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CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

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

Eggert Kuls *Warburg Research GmbH - Senior Analyst*

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

Manfred Piontke

PRESENTATION

Operator

Good day, and welcome to the Drägerwerk Third quarter Earnings Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Stefan Dräger, CEO of Drägerwerk. Please go ahead.

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

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 9 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 9 months period. I will close the presentation with a 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-September, we have 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 9 months. We continue to deliver on our mission to protect, support and save lives. Helping our customers and fighting the pandemic remains our top priority. And the pandemic is far from over. Whether it is to support hospitals with our on-site service to keep their infrastructure up and running or to provide them with high-quality products, especially FFP masks and high-acuity ventilators, Dräger remains focused on supporting our customers wherever we can.

The needs of our customers can be quite different from region to region. The demand for devices remains high in many regions. In some countries, however, the demand is less strong since the existing ICU and respiratory capacities appear sufficient to handle the current development of the pandemic. Obviously, I'm referring to the major order from the federal government of the delivery for 10,020 ventilators that we had received in March. Considering the current status of the development of the pandemic in Germany, Dräger and the Federal Government of Germany have agreed that Dräger will not deliver any more devices to the federal government beyond the roughly 1,600 already shipped.

As you know, we had been sold out of ventilators for quite some time now. This has resulted in not being able to take in many new orders. The production capacities that were reserved for the order for the German government are now being freed up and enable Dräger to supply other important markets outside Germany with the ventilators that are still urgently needed there. This process has started in Q3 and is progressing quite

well. This is business that we would not have been able to pursue if we would not have freed up production capacity. Obviously, it is more favorable, both from an ethical as well as a business point of view, to deliver these devices to customers that really need the devices to treat critically ill patients.

I think it is well understood that part of our business are negatively affected by the difficult economic environment caused by the pandemic. Many areas of our Safety business are below the demand of the prior year. But there are also businesses like a -- in Medical that currently are not growing due to the COVID-19, either because our people are not allowed to enter the hospitals or because customer funds are reallocated to other areas that have a higher priority in fighting the pandemic. This situation is basically unchanged from the last quarter.

On the production side, we continue to ramp up our production capacity and manage the entire supply chain needed for doing so. So far, we have been able to cope with all challenges in this area. We continue to be on track and keep our promises to deliver. This includes the new production sites for FFP masks that we have announced. At the beginning of the third quarter, we had won an order worth roughly EUR 100 million from the British government to deliver respiratory masks. For that, we will set up a new production facility close to our existing Dräger site in Blyth in Northumberland. The delivery of the order will start at the end of 2020 and will stretch until the beginning of 2022. Our new site in the U.S. and Pennsylvania has started first deliveries towards the end of the last quarter. As previously communicated, the investments into our new sites in the U.K., the U.S. and also in France, next to the expansion of the existing mass facilities in South Africa and in Sweden, will amount to roughly a mid-double-digit million euro figure.

In addition to the opportunities that corona offers us, we are continuing our long-term growth strategy. Special focus, therefore, remains on the implementation of the measures to resource 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.

Now let us take a look into the order dynamic of the quarter and year-to-date on Page 4. After our exceptionally high order intake in Q1, order growth in the second quarter was lower. This trend has continued also in the third quarter, with order intake on the group level, 13% above the prior year. This is a trend back to more normalized growth rates. We hardly have these big orders and more that we had in Q1 and beginning of Q2 with order sizes that are in the several-million-euro area. Most current order are of a more normal order size of below EUR 1 million. In my view, this is good as we have to have production output higher than order intake to get over this huge order backlog and come back to normal delivery times for our customers.

The exception in the last quarter was the order from the U.K. government for FFP masks that I mentioned to you on the last slide. But besides that, order dynamic in general has come down a bit compared to the very high levels earlier in the year. One thing to keep in mind is that prior to the adjustment of the ventilator order from the German government, we were practically sold out for ventilators for the year. Only towards the end of the quarter, we started to receive more ventilator orders again as we were able to reallocate the reserve production capacity. Naturally, that had an effect on the new order intake of the quarter. In fact, order entry for medical in the last quarter was slightly below the quarter 1 year ago, currency adjusted minus 1.4%.

