

# Draegerwerk AG & Co. KGaA

Germany | Industrial Goods & Services | MCap EUR 840m

11 November 2024

INITIATION



Dräger: a life-saving tech company with rising margins; Initiate with BUY.

## BUY (INITIATION)

|               |                        |
|---------------|------------------------|
| Target price  | EUR 65.00 (INITIATION) |
| Current price | EUR 44.80              |
| Up/downside   | 45.1%                  |



## What's it all about?

We initiate coverage of Draegerwerk AG & Co. KGaA (Dräger) with a BUY recommendation and a target price of EUR 65.00 offering an upside potential of 45.1%. Draegerwerk is a well-established leader in medical and safety technology, and benefits from global long-term trends like aging populations and increasing safety standards. High customer loyalty, especially in healthcare, and new digital strategies like Dräger ONE, give it a stronger edge against competitors, which we expect to support Dräger's long-term growth potentials. With a goal to hit a 10% EBIT margin by 2030, Dräger is seen as both undervalued and poised for long-term gains. Its stock is currently trading at a significant discount compared to peers, making it an attractive bargain for investors.

## MAIN AUTHOR

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# Draegerwerk AG & Co. KGaA

Germany | Industrial Goods & Services | MCap EUR 840m | EV EUR 1,155m

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## Dräger: A life-saving tech company with rising margins; BUY.

**Dräger: a reliable partner.** Draegerwerk (Dräger) represents an attractive investment opportunity, supported by its strong position in critical industries such as medical technology and safety solutions. The company's reputation for high-quality, life-saving equipment, such as ventilators and gas detection systems, makes it a reliable partner in its supplied sectors. With continued demand driven by global megatrends such as aging populations and increasing safety requirements, Dräger is well positioned to benefit from solid market growth.

**Dräger offers financial stability alongside growth.** Financially, Dräger has shown a mixed picture, especially during the pandemic-related years with its opportunities and challenges from 2020 to 2022. However, the company's sales growth rebounded with an increase of 10.8% in 2023, and further steady growth is expected in the coming years. For FY24, we forecast revenues of EUR3.4bn and EBIT of EUR148m, based on a strong Q4 24. Overall, Dräger has a low net debt profile after restructuring its balance sheet, especially after the phasing out of the profit participation certificates over a 24-month period from 2020 to 2023.

**Protected by high barriers and high quality.** One of Dräger's strengths lies in its high customer switching costs, particularly in the healthcare sector where integrated systems and regulatory compliance make it difficult to adopt alternatives. This provides a protective moat also against larger competitors. With its mid-term corporate objectives Dräger 1) prioritizes profitability over sales growth by focusing on earnings and discontinuing unprofitable activities. 2) Dräger aims to revitalize innovation through investment in new products and tailored solutions. And 3), it seeks to enhance system interoperability (via Dräger ONE, an open device connectivity platform) by deepening customer integration and increasing brand loyalty.

**Dräger remains a bargain: Profitability first.** From a valuation perspective, Dräger's stock currently trades at an attractive discount, with a P/E ratio of only 10x for FY24 (mwb est.). Dräger's priority has changed from revenue growth towards profitability. Therefore, the company's clear focus is on increasing its EBIT margin, as well as its operational efficiency and robust cash flow generation. With a target EBIT margin of 10% by 2030, Dräger is an attractive long-term investment.

| Draegerwerk           | 2021  | 2022   | 2023  | 2024E | 2025E | 2026E |
|-----------------------|-------|--------|-------|-------|-------|-------|
| Sales                 | 3,328 | 3,045  | 3,374 | 3,417 | 3,493 | 3,594 |
| <i>Growth yoy</i>     | -2.3% | -8.5%  | 10.8% | 1.3%  | 2.2%  | 2.9%  |
| EBITDA                | 421   | 56     | 315   | 281   | 290   | 308   |
| EBIT                  | 272   | -89    | 167   | 148   | 154   | 176   |
| Net profit            | 154   | -63    | 110   | 84    | 89    | 105   |
| Net debt (net cash)   | -317  | -38    | 110   | 22    | -55   | -143  |
| Net debt/EBITDA       | -0.8x | -0.7x  | 0.3x  | 0.1x  | -0.2x | -0.5x |
| EPS reported          | 7.19  | -3.41  | 5.92  | 4.46  | 4.72  | 5.59  |
| DPS                   | 0.19  | 0.19   | 1.80  | 1.25  | 1.32  | 1.57  |
| <i>Dividend yield</i> | 0.3%  | 0.5%   | 3.5%  | 2.8%  | 2.9%  | 3.5%  |
| Gross profit margin   | 46.3% | 40.7%  | 43.3% | 43.0% | 43.2% | 43.5% |
| EBITDA margin         | 12.6% | 1.8%   | 9.4%  | 8.2%  | 8.3%  | 8.6%  |
| EBIT margin           | 8.2%  | -2.9%  | 4.9%  | 4.3%  | 4.4%  | 4.9%  |
| ROCE                  | 11.7% | -4.4%  | 7.6%  | 6.2%  | 6.4%  | 7.2%  |
| EV/EBITDA             | 2.1x  | 18.0x  | 3.7x  | 3.8x  | 3.4x  | 2.9x  |
| EV/EBIT               | 3.2x  | -11.3x | 6.9x  | 7.2x  | 6.4x  | 5.1x  |
| PER                   | 5.4x  | -13.4x | 7.6x  | 10.0x | 9.5x  | 8.0x  |
| FCF yield             | 45.8% | -17.2% | 22.6% | 11.0% | 8.4%  | 10.8% |

Source: Company data, mwb research



Source: Company data, mwb research

**High/low 52 weeks** 56.20 / 43.10  
**Price/Book Ratio** 0.6x

## Ticker / Symbols

ISIN DE0005550636  
WKN 555063  
Bloomberg DRW3:GR

## Changes in estimates

|       |     | Sales | EBIT | EPS  |
|-------|-----|-------|------|------|
| 2024E | old | 3,417 | 148  | 4.46 |
|       | Δ   | 0.0%  | 0.0% | 0.0% |
| 2025E | old | 3,493 | 154  | 4.72 |
|       | Δ   | 0.0%  | 0.0% | 0.0% |
| 2026E | old | 3,594 | 176  | 5.59 |
|       | Δ   | 0.0%  | 0.0% | 0.0% |

## Key share data

Number of shares: (in m pcs) 18.76  
Book value per share: (in EUR) 74.99  
Ø trading vol.: (12 months) 10,230

## Major shareholders (pref. shares)

Free Float 100.0%

## Company description

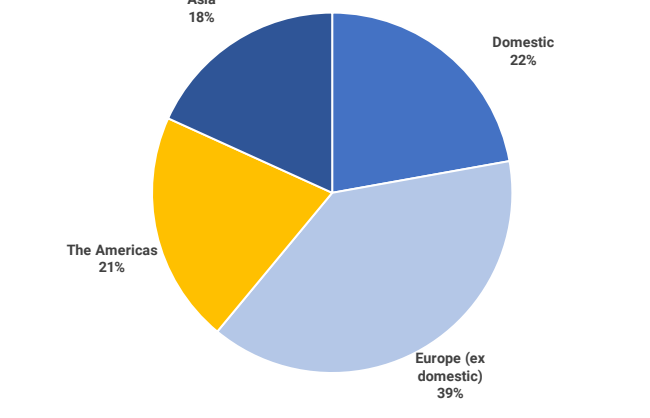
Draegerwerk AG & Co. KGaA (Dräger) develops and produces medical and safety technology products. It operates through the geographical segments: Europe, Americas, and Africa, Asia & Australia. The company was founded in 1889, is still family owned and headquartered in Luebeck, Germany.

Investment case in six charts

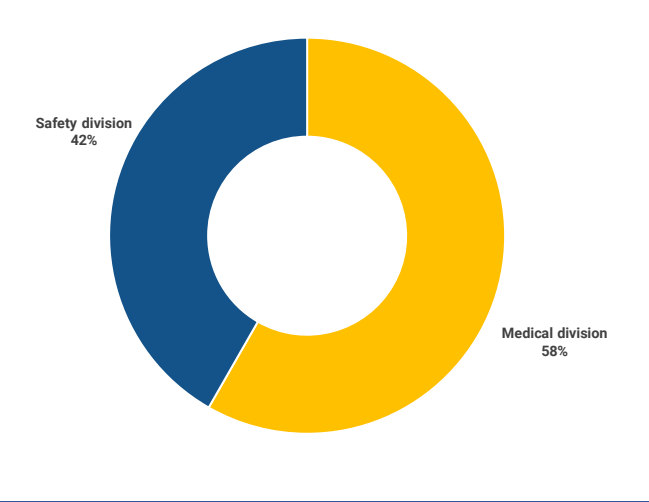
Products & Services



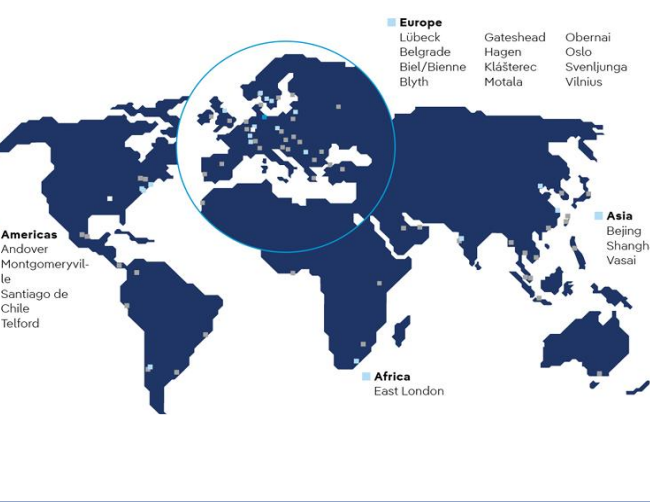
Regional sales split in %



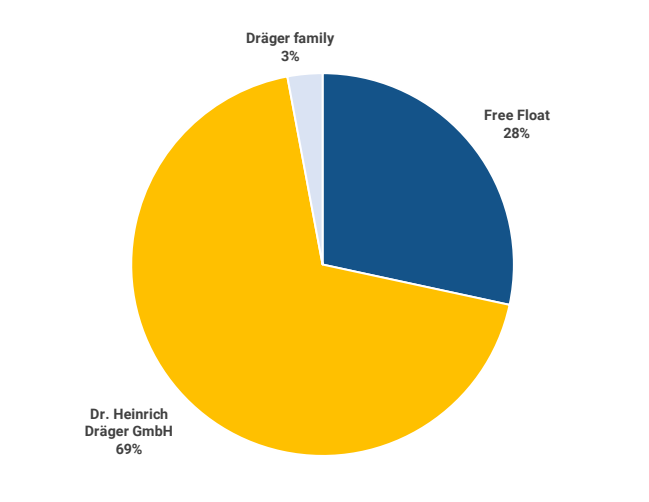
Segmental breakdown in %



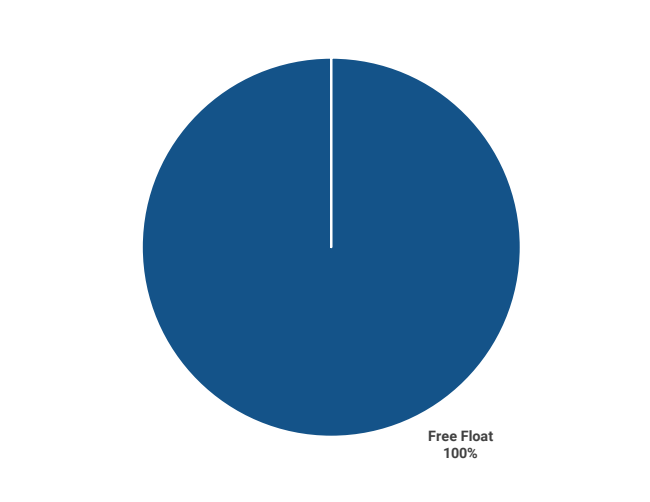
Worldwide



Major Shareholders (common shares)



