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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome, and thank you for joining the Drägerwerk AG 2022 Q3 Earnings Call. (Operator Instructions)

It's my pleasure, and I would now like to turn the conference over to Stefan Drager, CEO. Please go ahead, sir.

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

Good afternoon, everyone. Welcome to everyone joining us today for our 9 months financial results. Today, I have with me Gert-Hartwig Lescow, CFO, Tom Fischler and [Nikolaus Hammerschmidt] from Investor Relations.

We would like to take you through the presentation of the results that we have available on our website this morning. I will start with an overview of some business highlights of the last quarter before I get happy to go into the financial details. We will then close the presentation with the summary. (Operator Instructions).

We already published the preliminary figures 2 weeks ago. In the final figures we published this morning, there are no meaningful deviations. Starting on Page 3, we will now look at the business highlights. Dräger continues to benefit from a good demand in all product areas and markets. Our technology for life remains in demand in these difficult times. And while our Q3 order intake was a bit softer than in the prior quarters, our order intake in the first 9 months of the year was well above the previous year's level, roughly 20% across the prepandemic level of 2019.

Despite the good development on the demand side, our greatest challenge remains turning the high orders on hand into net sales in a timely manner. The global supply chain remains challenging. Certain electronic components continue to be difficult to obtain with no visibility of future deliverables. Sourcing these goods via brokers is a costly undertaking, leading to significantly higher procurement costs and burdening our margin in addition to the current strong inflation. And with the current geopolitical situation and energy price inflation in Europe, in particular, further disruptions of the supply chains are possible. However, there are some good news. The availability of parts that has been challenging for over a year has been improving lately but not as quickly as expected and unfortunately, not in a reliable manner.

In view of the better supply, we have started to ramp up our production, for example, our anesthesia production line for the Atlan, has already gone from producing advanced shift model to producing in 2 shifts per day. The positive effect from the higher output are starting to become visible as Q3 net sales are higher than in Q1 or Q2 of this year. On the flip side, the improvement is coming later than expected and it's too late to reach our full year target. Overall, the supply chain remains unreliable. Supplies are basically impossible to plan since our suppliers are facing the same difficulties with their suppliers and so on. We do expect the supply chain situation to improve further but at a slower pace than originally thought.

This will allow us to work off the existing backlog and shorten our delivery times. Part of the existing backlog will move into the next year supporting net sales development in '23. In addition to the margin pressure coming from the shortage of supplies, we are facing higher procurement costs through the general inflation. We are mitigating these effects with unprecedented broad price adjustments for Dräger products. We are currently implementing these price increases consistently in all markets, and will thus be able to compensate for at least part of the pressure on margins going forward. This is an ongoing process and will continue into the year '23.

In addition, we have tightened cost control. We have introduced restrictions on discretionary spending and hiring. This can also limit the further cost increases going into '23. A quick update on the status of the FDA topic. In our last call, I had elaborated on the inspection at our Lubeck site that had taken place in July and has resulted in 1 finding so-called 483 in one of the quality systems we have established in regard to fulfilling the requirements of the U.S. Code of Federal Regulation.

We have responded formally and in due time to the funding, outlined our actions for correction and improvement and confirm that the finding has no negative impact on the safety and effectiveness of our products. In mid-October, we informed the FDA that our current actions for correction and improvement are progressing and successfully and according to plan. In August, the FDA conducted an unannounced inspection at our U.S. site in Telford, Pennsylvania focusing on 2 field actions. The inspection was successfully completed after just 3 days without any findings. In parallel, we are continuing our activities to submit new products to the U.S. FDA for regulatory review a key milestone to launch new products into the FDA market.

For the Atlan as well as the ventilators of the V family, the 510(k) process has started. Since this is work in process, it is too early to talk about expected approval or launch dates, we will keep you posted.

