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Philips Announces Q1 Results Aligned with 2024 Plan, Settles Respironics Litigation for $1.1 Billion

First-quarter highlights

- Group sales amounted to EUR 4.1 billion, with comparable sales growth of 2.4%
- Comparable order intake -3.8%, mainly due to China
- USD 1.1 billion Respironics litigation settlement reached in the US (provision recognized of EUR 982 million)
- Income from operations EUR -824 million, including above provision
- Adjusted EBITA margin of 9.4% of sales
- Free cash outflow of EUR 336 million
- EUR 540 million agreement reached with insurers for Respironics recall-related product liability claims

Roy Jakobs, CEO of Royal Philips:

“We started the year in line with our plan, with order intake growth outside China turning positive and strong margin improvement. Supported by key innovation launches and strong focus on our execution priorities, we remain confident in our performance improvement plan for 2024.

Patient safety and quality is our highest priority, and we have taken important steps in further resolving the consequences of the Respironics recall. The remediation of the sleep therapy devices for patients is almost complete, and the test results to date show the use of these devices is not expected to result in appreciable harm to health. We do regret the concern that patients may have experienced.

The approved consent decree and economic loss settlement, and now the resolution of the personal injury and medical monitoring litigation in the US, are significant milestones and provide further clarity on the way forward for Philips.”

Respironics litigation

Philips and plaintiffs’ leadership have reached an agreement, following a mediation with Judge Diane M. Welsh, to resolve the personal injury litigation and the medical monitoring class action to end the uncertainty associated with litigation in the US. Philips and Philips Respironics do not admit any fault or liability, or that any injuries were caused by Respironics’ devices.

The settlement addresses the claims filed in the US courts and potential claims submitted to the census registry. Under the settlement, Philips Respironics has agreed to pay a total of USD 1.1 billion. The related payments are expected in 2025 and will be funded from Philips’ cash flow generation. As a consequence, a EUR 982 million*) provision was recognized in Q1 2024.

In April 2024, Philips Respironics signed a consent decree, which was court-approved, and obtained the final court approval for the previously announced economic loss settlement in the US, for which a provision was recognized in Q1 2023.

Philips also concluded an agreement with insurers to pay Philips EUR 540 million to cover Respironics recall-related product liability claims. This income is expected to be recognized in Q2 2024 and payment is expected during 2024.

Following the remediation of sleep therapy devices and the reassuring test results to date, these important milestones on litigation, the consent decree and insurance provide Philips with a clear path forward for sustainable value creation. See here for more information on the Respironics litigation.

*) After converting the USD 1.1 billion amount to euro and discounting for time.

Group and segment performance

Group comparable sales increased 2.4%, with growth in mature and growth geographies, despite a decline in China. The market in China continues to be impacted by the industry-wide anti-corruption measures initiated by the government and by subdued consumer demand. In the first quarter, the government of China announced a subsidy program for hospitals to upgrade aged medical equipment, which will support gradual improvement of a fundamentally attractive market.

Diagnosis & Treatment comparable sales increased 3%, with growth in Image Guided Therapy and Precision Diagnosis, on the back of double-digit growth in Q1 2023. Adjusted EBITA margin was 9.2%, mainly due to normalization of the product mix, as anticipated.

Connected Care comparable sales declined 1%, with growth in Enterprise Informatics offset by a decline in Monitoring on the back of double-digit growth in Q1 2023. Adjusted EBITA margin increased to 6.4%.

Personal Health comparable sales increased 3%, driven by growth in Personal Care and Mother & Child Care. Adjusted EBITA margin improved to 15.2%.

Productivity

Total productivity savings of EUR 151 million in the quarter: operating model savings of EUR 55 million, procurement savings of EUR 40 million, and other programs savings of EUR 56 million.

Outlook

Philips reiterates its confidence in delivering the 2025 plan, acknowledging that uncertainties remain. For the full year 2024, Philips continues to expect 3-5% comparable sales growth and an Adjusted EBITA margin of 11-11.5%.

The expected free cash flow is now increased to EUR 0.9-1.1 billion in 2024, including the receipt from insurers for the Respironics product liability claims and the remaining payment related to the economic loss settlement. The personal injury and medical monitoring litigation settlement payment is expected in 2025.

The outlook excludes the potential impact of other previously disclosed Philips Respironics-related legal proceedings, including the investigation by the US Department of Justice.

Customer, innovation and ESG highlights

- Philips was recognised as a Clarivate Top 100 Global Innovator for the 11 th consecutive year and ranked as a top medical technology patent applicant at the European Patent Office in 2023.
- Philips launched the new Azurion image-guided therapy system and advanced informatics to enhance the minimally invasive diagnosis and treatment of stroke and other neurovascular patients.
- Supporting short-staffed radiology departments, Philips introduced the new AI-enabled CT 5300 designed for more accurate and reliable imaging results using up to 80% lower radiation dose, while enhancing productivity and quality.
- Philips signed a 10-year agreement with the US Nicklaus Children's Health System to provide AI-enabled radiology and monitoring solutions for deeper clinical insights, and improved workflow and productivity.
- Further expanding the successful OneBlade product range, Philips launched OneBlade Intimate – the first shaving product designed to be gender-neutral and protect the most sensitive skin.
- More than 1,100 Philips MR systems with the helium-free operations BlueSeal magnet and AI support have now been installed globally, enabling more productive and sustainable MR imaging operations.

Capital allocation

In April 2024, Philips completed the EUR 1.5 billion share buyback program for capital reduction purposes announced on July 26, 2021, and in the second quarter intends to cancel the 4.4 million shares acquired this year. See here for more information on the share buyback program.

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