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Q1 2019 Draegerwerk AG & Co KGaA Earnings Call

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PRESENTATION

Operator

Good afternoon, and welcome to the conference call of Drägerwerk AG & Co. KGaA, which is now starting. At our customer's request, this conference will be recorded. The management presentation for the following conference is available on the Dräger website.

May I now hand over to Mr. Stefan Dräger, CEO of Drägerwerk, and the moderator of this conference.

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

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

We would like to guide you through the presentation covering our results for the first 3 months, which we made available on our website this morning. Following the presentation, we will open the floor to your questions.

As you are most certainly aware, we already published the preliminary figures ad hoc some 10 days ago. In the final figures we published this morning, there are no meaningful deviations to the pre-release.

Let's get started on the Page #3 with the business highlights of Q1. Net sales growth rate look impressive. Currency adjusted net sales are up by some 21%. However, we need to put these figures in perspective. Due to the logistics issues at our Frankfurt hub last year, we had a very weak net sales development in the first quarter 2018. That means that the comparable figures are not very demanding.

Having said that, the top line development this year is nevertheless good if you compare to a more normal Q1 like we had in 2017 or '16. In fact, we already had expected to see a good start into the year after order entry at the end of last year was strong. I'm not only pleased with the good net sales development, but also the good order dynamic continuing during the quarter is very encouraging as well. Order entry is up by some currency adjusted 3.5%. This gives us confidence to see a further decent top line development in the coming months.

But I do not want to overstress this point, because as you all know, quarterly developments can be quite volatile in our business, and we should not read too much into quarterly fluctuations, especially not in Q1. At such an early stage, the significance of the figures is still quite limited.

Gross profit margin increased to 42.3%, predominantly due to the higher volume and despite a slight negative FX impact. At the same time, functional expenses increased as we continue to invest into R&D and specific sales capabilities. In sum, the substantially higher net sales volume was responsible for the strong year-over-year EBIT improvement of some EUR 30 million. But please keep in mind, last year's volume and EBIT is not a challenging comparable basis. EBIT remains negative in Q1 2019 with minus EUR 10.7 million, and this corresponds to an EBIT margin of minus 1.8%.

Now let's take a look into the order dynamic of the quarter on Page 4. As I said, order entry for the Dräger Group has increased by 3.4% year-over-year on a constant currency basis. Unlike last year, when FX headwinds were very strong, this year in Q1, we had some slight tailwind coming from exchange rates. The nominal increase of order entry is 4.2%.

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Order growth was driven by a very strong development in safety. Order intake was up by 22%. All product areas and all regions contributed to the order increase. There was particularly strong demand for Dräger's gas detection systems.

On the flip side, Q1 was, in terms of order intake, not a good quarter for the medical side of the business. Order intake declined by nearly 7%. Order intake was good for thermoregulation but that could not compensate for the declines in other areas. Looking at demand trends from a regional perspective, we see higher orders in all 3 regions. In the Americas region, we had a strong currency adjusted order growth of close to 7%. The increase is based on a good development in North America as well as Central and South America.

Demand for our gas detection systems business was particularly strong with solid double-digit order growth in the quarter. In the region Europe, orders increased by nearly 3%. Within the region, we had a good development in high-volume countries like Germany, plus 6%; or France, plus 9%. But in several other European countries, demand was only flat or declined. But at this early stage of the year, that can still change easily into a positive development going forward.

Finally, Africa, Asia, and Australia. Here, orders grew by currency adjusted 2% with a very strong development in safety but medical declined by some 14%. The development in some countries in the Middle East, for example, so far has been quite challenging with orders for medical being well below the level 1 year ago. In some cases, the muted relative development in medical is due to basis effects, where we had particularly higher orders in the prior year's quarter. So we remain cautiously optimistic for this market and expect to see an improvement soon.

On the positive side, the development in safety was very strong, particularly growth in the Chinese market. After a good Q4, we have seen a very decent Q1 as well. Next, to healthy market conditions, our investments that we have made into our sales capabilities in China are paying off. That's it on the order trends in Q1.

Now I will hand over to Gert-Hartwig to go through the financials on the group level. Gert-Hartwig, please?

