Philips (Q4 2024 Earnings)
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Corporate Speakers

- Leandro Mazzoni; Philips; Head of Investor Relations
- Roy Jakobs; Philips; Chief Executive Officer
- Charlotte Hanneman; Philips; Chief Financial Officer

Participants

- Richard Felton; Goldman Sachs; Equity Research Analyst
- David Adlington; JP Morgan; Analyst
- Hassan Al-Wakeel; Barclays; Director of European Medtech and Services Research
- Julien Dormois; Jefferies; Analyst
- Lisa Clive; Bernstein; European Medical Devices and Services Senior Analyst
- Robert Davies; Morgan Stanley; Executive Director;
- Graham Doyle; UBS; Executive Director of Equity Research
- Hugo Solvet; BNP Paribas Exane; Equity Research Analyst
- Giang Nguyen; Citi; Vice President of Equity Research
- Julien Ouaddour; Bank of America; Vice President of Sell-Side Equity Research
- Wim Gille; ABN AMRO Auto; Head of Equity Research

PRESENTATION

Leandro Mazzoni^ Hi, everyone. Welcome to Philips' fourth quarter and full year 2024 results webcast. I'm here with our CEO, Roy Jakobs, and our CFO, Charlotte Hanneman. The press release and the investor deck were published on our Investor Relations website this morning.

The replay and full transcript of this webcast will be made available on the website after the call as well. Before we start, I want to draw your attention to our safe harbor statement on screen. You will also find the statement in the presentation published on our Investor Relations website. I will now hand it over to Roy.

Roy Jakobs^ Good morning, everyone. And welcome to the call. I want to start with the key highlights of this morning's release. We delivered strong profitability improvement and cash flow in Q4 and for the full year 2024.

Comparable order and sales grew low single digit in the quarter and the year, despite double-digit declines in consumer and health systems demand in China, partly offsetting solid growth in the rest of the world.

We continue to make solid progress on our plan, enhanced execution and reached significant milestones to resolve the Respironics recall. With our strong balance sheet, we are pleased to

offer shareholders the option to receive a dividend in shares or cash. We are confident in our long-term plan.

We expect to continue to improve performance in 2025. Gross sales and orders within a challenging macroeconomic environment and drive margin expansion and cash flow generation by building further on the fundamental progress in execution, our innovations and by leveraging those to the best extent. Turning to the progress on our execution priorities and our key performance highlights.

Patient safety and quality remains our highest priority. We have strengthened our culture of impact with care and fully embedded in our businesses and in our patient-centric innovation. We took significant steps to address the consequences of the Respironics recall.

We know there's more to do and are very focused on driving further improvements. More recently, Philips Respironics obtained final approval for the medical monitoring settlement and personally injury settlement.

They became final after the required participation threshold was met. These very important milestones provide further clarity on the way forward for Philips. Our end-to-end supply chain now operates at lead times and service levels in line with industry standards, which increases our competitiveness.

We are on top of and monitoring the volatile geopolitical context to act, if and when appropriate. And we will continue to work on regionalizing supply chains, diversifying suppliers, dual sourcing and network flexibility.

Our leaner operating model drives accountability and agility and contributed to productivity savings of over EUR 1.7 billion in the last two years. We are building a renewed team with strong health tech capabilities across the company.

We also had recent leadership announcements for the Precision Diagnosis business and our International region. Now on to the financial highlights. Comparable sales grew 1% in the quarter, in line with our expectations. It's 5% growth in the rest of the world, largely offset by a double-digit decline in China.

Orders grew 2% driven by strong growth in the U.S. and in growth regions, again offset by double-digit decline in China. Diagnosis & Treatment orders grew high single digits in the quarter. Connected Care faced the inherent unevenness of order growth by quarter, while demand for our hospital patient monitoring solutions remained very healthy.

In the full year, comparable sales and orders grew 1% with both 4% up in the rest of the world, partly offset by lower China, and we were pleased to see double-digit order growth in the U.S. The adjusted EBITA margin was 13.5% in the quarter and 11.5% in the full year, resulting in a strong improvement of 90 basis points versus 2023.

We delivered strong free cash flow in 2024 and continue to strengthen our balance sheet. High restructuring and other charges were a result of our contained focus on resolving the

consequences of the Respironics recall and important changes we have been making across the company as part of our plan.

In light with the progress made, based on the strength of our balance sheet, I'm pleased to say that we proposed a dividend of EUR 0.85 per share, payable in shares or cash at the option of the shareholder with a maximum of 50% in the total dividend available in cash. Let me turn to the progress we have been making in our businesses.

We are setting industry standards across segments with our AI-driven innovation. This is a major factor while more than 50% of our sales stem from new and upgraded products launched in the last three years.

At RSNA, we expanded our computed tomography offering with FDA clearance for CT 5300. We also introduced the next-generation industry-only worldwide helium-free MRI scanner. Both leverage AI systems at every step of the workflow.