Having said, all that, demand for products needed in respect to COVID-19 remains high. The pandemic is far from over. Products particularly needed are, of course, high acuity ventilators, but also patient monitoring and associated consumables.

In Safety, our respiratory masks are in high demand. In Safety, the big order from the U.K. government was the big driver of growth last quarter. Order entry for the quarter is up by some 37%. But if we take that out, order entry would have been below the quarter last year. Many business areas in the Safety division are burdened by the difficult economic situation. We expect this headwind for the Safety business to continue way into 2021.

Medium term, the business will recover, no doubt about that. The long-term drivers of this business remain intact and will lead to a recovery at some point down the road.

From a regional point of view, Europe is the region with the highest growth rate so far. This is driven by the high medical orders that still include the majority of the ventilator order from the German government. There is a rather technical reason for the order still being in the reported figures.

At the end of the quarter, the smaller adjustment of the contract had not yet been signed. Meanwhile, the agreement is signed so that the order will be adjusted in Q4 accordingly. Hence, we will see a shift of the order entry between the regions since a lot of the new business where we are able to take in now is coming from countries outside of Germany and outside of Europe. The figures for Europe will decrease, but the regions America and the AAA are benefiting from this shift.

Coming to sales. Already in Q2, order intake has increasingly started to translate into net sales. This has continued in the third quarter. On the group level, net sales were up by some 23% in the first 9 months of 2020. In Q3, net sales increased by some 36%, amounting to roughly EUR 863 million. Both divisions contributed, with a significantly higher impact coming from MEDICA. We expect to see a good net sales development also in the current quarter.

With that, I turn over to Gert-Hartwig for a review of the financials, and I will come back with a summary of 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 would also like to welcome you to today's conference call and the third quarter results. Let's first look at the development of the Dräger group on Slide 5.

As usual, I will be stating currency adjusted figures whenever referring to growth rates. In the third quarter, order entry increased by 13%, and our net sales raised by around 36%. The positive net sales trend from the previous quarter continued, so that we finished the quarter with [odd] EUR 863 million. Gross profit increased by EUR 132 million. In addition to the higher net sales, the increase in the gross profit margin by more than 5 percentage points to 48%, also made a significant contribution. Both divisions, Medical and Safety contributed to the increase but as Stefan had already mentioned, a significantly larger proportion came from Medical. Earnings before interest and tax improved by more than 100%, and this leads to an EBIT of around EUR 127 million. Correspondingly, the EBIT margin increased from 1.4% in the third quarter of 2019 to 15% in the last quarter.

If we look at the first 9 months of 2020, we increased our -- we increased our order entry by 54%. In Europe, the increase was the strongest, with almost 70% growth. We also recorded strong growth in the other regions. The improvement in the region Americas was around 40% and more than 30% in the region, Africa, Asia and Australia.

Net sales of the Dräger group increased by roughly 24% to a total of EUR 2.291 billion. Net sales increased particularly in Medical, but we also recorded good growth in Safety. I'll get to that in a minute. As a result, our gross profit rose to EUR 1.87 billion. The significant growth in sales, high production capacity utilization and positive mix effects are responsible for this positive development.

Compared to the previous year, the gross margin increased by almost 5 percentage points to a total of roughly 48%. Looking back, the EBIT for the months January to September 2019 was minus EUR 2.9 million and have improved to EUR 228 million in 2020. In this 9-month comparison, the EBIT margin rose from a slightly negative value to 10%. Below the gross profit line, the increase of the functional expenses prevented a stronger improvement of the earnings. There were some relief effects through savings in travel activities caused by the pandemic situation. On the other hand, we continued our planned investments into sales capabilities and R&D.

Furthermore, we had an increase in personnel costs due to increased headcount.

Moving on to the FX impact year-to-date. The unfavorable FX development of H1 continued in Q3. Currency effects had a negative impact on both gross profit and gross margin, as well as on the EBIT margin. That negative [effect] result predominantly from some emerging market currencies such as the Brazilian real, the Mexican peso, the Colombian peso and the Russian ruble. The effect on the 9 months EBIT margin is roughly minus 1 percentage point. Based on the spot rate at the end of the quarter, we expect a similar headwind on the EBIT margin on the full year basis.

