Philips (Q2 2025 Results)
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Corporate Speakers:

- Durga Doraisamy; Philips; Head of Investor Relations
- Roy Jakobs; Philips; Chief Executive Officer
- Charlotte Hanneman; Philips; Chief Financial Officer

Participants:

- Hassan Al-Wakeel; Barclays; Analyst
- Graham Doyle; UBS; Analyst
- Veronika Dubajova; Citi; Analyst
- David Adlington; JPMorgan; Analyst
- Edward Ridley-Day; Rothchild & Co, Redburn; Analyst
- Richard Felton; Goldman Sachs; Analyst
- Hugo Solvet; BNP Paribas; Analyst
- Julien Dormois; Jefferies; Analyst

PRESENTATION

Operator^ Welcome to the Philips Second Quarter and Semiannual 2025 Results Conference Call on Tuesday, July 29, 2025. During the call hosted by Mr. Roy Jakobs, CEO, and Ms. Charlotte Hanneman, CFO, all participants will be in the listen-only mode. (Operator Instructions) Please note that this call will be recorded, and a replay will be available on the Investor Relations website of Royal Philips. I'll now hand the conference over to Ms. Durga Doraisamy, Head of Investor Relations. Please go ahead, ma'am.

Durga Doraisamy^ Hello, everyone. Welcome to Philips' results webcast for the second quarter and half year 2025. I'm here with our CEO, Roy Jakobs; and our CFO, Charlotte Hanneman. The press release and investor presentation can be accessed on our Investor Relations website. The replay and full transcript of this webcast will be available on our website after this call concludes. I want to draw your attention to our safe harbor statement on the screen and in the presentation. I will now hand over to Roy.

Roy Jakobs^ Thanks, Durga. Good morning, everyone. Thank you for joining us today. We entered Q2 with momentum, and we further strengthened it throughout the period. Order intake grew 6%, building on 9% last year. Comparable sales increased by 1% with strength in Personal Health, offsetting performance in D&T and Connected Care. Margin expanded by 130 basis points in the quarter to 12.4%, demonstrating that our innovation and ongoing productivity measures are driving strong gross margins.

We delivered as planned in the first half of the year, and we are sustaining this momentum into Q3. We reiterate our full year comparable sales growth outlook of 1% to 3%, and we increased our 2025 adjusted EBITA margin range to between 11.3% and 11.8%. This 50 basis points increase includes recent tariff developments. We now expect

full year free cash flow to be between EUR 0.2 billion and EUR 0.4 billion. Of course, all of the above assume that current tariff levels hold, whilst we continue to focus fully on executing our planned tariff mitigation actions, which are well underway and on track.

Now let's look at our Q2 performance in more detail. Let's start with orders first. Q2 order intake growth was broad-based across most regions. We saw sustained double-digit growth in North America and strong performance across growth geographies. Globally, our order book has increased in recent quarters. It's up 7% year-over-year with an improved margin profile from our latest innovations. What does this mean for second half? This order momentum, combined with our robust order book, positions us well to deliver our full year sales outlook.

In Diagnosis & Treatment, orders grew double digit across most regions. In particular, its strong demand for our recently launched innovations, which drove order intake growth in both Image-Guided Therapy and Precision Diagnosis.

Let me share some examples. Our leadership in minimally invasive procedures was underscored in Q2 by a multiyear nationwide agreement with the Indonesian Ministry of Health. This will expand access to image-guided therapy using our industry-leading Azurion platform. Millions of patients with cardiac, stroke and cancer conditions across all of the country will benefit from it.

Additionally, this partnership marks a significant step in strengthening Indonesia's health care infrastructure for high-impact disease areas. It extends beyond equipment to services. It includes training, scalable digital solutions and service hubs. It will deliver nationwide long-term care. Meanwhile, in the area of IGT innovation, our award-winning Azurion Neuro Biplane R3, which we introduced last year, is fueling double-digit year-on-year order growth.

This new innovation is also contributing to higher win rate across all our Biplane systems. In Precision Diagnosis, we experienced also strong year-on-year order intake growth in both Diagnostic Imaging as well as in Ultrasound, led by North America. This is another great example of momentum driven by strong demand, recently launched innovations and improved commercial execution.

In MR, we were the first and remain the only company to offer a commercially available wide-bore 1.5T helium-free system, and this is gaining traction. Customer feedback is positive, and all 1.5T MRI orders today are now from our helium-free BlueSeal system. This breakthrough innovation saves 1,500 liters of helium per system, significantly reduces installation costs over lifetime while offering full flexibility in facility placement.

It's setting MR free. We also strengthened our position as an AI leader with the FDA 510(k) clearance of MR SmartSpeed Precise Dual AI software. This AI solution delivers 3x faster scanning and up to 80% sharper images, all in just one click. CT growth was driven by strong demand for the CT 5300, our AI-enabled productivity workhorse and the

clinically advanced Spectral CT 7500. By the end of the second quarter, these two systems alone accounted for more than half of all CT order intake value.

It clearly demonstrates the clinical and operational impact of these recent launches for our customers who need to deliver better outcomes, but as much need to increase access to imaging.

Moving to Connected Care. Following exceptional growth of over 20% in the prior year, underlying order intake remained very resilient, declining slightly. Demand for our solutions in Hospital Patient Monitoring remained strong. This is fueled by significant customer partnerships including six major U.S. agreements finalized in just Q2 alone. And this includes dislodging incumbents. How? Because we drive efficiencies as we streamline operations across care settings and across hospital systems.