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

Thank you, Stefan. I also would like to welcome everybody to our conference call for our 2019 first quarter results. Before we go into the Q1 results, I would like to go through the facts that come from IFRS 16. The application of IFRS 16 has been mandatory since the beginning of this year. Companies must recognize the leased assets as an asset, their respective value and use and recognize the corresponding payment applications as a liability.

The change in the methods used to account for existing rental agreements as of January 1, 2019, impacts Dräger's key figures as follows: please note the displayed figures on the next 2 slides are based on a ceteris paribus assumptions and represent the expected effect for the whole fiscal year 2019. In the appendix, you can find a slide with the Q1 effects on the main financials.

With the introduction of IFRS 16, value and use in the amount of EUR 101 million was recognized on the assets. The corresponding payment applications increased liabilities accordingly. The increase in total assets reduced the equity ratio by 1.8% from 44.8% to 43%. The total cost of the rental contracts do not change over the term of the agreements. However, the payments previously recognized as rental expenses will be recognized as amortization and interest expense in the P&L.

Moreover, because interest expense decreases over the term of a rental contract, the annual expenses associated with amortization and interest are higher in the first years of the contract and lower in the last years of the contract. Then the rental expenses under the previous rules of IAS 17. This is known as the front-load effect. Under the previous leasing standard, IAS 17, the rental contracts in place as of January 1, 2019, would have led to rental expenses of EUR 37.9 million in fiscal year 2019. Under IFRS 16, these contracts will lead to amortization of EUR 36 million and interest expense of EUR 3.4 million. Accordingly, EBITDA will improve by a EUR 37.9 million in fiscal year 2019 with the front-load effect increasing EBIT by EUR 1.9 million.

Looking at the effects on the cash flow statement. The change in the methods used does not lead to any change in cash flow. However, the amount shown as cash inflow from operating activities will be significantly higher due to the sharp drop in the rental expenses, and

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because only the interest expense is reported as cash flow from operating activities. The change will, therefore, improve the operating cash inflow for fiscal year 2019 by EUR 34.5 million. However, the repayment of the increased liabilities from leases will also be reported within the cash flow from financing activities. Accordingly, the reported cash outflow from financing activities will increase by EUR 34.5 million in fiscal year 2019. Hence, there's no liquidity effect.

Please turn to Page 7 for table on the -- of the P&L of the Dräger Group in the first quarter. As Stefan Dräger pointed out, the top line volume in Q1 was good. Net sales increased to EUR 601.6 million. Due to slight currency support, the constant currency increase of 20.7% translates into a currency -- translated to an increase of 21.4% in nominal terms. These high-growth rates are, to a large degree, the basis effect due to the subdued volumes of the quarter 1 year ago. At that time, net sales volume was burdened by weak delivery performance of our consumables business and the quite pronounced negative FX effects.

Mainly due to the higher net sales volume, the gross profit contribution is up by close to EUR 50 million to EUR 254.3 million. All 3 regions contributed to this growth. The corresponding gross profit margin of the group increased by roughly 1 percentage point to 42.3%. While currency effect had a slightly negative effect on the margin, there was a positive impact from lower quality cost and an under proportionate increase of the indirect cost of goods sold.

Product or country mix effects were of minor importance, on a regional level, especially AAA, increased the margin. The margin in the Americas region increased as well whereas the margin in the region Europe was roughly stable. Below the gross profit line, the increase of the financial expenses prevented the stronger improvement of the earnings. There was no material change in the other financial results.

In total, our EBIT was substantially higher than last year, but to be fair, the comparable figure was not demanding. EBIT was minus EUR 10.7 million corresponding to an EBIT margin of minus 1.8%. The positive EBIT effect of IFRS 16 is roughly EUR 1 million for the quarter. Despite the fact that exchange rate changes had a positive impact on the net sales growth rate, the impact of earnings was negative for the quarter.

The main currencies leading to the negative EBIT effect are emerging market currencies like, the Turkish lira, the Argentinian peso and the South African rand, that has devalued against the euro but also the strengthening of the U.S. dollar versus the euro played a role. As you might know, Dräger is U.S. dollar short due to its U.S. operations and due to its U.S. dollar procurement volume. Hence, the strong U.S. dollar supports the top line but is a drag on earnings. In total, the negative FX impact on the Q1 EBIT margin is roughly 1 percentage point.

