# Q3 2024 Results

Thursday, 24th October 2024

**Operator:** Welcome to the Royal Philips third quarter 2024 results conference call. On Monday, October 28th, 2024. During the call hosted by Mr Roy Jakobs, CEO and Ms Charlotte Hanneman, CFO, all participants will be in the listen only mode. After the introduction, there will be an opportunity to ask questions. Please note that this call will be recorded and replay will be available on the Investor Relations website of Royal Philips. I'll now hand the conference over to Mr Leandro Mazzani, Head of Investor Relations. Please go ahead, sir.

## Introduction

Leandro Mazzoni

*Head of Investor Relations, Philips*

Hi everyone. Welcome to Philips third Quarter 2024 results webcast. I'm here with our CEO Roy Jakobs and our CFO, Charlotte Hanneman. 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. I will now hand it over to Roy.

## Presentation

Roy Jakobs

*CEO, Philips*

Thank you, Leandro. Good morning, everyone, and welcome to the call. I want to start with the key highlights of this morning's release. We delivered strong improvement in profitability in the quarter while sales were flat and orders slightly decreased as demand from hospitals and consumers in China further deteriorated. We expect the impact from China to continue. Therefore, we have lowered our full year sales outlook. At the same time, we expect the adjusted EBITDA margin to be at around 11.5%, the upper end of the current outlook range. Within an ongoing challenging macro environment, we remain focused on successfully executing our three-year plan to fully capture growth and margin expansion opportunities, with patient safety as our number one priority. We are committed to delivering better care for more people.

On to the key financial and performance highlights. Group comparable sales were flat on the back of 11% growth in Q3 2023, and further deteriorated demand in China. On the back of growth last year, we recorded a strong sales and order decline in China, driven by a further decline in consumer and hospital demand. This was beyond our China scenario from July, where we assumed stabilisation of China whilst timing of improvement was uncertain. We continue to deliver solid sales growth outside of China. Orders decreased 2% also due to the decline in China. In the quarter, diagnosis and treatment orders remained solid outside of China, driven by in particular North America. Also, year to date our orders grew 1%, including China, and we still expect order growth in the full year, including China, driven by the strength of the rest of the world, while there is certain uncertainty in China that remains. We delivered a strong adjusted EBITDA margin improvement of 160 basis points, driven by our continued progress on our execution priorities, improved gross margins from our industry leading innovations and higher royalty income. Our free cash flow was €22 million, driven by higher earnings and offset by working capital outflows, mainly due to seasonal phasing. We remain confident in our ability to drive further operational improvement, while the uncertainty signalled in the earlier quarters have intensified in China, and these are expected to continue.

Focusing on China. In personal health, we saw a strong double digit decline in sell-out to consumers in the quarter, based upon low consumer confidence and lack of big shopping festival sales. Adjusting to the new sell-out run rate led to a substantial reduction in our sell-in volumes. We expect overall consumer sentiment to remain subdued in China, while solid in the US and international markets. In China hospitals, the industry wide anti-corruption measures and lack of impact of the national renewal program continued to significantly affect order and lead times. This also impacted modalities with shorter lead times like ultrasound and therefore had an immediate impact on sales growth in the quarter. Visibility around the continued impact of the anti-corruption measures and timing of the government programme remains limited. While the market conditions are expected to remain uncertain in China, it's a fundamentally attractive growth market for Philips with strong underlying demand. Our order funnel is active in the country and our commitment to local for local approach, combined with our industry leading innovations, focus on execution with excellence, deep understanding of consumers and strong brand places us well to respond to demand as it returns. Given the uncertain market conditions in China, we updated our outlook for the full year to a range of 0.5 to 1.5% comparable sales growth for the group. Sales growth outside of China remains within the guided range of 3-5%. We expected our adjusted EBITDA margin to be at around 11.5% at the upper end of the current range, reflecting stronger margins from our industry leading innovations, our financial discipline and focus on productivity. We expect free cash flow to be around €0.9 billion at the lower end of the current range. Within an ongoing challenging macro environment, we are fully focused on successfully executing our three-year plan to drive value, and to date, we remain ahead of that plan. I am confident that our innovative portfolio is well-positioned to help hospitals worldwide addressing their staffing shortages, enhance productivity and improve patient and staff experience, as I got recently also confirmed in my customer visits in Asia, Canada and the US. Our leading innovations are providing superior care for patients and consumers.

Let me now provide you with some of the customer innovation milestones during the quarter. Carilion clinic in the US will expand cardiac care access through 11 specialised Philips interventional suites, allowing physicians to treat patients with complex cardiovascular conditions closer to home. We expanded our next generation cardiovascular ultrasound platform with FDA clearance of two important AR algorithms to enhance structural heart disease examinations as part of the global rollout of this technology. Demonstrating our innovation leadership in minimally invasive treatments, we secured FDA approval for the new LumiGuide navigation wire, which uses fibre optic technology to reduce radiation for both patients and physicians during minimally invasive surgery. Personal health, we launched our AI powered Avent Premium Connected Baby Monitor, which offers cry translation and sensor technology to track sleep, breathing and movements, giving parents peace of mind.

And finally, last month we welcomed investors and analysts for a show and tell event here in the Netherlands, followed by a focused ESG site visit. The events provided a comprehensive update on the fundamentals of our businesses and of our exciting innovations, and included in-depth discussions and engagement with our leadership team. I want to thank again the investors who made the effort to spend a day and a half with us. Your engagement was incredibly valuable. I would like to continue with the progress we have made on our execution priorities. On patient safety and quality as part of strengthening our culture earlier this month, together with all employees, we spent a full day reflecting on the importance of patient safety and quality, the progress made, and a journey ahead of us to continuously deliver meaningful results. We continue to see a substantial reduction in the total number of CAPAs and improvements in our complaint management process in the quarter. We, including myself personally, have had multiple engagements with the FDA in the quarter to discuss progress made on what is more to do. Philips remains committed to patient safety and quality, and will continue to engage with FDA and other regulators on the shared mission to ensure delivery of safe and effective care for patients.