And now going to Page 4 on the innovation and new products and the expansion of our portfolio. During the Q3, we launched several new attractive products and 2 of which I would like to highlight. I'm personally very excited about the Babyroo we launched for the most vulnerable patients at prematurely born babies. Babyroo TN300 is a configurable open care warmer with thermoregulation capabilities. In skin mode, the device temperature is regulated based on the newborn's skin temperature, to allow optimal warming. Moreover, our device monitors central-peripheral temperature differences through integrated thermomonitoring to help detect thermal stress. If the patient needs further respiratory support after the initial stabilization, the Babyroo helps to bridge respiratory support until the critical patient arrives on a NICU. Blood flow support is a core real value proposition.

And so with the Babyroo support blood flows that are typically in neonatal care areas. A large graphic display with the dedicated (inaudible) use, the indicated scale with automatic weight adjustment to minimize the need to transfer the delicate newborn for weight measurements. And an automated procedure for cooling and rolling up just to name a few. These functions allow caregivers to spend less time interacting with the device to devote more time to the infant care. As discussed on several occasions, connected services are becoming more important for our customers and consequently in the Drägerwerk portfolio. Therefore, today, I would like to highlight the recent launch of our newest multi-gas detector in our mobile gas detection portfolio, the X-am 2800.

The Dräger device can detect several gases using our broad spectrum of high-quality sensors and in addition to the device connects with Dräger's cloud solution, Gas Detection Connect to automate the real-time sharing of life data regarding gases with (inaudible) is exposed. This provides users with a secure access to critical data at anytime from anywhere through an internet browser. Combined with the data from the X-Dock station providing data testing, calibration and device event history, the Dräger Cloud solution facilitates efficient fleet management.

With that, I turn over to Gert-Hartwig for a review of the financials before I'll come back with a summary and the outlook.

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 for the results of the first 9 months. Please turn to Page 5 for a view on the Dräger Group. As usual, I will be stating currency-adjusted figures whenever referring to growth rates. In the third quarter of this year, all entry was slightly softer than in the previous quarters, but remain on a solid level year-on-year the quarter was only slightly below the prior year's level. The reason that we did not grow our orders in Q3 is due to a decline of nearly 8% in the medical division. This decline is a basis effect as we still have received large corona-related orders for ventilators from Asia than last year's quarter. Other product areas recorded higher orders than last year, workplace infrastructure, greater service or thermal regulation, all reported solid growth rates.

The safety division recorded strong growth of around 11%, driven by good demand in all product areas. From a regional perspective, Europe was the biggest growth driver in order intake with an increase of 5%. While the Americas region saw a slight increase, especially coming from good demand in Central and South America, the AAA region recorded lower order intake. As mentioned, this is partly basis fact from the larger orders from (inaudible) this last year. Our net sales remained on subdued level and to continue to lag behind the development (inaudible) third quarter.

The main reason for this was the continuing disruption to supply chains and the associated slow improvement and the availability of components that we need to manufacture our end products. As a result, sales recognition from the high order backlog was delayed, while net sales in Q3 decreased by roughly 9% compared to the quarter 1 year ago. There is an improvement in the quarterly development in the current year. So compared to the net sales levels of Q1 and Q2 of this year. As Stefan Dräger pointed out, the net sales recognition has improved during the last quarter is roughly EUR 70 million above Q2. In the third quarter, gross profit of some EUR 295 million, was down significantly year-on-year as was the gross profit margin. The margin was about 6 percentage points below the level 1 year ago. The decline is mainly due to the lower net sales volume compared to the pandemic-driven good volume from the previous year.

Furthermore, the change product mix effected the margin negatively. This mix effect is due to lower net sales shares of ventilators and lower mask sales. Both categories provided well above average profit margins due to the corona pandemic. As mentioned before, these effects no longer support the 2022 earnings, unchanged compared to the last quarters, higher purchasing costs for electronic components as well as high logistics costs remained a headwind during the quarter and weighted on the customers. Both medical and safety were affected by these margin effects. As a result of the decline in net sales volume and gross profit margin as well as higher financial costs, our Q3 EBIT was significantly below the level 1 year ago. Although we see an improvement compared to the weak second quarter, the overall development of the third quarter is disappointing and below our expectations.

