



# **Q3 2023 Results**

Monday, 23<sup>rd</sup> October 2023

**Leandro Mazzone** : Hi, everyone. Welcome to Philips' third quarter 2023 results webcast. I have here with me our CEO Roy Jakobs and our CFO Abhijit Bhattacharya. The press release and slide deck, as well as the deck on the Respiroics recall were published on our investor relations website this morning. The replay and full transcript of this webcast will be made available on the website as well.

Before we start, I want to draw your attention to our safe harbor statement on screen. You will also find the statement in the presentation published on our investor relations website. In today's call, we will discuss our results as well as the progress on the actions we're taking across different areas to drive performance improvement. I would like to hand it over to Roy.

## **Introduction**

Roy Jakobs

*CEO, Philips*

### **Welcome**

Good morning, everyone, and welcome to the webcast. Before we go into the numbers, I want to say that our hearts go out to everyone affected by the terrible events ongoing in the Middle East. As of today, I'm thankful to report that all our colleagues based in the region are currently safe.

### **Highlights**

Now, starting the key highlight for Q3: we delivered another quarter of improved operational performance with strong 11% sales growth, doubling our profitability, and strong cashflow. The improvements were across all business segments and all regions, and the result of our ongoing actions to strengthen execution.

We are making progress on all our three priorities: enhancing patient safety and quality, strengthening supply chain reliability, and establishing a simplified, more agile operating model, supporting our productivity and our margins. Completing the Respiroics recall remains our highest priority with the remediation of the sleep therapy device is almost complete. We are in discussions with the FDA on the details of further testing. The litigation and investigation by the US DOJ as well as the discussions on the proposed consent decree are ongoing without further updates to share. Based upon our improved performance, we are further raising the outlook for both sales and profitability for the full year of 2023, although recognising uncertainties remain in an increasingly volatile geopolitical environment. Our improved performance reinforces the confidence we have in delivering also the next two years of our three years plan to create value with sustainable impact.

### **Delivered strong sales growth, profitability and cashflow:**

On to the financial highlights. The strong comparable sales growth of 11% was driven by 14% growth in diagnosis and treatment, 10% growth in connected care, and 7% in personal health. Our adjusted EBITA margin was 10.2%, a strong improvement of 540 basis points versus a year ago. Operating cash saw an inflow of €489 million, an increase of approximately €770 million versus last year. Order intake, which accounts for around 40% of group sales

was lower in the quarter, mainly due to the comparison base related to the exceptionally high orders in 2021 and 2022, substantially lower in China, and longer order to delivery lead times. We continue to see hospital healthcare systems in the US and other mature geographies exhibit cautious buying behaviour in the short term. And China is heavily impacted by the government initiated anti-corruption measures, but I look at the future with confidence.

Our order book remains strong, the fundamentals of the markets in which we operate as well as our order funnel are healthy, and our innovation portfolio is strategically positioned to help hospitals address their staffing shortages, enhance productivity, and improve patient outcomes.

Let me qualify what I mean by a strong order book: the order book remains around 20% higher than in Q3, 20 21 when the global supply chain crisis started, and will continue to support revenue growth. At the same time, we are implementing the necessary actions to improve order intake by reducing lead time from order to delivery and leveraging our operating model change and our innovations. Based on the funnel of orders that are in the pipeline and the visibility we have as of now, we expect to see substantial improvement in order intake in Q4 while there remains the uncertainty and the geopolitical volatility we have outlined.

#### **Preferred strategic and innovation partner for customers:**

Let me provide you with some of the key customer and innovation milestones during the quarter. We signed a ten-year over €100 million enterprise monitoring as a service and informatics agreement with one of the largest health systems in the US, covering 20 hospitals with over 3,000 beds.

#### **Highlights by business segment in Q3 2023**

We expanded our leading image guided therapy portfolio with the launch of the Mobile C-arm System 3000, which contains workflow-enhancing features to help alleviate staff shortages faced by many hospitals. We introduced our ambulatory monitoring offering in Japan, combining Philips ePatch Holter monitors with ECG analysis through AI and advanced algorithms. And in personal health, we launched Sonicare DiamondClean 7900 sales in China, which debuted as the number one high-end toothbrush on Alibaba's Tmall.

We celebrated 100 years of successful presence and collaboration in China, where we are known as Philipo and have a leading position, a strong local team of over 7,000 employees, and an extensive footprint covering manufacturing, innovation, sales and services. And with that, I would like to give the floor to Abhijit to take us through Q3 in more detail, after which I will come back with the progress on our execution priorities.

## **Financials**

Abhijit Bhattacharya

*CFO, Philips*

Thanks, Roy. Good morning, everyone. Let's begin by looking at the segment highlights for the quarter.

**Segment highlights**

In diagnosis and treatment, comparable sales increased 14% driven by double-digit growth across diagnostic imaging, ultrasound, and image-guided therapy. Adjusted EBITA margin was 12.7%, an increase of 230 basis points, mainly driven by operational leverage, pricing, and productivity measures. Year to date adjusted EBITA margin for diagnosis and treatment was 12.1%, an increase of 380 basis points compared to the same period last year.

