

PHILIPS

Q4 & FY 2019

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Leandro Mazzoni - Head of IR

Good morning, ladies and gentlemen. Welcome to Philips' Fourth Quarter and Full Year 2019 Results Conference Call. I'm here with our CEO, Frans van Houten; and our CFO, Abhijit Bhattacharya. On today's call, Frans will take you through our strategic and financial highlights for the period. Abhijit will then provide more detail on the financial performance and market dynamics. After that, we will take your questions.

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

Finally, as mentioned in the press release, adjusted EBITA is defined as income from operations excluding amortization of acquired intangible assets, impairment of goodwill and other intangible assets, restructuring charges, acquisition related costs and other significant items. Comparable growth for sales and orders are adjusted for currency and portfolio changes.

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

Frans van Houten - CEO

Yes. Thanks, Leandro, and good morning to all of you on the call and webcast. In the fourth quarter, we delivered 3% comparable sales growth, and the adjusted EBITA margin for the group improved by 50 basis points to 17.9%. Our 3 business segments together delivered encouraging results, with 4% comparable sales growth and a strong 120 basis points adjusted EBITA margin improvement in the quarter, with all businesses contributing. This performance was partly offset by the decrease in license income in the segment, Other, in line with our expectations.

In the full year, we delivered comparable sales growth of 4.5% and improved the adjusted EBITA margin to 13.2%, despite gross tariff headwinds before compensating actions of over EUR 100 million. Moreover, we achieved a free cash flow of more than EUR 1 billion and increased adjusted diluted EPS from continuing operations by 15% in the year.

While we have made overall progress in 2019 in a more challenging environment and have delivered on most of our financial targets, the small step-up in profitability for the group was not satisfactory. And I want to repeat that we remain completely focused on achieving to drive improvement in 2020 and beyond.

Diagnosis & Treatment and Personal Health delivered a good performance and strong adjusted EBITA margin improvement in 2019. In Connected Care, adjusted EBITA margin decreased to 13.2% in the year, but we saw the initial impact from the measures we have deployed in these businesses reflected in its fourth quarter results. The fundamentals of Connected Care are strong. We believe that the segment will gradually contribute to the group's overall performance improvement in 2020.

Also important, Philips ended the year with a strong order book, driven by 3% comparable order intake growth in both Q4 and the full year 2019, further building on the double-digit growth seen in 2018. The demand for our innovative products and solutions remains strong, and we expect to have continued increasing market share in the professional healthcare market.

As we continue our transformation to expand leadership in health technology, today, we announced we will review ownership options for the Domestic Appliances business. This

business has significantly contributed to Philips, but it is not a strategic fit for our future as we choose to further sharpen the focus along the health continuum and invest in our consumer health and professional healthcare related businesses. We are convinced that with this move, we will create a focused and competitive Domestic Appliances business that can continue to thrive and grow over time. We are committed to a smooth disentanglement process and expect to complete the separation in the next 12 to 18 months.

The Domestic Appliances business has solid financial performance and market positions. It generated sales of EUR 2.3 billion in 2019, with average comparable sales growth of mid-single digits over the past few years. Its adjusted EBITA margin is at double digit level, driven by innovation, strong performance management and productivity.

Following the disentanglement of Domestic Appliances, our EUR 3.5 billion Personal Health businesses will continue to shape its important role in the company's integrated health continuum approach through products and increasingly through solutions to support the health and well-being of people. Oral Care, mother & Child Care and Personal Care are relevant building blocks to consumer health, which cognitive of what the data of social determinants of health tell us play a big role in the prevention of disease and support of chronic disease. We will continue to innovate and invest in these areas.

Let me also update you on the announced changes in our management team. As I told you during the third quarter call, I have been closer to the Connected Care businesses since the summer. And Carla and I agreed that she will leave the company to return to Germany and pursue other career interests. I'm pleased to announce that Roy Jakobs, currently Chief Business Leader of Personal Health, will take over the leadership of the Connected Care business with immediate effect. I want to thank Carla for her contributions to Philips.

A few comments about Roy, then. To help us achieve the required performance improvement in the Connected Care segment, Roy brings his experience as a global leader with strong business performance record, accomplishments in strategy, digital innovation and new business development in both the B2B and B2C domains. I like especially his people leadership style and energy, taking along his team and all the people, something that he demonstrated in Personal Health already.

In view of the changes in Personal Health, I have opted to oversee the segment myself on an interim basis. It will take some time to appoint to eventual new leader for this segment, and I will inform you, of course, in due course.

Ladies and gentlemen, we will continue with our strategic journey to leadership in health technology. As you know, our value creation story is built around 3 key levers: driving growth in the core business, innovating solutions and driving operational excellence. We continue to drive market share in our core businesses through deeper and more comprehensive customer partnerships and pursuing growth by increasing geographic coverage and market penetration.

During the fourth quarter, we entered into new long-term strategic partnerships with leading hospitals. For example, we signed 5-year partnership with the regional medical center in South Carolina to provide diagnostic imaging and image-guided therapy solutions to innovate care for the residents. I'm very pleased that we continue to see double-digit growth in health systems in China, where we won several large contracts in the quarter.

For example, we signed an agreement with Xi'an International Medical Group to deliver solutions in diagnostic imaging, image-guided therapy and patient monitoring to address clinical and research needs in cardiology, radiation, oncology and critical care.

In the fourth quarter, we also continued to roll out exciting new products and solutions. For example, we launched the CT 6000 ICT and the CT 5000 ingenuity. These platforms offer new capabilities, including advanced workflow benefits and cybersecurity as well as software and hardware announcements that improve performance. Following the recent launch of the new Incisive CT platform with the industry-first Tube for Life guarantee, we have now completely refreshed our CT portfolio of systems, software and services.

We also continue to set the standard in integrated solutions for image-guided therapy, with the expansion of the Azurion platform family with Flexarm and the seamless integration of our smart catheters in the platform. Combined with the successful launch of Azurion in China and the expansion of the smart catheter offering in Europe and Asia, this resulted in double-digit comparable sales and order intake growth for the image-guided therapy business in 2019.

Strengthening our leadership in patient monitoring solutions, we expanded the general Care Solutions portfolio with the launch of the Early View VS 30 in the U.S. This new monitor uses automated early warning scoring to collect critical vital signs and calculate risk-based alerts that allow clinicians to identify subtle signs of patient deterioration and facilitate communication between caregivers for timely intervention and care.

Health First Central Florida only fully integrated delivering network, achieved significant performance improvement by using our telehealth solutions for critical care. Powered by Philips E-care Manager, their vital watch EICU achieved a 23% reduction in overall mortality, 49% reduction in ICU length of stay and 35% reduction in length of stay across its hospitals. This demonstrates that our data-driven solution is delivering results.

