



Philips Q1 2024 Results

Monday, 29th April 2024

Operator: Welcome to the Royal Philips First Quarter 2024 results conference call on Monday, April 29th, 2024. During the call, hosted by Mr Roy Jakobs, CEO, and Mr Abhijit Bhattacharya, CFO, all participants will be in a listen-only mode. After the introduction, there will be an opportunity to ask questions. Please note that this call will be recorded and replay will be available on the investor relations website of Royal Philips. I'll now hand the conference over to Mr Leandro Mazzone, Head of Investor Relations. Please go ahead, sir.

Introduction

Leandro Mazzone

Head of Investor Relations, Philips

Hi everyone. Welcome to Philips First Quarter 2024 results webcast. I'm here with our CEO Roy Jakobs and our CFO of Abhijit Bhattacharya. The press release investor deck, and the frequently asked questions on the Respiroics Field Action were published on our investor relations website this morning. The replay and full transcript of this webcast will be made available on the website after the call.

Before we start, I want to draw your attention to our safe harbour statement on screen. You'll also find the statement in the presentation published on the website. Roy, over to you.

Presentation

Roy Jakobs

CEO, Philips

Good morning everyone, and warm welcome. Great to be with you today. I want to start with the key highlights of this morning's release. We delivered results in line with our performance improvement plan with 2.4% comparable sales growth and strong margin improvement in the quarter and order intake growth to turning positive outside of China, especially in North America. This was a result of continued strong focus and progress on our three execution priorities.

Secondly, we have taken several very important steps in resolving the consequences of the Respiroics recall. The consent decree was signed and approved in court. We received final court approval for the previously announced economic loss settlement. We reached an agreement to resolve the personal injury and medical monitoring litigation in the US and we also concluded an agreement with insurers to cover Respiroics recall related product liability claims. Following the remediation of sleep therapy devices and the reassuring test results to date, these are very important milestones to provide further clarity on the way forward for Philips. Supported by key innovation launches and our ongoing actions to enhance since execution, we are confident in our performance improvement plan for 2024.

Onto the key financial highlights. Comparable sales growth was 2.4% in the quarter, driven by 3% growth in the diagnosis and treatment and personal health segments, partly offset by a 1% decline in connected care against very tough comms in monitoring. Group sales grew 2% in mature geographies. Growth geographies sales grow 3% despite a decline in China. The adjusted EBITA margin improved significantly to 9.4% in the quarter. Free cashflow was an

outflow of EUR 336 million in line with normal quarterly phasing. Order intake in the quarter declined as anticipated due to the situation in China. This was driven by the impact of the industry-wide anti-corruption measures, and the comparison against an exceptionally high order intake base from last year. Importantly, order intake grew outside of China with encouraging performance in North America. We remain focused on implementing the necessary actions to strengthen quality delivery, reduce lead times, leverage our enhanced operating model and market our AI-driven innovations to improve order intake. Overall, based on the gradually improving market environment in the US as well as expected improvement of the situation in China, our exciting innovation launches and our ongoing actions, we continue to expect positive order intake growth in the full year 2024.

In China, the government imposed anti-corruption measures continue to impact short term decision making by hospitals, but we do not expect it to impact the fundamental demand as China remains an attractive market. Our order funnel is very active in the country and we expect order growth to resume in China in the second half of 2024, also supported by the newly launched government programme for medical equipment upgrades. It's important to note that our order book, which accounts for around 40% of group sales, remains strong and is further being built down to expected normalised levels.

I've met many of our customers and partners in the last few months and it's absolutely clear that we are a preferred strategic and innovation partner to provide imaging, therapy and monitoring solutions supported by a strong enterprise informatics and AI suite. This has been, again, amplified by how strongly our solutions resonated with customers at the recent Vive, ECR and HIMSS Global Healthcare events which I attended during this quarter.

Let me now provide you with some of the recent customer innovation milestones during the quarter. We launched the new Azurion image guided therapy system and advanced informatics as well as the new AI enabled CT 5300 designed for more accurate and reliable imaging results while enhancing productivity using up to 80% lower radiation dose. We were also recognised as a Clarivate Top 100 Global Innovator for the 11th consecutive year and ranked as a top medical technology patent applicant at the European Patent Office in 2023. We continue to see strong customer pool for our solutions and signed several long-term agreements across the world in the quarter. For example, we signed a ten-year agreement with the Nicklaus Children's Health System in the US to provide AI-enabled technologies such as helium-free MR, ultrasound and monitoring solutions for deeper clinical insights and improved workflow and productivity.

Now on Respiroics. As I said, we have taken very important steps in resolving the consequences of the Respiroics recall in the quarter. As said before, we do regret that patients that – the concern that patients may have experienced. Let me call out the milestones reached.

First. Philips and plaintiff's leadership supported by a court appointed mediator have reached an agreement that resolves the personal injury litigation and a medical monitoring class action in the US. This settlement ends uncertainty associated with litigation in the US. It should be noted that Philips and Philips Respiroics do not admit any fault or liability or that any injuries were caused by Respiroics devices. Philips Respiroics has agreed to pay a total capped amount of \$1.1 billion. The related payments are expected in 2025 and to be fully funded from Philips cashflow generation. You'll find more details of the agreement in the Respiroics field action deck published on our investor relations website this morning, which underscores the high degree of confidence from all parties in achieving closure and finality with the settlement.

Also important, earlier this month, the Philips Respironics consent decree was approved by US court. As communicated before, the decree primarily focuses on Respironics business operations in the US, and we now have made a roadmap to demonstrate compliance with regulatory requirements in order to restore the business in the US and grow outside of the US. Moreover, Philips Respironics obtained the final court approval for the previously announced economic loss settlement in the US, which a provision was recognised in Q1 2023. We continue to work on other Philip Respironics related legal proceedings, including the investigation by the US Department of Justice, and we also concluded an agreement with insurers to pay Philips in relation to Philips Respironics recall related product liability claims. Therefore, following the remediation of sleep therapy devices and the reassuring test results to date, these important milestones on litigation, consent decree and insurance provide Philips with a clear path forward for sustainable value creation.