IntelliVue patient monitors, plus our AI-powered virtual patient information center work together to create comprehensive and efficient patient monitoring and information management system. With a strong and growing order book up year-on-year and improving sequentially and the increasing momentum, D&T and Connected Care are well positioned to accelerate growth and margin in the second half of the year.

Now let's move to Personal Health. All three businesses within the segment grew, driven by strong traction from new innovations and enhancements to our core products, supported by targeted investments. These innovations are resonating, not just with customers, but also with high-performing partners such as Amazon, Costco, Walmart, MSH, JD.com and Douyin, along with local accelerators. Why? Because they are driving measurable increases in sell-out, category growth and share, and they are accelerating access to consumers in our key growth markets.

In Q2, sell-out trends remained robust across Europe and most growth geographies, supported by these partnerships. China continued to lag due to subdued consumer sentiment. In the U.S., sentiment has remained relatively stable, but we are maintaining a close watch on evolving consumer dynamics. More broadly, we are continuously tracking consumer sentiment and spending across all regions to ensure agility in our response.

We continue to execute on our priorities from enhancing patient safety and supply chain resilience to simplifying our operations. Here are some key highlights in the quarter. Firstly, with quality embedded in our businesses, innovation and our culture, we have simplified and strengthened our quality management system and CAPA processes, completed deep reviews of post-market surveillance signals and accelerated our response to newly emerging post-market signals.

As a result, we have reduced field actions and product updates by approximately 20% year-to-date, following 20% reduction in 2024 compared to 2023, which reflects a sustained improvement in overall quality performance. Moving to supply chain. Through continued product simplification and operational focus, our teams delivered our products to hospital and patients with greater speed and reliability.

In Q2, service levels reached an all-time high of 86%, an improvement of more than 10 percentage points year-on-year. Improved supply chain reliability and agility support our progress in executing tariff mitigation in line with our plan. Lastly, we continue to identify and execute opportunities with a new operating model to reduce complexity and better align our resources to where growth is happening, resulting in strong and continued productivity improvements.

Charlotte will discuss this further. The fundamentals of the markets we serve remain strong, though the dynamics continue to vary by region. Let me take a moment to reflect on what we're hearing from our customers. Starting with North America. We continue to see steady fundamental hospital demand. Customer pull for productivity solutions remains strong.

They seek smarter ways to manage increasing workload and navigate resource constraints whilst having to serve more patients. We are well positioned to meet this need as innovation and productivity partner as evidenced by the double-digit order intake growth in 2024 and the first half of this year. While we have not observed significant shifts in CapEx plans, we are closely monitoring the environment.

In China, stimulus activity is picking up and tender activity is increasing, although from a low base. That said, we have not yet seen a significant change in market dynamics. Therefore, we continue to maintain a cautious view on China in our full year outlook. Globally also, capital expenditure remains solid. We are seeing increasing demand in Europe and Latin America. India and Saudi Arabia are investing in health care infrastructure and digitalization, representing high-growth geographies to us, as also evidenced by the SIHREN deal in Indonesia.

Staying close to our customers and partners is more important than ever. They are navigating an increasingly complex environment, facing rising demand, resource constraints and shifting priorities. That's why we're focused on innovating with purpose to deliver better and more care, solving their most pressing challenges through smart, scalable and AI-enabled solutions. I'm proud of how our teams are stepping up and delivering impact where it matters most. Charlotte will now discuss our second quarter performance and our outlook for 2025.

Charlotte Hanneman^ Thank you, Roy. I will start with segment level performance. In Diagnosis & Treatment, comparable sales decreased by 1% in the quarter, as expected on the back of a high 2-year comparison base. Image-Guided Therapy continued its solid top line performance, driven primarily by higher installations of our flagship Azurion systems in Europe and growth geographies, along with strong performance in coronary devices. Precision Diagnosis sales declined in the low single digits year-over-year. This was mainly due to a particularly high comparison base in magnetic resonance.

As we noted in Q1, this elevated base was driven by prior year's improvements in the supply chain and persisted into Q2. D&T adjusted EBITA margin improved by 130 basis

points to 13.5%. Recently launched innovations such as next-generation BlueSeal MR, CT 5300 and Azurion Neuro Biplane continued to contribute to the improvement of the gross margin. The improvement in adjusted EBITA was further supported by productivity measures, improved operational efficiency and favorable mix effect. There was contribution from services, which was partially offset by cost inflation.

In Connected Care, comparable sales declined 1% in the quarter, mainly due to a low single-digit decline in Monitoring. Similar to Diagnosis & Treatment, our Hospital Patient Monitoring business faced a high two-year comparison base globally following prior period supply chain improvements.

As Roy said, we continue to see solid demand in Hospital Patient Monitoring, driven by large partnerships in North America. Connected Care adjusted EBITA margin improved by 160 basis points to 10.4%. This was mainly driven by productivity measures, improved operational efficiency and a low comparable base, partially offset by cost inflation.

Personal Health delivered strong growth in Q2 across most geographies. This strong performance was partially offset by a decline in China, reflecting the impact of inventory destocking, which concluded in the quarter as anticipated. Personal Health adjusted EBITA margin declined by 170 basis points to 15.2%. Higher sales and productivity measures were more than offset by mix, cost inflation and advertising and promotion spend to drive long-term demand and support our recent launches. These included the AI-powered i9000 electric shaver range and Sonicare range of toothbrushes.