With respect to our supply chain, our lead times are back to normal across all modalities. As mentioned before, service levels continue to increase. Going forward, we continue to focus on supply reliability and on improving the flexibility of our network and supply base, including further regionalisation and localisation. Finally, our simplified operating model focused on the leaner organisation, and that is resulting in faster and more agile decision making. With productivity improvements of over €1.5 billion to date, also, on the back of a reduction of almost 10,000 roles. At the same time, we continued the journey to drive our culture of impact with care, building the right team with healthtech capabilities. The last 12 months, our engagement score went up significantly and we see growing confidence from our employees and other stakeholders. Now over to Charlotte to take us through the Q3 financials and outlook in more detail.

## Financials

Charlotte Hanneman

*CFO, Philips*

Thank you, Roy, and good morning, everyone, and thank you for joining us today. I'm very pleased to be speaking with you for the first time as Philips CFO. Before we dive into the financial results, I'd like to take a moment to introduce myself and share a bit about my background for those of you who I didn't meet at our recent show and tell. I took over the reins as CFO earlier this month after over 20 years working in various financial leadership roles across the medtech and pharmaceutical industry, with a focus on supporting strategic growth initiatives, driving operational efficiency and managing large scale transformations. I joined Philips because I believe in the company's mission of delivering better care for more people and see significant opportunities ahead. I look forward to working closely with Roy and the entire Executive Committee to successfully execute our plan to create value with sustainable impact and drive financial discipline.

Continuing with our third quarter financial performance. Our comparable sales were flat in the quarter and orders decreased 2%, both due to a decline in China. Year to date, order intake was 1%, despite a double digit decline in China. We still expect order growth in the full year, driven by strength in the rest of the world, while uncertainty remains in China. As a reminder, orders and order book account for around 40% of our revenue. The remaining 60% comes from growing recurring revenue streams, such as services and consumables, from book to bill business and from personal health.

Now I'll provide some highlights around our quarterly segment performance. Diagnosis and treatment comparable sales decreased 1% on the back of 14% growth in Q3 2023. We delivered solid growth outside of China with both image guided therapy and precision diagnosis businesses contributing. The adjusted EBITA margin of 12.6% was in line with last year, despite lower sales driven by improved operational performance, pricing and productivity measures. Connected care comparable sales were flat. Growth in enterprise informatics, notably in North America, and growth in sleep and respiratory care were offset by a low single digit decline in monitoring on the back of high teens growth in Q3 2023. Connected care adjusted EBITA margin increased by 360 basis points to 7.3%, with improvements across all businesses, including an encouraging step up in sleep and respiratory care. Personal health comparable sales decreased 5% due to a double digit decline in China, outweighing robust performance elsewhere. Adjusted EBITA margin decreased year on year to 16.5%, as operational performance improvements only partially offset the lower – the impact of lower sales. Year to date, the adjusted EBITA margin improved by over 100 basis points. Sales and segment other were €41 million higher than in the third quarter of 2023, driven by royalty revenues.

Turning to operating highlights in the quarter. Adjusted EBITA margin for the group improved substantially, with 160 basis points in the quarter to 11.8%, driven by stronger gross margins from our industry leading innovations, continued financial discipline, higher royalty income and our productivity measures. Adjusted EBITA margin improved 80 basis points in the segments with higher royalties in segment other contributing another 80 basis points. Our productivity initiatives delivered savings of €188 million in the quarter, of which operating model savings were 54 million, procurement savings were 58 million, and other productivity programmes delivered 76 million, partially offsetting wage and component price inflation. Since the start of the plan in January 2023, we delivered over €1.5 billion and are on track to achieve savings of 2 billion earlier than anticipated. The effective tax rate was 24% in the quarter. Net income tax expense increased by €33 million year on year, mainly due to lower tax benefits and higher income before tax. Financial income and expenses were a net expense of 69 million, 6 million lower than last year, driven by higher interest income. On page 18 of our slide deck, you will also find the full year outlook for these items.

Moving on to the balance sheet, we ended the quarter with approximately €1.5 billion of cash and net debt of about 6.5 billion. Our leverage ratio improved from 2.5 times to 2.2 times compared to Q3 2023 on a net debt to adjusted EBITDA basis. Adjusted diluted EPs from continuing operations was €32 cents in the third quarter and increased 9% year to date, mainly driven by higher earnings. Free cash flow in the quarter was €22 million, driven by higher earnings, offset by working capital outflows due to seasonal phasing. Based on our year to date performance and the deterioration of demand we are seeing in China, we now expect full year 2024 comparable sales growth in the range of 0.5% to 1.5% for the group, as mentioned by Roy. At a business level, we expect connected car sales growth at the lower end of the range of 3-5%, a slight growth in diagnosis and treatment and flat to slight decline in personal health. Structuring charges and other items are expected to be in line with the outlook provided earlier this year. Given our continued execution and financial discipline, we expect full year adjusted EBITA to be around 11.5% of sales, which is a 90 basis points year on year expansion. We expect full year free cash flow of around €0.9 billion at the lower end of the range as a result of lower sales outlook, whilst continuing to drive working capital improvements. As mentioned earlier this year, our free cash flow outlook includes the agreed receipt of €540 million from insurers to cover Respironics recall related product liability claims, of which the majority is expected to come in the fourth quarter. The remaining payments related to the economic loss settlement in the US made earlier this year is also included in this outlook. With that, I would like to hand it back to Roy for his closing remarks.

