Diagnosis & Treatment
Performance roadmap

Robert Cascella
Chief Business Leader Diagnosis & Treatment
Key takeaways

• **Definitive Diagnosis and Guided Therapy** are foundational to precision medicine and critical to our HealthTech strategy

• Our plan is to grow market share and profitability by
  – Improving **business fundamentals in Diagnostic Imaging**, full CT portfolio shipping from Cleveland
  – Leveraging **successful Volcano integration** and drive expansion into devices for treatment
  – Addressing **underpenetrated adjacencies** in General Imaging and OB/GYN in **Ultrasound**

• We aim to deliver **above market growth** while driving **profitability into the teens**
Diagnosis & Treatment at the heart of the health continuum
Enabling first-time right diagnosis, precision interventions and therapy

Definitive Diagnosis
Definitive diagnosis and treatment pathways enabled by integrated modalities and clinical informatics

Guided Therapy
Real-time visualization and smart devices for minimally invasive interventions

Towards precision medicine

Connected Care & Health Informatics
Key characteristics\(^1\) of Diagnosis & Treatment businesses

<table>
<thead>
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<th>Diagnosis &amp; Treatment businesses</th>
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<td><strong>Image-Guided Therapy</strong></td>
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<tr>
<td>• Systems, fixed and mobile</td>
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<tr>
<td>• Smart devices</td>
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<tr>
<td><strong>Ultrasound</strong></td>
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<td>• Cart based systems</td>
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<td>• Portable systems</td>
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<td><strong>Diagnostic Imaging</strong></td>
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<td>• Magnetic Resonance Imaging</td>
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<td>• Computed Tomography</td>
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<td>• Diagnostic X-Ray</td>
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<td>• Advanced Molecular Imaging</td>
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| EUR 6.6 billion                  |
| Sales in equipment and services  |
| ~9%                              |
| Adjusted EBITA margin            |
| 315K                             |
| Systems installed base           |
| ~9%                              |
| of sales invested in R&D         |

\(^1\) Based on last twelve months September 2016
Compelling progress in 2016

• **Substantial operational improvements in Diagnostic Imaging**
  – Cleveland up and running - full portfolio of CT products shipping
  – Complete and on-time shipments at the highest point in 3 years
  – Gross Margin up ~400 bps in 2016
  – Footprint: close 5 manufacturing sites in 2 years, to be completed by end of 2016
  – Supply base: >20% reduction of CT/AMI supplier base by end of 2016

• **Strong growth and profitability in Image-Guided Therapy**
  – Successful integration of Volcano, synergies ahead of plan

• **Ultrasound investing in adjacencies while maintaining profitability**
  – Revolutionizing point-of-care Ultrasound with Lumify solution
Value creation strategy in Diagnosis & Treatment assures continued growth and margin improvement

**Improve**

Business fundamentals
- Focus on operational excellence
- Drive continuous improvement e.g. in Cleveland
- Manufacturing footprint optimization
- Product portfolio consolidation and simplification
- DfX

**Grow**

Share and scale
- Market share focus Diagnostic Imaging
- Deliver on innovation and new product introduction roadmap
- Drive Ultrasound growth in new segments
- Leverage leading position in Image-Guided Therapy with smart devices

**Build**

Services and Solutions
- Expand Solutions and Services offering
- Enhance offering in oncology and radiology
- Journey towards precision medicine
- Deep customer partnerships

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**Financials**

**Current**
- CSG: Mid-single-digit
- Adj. EBITA margin: High-single-digit

**Future aspiration**
- CSG: Above market growth
- Adj. EBITA margin: Into the teens

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1 Last twelve months September 2016
Diagnostic Imaging driving further performance improvements

• **Product portfolio advances**
  – Unique digital solutions (e.g. Ingenia, Vereos, IQon)
  – Disease specific applications combined with user centric design
  – Emphasis on workflow and connectivity

• **Increased focus on oncology solutions**
  – MR-guided radiation therapy in partnership with Elekta
  – Treatment planning with CT and MR simulation

• **Continued operational improvements**
  – Product and software quality improvements, leveraging Philips Excellence
  – Industrial footprint consolidation

• **Dedicated market programs**
  – Focused initiatives to step up market share in North America and China, which account for ~40% of our global revenue
Re-estabishing our brand in CT
IQon Spectral CT - a unique product for tissue characterization

• The world’s first and only spectral CT solution delivering valuable clinical insights
  – Improved tissue characterization and visualization for accurate disease management
  – Spectral results 100% of the time, in one scan
  – For the most challenging cases, routinely
• Fully integrated with current workflow, from scanner to PACS

“It really changed our diagnosis in emergency patients”

“We saw that we found Pulmonary Embolisms we didn’t see on conventional CT. With Spectral CT it was possible to detect very subtle clots within the peripheral arteries. So it changed really the diagnosis.”

– Professor Emmanuel Coche, Professor of Radiology
  Cliniques universitaires Saint-Luc, Belgium
Broadening our Neuro solutions in MR Imaging

• Rise of neurological disorders as a result of ageing population
• Advanced diagnostics are a critical part of treatment protocol
• MR is the tool of choice for diagnosis of neurological disorders
• Philips has a unique offering. Novel imaging and visualization strategies that:
  – Help answer complex clinical questions
  – Provide patient-friendly solutions

Most challenging disorders:

1. Neuropathy 93%
2. Alzheimer’s, Epilepsy 92%
3. Spine drop metastasis 84%
4. Vascular diseases 77%
5. Pre-surgical planning 69%
6. TBI 65%
7. Stroke 63%

Unique digital broadband MR platform
Clinical partnerships to deeply understand neurological disorders
Long track record of innovation in Neuro through co-creation
Global leader in Neuro software applications

1 TMTG Market Survey 2016 2 Philips competitive benchmarking
Image-Guided Therapy continued leadership and expansion

• **Continued leadership in profitable core business**
  – #1 position in Cathlab systems and in-body imaging
  – Innovation to enable procedure efficiency
  – System integration, leveraging the power of multiple modalities for diagnostics and procedure guidance

• **Solutions and new business models**
  – Suites of systems, smart devices, software and services
  – Integrated solutions including consultancy services
  – Office Based Labs – access to adjacent market

• **Innovation fuels expansion into new markets**
  – Navigation technologies for spine surgery
  – Enabled by new 3D image-guidance technologies

• **Expanding into therapy**
  – Treatment enhancement for patients with Peripheral Vascular Disease
Ultrasound growth in adjacencies, maintaining strong profitability

• **Maintain leadership in Cardiology**
  – #1 in Cardiac Ultrasound and Service
  – Lead with Image Quality and disease specific applications (e.g. Heart model)

• **Expand into adjacencies**
  – Grow in General Imaging
  – Dedicated solutions for OB/GYN
  – Point-of-care setting

• **Breakthrough innovation, targeting new business models**
  – Lumify ultra-mobile
  – Drive penetration in new user segments

• **Catheter-based imaging to strengthen minimally invasive offering**
  – Embedded in smart devices (e.g. IVUS, TEE)
Combining digital imaging and clinical informatics to deliver on the promise of precision health

Precision treatment selection enables clinicians to provide the **right treatment** to the **right patient** at the **right time** improving outcomes, and ultimately lowering the cost of healthcare delivery.
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