As evidence of the continued pull for innovation, we signed several long-term partnerships with customers across regions in the quarter. This included strategic partnerships for imaging and health informatics platforms with the hospital Fondation Rothschild in Paris, the Erasmus Medical Center in Rotterdam.

Additionally, we signed an expansion of our strategic collaboration with Amazon Web Services to offer an integrated diagnostics portfolio in the cloud including radiology, digital pathology and cardiology.

In Personal Health, we rolled out a renewed midrange Sonicare Series 5000, 7000 in Europe, giving users choice of features at different price points. Looking ahead, the fundamentals of the markets we serve remain strong, but the short-term dynamics differ per region. Outside of China, we expect generally solid consumer sentiment as well as a solid hospital CapEx environment in 2025. In China, we expect consumer demand to remain subdued.

We expect demand from hospitals to continue to be impacted by the consequences of the anticorruption and the slow implementation of the national renewal program, at least into the first half of the year. Stimulus activity is increasing, and our funnel is progressing.

However, despite some increases in hospital tenders, we have not yet seen a trigger that would significantly change the situation for the first half of 2025. We are focused on executing our plan to deliver continued performance improvement in 2025.

We expect 1% to 3% comparable sales growth this year with growth in the rest of the world, partly offset by mid- to high single-digit decline in China coming from the Consumer and Health Systems businesses.

We remain laser-focused on capturing margin expansion opportunities and expect adjusted EBITA margin to increase by 30 to 80 basis points to 11.8% to 12.3% in 2025. This will be driven by our focused growth strategy, additional productivity savings and continued strong

investment in our innovations. Now over to Charlotte to take us through the financials and the outlook in more detail.

Charlotte Hanneman^ Thank you, Roy. Good morning, everyone. And thank you for joining us on the call. Let me start by expanding on our financial performance. In Diagnosis & Treatment, comparable sales decreased 1% in the fourth quarter and increased 1% in full year. This was on the back of strong growth in 2023. Solid growth in Rest of the World was offset by China. Adjusted EBITA margin improved by 170 basis points in Q4 to 12.1%.

In the full year, adjusted EBITA margin was stable at 11.6%, driven by positive product mix, pricing and productivity measures offset by the lower sales in China.

Moving to Connected Care. Comparable sales increased 7% in Q4 on the back of a low comparison base due to the impact of a provision against sales taken in 2023 related to the Respironics recall remediation.

Connected Care comparable sales increased by 2% in the year. In Q4, the adjusted EBITA margin was 15%. In the full year, the adjusted EBITDA margin improved 240 basis points to 9.6%, mainly driven by continued operational improvement.

Importantly, both Enterprise Informatics and Sleep & Respiratory Care businesses delivered positive adjusted EBITA margin in 2024.

Personal Health comparable sales decreased by 2% in the quarter and by 1% in the full year, with strong growth in Rest of World including double-digit in other growth markets, offset by double-digit decline in China.

The adjusted EBITA margin was a strong 18% in the quarter and 16.7% in the year. We have been very disciplined in cost management and productivity initiatives delivered savings of EUR 752 million in the year and EUR 1.7 billion planned to date. Turning to our group results.

In the quarter, sales increased 1%, orders grew 2% and the adjusted EBITA margin increased by 60 basis points to 13.5%. For the full year, sales and orders grew 1% and the adjusted EBITA margin increased by 90 basis points to 11.5%. Operational improvements, productivity savings and previous pricing actions more than offset volume loss in China, wage and component cost inflation.

Net income decreased by EUR 371 million in the quarter, mainly due to higher tax expenses, the write-down of intangible assets and restructuring charges. Tax expenses increased by EUR 581 million in the quarter due to higher derecognition of deferred tax assets in the U.S. and higher taxable income. Adjusted diluted EPS from continued operations increased a strong 35% in the fourth quarter and 17% in the full year.

We delivered a free cash flow of EUR 1.3 billion in the quarter and EUR 0.9 billion for the full year, in line with guidance. Full year free cash flow included the remaining payment of roughly EUR 430 million related to economic loss settlement and receipt of approximately EUR 540

million from insurers for the Respironics settlement. Our leverage ratio was down to 1.8x on a net debt-to-adjusted EBITDA basis.

As Roy mentioned, following the strong deleveraging and in line with our balanced capital allocation policy, we will submit a proposal to maintain the dividend at EUR 0.85 per share in shares or cash at the option of the shareholder. The decision to pay up to 50% of the total dividend in cash, balances our commitment to dividend with the demand on cash given the expected payments related to the Respironics settlements in the U.S.

Turning to the outlook. We will continue to drive improved performance in 2025. We were pleased to see the return to order intake growth in 2024, supported by the many recent innovations, which are performing well. However, we expect sales growth and margin expansion in 2025 to be back-end loaded due to the continued impact of China into the first half of the year and comparison-base effects.

