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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Siemens Healthineers conference call. As a reminder, this conference is being recorded.

Before we begin, I would like to draw your attention to the safe harbor statement on page 2 of the Siemens Healthineers presentation. This conference call may include forward-looking statements. These statements are based on the company's current expectations and certain assumptions and are, therefore, subject to certain risks and uncertainties.

At this time, I would like to turn the call over to your host today, Mr. Marc Koebernick, Head of Investor Relations. Please go ahead, sir.

Marc Koebernick - Siemens Healthineers AG - Head - Investor Relations

Thank you, operator. Good morning, and welcome to our Q3 2025 earnings call. It's great that you are tuning in again today. At 7 AM, we published our Q3 '25 results. Since then, all the related materials for today's results release are available on the IR section of the Healthineers web page.

In a moment, our CEO, Bernd Montag; and our CFO, Jochen Schmitz, will be presenting to you what you need to know about our fiscal '25 Q3 and about the near-term outlook. After their presentations, we'll have a Q&A session. (Event Instructions) Additionally, please note that a full transcript and recording of today's call will be made available on our Investor Relations web page shortly after the session ends.

Again, thank you for being here. And now I'll turn it over to our CEO, Bernd Montag.

Bernhard Montag - Siemens Healthineers AG - Chief Executive Officer, Member of the Management Board

Thank you, Marc. Dear analysts and investors, welcome to our Q3 earnings call. Many thanks for joining.

Today, I am happy to report that we are well on our way to achieve our targets as we add a further successful quarter to the fiscal year 2025. In Q3, we grew by 7.6% with all regions growing. We again outpaced the growth target we had set ourselves for the full year. Adjusted EPS grew significantly as well by 23% to EUR0.64 per share. Growth was also driven by strong margin expansion. And that said, let me highlight that we achieved this margin expansion despite the impact of tariffs, which was constituting a roughly EUR100 million headwind in the quarter.

Based on our strong performance and due to the now additional certainty on tariffs, we raised our outlook for fiscal year '25. We raised the midpoints of the ranges for comparable revenue growth and for adjusted earnings per share. The new range also entails an underlying operational improvement to our initial outlook for this fiscal year from November '24. Jochen will lay out the details later in his presentation.

Now let us have a look under the hood and then Jochen will give you a run-through of all the specs, as usual. Equipment book-to-bill was again good this quarter at 1.09. Imaging had impressive revenue growth of almost 12% with margins improving nicely despite tariff headwinds to a strong 21%. Varian continued its growth path with 9% comparable revenue growth. While these strong growth rates feel almost normal for Varian, the recovery of the margin compared to Q2 is indeed noteworthy. The strong 18.8% margin was clearly -- has clearly brought the segment back on track.

Advanced Therapies had solid growth with 10.5% margin. Diagnostics transformation is on track with margins going to 9.2% while growth was slightly negative. Free cash flow was again strong this quarter, bringing our leverage factor below 3 times for the first time since the Varian acquisition.

When considering the current geopolitical and macroeconomic context, our results underscore the resilience of our business. As a global leader, we might not be immune to tariffs in the short term, but we are well harnessed thanks to our unique capabilities. I would go so far to call these unique capabilities superpowers. We continue strengthening this power by innovating in each capability in patient twinning; in precision therapy; and in digital, data and AI.

Why are these capabilities of such importance? Patient twinning creates a dynamic digital representation of an individual patient to support personalized, predictive and precise medicine. This approach goes far beyond collecting static electronic records. It combines real-time imaging, diagnostics, clinical data and AI models into a live model of the patients. Diagnosis, therapy decisions and response control can be based on this.

Precision therapy means cutting-edge technologies to deliver individualized therapies with highest accuracy. This is exactly what Varian does with its unique technologies to personalize treatment in cancer care or take advanced therapies with its next-level image guidance for stroke and cardiac interventions as well as its push into robotic-assisted procedures.

Our third capability is our competence in digital, data and AI and the ability to scale this on a global level. AI algorithms are trained on vast clinical data sets to simulate and predict disease progression or therapy response. AI can assess tumor growth, evaluate cardiovascular risks or guide surgical planning with greater accuracy. And digital solutions are the connecting element between our capabilities in which data is passed on between diagnosis and therapy, evaluated with algorithms alongside the customer workflow.

Mastering and combining these three capabilities is at the heart of our efforts to ultimately achieve better patient outcomes and increase efficiencies of health care systems. This goes along with our second superpower, our unmatched relevance as a holistic partner for hospitals and health care systems.

Why are we relevant to hospitals and health care systems? It is the depth and breadth of our product portfolio and our strong teams in the different geographies that make us such a powerful partner. We enable hospitals and health care systems to improve the quality of care while reducing costs and unlocking new revenue streams.

With our so-called Value Partnerships, we enter into long-term collaborative relationships with the customer that entails not only product and service business, but improves the customers' delivery of health care in a joint endeavor. These Value Partnerships transform our revenue streams from classical transactional product business into recurring revenue streams, thanks to their long-term nature.