Major Shareholders (preferred shares)



Source: Company data; mwb research

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## Company background

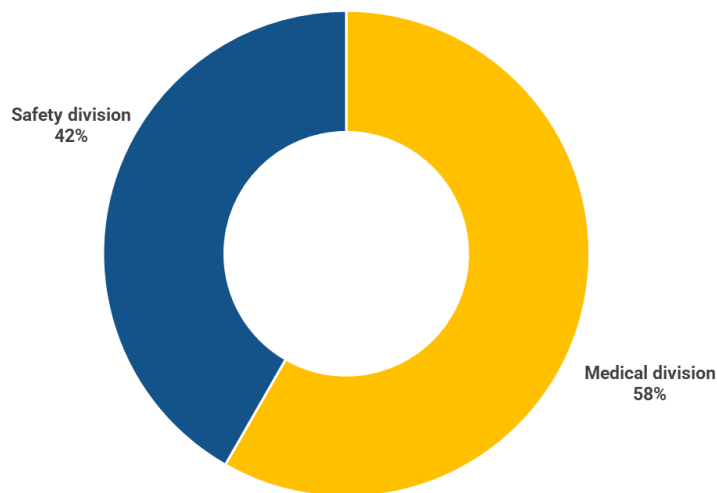
### Products & services

Draegerwerk AG & Co. KGaA (Dräger) produces medical and safety products. Dräger protects, supports and saves the lives of people around the world in hospitals, fire departments, rescue services, government agencies, mining and industry. The company was founded in Lübeck, Germany, in 1889 and is now in its fifth generation of family ownership. Dräger employs more than 16,000 people worldwide and is represented in more than 190 countries. This means that Dräger technology is used all over the world, and Dräger has its own sales and service companies working directly with customers in around 50 countries. Dräger operates in global markets through two divisions: the Medical and the Safety division.

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### Segmental breakdown

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Source: Company data; mwb research

#### Medical division:

In its Medical division, the company provides system solutions for hospitals, focusing on intensive care, operating rooms, and neonatal care. The products include ventilators, anesthesia workstations, incubators and patient monitoring systems, aimed at improving acute care outcomes. The main growth driver in this division are the therapy devices activities and the Dräger ONE platform.

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#### Medical division – product samples and market positions

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Source: Company data; mwb research

## Medical division – product samples and market positions

| Anaesthesiology                                                                                                                                                                                                                                                | Patient Monitoring & Clinical IT                                                                                                                                                                                                                         |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  <ul style="list-style-type: none"> <li>Anaesthesia workstations and vaporizers</li> <li>#1 in Europe and #2 in the US market</li> </ul>                                      |  <ul style="list-style-type: none"> <li>Infinity Acute Care System</li> <li>Clinical software solutions</li> <li>Telemetry and IT-solutions</li> </ul>                  |
| Ventilation                                                                                                                                                                                                                                                    | Workplace Infrastructure                                                                                                                                                                                                                                 |
|  <ul style="list-style-type: none"> <li>Emergency &amp; Transport-, Neonatal- and Intensive Care ventilators</li> <li>Respiratory monitoring</li> <li>#1 in Europe</li> </ul> |  <ul style="list-style-type: none"> <li>Medical supply units</li> <li>Medical Gas supply systems</li> <li>Medical lights and video solutions</li> </ul>                 |
| Thermoregulation                                                                                                                                                                                                                                               | Service & Consumables                                                                                                                                                                                                                                    |
|  <ul style="list-style-type: none"> <li>Incubators and Warming Therapy</li> <li>#2 worldwide and #1 in Europe</li> </ul>                                                      |  <ul style="list-style-type: none"> <li>Consumables and accessories</li> <li>Classical-, Multivendor product service, Professional Service</li> <li>Training</li> </ul> |

Source: Company data; mwb research

### Safety division:

In the Safety division, Dräger supplies essential safety equipment, such as alcohol and drug testing devices (global market leader), breathing apparatus for fire services and gas detection systems for hazardous industries like oil, gas, and mining. The company also supports chemical industries with personal protection equipment and safety technologies. Additionally, Dräger serves other sectors such as maritime, and manufacturing, offering solutions to manage workplace hazards. With its comprehensive product portfolio, Dräger ensures safety and protection across diverse industries worldwide.

## Safety division – product samples and market positions



Source: Company data; mwb research

## Safety division – product samples and market positions

|                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                               |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Breathing Systems</b>  <ul style="list-style-type: none"> <li>Self-contained Breathing Appartus for fire fighters</li> <li>#2 worldwide and #1 in Europe</li> </ul>                                                                | <b>Impairment Check Equipment</b>  <ul style="list-style-type: none"> <li>Alcohol- and drug screening devices</li> <li>Interlock devices</li> <li>#1 worldwide and #1 in Europe</li> </ul>                                   |
| <b>Gas Detection Systems</b>  <ul style="list-style-type: none"> <li>Fixed and mobile gas detection systems</li> <li>#1 worldwide and #1 in Europe</li> </ul>                                                                         | <b>Engineered Solutions</b>  <ul style="list-style-type: none"> <li>Customer specific solutions</li> <li>mobile and stationary firefighting training systems</li> <li>Rescue chambers</li> </ul>                             |
| <b>Personal Protection Equipment</b>  <ul style="list-style-type: none"> <li>Protection equipment for hazardous working environments</li> <li>Body and Head protection, rescue and escape devices, Masks and Filters, etc.</li> </ul> | <b>Service &amp; Consumables</b>  <ul style="list-style-type: none"> <li>Spareparts and consumables</li> <li>Product Service</li> <li>Rental, On-site shops and Shutdown Service</li> <li>Marine-Offshore Service</li> </ul> |

Source: Company data; mwb research

## Products & services

Dräger offers a wide range of products in both divisions. The exact number of individual product models and their variants cannot be determined precisely, but Dräger's product range in both divisions covers numerous categories, reflecting the company's extensive and specialized portfolio. Dräger's sales volume is not dependent on any single product. Overall, the portfolio is extremely diverse. The following is an overview of the entire spectrum.

## Products & Services – an overview



Source: Company data; mwb research

## Management

The Dräger family has been central to the company's operations since its founding by Johann Heinrich Dräger. The company remains a family-owned and controlled business, with members of the Dräger family involved in its leadership for several generations. Currently, Stefan Dräger is serving as the Chairman of the Executive Board (CEO). He represents the fifth generation of the Dräger family involved in the company's operations. Under his leadership, the company has expanded its product portfolio and global footprint, especially in the medical sector. In addition, Dräger's Executive Board includes several key members:

- **Gert-Hartwig Lescow:** CFO and Vice-Chairman of the Executive Board, responsible for IT, with a background in physics and an MBA from MIT.
- **Stefanie Hirsch:** Board member for Sustainability and Quality, with extensive experience in quality assurance from Abbott and Ortho Clinical Diagnostics.

|                                                                                                                                                          |                                                                                                                                                        |                                                                                                                                    |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
|                                                                         |                                                                       |                                                  |
| <b>Stefan Dräger</b><br>CEO since 2005<br><br>Stefan Dräger joined in 1992 and represents the fifth generation of the Dräger family to lead the company. | <b>Gert-Hartwig Lescow</b><br>CFO since 2008<br><br>Vice-Chairman of the Executive Board, oversees Finance and IT. He has been with Dräger since 2008. | <b>Stefanie Hirsch</b><br><br>She is member of Dräger's Executive Board and responsible for Sustainability and Quality since 2024. |

Source: Company data; mwb research

- **Rainer Klug:** Oversees the Safety Division, bringing experience in global operations from KSB AG and Giesecke & Devrient.
- **Dr. Reiner Piske:** is responsible for Sales and Service and he has held various leadership roles within Dräger, focusing on customer-centric strategies, sales growth, and global market expansion.
- **Anton "Toni" Schrofner:** Leads the Medical Division with a background in industrial engineering and management roles in healthcare.

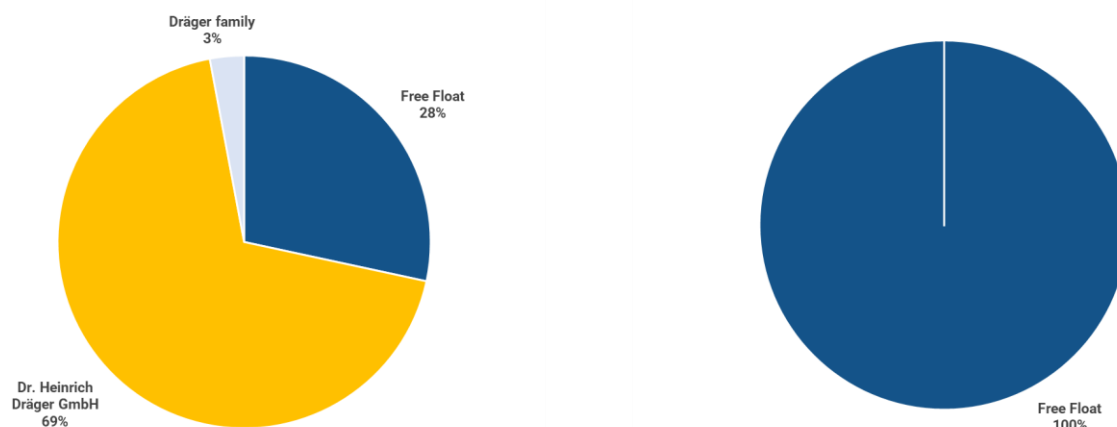
|                                                                                                                              |                                                                                                                                                                    |                                                                                                                                                                  |
|------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                           |                                                                                 |                                                                              |
| <b>Rainer Klug</b><br><br>Rainer Klug leads the safety division and has been a member of Dräger's Executive Board since 2015 | <b>Dr. Reiner Piske</b><br><br>Dr. Reiner Piske serves as the Executive Board member responsible for Sales and Human Resources and has been with Dräger since 2015 | <b>Anton Schrofner</b><br><br>Toni Schrofner leads the medical division since 2020 and has been with the company since 2010, when he joined the Executive Board. |

Source: Company data; mwb research

## Shareholders

Dräger's share capital is split into common and preferred shares. As defined by Deutsche Börse AG, some 72% of the common shares are attributed to the Dräger family, with 68.7% held by Dr. Heinrich Dräger GmbH and an additional c. 3.0% by individual family members. The remaining c. 28.4% of the common shares are publicly traded. All preference shares, which carry no voting rights, are fully (100%) in free float. Approximately 51% of the preference shares are held by institutional investors and 24% by private investors. The remaining 25% are held by employees (1%), brokers (5%) and unidentified parties (19%).

