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PHIA.AS - Q1 2017 Koninklijke Philips NV Earnings Call

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OVERVIEW:

Co. reported 1Q17 Group consolidated comparable sales growth of 2%.

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PRESENTATION

Operator

Welcome to the Royal Philips First Quarter 2017 Results Conference Call on Monday, the 24th of April 2017. During the introduction, hosted by Mr. Frans van Houten, CEO; and Mr. Abhijit Bhattacharya, CFO, (Operator Instructions). Please note that this call will be recorded and is available via webcast on the website of Royal Philips.

I will now hand the conference over to Mr. Pim Preesman, Head of Investor Relations. Please go ahead, sir.

Pim Preesman - *Koninklijke Philips N.V. - Head of IR*

Good morning, ladies and gentlemen. Welcome to Philips' First Quarter 2017 Results Conference Call. I'm here with our CEO, Frans van Houten; our CFO, Abhijit Bhattacharya. On today's call, Frans will take you through our strategic and financial highlights for the period. Abhijit will then provide more detail on financial performance and market dynamics. After that, we will take your questions.

Our press release and the related information slide deck were published at 7 a.m. this morning. Both documents are now available for download from our Investor Relations website. A full transcript of this conference call will be made available by tomorrow on our Investor Relations website.

Before I turn over the call, I would like to remind you of a few things. First, Philips retains a 55.18% stake in Philips Lighting and, therefore, continues to consolidate Philips Lighting's results. However, since Philips Lighting reported its Q1 2017 results on April 21, we will focus our commentary on today's call as much as possible on the performance of our HealthTech portfolio. We encourage you to review Philips Lighting's first quarter results materials, which are available on the Philips Lighting IR website.

Second, as a reminder, following the decision in 2014 to combine our Lumileds and Automotive Lighting businesses into a stand-alone company, the profit and loss of this combined business is reported in the discontinued operation; and the net assets for the business in the balance sheet, on the line assets held for sale. The cash flow of the combined Lumileds Automotive business is reported under cash flow from discontinued operations.

Finally, as mentioned in the press release, adjusted EBITA is defined as income from operation excluding amortization of acquired intangible assets, impairment of goodwill and other intangible assets, restructuring charges, acquisition-related costs and other significant items.

With that, I would like to hand over the floor to Frans.

Frans van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO and President*

Yes, thanks, Pim. Thank you all for joining us today. In 2016, we made significant steps in our transformation into an innovative health tech leader by focusing our portfolio along the health continuum.

After covering some of the key results in Q1, I will talk you through some recent highlights of our journey to leadership in the exciting health tech market and how we see the future. But let me first start with the first quarter results.

Our first quarter results demonstrate our progress in creating value, as the Philips Group consolidated comparable sales grew 2% with comparable sales growth of 3% in the HealthTech portfolio. This, despite continued volatility in some key markets. The Personal Health segment showed a solid 5% growth in the quarter, while Diagnosis & Treatment and Connected Care & Health Informatics grew by 2% and 1%, respectively. This was mainly a result of the more back-end loaded order book, as we indicated during our quarter 4 analyst call.

Comparable sales growth in mature geographies was driven by mid-single-digit growth in Western Europe and a small increase in North America. Growth geographies posted a high single-digit growth, while other mature geographies showed a low single-digit comparable sales decline. The increase in margins was driven by improvements in volume, procurement savings and overhead cost reductions contributing to an adjusted EBITA margin increase of 80 basis points in HealthTech from 6.6% of sales in quarter 1 2016 to 7.4% in quarter 1 2017.

Our Diagnosis & Treatment businesses and our Personal Health businesses delivered strong margin improvements, with adjusted EBITA improvement by 190 and 150 basis points, respectively, versus the first quarter of 2016.

The Connected Care & Health Informatics businesses had a slow start of the year with 30 basis points lower adjusted EBITA. However, we continue to expect to fully deliver on the planned improvements for the year.

Let me expand on our strategic journey to leadership in HealthTech. As outlined at last year's Capital Markets Day, our HealthTech value creation story is built on 3 key levers. Firstly, we create value by improving margins through better serving customers and raising operational productivity. Secondly, we create value in our core businesses by gaining market share through deeper, more comprehensive customer partnerships and by pursuing growth by increasing geographic coverage. Thirdly, we create value by expanding our innovative solutions along the health continuum through R&D investments, co-creation with customers and partners and selective M&A.

On the first level, our productivity programs all delivered ahead of plan in 2016. We will continue the self-help story journey during the coming years. In the first quarter, procurement savings amounted to EUR 41 million. The other productivity programs resulted in savings of EUR 54 million. To remind you, our plan is to achieve a cumulative total net savings amount of EUR 1.2 billion by 2019. These ongoing productivity savings are expected to be approximately EUR 400 million per annum.

I'm pleased with the continued strong cash flow generation resulting from tighter management of inventories and working capital as well as from improved earnings.

Moving to the second lever of creating value through deeper customer partnerships and increasing geographical spread. We saw good growth in Diagnostic Imaging, and we continue to recover terrain. We launched Access CT, a new system that allows healthcare organizations to enhance or establish CT imaging capabilities at accessible cost. It provides consistent image quality across diverse patient populations and wide range of exam types. This means that healthcare organizations can improve their capacity and capability to treat more patients at a relatively lower total cost of ownership.

In Personal Health, we aim to further expand our market penetration and convert consumers to electrical brushing. At the International Dental Show in Germany, the world's leading trade fair for the dental sector with more than 155,000 attendees, Philips revealed the Sonicare DiamondClean Smart toothbrush and Philips Sonicare Breath care system with breath analyzer, an all-in-one connected oral care platform. Philips also presented the results of a new clinical study demonstrating the effectiveness of Philips Sonicare power toothbrushes, including the Philips Sonicare DiamondClean Smart, which removes up to 10x more plaque than a manual toothbrush, with up to 100% better stain removal in just 3 days and up to 7x better gum health in just 2 weeks.

We also forged a partnership with Air Matters, an app that provides users with live data on air quality, allergy pollen and weather from across the world. This will augment the continuing strong growth of our Air Solutions business.

An example of increasing geographical spread in our Sleep & Respiratory Care business is the acquisition of a pioneer in pharmacy sleep testing. Australian Pharmacy Sleep Services will complement our Sleep & Respiratory Care portfolio and will help accelerate its home sleep testing offer through the pharmacy channel in Australia.