We have by now entered into more than 200 Value Partnerships. And since the IPO, the order backlog of these deals has increased threefold. Consequently, the revenue share of these partnerships has consistently grown also threefold of what it was at the time of the IPO, elevating the revenue share to above 5%. By larger deals with health care systems such as the deal with the Canadian province of Alberta obviously moved the needle a bit more than the average sized partnership, there's a continuous flow of deals across regions and of different scale, and there's much more potential.

To illustrate this, I will give you a few examples from the past quarter. In the US, we extended an existing Value Partnership that initially signed in 2021 into the radiation therapy space. A nice and typical example for how these partnerships can be prolonged or broadened. So often, the signing of the initial agreement opens additional opportunities, which we can unlock in the years to come.

A second example highlighting the importance of the breadth of our portfolio and our innovation leadership was a deal we signed with a hospital chain in Germany with a focus on comprehensive cancer care. This deal also included several Photon Counting CT systems.

Adding the third partnership in France, which was focused on diagnostic imaging, we booked in total north of EUR100 million of orders only in these three deals. So to summarize, Value Partnerships are not only a witness to the relevance of our superpowers, they also, over time, reshape our revenue mix and increasingly contribute to our recurring revenue.

Having now mainly spoken about the business and our synergistic core, I would like to also touch on our second core, the Diagnostics business. Now that our core lab product portfolio is complete with Atellica Solution and Atellica CI Analyzer, the Atellica franchise is growing double digit and already accounts for 60% of our core lab revenues. The Atellica portfolio is shaping up as the winning offering in the core lab space, and we continue to strengthen it.

Atellica Integrated Automation makes automation accessible even for the smallest labs. It has built-in automation with revolutionary sample management technology, intelligent software and informatics to provide workflow efficiency and improve operator safety. We are the only major in vitro diagnostics manufacturer currently with a built-in integrated automation offering.

However, it's not only the state-of-the-art equipment that drives productivity for our customers and makes us attractive, we also continue to innovate and add to our already competitive menu. So as we speak, we are showing great things at the ADLM, the biggest trade show in the space, and all lights are on green for future growth.

Thanks to the successful transformation program that we have embarked upon, our bottom line is already working very well. The decent margin expansion, which we have seen in the past years proved this. We are also on a good track to get into the margin expansion range that we guided to at the beginning of the fiscal year despite the bigger-than-expected headwinds from China.

To maintain the momentum, we further sharpen the portfolio and have taken several decisions this quarter leading to further portfolio simplification, which you see reflected in the transformation cost for the third quarter.

With this, I would like to close my part for today and hand it over to Jochen.

Jochen Schmitz - Siemens Healthineers AG - Chief Financial Officer, Member of the Managing Board

Yeah. Thank you, Bernd. I will start with some color on the good equipment book-to-bill of 1.09 in Q3. Book-to-bill was above 1 in all segments for equipment. Also across the regions, equipment book-to-bill was above 1 with the exception of China, where book-to-bill continued to be around 1.

Revenue in China also continued to be around the EUR620 million mark in Q3 as in previous quarters, which means there is no indication in our numbers yet pointing towards a sustained market recovery in China. And consequently, the 6% growth in China this quarter is mostly a function of the lower comps in the prior year quarter.

Aside from China, we saw revenue growth across the board with excellent growth in the Americas. This strong revenue growth drove the equally strong earnings growth. Margin expanded by 160 basis points despite headwinds from tariffs of around EUR100 million in the quarter.

Operationally, in Q3, the whole trinity of margin expansion came together. Growth, conversion and business mix drove margin expansion and EBIT growth. The EBIT growth of 15% also dropped through to earnings per share growth with an additional year over year tailwind in financial income, net. This was due to EUR85 million income from the revaluation of an equity investment in other financial income. All in all, earnings per share grew by 23%, mainly driven by the strong EBIT growth.

And now let me run you through the segment performance, starting with Imaging. In the very strong Imaging growth of 11.7%, Molecular Imaging and Computed Tomography stood out this quarter. If you double-click on these two businesses, you'd see that within Molecular Imaging, the PETNET business; and within CT, the Photon Counting portfolio were both significant drivers of the respective growth.

On adjusted EBIT, Q3 was a quarter where operationally it all came together, growth, conversion, and as I said, a very favorable business mix, leading to an excellent margin expansion in Q3 despite the tariffs. And now to our segments focusing on therapies, Varian and Advanced Therapies. Varian continues to grow in the high single digits, as expected. Similar to Imaging, year over year margin expansion was driven by growth, conversion and business mix. Additionally, the margin had a year over year tailwind from foreign exchange of around 100 basis points.

Sequentially, we saw a very strong margin rebound. Q2 had an unfavorable mix, especially in the equipment service split, whereas Q3 had a very favorable business mix across the board. There can be some lumpiness from quarter-to-quarter because we're in manufacturing big ticket items with still relatively low unit volumes in a single quarter.

Advanced Therapies can also be lumpy in quarters because it's our smallest segment. After a strong Q2, Q3 was softer, especially on the margin side. Solid revenue growth of 4.5% generated only low-margin conversion. Adding to this negative impacts from tariffs and headwinds from foreign exchange weighed on the Q3 margin.

