Philips (Q3 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

- Julien Dormois; Jefferies; Analyst
- Edward Ridley-Day; Rothschild & Co Redburn; Analyst
- Hugo Solvet; BNP Paribas Exane; Analyst
- Hassan Al-Wakeel; Barclays; Analyst
- David Adlington; JP Morgan; Analyst
- Graham Doyle; UBS; Analyst
- Veronika Dubajova; Citi; Analyst
- Richard Felton; Goldman Sachs; Analyst
- Wim Gille; ABN AMRO and ODDO-BHF; Analyst
- Falko Friedrichs; Deutsche Bank; Analyst
- Oliver Reinberg; Kepler Cheuvreux; Analyst

PRESENTATION

Operator^ Welcome to the Royal Philips Third Quarter 2025 Results Conference Call on Tuesday, November 4, 2025.

During the call hosted by Mr. Roy Jakobs, CEO; and Ms. Charlotte Hanneman, CFO. All participants will be in a 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 will now hand the conference over to Mr. Durga Doraisamy, Head of Investor Relations.

Please go ahead, madam.

Durga Doraisamy^ Hello, everyone. Welcome to Philips' results webcast for the Third Quarter of 2025.

I'm here with our CEO, Roy Jakobs; and our CFO, Charlotte Hanneman.

The press release and the 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 the third quarter with good momentum, we sustained it and delivered on planned for the quarter.

Order intake grew 8%, marking the fourth consecutive quarter of improvement.

It reflects the robust demand for our products and our disciplined execution.

Comparable sales growth stepped up sequentially to 3% year-on-year. All businesses contributed to growth. Personal Health delivered particularly strong performance.

Adjusted EBITA margin expanded by 50 basis points to 12.3% in spite of the full quarter impact of currently imposed tariffs. It reflects solid gross margin delivery driven by innovation as well as the impact of our productivity and cost management.

Overall, our performance in the first nine months is tracking as expected, with momentum weighted towards the second half as orders and growth built through the year.

We are delivering on our commitments, and we continue to sustain this momentum with disciplined execution into the fourth quarter to achieve our full year plan as we complete the year.

We reiterate our full year comparable sales growth outlook in the range of 1% to 3%.

We expect our 2025 adjusted EBITA margin to be at the upper end of 11.3% to 11.8% range, reflecting our confidence in our execution.

We continue to expect full year free cash flow to be between EUR0.2 billion and EUR0.4 billion. These expectations assume current tariff levels remain unchanged with mitigation fully on track.

Now let's look at our third quarter performance in more detail.

Starting with orders. Equipment order intake grew 8%, maintaining the momentum we have built over the last 12 months including the typical quarter-to-quarter unevenness in large orders.

Year-to-date, our order book is up 6% compared to last year.

Our strong order performance in Q3 was driven by a sustained double-digit growth in North America.

Strong order growth in Connected Care was partly offset by modest decline in D&T.

Within D&T, order growth in Image-Guided Therapy and Ultrasound in Q3 was offset by a small decline in Diagnostic Imaging following three consecutive quarters of positive order intake growth.

We are pleased with 6% year-to-date order growth in D&T, driven by solid performance, and we continue to focus on strengthening commercial execution in the DI and expect improvement in Q4.

In Image-Guided Therapy, we believe minimally invasive procedures for cardio, neuro and oncology interventions, demand for our high-end Azurion 7 system remained strong.

Growth in Ultrasound orders reflects robust demand for a further enhanced leading EPIC CVx systems, which highlights Philips leadership in cardiovascular care. These AI-powered solutions enhanced precision, streamline workflows and boost clinical confidence.

Turning to Diagnostic Imaging. The demand for our BlueSeal MR 5300 and CT 5300 remains strong.

We also advanced CT and MR innovation in radiation therapy planning, which I will touch on shortly.

These systems together with our strong imaging informatics offer are resonating with customers for their precision diagnostics and AI-driven workflow productivity, positioning us well for renewed momentum ahead.

In Connected Care, demand for our Hospital Patient Monitoring solutions continued to gain momentum.

North America remained the key growth driver, with strong demand, supported by major partnerships and continued hospital standardisation with strong cyber security demands.

We are especially pleased with the traction of our latest IntelliVue MX patient monitors, the AI-powered PIC iX central monitoring systems, and our X3 transport monitors equipped with measurement modules.

With collaborations and partnerships that span the industry, from Edwards Lifesciences to Medtronic, Masimo and Getinge, we created an efficient, interoperable patient monitoring and a real-time data platform that addresses key customer priorities, is the ecosystem platform of choice for patient monitoring.

Building on this strong value proposition, we expanded our enterprise partnerships in Hospital

Patient Monitoring. As reflected in new enterprise partnerships.

For example our Monitoring as a Service agreements with leading U.S. health systems, such as Hoag Health System in Orange County and Rady Children's Hospital in San Diego. They empower our customers to focus on what matters most: Improving patient outcomes while we handle system complexity.

Moving to Enterprise Informatics, which also contributed to Connected Care's order growth in the quarter.

Migration to the cloud remains a strategic priority to unlock further value in this business.

This quarter, we signed a multi-year agreement with a major U.S. health system to move its radiology imaging to the cloud, and it's using Philips IntelliSpace Radiology on Amazon Web Services for that, improving efficiency, scalability, and security while enabling future AI innovation

Turning to Personal Health, growth was strong and broad-based across all three businesses: Grooming and Beauty, Oral Healthcare and Mother and Child Care.

Sell-out trends remained healthy across Europe and most growth geographies. China remained subdued amid cautious consumer sentiment, and demand in the U.S. remained resilient.

We saw strong demand for premium products, including High-end Shavers and IPL hair-removal devices in Grooming and Beauty, but also for our Diamond Clean Series in Oral Healthcare.

Our continued investment in innovation fuels the momentum we're delivering across the portfolio.

In Q3, we expanded our pipeline with solutions designed to accelerate growth, enhance customer value and drive consumer engagement.