### Major Shareholders of common shares (left pie) and preferred shares which carry no voting rights (right pie)



Source: Company data; mwb research

## Dräger Value Added (DVA)

Dräger Value Added (DVA) is a key financial indicator used by Dräger to manage the company. It shows the performance of the Dräger and its segments. DVA is based on the operating result (EBIT) of the last twelve months and the imputed cost of capital, which is calculated from the capital employed and the cost of capital. A key objective of DVA is to promote profitable growth, operational efficiency and capital efficiency. DVA is also used in strategic decisions and in the variable compensation of executives. In 2023, the cost of capital was 7% and it was increased to 9% in 2024 to reflect the interest rate environment. For 2025, it is expected to decrease again, as mainly in the second half of 2024, interest rates declined.

# Quality

## Customers

Dräger's customers come from a wide variety of industries, focusing on both medical and safety sectors. On the medical side, its customers primarily include hospitals and healthcare facilities. In the safety division, Dräger serves industries with high safety needs, such as fire services, oil and gas, chemical industries, mining, and the public sector.

### **Dräger serves a wide range of global markets through its medical and safety divisions.**

In the Medical division, Dräger focuses primarily on hospitals and acute care facilities. The company offers system solutions for intensive care units, operating rooms, and neonatal care departments. These solutions include anesthesia workstations, incubators, ventilators, patient monitoring systems, and workplace infrastructure. Dräger's medical technologies are designed to support acute care in hospitals, ensuring optimal treatment outcomes and enhancing patient safety during critical interventions.

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#### **Dräger markets served by two divisions**

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Hospital



Fire Services



Oil and gas industry



Mining



Chemical industry



Other markets

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Source: Company data; mwb research

In the safety division, Dräger supplies essential safety technologies to various high-risk industries. The company is a major provider of alcohol and drug testing devices, breathing apparatus and safety solutions for fire services, helping to protect firefighters with state-of-the-art equipment. Dräger also plays a key role in the oil and gas industry, offering personal protection equipment and both fixed and mobile gas detection systems, which are crucial in hazardous environments. The mining and chemical industries are similarly supported by Dräger's safety systems, including breathing systems, gas detection technologies, and personal protective equipment, to ensure the safety of workers and maintain operational safety standards.

### **A fragmented customer base reduces risks**

With this fragmented customer base, Dräger does not rely heavily on any single customer for a substantial portion of its sales. The company serves many small and medium-sized clients across a wide range of industries. While Dräger may have larger contracts with certain government or hospital networks, these typically do not exceed the 5% of sales threshold (mwb est.) that would mark a significant

dependency on any one entity. This diversification of the customer base reduces risk for Dräger.

### **Customer's value quality over just pricing effects**

Dräger's customers, especially in the medical field, tend to prioritize quality, reliability, and compliance with regulatory standards over pure price considerations. In fields like healthcare and safety, where the stakes are life and death, customers value trusted, certified products. However, public hospitals and governmental clients often face budget constraints, so price sensitivity does play a role, particularly in bidding processes for contracts, but a minor one.

In the safety division, large industrial customers are somewhat price-conscious, but the critical nature of the equipment (e.g., gas detectors or breathing apparatus) means that performance, durability, and compliance with industry regulations may weigh more heavily than price alone.

Therefore, Dräger captures a significant portion of customers' risks in these categories but not the entirety of their budgets, as these customers often procure from a range of suppliers. That said, Dräger faces competition from large multinational companies like GE Healthcare, Siemens Healthineers, and Honeywell (in safety equipment), which could offer competitive or technologically superior products. However, the trust and reliability built over time make switching less frequent.

### **Customer's switching cost are rather high**

Switching costs in the medical sector are high due to system integration, staff training, and regulatory requirements, making it difficult for instance for hospitals to switch suppliers. Therefore, buyers cannot supply their own medical devices, as Dräger's equipment is highly specialized and certified. While facing competition from other companies such as GE Healthcare or Siemens Healthineers, Dräger's reputation for quality reduces frequent switching. Large hospital groups can negotiate through bulk purchases, but the critical nature of Dräger's products limits their bargaining power. Overall, Dräger's expertise in life-saving technology gives it strong position.

For the Safety division, switching costs are less high, as industrial customers need to retrain staff and recalibrate equipment, though the process is easier than in healthcare. But also, buyers cannot supply their own safety equipment, as products like gas detectors and respiratory systems require specialized engineering and certificates. Dräger competes with firms like Honeywell, but its trusted reputation discourages frequent switching. Large industrial clients have some bargaining power due to order volumes, but safety compliance reduces their leverage. Dräger remains a crucial supplier for high-risk industries due to the critical nature of its solutions.

### **Regional sales structure**

Overall, Dräger serves a mix of institutional, government, and corporate customers – globally. Dräger is represented in more than 190 countries and has its own sales and service companies working directly with customers in around 50 countries. These many efforts are reflected in diversified revenue streams from all parts of the world. Although Europe (EMEA 39%), and Germany (22%) in particular, remains Dräger's home turf with c. 61% of sales, while the Americas represent 21% of sales and Asia/APEC account for 18% of sales in 2023.

| Regional sales split (EURm) | 2022         | 2023         | 2024E        | 2025E        | 2026E        |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Domestic (Germany)          | 666          | 748          | 758          | 775          | 797          |
| Europe (ex Germany)         | 1,168        | 1,310        | 1,327        | 1,356        | 1,395        |
| The Americas                | 620          | 701          | 710          | 725          | 746          |
| Asia/APEC                   | 592          | 615          | 623          | 636          | 655          |
| Rest of World               | 0            | 0            | 0            | 0            | 0            |
| <b>Sales</b>                | <b>3,045</b> | <b>3,374</b> | <b>3,417</b> | <b>3,493</b> | <b>3,594</b> |

Source: Company data; mwb research

## Competition

### Main Competitors

Dräger competes with various companies across both its medical and safety technology sectors. Main competitors include well known players such as:

- **Medical Division:** Philips Healthcare, GE Healthcare, Medtronic, Siemens Healthineers, Mindray, Getinge.
- **Safety Division:** Honeywell, 3M, MSA Safety, and Scott Safety.

### Market shares

Dräger's market share is strong in Europe but faces tough competition both in Europe and globally. Dräger has a leading market position in certain medical sectors like anesthesia and ventilation but has smaller shares compared to global giants like Philips and GE in broader healthcare markets. In safety, Honeywell and 3M hold dominant positions.

While Dräger has experienced growth, particularly during the COVID-19 pandemic (due to ventilator demand), it faces increasing competition. However, the company may be protecting its ground in broader healthcare against larger players like GE and Philips due to the connectivity of its devices and the aim to gain market shares in the medical monitoring activities. In addition, Dräger is in the position maintain and strengthen its position in specialized segments.

### New entrants are unlikely in both segments

New entrants are unlikely to succeed in industries such as medical technology and safety solutions due to several formidable barriers. The following factors were identified and create a complex environment that makes it unlikely for new entrants to gain a foothold without significant resources, time, and expertise:

**High Fixed Costs:** Developing complex, life-critical equipment like ventilators or gas detection systems requires large capital investments in research and development (R&D), manufacturing, and regulatory compliance. For instance, Dräger was founded in 1889 and has more than 135 years of experience.

**Intellectual Property (IP):** Proprietary technologies and patents, particularly in medical devices, create significant barriers to entry. Dräger runs an own and in-house department for IP and certification processes as well as approval process for instance for CE and FDA approvals.

**Experience and Reputation:** Dräger's long-standing expertise in medical technology and safety solutions provides an edge in customer trust. For more than 135 years, Dräger has built strong partnerships with global healthcare providers, industry players and government institutions. Dräger's specialization in areas with critical

requirements such as industrial safety, firefighting and life-saving equipment (see Drägerman) sets it apart from more general competitors.

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### Draegerman – the best reputation

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Source: Company data; mwb research

**Regulatory Compliance:** Stringent government regulations (such as those enforced by the FDA and EU MDR) in the medical field are a barrier to new entrants. And Dräger has acquired the expertise and certifications to comply with these regulations.

**Supply/Distribution:** Established relationships with hospitals, healthcare providers, and industrial firms also protect incumbents from competition.

### Dräger's USP: reputation and high-quality engineered and "Made in Germany"

Dräger's most meaningful USP is its reputation for reliable, high-quality technology, trusted in life-critical environments. The company's specialization ensures robust, durable products for high-risk industries such as hospitals and firefighting. Dräger's focus on innovation, including intelligent safety solutions, keeps the company at the forefront of technological advances. In addition, long-term customer relationships and 135 years of experience are hard to replicate.

## Suppliers

Dräger procures a range of materials and components, including electronic parts, sensors, plastics and special metals, primarily for its technology products. It also procures gases for its detection systems and other high-precision components for its medical devices. Its sourcing includes both raw materials and complex subassemblies that require stringent quality standards.

Dräger works with platforms in a similar way to car manufacturers. This means that the company's own products generally use the same primary products and components, so that purchasing structures are lean, order volumes are high and negotiating power with suppliers is strong.

### Broad supplier base with limited concentration

Dräger's supplier base is moderately concentrated und diverse in key categories. In critical areas such as electronic components and sensors, the company typically uses multiple suppliers to ensure flexibility and reduce risk. However, some highly specialized components may rely on fewer suppliers due to the nature of the product requirements.

### Mostly, switch to other suppliers is possible but challenging

Switching suppliers can be challenging for Dräger, especially for highly regulated medical and safety equipment where strict certifications and quality control are required. Switching is easier for standard components, but for specialized and

certified parts, switching involves long lead times and compliance testing, which limits flexibility.

### **Bargaining power partly limited for Dräger**

Like Dräger itself, some suppliers are highly specialized and highly regulated. As a result, manufacturers of components such as sensors, critical electronic parts and medical materials have a stronger negotiating position. Some rare components, such as advanced sensors or specialized gas detectors, are critical to Dräger's products, making it more difficult to negotiate prices or quickly find alternatives.

### **Human resources are a key success factor**

Dräger requires highly qualified engineers and technical experts, particularly in areas such as biomedical engineering, software development and sensor technology. Even if Dräger employs more than 16,000 people worldwide and is represented in more than 190 countries, these specialized skills and skilled employees can be limited, especially in peripheral locations. Hence, filling positions in R&D and high-precision manufacturing is often highly competitive and therefore expensive.

# Theme

## Final 9M/Q3 figures released

### Higher order intake in 9M 24

Dräger has published final figures for the third quarter 2024. According to these figures, Dräger's order intake in the first nine months of 2024 increased by 1.4% (nominal: 0.7%) to around EUR 2.42bn after adjustment for currency effects and was thus slightly up on the previous year's figure (EUR 2.40bn).

Dräger's two segments developed very differently. While order intake in the Safety division increased by 6.5% (nominal: 6.0%) to around EUR 1,052m (9M 23: EUR 993m), order intake in the Medical division decreased by 2.1% (nominal: -3.0%) to around EUR 1,368m (9M 23: EUR 1,411m). This development continues to be due to the significant decline in demand for ventilators, particularly in China, which supported last year's figures. There are still no signs of a stable recovery in China.

### Q3 with good development, while headwinds remain...

In the third quarter, currency-adjusted order intake rose by 2.6% (nominal: 1.2%) to around EUR 816.2m (Q3 23: EUR 806.7m). In the Safety segment, currency-adjusted order intake rose significantly by 11.9% (nominal: 10.9%) to around EUR 348m (Q3 23: EUR 314m). In the Medical division, sales decreased by 3.4% (nominal: -5.0%) to around EUR 468m (Q3 23: EUR 493m) on a currency-adjusted basis.