We expect China sales to decline mid- to high single digits with double-digit decline in the first half of the year, partially offset by growth in the second half, mainly due to the easing of the comparison base.

In the first quarter, more specifically, we expect mid-single-digit decline in comparable sales and accordingly, lower adjusted EBITA margin, driven by the double-digit sales decline in China, royalty phasing and a high comparison base in Diagnosis and Treatment.

We expect margin expansion of 30 to 80 basis points in the year to be driven by a combination of higher growth in attractive leadership segments, improvements in businesses with lower margins and additional productivity and innovation. Focusing on what we can control, we are increasing the productivity savings targets for the 2023 to 2025 period from EUR 2 million to EUR 2.5 billion, driven by higher savings to date, further simplification of our operating model and cost efficiency. This leads to expected savings of EUR 800 million in 2025.

We expect to deliver sales growth within the outlook range and adjusted EBITA margin improvement across all our businesses. Restructuring costs are expected to be 100 basis points of 2025, driven by continued efforts to simplify our operating model, further verticalize and optimize our supply chain and reduce complexity and functional costs.

Other charges are expected to be around 200 basis points and include mainly Respironics field action activity and other quality action-related charges. We acknowledge adjusted items are still high in 2025 and are diligently working to reduce them going forward.

We expect free cash flow at the lower end of the EUR 1.4 billion to EUR 1.6 billion plan range. This outlook excludes the $1.1 billion payment of the medical monitoring and personal injury settlements in U.S. in the first half of the year as well as the potential impact of other ongoing Philips Respironics-related legal proceedings.

The outlook we provided today includes the impact of the recently announced U.S. China tariffs. With many possible scenarios, we will not speculate on the impact of potential future tariff policies. With that, I would like to hand it back to Roy for his closing remarks.

Roy Jakobs^ Thanks, Charlotte. I would like to repeat the key messages of today. 2023 and 2024 have been years of strong fundamental progress. Our plan is robust despite the impact from the challenging macro conditions and is delivering underlying performance improvement. We delivered margin and cash ahead of plan to date and returned to solid order growth in and outside of China in 2024.

We made significant progress on our execution priorities, addressing challenges, strengthening fundamentals, deleveraging the balance sheet and providing further clarity on the Respironics recall. We also renewed our culture and team.

Our innovation is gaining momentum, as shown by the success of our many products launched and the fact that 50% of sales is coming from recent innovation and a return to positive order intake growth.

Before I wrap up, I would like to welcome Durga Doraisamy as Head of Investor Relations effective April 1. I also want to thank Leandro, who's taking a new position within our finance leadership team for his partnership and strong impact in the last five years. The two are already preparing for handover and will be joining the upcoming roadshows and investor activities together. We will now take your questions.

QUESTIONS AND ANSWERS

Richard Felton^ My first one is on your top line guidance. I understand very clear assumptions on China, but could you perhaps comment on what you are embedding in your assumptions for the rest of the world? Looking at the midpoint, my math implies that your guide points to a modest deceleration for Philips outside of China in '25 versus '24.

Is there any specific market where you have a more cautious view? Or is that just general conservatism baked into that guidance? That's the first question. Second question is on the additional cost savings.

Is there any incremental color you can share on where those cost savings are coming from? And how should we think about the balance between reinvestment of those cost savings and how much is going to drop down to the bottom line?

Roy Jakobs^ Thank you, Richard. In terms of the assumptions for the rest of the world, I think as we are looking at 2025, we still see quite a level of uncertainty surrounding the world.

Now we have seen strengthening of the CapEx environment outside of China, and we also expect that actually to continue and that would also drive our orders and growth. And as you know there is also a lag time between dialed up order momentum that will pull through.

So that's something that we will continue to build on also as kind of some of the innovations that we launched in 2024 will be really gaining momentum in 2025. Now on China, as I said, we have the first half continuing as we have seen in the second half of 2024.

We don't want to get ahead of ourselves in terms of what the second half would look like. I do say that we don't count in the outlook on strong rebounds of China to deliver the outlook that you have seen.

So I think we have gone in with a realistic outlook for China as well as for the rest of the world. Then on the savings, yes, we are expanding the productivity plan, and that's an important part of how we counter some of also what we see around us in the world, that is including the tariff impact that you have seen.

We are adding EUR 500 million to the plan. That's a combination of cost activities, so it's partly role reduction, but actually also really stopping activities scaling innovations that we have to get better leverage, procurement savings. And we do that at the same time to keep our innovation spend at the level that we have been in recent years because you have seen that we keep spending behind the innovations, especially also now more and more on AI.