We launched Transcend Plus in Ultrasound across our Epiq and Affiniti systems. It's featuring enhanced imaging and 26 FDA-cleared cardiovascular AI applications, the most in the industry, supporting faster, more consistent diagnostics.

Similarly, in Radiation Therapy treatment planning, we continued to advance our innovation pipeline.

At the American Society for Radiation Oncology, we introduced Rembra Areta Radiation Therapy CT scanners and BlueSeal MR Radiation Therapy, which expanded our radiation oncology imaging portfolio and sustainable MR leadership.

Moving to consumers. We're also strongly driving our innovation pipeline in Personal Health.

Last month, TIME named the Philips Norelco i9000 Prestige Ultra one of the Best Inventions of 2025. A clear example of how our SenseIQ Pro AI technology continues to drive leadership in premium grooming.

Our latest launches continue to resonate, not only with consumers, but with high-performing retailers too.

Lumea IPL debuted in the U.S. exclusively on Amazon, with strong early uptake, and next generation Sonicare 6000 and 6400 models launched exclusively with Walmart.

We continue to execute our priorities, from enhancing patient safety and quality to improving supply chain resilience and simplifying our operations.

Our multi-year program to strengthen quality systems and embed a patient-safety-first culture is delivering steady progress.

In 2025, we passed six out of nine FDA inspections with no observations.

Between 2024 and 2025, our 15 FDA inspections resulted in a 483-issuance rate, nearly 60% lower than in 2021 to 2023, despite a comparable number of inspections.

Against that background, the FDA Warning Letter issued last week is disappointing, and we are fully committed and in full remediation since Q2 to resolve all observations to the agency's satisfaction.

We continue to work constructively with regulatory agencies also on new innovations, and already received 27 FDA clearances through Q3, matching the total for 2024 and demonstrating an accelerating approval rate.

We have also reduced global field actions by around 20% year-to-date, following a similar reduction last year, while we continue to improve complaint handling and strengthen corrective and preventive action processes.

We remain fully focused on driving measurable, lasting improvements in our business in collaboration with global regulators, and on reinforcing trust among patients, clinicians and investors.

Moving to Supply Chain, we continue to make executional improvements.

In Q2, we announced a multiyear nationwide agreement with the Indonesian Ministry of Health to expand access to therapy using our Azurion platform.

Now, we are already installing the first system, a clear proof point of our speed and agility and execution strength.

This collaboration exemplifies the broader progress we're making across our supply chain, where we continue to deliver tangible operational impact and greater resilience in an uncertain supply chain environment.

This is also demonstrated by the continued increase in service levels across all Health Systems modalities, reaching 87% in the quarter, a new high, and another sequential step up.

Finally, we continue to simplify how we work, with a more connected organisation that focuses talent and resources where growth is happening.

This shift is fueling continued progress in productivity and performance.

Turning to the Regions.

The fundamentals of the markets we serve remain sound. Dynamics vary by region, and in some areas, uncertainty is increasing.

In North America, hospital demand remains strong, with continued customer pull for platforms that deliver productivity to serve more patients at lower costs and to achieve better outcomes, increasingly enabled by AI.

That said, demand is unevenly spread across hospitals and regions of the U.S.

As hospitals resource constraints in people and cost increase, they seek smarter, more productive ways to manage higher workloads with less people while serving more patients. So productivity has become a defining theme for customers, one that sits at the heart of our innovation agenda.

And this positions us well to capture growth, reflected in sustained double-digit order intake growth over the past 12 months in the U.S.

In China, tender activity has been gradually increasing throughout the year, although from a low base, fueled by stimulus measures.

At the same time, centralized procurement kept expanding, which meant longer processing times and tougher competition, making it harder for higher bidding activity to translate into meaningful market growth.

We continue to have a cautious view on the near-term outlook for China but remain positive about the market's long-term growth potential.

Capital spending remains stable in Europe and Latin America, while India and Saudi Arabia continue investing in healthcare and digitalization, creating strong opportunities.

In an uncertain environment, staying close to our customers and partners is more important than ever.

We are also actively engaging with leading industry associations, like AdvaMed in the U.S. and MedTech Europe, as well as authorities in key markets.

Our objective remains clear: to advocate for patients and ensure access to care.

Every dollar, euro or RMB spent on tariffs is one not spent on innovation. We must ensure tariff measures and trade barriers do not hinder innovation, access or affordability of care.

We remain closely attuned to evolving customer and consumer dynamics to stay agile and responsive. We innovate to deliver better and more care.

Charlotte will now discuss our third-quarter performance in more detail and our outlook for 2025.

Charlotte Hanneman^ Thank you, Roy. The group achieved 3% comparable sales growth, while our three business segments delivered 4.3%, underscoring the strength of our core operations.

In Diagnosis & Treatment, comparable sales improved sequentially, in line with our expected phasing, increasing by 1% year-over-year.

Image-Guided Therapy delivered solid growth, nearing the mid-single-digit range, marking consecutive multi-year expansion, a remarkable track record of consistent performance fueled by strong momentum in our flagship Azurion platform and strength in Coronary Intravascular Ultrasound devices.

Precision Diagnosis sales were broadly in line with last year. Strong growth in Ultrasound was driven by continued strength in cardiovascular, led by our EPIC CVx systems. This was offset by a modest decline in Diagnostic Imaging, primarily due to the timing of orders.

Our flagship products continued to perform well, particularly the CT 5300, which delivered a strong ramp-up in order conversions following its launch last year, the major contributor to a further improvement in gross margin within Diagnostic Imaging.

Adjusted EBITA margin decreased by 80 basis points, to 11.8%, mainly due to the incremental headwinds from the currently imposed tariffs and cost inflation, partly offset by gross margin from recently launched innovations and productivity. Absent these headwinds, both gross and adjusted EBITA margins improved year-on-year, highlighting the underlying strength and demonstrating robust operational execution.