Since our smallest segment has only little value add in the United States, it is, in relative terms, more exposed to US tariffs and to the US dollar than the other segments. In absolute terms, though, it does not move the needle too much for the group.

And now let's complete the segment run-through with Diagnostics. In Diagnostics, we had already guided for the impact from volume-based procurement to be more skewed towards the second half of the fiscal year and to carry over into the next fiscal year until the VBP impact is fully reflected in the revenue line as the new basis. And we see this now in Q3 actuals even a bit stronger reflected than expected, resulting in a slightly declining revenue line.

However, the margin expansion in Diagnostic remains very well on track. The margin in Q3 was driven by operational improvements and additionally by a positive one-off from a release of pension liabilities related to prior periods. The contribution to the 180 basis points margin expansion was probably 50-50 between the positive one-off and the operational improvements. So operationally, the adjusted EBIT margin would be around 8% in Q3, which puts it well on track.

One comment regarding the EBIT adjustments in Q3. Bernd has mentioned before we have taken some decision this quarter leading to further portfolio simplification. This has led to a higher adjustment in the line item, other restructuring expenses, this quarter. Since this is an adjustment, it does not impact the adjusted EBIT margin, but it shows that we do whatever it takes to crystallize the full potential of Diagnostics.

And with this, let me move back to the group and look at our cash performance. In Q3, free cash flow increased by 50% year over year, amounting to EUR1.9 billion of free cash flow in the first 9 months of this fiscal year. Hence, free cash flow to date doubled compared to the prior year period, which enabled us to further deleverage below 3 times this quarter.

We have a continued focus on deleveraging within our financial framework. Firstly, we continue to drive cash performance while at the same time doing the necessary investments for our innovations like for Photon Counting CT or for helium-free MRIs. Secondly, we obviously pay out our dividend of over EUR1 billion each year consistent with our dividend policy. And finally, we are disciplined in M&A, moving opportunistically for strategic tuck-ins like the expansion of our radiopharmacy network to Europe.

This disciplined focus led to our leverage going consistently down since the combination with Varian is still a way to go, but we see each metric for deleveraging, EBITDA, cash and the loan volume, moving steadily in the right direction.

Speaking of moving in the right direction. In Q3, we again grew revenue and expanded the margin. As already explained, revenue grew by 7.6% on a comparable basis. However, mainly due to the depreciation of the US dollar, there was a significant translational year over year headwind on the absolute Q3 revenue number.

In Q2, there was still a tailwind from translation. So excluding foreign exchange, we grew revenues both year-over-year and also sequentially in absolute terms. The impact from foreign exchange on the adjusted EBIT margin for the group was not material in Q3 due to our global value-add structure and our hedging of our net currency positions.

If the US dollar remains on the current level, all things being equal, we expect a year over year headwind from foreign exchange for fiscal year 2026 as the dollar was still stronger in the first half of this fiscal year. Also because the hedging, which currently protects the margin from depreciating dollar, will roll off over time.

But now let's take a step back to our actual performance in Q3. This quarter, we expanded margins for the seventh consecutive time, both year over year and sequentially in the respective year and this despite tariffs. The tariff impact was around EUR100 million in Q3. In Q4, we would expect more than that due to the tariffs going up to 15% as per August 1. So between EUR200 million and EUR250 million net impact on pretax profit would be the best assumption as of now for this fiscal year, of course, all things being equal.

Also if you analyze this for the next fiscal year, the EUR400 million to EUR500 million tariff impact for full fiscal year 2026 now becomes the most realistic case. Since so far, not all details of the trade deal between the United States and the EU are clear, it is unfortunately too early to make structural decisions on midterm mitigations.

But let me clear, we would have all the means to mitigate impacts from tariffs, thanks to our existing global footprint over the medium term. Ultimately, mitigation measures need to be deemed as economically meaningful to safeguard our earnings growth, which brings me to the outlook for fiscal year 2025.

We raised our outlook for fiscal year 2025 based on our strong performance in the first nine months and due to additional certainty from tariffs. We raised the midpoint of the ranges for both comparable revenue growth and adjusted earnings per share. We now expect revenue growth of 5.5% to 6% and adjusted earnings per share from EUR2.30 to EUR2.45. We believe this new outlook documents our great underlying performance in fiscal year 2025 in both revenue growth and earnings per share.

Let me briefly give you some additional color on the underlying performance in earnings per share. The positive impact in the financial income, net in Q3 and the expected headwind in the second half from foreign exchange roughly cancel each other out in EPS for the full fiscal year.

Now considering the current tariff assumption of EUR200 million to EUR250 million on pretax profit, this would impact EPS by around EUR0.15. And now keeping in mind this roughly EUR0.15 of tariff impact on adjusted EPS this year, the new EPS range, excluding tariffs, would be EUR2.45 to EUR2.60. And therefore, like-for-like, clearly better than the initial outlook from last November of EUR2.35 to EUR2.50.