Next, I would like to present the results of the Medical division in detail. Please move to Page 6. On a quarterly perspective, we achieved an order entry of roughly EUR 406 million. This result is almost on par with the previous quarter in 2019. Due to the sustained strong growth in orders for

ventilators and the associated high order backlog, no further production capacity was recently available. Accordingly, orders for ventilators could only be accepted to a limited extent. This only changed once the agreement with the German government freed up productive capacities for ventilators and allowed us to offer customers shorter delivery times. These new orders are orders, which otherwise, we would not have received. In order to avoid having double counting of orders in the order book, these new orders were offset by booking negative order entry in the same amount in Germany. This way, the reported quarterly order entry figures are the right indicator for the amount of orders added to the order book. There will be an adjustment of the residual orders from the German government in Q4.

This effect will be partially offset by a compensation payment, which according to IFRS, is to be booked as order entry and net sales. The net sales in the Q3 increased from EUR 407 million to EUR 603 million in 2020. Gross profit was raised more than 75%, and the gross margin increased nearly 8 percentage points in the third quarter. EBIT was EUR 115.5 million, and the EBIT margin was roughly 19%.

In the months from January to September 2020, incoming orders increased by almost 68% compared to the previous year. Demand continues to be driven by the COVID-19 pandemic, supporting strong growth, especially in our Ventilation business, Patient Monitoring and Consumables, but also the (inaudible) business is contributing to growth. At a country level, which we have the highest increase in demand in Germany, China, the United States, the United Kingdom and Australia, in terms of net sales, there was an increase in all 3 regions, a 37% total. Europe contributed particularly. High volume, full utilization of production and an advantageous product and country mix enabled significantly higher profitability. The gross profit margin rose by 6 percentage points. On the other hand, there were slightly higher functional costs due to higher logistics costs.

EBIT was about EUR 193 million, a very positive development compared to the previous year. This is also shown by the higher EBIT margin, which increased to minus 2.8% to more than 12%. This contributes to a strong improvement of the DVA, which is almost EUR 180 million in the first 9 months.

So much for the development in the Medical business. Let's turn to the Safety division on Page 7. In the third quarter, the Safety division increased order entry by 38% and totaled to EUR 342 million. We recorded the strongest increase in Europe to which the large government order for respiratory masks from Great Britain contributed. Stefan Dräger had elaborated on.

I would like to emphasize that this major order will be delivered in the years 2021 and '22. We also have increased order entries in the Americas and Africa, Asia and Australia. Our net sales rose by around 5%. The Europe and Americas contributed to this increase. This includes first net sales from our new mask production facility in the United States. The higher volume led to a slightly higher gross profit, and the gross profit margin rose by roughly 1 percentage point due to a positive product mix. EBIT amounts to nearly EUR 11 million, corresponding to an EBIT margin for the third quarter of 4.3%.

We now come to the development in the 9-month period. Driven by corona, demand for light respiratory protection has increased strongly. Order entry for Safety accessories has more than tripled. Our Service business and Gas Detection business have also grown. On the other hand, there was a decline in demand for other areas not benefiting from COVID demand, driven by the downturn and the economic activities of many of our customers. Respiratory and Personal Protection products, Alcohol Detection and our Engineered Solutions business declined.

In sum, order entry of the Safety division increased by 32%. This growth came from Europe, especially in the United Kingdom and Germany and from the region Americas. In the region AAA, there was also a small increase. Our net sales increased by 6% compared to the previous year, so that we have generated a total of EUR 759 million. Deliveries in Europe increased significantly, while sales in the region, Africa, Asia and Australia, as well as in the Americas fell slightly. Due to the increase in sales, gross profit improved by roughly 11%, and the gross profit margin increased by 2.9 percentage points. The main reason for this were a positive product and country mix as well as other margin effects. Practical costs increased over the level of the previous year beside other things caused by increased expenses for logistics services.

EBIT reached nearly EUR 35 million. As already mentioned during our last conference call, there is still a risk that we will continue to see lower business activity in areas that are not benefiting from the pandemic, that are hurt by the negative effects of the overall economic situation. We do not expect to see a quick recovery.