Looking ahead, we remain confident in our plan and financial outlook. In 2024, we expect to deliver 3-5% comparable sales growth building on a strong comparison base of last year and an adjusted EBITA margin of 11-11.5%. The free cash flow expectation is now increased to 0.9 to 1.1 billion in 2024. Factor in the receipt from insurers that I just mentioned and the remaining payments related to the economic loss settlement.

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

Financials

Abhijit Bhattacharya

CFO, Philips

Thanks, Roy. Good morning everyone. Let me start with our performance by segment. In diagnosis and treatment, comparable sales increased by 3% driven by growth in precision diagnosis and image guided therapy, and this was against strong double digit growth in Q1 2023. The adjusted EBITA margin was 9.2%, including an impact of a 100 basis points from an accounts receivable provision. The adjusted EBITA margin was lower than last year, mainly due to the normalisation of the product mix as anticipated. To remind you, the increase in profitability in Q1 last year was around 600 basis points due to the easing of supply chain constraints on our most profitable modalities of ultrasound and image guided therapy systems.

Connected care comparable sales declined by 1% as high single digit growth in enterprise informatics was offset by negative sales growth in monitoring on the back of around mid-teens growth in Q1 2023. We saw strong growth in sleep systems and patient interface driven by performance outside of the US, while ventilator sales were lower. Connected care adjusted EBITA margin improved significantly to 6.4% driven by solid performance in monitoring and an improvement in sleep and respiratory care. Personal health delivered a 3% comparable sales increase driven by strength in the personal care business. The adjusted EBITA margin for the segment improved to 15.2% this quarter, mainly due to operational leverage and productivity. Geographically, sales and personal health was driven by mature geographies while growth geographies were flat, mainly due to China. Overall, consumer sentiment remains subdued but is expected to improve in the course of 2024 segment.

Other sales increase by 25 million in the first quarter, mainly from higher royalty income due to phasing. We have been very disciplined in cost management and our productivity initiatives delivered savings of 151 million in the quarter of which operating model savings were 55 million, procurement savings were 40 million and other productivity programmes delivered 56 million. The adjusted EBITA margin for the group increased by 80 basis points to 9.4% in the quarter as our productivity and pricing actions more than offset inflation. Free cash was an outflow of 336 million in the quarter due to the normalisation of working capital phasing partly offset by higher cash earnings. On capital allocation in April, we completed the 1.5 billion share buyback programme for capital reduction purposes announced on 26th July 2021. In the second quarter, we intend to cancel the 4.4 million shares acquired this year.

Moving to orders, it's important to note that the absolute order intake levels remain healthy, although lower than the exceptionally high comparison base of the last two to three years. Order intake grew outside China with an encouraging performance in North America and general improvement in market dynamics, which is expected to continue in the coming quarters. Our funnel of opportunities remains strong.

The order book is significantly higher than the period before the global supply chain crisis. As a reminder, orders and orders book account for around 40% of our revenue; the remaining 60% comes mainly from recurring revenue streams such as services and consumables, from book to bill business and from personal health. As mentioned in our previous earnings call, we anticipate sales growth to be backend loaded in 2024 due to the tougher comparison base in the first half of the year, resulting mainly from the strong China performance in the first half of 2023 and the anti-corruption measures ongoing in the first half of this year. Our expectation for sales growth in the second quarter remains soft as a result of this difficult comparison base as Q2 2023 grew by 9.4% as well as the impact of the phasing of royalty revenues.

We expect sales in segment others to be around EUR 120 million in the second quarter, 75 million lower than in the second quarter of 2023 due to a large royalty deal recorded last year and the impact of royalty revenue phasing between the first and second quarter of 2024 that I just mentioned. This difference in royalty sales alone results in a negative impact of around 170 basis points on the growth of the group in the second quarter. Note that there is no change to full year outlook of segment other provided in January, both in terms of sales and adjusted EBITA.

Based on our order book, improving order intake and the ongoing actions to enhance execution, we expect to deliver 3-5% comparable sales growth and an adjusted EBITA margin between 11 and 11.5 for the full year. As Roy mentioned, under the settlement to resolve the personal injury and medical monitoring litigation in the US, Philips Respironics has agreed to pay a total of \$1.1 billion. The related payments are expected in 2025 and to be funded from Philips's cash flow generation. Moreover, we received the final court approval for the previously announced economic loss settlement in the US. At the time we announced the settlement in Q1, we recognised the provision of EUR 575 million based on assumptions about the number of claimants that we expected to participate.

Now, a year later, based on the actual claims that we are seeing, these assumptions turn out to be accurate and we fully expect the settlement to stay within the amount provided for. This month, we also concluded an agreement with the insurers to pay us EUR 540 million to cover Respironics recall related product liability claims. This income is expected to be recognised in

Q2 2024 and payment is expected during 2024. As a result, we have increased our free cash flow outlook for this year to 0.9 to 1.1 billion now including the payment from insurers as well as the cash out of around EUR 430 million related to the remaining payment of the economic loss settlement.

With that, I'd like to hand it back to Roy.

Presentation

Roy Jakobs

CEO, Philips

Thanks, Abhijit. I would like to continue with the progress we have made on our execution priorities. On patient safety and quality. We saw substantial improvement in CAPA closures in the quarter, driven by stronger processes, capabilities, and governance around it. We also continue to drive significant simplification of the way we work and we further reduced the number of quality management systems. We are well on track to achieve our target of 65% reduction in 2024, and we continue to invest in quality improvement across the portfolio acting fast on post market surveillance signals. With respect to supply chain, we have now redesigned more than 80% of the planned PCBs and further reduced materials and component risks in the quarter. We will continue leveraging and regionalising our end-to-end supply chain to further reduce lead times and strengthen first time right deliveries.

