PHILIPS

Philips Capital Markets Day 2016

Friday, 4th November 2016

Introduction

Pim Preesman

Head of Investor Relations

Welcome

Good morning ladies and gentlemen. Welcome here at Royal Philips Capital Markets Day 2016 at the Landmark Hotel. Also a warm welcome for those who are following us via the live webcast. We have a very exciting day ahead of us where we explain where we are in our transformation process, and we will zoom into our HealthTech portfolio and strategy.

First, as you know Royal Philips retains a 71.2% stake in Philips Lighting. As such, we continue to consolidate Philips Lighting's results. However today we will focus our presentations and Q&A fully on the HealthTech portfolio.

Before I talk you through the agenda, I would like to draw your attention to the following slide which is our safe harbour statement that you can also find in your booklets.

Let me talk you through the agenda of today, what we have in store for you today. After my welcome, Frans van Houten, CEO of Royal Philips, will provide an update how Philips transformed over the past five years, and where we are today, followed by how we will create value for customers and shareholders in the medium term. Immediately after that Abhijit Bhattacharya, our CFO, elaborates further on how we will drive performance improvement related to the strategic elements that Frans will talk about. After that, Frans and Abhijit will have a Q&A on stage here. Followed by a break of 25 minutes, we will reconvene here at 10.50 UK time to go through each of our three segments that we have in Royal Philips. First of all, Pieter Nota, Chief Business Leader of Personal Health and CMO, will talk about how we will deliver value in Personal Health. After that, Rob Cascella, Chief Business Leader of Diagnosis & Treatment, will tell you about the performance roadmap we have for this segment. This will be concluded by Jeroen Tas, Chief Business Leader, Connected Care & Health Informatics, who will talk about how we continue to drive profitable growth in this segment. This session will be concluded also by a Q&A of these three business leaders together with Abhijit and Frans.

After this the live webcast will be stopped, and we will record the rest of the day, and we will publish this soon on our IR website. After lunch we will split in four groups, and we will go into what we call business Zooms or breakout sessions. In these sessions, we will aim to bring our health expertise to life, and we will talk about interesting opportunities we see in the HealthTech space. We will do two before the break, and two after the break. And at the end of each Zoom we will also have a Q&A.

Afterwards Ronald de Jong, who is our Chief Market Leader, in this room here will talk about how we transform healthcare together through solutions and partnerships. Afterwards, Frans will wrap up the day.

Now with that let me hand over to Frans van Houten CEO of Royal Philips. Thank you.

Roadmap

Frans van Houten
CEO and Chairman of the Executive Committee and the Board of Management, Royal Philips

Last five years

Thanks. Well good morning all to you here in the room ladies and gentlemen and everybody on the webcast. It is a great pleasure to have you here again to share where we are on our roadmap which is an exciting story certainly for us.

The key messages that I would like you to take away from my presentation are that we have transformed Philips over the last five years into a differentiated global HealthTech leader. We deliver innovative health technology at the point of care that is important. There is a lot of talk about all the competition in this market. We believe we have a unique position at the point of care supporting doctors and patients. And we leverage in our innovations deep clinical insights as well as consumer insights. And I will explain later this morning why that is so important.

Growth and profitability

The markets that we serve have attractive growth, and attractive profitability. And we differentiate and create value for our customers and shareholders by three main vectors of value creation. First of all, we see a lot of opportunity to further improve margins through productivity programmes and customer excellence programmes. Secondly, we see opportunities to boost growth in our existing core businesses by executing better on customer partnerships, transforming them with recurring revenue, and go wider in the globe through geographical adjacencies basically taking products that we have in one geography, and leveraging them elsewhere. And we give examples of that. Certainly we have a deep innovation pipeline that will generate future growth: an innovation pipeline that is increasingly characterised by our application focus, solution focus, where we combine suites of systems, devices, software and services, and package them so that customers will have greater benefit in terms of patient outcomes and productivity.

This comprehensive strategy will generate a mid-single digit growth rate over the next few years as well as an annual profit step-up of approximately a hundred basis points per year. We have consciously chosen for an annual increment in profitability so that you do not have to second guess our trajectory over the next few years, but rather Philips becoming a more predictable performance improvement company where every time we take a step forward and then we expect to close the gap to the average of the peer group in the industries.

Philips' story

With that I had like to take you deeper into the Philips story and I recognise many faces here. So some of you know where we come from. For others that are new to the Philips investment opportunity perhaps it is interesting to understand where indeed we come from.

Today we call ourselves a focus leader in health technology. But if you take a moment to see where we come from, in 2011 we were a diversified industrial company with many activities in different segments. The resulting profile in performance at that time was low growth, 2%, and low profitability, 4.7%. We have done a lot of work on portfolio transformation as well as investing in operational excellence. And we are proud to say that now we are a focused company on the attractive market of health technology. And where we are today, if you take the last twelve months of performance, then we see that we are able to generate 5% growth and 10.9% adjusted EBITA. And as I said to you in the takeaway it will not stop there, but still, let us say, as a backdrop against the transformation I think these points to an interesting perspective. And it shows where we as management believe in, and where we – how we want to run the company as a focused operating company.

HealthTech

The 17 billion HealthTech portfolio that we have today is targeting attractive segments. First of all 39% of our revenue is in Diagnosis & Treatment. Diagnosis & Treatment is all about helping doctors come to a first time right diagnosis and to come to the best precision therapy with the best possible outcomes of patients. As you will imagine, informatics plays an increasingly important role to combine all the sources of intelligence around the patients to come to such a precision diagnosis. And we are right in the middle of that clinical informatics business.

Connected Care & Health Informatics

Connected Care & Health Informatics already mentioned is empowering consumers and care professionals with predictive analytics and clinical informatics solutions in order to drive better outcomes and higher productivity. That is 18% of our business and expectedly growing more rapidly.

Personal Health

And in Personal Health we actually enable people to take care of their own health through connected products and services.

Geography

From a geographical footprint, we believe we have a good spread with approximately 36% in North America, 22% in Europe and 32% in the growth markets. In that sense we are less of a European company that some people let us say associate the brand name with. And we see a lot of growth coming from these emerging markets.

Markets and strategy

The markets that we serve and that is both the markets where we have products in today but also we include the nearby adjacencies where we can branch out gradually through investments in innovation, show mid-single digit growth and a mid-teens EBITA on average. The growth in this market is driven by a number of vectors. First of all, I think what everybody knows a growing world population that is aging, and will have a lot of lifestyle diseases, chronic diseases that may affect all of us here in fact.

The world at large is keen to give more people access to care, not just in the mature markets but certainly also in the emerging markets. And for example the Sustainability Development Goal of the United Nations drives that.

I think for this audience certainly very important is to shift to outcome-based care and reimbursement. While many people see that as a negative we actually do not. True enough maybe it will create some pressure on wasteful let us say procedures, but on the other hand there are a lot of opportunities for technology to play a role for data enabled healthcare delivery and higher productivity. So we see overall this transformation as a move from an artisan world to an industrial world in healthcare where we have a big role to play. We also see the shift from hospital care and acute reactive care to more proactive ambulatory and home care, and that actually combines consumer health to professional health. And you know we have a portfolio that targets both, and we see the convergence of professional healthcare and consumer health actually as a great opportunity where we are positioned at the point of care in the last yard between you, the patient and the provider and us.

So that is an exciting transformation in the market that we are in the middle of. And we start our play with a position of strength because 60% of our portfolio already enjoys leadership positions. And in our strategy we are stitching these more and more together, leveraging the capabilities of all these business units.

Health continuum

And that brings me to our concept behind the strategy. Ladies and gentlemen, we have talked last year about the health continuum, and we continue to do that because we are all as people born living in a healthy way, but over time through our lives we may actually encounter disease.

How do you prevent that? How do you diagnose it first time right? How do you treat that so that people can recover and go back to a healthy lifestyle? My point is if patient-centric and people-centric care is actually what we all should expect, then we need to organise healthcare accordingly. This insight of course is not unique to Philips. All our customers love this thinking. Insurance companies love this thinking because it helps them to prevent escalated cost, and governments like this thinking.

Care pathways

Within this concept, it is important that we go deeper so that it is not just a concept and we go deeper by going, by understanding the care pathways. For example for cardiovascular disease, cancer, the respiratory care, pregnancy and also neurology because if you go deeper down then you understand how to take care of large populations of people at the right cost and outcomes.

The trends that I have described support this concept. Our innovation strength, both in professional healthcare as well as consumer health actually enable us to deliver on this vision. So if we take this concept and then look at what Philips has to offer to the world, then I can take you quickly through this continuum and start at the left.

Delivering on the vision

In Healthy Living and Prevention we deliver connected products and services to support health and wellbeing of people. In Diagnosis, we have many integrated modalities and informatics propositions to support doctors to make the right diagnosis. And this is still a holy grail for many doctors because many times patients are not diagnosed right, so technology and big data is going to play a role there. And when you have a disease, is not it nice to treat that first time right in a minimally of invasive manner so that you can go home the next day and we happen to be the leader in minimally invasive operations.

As you come back home we provide connected therapeutic products and services to take care of chronic patients. Along this whole continuum, we integrate and we integrate through informatics, through patient monitoring. We provide real time patient data and analytics.

And that brings me to the takeaway at the bottom of this chart. We often get asked questions you know how does Philips differentiate versus competitors? And what about all these newcomers in big data? Well I always say you know Population Health starts with a patient at a time. And you need to enable doctors and people to get healthy. In other words, you need to be where they are, and we are in the last yard. With our products and services we are in the operations of the care pathway. And we think that that is a great and unique position to be in and as such we feel very comfortable about our ability to compete in this marketplace.

R&D

The differentiated innovations that we deliver are a result of deep clinical insights as well as research and development. And we have chosen an open innovation approach. We work together with many leading institutions in the world, be that universities or academic hospitals, and you see just a smattering of examples on the right hand side. In fact the list of partnerships is larger than this, but you see some very big names there such as Stanford or Karolinska, the Erasmus University and many, many others. Also in China by the way we have deep clinical research collaboration. We do spend a lot of money on research and development as we believe that that is the lifeblood of the pipeline of innovations. And you can see here that quite a lot also goes into so-called breakthrough innovation that we will come back to a few times today as we talk to you about how we will also enter in some of the adjacencies such as for example digital pathology.

We have a very strong IP portfolio. And another point that I would like to highlight is the nature of our research and development. In fact 60% of our R&D people are in software. Philips is much more a software company than most people realise. And informatics is already a large portion of our business. And every system and device we augment with smartness and driven by software.

Brands

The innovations as well as our brands are internationally recognised and acclaimed, and here is just a few examples of recognition that we are proud of. We have a very strong brand in China and that is every time supported by acclaim from let us say independent-review bodies. We get many design awards. We are seen as a top innovator. In the United States you have the KLAS awards and we win many of these KLAS awards. And then finally but not unimportant our brand value is on the way up. And I think it is a reflection of us shedding a more dusty past into an exciting innovative future.