Finally, sales in the Other segment were in line with the previous year. And adjusted EBITA for this segment increased by EUR 24 million year-on-year, mainly driven by lower costs and higher royalty income.

Turning to our group results and operating highlights in the quarter. Comparable sales growth for the group was 1%. Geographically, overall growth was supported by growth geographies. This was mostly offset by a decline in China, as expected, mainly due to the decline in Personal Health. Adjusted EBITA margin increased by 130 basis points to 12.4%, driven by productivity measures, improved gross margin from innovation, favorable mix effect and improved operational efficiency.

This was partially offset by advertising and promotion spend in Personal Health, cost inflation including the initial impact of increased tariffs, currency headwinds and lower sales in China. Tariffs remain dynamic. We have largely completed short-term mitigation actions, such as optimizing inventory locations and flow of goods, leveraging special programs and pursuing exceptions. We made solid progress on midterm initiatives including supplier network and manufacturing location optimization to enhance cost efficiency and operational agility.

This process is carefully managed to balance regulatory, operational and customer considerations. Our disciplined approach to cost management and productivity initiatives

has delivered EUR 2.1 billion in savings since the start of our 3-year plan in 2023. These savings have contributed meaningfully to adjusted EBITA expansion.

In Q2, we delivered EUR 197 million in savings, bringing the year-to-date total to EUR 344 million. We remain on track to achieve EUR 800 million in productivity savings in 2025. One of the key levers supporting this multiyear delivery is product simplification and SKU reduction across the portfolio. These efforts reduce complexity and costs in R&D, procurement and supply chain. Also this enables us to focus resources on areas with the highest growth potential. As a result, we're accelerating innovation and structurally improving our margin profile.

Roy mentioned earlier that we are continuing to find opportunities to reduce complexity and further align with our new operating model. This requires making tough but necessary choices about what we stopped doing, freeing up our teams to focus externally on customers and competitive dynamics. These simplification efforts are already delivering results, contributing to productivity savings in Q2 and sharpening our commercial focus, creating the space for our teams to accelerate growth. Restructuring and acquisition-related costs continue to require close attention.

In the quarter, adjusting items amounted to EUR 86 million, of which EUR 54 million were related to Respironics field-action and consent decree remediation. This is below our Q2 2025 outlook range of EUR 150 million, mainly driven by cost phasing within the year. Adjusted diluted EPS from continued operations was EUR 0.36 in the quarter, up 20% year-on-year, which benefited from improved gross margin. Free cash flow in the quarter was EUR 230 million, driven by higher earnings, offset by working capital outflows due to seasonal phasing.

Moving to the balance sheet. We ended the quarter with approximately EUR 1.8 billion of cash and net debt of approximately EUR 6.6 billion. Our leverage ratio remained in line with Q1 2025 and last year at 2.2x on a net debt-to-adjusted EBITA basis. We successfully raised EUR 1 billion this quarter through a well-supported notes offering with the five- and 10-year tranches oversubscribed more than 3x and 4x, respectively. We remain committed to maintaining a strong investment-grade credit rating.

Now turning to the outlook. Our comparable sales growth outlook remains unchanged at 1% to 3% with a greater weighting towards the fourth quarter as previously expected. As Roy mentioned, the strength in our order book across both Diagnosis & Treatment and Connected Care as well as our Personal Health sales momentum positions us well to drive accelerated growth in the second half of the year. This is further supported by a lower prior year comparison in China.

We continue to expect sequential improvement in comparable sales through the second half of 2025, with Q3 projected to come in slightly above the full year range of 1% to 3% and further improvement anticipated in Q4.

The tariff landscape remains dynamic. There have been two notable revisions since the outlook we provided on May 6. Tariff on U.S.-China bilateral trade and tariffs on imports from the European Union into the U.S. are both expected to be lower than our previous assumptions.

At current levels, the estimated net impact for 2025 is between EUR 150 million and EUR 200 million, down approximately EUR 100 million from the previous estimate. We now expect adjusted EBITA margin to be between 11.3% and 11.8%, which is 50 basis points above our May outlook. We estimated the current impact of tariffs using the same consistent approach as before based on announced measures and net of substantial mitigation actions, which we are actively executing on with agility.

As mentioned during our earnings call in May, the tariff impact will be more pronounced in the second half of the year, reflecting the timing lag between higher inventory costs and the recognition of the impact in the P&L. As a result, we expect Q3 adjusted EBITA margin to decline year-over-year, primarily due to tariffs and the timing of royalty income in the Other segment.

Moving to free cash flow. At current tariff levels, we now expect free cash flow for the full year to range between EUR 0.2 billion and EUR 0.4 billion, up from slightly positive previously. As a reminder, our 2025 free cash flow includes the EUR 1 billion outflow related to the Respironics settlement paid in Q1. Our Q3 and full year 2025 outlook excludes potential wider economic impact and the ongoing Philips-Respironics related proceedings including the investigation by the Department of Justice. With that, I would like to hand it back to Roy for his closing remarks.

Roy Jakobs^ Thank you, Charlotte. Before we conclude, I would like to share that we will host a Capital Markets Day next February. The event will mark the completion of the 3-year plan announced when I became CEO. It will provide an opportunity to reflect on the fundamental progress we have been delivering since. It also sets the stage to outline the next phase of our strategy, accelerating profitable growth, unlocking the full potential of our segments and enabling better care for more people now and into the future.