Group sales decreased slightly by 1.8% to EUR 775m in Q3 24, compared to EUR 789m in the same period last year. Adjusted for currency effects, the decline was 0.7%. Sales declined in both divisions: In the Medical division, Dräger recorded a weak development in China. As a result, group EBIT fell from EUR 29.2m in the previous year to around EUR 24.4m this year. However, this figure includes positive one-time effects of around EUR 10m from divesting activities in Spain. Including these effects, the corresponding margin was around 3.1%, compared with 3.7% in the previous year. Excluding the one-off effect, however, the EBIT of EUR 14m in Q3 24 translates into a low margin of 1.8%.

Overall, the nine months figures are characterized by one-off effects. These one-off effects include the sale of a non-core business in the Netherlands and a property in the US in the second quarter, totaling approximately EUR 20m. In the third quarter, the sale of the aforementioned building in Spain made a positive contribution of approximately EUR 10m.

### ... but guidance was confirmed.

Dräger confirms its outlook for the current fiscal year 2024 and expects currency-adjusted sales growth of 1.0 to 5.0% and an EBIT margin of 2.5 to 5.5%. More detailed, the company continues to expect sales growth in the lower half of the forecast range, while an EBIT margin in the upper half of the forecast range is expected. It should be noted that EBIT in 2024 is expected to be positively impacted by two one-time effects: 1) the sale of a small subsidiary in the Netherlands (EBIT one-off effect of EUR 15m; mwb est.) and 2) the sale of a property (EBIT one-off effect of EUR 4m; mwb est.). In total, these effects will lead to a positive one-off effect of approximately EUR 20m (mwb est.), which will help the company to reach the upper half of the EBIT margin corridor.

# SWOT analysis

## Strengths

- Dräger is globally a well-known brand for its high-quality products
- Strong brand reputation is a significant asset, which is confirmed by 'Draegerman' - a common name for a rescue worker in mines.
- Diverse product portfolio and wide range of product lines.
- The company invests heavily in research and development, leading to innovative products and solutions that meet industry standards.
- Dräger has a strong international presence, with operations in 190 countries.
- High switching costs at customers lead to loyalty and barriers to entry.
- Little debt and asset-light business model offer a strong balance sheet.

## Weaknesses

- Despite its global presence, Dräger has a significant portion of its revenue coming from Europe (39% EMEA plus 22% Germany).
- Focus on high-quality and innovation results in higher operational costs.
- Any quality issues or product recalls can negatively affect Dräger's brand reputation and financial performance.
- Operating in the medical and safety technology sectors means compliance with strict regulations, which can be time-consuming and costly (current FDA warning letter ties up capacities and hinders sales activities).
- Comparably low margins.

## Opportunities

- Turn-around in 2023 reached, topline growth offers economics of scale.
- Growing healthcare market and the increasing global demand for healthcare services offers attractive growth rates.
- Benefits from global mega trends: aging population, digitization / connectivity, security, etc.
- Advances in technology, such as digital health solutions (SDC - Service-oriented Device Connectivity), offer opportunities for Dräger to innovate and expand its product offerings (Dräger ONE / a platform strategy).
- Monitoring activities within the Medical segment offer growth potential.
- Emerging markets present opportunities for above-average growth.
- Strategic partnerships and collaborations with other companies and research institutions can drive innovation and market expansion.

## Threats

- Economic or regulatory changes can impact the company's performance.
- Intense competition in both Medical and Safety division. Both sectors are highly competitive, with established players (Philips, GE, MSA, etc.).
- Global economic fluctuations and uncertainties, such as those caused by pandemics or geopolitical tensions, can affect demand.
- Changes in regulations and compliance requirements in different countries can pose challenges and increase operational costs.
- Global supply chain disruptions can impact Dräger's ability to manufacture and deliver products.
- As Dräger increasingly adopts digital solutions, the risk of cyberattacks and data breaches becomes more significant.

# Growth

Dräger's overarching growth trends are largely driven by the well-known megatrends of globalization: the need for safety, health and healthcare in an aging society, as well as digitalization and connectivity.

## **Sound market growth in both divisions expected**

In the medical technology segment, Dräger is benefiting from increasing health awareness and the growing need for high-quality medical care in both emerging and industrialized countries. Demographic changes and increasing life expectancy are driving demand for advanced medical devices and technologies that ensure efficient and safe patient care. Market growth in the medical and healthcare sector should be at least 8% pa over the cycle.

Global uncertainty and an increasing focus on occupational safety play a key role in the safety technology segment. Companies are increasingly investing in occupational safety measures, especially in conjunction with ESG guidelines, to protect their employees and facilities. The growing need for safety offers Dräger long-term growth opportunities in this area. The global market for industrial and workplace safety technology is growing steadily. In 2023, the market was valued at around USD 6.2bn and is projected to grow with a compound annual growth rate (CAGR) of about 6% over the next decade.

In addition, the trends towards digitalization and connectivity open up new opportunities for Dräger, as connected devices and automation enable efficiency gains and new business models. At the same time, challenges in the area of data security and the use of platforms must be overcome in order to successfully exploit the opportunities of digitalization.

## **Opening new fields of connectivity via Dräger ONE**

In the area of connectivity and digitization, Dräger plans to increasingly focus on the integration of networked devices and data platforms, particularly in the medical technology area and in the monitoring subsegment. A key goal is to increase efficiency and safety in various areas, in particular through the digital networking of various end devices on an open platform that also enables connection to third-party devices. Dräger is working on the development of new platform-based business models that optimize the interaction between people and technology, for example through the use of interoperability – the ability of different systems, devices or software applications to communicate with each other and work together seamlessly – and data-based analysis processes. The launch of the connected device monitoring platform is expected not before FY26.

In addition, Dräger is focusing on ensuring that the collected data is not only used efficiently, but also that the highest standards of data security are maintained. Cloud-based solutions also play a role here in order to improve the flexibility and availability of the systems.

## **Outlook 2024**

For the current fiscal year (2024), Dräger expects net sales growth of 1.0 to 5.0 percent (adjusted for currency effects) and an EBIT margin of 2.5 to 5.5 percent. While sales growth is anticipated to be in the lower half of this range due to weaker demand in the medical division, the company is more optimistic about achieving an EBIT margin in the upper half, driven by stronger performance in the safety division and positive one-off effects.

### Mid-term target: margin improvement to reach 10% EBIT margin by 2030

In the medium term, Dräger is focusing on improving profitability through operational efficiency and by exploiting growth opportunities, in particular in the safety division, which has shown consistent growth. Challenges in the medical division, such as changing demand dynamics in regions such as China, remain a focus, but the company sees potential for recovery and longer-term growth through continued investments in innovation and digitalization.

Dräger's overarching goal is to increase the EBIT margin on average by 1 percentage point per year in order to achieve a margin of around 10% in 2030. The company is therefore focusing on expanding net sales while maintaining strict cost management.

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### Dräger's strategy: To increase DVA – Dräger Value Add

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Source: Company data; mwb research

The mid-term corporate objectives focus on three key areas: prioritizing profitability, driving innovation, and enhancing system interoperability. Firstly, the company is shifting from a sales growth model to a focus on earnings growth, emphasizing profitability through cost discipline and discontinuing unprofitable activities. Secondly, they aim to revitalize innovation by investing in new products and tailored solutions to meet customer needs. Lastly, the company seeks to strengthen its competence in system interoperability, aiming for deeper integration in customers' processes, increased brand loyalty, and expanded system-based solutions. Overall, Dräger aims to create a more profitable, innovative, and integrated business model that aligns closely with customer needs and market demands.

## Dräger's strategy in detail: Mid-term Corporate Objectives

### Profitability first

Priority has changed from revenue growth towards profitability.

#### Shift from sales growth to earnings growth by

- Increasing profitability by exploiting opportunities, price enforcement and cost discipline
- Even stronger focus of activities on customer needs
- Consistent implementation of own initiatives
- Adjustment or discontinuation of unprofitable activities

- Increase in the EBIT margin by an average of 1 PP per year from 2024

### Innovation Leadership

Revitalize our innovation, deploy this strength successfully to our markets and become first choice for our customers.

#### Revitalizing our innovation by

- Investing in the development of innovative products
- Investing in commercial innovation to develop business models that meet the needs of our existing and future customers
- Promoting local innovation and value creation in the countries, particularly in services, project business and add-on software, by offering customized solutions where they are used

- Increase innovation share

### Competence in Inter-operability/System Business

We enhance the level of competence on interoperability, system and solution business.

#### Concentration on the systems business with the aim to

- Increase the share of wallet (customer purchase potential)
- Increase the share of mind (brand loyalty)
- Even deeper integration into the customer's value creation process
- Stronger development of our transaction and part number-oriented business towards an approach based on system solutions and cash flow orientation

- Increase share of systems and solutions systems
- Train sales and service employees
- Increase maturity-level of key countries

Source: Company data; mwb research

Taking into account the above-mentioned market potential and Dräger's strategy, the following performance expectations are modeled.

| Growth table (EURm) | 2021  | 2022  | 2023  | 2024E | 2025E | 2026E |
|---------------------|-------|-------|-------|-------|-------|-------|
| Sales               | 3,328 | 3,045 | 3,374 | 3,417 | 3,493 | 3,594 |
| Sales growth        | -2.3% | -8.5% | 10.8% | 1.3%  | 2.2%  | 2.9%  |
| EBITDA              | 421   | 56    | 315   | 281   | 290   | 308   |
| EBITDA margin       | 12.6% | 1.8%  | 9.4%  | 8.2%  | 8.3%  | 8.6%  |
| EBIT                | 272   | -89   | 167   | 148   | 154   | 176   |
| EBIT margin         | 8.2%  | -2.9% | 4.9%  | 4.3%  | 4.4%  | 4.9%  |
| Net profit          | 154   | -63   | 110   | 84    | 89    | 105   |

Source: Company data; mwb research

The following table displays the quarterly performance of **Drägerwerk AG & Co. KGaA**.

| P&L data           | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 | Q1 2024 | Q2 2024 | Q3 2024 |
|--------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Sales              | 1,018.2 | 761.1   | 771.3   | 788.5   | 1,052.6 | 735.8   | 784.7   | 774.6   |
| yoy growth in %    | 10.0%   | 17.2%   | 18.1%   | 8.8%    | 3.4%    | -3.3%   | 1.7%    | -1.8%   |
| Gross profit       | 418.0   | 342.8   | 332.1   | 346.8   | 437.9   | 333.6   | 347.9   | 337.0   |
| Gross margin in %  | 41.1%   | 45.0%   | 43.1%   | 44.0%   | 41.6%   | 45.3%   | 44.3%   | 43.5%   |
| EBITDA             | 98.9    | 63.9    | 54.5    | 64.3    | 132.3   | 47.6    | 76.7    | 54.3    |
| EBITDA margin in % | 0.0%    | 8.4%    | 7.1%    | 7.6%    | 12.6%   | 6.5%    | 9.8%    | 7.0%    |
| EBIT               | 59.7    | 29.1    | 18.7    | 29.2    | 89.4    | 15.1    | 40.7    | 24.0    |
| EBIT margin in %   | 5.9%    | 3.8%    | 2.4%    | 3.7%    | 8.5%    | 2.1%    | 5.2%    | 3.1%    |
| EBT                | 59.3    | 24.4    | 13.2    | 23.4    | 80.4    | 10.6    | 36.5    | 21.1    |
| taxes paid         | 10.2    | 7.2     | 1.8     | 4.8     | 15.6    | 3.0     | 10.0    | 5.8     |
| tax rate in %      | 17.3%   | 29.5%   | 13.6%   | 20.5%   | 19.4%   | 28.3%   | 27.4%   | 27.4%   |
| net profit         | 49.1    | 17.2    | 11.4    | 18.6    | 64.8    | 7.5     | 26.5    | 15.3    |
| yoy growth in %    | -396.8% | -163.5% | -122.4% | -153.4% | 32.1%   | -56.4%  | 133.2%  | -17.7%  |
| EPS                | 2.58    | 0.92    | 0.58    | 0.95    | 3.47    | 0.39    | 1.43    | 0.79    |

Source: Company data; mwb research

# Valuation

## DCF Model

The DCF model results in a **fair value of EUR 65.25 per share**:

**Top-line growth:** We expect Draegerwerk AG & Co. KGaA to grow revenues at a CAGR of 2.3% between 2024E and 2031E. The long-term growth rate is set at 2.0%.