So the EUR 1.7 billion of spend is also safeguarded because we got out in other areas. So we cut to support margin, but for sure also to protect our innovation engine. And that's also what you have seen in terms of the innovations that we have been putting into the market. And that by now 50% of our sales is coming from the most recent innovations and upgrades that we have. So you also see that we are getting the uptick in the market.

Operator^ Next, we will take our question from David Adlington from JPMorgan.

David Adlington^ Just following up on the order growth. I think you called out in your earlier comments to actually imaging was high single digit. But maybe if you could just comment in terms of how you're thinking about market share in D&T, particularly with respect to China, where local competition, I think probably taking a little bit of share of some players, and I thought you positioning within D&T in China? And then secondly, just if you have any updates on the DOJ timing, please?

Roy Jakobs^ Yes. So on the China momentum, I think what we have seen in China is that actually all players, of course, are facing challenges with slower procurement.

We -- if you look to the kind of the strongholds that we build on, we saw actually MR and with the relaunch of our helium-free, actually really gaining good momentum and we believe that actually will help us to build on share that kind of we have had in the recent years. CT, we just launched our new 5300, so that needs to gain momentum. And then on Ultrasound, actually, we were very encouraged because you might know that we launched our VM 11 suite with the latest AI from the D-acquisition.

And Q4 for Ultrasound is very strong. And also in China, actually, we saw a good uptake within a further kind of more depressed environment, but actually, we saw that engine coming back into play after it having been pressured for a bit also by the local players.

So I'm encouraged by how we are responding to the renewed activity there and also what we are being able to take out of the market. On the DOJ timing, there's really nothing to say. We are still,

as we said before, in a strong collaboration with them, but they have not indicated any timing. And as you can imagine, even with the current turmoil in the U.S., it has not become clearer, but I cannot further comment on that.

Operator^ Next, we'll take questions from the line of Hassan Al-Wakeel from Barclays.

Hassan Al-Wakeel^ A couple from me. Firstly, can we talk about the drivers to the high single-digit growth in orders for Q4? Any particular modalities driving this? And what was order growth excluding China in D&T? And then secondly, can you walk us through the margin bridge from 11.5% to over 12% at the midpoint in 2025?

EI, DI and S&RC obviously key components of your expansion more broadly in terms of margin. Could you provide us an update on where the margins for these businesses landed in 2024?

Roy Jakobs^ So let me maybe take the first one in terms of the orders in D&T. So as I said, we saw indeed double-digit ex China. That is a mix of strong drivers in IGT where also you know we kind of launched a newer biplane, and that actually is generating good traction, but also the overall uptake and increase in procedures drive more (inaudible) orders. Then we have the MR. As I mentioned, the relaunch with a new AI-driven Helium-free is really gaining good momentum.

And then ultrasound. And that's kind of where we had the cardiac engine really firing in Q4, in particular also in North America, but across the world, and that actually contributes to that momentum of D&T. DXR already relaunched their portfolio earlier. So actually, that has been continuing, but we saw some additional really good uptake in the businesses that I just mentioned.

Charlotte Hanneman^ Thank you, Roy, and Hassan, I'll take your second question on margin. So as you can see from our guidance, we're very focused on margin expansion in 2025. And we expect that to come from improvements from all of our businesses, driven by a few different things.

First of all, we continue to see higher growth of our high-margin businesses, which, as a reminder, is 70% of our revenue. So that will lift up the whole of Philips. We also continue to see improvement in our businesses with margin upside potential, so that is DI, Enterprise Informatics and S&RC. And we're actually very pleased to see both Enterprise Informatics and S&RC come back into profitability in 2024.

As Roy already mentioned, we are increasing our productivity savings program from EUR 2 billion to EUR 2.5 billion, of which EUR 800 million is in 2025. So that will be significantly helping our margin uplift as well. And then Roy spoke about some of the innovations, the recent innovations already.

We continue to see some gross margin step up from that. He already called out the VM11 ultrasound innovation and there are many others as well also in IGT that are giving us a great uplift.

Now having said that, we do expect the margin uplift to be back-end loading -- loaded following the sales dynamics that we see, particularly also in Q1 related to China and also the comps and royalties.

Hassan Al-Wakeel^ If I can just follow up on China, Roy, when we met at RSNA, you mentioned some improvement in tender activity in health systems. How has this trended since? And maybe to follow up on an earlier question, I mean just on share dynamics in China, some of your competition have been talking about your share losses specifically. So it would be great to get your thoughts here.

Roy Jakobs^ Yes. So on the green shoots that indeed we saw, I think what I mentioned is that we need to see those actually continuing after Chinese New Year. That period just started. So actually, it's hard to call whether that's now a really renewed consistent strength. That's also where we are still cautious in , as we call it, especially the first half of the year and then we need to see how that evolves.

I think there's not been a kind of consistency that kind of we have been pulling through on that would give that confidence that first half already will be materially different than second half that we saw last year.