This positions us to continue building towards our trajectory of mid-single-digit growth and mid-teens margins beyond 2025. We look forward to that discussion. To sum up, in the second quarter, we delivered solid order intake growth, sales growth and strong margin improvement. As we have said from the start of the year, our performance is weighted towards the second half, and we are on track to deliver. Our confidence is underpinned by order intake momentum and robust order book, providing clear visibility into second half sales conversion. We are seeing encouraging uptake of our innovations in health care settings and sales momentum in Personal Health, all while the tariff landscape continues to evolve.

We keep execution on track and actively adapt our mitigation measures accordingly. These dynamics position us well to execute and deliver against our full year outlook and operational priorities and allowed us to increase our full year outlook for adjusted EBITA

margin and free cash flow including currently announced tariffs, whilst we reiterate our comparable sales growth outlook for the year. We achieved what we set out to do in the first half while navigating a complex and, in several ways, unchartered global environment.

Looking ahead to the second half, we are confident in our ability to do the same. We are building on momentum and delivery to date with a clear focus on driving underlying margin expansion. Thank you, and we are now ready for your questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) We will now take our first question from the line of Hassan Al-Wakeel from Barclays. Please state your question Hassan.

Hassan Al-Wakeel^ Morning and thank you for taking my questions I have three, please. Firstly, can you talk about the improvement in D&T margins and the underlying expansion here? I know that you highlighted gross margin as a driver, but can you quantify how much of that was driven by gross margin? And within gross margin, whether it's price or mix or both, and whether you see yourself at an inflection in the D&T margin?

Secondly, on the margin guidance, why have you only banked the tariff improvement and not the EBITA beat in the quarter? Is this conservatism on your part or do you not see the margin improvement as sustainable? And then finally, can you please help us unpack the decline in Connected Care in the quarter by segment, particularly monitoring in S&RC. What is driving this? How is the share gain opportunity being realized in Europe in S&RC? And then in Monitoring, I can see that there was a decline this quarter and that comes against a flat performance last year, so I'd love to get the detail behind that. Thank you.

Charlotte Hanneman^ Thank you, Hassan. Let me start with your first question on the D&T margin. We're indeed very pleased with the D&T margin expansion in the quarter of 130 basis points. And as I said in my prepared remarks, a lot of that is indeed related to gross margin expansion on the back of the great innovations that we've been bringing to market including our BlueSeal MR, our Spectral CT 7500 and as well as our Azurion Neuro Biplane. And so we really see strength across the modalities.

In addition to that, we've also continued to focus on productivity. You heard me talk in my prepared remarks about the portfolio simplification as well as the SKU reduction, and we start seeing the impact of that in our gross margin as well. And then lastly, we also saw a favorable mix impact that have helped on the back of also solid IGT sales as well as increased contribution from our services portfolio as well. So there's a lot to be pleased about in the second quarter there.

If I then continue on to your second question on the full year margin guidance. And again, I'd say that, first of all, we're happy with our outlook revision to include the current

tariff levels that have gone down, both from a U.S.-China perspective as well as from an EU-U.S. perspective. What I would just remind you of, though, is that if we look back at the first half, we are at minus 1% sales growth and 30 basis points of expansion.

In order to deliver on this guidance, we have to accelerate our margin expansion in the second half of the year, whilst absorbing the tariff impact that will hit us in earnest in the second half of the year because of the way that flows into our P&L. Of course, also, we have potential FX headwinds to take into account, so that's also what we're taking into account. What I would add on top of that is specifically on Q3, we expect adjusted EBITA margins to go down as a result of that tariff impact impacting our P&L.

Roy Jakobs^ Thank you, Hassan. And then on Connected Care. So if you look at Connected Care, the sales declined 1%, primarily driven by low single-digit drop in Monitoring. And as you know this business grew low single digits last year following the strong 20%-plus growth in 2023 after earlier supply chain improvements that we realized, so it's coming from this high base.

And as we also have seen in the order intake growth and the strength there, actually momentum in Monitoring is very strong. And also Monitoring represent 60% of the total revenue. The demand for Monitoring solutions remains strong, especially also with the U.S. demand, and we concluded six big partnerships here with major health care systems. If you look to the Respironics and SR&C performance, we had, of course, a very strong pickup last year.

Now we see a bit slower pickup this year also on the back of that strong uptake last year. We have strong momentum in the masks, as we have shared before, where the new launches are gaining traction, and we are working our way back into the market that we are reentering. So actually, we are also looking forward to the second half of the year, where we see actually Connected Care momentum growing on the basis of the order book and order momentum that we have been seeing, and we are confident that, that will also then showcase itself into Q3 and Q4 performance.

Hassan Al-Wakeel^ That's really helpful. If I can just follow up? Where are you in the European market on the system side versus where you are prior to the recall please, in share terms?

Roy Jakobs^ It would be hard to kind of say exactly in share terms, Hassan. As said, we are now back in all markets. We're also expanding in the markets. We're also working closely with the big partners in these markets. But of course, we're still working our way back in. So I think it's too early to call specific market share numbers on that, but we are kind of rebuilding the momentum and actually that's going in line with plan. So actually, we are staying the course on that and see really that the customers are welcoming us back, as we said earlier.

Hassan Al-Wakeel^ Thank you very much.

Operator^ Thank you. We will now take our next question from the line of Graham Doyle from UBS. Please state your question Graham.