Switching to Personal Health. We are further building on the success of our leading oral care solutions and rolled out the Brush Smart program, in collaboration with Delta Dental of California, the largest provider of dental benefits in the United States. The subscription-based program includes a Sonicare toothbrush, coaching and teledentistry try and connect brushing behaviors with professional Care to better understand, motivate and improve oral health. Moreover, we are happy to see the continuing strong traction of our recent launches in the lower-priced segments of oral care and male grooming.

For example, the success of Daily Clean in the United States supports the conversion from manual to power toothbrushing, while the success of Shaver S1000 in China recruits new users into power shaving.

Moving on to the third key driver of our strategic agenda to improve margins through customer and operational excellence. Our self-help initiatives to drive over EUR 1.8 billion in savings over the period 2017 - 2020 are on track. We delivered annual savings of EUR 480 million in 2019, driven by the 3 main programs, i.e., procurement savings, manufacturing productivity, and cost reduction. With that, cumulative savings reached more than EUR 1.4 billion in the 2017 to 2019 period.

A progress update on regulatory matters. We continue to address the follow-up request of the U.S. Food and Drug Administration as part of the efforts to fulfill our obligations under the Consent Decree. We remain in dialogue with the FDA. However, given the nature of the process, we still cannot provide a definitive time line for the expected lifting of the injunction. We are making good progress with the EU MDR certifications, the European medical Device Regulation certification, expecting the majority of our businesses to be compliant in the course of 2020.

You may be curious as to my experiences during last week's World Economic Forum in Davos. I would like to make 3 remarks. The International Business Council, representing some 100 large companies, have joined in embracing standardized ESG metrics and committing to public goals

on how we will deliver against the sustainable development goals. Philips is at the forefront in this field, on track to be carbon-neutral in our operations and to achieve 0 waste to landfill in 2020 and 100% closed loops for all large medical systems by 2025.

My second observation is around the economic outlook. While the atmosphere in Davos was slightly more optimistic than last year, I wish to point out that significant geopolitical risk remain, and in fact, 1 new risk emerge, like the Coronavirus spread. Finally, Davos is, as always, a great opportunity to discuss the health care business opportunities. It's evident that Philips is at the forefront of the transition to value in health care with its solutions that deliver against the quadruple aim of improving health outcomes, productivity and patient and staff experience. Informatics and data science are obviously big topics in this context. And I was very pleased to observe the recognition that we get for our strategy from the health care community present in Davos.

Let me now conclude. I expect that the 2020s will be a very exciting decade for health care, accelerating developments in technology, data science and precision medicine will come together at unparalleled speed to create many innovation opportunities to address consumer, customer and patient needs. The 2020's will also be an era where the transformation to value-based care will take center stage in society. Our strategy to deliver solutions along the health continuum that deliver on the quadruple aim of health care plays right into that. We continue to focus on improving execution, and I'm certain that by courageously taking the next steps in our journey, we will make Philips more valuable in the coming years.

With regards to 2020, we continue to observe geopolitical and economic risks. We aim for 4% to 6% comparable sales growth and an adjusted EBITA margin improvement of around 100 basis points in the year, with the performance momentum that is expected to improve during the course of the year.

And with that, ladies and gentlemen, I'll turn the call to Abhijit, who will provide more detail on financial performance and market dynamics.

Abhijit Bhattacharya - CFO

Thank you, Frans, and thank you all for joining us today. Let me provide some color on the fourth quarter comparable sales growth of 3%. Growth geographies sales increased by 11% in the quarter, and we are pleased to reach double-digit sales growth in these geographies also for the full year, with strength across all our businesses. Mature geography sales were in line with the fourth quarter of 2018, as growth in North America and Western Europe was offset by decline in other mature geographies, driven by the one-off license income in Q4 2018 and the impact of higher consumption tax in Japan in Q4 2019.

Our Diagnosis & Treatment businesses delivered a good 5% comparable sales growth in the quarter as well as for the full year. Image-Guided Therapy and Ultrasound continued their strong performance part and grew high single-digit and mid-single digit in the quarter, respectively. Diagnostic imaging grew low single digit due to phasing of orders.

The sales for the Connected Care businesses grew 2% in the fourth quarter, driven by high single-digit growth in patient monitoring and double-digit growth in our EMR business. The Sleep & Respiratory Care business comparable sales was in line with Q4 2018, on the back of overall tough comparables as well as soft ventilation market. The sales for Connected Care grew 3% for the full year.

The Personal Health businesses delivered 4% comparable sales growth in the fourth quarter, led by new product introductions and double-digit growth in our oral healthcare business. After a difficult 2018, we are glad to see that the comparable sales growth of 5% for Personal Health in 2019. Overall, our business segments delivered 5% comparable sales growth in the full year, which is well within our target range. This performance was partly offset by lower IP royalties compared to 2018, resulting in 4.5% comparable sales growth for the group.

Moving on to orders. Diagnosis & Treatment delivered 3% comparable sales growth in the quarter. The demand for our products and solutions remained strong in this segment. Despite the tough comparables, the equipment portfolio delivered another quarter of mid-single-digit growth, partly offset by phasing of orders in Enterprise Diagnostic Informatics.

The full year comparable order intake grew 5% in Diagnosis & Treatment, further building on the double-digit growth seen in 2018, which results in a strong year-end order book as highlighted by Frans. Comparable order intake in Connected Group -- Connected Care grew mid-single digits in the fourth quarter. In the full year, comparable order intake was 1% down for the Connected Care business due to slower growth in patient monitoring for the first 3 quarters of the year. It's important to note that we expect to have kept our market share stable in this business for 2019.

Overall, growth geographies continued to perform well with high single-digit order intake in the quarter driven by double-digit growth in China, Latin America and Russia. Mature geography order intake grew low single digit with growth in North America and Western Europe.

Let me now turn to the profitability development in the fourth quarter. Adjusted EBITA for the group increased by EUR 95 million and the margin increased by 50 basis points compared to the fourth quarter of 2018. Our business segments delivered 120 basis point adjusted EBITA margin improvement, which was partly offset by the decrease of license income. The Diagnosis & Treatment business delivered an adjusted EBITA margin improvement of 40 basis points compared to the fourth quarter of 2018, mainly driven by sales growth, partly offset by investments and tariffs. In the full year, the adjusted EBITA margin in the Diagnosis & Treatment business increased by 140 basis points. We are encouraged to see an adjusted EBITA margin increase of 160 basis points in Connected Care in the fourth quarter, led by the patient monitoring business. The improved profitability for this segment was a result of sales growth and productivity, partly offset by tariffs.

Personal Health delivered a strong adjusted EBITA margin increase of 200 basis points in the quarter and closed the full year with an increase of 50 basis points compared to 2018. These improvements were driven by growth, a positive mix impact and productivity, partly offset by tariffs. The overall negative impact from tariffs in the fourth quarter was in line with our expectations. In the full year, we saw gross tariff impact of more than EUR 100 million for the group, resulting in a net impact after compensating actions of around EUR 70 million. Adjusted EBITA for the group was also impacted by a decrease of license income in the fourth quarter as well as the full year, which was in line with our prior guidance.

