Capital Markets Day 2020

Friday, 6th November 2020

Welcome

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Head of Investor Relations, Philips

Good morning, good afternoon, and good evening, ladies and gentlemen. Welcome to Philips Capital Markets Day 2020. We have exciting sessions ahead of us where we'll go through our strategy, our performance, and our value creation journey.

Before I go to the agenda of the day, I want to draw your attention to our safe harbour statement on screen. You will also find the statement in the presentation published on our Investor Relations website.

Going through the agenda, we will start the webcast with the presentation of our CEO, Frans van Houten, who will talk about our transformation journey, our strategy, and how we will deliver on that. Then, our CFO, Abhijit Bhattacharya will talk about driving performance and value creation. After that, both Frans and Abhijit will take your questions.

We will follow with a panel on how we're raising the bar in ESG. After a short break, we'll reconvene to talk about our businesses and about our markets. These sessions will be followed by Q&A as well and we will have another short break in between them.

You see on screen some instructions on how the Q&A will work, very important for today. This is for participants who accepted to join our CMD via Microsoft Teams. If you have a question for a presenter, please raise your hand in the Teams meeting. You can do it during the presentations, you don't need to wait for the Q&A slot to do that. When it is your turn, our technical team will be in touch via an individual chat box for further instructions. So please check your individual chat box, if you want to be in the queue for questions as well. Your video will be visible in the webcast. So please clearly state your name and your firm.

We will now see an opening video and welcome our CEO, Frans van Houten, onto the stage after that.

Our Transformation Journey to HealthTech Leadership Continues

Frans van Houten

CEO, Royal Philips

Ladies and gentlemen, welcome to the Philips Capital Markets Day – this time, fully virtual. It's a great pleasure to have you here among us so that we can engage and share with you our excitement about the transformation journey that Philips is home. We are very excited about all the opportunities that we have ahead of us, and we are very confident in our ability to further unlock value and impact the world.

I'd like to share with you the key messages for today, which, of course, we are going to unpack in quite a lot of detail together with my colleagues from the Executive Committee.

As you know, several years ago, we decided to change Philips and to focus entirely on health technology and this is paying off well for us. We love our purpose to improve people's lives through technology, improve their health and well-being, and it also attracts great talent to join us on that journey, and our customers very much resonate with the way we position ourselves.

We have a clear strategy to be successful and beat competition and win more market share. And the strategic imperatives tell us that we will make further impact by going deeper with customer, increasing their experience and optimise our efficiency at the same time.

We know that we can boost growth in our core businesses through innovation, geographic expansion, and through these deeper customer partnerships. And you know that growth in the core means operational leverage, which is, of course, what we are after.

And our strategy to win with solutions, to really help our customers achieve this goal in the healthcare world the Quadruple Aim: better outcomes, better productivity, and a better patient and staff experience is embraced and sets us apart from the competition.

The combination of executing on these strategic imperatives will help us accelerate our growth profile from what used to be around 4.5% to be in the 5% to 6% bracket. 2021 is going to be an adjustment year, given a very complex comparison to 2020 as a COVID year, but we are confident that structurally, that growth rate will be in the 5% to 6% bracket.

We will continue to improve our profitability by about 60 to 80 basis points on average per year until we are well into the high-teens. That's our goal. And while we do that, we will increase our cash flow, we'll increase our ROIC.

At this time, I would like to remind you that our new targets are without Domestic Appliances. We are well on track with the separation and starting the process to divest this unit. And therefore, looking ahead, we are focussing on the portfolio of Phillips without DA.

Let me now go deeper into our story. I have three chapters for you: the transformation, the strategy, and how we execute.

Let's first look and remind ourselves of the transformation journey that Philips is on. For those of you who have been investing in Philips for a while, you know it but hopefully, there are also new investors and analysts. And then, I would like to remind you that nine years ago, we decided to turn away from being a diversified industrial holding and to put our focus on health technology – a market with great promise.

This bold move helped us raise our growth profile and drastically improve profitability. This journey, we are going to continue and we see ahead of ourselves a 5% to 6% growth and a steady improvement of profitability so that we can reach the high-teens and, of course, also be in the – a better quartile our peer group.

We know that this story is working, that the strategy is working and that's also being recognised.

We have been delivering strong shareholder returns over the last several years and we think that we can continue to do so over the next five years. It's definitely our commitment to you all.

However, besides the return to shareholders, let's focus on the recognition that we are getting from our customers. Our customers give us feedback that the strategy is spot on and that our execution is improving. And that's being rewarded by an increased net promoter score that is rising every year and we see further opportunities to raise it.

Similarly in the consumer world, the Philips brand stands for excellence. And we have been dramatically increasing the so-called Ratings and Reviews that I – that you all see on, you know, the Amazons and the Alibabas and all on the online platforms. And we have set ourselves apart from the competition with our high ratings and reviews.

But we also get external recognition from several bodies. And you see here just a sampling of some of the accolades that have been bestowed upon us. It's very rewarding to see that we are the most innovative MedTech company and that we are best-in-class in several of our categories.

While we go about our journey to win customers and create value for shareholders, we see that we are building further leadership positions. For us, this is important because we know that if you have number one or number two positions in the market, then you have the mindshare of your customers.

You also attract the best talent, and these are the most profitable franchises that we have. A few years ago, 60% of sales came from leadership positions. In the meantime, because we are gaining market share, we are over 65% of sales that comes from leadership positions.

As we continue to innovate and conquer market share and create value, we want to do so in a responsible way and sustainably. Philips has a long history of embracing the environment in how we operate. And recently, we brought all our efforts together in the ESG framework. And we set ourselves bold goals for 2025 on all three dimensions. And also here, we win accolades for our approach, just to name a few. Most recently, we were awarded by the *Wall Street Journal*.

This is integral to our way of working. We do not see this as a chore, but rather as something that comes natural to the way we innovate and operate. Later today, my colleagues will tell you much more about it.

In moving to the second chapter, our strategy to win in a changing healthcare world, I first want to take you to the market that we serve. It's a big market and it's a market that is steadily growing by around 4%. Of course, this year, in 2020, we saw a big boost in Connected Care. But over the next years, we see growth in all the parts of our market, particularly driven by the market trends that will make the use of technology even more profound in the future.

Of course, we see the natural growth drivers of a growing population, and aging and chronic disease, emerging markets spending more money on healthcare. But what we find very appealing is that digitalisation leads to personalisation, leads to higher precision in healthcare. Moreover, we see that we can innovate procedures to be more productive with better health outcomes.

Through the adoption of telehealth, we will see that doctors and patients will engage also in other care settings outside of the traditional hospital. And we know that one of the top priorities of CEOs of IDNs and healthcare providers is productivity. Because how do you support more patients with less money?

We have a strong conviction that technology and especially when you create compelling solutions, that you can actually drive massive productivity and unlock a lot of value and make the staff happier at the same time. And we are also embracing outcome-oriented payment models because we believe that that is how to partner with our customers. All of these trends play into our strategy.

Let me summarise our strategy for you. We innovate to impact health and healthcare. Therefore, we take the health continuum as our conceptual framework where we look at pathways and at the patient journey.

We have embraced the Quadruple Aim of healthcare because we need to create impact on health outcomes, on productivity, and on the patient, and staff experience. We do so by smartly combining systems, devices, informatics, data, and services because we know if we come with a comprehensive platform solution, that we can impact care much better than our competitors.

So we consciously seek to build this together in order to have a stronger impact in the market. Part of our approach is the consultative partnership, where we consult customers. We help them change their game. We help them change and achieve their goals. It leads to deeper and longer-term relationships, a higher degree of recurring revenues, superior customer service and, therefore, stronger customer loyalty.

We are very conscious and careful about the assets and the fields that we play in. As I mentioned to you, we strive for leadership positions and we are very convinced that we can still grow a lot in the core. And as we go more in solutions and go into adjacencies, we will selectively decide on organic growth versus synergistic M&A.

Through the Philips Business System, we anchor all our best practices and raise the bar on performance all the time. The Philips Business System is how we work at Philips and it drives quality, it drives productivity, and it drives excellence in what we deliver to our customers.

Ladies and gentlemen, we have four pillars that we build our business on.

In Personal Health, we deliver solutions that enable healthier lifestyles, personal hygiene, support people to live with chronic disease.

In the Diagnosis & Treatment segment, our Precision Diagnosis businesses support better workflows, integrated diagnostics, so that doctors can choose the best pathway for care that leads to the best predictable outcomes.

We innovate operating procedures through image guidance and we know that minimally invasive procedures can be applied to more therapeutic areas and, all the time, drive better outcomes and drive better productivity.

Connected Care, as a platform approach, drives efficiency and effectiveness throughout the care cycle. It helps doctors take better decisions. It helps patients and doctors to be connected in different ways and, increasingly, through telehealth, also outside of the hospital setting. This year, we already saw a big boost in the adoption of telehealth and Connected Care propositions and we think that that will continue.

The portfolio, overall, is well set up to promote and impact health and healthcare and help us grow. We are happy with this portfolio.

Of course, you may challenge us and say, you know, recent developments, does that change your strategy? Actually, I can tell you that the recent developments reaffirmed our strategy and we feel that we're absolutely on the right path to respond to these developments.

Whether those are the developments that affect providers in their COVID response, or in taking elective procedures out of the hospitals into ambulatory care centres, or help providers drive up productivity and resilience of their operation, we have a portfolio that can help them achieve that through cloud-enabled digital telehealth, through informatics optimising workflows, by partnering with our customers to unlock and take out the waste of their operation.

And when it comes to consumers, we have recognised the shift in the way consumers buy and give their preference. And we think that our shift and adoption of online and digital and new business models of direct to consumers will resonate and respond well to this trend. Our market share in online is actually higher than our market share in the traditional offline channels.

The last category of developments that I want to mention are, of course, the geopolitics – something we are consciously aware of, but also where we believe we are increasingly robust, in the light of these changes because we have a regional final assembly strategy. We have hubs in United States, in Europe, and in China, and Asia. We can localise our solution such as, for example, in China, and that includes the regional hosting of health data.

So in a nutshell, strategy reaffirmed. Philips is well-prepared to navigate, let's say, these turbulent times.

Now I would agree with you that strategy is one thing, but execution is even better. So let's talk about how we deliver on our strategy. We have clearly defined for the entire Philips organisation what are the drivers that we need to deliver on in order to unlock the value that we see in our strategy. These drivers can be grouped in three imperatives.

Continue to raise the bar on how we serve customers. Raise the bar on quality and productivity.

Secondly, relentlessly drive growth in the core of our business through innovation, through geographic expansion, and by capturing a bigger share of wallet of our customers through consultative partnerships. As we grow, we get operational leverage. We get depth. It's great.

Then, the third leg of this execution strategy is how we win with solutions. Developing solutions that have demonstrable clinical evidence and health economic benefits so that customers say, 'Ah, we must have that.' As we do that, we leverage data and data science at scale because we believe that that complements our systems and devices very well. And we are selective and determined to add some M&A and partnerships to complement our organic growth.

Together, these drivers deliver on the goals that we have set the balanced scorecard on shareholder value as well as the benefits to our other stakeholders.

I'd like to take you in a bit more depth through each of these imperatives. Starting with improving the customer experience and driving our productivity, we have the sleight of programmes that work on customer experience and upping our customer service and the first-time-right response.

We have a comprehensive framework on how to drive first-time-right quality and doing so with a smaller set of products and taking the waste out of our processes.

We are preparing Philips to be a digital enterprise that is always connected to its customers, whether in the marketing and sales process, but also all our products in the field are connected to the Philips backbone so that we can be predictive in our response to customers.

And all the time, we are relentlessly focussed on driving productivity. Abhijit Bhattacharya will give you much more detail, but I can tell you already that for the next five years, every year, we will drive productivity savings of around EUR 400 million per year.

In growing the core, I mentioned that we have three ways of doing that. We have a huge innovation engine that spews out very compelling innovations to extend category leadership across the entire portfolio. And you will hear from my colleagues in the Executive Committee many examples today. I'd like to mention just a few to give colour to this point.

In China, some of you may challenge us to say, 'How do you deal with local competition?' Well, the S1000 targeted a young consumer group in China, takes competition head-on, and we are gaining market share.

In Precision Diagnosis, the Helium-free MR, Ambition, unique in its kind, has a much lower cost of operation versus any of the competition. And many hospitals are waking up to the fact that now they don't have to have a chimney in their hospital, and that the uptime is better, and that it gives them a lot of benefits. And they see customers shift to the Philips brand.

In Image-Guided Therapy, you will hear a lot about it, our innovations are embraced as they innovate the procedure.

In Connected Care, the IntelliVue 750 and 850 create remote patient monitoring, which, in a time of COVID, is very, very welcome. And you see whole departments, whole wards being now monitored through this fantastic innovation.

All of these are new innovations that will generate a lot of growth next year.

The second driver of boosting growth in the core is the geographic expansion. We still see a lot of opportunities to take innovations that are very successful in one market, to take them to more markets. This is very much the case in healthcare informatics, which we pioneered more in the Western market and that we are taking, for example, to the Middle East, to Asia, to other markets. And you see several examples here of our cloud-based EMR, our packs, our ICU, telehealth, etc.

Our IGT Devices business, originating out of several acquisitions, mostly US-based, we can accelerate growth, going global and expanding the penetration of all the markets where Philips is already present.

And we have talked to you already in the past that there are millions of patients that are not yet diagnosed with sleep apnoea. And we are driving that market heart and expanding the cake, so to speak, and that fuels growth as well.

The third driver of growth in the core has to do with the intimacy with our customers. And whether those are the health systems on the professional side or the retail partners on the consumer side, by collaborating, we go deeper, we gain share of wallet.

All three, proven strategies, enabling us to up the growth rate of Philips.

And then, I want to talk to you about our solutions strategy – something we started some five, six years ago. And in the meantime, the sales percentage of – the solutions percentage of total sales has been growing steadily. In fact, solutions are growing almost twice as fast as the average of Phillips and it just demonstrates how compelling it is when you solve customers' problems.

So rather than having them figure out how you combine AI, systems, services, and devices, we do that for them. Leveraging the deep insights clinically, operationally, offering an open platform approach, coupling it with the different business models, we are able to help our customers impact – get results on the Quadruple Aim. I brought along a couple of examples to bring this to life, even though several of my colleagues today will give you a lot of examples, but just to immediately give credibility to the strategy.

We are applying our solutions approach even to the consumer space. Here in the Oral Care world, we have teamed up with dental insurance payers, with dentists. And together, we have made a very compelling offer for the consumers with a novel business model. It's a win-win-win. Everybody is very enthusiastic about it. And it's growing very much. And my colleague, Michael, later today, will explain to you more in detail how this works.

In Precision Diagnosis, in the world of radiology and pathology, there is a lot of opportunity to drive a better precise diagnosis while, at the same time, increasing productivity. We have several solutions in this space where we can greatly optimise workflows, come with a much more integrated diagnostics, so that the doctors can choose a pathway that fits that individual patient.

There are a lot of results that have been clinically proven through our hospital partners. You can see them here at the bottom of the page. Very compelling. And it will help us gain market share in the diagnostics field.

In Image-Guided Therapy, several years ago, we realised that to push the envelope on clinical outcomes and productivity, it would be great to combine devices, systems, software, and services. And as we have done that, we have demonstrated that doctors can treat 20% more patients in a day. They can save cost. And patients are treated better, first time right. So, better clinical outcomes.

Again, at the bottom of the page, you see just a sampling of the benefits that we have documented with our customers and that are now driving the adoption at a larger scale.

In Connected Care, our solutions also help drive the efficiency and effectiveness of the care pathways, whether that's in emergency response, connecting ambulances to hospitals, or in the hospital itself, where we can increase the patient/staff ratio and be predictive about what a patient needs.

Our algorithms will guide the doctors to the patient that needs the care while other patients, they can go home and be remotely monitored. And that is then more efficient for the hospital, but also better for the patient. Again, you see here, at the bottom of the page, a lot of evidence on how this drives impact for the caregivers, for the patients. It's a win-win. And obviously, this is helping us to step up our growth.

Now, you may ask me, 'You know, is this a US game or a European game?' Actually, this strategy works all over the world. And I brought here an example of China, where our team in China, led by Andy Ho, is pioneering the solutions approach in China. And we teamed up with the Xiamen Cardiac Hospital.

We helped design the entire cardiovascular pathway, including how to get workflows that are optimal, and patient experience that is the best, with clinical knowledge, where we support the hospital. And it is no wonder that this Xiamen Cardiac Hospital was awarded prizes for the way it is set up and it is now being copied around China as an inspiration on actually how to improve care. And we are at the middle of it.

I'm going to round off my strategy execution story because obviously, you're interested in how do we fund our strategy and how do we return – drive this return. It brings me to the topic of capital allocation. At Philips, we have always taken a balanced approach between reinvesting in growth, using capital to expand the portfolio, also deciding what business are we in and what business are we not in.

I shared with you that we have sold businesses that we felt were not strategic. And at the same time, we have added a few businesses that we think are strategic and helping our future. We have maintained dividend stability, paying out 40% to 50% of net recurring income. And we have also done share buybacks, and that's something we will evaluate periodically.

I would like to round off with our associates – Phillips employees, some 80,000 people. It's a great workforce, very talented. But of course, you need to lead it. And at Philips, we have invested in what we call the Leadership Development Journey as we decided to be an operating company. And we want everybody to pull on the rope from the same side so that we gain agility, we gain speed, and we raise our performance. We have taken the leadership group along. And here, you see just one such occasion where everybody rallies behind the Philips journey.

We are locking in that journey all the time by taking the best practices and formulating them in what we call the Philips Business System, with the six interlocking tenets of Strategy, Governance, Processes, People, Culture, and Performance Management. We have a strong belief that these six tenets all need to reinforce each other. And as they do, it creates clarity. It creates clarity for the 80,000 Associates and it gets people to be faster, more productive, also more happy. We give everybody a development path in this company, and the culture in which we do that is very important to us.

Finally, I'd like to introduce you to our experienced and very passionate Executive Team, many of which you will hear speaking today, many of which you can also ask questions and challenge. And I hope that today and I know that today, you will have a very exciting and engaging day. And beyond today, we're always prepared to engage with you, analysts and investors, because we want to tell you our story. We believe in it and we're going to do it.

Rounding off the takeaways. The Philips journey continues. We aim for leadership in health technology. We aim to impact the world through our innovations. And we know how to do it.

We will do it by executing on the three strategic imperatives. And as we go about our game, we raise the growth profile of Philips to 5% to 6%. We raised the Adjusted EBITA margin to the high-teens. We'll generate more cash. We up the organic ROIC.

And ladies and gentlemen, we hope very much that you are going to be part of that journey.

With that, I'd like to invite my teammate here, Abhijit Bhattacharya, the CFO of Phillips, and a long friend.

The Next Phase of Value Creation

Abhijit Bhattacharya

CFO, Royal Philips

Hi, Frans. Yeah, thank you. Thank you, Frans. Good morning, good afternoon, and good evening to all of you, and welcome to the Philips Capital Markets Day. A bit unusual, the setting this year. We miss having the coffee side chats, the lunch, the dinner, but we are going to make up. We are going to have fireside chats, in this winter setting, during the course of this week. So there's enough time for interacting both with me as well as our colleagues on the Executive Committee so that you get a deeper understanding of the strategy.

So Frans presented right now the strategy of Philips: what we've done so far, how we go ahead. What I'm going to do is to give you a translation of that into the financial numbers and how that will play out.

So let me start by anchoring you on the key takeaways. One is, you know, looking back, we have significantly improved our earnings, our sales growth, our free cash flow, as well as our Adjusted EPS. Looking forward, we have decided to step up growth. We used to grow between 4% and 5%. We now want to grow between 5% and 6%, and I will come into some details there as to what are the main drivers. And with that, we want to move the Adjusted EBITA into the high-teens so that we then are among the cohort of our peer companies.

