Philips Second Quarter and Half Year 2024 Results

Monday, 29th July 2024

Leandro Mazzoni: Hi everyone. Welcome to Philips' Second Quarter and Half Year 2024 Results webcast. I'm here with our CEO Roy Jakobs and our CFO, Abhijit Bhattacharya. The press release and 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 harbour statement on screen. You will also find the statement in the presentation published on our Investor Relations website. Roy, over to you. Good morning.

Presentation

Roy Jakobs

CEO, Philips

Good morning, everyone, and welcome. Great to be with you today. I want to start with the key highlights of this morning's release.

We delivered strong order intake growth this quarter. Within a challenging macro environment, we achieved strong margin improvement, supported by our productivity program, solid operational cashflow, and comparable sales growth in line with our plan.

The improvements were across all Business Segments and a result of the on-going actions to enhance execution, supported by our innovations.

We continue to make progress and see the effects of the focus on our three priorities: enhancing patient safety and quality, strengthening our supply chain reliability and establishing a simplified, more agile operating model.

Supported by key innovation launches and our ongoing actions, we are confident in our plan and reiterate our outlook for the full year 2024.

Onto the key financial highlights:

Comparable sales growth was 2% in the quarter, on the back of high-single digit growth last year. This was driven by 4% growth in Diagnosis & Treatment and 2% growth in both the Connected Care and Personal Health segments.

The adjusted EBITA margin was 11.1% in the quarter, a strong improvement of 100 basis points compared to Q2 2023. Free cash outflow was 64 million which included the payment in connection with the Respironics economic loss settlement in the US. We delivered a strong operational cash flow improvement, which Abhijit will unpack later.

I am encouraged by the 9% order intake increase in the quarter, driven by growth outside of China. I am confident that our innovative portfolio is well positioned to help hospitals worldwide address their staffing shortages, enhance productivity, and improve patient and staff experience, as our leading innovation is for consumers to take care of themselves. We continue to expect positive order intake growth in the second half and in the full year 2024.

In China, orders declined as the industry-wide anti-corruption measures imposed by the government continue to impact order lead times by hospitals as their internal approval cycle times have increased to ensure compliance.

I actually just returned from China, where I met many of our customers and partners, and it is clear that it remains an attractive healthcare market. We do not expect the anti-corruption measures to impact structural demand. Our order funnel is active in the country, and we expect China to gradually contribute to order growth in the coming quarters albeit from a low base. This will be supported by the recently announced government programme for renewal of aged medical equipment.

Let me now provide you with some of the customer and innovation milestones during the quarter:

We continue to see strong customer pull for our solutions and signed several long-term agreements across the world in the quarter. For example, we signed multiyear partnerships for monitoring, image guided therapy and helium-free MR with several university hospitals in the Netherlands and Belgium.

We also signed a major multi-year partnership with Bon Secours Mercy Health, one of the largest health systems in the US, standardising innovative patient monitoring solutions across its 49 hospitals to drive better patient outcomes and reduce burden on staff.

We launched our next-generation AI-enabled cardiovascular ultrasound platform with new FDA cleared AI tools integrated to advance cardiovascular imaging and increase automation and productivity.

Demonstrating our innovation leadership in minimally invasive treatments, we announced the first implant of the Duo Venous Stent System following premarket approval from the FDA.

In Personal Health, we unveiled a series of innovations in China, including the launch of the first medical-grade Philips Lumea 8000 Series IPL hair removal device with cooling technology.

Looking ahead, we remain confident in our plan, acknowledging that uncertainties remain in a challenging macro environment. In 2024, we expect to deliver further performance improvement, with 3-5% comparable sales growth, building on the strong comparison base of last year, an Adjusted EBITA margin of 11-11.5%, and a free cash flow of 0.9 to 1.1 billion.

I will now hand it over to Abhijit to take us through the Q2 financials in more detail, after which I will come back on our execution priorities.

Q2 Financials

Abhijit Bhattacharya

CRO, Philips

Thanks, Roy. Good morning, everyone. Let me start with our performance highlights.

Comparable sales grew 2% in the quarter, with 1% growth in mature geographies. Comparable sales in growth geographies grew 3% increase despite a decline in China.

In Diagnosis & Treatment comparable sales increased by 4%, with growth across Image Guided Therapy and Precision Diagnosis. It is important to note that this was compared to strong double-digit growth in Q2 2023.

The Adjusted EBITA margin improved 160 basis points year-on-year, to 12.2%. The increase was mainly driven by improved sales, pricing and productivity measures.

Connected Care comparable sales increased 2%, with double-digit growth in Enterprise Informatics and flat comparable sales growth in Monitoring on the back of strong double-digit growth in Q2 2023. We saw strong performance in sleep systems and patient interface in markets outside of the US.