In Connected Care & Health Informatics, we are pleased with the continued share gains in patient monitoring. This is further underpinned by the FDA clearance to market our IntelliVue Guardian solution in the United States. This solution to monitor patients in hospitals' general wards was already introduced in Europe and comprises smart devices, including wearable biosensors, clinical decision support software and services. It's designed to aid clinicians in the early recognition of patient deterioration, allowing timely intervention and avoiding adverse events, unplanned transfers back to the ICU and longer lengths of hospitalization.

We worked closely with one of France leading university hospitals in Poitiers to equip its new regional cardiovascular center. We provided advanced technologies and clinical IT solutions for diagnosis and image-guided, minimally invasive treatments in critical care.

Thanks to deeper customer relationships, we saw order intake for services grow by 4% in the first quarter. Overall, our large-scale customer projects funnel and strong traction with solutions continues to expand.

Finally, a few examples of how we are creating value by building new innovative solutions. Our innovative solutions and partnerships are focused on the health continuum with an integrated approach from healthy living and prevention to diagnosis, treatment and home care. Among others, we have compelling solutions for cardiovascular, cancer, respiratory, connected patient care and health informatics. Our solutions enable healthcare organizations to lower their total cost of ownership by making healthcare systems more efficient and thereby making care more accessible and affordable.

We teamed up with LabPON in the Netherlands to create the world's largest digital pathology database. This will allow pathologists to develop image analytics algorithms for computational pathology and pathology education. Another pathology partnership was with PathAI, a start-up company that develops artificial intelligence technology for pathology. They focus on building algorithms to automatically detect and diagnose medical conditions, with the goal of helping hundreds of millions of people receive fast, accurate diagnosis.

In a major breakthrough in image-guided therapy solutions, we launched the Philips Azurion. This is our next-generation image-guided therapy platform. Over the last few years, we have learned from the clinical experts that there is a pressing need for a new platform that enables clinicians to perform a wide range of high-volume routine procedures as well as complex procedures, helping to optimize interventional lab performance and provide superior care, the result of a multi-year development program conducted in close collaboration with leading hospitals. Azurion has regulatory clearance to be commercialized in Europe, Japan and the United States, and we've already shipped and installed an initial series of more than 20 systems across the world. The feedback from these customers has been extremely positive and see this as the operating room of the future. Azurion will strengthen our leadership position in the image-guided therapy market.

Within image-guided therapy devices, 2 large clinical trials demonstrated the benefits of our innovative and proprietary Instant Wave-Free Ratio, or iFR technology, compared to the conventional Fractional Flow Reserve, or FFR standard. The FFR standard is used alongside real-time interventional x-ray images to assess suspected blockages in coronary arteries. The trial results have removed the critical barrier to the adoption of our iFR technology to decide, guide and confirm appropriate therapies, demonstrating our commitment to evidence-based healthcare interventions and systems.

Our partnership with B. Braun combines our expertise in ultrasound and image-guided therapy solutions and B. Braun's expertise in regional anesthesia, and as a result has been the launch of Xperius, a new mobile ultrasound system that will provide a platform for integrated solutions in regional anesthesia and vascular access. We will also work with B. Braun to offer education, training services and support that will enable anesthesiologists and healthcare providers to extract maximum benefit from our joint offering.

Furthermore, we launched IntelliSpace Enterprise Edition, a managed service solution for hospital-wide clinical informatics and data management. This industry-first, high-performance informatics platform is secure, scalable and enables health systems to manage the growth and cost of their clinical enterprise with a manageable upfront cost base of pay-per-use. This model, with a fixed total cost of ownership, reduces the financial risk for healthcare enterprises as they invest in their IT infrastructure.

During the very active first quarter, we continued to strengthen our position as the focused leader in health technology as we launched several breakthrough innovations, forged strategic partnerships and won various integrated solution deals. And we also decreased our shareholding in Philips Lighting to 55%.

Following the reclassification by the FTSE Group's ICB of Philips shares to healthcare in 2016, we are pleased to see that on March 20, the STOXX Europe 600 Index reclassified Philip shares from industrial goods and services to healthcare.

And with that, I will turn the call to Abhijit, who will provide more details on financial performance and market dynamics.

Abhijit Bhattacharya - *Koninklijke Philips N.V. - CFO, EVP and Member of the Board of Management*

Thanks, Frans, and good morning to all of you on the call. Let me start by providing some color on the first quarter growth of 3% for the HealthTech portfolio. On a geographic basis, mature geographies delivered low single-digit comparable sales growth. Western Europe showed mid-single-digit growth. North America was in line with the same quarter last year, while other mature markets posted a low single-digit decline. All 3 segments delivered low single-digit comparable sales growth in mature geographies.

In the growth geographies, high single-digit comparable sales growth was largely driven by double-digit growth in countries like Argentina, Turkey, Indonesia, Malaysia and Saudi Arabia. We are pleased with the high single-digit growth in China for the quarter. In the growth geographies, Personal Health recorded high single-digit growth. Diagnosis & Treatment recorded mid-single-digit growth. And Connected Care & Health Informatics sales were in line with Q1 2016. Growth of 5% in Health -- in Personal Health was driven by high single-digit growth in Health & Wellness and Sleep & Respiratory Care, where we saw another quarter of strong double-digit growth in the patient interface business with continued market share gains.

As Frans mentioned, in Health & Wellness, we have a solid pipeline of new product introductions as well as the launch of our very successful OneBlade shaving system into newer markets. We will also launch the Philips DreamStation Go portable CPAP solutions. We will back these launches with the requisite support in advertising and promotion, which will have a dampening effect on the results of Personal Health in the second quarter. However, I hasten to add that we do expect to have continued improvements in operating results for Personal Health.

In HealthTech Other, net sales decreased by EUR 11 million as royalty income decreased by EUR 14 million due to the foreseen expiry of licenses.

Turning to order intake. Currency-comparable order intake grew by 2%, driven by mid-single-digit growth in the Diagnosis & Treatment businesses and partly offset by low single-digit decline in Connected Care & Health Informatics businesses. In the growth geographies, order intake on a currency-comparable basis was in line with Q1 of 2016 as double-digit growth in India and China was compensated by declines in Latin America and Africa. North America and other mature geographies posted a 1% growth, with an encouraging 5% growth in Diagnosis & Treatment for North America, while Western Europe posted a strong 10% growth, rebounding from the weaker Q1 in 2016.