To conclude some comments about the dynamics of the remainder of this fiscal year. This fiscal year, we successfully rebalanced the load in the quarters, taking load off Q4. In the first nine months of '24, we grew by 4.3% and then had a strong finish with 5.6% growth in Q4.

This fiscal year, we already grew by 6.8% in the first nine months. Q4 remains, in absolute term, the strongest quarter in the year, but it will be less loaded compared to the Q4 in last fiscal year relative to the prior quarters. And while we expect still good growth in Q4, we expect it to be below the level of the first nine months. And this is not an indication of slowdown of business, but an indication of us actively managing the equipment backlog over the quarters.

And on what we expect for growth in the segments, for modeling purposes, the best assumption for revenue growth would be our segment assumptions from the beginning of the fiscal year also for Q4, meaning mid-single-digit revenue growth for Imaging and Advanced Therapies, towards high single-digit growth for Varian and low growth for Diagnostics.

Regarding margins for the segment. This obviously depends on how tariffs will impact profitability in Q4. However, based on our current tariff assumption, we would expect for Imaging and Advanced Therapies sequential margin expansion in Q4, but below the very good prior year quarter also due to the tariffs. Especially Imaging had a stellar quarter in Q4 last year. And bearing in mind that the tariff impact is slightly increasing sequentially, Q4 margin this year would be closer to Q3 margin of this year in Imaging.

Varian and Diagnostics had a very good margin -- had very good margins in Q3. And due to increasing tariff headwinds in Q4, the level from Q3 would be a reasonable assumption also for Q4. This obviously relates to the operational level of 8% margin without the positive one-off in Q3.

And lastly, one comment on the dynamics below the EBIT line. On financial income, net, the positive income from an equity investment in Q3 will increase the financial income, net by EUR85 million this year making it less negative. At the same time, this obviously means a year over year headwind for next year on the financial income line, all things being equal.

And with this, I hand back to you, Marc, for the Q&A.

QUESTIONS AND ANSWERS

Marc Koebernick - Siemens Healthineers AG - Head - Investor Relations

(Operator Instructions)

Hassan, Barclays.

Hassan Al-Wakeel - Barclays Services Corp - Analyst

So the question is you highlight Photon Counting as one of the drivers of the Imaging strength on revenue. Can you talk about how Photon Counting at a lower price point and how orders for this modality are trending, given that you now have a quarter under your belt in the US. And for the entire Photon Counting modality, how much does this now represent of your CT order book and which regions are doing the best?

Jochen Schmitz - Siemens Healthineers AG - Chief Financial Officer, Member of the Managing Board

Hassan, thanks for the question. Yeah, we -- as you rightfully said, we highlighted Photon Counting CT as one of the growth drivers within CT. And when we look at, I would say, the success of our meanwhile three product lines in Photon Counting, we are very satisfied with what we see. Very good growth momentum. And here, it's equipment, yes, it grows -- very good growth momentum on orders translating into very good -- meanwhile also very good growth momentum on the revenue line. That's why we highlighted this.

Over time, this Photon Counting CT will -- or is meanwhile already a dominating factor in our order book, in particular in the high-end segment of CT. And we see global success with Photon Counting. That means it is the driving force behind our high-end CT market share gains globally, and

globally really means everywhere. I think that is really a very, very nice story. And as you know, you don't hear us too often to highlight things at that level of detail. But meanwhile, it's worthwhile doing it.

Marc Koebernick - Siemens Healthineers AG - Head - Investor Relations

Veronika, Citi.

Veronika Dubajova - Citibank Cameroon SA - Analyst

I will also keep it to one. Just I guess, it's both for Bernd and Jochen. As you guys think about the moving parts for fiscal '26, I'm just wondering beyond the annualization of tariff headwinds, what other sort of headwinds do you see as we move into next year? And I guess maybe on the revenue side of things, clearly the market seems to be holding up a lot better than I think many investors assumed would be the case at the outset of the year. So just curious, Bernd, how you think about the sustainability of that as you move into next year?

Bernhard Montag - Siemens Healthineers AG - Chief Executive Officer, Member of the Management Board

Yeah. Thank you, Veronika. Actually, I'm pretty optimistic when it comes to the environment we will have in the next year. Of course, the tariffs, we have discussed at length. At least we have some level of clarity and now know exactly what to work, so to say, against from a mitigation point of view. And again, it is a topic which we will also make up for in the midterm, as Jochen stated, as much as we weather the inflation headwinds over time, bringing us back to quarters like this with an Imaging margin of 21%, just as an aside.

From a market point of view, the US is very robust. You see also a lot of procedure growth, a lot of demand in the US really when it comes to the final, final customer, so to say, the patient. Europe, stable on a high level. China with the potential of a further -- of the recovery kicking in. I don't want to speculate about the time exactly, but it is certainly a topic to bear in mind here that the current results and the growth we are managing is happening without China contributing. And looking into next year, it's a question whether it always needs to stay like that.