One of the big levers to take us there is our productivity programme. And I will share with you some details there that's going to save us EUR 2 billion by 2025. Our cash conversion, which has been strong over the last five years, will continue to be strong. So we will have cash conversion above the 90% to deliver the EUR 2 billion of free cash flow. And I will also present you a robust financial framework that we have designed in order to give you the belief on how we are going to execute on our strategy.

Now my presentation is in two parts. In the first part, I'll take you back to how we have performed in the period 2016 to 2020. And then, I will anchor the second half of my presentation, looking forward between 2021 and 2025.

So let me first start by presenting a scorecard, which we believe is a balanced scorecard, which shows clearly that we have structurally improved the performance of the company. And you can look at the various parameters. You know, we had planned to grow between the 4% and the 6%. We've done that.

We had planned to increase our Adjusted EBITA by 100 basis points a year. We are slightly shy. We will be around the 70 basis points, but still a big step-up from where we were. Our free cash flow - we had targeted to be around the EUR 1.5 billion by 2020. And given the way it has moved so far this year, we have high confidence of hitting that number.

We are ahead of plan on our productivity programme. And why I say ahead of plan is because it runs till the end of the year. But we had planned for EUR 1.8 billion. We believe we will be more at EUR 1.9 billion or more. We wanted to deliver a return on invested capital in the mid-to-high-teens, which we will do by the end of the year. And all this while strengthening our balance sheet. Right?

So we've maintained an investment grade rating and been in the leverage bandwidth that we have targeted for. And last but not the least, we had set out ambition – ambitious sustainability goals a few years ago and have delivered on all of them. And Frans just mentioned, in terms of what we have set out for ourselves, going forward.

Now, as I take you through what we've done in the last five years, let me start first with the P&L. Right? So if you look at our adjusted gross margin, we have improved that by 200 basis points. And that is despite the headwinds that we have received from additional tariffs, duties, etc.

This has been fuelled by a few important interventions. One is innovation. And if you remember, we've always said that we would fuel and drive innovation because that leads to growth and profit improvement. You see that coming back in the margin and the growth of solutions. And you will hear that as a common theme through the day.

Frans mentioned it. I will show you how we've targeted to make solutions almost half the revenue of the company by 2025. We have significantly improved the mix of our portfolio. And of course, the productivity measures that we have been driving, which I will spend a couple of minutes on a bit later, has contributed to this improvement.

Similarly, for our non-manufacturing cost, we have improved that by 100 basis points. And that is, again, through a number of productivity measures, which I will take you through. And this improvement in profitability has led us in the last few years to deliver a double-digit growth in adjusted EPS.

Now, let me – because I gave you some colour on the productivity, I need to take you through a little more detail. Frans spoke about the Philips Business System. It helps us to become more efficient, more effective, as well as put a repeatable process whereby we can keep delivering results. And the Phillies Business System is the centre around which our productivity programme revolves because it has also become now part of our culture. I'll break it up into three blocks.

If you first look at our supply chain organisation, we had committed to reducing our supply – our factory footprint by 40% – 4-0. We have delivered on that.

What I'm very excited about is in the next step of productivity, we have set up a Centre of Excellence for value analysis and value engineering in Pune, in India. And I will, in the looking-forward section, give you a little more colour on that.

Our procurement savings have delivered. It's driven by the DfX programme as well as other programmes that we have run.

And last but not the least, we have significantly deployed the LEAN principles and daily management throughout the organisation. And you see here on this chart that that is now embraced by half the company already.

The other big part of the productivity and transformation was on our IT. And we put in what we call the Philips Integrated Landscape. That is our digital enterprise platform. We do about

270-plus deployments of IT systems a year just so that we can now get onto one common platform that will help us to drive productivity, but also make it easier to do business with Philips.

Our ERP instances have gone down from 50 to 11 in the last couple of years. We run a massive robotics programme, where we are eliminating and automating a million hours of manual work. If I read the external reports that we get on this, this is one of the 20 largest programmes being run by any corporate anywhere in the world. So a big, big part of driving standardisation.

And what this simplification of the IT landscape has done is it is allowed us now to put in tools that do process mining that can still identify where we have large deviations in the way we do standard work and drive that to further simplification.

And we can use that because we have set up our Global Business Services. You know, a couple of years ago, we had no one in Global Business Services. We have now 4,500 employees who run the back-office from six centres around the world.

We've also embarked on our marketing transformation. So we spend about EUR 1.4 billion on marketing, but about EUR 350 million of that was being spent on advertising. And we needed to increase that to drive growth, especially with the move to online. And what we've done is we have driven productivity within that EUR 1.4 billion bucket so that the advertising can go up from EUR 350 million to EUR 600 million over time. And we have already started with those step-ups.

We had committed to drive 40 basis points of R&D productivity. I'm very happy to report that we have completed that. So we had – we were at 9.6% of sales. We are down now to 9.2%, while eliminating, let's say, overhead layers and other costs, but keeping the engine of innovation running.

And last but not the least, we have got all our enabling functions to benchmark cost levels. And that, of course, has given us the operating leverage also to improve our profitability.

If I move on from the cost, let me take you to what we've done on the cash front. So you see we have consistently been around the 100%, in terms of our cash flow – free cash conversion. And we had targeted during this period, cash flow delivery of EUR 1 billion, going up to EUR 1.5 billion by 2020. And as I mentioned in my opening, we look well on course to delivering that for this year. This has happened due to a number of actions.

First of all, the leaning out of the supply chain not only the number of sides, but also steps across the supply chain, managing our overdue receivables much better than we had in the past, and also teaming up with our suppliers so that we are able to have credit terms that allow a balanced financing between our suppliers and us. In this period, we have reduced our cost of financing as well as our bank charges by more than 50%. It used to be close to EUR 270 million. That is down by half in this period.

And last but not the least, you know, a few years ago, we had massive pension liabilities, about EUR 27 billion. That is now down to around EUR 2 billion. We have a last bit to do in the coming days and we will down to even less than EUR 2 billion. So all this has really strengthened our balance sheet significantly and gives us a very, very good platform to go ahead.

I will cover a few more things on the balance sheet – our debt profile. So if you look at our repayment profile – sorry that – I will come to that later. First, let me talk about how we've dealt with the cash. So if you look at our dividends and share repurchases, we have invested one – EUR 8 billion on that.

And then, if you look at what we've spent on M&A, it's been EUR 5 billion in that period. And the two big ones are Volcano and Spectranetics and a lot of small technology tuck-ins, which all now are delivering the results that we would want and more results to come in the ongoing period.

The next slide talks about our current balance sheet position. So you see on the left of the slide, the debt maturity profile. There are no big bullet payments. It's uniformly spread out between now and 2026. And then, you have some longer-term debt, which goes all the way out to 2042.

In terms of leverage, we had always targeted based on where our peer group was and how we wanted our rating to be, to be between the one and a – 1.0x and 1.5x net debt to EBITA. You see that after 2015, we have consistently been in that bandwidth. And by the end of the year, we will also be within that bandwidth, as planned.

So this is how we've set ourselves up for looking at an exciting future where we will drive more growth, more profitability, and value creation.

So let me now come – move us to how we see this, going forward. Frans, in his part, talked about the three imperatives that are going to drive our strategy, going forward: better service to customer and improving of quality, boosting growth in the core, and winning with solutions.

And what I'm going to take you through is on the right side of the page, which are in the light blue in this slide, talking about how we are going to get the growth, what are the drivers to improve our margins and our return on invested capital, as well as our free cash flow.

Before I go into all those details, let me tell you how we've done in each of our segments. So if you look at Diagnosis & Treatment, in 2015, we had an Adjusted EBITA of 6.8%. And we had set ourselves by 2020 to get to a target range of 14% to 16%. We have close to doubled our profitability in the period and we're well on the way to get into that range. Unfortunately, because of the events of this year and COVID, and the impact it has had on this business, we have delayed a bit. But going forward, we have high confidence that by 2025, we will be in the 15% to 17% bandwidth, and grow at a rate between 5% and 6%.

If you look at Connected Care, there we had set ourselves an ambition to get to 13% to 15%. I think there we've hit our target already in 2019. In 2020, we will do exceedingly well because the business has responded tremendously well to the requirements from our customers due to the COVID crisis. That will normalise in the coming year. But even then, this business now structurally moves to a profitability in the high-teens.

And last but not the least, Personal Health. Again, you see a big improvement from 12.5% to 16%. The target range for Personal Health for 2020 was 16% to 18%. So they have hit the range actually a year earlier. And going forward, we want to get into the high-teens – so, 19% to 20%, with driving 5% to 6% growth.

So across the segments, you will see that we have made significant progress in improving profitability with more to come.

Now, I want to touch a bit on what is driving our growth in solutions and how that is developing. When we set out to focus on solutions in 2015, it was a quarter of the company. We set ourselves targets to get to around the 35% by this year. We will probably end at 37%. We were already at 35% last year. And we plan by 2025, to be slightly less than half of the company, in terms of solution sales.

And how does that happen? The primary driver of that is innovation. Right? So it's solutions that actually solve an issue for our customer base. And therefore, it means putting different modalities together which actually deal with that problem that a hospital system may have. So this is done by cross-sector, cross-segment innovation, which is being driven throughout the company. Another big opportunity there is globalising our informatics propositions, which are now strong in the US, but could go outside. Later on, Roy and Solange will talk also about other propositions we have in Latin America, which we can expand.

Expanding our long-term partnership deals. Every quarter, we announce a string of new long-term partnerships. These are sticky customer relationships that binds us with our customers over a long period of time. It also helps to stimulate recurring revenue because it becomes from an OPEX model to a – from a CAPEX model more to an OPEX model, where you keep working with the same customer set.

This is also facilitated by the models we have put in place with Philips Capital, where we can actually make financial constructions that convert CAPEX to OPEX. We, of course, don't carry all this on our balance sheet. We use the balance sheet as a warehousing facility where we may put something on the balance sheet to drive speed in getting a deal done, but then it is offloaded to our financing partners. And what this does is it gets a certain amount of predictability in our revenue as well as solutions are always, for us, accretive to our margin profile.

Now, having said this, I'd like to spend a couple of minutes to take you through how we think we will accelerate growth from the current 4.5% to arrange between 5% and 6%. So if you look at the left, our current portfolio – about 90% of our current portfolio actually grows above the 5%. So it is 10% of the portfolio which is low-growth, which we have to deal with. And then, a few other things that happen as well.

We have, within the 90%, a strong part of the portfolio which actually grows high-single-digit. So if that keeps growing and becomes a bigger part of the mix, that is going to get us 30 basis points. So an increased share from the high-growth businesses. The turnaround of the low-growth businesses, or driving higher growth from the low-growth businesses, will get us another 20 basis points.

Frans talked about the impact on telehealth and informatics with the onset of COVID. Roy Jakobs, who heads the Connected Care business will tell you more about it during the rest of the day. But there, you know, where growth had stalled over the last few years, where we were actually making investments seeing that these trends will come, we now expect that really to drive growth in the coming years. We have a strong focus on services as well, be it cybersecurity services, our normal service business, and the rest. That's also going to drive another 30 basis points.

And then, finally, the prior M&A that we have done prior to 2020. A lot of them were smaller technology tuck-ins, which take a bit of gestation time before they really get commercial, and we expect that to contribute 20 basis points.

And then, of course, this is a period from now to 2025, and there will be risks and headwinds. So if you shave off a bit, we believe we will be, from 2022 onwards, in the 5% to 6% bandwidth of growth.

Let me also spend a few minutes on how we will drive productivity in the period between now and 2025. In terms of procurement savings, we are planning to do between EUR 900 million to EUR 1.1 billion.

There are two big initiatives apart from what we normally drive. That is the Centre of Excellence for value engineering and value analysis, which we have set up in Pune, in India. This will drive low-cost sourcing and give us significant benefits, in terms of reducing our bill of material.

The other thing we've done is we have changed the way we handle non-BoM, or bill of material expenses. Where earlier, we – the Procurement team was largely focussed on negotiating rates, now they will work, together with the rest of the organisation, on managing also the actual amounts that we spend. This, we believe, will give us a significant opportunity to drive this saving of about EUR 1 billion.

Further simplification of the supply chain will continue whether, you know, we will ramp down the number of warehouses by 60%, we will consolidate our service providers. As we finish our factory footprint rationalisation, a lot of the double cost will get eliminated. And then, of course, through the lower cost of non-quality.

And finally, on overhead reduction. We still have a long tail of R&D sites which we want to rationalise. The future of work, which a lot of people have been talking about, be it in lower real estate, using a lot of virtual technologies, whether it is for service, meetings, reducing travel cost – all of that will contribute. A continued expansion of our robotics programme, but also our Global Business Services hub.

And finally, you know, with this Integrated Landscape, we give ourselves a unique opportunity now to have a single back-office for Europe, which will drive a lot of efficiencies, going forward, and a lot of standardisation as well.

And this growth and productivity is what is going to help us to get the margins that we have planned. And you see – you know, earlier, we used to get about 100 bps from volume. Because of the higher growth, that moves up to 130 bps.

Again, new product introductions, geographic expansion, solutions, and prior M&A – you saw that on the bridge. You will hear a lot of that. As my colleagues speak through the rest of the day, they will give you more colour on that.

Gross margin improvements driven, again, by innovation, a better mix, supply chain productivity, as well as procurement savings. And then, I just talked to you about what we are doing, in terms of overhead cost reduction. Now, this is dealing with the P&L, going forward.

Let me also present to you our financial framework, in terms of what – how we will manage this performance in the coming years.

Free cash flow: As I mentioned, high free cash flow conversion, above 90%. The adjusted EPS growth will be around the 10% from 2022 onwards. Organic ROIC continues to be in the mid-to-high-teens. We will have – continue with disciplined capital allocation. Frans gave you the detail on that. We will be more active in M&A, but still disciplined. We will maintain our current investment grade in the credit rating. And our effective tax rate will be – will continue to be in the 24% to 26% range.

So we have a great strategy. We have built ourselves a solid foundation. Now, we have to accelerate growth and deliver on higher value creation. That's what we've set ourselves up for.

And I'd like to welcome Frans back on stage so that we can take a few questions that you may have. Thank you.

Q&A

Frans van Houten: Absolutely. My pleasure. Well, ladies and gentlemen, I think we are getting ready for the question. So let's check in with Leandro. Is it all working, Leandro?

Leandro Mazzoni: Correct. So we really like to interact with you today. So we're trying to get investors and analysts on screen –

Frans van Houten: Very good.

Leandro Mazzoni: – via Microsoft Teams. So if you have a question, raise your hand. Our technical team will be in touch and then we'll put you on screen. We do have Veronika Dubaijova. So Veronica, from Goldman Sachs, I think you go first. Let's see if we get it to work. If not, I have Veronika's question by email as well.

So let's try it. It will take a minute to try to get Veronika on screen. Let's see.

Abhijit Bhattacharya: Okay. It seems to work. There you are. Hi, Veronica.

Frans van Houten: Hi.

Abhijit Bhattacharya: I think you have to unmute. Can you try to speak once more, Veronika?

Frans van Houten: No, it doesn't work.

Abhijit Bhattacharya: Okay. We can't hear you. But let's hear what you have to say from Leandro, then.

Leandro Mazzoni: Yes, I'll read the read Veronika's question. 'So can you elaborate on the parts of the portfolio or business that are absolutely crucial to accelerating the organic revenue growth into this 5% to 6% target range? And whether we should be thinking of that acceleration as gradual or a run rate already achievable in 2022? And related to this, can you still deliver the 60 to 80 bps of Adjusted EBITA margin improvement, even if your growth rate continues to track in the 4% to 5% range, as it has done historically?'

Frans van Houten: Yeah. Veronika, great question. So you heard Abhijit say that, in fact, some 90% of the portfolio is already in mid-to-high growth. And we are actually not that far away from the 5% to 6% in that part. There is about 10% that has low growth and we have the measures in place to boost that. So boosting the high and mid-growth up, getting the lower-growth business to no longer be a detraction, but a contributor – that gets us easily in that 5% to 6% range.

Now, already next year, Diagnosis & Treatment and Personal Health are expected to be in that range. As I said, in the beginning, Connected Care is a different case because of this incredible journey that we have gone through in 2020. From that peak, we will see a decline. And actually, still going to be above 2019 for Connected Care. But of course, it is a decline versus 2020. And then in 2022, all businesses are expected to be in the 5% to 6% bandwidth. And that generates, of course, a lot of profit growth and leverage.

Now, in the circumstance that because of the global economy or whatever other reason, the growth is lower, we remain committed to the 60 to 80 basis points profit improvement guidance. So we are not betting on only the growth horse, we also have other irons in the fire, as is a Dutch saying, and we worked at in parallel. But of course, our prime motive is to get the growth.

Abhijit, perhaps you have something to add?

Abhijit Bhattacharya: No, I think you were very comprehensive, Frans. So, you know, if the growth is a little bit less, which we hope it's not, we will still get between the 60 to 80 bps bandwidth, Veronika.

Frans van Houten: And perhaps a question that is on your mind, if I may project? You know, we do expect Connected Care, even if you take this effect of the terrible pandemic out of the way, we expect Connected Care from to be on a structurally higher growth path, going forward. And that is a very rewarding consequence of the strategy of investing in the informatics, in the telehealth. We see a boost of growth in that area. And that is something that I think all of you and us, we have all been waiting for.

Leandro Mazzoni: Okay, very good. So let's try the next question. We'll try one more time on screen. I have several questions on my email as well. So if you have questions and you're not – your Microsoft Teams is not working, you can email leandro.mazzoni@philips.com. I'll read them live here for Frans and Abhijit. So let's try the next one. I think it was Julien, right?

Frans van Houten: Yeah.

Leandro Mazzoni: Hi, Julian. We can see you.

Julien Dormois (Exane BNP Paribas): Hi, good afternoon. Can you hear me?

Frans van Houten: Yes.

Leandro Mazzoni: We hear you.

Julien Dormois: Six months into that, it's always a miracle when these IT things work. So that's great. Thank you.

I think we're limited to one question. So I was quite excited to see in your slide, Frans, that you are quoting on the M&A side, a more disciplined, but more active approach, going forwards. This is quite exciting for the future, especially looking at what you've been delivering over the past four to five years.

Are you looking for more deals, from a quantitative perspective, or are larger ones, more transforming once? And how do you articulate that with the leverage that you have? You've shown this slide where you've been consistently within the 1.0x to 1.5x bandwidth over the past few years. So are you ready to be a bit a bit more aggressive, in terms of leverage? And how should we read into that M&A appetite?

Frans van Houten: Yeah. Thanks. We have evaluated the kind of 25 M&A deals that we have done over the last five to six years. And sometimes, you do a small deal because of a technology component that you'd love to have. And then, you integrate that, even though the level of work for a small acquisition is not always commensurate with the benefit that you're getting out of it. So – and the bigger deals like a Volcano and Spectranetics have – or have worked, actually, very well for us.

Abhijit Bhattacharya: Care –

Frans van Houten: Also, Carestream. A very nice deal. So I would say, ideally, the deals that we do have a bit more substance than those very small ones. So we are not after quantity, we are after quality. And if we can do fewer and more medium-sized, I think that would be better than then doing again 25.

So we are not predestined on a size. It really has to fit the strategy, link up well with the existing core business so that we get synergy, both on cost and technology and revenue side, as we have been proving in the past. So this year, we have only done smaller ones. Sometimes, you reject opportunities because they are too expensive or otherwise. So we are not going to pursue something that doesn't match up, from a financial point of view.

Abhijit?

Abhijit Bhattacharya: Yeah. No. And I think, you know, you questioned on the leverage. You know, we will also get quite some inflow of cash once we've completed the Domestic Appliances transaction. So that gives us some bandwidth. And you know, if we find a great opportunity and for a short time, we need to step out of that range, but with a clear path to get back into the – to around the 1.5x, we won't hesitate to do that. But the deal has to be good, as Fran said. It should be value-accretive, growth-accretive. And then, it makes sense for us to do.

Leandro Mazzoni: Okay. Next, we have –

Abhijit Bhattacharya: Who do we have next?