Talent base

That is all driven by the talent base that we have. We are proud to have a diverse talent base across the world where many people are attracted to work for Philips because in fact of our purpose. And I get these stories from within Philips where deep-machine learning experts, you know data scientists say 'I would rather work for Philips helping to improve lives than predicting the next fashion colour for next year.' And I think that just underlines a bit although anecdotally you know what it is to be a focused company because it also helps on the talent front. And we are also driven by our values that you can read here for yourself.

Management team

We have a strong management team that is also diverse, also covering the world from China, India, United States and Europe. And I am proud of this team because we run Philips as an integrated operation together where we have deep expertise in innovation and operation and strong business leadership and market entrepreneurship.

Sustainability

It is also important to underline how we do business. And I also recognise that investors are increasingly asking to understand how you do business, but also our customers ask for it as they want to do business with partners that are committed to a sustainable future. Philips has been on this journey already for more than twenty years. We are in the fifth edition of EcoVision and we have recently announced our 2020 "Healthy people, sustainable planet". And where you can see here some of the performance parameters that we have committed ourselves to. This commitment to sustainability has led Dow Jones to acclaim us as the industry group leader.

Value creation

So that is an introduction to who we are but that is maybe not what you came here for. You would like to see how we drive performance in the future. So the second section of my introduction is all about the value creation going forward. In fact, we see six important value drivers that I will discuss with you here today. And these six come in three categories.

Operational excellence

The first category is about operational excellence, improving productivity, and serving our customers better. In fact it is the continuation of our 'Accelerate!' journey where we still see a lot of opportunity, a lot of self-help potential in what we do. It will drive higher productivity by lowering the cost of goods, by lowering the non-manufacturing cost, by lowering the cost of non-quality, and while at the same time we are embedding the digital transformation in everything that we do. We believe that digital is a great enabler for better value propositions, but also for higher productivity and fewer errors.

Growth

The second category of value creation drivers is around growth obviously and we are an attractive growth company. We see opportunities to basically take areas of strength from one geography to the next. This has been also behind partly the success of Personal Health where we take successful products in the United States or in Japan and for example bring them into China as we see emerging markets really adopting great innovations massively. But there are many other examples. For instance most of our informatics portfolio is an US-based business where we see keen interest in other geographies. The second driver for growth is to change the customer relationship, both of which will drive mid-single digit growth, higher operating leverage but also results in stronger customer loyalty, higher NPS.

Investments

The third category of value drivers are the investments in the future. And we are investing a lot of research and development money into innovative, value-added, integrated solutions along this care continuum. Secondly, we are filling in adjacencies, looking at partnerships and selectively doing M&A. Both of these drivers will result in better pricing power, higher growth margin but also the sustainable future growth rate.

Excellence programmes

Let us go a bit deeper into each of these value creation drivers and let us start by the continuation of our self-help journey, improving quality, improving operational excellence, and productivity. Much of the excellence programmes are captured in our Philips business system. I introduced that to you several years ago. In the meantime it is deeply and widely adopted in Philips and for example it enabled us to quickly integrate an acquisition like Volcano.

The business system is basically setting the standard how we do business at Philips and it fosters the adoption of Lean and Six Sigma and many other Philips excellence practices. And I am not ashamed to say we still have a lot of opportunity to do better in all of those areas applying it also for example to our suppliers.

Productivity

The second category here is about productivity. And here also we have a lot of experience as you know and we have delivered on those productivity programmes in the past. We are here announcing the next stage of our productivity programmes. And besides operational leverage we target a 1.2 billion of cost savings programmes over the next years, three years, coming mainly out of the manufacturing optimisation, procurement savings above the market average, and overhead cost reduction, which is again a continuation of what we have put in place, but there is still more juice to deliver. And Abhijit Bhattacharya will talk more to you about that.

Digital

With enthusiasm I talked to you already about the need to be digital and we have been driving this digital agenda already for several years and it will continue. Now what does digital do? Let us start with the customers because in the end they need to recognise the value of us being a digital company. I will just give you four examples.

We have businesses connecting services to elderly people, enabling them to live independently. And the online connection through the Internet of Things enables basically emergency response in an appropriate manner. We have millions of patients taking sleep therapy. The sleep therapy delivery devices are connected to the internet where we can measure compliance and outcomes and give coaching for better efficacy.

Hospitals are looking for higher productivity. If data supports them in delivering on those operations, they can in fact be first time right. And moreover within any given day you can treat more patients within the same capacity that you have. And that is an example where digital workflows help doctors perform better.

Moreover in worlds where there is not enough staff to do the surveillance on many patients in many beds, Patient Monitoring, especially if it is predictive rather than only backward looking, through predictive algorithms you can say this patient needs more help whereas that patient is fine.

Now obviously these kind of benefits do not come easily. You need to have an end-to-end infrastructure that is entirely integrated and digital. And we have adopted within Philips standard software platforms, both for the consumer, for connected digital propositions that you will see many off today, but also in the clinical application space for the hospital where we can then effectively integrate all these workflows and have data moves easily towards the people who need it.

Infrastructure

And at the bottom of this picture, you see what we need to do in our planning, in the infrastructure part of Philips, with integrated IT systems, end-to-end work flows and in the middle the Philips HealthSuite Internet of Things cloud. It is something that we have been developing over the last few years which is now fully operational. And you will see it being referred to in many value propositions that we have in the market. And we are going to open it up to third parties as we believe that that will even make it more attractive, and there is a big demand for that.

That digital transformation agenda will be pushed forward strongly.

Growth

Then in the second bucket, I had like to talk about growth. And let us start by looking at some of the key geographies in the world.

North America

Let us start by talking about North America. While you know that North America is predominantly a flat growth market, this is driven by the deep penetration that exists already and maybe pressures on budgets. But we have identified a lot of growth opportunities in North America, and I cannot given the time that I have here talk you through all of them but let us just take one or two.

You all know that we have recovered from our Cleveland issues. And now we are able to scale up Diagnostic Imaging and repair market share. That is going to give us above average growth. We are the leader in consultative partnerships with large integrated delivery networks. We now have close to 50, and we believe this is going to be a formula that will help us drive growth. And that for North America will help us to deliver low to mid-single digit revenue growth which should be a little bit ahead of the market growth.

China

If I talk to you for a moment about China, I would like to highlight maybe two examples. First of all, we see the emergence of private hospitals. The government has said that private hospital share of the market should go from 7% to 20% to 25% over the next five years. Many of these private hospitals are associated with international hospitals, and we have a strong taskforce on capturing that growth.

Another great example is also depicted on the right hand side at the bottom, expanding Philips Sonicare in Greater China. We have a huge successful franchise with Sonicare. And we have invested in the dental professionals in China to tell their patients to brush electrically, and that is starting to work very, very well. And the Sonicare growth in China is strong, strong double digit. Pieter Nota will talk about that more today, but it is a great growth driver and it just underlines the innovation leadership.

In China we expect mid to high single digit revenue growth. And some of you have asked me you know is that sustainable? And I am saying yes that is sustainable and over the next few years we will see that. And that should be at least in line with the market.

Rest of the World

And then the rest of the world, a similar story, many growth opportunities. For example we are leveraging Volcano the acquisition in North America to penetrate all the other geographies through the Philips business system. This helps us to deliver double digit growth for Volcano already for the whole year. Similarly, we can bring our informatics assets to other markets in the world and we are doing that. For the global markets, we expect mid-single digit revenue growth which should be slightly ahead of market growth.

Continuous engagement

The second growth driver is that we are pivoting from what we call a transactional business model where you basically just sell a product and then you know the customer needs to take care of that themselves to a continuous engagement model where we have common business goals, where we together focus in hospitals for example to drive higher productivity and better outcomes.

This is underlying our strong success in large-scale projects. And as I mentioned just before, we are close to having 50 now and we will see Ronald de Jong will talk about that we see a strong funnel to do more of them. There is on this page a couple of examples and the benefit of pivoting to these relationship contracts is that the question the customer asks is different. Whereas Karolinska maybe in the past would have said well you know ship out the CT machine and by the way you need to be in competition with everybody else, now we are consulting them on the redesign of the stroke pathway. With Augusta Health in North America which was the first managed services alliance in the United States we have been driving cost productivity for them while we have in fact you know a healthy business with – which is margin accretive to our North American business. And in Finland we have basically helped design a hospital from the ground up to deliver superb cardiothoracic care.

The takeaway for this whole page is that we believe that by going into this relationship partnerships, we will get a committed revenue stream for many years. Moreover if we evaluate all these large-scale contracts, we know that they are margin accretive because they are more efficient perhaps for the customer but they are also more efficient for us. Moreover, we can deliver a richer mix combined of systems, software and services and get paid for that. So all in all it is a great value proposition.

Innovation

In the third bucket, we talk about innovation and how innovation can sustain future growth and future profit expansion. We have a rich pipeline of innovation and as I said increasingly, we are stitching together our innovations into what we call solutions that have bigger benefits for customers.

Cardiac procedures

And I would like to give you just three examples. When we go to a hospital and we talk to cardiologists, they are actually interested in driving procedure costs down and having a first-time right procedure outcome. So, in the category of total cardiac procedures, they ask us to become an integrator, an integrator that can build great interventional operating rooms, supported and augmented with smart therapeutic devices that are seamlessly integrated with the imaging within the operating room, and moreover where software can validate that the operation has been successful and first time right, and therefore the patient does not have to come back. And this validation software is hugely important when society pivots to outcome-based care because in an outcome-based accountable care organisation such a cardiovascular surgeon would not be paid again for a repeat operation.

Cancer treatment

The second example is in cancer treatment. Cancer is a disease on the rise, and it is still elusive and complex to diagnose. And we have brought together our oncology assets so that with radiology imaging complemented with pathology imaging and even genomics, we can come to a disease characterisation. And then moreover through image-guided radiotherapy we can treat the cancer tumour in a way that is far less damaging to the patient than if you have a more generic radiotherapy treatment. That latter example we do together with Elekta.

Sleep

And maybe a third category of examples is around sleep, where we diagnose sleep patients, we deliver the therapy and moreover through the internet connection we can measure whether the therapy is good.

Growth

Now if we add up what we call the solutions, and start measuring that in terms of revenue, then you see that the growth in solutions business is in fact higher than the growth in standalone products. And I dare say that first of all on the lines that the strategy is right but secondly it is great because this is margin accretive for Philips compared to the average, and it gets you to more sticky customer relationships.

Adjacencies

Finally the last vector is about filling up the portfolio along the health continuum through adjacencies. Now Philips is primarily an organic growth proposition. And we can fill many of these adjacencies through our own research and development efforts. And earlier I talked to you about that 20% of our R&D in fact is for breakthrough innovation, and about half of that actually goes to new business creation. So on the left-hand side; we talk about growth investments in new businesses. Approximately 150 million investment is there. Currently not much revenue yet but growing rapidly. And examples there are Digital Pathology, Population Health, the HealthSuite Digital Platform, but also the extension of Patient Monitoring which today we are the leader in into new care settings supporting ambulatory care. And we do that for example by developing and introducing medical wearables.