So from that point of view, when looking at the global environment, but then also when it comes to the topics we are addressing in terms of really answering the key medical questions, the Photon Counting CT further rolling out and getting a lot of traction, the low-helium MRs, the growth in theranostics, the growth in PETNET also when it comes to Alzheimer's, all the topics we are addressing in minimally invasive therapies, the momentum in Varian, the further -- a more growth dynamic in Diagnostics. So I think there are many reasons to be positive and not too many to be worried about.

Jochen Schmitz - Siemens Healthineers AG - Chief Financial Officer, Member of the Managing Board

And maybe not a lot to add, I think. But if you do a bit the math and you look a bit into our segmentation, you see us growing in Imaging, Varian and AT, if you would combine that in the higher single digits. And the dynamic in Diagnostics is out of different reasons. But for example, out of the VBP program very different currently. It's more in the flattish or low single-digit environment. And when I look into next year, I would expect a similar picture in general, just to say that.

Marc Koebernick - Siemens Healthineers AG - Head - Investor Relations

Graham, UBS.

Graham Doyle - UBS AG - Analyst

Just it's really around guidance and just some of the points you pulled out for us there. So when I think of 2025 in terms of what we have today versus where we were at the last quarter, so FX is worse, but that's offset by financial charges, so call that a wash. The tariffs presumably are, if anything, a bit better given where China settled and the EU. And the underlying performance for the first nine months is better, presumably than expected, but the guide hasn't really changed.

So when I look at Q4, presumably that implies a weaker margin. So it'd be good to get a sense of what's driving that incremental to the things we just flagged there. But really, it just matters in terms of when we think of 2026, it seems pretty obvious you should be able to do the sort of mid-to-high single-digit growth that you guide for over the midterm. But is it realistic on the bottom line to do double-digit EPS growth for next year, i.e., to expand margins quite meaningfully? So it's slightly long question, but effectively what's changed and should we feel good about quite a bit of margin expansion next year?

Jochen Schmitz - Siemens Healthineers AG - Chief Financial Officer, Member of the Managing Board

Graham, let me try to give you an answer. First of all, when you look at our development this fiscal year and our outlook we gave to the year -- for this year, which started without having tariffs, I think we had a decent operational performance. I tried to point this out, about EUR0.10 higher than we initially thought. But then unfortunately, we have the EUR0.15 headwind from tariffs in the numbers. So just to put this into perspective.

And this comes from a very good momentum in top line in the three segments. I mentioned beforehand, Imaging, Varian and AT. And in particular, if you take them together, not all at the same level, but in general, good momentum and also a decent margin development. And what is different to prior years, which I appreciate very much so, is that this is much more linearized. And the linearization, which we actively drove is related only to, so to say, one revenue stream, which is equipment revenue from backlog.

At the end of the day, that's the only thing where you can have certain direct management into it. The rest is either recurring, which is the vast majority. And the other piece is, anyway, if you need book and bill in a quarter, it's depending on your success in the marketplace. We cannot really manage it differently, just to say that.

So -- and I think there, we see this trend, as I mentioned before, and on the top line ongoing. We will have a good growth momentum next year in these three segments. It's entirely we expect still muted growth in Diagnostics due to the ongoing VBP topic in China. And we expect good underlying margin development in the segments.

The topic of tariffs, I was clear about this, is currently best estimate is something between EUR400 million and EUR500 million. The tariff situation unchanged to the, I would say, to the assumptions we had in place before. And the only change is 15 -- going from 20% to 15% in the United States. The biggest exposure remains to be in Imaging as well as in Advanced Therapies. They are more exposed. Therefore, we will see the bigger impact in their margins than in Varian or Diagnostics because of their respective value-add structure.

And it's maybe a bit too early to say what exactly will mean year over year from a margin improvement, but we have to work against the, I would say, the EUR200 million to EUR250 million additional tariffs next year relative to this year, which is not nothing.

And I would say this is the main message. And when you look at, I would say, on a tax rate, I would not expect significant changes. We will have a relatively stable interest income line year over year, but we will -- we cannot plan for such reevaluations. We had this, in particular in Q3, on small equity stakes we have in certain companies because either this can happen or not happen, you never know. Therefore, there is a certain headwind from this.

And last topic is foreign exchange. We need to see what foreign exchange will do. So far, the trend is not in favor for us, in particular, again, not for Imaging and Advanced Therapies who are more exposed to -- who are exposed to a weaker US dollar. It's a bit the opposite for Diagnostics and Varian. And obviously, hedging is only a delaying factor of impact. So far, we are relatively protected year-over-year with margins, but the translation

is already kicking in. And if everything stays equal, we will see also a headwind from foreign exchange next year on margins. We have to be prepared for this.

Maybe last point on tariffs, I forgot to say that beforehand and I think it's important. We will be able to mitigate the full impact over time in the midterm. And here, we are very confident this is -- you can -- it's different than inflation, but you can compare it from a development standpoint like the inflation topic, we will be able to protect our profit pool over time by either price quality and/or value-add structure changes. Sorry, long answer for a long question.

Marc Koebernick - Siemens Healthineers AG - Head - Investor Relations

Hugo, Exane.