**ROCE.** Returns on capital are developing from 6.2% in 2024E to 6.6% in 2031E.

**WACC.** Starting point is a historical equity beta of 2.00. Unlevering and correcting for mean reversion yields an asset beta of 1.16. Combined with a risk-free rate of 2.0% and an equity risk premium of 6.0% this yields cost of equity of 9.5%. With pre-tax cost of borrowing at 5.0%, a tax rate of 30% and target debt/equity of 0.1 this results in a long-term WACC of 8.9%.

| DCF (EURm)<br>(except per share data and beta) | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E | Terminal<br>value |
|------------------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------------------|
| NOPAT                                          | 103   | 106   | 122   | 125   | 126   | 126   | 123   | 125   |                   |
| Depreciation & amortization                    | 133   | 136   | 132   | 126   | 122   | 122   | 122   | 122   |                   |
| Change in working capital                      | -3    | -26   | -23   | -21   | -19   | -16   | -16   | -16   |                   |
| Chg. in long-term provisions                   | 3     | -2    | -3    | -11   | -13   | -16   | -16   | -17   |                   |
| Capex                                          | -96   | -98   | -101  | -107  | -114  | -116  | -118  | -121  |                   |
| Cash flow                                      | 140   | 117   | 128   | 112   | 102   | 100   | 94    | 94    | 1,381             |
| Present value                                  | 138   | 107   | 107   | 86    | 73    | 65    | 56    | 52    | 751               |
| WACC                                           | 8.7%  | 8.7%  | 8.7%  | 8.7%  | 8.7%  | 8.7%  | 8.7%  | 8.7%  | 8.9%              |

| DCF per share derived from          |              |
|-------------------------------------|--------------|
| Total present value                 | 1,435        |
| Mid-year adj. total present value   | 1,496        |
| Net debt / cash at start of year    | 110          |
| Financial assets                    | 43           |
| Provisions and off b/s debt         | 205          |
| Equity value                        | 1,224        |
| No. of shares outstanding           | 18.8         |
| <b>Discounted cash flow / share</b> | <b>65.25</b> |
| <b>upside/(downside)</b>            | <b>45.6%</b> |

|                    |              |
|--------------------|--------------|
| <b>Share price</b> | <b>44.80</b> |
|--------------------|--------------|

| DCF avg. growth and earnings assumptions           |      |
|----------------------------------------------------|------|
| Planning horizon avg. revenue growth (2024E-2031E) | 2.3% |
| Terminal value growth (2031E - infinity)           | 2.0% |
| Terminal year ROCE                                 | 6.6% |
| Terminal year WACC                                 | 8.9% |

| Terminal WACC derived from           |      |
|--------------------------------------|------|
| Cost of borrowing (before taxes)     | 5.0% |
| Long-term tax rate                   | 30%  |
| Equity beta                          | 2.00 |
| Unlevered beta (industry or company) | 1.16 |
| Target debt / equity                 | 0.1  |
| Relevered beta                       | 1.24 |
| Risk-free rate                       | 2.0% |
| Equity risk premium                  | 6.0% |
| Cost of equity                       | 9.5% |

| Sensitivity analysis DCF     |                  |      |      |      |      |                        |                |       |
|------------------------------|------------------|------|------|------|------|------------------------|----------------|-------|
| Change in WACC<br>(%-points) | Long term growth |      |      |      |      | Share of present value |                |       |
|                              |                  | 1.0% | 1.5% | 2.0% | 2.5% | 3.0%                   |                |       |
|                              | 2.0%             | 47.5 | 48.9 | 50.6 | 52.5 | 54.5                   | 2024E-2027E    | 30.6% |
|                              | 1.0%             | 52.9 | 54.8 | 57.0 | 59.5 | 62.4                   | 2028E-2031E    | 17.1% |
|                              | 0.0%             | 59.6 | 62.2 | 65.2 | 68.7 | 72.8                   | terminal value | 52.3% |
|                              | -1.0%            | 68.3 | 72.0 | 76.3 | 81.3 | 87.4                   |                |       |
|                              | -2.0%            | 79.9 | 85.3 | 91.7 | 99.6 | 109.5                  |                |       |

Source: mwb research

## FCF Yield Model

Due to the fact that companies rarely bear sufficient resemblance to peers in terms of geographical exposure, size or competitive strength and in order to adjust for the pitfalls of weak long-term visibility, an Adjusted Free Cash Flow analysis (Adjusted FCF) has been conducted.

**The adjusted Free Cash Flow Yield results in a fair value between EUR 81.87 per share based on 2024E and EUR 123.21 per share on 2028E estimates.**

The main driver of this model is the level of return available to a controlling investor, influenced by the cost of that investors' capital (opportunity costs) and the purchase price – in this case the enterprise value of the company. Here, the adjusted FCF yield is used as a proxy for the required return and is defined as EBITDA less minority interest, taxes and investments required to maintain existing assets (maintenance capex).

| FCF yield in EURm                  | 2024E        | 2025E         | 2026E         | 2027E         | 2028E         |
|------------------------------------|--------------|---------------|---------------|---------------|---------------|
| <b>EBITDA</b>                      | <b>281</b>   | <b>290</b>    | <b>308</b>    | <b>307</b>    | <b>304</b>    |
| - Maintenance capex                | 125          | 128           | 123           | 116           | 113           |
| - Minorities                       | 1            | 1             | 1             | 2             | 2             |
| - tax expenses                     | 36           | 38            | 46            | 47            | 47            |
| <b>= Adjusted FCF</b>              | <b>118</b>   | <b>122</b>    | <b>138</b>    | <b>142</b>    | <b>142</b>    |
| <b>Actual Market Cap</b>           | <b>816</b>   | <b>816</b>    | <b>816</b>    | <b>816</b>    | <b>816</b>    |
| + Net debt (cash)                  | 22           | -55           | -143          | -211          | -268          |
| + Pension provisions               | 205          | 203           | 198           | 185           | 170           |
| + Off b/s financing                | 0            | 0             | 0             | 0             | 0             |
| - Financial assets                 | 43           | 43            | 43            | 43            | 43            |
| - Acc. dividend payments           | 34           | 57            | 82            | 111           | 142           |
| <i>EV Reconciliations</i>          | 150          | 47            | -71           | -180          | -282          |
| <b>= Actual EV'</b>                | <b>966</b>   | <b>863</b>    | <b>745</b>    | <b>636</b>    | <b>534</b>    |
| <b>Adjusted FCF yield</b>          | <b>12.2%</b> | <b>14.2%</b>  | <b>18.6%</b>  | <b>22.4%</b>  | <b>26.6%</b>  |
| base hurdle rate                   | 7.0%         | 7.0%          | 7.0%          | 7.0%          | 7.0%          |
| ESG adjustment                     | 0.0%         | 0.0%          | 0.0%          | 0.0%          | 0.0%          |
| adjusted hurdle rate               | 7.0%         | 7.0%          | 7.0%          | 7.0%          | 7.0%          |
| <b>Fair EV</b>                     | <b>1,686</b> | <b>1,750</b>  | <b>1,977</b>  | <b>2,034</b>  | <b>2,029</b>  |
| - <i>EV Reconciliations</i>        | 150          | 47            | -71           | -180          | -282          |
| <b>Fair Market Cap</b>             | <b>1,536</b> | <b>1,703</b>  | <b>2,047</b>  | <b>2,214</b>  | <b>2,311</b>  |
| No. of shares (million)            | 19           | 19            | 19            | 19            | 19            |
| <b>Fair value per share in EUR</b> | <b>81.87</b> | <b>90.75</b>  | <b>109.12</b> | <b>118.02</b> | <b>123.21</b> |
| <b>Premium (-) / discount (+)</b>  | <b>82.7%</b> | <b>102.6%</b> | <b>143.6%</b> | <b>163.4%</b> | <b>175.0%</b> |

| Sensitivity analysis fair value |             |           |           |            |            |            |
|---------------------------------|-------------|-----------|-----------|------------|------------|------------|
| Adjusted hurdle rate            | 5.0%        | 118       | 128       | 151        | 161        | 166        |
|                                 | 6.0%        | 97        | 106       | 127        | 136        | 141        |
|                                 | <b>7.0%</b> | <b>82</b> | <b>91</b> | <b>109</b> | <b>118</b> | <b>123</b> |
|                                 | 8.0%        | 71        | 79        | 96         | 104        | 110        |
|                                 | 9.0%        | 62        | 70        | 86         | 94         | 99         |

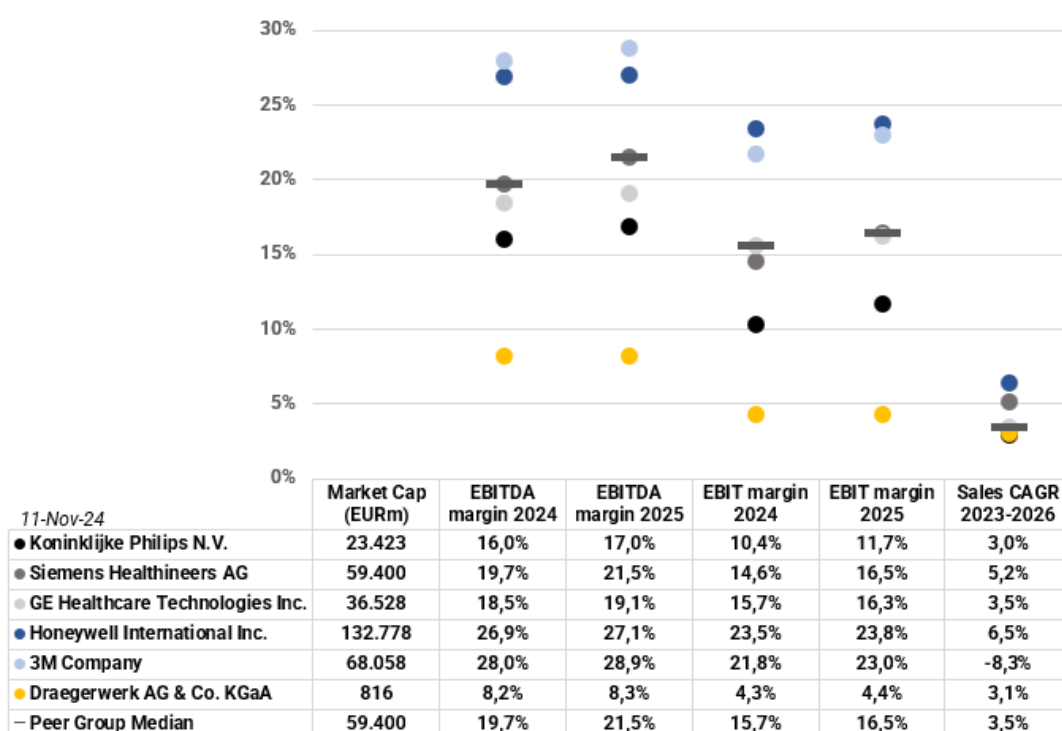
Source: Company data; mwb research

Simply put, the model assumes that investors require companies to generate a minimum return on the investor's purchase price. The required after-tax return equals the model's hurdle rate of 7.0%. Anything less suggests the stock is expensive; anything more suggests the stock is cheap. **ESG adjustments might be applicable. A high score indicates high awareness for environmental, social or governance issues and thus might lower the overall risk an investment in the company might carry. A low score on the contrary might increase the risk of an investment and might therefore trigger a higher required hurdle rate.**

## Peer group analysis

A peer group or comparable company (“comps”) analysis is a methodology that calculates a company's relative value – how much it should be worth based on how it compares to other similar companies. Given that **Draegerwerk AG & Co. KGaA** differs quite significantly in terms of size, focus, financial health and growth trajectory, we regard our peer group analysis merely as a support for other valuation methods. The peer group of Draegerwerk AG & Co. KGaA consists of the stocks displayed in the below. As of 11 November 2024 the median market cap of the peer group was EUR 59,400m, compared to EUR 840m for Draegerwerk AG & Co. KGaA. In the period under review, the peer group was more profitable than Draegerwerk AG & Co. KGaA. The expectations for sales growth are higher for the peer group than for Draegerwerk AG & Co. KGaA.