Our productivity program delivered EUR 125 million net savings in the fourth quarter. More specifically, procurement savings, in part driven by our Design for Excellence program, delivered EUR 39 million of bill of materials savings year-on-year. Net nonmanufacturing cost reductions amounted to EUR 82 million, and the manufacturing productivity program contributed EUR 4 million in the quarter. Productivity savings amounted to EUR 480 million in the full year 2019, and we are well on track for our overall 2017 to 2020 productivity savings target of EUR 1.8 billion.

Overall, the adjusted EBITDA in the fourth quarter increased by EUR 165 million, resulting in a margin of 22.4% of sales, 150 basis points higher than in the fourth quarter of 2018. In the full year, adjusted EBITDA increased by EUR 410 million to 18% of sales compared to 17.1% in 2018. This includes the impact from the implementation of IFRS 16 lease accounting as of January 1, 2019.

Income tax expense increased by EUR 134 million in Q4, mainly due to lower noncash benefits from tax audit resolutions and business integration compared to Q4 2018, partly offset by lower provisions for tax risks. For the full year, our effective tax rate was 22%, which is below the guided range of 24% to 26%, largely due to nonrecurring tax benefits from business integration. Net income amounted to EUR 556 million in the quarter, including charges of EUR 108 million related to value adjustment of capitalized development assets and impairment of goodwill and acquired intangible assets. 1/3 of these total charges of EUR 108 million is related to the portfolio optimization following the acquisition of Carestream's Healthcare Information Systems. We now have in our portfolio a world-class enterprise imaging platform, and as a result, have decided to refocus our efforts in the field, leading to restructuring of development team and writing off of capitalized R&D. The rest are due to choices we have made to address parts of the portfolio and performance in Diagnosis & Treatment.

In the full year, net income amounted to EUR 1,173,000,000 compared to EUR 1,097,000,000 in 2018. The adjusted EPS from continuing operations increased by 9% in the fourth quarter and by 15% in the full year compared to 2018. Net cash flow from operating activities was EUR 2 billion in the year, and we delivered a free cash flow of more than EUR 1 billion.

Now I would like to give you an update on what we expect to see in the main health care markets of 2020. We continue to experience positive momentum in North America for our portfolio and approach to build long-term strategic partnerships with key customers. Overall, we expect U.S. health care market growth in 2020 to be similar to 2019 in the low single-digit level. For Western Europe, we continue to expect modest low single-digit growth in 2020. For China, we expect another year of mid- to high single-digit health care market growth, mainly driven by government policies to further increase access to care and the expansion of private investments in the sector. Overall, consumer sentiment remains a bit subdued in China, and I would like to flag that the impact of the Coronavirus might adversely influence consumer market demand.

Let me provide some guidance for certain areas of our business. While it is good news that the U.S. and China have reached a first phase accord based on the announcements made so far, the full year gross impact of tariffs is expected to be in line with the last year of around EUR 100 million. Including mitigating actions, we expect the net tariff impact to be around EUR 70 million in 2020, which is also largely in line with the impact seen in 2019. Of course, we continue to invest in the necessary countermeasures and expect the results to gradually kick in. It is fair to say, however, that the mitigation of these trade tariffs has proven to be more arduous and time-consuming than originally assumed, and in large part, related to a long tail of components that these are subject to.

In the segment Other, on an adjusted EBITA level, we expect full year costs at around EUR 115 million in 2020, which is a decline of EUR 40 million versus 2019, mainly due to lower license income and investments in quality and regulatory affairs. At EBITA level, we expect a net cost of around EUR 185 million for the full year 2020. For Q1, we expect a net cost of around EUR 50 million at the adjusted EBITA level and around EUR 60 million at the EBITA level in this segment.

In line with our previous guidance, restructuring charges are expected to be 90 to 100 basis points, and acquisition-related costs are expected to be around 40 basis points in 2020. We expect one-time EU MDR investments of around EUR 50 million in the year and Consent Decree-

related costs to be around EUR 10 million a quarter, similar to the quarterly run rate of 2019, unless any changes in the status with the FDA.

Financial income and expenses are expected to be a net cost of around EUR 200 million in 2020. This is higher than in 2019, largely due to nonrecurring dividend payments received in 2019. For effective tax rate, we keep our midterm guidance of 24% to 26%, excluding incidentals.

On the topic of capital allocation. As of the end of the fourth quarter, we had completed 41.5% of the EUR 1.5 billion share buyback program for capital reduction purposes announced on January 2019. In the fourth quarter, we also completed the cancellation of 8.5 million repurchased shares. With that, the total number of issued shares outstanding was 891 million at the end of the year compared to 914 million shares at the end of 2018. We will submit a proposal for dividend at EUR 0.85 per share against the net income of 2019, which keeps us within the target payout ratio of 40% to 50% of continuing net income.

On reporting matters, we expect to continue to account for the Domestic Appliance business under personal health until the separation process is completed. We do not estimate that the disentanglement - We do not estimate this entanglement to have a significant impact on our overall financials as the Domestic Appliance business margins are slightly lower than the groups, and we expect to have standard cost. We will give additional guidance on this topic in due course.

We aim for a 4% to 6% comparable sales growth and an adjusted EBITA margin improvement of around 100 basis points for the group this year. Based on the order book analysis for our professional health care-related businesses and the sales seasonality observed in Personal Health as well as the potential impact of the Coronavirus on consumer buying behavior, we expect a slow start to the year with comparable sales growth for Q1 being below the guidance for the year. We also estimate a headwind of EUR 30 million in the adjusted EBITA due to lower license income in Q1 of 2019. As a result, we do not expect meaningful improvement in the adjusted EBITA margin for the group in the first quarter. The performance momentum is expected to improve in the course of the year.

In conclusion, let me make the following remarks. Despite increasing headwinds, our comparable sales grew 4.5% in 2019. We delivered a free cash flow of more than EUR 1 billion, adjusted EBITA increased by almost EUR 200 million to 13.2% of sales and adjusted diluted EPS from continuing operations grew 15% in the year. We continue on our transformation journey and expect profitability to improve in 2020 due to the performance trajectory in Diagnosis & Treatment and Personal Health businesses and a gradual recovery in Connected Care.

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

QUESTIONS AND ANSWERS

Operator

We will now take our first question from Michael Jungling from Morgan Stanley.