Please turn to Page 8, and let's move on to some of the other key ratios of the Dräger group. The cash flow from operating activities in the first 9 months of the fiscal year is roughly EUR 93 million, which is some 20% above the level of 2019. The main driver for the improvement is, of course, the substantially higher earnings level. On the other hand, the ramp-up of production in lieu of the high oil intake led to a significant increase in inventories. This had a noticeable effect based -- on the operating cash flow. With increasing net sales levels, receivables have increased as well. Still, working capital ratios in relation to net sales continue to improve.

Days of working capital have come down by 7.5 days. Despite the substantial uptick in investments, especially for the mass production, free cash flow is positive with some EUR 9 million, below the level of the prior year. Due to the capital increase in the second quarter, the cash flow from financing activities is substantially above the prior year. In the first 9 months of 2019, we had a cash outflow of roughly EUR 58 million, while this year, we had cash inflow in the amount of EUR 17.5 million.

Moving on to net financial debt. Compared to the previous year, net financial liabilities rose by EUR 341 million. The main driver is the payment obligation of EUR 451 million from the termination of all participation certificates in the first and second quarter. The [same reason] is the driver for the significant decline in the equity ratio. In October, and therefore, not reflected in the reported figures yet, we have taken some steps to refinance the payment obligation from the cancellation of the PCs, as well as a maturing loan in Q1 next year. We have drawn on our existing loan agreement with the European Investment Bank for the sum of EUR 110 million with a maturity of 5 years. In addition, we are in the process of raising a new loan in the form of a (inaudible) with a target volume of EUR 75 million in payout dates in January and March next year.

We are very pleased with the strong demand from investors. The order book is several times oversubscribed, and we will probably close the books shortly.

Capital employed increased by EUR 94 million, mainly due to the increase in the net working capital, which again is mainly due to higher inventory levels.

And finally, I'd like to address the development of the DVA, the key metric we use to see our business. Predominantly, we -- due to the positive earnings development, the DVA increased to a total of EUR 198 million. This was it on my part. 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 the summary of the financials with the outlook for the current fiscal year. 2020 is an extraordinary year for a number of reasons. For mankind and the world, it is a year in which the risk of a pandemic has materialized. For Dräger, 2020 will be a record year. Our technology for life is in high demand and more appreciated than ever. In many different ways with our products and services, and with the great expertise of our highly motivated people all over the globe, we can contribute to fight the pandemic and protect, support and save many lives. This provides considerable economic opportunities for the company. Many of the risks that could have prevented us from delivering on our mission have not materialized.

I'm thinking especially of the risk facing the supply chain. Even if disruptions are still possible, at the moment, the situation is very well-managed and under control. Net sales have increased considerably, and Q4 will be another strong net sales quarter. We have, therefore, increased our expectations on the full year performance. We now expect to reach the middle to upper end of the revised guidance for 2020. This is valid for the net sales growth guidance of between 14% and 22%, net of currency effects as well as the expected EBIT margin between 7% and 11%.

And even if we do not share our guidance for '21 before our full year 2020 figures are out, we shall not be misled by the strong 2020 performance. This is currently a special situation supported by very high orders, especially at the beginning of the pandemic. At this point in time, we do not expect this to repeat nor to continue far into 2021. We expect that the net sales volume, and thus, also earnings in the following year will be below the current level.

2021 will indeed be supported by higher orders on hand from 2020. But as I elaborated on, we are facing economical [headwinds] in several businesses that will continue to burden our growth in 2021, and there is uncertainty regarding the further development of the demand for products in connection with the COVID-19 pandemic.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We can now take a question from Kuls Eggert from Warburg.

Eggert Kuls - Warburg Research GmbH - Senior Analyst

Yes. Eggert Kuls from Warburg Research. So in the light of the second wave from COVID-19, I would like to ask whether you have -- or you feel that order demand for ventilation devices and maybe also for light breathing masks is increasing again. And with regard to light breathing masks, can we expect -- or are you in negotiations with additional countries to build up smaller production facilities, like you have done in the U.S. and will do in the U.K.? So this is the first question.

The second question is with regard to Q4. So when assuming what you will have, like every year, something like a seasonal effect in Q4, which means Q4 sales will be somewhat higher than in the previous quarters, I struggle a little bit with your earnings outlook. So my feeling is you have included some headwind, maybe from the mix in the fourth quarter. So you had some headwind already in Q3 compared to Q2, which is reflected in a somewhat lower gross profit margin. On the other hand, in Q3, you had very limited growth in functional costs. Should we expect functional costs to rise faster in the fourth quarter? Or shall we take the growth rate you have shown for Q3?