Partnerships

In the middle, you see some examples of partnerships. Partnerships are a great way to quickly extend the portfolio while managing risk. Elekta is a great partnership, but we have also chosen to work with partners in the Internet of Things so that this vision of connecting and integrating everything can be done quickly working with the best industry partners such as Amazon, Qualcomm, Salesforce. And maybe a new category of partnerships that we see emerging are the partnerships with pharma companies. Pharma companies that are seeking a feedback loop from patients, and I told you we are on the last yard between to the patient and we are in a position to actually measure outcomes and we can also measure that on pharma, on medication.

M&A

A last point that I had like to mention here is that M&A will play a more active role in our strategy. And we are quite proud on how today we are handling M&A. The integration of Volcano has been a resounding success. And I know many of you challenged me on it two years ago to say you know do not you have other things to do rather than buying Volcano?", And I said "no, this is critical for my strategy". And moreover I can report to you that since the integration started in Q1 2015 just a year later we have turned around this company which was stagnant when we bought it to double-digit growth already for three quarters in a row in 2016, while at the same time we were able to take $40 million out and making this a highly valuable business unit within Philips. There is lots of synergies, and Bert van Meurs will talk about that later on.

Summary

I would like to wrap it up for you. I have discussed six value creation drivers in three categories, productivity, growth and innovation. All together these results in an attractive picture that we strongly believe in of a mid-single digit growth rate and which is going to be slightly higher than the historical growth rate that we have seen in the last 12 months. Moreover, we target an annual improvement and profitability of approximately 100 basis points. We have chosen this approach in order to come to a more predictable improvement trajectory that we now feel confident about. And as we drive growth with higher operating leverage and margin expansion, we obviously expect the ROIC to go up accordingly and our projections point towards a mid to high-teens return on the organic part of our plan. And this goes of course hand in hand with a higher cash generation that we estimate to be between 1 and 1.5 billion annually. And it is something that Abhijit Bhattacharya will further elaborate on.

Strategy

Besides generating financial returns ladies and gentlemen, I see our strategy solidifying further our position in HealthTech and I showed you this page. As we deliver on our strategy, our position in the care pathway along the health continuum will get stronger and stronger. We see a big demand for integration from our customers. They look for fewer suppliers that can bring a more integrated solution. And rather than me now elaborating again on this page, I want to show you through a compilation on what this actually does to hospitals and patients. So bear with me and let us look at this exciting video. And afterwards Abhijit Bhattacharya will come to elaborate more on the delivery of the performance improvements. Thank you.

[VIDEO]

Overview of Financials

Abhijit Bhattacharya

Executive Vice President & Chief Financial Officer, Member of the Board of Management, Royal Philips

Introduction

Well if you thought this was the future of Philips, this is actually Philips today. This is the company we have transformed into. This is what Frans was telling you about. This is what we do every day.

Ladies and gentlemen, welcome to our Capital Markets Day here in London. Welcome to all of you on the webcast. What I plan to talk to you about in the next few minutes is about what we have done in our performance journey, and what we plan to do to drive further performance improvement to get to the targets that we have set for ourselves.

Performance

I mentioned the first which is transforming Philips. We are now a focused HealthTech company. It took us quite some years of heavy lifting to get there, but we are now at the stage that we wanted to be. We are delivering on performance whether it is the DfX programme, whether it is through new product introductions which are driving up our margins, our cost-saving programmes which are now visible in the profit and loss account so that is really leading to profit improvement.

We have taken quite some actions on our balance sheet and I would come into some details later on. But that also shows you the strength of the balance sheet. And this gives us the confidence that we can go on to do this around 100 basis points margin improvement every year and continue on this growth trajectory of mid-single digit. This of course will lead to also good cash flow as Frans mentioned but let us walk through each one of these so that we get a better idea of how we will get there.

Personal Health

What I plan to do is take you first through each of our segments, tell you a little bit about where we are in performance and how do we go to the next step. And for Personal Health as most of you are aware, we have built a really solid track record of growth. What this graph shows you on the left is our compounded or our comparable sales growth as well as our adjusted EBITA development over the last few years on a 12-month basis.

Now growth in the mid to high single digit is something we have sustained over a long period of time mainly, driven by our innovations, and that will continue. We have had a lot of geographic expansion. Frans just gave you the example of Sonicare in China where we are now the number one. We are now in 15 of our 17 markets which is a big expansion. We were pretty narrow earlier, and all this is backed by solid advertising and promotion support. So we have actually upped our marketing spend during this period to back the propositions that we bring to market.

What this has done of course is also given us profit improvement. Right, you have seen the operating leverage of course but the DfX programme which of course had the first impact on Personal Health, because you are able to change components much quicker than in the health systems business, driving operating leverage as we have said, but also a lot of work on the portfolio. We have set margin thresholds and then got our products to get to those margin thresholds. And then weeded out let us say the bleeders in the portfolio to drive this improvement.

Let me take you through, so what we plan to do here is sustain above market growth. That means gaining market share and move profitability up into the high teens. We have a clear pathway here.

Diagnosis & Treatment

Let us go to Diagnosis & Treatment, and here the focus is on operational excellence. The reason we know we have to step up our performance in our Diagnostic Imaging business, but let me just decompose Diagnosis & Treatment for a few seconds. This has three businesses. It has Image-Guided Therapy which is growing extremely well and performing extremely well. Frans mentioned that when you go into the Zooms this afternoon you will hear Bert talking about it. We have our Ultrasound business, again very good profitability, good order intake as we have said in the last quarter performing well.

Diagnostic Imaging

And then we have Diagnostic Imaging which is where we have had our issues around CT and people normally refer to it as the issues around Cleveland. We have seen that now improving over the last few quarters with the profit step-up coming in already.

Volcano

The other important part is the excellent integration of Volcano, making Volcano profitable, double-digit growth, taking out a large amount of cost. In a short period of time, I think extremely well done.

You see the graph on the left, we stagnated for a while, we have now picked up in Q3. We expect that to continue, reasonably short term to get into the double-digit range. And then it is also important to know that in this trajectory we are still weighed down by some investments we have to keep making in operational excellence, in quality and in innovation. Our new portfolio on Advanced Molecular Imaging, we will talk about that later today is now in an investment phase where you do not have let us say top line to support the profitability. So these are things that will come over time.

Future

So the new product introductions and solution introductions, some new platforms coming out, major changes, major new innovations in the next couple of years. Operational excellence as I mentioned a key fact that we have to keep driving. Our manufacturing footprint optimisation plan, we have started some of it but still more to go in the next couple of years. And this is the phase where the funnel that we have built up in the DfX programme will start coming into the P&L because those new products that we had built the funnel of DfX or the savings on will now start coming to the market, and therefore, will drive margins higher. So here, building further on what Frans said, the idea is to gain market share back and that we see a clear path over the next three to four years to get margins into the teens.

Connected Care & Health Informatics

Let me now talk about Connected Care & Health Informatics. You see on the top left that growth had stagnated in this business. We have been able to revitalise growth. We have a very strong position in this business of course with Patient Monitoring where we have over 40% market share, so we are a global leader there. But we have increased that to mid-single digit with a very strong order book that has developed as well.

We have been expanding actually this very profitable Patient Monitoring franchise geographically as well as into larger care settings. So we talked briefly this morning and you will see it in the Zoom how we are moving monitoring into the general ward. You save much more lives if you bring down the cost of care through contactless monitoring. So you do not have to have patients hooked up with all kinds of wires. But through cameras we are able to take readings that are able to monitor much larger group of patients at a much more effective way for hospitals.

Our new businesses that we are investing in, be it in Population Health or the growth in the number of applications we have on our HealthSuite Digital Platform are all beginning to kick in. But it is important to note in this business we make a substantial amount of investment for 'breakthrough' innovation going forward. And we have given visibility on that for the first time this time just so that you know this is a portfolio where there is a running business which is extremely profitable and will move into the mid-teens. But there is also a significant part of investment that we make around 100 million which today does not have the revenue or the profitability support which will come over time. We have stepped this up and this level is a level which we believe will work going forward. This is in, like I mentioned, continuous monitoring, Population Health, the HealthSuite Digital Platform etc.

Margin improvement

Getting the margins up from the current let us say double-digit range to the mid-teens will happen with a lot of similar things, so geographic expansion will continue. There are huge opportunities there. New product introductions that are coming out, here also we have started with the manufacturing footprint optimisation to be completed over the next couple of years. The growth that we see coming back will help operating leverage. And last but not the least, our DfX savings will also start kicking in and that is how we expect this profitability to rise in the coming years.

Philips

Let me tell you what this means then for the Philips Company. Right, you see an adjusted gross margin which has really now improved over the years. If we were to make this in the end of Q4 we would see that even further improving because you know Q4 is a big quarter for us. You see that the G&A cost that we have been taking out has actually now started resulting in G&A cost coming down in our P&L. And we have actually invested some of this back into either advertising and promotion, or market related investments to drive this growth. So yes our adjusted manufacturing cost is coming down, but that is despite the investments that we have made to stimulate growth both in our order book as well as in our sales. And we have done that by simplifying the company, taking out a lot of overhead costs, and there is still more to be done as I will come to it a bit later.

Profitability and growth

What does this mean for the profitability of the group and the growth? You see that we are now steadily delivering mid-single-digit growth across quarters for the last few quarters. You see that our profitability is on a steady improvement track.

But here I want to give you a couple of further insights just like I gave you on Connected Care & Health Informatics. At a Philips level the investments we make on these breakthrough innovations, be it Digital Pathology that Frans spoke to you about or the examples I gave you in CCHI. These are to the tune of about 300 million. Again this has grown, but we now believe that we are at a level which is sustainable going forward. Why do I give this to you, because when we value ourselves, we look at how much is really our operating profitability and this part is let us say a part of the cost which will remain at these levels going forward.

What are some of the other levers we have going forward to improve our profitability? The improvement in the cost of goods sold, of course overhead cost reduction. A very interesting new area that we are working on is actually leveraging our patent portfolio. You know we have a strong patent portfolio. But due to some of the older patents falling off, we have seen a slight decline in the patent revenue. We are now looking at how to revitalise this portfolio to license patent into non-competing area so that we can drive profitability up there. And of course the reduction in legacy costs going forward. We have a fair amount of standard costs arising from the Automotive and Lumileds separation. Once that transaction is done, that will help us as well.

So, overall this will then help us to continue with this mid-single-digit growth that we spoke about and improve our profitability by about 100 basis points every year.