Now then in the businesses in China, and I can talk to the customer momentum that we have, where you see, especially in IGT and ultrasound in China. We have stepped up significantly. The MR launch already spoke to with the relaunch of the helium free. And actually, we see that the helium free is now leading in the world in China and uptake. So actually, they are going after that innovation strongly.

So we see that we are very competitive also with the localized products and also with new leadership in place in China with Ling and team that are really very much out and in the market to ensure that we get our fair share and more when the market rebounces.

Operator^ Our next question comes from the line of Julien Dormois from Jefferies.

Julien Dormois^ I have two. The first one relates to the guidance you have provided for China this year, so the mid- to high single-digit decline in sales, but you can please elaborate on how you see things possibly diverging between consumer and equipment, whether there is one area where you would expect more weakness than the other? That would be helpful. And the second relates to the long-term plan that you guys had in place for, let's say, beyond 2025.

It was calling for a margin target in the mid to high teens. So wondering whether that would still be valid under which horizon and whether maybe you plan to have a Capital Markets Day or anything like this to update us on what could be the next three- or five-year view for the business?

Roy Jakobs^ Yes. Thank you, Julien. And I think it's a good question on the first part because indeed, given our portfolio, we have some specific dynamics in China that play a part where actually the consumer side is having the highest double-digit impact in China.

We said and I explained already earlier with the decline in sell-out, you see adjustments in sellout, but also sell-in, so stock levels adjustments. That has happened in the second half, but still continues to -- into the first half as well.

And that actually is a significant drag on the China performance. Actually, the bigger part of it. Then we see also Health Systems still having a negative impact. But as we also said, we see some improvement there. So actually, that is the balance of the two elements.

Now we see good growth of PH outside of China. So actually, that engine is really picking up strongly. We saw the 4% for the total group for the full year. Outside of China, we see even more in Personal Health coming in, but they have to combat a stronger decline in China. So that's a bit of the dynamics in China in particular, where the consumer subdued demand is just paying big part to us and all other players in the industry.

Charlotte Hanneman^ Yes, and Julien, I'll take your second question. Thank you for that. So about our longer-term margin expansion plans, we will talk about it later this year at the Capital Markets Day.

But I can assure you that the plan is robust and we're laser-focused on successful execution of the plan and to drive operational improvement and also create value. And if you think about our portfolio with 70% of our revenue in leadership positions at higher margins, which again will lift overall of Philips and the rest of the 30% business in Diagnostic Imaging, in Enterprise Informatics and in S&RC really providing good margin upside potential.

And on top of that, our productivity improvements we remain confident in the potential to improve our margins also beyond 2025. I will talk about that later in the year at the Capital Markets Day.

Operator^ We will now take our next question from the line of Lisa Clive from Bernstein.

Lisa Clive^ First question, on patient monitoring, could you just give us the latest trends in your business there in terms of working through the sort of COVID buildup, also just generally potential increased demand in the monitoring market as it expands beyond the acute care settings?

And then second on Connected Care, the Respironics performance outside of the U.S., you've been back for several quarters now. Can you talk about, in particular, the competitive dynamics? I know it's mainly duopoly between you and ResMed, but I think there are some players outside the U.S. How is your market share evolving and sort of how much of the lost ground do you think you'll be able to regain in the next two to three years?

Roy Jakobs^ Yes. Thank you, Lisa, for the question. Let's talk monitoring, of course, a very important business. What we have seen, yes, there was kind of some after-effect from COVID, but actually demand has been there. We also have positive order intake growth in monitoring. We also have seen that you see some bigger technology deals really coming in.

Now that makes that there is more lumpiness coming into monitoring. And part of it is because you go to technology service partnerships that are bigger size of a prolonged period and also a bit

more complex nature. But at the same time they're more attractive because they give good service margin. They kind of give you good protection for renewal. And we are gaining share in monitoring.

So I think we have seen that in many of the places that we are active. And we also have launched a new BM6000 monitor range that actually is doing nicely and well. And as you know we also have the informatics on top that is important for the current data and AI play.

So actually monitoring remains a strong business, but you do see that lumpiness in the conversion that also plays a big part in terms of kind of when we see it coming to conversion and to sales. Margin has been holding up strong as well. And if you then make the bridge to our total Connected Care margin has been going up very significantly, 240 basis points.

Now that was still with monitoring at a strong margin level. But in particular, we got EI and S&RC back. And if you talk about S&RC, there, indeed, the momentum is coming into that business again. One, driven by the return to the market outside of the U.S., where now also the last market came fully into play, which is France.

So we can now sell in all markets out of the U.S. again. We got that news yesterday, so that's great. We also see that we are competitive there. We have been launching new masks. We've got two new FDA approvals. I already spoke that the mask range is doing really well.