## Closing Remarks

Roy Jakobs

*CEO, Philips*

Thanks, Charlotte. Let me close out by repeating the key messages of today. We delivered strong improvement in profitability in the quarter, with flat comparable sales and slightly lower orders as demand from hospitals and consumers in China further deteriorated whilst we see growth in the rest of the world. We continue to make strong progress on enhancing execution and improving what's in our control, while external uncertainty intensified. We expect the impact from China to continue. Therefore, we have revised our full year sales outlook. At the same time, we expect adjusted EBITA margin to be at the upper end of the current outlook range and cash at the lower end of the range. Within an ongoing challenging macro environment, we remain focused on successfully executing our three-year plan to create value, and to date, we remain ahead on sales margin and cash. We also have achieved significant milestones in resolving the consequence of the Respironics recall. I am confident that our portfolio, innovations and increased operational agility positions us well to continue to capture growth and margin opportunities globally, and to respond when demand returns in China. With that, 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 questions. We will now go to the first question. Your first question comes from the line of Richard Felton from Goldman Sachs. Please state your question.

**Richard Felton (Goldman Sachs):** Thank you, good morning for taking my questions. Just two for me, please. The first one is on the hospital equipment business in China. To what extent do you think the softness in your business in Q3 was driven by overall market weakness? Or is there any Phillips-specific issues or market share losses that may have exacerbated the weakness this quarter? That's my first one.

The second question is on gross margin. We obviously had a nice improvement year on year in Q3 despite less benefits from operating leverage. Are you able to maybe quantify some of the drivers of that margin improvement year on year, and whether we should think about those as a one off or reasonably durable drivers of margin expansion? Thank you.

**Roy Jakobs:** Thank you, Richard. Let me start with China. So I think what we see is really a market development. And as I said, I think the difference was that we expected stabilisation when we were in July. And what we've seen is deterioration, meaning that there is prolonged uncertainty and just the orders are not flowing yet into the market, and that also then prohibits sales to kind of strengthen. And that's something that we kind of have noticed in due course of the quarter. And as we also messaged, we don't see that visibility currently increasing. At the same time, our order funnel remains active. We are in active dialogue with customers. I will also go back to China in two weeks, so we remain active on the ground, but the visibility is low and we have seen across market momentum that has not yet been picking up.

On the gross margin, I think maybe Charlotte, you can you can take the question.

**Charlotte Hanneman:** Thank you. And indeed, we're very pleased with our operating margin expansion in the quarter, particularly driven by gross margin. And a few things I would highlight that really point to the durability of that gross margin expansion. First of all, we see an improvement coming from innovation. We see improved gross margins from innovation. And I point to a few of those innovations that we've done recently, like VM 11 and ultrasound and also neuro Azurion in the biplane. And then second of all, we do see operational improvements as well as a result of the normalising supply chain. And the third point I point to is really our continued financial discipline as we focus on what's within our control.

**Roy Jakobs:** To add to that, you see that all businesses gross margin goes up. And we also are on a continuous path of margin improvement. Since the beginning of the plan, you have seen that, of course, we have been having a very strong handle on what we can control, and for sure that is the innovations and the margins that generate, the productivity actions we have been taking and also the leaning out of the organisation. So that is something that you have been see dialing in consistently over the over the period into the results. That also means we are of course plan to date ahead. And also for the full year you've seen us reiterating the strong confidence in our margin delivery. So I think that's been driven by the underlying factors that also on a business level, have been materialising alongside the trajectory.

**Richard Felton:** Thank you.

**Operator:** Thank you. Our next question goes to the line of Hassan Al-Wakeel from Barclays. Please state your question.

**Hassan Al-Wakeel (Barclays):** Good morning. Thank you for taking my questions. I have three please. Firstly, on China, can you talk about the quantum of deterioration in Q3 orders versus Q2, your current base case for Q4, how does this differ by modality, and when do you expect to see any stimulus benefit based on your customer conversations, if at all?

Secondly, against the backdrop of 1% order growth year to date, how are you thinking about the achievement of 2025 targets given a worsening China?

And thirdly, how is order momentum trending outside of China, particularly in the US? And how confident are you in driving this post, RSNA and into next year, perhaps providing some offset against China weakness persisting into 2025? Thank you.

**Roy Jakobs:** Thank you, Hassan, for the questions. Let me start with the first one. So in China, and I think what's important to call out when we talk China, it's two drivers that really kind of saw deterioration. It's the hospital side, but for sure it has been also the consumer side. And that has also been a quite rapid decline because actually that, as you know, is responding to the sell-out trends. And what we have seen happening is that actually based on already a slower first half, the consumer confidence further deteriorated in Q3, including then also the adjustment of the expectations of sales and in particular also for the big days and the 1111 upcoming. So you saw that the consumer kind of decline was significant, and also, I think worse than we expected mid-year. And on the hospital side, we see that kind of the visibility on what's happening on the ground still remains low in terms of when it really materialises. We are close with customers. We have been working on order funnel. We also kind of have been preparing some of the list to go into kind of the requests for the renewal programme. We just don't have seen it coming into the customers for decision making. And that's something that is regardless of modality. But there are different impacts per modality because across the modality, of course, you have some that have an immediate impact, even in the quarter or a half year when the kind of the orders and comp like the shorter style businesses, so you saw some more pressure on those also from a sales perspective. And then you have also the impact, of course, from the prolonged kind of delay in orders that we have seen, for example, in IGT and in precision diagnosis.