Finally, our new operating model with prime accountability in the businesses has been live for a year now, resulting in significant productivity improvements. We have reduced over 8,500 roles to date. At the same time, we continue the culture journey to drive impact with care and attracted over 300 talents with health tech backgrounds this quarter alone.

Let me close out by repeating the key messages of today's announcement.

First, we delivered results in line with our performance improvement plan as a result of continued strong focus and progress on our three execution priorities. Secondly, we have taken very important steps in resolving the vast majority of the consequences of the Respiroics recall, and in this quarter alone, we had major milestones on litigation, consent decree and insurance, providing further clarity on the way forward for Philips. Thirdly, the progress we are making reinforces our confidence to deliver further performance improvements in 2024, and we are on track with the plan for 2025.

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

Q&A

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

Richard Felton (Goldman Sachs): Hi, good morning. Congratulations on reaching the settlement. I've got two questions both on fundamentally margins if that's okay. My first one is

a question on precision diagnostics. So I understand last year that you were still facing some supply chain constraints on certain modalities. I think MRI in particular had been facing some challenges. So other supply chain challenges normalising for precision diagnostics and what does that mean for your margins, for outlook for that subdivision this year?

Second question on sleep and respiratory. Look, I understand that sleep and respiratory was still loss-making in 2023. Now that you've got visibility on consent decree and I think better visibility on the outlook of the environment in which that business can operate moving forward, how quickly can you do the right sizing necessary to bring that business back to break even and then positive margin territory? Thank you.

Abhijit Bhattacharya: Hey, Richard, good morning. This is Abhijit. On the PD margins, or maybe because we give diagnosis and treatment margins. Last year we had a big increase. Now, as I mentioned just now in the speech as well of 600 basis points, that was because we supplied in the first two quarters of last year a lot of our high, more profitable modalities. The supply chain constraints are now mostly gone. The last part that is left is on MRs where we still have slightly longer lead times than we would like. That doesn't mean a lot for the margins. It just hampers order intake a little bit for the time being, and in the second half of the year we should go past that. As far as the margins for D&T this year are concerned, you know, we have said that we are going to grow margins this year and that will, you know, – the phasing between the first half and second half is distorted because of last year. So we will grow margins for the year and you will see improvements coming in the second half over last year for diagnosis and treatment.

For sleep and respiratory care, you are right, you know, that that's what we've always said, that once we get clarity on the CD, we will take cost actions to make this business a profitable business even at a 1 billion revenue. I think the good news is that we are already profitable, so we have taken most of those cost actions further actions to come, but already in Q1 we are profitable in sleep and respiratory care, which is why also you see the turnaround and the increase in connected care margins.

Richard Felton: Great, thank you very much.

Abhijit Bhattacharya: Thank you.

Operator: Thank you. We will now go to the next question and your next question comes from the line of Hassan Al-Wakeel from Barclays. Please go ahead.

Hassan Al-Wakeel (Barclays): Hi, thanks for taking my questions and it's great to see today's clarity on litigation. Firstly, can you talk about the remediation needed as part of the consent decree as well as the remediation that you have been doing over the last couple of years? What do you think is a realistic timeline for your return to the US market?

Secondly, given clarity on litigation, could we see a return to bolt on M&A in the next year or two? And if so, in which areas do you see the most opportunities or are you squarely focused on resolving and remediating quality issues at the company?

And then finally, can you break out order growth in China and ex China? How did things end the quarter and how are you viewing this quarter both in China and outside of China? And I wonder if you expect orders to be positive in Q2 for the group, but also in China. Thank you.

Roy Jakobs: Thank you. Hassan, let me take the first question. So remediation part of the CD. So I think as we said, we are very happy that we now have clarity, in essence, we have a very clear roadmap in terms of what we need to do to get back into the US market. As you know, we are already providing patients in the US with patient interfaces and also some of respiratory device. So it's not that we are fully out of that market, but to get fully back, of course, we need to comply with the remediation requirements as said in the CD, including the recall plan. Now, we haven't put a timeline out, we also will not speculate on that. We will of course work very hard to get there. We also are not starting now. We have indeed been actioning already on that earlier.

As Abhijit said, if you look to the totality of SRC, we are growing outside of the US, and also we have been bringing it back into profitability. So the sleep and respiratory care business will show an improvement and contribution trajectory into Philips, which we are very positive about. But we will not put any specific timeline on any injunction because that also is in of course collaboration with the FDA that we need to achieve that.

Secondly, on your question on the clarity that we get now also on cash and cash profile and bolt on M&A. As part of the plan that we started last year, I've been very clear how important cash generation is. Now, we were very happy with the 1.6 billion cash flow last year. Now we see that also this year we will have a strong cashflow profile of 1 billion. We upped based upon the clarity we now have on the economic loss payment we need to do, but also the insurance inflow we have in the year; and the litigation settlement we have today, we can actually pay in full or out of our operational cash flow. That also means that we will indeed be able to do bolt on acquisitions. Of course those need to be the right ones, and we do kind of need to look at our own priorities first, which meaning extracting value out of the current portfolio of assets that we have because we have a lot of potential there. But that doesn't mean that if we see the right target, we could do that, and we will remain active. And of course, if we then think of which areas, those will be areas where we are strong, either whether it's in the IGT domain, which we kind of see potential, but it could also be in monitoring or what we said – did as bolt on acquisition and ultrasound where we had AI, portfolio of AI solutions that we added there that actually will be coming to market as part of the innovation launch in ultrasound actually mid this year. So that will also bolster our profile and our portfolio towards the market. Maybe order intake, Abhijit you can take.