Frans van Houten: Okay. So we see just the initials there. Can you state your name and your firm?

Max Yates (Crédit Suisse): Hi.

Frans van Houten: Hi, Max.

Abhijit Bhattacharya: Hi, Max.

Max Yates: Hi, Frans. Hi, Abhijit. My question would be on telehealth. And obviously, it's an exciting area that becomes more relevant in the pandemic. And I'd love to hear sort of the progress you've made in that business and perhaps some numbers around how big it is, where you think you sit, in terms of market shares, and what really the run rate for growth is for that business over the next few years? That'd be great. Thank you.

Frans van Houten: Yeah. Max, I think what we have learned is that the field of Connected Care is very broad, very wide. And also, the world of telehealth has many different forms. Some years ago, I think we were more optimistic that so-called value-based healthcare and population health would quickly materialise. I think there, we have seen that while everybody believes it's the future, it takes a more slow realisation path

While the telehealth related to taking care of more acute and chronic patients remotely has been accelerated also by the COVID situation, where it has proven that both doctors and patients are quite ready to embrace these ways and that it drives productivity. It drives outcomes. And the hurdles of acceptance are actually quite low. So this has put telehealth as an extension of the hospital to the home or other care settings high on the priority list of the C Suite. Also, as a ways to kind of insulate, perhaps, the elective procedures and the recurring revenue stream from chronic patients vis-à-vis the acute care response that was needed.

So as hospital networks go about implementing telehealth, they look at it as an extension of their architecture and there's where it is possible to leverage their existing ways of working pathways, but also their IT. And I can guarantee you the CIOs of hospitals are quite concerned with the fragmentation of their landscape. They would like to reduce it.

Then, you can extend the Philips Monitoring market share leadership – our eICU Command Centre technology – and scale that to more care settings. And that's exactly what is happening right now. For example, the VA (the Veterans Administration) awarding us over the summer this large $100 million deal to basically connect all VA centres through the visual command centre of the eICU and getting more patients signed up into that franchise. So we expect strong growth – double-digit growth in that area.

By the way, it's not just limited to Connected Care. I could have an equally passionate story around how teleradiology is being adopted, how, for example, hospitals are leveraging pathologists that are remote. So telehealth is also between professionals. Also, there we are well setup with our cloud technology. Also there, we expect an accelerated growth rate of the informatics businesses – double-digit growth.

Now, we have not detailed out exactly the size of all these businesses. I can look at my friend here whether we are prepared to do that. You alluded to it in the bridge.

Abhijit Bhattacharya: Yeah. But I think that's going to give us about 30 basis points of additional growth next year 2020. But in terms of sizing it, because it runs across segments, I think we probably should do that on another occasion. Yeah.

Frans van Houten: Sometimes, as we say, go about these solutions, we also bundle, right?

Abhijit Bhattacharya: Exactly.

Frans van Houten: And if we bundle, it's not always wise to break out the individual components. But I'm very pleased that the investments that we have been making in informatics, which were substantial and that was sometimes challenged by the audience, that they are now seeing an accelerated growth rate. And I don't really need to remind you that gross margins in informatics are very high. And so, it's all about operational leverage. So now as we accelerate growth, we're going to get a very nice return.

I hope that answers your question, Max. Okay.

Leandro Mazzoni: Okay. Next question. I think we got Lisa.

Frans van Houten: Hi, Lisa, we can see you.

Leandro Mazzoni: Oh.

Frans van Houten: We can't hear you.

Abhijit Bhattacharya: You need to unmute.

Frans van Houten: Yeah, she can't do that. It's from our end.

Abhijit Bhattacharya: Okay, maybe you have the question?

Leandro Mazzoni: Let's try to unmute her. No? Or I can read her question. 'You mentioned an impressive 40% reduction in manufacturing footprint. How much further can that go?' That was the first question. Second question was, 'Any long-term strategy changes, given the US and China tariffs and the general move towards a more protectionist agenda in the US, particularly for healthcare?'

Frans van Houten: So let's first talk about the manufacturing footprint. The rationale of reducing the footprint is actually that you get more scale in fewer locations with higher core competence. Therefore, better excellence. And as we go about fewer hubs that are multi-business, we optimised the entire value chain. The 40% relates to the 50 factories that we had originally. Now, we are about around the 30.

Sophie Bechu, our Operations leader, has plans to further optimise that. We are not detailing out exactly where and when. But there is certainly opportunity to further scale up a bit. And let's also be realistic that as we do acquisitions, sometimes new, small factories come in that we then also leverage back into this hub strategy. So quite a good strategy.

Now, we – as we go about this, we also take the geopolitical reality into account. And previously, we have explained to you that we are actually having a strong manufacturing footprint in the United States, and in China, and in Europe. In fact, we are a net exporter from the United States. So with any government, we can also, you know, look them straight in the face and say, 'Yes, we have sales in your country, but we also contribute to the employment in your country.'

Having said that, I am concerned around the geopolitics, especially US and China. And we need to be even more resilient and avoid that we have too many goods flows, especially the finished goods flows, between there. And so, we are – we were already manufacturing many products in China, but we are bringing a few more to China so – to make sure that the – that we can respond to the local preference in China.

You will hear my colleague, Andy Ho, speak later today. And it's something that we – where we are focussed on to make sure that the government in China sees us as a as a company that is locally vested in the country and that we are in line with the China 2020-2025 Manufacturing Strategy.

Leandro Mazzoni: Okay, next one – I will read from my email – Hassan from Barclays. 'On free cash flow, could you talk about your expectations for the Domestic Appliances contribution for this year as part of the EUR 1.5 billion? The EUR 2 billion in 2025 seems conservative.'

Abhijit Bhattacharya: Yeah, that's always the challenge, Hassan. We get about a couple of hundred million from Domestic Appliances. So the – if we do the EUR 1.5 billion this year, you should scale that back to EUR 1.3 billion. What we say is above the EUR 2 billion. So clearly, we will do more.

The question was, do we put EUR 2.5 billion? We will probably be short of the EUR 2.5 billion. So it will be between the EUR 2 billion and the EUR 2.5 billion. That's why we say above EUR 2 billion. So I think we have work to do to get another EUR 7 billion – EUR 8 billion out of our operations in the coming years.

Leandro Mazzoni: Okay. I think now we try Daniel on video.

Abhijit Bhattacharya: Yeah.

Leandro Mazzoni: One second, Daniel. We can see you, but cannot hear you. That seems to be the issue today. One more second. Daniel, I have your question here anyway. So let's try, and then I read it.

Frans van Houten: Yeah, that's right. Let's go to the question.

Leandro Mazzoni: Yes.

Frans van Houten: Sorry, Daniel.

Leandro Mazzoni: Sorry, Daniel. I'll read it here. 'A few questions on the Consumer-oriented business, please. Where are you, with regards to online versus offline sales and where do you see this in 2025? How does the assumed shift to more online sales contributes to your margin development, if at all? How does the corona pandemic impact your assumptions here?'

Frans van Houten: Daniel, we have seen a rapid acceleration of online versus offline in the first half of this year. In China, that led to 80%, 90% online. In Europe, around 50%. Remarkably, in North America, still quite low. And so, currently, as we speak, in November, we are globally, on average, around 40%, with China a lot higher and North America lower. We expect this trend to be permanent and that we will continue to see the online sales going to edge up further.

I mentioned in passing that our market share online is a little bit higher than our market share in the traditional channels. So that is a good thing. In terms of margin, we are becoming steadily better at margin management online. It's not without challenges because you have all these, you know, festivals like Prime Day, and 11/11, and so on. It's, of course, always important to avoid that you be – that you only count on these promotional events. We don't want that. This is also why we are stepping up advertising so that we are creating more consumer pool.

We are stepping up the Direct-to-Consumer dialoguing through digital media so that we get consumers to prefer our brands and not just react on the spur of the moment on a promotion. Abhijit explained how a larger portion of our marketing budget is now directed towards, let's say, getting the consumer to be excited about Philips. And we think we can drive that even further. Also, our direct sales to consumers is rising. And that's important when you think about these recurring revenue models for toothbrushes and others where the consumer gets service directly from Philips.

So overall, online is margin-accretive to the mix, even though we are working hard to make sure that it stays like that. And we are confident that we can do that.

Leandro Mazzoni: I think we still have a couple of minutes for our last question from an investor now. Natalie Casali from MFS, 'Between 2016 and 2020, gross margins increased in total 200 basis points, which is quite a bit less than your original targets and what you are targeting for the next four years. Could you please walk us through the factors that prohibited Philips from achieving its gross margin ambition over the last four years, including tariffs? And what do you think will be different over the next four years?'

Abhijit Bhattacharya: Yeah. So Natalie, a couple of things, right? So one, I said we improved it 200 basis points despite the tariff headwinds. That was about EUR 120 million that hit us. We are slowly working our way towards mitigating a lot of that. That is not what we expect as another headwind in the period, going forward.

The other thing that hit us was this year, right? Because with COVID, we had a huge drop in demand in the first half. And we had to keep a lot of our factories shut so that we were able to manage our costs accordingly. And those under coverage costs which are impacting us for this year will not be something that will be there, going forward.

So we – I think the confidence in – and we have significant amount of double costs, right? As we were winding down 40% of our manufacturing footprint, we had the cost incurred to transfer the production from one side to the other while the other site was not yet shut. So all of these things should go out of the profit and loss in the coming five years, which will then give us more room to improve our margins, going forward.

Leandro Mazzoni: Okay. I think I hear – we have one more question. So let's try. Scott? And we seem to have his audio. Hi, Scott.

Scott Bardo (Berenberg): Hi. Thanks, Leandro. Yeah, thank you. Two questions, please. One to Frans and one to Abhijit.

So Frans, I think you have very successfully implemented a shrink-to-grow strategy for Philips. Have we reached the right foundation now to expand-to-grow, potentially considering maybe even a fourth leg to your business?

And to Abhijit, procurement and supply chain rationale – rationalisation appears to be one of the bigger drivers for your net savings plan. Is there a higher implementation risk here, as compared to overhead reduction? And perhaps you can share with us how important procurement and supply chain savings were in your previous productivity plan?

Frans van Houten: Great questions, Scott. So let me first make the statement that I'm happy with the portfolio that we have now in health technology, and that portfolio has plenty of room for growth and margin expansion.

I mentioned that M&A plays an active role, especially when it comes to strengthening the activities that we have. So ideally, M&A should fit within the frame of Connected Care, Precision Diagnosis, the minimally invasive therapies, and Personal Health. You will not see us go completely wild in another sport that we don't know how to play in. Right? So it needs to be synergistic to what we are doing.

Abhijit?

Abhijit Bhattacharya: Yeah. On the question on supply chain, there are a few things. So in the past, it was largely focussed on our procurement savings on BoM. We are doing two things slightly different.

I told you we've set up a Centre of Excellence in Pune, in India to drive low-cost country sourcing as well as value analysis and value engineering. That has a few tens of people this year – maybe 70, as of today. We will ramp that up to 300 next year and further, going forward. That should be a big contributor to specially the amount of savings we generate on lifecycle management as well as it being a lower cost centre. The other thing I mentioned, as an answer to the earlier question, was less double cost as we unwind.

And the third most important part is the introduction of spend management. That is new that we are kicking off now. I explained that a bit during my presentation. But our procurement organisation from focussing just, you know – when you buy something, it's price into quantity, PxQ. And we were so far focussed largely on the P. But now, we have central teams which are working to benchmarks to manage the P and the Q, together with the businesses, and that should drive overall spend down.

So I think these are a few things. And then, simplification of our distribution network. You know, bringing down 60% of the warehouses, consolidating the warehouse and transport suppliers by 80%, 90%. These things are expected to generate quite some savings in the period, going forward.

Leandro Mazzoni: Very good. I think that's all the time we have for this Q&A session. So now, we watch the ESG Panel.

Frans van Houten: Good.

Abhijit Bhattacharya: Thanks.

Frans van Houten: We will soon see you back. Please watch the ESG film.

Leandro Mazzoni: Thank you.

[Video]

Panel Discussion: Raising the Bar in ESG

Marnix van Ginneken: Good morning. Good afternoon, everybody. My name is Marnix van Ginneken. I am the Chief Legal Officer at Philips. In this panel discussion, we will focus on how Philips has been integrating environmental, social, and governance value drivers into the way we operate and do business.

Now first, let me introduce our panellists. We have here, first of all, in Amsterdam, Sophie Bechu, our Chief Operations Officer, who will be talking about how we embed ESG in our supply chain and operations. Then, we have, joining us remotely, Robert Metzke, our Head of Sustainability, who will be talking about how we embed sustainability in basically everything that we do.

And also joining us remotely from the United States, a very special welcome to Brian Moynihan, as CEO and Chairman of the Board of Bank of America and also Chairman of the International Business Council of the World Economic Forum, in which he plays a true leadership role in the areas of corporate purpose, responsible leadership, and ESG. So a very warm, warm welcome to you all.

Before we go to the panel discussion, let me make a few introductory remarks. First of all, I think it's fair to say that if you look at the challenges the world is facing today, the expectations society has from multinational companies is significantly increasing all the time. And we think rightly so.

At Philips, we have always taken the interests of all stakeholders at heart and we have been a leader in this area for many years. And I'm proud to say that we are continuously raising the bar. We have a long track record of sustainability and we have been at the forefront of this already for many years.

And our efforts are also recognised externally. For example, we are consistently ranked very highly in the Dow Jones Sustainability Index. And very recently, we were proud to be ranked number two in the world by the Wall Street Journal in their global ranking of Most Sustainably Managed Companies.

Now, as our sustainability programme and targets will be completed at the end of this year, we started thinking about our new sustainability programme and new targets for the upcoming years. And we decided to take a broader perspective and to integrate our sustainability programme and targets into a broader ESG approach.

So in September of this year, we announced our ESG commitments. And again, our sustainability targets are fully integrated into these commitments. And with these commitments, we set ourselves challenging environmental and social targets. And we also commit to living up to the highest standards of governance. And as a truly purpose-driven company, we have an ambition to be a leader also in this area of ESG.

Now let's be very clear, these are not just statements of intent. These are commitments that are deployed and integrated throughout the organisation, top to bottom, end to end. And we believe that with this approach – linking our ESG commitments to our strategy and our financial and operational results – these commitments will contribute to creating long-term value for our shareholders and all our stakeholders.

Now, before I pass the floor to the panellists, let me say a few words about governance. The panel – Sophie and Robert will focus on environmental and social commitments. But we also have an ambition to live up to high standards of governance, as I said.

First of all, our Supervisory Board plays a very important role in our governance. So the composition of our Board is very important to us. And we are very proud that we have a very experienced and diverse Board and all members are fully independent by all applicable governance standards.

Secondly, our remuneration policy. We have a balanced remuneration policy that was adopted by the General Meeting of shareholders earlier this year in 2020 after an extensive dialogue with our shareholders other stakeholders. So it was adopted with broad support. And part of that remuneration policy is our long-term incentive plan. And 10% of that plan is linked to clearly – clear and measurable sustainability targets.

Now, a final example is our transparency on tax payments. As of this year, we aim to be fully transparent on the tax – taxes we pay, disclosing this on a country-by-country basis. So these are just a few examples of what we mean when we say we try to live up to the highest standards of governance.

Now with that, let's go to the panel. And Brian, let me start with you. Thank you so much, again, for joining us. You are at the forefront of these discussions. And as I said in the introduction, you play a true leadership role in the World Economic Forum. Maybe you can share your perspectives on the global ESG developments with us?

Brian Moynihan: First, thank you for having me. Second, you know, it's clear Philips is a company who is committed to this across the board, so to speak. And Frans and his leadership, I've appreciated working with him on these initiatives.

But just in the world of ESG, what you've seen in the – over the course of last year or so is really a – an effort by a group of business leaders, International Business Council, which is 150 of the sort of large companies in the world. We've commissioned a group of – including the Big Four accounting firms, to define stakeholder capitalism that you mentioned earlier, Marnix.

And how do you define it? Well, we had to think about what the definition would be. And the obvious definition is to think about what the world wants from capitalism. And that is the Sustainable Development Goals of UN. So the team set out to develop a set of metrics that would measure a company's performance against those goals across all the SDGs – 21 metrics, 24 backup metrics – and then syndicated those metrics through companies like ours, through the standard setters. The different people have disclosure of metrics and other aspects of quality of environment or other things. And you mentioned some that you've got – been rewarded by.

The idea of conversion needs standards – just standards that you can measure multiple participants in an industry and judge them against each other. And so, what it – what's that all do? That gives, really, a scorecard to say companies are making progress to the SDGs, which is, number one. Number two, gives a way for the investment community to measure that progress on a consistent basis. Number three, it gives a way for customers to look at those companies and see who is contributing to making the progress we need to make to drive stakeholder capitalism to make the environmental transition and other things. And number four, it gives employees who work for those companies a way to judge those companies.

And so, those metrics which accompany the best practices, we could find out there, are doable by companies. And now, we're in the process of getting companies to sign up to disclose those. And your company, being a leader, is obviously helping us lead that. But this really comes of – back to the Responsible Leadership PAC that we all signed in 2017, with Frans leading it with a group of us. And now, it's time to measure that. And now, we can, with these new IBC metrics.

Marnix van Ginneken: Thank you, Brian. Now, Robert, over to you. And I know sustainability has been top of mind for us at Philips already for many years. And I spoke about the track record in the introduction. Can you say a few words about our track record?

Robert Metzke: Thanks, Marnix. With pleasure. Well, as you said, we have been embedding sustainability in our business practices for many years. I think we launched our deprovision programme in the late 1990s. And we have been setting sustainability targets ever since. And I'm proud to say that we have a track record of actually meeting these targets.

So if you ask me, that really shows that sustainability has become a part of the DNA of what Philip is and stands for. We believe sustainability not only drives innovation, it's also a great way of engaging with our employees. And it really creates superior value for our customers, for our stakeholders, including our shareholders.

So about our latest programme that we launched in 2016, our, 'Healthy People, Sustainable Planet', will come to an end at the end of this year. And I'm proud to say that we're also on track to meet the targets of this programme. As you can see, as an example, here on the chart, we have been able to lower our carbon footprint substantially over the last years. But is this just an example. And of course, there's so much more to do.

Marnix van Ginneken: Thank you. Thanks, Robert, very, very much. It's quite impressive results, indeed. So this was looking back on our track record. Now, looking forward, please tell us something about the new environmental targets that we announced in September.

Robert Metzke: Indeed. Yeah, so following our transition of our programmes and targets, we have put forward targets also for the next five years, which are another step up on the environmental side, but also on the social impact areas. But let me zoom really in on the environmental side here. We focus on the main impact areas for us, which is the sustainable use of materials and the sustainable use of energy.

When we talk about energy then, we have a very strong Climate Action Programme. Actually, we have been the first health technology company that committed to science-based targets, in line with the Paris Agreement.

Now on the material side, we really focus on circular economy, which means creating more value for our customers using less raw materials and less waste. So that also means adopting new business model to really maximise the lifetime value of our products and solutions across the lifespan of our products.

What you can see on the chart here is that by the end of this year, 15% of our revenues will come from circular products and solutions. And we want to drive that up to 25% towards 2025. At the same time, we are going to expand our take-back and pay-back policies to all professional medical equipment. And that's not all, we are also going to extend our circular economy practices across our operations, including sending zero waste to landfill.

So both elements, the energy and the material side, really require a strong commitment towards eco design and sustainable innovation. And these are topics that are close to our heart, as you can imagine.

So one of the examples, to give a little bit more flesh to the bone here is, for instance, the Philips BlueSeal technology, which is a micro-cooling technology for MRI scanners that allows us to cool an MRI scanner with just seven litres of helium instead of the 1,500 litres that are used for conventional magnets.

So there's – the magnet is filled at the production and after that, sealed. So during operation, you do not need to refill it. It's magnificent, in terms of saving precious resources.

But it also allows us to operate such a magnet in a totally different way. I think it's a brilliant example for innovation with the purpose in mind and our sustainability targets.

