean you're probably sitting on the largest order backlog of ventilators you've ever had, and still your deadline for deliveries, Q2 2021, which is not that far out. Would it not make more sense to spread this now over the whole of 2021, given that the need is not that high as maybe anticipated, also given other treatment options, et cetera? I mean if you could elaborate a little bit on this, that would be very helpful.

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

Yes. This would not make sense to tell a customer, who is now waiting until May 2021 for his ventilator, to tell [later] you will wait until December in 2021, then you probably go to another manufacturer. So far, all ventilators that we make here pretty much go in a patient in the next day after they are produced. So -- and that's where our focus is.

Operator

And we can now take our next question from [Nick Kirkman] from [Sandler].

Unidentified Analyst

Just a question on developing nations like Brazil, South Africa and India who have started building local ventilator capacity as cases rise. How are you seeing the level of demand there in developing nations at present? And how do you think that's going to translate in the future?

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

You are phased out, unfortunately. Would you mind to repeat the question, please?

Unidentified Analyst

Sorry. So some of the developing nations, such as Brazil, South Africa and India, are building local ventilator capacity as the number of COVID cases rise. Could you talk about the level of demand you're seeing from countries like these at present and how you see this progressing in the future?

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

Well, we see that demand is unchanged from -- in particular, from Brazil and India. And given the fact, as I said before, that the demand is still much better than the combined capacity of our suppliers, when we treat and welcome all new players, that help to ease this burden and can make reasonably good ventilators. However, it's not that easy. It took us 130 years to be able to make good ventilators that can treat sick lungs. So -- and don't take air ventilator for a ventilator, there are differences. If you have like a trauma, like a gunshot, that's much easier to treat than a COVID-19 lung. That needs a, let's say, sophisticated ventilator. So the -- we will see how this develops. So far, I don't see that our -- the demand for our devices would be anything lower than in 2 months back from now. it's rather the opposite.

Operator

There are no further questions in the queue at this time. I would now like to turn the call back to the host for any additional or closing remarks.

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

Well, let's give it a chance. Since we still have time to ask one last time, if there are any questions, you can please ask them now. The floor still yours.

Operator

(Operator Instructions) And we have a follow-up question from [Albert Wesselton] from [Wesselton Asset Management].

Unidentified Analyst

Maybe you can give us a feeling, because this is one of the big questions. What is a good assumption for midterm demand for ICU or similar respiratory ventilators? How should we look -- how do you view the demand situation going into 2021 and '22 and onwards?

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

Well, as I said, that -- I would differentiate probably between 2020, which we are discussing now, '21 and beyond.

So for '21, we have already some visibility, as I said, the order book into that year already way into May. So for the time, after for the Phase III in the future, there is still quite some uncertainty. But I would say for the ventilators and the other COVID-19-related products like masks, that it will not fall back to the pre-corona time. I'm very early in the -- when everything went so rapidly, that you could think that there would be some saturation. It's only a bump, and after that is everything is saturated. The German market is saturated with 10,000 ventilators and globally stay the same. In the meantime, I think it will be different. The whole market will be on a different level, the preparedness, even in the developing countries, it plays a bigger role for -- and the effect that it will have on governments that performed and with some other governments that performed not so well and how they will be reelected, that's ought to be interesting. So I'm -- so rather, let's say, optimistic that it will never be the same as before. And in general, it will be -- our technology for life will be more appreciated. And also the business for managing the equipment and the stockpile and the services and the consumer bases were following the trailing orders.

Operator

We have another question from Eggert Kuls from Warburg Research.

Eggert Kuls ***Warburg Research GmbH - Senior Analyst***

So I think regarding the potential demand for ventilation devices, it's all about if or when a vaccine has been found, which can be used to overcome the corona pandemic. So what do you expect will happen with the demand in case a vaccine will be found sooner or later?

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

So if one would be found that would cure it, like Putin now makes you believe, then it probably would back -- turn back to the pre-corona time. However, from all that I know, what the nature of the matter, this is like mission impossible. It will not happen.

Eggert Kuls ***Warburg Research GmbH - Senior Analyst***

Okay. So -- but yes, in case you would assume something like that, so I feel a little bit that then the worldwide capacity for ventilation devices could be far too high and also the installed base. And so you have received such a huge amount of orders. So is -- do you see the danger that maybe 3 or 4 years from now, the demand for these devices could go down to almost 0? Or is that...

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

We don't see that it could collapse like you suggest. This will not happen.

Operator

We also have a follow-up question from Jean-Marc Mueller from JMS Invest.

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

Yes. You already mentioned that 2021 will be obviously another as stellar as 2020 because 2020, I mean we all can agree on that, is a very special year. However, the way I look at the year, how it develops, with the strong order intake and the sales development, you still should have substantial order backlog at the end of 2020. So when you speak about 2021, I was wondering whether you can maybe elaborate a little bit. Are you referring like to lower sales or lower EBIT level because maybe, I mean, this high-margin order from Germany is not in the 2021 numbers? Because the way I look at it with the order backlog, I could still see 2021 at similar sales level as 2020. Maybe at a lower margin, but still the sales level to be very high. So maybe if you talk about 2021, whether you could give us a bit more granularity there, that would be helpful.