Michael Jungling - Morgan Stanley

I have 2 questions. Firstly, when it comes to Chinese manufacturing and your assembly businesses, can you comment on whether production is being impacted in any of your 3 divisions through restriction of staff movements or supplier issues? And then question number two is on Domestic Appliances. Can you comment on the size perhaps of the sales or the cost

synergies that will come from the sale of this business? Meaning, should we expect an extra EUR 50 million or EUR 100 million of costs that was allocated previously to overhead through various divisions now to be absorbed by the remaining division post Domestic Appliances. So cost synergies on the disposal of Domestic Appliances.

Frans van Houten - CEO

Yes. Michael, this is Frans. Let's first talk about China. Situation is developing as we speak, right? And there's not yet impact on manufacturing and production. In fact, it's a normal week off in relation to Chinese New Year. Authorities have indicated that, that vacation period should be extended by another week in order to restrict the virus to spread. There are some differentiation across the country also between parts of the business. For example, our respiratory business has been asked to produce extra hospital masks. So our people are all very active supporting hospitals with the diagnostic equipment to extend more services so that the CT scanners can work around the clock for diagnosing patients.

I am concerned that if, let's say, this prolongs, that supply chain may be impacted, but we have not yet -- it's too early to say what the impact is. We have a supply chain organization that is mapping out scenarios and backup scenario. So we try to be as prepared as possible.

With regards to your second question. As Abhijit mentioned, there could be some stranded cost. Of course, as you know us, we will always try to eventually take that out. So we have just announced the start of this process, which can take 12 to 18 months. Typically, we start with a design phase in which we detail out how the carve-out will happen, making sure that both the D.A. business, but also, let's say, the Philips business can be performing well. In some of the emerging markets, the D.A. business is quite a sizable proportion of the total revenue. So we will have to design good solutions for that.

The D.A. business is, as Abhijit said, slightly under the average of Philips. I think this is a topic that we should come back on in the course of the year as we gain insights in that design process, and I will certainly inform you further.

Michael Jungling - Morgan Stanley

Frans, can I just confirm, so the stranded costs that will arise out of this, you will intend to report as a abnormal charge? Or, if you like, it will not be included in the EBITA adjusted. Is that correct?

Frans van Houten -CEO & Abhijit Bhattacharya - CFO

Abhijit: Yes. So we don't adjust stranded cost out of the profitability. So it will be a headwind until such time that we, let's say, deal with those stranded costs.

Frans: If we can -- it is later on in the design phase, we have a good handle on that. We can say, here's what we reckon with and here's how long it will take us to take it out, right? Because overall, we remain entirely committed to our improvement path. And it also means that we have no long-term appetite to absorb costs, right? So it's just that in the near term, we need to be realistic as to how fast we can do this.

Operator

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

Veronika Dubajova - Goldman Sachs Group

Just as a follow-up to Michael's question. Just curious to get a little bit of your thought process of why you are considering divesting Domestic Appliances now. I know you've been asked this question many times over, over the past few years. And just curious what let you to conclude that now is a good time and how you're thinking about any potential proceeds and how those could be deployed.

And then, Abhijit, just we can just get your help in terms of how to think about Connected Care for 2020. Obviously, exiting 2019, the order growth is negative. Curious if you have any thoughts on what revenue growth looks like as a result of that as we move into 2020? And also maybe a little bit of comment on the margin improvement. It's been quite a difficult division to model, I think, for all of us. So I would appreciate some guidance on that.

Frans van Houten - CEO

Sure. Hi, Veronika. Well, we have been quite transparent in the many conversations that we have all had with you and investors that we don't consider Domestic Appliances as strategic to our longer-term health technology journey. And then we also said quite often that we feel that we are a good owner because we have been able to improve the business in terms of size and profitability, right?

So now it's a EUR 2.3 billion business with double-digit profitability, strong market positions. And the decision then to now finally take the step to externalize the D.A. business relates to our desire to enhance focus on our health technology business to strengthen and grow that health technology portfolio. That also means that in terms of deployment of proceeds, while staying true to our capital allocation strategy, we would expect to go to at least allocate a significant part to potential acquisitions, if we can, of course, find a good business case, right? So basically, we want to continue on our strategy we feel good about it. We also feel that the D.A. business is in great shape for a stand-alone life, of course, continuing to leverage the Philips brand, that can then also give us an additional brand license income revenue stream.

Then on Connected Care, I flagged in the third quarter that I had moved already closer to that business. Clearly, we recognize the inadequate margin and revenue performance, even though I am absolutely convinced that Connected Care is a great business with a very good strategy where customers resonate with our outlook and vision.

The measures that we took in the third quarter include a change of leadership of the Monitoring & Analytics business. Furthermore, Carla and I have agreed to move on in terms of overall leadership. We have now appointed Roy Jakobs. The Monitoring & Analytics business already showed a sign of increased momentum in the fourth quarter, with both order growth and revenue growth and margin expansion. But clearly, more has to be done across the Connected Care portfolio over the coming year.

I appreciate your comment that it's not easy to model. We would like to say that we believe that we will see an improved growth rate in 2020. Both the orders that we got in, in the fourth quarter as well as what we see in our funnel would support that and a gradual margin improvement.

Maybe also, I'd look to Abhijit for some further color on this.

Abhijit Bhattacharya - CFO

Yes Frans, we've provided most of it you know. Yes, Veronika, you mentioned negative order intake for the year, but I think it's good to see that trajectory that it has moved, right? The first half was actually a mid-single-digit decline, and then we stabilized and then we ended with good growth in the end of the year at mid-single digit.

I think also encouraging is that we had, in patient monitoring, good order intake growth as well as good sales. So you see that, let's say, in the high-margin business, when the sales come in, the improvement in margin is quite significant. So I think we expect it to contribute well to the 100 basis points overall company margin improvement for next year. And let's say, that was the big deterrent in 2019, and that is what we hope to turn around for next year.

Operator

We will now take our next question from Hassan Al-Wakeel from Barclays.

Hassan Al-Wakeel - Barclays Bank

I have a couple. So firstly, another on Domestic Appliances. In terms of structure, would you look to retain any ownership in the business? Or do you -- would your preference be to fully dispose the asset, given that you've mentioned that it is noncore. And on your previous comment on proceeds and potential M&A, does that temper your future expectations around the buyback? And then secondly, could you talk about the main building blocks of the 100 basis points in 2020? And should we expect the majority within D&T and more specifically, within DI? And if so, does the increased investments that you highlighted in Q4 fit your expectations at all here?

Frans van Houten - CEO

Okay. Let's take that one by one. It is our intention to fully dispose the Domestic Appliances business. Now as I said, it's very early in the process. So we need to look at what comes a knock on our door. We expect strong interest. However, we keep all options open at this time. So like we have done before, we are not going to preselect one pathway over another.

With regards to proceeds, I think I did say that we will stay true to our capital allocation strategy, while, of course, also saying that we look to strengthen our overall portfolio. So I don't know how to be more clear than that, Hassan, but let's keep that up.