Now, going forward, we really want to create a specific category also of finished products called our Eco-Heroes that should contribute to 25% of our total revenues by 2025. And every single product of Philips will go through our eco-design standards and pipeline.

Marnix van Ginneken: Thanks. Thank you, Robert. Now, maybe switching to our social commitments. Please tell us about the importance of social metrics for our company.

Robert Metzke: Yeah. Thanks, Marnix. Social impact metrics are a great way to operationalise our purpose, that has already been mentioned, that we want to improve people's lives, people's health, and well-being. And we want to specifically improve two and a half billion peoples' lives by 2025 through meaningful innovation.

Now, as a subset of that, we have committed to make healthcare accessible to 300 million people in underserved communities. That is very powerful and very inspirational. I see now the lack of accessible and affordable healthcare is one of the most pressing issues of our time, with half of mankind not having access to healthcare. And COVID-19 only has intensified the situation, really overwhelming our healthcare systems, globally.

So as a leading health technology company, we really have the play – to play a role here. And with digital innovation and strategic partnerships, including our own Phillips Foundation, we can make meaningful steps to achieve these targets.

Let me just conclude, this is not just only focussing externally. It's internally also, yeah? I'm talking about social impact metrics. We want to be the best place to work for people who share our passion. And that includes promoting personal development, inclusion, and diversity.

Marnix van Ginneken: Thank you, Robert. Now, Sophie, over to you, to remain in the social dimension. Can you please tell us what the impact is of our social commitments in our supply chain?

Sophie Bechu: Thank you, Marnix. As you know, we've embedded the ESG principles in the way we work with our suppliers, for quite a long time. But you may remember the days of CSR: audit, find, correct, repeat every four years. Same outcomes.

So in 2016, we really felt that this was in need of a very, very different approach. We started our very own and unique Philips Supplier Sustainability programme, where we really changed the mode of operation: collaborating with our suppliers, visiting them a lot more often, and engaging with them on what those social responsibility really meant. We cover health and safety, human rights, ethics, and environment.

And when you look at the programme results just of last year, we have now about 300,000 employees, of our suppliers in East Asia that have improved their lives through better labour conditions, less security and safety issues on their workplace. We have improved the metrics by about 19%. And we have also now absolutely zero tolerance violations. We call those the extreme violations. And we're able to find them and correct them within three months with no repeat.

And when you look at 2025, in the goals that we've now set for ourselves, we want to expand that to our suppliers globally, which will touch about a million people in the supply chain.

The last addition to this programme has been the use of artificial intelligence because we measure roughly 165 points per supplier, which is quite cumbersome. And so, with the use of AI, and collaborating with universities in Eindhoven and in Arizona, we're now able to achieve the same confidence with about less – about half of the points we measure. Really a great program. Recognized by the crystal price which is a transparency prize in The Netherlands. Recognized by the Responsible Business Alliance compass aware in 2018 – 2019, sorry. Sustainable purchasing leadership counsel prize in 2018. Probably the best for me is that we are now seeing other companies wanting to join our program so they can deploy it with their own suppliers. So, let me maybe put a plug here to have other join in on this program and really make a difference in the world of ESG.

Marnix van Ginneken: Thanks so much, Sophie, that is very impressive, indeed. Now switching to our own sites and operations, can you tell us what the impact is of our environmental commitments on our side of the fence in our own operations.

Sophie Bechu: Sure, well you heard Robert, right? In 2015 at the Paris conference on climate we made this pledge of having, by the end of 2020, 100% renewable electricity and becoming carbon neutral in our operations. We tackled this on three fronts, our plants where we are now buying 100% renewable electricity, our business travel and we did this through gamification, trying to entice people to understand what collaboration is with virtual tools and being rewarded if they could avoid travel. The third point was logistics, how do you avoid air, fast boats, the road from China instead of air. We will be there at the end of 2020 and that makes me really proud because besides the moral obligation of sustainability, I think there is another dimension of business value, our customers are in the street behind Gretta Thunberg. They demand the choice and they want to know if this vendor has principals behind sustainability. So this is what really I think differentiates us. This ambition for 2025 that we will be in line, with our entire supply chain, with a 1.5 degree global warming scenario And that ambition is really what differentiates us. And its not just the ambition of you, Robert, or me. It's the ambition of all our people, and to exemplify that, I will give you what is happening in Austria. We have had our people in our site in Austria crowd fund a solar panel of the roof of their building. That is now saving 58% of their CO_2 emissions, about 825 flights from Amsterdam, 260 tons of CO_2. So its not you or me, its them or us and that makes me really proud.

Marnix van Ginneken: Thanks so much, Sophie, that is indeed a great example. Now Brian, back to you. Having heard Robert, Sophie, and myself talking about how we approach ESG and integrate it within Philips can you share with us some of your reflections on what you have heard.

Brian Moynihan: Sure, I'd be happy to do that and let me share that in three different roles: my role as a 3 trillion dollar investor, not my role but my teammates role in our company as a big investor and a big research plant that advises investors, our role as a lender for capital markets participants, and importantly for this purpose my role in the IBC. Across all these roles, this is exactly what we want to see. A balanced group of initiatives across all the aspects of ESG – environmental, social, and governance. We know that companies who do well on this, will do better as competitors. We also know that companies that don't do well on this will fail and you guys are way into the category of doing very well and we should support that and our research shows that and our clients we invest for want us to invest in companies that are doing they types of things that Philips is doing. The key then is to think about the balance in the integration of compensation and things you mentioned earlier, Marnix. Those are leading principals, as you have been recognized for by various third parties that you showed on the screen but they are leading principals which are critically important. Let me back up a moment to the role of the IBC – this is exactly what we are trying to get done. We are trying to get across all the SDGs, all the sustainable development goals, a set of metrics where people can be measured and those companies can make internal commitments that go through all their teammates to deliver on them, that they can live up to, and the story of the Austria crowd funding is terrific, that they can live up to and help drive those metrics and get complete transparency on those metrics from your shareholders, from your customers, from public society, through everything you do on all the metrics including the taxes and the things you talked about. This is exactly what the world needs from companies like yours and you are a leader and I am proud to be associated with you. And as the head of IBC, thank you for the depth and quality of your commitment and that will help us. Frans and I can put more of a push on other companies to come along and sign onto the metrics you've show that can be made part of your day-to-day execution.

Marnix van Ginneken: Thanks so much, Brian, that is really great to hear. Now with that, we will wrap up. I would like to thank our panellists one more time for their great contributions, thank you for your attention, and please note that the Philips team will be available for Q&A in the Q&A session later on in the program, but for now good-bye and thank you very much.

Leandro Mazzoni: Welcome back. We lost connection towards the last few minutes of our ESG Panel. Apologies for that. We are recording everything. So we'll make the full panel available in due course in our Investor Relations website. Thank you to Marnix and the other panellists, by the way.

We will go now to the business segments presentations, starting with Diagnosis & Treatment.

Diagnosis & Treatment: Creating Value through Diagnostic and Procedural Solutions

Kees Wesdrop

Chief Business Leader Precision Diagnostics, Royal Philips

Welcome, everyone. It's great to interact today with you. And we're going to talk now about Diagnosis & Treatments. I'm Kees Wesdrop. I'm the Chief Business Leader of Precision Diagnosis.

I'm very excited to stand here because I'm really passionate about the ambition and the purpose of Philips to improve the lives of two billion people per annum by 2025. And that's because there's so much to gain, both from access to care as well as quality of care. I've noticed that in my personal life, but definitely also in my professional life.

Now, I'm going to talk today about Precision Diagnosis and Bert van Meurs, who's the Chief Business Leader for Image-Guided Therapy, he will talk about the world of solutions in minimally invasive procedures. Together, Bert and I represent the segment Diagnosis & Treatment. And before jumping into Precision Diagnosis, I would like to walk you through and give you an overview of Diagnosis & Treatment.

In Diagnosis & Treatment, we're creating value through unique market-leading portfolio of diagnostic and procedural solutions. And we deliver innovative diagnostic and procedural solutions powered by AI-enabled informatics.

In fact, our portfolio has attractive, recurring revenues, driven by software, services, and devices. And our ambition is to deliver average annual sales growth of 5% to 6%, reaching 15% to 17% Adjusted EBITA margin by 2025.

We deliver solutions within and across our core businesses. And so, for instance, our leading positions in ultrasound, diagnostic imaging, enterprise diagnostic informatics, image-guided therapy systems, and image-guided therapy devices set us up to deliver on our mission.

Now, let me talk about Precision Diagnosis. We're accelerating growth through workflow and care pathway solutions. And let me start off with the key messages, in terms of our mission, but also how we're going to deliver our mission.

In Precision Diagnosis, we are uniquely positioned in the imaging systems and informatics markets to grow in attractive adjacencies with differentiating workflow and care pathway solutions.

We do this with solutions that deliver upon the Quadruple Aim through breakthrough innovations in our smart diagnostic systems, through dynamic workflow solutions that transform departmental operations, through industry-leading informatics to provide diagnostic confidence, but also through expanding in attractive adjacencies with care pathway solutions.

In parallel, we continue to deliver market share gains and productivity improvements in our core imaging portfolio. And we do that by driving growth such that we have fixed cost leverage to expand our margins, but also with a very comprehensive margin expansion and productivity enhancement programme that spans multi-years and that has tangible impacts.

And in fact, we deliver margin expansion above the average margin expansion that Phillips has demonstrated year-on-year. As such, were set out for average annual sales growth of mid-single digits, and an Adjusted EBITA margin of mid-teens by 2025.

Let me talk a little bit on how we're advancing Precision Diagnosis and the aim towards clear care pathways is predictable outcomes for every patient. What I want you to remember is that we deliver this through four stepping stones. And let me start here at the bottom.

Smart diagnostic systems. We drive meaningful breakthroughs and innovations in our portfolio, and that provides us access to a sizable market of EUR 27 billion with low to single-digit growth.

On top of that, we're growing into adjacencies: optimised workflows, firstly; then integrated diagnostics, secondly; and then care pathways, thirdly. And we do this by building on smart diagnostic systems and augmenting that with our leading position in informatics and AI.

And that leading position is accelerated by the recent acquisitions that all perform ahead of plan. For instance, with Carestream, Medumo for patient engagement, TOMTEC, but also Reacts 2 in the ultrasound portfolio. The basis of smart diagnostic systems as well as the stronghold in informatics allow us to have access to an attractive market in these three adjacencies of EUR 24 billion with high to single-digit growth.

We win there with a unique offering. We're uniquely positioned to win in these attractive adjacencies with differentiating workflow and care pathway solutions. And the offering is really focussed on fewer, bigger propositions and solutions that drive profitable growth.

Let me start with smart diagnostic systems. There, for instance, we have the Imaging Acquisition Suite.

We're delivering a unique and world-class user experience across our production solutions or in optimised workflows with our Radiology Workflow Suite.

My colleague, Sham Sokka, who heads Marketing for the cluster, will elaborate further on that. But I can tell you, we're driving cross-department efficiency and effectiveness through the innovations that are driving there.

In integrated diagnostics, for instance, take tele-diagnostics, and it was one of the questions that came up earlier. We are definitely moving forward with tele-diagnostics to make sure that we address some of the urgent needs that the pandemic has also asked for. And I'll come back a little bit later on what that means.

In care pathways, think of collaboration solutions such as integrated command centres or the oncology collaborator, where we significantly speed up the time to treatment for better patient outcomes.

We do this by embracing vendor-agnostic, interoperable, and scalable platforms. Think of informatics orchestration and AI engines, but also architectures such as cloud architectures and the application marketplaces. Why do we do this this way? Because we recognise that we need to come with integral solutions across a health systems and not a point solution that only works on certain conditions.

I'm going to dive a little bit deeper in each of those four stepping stones. And let me start with the first one, which is smart diagnostic systems, where we're growing core modalities with continued breakthrough AI-enabled innovations.

And I want to make one point really clear. We said in previous Capital Markets Day that we had a significant renewed portfolio. Again, over the period of 2019 to 2020, we have a 60% renewed portfolio.

Take, for instance, CT (Computer Tomography). Well, first of all, we embrace AI. And we have AI applications to do faster image reconstruction, but also, for instance, reduce the dose. And we do that now across the entire spectrum from the high end to the low-end. In the high end, for instance, we have the first detector-based spectral CT that allows for a confident diagnosis as well as significant workflow improvements.

In the mid end, we have new and novel propositions such as the Tube for Life reliability guarantee that we give as part of our incisive platform, which results into great total cost of ownership.

And then, we have a very competitive platform, the Access CT platform to address our low-end. On top of that, all the solutions that we drive have deep integration with informatics and AI. And as such, we can confidently say we continue to drive productivity, diagnostic confidence, and intelligent workflows with – and therefore, delivering upon the Quadruple Aim.

In optimised workflows, we're expanding into new markets with collaboration platforms. And I've taken the example of ultrasound here.

First of all, we have smart imaging and reproducible quantification to make sure that there's a seamless and intuitive workflow. And that has an impact. For instance, the example here with patients of reduced time to diagnosis – in this case, 80% reduction in time for measurement.

Now, COVID has also learned us something else and that is that we need increased diagnostic accuracy at the bedside instantaneously and also instantaneous collaboration across care settings. We can deliver that with our tele-ultrasound platform. And that is super critical because COVID has learned us that staff and experience shortage is a real issue and tele-ultrasound can address up.

For integrated diagnostics, we're growing the core of differentiating AI-enabled informatics to generate comprehensive patient insights. And this is a passionate topic of mine. I, yet, have to enter a caring – care setting where the contextual and the clinical information of a patient is ready available to make a precise diagnosis.

What if departmental data analytics could flow freely between hospitals and between departments? That would definitely drive a more definite diagnosis with greater outcomes, but also huge efficiencies in assistance. That's exactly what we're delivering with integrated diagnostics. And we do that with zero disruptions.

COVID also taught us the needs for tele-diagnostics and teleradiology. It also learned us that patient exchange is really critical. And therefore, we had launched patient exchange portals that are fully interoperable. So COVID accelerated the digital transformation and has actually brought to the fore the solutions that we're partnering up with our customers in the domain of integrated diagnostics.

Then, on the fourth stepping stone, care pathways, expanding into attractive markets by orchestrating decision-making in the patient's care pathway. The example that I would like to give here is in the oncology informatics domain, where we have tools to dramatically reduce the time from referral to treatment. In this case, 55% shorter time from referral to treatment is quoted.

Now, how do we do that? In our portfolio, we can offer more precise imaging. We can make sure that the data of a patient is fully available. We can have adaptive treatment pathways. And we can make sure that through analytics and data science, we can embrace the way and we can improve the way patients are guided in their care pathway. We combine that into an integral offering such that we can deliver the claim that we have on this page.

Now, all of this is made possible by the combination of smart diagnostic systems and our leading position in AI-enabled informatics. And I'm going to hand over to Sham Sokka, who is the Marketing Leader for the Precision Diagnosis cluster. He's going to deepen how we're innovating and how we're bringing value to our customers with the Radiology Workflow Suite that we're also going to launch shortly at the RSNA.

Sham, over to you.

Thank you, Kees. Hello. I'm Sham Sokka, Head of Marketing for Precision Diagnosis. I'm going to zoom in on how we address the largest customer challenge in radiology, operational efficiency.

Radiology and imaging today represents one of the top spends in healthcare, globally, as it touches almost every clinical pathway. For example, in the United States, we spend almost $100 billion on radiology and imaging. $18 billion of that are in the systems, the IT, and the related services. The rest of the $80 billion-plus is on operations.

Now an estimated $12 billion of that is waste from inefficiencies. And here on this slide, you see some of the key opportunities. Improving patient preparation and compliance can reduce no-shows and improve diagnostic quality and overall outcomes. Leveraging virtual technologies can improve staff productivity, and reduce variability, and cost per study. Maximising utilisation of the imaging equipment can reduce system operating costs and improve access.

What's worse, these efficiencies build on top of each other. For example, poorly prepared patients lead to more work for the staff and increased imaging equipment utilisation. So these challenges can't really be addressed independently. So therefore, we have introduced the industry-first vendor-agnostic Radiology Workflow Suite, which are software and services that address these significant inefficiencies in an integrated way. So now, let's hear from our customers through video on how we specifically drive better operations in the clinical practice.

[Video Presentation]

Kees Wesdrop: Thank you, Sham. And I hope you all were able to get some further insight in one of our most important solutions in optimising workflows, which is the Radiology Workflow Suite.

Let me bring home the key points for the cluster, Precision Diagnosis. We are uniquely positioned in the imaging systems and informatics market to grow in attractive adjacencies. We do this with workflow and care pathway solutions, by breakthrough innovation, smart diagnose systems, by dynamic workflow solutions that transform departmental operations – that was the example that Sham has walked us through – industry-leading informatics to provide diagnostic confidence, and expanding in attractive adjacencies with care pathway solutions.

We continue to deliver market share gains and productivity improvements in our core imaging portfolio. And as such, we're on track to deliver annual sales growth of mid-single digits and an adjusted EBIT margin of mid-teens by 2025.

I'm going to hand it over to Bert van Meurs, the Chief Business Leader for Image-Guided Therapy, and he's going to talk about the great solutions for minimally invasive procedures.

Bert, over to you.

Image-Guided Therapy

Bert van Meurs

Chief Business Leader Image-Guided Therapy, Royal Philips

Yeah. Thank you, Kees. And welcome, everyone. It's a true pleasure to be here together with you, although virtual, and it's my honour to present to you the exciting growth story of our image-guided therapy business.

Now, image-guided therapy remains an attractive and profitable high-growth market because of the benefits it offers to care providers and patients, really addressing the needs of the Quadruple Aim. And we are successfully executing on a unique strategy where we have pivoted from focus on modalities to integrated procedural solutions, being part of the overall Philips strategy to move to solutions. And we do that along four very important and unique growth drivers.

First of all, we are accelerating the synergy from the Devices business that has been propelled through a number of acquisitions and we're integrating together with our imaging business. Our strong platform of our Imaging Systems business will continue to innovate and build a very strong and superior platform. We are expanding into a number of adjacent therapeutic areas, providing further growth. And fourth, we are not only innovating the procedure; we are also innovating the way we interact with our customers through multiple care settings: care settings out of the hospital and through new business models.

And with that, we are confident that we can continue on our growth journey, delivering on our targets for mid-term, high-single-digit growth and an Adjusted EBITA margin of above 20% by 2025.

Now, this is our growth journey. And that started basically six years ago, when we embarked on a unique strategy to focus on integrated procedure solutions on how can we drive more effective patient care and we treat patients more efficiently and more effectively. And with that, we are combining Imaging and Devices, which started with the acquisition of Volcano in 2015, followed by the acquisition of Spectranetics in 2017, where we already went deeper into therapeutic devices, acquisition of EPD in 2018, and even this year, we acquired a company Intact Vascular, where we went further into peripheral vascular therapeutic devices.

Now, that has delivered on a strong growth journey. As you can see here, until 2019, double-digit growth. We have expanded our leadership position. And we are confident that despite the headwinds that we see this year on image-guided therapy, we will be able to continue our growth journey with high-single-digits and further expanding on our margins post-COVID, in the mid-term.

Now, and there's tremendous opportunity to grow in image-guided therapy. We have already expanded on our addressable market by growing into new therapeutic areas. Our addressable market, which is roughly EUR 9 billion today, we continue to strengthen our core in many different clinical procedural areas.

First of all, in coronary artery disease, where we innovated the procedure for the treatment of patients with coronary artery disease, peripheral vascular disease for diabetic foot, electrophysiology patients with heart rhythm disorders, or further structural heart disease, where now you can treat patients by replacing heart valves, interventional neurovascular, you can treat patients with stroke or aneurysms, and even in interventional oncology, for the treatment of liver tumours, kidney tumours, or going into the lung, and we even go further into spine surgery for spine fusion. So we have been unable to grow in this area in different dimensions.

First of all, we have strengthened our share in our core business by combining this unique strategy of Imaging and Devices. But we're also expanding into new therapeutic areas by procedure innovation. And thirdly, we are expanding our overall market by going deeper into Therapeutic Devices.