We are kind of trending at a level when we had actually in the U.S. devices still included -- including the first set up sales of those. And volume-wise, we have kind of now outgrown that in 2024, and that also brought as a good profitability in 2024 because, of course, it has been dilutive for now a few years.

We brought it back. We did the rightsizing of the portfolio and also the kind of the footprint. But most importantly, we also see the momentum coming back into that business.

Operator^ We'll now take our next question from the line of Robert Davies from Morgan Stanley.

Robert Davies^ My first one was just around the margins in D&T in the quarter. Just give us a little bit more color, I realize they come in a bit lower than consensus expectations. Just wanted to talk about the different dynamics between product mix, maybe China. Just give us a little bit more color on that one. And then the second one was just on the slide you put in on restructuring costs out through 2025.

Perhaps if you could just set the scene in terms of what's actually left to do in terms of sort of the different spend, where the buckets are going? Is there any more sort of headcount coming out within that restructuring cost element? And as we look even beyond '25, is '25 basically clearing most of the decks for that spend? Or we should expect more to keep going in 2016?

Charlotte Hanneman^ Thank you very much, Robert, and I'll take your questions and I'll start with the margin D&T one. And first thing -- a few things I want to say about that. First of all, we

had a strong step-up in Q4 of 160 basis points in margin in D&T. And this was despite lower China, which, as Roy mentioned, is high profitability for us.

So that strong step-up was driven by a few different things. We saw a positive mix. We continue to see strong productivity and also saw some positive pricing as the higher prices in the order book continue to flow through.

So if you then take a step back and look at our outlook, our longer-term outlook, we already reached our low-teens margin outlook already in 2023 where we increased our margin expansion by 200 basis points. So for 2025, again, we expect the margin improvements across all business segments including D&T.

So again, we're going to play that mix because in the D&T segment, we have some of our higher-margin businesses like IGT, where we have market-leading positions and continued innovations like Azurion Biplane. We have ultrasound and Roy already spoke about the very exciting innovations in VM11 and TRANSCEND, which continue -- will continue to drive margins up.

And we have additional productivity, as you also mentioned, which will also help the Diagnosis and Treatment margins as well. Ultimately, we are very, very pleased with our order intake, which was high single digits in Q4. And that, coupled with our innovations and the momentum that we're seeing in Q4 will help deliver our margin expectations 2025.

Now moving on to your next question on restructuring and incidentals. So as I said in my prepared remarks, we are diligently working to reduce the incidentals as we absolutely acknowledge they are high, and it is a priority for me to reduce them going forward. And if you then take a step back and think about our one-offs, they can be divided in two different categories. On the one hand, we're still working to resolve the Respironics recall.

So we have consent decree charges and some litigation charges. And that will diligently be working to reduce that over time and it will reduce over time. And the other component is related to the execution of our plan, and we are making sure we focus on growing our business making our supply chain leaner and more agile and ultimately reducing complexity over time. And with that, we have some restructuring charges as a result of that.

So if you then think about 2025, the restructuring 100 basis points that we called out is really related to further operating model simplification and manufacturing and R&D footprint changes as well as platform optimization as we become to a more focused business.

Robert Davies^ Understood. Sorry, was there any headcount reduction in those numbers as well or that's ex-headcount?

Charlotte Hanneman^ So as we're continuing to become a more -- a leaner company and a more focused company, we will also look at headcount, although that will not be the biggest part of it. We will continue to at becoming a simpler company to do business with, which will ultimately also result in some headcount reductions.

Operator^ We will now take the next question from Graham Doyle from UBS.

Graham Doyle^ Just two for me. One on China to plug that horse again, but when I look at the way you're guiding for it and sort of the language you talked around the sort of pre-Chinese New Year step-up, it seems quite cautious.

So when we look at some of the data we're seeing elsewhere, we think about how local companies are guiding and the relative strength even or consistency in market shares, is it an effect that you guys are assuming that the recent tick-up basically just stops and does not persist through the year and that's the degree of caution? So that would be question number one. And then just question two.

In terms of the consent decree, the extra 200 basis points of incidentals, when do you see that sort of tailing down or reducing? And then also, could you maybe give us an update in terms of the consent decree and the timings just theoretically, in terms of how separate the ability to return to sale in the U.S. of sleep systems is versus the actual sort of end of the consent decree, just to get a sense of that as well?

Roy Jakobs^ Yes. Thank you, Graham. And on the -- so on China, so we are cautious on China, and I think it's also diligent because we have seen not an inflection point that would kind of give us the data to say, okay. The recent few months turn into a structural trend, right? We have seen green shoots.

We have seen tender activity. We are also very active in the market. So it's not that we're not chasing it and going after it. But we just find it too early to call for changed momentum. And that's why we take that kind of caution into the plan and also especially into first half. That's also what we call because we also know that visibility in China is not very long.