Balance sheet

Let me now go to the balance sheet to give you a quick glimpse of what we are doing there. You have seen quarter after quarter we have made pretty big steps in converting our inventory to cash. And we have done that now for about a year and a half. We still believe there is further efficiency to be driven there. You have seen our working capital, significant improvement again quarter after quarter over the last four to five quarters. The important thing here is that we are doing this through structural changes that we have made. The deployment of Lean, Hoshin Plans, Kaizens and daily management. If you walk through our offices now, you will really see people driving this on a daily basis, and that is what is giving these results.

We have a strong focus on collection of overdue debt; that has again gone down and contributed to the cash, partnering with suppliers on credit terms and payments, and of course the overall working capital as I just mentioned. What has this led to? It has led to a cash flow which is pretty high in terms of the cash conversion and I will come to that a bit later.

Pension liabilities

What we have also done all along this way to de-risk some of our liabilities. Not very long ago, our pension liabilities stood at 27 billion. We have de-risked that, and offloaded them to insurers, changed our pension scheme from defined benefit to defined – from defined obligations to defined benefit schemes. And all that has resulted in that pension liability coming down from 27 billion to 4.

And we have now split that partially to Lighting partially to us, so we are a little bit above the three billion which is a much more manageable and less volatile amount that we have to deal with. You have seen that we have recently done part redemption of certain high coupon debt that we have. That is something we will still continue. And once we are done in the coming quarters, we will get a 90 million reduction in our interest costs, and there are a few more actions underway which then year over year should get us more than a 100 million reduction in our cost of interest.

Cash conversion

A few more data points, if you look on the left, you see our cash conversion. This is cash conversion on our net income. We just take out the legal cases which put spikes. But from our operations you see clearly that we have increased well above the 100%. Of course 150 is not sustainable over the long run because we have done quite some actions on improving working capital, but there is still more to be done. And that is why we confidently say that we can get to the 1 billion-1.5 billion cash flow every year. And if you remember – for those of you who remember, this used to be a number including lighting which generated significant cash and we are now moving to a HealthTech company which on a standalone basis will generate a good amount of cash going forward.

ROIC

You see the improving trend in the ROIC. You will see that the ROIC also will go up many a time during our meetings with investors. People ask us you know what is your ROIC excluding your goodwill because you have a lot of goodwill? Well we measure ourselves actually including the goodwill because we have to earn a return on that, but just to satisfy your curiosity, for those if you measure it excluding the goodwill it is a very, very high amount. It is above the 45% actually. So just on the assets that we employ excluding goodwill, our returns that are generated on our businesses is very high.

Restructuring

Let me also give you a look on the right of the slide on the restructuring portfolio. Because you know we have been high on restructuring over a number of years. That was partly because we had to deal with the industrial footprint of our lighting operations. If you look at the group and you look at HealthTech it is about half of what, so about the group we were spending on an average 120 basis points, but for HealthTech it was around the 70[1].

Going forward, because we still have some footprint optimisation to do for our industrial setup, as well as the overhead cost reductions that we have to do primarily focused on getting our IT cost down. And we have made already big steps there as we now start rolling out our new IT systems, turning off legacy and renegotiating some of the services that we got. We will bring that down, but it will result in a slightly higher restructuring over the next couple of years, around the 65 basis points still significantly lower than where we were. And then post 2019, we see that going further down.

Let me give you a brief look on how we think this hundred basis point step-up will happen. A part of that will come simply from operating leverage that we will get driven by growth. With the high margin businesses that we have, if we are able to grow that business without the equivalent increase in expense we get part of it. The gross margin improvements will come from the Manufacturing Footprint Optimisation, the DfX programme and the mix improvement that we continue to drive. The overhead cost savings will give us about 50 basis points of

[1] Corrected by the company to be in-line with presentation materials

improvement. And of course, we have to deal with price erosion and inflation which we expect will eat partly into these savings. So at the end, leaving us with around the 100 basis points improvement year on year. If you see this, this is largely a self-help story going forward. It is still stuff that we have to do in order to further improve ourselves with continued deployment and use of our 'Accelerate!' programme.

Capital allocation policy

A quick word on our capital allocation policy. Not much has changed, we will continue to invest in higher ROIC organic growth to strengthen our businesses. We saw a few examples of that this morning when Frans was speaking. You will see a few examples in the Zooms later. We will continue a disciplined approach to M&A. You have seen that in the past, but we will be much more active for sure. Committed to a strong investment grade rating, the dividend policy remains with dividend stability. We have completed our buyback which we have done now for quite a few years. And like I mentioned, there is still some debt redemption and certain high-cost liabilities that we need to deal with in the coming months.

Targets

So to leave you finally with our targets, I think Frans has mentioned them. I do not need to repeat it. We want to grow Philips organically to a 20 billion company in the coming years with a profitability that goes into the average of the peer groups. And that will happen through as I mentioned continued operational excellence in Diagnosis & Treatment driven with growth, largely growth-driven and innovation-driven in Connected Care & Health Informatics and then continuing the strong momentum we have in Personal Health. We will drive cost reductions and our balance sheet improvements, and this should then give us the high ROIC that we are talking about as well as a good cash flow going forward.

Conclusion

So what do I want to leave you with? We have transformed Philips as we have been speaking over the last few years. We are delivering improved growth. We are delivering improved profitability. That trajectory will continue and that will lead us to our targets.

So with that, let me invite Frans back on stage, so that we could take a few questions that you may have.

Q&A

Veronica Dubajova (Goldman Sachs): Thank you for taking my questions. My first one is just on your statement on the M&A priorities I think. A year ago when you last gave us an update on that you discussed focusing on smaller deals and taking it one step at a time. It sounds that you are a little bit more active on that front now. Can you give us a sense in terms of size? Are there any constraints that you have, and then what are the areas that in particular you find interesting?

And then my second question is on the cost efficiency programme of the 1.2 billion. I mean you do operate in a lot of end markets where you have a lot of pricing pressure. So Abhijit, can you help us think through how that 1.2 savings, is that a gross or a net number and to what extent does that go towards offsetting some of that pricing that you see in the business? Thank you.

Frans van Houten: Okay well great questions. Thank you. We did say indeed last year we take it one step at a time, and in fact that is what we are doing right, because last year we had Volcano, this year we did two rather small deals. Well one was PathXL which is a deep machine learning on pathology images. This is really a very small deal. And then Wellcentive that is well in the 100 million value. That is a SaaS a Software as a Service platform company for analytics on Population Health. So we expect to continue to look for bolt-ons and nuggets can help us strengthen our existing core businesses as well as pivot into some of these nearby adjacencies. What you will not see us do is to go in an entire new game, right. It is about the nearby adjacencies. And yeah then it always depends a bit on what is actionable and what gives us an acceptable return.

The return depends whether it is a more cost-synergetic acquisition versus a longer-term technology investment. And so I am often challenged you know give me the criteria. Well we define different criteria for a synergetic acquisition versus a technology tuck-in. But technology tuck-ins tend to be smaller whereas a synergetic one can be bigger. Now we would have classified two years ago Volcano as a technology play that is longer out, right? And we were quite pleased to see that even in such a company the cost synergies and sales synergies in the short term were higher even than our plan. So it goes to the point that even there you can drive you know nearby returns.

Yeah, so this kind of path will continue. And in terms of size I have said many times let us take Volcano as a proxy. And that does not mean that we will never do something smaller or bigger but that is kind of where we are in our thinking as a sweet spot.

Abhijit Bhattacharya: I think to your point on the cost reductions there, so out of the 1.2 billion, roughly 700 million will be towards more material cost savings through our DfX programme and the rest is overhead reduction.

Maybe I should correct a bit of the perception that being in a high price erosion market because our price erosion is about between 1 to 1.3%. That is fairly normal and we have been able over the years to offset that. In healthcare we always give a range between 2%-3%, we have been at the lower end. And in the Personal Health businesses actually the renewal of our product portfolio enables us to offset price erosion just by having newer propositions at better prices. So I think what you will see is the cost savings and the improvement in margins. I do not want to say or make it mathematical in terms of what offsets price erosion and what offsets inflation. The increases that we will have will be about 340 basis points and then 240 basis points of that goal in inflation and price erosion and that leaves us let us say the 100 bps that we improve is I think the way to look at it.

Ian Douglas-Pennant (UBS): So the first one is on innovation spending. There are some really cool things going on, but it is phenomenally expensive. I mean your R&D spend is probably the highest of any medical device company at the moment or at least close to that level. When are we going to see a return on this? Given your growth expectations, so for not for a huge pickup in revenue growth over the next few years should we assume this is a long-term investment?

And then the other one was on Cleveland. You made a comment Frans earlier that Cleveland was now resolved. Could you confirm that we have had the FDA inspections give you clearance there and that the consultants have gone home? And therefore, if that has not happened, to what extent is the margin expansion that you are talking about dependent on resolution of those issues?

Frans van Houten: Okay well interestingly, in your question you said device companies, right? And as a HealthTech company we are in systems, devices, but also in software, and partly in the consumer health products. Each of those categories have different R&D ratios that we benchmark. Alright, let us say consumer products are more around the 5%. Device companies perhaps more 7%, 8%, 9%. But software companies Cerner, Epic they are in the mid-teens. Alright and we are becoming increasingly also more of a software company. In fact for software your factory is your R&D, right. Therefore, I would like to ask you to take that into account.

Now we did break out to you what part goes into kind of normal R&D which is new product introductions and sustaining versus the 20% that goes into breakaway innovations. And so I think we should focus the question on when do you get a return on that breakaway innovation, because the rest is kind of bread and butter continuous business. And there we see a strong double digit growth in all the adjacencies that we have been investing in, whether that is the Medical Wearables or the Pathology or the Healthcare Informatics. And Abhijit said that amount will not rise but the growth will. And therefore you could say that we get operational leverage on all those investments and the percentage of R&D over sales will therefore, over the next few years gradually come down. And that is the return that you are looking for.

The only caveat there is still you know how the mix develops because as CCHI will grow faster, then some of the other businesses let us say the software portion of the business will countervail that a little bit.

Ian Douglas-Pennant: When you approve an R&D programme, do you think about a return in one year, three years or ten years?

Frans van Houten: That depends on the business that it is. In Pieter's business a breakthrough innovation would be three years or so. I think Pieter, OneBlade, which is a breakthrough was started by your team in 2012, and it got into the market about 12 months ago. Right, I am not talking about you know just making a new product but really a breakthrough right.

In the medical space a breakthrough innovation can take five years, six years but luckily we started many already years ago. So we are now at the cusp of starting to cash in on these innovations.

In the software area it goes luckily faster and maybe Jeroen can refer to that in his introduction. That is where we can see actually co-creations with customers that get to revenue within the year, and that is attractive to us. So sorry, it is somewhat a complicated answer but you cannot paint everybody with the same brush.