Let me now turn to the EBITA development for the group in the first quarter. The HealthTech adjusted EBITA margin of 7.4% in the quarter was 80 basis points higher than the year before. This margin increase was driven by an improvement of 150 basis points in Personal Health, attributable to operational leverage from growth. In Diagnosis & Treatment, the margin increased by 190 basis points, mainly due to operational improvements and some currency impact. The decrease of 30 basis points in Connected Care & Health Informatics was mainly due to unevenness of sales from large hospital informatics deal and higher channel investments.

Our performance improvement in the first quarter was mainly driven by better operational performance and our productivity program. More specifically, the net overhead cost reduction programs amounted to EUR 18 million. The productivity program contributed EUR 36 million to the gross margin. And procurement savings, driven by our Design for Excellence approach, delivered EUR 41 million of bill of materials savings year-on-year.

In HealthTech Other, the adjusted EBITA of minus EUR 38 million was in line with our guidance from earlier in the year. The decline of EUR 29 million compared to 2016 Q1 was driven by lower royalty income, phasing of costs in innovation and central costs as well as investments in the rationalization of the IT landscape. In the first quarter, income tax expenses was EUR 91 million higher -- was EUR 91 million, which was an increase of EUR 16 million compared to the first quarter of 2016. This increase was mainly due to higher income.

In Q1 2016, we had some specific tax charges resulting from activities related to the separation of the lighting business. On January 20, 2017, Philips completed the redemption of the outstanding 5.75% notes due in 2018 with an aggregate principal amount of $1.25 billion. The transaction resulted in a cash outflow in the first quarter of EUR 1.2 billion, excluding accrued interest. This transaction contributed significantly to our plan to reduce annual interest expenses by approximately EUR 100 million in 2017.

Overall, net financial expenses decreased by EUR 53 million year-on-year, mainly due to lower net interest expenses as we redeemed bonds of $1.5 billion during the last quarter and, additionally, by a fair market value adjustment in quarter 1 of 2016.

Net income from discontinued operations increased by EUR 40 million year-on-year as the actions to improve results in the combined Lumileds and Automotive business continued to deliver as planned. The HealthTech return on invested capital, which is calculated on a 5-quarter moving annual turnover basis, was 15.9%, which is 7.5 percentage points above our WACC. Our drive to increase working capital efficiency in our HealthTech portfolio continued to yield results as inventories as a percentage of sales decreased to 15%, an improvement of 30 basis points year-on-year. On a currency-comparable basis, the improvement was 90 basis points. Overall, working capital improved by 100 basis points to 9% of sales.

Net cash flows from operating activities increased by EUR 333 million, mainly due to improvements in income from operations and income -- and improved working capital management, partly offset by a EUR 64 million payment related to the January 2017 bond redemption. Q1 of 2016 had an outflow of EUR 172 million related to the pension liability de-risking scheme.

Let me now provide you with an update on the U.S. market and our outlook for the Western European and Chinese markets. Healthcare in the U.S. is undergoing fundamental change. With our scope and scale in the U.S., we are well positioned to support public and private healthcare organizations to reduce healthcare cost, improve the quality of care and move from a volume-based to a value-based system of reimbursement and service delivery. The events surrounding the ACA legislation created market uncertainty in the first quarter. We continue to monitor events closely and still focus on the needs of our customers. We also saw a slowdown in government spending. Given these uncertainties, we continue to expect the U.S. market growth to be in the low single digits, while we closely monitor further developments.

In Western Europe, we expect modest growth, low single-digit market growth. And in China, we continue to expect mid-single-digit market growth for 2017. Overall, we estimate the global healthcare market growth to be in the low single-digit range for 2017.

Let me now turn to our guidance for the HealthTech portfolio of businesses. In the HealthTech Other segment, we expect a net cost of approximately EUR 45 million in the second quarter, including approximately EUR 5 million of restructuring and other incidental items. We originally guided EUR 100 million net cost at EBITA level. However, as a result of the EUR 59 million gain on the sale of real estate assets, we now expect approximately EUR 40 million of net cost at EBITA level for the year. Excluding restructuring costs and other incidental items of approximately EUR 20 million, we continue to expect approximately EUR 60 million net cost at adjusted EBITA level for the full year.

In Legacy Items, we expect remaining lighting separation costs for the second quarter to be EUR 15 million and remain with our guidance of approximately EUR 30 million for the full year. Other legacy items are expected to be EUR 10 million for the second quarter, and we continue to expect approximately EUR 35 million of costs for the full year of 2017.

In summary, we are pleased with the solid start to the performance -- to the operating performance for the year in terms of earnings improvement, working capital management and our cash flow performance. With the scheduled product launches and the development in our order book, we continue to expect further improvements in our operating margins for 2017 to be at the back end of the year. We continue to target a performance trajectory to deliver 4% to 6% comparable sales growth and around 100 basis points margin improvement in adjusted EBITA every year.

With that, we'll now open the line for your questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will now take our first question from Patrick Wood from Citi.

Patrick Andrew Robert Wood - *Citigroup Inc, Research Division - Head of EMEA Medical Technology and VP*

Maybe it's difficult for you guys to comment, but maybe on the defibrillator business from the DOJ, and I appreciate we've been on this topic (inaudible). But do you have a better sense for how likely this is to be confined to that area of the business or whether there's any risk that it could be part of a larger patient care and monitoring business? And when do you think we might find out a little bit more news flow on this topic? And I guess my second question would be, if I can, on the Hospital Informatics business, you guys mentioned a bit of lumpiness there. Is that something we should expect to come back in the subsequent quarters?

Frans van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO and President*

This is Frans. Thanks for your question. We continue to believe that the scope of the DOJ is primarily limited to the defibrillators. Since the update that we gave in January of this year, not much progress and new updates can be given. We continue to be in dialogue, and I think it just needs some time before this will come to a closing. On the health informatics, we see that order sizes have become larger, and as a consequence, also lumpier. We are optimistic about our funnel and ability to generate customer interest. The launch of the IntelliSpace Enterprise solution is also well received. We had a great presence at HIMSS this year, the Healthcare Informatics Show in North America, where our informatics solutions for both diagnostics and for patient care were very, very well received. And I have no hesitation to believe that the guidance in revenue growth does not only apply to Philips but also to, let's say, this division as well.

Operator

We will now take our next question from Andreas Willi from JPMorgan.

Andreas P. Willi - *JP Morgan Chase & Co, Research Division - Head of the European Capital Goods*

My first question is on the cash flow where you haven't provided the usual bit kind of detail on the cash flow statement. You gave some helpful comments on working capital. Is the real estate gain included in what we call the operational cash flow that you showed that was very strong for Q1? And do you think you can maintain that very strong working capital performance as the year progresses and maybe the organic sales growth picks up? So basically, I refer to the potential as a percent of sales to reduce working capital as we go forward.