In Connected Care, comparable sales grew 5%, supported by strong growth in Monitoring. This was partly offset by lower Sleep & Respiratory Care sales, while Enterprise Informatics remained stable. Growth in Monitoring was driven by higher installations of latest IntelliVue MX patient monitors, X3 transport patient monitors and AI-powered PIC iX central monitoring systems across most geographies with particular strength in North America.

Adjusted EBITA margin improved by 410 basis points to 11.4%, including a 150-basis point gain from the remeasurement of a minority investment. Excluding this gain, the margin improved by 260 basis points to 9.9%, driven by operational leverage in the Hospital Patient Monitoring business, favorable mix effects and productivity, partly offset by tariffs and cost inflation.

In Personal Health, comparable sales increased by 11% in the quarter, with broad-based growth across all regions and strong performance across the three businesses within the segment.

This sustained strong performance reflects robust demand across most geographies, including a resilient consumer sentiment in North America. Growth was also supported by an easier comparison base in China, following the impact of inventory destocking last year, which concluded in the second quarter of 2025.

Personal Health Adjusted EBITA margin improved by 60 bps to 17.1%, driven by increased sales and productivity, partly offset by tariffs. Impact from Advertising and promotion spend remained slightly elevated year on year, though lower than in Q2, to support sustained demand and recent launches. These investments are delivering as intended, contributing to higher sales growth, and are underscored by strong demand for our premium products across all businesses.

Finally, sales in Other decreased by 41 million euros, primarily due to lower royalty income as we expected, resulting in a EUR21 million reduction in Adjusted EBITA for the quarter.

Turning to our Group results and operating highlights for the third quarter. Comparable sales growth improved sequentially, aligned with our expected phasing, increasing 3% with broad-based growth across all three segments, partially offset by lower royalty income, as expected.

Comparable sales in mature geographies grew 3%, led by North America, with contributions from all segments. Growth geographies increased 5%, driven by strength in Personal Health and Connected Care, while Diagnosis & Treatment was broadly flat.

Adjusted EBITA margin increased by 50 basis points to 12.3%, driven by higher sales, favorable mix effects, and productivity measures, which more than offset the impact from incremental tariffs and lower royalty income.

With tariffs evolving, we continue to actively mitigate their impacts, strengthening our ability to execute with consistency and deliver sustained performance.

The impact year-to-date is tracking in line with our expectations. For full-year 2025, we continue to anticipate a net impact of EUR150 million to EUR200 million, after substantial mitigations, with no revisions since the outlook we provided in July.

As planned, short-term tariff mitigation initiatives in the third quarter focused on inventory management, specialty programs, exemptions and cost discipline and helped reduce the tariff impact.

We also advanced medium-term initiatives meaningfully, including our supplier network and commitment to manufacturing location optimization. In August, we announced a $150 million investment in the U.S, which will not only expand production but also strengthen both cost efficiency and local supply continuity.

We will continue progressing similar initiatives across the portfolio, carefully balancing regulatory, operational, and customer considerations.

In Q3, we delivered EUR222 million in productivity savings, bringing the year-to-date total to EUR566 million. We remain on track to achieve EUR800 million in productivity savings in 2025.

Our disciplined approach to cost management and productivity initiatives has cumulatively delivered EUR2.3 billion in savings since the start of our three-year plan in 2023, exceeding our initial commitment to delivering 2 billion by the end of 2025.

As we build on this strong foundation, we are increasingly leveraging AI to unlock the next wave of productivity gains across the company.

In Personal Health, since the second quarter, more than 80% of our marketing content has been created or enhanced using GenAI tools. This includes how we generate insights, refine creative content, and even how we manage digital assets. These capabilities are already improving productivity and have delivered an increase in Return on Investment up to double-digit returns.

In Enterprise Informatics, AI is accelerating R&D through greater use of AI-generated code, enhancing customer support with predictive AI Agents, and strengthening Sales and Marketing throughout through AI-automated content creation and real-time buyer analytics. For example, in customer support, our AI agents automatically perform remote system health checks and proactive maintenance, reducing support costs by 80%.

In the quarter, adjusting items amounted to EUR122 million, of which EUR40 million were related to Respironics field-action and consent decree remediation. This is below our Q3 2025 outlook of EUR165 million, mainly driven by cost phasing within the year.

Income tax expense increased by EUR22 million, reflecting higher income before tax, while net income rose to 187 million, mainly driven by higher earnings.

Adjusted diluted EPS from continued operations was EUR0.36 in the quarter, up 13% year-over-year, driven by positive contribution from growth.

Despite significant volatility in major currencies, particularly the U.S. dollar, the impact on our Adjusted EBITA margin and EPS was broadly flat, reflecting disciplined hedging, an optimized currency footprint and targeted commercial actions in markets most exposed to currency fluctuations.

We delivered strong cash flow performance this quarter with free cash flow of EUR172 million, representing a EUR150 million improvement year-over-year. Higher earnings drove this.

Moving to the balance sheet, we ended the quarter with approximately EUR1.9 billion of cash and net debt of approximately EUR6.5 billion. We maintained our disciplined focus on working capital, delivering a solid year-over-year improvement in inventory as a percentage of sales, despite ongoing tariff mitigation initiatives.

Our leverage ratio remained in-line with Q2 2025 and last year at 2.2x on a Net Debt-to Adjusted EBITA basis. We remain committed to maintaining a strong investment-grade credit rating.

Turning to the Outlook.

With three quarters behind us and continued strong execution, we have solid visibility for the remainder of the year. Our expectations for Q4 remain unchanged from the start of the year. We continue to expect sequential improvement in Comparable Sales Growth, supported by sustained order conversion, sustained momentum in Personal Health sales and disciplined execution.

For the full year, we continue to expect Comparable Sales Growth in the 1% to 3% range, with Connected Care growing within this range, Personal Health slightly above the mid-single-digit range, and D&T delivering slight growth year-on-year.