Connected care comparable sales increased by 10%, driven by double-digit growth in monitoring and mid-single digit growth in enterprise informatics. Sleep and respiratory care sales were flattish. In the quarter, we started gradually to serve new sleep therapy patients in several countries outside the US. Connected care's adjusted EBITA margin was 3.7%, over 1,100 basis points improvement from last year, mainly driven by increased sales and productivity measures.

Personal health delivered a 7% comparable sales increase. This was driven by high single digit growth in personal care and oral healthcare, and included the positive impact of price increases. Comparable sales grew high single-digit in North America and in growth geographies, mid-single-digit in Western Europe and low single-digit in China. Overall, consumer sentiment remained subdued. Adjusted EBITA margin for personal health was 18.7%, an increase of 460 basis points driven by operational leverage, pricing, and productivity measures.

The adjusted EBITA margin for the group increased by 540 basis points to 10.2%. Wage and component price inflation came in at 250 basis points, slightly better than a year ago. However, this was more than offset by 240 basis points from operational leverage, and by our productivity and pricing actions, which contributed a further 540 basis points. We delivered significant improved cashflow, with a free cashflow of €333 million in the quarter. This was driven by higher earnings and improved working capital management. We saw a sequential reduction in inventory volumes in the third quarter, and we will see continued improvement in the coming quarter as well. Year to date, free cash was an inflow of €454 million. This resulted in an improvement of our leverage from 3.6x to 2.9x on an adjusted EBITDA to gross debt basis compared to the start of the year.

**Productivity:**

We're being very disciplined in cost management and our productivity initiatives have delivered savings of €258 million in the quarter. Operating model productivity savings were €142 million, procurement savings were €59 million, and other productivity programmes delivered €57 million. Year to date, our productivity initiatives have delivered savings of €685 million.

**Orderbook**

Moving to our order book, as Roy mentioned, it remains significantly higher than the period before the supply chain constraints kicked in. We expect the order book to remain strong and continue to support sales growth in the coming quarters. It's very important to note that orders and order book account for around 40% of our revenue. The remaining 60% come from recurring revenue streams such as services and consumables, and book-to-bill businesses, and from the personal health business.

**Normalization of orders/sales**

As you can see on the page on the screen, absolute levels of order intake remain healthy, but we see a steep increase in sales level here to date due to the enhanced order book to sales conversion, following supply chain and execution improvements. Also, important to note order intake growth in Q3 2021 was 47%, which is why the comparison base is highly elevated.

**Actions to improve order intake**

At the same time, as Roy just said, we continue to implement the necessary actions to improve order intake by reducing lead times and leveraging our innovations. In diagnosis and treatment, comparable order intake declined low double-digit following high order intake in Q3 '22, significantly lower orders in China and Russia, as well as longer order to delivery lead times. In China, the lower orders are due to the impact of the recent government imposed anti-corruption measures. We have seen similar initiatives before, which we support. This impacted short-term decision-making by hospitals as they work through the government measures, resulting in a substantially lower order intake year-on-year. Based on our previous experience, this is not expected to impact fundamental demand in the China market, and our order funnel remains very active in the country.

As explained in the last quarter, the Russia impact is due to the longer order lead time because of additional export control procedures that have been put in place recently. Order intake was mid-single-digit lower year-on-year in connected care due to the tough comps in hospital patient monitoring after the expansion and renewal of the installed base in the last few years. For context, connected care orders continue to run at absolute levels double-digit higher than pre-COVID levels.

**Debt maturity profile**

Moving to capital allocation in the third quarter, we issued €500 million of fixed rate notes due in 2031, which were used to pay off the short-term debt. This has a debt-neutral effect while further strengthening our debt maturity profile. During the quarter, we settled a number of forward purchase transactions entered into under the €1.5 billion share buyback program announced in 2021. Following further settlements in Q4 2023, we plan to cancel more than 15 million shares in December, which will result in a reduction of over 1.5% of the outstanding shares.

**Further raising the outlook for 2023**

As Roy mentioned, we have raised the full year outlook to 6-7% comparable sales growth, and an adjusted EBITA margin between 10-11% for the group while recognising uncertainties remain in an increasingly volatile geopolitical environment. As we had mentioned earlier, Q4 will have a tougher comparison base as we delivered over 6% growth in diagnosis and treatment businesses, and over 20% growth in hospital patient monitoring in Q4 of last year. Personal health will continue to have healthy growth as well. This just reiterates how we saw the second half of the year unfolding, and I want to be clear that we are not seeing nor flagging any different dynamics than what we've said before for the fourth quarter. As we had said before, the improvements in the supply chain front-end loaded growth for the year. With that, I would like to hand it back to Roy.

**Presentation**

Roy Jakobs

*CEO, Philips*

**Resolving the recall for patients remains our highest priority**

Thanks, Abhijit. I would like to continue with the topic of the Respironics recall. Globally, over 99% of the sleep therapy devices' registrations that are complete and actionable have been remediated. The remediation of ventilators is ongoing. Based upon the test results to date, Philips Respironics and third party experts concluded that use of our sleep therapy devices is not expected to result in appreciable harm to health in patients.

