Philips Sees Margin Improvement; Flat Sales as China Demand Falls, Growth Continues Globally

Third-quarter highlights

- Group sales amounted to EUR 4.4 billion, with flat comparable sales growth
- Income from operations was EUR 337 million
- Adjusted EBITA margin increased by 160 basis points from 10.2% to 11.8% of sales
- Operating cashflow of EUR 192 million, with a free cashflow of EUR 22 million
- Comparable order intake decreased by 2%, due to decline in China
- Outlook for full-year 2024 revised to reflect deteriorated demand in China: comparable sales growth within an updated range 0.5%-1.5%, Adjusted EBITA margin at around 11.5%, the upper end of current range; free cashflow at around EUR 0.9 billion, at lower end of current range

Roy Jakobs, CEO of Royal Philips:

“In the quarter, demand from hospitals and consumers in China further deteriorated, while we continue to see solid growth in other regions. We have adjusted our full-year sales outlook to reflect the continued impact from China.

Strong improvement in profitability was driven by progress on our execution priorities, productivity measures and the improved margins of our AI-driven, industry-leading innovations.

Within a challenging macro environment, we remain focused on successfully executing our three-year plan to fully capture growth and margin expansion opportunities. With patient safety as our number one priority, we are committed to delivering better care for more people.”

Group and segment performance

Group comparable sales were flat on the back of 11% growth in Q3 2023 and deterioration in demand in China. We delivered growth in all other regions and from an increase in royalty income. China remains a fundamentally attractive growth market for Philips in the long term, with market conditions expected to remain uncertain.

Adjusted EBITA margin improved 160 basis points from 10.2% to 11.8%, driven by a strong step-up in gross margin from innovations, productivity actions and higher royalty income. Free cash flow was EUR 22 million in the quarter, driven by higher earnings, offset by working capital outflows.

Comparable order intake in the quarter declined 2% due to China, with solid order intake growth in Diagnosis & Treatment, particularly in the US. Year-to-date comparable order intake grew 1%, including China.

Diagnosis & Treatment comparable sales decreased 1%, on the back of 14% growth in Q3 2023, with solid growth outside of China. Adjusted EBITA margin was 12.6%.

Connected Care comparable sales were flat, with growth in Enterprise Informatics and Sleep & Respiratory Care offset by a low- single-digit decline in Monitoring, on the back of high-teens growth in Q3 2023. Adjusted EBITA margin improved from 3.7% to 7.3%.

Personal Health comparable sales decreased 5% due to a double-digit decline in China, more than offsetting a robust performance elsewhere. Adjusted EBITA margin was 16.5%.

Productivity

Our productivity initiatives are on track and delivered savings of EUR 188 million in Q3: operating model savings of EUR 54 million, procurement savings of EUR 58 million, and other programme savings of EUR 76 million. Since 2023, productivity initiatives delivered savings of over EUR 1.5 billion.

Outlook

The significant deterioration in China demand leads to an updated comparable sales growth outlook range of 0.5-1.5% for the full year 2024. Comparable sales growth outside of China remains within the 3-5% range. Adjusted EBITA margin is expected to be around 11.5%, the upper end of the range, with free cashflow at around EUR 0.9 billion, at the lower end of the range.

Within an ongoing challenging macro environment, Philips remains focused on successfully executing its three-year plan to drive operational improvement and create value with sustainable impact. The uncertainties signaled in earlier quarters have intensified in China and are expected to continue.

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

Customer, innovation and ESG highlights

- Philips expanded its next-generation cardiovascular ultrasound platform with FDA clearance of two additional AI algorithms to enhance structural heart disease examinations as part of the global rollout of this technology.
- Philips secured FDA approval for its new LumiGuide Navigation Wire, which uses fiber optic technology to reduce radiation for both patients and physicians during minimally invasive surgery.
- Carilion Clinic in the US will expand cardiac care access through 11 specialized Philips interventional suites that allow physicians to treat patients with complex cardiovascular conditions closer to home using platforms including the Azurion Image Guided Therapy System and EPIQ CVx cardiology ultrasound system with AI capabilities.
- NYU Langone Health in the US successfully implemented Philips' digital pathology solutions as part of an eight-year partnership, enabling patients to be diagnosed faster using real-time digital images instead of microscopes.
- Siloam Hospital Group, Indonesia’s largest private hospital network serving close to 4 million patients a year, is partnering with Philips for digital health and AI transformation. The collaboration aims to improve healthcare access and enhance clinical outcomes, delivering better care for more people in one of the fastest-growing G20 nations.
- Supporting China in expanding access to care in a new private hospital in Zhangzhou serving half a million patients each year, Philips will be the sole provider of MR, image-guided therapy and ultrasound technologies, enabling high-quality care for patients.
- Philips launched the AI-powered Avent Premium Connected Baby Monitor, which offers cry translation and SenseIQ technology to track sleep, breathing, and movements, giving parents peace of mind.
- Philips is collaborating with customers worldwide to help them assess and mitigate their carbon footprints, including Jackson Health System in the US, Rennes University Hospital in France, and Champalimaud Foundation in Portugal.

Philips Q3 2024 results downloads Report

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