Year-to-date adjusted EBITA margin improved to 11.2%, a 40-basis point increase despite higher tariffs, driven by strong execution and cost discipline. With continued momentum and even with the impact of tariffs, which is more pronounced in the second half of the year, we now expect full year adjusted EBITA margin at the upper end of the 11.3% to 11.8% range.

Turning to free cash flow, we continue to expect a full-year range between EUR0.2 billion and EUR0.4 billion. As a reminder, this outlook includes the EUR1 billion outflow related to the Respironics settlement paid in Q1.

Our outlook excludes potential wider economic impacts as well as ongoing Philips-Respironics related proceedings, including the Department of Justice investigation. With that, I would like to hand it back to Roy for his closing remarks.

Roy Jakobs^ Thank you, Charlotte.

The third quarter progressed as expected, and we remain confident in delivering on our full-year commitments.

Looking ahead to our Capital Markets Day in February 2026.

We will showcase the fundamental progress achieved under our 2023 to 2025 Plan, establishing a strong foundation for the future. And we will share how we will and are evolving this into our next three-year plan, consistent value creation and focused value *acceleration*.

I’m incredibly proud of our passionate teams, staying close to customers, executing with discipline, and keeping our momentum strong through the end of the year.

Thank you, and we are now ready for your questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions)

The first question comes from Mr. Julien Dormois Loma from Jefferies.

Please state your question, sir.

Julien Dormois^ I have two. The first one would relate to a general question around price hikes going forward. You are, obviously, out of a period of inflation and also the tariff impact.

So just curious how you think about price increase going forward.

We can remember that two or three years ago, the whole industry proceeded with price hikes at the end of the inflation crisis. So just curious whether you should expect some benefit from that in the next couple of years?

That would be my first general question.

The second question relates to PH.

Obviously, a super strong quarter on easy comps. Just curious whether any restocking effect in China? And maybe help us understand what was actually the contribution of China in this quarter, and that's it.

Roy Jakobs^ Thank you, Julien.

Let me take the first one and then maybe Charlotte can take the second.

So on the pricing, so as you have seen also from our bridge, kind of we are driving our margin expansion on the back of two key drivers that we see taking effect.

One is expansion of gross margin, and that actually is especially the new innovations, generating more traction in the total percentage of orders and then flowing through to sales.

And that's where we see actually the price increases to support our margin as well as the productivity and cost discipline actions that we're taking.

We expect in the coming period that there will be some pricing, given the inflationary environment that we're in. But we also know that kind of actually the inherent value increase of

our innovations and how we price them in combination with kind of productivity and cost will be the bigger driver of that.

So we see pricing opportunity but not to kind of a large extent that kind of we also would impede growth, because growth is still of critical importance, and we keep driving that whilst we expand the margin at the same time as you've seen.

Charlotte Hanneman^ Yes. And then thank you, Julien, your second question on Personal Health.

We are very pleased with our Personal Health sales in the quarter of 11%, indeed.

As I said also, just earlier, partially that was helped by a low comparable in China, but even excluding China, we saw broad-based growth across all businesses and geographies. So very pleasing.

And on your question on the restocking in China, we don't see any restocking.

In fact, as we said, we finalized inventory destocking at the end of Q2 and continue to be very, very cautious on making sure that those inventory levels are in line with our expectations.

So no restocking there.

Operator^ The next question comes from Ed Ridley-Day from Rothschild & Co Redburn.

Edward Ridley-Day^ Really strong improvement in productivity this year despite some of the challenges you faced. How should we think about maintaining that momentum into '26, and particularly on related to tariffs, and you've almost fully offset the tariff headwind this quarter.

Should we be perhaps assuming that you can fully offset the annualized tariff impact next year?

Charlotte Hanneman^ Thank you very much, Ed. Let me take that question.

So, first of all, we're very much focused on 2025 and delivering in line with our expectation, which is now at the higher end of the 11.3% to 11.8% range. And as you rightfully mentioned, we've been able to compensate a lot of the tariffs while we still have and net impact of EUR150 million to EUR200 million after substantial mitigation and that gives us a lot of confidence.

Now if I look ahead at 2026, of course, we have our Capital Markets Day on February 10 and we're looking forward to giving you a lot more details at that point in time.

What I would tell you in broad strokes is we are happy with the momentum that we've seen from an order intake perspective, from a sequential sales step-up perspective, from a margin perspective. So we are very focused on continuing improving on all fronts, but more to come in on February 10 from that perspective.

Operator^ The next question comes from Hugo Solvet from BNP Paribas Exane.

Hugo Solvet^ Congrats on the results.

I have two, please.

First, can you explain a bit on the order timing in D&T? And how would you expect Diagnostic Imaging sales to evolve going forward?

And second, Roy, happy to get your thoughts on Section 232?

Or do you think this could impact Imaging and Connected Care business?

And where do you stand exactly on reshoring of manufacturing in the U.S. in particular?

Roy Jakobs^ Thank you, Hugo.

So on the order timing, and I think it's good indeed to -- if you look at the order buildup of D&T, as said, we are happy with 6% year-to-date. You also say -- saw that it's not yet fully evenly balanced, right? Q2 was really the quarter of D&T. Q3 is the quarter of CC, right?

So we kind of, as we have built up our order momentum, we're also getting some of these large deals. And Q2 was really a very strong D&T quarter. Q3 is a very strong CC quarter. Actually, in Q4, we expect the D&T also to further step up also we see that in our funnel.

So actually, whilst there are certain lumpiness, the underlying improvement is visible and you also see that coming through. The same is for the realization of sales. We also have seen the step-up in sales. Although also there, of course, it goes with the order conversion.

And there, we see some timelines are longer. But also, we expect there an improvement in Q4, which also is coming through. On top, I think it's also to say that as you know from our strategy, we had in how we drive our businesses, two different parts.