Graham Doyle^ Morning thanks for taking my questions. Just a couple really relating to China and one quick one on tariffs. Just in terms of the destock for Personal Health, how far the quarter did that actually kind of complete? And then would you be able to give us some color on what you're seeing in terms of the medical equipment side of things on tenders and how that's translating into orders and hopefully some revenues? And then very briefly, just on tariffs for 2026, should we effectively take what we're looking at for the second half and sort of annualize that? Thank you.

Roy Jakobs^ So thank you, Graham. On China destocking, so indeed we completed the destocking program in the second quarter. And at the same time I think we have been spending behind the continued strong sellout. So actually, that combination was important because we built on the momentum that we see step-by-step rebuilding in China. We had an 18/6 festival where we actually saw an improvement for the first time also in sell-out coming in.

We ranked number one on JD.com in our category. So actually it was good performance. So we see China playing out as we planned. We're still cautious on the full year, but we do see it strengthening, and that's also what we'll take in the second half. As you know we also get the comparable then supporting us. But also on the underlying sellout, we see that actually we are rebuilding the momentum in the market, and that goes with the demand that step-by-step is increasing.

On the medical side, we see also in line with our outlook, as we said earlier, that there's a slow recovery. Tenders are coming into the market. It's a competitive situation and the process is still prolonged. So that's also something that we see, therefore, still hitting us in the second quarter with slower growth from China on the medical side. But in the second half, we also expect that to improve, although from a low base and, of course, also at a slow pace. So I think China is fully baked in the guidance that we have now put out there for the full year.

So in that sense, I think we feel comfortable with what we are planning for. And we remain very close to the market. I was there last two weeks ago myself again, talking to customers and the government. They really want to strengthen the Chinese market, and we continue to believe in the longer-term prospects of it, but it does take time. I think that's still fair to say. And we are gaining in that market good momentum with the market base. And that's something that kind of we also see then continuing into '26.

So we don't expect that this is a short-term hiccup. We expect structural improvement. So step-by-step, we expect China to come back into the mid-single-digit ranges that have been before, and that's what we are working towards.

Charlotte Hanneman^ Yes. Thank you, Graham. And maybe to your next question on the 2026 tariffs. So maybe first to give you a little bit of context. So as we started seeing

those tariffs, we've established a multifunctional SWAT team a few months ago, really going through all the different scenarios that we see. And as a result, we've been able to digest the latest dynamic update.

And if we then particularly go into 2026 and also what Roy said in his prepared remarks around us building towards our trajectory of mid-single-digit growth and mid-teens margins beyond 2025, that incorporates the new tariff reality. So that is the best I could say at this point in time.

Graham Doyle^ Awesome that's really clear. Thanks a lot guys. Appreciate it.

Operator^ Thank you. We will now take our next question from the line of Veronika Dubajova from Citi. Please state your question Veronika.

Veronika Dubajova^ Hi guys good morning and thank you Roy and Charlotte for taking my question. I will keep it to two, please. One, just I was hoping you could elaborate on the strength you're seeing in Personal Health. And just in particular, I think you alluded to high-single, low-double-digit growth rates in Europe and the U.S. Obviously that's quite at odds with a lot of the other consumer data points that we're seeing out there.

So Roy, maybe you can give us a little bit of color on sort of how you're thinking, what's driving that, how sustainable that might be? And I guess the guidance for the year where you're looking for growth that is above the 1% to 3%. Just curious if it's mid- or high-single digits, kind of what's realistic because the comps do get easier in the back half of the year and clearly, China is better. So that's my first question. I appreciate there's a lot of moving parts.

And then my second question is just on the order strength. Roy, would love for you to elaborate a little bit on the modalities in particular, where you think you're doing better. And maybe you touched upon the regional color in terms of North America, but if there are any other regions you'd call out there as well that would be helpful. Thank you so much.

Roy Jakobs^ Yes. Thank you, Veronika, for your questions. Let me start on PH. So as we actually saw in due course of the year, we see the consumer momentum for our solutions, in particular, strengthening. We saw that in Q1. We saw a further step-up in Q2, and we expect that to continue into the second half, that momentum that we have been building. That was, in particular, of course, outside of the U.S. -- sorry, outside of China.

So we saw a strong U.S. and also strong Europe and rest of the world. I think we mentioned that this is quite broad-based. So we see good uptake about our new grooming and beauty ranges. In particular, we launched the new high-end shaver, the i9000 really doing really well that's generating not only good sales, but also good margins. So that's a very important launch that is generating traction. We had the midrange in Sonicare that

we launched that actually is also making good headway in China, but also in the rest of world. So actually, we see an uptake that supports it.

But also in our Mother & Child Care business that is actually doing well we see that our AI-powered Avent baby monitor, but also natural feeding bottles are doing well. So we see that there is a structural support for our solutions. And we see the growth from a regional perspective in North America, in Western Europe and especially outside of China.

Now in the second half, we do expect China to further pick up. I just mentioned it, we see sellout strengthening quarter-over-quarter in China. And of course, we have the comparison base because the destocking comes out of our numbers. Now if you then look at the guidance for the year, indeed, we said we would be probably slightly above the range.

We still have a second half to go. So we want to be kind of also prudent on that outlook, but we see a sustained support for the demand that we have been seeing increasing. So that's the outlook. And we remain, of course, also cautious on the consumer sentiment, staying on top of it. But for the moment, we are confident on PH outlook.

Now then secondly, on the orders in Health Systems, Actually, also there, we saw it was quite broad-based. So starting with the strongest, which was IGT, which saw double-digit order intake growth, and that was coming from various places. So we had North America double-digit growth of orders. We had the Indonesia deal that you saw in Asia. We also had good growth in Europe. So we see that IGT is resonating.