Following ongoing communications with the FDA, Philips Respironics has agreed to implement additional testing to supplement current testing data on PE-PUR form. The FDA acknowledged that current testing is extensive and conducted with independent parties, and expressed no concerns with its validity or objectivity. They did ask for more testing to supplement it. Philips Respironics is in discussions with the FDA on the details of the further testing.

Earlier this month, we received preliminary court approval for a settlement agreement to resolve all economic loss claims in the US MDL, for which we have recorded the provision of 575 million euros in the first quarter of this year. The litigation and the investigation by the US DOJ related to the Respironics field action, as well as the discussions on the proposed consent decree are ongoing without further updates to share.

**Execution priorities**

Now, I would like to highlight some of the progress we have made in the quarter on our execution priorities. First on patient safety and quality. As part of strengthening our patient safety and quality culture, two weeks ago we kicked off our company-wide timeout for the topic, where we spent a full day talking to all 70,000 employees worldwide about how we are moving forward to patient safety and quality, the progress we've made to date, and how we take it further. Patient safety and quality reviews are fully integrated in the new business performance management cadence, and we opened one of the largest electromagnetic compatibility labs in Europe specialised in testing health technology.

With respect to supply chain, we continue to make progress to reduce materials and component risks. For example, we have now completed around 70% of the redesigns of printed circuit boards. We're on track to meet our target to de-risk all our high-risk components by year end. As you have seen in the results today, I am pleased to see that the actions we have been taking to date continue to have positive impact on our sales, as well as our service levels.

We are monitoring the situation Israel closely, as we have manufacturing and R&D activities in the country. But currently, business continuity is guaranteed.

Finally, our new operating model with prime accountability in the businesses went live in April this year, and we have completed the realignment of the workforce roles and reporting lines. This included also the difficult but necessary reduction of 7,500 roles to date out of the planned reduction of 10,000 roles by 2025.

**Key takeaways**

Let me close out by repeating the key messages of the quarter. We delivered another quarter of improved operational performance with strong sales growth, better profitability, and better cashflow. We are making progress on our three priorities: enhance patient safety and quality, strengthen our supply chain reliability, and establish a simplified, more agile operating model.

Completing the Respiration recall for patients remains our highest priority, and looking ahead, we have further raised the full year outlook for both sales and profitability, although recognising that uncertainties remain in an increasingly volatile geopolitical environment. The progress we are making reinforces our confidence in delivering the next two years of our three years' plan to create value with sustainable impact.

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.

Thank you. The first question comes from the line of Hassan Al-Wakeel from Barclays. Please go ahead.

**Hassan Al-Wakeel (Barclays):** Hi. Good morning, and thank you for taking my questions. I have three, please. Firstly, can I start on orders given Q3 is down 9% and year-to-date orders are down 6%? How are you thinking about the current order backlog substantiating growth next year? Do you think you can still achieve mid-single digit growth in 2024 in line with your midterm growth guidance? Is end market demand changing at all?

Secondly, can you talk about the strong profitability in D&T and your expectations for Q4 given it is typically a higher volume quarter? You already sit at your 2025 target of low teens in terms of profitability, and I wonder how you're thinking about upside to the current 12% margin that you've done year to date over the next two years.

Then finally, can you talk about the FDA's updates on your testing and whether this, to your mind, changes the scope of the consent decree potentially or drives any further delays here? What extra tests do you need to do and how long will this take? Do you think this has any impact in terms of timing on the litigation process? Thank you.

**Roy Jakobs:** Thank you, Hassan. Let me take the first one to start off with. So on the orders, you saw that we have presented to minus 9% in the quarter. I want to put that in context. So as said by Abhijit, first of all, we have still a very strong order book, which is 20% higher than two years ago. That also is fuelling our strong sales performance to date and the four quarters of improved sales growth.

Secondly, we have an improvement where we see that the order intake, as we also mentioned earlier, will come up in Q4, and also we expect that to continue in 2024 as the underlying fundamentals of the market and our positioning has not changed. But we're coming off a very high comparable growth in Q3 this year, where we had 47% growth two years ago. So the comparable base also played part. Then on top, we are taking actions to continue to work on improved order intake.

Therefore, I'll also mention that actually we are ahead of the first year of our three-year plan. Actually, this have given us further confidence in also executing the second and third year of the plan that I presented in January. As you know, we presented a plan in which we started with low single digit growth in year one, mid-single digit growth in year two and onwards. That's where we also stick to as part of the execution of our plan.

Last point I think to mention, which is important, that the order intake as we report is impacting 40% of our total business. That's maybe a bit of a different profile that we have for some other companies because we have 20% of our total business coming off PH, which you saw coming back to strong growth. Secondly, 40% is tied to services, but also software subscription revenue. And then the remaining 40% is on the CapEx business, where this affects the current profile. So that's what I would say about order intake, and then maybe Abhijit can take the D&T question on profitability.

**Abhijit Bhattacharya:** Yeah, hi Hassan. I think, as you rightly pointed out, we are pretty pleased with the progress we've made on margins in D&T. That has been something that we have been constantly working on and in fact even challenged on. Now, the good news is that you see it back in the numbers. Of course, Q4, we expect sequential improvement because that is our biggest quarter.