Connected Care Adjusted EBITA margin improved by 130 basis points, to 8.8% driven by solid performance in Monitoring and a strong step-up in profitability in Sleep and Respiratory Care, which is encouraging.

Personal Health delivered a 2% comparable sales increase, driven by 5% growth outside of China. Overall consumer sentiment in the US and international markets is solid, while consumer sentiment in China remains subdued. The Adjusted EBITA margin for the segment improved significantly to 16.9% this quarter, mainly due to operational improvements and productivity.

Sales in segment Other were €70 million lower than in the second quarter of 2023 due to royalty revenue phasing, as indicated in our Q1 call. This difference alone resulted in a negative impact of around 160 basis points on the growth of the Group in the second quarter.

We have been very disciplined in cost management and our productivity initiatives delivered savings of 195 million in the quarter, of which operating model savings were 57 million, procurement savings were 71 million, and other productivity programmes delivered 67 million.

The adjusted EBITA margin for the Group increased by 100 basis points to 11.1%, despite the lower royalty revenue in the quarter, productivity and pricing actions which contributed 320 basis points, partly offset by wage and component price inflation of 200 basis points.

Earlier in the quarter, we also concluded an agreement with insurers to pay us 538 million to cover the Respironics recall-related product liability claims. This income was recognised in Q2 2024 and the remaining payment is expected this year.

Free cash was an outflow of 64 million in the quarter as it included a payment of €415 million in connection with the Respironics economic loss settlement in the US, partly offset by initial receipt from insurers of €150 million. Therefore, excluding these two effects, free cash flow in the quarter was around 200 million driven by higher earnings and continued progress in working capital management.

Our leverage ratio improved from 2.8x to 2.2x compared to Q2 2023 on a Net Debt to Adjusted EBITDA basis. It’s also important to note that both S&P and Moody’s upgraded our rating outlook to stable. We have now stable outlooks for our strong credit ratings across S&P, Moody’s and Fitch.

The effective tax rate for the first half of 2024 was negatively impacted by the de-recognition of deferred tax assets on Respironics litigation provision and carry-forward losses in the US. As a result, the effective tax rate for full year 2024 will be high. Normalising for these effects, however, the effective tax rate is expected to be between 17 and 19% this year, compared to our guidance of 24 to 26% for the period 2023-2025.

Now, let's move to dynamics in order intake. As mentioned earlier, we continue to see inherent unevenness in order growth between quarters. In the second quarter, order intake grew a strong 9% driven by improvements outside China, particularly in North America. This resulted in 3% order intake growth for the first half of the year. We continue to expect to deliver order intake growth in both the second half as well as full year 2024, as mentioned by Roy.

As a reminder, orders and orders book account for around 40% of our revenue; the remaining 60% comes mainly from recurring revenue streams such as services and consumables, from book to bill business and from personal health.

As mentioned in our previous earnings calls, we anticipate sales growth to be back-end loaded in 2024 due to the higher comparison base in the first three quarters of the year, where we grew 9% in 2023. We expect sales growth in the third quarter to stay broadly in line with the first half of the year, on the back of 11% growth in Q3 2023, which was driven by mid-teens growth in Diagnosis & Treatment.

For full year 2024, we expect all business segments to be within the 3-5% sales growth range provided for the Group, with Connected Care expected to be closer to the upper end of the range and Diagnosis & Treatment and Personal Health expected to be closer to the lower end of the range.

With that, I would like to hand it back to Roy.

Presentation

Roy Jakobs

CEO, Philips

Thanks, Abhijit. I would like to continue with the progress we've made on our execution priorities.

On Patient Safety and Quality:

We again delivered a substantial improvement in CAPA closures in the quarter, driven by stronger processes, capabilities and governance around it.

We continued to drive significant simplification of the way we work and further reduced the number of Quality Management Systems; we are well on track to achieve our target of 65% reduction in 2024.

And we continue to invest in quality improvements across the portfolio and are acting fast on post market surveillance signals.

With respect to the supply chain, we have now lead times back to normal across all modalities. We will continue leveraging and regionalising our end-to-end supply chain to further strengthen first-time right deliveries and service levels. In China, we have reached around 90% local-for-local supply chain.

Finally, our new operating model, with prime accountability in the businesses, has been live for almost 18 months now, resulting in significant productivity improvements. We have already reduced close to 9,000 roles to date. At the same time, we continued the culture journey to drive impact with care and attracted more than 700 talents with health tech background this half year alone.

As announced earlier this year, Abhijit will retire from Philips after a long and illustrious career with us. I want to thank him for his significant contribution to the company, especially during his time as CFO. Abhijit’s leadership, passion and dedication have helped shape the transformation of Philips over the last decade and guided the company through global uncertainty in recent years. We will certainly miss Abhijit for his drive, counsel and sense of humour. His last day will be on September 30, so you will have the opportunity to engage with him during the roadshows and investors’ events over the next couple of months.