Looking at the 9 months period. Following the very sharp decline at the beginning of the previous year, pandemic-driven demand returned to normal. Our order intake this year rose again by 5.6%. Year-to-date, new recorded higher orders (inaudible) visions in all 3 sales regions versus 2019 in a year not yet affected by the pandemic order entry is up by more than 20%. This is a good indication that despite the very challenging macroeconomic environment, the Dräger business end markets remain intact. But the challenge we made to transform the good order development and the resulting higher orders on hand into net sales.

Our net sales decreased by 18% at constant exchange rates compared to a high level of the previous year. The headwinds for the gross margin are as same as for a single quarter, lower sales volume and favorable product mix due to the paving corona-related sales as well as higher procurement costs. Financial expenses for the first 9 months are up by some 5%, resulting in substantially lower 9-month EBIT of minus EUR 148 million. Due to the decline in earnings, the Dräger value-added EBITDA is also substantially below the prior year's level.

Let's now look at the development of the medical division on Page 6. In the third quarter, our order intake was 7.8% below the level of the prior year period. The slight increase in Europe was offset by a significant decline in the Americas as well as in Africa, Asia and Australia. In the latter region, we have benefited from corona-related demand in the prior year quarter in light of [high-inflation] increasing personnel costs, CapEx spending of U.S. hospitals has slowed down. Demand from Chinese medical companies also remains under previous expectations. Many countries in Europe remain on a growth trajectory. For example, our largest market, Germany, reported healthy order growth of some 16%, with all business units reporting higher order entry compared to the prepandemic third quarter of 2019 order entry of the quarter is still nearly 6% higher in reported terms.

As for the group, also in the Medical division, the transition to order entry into net sales is lagging and is the biggest concern for the current business development. While net sales of Q3 were still below the level 1 year to net sales (inaudible) have increased throughout the last 3 quarters. Q3 net sales are roughly EUR 40 million higher than the Q2. The situation is gradually improving. Third quarter gross profit as well as -- the gross profit margin increased by roughly 7 percentage points mainly due to the less tangible product mix, higher procurement costs for each electronic components and increased manufacturing costs. Q3 EBIT was just below minus EUR 36.5 million, corresponding to a negative EBIT margin of 8.5%.

For the 9 months period, order intake in the Medical division was stable with an increase of 1.2%, again, comparing this to a prepandemic 2019 level.

This corresponds to an order growth of some 17% growth was reported in nearly all product areas 1 exception of the orders for ventilators, which declined significantly as corona-related business returned to normal and is now (inaudible), against challenging (inaudible) net sales went down by roughly 22% in all regions and most of our product areas are affected with the exception of service. The lower volume is the main reason for the lower gross profit contribution. The gross profit margin decreased by nearly 9 percentage points, mainly due to the same reasons mentioned for the Q3 margins. Unfavorable product mix as well as higher purchasing and manufacturing costs. The functional costs up by roughly 5%, mainly caused by higher expenses in R&D and Logistics. EBIT declined to a disappointing level of minus EUR 170 million, resulting in a lower EBITDA as well.

Let's now look at the development of the safety division on Page 7. Starting with the development in the third quarter. The safety division reported higher order entrant with an increase of some 11% over the level 1 year ago. Continuously good demand across the Dräger Safety portfolio as well as all 3 regions growth is good whereby order entry from the Americas region was particularly strong. Product-wise, personnel protection equipment, service and engineered solutions were the main contributors, but also demand for Dräger gas detection systems increased. Unfortunately, also the safety division is burdened by the discussed supply chain challenges. Hence, the good order situation does not yet translate into a similarly good net sales development. Net sales in the third quarter declined by 4.5%.

All regions reported lower net sales. On a positive note, net sales in the third quarter were some EUR 30 million after level of Q2. So as is true for medical also the safety, the net sales situation is slowly improved. In line with the lower net sales volume, the gross profit margin was also around 5 percentage points lower. As a result of these 2 effects, gross profit fell significantly, the reasons are similar to the margin drivers in medical, adverse product country mix and higher expenses for the purchase of electronic components. As a reminder, last year they -- with payable margins. In total, Q3 EBIT was at breakeven level.