Now as to CT and then Cleveland I will invite Rob later after the break to talk about it, but we feel that we have the operation under control. More cost productivity will come through. The nature of a regulated business is that the FDA can come any day. That is their prerogative. That is not ours. But we feel confident about the robustness of the operation in Cleveland. And if the FDA chooses to come then that is their thing, right. And even if they come and they say it is okay, they could come six months later to check whether it is still okay. So it is not a single moment in time and then it is done. Yeah, if you get the point okay.

James Moore (Redburn): Thanks for taking my questions. I have two. Firstly I wonder if I could ask about the manufacturing footprint plan embedded in your productivity. I think you said in the past that you have something like 40 plants in HealthTech. But could you remind us, and I am trying to understand within that how much is Diagnosis & Treatment, and particularly MR and CT I think you have three CT plants. That to me feels the area of the best margin potential. I had like to understand what you think the optimal number CT and MR plants is within that, if I could.

The second question relates to CCHI where you talk about your market growth is clearly the highest growth area. I can understand where that is coming from. You have got a profitable business in there at PCMS. But you have the other two pieces which are no less, HISS and PHM. Is that the whole of the breakthrough portfolio, those two businesses? And when did those go to breakeven and where do you think the margins in those pieces can be by 2019?

Frans van Houten: Earlier I have talked about our manufacturing footprint being around 50 factories in the HealthTech space, and that we would like to consolidate that manufacturing footprint approximately by a third.

The way to look at this is that we have many small factories next to a couple of big hubs. And the direction going forward is that we will consolidate these smaller satellites in the bigger hubs. So this is not about offshoring. This is about basically weeding out factories that are too small that only have a few hundred people, and by consolidating it in regional manufacturing hubs that have more scale. This is not the time and place to identify individual factories. And so I will kind of skip your very precise question because there is a time and place for all of that.

Rob Cascella will in fact talk about the fact that in D&T there is quite a lot of opportunity and he has done some already, and there is some more to come. Second point.

James Moore: I am trying to understand the margin profile.

Frans van Houten: And then the detailing of the profile, the portfolio within CCHI absolutely true that PCMS is our star in let us say that whole segment. Jeroen Tas took over all these software businesses two years ago. And I do not mind admitting that prior to that those software businesses were treated as hardware businesses. Right in other words if we were to do radiology imaging analytics we would sell it as a storage device. Right now you all know that the price for storage is not exactly attractive. So that is the wrong business model. And Jeroen has shifted that business to a Software as a Service business model. And the profit improvement in Healthcare Informatics has been fantastic from negative to around high teens and soon should go to mid-teens.

Now as it is a growth area we have allowed Jeroen to make massive investments to extend the portfolio and it is in his area that we are to glue between all our device businesses, right and where we do the systems integration, the HealthSuite Digital Platform, a whole suite of radiology analytics applications, cardiology applications, and then we go into the adjacency of Population Health which is a new business that we are getting in, which is also an investment business that today is not profitable.

So summarising: PCMS, very strong business, high teens profitability. Healthcare Informatics has turned around, is now stepping up growth, great order intake, soon to be double digit profitability. And then we have Population Health, a new business group. It is an investment business. It does not have a return yet and that is okay because we believe that we will do a similar exercise with Population Health as we did with Healthcare Informatics.

Daniel Cunliffe (Liberum Capital): Just a question on the balance sheet if I may, the 100 million savings you are referring to. First of all do we have any sort of sense of time or timeframe for that?

And second of all, is that likely to be refinanced or you could use cash to do that? And then in terms of the sort of premium over principle, is that going to be similar to what we have already seen in the last transaction which is I think about 30%-35%?

Abhijit Bhattacharya: Yeah, I think so the timing is pretty quick. So in the next few quarters we will have got that done.

And regarding the pricing, the previous one was because it was a longer-term bond it was 2038, 2025 etc. The one left is the 2018 bond, so we have actually a make-whole clause where we do not have to pay a high premium, so it will be significantly lower. And then regarding the refinancing I think currently our cash flow support that so we would not need at this time to do any major refinancing. It could be inter-quarter dips that we do some short term, but that is not significant.

Daniel Cunliffe: So it is using cash rather than refinance even though actually I guess the company on ten times your debt sort of I guess on twenty times. I mean is that sort of the appropriate sort of measures or are you thinking more focused on reducing interest rates, because I guess that is the question: why you are using cash instead of refinancing?

Abhijit Bhattacharya: These are high cost debt. I mean the payback is relatively short and it improves our earning profile and it does not help to keep the cash on the balance sheet without deploying it and keeping on bleeding this kind of high amounts on interest.

Daniel Cunliffe: Okay well thanks very much.

Max Yates (Credit Suisse): Could I just ask a quick question about the dividend? It is 0.8 now. You talked about dividend stability. So is that with the view of keeping that dividend flat even once the Lighting business is deconsolidated?

Frans van Houten: Yes, we aim to keep the dividend flat in amount.

Max Yates: And then just the second question was on those market share gains that you talked about in the US. Could you give a little bit more detail about how you are going to do that, whether it is some pricing or what really underlies that assumption within the growth?

Frans van Houten: The market share gains first of all come out of Diagnostic Imaging where we are between five and ten points below our European and Asian market share. Maybe Rob can later on talk a bit more about that. And we have targeted programmes in place to leverage our strengths in North America. So that is one driver.

Secondly we see opportunities to extend our very strong high-end Ultrasound position in adjacent areas. That would effectively grow our market share in Ultrasound. We see that our market share in IGT Image-Guided Therapy is on the rise given that we have this strong integration with Volcano, and so on. So we see a lot of opportunities, but maybe Rob can come back to that.

Andreas Willi (JP Morgan): Just wanted to come back to the numbers you run through before on Connected Care & Health Informatics. Because Health Informatics is now into the double digits or close to that now. Patient Monitoring doing a strong margin in the high teens, still struggle to get to kind of 10% for the total. How does it all add up because I am not sure if population management loses 300-400 million?

Abhijit Bhattacharya: I think there was a bit of let us say – the growth numbers and EBITA numbers when Frans mentioned. So we are profitable in HISS but not in the double digit yet. So that is basically –

Frans van Houten: Moreover I mentally excluded the HealthSuite Digital Platform because it is a platform play that is not specific to that business unit and it goes for the whole company. Yet it is consolidated in Jeroen's cluster and that is also a significant investment.

Andreas Willi: So that is obviously negative as well so?

Abhijit Bhattacharya: Yeah exactly, exactly. That is part of that investment bucket we took.

Andreas Willi: And on the portfolio you said earlier you kind of stand where you wanted to be. Two questions on that. Obviously Lumileds is still there whether you could give us an update on that? Particularly also given that there is a lot of uncertainty around the main competitor at the moment, is it possible to do a deal in the current environment?

And on Personal Health, is that the portfolio you want to run in the medium term or is the domestic appliance side of the business is that healthcare enough for you in terms of being part of the portfolio longer term?

Frans van Houten: Okay let us do a quick update on Lumileds. At the beginning of this year after the deal with the Chinese collapsed, we said we will take some time and we target a deal in the second half of 2016. We are still on a path to do that. And we believe that the actionability of a deal gives us sufficient confidence to make that statement that we can still come to a conclusion this year. I have said at the Q3 results that there is always a plan B and I did not elucidate what plan B is, but believe us we have a plan B. But at this moment we believe plan A, which is an outright sale, can go through still this year.

The Personal Health portfolio is important to us. It is important to us because of the strong consumer franchise that we have and capabilities that we have within that organisation. It is less important for us there are products in that category that maybe do not completely fit the criteria of a health product. Right, and we talked about the trend towards more ambulatory care, about empowering, but also holding consumers accountable for their own health.

And then having the brand that has the trust of the consumer helps us tremendously. We are the master so to speak of the bathroom in the consumer home, right? We are there. We are in their kitchen. We can influence their habits.

And so I think we should not get hung up on individual product categories. It is the overall franchise that is important. What we do hold everybody accountable for within Personal Health that you know if your product category is not entirely strategic, you better improve your profitability and your returns. But I can tell you that every category in Pieter's portfolio does that, right. And so therefore there is certainly a good place in that portfolio for all of it.

Ben Uglow (Morgan Stanley): I wanted to understand coming back to this market share rebuild in North America. Can you give us a sort of qualitative sense of where the business is today? In the past yourselves and Siemens have actually given us the market share data. So you know I remember from previous presentations you know Siemens and GE sort of 27% market share, Philips sort of just over 20%. It feels to me as if your North American market share has come down quite dramatically. Is that a correct assumption? And again, it feels like it is across the portfolio, this is not just about CT. We are talking about MR PET, the entire Diagnostic Imaging portfolio. Is that thesis correct?

And then in terms of the order book rebuild have we seen a kind of convincing trend year to date in 2016 that that order book in North America is actually coming back across the piste, or are we relying we are waiting for the fourth quarter to know that that is going to happen?

Frans van Houten: Very, very perceptive, Ben. And so our market share in Diagnostic Imaging in North America did come down over the last three years by a couple of hundred basis points in the aggregate for the DI portfolio. So I am not talking about Ultrasound and IGT. And the restoration of market share has already begun. In fact if you look at our growth numbers in the second half of 2015 and throughout 2016 which are around the mid-single digits for the DI portfolio, then we are above the market growth already. So the market share restoration is already in play. And it gives us also full confidence to put it on the slide to say you know we see a lot of opportunity there going forward. So we are committing ourselves to delivering on that goal. But we know how to do it.

Ben Uglow: And just to follow up, it is quite broad based yeah across the portfolio?

Frans van Houten: Yes, yes.

Abhijit Bhattacharya: But if you talk about across the portfolio in Patient Monitoring we are strong and growing stronger.

Frans van Houten: No, he means with the portfolio of DI.

Abhijit Bhattacharya: So if it is just DI then it is across the portfolio of DI. But as Frans said not Ultrasound, not IGT, not PCMS where we have been doing well..

Frans van Houten: Some of my colleagues can certainly comment on North America later on. I charge them to do that.

Question (Berenberg): So I just want to ask or get a feeling for what is more important in this mid-term plan, accelerating the top-line or driving top-line growth and expanding your position, or margin? If the top line does not come through, will you defend margin and or if growth does not come through, will you increase investments? Just that would be one, the first question.

And the second question would be, clearly you have a very broad manufacturing footprint. 50 manufacturing facilities is a large number for even for your revenue base. Can you just give us a little bit of background as to some of the history there and perhaps some complexities there which have prevented you from consolidating that infrastructure previously?

Also do you have many different operating systems, ERP systems, or just from a central platform for the new healthcare business? Thank you.

Frans van Houten: Let me start with the manufacturing footprint. It just has not been done. It has not been addressed in the past alright, and it goes back a little bit to the approach to how Philips was run more as a holding rather than as an operating company. And now we are doing it, and yes there are more ERP systems, but that is not the reason. Right the reason is that just it did not get the attention to do it.

Now admittedly we also spend a lot of attention on Lighting where we did a lot of manufacturing restructuring. And so yeah on the whole plate there were many topics. As a more focused company we can in fact deliver on this.