Abhijit Bhattacharya - *Koninklijke Philips N.V. - CFO, EVP and Member of the Board of Management*

This is Abhijit. On your question on the real estate gain, that's not part of the operational cash flow. That's part of the free cash flow. So we have actually had a good year-on-year improvement, I think close to EUR 333 million last year. We had -- we mentioned derisking of EUR 170-odd million. This year, we had the bond repayment of EUR 64 million odd. So if you take that as, let's say, net negative of EUR 110 million, it's still about EUR 220 million or so positive. So I think we've done well on that. And regarding your question on working capital improvements, yes, we will keep trying to work that through the year. We have now done it for close to 2 years and been able to shave off good amounts of inventory, et cetera. Could be a bit lumpy through the year because we will also be rolling out our new ERP systems in some markets. So in some quarters, we may actually build some inventory. But overall for the year, we should be well positioned to hit our targets of between EUR 1 billion and EUR 1.5 billion for the year.

Andreas P. Willi - *JP Morgan Chase & Co, Research Division - Head of the European Capital Goods*

And my follow-up question, on the earnings bridge, inflation is relatively high. Is that all just wage inflation or you also see some raw material pressure? And what can you do on price to maybe counteract in a more inflationary environment? Do you get some price contraction in some of your businesses?

Abhijit Bhattacharya - *Koninklijke Philips N.V. - CFO, EVP and Member of the Board of Management*

Yes, you're right, but if you look at the original, let's say, bridge that we have provided in the Capital Markets Day, we have estimated over a 3-year period for inflation to be around at 1.1%. We are at 1.3%. So it's largely wage inflation, but we have countered that with the lower price erosion. So we had also factored in around a 1.3% price erosion, and we have ended up at 0.9%. So let's say the net of those 2, we have managed well. And therefore, with the volume increases and the gross margin and productivity improvements that we have made, we were able to get the 80 basis points improvement.

Operator

We'll now take our next question from Veronika Dubajova from Goldman Sachs.

Veronika Dubajova - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

I have 2, please. The first one is on Personal Health and the strength of the margin in the first quarter. Abhijit, can you help us understand to what extent that was driven by the business mix in the quarter versus just an underinvestment into selling and marketing? And I guess, how we should be thinking about personal health margins for the full year. And then my second question is a follow-up to Patrick's question on the defibrillators. I noticed that there was a EUR 17 million charge for quality and regulatory in the quarter in CC&HI. Can you help us understand what this was for and what kind of works or progress you've made on actually addressing what the FDA has brought to your attention?

Frans van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO and President*

Yes, let me start. The PH margin is very much driven by strong innovations. Now in the quarter, we saw high single-digit growth in Health & Wellness, high single-digit growth in Sleep & Respiratory Care. Both categories are above average in profitability for Personal Health. And therefore, overall, with that growth rate, we also saw a further mix improvement. And that then drove a nice profit expansion that can change a little bit if the mix changes through the year, right? So I'd say from a seasonality point of view, the mix is not equal in every quarter, right, that you need to take into account. But otherwise, we are very confident that Personal Health is on a good path and that we continue the improvement. Maybe also nice to call out is an improvement in Domestic Appliances and coffee where we saw a healthy improvement in the quarter. If I then may expand on the defibrillators, so apart from the discussion with the DOJ, we also saw in the first quarter a charge for a field issue. We have 95,000 MRx defibrillators in the field. And our quality management system is now, let's say, so good and granular that we detected that 2 units could potentially have an issue. And on the basis of that, we took proactive and voluntary action to issue a notice, which the FDA then calls a recall, to clarify the instructions for use and to offer a software upgrade, which can be done in the field and does not require a physical, let's say, recall of the product. And the exceptional charge was related to rolling out that upgrade.

Veronika Dubajova - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Okay. Understood. That's very clear. And can I just quickly follow up? Any changes to your thoughts on capital allocation? We're seeing sort of continued M&A activity in healthcare, including in med tech. Have your thoughts at all changed in terms of priority, size or kind of where current valuations stand? And I'll leave it at that.

Frans van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO and President*

Yes, we were, yes. I guess everybody was reading this morning, apart from the Philips press release, what happened to [Bart]. Let's say -- let me, first of all, underline that the Philips story is foremost an organic growth and improvement story, right? We continue to have a lot of opportunity to drive organic growth and profit improvement, and we remain focused on the self-help, all right? That drives the 4% to 6% growth and the 100 bps per year average improvement. And Abhijit already underlined what benefits we are also doing to working capital and cash. So the management, we will remain very focused on that. Nevertheless, I have said last year at the Capital Markets Day that we will have an open eye for acquisitions. And I've said that, let's say, Volcano, has been such a success both with sales synergies and cost synergies, will be a nice proxy in terms of size and characteristics. In the meantime, we have not done a lot. It all needs to work out in terms of returns and portfolio fit, and we will certainly not rush into any deals. We continue to look at the market. But if it doesn't happen, that's okay too because after all, as I said, it's primarily an organic growth and improvement story. So we don't have any heightened anxiety if we cannot do a deal. So in other words, all right, so we'll just take it as it comes. So for now, the capital allocation strategy remains exactly as it was as announced in last Capital Markets Day. Obviously, best generative as we now are at having less incidentals, the balance sheet becomes richer. I think for now, that's perfectly fine. We have used the cash in the first quarter to retire expensive debt. As we flagged last year, there may still be a small portion of pension risk that we want to deal with, and other than that, it's okay if it looks a bit conservative for now. I hope that answers your question, Veronika.

Operator

We will now take our next question from Ian Douglas-Pennant from UBS.

Ian Douglas-Pennant - *UBS Investment Bank, Research Division - Director and Analyst*

So just on CC&HI, so you called out some volatility in the HI business, which is fine, but we were also seeing a slowdown in patient care and monitoring business from that little disclosure that you've given us on that business. Is there a trend underlying here that we should be aware of that means you had strong growth from H1 last year and before and weaker in H2 and into Q1? It's getting harder to pass this off as volatility and to convince ourselves that 4% to 6% growth for this business is realistic. And just the flip side to that question on Personal Health, there's a decent chance that you will be able to hit the target that you gave us at the Capital Markets Day in terms of margins for this division even this year. That's the high-teens margin, given the current rate of progress. And I understand it's fairly (inaudible) from Q1. But why is it not 20% margins for that division realistic on a 3- to 5-year view?