One was, we have growth businesses at higher margins that we explicitly drive for growth, and we have margin expansion businesses. And those are exactly doing what they should be doing.

So we have been expanding DI margin. We have been expanding EI margin. We have been expanding SRC margin, also in the third quarter.

We have been really driving growth strongly across the other growth businesses.

Now, of course, we want to have both margin and growth expansion from all segments. But actually, we're also driving them within the strategy. So, in that sense, I think you've seen that we will kind of step up.

That's also what Charlotte mentioned in Q4. We also are launching, of course, new innovations like the radiation therapy suite that will support that as well.

Of course, we have the RSNA coming with some exciting news there as well.

So that's kind of how we look at to continue to D&T trajectory into Q4, but also, of course, in the period to come next year.

The 232, so we see that, and I think there, we look at this in conjunction with tariffs, there's a lot of fluctuation out there.

And we are focusing very strongly on the controllables to see how we can mitigate that.

And I think we are happy that, actually in Q3, we showed that we are able to offset in full the tariff impact. Now that's how it work because it's still substantial.

We also have the same plan for Q4, where we want to deliver a small margin quarter. That also helps us to kind of give the higher end of the range.

We are, of course, following the 232 and are engaged because we're engaged in Europe and U.S. and China, and advocating strongly that actually we can lower tariffs and actually for go further impact on patient care.

So in that sense, kind of, A, we are actively engaging in a dialogue; B, we are preparing ourselves to focus on control so that we can deal with any consequences.

On that last point, also, we have further strengthened our footprint in the U.S. So we invested 150 million in retail, expanding our Ultrasound but also wider facility there. We're also looking at our other facility to actually be even better prepared for the localization needs. And that's in line with the trajectory we have been having across our supply chain.

I mentioned that we really strengthened our supply chain delivery, and also the agility to kind of address challenges.

Whether the challenges with tariffs or Nexperia, we are better prepared and actually, we are upping our service levels and upping orders and sales.

So we make sure that we stay resilient while we deal with uncertainties around us.

Operator^ The next question comes from the line of Mr. Hassan Al-Wakeel from Barclays.

Hassan Al-Wakeel^ Couple of for me.

Firstly, follow-up on D&T, please. Last quarter, Roy, you talked about your win rate improving in China, particularly in CT on the back of spectral. How is that faring today?

And do you think your softer China order commentary is a function of market growth or share losses or both?

And then secondly, just if you can expand on the warning letter in Ultrasound and Informatics. And what gives you confidence that this will not result in regulatory action and you're more recent quality improvement measures are yielding company-wide change?

Roy Jakobs^ Yes. Thank you, Hassan.

So on D&T, we have seen, indeed, and that's also what was called out further traction on the 5300 and CT as well as MR. And actually, that is building in the funnel. And next to that, we saw Ultrasound really picking up.

And actually, that in part also address maybe some concern from the warning letter. Actually, Ultrasound, we have been dialing up order intake momentum and sales momentum, whilst we actually have been working in parallel the remediation since Q2 because it's not new, right?

For us, we got to 483 at the end of Q1. We started to remediate in Q3 -- in Q2 and in Q3 and you have seen no impact on results. That's also why we can be confident on that this will not have impact on results.

We are remediating the process part of it and we are in full kind of remediation and take it very seriously, of course. But we also know that this is no product issue, not a patient safety issue. This is process remediation. And we have been working that, whilst absorbing it and stepping up our products.

Then on China, I think China you see that it's a mixed picture. Overall, the market momentum, I would still call out for health systems as subdued, right?

We still don't see the market growth coming back as we all hope, and that's really a market phenomena.

That we see tenders increasing, but it's not turning to order growth because we see that they are not landing yet. Processing times are longer, they are being disputed -- and that's something that actually we are facing as industry.

On the other hand, we have seen that, for example, has been up in our mix and we saw IGT also picking up. We saw some slowness in DI, where actually last quarter was stronger.

So actually, we're working also to kind of see how we can strengthen it again in Q4.

So it's not that linear over the quarters. But in general, I think we are all waiting for further strengthening of China.

Now we do expect it to come, but it's just not clear when. So therefore, we remain cautious. And, of course, you know that the China part of D&T is just bigger and then also the CC part. So you see that weighs a bit stronger on the portfolio.

Maybe another data point what is important. If you look at DI in North America, we have been growing orders by 16% year-to-date. So whilst we are growing, of course, we're coming from a smaller base and that weighs upon us.

But it's not we don't have momentum there. But of course we are rebuilding from a smaller base.

So those are a few, I think data points on the D&T momentum.

So we keep building it. We also have strong engagement with customers. We have been receiving many of them actually here for co-creation sessions and have been virtually also part of that.

So I see it coming also towards the next year, but we are sequentially building it through the quarters.

Hassan Al-Wakeel^ Roy, if I could just quickly follow up.

In your prepared remarks, you talked about tougher competition on the ground in China, as well as some of the market issues that you just talked about. Where is that manifesting itself?

Roy Jakobs^ Yes. I think what I mean with the tough competition is that in, of course, the centralized procurement, you have a much more regulated process around competition.

And that makes that we see, and I think everybody is facing that, that you kind of much more guided in that process. There are more disputes coming out. So when you have one people are re-battling it.

So that's, I think, where you see on the ground that it's becoming tougher because it's not only clinical preference, there's also more process in the mix.

I think that is a fair, I think, depiction of the China situation, and that's something that we all are dealing with in all parties. You saw it also, I think in some commentary of others. I think we are working through that.

I think on the other side, on the positive side, we also mentioned that we are working to offset, and that's not only short term but also longer term, the strong momentum of double-digit orders in North America. Of course, it's also a big part of mitigation for that.

And there also we could still deliver 8% total order growth despite that China is not back where it is.

And of course, there, we are firing also on the strongholds that we have and CC was particularly strong this quarter, but also we continue to build on the rest.

So as we are shifting to get where the demand is coming, more contribution, that's North America, but also Europe. You also see that kind of we will be building that into our sales of the various underlying segments.