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

Well, none of us knows better how it will exactly be. So like you said, we have some order backlog reaching into '21, including the big order from the (inaudible) also, the delivery schedule extends a little bit into 2021. Despite of all of that, there are quite some uncertainties. As I said, depending on the other part of the business that is not COVID related and how the overall economy develops, and so how the spending power of the government develops and this [never stellar] look in Germany that is kicking in, in the New Year's night, what effect that will have, so we will all see. And as I said, that we expect 2021 is that it's still better than we originally planned 1 year back from now, how '21 could possibly be. So compared to that, it will be better. However, compared with this extraordinary year '20, it will be not the same. That it does include the possibility that you stated -- suggested that it might be less.

Operator

(Operator Instructions) We can now take our next question from [Albert Wesselton] from [Wesselton Asset Management].

Unidentified Analyst

Sorry. Just a clarification on your answer concerning the vaccine. Did you say you don't believe that there will be a vaccine against corona? Or did you say, even if there is a vaccine, there will be a demand for respiratory ventilators?

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

Yes. There will be a vaccine and not only one, maybe a dozen, but none of them will kill it, so we still need ventilators.

Operator

Next question comes from Matthew Smith from Handel & Company.

Matthew Bryce-Smith

Could you just tell me a little bit about your new factory? Firstly, when it went online and was open for business, but secondly, more on what kind of step-up in profitability do you expect as a result of that factory coming online? I'm assuming it was driven by efficiency measures.

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

Now it's unclear to us which factory do you refer to because we have several. Within -- do you refer to the new factories for FFP masks that are being set up or to our -- the general factory that we operate in Lübeck? Which one do you mean?

Matthew Bryce-Smith

The Lübeck factory. Yes, Lübeck.

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

So that went online, I believe, it is already 5 years ago. And that is basically -- everything that we have so far are historically gone and distributed over many different buildings in -- throughout the city of Lübeck, has been concentrated in one very large building with real state-of-the-art logistics processes that gave a boost in productivity, that we invested back then a total of around EUR 70 million in the new factory, and that now gives us also the much better flexibility to increase the production capacity for certain products with everything that is needed to do so.

Matthew Bryce-Smith

And with that new organization within the factory, do you have a target, what kind of profitability or margin you can achieve versus what you were achieving historically? Or how much did it benefit you financially? Can I ask it that way?

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

Yes, it did. It gave us the benefit of a double-digit million euro production cost savings per year. So -- and the -- I don't think that we sometimes refer to, that we have a new, say, labor time in agreement and delay and also labor organization agreement with the workers' council and the union IG Metall that we put in place already during the course of last year. That gives us quite some flexibility and the capacity to immediately convert without supplemental payments on 6 days a week for like I think 16 hours per day. They are called standard operating times, and the workers organized themselves effectively, who does what. So that allows us to more easily, say, lower or increase the capacity on certain products and lines.

Operator

Next question comes from Manfred Piontke from Manfred Piontke Portfolio Management.

Manfred Piontke

Mr. Dräger and Mr. Lescow, my name is Manfred Piontke from MPPM.

Mr. Dräger, could you a little bit quantify your original planning for 2021 to get more feeling what we could really expect then for 2021? And second question, more on the current year. On the third of September, the shareholder annual meeting will take place. Did you decide to make a suggestion for a dividend payment?

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

So for your first question, while we did not publish a full set quantification, I believe, for a rule of thumb, you could extend the single-digit margin growth pattern that we originally planned for 2020 and accumulate that for 2021. And I think it gives the right order of magnitude to what we compare ourselves within the original planning to really portray, if you will, a picture of [RONA].

As to your question, at the general assembly, we -- our normal general assembly and...

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

That was already scheduled for May 8.

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

And it agrees. It will, of course, together with all the other formal resolutions, also decide on the dividend toward the year 2029.

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

2019.

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

Sorry, 2019. 2019, to be paid out right after the general assembly. And that impact is -- for the year 2019, is EUR 0.19 per profit share and EUR 0.13 per common share.

Operator

(Operator Instructions) We can now take a follow-up question from [Albert Wesselton] from [Wesselton Asset Management].

Unidentified Analyst

Sorry, Lescow. I'm not sure I got that right. With your margin indication for 2021, did you say we should start off with, I think it was 1% to 4% EBIT margin guidance originally for 2021? Or did I get that wrong?

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

No. I didn't give the margin indication. I was merely referring to a qualitative development for the top line figure. And we didn't provide a margin guidance for 2021 and are not providing a margin guidance for 2021 at this point either.

Operator

(Operator Instructions)

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

I think in the interest of time, we should now come to the close.

Operator

There are no further questions.

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

Okay. Then I would like to thank everyone with us online for being with us, for your interest in Dräger, and for your questions. So thank you very much, and have a pleasant rest of this lovely summer day. Thank you and goodbye.

Operator

Thank you. That concludes today's conference. Thank you for your participation, ladies and gentlemen. You may now disconnect.