Looking at the 9 months period. We have the same pattern as for medical, strong development in order entry, but the poor availability of components burned the transition (inaudible). Orders are by 13% compared to 2019 by even 25%. Net sales are lagging behind with the year-over-year increase of roughly 11%. The gross profit margin decreased by close to 7%. For the same reasons just mentioned for the Q3 margin, higher functional expenses are roughly 5% of higher sales activities as well as higher logistics costs contributed to the decline. EBIT of the first 9 months was minus EUR 31.5 million due to the lower earnings (inaudible)

Let's move on to some key ratios on Page 8, starting with cash flow. Compared to last year, which was still strongly supported by the pandemic, the much lower earnings development this year has resulted in a substantially lower cash -- 2 main reasons for the (inaudible) operated cash flow where the decline in earnings and to the buildup financials, in line with the continuously high order entry and due to the slow transition into net sales, high orders (inaudible) a strong increase in inventory as the conversion from orders into net sales is starting to improve, and we're expecting to further acceleration of (inaudible). We expect a strong cash improvement in the current quarter. Investing activities generated cash inflow of nearly EUR 60 million in the first 9 months, resulting mainly from the divestment of money market funds held to liquidity management purposes, the net amount of nearly EUR 130 million.

Investments in property, plant and equipment were mainly attributable to replacement customers. As a result of the lower cash generation last 12 months net financial debt increased to around EUR 354 million at the end of September this year with the expected improvement in earnings -- and consequently better cash generation, net financial debt and the ratio of net financial debt to EBITDA will improve again, but will not reach the levels of end of last year. Net working capital mainly due to the significantly higher inventory levels of preproduced products, average working capital increased, while sales decreased days working capital out by nearly 17 days year-on-year.

Again, in Q4, with the acceleration of net sales in the current quarter, we expect an improvement of the days working capital to confirm our guided full level of 100 to 105 days. That's it from my side. Thanks, and back to you, Stefan.

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

Thank you Gert-Hartwig. In light of the very challenging macroeconomic environment, the demand for Dräger technology for life has been very strong. And while the demand in Q3 was a bit softer, our 9-month order intake is substantially above prior year's level and much higher compared to prepandemic levels. Nevertheless, business development in terms of sales development and earnings was disappointing. We have talked about the external headwinds like the supply chain challenges in the inflationary tendencies that have spurned our sales and earnings development. Some of these challenges will remain the best for longer than originally expected so the part of the order book had to be moved into '23 for delivery.

Most recently, we have seen some improvement in the availability of machine components, which led to some improvements in the transition of our good order book into next year. But this turnaround has started too late for us to be able to reach our full year track. As always, Q4 will be substantially better than the prior week was. This will be no different this year.

But since the degree of recovery is solely dependent on the availability of sufficient components and the supply remains unwavered, we cannot provide you with a helpful quantification for the remainder of the year. Some of the external headwinds will continue for a while, at least into the beginning of '23. So we have taken cost control by restricting hiring and other expenses. Our pricing measures are showing positive effects and our pricing increase will continue into (inaudible)

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We have the first question from Felix Dennl from Kepler Cheuvreux.

Felix Jonathan Dennl - *Kepler Cheuvreux, Research Division - Equity Research Analyst*

The first question that -- I have 4 questions. The first 1 would be whether you're confident that the new anesthesia and ventilation products can be sold in the U.S. in Q1 by 2023 and more specifically, whether the relevant 501(k) have already been filed. The second question relates to whether you could provide some visibility on Q4. This is usually your strongest quarter. And in fact, over the past 5 years, your Q4 EBIT margin has been around 10%. Can we expect a similar development for this year despite the supply chain challenges? And thirdly, following up on that, what visibility do you have on the supply chain? And are you confident that the worst is behind? Or will this still trigger challenges in 2023? And finally, given the new earnings disappointment, can you talk about what urgency you feel to reinstate an acceptable profitability? What actions do you take and by when at the latest do you plan to at least earn your cost of capital?

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

Okay. This is Stefan Drager answering your first question. So (inaudible) continuously we have sent the Atlan and the (inaudible) to have 510(k) in Q1. I understand that's the question. So it's -- so as I said, it's not completely in our discretion. It's in the hands of the FDA. So there is no guarantee (inaudible) Q1 from my perspective, it is very lucky that sometime during Q1, we both can have sales in the U.S. And as I said, that's not a (inaudible), but I think that's quite likely.