Hugo Solvet - Exane Bnp Paribas - Analyst

Just a quick one. Jochen, you already commented on the implication from the debt perspective regarding the potential next step from your parent company. Could you maybe expand a bit on the implication for SFS and your ability to continue to help hospitals and systems to finance acquisition at attractive conditions? That would be my question.

Jochen Schmitz - Siemens Healthineers AG - Chief Financial Officer, Member of the Managing Board

Hugo, I hope I understood you right. You asked about Siemens Financial Services as, I would say, sales financing partner for us?

Hugo Solvet - Exane Bnp Paribas - Analyst

Yeah. And the event of the consolidation.

Jochen Schmitz - Siemens Healthineers AG - Chief Financial Officer, Member of the Managing Board

Yeah. The relationship with SFS is, by the way, within Siemens. But also with regard to Siemens and Siemens Healthineers, today already absolutely fully at arm's length. They have a bank license. They are behaving like a third-party. We may use -- or we work with SFS if and when it makes sense for us, and they work with us if it makes sense for them. Nothing in between.

We have a lot of markets where SFS is not active. Therefore, we work there with other parties. We work in markets where SFS is active in certain cases with SFS, but in others with third-party, for example, in the United States. And therefore, I would expect no change to this relationship even after a significant change in stake at the Siemens side.

Marc Koebernick - Siemens Healthineers AG - Head - Investor Relations

Oli Metzger.

Oliver Metzger - - Analyst

A question on Diagnostics. So could you elaborate about the underlying Diagnostics performance meaning excluding the China VBP headwind and also specify the drag related to the latest shutdown.

Bernhard Montag - Siemens Healthineers AG - Chief Executive Officer, Member of the Management Board

Oli, you were a little bit hard to hear. I understood the question as Diagnostics, so to say, without a China impact. And I mean, first of all, to bring everybody on the same level of data, so to say, the impact we are seeing in China together with the entire industry is that switch to a new purchasing theme. The scheme, the volume-based pricing, where basically the price for individual tests is fixed for the health care system, which is also changing how the whole commercial model works, what is the role of business partners and so on and so on.

It is a onetime reset of the price levels. Maybe you have seen also when looking at our peers that it has impacted also their growth rates even more significantly than us, also because their portion of their China business is higher than in our case. I cannot give you a super detailed question -- answer to the what it would mean to -- without China, but roughly, I would say, you can -- you could add back 1 percentage-point to 1.5 percentage-points in terms of growth rate as a global number, yes, so to say, if China was on a comparable level. And now this is a wild estimate, I would basically say something like 50 basis points or so on profitability. I'm looking at Jochen and he is nodding.

Jochen Schmitz - Siemens Healthineers AG - Chief Financial Officer, Member of the Managing Board

Yeah. Maybe, Oli, I think it's -- when you look at -- China is significantly down on an already not very high levels. And if you just make China flat, which is not normal China, from a growth standpoint, you would already be at that, what Bernd said, roughly the low single-digit growth rate as indicated for the year. And then as a lot of this impact is a direct -- it's a price reduction. It goes directly into the P&L. So it has, as we say, a drop through, unfortunately, in the wrong direction.

And then maybe last point, you didn't -- I'm not sure if you also asked about that. This one-off, this true-up on the pension side, had a positive impact of about not 100 basis points, around 80 basis points or so. So if you take out of the 9.2% this one-off, you are at 8%-plus and then -- margin. And then if VBP normalizes over time, I think you could add another 0.5 percentage-point on top.

Marc Koebernick - Siemens Healthineers AG - Head - Investor Relations

David Adlington, JPMorgan.

David Adlington - JPMorgan Chase & Co - Analyst

I hope you can hear me. Just a follow-up on the Diagnostics side again. Can you give us some further color on restructuring you're undertaking. How quickly we might be able to see that come through in terms of payback on margins, please.

Bernhard Montag - Siemens Healthineers AG - Chief Executive Officer, Member of the Management Board

No, no, no. I think -- David, you were a little bit hard to hear. Can you repeat the question?

David Adlington - JPMorgan Chase & Co - Analyst

I just wondered on the Diagnostics restructuring you announced this morning, could you give us some further color in terms of what you're actually undertaking that we might see that payback on margins?

Jochen Schmitz - Siemens Healthineers AG - Chief Financial Officer, Member of the Managing Board

Yeah. These were primarily two things, which affected this transformation or those adjusted charges on transformation. Particularly, these are -- and they come from two ways. First of all, we did the final closure of a major site in the United States, Flanders.

And secondly, we decided to commercially stop one product line, which also triggered then revaluation of certain capitalized items related to this product line. These were the 2 things because we felt that this product line is not helping us in the future to drive our growth and profitability agenda. Okay?

Marc Koebernick - Siemens Healthineers AG - Head - Investor Relations

Falko, Deutsche Bank.

Falko Friedrichs - Deutsche Bank AG - Analyst

My question is on the recent news that China is restricting medical device imports from the EU if they go over a certain monetary amount. Does that affect your business in any shape or form?