We had the new launch of the Neuro Biplane that actually is really coming in strong, but also the base platform still generating a lot of interest and expanding its position. So that's in IGT. Then in PD, we also had high single-digit growth, actually nicely contributed by both from MR and CT perspective. I mentioned that actually we see now that all our kind of one-off the orders are coming from the BlueSeal.

So that is actually making really good inroads including in China, actually we see a good support for that platform. And then also in our CT range, the 5300 that we launched, the AI-enabled kind of platform that really drives 80% lower radiation and lower image noise, does really well in the market, but also Spectral in volumes actually is picking up, and we saw also a nice step-up in Q2 versus Q1 from a CT perspective. And then Ultrasound, not to forget, came in strong as well.

So we had a good contribution from Ultrasound. We launched some new innovations with the Epic, the Affiniti, also new point-of-care offering came into play. So from a D&T perspective, strong pull from across regions.

Then Connected Care, I already alluded to that we were very pleased actually that based upon a more than 20% exceptional growth in Q2 2024 with a big deal in North America, we now saw good growth coming in with a slight decline in Q2, again, fueled strongly

from North America, also kind of strong growth there with six big partnerships. But also outside of North America, we see good momentum. And we see the need for more patient monitoring really strengthening and doing that in an efficient manner, and that's what our platform really provides into and provides for.

So we kind of saw that momentum also doing well. So overall, we have an order momentum and also the funnel that actually supports us with the momentum into the second half. We have strong visibility into that. And actually, we see that the new innovations are generating the traction that we were hoping for. And that gives us also the underpinning not only for the order intake outlook, but also, of course, sales in the second half.

Veronika Dubajova^ That's super helpful thank you so much Roy.

Operator^ Thank you. We will now take our next question from David Adlington from JPMorgan. Please state your question David. David your line is open please unmute.

David Adlington^ Hey good morning guy (inaudible) questions two, please. So firstly, on Personal Health, you've invested quite a lot. Can you hear me?

Roy Jakobs^ Yes we can hear you yes.

David Adlington^ Hello?

Charlotte Hanneman^ Yes. Yes we can.

David Adlington^ Okay perfect. Hey guys so just on Personal Health you've invested quite a lot in advertising and promotional spend in PH in the quarter, I just wondered if you could pull out how much of that was in price, maybe just talk about pricing dynamics? And then secondly, as you look into 2026, U.S. hospital market is clearly going to face some challenges in 2026. I just wondered how your early conversations with customers are and how they're thinking about the market in 2026? Thank you.

Charlotte Hanneman^ Yes. Thank you, David. So let me take the first question on Personal Health. Indeed, we fuel the innovations that we've done and that Roy spoke about, we fuel that with advertising and promotion spend, and we've invested quite heavily also, particularly in China. As we are finalizing the destocking that we spoke about of the inventory, we were investing behind the sellout by putting marketing campaigns and investing in influencer campaigns there. So that is driving part of the investment there.

What I would tell you from a pricing perspective, in Personal Health, it's broadly flat. So we are not reducing our prices to gain market share or to drive sales. This is really a marketing campaign to drive the great innovations that Roy just spoke. And then on the second question, U.S. CapEx conversion, maybe over to you, Roy.

Roy Jakobs^ Yes. So we see continued strength in the demand in North America. I think we see the patient volumes are strong. Procedures are still up. I think what is important to segment over systems kind of where we see specific demands, because on one hand, we see kind of the bigger systems still consolidating, and we can provide them with really platforms that make them more efficient because they're really looking for productivity, able to serve more patients, but at a lower cost, because they also face cost pressures.

At the same time they also want to have more ambulatory solutions to also serve patients outside of the hospital system. So we see that also ongoing. In part, we saw also that kind of in the deals that we have, there are some Monitoring-as-a-Service deals still in place. So also the OpEx is being used to kind of convert that demand. So we continue to see strong demand in North America.

It has been fueling now six -- one-half year actually of double-digit growth in orders. We don't see an immediate trend breach. Of course, we stay on top of it. We also are very close to our customers, discussing how we can support them, but we are actually looking forward to continue to grow in North America. We have been strengthening our position there, both in terms of our commercial position. We also, of course, continue to support the supply position in line with the trend in the world.

So that's something that kind of supports our win rate in North America. But most importantly, we see demand also for next year as strong. And therefore, we continue to fuel the North American market with our innovations.

David Adlington^ That's clear thank you.

Operator^ Thank you. Our next question comes from the line of Ed Ridley-Day from Rothchild & Co, Redburn. Please go ahead Ed.

Edward Ridley-Day^ Good morning thank you yes. Firstly, on Ultrasound, could you just give us further color on the growth in the Ultrasound revenue in the quarter? And also a follow-up in terms of D&T more broadly. If you could either give the China decline or give us some more color on the performance of D&T, excluding China, that would be helpful. And then a quick follow-up on the Monitoring questions from earlier. In terms of your market share in Monitoring, one of your competitors has been struggling in recent years. Do you consider that you are still taking share in the, particularly, U.S. market?

Roy Jakobs^ So on Ultrasound, so growth in Ultrasound, we have been slightly declining in Ultrasound growth. That was on the back of strong order intake growth that we've seen coming in. So actually, for the second half, we see Ultrasound performance strengthening. We have the new launches that are really seeing a good uptake. You heard us talk about kind of the high single-digit order growth in Precision Diagnosis and Ultrasound is strongly contributing to that.