So I think that is the trends that we have seen across the market, which we believe is truly a market phenomena. We keep preparing well for China when it comes back. So actually we expect that when it returns, we are well positioned with our local innovations, with the customer proximity that we have. But then I think until that, and that maybe is a nice bridge to what you also asked for, what are we doing outside, then it's really for us important to drive that momentum outside of China. And there, as we also shared in the update, we have seen strong momentum. Actually year-to-date, order intake indeed including China is 1%. But there is a distinct different pattern between double digit decline in China and then within our range kind of growth outside of China. And within outside of China, I'm particularly pleased with North America because there actually we see even a faster order growth than in some other parts of the world on the back of a very strong North American market and healthcare market. We also actually see the consumer market strengthening. So we are dialling up our kind of pace in North America across the businesses. You saw, of course, the D&T] order intake was particularly encouraging in North America in this quarter. But also if you look kind of year to date, we have had a very strong order growth in North America. And we also expect full year to close out with a strong performance. And that, of course, sets us up also for further growth in that important market. And that then also relates to kind of 2025. Whilst we are not here to guide for 2025, I think it's important that the progress that we have been making on the plan really underpins also our 2025 trajectory, where we will remain very focused on, firstly, what we can control, which is driving strong continued margin expansion, delivering on the cash, growing outside of China.

And then China, we will kind of look into depending on when clarity comes further on the China momentum. So that's something that kind of we are razor focused on. And that also sets us up for continuing to deliver on the plan. Because also on that note, I think it's important that if you look on the delivery on the plan to date, we have been over-delivering on growth sales, on margin, on cash. And of course, we also have been really clarifying some of the uncertainties and risks that there were at the beginning of 2023. So we stick to the plan, focusing on driving strong innovations, improving the margins of those innovations that we see really now coming through in gross margin and then actually to look at where we can capture the growth and really capitalise on that.

And I spoke about North America, but I've also I've been to Indonesia where we have been dialling up growth, and we are going after strengthening the performance in the market. And not only there, the other parts of the world that also give those opportunities that we are fully going after.

**Hassan Al-Wakeel:** Perfect. Thank you.

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

**David Adlington (J.P. Morgan):** Good morning guys. Thanks for the questions. Firstly, maybe just on other mature geographies which were down 10% in sales, I think, maybe if you could pull out any, any particular areas of weakness there. And just following on from that also North America only 1% growth just maybe to split that out by personal health and D&T. And then secondly, just in terms of the restructuring charges, $165 million coming in Q4, with 100 million on connected care, mostly on asset impairment, I think firstly, why not take that in Q3 and secondly, any further colour you can give us around that asset impairment and connected care will be useful. Thank you.

**Charlotte Hanneman:** Yeah. Thank you David. Let me take those questions. So first, your question around the other mature geographies, that is really driven by a very strong comparable that we saw in Q3 of 2023, and also a little bit of softness in Japan as well.

So moving on to your second question around the adjusted items. As I said in my prepared remarks, there is no change to the full year outlook we provided for incidentals. So it's still in line with the 330 bps we said earlier this year. And of course, connected care is a very big part of this as there are consent decree related charges, Respironics field actions charges and what have you. So really, if you look at Q4, our 100 million guidance for connected care doesn't really stand out much. We've seen some higher numbers, we've seen some lower numbers, and there's really no further impairment included in those numbers either. And we're really laser focused on driving the same financial discipline that we're driving in our adjusted EBITA margin, also in our adjusted items as well.

**David Adlington:** And then maybe just a breakdown of that North American growth maybe by personal health and D&T.

**Roy Jakobs:** So we see growth actually in both sides in North America. So actually that is something that we have actually we see it also dialling up in both areas. So kind of personal health started the year a bit slower but actually is coming up. And then also now we see that the health system side, based on this strong order intake, is coming up. Also to be noted, we're coming off very strong double digit comparables last year and that, of course, Q3 last year was a very strong quarter; liquidating the backlog, and that's something that we are kind of working against in terms of the comparable. But if you look underlying, we see the momentum growing both in consumer as well as in the health system side and also across segments.

**David Adlington:** Thank you.

**Operator:** Thank you. Our next question comes from the line of Lisa Clive from Bernstein. Please state your question. Lisa.

**Lisa Clive (Bernstein):** Hi there. Two questions. One, how should we think about pricing over the next 1 to 2 years? My understanding is like for like used to be slightly negative due to trying to offset the cost of inflation. It's more flat to slightly positive now. How do you think this will evolve? You know, will your sales force revert to discounting, perhaps driven by peer behaviour? Or do you think we're sort of in a somewhat new norm in terms of like for like pricing trends on equipment?

And then second question around your imaging business, you saw a lot of market share losses in several modalities, namely MR and CT during the pandemic; now that your supply chains have stabilised, etc., how are you doing relative to peers, and do you think you can regain some lost ground in the next year or two?

**Charlotte Hanneman:** Yeah. Let me take the first question, Lisa. Thanks for your question. I'll take the pricing one. So indeed, as you said in Q3, we did see a pricing benefit both in diagnostic and treatment as well as in connected care, as we still see the higher price is flowing through from our order book into our P&L, which has really helped our margin development. So if you if you look at the outlook, we have to see how it goes in the next quarters, and we have to see how it evolves from a competitive standpoint. So we remain a little bit fluid. However, what I would say is that we've seen and continue to see very good progress with material price reductions, which helps improve our gross margin, as I noted earlier. And then maybe from a PH perspective, we don't really see further pricing upside given the subdued consumer sentiment, but we are staying on top of any inflation developments that we might see.