Bernhard Montag - Siemens Healthineers AG - Chief Executive Officer, Member of the Management Board

The answer is no. So out of two reasons because, on the one hand, most of the business in China is China -- from China to China because of the localization efforts we have made. And then there is a very high threshold set for packages above, I guess, EUR5 million or so, which is an extremely rare event. So this is not a topic, which really plays a role also in our internal discussions here.

Marc Koebernick - Siemens Healthineers AG - Head - Investor Relations

Julien Dormois, Jefferies.

Julien Dormois - Jefferies LLC - Equity Analyst

This is essentially a follow-up to Graham's questions previously on 2026, and you've been very kind in letting us know what could be the headwind into next year, so obviously a larger impact from tariffs. FX running against you and probably this financial one-off also having an impact at the EPS level. So just wondering, when you come up with your new midterm plan at the investment -- at the Capital Markets Day, should we see 2026 as maybe a reference year or a basis on which to elaborate a new multiyear program? Is that the way to think about the next few years?

Jochen Schmitz - Siemens Healthineers AG - Chief Financial Officer, Member of the Managing Board

Good question, Julien. Luckily, we have still some time to think that through. But on the other hand, when I look at the two main topics, which are not necessarily so much in our hand or less in our hand than others, it's tariffs and foreign exchange, just to say that.

Foreign exchange, we need to -- we will make an assumption. And normally, when we talk about a midterm or longer-term aspect, we keep the foreign exchange rate environment, which is currently there, we assume that this stays because we don't know better, just to say that. We most likely will do the same thing at the Capital Markets Day in November, depending on where that then stands. That is foreign exchange.

Tariffs, I believe we have made that clear. Over the medium term, our assumption is that we will be able to mitigate this. And this will be then also reflected in the medium-term guide we will give at the Capital Markets Day. That's how I would see it. And then obviously, these are, I would say, the surrounding factors. And then hopefully, we have a lot of time to discuss what we will do, all of great things, to make health care better in the future globally.

Marc Koebernick - Siemens Healthineers AG - Head - Investor Relations

Julien, BofA.

Julien Ouaddour - BofA Merrill Lynch Asset Holdings Inc - Analyst

I just wanted to talk quickly about the elephant in the room and the parent company ownership. Just if you can give an update, I mean, what is the like the latest update on the strategy to finance some acquisition by selling some shares, potentially also review the entire ownership structure this year?

And given this topic is an important overhang for the Healthineers share price, I mean, do you think it's possible to get any sort of communication from either party before the parent CMD, which is in December, you just mentioned your own CMD a few weeks before. So any info here would be super helpful.

Jochen Schmitz - Siemens Healthineers AG - Chief Financial Officer, Member of the Managing Board

Julien, also a good question. But we are the wrong addressee. And this is also not an, I would say, an unexpected answer from us. I mean, at the end of the day it's a Siemens decision and Siemens needs to decide that. I think we are very clear that clarity would help in every regard, and we are hopeful for this.

Marc Koebernick - Siemens Healthineers AG - Head - Investor Relations

Oli, Kepler.

Oliver Reinberg - Kepler Cheuvreux SA - Analyst

I just wanted to follow up on the kind of tariff situation to get some kind of more clarity there. So when you talk about EUR400 million to EUR500 million impact next year, that means basically EUR225 million incremental. I mean, is this kind of a net number because you said you haven't decided any kind of countermeasures specifically at this stage? Or does it mean that you see more action actually to mitigate this kind of number?

And also, do you see any kind of product groups where a competitor may be better positioned where there is a certain risk of market share loss in one product category? And finally, do you think that it's probably long term, out 2027, already means that there's already significant relief on any kind of tariff impacts?

Jochen Schmitz - Siemens Healthineers AG - Chief Financial Officer, Member of the Managing Board

Oli, first of all, your math is right and this is a net number after mitigation. When we talk about the ability to mitigate the whole impact, it comes in two ways, as I already said: price quality and potential value-add structure changes. Value-add structure changes do not happen immediately. They need to be decided and then implemented. Therefore, they are particular medium term, they would have -- if we apply them, they would have a more medium-term impact and not a short-term impact.

The price topic will kick in over time. And that means we should expect to see already clearly better numbers that everything -- assuming that everything stays the same, from the tariff regulation environment, yes, we should see a year-over-year improvement clearly from 2026 to 2027. To quantify this already, I think, is a bit too early to do. But clearly, an improvement over time.

Bernhard Montag - Siemens Healthineers AG - Chief Executive Officer, Member of the Management Board

And maybe, Oli, there was the other question regarding competitiveness and so on, yes. So first of all, everybody in this industry is hit by tariffs whether it is our competitors, whether it's our peers here because supply chains are very, very global. And it's not only the point of where do you -- where is the final assembly of the product. It's also where are certain components manufactured and so on and so on.

So I sometimes compare this topic of short-term advantages or not in the cost position. One way to look at it is to compare it with currency fluctuations. We have seen in the last years and decades, for example, the euro-dollar exchange rate has been changing significantly within years -- over the years, which you could also argue it puts one company at a disadvantage over the other or the other way around, yes.