So we expect that also to come into the sales growth of the second half. In the growth, if you see China versus ex China, we still had a dilution effect from China coming into Q2 and that's in line with our expectation. Orders strengthening, sales also strengthening into the second half, but still negative. It will turn positive from the second half, right? That's where kind of our expectation is. That's still up on a low base, and it's in line with our cautious outlook, but it is increasing quarter-by-quarter, right?

That's, I think, our view on the China dynamics as we see it evolving. And that's also what we expect when you look a bit further ahead into 2026. Then on Monitoring, we have continued strong momentum in monitoring. I think you saw it from indeed the six deals that we took in North America. We have great momentum in the customers that we have, but also are taking, and that's also what I mentioned, we are dislodging some incumbents.

So we're also taking other sockets. So the combination of our monitors with PIC iX with the AI solution on top and also capsule is really driving a very strong positioning, and that's what we continue to build and expand on.

Edward Ridley-Day^ Great thank you very much.

Operator^ Thank you. Our next question comes from the line of Richard Felton from Goldman Sachs. Please state your question Richard.

Richard Felton^ Thank you very much good morning. Two questions for me, please. The first one is a follow-up on the D&T margin. Charlotte, you mentioned SKU reduction as one of the drivers for margin expansion in that division. Just curious how far along you are in that process? How much more is there to go on that SKU rationalization?

And within D&T, which businesses are most impacted by that? And then my second question, slightly bigger picture question. As Philips plans for a CMD in February 2026, I'd be interested to hear your thoughts on what parts of the current strategy have been working well and which areas do you think there are still rooms for improvement? Thank you.

Charlotte Hanneman^ Thank you, Richard. Let me take your first question on D&T margin and double-clicking a little bit on the SKU reduction that we've been working on. A few more color that I would give. First of all, this is really a multiyear process that we started last year. We're making good progress, but it's really a quarter-after-quarter, year-after-year progress. Because as you can imagine, if we're, for instance, reducing the number of transducers in Ultrasound, which we are doing, that takes time to phase that out of the market.

So we are making progress. We're on track there, but we also see this is a multiyear process as well. And then to your question on the number of modalities, we're looking at all modalities in D&T. So I gave you an Ultrasound example. We've been working on IGT, reducing the number of platforms there. We're looking at MR. So it's really across

all modalities that we're looking at this. And as I said earlier, we're seeing the initial impact with reducing complexity, which ultimately helps R&D production and supply chain as well as procurement.

Roy Jakobs^ Thank you, Richard, for your second question on the CMD. Now we're looking forward, of course, to give you the full update in February. I think what we -- and maybe just a short kind of look back and what's coming.

In the plan that we presented, we said that we had a lot of fundamental work to do. And I think as you have been seeing and also as we're showcasing today, we have a much better control on our patient safety quality, on the supply chain and also on the simplification and the organizational productivity.

That is what has really been working well. We have put a lot of focus in, and we're starting now to kind of bear the fruits because in parallel, we started to innovate and really focus our innovation on bigger platforms that have kind of scalable impact. And that innovation you see now coming through in the order intake growth momentum that we have seen dialing up over the last year now if you see the 7% year-on-year growth, but in particular, now also in this year, and we also take that into the second half.

So the profitable growth expansion will be, of course, a big theme also as part of the CMD because we want to expand our innovations and our positions, especially also building on the strongholds that we have. So we're very excited about kind of being able to do that on a stronger platform that we have been putting in place for Philips overall. And that is kind of from an innovation perspective, that is from a commercial perspective, that's also from an operational perspective.

And I think you also saw how quickly we can now adjust our supply chain. I think if you would go through three years back, it would have been a much bigger struggle. Now we can really quickly adapt. We have the mitigation fully in play. We are able to up our service levels.

We have been down in quality incidents. And actually, we have been driving margin expansion across the period in a very strong way. You see that margin expansion also coming through in Q2, and we also kind of intend to continue that strong operational margin expansion into the full year.

Of course, we have tariff that we had to take into account, and we also will take that into account moving forward. But as I also mentioned at the beginning remarks, we continue to build our trajectory into this mid-single-digit growth and this kind of mid- to high-teens margins for the different segments that we play in. So that's something that we're excited by, and we'll start to talk to in February.

Richard Felton^ Thank you very much.

Operator^ Thank you. Our next question comes from the line of Hugo Solvet from BNP Paribas. Please state your question Hugo.

Hugo Solvet^ Hi guys thanks for taking my question and congrats on the results. I have two quick follow-ups, please. First, on China trends, you mentioned destocking in the quarter. And a follow-up to Graham's question. On the momentum that is rebuilding, can you clarify whether or not that implies that you're restocking or seeing restocking already in Q3? And how confident are you in delivering probably the flat to low single-digit sales increase into H2 that is implied by the guide?

Roy, maybe on the second question, beyond 2025, I appreciate there's a lot of moving parts, tariff, cost inflation in China, but also you and Charlotte have been doing a fantastic job on cost efficiency measures. What's your level of confidence to get above the mid-teens given your current guide for mid- to high teens. In the call earlier, you referred a lot to mid-teens, but just wondering if mid- to high is still within reach? Thank you.