Regarding the overall guidance, I think we are just into the first year. We have given a range, so there is still the upside of the range to go to. So we will look at that as we progress through the period. It's a bit too early now to change anything on guidance.

**Roy Jakobs:** Let me take the third question on testing and how that relates to the consent decree. Let me be outright in saying that the testing track and the consent decree track are two separate tracks, so they are not correlated. As I said, we are in continuous dialogue on the consent decree. There is no further update to share. The moment we have it, we will come forward.

On testing, we are currently in active discussion with the FDA to finalise what exact testing needs to be done so that actually we can supplement the current testing that we have. Also there at the moment, we have that finalised, and we can come forward with further news. We will bring that, of course, to you as we have always been doing.

**Hassan Al-Wakeel:** That's very helpful. Roy, if I could just follow up. You talked about an improvement in orders in Q4. Is that to say that you expect orders to be flat or up in Q4, and how should we be thinking about 2024?

**Abhijit Bhattacharya:** Yeah, Hassan, let me take that. We have said we expect sequential improvement. Now, we also talked about the uncertainty, especially what you see in China. So therefore, we don't want to be very specific, but we are fairly confident to see good improvement in the fourth quarter.

**Hassan Al-Wakeel:** Very helpful. Thank you.

**Abhijit Bhattacharya:** Thank you.

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

**David Adlington (JP Morgan):** Morning, guys. Thanks for questions. Maybe just firstly on orders again. Obviously China, I just wondered if we can get to your thoughts in terms of when we might be through the anti-corruption slowdown, when we might be through the other side. Just getting various different bits of commentary in terms of when we might be through that.

Then secondly, just on personal health, just wondered how much that 7% growth is due to price, and effectively your thoughts on pricing going forwards from here, please.

**Roy Jakobs:** Okay. Thank you, David. Let me take the first question on China. We had a very strong start of the year in China, as you have seen. We grew orders and revenue double digit. That was good market momentum that we saw because of pentup demand and also strong progress we made on our local-for-local portfolio. We also expect that to continue that indeed there is this current short-term slowdown as hospitals work through the anti-corruption measures. It is a phasing issue. We don't see any cancellations coming through. It's hard to predict exactly when it will be fully worked through. We have seen this earlier as well. It took a few quarters. So I think there will be some ongoing activity in the next three quarters. That to be expected. It's hard to say how exactly it will pan out, but we are very confident on the Chinese market and that it will resume and that also we will be able to then resume our trajectory that we had in China, as it's fundamentally very attractive and we see great prospect. As I said, we celebrated 100 years. We will continue to work on that because we

see also another 100 years in China up for us. So lets work to capture the full opportunity. Also, the consumer side of China is important. We also saw that coming back to growth in Q3. So that's also, I think, an important part of the China opportunity, and we will continue to work both sides of it.

**Abhijit Bhattacharya:** Hey, on the question, it was a bit distorted the line at that time. Let me just be sure that your question is, how much of the 7% comes from pricing. Is that your question, David?

**David Adlington:** That's right, Abhijit. Yeah.

**Abhijit Bhattacharya:** Yeah, so I would say a couple of percent came from pricing. The rest came from volumes. That's how you would look at it

**David Adlington:** And your thoughts on pricing from here?

**Abhijit Bhattacharya:** I think we are not going to make big price increases now. I think we have also stabilised in terms of our raw material pricing, etc. So if we are able to hold the current level of pricing, we are in a good zone for our margins. So I don't see further price raises.

**David Adlington:** Perfect. Thank you.

**Operator:** Thank you. We will now go to the next question, and the next question comes from the line of Richard Felton from Goldman Sachs. Please go ahead.

**Richard Felton (Goldman Sachs):** Thank you. Good morning. Just to follow up on your lead times, so you're able to comment on which modalities are lead times still an issue, and how much visibility or control do you have to drive further improvement from here? Any sense of how long the process might take to return your lead times to standard in line with peers would be, it would be very helpful. That's my first one.

My second one is a follow up on D&T margin. You called out pricing as one of the drivers for margin progression in the quarter. Is there any colour you can share on the size of the pricing impact? Then also, how should we think about pricing as a driver for D&T margin in coming quarters? Thank you.

**Roy Jakobs:** Thank you, Richard. Let me take the first one on lead times. I think when I started, I said supply chain improvement is very important for us. I'm very happy to see also that supply chain improvements have been materialising, and that actually is driving the 11% sales growth realisation in the quarter. So we have been making a lot of strides.

I also shared that actually we were working on high-risk components because what we were facing is that because of the misses of some components, we could not complete and then not deliver. Now, actually we reworked 70% of the high-risk components already year to date, and we expect to complete the program by year end towards 100% of the high-risk components. That also means that you will see therefore further improvement of the lead times.

Actually, if you look to the lead times of many of our businesses, they are already fully in line with market. The single biggest one that we call out earlier that we need to work through to fully get in line with market is MR. That's the one where we have been working it further. The good news there is that on the [inaudible] issues that we had, we also now resolved that. So

we are making progress, and we'll get back to the lead time improvement there also towards year end.