**Roy Jakobs:** And let me maybe take the second one. So indeed, it was important based upon our progression of supply chain, that we're fully back with the lead times now, and also the strong innovation and momentum we are seeing both in MR With the BlueSeal, CT with the new launch of the 5300 with AI to really kind of drive productivity and the spectral, but also actually the DXR renewable portfolio that we launched last year actually is really gaining momentum. So we see actually that we also are kind of climbing back. And that's also something that you saw, for example, in the D&T order intake in North America this quarter, which was strong. So we see kind of we are making inroads. So we are fighting back on that front based upon the innovations, but also the better execution ability that we have been working on very strongly. As you know, for D&T China is important as well. So we remain focused on kind of getting ready for when the demand returns. And then the IGT side has throughout been very strong. We continue to kind of see the momentum there also now with the newly launched neural suite and the biplane as well as the device business where we see strong momentum based upon the procedural growth. You saw that we got the LumiGuide now approved by the FDA. That's another really unique kind of proposition that we will add to the portfolio now to support our kind of growth in the device space. So actually we are building that momentum. And that's also how we have been seeing it growing in the in the total order book.

**Lisa Clive:** Okay. Thanks. I'll hop back in the queue.

**Operator:** Thank you. Our next question comes from the line of Graham Doyle from UBS. Please state your question.

**Graham Doyle (UBS):** Morning. Thank you. Just a couple of questions. Actually, both related to China. Just firstly, I mean, some of the comments from your peers over the last kind of month or two sounded like they were kind of growing in confidence and seeing a little bit more certainty in the Chinese market. And from your perspective, do you think there's less certainty now or less visibility than there was maybe a quarter ago? It kind of sounds like that. So just good to get a sense as to where you think you are in that improvement or not improvement of the backdrop.

And then just when we think beyond, well, when demand does come back and we're in a kind of, I suppose, a normal, normal environment, are you expecting that environment to be different? So for example, we've seen as part of the stimulus there's a little bit more tendering that's going to happen this time. So do you expect more measures like that to be in place? Do you expect any shifts in the competitive dynamics? Just to understand what you're thinking about, when you think when you kind of continue to say China remains attractive. Thank you.

**Roy Jakobs:** Yeah. Thank you Graham. So on the visibility, and actually and that's also what we reflected; visibility for us remains at this point in time kind of difficult. Right. So kind of it's hard to predict what is happening exactly. I think when we have our midterm, we said kind of we expect at least stabilisation. That was also kind of backed on the government that was saying we want this programme to materialise in 2024. Now, the reality is that 2024 is running out; and if it has to kind of materialise, there's not a lot of time left. And that's actually something that we did see in 2024. So that's where for the moment we keep at the point that we say visibility is limited. And that means that indeed we then have to prepare more on the fundamentals where we have been ensuring that we have the local for local innovation, that we are close to the customers on the funnel. And if you talk about the kind of fundamentals that we need to be prepared for, and that's also something that we're hearing back from our customers, these new procedures that are being implemented and happily implemented, I think will have a prolonged period of impact, meaning that duration of approvals will get longer, and some of the tendering, where there's just more oversight will take will take more. We have not seen the specification kind of change. So we feel fully entitled to compete with our portfolio. We know that actually there is significant demand that we were leading with, for example, the BlueSeal, and even also had the spectral interest in China very strongly. And ultrasound traditionally has been a very strong business for us as well. So we don't see that necessarily changing in terms of competitive dynamics.

We have said earlier that the longer term growth prospects for China long term attractive, although we also said that it's not the China that we know from ten years ago, because just the macroeconomic environment in China is different, right? And that's the whole market and the whole kind of economy that is growing less strong. And therefore that also has some impact on the spend in the different segments that we see coming in. That does not mean that it's not kind of attractive. It does mean that kind of it will be attractive in the near future when it comes back, the only visibility we don't have. And that means that we continue to focus on the rest of the world to dial up momentum there. And as we also have seen happening in due course of this year.

And then finally, maybe on China, if you look at some of the underlying diseases like cardiac, like neuro, there is significant interest, right? And we are working also with our IGT suite and some of our imaging suite to see kind of how we can build on the practice that we have had outside of China. And the staff shortages are very significant. So also some of the AI solutions like smart speed and others really add value in in that market. And what you also know from our share development to date in China, IGT, we have been growing share. We were kind of challenged a bit with our supply chain, challenges also in the DI. Now we are fully back there and have ramped up that supply chain also in China so that would kind of give us full opportunity to play part of the momentum if it comes back.

**Graham Doyle:** Okay. Brilliant. That's really helpful. Thank you very much.

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

**Hugo Solvet (BNP Paribas Exane):** Hi. Hello. Thanks for taking my questions. I have three, please. First, follow up on China. Just, Roy, on your comment around the funnel of order. Is that just a function of more meetings with customers continued strong interest or actually orders slowly but surely moving into the execution phase? And if you can explain a bit of what type of modalities you are seeing a strong orders for?

Second, on 2025, follow up to Hassan question. How much of the 2025 targets relies on China picking up now, and how comfortable do you think you are with consensus forecasting 80 basis margin improvement given the uncertainties in the country, but also the benefits from the efficiency plan on the other hand?

And lastly, in sleep and respiratory care, I think margin was progressing sequentially Q1 and Q2. Can you maybe let us know where you are in terms of profitability for that business, and what the right sizing of that business that happened in Q3 exactly implies? Thank you.

**Roy Jakobs:** Yeah. Thank you. Hugo, let me go into your different questions. So on China. So on the order funnel. So that's kind of based on our discussions with customers and as a result, what are the opportunities that we have in our books that we expect to materialise when China comes back. That is not yet of orders flowing into the China customers and approvals, because that's actually where the lack of also showed in the decline of orders and the decline of sales in the market. So I think there's clearly a difference between the activities, the customer needs, the discussions we are having, and also then how that materialises and how it materialised in quarter three, and also how we have taken that into Q4. And I will be back in China next week. There will be a big China expo which we are part of. We are also invited for. So yeah, the momentum in terms of the dialogues keep happening, but we see just that the kind of flow through in terms of real orders and then sales, that's where the current slowdown is hitting us and I think hitting the market in full.