But our FX outlook remains unchanged. If exchange rates do not change materially, this impact will level out in the coming quarter. For the full year, we continue to expect no material FX impact on the top line, nor on the earnings.

Moving on, functional expenses on Page 8. In conjunction with our investment plan, we are stepping up expenses targeted at strengthening our sales and service capabilities and our innovation activities. Hence, functional expenses have increased over the level 1 year ago. Net of currency effects, functional expenses are 7.3% higher than last year. As I just mentioned, FX had a negative impact below the top line, hence the increase of the functional expenses in nominal term was higher at just about 8%. There are no significant special items like restructuring costs or similar to be taken into account.

Expenses increased in all 3 regions. When looking at the development in the different functional areas, we see the highest increase in sales and marketing. We are investing in areas that have good growth perspectives, mainly hiring new sales and service staff. In these customer-facing areas, the headcount increase is strongest by far and the expenses, net of currency effects, are flat. This compares to a very strong increase in the prior year's quarter when R&D expenses had increased by roughly 15%.

And finally, admin expenses are up by 7.6%, net of currency effects. This looks quite high since this is not an area where we are focusing our investment on, but this is, to a large part, basis effect. In Q1 last year, one of our major IT project in the innovation area had not yet started. Hence, the comparable cost base is lower. On a quarterly basis, this will look different when we compare the expense development after the second quarter.

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Let's move on to some key ratios on Page 9. 1 year ago, after Q1 2018, operating cash flow had been negative with minus EUR 25 million. With the year-over-year improvement of roughly EUR 50 million, operating cash flow this year is positive with EUR 23.3 million. The IFRS 16 impact of this improvement amounts to EUR 9.9 million. Hence, cash flow from operating activities would have been roughly EUR 10 million lower under the former accounting regime.

The main operational reason for the cash flow improvement is the improved earning situation contributing roughly EUR 30 million to cash flow. Also, the favorable development of inventories and trade payables have contributed to the year-over-year cash improvement. On the flip side, the development of the trade receivables and provisions had a negative effect but to a lower extent. Other effects were somewhat neutral.

We continue to have a special focus on working capital improvement, especially on the inventory levels, which had increased in 2018. We expect to see further improvement in inventories in the coming quarters. Investments are on a similar level as last year, mainly replacement investments so that free cash flow has improved in line with the operating cash flow.

Cash and cash equivalents of the company at the end of Q1 amount to EUR 159 million. The strongest increase in net financial debt of roughly EUR 124 million is mainly an IFRS effect. Leasing liabilities increased by EUR 99 million due to the new accounting rules. As a result, net debt-to-EBITDA has increased to 0.74%. The Dräger value added has declined to just below EUR 0. The rolling -- the lower rolling 12-month EBIT is one driver of the decline. Another one is the substantially higher capital employed, which has increased in light of higher working capital and the new accounting rules.

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

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

Thank you, Gert-Hartwig. Ladies and gentlemen, let me summarize today's presentation on Dräger's first quarter results for 2019. I'm pleased to see continued good top line development during Q1 after the strong year in business last year. All regions contributed to growth.

Impressive development on the safety side of the business contrast to a relatively weak start on the medical side. All in all, a good top line development. We, therefore, reiterate our full year guidance of constant currency net sales growth between 1% and 4%.

As we continue to invest into R&D and into specific sales capabilities, functional expenses are up as planned. EBIT improved over the weak prior year's level but remains in the negative territory. As you know, the nature of our business is back-end loaded, so that the significance of Q1 is limited as a reliable basis for full year forecast. This and all other knowledge that we have today taking into account, we see no reason to change our EBIT expectations. For the full year, we continue to expect an EBIT margin between 1% and 3%.

Let me close with a short remark on our restructuring. There is no news that I can share with you on the restructuring we will go through in the coming quarters. This is still work in progress, and as we communicated in March, we will be able to share details with you in summer, that means probably with the figures of the second quarter. We are working on different scenarios, but as long as we haven't decided on them, we will keep the different options so we are discussing purely internal to avoid any speculation or misunderstandings and the guidance remains intact.