Overall, what we see also from demand in the market in discussions with customers is that we are well-positioned to capture demand. You saw the deal, for example, that we took in monitoring, which is a great show, \$100 million ten years' deal taking our full platform, including AI, to deliver productivity gains also with a flexible CapEx and OpEx model. We also having significant discussions with other big systems on major deals. So we are well-positioned with growth, but, yes, we will continue to work on our supply chain to get that fully back in track.

**Abhijit Bhattacharya:** Yeah. Richard, on D&T pricing, we have been saying all along that the pricing was coming in the order book, and it would start coming into the P&L from the third quarter. That's exactly what has happened. So we see the first signs of it coming into the P&L, maybe give or take 100 basis points in Q3. As we go into the coming quarters, you will see that increasing, so we'll probably get to somewhere between two, two and a half over time.

**Richard Felton:** Thank you very much.

**Operator:** Thank you. We will now go to the next question and the next question comes from the line of Lisa Clive from Alliance Bernstein, please go ahead.

**Lisa Clive (Alliance Bernstein):** Hi, just wanted to ask what the order intake in D&T would've looked like ex China. And then also on your comments on long lead times impacting order intake, is this simply you losing orders to competitors who can deliver faster? I just want to make sure I'm not missing anything in terms of what this actually implies.

**Abhijit Bhattacharya:** Yeah. So, if you exclude China, it's still a decline this year in the third quarter. But again, I think it's important to understand the momentum of order intake through the year. So if you just look at the absolute amount of order intake, we had a bigger... Because the comparisons get year-on-year, start creating a picture because of how you did the previous year, but Q2 was stronger than Q1, Q3 was in line with Q2 if you take out China. So overall, I think the order intake momentum still continues to be good, which is why we have an order book which is 20% higher than we had two years ago. So I think it's important because we have said it now a few times about the 40% of our sales being governed by the order book.

You need to be clear that there is a break between order intake growth and sales growth. So we continue to deliver good sales growth despite let's say the year-on-year decline, but in absolute order intake amount, the momentum through the year has been reasonable. Then your point on lead times is exactly correct. So, if we are able to supply an MR in a year and a competitor's able to do it quicker and the hospital has that need to get a quicker system, then it doesn't help us in terms of securing the order; and that's why now most of our modalities are back except for MR which we are working through.

**Lisa Clive:** Very clear, thank you.

**Operator:** Thank you. We'll now go to the next question and the next question comes from Robert Davis from Morgan Stanley, please go ahead.

**Robert Davis (Morgan Stanley):** Cheers, morning. Thanks for taking my questions. My first one was just around the evolution of order book. I think you'd cited in your presentation back the order book being 20% higher than 3Q of 21 and that was going to cover you despite the negative trajectory on orders at the moment. My question is as we look into 2024, are you expecting that order book to normalise back down to pre-disruption levels through the end of the year? Is that sort negative run rate on orders going to get cancelled out by the end of the year and we're exiting 2024 at a sort of normalised order book level? That was the first question around declining order books.

The second one was just around the testing and whether in terms of the feedback from the FDA, have they told you exactly what they want in terms of additional testing and have you made any initial estimates for how long that additional testing will take to get the answers to?

And then the final one was just in terms of where you've returned to market in the sleep business outside of the US, just be curious what you're doing in terms of pricing of those products versus some of the peers in the non-US markets? Thank you.

**Roy Jakobs:** Thank you Robert. Let me start with the first question, so on the order book, so I think as you indeed call out, it's important to recognise that we are still working through a kind of normalisation of the order book where one hand we have this higher percentage of order book that we are building down as we dial up our sales whilst in the meanwhile we also improve our order intake and then in that mix you see that we will in 2024 indeed cross the line where we will normalise and build down that order book to a rate where we want it to be because in some way it's kind of strange that yes, you have a too high order book and that holds you back in certain elements to kind of capture the full opportunity to market. So, that's kind of something that we are forecasting that in 2024 we will get fully back on track with.

Then on the testing, in terms of the feedback, we are working through that exactly as we speak. That's also what I mentioned, we are an active dialogue now. I think it's positive that we have that dialogue because the moment we can clarify, we can then test, we can also satisfy their needs and that's what we are all focused on, we both have the same objective. We want to get to an outcome here so far we have a strong testing programme executed where they also acknowledged that this was extensive, this was with third party independent test houses. Now they have formulated that there are some more testing that they want to be done. We will agree with them on that and then we will of course pursue that and conduct it in the best possible and fastest manner. But taking the patient interest first and foremost.

The third one on the return to market, what we do see actually I would see is encouraging. Firstly, we see customers really welcoming us back, and that also means that the welcoming does not go with significant pricing differences versus, what we had seen before. There's still significant demand, they welcome actually competition in the market and therefore there's no special programme of discounts or anything like that happening or needed for us to get back in play. Of course, we will work our way back into these markets in a gradual way as we have been out for some time, but the first steps back into the market I would say are encouraging.

**Robert Davis:** Thank you. Maybe just one sort of follow up just on the size of the liability for the medical injury claims, what's the timeline there in terms of having a number do you think that you can come to market with? Is that still the first half of 24? Is that likely to be the second half? Thank you.