So it could change, but we just don't want to pre-empt that, right? That is, I think, a fair description of what we've seen. At the same time we also have kept saying it's one question. So China will come back. And we also believe we are very well positioned to come back.

Our brand is very strong. We have strong customer penetration and connections and also when the consumer market comes back, with our strong innovations, we will be ready to kind of play that demand.

So that's the China story. Then on a consent decree, that 200 basis points, yes, also as kind of Charlotte said, that will taper off over time. Yes. We are working now at the of the consent decree.

We got it just one year, right? So there's a lot of activity going on to fulfill the needs and also we're putting a lot of effort in going through that, the best possible that we can, so we can come back to the market in the speediest possible time. But on that time again, we said before, we cannot speculate because that is up to the approval of the FDA.

What we did say before, and I will repeat, is that an average CD has a 5-year window, but an injunction can be lifted earlier and we saw that in our emerging care business that was after three years.

But that doesn't mean that in this case, it's the same because it's a very different case. So we are committed to the S&RC business as said we are seeing momentum coming back. So actually, it's contributing already to the plan, and I think it will contribute, of course, even more if we get through the timing of the consent decree.

So I think -- and the other thing that we said earlier in the plan is that we don't count ourselves reaching when it comes back, right? So we can do the step-up in margins, the step up in growth without that baked into current plan. So we're not dependent on it, and we will focus on getting through it, whilst we grow the rest of the business where we have a lot of opportunity.

Graham Doyle^ That's super helpful in understanding that caution. Makes a lot of sense.

Operator^ We will now take a next question from the line of Hugo Solvet from BNP Paribas Exane.

Hugo Solvet^ I have two, please. First on tariffs. I appreciate the color on U.S., China and the fact that you cannot really guide yet for any ex China tariffs, but could you briefly remind us of the manufacturing footprint here and as we think about Mexico, Canada, is there anything that we should have in mind?

And how prepared do you feel with regards to a potential rollout of tariffs to Europe? Second, on dividend, you're moving to a mix of cash and shares. Should we see this as a transition to be back to a cash dividend next year, maybe?

Roy Jakobs^ Yes. So on the tariffs, so what we said is we included what we know right? So -- and that is for now the China U.S. tariffs. We also, over time actually reduced quite significantly our export from China to the U.S.

So we are working that in various ways. Then I think it's good to know that we have no direct manufacturing in Mexico and Canada. We do have some suppliers there, but no own manufacturing sites. We do have manufacturing sites in Europe, but also in other parts of Asia.

So we're playing a global footprint. We are regionalizing before and as I said, it's hard to speculate on what will happen next. We are in very active dialogue on many fronts with the EU, with the U.S., in China to also advocate the importance of reliable supply chain for patients so that disruption is minimized.

We've seen with COVID what it means if supply chain in HealthTech and Medtech is disrupted. So we are working on our own plan with regionalizing supply chain. We are kind of lobbying to see how we can best maneuver through this and the current footprint that we have, I think, is one that we build on and that we further regionalize.

Charlotte Hanneman^ Yes. And then, Hugo, on your question on dividend. We are very pleased that we are proposing to offer shareholders the option to receive dividends in either shares or cash, as it just is an important signal that we've made significant progress in deleveraging the company, currently at 1.8 -- 1.8x leverage.

We've really put a lot of focus on strengthening the balance sheet. At the same time we're recognizing that there will be a $1.1 billion cash out related to the Respironics settlement in the U.S. that we'll be paying out in the first half of the year. So we're balancing those, but you should really see this as a next big step on our journey. So we're very pleased about that.

Operator^ We will now take our next question from the line of Giang Nguyen from Citi.

Giang Nguyen^ My first question is on the growth phasing that you guys are expecting to see through the rest of the year. I appreciate that you have provided us with the outlook for Q1 already of the split decline. And also, what's your degree of confidence at this point in time in delivering both the midpoint of the guide for the full year?

And I guess the follow-up to this question is what is the implication for margins as a result of this? And with this incremental cost savings, can we see margins for every quarter to be within the guidance range, even when top line may not be?

Charlotte Hanneman^ Yes. So from a phasing perspective -- thanks for the question. So we see this as a realistic outlook for the year. And if you then think about the phasing, both from a sales growth as from a margin perspective, we expect this to be back-end loaded due to a few different things, and mainly the China impact where we see China double-digit decline in the first half of 2025 as well as phasing of royalties. And you know that royalty phasing is at a high margin for us.

So that really has a significant impact as well. And the third component is really the comparable base, particularly in D&T, where in Q1 of 2024, we still saw supply chain normalizing from an MR perspective particularly. And so for China, we don't foresee a rebound in the second half of the year, but what we do see is comparable easing in the second half of the year, which will really have an impact on us.