But what is always how we act here is about market pricing and not about looking at what exactly is the margin given a fluctuating cost base and then trying to play games or trying to not participate in deals. And that is hopefully a kind of meaningful analogy for us. So how we will deal with that transitional period, which now everybody will go through in the industry in terms of a change to the cost position of individual product lines.

Marc Koebernick - Siemens Healthineers AG - Head - Investor Relations

Richard, Goldman Sachs.

Richard Felton - Goldman Sachs Group Inc - Analyst

Just a follow-up on Diagnostics. So the 1% to 1.5% headwind that you called out from China, can you give us any sort of color on how to think about that headwind into Q4, into FY26? When is that headwind sort of fully annualized in the base? And also, is that 1% to 1.5% headwind, is that purely from the VBP price adjustment? Or are there also some market share impacts in that number as well?

Bernhard Montag - Siemens Healthineers AG - Chief Executive Officer, Member of the Management Board

So I give you a rough or a not-too-detailed answer because I think this is a topic we will also be more specific about when we have our next and can be more specific about when we speak about -- when we enter in the next fiscal year, including also our multiyear plan.

But the main answer, this is the -- it is VBP. It is nothing else. Of course, as I said, VBP is a topic which is, on the one hand, a price -- a rebasing of pricing in the Chinese market. But on the other hand, it is also changing basically how distribution works because there are the OEMs here and the other business partners who so far have been used to selling, so to say, the equipment and the instruments and the test to customers having a markup and so on and so on. And now when the prices are fixed, yes, it's also changing -- it's changing who has what role in distribution.

And very often the role of the so-called business partner becomes more the one of a logistics partner than a sales agent and so on, yes. So there are some ripple effects in that caused by that change here, but largely what we see here is a rebasing of the price levels. I would, as a first hint, say that this is a process, which takes about a year. So that from next year, mid-next year on, we can say the market price levels are rebased across the country and then growth can really kick in on that lower -- from that lower starting point.

Marc Koebernick - Siemens Healthineers AG - Head - Investor Relations

Robert, Morgan Stanley.

Robert Davies - Morgan Stanley - Analyst

I just want to drill in a little bit more about the China dynamics. I've seen over the last sort of few months people talking about green shoots yet the sort of tone, I guess, of the comments remain still pretty conservative/cautious. So I just wonder if you can give us a bit of a picture of what

you're seeing on the ground, how much sort of customer conversations are moving along? Is it actually translating into tenders? And if so, in which modalities?

Bernhard Montag - Siemens Healthineers AG - Chief Executive Officer, Member of the Management Board

Yeah, let's say, ideally, it's good to look at the facts. When you look at our Q3, I mean our book-to-bill in China was about 1, yes. So which means it's, let's say, good but not great. So in other words, it means that there is not yet a significant change to the better. And okay, revenue growth was 6%, but that is on -- based on low comps. I think that in the year before the Q3 was minus 60 -- minus 12%, yes. So I would be -- I mean, I'm optimistic in the midterm when it comes to -- is now the moment where we see the light at the end of the tunnel, I would still be a bit careful.

Marc Koebernick - Siemens Healthineers AG - Head - Investor Relations

Ed, Redburn.

Edward Ridley-Day - Redburn - Analyst

In terms of the PETNET strength that you called out on the Molecular Imaging strength, can you just confirm the companies that you're working with on Alzheimer's? I believe you're certainly working with Lilly, but also with the GE HealthCare and Life Molecular as well? And also, has there been any benefit from the Flyrcado launch from GE HealthCare?

Jochen Schmitz - Siemens Healthineers AG - Chief Financial Officer, Member of the Managing Board

I think when we look at the PETNET revenue streams, I think we are very, very satisfied. First of all, great business to have, fast-growing as we highlighted explicitly in the call. The growth comes, I would say, in general, for more PET usage per se. But in particular, in the neurodegenerative field, which is primarily Alzheimer's, and as well as in -- I wanted to say PSMA/theranostics driven because PSMA is not only ending up in a theranostic treatment. That's why I'm differentiating. But also the base tests are running nicely. They are the FTGs of the world. But the others are significantly growing faster. The partnership with Lilly is working well. We have no agreement with GE on Flyrcado just to say this.

Marc Koebernick - Siemens Healthineers AG - Head - Investor Relations

Thanks, Ed. So that brings us to the end of the call. Leaves me to thank you for the good Q&A round.

Also all the participants in our perception study that we conducted, so we had a, I was going to say, record return rate of answer. So thanks a lot for all that input that we are definitely going to take into account when we think about our Capital Markets Day and the things that we talk about there.

And finally, that said, the invitation for this Capital Markets Day should be in your inbox. If you haven't seen it, if you've maybe lost somewhere, just pick up the phone or send an e-mail to the IR team and we'll get you on the list there. So looking forward to seeing you in person at latest at the Capital Markets Day. And other than that, we obviously have some roadshows coming up and few conferences in September.

Bye-bye. Stay healthy and safe.

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. A recording of this conference call will be available on the Investor Relations section of the Siemens Healthineers website.

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