**Abhijit Bhattacharya:** We have said it's going to be the second half of next year. That's what we estimate, it's not a figure carved in stone so I don't want it to be the next target that we are hunting. Just to be clear, we expect it around the second half and then we'll see how it goes.

**Robert Davis:** Got it. Okay, thank you.

**Operator:** Thank you. We'll now go to the next question. And the next question comes from Veronica Dubajova from Citi. Please go ahead.

**Veronica Dubajova:** Hi Roy, hi Abhijeet and thank you. And hello Leandro as well, thank you guys for taking my questions, I have three please. The first one is very sort of short term, but the fourth quarter, if I look at the guidance there is still about a 200 million euro delta in the adjusted EBITA number in Q4. Abhijeet, I was just wondering if you can give us some insights into what you see as the biggest moving, biggest sources of risk and whether you feel more comfortable at the upper or the lower end of that number, would be super helpful.

Then my second question is just trying to understand a little bit more about sort of the FDA's motivation for the testing, if it's disconnected from the consent decree, can you give us a little bit more insights into what the FDA would like to understand from the testing? Is this about your ability to return to market with DS-1, is this about how the recalls classified? Just what exactly is it that they are looking to do with the testing data? I appreciate that you can't tell us what exactly you have to test, but just would be great to understand that.

And then my third question is just more conceptually obviously the market share losses that you've seen in D&T. Other than lead times being back to normal, is there anything else that you can do to re-accelerate momentum as we move into 2024? I'm thinking product launches, is there something we should be thinking about in terms of what comes at RSNA or beyond? What else is in your toolbox to get you guys to see some better growth momentum in 2024? Thank you.

**Roy Jakobs:** Thank you Veronica. Let me start with the second question then, Abhijeet can take the first one. So on the FDA motivation for testing, I think as you also have read from the FDA, actually what they are looking into is a question to clarify further the testing data to support our conclusions of no appreciable harm. We have done very extensive testing with independent labs that came to the conclusion that no reasonable harm was done to patients, which is a very important outcome of that. They have been looking into that data, they also have been actually already commenting along the way and now they have posed some additional questions and they're currently defining exactly what they want to ensure that they can supplement the data with any data they want to come to hopefully the same conclusions as we also share the same objective that we want to ensure that whatever's out there is patient safe. So that's what the FDA is after, that's what we are after, that's what the testing programme is after and that's also what we will continue to work on to ensure that we address any outstanding question on that note.

**Abhijit Bhattacharya:** Yeah. Veronica, let me take the first question because I was wondering this 200 million, you take that 1% of our sales and I guess that's how you come to that and that's exactly why we've given a range. Q4 is a big quarter, there are also a lot of uncertainties out there as we have highlighted. So therefore giving now a specific amount or

a specific number whether upper end or middle is maybe too early, but we are comfortable in that range of 10 to 11%.

**Veronica Dubajova:** Yeah, Abhijeet [inaudible]... Sorry, I was just going to say the 200 million, I get it from a sales perspective, but it's also 200 million on adjusted EBITA, I get that's pretty a high drop through rate between the two.

**Abhijit Bhattacharya:** Yeah, so it's not just a Q4 upside of 200 million, right? It is also linked to how we have performed so far in the year. So therefore there is a big part that we have, let's say we have had a good start to the year and therefore we expect a quarter over quarter, of course, improvement in Q4, but we are not specifying whether we are going to be to the last amount at this stage. Like I said, because of the uncertainties that we have. But fundamentally the factors that we told you about and we have been saying from the start of the year, the improvement in the supply chain on patient safety and quality and productivity, you see that quarter on quarter that coming back, you see also pricing coming back and that's sort of what gives us then the confidence to increase now for the second time, the guidance for the year.

**Roy Jakobs:** And maybe let me take the third one in terms of D&T expectation. So I think we need to be specific that, of course, in our D&T businesses there are several businesses where actually we are from a market share perspective very strong and also leading and winning. So if you look to the IGT side, if you look to ultrasound, we have very strong positions and actually also even this year we continue to see that progress. Now that indeed, we had the MR pressure on lead time, we are improving that, but even in MR and for example, look at one of the markets that were on a bigger distress now in Q3 like China, we had a very strong order intake actually in the first half in MR and in CT where actually they love our blue seal, they love our spectral and actually having that localised now available and also even the Epiq ultrasound really made a big jump in order intake happening in China. So we see the momentum there coming back.

Now RSNA, of course another exciting moment to come forward with our innovation, I will not fully disclose what we will bring there, but what is for sure part of what we'll bring as important innovation is how our innovations drive productivity in a distress situation that the current health system is focusing on the workflow, focusing on how our software AI solutions actually both look at the combination of hardware, software and doing it across different vendors is something that really differentiates us and that others don't have. The radiology operations command centre, the tele ICU solution, but also teleradiology, the digital pathology, so those are all elements that kind of flank what we do in our core and that's something that really works well.