Our incoming CFO, Charlotte Hanneman, joined us last month and will move into the CFO role on October 1. Abhijit and Charlotte are working diligently to ensure a smooth and seamless transition. As you know, Charlotte brings over 20 years’ experience in the MedTech and pharmaceutical industries, most recently at global medical technology company Stryker.

Before I wrap-up, I want to take the opportunity to extend a warm invitation for our Show and Tell event for investors and analysts in September. It will be a face-to-face even in the Netherlands, where we will take you on a deep dive into our businesses and highlight some of our most important products and innovations. You have the opportunity to directly discuss the latest trends in the HealthTech segments with our management and our business teams. Our investor relations website contains more information on the event and how to register. We look forward to seeing you here.

Let me close out by repeating the key messages of today’s announcement:

We delivered strong orders and margin improvement, solid operational cashflow and comparable sales growth in line with our plan, within a challenging macro environment. This was a result of progress on our execution and our industry-leading innovations.

Supported by key innovation launches and our ongoing actions, we are confident in our plan and reiterate our outlook for the full year 2024.

I would like to thank you for joining the call. We will now take your questions.

Q&A

Operator: Thank you, sir. If any participant would like to ask a question, please press the star followed by two times one on your telephone. Due to the time, please limit yourself to one question. This will give more people the opportunity to ask questions. There will be a short pause while participants register for a questions. We will now go to the first question. Our first question comes from the line of Hassan Al-Wakeel from Barclays. Please ask your question.

Hassan Al-Wakeel (Barclays): Good morning and thank you for taking my questions. I have three please. Firstly on orders. Can you talk about the strength you're seeing in North America and to what extent is it a catch up on supply issues around MR or indeed share gains in other modalities as well?

Secondly, can you talk about the personal health business in China, which looks to be down around 10% in the quarter? What are your expectations here for the second half? And can you talk about the building blocks and the assumed acceleration in the broader PH business over the next two quarters?

And then finally, you had an impressive margin delivery in the first half. And with the seasonally strong second half that you typically enjoy, coupled with connected care margins building from here, why haven't you raised guidance? Is this a continuation of the conservatism that we've seen from you, Roy? Or is there something we should be aware of incrementally driving caution into the second half? Thank you.

Roy Jakobs: Thank you. Hassan. Great questions. Let me start with the first one. Orders and strength in North America. So actually we have seen improvement of our order book across different businesses. Building on the strength in the market first place, because North America clearly is the strongest market in the world where we have seen our customers strengthening their actually P&L, their income through more patients that are being served. But also, we see further consolidation trends in the market that actually we benefit from as they are choosing key partners that they trust in for longer term technology partnerships. And actually, we have seen that across our portfolio, whether that's on monitoring, whether that's on imaging and interventional. And also, you have seen and heard us talk about a very strong enterprise informatics growth, because you see that especially software and AI is used very much to improve productivity and also to reach across different sites, whether it's different hospital sites, but also into ambulatory and sometimes even into home. So that, actually, portfolio that we have is resonating well with our North American customers. So that's also what we see in the order intake. So also therefore we don't expect it that this is a one off. We will expect actually the order intake to continue to be strong in North America. Then the second question on PH. China was indeed down. I think that was a market and industry kind of phenomena. Consumers are spending less in China than we were used to. We also expect that actually to continue in the second half. So whilst we expect some strengthening, we don't expect too much from the China market.

But what you have seen and also in terms of our guidance, we do see that actually the growth in other parts of the world is stronger and actually will also strengthen in the second half of the world. North America is part of that. We already saw stronger growth in Europe and some of the Asian markets already in the first half, and that combination actually will also help us deliver the full year guidance as we have laid out. On the other hand, what you also saw in PH is that we are driving strongly the profitability. We have been taking strong action on further productivity initiatives, but also some support from pricing. So the overall mix is playing out well and supporting PH to step up and profitability levels.

Then the third question on the margin delivery in the first half. I think yes, we are satisfied that we continue to see the margin improvements, of course, backed by a very strong productivity drive on one hand, the return to sales and also stronger underwriting margins. So in that sense, we expect that momentum also to continue into the second half. At the same time, we didn't want to raise mid-year. We feel that kind of it's better to stay kind of confident on the full year, deliver quarter over quarter our improvements, and by doing so making sure we deliver the full year. So we stick to our plan, the three priorities that we have, building on the innovations that we can get out there, and by doing so, working towards that delivery for the full year.

Hassan Al-Wakeel: Excellent. Thank you.