Now I do not see a big hurdle. It takes always a bit more time in a regulated industry to do this, but there are no fundamental hurdles to do it. In fact Rob will talk to you about how he has already reduced six factories over the last what was it, 12 months, okay. First question.

Abhijit Bhattacharya: That was it. I think that that – oh yeah top-line.

Frans van Houten: Oh well that trade-off can always be made. But if you judge us on our behaviour over the last few years, we have consciously invested in the future even though we were under pressure to deliver better margins. And so you should see us as a steady, long-term strategic operator where it is important for us to deliver on our goals that we commit with our customers.

Now if god forbid something happens in the world whereby you know the growth does not materialise, we will of course immediately adjust cost. But we would protect the strategic investment programmes especially in innovation, right and as we have been protecting them over the last few years. So okay good.

Delivering Value

Pieter Nota

CEO Personal Health Businesses, CMO, Member Executive Committee and Board of Management, Royal Philips

Personal Health

So good morning everyone and welcome back. Also the ones that are joining us via the live webcast welcome back. I would really like to share some time with you how we are consistently delivering value in Personal Health, with our Personal Health portfolio.

So Personal Health has an important role on our health continuum, delivering integrated, connected solutions, supporting healthier lifestyles and living with chronic disease. So we do deliver continued strong growth, and also margin expansion. And that is driven by four main factors.

So first and foremost innovation, innovation at the forefront of digital health and also based on deep consumer insights, so leveraging our strong consumer capabilities.

Our value propositions increasingly leverage consumer data and also unlock recurring revenue streams increasingly. We have and I will show you some examples this morning, high impact consumer marketing programmes. And last, but not least we see ample opportunity for geographical expansion with proven propositions.

So all of this leads to consistently driving above market growth. So we are consistently over the years increasing our global market share. And we are stepping up our profitability towards the high teens, and it is all building on a strong track record.

Businesses

So the following businesses are part of our Personal Health segment. So in Healthy Living and Prevention we have our Personal Care business group, and in there you will find our large male grooming portfolio, but also our beauty appliances are in there. Then in Domestic Appliances you will find our kitchen appliances of course helping consumers to make healthy homemade foods. But also as an example our Air Purification business enabling people to live and breathe healthy air in their homes. In our Health & Wellness business group you will find our fast growing oral healthcare portfolio and also our Mother & Child Care portfolio under the brand of Philips AVENT.

And then our Sleep & Respiratory Care business group, really you will find largely in the home care part of the health continuum. And there we provide sleep solutions and respiratory care solutions to millions of consumers on this globe.

Value creation

So we do have a winning value creation strategy in Personal Health that is delivering, and we consistently deliver above market growth as I said and also stepping profitability up towards the high teens. We do leverage in this slide on the improved box on the left to the max our 'Accelerate!' programmes, so our business improvement programmes. You will find there our DfX programmes, so you can reach DfX of course as designed for cost to drive our cost levels down, but also as designed for quality.

We consistently drive down our overhead costs and also see of course operating leverage there from our growth. We do rationalise also in this segment our manufacturing footprint. And we have a continuous and consistent strong focus on quality, and that also drives down our cost of non-quality.

Growth

But of course in the centre of this slide, you will find that there is a strong focus on growth in Personal Health. So it is very much also about mix improvement, because we consistently drive high growth in our high margin businesses. And we want to gain scale globally. So scale is gained through category leadership, also through innovation, through customer intimacy. We also gain scale through geographical expansion with proven propositions. So that it is a fairly low-risk strategy because we know how to do that very well. And mix is supported by a fairly strong pricing power. And you will find that that is again underpinned with strong consumer ratings and reviews. So if you look at our ratings and reviews there you will find that that says something about the strength of our propositions.

Going forward, we will build further, consistently leveraging consumer data. Of course consumer relationship management deriving value from those data, also helping our ROI on our marketing investments, real-time marketing programmes, and of course we are launching a wide range of connected innovations, connected health programmes that are all building on the Philips HealthSuite's Digital Platform that you heard also Frans talk about.

So at the bottom of this slide, you will find that this has already delivered multiple quarters of above market growth. So I repeat we are gaining share at a global basis. And that has also driven up our adjusted EBITA margins. So with the Q3 numbers included, you will find that on the last 12-months basis we are now well over 15% adjusted EBITA in the Personal Health segment.

Innovations

So let me share with you three examples of innovations that I feel really represent the direction we are taking, and also the excitement and also consumers and patients find in our portfolio. So innovation at the forefront of Digital Health is based on deep consumer insights.

Philips Sonicare Connected

The first example I would like to share here with you is in our Oral Healthcare portfolio. It is about Philips Sonicare Connected. It is a power toothbrush that has unique smart sensor technology built into the toothbrush, into the handle itself. And with that it can track movement. It can track how well you are doing on your brushing routine. Users can receive personalised feedback through the Philips HealthSuite Digital Platform. You can also share some of those data with your dentist. So all of all, this leads to a better oral healthcare. And we know that the mouth is the gateway to your body. So it also helps overall systemic health.

And Egbert van Acht in one of the Zoom sessions this afternoon, we will go more in depth and we will show you also a demo what this proposition can do. The direct consumer engagement element, so the use of connectivity and the leveraging of consumer data, will also further help us to unlock recurring revenue streams, for example, helping to enhance brush head replacement rates, and you might know that particularly the brush head business is for us fairly profitable. So that also will drive mix up.

We do support our global oral health care business with high impact consumer marketing programmes. And we are also expanding geographically. All of this has led to oral healthcare delivering eight consecutive quarters by now double-digit growth. And I will share with you now one example how we are bringing our proposition to the consumers in China. And just have a look at the following film. The lady you will see in this TV and online digital media execution is a well-known Chinese celebrity. So let us have a look please.

[VIDEO]

Pieter Nota: So you might not have understood every single word here, but that is not the point. So the point is that we are supported by programmes like these, the number one in China in power toothbrushes. And China of course is the next big market for this business. So we are well positioned to capture that growth going forward.

Sleep apnea treatment therapy

So the next innovation that I would like to share with you, can I have the next slide please is in our Sleep portfolio. And that is about our sleep apnea treatment therapy. It is about the Philips Dream family. So this is a total sleep solution and consists of the DreamWear Mask, the DreamStation therapy device, and the DreamMapper patient engagement app.

The connectivity in this proposition really ensures that consumers/patients keep engaged in their therapy. So it helps compliance, it also helps providers to track compliance. And also it keeps patients engaged with their care teams.

The hardware part of this, and you see the mask on this picture, really also the superior comfort and wearability of this mask also helps compliance. So the combination of connectivity and superior hardware really has delivered here a proposition that helps patients globally to live with sleep apnea. And we also bring this to patients to consumers with high impact consumer marketing programmes where we really leverage over strong consumer capabilities and help support that with our deep clinical know-how, developing a winning proposition.

So already today we have 4 million consumers or patients globally connected to our asleep solutions. And in the following video I would like to show you how we are actually already today bringing together with our strong consumer capabilities and our strong clinical know-how a winning proposition which I believe is a very nice proof point of our HealthTech strategy. So have a look please at the following video.

[VIDEO]

Pieter Nota: So again I think this is a nice proof point of where as Frans also talked about this morning, it really puts the consumer capabilities to serve also patients, consumers in this more clinical space and where we really leverage both to the full.

Philips OneBlade

So the third innovation that I would like to talk about here is if Philips OneBlade which is a male grooming solution that is targets millennial guys said are experimenting with facial hair styles. Some of them in the room. It has quite a lot of patented technology in here. So this is not a product that can be easily copied by competition. It shaves any length of hair in one stroke and it also establishes a new consumables category because the blades needs to be replaced once in a while.

So this has been launched successfully now in four sizable markets around the globe. So in North America, in Dach, which is Germany, Austria, Switzerland, France and also here in the UK. And we also see here that this product really meets consumer expectations. So we see high consumer ratings and reviews in those four markets on average 4.3 on a 5 point scale at Amazon. And that is another proof point for our strong capabilities here.

So geographical expansion will drive further growth in 2017. And we have launched this proposition with a really innovative digital advocacy marketing program where we really exemplary for our Personal Health portfolio as a whole really make a lot of use of digital media. And it also helps to drive up our return on investment of our advertising spend. And I will show you now one execution that is used both off but also to a very large extent in online media how we communicate with this specific target audience. So please have a look.

[VIDEO]

Pieter Nota: So it really resonates with consumers and it exceeds our own expectations, both in market share, but also in the absolute size that this business is taking. So more to come because we are only in four markets now, more markets to come in 2017.

Summary

So let me summarise and just put some emphasis on the key point. So we do offer integrated connected solutions that are supporting healthier lifestyles, and also enable people, patients to live with chronic disease. We deliver continued strong growth and also margin expansion by four main factors. So first it is our high innovation rate, that is at the forefront of digital health and is building on deep consumer insights. And you also heard Abhijit mention earlier on, this also helps us of course to offset price erosion in markets. We do also deliver value propositions where we increasingly leverage consumer data and also unlock recurring revenue streams whether that is in our oral healthcare portfolio with brush heads or in our male grooming portfolio with the blades or of course very importantly also in our sleep portfolio with our masks.

We also across the board drive high-impact consumer marketing programs that resonate very well with consumers globally. And last but not least we do see ample opportunity for geographical expansion with proven propositions. All of this leads to us consistently driving both market growth, so also going forward targeting global market share increase. And we are stepping up profitability towards the high teens building on a strong track record.

So I will now hand over to Rob Cascella who will go more in-depth in our Diagnosis & Treatment portfolio. So thank you very much and we will be back for Q&A.

Diagnosis & Treatment

Rob Cascella

Executive Vice President, Diagnosis & Treatment Businesses, Royal Philips

Diagnosis and Guided Therapy

Thanks. Thank you. Well good morning. It is my pleasure today to talk to you about Diagnosis & Treatment based on the questions that Frans had earlier I am sure it will be a lively presentation.

So the key takeaways as we think about this business is that we think the definitive Diagnosis and Guided Therapy are really foundational to precision health. And if you think about everything else that we have been chatting about in terms of healthcare we do believe that on a global basis we are headed towards precision health. Doing things the first time right, if you will; certainly doing things more efficiently and otherwise.

In addition to that, we think that it is fundamental to also our HealthTech strategy. Our plan is to grow market share and we want to do that profitably. So clearly there is operational improvements and business fundamentals in Diagnostic Imaging that needed to happen and they are happening. We are currently shipping our full portfolio of CT products today out of Cleveland, Haifa, Suzhou and the likes.. So we are very happy about that. We have talked about the success of Volcano. Well the intent today is to leverage the success of Volcano with a device strategy. So again really the presence of our cardiovascular labs and our market share, the success of Volcano opens the door for us to broaden that portfolio.