Now, I already told you that we have built a strong Devices business on the basis of a number of acquisitions. And even this year, we acquired the company Intact Vascular, which provides us the tech and the vascular system, which enables an even more complete treatment of peripheral vascular disease. But we've been also delivering on a number of very strong organic innovations. And that delivers us unique differentiation in this Devices portfolio.

For instance, the world's first introduction of IntraSight, where, this year, we are combining our Devices from IVUS and physiology with our Azurion platform, but also OmniWire, which is the world's first solid core pressure wire, delivering the pressure measurement for iFR measurements, which has the same characteristics as a workhorse wire and you can use it throughout the whole procedure, or QuickClear, the world's first fully disposable thrombectomy device, eliminating the need for a capital investment and initial capital costs.

But on top of that, we continue to invest in adoption and through strong clinical and economic evidence by investing in clinical trials. So the clinical proof points and driving physicians' preference is extremely important for driving a strong Devices business.

Now, and that would only be possible going into adjacencies, based on a very strong – a position of strength. And our position of strength comes from our Systems business, where we have been market leader and a world leader for many, many years. And we continue to innovate and invest in our core business based on our superior Azurion platform.

The Azurion platform, you may remember, was introduced already more than three years ago, has driven strong share gains by improving workflow. And on top of that, we introduced FlexArm, which offers more freedom with a smaller footprint. But also, we have expanded the number of configurations of this platform by addressing multiple customer needs from value, all the way to high end.

And this year, we introduced the next-generation of Azurion for further optimal user experience and offering much more integration during the procedure. IntraSight, already mentioned, now fully integrates the use of IVUS and physiology during the procedure with the same user interface as part of Azurion.

IntelliVue X3, which is our standard patient monitoring from our Patient Monitoring business, a bedside patient monitoring that can now travel with the patient into the Cath lab and, therefore, offers uninterrupted workflow.

Our SmartCT, which is a novel 3D imaging technology, but now can be fully operated with a very intuitive on-screen guidance during the procedure.

I mentioned procedure innovation, which helps to further grow into adjacent and new therapeutic areas. And I want to give you just a few examples of what we actually mean with procedure innovation. So let's look at a couple of clinical areas.

First of all, atrial fibrillation. Now atrial fibrillation is a disease that's very common. 33 million people worldwide suffer from atrial fibrillation. And it's a very risky disease. There's – patients with atrial fibrillation have a five times more risk of stroke. The treatment of this using ablation is very complex. And therefore, you see it up to 40 patient – 40% of patients with AF ablations must be redone after one year.

What we have done is introducing, based on the acquisition of EPD, our KODEX system, using dielectric imaging. And KODEX offers true imaging of the tissue, which offers much simpler navigation, but also can assess the treatment result during the procedure and, therefore, offers a much more enhanced procedure efficacy.

We've introduced this first and it's already introduced in a number of sites on – specifically for cryoablation, in a very strong partnership with Medtronic. This offers a treatment that can reduce the numbers of videos, but also have a much stronger and direct feedback during the procedure and, therefore, more effective and more efficient, with which with much lower X-ray radiation.

Another example, lung cancer. Each year, there's 1.7 million people that – worldwide that die from lung cancer. It is the highest mortality in cancer. And today, over 60% of the patients are diagnosed at a very late stage because it's very difficult to really diagnose small lesions. The diagnostic yield is very poor.

So what we have done is we introduced Philips Azurion Lung Edition, which uses the same advanced 3D imaging technology, but now instead of visualising the vessels, you can visualise the airways in the lungs in 3D. And that helps to guide bronchoscopy so that you can, in an earlier stage, already do the diagnosis, but at the same procedure, also do the treatment. So you have a faster, minimally invasive diagnosis as well as treatment. And this enables also a new customer group, interventional pulmonologists, that normally only will do the endobronchial biopsy and diagnosis, can now diagnose stage and treat lung cancer in the same procedure.

And finally, we don't only innovate the procedure. We also innovate the way we engage with our customers. And we are shaping the market with new business models across different care settings.

For instance, out-of-hospital care settings, office-based labs, and ambulatory surgical centres, where we have introduced Symphony suite as a leading solution for it – specifically for peripheral vascular disease in the US. And which – that has delivered over 50% market share.

And now, we're expanding that into coronary interventions with new reimbursement models in ambulatory surgical centres.

But also, we're working together with our customers on enhancing that performance and productivity, offering professional services like we're doing, for instance, in Leeds University. And finally, on – in long-term strategic partnerships, we are supporting our customers through technology as a service.

Now, with that, I would like to hand over to my colleague, Dr Atul Gupta, who is the Medical Officer for Image-Guided Therapy. But Atul is also a practicing interventional radiologist. And Atul will guide us on a tour what procedure innovation really means. And he is at UMass Memorial Medical Centre, where he will demonstrate on the patient journey. The patient, Anna Griffin, is not a real patient. It's not her real name, but is made for this demo.

So Atul, over to you.

Thanks very much, Bert. I wanted to bring everybody at Philips Capital Markets Day on a tour of the world that Image-Guided Therapy lives in – the world that I work in. My name is Atul Gupta and I'm the Chief Medical Officer for Image-Guided Therapy at Philips. I'm also an actively practicing interventional radiologist, having performed procedures for 20 years. I'm excited to be able to give you an inside look at our fully integrated interventional suite, a suite that seamlessly integrates our Image-Guided Therapy Systems, our Devices, and our Software.

Now we're fortunate enough to be standing here in an Azurion room at the UMass Memorial Medical Centre, just outside of Boston. This is an actual working interventional suite, where life-saving procedures get performed every day. And we're going to be following the case study of our patient, Anna Griffin.

Anna has long suffered from peripheral artery disease, or poor blood circulation in her leg, causing cramping and pain when she walks. This is caused by an arterial blockage. But Anna's symptoms are getting worse and she's now experiencing pain in her left foot even when she's at rest. She also appears to be developing ulcers or wounds in the foot from lack of blood flow. We call this end-stage of peripheral vascular disease, critical limb ischemia, or CLI.

Sadly, Anna's story is not that unique. Nearly a quarter of a billion people worldwide suffer from peripheral artery disease. 12% of Americans get CLI and the cost of treating these patients is over $21 billion a year. What really bothers me is that nearly 40% of these patients will have to undergo an amputation within six months of being diagnosed. And perhaps most troubling, 50% of those patients who undergo an amputation will die within five years.

So the threat to Anna is very real. In fact, we have an expression in medicine, 'If you save a limb, you quite literally save a life.' So let's get started as I show you the Philips integrated interventional suite.

Now, this is not about a single product. Rather, it's bringing together many innovative components into a differentiated holistic solution. We'll begin right here at the Philips Azurion imaging system, where we do an angiogram on Anna. What that means is we insert a catheter, not much larger than a strand of spaghetti, into the artery of her thigh. And then, using the intuitive joystick control of the FlexArm, I'm able to easily move the imaging to various parts of Anna's aorta and her leg arteries. In fact, I can even do these complex X-ray manoeuvres without looking at the controls and without special training. It's that intuitive.

Now, as you can see, Azurion clearly shows me the occlusion, or the blockage, in the superficial femoral artery of Anna's left leg. And then, using this touchscreen, I can simply pinch and zoom right on the image of the angiogram. And this makes viewing and interpretation of our images quite intuitive. So now, we've made a diagnosis minimally invasively with Philips Azurion. But how do we treat it? Well, let's head over to the supply area over here and let's take a look at the many therapeutic options for peripheral artery disease that Philips offers.

Each one of these boxes contains a variety of devices that I might need – everything from lasers, to drug-coated balloons, to thrombectomy devices, to atherectomy devices. And to treat Anna's blocked artery, we can use a couple of minimally invasive devices that we thread through her arteries, guided by Azurion X-ray imaging.

First, the new Philips laser system, which helps us vaporise the atheromatous plaque in the artery with 380-nanometre laser light. And then, followed by angioplasty with a Stellarex drug-coated balloon, which also delivers a drug to prevent her artery from re-narrowing over time. These differentiated devices will be instrumental in opening up Anna's blocked artery.

Now, let's head over to the control room. Okay. We're now in what we call the control room. You can think of it like a mission control or a command centre. And this is where the techs and nurses run the Azurion.

Now, let's take a closer look at Anna's leg artery, now that we've treated it. We can see that our superficial femoral artery is nice and wide and open, compared to the occlusion we saw inside before treatment. But data shows that a two-dimensional X-ray view from the outside-in only tells part of the story. In fact, some abnormalities, like things we call dissections, are relatively invisible on X-ray. And often, we need to add another source of data to get the whole story.

So to get a better view, let's head back inside the Angio Suite and return to the Azurion, where we can put Philips IntraSight into action. IntraSight is a platform built into Azurion and it lets me seamlessly integrate our Philips intravascular ultrasound, or IVUS device. It's quite literally plug-and-play. So right here at the table side, I can use a single, intuitive touchpad interface to visualise Anna's anatomy, to control Azurion, and to control the Philips IVUS device. It makes the workflow frictionless when we use a Philips IVUS device.

And by the way, this Azurion touchpad is not just a fancy remote control. It's actually a software platform that even today is already supporting a whole host of other clinical applications besides peripheral artery disease. In fact, it's also plug-and-play with Philips OmniWire and it supports PCI, or coronary interventions. It's even supporting interventional oncology procedures.

So now, let's take a look at Anna's artery from the inside-out with our IVUS. And as you can see, we now have a much more detailed view. In fact, IVUS was able to detect something invisible on the original angiogram. It's what we call a dissection. Why is that important? Well, dissections are an almost invisible injury or a tear to the innermost lining of an artery. It's wafer thin. So they can be very difficult to detect with two-dimensional X-ray. But if left untreated, they can actually stop the blood flow.

So if we relied solely on Anna's first angiogram, I probably would have missed it. But now, Phillips IVUS lets me tailor a better treatment for Anna so that she avoids amputation. And remember, half of those who get an amputation die in five years. So thanks to our IVUS, we caught the dissection and we can treat it properly, which is what we're going to do right now, using this Philips Tack device.

As you may have heard, Philips recently acquired Intact Vascular, where Tack was developed. A Tack can treat that dissection flap or prop it open and it does it with minimal metal. And take a look at the small size of this amazing device. The Tack system is threaded via a catheter less than two millimetres in diameter – again, like a strand of spaghetti. And we deploy it using precise X-ray guidance at the point of dissection.

And because the artery usually has multiple dissections, not just one, this single deployment system has up to six separate Tack implants inside. It lets us spot-fix multiple locations very quickly, all with just one device.

This is really a breakthrough technology and having a Tack and IVUS in my back pocket gives me confidence to be more aggressive in pursuing endovascular treatment, along with all my other Philips devices. And by the way, both Tack and IVUS are well-reimbursed in the US. This will ultimately save more limbs and more lives.

So now, let's head over to the Philips FlexVision screen, where I can use Philips SmartPerfusion software to take a closer look at the microvasculature of Anna's foot. Now, this software helps confirm that the blood flow in Anna's foot after treatment looks great. And we expect her pain to be gone and her wounds to heal. And again, doctors have access to disease-specific Philips software across many categories of disease that get treated in this interventional suite. So that means software for coronary, for oncology, structural heart disease, neuro, and more.

It's important to note that these peripheral vascular disease procedures and even coronary procedures are increasingly happening in out-of-hospital settings, what we call office-based labs or ambulatory surgery centres. And that's where Philips is uniquely providing turnkey integrated procedural solutions. These out-of-hospital settings are increasing access to care and reducing overall costs.

So there you have it – an integrated interventional suite. I hope this quick tour demonstrated the real clinical value this integrated solution gives to doctors like me and patients like Anna. You know, it's never about a single product, a single device, or a single X-ray system. It's about Philips uniquely putting it all together, seamlessly combining powerful software, sophisticated imaging systems, and differentiated therapy devices, working in harmony. And it's all so we can treat the patient better.

Now, back to you, Bert.

Bert van Meurs: Yeah. Thank you very much, Atul. So I hope this demonstrates to you that we really are uniquely positioned in delivering this procedure innovation.

So let me recap for you. Image-Guided Therapy is attractive and profitable high-growth market and we are uniquely positioned. And we have a strong and solid strategy of integrated procedural solutions, where we innovate the procedure.

Along a number of very strong growth drivers, we've integrated our Devices acquisitions and we are organically further innovating and building that business based on a very strong platform of our Azurion Systems business, integrating different elements of information and imaging, expanding into adjacent therapeutic areas, and also innovating the way we engage with our customers. And we are highly confident that we can continue on our growth trajectory of high-single-digit growth and Adjusted EBITA margins of above 20% by 2025.

And with that, let me hand it over to Roy Jakobs, the Chief Business Leader for Connected Care.

Roy, over to you.

Connected Care: Winning by Connected Care

Roy Jakobs

Chief Business Leader Connected Care, Royal Philips

Thank you, Bert. And thank you for coming over from the exciting world of IGT into another exciting segment, which is Connected Care. My name is Roy Jakobs and I'm leading this cluster since the beginning of this year. And actually, I feel very privileged to do so because in the year of the pandemic, we have been able, with our suite of solutions, to support our cursors – customers tremendously in stepping up to this challenge.

So the key takeaways from this session about where Connected Care is and where we are going. So in this year of 2020, we saw a huge rise in demand for our solutions, solutions that were ready to fight the pandemic, whether it was in monitoring, whether it was in respiratory, or informatics, where we were able to successfully convert that COVID demand into sales and profit.

And whilst we know that this COVID demand will taper off, we are very confident that, actually, the trends that we saw during COVID reaffirmed our strategy and also is the new need that we need to deliver upon, moving forward, because it became very clear that the current health delivery needs to change. And that change needs to be supported by solutions that connect seamless care between patients and providers in a better way. And we have solutions ready today to do so.

In the area of patient care management, where we combine our monitoring, our telehealth, and our therapeutic devices, supported with informatics and deep clinical insights to deliver upon the needs that the health system has whereas increasing productivity to deal with resource scarcity are what are driving better clinical patient outcomes.

And by doing so, we will deliver 5% to 6% growth and step up to an EBITA of 17% to 19% by 2025.

Now, let me tell you how we plan to do this. First of all, we come from a very strong foundation. Over years, we have built up leading positions across the segments that we play, whether it's number one in patient monitoring in the monitoring and analytics space, whether it's leading in sleep therapy, number one, and home ventilation in sleep and respiratory care domain, or whether it's the number one in eICU solutions in the informatics domain.

We do this together with strong customer relationships, where we have built a very rich installed base that we actually can extend from. And we do that by offering the solutions that they are asking from us to change their healthcare delivery model. They don't ask products. They clearly ask for solutions that address their productivity need, their resource capacity need, or their need to engage more and more in an outside the hospital with patients.

We have smart devices and systems, like, for example, our monitors and our respiratory devices that, together with informatics, can deliver a full ICU solution. But we also have then solutions like telehealth, where we can enable health across care settings. And that has been, especially during COVID, been a big trend. But we expect that need to continue because the increasing need of getting more access to care, but also the cost burden that it takes actually requires that you move to different care settings more and more outside of ICU and hospital into home.

We do this across the globe. We have strong leading positions in different segments in various geographies. We have explosive growth potential in China, Japan, EU, but also still a huge leeway for growth in North America. But we also have heard from customers that they want new business models, flexible business models in which you can plug-and-play with modules offer solutions.

For example, we are offering Monitoring as a Service, as the first in the market. We do that on a very strong capability base – a capability base that's built on deep clinical insights, and strong customer relations, operational excellence, and platforms that are ready to scale, combining data, AI, and a strong architecture platform.

Let me go a bit further in the individual segments that we play. In Monitoring, we see – we saw a huge demand during COVID because ICU capacity had to be expanded very rapidly. Now, we expect that this will continue to – in the next year, but it will taper off.

At the same time, we have seen care moving to different care settings. And in there, wearables, like the ones that we've been launching this year that are this small, cloud-connected, and easy to use, really will enable doctors and health systems to move across the different care settings. They will connect a different care pathway that actually gave seamless, real-time, 24/7 insights into the patient. But that also needs to be supported with a strong care management informatics system.

We have the number one eICU system in the world. And actually, it does reduce mortality at the ICU, but also really increase productivity of the nurse to patient ratio and of the intensivist to patient ratio. So it really helps the health systems to deal with the increasing demand. By growing this in Monitoring, we will expand our growth and profit over the years to come as a very attractive segment to play in.

Let me go to Sleep Care. Sleep Care was a segment that was more deprived during COVID because patients could not go to their doctors to get a prescription for sleep therapy. Whilst we expect that to pick up, it's important to note that it didn't take anything away of the huge potential of the 80% undiagnosed patients that we still have in sleep. But to treat them, they also asked for much more digitised Sleep Care pathway.

So during the crisis, we actually rapidly increased the reach of our Care Orchestrator platform and the Dream Family portfolio to more than 49 countries where it's now available. Secondly, we have also further digitising diagnosis.

Like you, for example, will see when we showcase to you the Mask Selector. This is a very easy to use tool that actually gets 90% first-time-right diagnosis of your mask that not only gets gives a better fit to the patient, it also takes a lot of cost out of the systems and gets it to first-time-right. Those are innovations that we are actually driving to extend to services in the clinical workflow.

We have in remote install also offered at the mean – at the same time. And by now, we have more than five million patients that are cloud-enabled 24/7 connected to our Care Orchestrator platform. We have many more exciting innovations to come to actually capture the great growth that we foresee in sleep after the COVID depression.

Then, in Respiratory Care, we have seen a huge demand increase this year on the back of COVID. The hospitals, especially ICUs, needed much more ventilation capacity. We ramped up eight times the capacity that we needed to have for that. And we were able to do that because of the agility of the Philips Business System.

That also requires us to now move to the next stage because after an immediate huge demand and surge, we expect this to taper off in the hospital. But there is more demand needed because, actually, this will turn also into chronic care.

We see the after-effects of COVID. But we see also that respiratory care, in general, is really growing as a pain point in healthcare. It's the number three cause of death, globally. And we are the number one provider in home ventilation solutions. We have a portable suite so that you actually can support patients on the go, as well a very extensive home suite, and deep clinical knowledge. That's also why we are the number one choice of preference of pulmonary physicians.

Then, let me go to the last, but definitely not least exciting part of our segment. And that's the Informatics suite. There, we have seen a huge surge in demand as well during COVID because in order to cope with the increasing amount of patients, you really need to have a seamless flow of patients.

You need to have a seamless interaction between the patient, the doctor, and the different parts of the health system. And you need to have that at different levels to increase productivity of the health system, to do it at a unit level, and to do it a patient level. And therefore, we are very happy that we have currently our solutions available, and ready to sell, and to expand.

For example, at enterprise care management level, we have our Tasy EMR. It's very successful in LATAM. And as we speak, we're currently installing in Korea, in DACH, in Australia, and expanding further across the globe.

On a unit level, our tele-ICU, where we are number one in North America, building on our strong architecture that we have with our customers in the Monitoring base, we are also expanding that in the rest of world. Huge growth potential and also a need to satisfy with our customers.

And these customers, as also Frans said, want to simplify. They want to use similar architecture – one platform that they actually can trust and build on. So if we can extend on our installed base, that will really help them to keep it manageable.

And then, the third area is really tele-health, where we take it outside of the hospital. Patient engagement has become a massive theme that we talk about with our customers every day. We have our platform that actually can support hospitals to engage with patients.

We did that in extensive form during COVID to keep patients actually out of the hospital to make sure that, actually, they were treated where they were needed to be treated, but also when we were able to migrate that now into broader capacity management into the hospital.

But actually, I want to give it over to Solange, my Head of Informatics, who can go much further into Informatics and will show you some live examples of how our solutions are delivering services to customers and real people already now.

Solange?

Thank you, Roy. Hi, my name is Solange Plebani and I lead our Connected Care Informatics business. COVID has reinforced the relevance of our strategy to use informatics to connect care along the health continuum for those patients who need it most. Let's take a look at three examples on how physicians are leveraging Philips Informatics expertise.