Abhijit Bhattacharya: Yeah, so I think yeah, we had a decline in in China in Q1, and that is what we expected, it was, yeah, in the high double digits because, you know, last year we had a growth of in the mid-thirties last year, right? So you had mid-thirties growth last year, that was with the incentives coming out of Covid, and then you had really the counterbalancing this year with the anti-corruption measures, which of course slowed things down. The good news, as Roy mentioned, you know, outside of China, we have returned to growth and most positively is that North America grew nicely for us in the quarter.

We are not going to at this stage give specific numbers there because let's say that's not something that is even shared by our competitors, but I think we are pleased with the momentum in North America, and that also gives us the confidence for the remaining part of the year. We expect also China, as we said, to contribute in the second half of the year. Roy was in China recently. And, you know, with the new incentives that the government is planning to give, that should give let's say good impetus. So overall, I think there's no change in our

view on China. It fundamentally remains an attractive market. For the short term, consumer sentiment is subdued. We expect that to improve through the year; hospitals will continue to work through the industry-wide anti-corruption measures, and then we will – we expect to see more hospitals putting in orders. And yeah, so therefore that the second half we expect China to contribute. And so far, we've kind of started the year on plan.

Hassan Al-Wakeel: Perfect. Thank you very much.

Abhijit Bhattacharya: Thanks, Hasan.

Operator: Thank you. Your next question comes from the line of David Adlington from JP Morgan. Please go ahead.

David Adlington (JP Morgan): Hey guys, thanks for taking the questions. So first one, Abhijit, in your prepared remarks, you mentioned that there was a 100 basis point hit to the D&T margin, I think, from a provision. Just wondered if we get some more colour around that please.

And then secondly just in terms of the cost savings, you delivered 151 million I think in the first quarter year on year, but your adjusted EBITA was only up 30. I just wondered where you are reinvesting some of those savings or whether if they are being eaten up by headwinds elsewhere.

And then the final one is just now you've got more clarity on the cash, just wondered if you plan to reinstate the cash dividends. Thanks.

Abhijit Bhattacharya: Yeah, so I think couple of things. So let's say the 100 basis points I talked about was that was a provision for a receivable where a certain – with a certain customer. So there's no – it's not an operational performance in a factory or anything to do with the cost structure of the business, but just a part – provision on a receivable with a particular customers. I think if you look at the overall productivity, of course, in that, you know, that productivity is compensating for our cost inflation. So you will see that, you know, we have a bridge in the deck on slide 13 where you see, you know, 2% is going towards cost inflation that is a negative, therefore you don't see all of it back, but you see a significant portion. And then the part that I mentioned, the 100 bps on DNT, of course, has an overall impact on Philips as well.

On cash dividend, I think it's a bit too early to comment now. So let's first get through this year and then, you know, at the end of the year we will decide on how we will deal with our dividend for next year. But as Roy mentioned, the good news is that we can deal with our cash obligations with regard to the litigation from our operating cash flow, and that also gets us, let's say, to our – very close to our targeted leverage next year, which will be actually a very good performance after paying off all the fines.

David Adlington: Got it. Thanks guys.

Abhijit Bhattacharya: Thank you.

Operator: Thank you. Your next question comes on the line of Veronika Dubajova from Citi. Please go ahead.

Veronika Dubajova (Citi): Hi guys, good morning and thank you for taking my questions. I have two please if I can. The first one is just, Abhijit, you sort of alluded to this, but the margin progression that you expect in DNT in particular through the year, if you could outline a little bit, sort of, you know, how we should be thinking about that. I think you've talked about the

sort of maybe 50 basis points or more margin improvement for the full year. You know, do you still expect margins to be down in the second quarter and then I guess, you know, is the improvement in the back half of the year particularly pronounced in Q3 versus Q4? Just because last year was such an unusual year, you know, if you could help us understand that and maybe just a comment on growth as well for DNT.

And then I have a separate question on the settlement announced this morning, and just to maybe give us all reassurance, I guess we'd love to understand, you know, to what extent there are kind of exceptions. So is this all-encompassing? Does it include situations like death as well as injury? Just if you can talk to sort of what are some of the instances where you could see separate litigation that is outside of the scope of the settlement, and then to finalise the settlement, what are the steps that are remaining both in terms of the courts and discussions with the plaintiff, and when can we sort of consider this completely done and dusted. That would be – some colour around that would be very helpful. Thank you guys.

Abhijit Bhattacharya: Hi Veronika. Good morning. Let me take the first question and then I pass it on to Roy for the second one. So you know, the first two quarters of last year we had very strong improvement in the margins of DNT. If I remember right, quarter one was 600 basis points. First half of the year was 500 basis points. And we said at that time itself that that's a bit of an unusual pattern. So for this year, the way you should read it is that we will improve in the – first in the second half, and the first half will be lower. So including Q2 will be lower than last year, but then Q3, Q4, you will see the improvements and then you see the improvement for the full year.

Important to note that the guided range for 2025 is low-teens. We are already in that range, so we will make further progress into the range this year and then progress in the range next year as well. So we are on a good track with D&T.

On the litigation. Maybe Roy.

Roy Jakobs: Yeah, may, let me take that one. Veronika, thank you. I think important question on indeed this finality. I think we are very firm that we believe that for the US this is as final as it can get. The settlement addresses all the 60,000 known claimants as part of the census registry, including the 700 filed cases that were active. We do not believe that there is a meaningful number of plaintiffs out there that will still come forward. That's also the view of the plaintiffs themselves. And if they do, they will be subject to a so-called lone pine order, which requires them to bring forward a full case at once, or else they will be dismissed, and also they will need to kind of come forward with all their individual evidence as everything that was gathered as part of this process now will cease to exist.