Operator^ We will now take the next question from Mr. David Adlington from JP Morgan.

David Adlington^ Firstly, maybe just give your thoughts on GE's decision.

Can you hear me?

Roy Jakobs^ Yes.

David Adlington^ Okay. Yes, just on -- yes.

So just on GE's decision to sell the Chinese business, just wondered if you thought there was potential to pick up share, but also just to get your thoughts in terms of why they might be looking to exit China.

And then secondly, just wondered if we could -- as the hedges rolled off on the foreign exchange, I just wondered what sort of headwind that will be to margin for next year?

Roy Jakobs^ Okay. So on GE, of course, I cannot speak on behalf of GE and what they're doing.

What I do see is actually that, indeed, on the ground, we are dialing up our competitive positioning around innovations that we've been launching. And, as I said, we see that, that also is resonating. And we saw the Ultrasound pickup. We see also that there is kind of more activity but kind of we need to materialize that.

And I think, overall, globally, you see that we have good order momentum and kind of that is because of the customer preference for our platforms.

I think the approach of innovation that we are taking, where we're really looking into the broader productivity and workflow support, supported with the combination of products and GenAI and informatics is something that is resonating. So I would say that's kind of our competitive differentiation and where we have three strong platforms that we're pulling from that customers can build upon, and they are interoperable and open so that kind of we can play with partnerships in the industry as well to strengthen the delivery towards customers.

I think that's on the first part and maybe you can take the second on FX, Charlotte.

Charlotte Hanneman^ Yes, absolutely. Thanks, David.

So your question on FX. And of course, we're very pleased with not seeing any impact from FX perspective in Q3.

Now if you go and also look at Q4, that's where we do expect some currency headwinds to come in, which also will impact our margin, and that's fully included in the guide of the higher end of 11.3% to 11.8%.

And where we will get that out in February will also take the currency impact into account in our guide there. But what I would tell you overall that we've been doing very well in terms of offsetting any currency impacts, as you have seen also in Q3.

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

Graham Doyle^ Just two for me.

Just firstly, on the tariff side of things. Just conceptually, we think of the order book growth you've had, which probably would support, say mid-single-digit growth next year, you think of the cost savings, the mitigation you've got in there. Just to be fair, is it reasonable to assume margins can expand next year with tariffs where they are at the moment, just to get some clarity on that. We're not asking for a level but just to assume that they can expand.

And then just on China, we're hearing quite a bit about VBP within the CT and Ultrasound segments. And I know a couple of your peers have seen it, but mainly because they play in the sort of lower-end of mid-level hospitals.

Is this something that's affecting your business? Or do you just not play in those categories?

Charlotte Hanneman^ Thank you, Graham. Let me take the first question on tariffs.

So, as you know, and so for this year, tariffs after substantial mitigation are impacting us to an extent of EUR150 million to EUR200 million. And despite that, we're expanding our margins, at this point in time, at the higher end of the 11.3% to 11.8% margin. So by 30 basis points.

You said it. Of course, the tariffs are annualizing next year. That will be a little bit of a bigger impact. But the way we are looking at it is we know every year, we need to improve including the new reality around us. And one of the big new realities around us is tariffs.

So without wanting to go into any specifics, at this point in time, because we'll do that on February 10, what I can tell you is that we're very much focused on improvement, improvement from a sales perspective, improvement from a margin perspective and also improvement from a cash flow perspective.

Roy Jakobs^ On the CT Ultrasound question VBP in China.

I think the procurement rollout is quite broad-based. So we're also affected by that. So we see that as well in part of kind of the portfolio where we play. So that's, I think a market phenomena.

That's also where it was earlier alluding to that actually is causing some of the slowness that we see because actually that really causes longer processing time as well as a more orchestrated approach towards buying and that has an impact -- continued impact on market growth in China. So therefore, we did see that as well for us.

I think on the positive side, as I already mentioned, we saw really an Ultrasound positive growth coming in because of also some of the new launches that we have.

Now we are also building the pipeline for the CT part. So we see that there is standard activity. But as I also mentioned, it's not yet kind of concluded, and therefore, kind of we remain a bit cautious on how this evolves because it's not very predictable yet when activity turns into orders and then turns into sales.

Operator^ The next question comes from the line of Veronika Dubajova from Citi.

Veronika Dubajova^ I am going to ask two, please, and a very quick third one, if you forgive me, just because that's one word, hopefully, one.

But I just want to circle back to the downgrade to the guidance to the sales guidance for D&T.

And obviously, where you've talked a lot about China, can you sort of confirm that the downgrade is entirely just China related? Or is there anything else that you're seeing in other regions that's worrying you there?

And I guess how you feel about that kind of D&T growth momentum exiting this year, underpinning this roughly 5% growth rate that consensus has for next year, if you can talk to that. That would be my first question.

My second question is the low single-digit growth rate in IGT, quite a deviation from the trend that we've seen through the last couple of years. So curious if you have some thoughts on that. And again, if you can elaborate on what's driving that?

And my third very, very quick yes or no question is, do you expect the warning letter to have any impact on your ability to return to the CPAP market through the next six to 12 months?

Roy Jakobs^ Okay. Let me start with the D&T.

So on the sales momentum, yes, there is some China impact in that. But [Europe] that we have seen is also some longer conversion cycles of orders, there's no particular kind of other reason that we see in other regions.

I said kind of, especially in DI side, of course, we have a different footprint in terms of more weighted towards Europe and China and a bit less in North America where we are building, but I also mentioned to you that we are actually building that with double-digit order growth.

So actually, we are stepping that up, and we expect that also to continue. So yes, whilst the overall mix is a bit changing in the year, we remain 1% to 3%.

I haven't heard too many people talking about CC. It was quite extraordinary this quarter how they deliver, in terms of the demand that there is as well as kind of support in hospital patient monitoring and in kind of EI.