Abhijit Bhattacharya: To add a bit Hassan, if you look at the improvement in the first half, we are in the guided range of 40 to 90 bps. So therefore there's no need at this stage, like I said, to again further improve it because we are in the guided range of profit improvement also for the first half of the year.

Hassan Al-Wakeel: Thank you both.

Operator: Thank you. The next question comes from Richard Felton from Goldman Sachs. Please state your question, Richard.

Richard Felton (Goldman Sachs): Thank you. Good morning. Two from me, please. So first of all, on some of the recently launched innovation, I think you mentioned new products across CT, IGT and ultrasound all fairly recently. So in context of those launches, how do you see your current market share trends across those key modalities? That's question one.

My second one is on enterprise informatics. Is there any colour or detail you can share to help us think about profitability for that division as the business scales? Thank you.

Roy Jakobs: Thank you, Richard, for these questions. Good questions again. If you look at the, the NPIs and how they support market share, I think what you can see from the order intake growth, 9% the second quarter, 3% first half, that actually supports a strong performance in the market. Now, some of these new innovations we just recently launched, like, for example, the ultrasound and new platform with AI, that's, I think, very exciting. Now we expect the benefits to come from that platform that has not yet been kind of built into delivery to date. The same for some of the new launches of Azurion and the CT 5300. because we had the first launches of these. I think you will see, and we also believe to see that back in our market share in the coming months and even in 2025 whilst we get this to full strength. So we have seen, of course, strengthening our positioning in the market. We also see very good resonance. We had multiple deals across the world. You saw not only in North America that we closed big technology partnerships, but also in Europe, various ones and also in Asia.

So actually you see that that we have, kind of, I think increased momentum based on our innovations. The other, I think achievement that we highlighted, which is important also for competitiveness, is that we now fully back on track with supply chain lead times. So we had MR Which was the last one to kind of really fall in line. We also have that now back. We also have seen that kind of reflected in MR Momentum, and we expect that to support also our way forward.

And on the second question on EI, I think what we have seen indeed is that there's strong order intake that also, of course, drives then conversion. And we also have seen that contributing to profitability. And that's something that kind of we are happy with. So we saw that coming into positive contribution. And what we said for the long term, this 1.5 billion sales and moving towards double digit margin is something we are driving full force towards. Of course, step by step, quarter by quarter, but it's clear that that portfolio is gaining momentum. And that then also translates into improved contribution.

Richard Felton: Great. Thank you very much.

Operator: Thank you. Our next question comes from the line of David Adlington from J.P. Morgan. Please state your question, David.

David Adlington (JP Morgan): Good morning. Thanks guys. Maybe just a question around pricing. Of the 2% growth on sales you saw this quarter, how much of that was down to price? And then following on from that, how do you see the pricing environment evolving? Are you seeing a positive trend, flat pricing, or are we seeing some pressure on pricing at this point? Thank you.

Abhijit Bhattacharya: Yeah, I think if you look, we saw some pricing benefit in health systems. And that's what we've been saying for the last couple of years, David, that, you know, we saw it in our order book, and now we see it translating back into the P&L. In terms of PH, you don't really see further pricing upsides now because you see how the consumer sentiment is, it's quite subdued. So pushing pricing at this time is not helping. Now, of course, we are working on the productivity as well as the operational improvements that we had put in be it in supply chain, be it in our factories, etc., and that you see contributing nicely back in the margin. So net-net between PH and health systems, I think the net pricing impact was close to zero. But in health systems we got a positive impact and less so in personal health.

David Adlington: Thanks, Abhijeet. Maybe just to follow up there, on the orders that you're getting now, how is the pricing on the orders?

Abhijit Bhattacharya: So far, still okay, but we will have to see how it goes in the coming quarters and see the competitiveness. But so far, we are still holding and we are making good progress with our material price reductions. So that's helping, let's say, the profitability looking forward.

Richard Felton: Great stuff. Thank you.

Operator: Thank you. Our next question comes from the line of Veronika Dubajova from Citi. Please state your question, Veronika.

Veronika Dubajova (Citi): Hey guys. Good morning and thank you for taking my questions. I have three, please, if I can. the first one is just to follow up on Abhijeet on your comment that you're expecting D&T growth for the full year to trend at the lower end of the 3-5%. Can you maybe just elaborate what it is that's making you somewhat more cautious here about the second half – in the second half of the year? I guess we're at 4% year to date. So I'm just curious what drives the slowdown in the back half of the year, especially given the easier comps? That's my first question.

My second question is just a follow up on your margin guidance for the year. If I look at the first half of the year, you've delivered 90 basis points of improvement. The comps in the back half get easier. So, you know, I think Hassan asked the question about the conservatism and the guidance. But just to maybe reiterate that there's nothing specific that worries you about the margin development in the second half of the year, that there are no specific headwinds you want to flag as to why the margin improvement in the back half should be, at best, similar to first half or potentially worse.