There are six months that actually people can still come forward. After the six months, actually the whole class action or the whole MDL cease to exist. And that's also why it was important that this was court approved and or don't – not yet court approved, but there was a mediator from the court that actually was part of this whole process. She has been very I think affirmative of this deal. You also saw that in our announcement. She will also make sure that this will be going through the court proceedings. Now, we don't know exactly when that will be, we don't expect that will take too long. And so we are actually very confident that this will really put an end to this. And that's very important because then with ending economic loss, economic personal injury and medical monitoring, we really have put the vast majority of these cases

behind us with finality and clarity. And therefore this provides us with a way forward in which we can focus on really running the business and growing Philips and bringing it back to where it belongs.

Veronika Dubajova: That that's very clear or thank you. And can I just ask a follow up on the DOJ, and I guess if you have any updates on where you're there with the process and when we might expect similar finality on the discussions with that.

Roy Jakobs: Yeah. No, DOJ I think there's not a lot we can say, this is still ongoing. We are in full collaboration have been providing them documents. So actually I cannot further comment on that process. We will come forward once we have any further clarity on that. I cannot say more than this, currently still in process.

Veronika Dubajova: Excellent. Great. Thanks guys so much.

Operator: Thank you. Your next question comes on the line of Hugo Solvet from Exane BNP Paribas. Please go ahead.

Hugo Solvet (Exane BNP Paribas): Hi. Hello. Thanks for taking my questions I asked through the – I hope that's okay. First on D&T. Can you maybe elaborate a bit more on the region and the modality from that customer having – and the provision passed for D&T that is having a 100 basis point impact on the margin, that would be helpful.

And on the warning letter in your CT China plant, could this impact the rollout of your new instrument?

Second on China, does the stimulus plan in China is already reflected into the guide for 2024 for D&T?

And lastly maybe Roy, a follow up on Veronika's question earlier, can you update us on settlement, possible settlement in ex US litigation? So outside of the US. Thank you.

Abhijit Bhattacharya: Maybe Hugo, could you repeat your question on China, please?

Hugo Solvet: Yeah. On China, the possible impact from the stimulus, is it reflected already in your guidance or in your expectations for D&T and the acceleration for the rest of the year?

Abhijit Bhattacharya: Okay, so first on the provision, yeah, we cannot give of course details in public. That's between us and the customer. So even for privacy reasons, we cannot disclose that. I think on China, you can make it reasonably simple. Yes, we – that is part of our guidance. So, you know, we had anticipated that there would be a recovery in China; the stimulus only substantiates that expectation. So it is part of that – of our overall guidance for the year.

Roy Jakobs: Maybe, I think maybe the question on the China warning letter, I think you also referred to that. I think we are working fully through the kind of follow up actions with the FDA on it. We don't expect any current operational impact from that is process remediation.

Of course we take it very seriously, like we take any finding that comes out of any side visit. There are both – there were two findings both related to process compliance. There were no reports of patient harm. So I think it's important to also mention that, and we do not see any kind of impact from it. In terms of settlement ex US, I think is important that – that's also why this is such a breakthrough this order that actually this is by far the vast majority of cases. Secondly, what is very important that we do not admit any guilt as part of the settlement neither towards patients nor diseases. Also, we refer to the earlier testing that showed that no

appreciable harm was done. So also we look at full confidence to any cases outside of the US that still might happen and that we bring that to good conclusion. But as said before, the most important is that vast majority of cases was in US. And also as we all know, the US legal system is in a particular way. And that's why it was so important to end this certainty or anti-uncertainty and create clarity on the way forward by getting a settlement on this specific case in the US.

Hugo Solvet: Okay, thank you.

Operator: Thank you. Your next question comes from the line of – one moment, please – Graham Doyle, UBS. Please go ahead.

Graham Doyle (UBS): Morning guys, hopefully you can hear me. Thanks for taking these questions, just two from me. And first, obviously, congratulations on the settlement, and I think that's a lot of clarity that probably clearly sooner than people were expecting. And just one sort of vague relations to that, Roy. When you look at the P&L for the last few years, and I suspect even the next couple of years, there's obviously a lot of adjustments and cash charges and things like that. Is that the next focus once we get through the next year or two to sort of square that so that your reported and adjusted EBIT won't be so different going forward and kind of lift that cash generation up as we go forward? That's just question number one.

And question number two, you actually gave us really good insight in terms of like explaining how the unlock or the improvement in China was occurring as these investigations progressed and you had these sort of regional committees set up. And could you give us another update as to how you are seeing that, and is everything still tracking as you'd expect? And what does that mean in terms of order flows, even sequentially, say Q1 versus Q4, just to get a sense of how well things are moving in China? Thank you.

Roy Jakobs: Yeah, thank you Graham. I think good questions. So on the first, I think we for sure recognise that of course we had significant hits into the P&L that went into headlines towards adjusted items. Now also the clarity of today helps to actually further provide guidance around the adjusted items going forward. We had many of the adjusted items in the last years that were unfortunately tied to the recall, as you know. So that has been really significantly impacting it. Now as we have the vast majority of recall now behind us, we remediated the sleep therapy devices. We have kind of clarity on the settlements as we've now been providing for that really will allow us to kind of really bring that number substantially down.

We also, of course, took restructuring to get productivity in. You also have seen that contribution into our margin improvement. But also there as you've seen, we are well on track with the eight and a half thousand roles that we reduced by now. That does mean that we still have one thousand approximately remaining. So there will be some restructuring that will come with that. And we also, as Abhijit said, keep working as our said to get that into the best possible shape. So there's still some of that to come, but it will be of different dimensions than the unfortunately big numbers we have seen. So that is for sure a focus.