Frans van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO and President*

All right. Let's first talk about CCHI and patient monitoring. A couple of things. That segment grew 5% last year, very solid. Q1 had a very difficult compare, where PCMS still grew with 3%. But let's say, last year, I think in the first quarter, we had a 9% increase, which makes the comparison pretty tough. That, coupled with the more lumpiness of orders, which, by the way, also applied to patient monitoring because we see more and more enterprise-wide deals coming also for patient monitoring, that is the explanation. We've also looked at market shares, and it is our firm belief that in market shares, in the patient monitoring we are gaining over our competitors. So absolutely nothing to worry about. We believe that CCHI has good momentum. So let's not get off on the wrong foot with the first quarter. Then your confidence in our ability to further improve Personal Health, thank you for that. We've always said that this is a business with a lot of potential. Now if you recall Capital Markets Day, where we said mid- to high-teens profitability is entirely feasible, I believe I recall we have also talked about the fact that there are categories in Personal Health that are high teens already, and then basically, the Domestic Appliances business, where last year we were in high single-digit, where we want to actually get to low teens, and that's probably what the industry will support, right? So it will always be a blend between, let's say, potentially high-teens businesses and the Domestic Appliances business, which we believe will do very well if it gets too lumpy. And other than that, let's first reach our targets before we give an update or a restate of those targets, right? We are committed to those targets as they are.

Ian Douglas-Pennant - *UBS Investment Bank, Research Division - Director and Analyst*

So I think conservative targets are no bad thing. Just one follow-up on the defib thing, which I think should be a yes or no answer. The upgrade that you put out, was that related to the DOJ investigation in any way? Was it an outcome of the conversations that you're having there? And can I just confirm that it had no impact on revenues whatsoever?

Frans van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO and President*

So it was unrelated, the defib, let's say, field action was something we detected ourselves. It's just our quality management system at work. The -- whereas the DOJ case relates back to 2015 and before and the findings at that time. In the meantime, we have improved quality across the board a lot. We feel quite confident about where we are with quality right now.

Ian Douglas-Pennant - *UBS Investment Bank, Research Division - Director and Analyst*

And on revenues, just to confirm that?

Frans van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO and President*

No, the -- as it's to say, instructions for use update and software upgrade, it's unrelated to revenues (inaudible).

Operator

We will now take our next question from Max Yates from Credit Suisse.

Max Yates - *Credit Suisse AG, Research Division - Research Analyst*

Just my first question was on the Diagnosis & Treatment margin. Obviously, you're not reporting the benefit from Cleveland anymore, and you also mentioned there was a little bit of support from FX in the margin. So could you maybe help us sort of break out the impact of both of those on the Diagnosis & Treatment margin for Q1?

Abhijit Bhattacharya - *Koninklijke Philips N.V. - CFO, EVP and Member of the Board of Management*

Yes. We said last year, Cleveland was now -- as far as we are concerned, up and running now for more than a year. We are manufacturing to the full demand that we have. The cycle times are what they are. So we have actually stopped calling out specifically a Cleveland impact because now, whatever we do is just operationally improving the business across the board. I think most of the improvements have come from operational improvements. You've seen that also at the group level, which we have announced in terms of cost savings, procurement savings and, let's say, lower price erosion than planned. And then we have had a small part of that also from currency. Although, overall, currency was not material for the group, but we had a little more in Diagnosis & Treatment with minuses on the other businesses. So we called that out just -- so that it's clear that not all of the 190 bps came out of operational improvements.

Max Yates - *Credit Suisse AG, Research Division - Research Analyst*

Okay. And just a follow-up is on Connected Care, and I just wanted to understand a bit more about the sort of lumpiness comments. So when you talk about sort of the back-end loaded year, are you talking primarily about the revenue -- sorry, the order book to revenue flow-through? Because if I look at Connected Care orders in the second half, last year, they were very strong. So when you talk about the improvements in the second half, is it these orders flowing through to revenues? Or when you talk about the improvement in the second half, are we talking about new orders that need to be won in order for those revenues to pick up in the second half? I'm just trying to understand. Is this something you have in the backlog? Or is this something you need to win in the market?

Frans van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO and President*

Yes. We have much of it in the backlog. And what we saw also at the back end of the quarter is some installation work that was close to being finished, some customers pushing it out into the next quarter in terms of acceptance. And therefore, the order book will, let's say, turn into revenue later this year. So does that answer your question?

Max Yates - *Credit Suisse AG, Research Division - Research Analyst*

Yes. So essentially, this is something you have very good visibility on.

Frans van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO and President*

Yes, largely, yes.

Operator

We will now take our next question from Scott Bardo from Berenberg.

Scott Bardo - *Berenberg, Research Division - Analyst*

So the first question, please, just as a point of clarification on the ongoing regulatory discussions with the DOJ. I think you said also on this call that the discussions are primarily centered on the defibrillator plant. Can you please be even clearer actually as to does this discussion involve at all or implicate any other manufacturing facility from product areas or administrative centers within the organization? Or is it, in your mind, completely isolated to this small business that you quantified at the last quarterly update? So if you could talk to that, please, that will be helpful.

Frans van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO and President*

Sure. We chose our words carefully in January, and we said it primarily affects the defibs because that is where the focus of the dialogue with the DOJ is. As long as that dialogue is not finished, it would be foolish to kind of be definitive about it, right? That would we taking an advance on the outcome of the discussions. We have basically given as fair a representation of the situation as we believe it is, which is around the defibs. Now there are 2 factory locations doing defibs, not 1, just be transparent there as well. It affects both the Bothell and the Andover factory for defibs.

Scott Bardo - *Berenberg, Research Division - Analyst*

But the discussion about having changed your view, if you like, there could be other centers in the organization that are encapsulated within this discussion. It hasn't changed since the last...

Frans van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO and President*

No, it hasn't changed since the last discussion. But while we're on the topic of the wider regulatory situation, I'd like to underline that we get audits and inspections all the time in many locations in the world. And on that basis, I feel quite confident that our quality system has improved a lot over the last 3 years with no new warning letters emerging in the recent times, all right? So we will continue to strengthen our setup, let's say, but the DOJ discussion, again, reflects the history of the defib business of 2015 and before.

Scott Bardo - *Berenberg, Research Division - Analyst*

Understood. And just a quick follow-up on the Diagnosis & Treatment business. I've seen here that Ultrasound has been putting in some relatively sluggish growth over the last few quarters, which is perhaps a bit of a surprise given that you've called it out as being a growth driver and you had the Lumify launch. So is there anything particular there which is weighing on growth for that driver of that particular division at the moment?