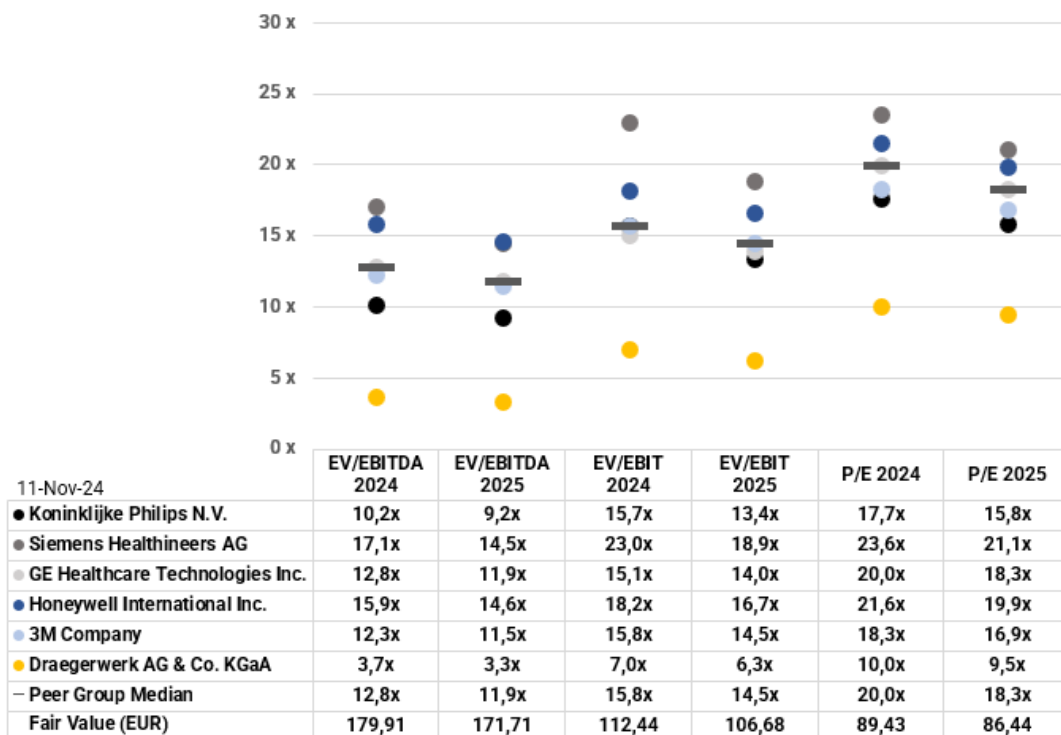
### Peer Group – Key data



Source: FactSet, mwb research

Comparable company analysis operates under the assumption that similar companies will have similar valuation multiples. We use the following multiples: EV/EBITDA 2024, EV/EBITDA 2025, EV/EBIT 2024, EV/EBIT 2025, P/E 2024 and P/E 2025. Applying these to Draegerwerk AG & Co. KGaA results in a range of fair values from EUR 86.44 to EUR 179.91.

#### Peer Group – Multiples and valuation

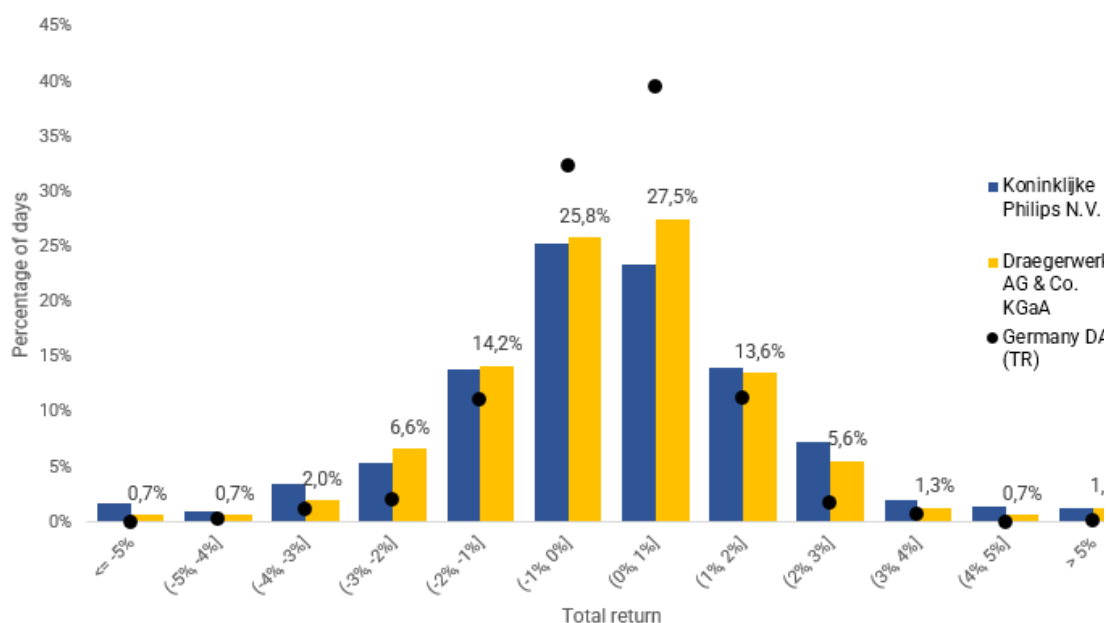


Source: FactSet, mwb research

## Risk

The chart displays the distribution of daily returns of Draegerwerk AG & Co. KGaA over the last 3 years, compared to the same distribution for Koninklijke Philips N.V.. We have also included the distribution for the index Germany DAX (TR). The distribution gives a better understanding of risk than measures like volatility, which assume that log returns are normally distributed. In reality, they are skewed (down moves are larger) and have fat tails (large moves occur more often than predicted). Also, volatility treats up and down moves the same, while investors are more worried about down moves. For Draegerwerk AG & Co. KGaA, the worst day during the past 3 years was 24/11/2021 with a share price decline of -12.0%. The best day was 17/10/2023 when the share price increased by 8.9%.

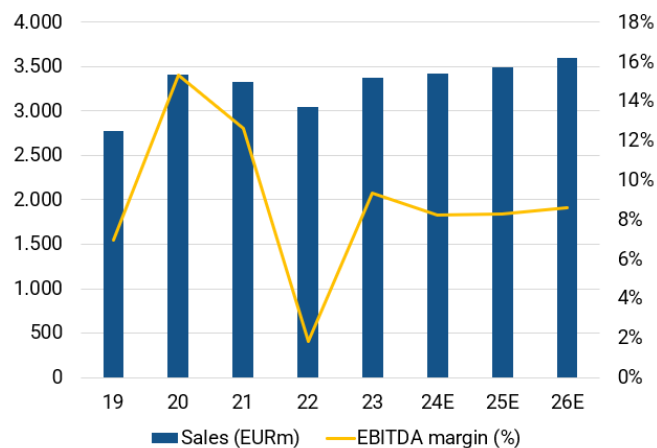
### Risk – Daily Returns Distribution (trailing 3 years)