Then secondly, in terms of China, I was actually in China a month ago. I've been talking to the vice president myself, of course talking to a lot of customers and looking at the situation on the ground. So now – and I saw two parts of the story. One is – was a continued impact from these anti-corruption industry measures that were taken by the government. And as I said before, they're working through this, they're doing that region by region, but it is not done yet. And that we said already, when we came into the year, we still see that also therefore impacting as

we speak. Our expectation is unchanged, that actually we do expect that towards the second half of the year we will see real improvement coming in, but it's too early actually in the first half to really count on that. And that's also something that we of course saw happening in first quarter. Now, I think the positive for me was this new stimulus programme because that indeed was not yet there. And I also learned more about that. They're specifically targeting to give subsidy to hospitals that can come forward to upgrade their installed base that is aged. And we also have seen customers putting in their requests. Of course, it will take time before they have kind of worked through those lists, approve it and the market will benefit from it. That's also why we say it's kind of this will benefit the mid to long term attractiveness of the market because it will just help accelerate some of the replacement orders that will come into play when the market opens up more.

Graham Doyle: Brilliant. That's very clear. Thanks a lot, guys.

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

Julien Dormois (Jefferies): Good morning, Roy. Good morning, Abhijit. Thanks for taking my questions, and congrats on the settlement. The first one relates to the midterm outlook. There was no confirmation of the midterm outlook in your material unless I missed it. So is this an indication that maybe you are currently reviewing it and especially now that you have more clarity on Respiroics that maybe that could lead to an upgrade on that side?

My second question is more of a housekeeping one on the order book. Just to better understand, what was the split in the order book between D&T and CC in the first quarter? I mean, last year obviously there was a very diverging trend, so just trying to understand whether we're talking about maybe a double decline in D&T and some growth in CC in the first quarter of 2024.

And my last question, sorry, last question. Since on the growth in the US in the quarter, you basically had 0% growth in the US, so just trying to better understand which division was the most impacted and how we should think about the US into the remaining quarters of 2024. Thank you very much.

Abhijit Bhattacharya: Yeah, hi Julien. Regarding the midterm outlook, I think you missed it. So it is in the outlook. If you look at our press release; and the first sentence in the outlook says, we reiterate our confidence in delivering the 2025 plan. So, that is already there and it is already there also in the company deck, et cetera. So we have reconfirmed our outlook for 2025. And you said, you know, whether there's an upgrade postal litigation. If you remember, when we gave the guidance, we had excluded litigation-related charges. So we've not only confirmed the outlook for the midterm plan, but also for this year, right? So both of them have been done and we have upped our cashflow guidance for the year.

Your second question on the order book, I think yeah, it was, I guess split between both of them. So I don't want to give going to all regional and other differences, but this was, let's say overall impacted mainly by China. So, you know, rather than modalities, I think the big thing to realise is that the impact was really from China. And China, the bulk of the business is in D&T, so therefore the impact on D&T is slightly higher than CC.

And for the US in terms of sales, I think the main reason there is the comms compared to last year because, you know, we went off the blocks with a huge growth last year in Q1. And that's

what makes it difficult in terms of the comms for this year, and that was largely, as I mentioned earlier, ultrasound and IGT.

Julien Dormois: Okay, thanks.

Operator: Thank you. We'll now go to the next question. And your next question comes from the line of Julien Ouaddour from Bank of America. Please go ahead.

Julien Ouaddour (Bank of America): Good morning. Thanks a lot for taking my questions. So the first one I just want to, let's take, like, come back on the settlement. What's the likelihood of new claims surfaced after the six months' period for the plaintiff to sign up for the settlement? And just maybe if you can explain us how difficult it might be for them to get a compensation, and if we need basically to add a sort of margin of safety on top of the 1.1 billion for these cases?

Then the second question on orders. So you seem to be like pretty pleased with like the momentum in the US. And I think at the beginning of the year you said that I mean orders will be strong in the US because like financing conditions will become a bit more easy for the year with like interest rate cuts. Seems we are more going in the situation where like interest red cuts are not going to happen before the end of the year. Could it impact the demand at some point in the US?

And the final question is about China. So follow up about like the comment that you made. Do you have any sort of colour about the installed based age in China? Because It seems that the sort of like installed base has been upgraded like in the recent years. So like the overall age is like a bit like lower today; and if you can just give us a bit more colour, but the real benefit from the stimulus that you think could happen. Thanks.

Roy Jakobs: Yeah, thank you Julien. Good questions. Let me start with the first one, settlement. So the likelihood of new claims coming after six months. So I think it's important as we said that actually we believe that –

Roy Jakobs: Okay. not sure whether you heard me in full, but, so let me kind of repeat the essence. So firstly we said kind of we believe this really puts finality to what is out there. That is also not only our opinion, but also of the plaintiff's leadership. They actually advertised for three years the case. So actually they believe that the majority of people that know the case was there actually have stepped forward are in the census registry, the 60,000 as you know, but then also 700 kind of claimants. Then they have another six months they can come forward. Thereafter, the whole case cease to exist, so the MDL will be closed. Also all the preparatory work that was done by all the kind of plaintiff lawyers will cease to exist. Therefore, any individual that comes thereafter will have to come on individual terms. They will be subject to a lone pine order. Lone pine order means that there are certain criteria that you need to fulfil before you even can be taken into the case. You will not have access to any of the expert reports that was made or were made, so you need to do it yourself. And as you know, kind of only for the testing, we spent millions of dollars to get to our outcome, which showed that no appreciable harm was done. And that's also still standing as we have not admitted any guilt. And they're also subject to time restrictions because there's a statute of limitations and that actually is from the starting of the recall. So from 2021 onwards, and normally these are periods of two to three years.

And finally if you look to the trending of the census registry, it has been stable for months already. So actually we have seen that there was no significant inflow already coming lately. So taking all this together, yeah, there's a very strong confidence that we have that actually we have been dealing with the cases out there. And this truly will put an end to the personal injury and the medical monitoring claims in the US and also the economic law settlement as you have seen before. We reiterated actually the provision we took was enough even now after a year. So that was also I think well counted for, and we expect the same with this one.