So of course, we're tapping the opportunity and also growing and leveraging the strength of our portfolio in fullest.

And that also is true actually for IGT. So in IGT, the CSG has been high, especially if you look also then in terms of the compare from a two years comp to Q3, and that was also supply chain related, you see that kind of explains of the LSD. But actually, we keep very much leading in IGT. The new launches are contributing to that.

People are really excited about not only what we have been launching, but also the pipeline with Azurion and other innovations that we have. So actually, we remain very excited about the interventional opportunity that's out there and that we also keep pursuing.

Then on the warning letter, no, I don't expect any impact to the CD because these are two separate topics. The CD has its own kind of SRC-related demand. As I mentioned earlier, we're fully on track in kind of working through those. This is a separate one that we need to address, and we are in full remediation of it. And as I said earlier, we don't expect any commercial impact of it.

So in that sense, yes, it's a disappointment, and we are kind of actioning it with very strong disciplined follow-through, but we don't expect that to have any further operational impact.

Operator^ We will now take the next question from Mr. Richard Felton from Goldman Sachs.

Richard Felton^ Two for me, please, both on Connected Care.

So first of all, I suppose just a follow-up on the strong order performance in Connected Care.

Could you maybe add a bit more color on what was driving that and how much benefit was there from the longer-term partnerships that you signed in the quarter?

And then secondly, on Enterprise Informatics, specifically, I think it's roughly a year on since you extended your partnership with AWS to advance cloud services. How has that partnership impacted your Enterprise Informatics business from both a top and bottom line perspective?

Roy Jakobs^ Yes. Great questions, Richard.

So let me start with hospital patient monitoring and CC development there.

I think we have been seeing strong demand on the patient monitoring side. And in combination with, I would say really unique ecosystem that we have been building, we see us really winning.

And that's not only kind of building on the momentum in the market but also then kind of really taking positions also of competition. That is built also with partnerships.

Now we mentioned two in the quarter, but it's not only of that, it's quite broad-based, and also across regions. You know that we play mostly outside of China. So of course, you see it doesn't have the China impact, but it's really kind of driving a very strong North America contribution.

They're investing in patient monitoring and standardization, but also patient safety is important there over the patient as well as the cybersecurity part. And we have been really also driving the partnership approach, as you have been seeing.

So we kind of offer a full open modular approach, and that's really working for the market and for our customers. So I think a winning formula there and that we expect to continue to deliver results.

And that not only has been driving order sales, but you saw also strong margin contribution, because, as you know, patient monitoring business, also a strong margin business.

Then on EI, we also mentioned strong contribution from EI in the quarter. As that, we drive, of course, EI for margins. So we saw margin improvement. But we also were very pleased with the order improvement.

And that, indeed, is really also in combination with that offer that we have with AWS. The cloud migration is a big topic, not only the cloud migration, we do also AI and some language model collaboration with them. So we see that really kind of supporting the engine. They're also doing some marketing and sales efforts because they, in essence, co-sell our solutions as well as that we, of course support their cloud services when we go out to customers together. And that is a formula that also works within the market and with customers.

So we see that kind of strengthening our approach and that's, indeed, building the funnel and now also building a conversion since started that collaboration with AWS.

Operator^ We will now take the next question from the line of Wim Gille from ABN AMRO ODDO-BHF.

Wim Gille^ I have two questions actually.

First, you reported 8% order intake growth in Q3, predominantly driven by CC this quarter. You also gave some color during this earnings call on the funnel for Q4, but I missed that answer. So can you reiterate it? Basically giving a bit of granularity on how you see the sales funnel and the order intake developed into Q4 for both D&T as well as CC?

The second question is related to E&I, Enterprise Informatics.

As I understand it, order intake was pretty okay but sales has been flat also in Q3 and was also quite disappointing relatively low in the previous quarters, which reads a bit disappointing vis-a-vis market growth there.

So what has been holding you back in the last couple of quarters? And when would you expect the order intake in EI to come and convert into sales growth here?

Roy Jakobs^ Yes. Let me maybe take the first one in terms of the order momentum.

So we said kind of when we look through the year, that we expect a strong full year delivery of orders where we continue on the track that we have been building.

So a positive order intake also into Q4, probably a bit more evenly based with CC and D&T, as I've said, kind of has been a bit lumpy through the quarters.

But in Q4, we expect it to be more evenly based, then depending on kind of what big orders will fall, you will see kind of this will have potentially some impact in Q4 or we see it next year back, but a strong finish in orders. Then on sales, also there, kind of we have said before, we are stepping up and also we will step up in Q4.

And that will be across the different segments. So we will expect contribution from everybody in that step-up. So PH continues to be strong. We see CC continuing and also D&T stepping up.

So in that sense, I think we maintain the momentum as we also signaled, and that's built on the funnel, of course, still two months to go.

So working hard to kind of get it over the finish line with our teams, but all kind of geared towards dealing upon what we also have guided for. And I think that's, of course, a reiteration of what we have been planning for and saying all year long.

Charlotte Hanneman^ Then with your question on Enterprise Informatics, indeed, as you pointed out, our order intake has been very strong in Q3 for Enterprise Informatics, and we're very pleased with that. You probably also know that the order conversion cycle from order to sales in Enterprise Informatics is pretty long.

So it will take quite a while for order intake growth to convert into sales. And Roy just spoke about AWS and our AWS partnership as well, which will also help contribute as we move customers to the cloud will also help drive sales growth there over time.

Wim Gille^ And in that transition where you are moving your clients to -- from on-prem to cloud, have you any indication -- can you give any indication where you are in that process? Is it like quarter is done? Are you halfway there? Or are we now at the end of the conversion?

Charlotte Hanneman^ Yes. It's difficult to say and it also depends really customer by customer.

So we've done a number of successful conversions from on-prem to the cloud. But ultimately, the thing to keep in mind is that this will take time to fully execute on because it really touches also the hospitals and the hospital operations very, very deeply. So this will take time but we've done a few that have been very successful.