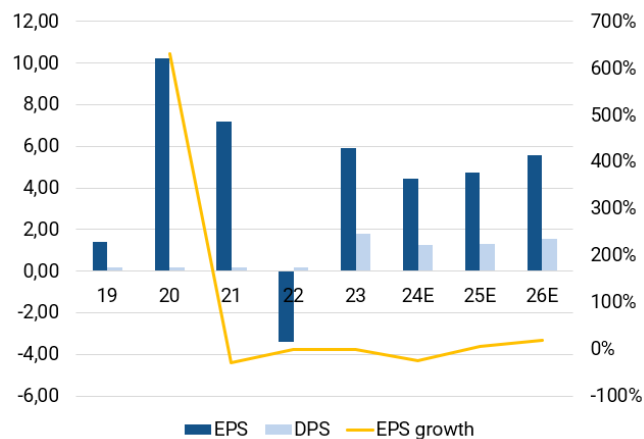
Source: FactSet, mwb research

## Financials in six charts

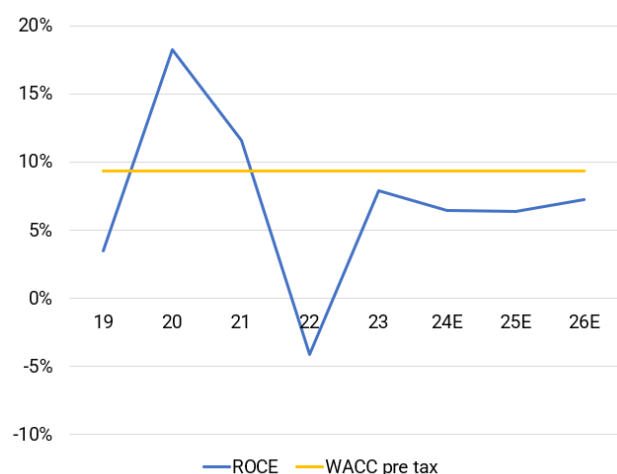
**Sales vs. EBITDA margin development**



**EPS, DPS in EUR & yoy EPS growth**



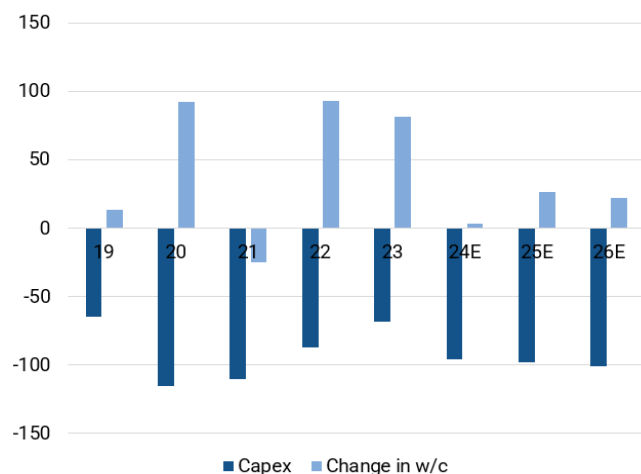
**ROCE vs. WACC (pre tax)**



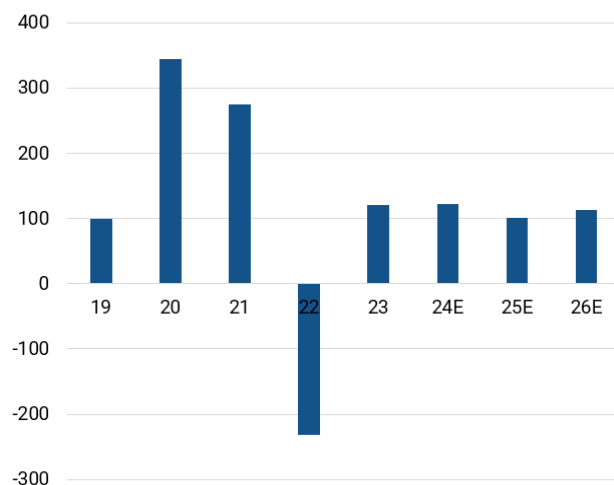
**Net debt and net debt/EBITDA**



**Capex & chgn in w/c requirements in EURm**



**Free Cash Flow in EURm**



Source: Company data; mwb research

# Financials

| Profit and loss (EURm)                             | 2021         | 2022         | 2023         | 2024E        | 2025E        | 2026E        |
|----------------------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Sales</b>                                       | <b>3,328</b> | <b>3,045</b> | <b>3,374</b> | <b>3,417</b> | <b>3,493</b> | <b>3,594</b> |
| Sales growth                                       | -2.3%        | -8.5%        | 10.8%        | 1.3%         | 2.2%         | 2.9%         |
| Cost of sales                                      | 1,788        | 1,807        | 1,914        | 1,948        | 1,984        | 2,031        |
| <b>Gross profit</b>                                | <b>1,541</b> | <b>1,238</b> | <b>1,460</b> | <b>1,469</b> | <b>1,509</b> | <b>1,563</b> |
| SG&A expenses                                      | 673          | 718          | 718          | 957          | 967          | 988          |
| Research and development                           | 329          | 343          | 325          | 344          | 353          | 363          |
| Other operating expenses (income)                  | 268          | 266          | 250          | 21           | 35           | 36           |
| <b>EBITDA</b>                                      | <b>421</b>   | <b>56</b>    | <b>315</b>   | <b>281</b>   | <b>290</b>   | <b>308</b>   |
| Depreciation                                       | 142          | 133          | 141          | 125          | 128          | 123          |
| EBITA                                              | 279          | -77          | 174          | 156          | 162          | 185          |
| Amortisation of goodwill and intangible assets     | 8            | 11           | 7            | 7            | 9            | 9            |
| <b>EBIT</b>                                        | <b>272</b>   | <b>-89</b>   | <b>167</b>   | <b>148</b>   | <b>154</b>   | <b>176</b>   |
| Financial result                                   | -35          | -14          | -25          | -27          | -25          | -24          |
| Recurring pretax income from continuing operations | 237          | -102         | 142          | 121          | 128          | 152          |
| Extraordinary income/loss                          | 0            | 0            | 0            | 0            | 0            | 0            |
| Earnings before taxes                              | 237          | -102         | 141          | 121          | 128          | 152          |
| Taxes                                              | 82           | -39          | 29           | 36           | 38           | 46           |
| Net income from continuing operations              | 154          | -64          | 112          | 85           | 90           | 106          |
| Result from discontinued operations (net of tax)   | 0            | 0            | 0            | 0            | 0            | 0            |
| <b>Net income</b>                                  | <b>154</b>   | <b>-64</b>   | <b>112</b>   | <b>85</b>    | <b>90</b>    | <b>106</b>   |
| Minority interest                                  | -0           | 1            | -2           | -1           | -1           | -1           |
| Net profit (reported)                              | 154          | -63          | 110          | 84           | 89           | 105          |
| Average number of shares                           | 18.76        | 18.76        | 18.76        | 18.76        | 18.76        | 18.76        |
| <b>EPS reported</b>                                | <b>7.19</b>  | <b>-3.41</b> | <b>5.92</b>  | <b>4.46</b>  | <b>4.72</b>  | <b>5.59</b>  |

| Profit and loss (common size)                      | 2021        | 2022        | 2023        | 2024E       | 2025E       | 2026E       |
|----------------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Sales</b>                                       | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> |
| Cost of sales                                      | 54%         | 59%         | 57%         | 57%         | 57%         | 56%         |
| <b>Gross profit</b>                                | <b>46%</b>  | <b>41%</b>  | <b>43%</b>  | <b>43%</b>  | <b>43%</b>  | <b>44%</b>  |
| SG&A expenses                                      | 20%         | 24%         | 21%         | 28%         | 28%         | 27%         |
| Research and development                           | 10%         | 11%         | 10%         | 10%         | 10%         | 10%         |
| Other operating expenses (income)                  | 8%          | 9%          | 7%          | 1%          | 1%          | 1%          |
| <b>EBITDA</b>                                      | <b>13%</b>  | <b>2%</b>   | <b>9%</b>   | <b>8%</b>   | <b>8%</b>   | <b>9%</b>   |
| Depreciation                                       | 4%          | 4%          | 4%          | 4%          | 4%          | 3%          |
| EBITA                                              | 8%          | -3%         | 5%          | 5%          | 5%          | 5%          |
| Amortisation of goodwill and intangible assets     | 0%          | 0%          | 0%          | 0%          | 0%          | 0%          |
| <b>EBIT</b>                                        | <b>8%</b>   | <b>-3%</b>  | <b>5%</b>   | <b>4%</b>   | <b>4%</b>   | <b>5%</b>   |
| Financial result                                   | -1%         | -0%         | -1%         | -1%         | -1%         | -1%         |
| Recurring pretax income from continuing operations | 7%          | -3%         | 4%          | 4%          | 4%          | 4%          |
| Extraordinary income/loss                          | 0%          | 0%          | 0%          | 0%          | 0%          | 0%          |
| Earnings before taxes                              | 7%          | -3%         | 4%          | 4%          | 4%          | 4%          |
| Taxes                                              | 2%          | -1%         | 1%          | 1%          | 1%          | 1%          |
| Net income from continuing operations              | 5%          | -2%         | 3%          | 2%          | 3%          | 3%          |
| Result from discontinued operations (net of tax)   | 0%          | 0%          | 0%          | 0%          | 0%          | 0%          |
| <b>Net income</b>                                  | <b>5%</b>   | <b>-2%</b>  | <b>3%</b>   | <b>2%</b>   | <b>3%</b>   | <b>3%</b>   |
| Minority interest                                  | -0%         | 0%          | -0%         | -0%         | -0%         | -0%         |
| <b>Net profit (reported)</b>                       | <b>5%</b>   | <b>-2%</b>  | <b>3%</b>   | <b>2%</b>   | <b>3%</b>   | <b>3%</b>   |

Source: Company data; mwb research

| Balance sheet (EURm)                                      | 2021         | 2022         | 2023         | 2024E        | 2025E        | 2026E        |
|-----------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Intangible assets (exl. Goodwill)</b>                  | <b>158</b>   | <b>149</b>   | <b>149</b>   | <b>142</b>   | <b>133</b>   | <b>124</b>   |
| Goodwill                                                  | 311          | 312          | 311          | 311          | 311          | 311          |
| Property, plant and equipment                             | 482          | 478          | 456          | 426          | 396          | 374          |
| Financial assets                                          | 41           | 46           | 43           | 43           | 43           | 43           |
| <b>FIXED ASSETS</b>                                       | <b>992</b>   | <b>985</b>   | <b>960</b>   | <b>923</b>   | <b>884</b>   | <b>852</b>   |
| Inventories                                               | 622          | 706          | 658          | 670          | 686          | 707          |
| Accounts receivable                                       | 657          | 735          | 783          | 793          | 810          | 834          |
| Other current assets                                      | 61           | 67           | 24           | 24           | 24           | 24           |
| Liquid assets                                             | 580          | 319          | 279          | 485          | 532          | 590          |
| Deferred taxes                                            | 233          | 261          | 331          | 331          | 331          | 331          |
| Deferred charges and prepaid expenses                     | 33           | 34           | 64           | 68           | 70           | 72           |
| <b>CURRENT ASSETS</b>                                     | <b>2,187</b> | <b>2,122</b> | <b>2,138</b> | <b>2,371</b> | <b>2,453</b> | <b>2,557</b> |
| <b>TOTAL ASSETS</b>                                       | <b>3,178</b> | <b>3,107</b> | <b>3,098</b> | <b>3,293</b> | <b>3,337</b> | <b>3,409</b> |
| <b>SHAREHOLDERS EQUITY</b>                                | <b>1,260</b> | <b>1,318</b> | <b>1,407</b> | <b>1,458</b> | <b>1,524</b> | <b>1,606</b> |
| MINORITY INTEREST                                         | 1            | 1            | 2            | 2            | 2            | 2            |
| Long-term debt                                            | 185          | 162          | 258          | 336          | 316          | 296          |
| Provisions for pensions and similar obligations           | 357          | 203          | 205          | 205          | 203          | 198          |
| Other provisions                                          | 441          | 203          | 199          | 202          | 203          | 205          |
| <b>Non-current liabilities</b>                            | <b>983</b>   | <b>569</b>   | <b>661</b>   | <b>743</b>   | <b>721</b>   | <b>699</b>   |
| short-term liabilities to banks                           | 78           | 120          | 132          | 171          | 161          | 151          |
| Accounts payable                                          | 224          | 286          | 216          | 224          | 234          | 239          |
| Advance payments received on orders                       | 0            | 0            | 0            | 0            | 0            | 0            |
| Other liabilities (incl. from lease and rental contracts) | 576          | 765          | 600          | 615          | 615          | 633          |
| Deferred taxes                                            | 57           | 48           | 80           | 80           | 80           | 80           |
| Deferred income                                           | 0            | 0            | 0            | 0            | 0            | 0            |
| <b>Current liabilities</b>                                | <b>935</b>   | <b>1,219</b> | <b>1,028</b> | <b>1,090</b> | <b>1,089</b> | <b>1,103</b> |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>          | <b>3,178</b> | <b>3,107</b> | <b>3,098</b> | <b>3,293</b> | <b>3,337</b> | <b>3,409</b> |