And then my final question is for you, Roy, on China, having just visited there this past week. Be great to get an update on how you feel the behaviour on the ground is. And I guess as you think about your sales in China and your orders in China in the back half of the year, what are your expectations for each of those when it comes to return to growth and the timing of that? Thank you guys so much.

Abhijit Bhattacharya: Hi, Veronika. Let me take the first couple of questions. I think if you look at the – for Q3, we had really dramatic growth last year. I think even in the mid-teen that makes the comparables tough for the third quarter, which is why we expect to be at the lower end of the guidance. Now, we will see also how China plays out and the speed at which the orders come in. So we will have to match both of those. So for now, that's how we are looking at our forecast for the rest of the year. Yeah, I think Roy answered the question on full year margin. Right. We are 90 bps up. That's in line with our guidance. There's still a second half to go. We are not going to change guidance every quarter. So for now we reiterate our confidence to be in the guided range, maybe in the upper end, but we will not change guidance at this stage.

The third question –

Roy Jakobs: On China. So indeed, it was good to be in China again because staying close to the pulse of the market is important at this stage. I spoke to customers, partners and, of course, to our own team. Now, I think what you do see is that on the one hand, there is still impact that is flowing through from the measures that have been taken. I think we are not yet out of the woods, but we do see improvement coming into the activities. And that's also something that I saw and discussed with customers. I saw it the activity of the order funnel. I saw it also in discussion with our own teams. Now that's also what we expect to showcase in due course of the second half. Then of course, normally orders go ahead of sales. So that's a logic you would also expect in this recovery pattern. The exact timing is hard to gauge because we have seen it all in the last months and even over a year that is not exact to pinpoint what is – how it will evolve. But we said earlier this year that kind of second half will be better than the first half. We still expect that. We also have seen sequential improvement in Q2, and we actually expect that to accelerate into the second half. So I think that is what I have to say to China; and then next to the fact that fundamentally, this is a very strong market and holds, of course, a lot of patients to be taken care of for the future as well. We have been adjusting our local for local footprint innovations so that when the demand comes, we are ready to capture it now and then kind of, it's waiting about the exact development of it.

Veronika Dubajova: Thanks. Can I just follow up any thoughts at this stage that you have about the stimulus and how meaningful that could be? I appreciate you don't have a sense for timing yet, but just conceptually, as you look at China over the next one, two, three years, do you think the stimulus could be meaningful in terms of driving order and sales growth in China or not?

Roy Jakobs: No, I've said before how I look at it, I see it as a kind of bonus programme that the China government has put in place. I think the China market has fundamental underlying growth that we should count on, and then this will be on top of, so that this will accelerate to a certain extent for sure, because there's extra money that will flow into the market that actually probably will kind of speed up some of the replacements in the market to go faster than they would normally do. And we also expect that that will contribute and we will benefit from it. But, A, the China government did not give specific amounts that they ultimately will release; B we don't know exact timing, and therefore it's, kind of, I would say too early to kind of really put numbers on top of that, that kind of will come forward. And for me, this is part of the overall recovery and improvement trajectory that will come where I expect more of just underlying structural demand kind of to drive the improvement than the stimulus, but the stimulus will be part of it.

Veronika Dubajova: Understood. Thank you, guys.

Operator: Thank you. Our next question comes from the line of Hugo Silva from BNP Paribas Exane. Please go ahead, Hugo.

Hugo Silva (BNP Paribas Exane): Hi guys. Thanks for taking my questions and congrats on the print. I have three please. First, a clarification on China if you can. Do you see a risk that customers, order acceleration or the recovery be pulled off in H2 as there will be waiting for the stimulus?

Second on connected care and – sleep and respiratory care. Sorry. Can you quantify for us the margin step up in that business year on year? But also, are you seeing the sequential margin improvement even I think that you are already breakeven in Q1?

And lastly, on PH. So obviously D&T is strong, connected care is gaining momentum, the settlement is now behind. Just want to get a feel of your level of commitment to the personal health business. Thank you.

Roy Jakobs: All right. Thank you, Hugo. Also great questions. Let me start with the first one on China. So I don't actually expect that the China customers will hold back on placing orders because they're waiting for stimulus. As I said, there are two parts of demand. The most important is the underlying kind of demand for replacement of the installed base, or even for new investments. There's also some pent-up demand from the period that kind of the orderly times were under pressure. So I expect that will drive the improvement itself. Then at stimulus, they will have to wait until that becomes clear. So that is the waiting. But that's more on top of – that's also where I said kind of it's hard to gauge when that exactly will come to market, but I don't think this will hold up at the full improvement of China in the second half that we project.