Frans van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO and President*

Yes, the Ultrasound business had a low single-digit growth in the quarter. And that -- we are the market leader in high-end cardiovascular ultrasound. That happens to be a segment that is seeing slow growth. And the market in Ultrasound that is showing higher growth are the OB/GYN and General Imaging segments. At the Capital Markets Day, I think we explained that we are starting to branch out in those adjacencies, and we have developed products for those segments. That should result into sales growth in the coming quarters. And I already have a first proof point for that because the order intake for Ultrasound in Q1 was actually 6%, all right, so kind of early indication that our strategy to go into the adjacency of OB/GYN and GI is starting to work. It has taken some time. We also had to step up investments in the channel, but I have high confidence in this strategy, and that also will result then in higher growth in the second half of the year.

Operator

We will now take our next question from Alok Katre from Societe Generale.

Alok Katre - *Societe Generale Cross Asset Research - Equity Analyst*

One follow-up just in terms of the Ultrasound question as well. If you look at the overall sort of imaging orders on a trailing 12-month basis, it seems there's a bit of sluggishness at Philips versus some of the peers. Is it just the mix of geographies or products? Or is there a bit something more that's going on? So just want to get a little bit under the hood in that sense. And then just the second question is thinking about the capital allocation and stepping back and looking at your longer-term strategy and the HealthTech sort of vision, just wanted to get a sense of how you're thinking about Personal Health, sizable portions of that division, particularly. I mean, is it a good-to-have or is it a must-have, either in parts or fully. Any comments there would be helpful.

Frans van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO and President*

First, your general impression on imaging, I would not agree with that. We saw in imaging a 5% order intake growth in the first quarter underlining the strength of that portfolio. I think we will see a stronger second half of the year in terms of sales growth. Then your second question on Personal Health. Quite happy with that portfolio. I bring to recollection our insight on the health continuum. And let's say, with digitization of healthcare, more and more chronic disease management will be done at home. Philips has an excellent position, both in the channel as well as in the consumer's home. And it's very important that we maintain that strength. And we see gradually an expansion of the more healthcare-related product sets that we have to offer there. If I take to you the example of oral hygiene and oral care at the latest dental show that we talked about, we introduced a breath analyzer. Now you may say, what's the relevance of that? Well, first of all, it's great for people that are worried about their breath, but more importantly, we foresee the introduction of more and more sensor technologies in consumers' homes also for chronic disease management. And Philips is the company that has all the entitlements in the world to actually be the leader of that. We have been talking about Banner Health and the strength of our ambulatory care programs that will reduce -- that have reduced in the Banner study a 50% reduction of hospitalizations. First of all, that's fantastic news for consumers, but it's also fantastic news for the healthcare system, right? And it is because we understand consumers, right? It's combination of technology and behavioral science. And Personal Health gives us that basis of strength to actually deal with consumers and consumer behavior. So I would like to ask you to, let's say, have an open mind when it comes to, let's say, these synergies between healthcare at home and healthcare in the hospital. In fact, another data point is that if you look at the U.S. healthcare spend, the traditional portion of in-hospital spend versus out-of-hospital spend used to be 40/60, and it has now shifted to 30/70, just underlying the trend towards more ambulatory care and home care. So long answer to say that I'm happy with the portfolio.

Alok Katre - *Societe Generale Cross Asset Research - Equity Analyst*

Sure. Just a quick follow-up, if I may, on the healthcare. So you would say that this is just literally a bit of a phasing issue for yourself in 2017 on the order side, plus (inaudible) I think on the imaging seems okay. But I just wondered, when you say underlying, you sort of still expect stronger -- with '17 in terms of orders than -- should we just think it's a phasing issue? Is it new...

Frans van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO and President*

Yes, yes, yes. It's a phasing issue, and we retain our sales growth guidance. And it also, obviously, means that we need to get orders in the same order of magnitude; otherwise, we would eat into our order book, and we have no intention to do so.

Operator

We will now take our next question from David Vos from Barclays.

David Anton Vos - *Barclays PLC, Research Division - Analyst*

One question on China, please, if I can. Clearly, last year was pretty good there. Your large U.S. competitor posted a pretty good Q1. You did something in the region of double-digit growth there, if I'm correct. My question is more around the tiering of the markets and how you see the future developing there. The reason for that is that we recently had the chance to catch up with somebody in the market there who told us that all the Western manufacturers had actually been excluded out of a kind of a catalog for county-level hospitals, in which these hospitals are allowed to buy only domestically produced medical devices. And I just wondered, therefore, what your take on that is and if you could remind us what the split for Philips is between those county-level hospitals and perhaps the more Western-inclined university hospitals and Tier 1 city hospitals, that would be great.

Frans van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO and President*

Okay. Yes, good double-digit growth in China for us. I continue to have good confidence in the market, but let's face it, there is not enough capacity in China for healthcare. So also, from a macro point of view, it's very logical that, that market is buoyant. Now your question around the procurement of hospitals in China, actually, there's -- that's not new. That has been in place since 2015, where there were instruction letters floating around at various hospitals suggesting that local manufacturers should get preference over Western manufacturers. That is a situation that we are navigating. The fact that is the policy in those local hospitals doesn't mean that it is also happening. So in the end, decision-making is still allowing deviations from that direction. So I would say -- I don't know whether what you picked up was very recent, but in my book, this is something we live with already for a while; nevertheless, we are able to grow. We are not splitting out growth by hospital segment. It is fair to say that private hospitals are growing rapidly. That's also a government policy. The share of private hospitals, off the top of my head, was close to 10% and is slated to rise well into the 20s. So it's logical then that we see more growth in that segment. And for the same -- I said same government policy tries to curtail the growth of large Tier 1 city hospitals. Those basically governments want to avoid, but all the healthcare traffic goes there. Maybe a third comment that I'd like to make is that the solution strategy that we have pioneered in the Western world also starts to get traction in China. For a very long time, the China market was very transactional, very tender-driven, buying equipment piece by piece. That is not necessarily advantageous to us because then it becomes a price game or it is a price game in that context. And we are pushing very hard the clinical informatics as a, let's say, value add around equipment so that we can differentiate from the competition. And I must say that, that strategy is working, and we get a rising interest for a more outcome-based kind of healthcare offer versus just equipment stand-alone.