IGT, we launched our new C-arm, you saw that it's really spot on in terms of clinical workflow. So actually we have a lot of exciting dialogues with customers, I look forward also to continue those at RSNA and there will be some specific news that you will see when you join us on stage and I would all invite you there to come and have a look at the great Philips presence.

**Veronica Dubajova:** Great, look forward to hearing more about that, thanks guys.

**Operator:** Thank you. We will now go to the next question. And the next question comes from the line of Hugo Solvet From BNP Paribas. Please go ahead.

**Hugo Solvet (BNP Paribas):** Hi, hello. Thanks for taking the questions, I have a few. First on China. When you will expect China and demand in China to recover, what's your level of confidence to see some demand? And maybe a broader question on this, but would you expect the intensity of local competition to increase in the aftermath of the anti-corruption campaign?

Second on Respiroics, follow up on your question, but as you start to serve new sleep patients outside of the US, just keen to understand the manufacturing footprint of devices for outside of the US patients manufactured outside of the US or are still primarily coming from the US?

And then lastly, we've had a lot of discussion with investors in the past weeks on GLP-1, just keen to have your views on... And it might be early days, but on what the impact of this drug class could have on the sleep apnea market? Thank you.

**Roy Jakobs:** Thank you, Hugo. Let me start off with your first question on China. So as I said earlier, we did see very strong momentum and actually pent up demand from even the COVID period. Now we actually haven't satisfied that in full and we see that now actually adding to the backlog in China that we will step into once they work through this anti-corruption measures that they currently have deployed. We do expect that that will improve in the current quarters, but it's hard to predict exactly what it is. But the confidence levels that we have in China are high. We also saw materialising the moment it was an open market and we were there with our local relevant solutions. We had a very significant uptake. We also actually have orders waiting to be signed, so also we're looking into a funnel. We have confidence in the China market moving forward, and also our specific innovations that are called out like the spectral, like the helium-free really have a lot of traction there. And also, IGT is something that has pent-up demand. So yeah, we are working through with the local team, we have a strong presence there with also a strong government relations. Last point on that, I think actually this can also benefit companies like us, because from a compliance perspective, of course we have very strong standards on compliance and integrity. So that's also something we use in these kind of circumstances.

Then on the recall, we indeed do produce the devices outside of the US also to be used in the rest of the world. So we have a manufacturing base which is diversified. We have in the US but we also have outside of the US, and we also use that actively as we speak for the markets outside of the US. And then on your GLP-1 impact on the CPAP market, that's something that currently we don't see as a major impact. We do think it's flanking the therapy. As we said earlier, that's something that we believe will help certain patient groups, but there's such a big undiagnosed patient group in sleep that actually we do believe that the therapy and our sleep devices are very much in need.

Also, important to acknowledge that when we talk about SRC in Philips, it's 1 billion out of 19 billion. And as you have seen in the third quarter, but also as I announced when we started the programme for the three-year value creation plan, it's very important that we got all of Philips working very strongly and well dialling up profit, dialling up growth, and then also we deal with any opportunity that of course will come to sleep business, but we are for sure not dependent only on that because we take charge of growing the other pieces of our business.

**Hugo Salve:** Thank you very much.

**Operator:** Thank you. We'll now go to our next question, and your next question comes from the line of Graham Doyle from UBS. Please go ahead.

**Graham Doyle (UBS):** Morning, guys. Thanks for taking the questions. Just one on the consent decree and then just one on the testing. With regards to consent decree, you very helpfully gave us a bit of an update in terms of the dynamics about two months ago. I think Abhijit, you were describing as a process whereby the FDA is reaching out every month or so and asking you some questions about new topics and then updating the draft consent decree. I just look to get an understanding as to where we are in relation to that. So are we still at that process of more questions, more answers, and another update to the draft or are we pushed on beyond that?

And then secondly, with relation to the testing, so I think it's interesting you're still referring to the data showing no appreciable harm to patients. It seems that there's a bit of a gap between that and then obviously the statement the FDA put around requiring more tests to fully evaluate the risk posed to users. So is there a gap between you two guys or am I misunderstanding that? Thank you.

**Abhijit Bhattacharya:** Hi, Graham. Let me take the first one. I think this whole speculation on the timing of the CD and the progress of the CD creates a lot of unnecessary ripple, which is why we said we don't control the timeline and we will update you as soon as we know that the CD is done. So I think we'd just like to leave it there. As soon as the CD is signed and it's done, you will get to know all the details, what the impact is on us, and in the meantime we just don't want to give any further update because it creates just too much unnecessary speculation.

**Roy Jakobs:** Yeah, maybe I take the second one on the testing. So I think what's important is that the FDA did not disqualify our testing to date. They acknowledged it's extensive, it's done with third parties, and actually they've also been looking into the data in great detail. The fact that they have some additional questions to be answered actually I see as very positive because actually if we can satisfy those, we can come to the same conclusions hopefully. And that's in the interest of the patient and patient safety and underwriting then the outcomes that we also have been presenting to date. So we are very confident in that because we put all the efforts in, we have a very scientific, rigorous process followed to come to those tests. There are additional questions. We are happy to address those. We will do that in full collaboration, and we also see actually this as a positive development because the clearer we can get or more still outstanding to be answered, actually that helps us to take those questions off the table, and of course we remain at full disposal to do so.