Operator^ (Operator Instructions)

We will now take the next question from Mr. Falko Friedrichs from Deutsche Bank.

Falko Friedrichs^ My first question is how did the Respironics business perform in Q3? And are you seeing the momentum build as you reenter European markets?

My second question is there has been a very large number of earnings adjustment again in the third quarter. Is that something you plan to significantly reduce going into 2026?

Roy Jakobs^ Yes. Let me take the first one, Falko. So on S&RC, I think two parts.

One, as I said before, of course, we have been driving very strong margin improvement. We have seen very strong margin realization in Q3 of SRC also that contributed to the strong CC margin step-up. So that part of the strategy is fully working.

Also we have seen really the OSA portfolio, so the sleep apnea portfolio stepping up.

So we see, actually, as we returning into the market, actually, that's something that is delivering growth to us. And where we see it being offset is with ventilation, there actually, we have been pruning portfolio and also been taken out. So that actually is going at the cost of the sleep momentum. So therefore, in the mix, you see that there is a slight pressure on the sales because of that ventilation we set.

But we are very encouraged and excited by the fact that in sleep, both on the devices, but also the masks, we see it stepping up. And that, of course, with the reentry that we have been doing across the various countries now in due course of this year.

Charlotte Hanneman^ Yes. And then, Falko, I'll take your second question on the adjusting items. And although adjusting items came in significantly lower than we had guided for, I absolutely acknowledge that they're still higher.

The moving pieces are, on the one hand, we continue to have costs related to the consent decree, Respironics consent decree that will reduce over time. The other element is that we continue to have restructuring costs as we're continuing to simplify our operating model and to simplify Philips as a company.

Now having said all of that, we are very much focused on, and it is a priority of mine to reduce adjusting items over time.

So that is what we're fully focused on. There's a lot on the table there. There's a lot of strengthening of processes that we're doing. So over time I could -- I see the reduction in adjusting items.

And what I would also tell you is that adjusting items have already come down versus 2024 and 2025. So this is a journey and a trajectory role.

Operator^ The last question comes from the line of Mr. Oliver Reinberg from Kepler Cheuvreux.

Oliver Reinberg^ Two questions also from my side.

Firstly, I just want to discuss the margin impact from innovation and SKU reduction.

I mean I guess this is kind of a continuous effort, but can you just give us any kind of flavor in which year do you expect this kind of measures to peak? And will this probably be next year as the kind of order backlog is being worked through? Or do we expect the kind of margin contribution to be similar compared to 2025?

And also, can you give us a flavor when you're pruning your kind of product portfolio, what was actually the headwind to compare with sales growth because my understanding is that you're not adjusting for that?

And then the second question, if I may. Just on Americas, I mean you talked about a different -- more uncertainty in some kind of regions. I was just wondering if this also relates to Americas, were we pointed to different dynamics by region.

So just trying to get a flavor how confident are you that this kind of growth in North America will continue into next year?

Charlotte Hanneman^ Yes. Thank you, Oliver.

Let me take the first question on the margin impact from the SKU reduction, which we internally call project Synchronize.

So what I would tell you, and if I take a step back on our margin improvement trajectory, we have consistently said that part of our margin improvement trajectory is related to gross margin improvement, and there are a couple of different things to that.

On the one hand, we see improvement from gross margin driven by innovations and our innovations driving higher margins. So there's an aspect there.

The other component, as you rightly call out, is the SKU reduction, where presence we have pruned the number of transducers and ultrasound significantly, which leads to lower R&D costs, lower quality costs and lower supply chain costs.

So all of that helps to drive improvement of margins, which is also, again, seen in Q3.

So for instance, I'll give you one other data point there. Our gross margin in Diagnostic Imaging, where we've done also a lot of product pruning SKU reductions has improved year-over-year despite the tariffs.

So that gives you a good sense of, on the one hand, we have the innovations like 5300, like MR BlueSeal driving gross margin expansion.

On the other hand, there's also the impact from Project Synchronize our SKU reduction.

Now if you then talk about how should we think about that year-over-year?

This is a journey. So we've seen some impact in 2025. We'll see some impact in 2026 and the years to come.

And then your last sub-question in your question was around the sales impact that we see from that. There's nothing really that I can call out and that stands out. There's not a major impact on CSG, as I would see it now. It's really to focus on the great innovations that we have and doubling down on selling those with.

So that's what we're focused on.

Your second question --

Roy Jakobs^ Yes, maybe conclude on North America.

So actually, indeed, we see kind of winners and losers in the U.S. So we see some smaller hospitals really being pressured. They're also more dependent on Medicare, Medicaid patients.

So some of those also in urban areas. So there, actually, we see there's a lot of pressure. We are working with them on productivity solutions more.

And then we see the ones that are strong, are expanding, and we're also very strongly winning with them.

So therefore, actually, we have seen sustained momentum in North America, also our double-digit order growth. We actually expect that to continue. We have no signs yet that kind of this market from the needs that we are serving is cooling down. And that's, I think, good news.

So we actually expect the continued strength in North America, is also why we have kept investing in winning in America with the further footprint, the specific customer relations and partnerships that we are concluding there, and we are excited about the opportunity there.

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

Roy Jakobs^ So thank you all for your questions.

I think concluding, we delivered on our promise in Q3. Strong order intake growth, 8%, we had a positive step-up in sales growth to 3% and a margin expansion despite tariffs.

Now we are fully focused on continuing to deliver in Q4, and therefore, concluding here with in the reiteration of the sales range of 1% to 3%. We said that we would do upper end of our margin and strong cash delivery.

And that will, hopefully, set us up for a good 2026. And we look forward to also kind of engage with you at the CMD.

So thank you so much for your attention and your questions. And have a great further day.

Operator^ This concludes the Royal Philips Third Quarter 2025 Results Conference Call on Tuesday November 4, 2025.

Thank you for participating. You may now disconnect.