Then secondly, if we look to kind of 2025, there, we're not guiding for any 2025 currently. So what I said before, we remain fully focused on executing the three-year plan that we're on, which we also have seen is working. We are planning to date or we are kind of ahead. Demand in the rest of the world remains solid. And that is also – we saw – we guided for this range this year. We continue to build on that momentum. The uncertainties in the – that we signalled earlier in China intensified and we expect to continue. So that is an impact we also expect into 2025. But again, too early to discuss specifically.

Then if you look at what we can control and we were very confident on, the further operational improvement, focusing on margin and cash, I think we will not hold back in any way or form. The productivity is coming through. You have seen that we realised 1.5 billion to date. We are ahead of that and we will continue to drive that strongly. And we believe also that that will show in the kind of continued progression on that trajectory, as well as in the cash progression that results of the combination of better underlying operational delivery into next year. So we are well-positioned to capture growth when it comes, but in particular in China, we need to be more cautious on that, and we are because of the lack of current visibility. So that's kind of how we look at how we go into 2025. Stay tuned. Stay the course on the plan. Focus on the controllables, confident in that growth outside of China, fully dialling up where we see the growth to capture it, and in China, kind of being modest based upon the lack of visibility.

**Charlotte Hanneman:** And then maybe I could take the question on S&RC. And S&RC return to market is going really well and according to plan. Customers really want us back in the market, and they like our innovation. What we see as well is solid sales in sleep and patient interface outside of the US. And then from a profitability perspective, we again saw an encouraging margin step up in S&R, and in fact, in our whole connected care segment, which just speaks to the underlying resilience and strength in our EBITA margins, which keep on improving and which we are laser focused on now in Q4 and also next year. Thank you.

**Hugo Solvet:** Thank you.

**Operator:** Thank you. Our next question comes from the line of Julien Damou from Jefferies. Please state your question.

**Julien Damou (Jefferies):** Hi. Good morning, Roy. Good morning, Charlotte. Thanks for taking my questions. I have three, if I may, and mostly housekeeping, I guess. But first one relates to the royalties because obviously that was a quarter with a nice contribution from that line. So just curious how much of that should be seen as, let's say, recurrent. And I know those are lumpy by definition, but that really provided a nice boost to the margin in the quarter. So just curious what you should make of that and how you see royalties evolving into the fourth quarter and maybe into '25.

Second question relates to the potential or the risk of US tariffs making a comeback, depending on the election outcome in a few weeks from now. How do you see the situation on your side, and in what way? The situation would be different from what it was in the first mandate, back in 2017 2018 if Trump were to be elected or if any kind of tariffs were to be reinstated.

And the third question is very much housekeeping, but could you just remind us how much of a contribution to sales China represents at the group level, but also maybe giving a bit more insight into PH versus the rest of the group, please?

**Charlotte Hanneman:** Okay. Thank you. Julien. Let me take the first question on royalties. So indeed, as you said, in the quarter, royalties supported roughly 80 bps of improvement of our EBITA improvement. And if you then look at the full year, so our guidance is that roughly – we've increased our guidance by roughly 20 million. So that means from a full year outlook perspective, only 10 to 15 basis points of that 90 bps improvement comes from royalties. So really underlying we continue to drive strong EBITA margin improvement in line with just focusing on what we can control. And I can assure you we will not stop there if we can do more.

**Roy Jakobs:** Maybe on the second one on the tariffs, we have been really working on making our supply chain resilient to also be prepared for scenarios, and that could evolve across the world because actually that is of course happening in multiple potential countries. So actually to go for local, for China, but also to regionalise our supply chain for North America really helped us to kind of be prepared for changes potentially in goods flow of the world. So we are now kind of building three regional strong axes where we can supply from and that's also showing in the resilience of the current supply delivery and the lead times and the service that we have on that. We also have dual sourcing introduced. So a lot of focus and progress made on that to be ready for any adjustments that we need to kind of adjust to. And then maybe last point, the organisational agility also increased based upon simplification. And I think that also helps us to kind of turn quickly towards changes if need be.

And that then brings me to China. If you look at the China kind of size, you have the – and I think it's important to understand that approximately 10% is China. But you see a difference, a distinct difference in personal health, which is more sizable and therefore also the impact this quarter was more sizable and also for the half year is more sizable, given that that is a significant part of that business, more than a 10%. And then you have the other piece where you see that from a total segments, D&T is more dependent on China than, for example, monitoring. It's not that monitoring is immune to China, there are some dependencies, but it's much smaller. So the two segments that are hit most are D&T and PH. And I said PH was the one that really kind of showed a significant slide also into Q3 and the second half. On the opposite, you also know that once consumer's demand and confidence would go up, you also can more quickly catch up. But that's again, we don't want to kind of prelude that until we have the visibility on when that would happen.

**Julien Damou:** Super helpful. Thank you so much.

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

**Robert Davis (Morgan Stanley):** Yes. Thanks for taking my questions. My first one was just on your order outlook for the full year being up 1%. Just at a couple of questions on that. Obviously personal health, you still have a tough comparable in I think in the fourth quarter of '23. So just was trying to get a bit more colour just in terms of what was underpinning your conviction in keeping orders positive. And maybe just on the order front, just sort of looking back over the last two quarters, you've had quite high volatility between the orders up nine in the last quarter down two. What sort of really changed on a sequential basis? Because that's obviously a pretty big move quarter on quarter.

My second question was just around trends in personal health, whether you'd seen any sort of down trading. You'd mentioned, obviously, consumer confidence had softened in China, but has that resulted in anyone down trading within that segment, or is that just a sort of operational leverage effect? Thank you.