Ultrasound

And then also moving into under-penetrated adjacencies, and ultrasound. We are number one in the world in cardiac ultrasound, but we have effectively not engaged as aggressively as we should in areas like general imaging and OB/GYN. The aim again is to have above market growth and to achieve profitability in the teens.

Diagnosis & Treatment

So you have seen this graphic a lot over the course of today and you will see it for the rest of the presentations and the Zooms and otherwise. In this one we are focused on obviously Diagnosis & Treatment. And when we think about definitive diagnosis, this is really – this is combination of a lot of information, and the intelligent combination of information. Multimodality information, multi-discipline information, you name it. And the idea is again to pull the power of all that together to attempt to deliver on the promise of precision health and precision medicine.

When an intervention is needed, we want to do that as least invasively as possible. So Image Guided Therapy becomes the choice. The benefits there have all to do with lower patient recovery times, obviously a better patient experience overall and a lower cost to the healthcare system. So Image-Guided Therapy is here and will continue to grow in a broad range of different applications.

On the bottom of the chart what you will see is Connected Care and our Healthcare Informatics which is Jeroen's business, and he will be talking to you after my presentation. Everything that we do in D&T is related to the glue and the rail mechanism that Jeroen has created. So it is about information sharing. It is about workflow and it is about decision support, all of which are brought to us with all of the power that we have within our Connected Care and primarily our Health Informatics system. So very excited about that, and it does not matter whether it is a portal or our HealthSuite's Digital Platform or otherwise.

I wanted to talk a little bit about just the characteristics of what is in Diagnosis & Treatment for those that may question. So we talked about Image-Guided Therapy, that's fixed systems, mobile surgical units and smart devices. And we are going to talk much more about that going forward. In Ultrasound we have a cart based, more stationary systems and portable ultra-mobile type devices. In Diagnostic Imaging it is the full portfolio, very traditional MR, CT, molecular imaging and digital X-ray.

In addition, these are all wrapped around very disease-specific software applications. So we have taken modalities and gantries and we are focused on cancer. We are focused on heart disease. We are focused on every other specialty in every other situation or illness that confronts the global population. But imaging products are the products that bring the visibility to that disease.

If you look at some of the metrics below, a €6.6 billion business. Our EBITA is approaching 9% and we spend about 9% on R&D. We have a significant install base, 300,000 pieces of equipment. So a tremendous opportunity relative to install base management, upgrades, replacement sales and so on and so forth.

Progress

So compelling progress in 2016. We made some substantial improvements in Diagnostic Imaging. And we are not done, but Cleveland is up and running. And as I said the full portfolio of CT products are being sold. Our complete and on-time deliveries are the highest that they have been in over three years. We have improved our gross margins by four hundred basis points. We have reduced the number of suppliers by over 20%, which may not sound like a positive, but the goal was to find fewer, better suppliers with better terms, better quality, better reliability and so on and so forth.

In addition to that, obviously the strong profitability that we have in Image-Guided Therapy and a successful integration and financial results of Volcano are obviously compelling to D&T. And then finally in Ultrasound we are investing in adjacencies both from a product perspective from a workflow software perspective and from a sales channel perspective.

Value creation

So how do we create value? The value creation and a lot of this is going to get talked about in a little bit more detail in the presentation but what I want to summarise on here is how do we create value, how do we continue to grow and improve margins. Well obviously we want to improve the business fundamentals. So we want to focus on operational excellence. In addition to that we want to grow through share gains and scale. So we in DI it is about share, in Ultrasound it is about diversification into adjacencies, and in Interventional it is really creating a device portfolio.

And then what do we want to build? We want to build service and solutions. So again it is not traditional service any longer. It is about how do we provide a solution that helps a radiology practice run more efficiently. How do we help them make better decisions more efficiently? How do we help them make better choices on terms of the equipment that is needed, the numbers of equipment, the utilisation of equipment and so on and so forth?

So we are at mid-single digits relative to our sales growth, and we are aspiring to the above market in terms of that growth. We are in the high single digits. And we are again looking forward. We want to be into the teens as an interim basis and continue to focus on those improvements going forward.

Diagnostic Imaging

So to dwell a little bit more into Diagnostic Imaging, the product portfolio advances are what is important today. So we have a complete digital portfolio in Ingenia MR, our various PET CT and our IQon product. We talked about very disease-specific applications. What we are looking at are ways to make the workflow better, make the clinician more accurate.

And then that final bullet about emphasise workflow and connectivity, this is all about first time right. It is about if you think about where the radiologists are going to: the triple aim of I want to improve outcomes, I want to lower cost, and I certainly want to enhance the patient experience. And that is everything that we are trying to do with this portfolio today.

Oncology

We talked about cancer. It is becoming a chronic disease. We are spending a lot of time either on a proprietary basis or through our partners Elekta and IBA. We are developing technologies for better and more efficient image guidance to do less collateral damage to other organs. We are also doing image guidance so that we can be more efficient. If you think about the image to plan and rapid assessment, so what do you do in terms of getting that patient to the scanner for radiation therapy and how quickly can we tell whether radiation therapy is being effective or not. That is what the power of imaging does.

Operational improvements

Operational improvements, we talked about the footprint consolidations ongoing and then dedicated market programs. Look our largest markets are North America and China. They represent 40% of our volume. Yes we are focused on market share gains there. Yes you know we have lost some market share particularly in North America as Frans had indicated, but there are programs, people and products that are focused on making that better and making a difference there.

Diagnostic Imaging products

Just a little bit about some of the products in the DI portfolio. We are re-establishing our brand in the premium high end CT with IQon that was just released this year. This is the first of kind spectral imaging. So if you think about what happens in CT, everyone talks about the benefits of dual energy. This is always on effectively dual energies. So with every patient setting in oncology, in emergency medicine, you name it. We have the capability to take an initial exam and, at the radiologist's discretion, evoke what would appear to be a different energy level to get that different level of assessment. So without extra dose, without calling that patient back, so efficient, safe and obviously very accurate. So if you read the comment from a customer, what they are saying is I am seeing things that otherwise I had not seen before with traditional CT. So we are very excited about that. Spectral technology has the ability to move down our product line. So from an R&D perspective, we see it as a premium product but also in a lesser configuration as a mid-tier product as well.

MRI

So MR and MRI is an extraordinarily well-used and a very significant modality within Diagnostic Imaging, cardiac, oncology and obviously neurology. So neurodegenerative diseases are on the rise. There are many, many programs underway for Alzheimer's or otherwise. MR is an imaging modality of choice relative to the diagnostics and assessment of that disease. We are spending a lot of time developing a neuro portfolio which we think is second to none in the area of MRI.

That is, we think, a competitive advantage for us, so we are very excited about it. We think we are moving very much in tandem with where the market is going for Diagnostic Imaging. So very sophisticated applications beyond the gantry itself and that is where a lot of R&D dollars are being spent.

Image-Guided Therapy

Image-Guided Therapy, we are number one in the world in cardiovascular systems. So interventional guidance in the Cath lab is and has been an expertise of Philips. In addition to that, we are obviously looking at how we integrate other modalities, Ultrasound, into that environment. So because we think the Cath lab could benefit by a multimodality approach if we think about the solutions and new business models. So we are really one of the only companies that can marry imaging, proprietary imaging with devices and software for a proprietary solution, ease-of-use, highly-integrated combination of technologies.

In addition to that, we are offering consulting services so we can manage your Cath lab for you. Office-based labs, a phenomena in North America, maybe global. In terms of a procedure code for let us say a peripheral vascular atherectomy procedure. We sell the imaging. We sell the device, monitoring, the information capabilities around that and so on and so forth. And then we are moving into some other areas using the power of that in 3D imaging for spinal work.

Device business

And finally I told you that the device business is of great interest to us. And we are investing in for peripheral vascular disease and devices focused on peripheral vascular disease, atherectomy, balloons. You name it. All facilitated by the power of our imaging. Ultrasound, this is an easy move for us. It is our great ultrasound platform number one and the most demanding cardiac ultrasound. Taking that platform and moving into general imaging which is twice the size of the market of cardiac and OB/GYN which is equal to the size of the cardiac market, with different probe designs, transducer designs, probably different workflow and yes some augmenting of our existing channels in critical markets like North America, probably China as well. But an exciting opportunity for us to move into very big markets with new technologies.

Lumify

In addition to that we have our Ultra Mobile product Lumify which is a handheld self-contained mobile device that is very elegant and used in applications where we are extending the use of ultrasound into areas like pain management or even primary care, where otherwise you would not see in an ultrasound machine. So we are very excited about that. There is some hybrid business modelling around it. So you can buy it under a subscription model in addition it to being a capital purchase and so on and so forth.

Catheter-based imaging

And then clearly we are doing things with catheter-based imaging. So not just Volcano but other proprietary products as well where we are putting an ultrasound capabilities at the end of a catheter and introducing that into the body to do intracavitary and intravascular imaging.

Precision medicine

This slide is very busy and I apologise for it, but it is the essence of what we are talking about relative to precision medicine. If you think about what imaging does, imaging is about data that is derived from morphology, the internal organs of your body, vasculature or otherwise. Well we now have the capability through proprietary Philips products to take that which is morphology-phenotype information from things like pathology, genomic information and bring the power of all of that together to truly deliver on that promise of precision medicine.

So if you simply take data and turn it into information that is our imaging information, convert that now to knowledge as we start to build algorithms and decision support, and combine it with other modalities to then the wisdom where we can predict the likelihood of success of a treatment, the recurrence of disease. We have the capabilities in our portfolio to do all of that.

And as you can see from the centre, all of this is based on the ability to share information in a collaborative way, in a decision support way with deep learning algorithms. So the cognitive learning, all the things that we can do with machines but those machines require the data that are derived from D&T. There in is the rationale of D&T being foundational to our success in precision medicine.

Strategy

So my final takeaway, again at the heart of our strategy is Diagnosis & Treatment. We are really focused on market share growth and improved profitability. We are doing that in a variety of different ways. I will not read these again to you but, again, DI is all about market share. Ultrasound is all about expanding into adjacencies. And Interventional is about building a device portfolio that has a pretty proprietary linkage to the imaging that is necessary to control that device above market share growth and profitability into the teens.

Thank you very much.

Connected Care & Health Informatics

Jeroen Tas

Executive Vice President, Connected Care & Health Informatics Businesses, Royal Philips

Introduction

Thanks Rob. Thanks also for teeing up my story and I am going to take you in the next twenty minutes through Connected Care & Health Informatics. And as I lay out that story I would like to request you to put it against the backdrop of what Frans said about where the market is going.

Chronic disease

So about 80% in the western world on healthcare is on chronic disease. And what are the major chronic diseases, heart failure, diabetes, pulmonary disease, neurological disease, and even some of the cancers as Rob pointed out are becoming chronic disease. That calls for a different approach to healthcare. Also we are seeing the results of elderly care, greying populations and asking for new solutions to help these people deal every day 24 hours with their disease.