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

Yes. Thank you, Mr. Kuls. On your first question, as we are practically sold out for 2020 for ventilators, as well as for masks, we of course, do not see a significant change in the last couple of days or weeks. And the other aspect, we are not currently negotiating other big deals for new facilities for additional mask production for the foreseeable near future. So that -- what we already have on hand has stretched us well into 2021. So from the newest development there's no impact on our figures.

Your second question for the Q4, but there is more uncertainty than -- and, say, the more normal year, where in a normal year, Q4, by far, outweighs all the other quarters. How it works out this year, and the point you are getting to on the earnings outlook, there is 3 factors that you might want to consider why we expect the upper end of the guidance of 7% to 11%. If you take into account that there are some mix effects that are coming from replacing the former German government ventilator orders with orders from other areas of the world, that are not at the exact same terms, then yes, as you have indicated, we are expecting some headwinds from currencies, so resulting in a different translation factor into our figures here.

And last but not least, we are, let's say, looking at our functional expenses as we have not decided yet, but we do consider, depending on how it actually goes, a special bonus for all our employees in this special year. That is why we expect that outcome.

Operator

(Operator Instructions) We will now take our next question from Aliaksandr Halitsa from Hauck & Aufhäuser.

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

Could you talk a little bit about the ventilators in terms of -- you mentioned that as of 9 months, you have received 4x the regular amount of the annual capacity of the ventilators. I was wondering, based on your capacity and ramp-up schedule, how many more ventilators can you deliver in 2020 as compared to last year?

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

Well, the ramp-up for ventilator has begun at the beginning of the year. And the -- referring to the weekly output, that we will reach the quadruple capacity per week that we had, on average, last year. However, the ramp-up slope, such that it began, as I said, at the beginning of the year, and we are reaching the full capacity only now in October. So the total, if you indicate all the products that we can produce over the year, it will not be the 4x what we made last year, but more or less 3x the production output that we had last year.

So from there, you can estimate how it is positioned over time, the output.

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

That's helpful. And then could you...

(technical difficulty)

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

...the total capacity other than, say, other people, we do not share the total capacity -- the total upward capacity numbers.

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

Okay, understood. And then could you tell us how has the rest of the business, excluding ventilators, in Medical division performed so far in 9 months?

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

In 9 months, well, there are some modalities that have also benefited from the COVID-19, in particular, the monitoring and the accessories. However, there are some...

(technical difficulty)

...many hospitals have allocated their budgets to different areas. So that this product area and the infrastructure that requires construction on-site of the hospital, which is, say, more difficult these days, there is actually less than on a normal year.

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

Okay. And specifically talking about monitoring. In the past, it used to be kind of a problem child for Dräger. Is this product category earnings accretive for you? And if so, how does it compare to ventilators?

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

Well, it's not as profitable as ventilators, but it is accretive and has always been. As the -- so the tailwind helps here in this special year. However, our, say, efforts that resolve the -- say, our more or less structure shortfall that will become a very significant player in this area, they continue into '21, '22, as I had explained earlier. That is an effort that -- over several years. So given the status, that's it in a nutshell.

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

And then maybe also on the -- this reallocation -- can you a little -- elaborate a little bit? So how is it now structured? There are 8,500 of ventilators kind of idle, remained idle from the order that the German government placed with you? So what is the situation now? This -- do you have customers already that are willing to take the entire remaining volume? Or does the German government reimburse for some part of it? If you can share any color on the arrangement that has been made.

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

The direction is such that a major part of the units that have been freed up and are no longer required by the German government has been sold already to other customers in other geographies. It -- and some of them had a less favorable terms. And so that is the basic mechanic. And the agreement with the government is taken into account for that.

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

Okay. And so basically, the smaller part of this remaining 8,500 ventilators is due then for Q4 or Q1 next year? Is that how one should understand it. That the most of it was already placed in Q3 with other customers?