Roy Jakobs^ Yes. Thank you, Hugo. Let me take the first one on the China trend. So on PH, so what we said, kind of we expected the first half we need still to kind of finish the destocking program. That indeed has happened. So what that means is that currently, our partners have stock levels which they see appropriate in line with the sell-out levels. So that was the first step of getting to that new balance. That's how we go into the second half. So there's no need to restock.

Now we want to keep sell-out in line with stock, right? So that's actually what the whole destocking program was geared towards. Now what the other point I said is there's still subdued consumer demand in China, but we do see more spend, right? And that's kind of where we see the sellout momentum strengthening, and we will build on that also in the second half.

Overall, that still is in the cautious outlook on China for the full year. So I think we are getting and seeing more confidence in the China recovery and getting the signals for that, but we still remain kind of cautious on it. That's also how we baked it into our full year guidance, so that actually the majority, of course, our plan is winning outside of China.

Now we win in China with the market, but we are not getting ahead of ourselves in terms of expectations of that market and the contribution. If we then look into your second question in terms of the beyond 2025 margin expansion, I think we have been putting a lot of work into margin expansion so far. There was a lot of what we would call self-help in that first part of the trajectory where we have been driving productivity and especially organizational simplification in a big way.

What 2025 and beyond, we also very much focus on, how we can drive growth, get the impact on that, get the impact from mix, because driving the higher growth and higher-margin segments will also help us to expand through that lever, whilst we will not back off from productivity.

We already continue to kind of look into how we can further strengthen that journey that we have been on in terms of how we can lean out our organization. We have been resetting the organization model to winning in the segments with a more verticalized model. That is working, and we will continue to drive that also moving forward. So we see ample opportunity to continue to work on margin expansion. Of course, we also need to take inflation and tariffs into account. It will be a mix of all that kind of will determine how much and how far we can go and that we will then also be able to further explain when we have the CMD in February.

Hugo Solvet^ Thank you.

Operator^ Thank you. Our next question comes from the line of Julien Dormois from Jefferies. Please go ahead Julien.

Julien Dormois^ Hi good morning Roy good morning Charlotte thanks for taking my questions. I have three, if that's okay. The first one relates to the large order you signed with Indonesia. Just wondering whether that was included in the order intake in the second quarter and maybe give a rough idea of whether that was meaningful into the 6% order intake you posted in the quarter.

Second question relates to China, but at the group level, I think you previously alluded to sales in the country to be down mid-single to high single digit for the full year. So just curious what's been the overall momentum. So let's say, for example, Q2 versus Q1, and how we should think about the back half of the year for the country, again, at the group level?

And my last question is on the Other business line. We have seen innovation and central costs come down quite a bit, and that's probably been driven most likely by productivity initiatives. I was just wondering whether we could ultimately see the adjusted EBITA for the other line turn structurally positive in the years to come. Thank you.

Roy Jakobs^ Okay. Let me take the first one to start off with. So the Indonesia order is included into the order intake, but only for a limited amount of period, because we are quite stringent on our order intake policy. So that's kind of -- this is a multiyear deal. So it had a contribution into the order intake for the quarter. But as we also mentioned, actually the strongest contribution in North America, double-digit order intake growth.

So that was not from Indonesia. And also it's coming from the other segments. I mentioned that we had high single-digit order intake growth in PD, and we had strong Hospital Patient Monitoring order intake on the back of a very strong comparable. So that showed that actually was very broad-based contribution into order intake growth from across our segments and across the world. So I think we are very happy with the Indonesia deal because it's a nationwide deal.

It shows the strength of the platform to really contribute in a meaningful manner to 280 million of patients, kind of giving them access to this technology, which was very limited to date. And of course, with that, there's also a sizable amount of revenue attached to it, but that's over time. And therefore, only part of that we have been taking into the order intake into the quarter.

Then China at the group level. So in terms of if you look at the China outlook for the year, it's still in line with what we guided and what kind of the expectations were. So China had a negative first half and will turn into positive in the second half. And that actually then will be compounding to kind of a slight contribution of China into this year's plan, but that will still mainly depend on other regions and geographies to kind of deliver on our full year outlook, and that's also what we kind of are confident in doing and what we have planned for. So that I think is on the China question. And then the third one for you, Charlotte.

Charlotte Hanneman^ Yes. Thank you, Julien. I'll take your third question on the Other bucket, which indeed includes innovation central costs, but also very much royalty income. So what we've guided for 2025 is that we keep the outlook as is, that the benefit you saw in Q2 is primarily phasing because of the way the royalty income is flowing through our P&L. I would think in a very similar way for the years beyond 2025. Yes. There are puts and takes, but overall, I don't see meaningful shifts there.

Julien Dormois^ Thank you very much.

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

Roy Jakobs^ Thank you so much for dialing in today. We're happy to announce that we delivered a strong quarter with strong order intake growth of 6% on the back of 9% last year, giving us good confidence and momentum into the second half.

We had positive sales growth, especially seeing also strong sales momentum in Personal Health, which we see continue in the second half. And we work diligently on margin expansion in a combination of innovation contribution as well as productivity. And then based on that, we have been raising the outlook for the year including the recently announced tariffs by increasing by 50 basis points, the adjusted EBITA outlook and then also the free cash flow for the year.

So we will continue our execution focus, focus on what we can control and making sure we deliver the year as we have been laying out and presenting to you. So thank you for your attention. Looking forward to engage with you later and more.

Operator^ Thank you. This concludes the Royal Philips second quarter and semi-annual 2025 results conference call on Tuesday, July 29, 2025. Thank you for participating. You may now disconnect your lines.