Then on connected care, indeed, we are happy to see SRC regaining momentum started, of course, with a sales momentum outside of the US. Then also, of course, for the remaining part of the business that we have in the US. We also see actually good momentum and we have been rightsizing the business based upon the clarity that we got. So we took also then the productivity measures. Now that brought sleep and respiratory care back into the positive. We already mentioned that in the first quarter and we actually see that contribution strengthening.

Now I'm not going to call out exactly how that looks like because we don't do that for any business, but I can confirm that we have seen further strengthening of the profitability profile also in the second quarter. And that's actually what we will continue to build on in the third and fourth quarter, as also, some of these further measures that we have been taking will come into effect.

And then a third one on PH, and I think we are very excited about our PH portfolio. As we mentioned before, we have some exciting innovation launches that are coming out. You saw the strong profitability step up. So this business is also still very attractive from a profile of cash contribution and profitability contribution. We are also the good owner because we have market leading positions. We are number 1 or 2 in all the segments that we play, whether it's in oral care, whether it's in personal care, whether it's in MCC, and we see also over time that care will move more to the home. So actually having a strategic position in the home, being active there ourselves does also give us currently already a differentiating position in the healthcare market, because customers that are looking, hospital systems that are looking how to better serve in an ambulatory setting or in a home setting also value our insights, also value our brand even in terms of what it does in the home. So full commitment and excited about that part of the portfolio as much as about the rest, and also seeing kind of a good future for it.

Hugo Silva: Thank you very much.

Operator: Thank you. Our next question comes from the line of Julien Ouaddour from Bank of America. Please go ahead, Julien.

Julien Ouaddour (Bank of America): Thank you very much and good morning, everyone. The first one is D&T. So in prepared remarks you mentioned growth in IGT and precision diagnosis. But I mean, what about ultrasound this quarter? And I think we've seen data from China which suggests that you – I mean, you lost important market share in ultrasound for the country during the first six months of the year. So any particular reason for that?

The second question on, let's say, on Respironics. So we've also seen some like European class action for Respironics emerging this summer. Could you maybe just update us on the situation and like let us know what's the potential outcomes are in your view? Any let's say increase in terms of provisions like for the litigation going. Thank you.

Abhijit Bhattacharya: Hi, Julien. Let me clarify on ultrasound. You know, we had tremendous growth last year in the first half of the year. It was above 30% growth. So based on that, basically we are – we don't have growth in the first half of this year because we were getting out of the whole supply chain situation. So if your question was on ultrasound, I think that tells you – so therefore I don't know where you have this information on market share loss, but I think Roy also has told you about our new product launches which we are excited about. So we expect to continue to strengthen in that area.

Your second question.

Roy Jakobs: Let me take that one. That's I think, on the SRC. So indeed last time we were very happy to kind of announce that we got the North American settlement with finality. We also mentioned at that time that there are cases ongoing outside of United States. You saw the European class action recently kind of announced. Actually, we have so far very limited information, have not been served with the complaint. We expect it will be in the same vein as what was kind of put forward in the US. There's nothing currently that we can say about it next, and that we will defend ourselves in this. We will build on the testing that we have also used in the North America case. And therefore we will address it in a rigorous manner with the best team on it. But there's nothing currently to be said about it. That's also why you have not seen any kind of implications of it. It's very early days, and it's one of the cases that we will take forward as part of dealing with the cases outside of outside of the US.

Maybe last comment, of course, is in a very different legal system than in the US. So also in terms of even if, then actually consequences would be of different scale than to be expected in the non-American case. But as I said, it's even too early to go there because we don't even know if there's anything of meaning.

Julien Ouaddour: Perfect, perfect. Thanks. Thanks a lot. And a very quick follow up in order intake. Could you maybe give us a bit more colour about the breakdown by modality for this quarter?

Abhijit Bhattacharya: No, actually, that's – Julian, we would love to, and we used to, but our competitors don't. And therefore, for us to now give that makes it a bit too sensitive for us to give. But overall, I think Roy mentioned that outside of China we have done well with particular strength in North America.

Julien Ouaddour: Perfect. Thank you very much.

Operator: Thank you. Our next question comes from the line of Robert Davis from Morgan Stanley. Please ask your question, Robert.

Robert Davies (Morgan Stanley): Yes. Morning. Thanks for taking my questions. I had a couple. One was just on the competitive environment in D&T, whether you're seeing any changes there. You'd mentioned, I think, in your earlier comments about progress in North America. And I know you didn't want to sort of call out specific modalities, but just if you could give us a little bit more colour in terms of areas of relative strength and weakness in the quarter where you're making particular progress with them, with clients, that would be helpful.

And then the other one was just around the free cash flow guide, given where we are year to date. What sort of underpins your confidence in getting into that 900 to 1.1 billion range over the full year? Thank you.