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

No. So when we are talking about it, keep in mind, firstly, the 8,500 were for delivery for -- from the P&G, mostly in 2020, but a small portion in 2021 as well. So we are, first and foremost, talking about 2020. For the year 2020, the contract was in fact not signed in Q3, but in Q4. So the final settlement, also in our figures, will be in the Q4, because -- since that is when we signed the contract.

In terms of the volume, as Stefan Dräger pointed out, the restructuring of the contract gave us the opportunity to deliver ventilators to customers, which we would otherwise not have been able to deliver to. So in fact, new orders, some of them in Q3. And we settled those, so we don't have double counting. So the total order book is accurate for the Q3. But the final settlement for additional orders that we have won in October will be done in the fourth quarter. The total number of ventilators that would otherwise have been delivered to the P&G includes, of course, new orders. It includes also a portion of accelerated orders, which we would otherwise have delivered in 2021. And that completes the picture that for what we would have delivered for the capacity that became free for 2020 has been -- is booked already with those orders.

Operator

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

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

Yes. Also a follow-up on the German order. So from what you're saying, if I understand correctly, you're basically saying that the negative impact from the order cancellation by the German government, but the refilling of the order book with new clients plus the compensation payment, if there is one by the German government, all that should basically have 0 impact on Q4 orders.

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

Yes.

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

Okay. Good. So the new orders compensate for the old ones, plus if there is a gap, there will be a compensation payment.

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

Yes. And that refers to the profitability since part of that, of course, is not -- the net effects from the order cancellation also affects orders that would have been delivered in '21. Smaller portion, but of course, that will not necessarily be [filled] up by new orders right away, and that's why (inaudible) payment, the compensation is not for the revenue, but for further profit contribution.

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

Okay. But in general, so in terms of visibility for Q4, I mean, I look at Q3 orders, group orders, roughly EUR 750 million. Obviously, there was this large U.K. order in there. If I were to practice as kind of a one-off order kind of thing, orders would have been slightly below last year, probably 4%, 5%, 6% or so. And I'm talking euros. So there's obviously the currency effect in there as well, which we have to take into account. Is this how we should look at Q4 as well, so that basically, on the underlying basis, probably Q4 orders will be below last year's level?

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

I would say possible at this point, since the key reason that is the strong order book remains in place. And provided that we do not see additional large orders on the Safety side, what remains -- what's most likely is that the underlying demand from the industry is soft. So that's a negative trend. And on the Medical side, by and large, we are starting the fourth quarter as well. In spite of the strong net sales, we started in the fourth quarter already with a record order book. It's premature to judge on whether the growth, overall, at the end of the fourth quarter will be positive or negative because the second wave is just developing, and that could have also consequences that we do not see at this point. But there's certainly a scenario where we do not see -- where we would not necessarily see strong growth or no growth at all in the fourth quarter in the order entry. But it's too early to say one way or the other.

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

Yes. And please keep in mind that we are talking about order book here. And I mentioned it in my comments to the presentation that the current delivery time that we have, the lead time of almost 1 year at the peak for ventilators, that's unhealthy. And it is very normal that the orders are below production output because it had to come down some point in time to come back to normal delivery times, that our customers can be served in a normal term of like 4 to 6 weeks.

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

So, no, I totally understand that orders will be below sales. I was more wondering whether we will see a year-over-year decline, which also -- I mean, in Q3, without the U.K. orders, we would have seen a year-over-year decline in orders.

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

Yes.

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

Okay. And so that might continue. But the question I'm really interested in is more -- let's assume Q4 orders will be somewhat lower. I mean, order intake, obviously, for the group for the full year will still be super strong. I mean, like let's say, between EUR 3.7 billion and EUR 3.8 billion order intake, and you're guiding for sales. So we have kind of a feel where sales might end up, maybe below between EUR 3.2 billion and EUR 3.3 billion, something like that. So that implies that we have a buildup in order backlog of around EUR 500 million.

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

Yes.

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

Okay. And this EUR 500 million, this will be worked down in 2021, basically. So that will be something which will support sales in 2021.

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

Yes, accurate, including the large mask orders from the U.S. and U.K. government, which (inaudible).

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

That will be (inaudible) [unless] they are scheduled deliveries into 2022.