| Balance sheet (common size)                               | 2021        | 2022        | 2023        | 2024E       | 2025E       | 2026E       |
|-----------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Intangible assets (excl. Goodwill)</b>                 | <b>5%</b>   | <b>5%</b>   | <b>5%</b>   | <b>4%</b>   | <b>4%</b>   | <b>4%</b>   |
| Goodwill                                                  | 10%         | 10%         | 10%         | 9%          | 9%          | 9%          |
| Property, plant and equipment                             | 15%         | 15%         | 15%         | 13%         | 12%         | 11%         |
| Financial assets                                          | 1%          | 1%          | 1%          | 1%          | 1%          | 1%          |
| <b>FIXED ASSETS</b>                                       | <b>31%</b>  | <b>32%</b>  | <b>31%</b>  | <b>28%</b>  | <b>26%</b>  | <b>25%</b>  |
| Inventories                                               | 20%         | 23%         | 21%         | 20%         | 21%         | 21%         |
| Accounts receivable                                       | 21%         | 24%         | 25%         | 24%         | 24%         | 24%         |
| Other current assets                                      | 2%          | 2%          | 1%          | 1%          | 1%          | 1%          |
| Liquid assets                                             | 18%         | 10%         | 9%          | 15%         | 16%         | 17%         |
| Deferred taxes                                            | 7%          | 8%          | 11%         | 10%         | 10%         | 10%         |
| Deferred charges and prepaid expenses                     | 1%          | 1%          | 2%          | 2%          | 2%          | 2%          |
| <b>CURRENT ASSETS</b>                                     | <b>69%</b>  | <b>68%</b>  | <b>69%</b>  | <b>72%</b>  | <b>74%</b>  | <b>75%</b>  |
| <b>TOTAL ASSETS</b>                                       | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> |
| <b>SHAREHOLDERS EQUITY</b>                                | <b>40%</b>  | <b>42%</b>  | <b>45%</b>  | <b>44%</b>  | <b>46%</b>  | <b>47%</b>  |
| MINORITY INTEREST                                         | 0%          | 0%          | 0%          | 0%          | 0%          | 0%          |
| Long-term debt                                            | 6%          | 5%          | 8%          | 10%         | 9%          | 9%          |
| Provisions for pensions and similar obligations           | 11%         | 7%          | 7%          | 6%          | 6%          | 6%          |
| Other provisions                                          | 14%         | 7%          | 6%          | 6%          | 6%          | 6%          |
| <b>Non-current liabilities</b>                            | <b>31%</b>  | <b>18%</b>  | <b>21%</b>  | <b>23%</b>  | <b>22%</b>  | <b>20%</b>  |
| short-term liabilities to banks                           | 2%          | 4%          | 4%          | 5%          | 5%          | 4%          |
| Accounts payable                                          | 7%          | 9%          | 7%          | 7%          | 7%          | 7%          |
| Advance payments received on orders                       | 0%          | 0%          | 0%          | 0%          | 0%          | 0%          |
| Other liabilities (incl. from lease and rental contracts) | 18%         | 25%         | 19%         | 19%         | 18%         | 19%         |
| Deferred taxes                                            | 2%          | 2%          | 3%          | 2%          | 2%          | 2%          |
| Deferred income                                           | 0%          | 0%          | 0%          | 0%          | 0%          | 0%          |
| <b>Current liabilities</b>                                | <b>29%</b>  | <b>39%</b>  | <b>33%</b>  | <b>33%</b>  | <b>33%</b>  | <b>32%</b>  |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>          | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> |

Source: Company data; mwb research

| Cash flow statement (EURm)                      | 2021        | 2022        | 2023        | 2024E      | 2025E      | 2026E       |
|-------------------------------------------------|-------------|-------------|-------------|------------|------------|-------------|
| Net profit/loss                                 | 154         | -64         | 112         | 85         | 90         | 106         |
| Depreciation of fixed assets (incl. leases)     | 142         | 133         | 141         | 125        | 128        | 123         |
| Amortisation of goodwill                        | 0           | 0           | 0           | 0          | 0          | 0           |
| Amortisation of intangible assets               | 8           | 11          | 7           | 7          | 9          | 9           |
| Others                                          | 57          | -132        | 11          | 3          | -2         | -3          |
| Cash flow from operations before changes in w/c | 360         | -51         | 272         | 221        | 225        | 236         |
| Increase/decrease in inventory                  | 14          | -82         | 13          | -12        | -16        | -20         |
| Increase/decrease in accounts receivable        | 122         | -75         | -68         | -10        | -17        | -23         |
| Increase/decrease in accounts payable           | -16         | 66          | -67         | 8          | 10         | 6           |
| Increase/decrease in other w/c positions        | -96         | -3          | 41          | 10         | -2         | 16          |
| Increase/decrease in working capital            | 25          | -93         | -82         | -3         | -26        | -23         |
| <b>Cash flow from operating activities</b>      | <b>385</b>  | <b>-144</b> | <b>190</b>  | <b>218</b> | <b>198</b> | <b>213</b>  |
| CAPEX                                           | -110        | -87         | -68         | -96        | -98        | -101        |
| Payments for acquisitions                       | -6          | 0           | 0           | 0          | 0          | 0           |
| Financial investments                           | 3           | 122         | -1          | 0          | 0          | 0           |
| Income from asset disposals                     | 3           | 2           | 2           | 0          | 0          | 0           |
| <b>Cash flow from investing activities</b>      | <b>-110</b> | <b>37</b>   | <b>-67</b>  | <b>-96</b> | <b>-98</b> | <b>-101</b> |
| Cash flow before financing                      | 275         | -107        | 122         | 122        | 101        | 113         |
| Increase/decrease in debt position              | -29         | 20          | 105         | 117        | -30        | -30         |
| Purchase of own shares                          | -264        | -5          | -213        | 0          | 0          | 0           |
| Capital measures                                | 4           | 3           | 3           | 0          | 0          | 0           |
| Dividends paid                                  | -4          | -4          | -4          | -34        | -23        | -25         |
| Others                                          | -42         | -44         | -47         | 0          | 0          | 0           |
| Effects of exchange rate changes on cash        | 8           | 3           | -7          | 0          | 0          | 0           |
| <b>Cash flow from financing activities</b>      | <b>-327</b> | <b>-27</b>  | <b>-162</b> | <b>84</b>  | <b>-53</b> | <b>-55</b>  |
| Increase/decrease in liquid assets              | -52         | -134        | -40         | 206        | 47         | 58          |
| <b>Liquid assets at end of period</b>           | <b>446</b>  | <b>312</b>  | <b>272</b>  | <b>477</b> | <b>525</b> | <b>583</b>  |

Source: Company data; mwb research

| Regional sales split (EURm) | 2021         | 2022         | 2023         | 2024E        | 2025E        | 2026E        |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Domestic                    | 764          | 666          | 748          | 758          | 775          | 797          |
| Europe (ex domestic)        | 1,284        | 1,168        | 1,310        | 1,327        | 1,356        | 1,395        |
| The Americas                | 629          | 620          | 701          | 710          | 725          | 746          |
| Asia                        | 652          | 592          | 615          | 623          | 636          | 655          |
| Rest of World               | 0            | 0            | 0            | 0            | 0            | 0            |
| <b>Total sales</b>          | <b>3,328</b> | <b>3,045</b> | <b>3,374</b> | <b>3,417</b> | <b>3,493</b> | <b>3,594</b> |

| Regional sales split (common size) | 2021        | 2022        | 2023        | 2024E       | 2025E       | 2026E       |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Domestic                           | 23.0%       | 21.9%       | 22.2%       | 22.2%       | 22.2%       | 22.2%       |
| Europe (ex domestic)               | 38.6%       | 38.3%       | 38.8%       | 38.8%       | 38.8%       | 38.8%       |
| The Americas                       | 18.9%       | 20.3%       | 20.8%       | 20.8%       | 20.8%       | 20.8%       |
| Asia                               | 19.6%       | 19.5%       | 18.2%       | 18.2%       | 18.2%       | 18.2%       |
| Rest of World                      | 0.0%        | 0.0%        | 0.0%        | 0.0%        | 0.0%        | 0.0%        |
| <b>Total sales</b>                 | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> |

Source: Company data; mwb research

| Ratios                            | 2021   | 2022   | 2023  | 2024E | 2025E | 2026E |
|-----------------------------------|--------|--------|-------|-------|-------|-------|
| <b>Per share data</b>             |        |        |       |       |       |       |
| Earnings per share reported       | 8.22   | -3.34  | 5.89  | 4.46  | 4.72  | 5.59  |
| Cash flow per share               | 20.52  | -7.69  | 10.11 | 4.92  | 3.76  | 4.83  |
| Book value per share              | 67.16  | 70.26  | 74.99 | 77.72 | 81.25 | 85.60 |
| Dividend per share                | 0.19   | 0.19   | 1.80  | 1.25  | 1.32  | 1.57  |
| <b>Valuation</b>                  |        |        |       |       |       |       |
| P/E                               | 5.4x   | -13.4x | 7.6x  | 10.0x | 9.5x  | 8.0x  |
| P/CF                              | 2.2x   | -5.8x  | 4.4x  | 9.1x  | 11.9x | 9.3x  |
| P/BV                              | 0.7x   | 0.6x   | 0.6x  | 0.6x  | 0.6x  | 0.5x  |
| Dividend yield (%)                | 0.3%   | 0.5%   | 3.5%  | 2.8%  | 2.9%  | 3.5%  |
| FCF yield (%)                     | 45.8%  | -17.2% | 22.6% | 11.0% | 8.4%  | 10.8% |
| EV/Sales                          | 0.3x   | 0.3x   | 0.3x  | 0.3x  | 0.3x  | 0.2x  |
| EV/EBITDA                         | 2.1x   | 18.0x  | 3.7x  | 3.8x  | 3.4x  | 2.9x  |
| EV/EBIT                           | 3.2x   | -11.3x | 6.9x  | 7.2x  | 6.4x  | 5.1x  |
| <b>Income statement (EURm)</b>    |        |        |       |       |       |       |
| Sales                             | 3,328  | 3,045  | 3,374 | 3,417 | 3,493 | 3,594 |
| yoy chg in %                      | -2.3%  | -8.5%  | 10.8% | 1.3%  | 2.2%  | 2.9%  |
| Gross profit                      | 1,541  | 1,238  | 1,460 | 1,469 | 1,509 | 1,563 |
| Gross margin in %                 | 46.3%  | 40.7%  | 43.3% | 43.0% | 43.2% | 43.5% |
| EBITDA                            | 421    | 56     | 315   | 281   | 290   | 308   |
| EBITDA margin in %                | 12.6%  | 1.8%   | 9.4%  | 8.2%  | 8.3%  | 8.6%  |
| EBIT                              | 272    | -89    | 167   | 148   | 154   | 176   |
| EBIT margin in %                  | 8.2%   | -2.9%  | 4.9%  | 4.3%  | 4.4%  | 4.9%  |
| Net profit                        | 154    | -63    | 110   | 84    | 89    | 105   |
| <b>Cash flow statement (EURm)</b> |        |        |       |       |       |       |
| CF from operations                | 385    | -144   | 190   | 218   | 198   | 213   |
| Capex                             | -110   | -87    | -68   | -96   | -98   | -101  |
| Maintenance Capex                 | 0      | 0      | 0     | 125   | 128   | 123   |
| Free cash flow                    | 275    | -231   | 121   | 122   | 101   | 113   |
| <b>Balance sheet (EURm)</b>       |        |        |       |       |       |       |
| Intangible assets                 | 469    | 461    | 461   | 453   | 445   | 435   |
| Tangible assets                   | 482    | 478    | 456   | 426   | 396   | 374   |
| Shareholders' equity              | 1,260  | 1,318  | 1,407 | 1,458 | 1,524 | 1,606 |
| Pension provisions                | 357    | 203    | 205   | 205   | 203   | 198   |
| Liabilities and provisions        | 1,061  | 688    | 793   | 913   | 882   | 849   |
| Net financial debt                | -317   | -38    | 110   | 22    | -55   | -143  |
| w/c requirements                  | 1,055  | 1,155  | 1,225 | 1,238 | 1,263 | 1,301 |
| <b>Ratios</b>                     |        |        |       |       |       |       |
| ROE                               | 12.2%  | -4.8%  | 8.0%  | 5.8%  | 5.9%  | 6.6%  |
| ROCE                              | 11.7%  | -4.4%  | 7.6%  | 6.2%  | 6.4%  | 7.2%  |
| Net gearing                       | -25.2% | -2.9%  | 7.8%  | 1.5%  | -3.6% | -8.9% |
| Net debt / EBITDA                 | -0.8x  | -0.7x  | 0.3x  | 0.1x  | -0.2x | -0.5x |

Source: Company data; mwb research

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