And then, yes, unpacking the building blocks for margin expansion. Look, we expect margin expansion in all businesses. We have a good portfolio of innovations. Personal Health and Connected Care are already touching into the guided range, but clearly have a lot of opportunity to further expand. D&T is still just below the guide range. And there, we have a clear interest to get into the guided range in 2020. So that would mean that a significant step-up should come from the D&T portfolio. You have seen a year-on-year improvement in D&T off of the top of my head 140 basis points. So it is above the average of Philips. At the same time, you heard me talk about the need to turn around and further improve the performance of Connected Care. Now I would flag that, that will take some time to gain momentum. We have started to see a good impact in Monitoring & Analytics.

On the Sleep & Respiratory Care side, we have seen good performance in the sleep business in the fourth quarter. In fact, through the year, while the hospital -- the home ventilation business was -- had a slowdown due to the changes in the reimbursement process and we consequently sold more of the oxygen business that had a lower margin. And we expect that reimbursement

situation to ease up in the course of 2020. The sleep business will continue with strong momentum.

Of course, I'm very much aware that on the mask side, 2018 was a very strong year for us. 2019 became a stronger year for our competitor, but we will fight back, and we think that we are also there looking at an increased momentum during the year.

Again, I look to my neighbor here, Abhijit, whether I missed out on anything?

Abhijit Bhattacharya - CFO

Very comprehensive, Frans. So I think the only other thing I would say is the procurement headwinds in -- or the procurement savings that we normally deliver, we were a bit short because of strengthening material prices in 2019. And based on what we see in the market, that will give us some more leverage to drive the bigger improvement next year.

Operator

We will now take our next question from Patrick Wood from Bank of America.

Patrick Wood – Bank of America Merrill Lynch

I have 2, please. And the first would be within D&T. I know you touched on this a little bit with the tariffs in Q4 and then the incremental investments, but I was a little surprised profit margin wasn't up a little bit more. Was the investment side, mostly support costs associated with the CT launch? I mean, just -- it'd be helpful to understand why the D&T margin in Q4 wasn't quite up as much as we had expected, because I would have thought that would have been a similar hit to the other quarters. That'll be the first question.

And then the second one, similarly in D&T. I'd love a little bit more details on the write-down side on the enterprise side of things. What sort of prompted you to take that view? Are we seeing any change on that part of the market that sort of prompted that decision? It'd be just helpful to get a little bit of color.

Frans van Houten – CEO

Yes, let me take those, Patrick. If you look at the D&T sales for Q4, it was let's say, not as high as in Q3. There was a certain phasing element in that. And I think that was largely the cause for the lower profit step-up in the fourth quarter. Of course, there was a profit step up but lower than Q3. There are a couple of reasons for that.

One big element was Japan. We had -- Japan is Philips' fourth largest market, and we had big growth in Q3 because there was a consumption tax that came into effect from the 1st of October. That, of course, then translates into much lower Q4 and Q1. So I think you should look at that as a bit of phasing because, of course, we had a very, very strong improvement in performance in Q3. But you should not look to extrapolate that for the full year. I think the 140 basis points that we have done for the full year is pretty much in line with the plans that we had.

And when we set the target to go to the range of 14% to 16%, we were around the 8. So we have been making this 140 to 200 basis points improvement every year. And I think if we continue on that trajectory, we will get into the range of 14% to 16%. So that's how I would look at that, not a specific increase in tariffs that impacted. It was more the phasing of sales and some incremental investments mostly related to Q&R.

On the write-down, these were relatively small, even not product lines but products where let's say, we have decided based going forward that we will not make investments in those areas. So the capitalized part of the R&D had be written off. So it's not something big or a change in strategic direction.

The last thing on D&T may be good to mention. In the x-ray business of D&T, also, we saw the biggest impact on the -- let's say, relocation of production. So that dampened profits a little bit in Q4. That should also start getting eased from Q2 onwards. So that would be the only additional input that I would give.

Patrick Wood – Bank of America Merrill Lynch

Got you. And maybe just one more very quickly. Q1 onwards, the U.S. order books get a little bit less. Can you kind of analyze out of the really tough comps, I guess? Is the expectation from you guys that we should start to see a slightly more normalized order book growth on that side of things in North America as we move past that tough comp base, that would be helpful.

Abhijit Bhattacharya - CFO

Yes. I mean, look, Q4, we are glad to have returned to good growth. I think we are also pleased that monitoring comes back with good growth. The unfortunate thing to predict it is that it has been very lumpy in the U.S., even across the businesses. So it would be going out on a limb, but we see, let's say, turning momentum in the U.S. and anywhere low single-digit margin -- market growth. So it's not that it's going to be spectacular, but we should see, let's say, growth in the first half of next year -- this year, sorry. Yes, sorry.

Operator

We will now take our next question from Ed Ridley-Day from Redburn.

Edward Ridley-Day - Redburn (Europe) Limited

First of all, I think it's a congratulations on the decision on Domestic Appliances. And obviously, that sets you up. Obviously, Roy Jakobs has done a great job at Personal Health since he arrived there. What would specifically be focusing on in Connected Care? If you could a bit more detail on that, that would be helpful. I have one follow-up.

Frans van Houten - CEO

I already said that the strategy in Connected Care and the vision and direction is the right one. But it all has to do with execution and rallying the organization, taking the people along and turning that potential into results. There, I think Roy brings a great leadership - people leadership experience. And I think we should see there an impact.

Moreover, I think also on the Sleep & Respiratory Care side and in terms of the transition to direct to consumer, direct to patient, he has already had exposure to that in the past. I would expect him to contribute to that. We -- I bring to recollection that Connected Care has 2 very strong businesses with one, Sleep & Respiratory Care, the other one, Monitoring & Analytics. We already saw an improving momentum in Monitoring & Analytics. We expect an improving momentum in Sleep & Respiratory Care. Once you have those 2 fully engaging and performing, that will give a great platform of margin expansion.

Then the investment areas. We have 1 investment area in Connected Care Informatics that we very much believe in. We are expanding our electronic medical record and platform

engagement in international markets in several countries at the same time, in Germany, in the Middle East, in Japan.

And those businesses have a great potential, will a strong recurring revenue stream but require initial investments. We plan to stay the course on that.

On the population health side, we, I think, have an opportunity to improve momentum. So that will also be a focal point. Now all in all, as I started with Roy's assignment there is to bring the people together and gain momentum in the execution of what overall is a good strategy and what customers keep on confirming to us is a good business. And I feel encouraged by the order growth in the fourth quarter in Connected Care that demonstrate what I've just said.

Edward Nicholas Ridley-Day - Redburn (Europe) Limited

That's helpful. And a quick follow-up, Abhijit, on the -- I know you don't obviously provide subdivision margins. But if we look at the depreciation and amortization profile of Domestic Appliances, can you give us any comment there? Is it similar to the group?