David Anton Vos - *Barclays PLC, Research Division - Analyst*

Okay. That's very clear, Frans. it did seem to us that, that -- those comments I made were more incremental and perhaps a bit more recent, but it's good to hear that at least, what you're seeing on the ground is that all things are going as they were before.

Operator

We will now take our next question from Gael de-Bray from Deutsche Bank.

Gael de-Bray - *Deutsche Bank AG, Research Division - Head of European Capital Goods Research*

Just a quick one on the Population Health Management business. I mean, we've seen some of your competitors investing a bit more aggressively in this area recently. So could you elaborate perhaps in the progress you've been making in building up your specific offering in Population Health Management? And if there is actually any evidence of your backlog expanding in this field.

Frans van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO and President*

Thanks, Gael. We are also investing quite significantly, I would say. Apart from the acquisition of Wellcentive last year, we have our investments in HealthSuite Digital Platform, which is gaining traction, where we are also now opening up to third parties to build their applications on top of it. We also have seen the success of telehealth with Banner Health. We have seen the announcement of Emory in how eICU technology is helping them save cost and move patients out of the ICU faster. I daresay we have a lot of ingredients that are successful. The market overall is a bit slow on population health, especially in relation to the uncertainty around the Affordable Care Act. I think that may be more temporary because, overall, I think population health is where society will eventually go. I was in New York talking to a CEO of a large hospital system last week. They have a large exposure to Medicare and Medicaid patients. And he said, whatever happens to the ACA, I need to proceed in rolling out population health because these patients will come to my institution anyway, and I better be proactive about it rather than reactive. And I thought it was a nice kind of indication where hospital enterprises are in their thinking. So it may take a few years before this is the kind of very large market that we all expect, but I have absolute conviction that it's an important market for the future.

Operator

We will now take our next question from James Moore from Redburn Capital.

James Moore - *Redburn (Europe) Limited, Research Division - Partner of Capital Goods Research*

My question is on D&T. On the mid-single-digit order growth, are you now regaining or still losing market share in U.S. big iron? And on the 190 bp margin uplift in D&T, can you say if it was similar across the 3 units or whether the negative Ultrasound margin direction of last year has continued?

Frans van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO and President*

Frans here. I think it's a bit too early to call out market share gains in the first quarter. I don't think so in the U.S. We have seen good traction in Europe, in China. On the U.S., I don't know yet. The margin question will be answered by Abhijit.

Abhijit Bhattacharya - *Koninklijke Philips N.V. - CFO, EVP and Member of the Board of Management*

Regarding the improvement in margin, actually, we saw it across the whole of the Diagnosis & Treatment portfolio, so including Ultrasound. So it was all across the portfolio.

James Moore - *Redburn (Europe) Limited, Research Division - Partner of Capital Goods Research*

Great. And can I follow up on price, please? I was just looking at your last 3 years of presentations, and you called out 2016 price of minus 2.4% to the group, 2.1% in '15 and 2.4% in '14. So quite similar, low 2s, and now you talk about 0.9% on Page 28. Can I clarify that the calculation behind that is exactly the same or has it changed? And if the pricing environment is improving to that degree of (inaudible) how much of that is linked to raw materials and more temporary and how much is innovation? And how is that going to phase as the year progresses?

Abhijit Bhattacharya - *Koninklijke Philips N.V. - CFO, EVP and Member of the Board of Management*

James, I have a relatively simple answer for that. The big difference is the exclusion of Lighting. Lighting had a much steeper price erosion. So if you take that out, then you see what it is for healthcare and (inaudible).

Gael de-Bray - *Deutsche Bank AG, Research Division - Head of European Capital Goods Research*

Okay. And if we look at the HealthTech picture on a sort of rolling basis, is it broadly unchanged?

Abhijit Bhattacharya - *Koninklijke Philips N.V. - CFO, EVP and Member of the Board of Management*

Yes, yes.

Operator

We will now take our next question from Ben Uglow from Morgan Stanley.

Benedict Ernest Uglow - *Morgan Stanley, Research Division - MD and Head of European Capital Goods Equity Research*

So 2 things. First, I want to make sure I properly got the numbers down or understood the patient care, the monitoring performance. It was a 9% growth. I am right to think you're talking about order growth in the first quarter of 2016. And versus that 9% order growth in patient care and monitoring, have you had any sort of positive orders in this quarter, i.e. was this growth in patient care completely offset by Healthcare Informatics? That's question number 1. Question number 2, I don't know how to put it appropriately, but to slightly challenge this phasing issue around the growth, if I look over the last 12 quarters, i.e. 3 years, your average order intake on equipment is plus 1%. If I look at Siemens, and that obviously is its service, it's closer the 6%. And if I look at GE just on equipment, it's around plus 4%. So my question is why would we be seeing that trend on a 2- to 3-year basis, not just 1 or 2 quarters? So that's one issue. And then specific to this quarter, we had another quarter where Philips is growing at 2%. The largest tier in GE, right, is growing at 10%. So I'm trying to understand why this is simply a phasing issue and why you feel confident that this isn't something more structural.

Abhijit Bhattacharya - *Koninklijke Philips N.V. - CFO, EVP and Member of the Board of Management*

So let me clarify on the first one. The growth we were talking about last year Q1 was CCHI, was at 9%. So Connected Care and Hospital Informatics was the 9% in Q1. And therefore...

Benedict Ernest Uglow - *Morgan Stanley, Research Division - MD and Head of European Capital Goods Equity Research*

(inaudible), yes?

Abhijit Bhattacharya - *Koninklijke Philips N.V. - CFO, EVP and Member of the Board of Management*

No, that is the comparable sales growth, right? And then the question was related to PCMS. So on PCMS in Q1 last year, we had a growth of close to 11% and now 3%. So let's say, on the tough comparables, we are still pretty okay with that growth. So this is...

Benedict Ernest Uglow - *Morgan Stanley, Research Division - MD and Head of European Capital Goods Equity Research*

Sorry, that's sales growth, right, Abhijit?

Abhijit Bhattacharya - *Koninklijke Philips N.V. - CFO, EVP and Member of the Board of Management*

Yes, yes. We are talking about sales...

Benedict Ernest Uglow - *Morgan Stanley, Research Division - MD and Head of European Capital Goods Equity Research*

Okay. Okay. I understand the sales point. Can you -- could you give us a sense, even if not the exact numbers, on orders, please?

Abhijit Bhattacharya - *Koninklijke Philips N.V. - CFO, EVP and Member of the Board of Management*

Yes. Orders, we had a low single-digit decline in Q1 last year, and we have a low single-digit increase this year. If you're...