Our first example is in tele-ICU. We've mentioned tele-ICU before as one of our growth areas. Now, let's deep-dive. In acute care settings, this solution empowers health systems to number one, improve both access and quality of care; number two, manage the shortage of specialists; and number three, optimises the cost of care by centralising resources.

This solution enables physicians to monitor 50, 500, or more ICU beds from a central monitoring facility. One of our customers, Professor Toru Kotani from Showa University Hospital in Japan, has recently shared with us their experience on using our tele-ICU solution to manage patients with COVID.

In Japan, that are only five ICU beds per 100,000 people. They already faced a shortage in 2000 during the swine flu. Now, at Showa University Hospital, because they had implemented our tele-ICU solution in 2018, they were better prepared to manage the COVID pandemic.

They use our tele-ICU solution with its simple one-page patient data profile and the advanced predictive analytics, such as the acuity level of the patient and discharge readiness. Their remote clinicians were supported in executing comprehensive bed control also in the step-down unit, while they could steadily admit more patients with COVID, and protecting the hospital staff from more infections.

Professor Kotani shared this, as part of his experience with tele-ICU. We can expect tele-ICU to build the future of intensive care field in education, in medical care, and in research.

Now, let's continue with our second example in remote patient monitoring. Philips has a diverse portfolio of wearables. Some created by Philips, like our BX 100, which integrates with in-hospital monitoring. Others are ventures like Healthdot, and some are partnerships. By connecting the data from wearables with our software solutions, we make remote patient monitoring a reality.

Our sensors and monitors are shown to reduce hospital admissions, mortality, and length of stay. Think at the ICU, where each extra day cost at least $3,000. Philips has recently partnered with BioIntelliSense to connect their FDA biosticker wearable with our software solutions in the cloud to show the clinical data.

Our physicians are using this solution to monitor patients at risk, starting in the hospital and continuing monitoring the patients, when they are discharged home, up to 30 days. In a study funded by the US Department of Defense, Philips and BioIntelliSense partnered with University of Colorado Health to answer the following question, 'Is it possible to predict which patients will get COVID?' Let's hear from them by watching the video.

[Video Presentation]

Now, let's finish with our third example, managing care in the home. We just heard, caring for patients at home where the cost of care is lower is the future of healthcare, especially for those patients in chronic conditions. The ability of caregivers to adapt care based on digital clinical information is making the home an indispensable part of the health system.

In the sleep and respiratory space, our patient adherence management service now integrated with Care Orchestrator, a platform where we have over ten million of patients connected in the cloud, becomes an even more efficient and powerful solution to improve care in the home.

Added to it, our highly rated patient engagement app creates an ecosystem where physicians, caregivers, and patients connect digitally. And this solution is delivering the impressive 82% of CPAP therapy adherence.

In respiratory ventilation, our Trilogy line is now also a connected proposition that uses Care Orchestrator. We hold more than two-thirds of share in home ventilation. Let's hear from one of our customers, a homecare provider, how Trilogy and Care Orchestrator are helping on his business.

[Video Presentation]

You just saw three examples on how we are using Informatics to connect the care along the health continuum.

Now, let me hand it over back to Roy.

Roy Jakobs: Thanks, Solange, for a great presentation of how our solutions are being used on a daily basis.

Let me recap. I hope that by now, you are as excited as I am to be in Connected Care. I've told you about how we have been rising to the occasion in 2020 to support the world and dealing with a pandemic, using the agility of our business system and the strength of our portfolio. And whilst we can expect that to taper off, we strongly believe that the trends that are remaining in healthcare to really seamlessly connect it in a better way with devices, with AI platforms, and sensors.

We are very well-positioned with solutions we can sell now to actually deliver the services they need in the hospital and outside of the hospital. And that will deliver an exciting part of value creation towards 5% to 6% CSG growth and 17% to 90% Adjusted EBITA.

Thank you for your attention. And let me now hand over to my valued colleague, Deeptha, who will talk to you about the story of Personal Health.

Personal Health: Driving Profitable Growth through Relentless Focus on Innovation

Deeptha Khanna

Chief Business Leader Personal Health, Royal Philips

Thank you, Roy. And good afternoon, everybody. It's really a pleasure to speak with you today. My name is Deeptha Khanna. I'm the newly-appointed Chief Business Leader for Philips Personal Health portfolio.

I have to say when Philips called me earlier this year, it really felt meant to be. This is an iconic brand that I grew up with in India. It's a company that I had tremendous respect for, through my years in consumer products and consumer health. And the more we spoke and I recognised how purposeful our commitment is towards improving health across the care continuum through the power of technology and innovation, I knew I wanted to be part of this journey.

So it's really a privilege to be here and represent my team in sharing with you the growth agenda for Personal Health.

Now, you're going to hear these five key messages from me. In Personal Health, we operate off a terrific foundation of strong growth categories where we have strong leadership positions. Off of this foundation, we have three powerful growth accelerators.

We are constantly innovating to reach more and more consumers through both products and solutions. We are confident and have invested in great capabilities in accelerating growth through online and digital-first models. And we are constantly expanding our ecosystems through retail partnerships as well as new business models.

And when you put all of this together, we are pleased to commit to an average annual sales growth of 5% to 6%, with an Adjusted EBITA of 19% to 20% through 2025.

Now, first, let me talk to you about the foundation that we have. In Personal Health, we are focussed on these four wonderful categories: Oral Healthcare, Male Grooming, Beauty and Mother & Child Care.

Now, these are all terrific categories that allow consumers to take care of themselves by embracing healthy positive rituals of daily care. And they allow families to look after their own health and well-being as well as those that they love.

Now, on top of that, what I've really enjoyed discovering is even in our most developed market, there continues to be tremendous opportunity to grow the consumer base and deepen the penetration of these categories.

On top of that category foundation, I have to say that the trust and reputation of the Philips brand carries a great advantage. Now, think of yourself as a consumer. If you're buying a new breast pump that is going to be vital to the nutrition of your baby or a power toothbrush that you will use every day, ideally twice a day, for years to come, these are high-involvement, high-value decisions. And this is where the trust, leadership, and proven pedigree of the Philips brand creates a tremendous foundation for us.

Now, you might say, 'That's a great foundation. How do we build off that?' And I'm very pleased to say that our first and vital growth accelerator is absolutely innovation. As many of you know, innovation is in the very DNA of Philips. But what I'm very proud about is how we have a robust portfolio of innovation that seeks growth opportunities through different dimensions. And I want to talk about three of these here.

First and foremost, we are constantly innovating to recruit new audiences and to have a new generation of consumers discover Philips. You'll see two examples here that are terrific. At the top – in fact, here with me – we've just launched in Oral Healthcare, a platform called Philips One by Sonicare.

This is just launched in North America in October of this year and will expand globally soon. And it's priced at just $25 apiece. This is a great platform that is actually our first entry into battery-powered toothbrushes. And with its beautiful aesthetics, its digital-first campaign, and delightful names like Mango, Mint and Midnight, it is creating quite a lot of excitement in the market already.

I'm also very proud of our platform in Male Grooming called OneBlade. It is designed with a great understanding of the importance of versatility and grooming that young men desire. And it is designed with such a simple and intuitive experience that it's a great first shaving experience even for the younger shavers. In fact, my 16-year-old son really loves it. It's no wonder that since launch, this platform has been growing at convincing double-digit numbers year-on-year, with tremendous growth opportunity yet to come.

What is especially pleasing, on top of the products that are wonderful in these segments, is that we are also building communities of care and tremendous engagement through our social platforms as well as through our educational apps. So that's a great examples of products and solutions that are innovating and attracting new audiences.

Now in the second bucket, Philips takes a lot of pride in the global scale of our innovations. But we also recognise that there are opportunities to go deeper in certain local geographies and to deepen the relevance of our proposition accordingly. And here, you see two examples from how we innovate local-for-local for the unique needs of the Chinese consumer.

We've launched very successfully in Male Grooming, a S1000 platform on shavers that was designed to value, in terms of both the performance and the price points desired by an 18 to 24 male group, and has quickly become their top preferred shaver.

We're also very pleased with an online-first launch in Oral Healthcare with Montana, where we recognised the additional needs of gum sensitivity for the Chinese consumers and designed it accordingly. So you see there some terrific examples of local innovation.

And in the third pillar, I have to say that Philips takes a great deal of pride in being category thought leaders, many of the categories we compete in, we have helped to create. And a very recent and powerful example for us is in the Beauty category, with our IPL platform (Intense Pulse Light platform) called Philips Lumea, which allows consumers at home to have a permanent hair removal solution that otherwise might have been accessible only in a professional setting. And since launch, this is a tremendous platform of growth for us with over a million pieces sold.

And what's very pleasing is a very important part of our value proposition beyond the product is, in fact, our engagement app, which educates and allows consumers to embrace a new behaviour. So as you can see, that makes for a very strong portfolio of innovation.

And I'm sure you're wondering, 'What about 2021?' What I can promise you is we have a robust portfolio to come, but you'll have to watch this space.

Right. So we spoke about a great foundation of the categories and about our acceleration through innovation. What about how we execute? Here, I'm very pleased with the disciplined investment that Philips has made in our digital-first capabilities, which are now really showing up in our strength, both in terms of our online business models as well as in our consumer engagement. And I would talk to four dimensions over here.

- First and foremost, from a media perspective, we are now at a full 75% of our media on digital platforms. And in fact, many of our markets are at 100%.
- Second, this is a year that has seen tremendous growth, of course, on online platforms. I'm very pleased with how we've risen to the consumer demand in our own D2C channels as well and we've recorded a 70% growth, year-to-date.
- Third, we continue to build very powerful engaged communities across our businesses and across our propositions. And we have, across our apps, over six million monthly active users. And as I said, some of the engagement we see on our Lumea platform is a special call-out. But also, we are very, very proud of our Pregnancy+ platform, which now has over 40 million downloads.
- And last but not least, in our approach to packaging, we are now really online-first, which allows us to really embrace ecom readiness and also reduce packaging waste.

Last but not least, in terms of growth vectors, I also want to call out how we are constantly expanding our ecosystems through retail partnerships as well as new business models. On the left here, you see an example where some of our innovation in China, in particular, has really been created through insights of our platforms – of our partner platforms and also in how we execute, we seek to be very relevant. For instance, embracing live-stream marketing.

And on the right, we continue to see great strength in new business models like subscription that drive repeated revenue. And we're also very pleased with new business model innovation like the Try-and-Buy programme on Philips Lumea that we've started up in Europe, where for just EUR 39.95 a month, a consumer is able to bring the product home and try it herself and decide whether she will buy or not. And this is very powerful when we are creating a new category habit because it derisks the habit change as well as the expense of the new approach.

So as you can see, off of a terrific and fundamental foundation of strong categories where we have leadership positions and our strength across the growth vectors of innovation, digital-first execution, and expanding ecosystems, we're very well-positioned for growth.

Now, to give you a deeper example of how this all comes together in one of our priority categories, which is Oral Healthcare, I'd like to invite my colleague, Michael Kühne, who is the Global Business Leader for Oral Healthcare.

Michael, over to you.

Thank you, Deeptha. Well, good morning, good afternoon from Seattle. My name is Michael Kühne and I lead the Oral Healthcare business for Philips. Next slide, please.

Let me tell you a bit about Oral Healthcare. Within Oral Healthcare, we have to three growth pillars: grow the core, drive consumer lifetime value, and launching new business models. And let's start with the left.

Grow the core. Of course, it's all about innovations. We already make the best toothbrush in the world and we will continue doing this. But to be and remain the leader in this industry we need to fuel our core portfolio with innovations to have even better Oral Healthcare solutions. On top of that, we're going to address new consumer segments which we haven't been addressing yet. Phillips One is an example of that. And I will come back to that later.

The second growth driver is drive consumer lifetime value. And I think a good example of this is a brush head, which is a consumable. Right? And we're making it easy for consumers to replace their brushes by offering them a Direct-to-Consumer subscription model where we can assure that every three months when you need a new brush head, it gets sent to your house. Nothing to worry about.

And last but not least, the third growth pillar is launching new business models. And particularly here, we're focussing on our insurance partnerships through whom we offer solutions to better derive health outcomes and lower cost of care. But I'll come back to that later. Let's go to the next slide.

So within the first pillar, grow to core, we are targeting different consumer segments. So on this slide, you see three examples of it. Let's start the left one.

This is a new product, the 2100 series of Sonicare, which we launched this year, Q3, in China. And it's all about recruiting new users to get them into the Sonicare family. It is a innovation completely targeted at the Chinese consumers, which offers good quality at an affordable price and, of course, with great cleaning results. And the first results are very promising because in the first month, we already sold 400,000 pieces. So we're at a good pace.

If you move to the middle, there you see Philips One. And this is – we're launching it right now in North America. And this is a battery or a rechargeable toothbrush – so, we have two models – targeting the next-generation users for Sonicare, which are currently only brushing manual. They're younger. They're hip. They're trendy. But I'll come back to that later.

And last but not least, to expand our leadership in the premium segment, we're launching early next year, the Sonicare Prestige 9900. This will be our best toothbrush ever with a newly designed toothbrush and a newly designed brush head, which will deliver superior cleaning versus competition. Very excited about that launch. Next slide.

Now, let me deep dive into our new Q4 launch, the Philips One. The Phillips One is a battery and rechargeable – as said, two models – entry-level toothbrush starting at $25 were launched for October and the rest of the world will follow in Q2-Q3.

It's all about reaching a younger, hip, trendy target group, which, of this moment, brushes only with a manual toothbrush. And it's specifically designed about their needs. It's about sleek design. It has to be portable where you can take it with you when you need it. And it's all about also convenience. So it comes with a subscription model. And all, of course, while you're doing this, you have a better cleaning result than you would have with a manual toothbrush.

Also, when it comes to communication, it's a more fresh approach. We have a new tonality, a new way of communicating to this new target group.

Now to summarise, it's a new target we're going after. We're going to go – we're launching in three regions. We started this year in North America. Europe and Asia are to follow. And we have so much confidence in this product that we will ramp up our production from zero to two million pieces in less than 12 months on our way to build a more than 100 million pieces in a few years.

Now, let's have a look at the short movie of the Philips One. And after that movie, I will come back to you to talk more about our third growth pillar in new business models – in this case, solutions for insurance partners. Let's start the movie, please.

[Video Presentation]

I have the proof here in my hand. It's a true beauty. There is so much growth potential in this segment and we're very happy to have it within our portfolio. Next slide, please. Next slide.

Because there's more. There's more. We have more growth opportunities. And let me come back to the example Frans already mentioned in his opening. Our solutions which we have here for insurance companies is a win-win. It's a win-win for consumers and insurers: for consumers, because they get a better oral care and free or cheaper products; and for insurance companies, of course, less cost per patient.

So what's it all about? Insurance companies are seeking innovative solutions and are moving to a more preventative care model. To do that, they have to impact consumer behaviour. They need to get consumers brushing two times per day, two minutes, because when you have that, you get better health outcomes. And with a better health outcome, you have a lower cost of care. And at this moment, we're partnering with insurance companies like Delta Dental, Blue Cross Blue Shield, ONVZ, and more to follow.

So how does this work? Now, with our connected products, we can track consumer behaviour with the data coming out of that. And you have to think about how often people brushed, how long they brushed, how much pressure they applied, which spots did they miss. So with all that data and in combination with our app, we can – we have a behaviour coaching programme to really get consumers to brush two times, two minutes per day.

And if needed, we've also a tele-dentistry service. So at the touch of a button, you can reach out to the dentist, if in case you have a question. And also, to keep you going, there are incentives in this programme. So you get three brush heads, if you indeed brush two times per day, two minutes.

And so, there's a lot of win-win for the consumers. But for the insurance partner, next to, of course, lower cost of care, we have this analytics platform, which enables them to have deep healthcare insights based on all the data.

Now, based on all the pilots we did, the first results coming out are extremely promising. So we have, as an example, consumers love it. They give it a 4.7 star out of 5.0 of our app, which is great. And 90% – more than 90% of our patients in the pilot programme had a compliance of two times per day brushing, and two minutes, which is great. And in 85% of the cases of the patients, there was a reduction of out-of-pocket expenses.

As said before, this programme is a win-win solution. It's a win-win for consumers and it's a win-win for insurance companies. We have a great traction at this moment and now it's all a matter of rolling it out. Thank you for that.

Deeptha, back to you.

Deeptha Khanna: Thank you, Michael. I'm sure Michael has managed to convince all of you to embrace Oral Care by Philips, if you haven't already done so. But importantly, I hope it also demonstrates the meaningful role that the Personal Health portfolio plays in furthering Philips' mission of improving the health and well-being of people around the world.

So in closing, I'd like to summarise with the same five takeaways that I started with. We operate off, in Personal Health, a terrific foundation of strong growth categories where we have leadership positions.

Out of this foundation, we have three powerful growth accelerators. We constantly innovate to recruit more and more consumers through products and solutions innovation. We are confident in our digital-first capabilities and are accelerating our online growth and digital engagement. And we are expanding our ecosystems through retail partnerships as well as new business models.

So when you put all of this together, we are pleased to commit to a 5% to 6% annual sales growth with an Adjusted EBITA of 19% to 20%.

With that, let me hand over back to Leandro.

Leandro Mazzoni: Thanks, Deeptha. We're going to have a short break and we'll reconvene in five minutes to go through Q&A with the business presenters, Frans, and Abhijit. See you in five minutes.

[Break]

Q&A

Leandro Mazzoni: Okay. So, welcome. Welcome back. Time for the first question. It's going to be on video. Okay. Let me read the first question then.

Frans van Houten: Yeah.

Leandro Mazzoni: Oh, there we go. David?

David Adlington (JP Morgan): Hi. Can you hear me?

Frans van Houten: Yes, we see you and hear you.

David Adlington: Perfect.

Frans van Houten: Welcome, David.

David Adlington: Perfect. Thank you. I just have some questions around the emerging market. So just wonder what your expectations for emerging market growth for '21 to '25 are versus what you've seen more recently and how you expect market share and the dynamics within the market to change, particularly given how one of your competitors is looking to generate revenue synergies from consolidating in the radiation oncology space?

And then, just following on from that, your mid-teens margin target is still a long way below that biggest competitor. Is that purely down to scale and can you see a path to margins more than 20%, either organically or through acquisitions? Thanks.

Frans van Houten: Thanks. Let me start with that. It's a bit different around the world, depending also on how the emerging market developed in 2020. So for example, in the international markets, we saw positive growth in 2020. And therefore, the growth in 2021 will be a bit more moderate. While in the North American market, we saw negative growth in 2020 and that will rebound next year with very solid growth in that market.

And if met in – if we middle it all out, then in the Precision Diagnosis market, we can expect a 3% to 4% growth across the world that we plan to outgrow. So a low-single-digit growth of the market that we are outgrowing.

Now, in the Image-Guided Therapy market, we see more robust growth. And Bert has already explained, you know, how he sees his growth pattern, going forward. This year was a difficult year for Image-Guided Therapy because a lot of elective procedures were postponed and hospitals were really focussed on the COVID situation.

With regards to a margin improvement, let me give it to Abhijit for explaining that bridge.

Abhijit Bhattacharya: Yeah. So I think the gap between the 15% to 17% and the big competitor, you mentioned – I think, largely, we would boil that down to scale. Whether we do acquisitions in that space or not will depend on the right opportunity coming by. But I think if we get to the 15% to 17% range, especially you get to the higher range, the remaining gap would be limited largely to scale.

Maybe Kees, you want to take the question on the radiation oncology part that David had?

Kees Wesdrop: I will. So I think the with respect to spill – scale, there is also an organic component. I mentioned in my presentation is that we continue to renew our portfolio. 60% portfolio renewal from 2019 to 2020, most recently. That allows us to compete in a good way in the market. Moreover, with the leverage of our leading position in AI-enabled informatics, we have a differentiating edge.