Frans van Houten - CEO

It's a very asset-light business. Yes. So is very high ROIC with a supply chain that's mostly externalized. And therefore, it's also DNA light – depreciation and amortization light

Operator

We will now take our next question from David Adlington from JPMorgan.

David Adlington - JP Morgan Chase & Co,

Please go ahead. Question. So just maybe just picking up a little bit on the comment in the release around the more challenging environment. Maybe you could just give us some further color either around geography and/or business area would be useful, please.

And then secondly, just on Domestic Appliances. Just wondering if you're expecting to retain any ownership, any economic interest in the group, for example, through brand licensing?

Frans van Houten - CEO

Yes. We -- the preamble of the outlook with the ongoing geopolitical and economic risks, as such, that's not new. We had headwinds in 2019. I think a lot of people interpret the truth between U.S. and China as if that problem is solved, right? Well, it is -- it's more a standstill, and the details on the Phase I agreement are not still fully understood, but it's our current estimation that the net impact of trade duties -- trade war-related duties will be flat year-on-year, right? Then additionally, we still are having the uncertainty around the U.S. and European relationships that also from what we could observe last week in Davos are uncertain, with both continents drawing some lines in the sand. So we'll have to wait and see. We are, of course, in the middle of it with factories in Europe, in the United States and in China, and supply chains are global.

I think an upcoming thing then to watch is the coronavirus where we already talked about. It's very early days to estimate what that would cause. The macro trend for health care remains very positive. I'm convinced that overall demand in health care is slated to go up further, also leveraging technologies to drive productivity in health care and better outcomes. Whilst I participated in many health care groups and met many health care provider CEOs and ministers,

and Philips is in the middle of that discussion. I think the pivot that we have made to really become a solutions provider and become stronger in informatics eventually will play out very well for us because we are better positioned than some of our traditional competitors in that field.

On your second question on DA. It is our intent to divest it fully, but the business will require the Philips brand. And like we have done before, a brand license agreement is a good way to assure that the brand is being used in a responsible way, while it will also give us a recurring license income for the use of that brand that we can then, from time to time, renew if the performance is there. Again, it's early days. This is a 12 to 18 months process. So this is all rather hypothetical at this time. But this is where we expect the direction to go.

Operator

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

Scott Bardo - Berenberg

Just a question on Domestic Applications -- or Appliances, rather. Frans, the fact that you discussed or your comment about proceeds, are we fair to assume that you're pursuing more of an IPO or a trade sale rather than a spinout? If you could just clarify that, that would be helpful.

Second question just relates to please to order dynamics. I think in the third quarter, you highlighted an expectation of an uptick in order book growth, bringing you to around 5% order book growth for the full year. That didn't quite materialize and I think has left you with an order book growth, which is below your revenue growth for the first time in many years for Philips. So I wonder if you could just comment a little bit more as to what didn't come in, in the fourth quarter that you're expecting and whether the slightly softer order dynamic impairs your ability to meet an accelerated growth outlook?

Frans van Houten - CEO

Great. Scott, I think at this time, we will keep all our options open on how we bring DA to the market. We expect a strong interest in that business and then how we will deal with it is something that, over time, we can discuss. So all options are open at this time.

With regards to the order intake dynamics. Let me, first of all, point out that the compared 2018 fourth quarter was very difficult. I mean, we had 10% order growth in the fourth quarter of 2018, then you get normally 3% on top of that in 2019, which was good. Perhaps we should -- we could have being a bit more forthcoming in the third quarter about that. Now we can further go a bit into the details.

And then on the equipment. So in the order intake that we call equipment, there is actually both software as well as equipment. So on the pure equipment side, we saw a 5% order growth, which is great because that typically the materializes in the next 15 months or so. On the software side, we still need to further align the horizon in which we book these orders. And the comparison on the software order intake, let's say, brought that overall order growth number a little bit down versus the past. Abhijit next to me points out to me that I should also mention that not only was the equipment -- the pure equipment or the growth in the fourth quarter, 5%. But in fact, it was that for the full year. So it also means if you look at our order book in absolute euro terms, it's actually at an all-time high. And that sets us up well to support the revenue growth this year. So you can see that we look in a different way at order growth and we feel comfortable that it is supporting our growth ambitions.

Abhijit Bhattacharya - CFO

I think maybe just to add, Scott. So for the software businesses, our current order intake policy, we book, even if you get a 2-year or 3-year confirmed order, which with no cancellation, it's booked as part of it. So therefore, the comps with last year is a bit tough. So as Frans mentioned, if you look at equipment both, it is 5% for Q4 and the full year. And from next year, we will also align actually from this year, from 2020 and in Q1, we will mention that we will align the order intake horizon for software and hardware so that the year-on-year comparisons don't jump up and down.

And regarding the order book size, you can see that on Page 27 of the IR booklet that we have published, where you see clearly that the order book or the orders on hand is probably at our -- at a very high level that it has been in the past - compared to what it has been in the past

Scott Bardo - Berenberg

That's very clear. And maybe just one quick follow-up. I think the group currently targets over EUR 1.5 billion free cash flow for 2020. Is it fair to say that given the slightly softer margin dynamic of 2019 and some of the heightened investments you make that, that target is now unattainable?

Abhijit Bhattacharya - CFO

That would be a bit too strong, Scott, to say it's unattainable. We think we will get there or thereabout. So we -- this year, we were a bit above the EUR 1 billion. We were impacted to a certain extent, because of the way the calendar panned out that we had to make, let's say, an additional payment run, which impacted overall the number for the year that will not be there for 2020. So with the profit improvement and, let's say, also the wind down of some of the inventory we built up for the factory transfers, we still think we have a fair shot at getting to close to the 1.5, if not higher.

Operator

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

Max Yates - Crédit Suisse AG

Just my first question is on the oral Healthcare business. Could you talk a little bit around the competitive dynamics and what you've seen in market shares? Obviously, you've grown fairly strongly this year. But if you could talk a little bit about the competitive dynamics in that business and how you're seeing sort of the behavior from the key competitors at the moment in terms of pricing and promotion and things like that.

Frans van Houten - CEO

Sure. Well, I think we can be happy with a good comeback in oral health care during 2019. You will recall, 2018 was tough with our biggest competitor. But we extended the product portfolio. We introduced products at lower price points that still have great margins. We have completely recovered from the supply situation. We have stepped up our online marketing and sales. We have introduced even in the fourth quarter, let's say, oral care as a service to also stay off new entrants in the market that have started to offer that. For example, with Delta Dental, we have a subscription scheme in place that actually has proven a quick pickup in the number of subscribers.

And on your question of market share, we have numbers up and inclusive of the third quarter. The MAT market share until the end of third quarter is up year-on-year. So that's great. We have some exciting product launches planned for 2020. That also will broaden the range, not only have range extension, but also will enter into some exciting new areas. So I feel good about the momentum of oral health care for Philips. And yes, maybe I'll leave it at that.