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

And I'm not sure I believe you asked whether that has already been filed. Yes. We have already filed the applications.

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

Of course, as the prerequisite that happened a long time and there have been discussion in sending the exchange of, say, question and answer back and forth, and now we are waiting. So that's the first question. Gert-Hartwig?

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

Second question was how about -- what's our expectation? And clearly, yes, to your question, what's the visibility in Q4, I think it relates also to the other 2 questions. But we do expect a strong acceleration in net sales development with that in a strong improvement also in profitability. The uncertainty, as Stefan Drager has pointed out, is to the exact timing. But overall, the order of magnitude of high single-digit, double-digit EBIT margin single quarter certainly what we aim for and what we also expect again, with a higher level of uncertainty with regards to the onset of the higher net sales, but that's a tiny question not a new question.

Perhaps I'll take the third question as well. You asked about (inaudible) what is the visibility in the supply chain. And, yes, I could give a mixed answer, we do have very positive indications. It includes a feedback from some of our key suppliers that they can guarantee the necessary volume. But this is also the basis for us ramping up the second line in our anesthesia manufacturing. It includes secured parts, for which we perhaps need to design and that is also included in our activities to ensure availability still, I would say the fog has not yet lifted and there is uncertainty not only going into the third quarter. But there is also, at this point, uncertainty as far as the first and perhaps second quarter of 2023 are concerned.

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

I'm happy to take your fourth question on the urgency that we feel. I can assure you that we are very enter about the situation. However, as we have outlined the uncertainty that how we finish given the lower visibility, the current quarter, the Q4 and there was the year 2022, that is already some considerable uncertainty. So we have managed to convert orders into sales reasonable manner, then it would be a completely stupid to exactly now today start a heavy say, cutting program, cutting expenses and capacity that would then prevent us from actually fulfilling the (inaudible). However, we cannot be making losses for a longer time. So that's very clear that we are not going to continue unless we will take very different actions and measures that we currently do with only some limitations on the discretionary spending. If we shouldn't say, improve our profitability quite soon, but not now.

Operator

The next question is from Christian Ehmann from Warburg Research.

Christian Ehmann - *Warburg Research GmbH - Analyst*

I have only 1 left. So when we look at the development of the order book and I mean you said that it has been improved over the last year. But when you look over the quarterly development, we do see a decline in the order book. Can you give us a little bit more detail about how this came to be?

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

Of course, part of the decline in the order book is due to the fact that we, of course, see a delivery of part of our orders. In addition to that, we also see, of course, a slight softening in some of the demand for ventilation. Please keep in mind, we had a very high ventilation order also in AAA. So to the degree that you're comparing the 2 quarters, there is a weaker order entry to be expected. But that's really, if you will, the 3 regions. That's one of the fact there is a translation of some of the orders into net sales and there is 2-degree on the medical side is somewhat softer developments.

what's also perhaps relevant to the degree you didn't ask the question, but I can clarify that. We have not received any cancellation of orders. What is included in the delivery is, in some degree, shift of orders in -- from 2022 to 2023. So the overall across periods development we view that as we got a positive sign, of course, even to the degree that we are able to deliver this year. Those orders are not lost.

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

Yes. And I would like to add the tango the slight softening that we saw on the order intake in Q3 was on the medical side, I do not see that there is an underlying trend. So we have fluctuations always in the quarters that's not something that concerns us. I would think from a potential upcoming recession a more deeper heavier recession, then that would affect some of our industrial sectors in the safety segment more, (inaudible) you also have quite some government business in authority (inaudible) division. But there, it would be visible, and we don't see that yet, whether that does not mean it's never come. But for this moment, I would say, the general statement, the markets are intact is completely true.

Operator

(Operator Instructions) We have a follow-up question from Mr. Felix Dennl.