**Roy Jakobs:** Yeah. So on the first one. So, operational full year. And also even the order flow through the quarters. So I think what you see is that kind of we are year to date on plus 1%, with a double digit decline in China, and then an offsetting growth in the rest of the world. In the rest of the world, currently, North America is really coming up very strong in order growth. What we do see in North America, and that's a bit where you see also some of the lumpiness coming in that you have especially monitoring with very sizable deals. You saw some of that in Q2. We're working on more, and that has an impact. The other piece is also that some of the service growth is also kind of playing part, because you're converting some of equipment also into service. That makes that kind of the quarter-on-quarter kind of flow is becoming a bit less predictable, and you need to look at a longer term trend. And that's why I'm excited to see that, actually, we are dialling up that order momentum across the globe, and in particular in the strongest market of the world, which is which is not North America. And we also expect that to continue. That's also what we said for the full year outlook, and that we also will take into 2025.

Then on PH, we see also there the two kind of growth track that we see in the world. So you see China on a significant pressure. It's not necessarily a specific downtrade. It's just really a lack of sell out. Because actually if you look to how we are doing in China, we have been gaining share in grooming. We see that actually in oral care, some of the new brands actually are stepping out because they were trying to get in, and also sometimes with the lower value propositions, and they see that momentum is being under pressure. Of course, we need to be looking at the overall market momentum globally as well. And we see that it's picking up in other markets. We had the new launches, mother and child care, we saw with the, kind of, clearance on the AI baby monitor. Actually, mother and child care has been on a very strong trajectory in course – with orders also outside of China. So we also see that we can capture the margins in personal health. And that's also we see that we're holding EBITA strongly despite significant volume decline. So I think the overall value capture out of personal health based on strong innovations we see still as strong and also going into next year.

**Robert Davis (Morgan Stanley):** Thank you. Could I just ask one quick follow up and just where your order book is now relative to where you were at the start of the year?

**Roy Jakobs:** And in what specific sense?

**Robert Davis (Morgan Stanley):** In sort of absolute magnitude, is it bigger or smaller now than the beginning of 2024? You mentioned year to date orders are up one, you've got sales growth that's panned out as well. So I just wondered where you were in terms of order book, in terms of the conversion. Has it gone up or down since the beginning of the year?

**Roy Jakobs:** No, it's more – I would say it's more or less flat, kind of, in terms of there's no significant change versus the beginning of the year. You see that kind of there's not a lot of delta between the current sales and orders. Of course, there's a big delta in between China and the rest of the world. And so we are building up top momentum in orders. And I think you see, therefore, that kind of that will kind of start to show also towards next year. And then we also still had some depletion of backlog, right, because that was what was happening in particular in, in the PD space, MR – and which was having the supply chain challenges, as you know. So it really depends on the modality kind of where you see the different trends. But overall, I would say it's more or less in line on a healthy level. We are growing the momentum outside of China, but China is having a big impact.

**Julien Damou:** Understood. Thank you.

**Operator:** Thank you. Our next question comes from the line of Falko Friedrichs from Deutsche Bank. Please go ahead.

**Falko Friedrichs (Deutsche Bank):** Thank you. Good morning everyone. And my first question is on your sales guidance cut for 2024. Considering your previous answer that China is about 10% of group sales, it seems to be a pretty dramatic cut here. So is it fair to assume that the rest of the world grows rather at the low end of the 3-5% range this year?

And then my second question, and sorry if I missed it on China stimulus. What's your latest sort of best guess when these measures start to kick in? Or is there the topic that we sort of should put on the back seat for now? Thank you.

**Roy Jakobs:** So on the outlook focus. So as I said, so in China you see distinct bigger impact from personal health. So – and that has been really kind of material for the personal health business. You also saw the growth in the quarter, right, turning significantly negative. That's also where you see that actually it's not 10% for personal health, actually is significantly more. And so that was the big impact that you see. And therefore also for the rest of the world, whilst we don't guide upper or lower, is actually solid in the in the growth range that we have been guiding for. And also we now with the lack of visibility, we took some prudence into that outlook for the year which I think is the reasonable approach to take given that we saw the Q3 developments. Let's also now be cautious on Q4 what is happening on the ground. And that's something that we took into the outlook.

**Falko Friedrichs:** Thank you. And on stimulus in China?

**Roy Jakobs:** The stimulus in China, yeah, that's I think – I think we didn't see that coming into the market yet. I think that also has been part of why we – on first instance in July, were expecting some of that might come in and that would then stabilise the market. That did not happen. Right. And therefore we kind of also remain prudent on that. We know it's – there's discussions on it. We know that kind of customers put in their lists, but we have not kind of seen it materially coming into new order flows and that we can act upon.

**Falko Friedrichs:** Okay. Thank you.

**Operator:** Thank you. The next question comes from the line of Ed from Redburn Atlantic. Please state your question.

**Ed (Redburn Atlantic):** Hi. Thanks very much. Just a couple of follow ups, please. I think historically on personal health, you've highlighted that it was around high teens or even slightly higher as percent of sales. That's coming from China at least until last year, if you could confirm that was reasonable thinking.

And in terms of the D&T business, obviously, tough comp as you've highlighted. We talked about the different growth between the three units there – commentary from your peers suggests clearly the IGT market is very strong on the base of procedure recovery. So could you give us any colour at all on the growth in IGT imaging and ultrasound within D&T? Thanks.

**Roy Jakobs:** Yeah. So on the personal health question, so you are right with high teens, right. So that's also what I signalled earlier, right. So significantly higher than the 10%. So it is indeed a sizable chunk of the personal health business. Now I think the good news was that we are also seeing a very solid growth outside. And that's dialling up. But it's just kind of the impact and especially then if you have one quarter or two, it has a sizeable impact on your total personal health segment impact and therefore our total sales. So I think you're right in that assumption.