Roy Jakobs: So thank you, Robert. Let me take the first one. Competitive environment in D&T. I think what you have heard us say, and actually you also see it in some of the deals we closed, is actually that you see – and that's why we're excited about the contribution – that actually all businesses are contributing in order kind of growth and also kind of how we position in the market. And you saw that also back, of course, then ultimately converted into sales. The North American market has particular dynamics in terms of certain strongholds that we hold in monitoring and in kind of IGT and ultrasound. So that's known. So of course, they're based on the strength that we have. We take on average more from the market. We are also kind of bouncing back in imaging based upon the lead times improvement that you have seen, the launches that we are doing. We also have been working on our team. So that's something that kind of we are also excited about, on top of the enterprise informatics side, is something that really resonates very well in the North American market and also supports our D&T portfolio, because you see, of course, that PACS, that's on top of imaging, you see that digital pathology goes in the same vein. You see that kind of some of the solutions that we're now deploying in ultrasound are very AI-driven. So actually that interplay between software, AI, informatics, and then also the D&T portfolio is something that differentiates us in the market and therefore helps us to be productive in North America.

Abhijit Bhattacharya: On the free cash flow, if you look at – we had this payout for the economic loss settlement which actually makes the numbers a bit skewed because the insurance money will come in the second half. The payment has happened in the first half. If you just normalise for that, our cash flow for the first half of this year is maybe 150 million behind last year. So it's not hugely behind. And last year, we delivered a cash flow of 1.6 billion. This year we are planning 0.9 to 1.1. And, you know, Q4 is a big cash flow quarter for us. So confidence is actually very high with the improved earnings and working capital management that we will get to our guidance on free cash flow.

Robert Davies: Very clear. Maybe just one quick follow up. Around personal health. I know you called out the weakness in China, but maybe could you just provide a little more colour on what you're seeing in the North American market in personal health? Thank you.

Abhijit Bhattacharya: Yeah, I think North America overall we seem to be gaining share now. Consumer confidence is not buoyant, but it still remains solid as we have said. We have been gaining share. The sell-out has been good given the current market situation, and then based on the product launches that we are planning in the second half of the year, we expect to have reasonable growth in North America as well.

Robert Davies: That's great. Thank you. Both.

Abhijit Bhattacharya: Thanks.

Operator: Thank you. Our next question comes from the line of Sezgi Oezener from HSBC. Please state your question.

Sezgi Oezener (HSBC): Hi. Thanks. Thanks for taking my questions. I will have three please. First of all, on the legal front, do you have any update on the DOJ case and on the rest of European cases and elsewhere? Can you give a highlight of what we can – we might be looking into in terms of timelines and sizes?

And second question on the connected care segment. What does the portfolio look like post all the pruning on respiratory care and ventilation segment? Do you expect to be present again on a considerable scale on ventilators and respiratory care?

And the last one is on reimbursement front. Do you see any changes in your DME market and outlook? Do you do you see more inclusion in reimbursements in connected care that is affecting your margins? I mean, we've heard from some peers that usually on this front, DME margins tend to be much stronger than compared to when products get included in the PBM payment scheme. So do you expect – do you see any changing dynamics from that front? Thanks.

Roy Jakobs: Thank you, Sezgi. Let me start off with the first question on the legal cases. So on the DOJ, there's no further update. Otherwise, indeed, you would have heard we have been further collaborating with the DOJ, but there's no position on that to be shared, no news also from the investigation. It's ongoing. And we work collaboratively with the DOJ on it. Similar for the rest of the EU cases. Actually, we are in the kind of the various cases in the dialogues that need to happen, but there's no insight in outcome nor in the need for kind of any provision or kind of even any preclusion on impact. So in that sense, there's no news on the on the front of litigation beyond what we have also disclosed in the half year report. So that's the first.

Then on the second in connected care. Yes, we have been pruning. Actually, you also see that the remaining part of the portfolio is working. We see the growth returning. We see profitability returning. Yes, as a result of pruning, there will be a less broad portfolio, but we still are relevant. We have the core products that have been kind of the biggest volume drivers for us in respiratory care, both in sleep as well as respiratory. And we keep active in in both sides. So that's something that that remains part of the of the plan. It's also what we get back from our customers that really like our innovations. Also kind of with the key orchestrator that combines both and serves both. So it's not only the devices but also the software.

And then the third one reimbursement, DME. To our knowledge, there's no specific change or strengthening of that. What we have seen is that actually the demand is out there. The patient kind of that are unaddressed out there. They're coming into it. They're also reimbursed. And that's something that drives the respiratory and sleep market as it has been doing it before. So we have not seen any specific order changes in dynamics that we would like to report on. I think SRC is regaining momentum and that's what we're seeing and that's what we are very excited about. And that's especially in terms of outside US and sales and across the portfolio with profitability contribution.