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 doesn't look like we have any questions at the moment. (Operator Instructions) And our first question for today comes from Frank Siebrecht calling from Cyan Investments.

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Frank Siebrecht ***Cyan Investments - Analyst***

I have questions regarding your guidance, which looks very conservative in my view, given that your EBIT improved almost EUR 30 million year-over-year in Q1 alone, and you gave a quite confident outlook for the coming months with continued top line growth and also fading FX headwinds, and as you said that your functional costs are in Q1 basically in line with the expectation. I see also that your R&D costs are almost flat year-over-year. So can you give us a bit more view of if you expect any extraordinary burden in the course of the next 9 months, which will hamper your continued earnings development? Because as I see it now, it looks like that EUR 30 million better EBIT year-over-year, you have booked already 1 percentage point of your EBIT margin going forward as better, which is better versus last year. Maybe you can give us a bit more feeling of what we can expect this year. Is there any extraordinaries or if this is just that you are at the beginning of the year, generally, a bit cautious because your business and earnings are back-end loaded as usual?

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

Actually, that is one of the driving pointer so let me start with that. The first quarter, for better or for worse, is not a good indicator for the full year. We have had the same last year or in previous years. So if we are in a situation like today, where the first quarter turns out well, that too is then not an indicator for the third and fourth quarter, and that is, especially for the medical side, where the bulk of the business is being done.

Secondly, please keep in mind that a significant portion of the improvement in profitability is due to the higher net sales growth, which was quite high due to the comparable effect from the Q1 2018. And this is not to be taken as a growth rate for the full year. So we will not see a similar support, certainly not in the second half of the year. In fact, we expect to -- we continue to expect a good growth rate for the full year between 1% and 4%. There is, of course, optimism to reach the high end of the growth rate due to the very good development. Still, the order entry in the first quarter supports that growth rate, also the high end of the growth rate but with full top line growth and with the expected expense growth. And we are in line with our expense growth as well in the first quarter. We will see a corresponding burden on profitability, which means if on the upper hand, if the development continues to be similarly positive as in Q1, we will see the upper end. So I can see the root cause of your question and the cause for the optimism, but at least keep in mind the Q4 comparable in 2018 is very demanding comparable. So since we have not yet the full visibility and due to the very high net sales, we have already used up the higher order book with which we started. We expect the second half of the year, especially with the order entry pattern, to be demanding. And this is the basis for our scenarios that we see the full range of the guidance, I'm with you with the net sales development that gives cause for optimism, but at least keep in mind that Q4 is a demanding figure and we will see an increase in expenses for the full year.

Operator

The next question is from Stephan Simmross who's calling from FPS

Stephan Simmross ***FPS - Analyst***

Just a quick follow-up question on the gross margin development. We saw that in Q1, the gross margin was above the previous year Q1 but it was below Q4, Q3, Q2. Continuing in the year, should we expect the gross margin to get better again? Maybe you could give us an outlook on that because I expected actually the gross margin to be a little bit better in Q1 as you had these severe logistics problems in the year before, and so I thought it should be on the level of the second half 2018. But maybe you can explain a little bit what we can expect on the gross margin development.

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

From our point of view, the development of the gross margin in the first quarter is in line with our guidance or with our own phased financial business plan. So what you can expect and what we expect is that the gross profit trends will play out similarly with perhaps the exception a little bit to the FX to which I commented on the top. But we have not seen a significant mix effect in the first quarter and going forward, we do not expect such significant impact, with the caveat, obviously, that it will depend on the order entry going forward. And we have some positive and negative effects that includes a continued pressure on the pricing on the medical side. On the flip side, we have seen lower quality cost and that has compensated for that and that has given it some stability. Together with the leverage effect of the higher volume, we have seen an increase and the significant portion of the higher gross profit margin is really leveraged on some of the fixed cost portion and this will not play out to the same degree for the full year.