So what I'm -- as a result, what we're seeing is that both sales growth as well as margin growth will be back-end loaded towards the latter half of the year. And maybe as a last follow-up, we are continuing to focus on what we control, that increase of our productivity savings from EUR 2 billion to EUR 2.5 billion will also be back-end loaded as we're putting the programs in place to drive that productivity going forward. So we will see a gradual improvement on both sales as well as EBITA margin.

Operator^ Our next question comes from the line of Julien Ouaddour from Bank of America.

Julien Ouaddour^ I have a couple as well. The first one, just -- I mean sorry to come back again on China. I think it's more a follow-up on all the comments you made today, but is it fair to explain the main difference from your mid- to high single-digit decline versus the low single-digit decline from peers coming mainly from the PH business?

And let's say, like in the TAMs, do you see the D&T business being roughly down low single digits and maybe PH, like even more than that to get to the let's like overall mid- to high single-digit declines?

And the second question is that there are some concerns in the U.S. about healthcare budget. Do you see it as a risk for hospital budgets? I mean today, we see a pretty strong CapEx environment, but maybe for like 2026 or beyond.

Roy Jakobs^ Yes. Thank you, Julien. On China, so indeed, PH is the one that actually causes the mid- to high single digit. It has a double-digit impact still in the first half of the year. So that actually is weighing into the phasing into the year and also kind of the impact from China that goes with that.

In D&T, we see kind of a continuation of trends that we have taken into account. That's also what we mentioned, right? So we have seen some green shoots but not a true inflection that actually would cause us to kind of significantly up that expectation.

So we kind of look at that as the time progresses in the year to see how the tender momentum and the order momentum in the market grows. And that's what we also see across the industry. So that's not for us that's, I think, just the market in itself.

So that's, I think, on the China assumption. The second question, yes, the hospital CapEx in the U.S., we actually expect that the U.S. will continue in its strong form. Remember, I called out, we had double-digit order intake growth in North America in 2024.

So we have strong momentum. Actually, we expect that to continue because the demand underlying is really strong. We see procedure growth still increasing. We still see the wait lines for imaging. And monitoring, as we said, kind of we see continued solid demand.

And with the share we have, we benefit from that. So you see kind of good momentum. We saw the ultrasound also really picking up. As I mentioned, that was a bit weaker in the recent periods. And that's actually picking up, which shows that kind of that market, in my view, is in a good position and will continue to be.

Julien Ouaddour^ I mean like for the second question, I was like mentioned in case we have some cut in budgets, I mean like for Medicare, like for Medicaid, et cetera. Is it something which can have an impact on profit level or just like hostile budget, maybe not at the moment, but more like in the future?

Roy Jakobs^ That again, hard to speculate on what would happen if policies change, I think we, of course, had more policy change in recent times. We look at the underlying demand that is strong and also the engagement with the customers. Now then there's always things that can change and that we have to address them when they happen.

Operator^ Due to the time the last question comes from Wim Gille of ABN AMRO ODDO.

Wim Gille^ To zoom in a little bit on the incidents in D&T, it was EUR 136 million, which was a bit higher than expected, of which EUR 100 million related to restructuring and EUR 40 million of quality actions.

Can you give us a bit more feeling on what kind of restructuring you're doing there? Is that headcount? Is it footprint optimization? What are you doing there? And on the quality actions, are there any modality specifically that we should look into?

Charlotte Hanneman^ Yes. Wim, thank you for your questions. Indeed, the incidentals in D&T were a bit higher than expected. We acknowledge that, and we're working diligently to reduce those over time. If you then look into the details a little bit more, there are two things that were in those numbers.

On the one hand, we're actively and -- going after quality and resolving all the quality issues that we see. That was part of the plan. And when we see it, we address it, and that leads to some quality charges as part of our incidentals.

And the other side of it is that as we continue to become a simpler and a less complex company, we're also working through footprint changes, and that has particularly played out in Diagnosis had Treatment as we're becoming a leaner supply chain organization and a more focused organization in general. So those are the two key items driving that.

Wim Gille^ And then which modalities do we look for quality actions?

Charlotte Hanneman^ Yes. We won't go in that level of detail, in at this point. There's nothing specific to call out there.

Operator^ That was the last question. Mr. Jakobs, please continue.

Roy Jakobs^ Yes. Thank you for the call and your questions. Let me summarize it. I think what you have seen in our Q4 and full year 2024 print is that we closed in line with our expectations and really building strongly on the fundamentals of the last two years. We came back into positive order intake growth with a strong momentum outside of China held back by China.

We are realistic in our plan for 2025 and we have taken a cautious view on China where we expect a similar pattern of the second half to continue, at least in the first half where we have the consumer slowdown to be -- cater for.

But we continue, at the same time strong margin expansion strong balance sheet strengthening. As a result, we also returned to dividend in cash, and we continue to be razor focused on that, also supported by productivity enhancement in 2025.

So thank you for your attention. Looking forward to further engagement and seeing some of you very soon. Thank you so much.