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

Yes. Okay, I understand. So let's say it's only out of the EUR 500 million buildup in order backlog, maybe only EUR 400 million actually makes it into sales in 2021. I mean the margin on this EUR 400 million incremental sales order backlog, I would assume, it's very high. It's probably around, I don't know, 30% or so margin on this incremental order backlog that you have.

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

Yes. It's typically higher than average. That's a good assumption.

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

So basically, my question goes towards just to get a feel for 2021 EBIT. I mean, if the order backlog alone basically would generate EBIT of maybe EUR 100 million to EUR 120 million and then obviously, you have the remainder sales. I mean, the business, the rest of the business is not going to be -- I mean, it will fall, obviously, it will be weaker than in 2020, but will not totally fall apart. So EBIT generation in 2021 should still be fairly strong. I mean, never as strong as this year. We get that. But still, on the basis of a strong order backlog, the EBIT generation should still be very good.

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

I think the total conclusion is that we will share the guidance when we share the prelims for the current year 2020. So the overall considerations, I would say, are logic, plus the uncertainty from how much the decline is in the industrial business. That's the big -- the unknown factor here. And the overall, like we -- like we have been saying, it is both, say, top and bottom line will be most likely below this exceptional year. But -- and we can still get support from the backlog on the order book. And there may be new orders coming. You can see in the next days and weeks, and there may be also more downturn in those areas. So please bear with us until January.

Operator

There are no further questions at this time. I would now like to hand 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*

I'd like to -- we have a couple minutes left, so it's the last chance. If there's any more questions, then please ask them now.

Operator

And we can take Manfred Piontke from MPPM.

Manfred Piontke

Manfred Piontke. Again, on this -- yes, question mark on 2021, you gave now today, as 2 weeks ago, the forecast for '21 that turnover and earnings will be not as high as in 2020 on the one hand. But on the other hand, you're saying your guidance will be done if you present your full year figures for 2020 in January. So saying this, that earnings will be not as high and turnover will be not as high as in 2020, what [surrounding] you are seeing for 2021? The same as much as in 2020? Meaning corona will -- is still there and will damage the economic development? Or do you see a recovery, though the corona is finished, we will have the medicine and everybody is sound again, and you will have some (inaudible) orders in the [Energy] business as you see in the Medical division. And -- but then, on the other hand, you would have catch-up in the Industrial business. Is it -- I'm wrong? Or what are you seeing? What I'm not seeing? Could you elaborate from this a little bit more? And if you're saying it will be not as high as in 2021, what could we expect? As your colleague mentioned, you have an overhang in order backlog on a very, very comfortable margin situation on one hand. What could we expect minus 50%, minus 10%, what you are seeing?

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

Well, Mr. Piontke, I don't see any more than you do because I don't have a crystal ball either. So very clear, that's our speculation. And in one of the previous calls, we have been discussing whether a vaccine would come and kill the corona immediately, and that one is -- if we already have one, (inaudible) and do you see a change? No. So I think the uncertainty continues, and that's all I can say to the future.

Manfred Piontke

So again, on -- is there also the possibility or totally unlikely that you will present for 2021 higher turnover in sales and earnings? Or is this totally unlikely?

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

It's never good to rule out anything since -- who would have expected corona to take place this year, 12 months ago? What we meant to say is to, we believe, draw a conclusion from what we see in the order entry trends today. And it's not as black and white, but it's a mixture. We continue to see strong demand, but we do not see the strong demand that we have seen in Q2 and Q1. And if we put that together, at this point, we believe it is unlikely to see such a strong development in 2021, but a gradual return to a more normal development. And that is about all we wanted to say. It's dangerous to draw conclusions on will corona extend into the first or second quarter and will governments make funds available for large orders and what will the general industry do because that is, at least as far as we are concerned, who we're interpreting. What we meant to say it is just an extrapolation of the current trading into '21, and to provide some qualitative guidance, we will refine that and provide a quantitative guidance once we have collected all of our discussions with our colleagues around the globe, how they see the trading going on and what that means for our planning for the year '21.

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

Okay, if there seem to be no further questions, then I would like to thank everyone for being with us online today, and close this call. So everyone, stay safe and stay healthy and look forward to seeing you and eventually meeting you again at some point in the future. Take care, and goodbye.

Operator

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

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