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The higher cost for logistics, we see in 2 areas. We see part of it in the gross profit margin, but for the outgoing freight, we actually see that also in the functional expenses. For the full -- please recall, we had in 2018 about EUR 50 million of higher logistics costs, and we expect that about 2/3 of that will also be in 2019. So the higher logistics costs do not go away entirely for the year 2019. In fact, the majority is here with higher structural cost will only go away with some of the countermeasures, which we are in the process of implementing in the course of 2019 but we will not see that -- we will not see an effective contribution before 2020.

Operator

Next up, we have Volker Stoll who's calling from LBBW.

Volker Stoll ***LBBW - Analyst***

I have a question regarding the order entry in the medical business in Europe and Africa, Asia, Australia. You've seen here some quite weak trends in the first quarter, this doesn't match to the recently seen year-end figures of 2018. Could you give us here a bit background, due to some reshaping of the product portfolio or what is the reason for that weakness?

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

Yes. There's not a single reason, there are some additional -- firstly, again, let me reiterate, you're talking about the first quarter, which always is the weakest so not to be extrapolated, and certainly not x4. Secondly, we do see some lower development in Europe and in AAA for our workplace infrastructure business in particular, which is also a long-term infrastructure business. Long term, high throughputs or long throughputs time business since those are orders that come into net sales at a later period. In addition to that though, we have, in fact, seen mixed results in different markets for the order entry for our equipment business with a very positive development, for example, in our thermoregulation business with a very good growth, for example, in our ventilation business in China, but also, overall globally with the lower order entry in anesthesia and in ventilation. But as I said, not as a pattern in every country but as a whole, we do expect with and particularly on the anesthesia side with the launch of one of our new products next month actually to get better support. And to your question, we have overall seen also in 2018 that a higher portion of the net order entry growth was driven by the safety side of the business compared to the medical side of the business. A long-term boost will be supported on the medical side also by the launch of our new product portfolio, but similarly to the anesthesia this year but that will take place over the next few years. So we do not expect a swift turnaround to the safety type of growth levels this year and certainly not in the second quarter.

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

I would like to add, Mr. (inaudible), it's Stefan Dräger speaking. Both the very good safety order entry development and the weaker medical order entry development in the first quarter, both is not attributed to a single root cause thing that we would know and not tell you, there is no such. It's just the nature of the business in a relatively short period what a quarter is for us. It's not significant.

Volker Stoll ***LBBW - Analyst***

Okay. And the customers can start ordering for the new anesthesia product in May or is this later in the year?

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

No. In May, with the launch.

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

In May, with the launch on the Deutscher Anästhesiecongress on May 9.

Volker Stoll ***LBBW - Analyst***

Okay. And then they can start ordering or...

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

Yes. Not in all countries, though.

Operator

The next question is from Florian Pfeilschifter from MainFirst.

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Florian Pfeilschifter ***MainFirst Bank AG, Research Division - Research Analyst***

I have three questions. One, you partly answered already. It's about the medical business and why the order intake was that bend this quarter, not semester just quarter and whether you could shed some light on what bad reasons, like didn't customers -- did they wait for the new product to come out? Or is your portfolio too old? Whether you could shed light on that. Then I just wanted to follow up on that, whether your schedule for your new product is on time, so whether we can we expect this to be launched as you told us? And whether -- when we will see first deliveries? And finally, on IFRS 16, where are the coast guard of the P&L and where they move in, into the balance sheet?

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

Well, let me start with the point whether the development is on time. Yes, the development of the roadmap and the various elements is on time, and the next launch, as we just told you, is on May 9, the launch at the Deutscher Anästhesiecongress. You are invited to follow that how it's going to happen. And the dampening of the order intake on the medical side, as I said, it's not attributed to a single root cause, that in general, a quarter is still a relatively short time to make it really significant as an indicator. Of course, there are some opportunities to have more innovation, that's why we are investing into innovation and into R&D for quite a while now. That does not mean that the product portfolio is outdated as such or it would no longer stay from one day to the next. That's definitely not the case. So I would suggest on that part that you should relax a little bit and see how the further -- the remainder of the year is developing. Now on the IFRS 16, Gert-Hartwig?

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

I'm not sure I understood the question. Overall, the results does not move out of the P&L, it just moves within the P&L, at least for more than 90%. There is a small portion that may move from one period to the other, which is for 2019 on synthetic figures, it's about EUR 1.5 million out of almost EUR 40 million. So I assume negligible but let me also give the opportunity back whether that captures the essence of your question.