Then on D&T, indeed IGT is strong. But also in PD we have been seeing growth as sales growth momentum. MR, for example, where we now have lead times back to market, we have been really dialling up that sales momentum also on the ground. And you see that dialled in to the D&T segment. Ultrasound is more disproportionately dependent on China. So also you see that impact reflected in the ultrasound run rates, because we have seen that slowing with a relatively higher dependence on China in the total mix because they were earlier significantly built up. And we expect that over time to come back when China comes back, but for the moment that, for example, impacted the run rate in PD.

**Ed:** Great. Thanks very much.

**Operator:** Thank you. Due to the time, the last question is a follow up question from Lisa Clive Bernstein. Please go ahead, ma'am.

**Lisa Clive:** Hi. Thanks for meeting my follow up question. Could you comment on trends in North America? It seems like you have strong demand, good order book. I think some investors have been concerned that a lot of the stability in the business has been dependent on that market and, you know, concerns that it could potentially soften. So if you could just comment on what you're seeing there, that would be helpful.

**Roy Jakobs:** Yeah. So if I look to the Nordic American market, and I think that is – first of all, it comes back on the back of the underlying fundamentals. So the financial strength of the system really has been sequentially strengthening since Covid, right, where we came out of a negative market where most of the hospitals were in negative territory, they started to become neutral. This year, we see positive. And you see especially the stronger systems turning more positive and actually are consolidating, acquiring, and that then also leads to opportunities in further standardising their platforms onto kind of strong offerings. And that's where kind of we are included. And we see then also the impact in our order book. I think that is something that is one trend.

The other trend which you also have seen, there is a lot of patient demand, and there are still wait lines in North America, which was quite unprecedented before Covid because the system was being able to deal with quite some volume. And that's driven by, on one hand, kind of the staff shortage that's really playing a part, but it's also in terms of dialling up the procedural volume. And that's where you see some of the demand in IGT that is strong. You see the procedures growing that is strong and driving fundamental growth. And then also with the radiology challenges and the pathology challenges, of course, our workflow solutions for radiology and pathology are really in demand. When I was in Chicago two weeks ago, this was really the talk of the town with the big systems. I was at [Inaudible] conference. This is a big part. We expect the same to come at RSNA. And so we see that the underlying is a healthy demand that need to be fulfilled and catered for. And then it's more also about kind of what is the implementation ability for the market to kind of to dial up because there’s also staff shortages in some of the installation capacity. But I think we're, yeah, quite positive on the on the trends that we have seen in North America with sequential strengthening and improvement.

**Lisa Clive:** Okay, great. And just one last follow up question, circling back to China. You know, you were growing about 4% in the five years before the pandemic. You've now guided 5-6%. Obviously, this year is going to fall well short of that given the rollover in China and a few other factors. But if you grow 5-6% and if China is not a double digit growth market, and, you know, sort of continues to limp along, where will that growth come from and how confident can we be in that outlook?

**Roy Jakobs:** Yeah, I think so there are two parts to in answering that, Lisa. One is, of course, we are looking at the different segments that we have within Philips, where we also shared in the show and tell that we're active in certain parts of the market for 70%, we are part of the market that actually is growing on average higher pace. And that is then globally seen. But we also see that pace very much outside of China. So that's something where we will go after, and that is in IGT, that is in personal health outside of China at the moment. That is going up with ultrasound, that is with monitoring. So very strong segments where we see kind of that there is the long term growth potential and also margin potential. And then you see that kind of there are some of the markets that are also more dependent on China that will have more significant impact to cater for.

And last but not least, it's not that we don't expect China to come back, right. It's not that we – this will be a trend that will be there forever. We just don't know exactly when it's going to come back up. And when it comes back up, we also expect there will be demand, because there is just a significant patient base to be catered for and a significant amount of hospitals in need of solutions. So we also expect that will start to contribute then if you take a bit of a longer term perspective.

But in the planned period that we originally looked at, of course, now we need to cater a bit more for growth outside of China. And that's also something where we see that we are dialling up momentum. And you also saw that this quarter even, right. So we said we delivered outside of China growth in line with our 3-5% range. And we also continue to fully focus on that. And then I mentioned earlier, North America is important in that we have growth markets like Indonesia, like some of what we see happening in Saudi, but also what is happening in LATAM. And ultimately kind of it's driven on the back of standard setting and strong innovations that we have where we know that demand is there. So we are kind of well-positioned to capture the growth when it kind of happens. And we need to make sure that that – and we have been working on that with execution of a plan that supply chain works, which currently is fully on par, and also that we have an agile organisation that can go after it with a cost competitive mode, because the margins will remain razor-focused in all that we do, so that kind of we keep that trajectory just ongoing, kind of more independent of the sales momentum that we see globally in the market.

**Lisa Clive:** Great. Thanks very much.

**Operator:** Thank you all. That was the last question, Mr Jacobs. Please continue.

**Roy Jakobs:** So thank you all for dialling in. As we said, I think what we see in the world currently is strong delivery of margin that we also reiterated for the full year at the upper end, sales that we adjusted, signalling further deterioration in China and also taking a prudent approach onto that into Q4 whilst we are dialling up momentum in the rest of the world and we stay fully focused on executing on our plan. We're planned to date, we're ahead on sales margin and on cash, and we have been making significant progress in resolving some of the issues with the recall. So we focus on what we can control, we keep driving that with strength and with pace and look forward to talk to you in upcoming opportunities.

**Operator:** This concludes the Royal Philips third quarter 2024 results conference call on Monday, 28th October 2024. Thank you for participating. You may now disconnect.

[END OF TRANSCRIPT]