Then on the order intake, momentum in the US, it's – I think you are fair to say that maybe interest will not kind of move as we expected earlier. But at the same time, we have seen that the system itself is strengthening in terms of the patient throughput and therefore the income they're generating. And that also has been strengthening their investments. As we said also in our order intake, that's something where we see that our innovations that we have been putting out to the market and have been out there at HIMSS at Vive, a lot of excitement about what we are offering in terms of our workflow solutions. We announced the CT 5300 AI suite that actually putting out the market the new IGT Azurion solution for stroke. So we are confident that actually the US market will show continued strength throughout the year. And that is unchanged.

Then on the installed base age in China, I think it's fair to say that they had a backlog in upgrades also especially in a prolonged period of covid. That's why we did see actually 2023 when they came off covid a lot of investments coming into play. That's what spurring last year's very strong Q1 order growth. And we expect that also will therefore continue once the market opens up more. Now even further now, kind of encouraged by the Chinese government that also want to I think support the investments to get the installed base replaced, but also for them as an expansion programme, as they also need to take care of more patients. So it's a combination that we expect to come into play later into China.

Julien Ouaddour: Thanks. Thanks a lot Roy. Any, like, any idea, but just like the age of the installed base in in China at the moment?

Roy Jakobs: No, I would not be able to give specific number. What I do know is kind of that it qualifies for equipment of six and eight year of age. So that's kind of the conditions that they have put out, the government, and that's kind of where they have the current the – what the customers are currently putting forward.

Julien Ouaddour: Perfect. Thank you very much. Very helpful.

Operator: Thank you. Your next question comes from the line of Robert Davis from Morgan Stanley. Please go ahead.

Robert Davis (Morgan Stanley): Yeah, morning both. Thanks for taking my questions. Most of them have been covered. I have a few left. One was just on, you mentioned obviously the normalization of the order book overall, but it's still elevated, I think, versus pre covid level. Just how do you think about that sort of delivery timeline? How quickly is that going to catch up? Is that a part of your kind of confidence in the second half numbers, is a kind of accelerated delivery of that order book through H2, and should we be at a kind of normal run rate on the order book by the end of the year? That was my first question.

My second question was on the EBITA bridge you provided with the cost headwinds against productivity and pricing measures, which were obviously net positive. Just be curious, within those productivity and pricing measures, how much of that came from headcount reductions? I guess my question is really, has the headcount reductions tailed off? Are you still confident to get net – a net benefit of cost versus productivity going forward?

And then finally, just if you could flush out in a little bit more detail some of the different regional trends you're seeing across the personal health business. Just, I know you called out consumer weakness in China, but perhaps across some of the other markets. So I'd be interested. Thank you.

Abhijit Bhattacharya: Yeah, hi, Robert. Regarding the normalisation of order book, I think you're right, the confidence in the second half comes from the fact that we expect deliveries to take place in the second half, and therefore that normalisation should happen by the end of the year. Maybe we will still be a tad higher at the end of the year, but not as high as we are now. So that should kind of lead through the second half.

From the headcount reduction, I mentioned in the speech that operating model savings were, I think, 55 million in the quarter. So it's still significant because we had just started, let's say, last year in Q1 with the reduction. So there is still quite some more to come throughout the year. And then –

Roy Jakobs: I can take the – on the PH[?]. So if you look to the globe, I think what we've seen is that China indeed subdued. We see actually quite strong rebounds in Europe. So actually we saw some strengthening in Europe. We also think that's on the back of some of the wage increases that have been put out there. So you see consumer have more to spend, and we have been benefiting from that also in the growth market. I think the market that is not yet as strong as we would like is North America. We do see the sell-out strengthening but not yet fully kind of the sell-in. We also know that actually customers have been reducing their inventory levels, so they're pretty tight on their cash management as well. So therefore actually it makes shorter lines.

So in sum, I would say globally, we expect that consumer will strengthen throughout the year. And also in terms of – towards the guidance, we expect they will be also towards that, that guidance of 3-5%, and now starting with three, that should actually through the year increase. But that will also be on the back of China, which second half will have the most, I think, contribution into that.

Robert Davis: That's great. Thank you.

Operator: Thank you. We will now take your next question. And your next question comes from the line of Sezgi Özener from HSBC. Please go ahead.

Sezgi Özener (HSBC): Hi, thanks for the presentation and taking my questions, and congrats on the settlement. One thing on – one question on the insurance claims. Can you give us a colour on how these insurances work, and whether your premiums for insurance are likely to go up after the payout? And do you have the same kind of insurance on product liability in all of your products?

And my second question relates to connected care going forward. You mentioned you're growing quite a bit in Japan, which is normally a lower margin market, but in this case you mentioned

that the leasing model makes it more attractive. Do you have any other factors that will create a different margin outlook for connected care going forward? Thanks.

Abhijit Bhattacharya: Regarding insurance claims, yeah, it's a bit of speculation now whether it'll go up or not. So that's something we will see in the next round of – because you know, it's the first time we are claiming such large amounts. It's not that we have a long history of claims. So, we will have to see how those discussions go. But also, you know, the actions that we are taking to improve quality, et cetera, should have – will be part of those discussions.

Regarding connected care. In Japan, it is not a low margin market, so I just want to correct that. And you know, we have a very strong sleep and respiratory care business that operates on a recurring revenue basis, so that also drives a margin. So as far as Japan is concerned, let's say, the core of the underlying business still remains very strong.

Sezgi Özener: Thanks very much. As a follow up, may I ask, like usually what's the term of insurances? Like, do you conclude insurance agreements on a yearly premium, or is – are we looking more on a multi-year basis?

Abhijit Bhattacharya: Yeah, it depends on each policy differs. So, I think that would be too much of detail to put, but, you know, there are policies which you have three year terms, one year terms, et cetera. So each one of them differs.