Sezgi Oezener: Thanks. And maybe as a quick follow up. Post the pruning and post the ex-US expansion in sleep care, where should we consider the contribution to connected care from sleep and respiratory care? Is it closer to the 20% range we've seen in '23, or is it closer to almost – it used to be half of the connected care sales, that's probably a further target, but where should we see it?

Abhijit Bhattacharya: I said – I think what we've said before, you know, this used to be a 2.3 billion business. We have resized it now to €1 billion business. So that's the size we should take. And then let's say from there, from next year onwards, you will start seeing growth in the connected care guided range of 3-5%. I think that's how you should model it.

Sezgi Oezener: I see, so just under the 20% range it seems. Okay. Thank you very much.

Operator: Thank you. Our next question comes from the line of Falko Friedrichs from Deutsche Bank. Please state your question.

Falko Friedrichs (Deutsche Bank): Thank you and good morning. My first question is on your good 9% order intake growth in Q2. Is there any reason that this this growth number should be lower in Q3 and Q4, considering the improvements in North America and then also potentially in China? Maybe you could briefly remind us of the comps as well for the orders in the second half.

And then my second question and piecing together your comments on China's stimulus. Did I sort of understand it correct that you should start to see a positive impact in orders in the second half and then a positive impact in sales probably not before 2025? Thank you.

Abhijit Bhattacharya: Yeah. Let me take the first one on order intake. So as I mentioned also in my opening remarks, like, don't extrapolate the 9% because order intake has been extremely lumpy. Therefore, we are at the 3% for the first half year. We expect to have growth in the second half. We don't know the exact amount because it also depends on how the whole recovery in China happens. So I think that's how you should look and not extrapolate the 9%. Comps of last year were also similarly negative for the second half as the first half. So that will not make a big difference. I think the strength in North America will continue, the strength in international markets will continue. And then the only unknown piece in the puzzle is how China recovers. That's how you should look at the order intake for the second half.

The next question was – yeah. Again, very difficult to say whether it will contribute a bit, but it's not likely to be major in the second half. So yes, the bigger contribution will be in 2025. The speed at which we get the orders will depend how much contributes to this year, but that's something we still have to watch in the coming months.

Falko Friedrichs: Okay. Thank you.

Abhijit Bhattacharya: Thank you.

Operator: Thank you. The last question comes from the line of Ed Ridley-Day from Redburn. Please go ahead.

Ed Ridley-Day (Redburn): Hi. Good morning. Thank you. Just to follow up on firstly on ultrasound. Thank you for your earlier comments, but can you give us a little bit more colour about the growth ex-China in that business? That would be helpful.

And also in image guided therapy, can we construe double digit growth in that business from in terms of the revenue growth for IGT or if you could provide any further colour on that business as well, I'd be grateful.

Abhijit Bhattacharya: Yeah. I need to check my numbers on the ultrasound growth excluding China. But again, like I mentioned, you know, for the first half of last year, we had 30% plus growth. So I don't expect us to have any significant growth outside of China. It will also be a decline outside China because last year we were getting past the whole supply chain issue. So actually we had massive supplies in the first half of last year.

Regarding IGT, we are seeing a slow recovery. This quarter was good. But I don't see this year as being in the double-digit territory. It will probably be lower than that. but that's included, let's say, in our overall guidance for D&T.

Ed Ridley-Day: Okay. No. Fair enough. Thank you very much.

Abhijit Bhattacharya: Okay. Thank you.

Operator: Thank you. Gentlemen, that was the last question. Please continue.

Abhijit Bhattacharya: Yeah. Maybe, first of all, let me thank everybody for joining the call, since this is going to be my last analyst call and last quarter after 50 quarters of doing this, both as IR and as the CFO, just wanted to say a big thank you to all of you for putting up with me, in a way. And we've had some difficult times, but a lot of very good times. And I look forward to that, and look forward to seeing you on the roadshow later this week for those who I will meet and later in the year in our Show and Tell event. But since there will be a lot on this call who I will not probably meet in my current capacity, a big thank you. And again, thank you for joining the call.

Roy Jakobs: Thank you Abhijit. And indeed thanks for all the contribution. As I said before. memorable times. And happy to see you also kind of transitioning well.

Let me close out this call by repeating, I think, the key message of today. Firstly, we deliver strong orders and margin improvement, a solid operational cash flow and comparable sales growth in line with our plan and that within a challenging macroeconomic environment. This was the result of progress on our execution and our industry-leading innovations, which we keep focusing on. And supported by our key innovation launches and our ongoing actions, we therefore, are confident in our plan and also reiterate the outlook for the full year 2024.

I would like you to thank you for joining the call, and I wish you a great summer. Thank you so much.

[END OF TRANSCRIPT]