Now, we see then also partnerships and mergers happening in this space. For instance, take the radiation oncology domain. We feel that with our oncology informatics, we compete in a great way in a vendor-agnostic way. And where needed, we'll seek out partnerships like we've done with Alexa in the past and will continue to do.

Leandro Mazzoni: Thanks. Thanks, David. I'll read the question now here in the room for – from Michael Jungling, Morgan Stanley, to Roy. 'Roy mentioned that he expects respiratory care to taper off in 2021, but still show growth. Can you provide more details on your assumption? And then, in home ventilation, what clinical evidence do we have that people who catch COVID-19 will need a ventilator in their home?'

Roy Jakobs: So on the first question of growth, I think I will look at two compares. There's one compare, really, into the hospital, where we have seen a massive ramp in 2020. That will have also an – a correction in the comparable in 2021. But if you look at the home ventilation, actually, that market will continue to grow. And that actually also correlates to the second question, where we see that respiratory care, at large, we predict will have more need to be supported from out of the home.

In part, it is because I mentioned that COPD still is the number three cause of death. But actually, it's a big, big chronic care disease area that we more and more can support from out of the home. And we are doing that with our digital platforms and our therapeutic devices for the home.

But also, we see that side effects from COVID and respiratory disease will take longer recovery path. And that, actually, will also drive more respiratory support into the home for the longer term. And given our number one home ventilation position, we will benefit from that growth.

Leandro Mazzoni: Thanks. Thanks, Roy. I'll read another one here from Ed Ridley, Redburn, that's Bert – for Bert. 'The FDA of QuickClear and your entry into the mechanical thrombectomy market is positive, but it is a highly competitive market. How should we think about the development of this business in supporting overall IGT growth?'

Bert van Meurs: Well, first of all, the – our QuickClear respiratory device is a unique disposable device. So therefore, it doesn't need any capital equipment. But we don't look at individual products by itself.

We have a unique position where we have a total solution, if you look specifically for peripheral vascular therapy, where we have the imaging part, and then the diagnosis through IVUS, as well as the treatment with atherectomy devices, both laser and mechanical, drug-coated balloons.

Then, you have an aspiration device with the thrombectomy with QuickClear, but then also now with Intact. So we look at the total solution. And there, we have truly a unique solution, if you look at the complete portfolio for peripheral vascular therapy.

Leandro Mazzoni: Thanks. Thanks, Bert. I'll read one more from here and then we can see already people on video, but it will come next.

Let me take a different one. Another one for Roy. 'What percentage of Connected Care revenues will telehealth in eICU represent in 2020, following the growth this year?'

Roy Jakobs: Now, we don't disclose specific numbers around parts of our business. What I can say is that we have seen double-digit growth in the individual modules. And what we also see, actually, that's more and more becoming an integrated part of solutions we offer.

For example, when we now responded to some of the COVID demands, we offered a combination of packages where we brought in monitors, where we brought in wearables, where we brought in ESU to also manage the system.

So we will see that as an integral part of the monitoring approach, where actually you support the total system. Separately, we also have seen really strong uptake of modules of telehealth like patient engagement, where you can support in home, which we'll see continue to grow towards the future in that double-digit territory.

Leandro Mazzoni: Thank you. Thank you, Roy. I'll read another one from the room. That's to both Kees and then Bert. So Kees – from Lisa Clive, Bernstein. 'What penetration in the US do you have today in adoption of EDI and Precision Diagnosis with existing clients? And then, for Bert, could you please give me rough numbers for what the margins are today for IGT Equipment business versus the Volcano, Spectranetics Devices business?'

Kees Wesdrop: Thank you, Lisa. So in this case, this goes directly towards the transition that we have towards VUE PACS, as part of the Carestream acquisition.

Bert van Meurs: They're both good.

Kees Wesdrop: That is very well on track, both in North America as well as in the other regions. And we see actually great recognition of the proposition in the future improvements of this platform. So we feel that this is making strong progress. We also have great traction with customers to build on what we call the Transition Roadmap. And we see actually quite a bright future ahead of that.

Leandro Mazzoni: Bert?

Bert van Meurs: Yeah. So on the – if you look at the comparison between Systems and Devices, you may remember then when we acquired Volcano, Spectranetics, both businesses were actually still a loss-making. 2019, our Devices business is already at double-digit profitability in the low-teens. Our Systems business always has been in the high-teens. And as I already presented to you on the midterm, we will bring both businesses above the 20%.

Frans van Houten: Very good. I think now we go with Veronika on video. Let's see if we can hear her.

Veronika Dubajova (Goldman Sachs): Let's see if this works. Can you guys hear me?

Frans van Houten: Yeah.

Veronika Dubajova: Excellent. Hi. Good afternoon, and thank you for today. This is a question, I think, for Kees, but also maybe a bit broader one. You've talked a lot about digitalisation, telehealth, AI, sort of really new software revenue streams. And I'd just love to understand how you're thinking about monetising these businesses, both in terms of what are the revenue generation models? Are you charging per click? Are you getting subscription software, etc.?

And then, what implications will that have both on revenue cadence and profitability, I guess, in particular, within DMT, but also broadly within the, you know, broader Philips organisation? Thanks, guys.

Kees Wesdrop: Great question. And first of all, there is – I tried to sketch the opportunity that we have both in smart diagnostic systems as well as in these adjacencies. This is not an abrupt shift from one to the other. It is really empowering smart diagnostic systems with AI-enabled informatics that, for a large degree, today still follow the traditional business model.

Now, on top of that, we are seeing that per fee studies – per fee applications are in demand. And that is a gradual course that it will take, in terms of growth. You see also that, for instance, applications that we offer on top of our installed base are in high demand. Think of algorithms to reduce scan time. And those will go on an, for instance, licensed basis.

But I want to be very clear, this is not a disrupt movement into a new domain. This is actually augmented on top of a very strong foundation. And we'll see and make sure of that business model, as we move forward, in a gradual way.

Frans van Houten: And Veronika, may be to add, you will recall from the growth bridge that Abhijit showed that Informatics contribute to the overall growth profile of Philips. Much of the new Informatics businesses have a subscription-based or license-based business model. And therefore, that momentum grows as we go. And we'll get to become bigger and bigger.

And Abhijit, you mentioned 30 basis points –

Abhijit Bhattacharya: Yeah.

Frans van Houten: – from Informatics contribution. And I would estimate that that will gradually go up, over time. Good to see you, by the way, Veronika.

Leandro Mazzoni: Okay. We have one more question on video. We can see both of you now. Go ahead, Scott.

Frans van Houten: Go ahead.

Scott Bardo: Thank you. Thank you very much. Can you hear me?

Leandro Mazzoni: Yes.

Scott Bardo: Perfect. Thank you very much. So one question, please, for Mr Wesdrop. Can you help explain your efforts to improve performance and profitability in X-ray as well as sharing some thoughts on the competitor imaging launches in photon-counting CT and helium-free MRI, whether this is anything to be concerned about, from a competitive positioning standpoint to Philips?

And then, one question please, for Mrs Khanna. Given your expectations of strong growth in new launches, including the Sonicare One range, why are margin expectations for Personal Health not more bold than the current 19% to 20% by 2025, given, I believe, you are already at these sorts of levels, excluding the Domestic Appliance business last year? Thank you.

Kees Wesdrop: So let me start off with the Imaging portfolio. I feel very confident in the traction that we're having with the portfolio renewal. So we're seeing growth and we're seeing also margin expansion, accordingly. Particularly in MR and CT, we've made great strides.

And so, we were the first to deliver a detector-based spectral CT. In essence, that is counting photons because what we do is we look at the spectrum in two layers in the detector and, therefore, allowing spectral depth in the way we process images. So that's the first step also in the direction of true photon counting. So that's definitely the direction that we're heading. And we – in fact, we've pioneered in this domain.

Moreover, what's really critical is that the Informatics drives its user-friendly workflow with the spectral images that you deliver. And we get from our customers phenomenal feedback that we do that in the right way. It's the – this spectral depth is at the fingertips of the professional – of the customer.

In MR, we have pioneered with helium-free operations, our sealed magnets. And obviously, that's a platform that we will continue to drive. That system is compact, light, doesn't have a quench pipe. So that's the ventilation pipe that requires a lot of laborious work and a lot of additional cost in the hospital. And that's a simple installation platform that we're driving for it.

And you can note from the language that I'm using, that is absolutely the same way of thinking as some of our competitors have put forward that they're thinking of heading in the future. I want to, again, say that we've pioneered this space. So with our portfolio renewal, we've made the right investments in those domains that really matter for our customers.

On X-ray, we had to make a deeper intervention. And I am very confident that we've set that business, both portfolio-wise as well as footprint-wise and cost structure-wise, we've now set up to really turn the corner with a bright future ahead.

Deeptha Khanna: Thank you. And to your second question. As you said, first and foremost, in Personal Health, we have a very solid foundation of a great business with a proven business model. Now, in the last few years, what we do observe is the categories we compete in are growing at an average of three to four points a year.

Now, versus that, what you saw in our guidance is that we expect to grow by five to six points, which is category-leading and share – and very competitive. So in order to do that in an increasingly competitive environment, we hope to sustain a very high level of profitability, which, in fact, is very much a leadership position versus a competitive set.

So that's why when we put it together, we would currently guide everyone for a 5% to 6% top line and in 19% to 20% on the EBITA.

Leandro Mazzoni: Thank you. I will read the two final questions. Max Yates, Crédit Suisse – Personal Health, Deeptha. 'On the new Phillips One, what price points are the replacement heads being sold at? Is this in line with additional business? Will they also launch this product in Europe? And do you worry about customer buying mid-range toothbrushes and trading down?'

Deeptha Khanna: Thank you. There's a few questions there. So firstly, we have launched at the moment in the US and we will be rolling out globally throughout next year. As I said, the price point for an individual brush is $25 for a piece. The replacement subscriptions of a brush head and a battery can be delivered to your home every few months for just $5.

Now, in terms of the consumer target that we expect to recruit with this, it's predominantly a young millennial consumer. We know that there is an attractive and growing market there. And that is our primary focus and all of our marketing activation. Of course, we do think some of our existing users will add it on to their repertoire of usage as well, but that would be on top.

Leandro Mazzoni: Very good. Last question for the business leaders. That's for Bert from Wim Gille, ABN AMRO. 'Bert, you mentioned you would be able to expand your IGT business into adjacent areas. Do you need to modify the Azurion platform to do this or can you use the same platform to serve the new markets? By how much will this increase your addressable market and can you achieve similar shares as you currently have in coronary and peripheral vascular?'

Bert van Meurs: Yeah. I think that's a great question. It' a broad question. We do both. If you look at the example I gave about lung, we use the existing Azurion platform with the same kind of 3D imaging technology, but we purpose that for a different application. And that positions us in a whole different market and expands and grow in that direction without the need for a strong R&D on the Azurion platform. So the platform is quite broad and complete to already address specific procedures in different clinical areas.

Of course, when we really do procedure innovation, we do that a lot also through software. Like, I showed in structural heart with the EchoNavigator, where we integrate echocardiography imaging with X-ray imaging or in other areas. That, of course, requires some significant R&D and organic innovation. So we will do both. And this enables us to grow in a lot of different areas while we also strengthen our core.

Leandro Mazzoni: Very good. Thanks to the – all the business presenters. We will now transition to the markets session. Thank you.

So we'll hear first from Greater China, Andy Ho. Andy, over to you. We see you, Andy.

Andy Ho: But can you hear from me?

Leandro Mazzoni: Yes.

Andy Ho: I just want to make sure.

Leandro Mazzoni: We hear you and we see you.

Andy Ho: Okay. Okay. Very good. Very good.

Sustaining Growth Momentum in Greater China

Andy Ho

Chief Market Leader of Greater China, Royal Philips

Right, good. I'm Andy Ho, Chief Market Leader for Greater China. In fact, I have been running this territory for the last five years. Over the last couple years, you know, Phillips in China has been transforming into a leader in health technology with strong profitable growth. At this moment, you may have a question in your mind, 'Can we sustain this kind of growth?' Can we flip to the next page?

I would like to talk about how we drive the medium-term growth agenda for China. China will continue to grow rapidly. In fact, the growth momentum in China has been fuelled by very strong local presence and also capability.

The people in this country actually started to see the Philips product back in 1920. We formed our first joint venture in 1985. We have a very solid strategy, locally relevant, fully aligned with the government agenda, with the full coverage of the health continuum. We are making contribution to improving, you know, the life of a large population.

A couple more points. We are elevating digital transformation, deepening customer engagement, and also partnership – local strategic partnership. More importantly, we have exceptional growth, in terms of integrated solution. All of these actually are adding to putting us in a very, you know, strong position in China, continuously delivering sales in a high-single-digit number.

Now, your next question may be asking, 'Where is the market heading?' Let me talk about the market growth and also market demand. Market growth could be driven by, you know, a very robust, you know, healthy demand with time. That is also, you know, being addressed by a national health strategy, which is what we call 'Healthy China 2030'.

The aim of that is really to improve the overall population health. The combination of the large population, fast market growth, together with, you know, government agenda – strong government agenda in health, I think they all put together and as a major growth, you know, driver not only for the professional healthcare market, but also for the consumer product space.

Now, how do we do that? I keep talking about we're a strong local presence. Let me, you know, spend a bit more time and talk about four pillars here. The Pillar Number One, very significant local manufacturing, you know, operation. Not only that, we're replicating even more global production footprint into China.

Talking about research and development, more than 1,200 research and development professionals. Not only do they produce, you know, local-for-local, you know, innovation, but also we are positioning in China as one of the leading market to produce innovation for global market as well.

We also have, you know, around 1,000 field services professionals responsible for the delivery of services and also compact, integrated solutions in China.

On the right-hand side, talking about, you know, government coverage, we actually have very deep and long-term coverage not only, you know, with the central government, but also at the, you know, provincial and also municipal level here.

But all in all, we call that, you know, we are a local brand in the country for more than 100 years, deeply rooted in the people's mind. Next page. Now, right now, let me, you know, go with – a little bit, you know, deeper. Can you flip to the next page? Okay, thank you.

Right now, I think it's time for me to go a little bit deeper into a winning story against international, you know, player and also local player in China here. Through our, you know, innovation technology and also an enhanced go-to-market model, but more importantly, a very powerful, I would say, local management team with local expertise and also agile culture.

Now, I have to say we have enjoyed a leadership position in many, many, you know, different business categories. I like to call this example as what I caught a category creator. 2009, we introduced Oral Healthcare, you know, business category into China with less than EUR 3 million. In about ten years, we grew this particular category to be a business of over EUR 300 million.

Another category is in the Male Grooming. I call that, you know, basically a leadership category in China here.

We also leverage customer-centric or consumer-centric Go-to-Market model. Deep partnerships with the major ecommerce giant, namely, Alibaba, Ding Dong, Suning in China. In actual facts, this global ecommerce business partner already contributing, you know, 75% or sometimes 80% of our Personal Health business.

Now on the right-hand side, let me make a comment on our Health System business. We have gained a number two position or market, you know, position in China in the Diagnosis & Treatment space. Basically, we actually narrow, you know, our market share gap to the market leader from 9% to 4%, in less than, you know, three to four years.

Also, I would like to emphasise customer intimacy. That is actually at the core of our consistent double-digit order growth over the last several years.

We are also starting to sign long-term strategic partnership. One example would be Asia Heart Medical Group, five-year, long-term strategic partnership designating Philips as their technology provider, you know, for the hospital not only in China, in Hong Kong, but also in Japan.

Next page. Now, again, all I have just talked about I would say are all adding up to, you know, our winning capability in the integrated solution. I believe that we have very strong strength, basically, in the local clinical insight and also how to apply insight to the specific customer or local requirements here. Let's say clinical workflow and other things like that.

Next to the growth in System, we are getting ahead, you know, of the market, in terms of our Informatics, you know, business with double-digit growth in the enterprise diagnostic informatics business. We are creating an end-to-end radiology solution of size at a, you know, leading Hospital in China called Peking University First Hospital with co-created asset ranging from, you know, image acquisition to interpretation of data structure we put, all the way to clinical research.

I think this is a great example, you know, of us going well beyond, you know, point of selling and getting well into the integrated solution settings here. And basically, there is a combination of systems, devices, software, and services that all work together and create a gap, which, you know, is very difficult for the local competition to bridge. But at this moment, I wanted to bring more – even more into life by showing the following video.

[Video]

Let me wrap up. China will continue to grow rapidly. Philips in China is at a very leading position, with locally relevant strategy very strong. And also, we have a very solid, you know, our local presence here with agile execution capability. We'll continue to extend consumer or customer preference. I'm highly confident that we will continue to deliver high-single-digit growth.

With that, let me hand over to my teammate, the Leader of North America, Vitor Rocha.

Transforming Relationships with Our Customer in North America

Vitor Rocha

Chief Market Leader of North America, Royal Philips

Thank you, Andy. Hello, everyone. Pleasure to be here with you today. My name is Vitor Rocha. I'm the Market Leader for North America. I'm so happy to be here today to talk about the power of Philips in our market. Here's what I want you to take away from my presentation today.

As the largest and one of the most innovative markets in the world, North America presents a good opportunity for Philips growth as we focus on the success and experience of our customers. The pandemic put a stress test in our strategy, but I'm happy to share with you that our strategy resonates even more now with our customers.

We see growth beyond the pandemic. And we're going to be sharing with you today some concrete examples on how we are doing that. And as we focus on the success of our customers and on investing capabilities to deliver better, faster, higher quality solutions for our customers, I believe we're going to outgrow the market, which is going to be growing at low-single-digits in coming years. Before I share some plans with you, let me just talk a little bit about the dynamics in the market in the next page. Next page, please.

The market is growing out of an increasing and recovering demand from three of our large customer segments: consumers, healthcare systems, and government. We are at the forefront of changing healthcare. And as you can see on the right-hand side, we have leading positions in many businesses that cuts across the key on the continuum of care.

In the following pages, I'm going to be sharing with you how we are going to grow, using that strong position that we have. I'm going to be sharing with you some trends. I'm going to be sharing with you how we're going to invest in some capabilities to deliver faster, better, and higher quality solutions to our customers. And I'm going to be sharing with you as well some winning solutions in those spaces.

Let's start with consumers. On the next page, please.

Consumer spending is back to growth. Consumer confidence is recovering. If look at just ecommerce, in US, it's up 42% versus last year. So a big increase and highlighting, again, that the trend and shift to digital continues.

Our strategy in Personal Health is simple. We focus on the consumer experience by driving agility, speed, and scale with our retail partners in US while we elevate the consumer preference through new digital Direct-to-Consumer propositions.

A great example of that that you heard today is our Phillips One by Sonicare, which has been launched recently in many digital social media platforms. And a winning solution in Personal Health is our subscription business model in US.

By year-end, we are going to reach 140,000 subscriptions in our Oral Healthcare and Male Grooming business combined. So this page highlights how we are focussed on the changing needs of our customers.

Now let's move to another big segment, our healthcare systems. Let's go to the next page, please. I believe you are all familiar with the trends here. The pandemic is fuelling change in healthcare. CAPEX has been redirected to acute care. Procedures were down and they are now recovering. If you look at IGT image-guided procedures, they're now back to their – 90% of their level of 2019, which is good.

The installed base in US is quite large, but it's aging. It requires upgrades or software upgrades for hardware, cybersecurity, patches, services, education. It's a major need. I talk often to CEOs in North America and they want to create a direct impact in the Quadruple Aim. What I hear often from them is that they want to engage with patients and consumers in a different way through digital and virtual.

As a matter of fact, most of the healthcare systems say that 40% of the primary care visits are going to be done on a virtual way. They say also they want to use technology to enhance and improve staff satisfaction. They want to use technology as well to drive better outpatients – outpatient outcomes.

Third, they want to drive productivity. They want to drive throughput. And they want to use technology for that, unless they want to lower cost. And there are many ways that they are pushing to lower the cost. And one way that they are driving to lower their cost is by moving away procedures from the hospital to low-cost care settings outside of the hospital. The great thing is that we can address most, if not all of those needs.