Max Yates - Crédit Suisse AG

Okay. And just a quick sort of follow-up. If I look at, obviously, the margin trajectory in Personal Health and I look at the kind of commentaries that you've given each quarter, I mean, the key difference this quarter with the 200 bps margin expansion seems to be sort of advertising and promotion is lower where it's been more of a drag in the first 3 quarters. So what I wanted to understand is, is that just a seasonal effect as we've sort of moved into the end of the year? Or when you look out into next year? I mean, is there scope to perhaps spend slightly less on advertising and promotion maybe as you've realized kind of these products have had kind of very good traction and you've spent quite a lot in the first 3 quarters? Or do you just see this as a kind of normal seasonal effect, and we should think about advertising and promotion broadly stable into next year?

Frans van Houten - CEO

It's more of a normalization. We certainly did not reduce advertising and promotion. I think the main thing that you see coming through is operational leverage on high-growth in oral care and Personal Care. These are high gross margin activities. So when the sales there come through. You see an immediate benefit to the bottom line. So they are our strongest performers within the Personal Health portfolio.

I think advertising promotion remains very important. We will definitely not look to [scheme] from them. The effectiveness of advertising and promotion is rising. And I think that also supports the higher growth rate.

Max Yates - Crédit Suisse AG, Research Division - Research Analyst

But just if I look back at the previous quarters, I mean, oral health care has been strong all year in terms of sort of math. So I'm really trying to understand what was so different this quarter, given we should have seen a fairly positive mix impact from oral health care growing double digits, I think, in 2 out of the 3 preceding quarters. So what was really different this quarter?

Abhijit Bhattacharya - CFO

A couple of things, Max. We also talked about the newer product range introductions that would get us better margins. And you remember, let's say, last year, we were struggling in last year. 2018 Q4, we were struggling with a large number of issues in supply as well as with our, let's say, e-tailers. All of those costs, et cetera, are not there anymore. So I think that's what is driving the strong improvement, not only in oral health care, but also very good growth in Personal Care, as Frans mentioned, where we're growing in the mid-single-digit for a high-margin business gets us a lot of leverage. So that's exactly what we were building up to with the, let's say, spending of advertising or investments in advertising and promotion in the early part of the year because we knew that once we start stepping that up and we get it back in growth, the operating leverage in these 2 businesses is very, very high.

Operator

We will now take our next question from Julien Dormois from Exxon BNP Paribas.

Julien Dormois - Exane BNP Paribas

My question relates to imaging, and then I will have a follow-up. You have highlighted and you have demonstrated that a clear revamp of your portfolio in diagnostic imaging over the past few years. Now despite this complete revamp, I still believe that the results are not exactly where it should be in terms of being above the market growth. So could you just talk us through what is preventing you from delivering stronger growth than the low single-digit that you've had in imaging? Is it more about the market dynamics? Or geographic mix? Or competitive pressures? And then I have one follow-up, please.

Frans van Houten - CEO

We have further continued in 2019 with the product renewal. I mentioned that also in my speech. We spoke about some of the new CT machines. I expect actually that the lower growth in the fourth quarter is more incidental than structural. It was also a difficult compare. So overall, DI will continue on the path of improvement and all of the IT, of course. We also see that relationships with radiologists the interest in our data science or AI applications for radiology. Take along also the equipment side. So good outlook for DI, if it is, in my point of view.

Julien Dormois - Exane BNP Paribas

Okay. And as a follow-up. I know you've not sold DA yet. But if you were given a magic wand, would you rather invest the proceeds into health informatics or into the devices business to deepen the offering in D&T.?

Frans van Houten - CEO

Well, magic wand or crystal ball. I think you will the crystal ball, actually. I'm not going to speculate on what can happen. We are very pleased with how our investments in the devices have worked out. It has allowed that business to pivot to a solutions orientation. Customers now see us as an innovator of the procedure as opposed to an innovator of hardware, right? And that's at the core of the strategy of Philips, where we want to create clinical impact, operational impact for our customers and consumers and a blended approach of hardware and informatics and data plays are necessary. The -- I don't want to speculate on which part of the business is getting an investment first. We just did the boosting of our PACS business in Diagnostic Informatics. I think that was -- has been very much welcomed by our customers. So we'll take a balanced approach.

Maybe then just to underpin my statement on why are we pleased with the devices. I mean, the companies that we bought were double-digit loss giving. We have turned it around to double-digit profitability, right? So I think that's the kind of play that we need to do to do responsible investments. So overall, that strategy has worked pretty well.

Operator

We will now take our next question from Sebastian Walker from UBS.

Sebastian Walker - UBS Investment Bank

Two, if I could, as well. Just firstly, on -- a follow-up on the Personal Health margins. So it seems that the Domestic Appliances business declined in Q4. So how much of that 200 basis points improvement in margins in the quarter was driven by that mix effect given Domestic Appliance is the lowest margin business? And then the second question is on D&T. So within China and the

quotas, which we haven't spoken on for a while, but some of your radiotherapy peers are actually talking about incremental quota-related licenses coming online. I believe there was some bidding rounds earlier this year. So could you comment on whether you're seeing a pickup in activity there as well.

Frans van Houten - CEO

Okay. Let me start with the China question while we prepare for the DA question. Look, we have had double-digit growth in China for D&T for several years. Also, 2019 was very strong. The news around the quotas is usually a bit exaggerated. There is no sudden wave of orders coming. It's much more even - we see the market growing at high single digits in China, 7%, 8% growth on a rather consistent basis. And Philips has been outgrowing that with double-digit growth. And basically, it points to the appetite for hospitals for superior solutions. Notwithstanding that, of course, the local competitors are forced to reckon with. But Philips holds its ground when it comes to our position and market share in China.

In fact, we have been expanding. So I feel good about it. But I don't expect a sudden quota to appear. It could be that your data point comes from the radiotherapy market. Of course, we are not in that market. But I think in radiotherapy, I've also heard something that there is a backlog where patients don't get enough capacity. So it could be that in selected niche areas, you would see such a quota impact happening. But in the general diagnostic imaging market, we don't expect sudden peaks or troughs in demand.

On the other question, Abhijit, for you.

Abhijit Bhattacharya - CFO

Yes, I think as we mentioned before, yes, DA decline in Q4 is maybe a bit harsh. It was kind of flattish. It was just minus point something less, I think, even 0.4, something like that. So it was a very short decline, a small decline. In Q3, we had actually high single-digit growth in DA. So -- and overall, for the full year, nicely in the mid-single-digit range. So growth in itself is not the issue.

And for, let's say, the 200 bps that we did in PH tells less -- yes, there was a certain element of mix, but, let's say, the improvement in the 2 businesses that had good growth, which is oral health care and Personal Care, primarily accounted for the 200 bps improvement. It may be if DA had improved a little bit more, we would have got another few tens of basis points, but I would not say that it's completely due to the mix. It's just 2 businesses which have performed extremely well in the fourth quarter and got very good operating leverage from the growth that they have generated.