Benedict Ernest Uglow - *Morgan Stanley, Research Division - MD and Head of European Capital Goods Equity Research*

Is that low single-digit decline in (inaudible)?

Abhijit Bhattacharya - *Koninklijke Philips N.V. - CFO, EVP and Member of the Board of Management*

Yes. Sorry, so it's kind of flat to last year. A little bit better but still a low single-digit decline, right, for CCHI.

Benedict Ernest Uglow - *Morgan Stanley, Research Division - MD and Head of European Capital Goods Equity Research*

Okay. But to be clear, so we got a low single-digit decline on an order number for last year that was a low single-digit decline, correct?

Abhijit Bhattacharya - *Koninklijke Philips N.V. - CFO, EVP and Member of the Board of Management*

Yes, yes.

Benedict Ernest Uglow - *Morgan Stanley, Research Division - MD and Head of European Capital Goods Equity Research*

Okay. So my question is within that mix, what's happening? Is it Connected Care is down and Healthcare Informatics is significantly down just on orders, not on sales?

Abhijit Bhattacharya - *Koninklijke Philips N.V. - CFO, EVP and Member of the Board of Management*

Yes. So it's basically on Hospital Informatics, which is lumpy, like we said. So Q1 to Q1, Hospital Informatics order intake is low, and we expect that to correct maybe in the coming quarters. So the PCMS business is fine and gaining share, and then you can see also from external data that is published. So there is no issue around patient care -- sorry, around patient monitoring business. And the informatics business is the one which has this uneven pattern.

Frans van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO and President*

Okay. Ben, on your second question, let's say, for a picture more around the last 2 to 3 years, I've just looked up that our full year order intake in 2015 was 5%, and then the full year order intake for 2016 was 1%. And then the first quarter now started with a 2% increase. And I think from all the discussions this morning, you can hear our confidence that order intake growth for the following quarters will rise. So there's -- well, there was some truth in what you said, I'd say this kind of gives you the full picture, and we are confident that we are on a path up. Now one more comment...

Benedict Ernest Uglow - *Morgan Stanley, Research Division - MD and Head of European Capital Goods Equity Research*

So orders do accelerate from here, Frans. That's -- your comment is around that, yes?

Frans van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO and President*

Yes. Moreover, in the commentary in the opening of the call, we also said that service order intake that -- by the way, we didn't talk so much about in the past, and we have internally said we need to talk more about it. Service order intake growth was 4% in the quarter, and we will try to give transparency on that, let's say, going forward. And moreover, we do not take into our order intake anything beyond a...

Abhijit Bhattacharya - *Koninklijke Philips N.V. - CFO, EVP and Member of the Board of Management*

12 to 18 months.

Frans van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO and President*

12 to 18 months window. And in the United States, I think between us and competitors, that's kind of harmonized. But it may actually be quite different in other geographies. Now we have a global policy on it, and we cut off our orders, let's say, on this 12 to 18 months time window. That may not be comparable to how other competitors do it.

Benedict Ernest Uglow - *Morgan Stanley, Research Division - MD and Head of European Capital Goods Equity Research*

That's helpful. And just belay the final point is just any early indications or any more confidence around -- and I know I asked this question in September last year, but around the market share recovery in North America, any early indicators that, that could be happening.

Frans van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO and President*

Still work to do. I see certainly positive signs. But as we said on an earlier question, let's wait for the market share numbers. There's still certainly more opportunity down the road.

Operator

We will now take our next question from Jonathan Mounsey from BNP Paribas.

Jonathan R. Mounsey - *Exane BNP Paribas, Research Division - Research Analyst*

So first one, just on Personal Health growth, so I guess it slowed a little versus the rate last year. I guess, obviously, the comps are quite tough going forward. So what should we expect in the coming quarters? Are we going to see a further slowing? Or can this business continue to grow at the current rate? Or can it even reaccelerate? And if so, what's driving that? What does the product launch timeline look like? For instance, is OneBlade still to roll out in a number of large territories? Or is that basically lapping tough comps now?

Abhijit Bhattacharya - *Koninklijke Philips N.V. - CFO, EVP and Member of the Board of Management*

Yes -- no, Jonathan, this is Abhijit. For Q1, we had actually mentioned in the Q4 call that we expected slightly slower growth, primarily triggered by the calendar of Chinese New Year, right? So it was earlier this year. So a lot of the supplies happened in December. So I think we are not -- we are pretty happy with the way it has panned out in Q1 and the good growth prospects for the rest of the year. We have said it's a business which will grow mid- to high single digit, and we will be in that range for the year. Regarding the OneBlade, yes, we continue to roll out in further geographies as we are far production volumes and have our launch plans there. So I think we are expecting the successes so far in the initial markets to roll out as well in the new markets that we launched OneBlade. So I think we have a good product lineup, which is why I also mentioned in the early part of my speech, we are going to back that up with quite a solid A&P spend, advertising and promotion spend, so that we can get good sales traction. We also have the Sonicare launch, the SimplyGo Mini, which is the portable CPAP. So we are pretty solid in terms of our new product introduction pipeline for the rest of the year.

Jonathan R. Mounsey - *Exane BNP Paribas, Research Division - Research Analyst*

Could I ask a follow-up just on capital allocation? You touched on acquisitions, I think, earlier. What about the dividend going forward? Are there any thoughts on what to do in regards to the dividend and the payout ratio?

Abhijit Bhattacharya - *Koninklijke Philips N.V. - CFO, EVP and Member of the Board of Management*

So I think from a payout ratio point of view, we have been so far above our payout ratio. We've said we will be at a 40% to 50% of net recurring income. As we increase our income progressively, I expect that sometime next year, we will fall well within the bandwidth that we have spoken about. So that's basically how we see the dividend development. And then as we keep increasing earnings going forward, we will maintain that payout ratio so then the dividend would go up.

Operator

We will now take our next question from Ian Douglas-Pennant. It appears Ian has stepped away.

Frans van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO and President*

Okay. Then that was the last question, right? That was the last caller that we had?

Operator

That's correct, that was the last question.

Frans van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO and President*

Okay. Well then, I thank everybody for joining in this call and for your keen questions. I reiterate our confidence in delivering our plan for the whole year. Thanks very much. Bye-bye.

Operator

This concludes the Royal Philips First Quarter 2017 Results Conference Call on Monday the 24th of April, 2017. Thank you for participating. You may now disconnect.