If you take a look at the need of moving from CAPEX to OPEX, we have great solutions such as Monitoring as a Service and Managed Technology Services. If you look at the need of data services, we have a great solution on performance bridge. You heard about that today.

If you look at the need of installed base, we are laser-focussed on our installed base, driving recurring, predictable revenues, and deepening our relationships with our customers with longer strategic partnerships.

And we are winning market share. We are winning market share in DI, we are winning market share in IGT, we're winning market share in Patient Monitoring, through new innovations and through acquisitions.

I'm very excited about the acquisition of Carestream – the integration of Carestream. It's a strengthening our Precision Diagnosis Informatics, enabling us to win multimillion dollar deals, multi-year agreements from the competition, which is always very exciting.

Last, we are enabling care outside of the hospital. You heard about that today. That is a critical strategy from COs and their IDNs, healthcare systems to lower the cost and improve access.

A great example that we have here in the page is our SymphonySuite, which enables clinicians to perform minimally invasive surgeries in the ambulatory care setting outside of the hospital. It's a combination of smart devices, software, systems, Philips Capital Services. It's a real Philips solution.

SymphonySuite grew 55% from last year and is projected to grow 43% in 2021. So this page highlights again how powerful we are during COVID and beyond the pandemic.

Let's now move to the – my third segment, government, which is a large and very strategic segment for Philips. Supporting service members for better care and also supporting civilians with the pandemic response has been challenging for all governments around the globe. And it has not been different for North America government. Improving care and access in some – for some of the agencies is quite challenging. It's quite challenging.

If you took a look at VA, 80 million veterans live in US. A quarter of them in very remote areas, which is quite difficult for providing care in remote areas. So when you look at the situation in the Government of US, you see here a picture of me with Secretary Wilkie, the Head of VA, who said, in front of a large group, that Philips is the fulcrum of change in healthcare. That statement made me very proud. But I don't take it for granted. We have a relationship with the government that spans decades, across multiple agencies in multiple levels.

And the combination of that partnership with the government, the $130 billion investment from CARES Act into the agencies and how we are focussed on the continuum of care makes this a great foundation for Philips growth in the government.

One particular solution that I'm very excited – it's a win that we announced earlier this year with the government – is the ten-year agreement, $100 million deal to create the largest tele-ICU in the world. This is huge. And the VA is using that network to create and drive their virtual strategy in the nation. So this page here highlights the power of Phillips with a big account and in virtual care, which is very critical, moving forward.

I'm moving now to the last page of my presentation. And I hope you are excited about our position in us. I'm very confident about our position, our strategy here. We see growth beyond the pandemic. We are outgrowing the market. We need to continue to be laser-focussed on the changing needs of our customers and continue to enhance their experience. Thank you.

With that, I'm going to hand it over now to Edwin Paalvast, who's going to speak about International Markets.

Continuing our Growth Journey in International Markets

Edwin Paalvast

Chief of International Markets, Royal Philips

Hello. So my name is Edwin Paalvast and I joined three months ago here in Amsterdam in the Philips Headquarters. I actually joined from the IT industry, where I spent about 20 years at Cisco. I had multiple roles in sales, amongst others, President for Europe, Middle East, and Africa. And most recently, driving global sales for Services, Solutions, and Software.

Of course, as a Dutch national, I knew Philips very well and had interacted already a lot with Philips. But now, after three months, I'm actually even more excited. Very driven, entrepreneurial, innovative people. A great portfolio, which also continues innovating. Spend time with customers and has some very deep and trusted relationships. And last but not least, a very strong brand, which actually straddles both consumer and professional segment.

And then, if you look at the focus that Philips now has on solutions and Informatics, clearly, I'm excited with my background, where we saw the similar developments in IT, to actually help deploy this within Philips. So for me, a lot of enthusiasm and excitement.

So how can I actually relay this to you? Well, first of all, if you look at International Markets, this year, one of the best years ever. But also, if you look back, continuous growth of market share and continuous expansion of margins. And what I want to do today is actually take you through what the potential is and how we're actually going to unlock that potential, and keep on growing share and expanding market margin.

So first one is a move to digital-first. It was already discussed a couple of times, amongst others, by Deeptha. But I'll give you some specific examples and numbers.

Strong growth in our – throughout in our core. And Andy and Vitor already spoke about it. And we see very similar developments actually in International Markets. So I won't spend too much time on it. But actually, spend some more time on the close relationships we have with some of the key hospitals in the region and how that actually drives closer intimacy, but also growth

And then, lastly, replicating some of the great examples in International Markets, which, in my view, is its strength, its diversity, and the fact that we have these innovative people and how they actually drive new, scalable initiatives. And of course, this all translates into delivering a comparable sales growth in the mid-single-digit range.

Let me go first and look at digital-first in Personal Health. Going from 2016, about 25% of the total business being online, and now on track to actually deliver 50% by 2022. Now, why is this relevant for you?

Because first of all, Philips has a 2% higher market share in online than offline. So driving growth towards online, and if we maintain that market share, clearly drives growth and share growth. And secondly, the online business is accretive. So by growing the business again, we'll expand our margins.

And the other benefit is, what we highlighted already, closer relationships with the customers because you have a much better understanding what they're doing, why they're doing it, partnering with some of the largest ecommerce platforms globally that also have a wealth of data, but also, of course, the Philip store directly.

And that all combined, actually, helps us to drive this growth. But it's beyond the consumer segment because these capabilities, I already said in the beginning, quite impressed by having a double skill set in both consumer and professional will also help us in other segments.

Then, looking at the customer partnerships. And this is really important because first of all, it helps you to deliver a broader value proposition to them. It's a longer-term commitment. And as you can see with New South Wales in Australia, it's a 20-year partnership.

And then, for example, with Klinikum in Germany, it's a ten-year partnership. So, much longer partnerships. It's outcome-focussed and you tend to actually position a much broader part of the portfolio versus a single deal. But let me first listen – let me listen to the customer and play the video.

[Video]

So as you can see, these are longer-term commitments, which actually allow us to achieve these common goals, the common outcome-focussed and shared responsibility trajectories, and actually continuously evolving and improving. And clearly, we can learn from those hospitals and actually innovate for the future.

So it's clearly a joint clear interest. And we have many of these partnerships already in International Markets and we're looking to expand them, and also to expand them in size and in reach. So this is an important driver for value and an important driver for growth and margin.

And then, going back to the uniqueness of the International Markets, where there's so much diversity. And as already said, the entrepreneurship where we have many places evolve, actually, new propositions. And once they work, and we can scale them, that's what we do very rapidly.

And that's a unique treat we have in these markets, which, for example, we do with Tasy, with the electronic medical records, which is already – has a very strong position in Latin

America. And as you can see, we recently won also a deal in Colombia. But this has already been expanded into other markets and that's what we're looking to invest in heavily. And clearly, EMR is the beating heart for a hospital. It also significantly increases your relevance.

And the second one, an example in Denmark, which, as you know, is a country with many islands. In the South of Denmark, actually deployed an enterprise diagnostic informatics system that can share X-ray and neurological information to over 20 hospitals and over 5,000 clinicians. And this is a way how you can actually reach patients even if they're further away or more dispersed, which clearly is something that we see in many markets in International Markets where we have geographies that are very thinly populated.

And then, lastly, very relevant at this time the tele-ICU solution. So how can you actually monitor and use analytics and AI to extract data and monitor patients in the intensive care unit and do this at a much higher scale? Because the challenge at the current times is availability of personnel. And with this, you can actually significantly do a step-up in how many patients you can actually monitor with one person. So this is, again, a key one.

And so, what we expect is that we can scale this business, actually, to about $0.5 billion by 2023.

So with this, I conclude the International Markets presentation. And we're now going to Q&A.

Q&A

Leandro Mazzoni: Yes. Thank you, Edwin. We now have 15 minutes for Q&A with the market leaders. Frans, Abhijit is also here. Let me move to the other side. Let's see if we get Andy and Vitor on screen. And then, we get the questions here as well.

Let's give it a minute to connect everyone. Very good. We see Vitor. We see Andy. Maybe Edwin, if you click one more time, so we leave this screen. Let's see.

Vitor Rocha: All right. Here.

Leandro Mazzoni: Okay. We hear Vitor and Andy. Okay. Are we ready for the first question?

Frans van Houten: Go for it.

Leandro Mazzoni: Delphine, are you there?

Delphine: Can you hear me properly?

Leandro Mazzoni: We hear you? Yes.

Delphine: Hello. Hi. I've got a question for Andy.

Leandro Mazzoni: He's here.

Delphine: Two questions, actually. Andy, in which type of hospital do you have the highest market share? And where do you see the most upside – low-tier, mid-tier?

Second question would be how do you see the divisional revenue breakdown in '25 or can you just give us a sense of the evolution from now? Thank you.

Leandro Mazzoni: Andy, we cannot hear you. One second.

Andy Ho: – market share in the Level Three public hospital as well as, you know, a major market shaking of the last couple of years in the private sector. And also, the low tier – you know, low-tier hospital. And also, majority of the China growth at this moment is also coming from, you know, the outskirts city and low-tier hospital. And we are seeing in a bit more, you know, private investment into the medical sector.

The – what was the second question? The second question is the revenue profile by 2025?

Leandro Mazzoni: Correct.

Andy Ho: Yeah. I would say, roughly speaking, by 2025, I will expect that the Personal Health business will be – now I'm excluding DA – will be a little bit more than, you know, a between one-third of, you know, the total HealthTech business and around, you know, 40% of our portfolio here. The rest, I would say that a larger pie would be in the Precision Diagnosis or Diagnosis & Treatment sector, and then followed by Connected Care.

I don't know whether I answered the question.

Frans van Houten: You did great, Andy. I'm sure that they would love to hear even much more detail, but I think this is good enough for now.

Leandro Mazzoni: Yes. Next question?

Scott Bardo: Yes, Leandro.

Leandro Mazzoni: Hi, Scott.

Scott Bardo: Hey. Thanks very much for the follow-up questions, guys. So a question, please, for Mr Ho.

I wonder if you could share some perspectives on the Chinese government's next five-year plan and what that implies for Philips, please?

And a question for Mr Rocha, please. I think in healthcare, Phillips has been the market leader in monitoring and analytics in the US for many years. However, to this point, has been unable to leverage that position to drive the market-leading position in diagnostic imaging in the US. Can that change in any way? Thank you.

Andy Ho: Yeah. Maybe let me answer the first question. You know, in my opinion, according to the senior government officials of China, they will drive the openness, basically, also based upon, you know, the speech by Presidency just at the latest Chinese, you know, Import Expo here in Shanghai.

You know, they will embrace more foreign investment into China. But then I will say the – another important question is, you know, they have to be – you know, shuffle and also get a more sophisticated, you know, policy making in China so that, you know, they can guarantee – they can maintain, you know, what they commit to the market, which is a fair trading platform here.

Because right at this moment, I will say, you know, the execution of the policy may not be perfectly consistent for the entire country here. That will be my expectation over the next five years.

Vitor Rocha: For North America, we are very confident about our position here on both businesses. For Connected Care, we're going to have a strong double-digit growth this year.

And you are right to say that we do have a leading position for many years in patient monitoring and we continue to grow.

They are not only with products, but services. Data services and analytics, expanding also services outside of the hospital. In – we are very confident as well on our position in diagnostic imaging. We have a very strong portfolio – the best portfolio we had in years. And we are gaining momentum. We are gaining share. And we are using our Go-to-Market approach to sell the entire solution of Philips.

To your point about leveraging patient monitoring, yes, we are we are doing that today. In accounts where we have strong presence with Patient Monitoring, we are coming with a strategic – long strategic partnerships with those customers and offering the full portfolio and really getting a great momentum on our partnerships because of that approach.

We have a large number of account executives who are reaching accounts in different levels and offering the full solution – in this case, Patient Monitoring, Diagnostic Imaging, and Image-Guided Therapy.

Frans van Houten: You could add that as decision-making is transitioning from the department to the C Suite at larger IDNs, that the historical preferences like, you know, if you have always done research with a competitor, that that gets sometimes also overridden by the more enterprise-wide interest and benefits. And decisions are then more taken on an economical basis, where our solutions approach and the Quadruple Aim. Clinical and operational evidence is more important than whether a radiologist has, for example, always worked with a particular competitor. So the strategy actually plays then into our advantage.

Andy Ho: Yeah. Frans, if you know by what I do add, you know, just to answer the question. Okay. Right. I would say to the purposes of Healthy China 2030, I think it is also important, you know, for the country to really focus on the productivity and also the patient. I will come to this end.

I will say the importance of integrated solution and also, you know, taking global technology – advanced global technology, and then localised for China and fit according to the China deal, this kind of mission is going to be super important. That is exactly aligned with what Philips is doing and also our Group's direction.

Frans van Houten: Yeah. Yeah, exactly. Let me amplify. So Andy and his team are closely working together with the government hospitals as well as government-designated digital partners so that we can scale our digital clinical solutions such as tele-radiology, and tele-oncology, and radiation planning, which then also then reach into hospitals across the country. So we are very conscious that we do need to partner up, but winning solutions in the end prevail over just the sentiment for a local vendor.

Next question.

Leandro Mazzoni: Yes, thank you. So next question. I think we have Daniel.

Daniel Wendorff (Commerzbank): Yes. Hi. Can you hear me?

Frans van Houten: Yeah.

Leandro Mazzoni: Yes, we see you –

Daniel Wendorff: Great.

Leandro Mazzoni: – on a different screen, but we hear and see you. Hi, there.

Daniel Wendorff: Very good. So also, three questions on China maybe.

The first one is on the trade conflict between the US and China. Is there maybe an opportunity even for a European company like yours to gain or does that not really matter anymore as the situation between Europe and China is sometimes also not that not that easy?

And second question is, how has your position versus international competition in China developed maybe also through the pandemic? And what should we expect over the next few years?

And potentially a follow-up question from the last answer, really. How important do you see local competition, really, to become for your DMT and Connected Care divisions over the next five years? Thank you.

Andy Ho: Okay. I think let me try to answer these particular questions here. For sure, I don't want to get into politics. But basically, based upon, you know, the latest, you know, relationship between US and China, definitely, you know, I do see a lot of opportunities.

One example would be Presidency of the country is just requesting a personal meeting with the, you know, Netherlands' Prime Minister. So that is a strong signal that, you know, the country is trying to strengthen the relationship between these two countries, and also maybe between China and also Europe. I will kind of a pause at – right at this moment.

And then, let me try to remember what your second question – can you remind me what the second question is?

Daniel Wendorff: Yes, the development versus international competition in China and also, maybe during the pandemic now?

Andy Ho: Oh, okay. Yeah. I think roughly speaking, if I talk about the professional healthcare market here, I don't want to mention, you know, company name. The top three player basically still account for, you know, 80% to 85% of the entire market. And also, the Diagnosis & Treatment and also Connected Care market, actually, is large and also growing quite rapidly here.

I think that over the next, you know, three to five years, the market dynamic will not dramatically change in China here. And, you know, with our, you know, company strategy focussing on integrated solution in order providing, you know, value to the patient and also hospital, I would believe that, you know, if we reference what has happened over the last couple of years, I would, you know, predict that, you know, we may be able to repeat the same pattern.

Leandro Mazzoni: Thanks. Thanks, Daniel. I think we have – yeah, we see Veronika. This is – this will be our last question, Veronika.

Veronika Dubajova: That's a lot of pressure. Thank you, guys, for squeezing me. It's actually for each of the business leaders. It's a common theme, if I look at your presentations today, has been your ability to do this bigger partnerships, bigger deals where you are supplying everything. And we heard some of your competitors, I think, who were very much behind you start focussing on this over the last couple of years. One of them, in particular, seems to be catching up.

So I'm just curious. Are you seeing that in your regional markets that there is now more competition on that integrated solution approach? And what are you doing to try to remain relevant and competitive against that backdrop? Thank you.

Frans van Houten: Vitor, you want to go first?

Vitor Rocha: Yeah. I feel very confident where we are, from a solutions perspective. I think when we look at the Go-to-Market structure that we created over the years with the account executives that I mentioned today, as the decisions move to the CEO, in C Suite, our account executives have a very strong relationship there. And this is created over the years. That's number one.

I think, number two, is the way that we are organised today at Philips, with our Philips Business System, it creates a great foundation internally for us to deliver the solutions that we are selling to our customers. And I think this is putting a major gap, in comparison to our competitors today in the marketplace.

Frans van Houten: Yeah. I think building on that, some of the competitors are still more traditionally organised in their business unit silos and where incentives do not, let's say, necessarily encourage the integration of effort. And then, you need to create integrated platform solutions such as, for example, what Bert van Meurs showed on the Office Bay's labs, where you bring Monitoring, and Ultrasound, and Informatics, and the IGT stuff all together as an integrated value proposition.

Yeah. It's not for a reason – it's for that reason that we have such a high market share. Because it takes years to, actually, create an integrated open platform approach in the company. And I think we have some head start.

And, Andy –

Andy Ho: Yeah.

Frans van Houten: I think you have pioneered the solutions approach in China. Do you see competitors –

Andy Ho: Yeah.

Frans van Houten: – following yet?

Andy Ho: Honestly speaking, I see a big gap, you know, because we started the integrative solution, you know, way of doing things a couple of years ago. So far, I have been hearing – I've gotten the marketing messages from the competitors on the ground here.

If we look at, you know, how we organise here, we have a team of professional sitting in a cross, you know, a business organisation called Marcus Rosen Centre here. They're taking, you know, advanced global technology and also localised, you know, to fit the local need. It's a – you know, it's a very robust, you know, department in my team.

And secondly, you know, thanks to Philips company's investment in a, you know, China, you know, Innovation Hub, you know, which is a team of professional which can, you know, tailormade, you know, local – localised, you know, integrated solutions here taking, you know, third-party devices, or system, software, all integrate between – integrated together.

And also, like what you said, Frans, when I look at the organisational structure of, you know, the other companies, basically, they are organised by silo. You know, here, you know, we have formed an integrated – you know, integrated solution selling team here. They sell customer – rather than individual pieces of hardware here.

More importantly, you know, we started to solidify an organisation called Professional Services in China. Right at this moment, this organisation has around 150 those surfaces of professional services, you know, specialists here, basically responsible for, you know, design, consultancy, all the way to training, you know, all the way to highly customised solution for the strategic, you know, major customers in China.

So all in all, I do see a huge gap.

Frans van Houten: Okay. Well, and Edwin, are you going to kick ass to Siemens and GE?

Edwin Paalvast: Totally. And especially in our home markets. So what we're doing, actually, in Europe, we're actually creating a European organisation because to do these deals, you actually need scale. You need to be able to exchange information. The same we're doing with Eastern Europe and RCA, Russia, and the same in Middle East and Africa. So this is actually a key step to actually stay ahead of competition.

Frans van Houten: Good. And thank you for that last question, Veronika. And I'd like to get us to the close.

Of course, this was a very special and different Capital Markets Day. We had to compress it in time. We can only engage with you remotely. We would have loved to also chat around the coffee machine, but it is what it is.

And I'm extremely pleased that so many of you engaged with us through the day and that we were able to give you an insight in our progress in our strategies in the journey forward with ambitious targets, supported with a leadership team that is very much on the ball.

We know exactly the drivers to turn and to push in order to deliver on our compelling strategy. So a strategy that will help us further gain market share, driven by deepening the bonds with customers, and driving operational excellence, growing the core, and leveraging the advantage that we have in solutions.

And with that, we are upping the average growth rate to 5% to 6%. We are every year going to expand profitability until we are in the high-teens and we are committed to generate more than EUR 2 billion in cash and an organic ROIC in the mid-to-high-teens.

We hope that you are going to be part of our journey. We welcome you. We have a long-term perspective and we'll make annually progress.

With that, I thank you for your attendance. I wish you a great weekend. And we will have follow-up sessions, given the shortness of today, so that you can continue to probe and ask your questions. So I see this as a as a series of engagements over the coming period and I hope you will engage with us and ask your questions and then you will hear from us.

Thank you very much and see you again soon.

[END OF TRANSCRIPT]