Florian Pfeilschifter ***MainFirst Bank AG, Research Division - Research Analyst***

No. I actually was talking about the functional costs, where it does move out of the functional costs?

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

It's most -- it's in all categories. We would -- if that is off -- actually, for the functional costs, there is not, per se, a change only for the shift between depreciation and amortization. But the cost is still with selling, the cost is still with administration. It's just a different cost type in that, that is amortization instead of cash cost.

Florian Pfeilschifter ***MainFirst Bank AG, Research Division - Research Analyst***

All right. And while you've been the...

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

With the exception of the interest, of course. With the exception of the interest, of course.

Florian Pfeilschifter ***MainFirst Bank AG, Research Division - Research Analyst***

Okay. And the balance sheet so it goes into tangibles or where do I see them?

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

You see that in tangibles because it's mostly for rental agreements and you see, of course, on the liability side for financial obligations.

Operator

We have one more question from Oliver Reinberg who's calling from Kepler.

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

Can you hear me?

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Operator

Yes, we can hear you now.

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

Yes, I also want to come back to the order intake on medical. I'm not sure if you can say more, but when I look at the comps, the comps actually were not that demanding in terms of order intake. In fact, they even get slightly more demanding particularly in Q4. I wonder, do you feel confident at least to guide for positive order growth in the full year. And in terms of the causes of the situation, I mean, do you have the feeling that there is any kind of potential competitive losses? Or do you see any kind of potential effect from the fact that there's big renovation currently happening, which may distract certain people in the organization? Any thoughts around that will be helpful.

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

Well, the organization part, I think we can rule out that it's mainly taking place in the Lübeck headquarter and the selling organization in the regions and countries is not affected. The competitive part, not to our knowledge that we see that on a large degree. We, of course -- all the time is normal course of business, we see it here and there. And also, I think it would not be sound if we were not in this. so that's not in a -- nothing unusual also on that side as to our knowledge. So I would not find a single root cause relation. And for the full year guidance, my expectation would be that it would be not significantly different from our sales guidance on the order side, despite what we have seen now in Q1, that for Q1, it was different but that is also partially, as we explained, due to the unusual effects that we had from the prior year on the sales side that did not repeat this year and that made the difference look bigger.

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

Yes. I mean I had a sense that the business is always volatile on a quarterly basis, it's just a bit surprised because most of the medical equipment companies reported rather strong order intake in the first quarter. I mean the weakness in...

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

Yes, I'm aware.

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

Yes. I mean the weakness is particular from totally -- is China hugely down? Can you comment on that?

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

No. It's not. It's different, it's on -- the lower order entry development is more from other parts of AAA, including Middle East, Africa. And so the China development is actually positive on both medical and safety with the majority of the growth coming from the safety business.

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

And as you're aware, Middle East, Africa is our bumpiest subregion always and so again this time.

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

Sure, sure. And can you just probably also share your thoughts on medical in the U.S.? That was always kind of an opportunity in terms of increasing sales with the various action being taken. Do you see that this has to be reworked?

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

Also, in the U.S., we see a very healthy contribution from the safety side of our business. We've seen a very good contribution on the net sales side in the U.S., also in the first quarter after some delay in the fourth quarter. From the order entry side, we are almost flattish but not quite positive. But again, also for the U.S. business, the second and the third quarter are the key drivers. But positively is -- especially the development on the safety side.

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

Sorry, I was probably focusing on medical. Can you comment that specifically if possible?

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

The medical development net sales was very positive from the first quarter. The order entry needs to improve in the course of the year. The overall development over a couple of years is not to where we wanted it to be, but that is partly also due to the approval for our latest monitoring business.

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

Can you provide an update on the approval there?

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

Yes. We will in the course of the year. Still -- currently, we still do not have the approval. We will provide an update, we expect to get the approval in the course of the year.

Operator

Thank you. There are no more questions for today.

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

Well then thank you all for being with us online today, and have a very pleasant rest of the day and look forward to hearing from you and stay in touch. For now, thank you very much and goodbye.

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