Sebastian Walker - UBS Investment Bank

Great. Can I follow-up as well with one just tariff-related question? So I'm kind of surprised that the net effect of tariffs in 2020 is flat year-on-year. I would have expected some of the mitigating activities to have a -- to reduce that impact. Could you comment on why we're not seeing that improvement?

Abhijit Bhattacharya - CFO

I think primarily because the tariffs actually go up next year because you have the full year impact, right? This year, the tariff came in through the year, so it could have actually gone up. The good news is that with the mitigation that we don't have a year-on-year negative impact. So let's say, the performance improvement that we do between 2019 and 2020 will not get eaten

up by the tariff impact, so it remains flat. I think that's how you should see that the full year impact versus, let's say, phased in 2017, compensated by some of the compensating action -- 2020, sorry.

Frans van Houten - CEO

So in 2019, it was phased. It gradually came through in 2020.

Operator

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

Falko Friedrichs - Deutsche Bank AG

I have 2 quick questions left. Firstly, could you provide an update on the Azurion launch in China and the feedback so far? Secondly, your working capital came back a bit again in Q4. What should we expect here for 2020?

Frans van Houten - CEO

On the Azurion in China, I can be brief. Great reaction, strong traction, strong order intake in the latter part of the year after the launch. And I would expect that momentum to continue in 2020.

Abhijit Bhattacharya - CFO

Yes. And working capital was a bit higher in Q4 for 2 primary reasons. I think, one, we mentioned earlier, the inventory was a bit higher. And I think, secondly, the receivables. And that's because our, let's say, December sales compared to 2018 was significantly higher so that basically resulted in inventory getting converted to receivables. So when that gets converted to cash, in 2020, you will see that coming back in the cash flow for the year. So we expect it to be a bit lower in 2020.

Operator

We will now take our next question from Daniel Wendorff from Commerzbank.

Daniel Wendorff - Commerzbank AG

2, if I may, related to diagnostic imaging on the D&T division. And when you look at full year 2019 and can you comment on the development of market share in diagnostic imaging? And what should we expect for 2020 here? And my second question is related to a comment you made in your presentation, Abhijit. You mentioned the reprioritization of focus, which has resulted in the write-off of capitalized R&D. Can you give us a bit more detail here?

Frans van Houten - CEO

Sure. Daniel, on market shares in 2019, obviously, we don't have full year numbers yet. And I would expect when the numbers are in, that the full year for DI is more or less flat with an increase in MRI and a decrease in nuclear medicine in the AMI section. But overall, flat. Let's not forget that our China momentum continues to be strong. And certainly, we see a lot of opportunities to close the gap between geographical gaps in market share. Notably, Europe is much stronger than in the U.S. We have seen increased momentum.

Yes. So I'll just get the data point on my statement on MRI. So the MRI market share -- okay, now you need to take it over.

Abhijit Bhattacharya - CFO

Yes. So I think, let's say, again, we don't have Q4, but as of Q3, our market shares are clearly up, and that is -- we see that across, as Frans mentioned in MR but also in ultrasound, where we have been doing very well for D&T. But also in CT, we have been gaining back share. So overall, let's say, so far, market shares are up, and we will see how the fourth quarter pans out.

Daniel Wendorff - Commerzbank AG

And the question on the capitalized R&D?

Abhijit Bhattacharya - CFO

Yes. The -- those are 2 small -- one is a small -- actually a product. And the other is a small acquisition that we had done in the EUR 30 million range. So it's not really a big reshuffle of the portfolio it was an acquisition that was done, and we have found that, let's say, the time that it is needed to get into a growth and profit trajectory is longer than we would have liked and therefore, we have decided to stall that for the time being.

Operator

We will now take our next question from Fran Gille from ABN AMRO.

Wim Gille – ABN Amro

I got 2 questions. First, obviously you gave clear guidance on the first quarter where you basically said that comparable sales growth is going to be below the guidance for the full year, but also you mentioned more or less flat margins in adjusted EBIT for Q1. You explained about EUR 30 million of that is royalty income related. But that explains only 70 bps of the margin expansion of 100 basis points for the full year. And if I look at the comparable base, the first quarter is not that demanding. So can you give us a bit more color on the other moving parts here related to the margin outlook for Q1? And in relation to that sort of the margin increase that you had in D&T in the fourth quarter was only 40 bps. You explained Japan. You also explained that there was a bit of a relocation of production in the fourth quarter. But I kind of missed the point on the investment. So what investments are you making in D&T? And what is the impact on the margins for the fourth quarter?

Frans van Houten - CEO

Yes. So the investment's related, as I mentioned, to quality and regulatory and then there were certain phasing of R&D investments that we had to make. So again, if looking at it per quarter is, let's say, not the lens to look at it. We did 140 basis points for the year. I think that's the trajectory that we are hoping to continue so that we get into the range for next year.

Now, let's say, on the flat margin growth for Q1. Clearly, you don't have much growth in the first quarter, and we mentioned the reasons. China, we expect to be weaker, not only for the coronavirus, but also, let's say, we have seen the growing -- the pattern of purchase around Chinese New Year has changed. So earlier, we had Chinese New Year in Q1, which gave us good sales. Now it has moved more to the big E days, as we call it, where you have the big E-tailers selling. And therefore, let's say, the lack of growth in the first quarter, plus Japan, as I already mentioned, will hamper the profit growth in the first quarter. And don't forget the license has a

big impact overall. So a big part of the license revenue drops to the bottom line. So we expect that to start, let's say, picking up from Q2 onwards. Therefore, it's good that we have upfront that Q1 is not going to see a big improvement.

Operator

Thank you, Mr. van Houten, that was the last question. Please continue.

Frans van Houten - CEO

Okay, that's great. Thank you very much. Let's summarize. We see perhaps some short-term challenges to the growth as highlighted in China, but the -- we do have a strong order book, and that supports improving trajectory within 2020. We've talked about duties being flat year-on-year. So that means that all our improvements on operational leverage and cost management and the improvements of procurement will all lead to margin expansion as you are used to. I also talked about the interventions in the Connected Care business where we expect a gradual improvement. So overall, we are confident with our objective and aim for 4% to 6% growth and 100 basis points profit expansion. Of course, we will update you through the year. We definitely look to entertain you with our Capital Markets Day in the second quarter, where we will also then discuss the margin expansion targets beyond this year. And update you on the process around Domestic Appliances. So I realize there will be many questions, but we'll have strong engagement with you as we proceed. Thanks very much.

Operator

This concludes the Royal Philips' Fourth Quarter and Full Year 2019 Results Conference Call on Tuesday, the 28th of January 2020. Thank you for participating. You may now disconnect