Felix Jonathan Dennl - *Kepler Cheuvreux, Research Division - Equity Research Analyst*

The first one would relate to whether you could provide some color on China, especially (inaudible) and Phillips are seeing extensive headwinds there. So what sales growth potential do you see in China? And what do you think about the increasing preference for local suppliers? The second question relates to whether you can talk about the sales growth in 2023. While your order book may still provide some short-term support, in which regions do you have the hope for the strongest new demand? And where could you imagine the environment to become more challenging? And finally, moving into 2023, you plan to continue to work on pricing initiatives as you communicated today. And also the cost of fright and broker buys may normalize. To what extent do you believe that these factors can offset the headwind from inflation, in particular with regard to personnel costs?

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

Okay. In China, on the medical side, we see the same trend as our market companions because it's a -- government has declared medical device as more strategic. And we are kind of completely in the hands of what the government declares here. In some industries that has happened 20 years ago already, like the (inaudible) industry and some others, that's still today not the case at all. In this now, it seems to be coming to some of our medical business now. And so it is getting more difficult to get approvals for new products, it takes a longer time after the submission to the FDA to get the certification, sometimes it's required to supply the source code of the software. We are not going to do that. That's the clear intention -- would not support.

And so it's generally becoming more difficult, and then there is more and more of the tenders and the bias have these local content requirements, which is coming at a very low level. Because it's against the WTO trade agreements. So you will never find it really official (inaudible) it makes the business more difficult and that's also part of the slowdown that we've already seen this year, plus it's, of course, with the lockdowns not easy to do business in China. Our employees in our Chinese development and production facility had to sleep for several weeks (inaudible) in oil side. with feedbacks. So difficult food nutrition supply. So it is a challenge to doing business in China from several aspects. And so that is for the medical part. The safety is not affected to the same degree, but the business -- our safety division in China is smaller. And so overall, I would say, each area, so it's becoming more challenging with 2 business channel. So that is a correct observation. And it is a sizable market for us.

So that is if you look at our overall the order intake for this year, which is good. You can see that it has been compensated by other areas, including that we almost complete, say, let's say, elimination of the business in Russia, which for us was only 2% of our total sales, which is now very low. The oil has been compensated in the overall geographics. So that leads to your next follow-up question (inaudible) where would it go and where would we expected more.

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

Of course, we would expect to grow in all of our regions that overproportional growth in particular, outside of Europe, one would be in our AAA region since this is one of the regions that's most affected also by the supply chain disruptions, and we are confident to make up for that next year. And the other -- one of the other regions is North America. And here, we expect to grow faster on the back of this whole of the newly registered products on the medical side which are not yet available, but will be available irrespective of whether that will be in the first or in the second quarter and that will support for proportional growth in that region as well.

Your third question, I believe was on the balance of pricing versus broker buys and general inflation. And first, let me start with a word on the fan the pricing. Overall, we acknowledge that the effect of broker buys or high material costs versus pricing is net negative this year, but if you expect that you need to turn positive next year. That goes into explaining part of your question. The pricing effect will over balance. And the reason why this churns next year is also to do with the delay in implementing some of those price increases or pushing them through in the market really -- and so overall, the price increase will be a key driver and will also balance the higher inflation. And you rightly pointed out that it doesn't -- that it not only affect material costs but also personnel costs. The lower broker buys will contribute to that, but will be, if you will, a lower order effect equation.

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

Yes. And I can assure you that the pricing topic really has an absolute top management attention here. And as you can imagine, in European countries, in particular in Germany, that is very unusual in the organization, they never did this before after their lifetime, but mostly the ones that are votes. So it took a while to learn how to do this. And we benefit from the efforts during the course of next year. On the broker buys, I'm sure you're aware, the IFRS accounting that the commission for the broker is booked immediately in the purchase price variances account and the benefit of having the parts then after in stock is only accounted later than the result in sales.

Operator

There are no further questions at this time, and I hand back to Stefan Drager for closing comments.

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

Well, then I would like to thank everyone online for being with us today. Thank you for your interest, and I look forward to hearing or see you again sometime, hopefully soon. Thank you, and have a pleasant afternoon.

Operator

Ladies and gentlemen, the conference has now concluded, and you may disconnect your telephone. Thank you very much for joining, and have a pleasant day. Goodbye.