**Graham Doyle:** Okay, super. Just one quick question on medical monitoring. I think again it's flagged as a 2024 potential update around that. That always seems a bit more procedural to me. Is that progressing as you'd expect? And is that a H1 event or is that more H2 as well?

**Roy Jakobs:** No, I think as we said, it's progressing as we expected, so the steps are taken by the judge and in the process, but I think it's not very useful to speculate on exact timing because it's very hard to judge upon it. What we said is we really hope that we can come forward in 2024 with some news around this part of the follow-up of the recall, and that's probably best to leave it there. When we have news, we'll share it.

**Graham Doyle:** Okay. No, I appreciate that. Thanks a lot, guys.



**Operator:** Thank you. We'll now go to the next question, and the next question comes from the line of Sezgi Oezener from HSBC Germany. Please go ahead.

Sezgi Oezener(**HSBC**): Hi, thanks for taking my questions. I'll also have two, please. First of all, a very detailed one actually. In connected care you had further remediation costs and quality costs this quarter. Just would like to find out specifically what they relate to.

And my second question is on the D&T side, the improvement you've seen this quarter despite China. Can you a bit detail which parts were in the forefront as you described that lead times are increasing in MRI? It looks more like image guided therapy and probably ultrasound to me, but some details as well as what the pricing impact within this growth was. That'd be very helpful. Thank you.

**Abhijit Bhattacharya:** So on the remediation cost, it was slightly higher this quarter. That was on certain smaller product lines which we decided not to remediate because the cost of remediation would just outdo the benefits that we would get. So there was some inventory that we wrote off related to that, so that triggered a slightly higher cost. On your question on D&T China, I think we are mixing a couple of things because in China the issue is on order intake. There is no problem in terms of access to hospitals delivering on the existing order book, which is why China also grew pretty well in D&T in the quarter, so that is not an issue. The issue that we have flagged is for order intake. Given the new procedures that are in place in China, it just takes longer for it to come into our order intake. The funnel, as Roy mentioned, continues to remain very strong. What was the last part of it? Did I answer your question? Is there a part that I missed out?

**Speaker:** Actually, the D&T part was about the pricing impact-

**Abhijit Bhattacharya:** Yeah. Sorry, I mentioned that earlier. The pricing impact in the third quarter was about a percent or so, and that will pick up. This is the first time we see that the pricing from the order book starts coming into the P&L, and we will see that coming let's say in further quarters a little bit more.

**Speaker:** Okay, thank you. I thought this was mentioned for personal health only. I didn't realise it was a company-wide comment. Okay, thank you.

**Abhijit Bhattacharya:** Yeah. Thanks,

**Operator:** Thank you. We'll now take our last question for today and the last question comes the line of Falko Friedrichs from Deutsche Bank. Please go ahead.

**Falko Friedrichs (Deutsche Bank):** And thank you very much. Good morning. A few follow-ups please. Firstly, Abhijit, did I understand your comment on order intake correct that Q4 should still be negative but less negative than in Q3?

Then secondly, could you update us on the number of patients in the census register, those people that could potentially sue you, and how many of those have found themselves a lawyer at this point?

And then the third question, could you just give us a few examples of the countries where you have returned to the market with your sleep and respiratory care products? Thank you.

**Abhijit Bhattacharya:** Yeah, so on Q4 we have said it's going to be a significant improvement on the minus nine. Now, whether that is going to be negative or positive given

all the uncertainties, we are not speculating on that at the moment, but it'll be a substantial improvement on the minus nine that we had in Q3.

**Roy Jakobs:** On the census registry, so currently, we have 54,000 people registered, but out of those, only 670 currently are in the process with a lawyer in terms of claiming anything. So those are the two numbers which are the latest to date. And then on the third one on return to market, which countries are you selling? Now, this is starting across the globe. So Japan is an important market for us, of course, that we are very strong in. We have a full suite. We also started to enter in China. We have Australia, Latin America, but also in the EU. So actually, we are working now through the process with every regulator across the globe to go through, and actually we're getting a very positive support in many of the markets and that's also where we see us coming back into.

**Falko Friedrichs (Deutsche Bank):** Okay, thank you.

**Operator:** Thank you. That was the final question. Mr Jakobs, please continue with any points you would like to raise.

**Roy Jakobs:** Yeah, thank you all for great questioning and the dialogue we had around it. So just to close, so what you have heard us discuss is a very strong performance and a strong performance improvement this year so far. We had a strong third quarter where we delivered 11% growth, doubling our profit and strong cash flow. It was the fourth quarter of growth that you have seen, and that actually really increases our confidence to also increase the guidance second time this year towards a strong close of this year, which will bring us ahead of the first-year plan that we announced in January. It also gives us confidence in the execution of the second and third year of our plan, as we see the actions we are taking really having an impact both on supporting strong sales, supporting also margin improvement, and productivity you see dialling back into our profitability step up. So that with the actions on order intake will give us a lot of confidence in continuing to work on our trajectory to bring Philips back where it belongs. Thank you so much for your attention and looking forward to connect with you soon.

[END OF TRANSCRIPT]