Roy Jakobs: But I think it's important we have these insurances for all our products. So it's actually, yeah, ongoing and common business. So I think that's also how this will be seen. This is part of a long term kind of insurance trajectory that we have out there.

Sezgi Özener: Perfect. Thanks very much.

Operator: Thank you. Your next question comes on the line of Falko Friedrichs, Deutsche Bank. Please go ahead.

Falko Friedrichs (Deutsche Bank): Thank you. Good morning. I have two clarification questions on the finality of the settlement agreement here. Firstly, can you confirm that there is no chance of a court trial now? So essentially, can anyone in the census registry, can anyone still bring their case to court or is that essentially impossible now under the agreement?

And then secondly, on these additional testing programmes you're running according to the FDA requests, first of all, are they going as planned? And then in case those additional tests go against you, right, and let's just say they show a potential harm to patients, could that put anything with this framework you put in place at risk, or could that open up a new avenue for plaintiff lawyers? A little bit more clarification there would also be helpful. Thank you.

Roy Jakobs: Yeah, Falko, thank you. To clarify further, so in terms of the court trial, so the MDL will not be pursued. So the census registry and the MDL will be terminated, so they cannot kind of pursue further trials out of the current MDL or census registry. What could happen is that people individually would like to come forward and still go on an individual case. But as we said, even for those, there will be very high barriers to do so because they will be standalone. They will need to adhere to the lone pine order, they will need to come up with their own expert reports kind of to show whatever causality they want to show. And we have our own testing, as you know, that shows no appreciable harm. And there is time limitations towards the time that they can do this. That's why we are very confident on the finality, as we said before.

I think also what is important on the testing, there is no correlation at all between the testing and finality of this case. So any further outcome in testing will not have any impact on the current settlement. Settlement is as is, the amount is capped and final. And there will be no testing related to this.

Falko Friedrichs: Okay. Thank you.

Operator: Thank you. Your next question comes from the line of Wim Gille from ABN AMRO - ODDO BHF. Please go ahead.

Wim Gille (ABN AMRO - ODDO BHF): Very good morning. This is Wim Gille from ABN ODDO. Two questions from my end. First on the 540 million to be received from the insurers for the Respironics claims, to which part of the recall is this exactly related? Is this the physical recall cost? Is it the economic loss part, is it the personal injury part or is it the total issue? And are any other insurance related discussions ongoing?

And then the second question will be on the legal sabre battling that you have with SoClean. Can you give us a bit indication what the expected timelines are and what the range of outcomes is if any? Thanks.

Abhijit Bhattacharya: Yeah. So the insurance is not for the recall cost, but everything outside of that, so the whole list you gave, so it does not cover the recall cost, but of course the product liabilities, the personal injury monitoring, all of that.

The second question you had was on SoClean.

Roy Jakobs: SoClean, yeah, maybe I can take it. So I think on – so there's no timeline that we can give to that. Of course that is still in process. Therefore, also it's kind of too preliminary to give a range of outcome for the SoClean case. So I think this is something that is ongoing and we will keep you posted on any contribution that might flow from there. And that's I think as much as we can say now.

Abhijit Bhattacharya: And you've asked whether there are other insurance things that we are pursuing, the answer is no. This is the only one. We had indicated that last year we have been exactly in line with the estimates and now that is ended up in a signed deal and now the cash will flow this year.

Wim Gille: Perfect. And maybe as a follow up on the SoClean thing, because if memory serves me well, SoClean was also included in the – was not a class action, but the, let's say, the MDL that you have today. So, did anything come out of that or is there nothing that really touched them at this point in time?

Roy Jakobs: No, it's a separate MDL, so there's currently no impact from that.

Wim Gille: Alright. Thank you very much.

Operator: Thank you. Due to the time, the last question comes from the line of Ed Ridley-Day of Redburn Atlantic. Your line is open. Please go ahead.

Ed Ridley-Day (Redburn Atlantic): Thank you very much and my congratulations to the execution of the settlement. Just a few follow ups. On the patient monitoring. Clearly you had strong comps for a number of quarters from last year. Should we see patient monitoring growing in fiscal '24? Is that possible? And if you could provide some colour on that, that would

be helpful. And if you could also provide any colour on the ultrasound business growth within the quarter and how that relates to market growth, that would also be helpful. Thank you.

Abhijit Bhattacharya: Yeah, so to be on monitoring, we do see growth this year. So there is no – let's say we have no doubts. Like I said, you know, Q1, we had tough comms last year, so therefore – and in terms of ultrasound also, we had, I think, if I remember from top of my head, in the thirties growth – in the 30% plus growth in Q1. So therefore Q1 this year is of course a slight decline, but very slight. And the good news is that we have quite some innovation coming in in ultrasound, which is launching as we speak. So we really expect to gain good momentum on top of a very strong last year to continue that momentum this year as well. So we will continue to gain share there.

Ed Ridley-Day: Thank you for that. Thank you.

Operator: Thank you. Gentlemen, that was the last question. I will now hand back to Mr Jakobs for any points you may still like to raise.

Roy Jakobs: Yeah, thank you all for your questions. Much appreciated. And let me close out by just repeating once more the key messages of today's announcement. First of all, we delivered results in line with our performance improvement plan for the first quarter; as a result of strong continued focus on our execution. Secondly, very important steps taken in resolving the consequences of the Respiration recall in the quarter with major milestones on litigation, on consent decree and on insurance, which provides clarity on the way forward for Philips. And thirdly, the progress we are making reinforces our confidence to deliver further performance improvement in 2024. And we are on track with the plan for 2025.

Thank you all for listening. Have a great day.

Operator: Thank you. This concludes the Royal Philips first quarter 2024 results conference call on Monday the 29th of April 2024. Thank you for participating. You may now disconnect.

[END OF TRANSCRIPT]