Responses

The response to that is also new ways to reimburse, moving more from fee-to-service towards outcomes. And the response to that is also what we can see in North America where providers are consolidating into integrated networks that are better equipped to deal with the chronic nature of their patients.

So that is the backdrop, and what we want to do is be there to connect those patients that need 24 hour care to their caregiver. That we are there to interpret the needs of these patients and help them to provide the right care at the right time. And that should create better health but also better economic outcomes for them as the reimbursements change.

Patient care and monitoring solutions

So I am going to discuss with you how we are extending our strong position in patient care and monitoring solutions, and how we make that business grow again, and how we build on the tremendous knowledge we have about patients and their needs for monitoring.

I am going to discuss with you how we took our clinical informatics assets, and actually put these together, and in the last two years turn that it into enterprise solutions rather than a loosely connected set of departmental products. I will discuss the importance of our HealthSuite Digital Platform and where that will bring us. And then lastly I will talk about

Population Health which is a nascent market that is on the top of the mind of every CEO of an integrated delivery network. And everybody in the industry talks about Population Health.

So at the end of the day, we will drive growth and we will step up our growth because we see that our portfolio is supporting these bigger trends. And we also see that we can step up our profitability as we start gaining revenue from our investments.

Patient Monitoring and Connected Care

So what are the building blocks of our portfolio? So the core foundational building block is obviously our Patient Monitoring and Connected Care solutions. And we are a market leader, and Carla and her team have done a tremendous job in the last couple of quarters to make the business grow again. And not only grow it again, but also to look at how we expand our position there.

And every year there are 370 patients that we help with our devices; that can be defibrillators in a cardiac arrest, it can be people in acute care, in intensive care unit or a general ward. 370 million patients that will see a trusted brand at the moment of need.

So obviously our goal is to take that out of the walls of the hospital and bring that to where people are, 24 hours with their chronic disease. So we are extending not just in the space of monitoring and ventilation where we create wearable devices that allow people to move to care settings. We are also extending our ventilation and the ventilation we see you know in Pieter's business at home but also in the hospital. And right now these are masks[?], but we are actually not just doing the last mile or the last inch, we are actually going inside the body to provide better ventilation.

Health informatics

Health Informatics is critical to what Rob talked about. This is where we bring the information together. And it is not just images and the interpretation of images. It is really about creating context of that patient and starting doing that the definitive diagnosis. And therefore you need deep understanding of the domain. So we are not only being successful in supporting radiologists and most of the largest integrated delivery networks use our systems because we are the enterprise, the network player but we increasingly start getting into these specialty areas like cardiology, neurology and oncology.

Population Health Management

Population Health Management: again, this is a new area but what is it, it is essentially helping these large integrated delivery networks fully understand their population and help them segment their population into cohorts that they can then provide specific programs to, to drive better outcomes. And these programs tend to be 24-hour support; they tend to be better acute care, early intervention, so that we can drive down the cost associated with emergency care as well as readmissions. So we are bringing together a number of core assets to be the leader in this space.

HealthSuite Digital Platform

And last but not least, our HealthSuite Digital Platform, clearly an area of investment because this is essentially the glue that will bring it together. It is a core infrastructure that allow us to connect our devices securely, an Internet of Things, an Internet of Medical Things, because that has a higher level of requirements around how you connect securely around data. And a big issue in healthcare is the fragmentation of data. So we bring that data together in what we call a longitudinal fashion. So we will capture the history of the patient because that history is so important for the definitive diagnosis, and we have the analytical capabilities. But these analytical capabilities are increasingly looking at complex data: images, reports. Around 75 to 80% of all data in healthcare is still unstructured. So we are looking at ways to structure that so that we can quantify. And once we quantify we can visualise and we can allow caregivers and patients alike to make better decisions.

Operational performance

So how do we bring that portfolio to great returns? And of course we start with our operational performance. We have launched high-impact quality programs that allow us to become way better at first time right deployment of our devices and systems that allow us to create better quality of the products that we bring to market. So less recalls and software upgrades required.

Our productivity programs, like my colleagues we have been focused on design for quality but also design for cost and specifically looking into how we deal with our suppliers in a better way. Also in our organisation we have been consolidating size, so to leverage better scale from our operations. We have been reducing overhead costs and I have to say that I am very proud of the way we now work across the organisation in an agile way where the core of our organisation are self-directed teams.

We are growing. We are growing by expanding our portfolio into ventilation, but also our Patient Monitoring across settings. And I am really excited about what we are doing in clinical analytics because vital science monitoring is critical for care. But what is more important, that you put these vital signs in context of the understanding of the patients and deep understanding of the patient will allow us to better predict adverse events as we do with our Guardian product today in the hospital. And you will hear Carla talk much more about it.

Large-scale enterprise deployments

So as I said we are moving to large-scale enterprise deployments. You know if forty hospitals come together they can optimise the radiology departments. They can optimise the way radiologists read those studies and get second opinions. So you have to create a network environment, and we have been very successful with that and the deals we are signing are getting larger and larger.

So we are on a good trajectory there, and I am also very proud to tell you that we dramatically upgraded our software capabilities. We have centres in knowledge hubs, in software hubs like the Bay Area and Foster City, as well in the Boston area, which is a hotbed of technology with clinical perspectives. But we also build out our India capability as well as our Brazil team, and that Brazil team is delivering tremendous value to what we are doing.

Investing in the future

So that is how we grow, that is how we grow our capabilities but ultimately we are investing in the future. And you have heard Abhijit talk about the 100 million that we invest in my business and some of that will materialise in the next couple of years. And some of that will position us to where the market is going. We will become the leading player in oncology because that is where complex data comes together, building on our core strength in Imaging as rob outlined to you.

We will establish a strong capability in Population Health combining Analytics, Health Analytics with the way we engage with patients. Because ultimately if you want to drive outcomes, you have to be there with the patient, you have to support the patient which is a theme you also heard from Pieter because we are a strong consumer player. So if we can marry up these consumer capabilities with our understanding and deep clinical capabilities, we can help these delivery organisations provide better outcomes.

Personal emergency response

We are the leader in personal emergency response. So we have 600,000 elderly people every day 24/7 tethered to our response centre. Now we are expanding these capabilities. There are very few people that can say that are actually 24/7 in touch with their consumers. So that we are expanding into full set of capabilities because all these elderly people will have at least one or two chronic diseases, so they need to be linked as well into the care system.

Growth strategy

So you see that in the short term we are improving our operations. We have a great growth plan in the near term, and we also believe that we are building the future of where healthcare is going. And while we are doing that we will move from mid-single digit today to high single digit in terms of growth. Now you have to be aware that a lot of what we are doing is moving to work services. So the contracts will be longer but the revenue will be spread. So some of that growth, that order intake and we had a tremendous third quarter will not directly be translated into revenue. But it will be recurring, predictable revenue in the years out. Our EBITA margins will improve to the mid-teens. So we are still investing, but we also see true growth in our operational programs. We can get to mid-teens and take it from there.

PCMS

So let me tell you a little bit about PCMS, but Carla will tell you later in much more details. We are the global leader in Patient Monitoring. We understand what it takes to help a patient in need in acute situation. We understand what information is necessary to make the right decision in the intensive care unit and in the general ward. But we believe we can expand our footprint and essentially be the leading provider for everything required in acute situations.

We have tremendous opportunity to grow our services. Just our install base gives us the license to sell new and exciting services to our customer that dramatically improves their performance in their intensive care units.

Wearable technology

Carla will show you what we are doing in terms of wearable technology, medical sensing that is 24/7 linked to the general ward at the hospital, but we will also support a transition out of the hospital. Because in the hospital you are surrounded by experts with high fidelity devices, the moment you are discharged you should be able to continue to be monitored to avoid adverse situations.

So we started launching new models and for instance last quarter we did a deal of tens of millions of dollars with Rush University Medical Center that helps us to work with them to improve their ICU through Patient Monitoring services. And we see this as the beginning of a trend towards larger, more service-oriented deal with our customers.

Therapeutic Care & Emergency Care

In Therapeutic Care, as I said we will expand into invasive ventilation beyond the non-invasive. We are connecting our defibrillators around the world and Carla has a great demo that you will enjoy.

And we are increasingly looking also at Emergency Care because if we know a lot about a patient, if we know how to connect to care provider. And if we have to write smart devices that we can put in the ambulance that we can give people at the spot, at the location where care is required, we will provide great opportunities for better care.

Clinical informatics

In our clinical informatics as I pointed out today we are leading the high end, the large networks with the largess providers in the world. We are leading in cardio informatics. We have a clinical portal, basically a specialist station that is best in class. And we are doing this together with leading institutions. So we are moving towards truly Software as a Service, and the majority in this space is already Software as a Service. It is already moving towards teens in terms of EBITA with so little growth. And the next generation will be clinical intelligence at the workstation. Quantification that helps the specialist, the oncologist, the radiologists to make that definitive diagnosis.

Digital Pathology

We launched Digital Pathology and we have very high growth in that space. And also there we are looking at the same things. We are investing in quantification because most of pathology is still done with a microscope with as much as 40% variance in the diagnosis. So if we can make that more accurate, if we can help pathologist do a better job at that and if we can ultimately link that with imaging and our genomics, then we really start addressing the root causes and the potential cures for cancer.

HealthSuite Digital Platform

HealthSuite Digital Platform, we launched it and you will see many examples throughout today, with 14 digital propositions and eight and a half million devices already connected every day, moving into an open platform for ecosystems. Because many of the large challenges we address, we will not be able to do on our own.

So what we are taking is what we have done with 2000 deployments and cardiology where we combined complex information into a workstation that helps the cardiologist really do the right diagnosis, quantify what we have in that data. And then to personalise the treatment plan we are taking that to oncology as well.

Now, oncology is more complex. It requires also to link to pathology, the link to genomics in many cases, the link to hospital information systems, and typically collaboration between disciplines. But most importantly we are also engaging the patient, because where oncology and other diseases are going is shared decision making between the patient and the specialist. So that is the theme that keeps recurring, connecting the patient to the care specialist.

And HealthSuite is basically the enabler; it is the core platform. And what you see on this picture is actually an overview of the products that we launched in the market. So at the bottom you see the devices that we connected, you know ranging from medical consumer devices like this Health Watch to toothbrushes to MRs, AEDs, and patient monitors. At the top of that you see the applications as we expose that information to patients and caregivers and consumers alike.

Building a platform

So, of course, we cannot do it this on our own, so we are doing this together with some of the leading players in the industries like Qualcomm, Amazon Web Services. So we see this as a way to enable faster and more cost-efficient time to market for our own propositions, but we also see this as an ultimate platform play where other people can develop their propositions, and we get the platform revenue. But most importantly for us it is an enabler to do what Frans talked about, to really become a solution provider.

Population Health Management

So lastly our Population Health Management, so as I said that starts with understanding the population, the health of the population and the risks of the patients in that population that you are responsible for. And we made an acquisition a couple of months back of Wellcentive, generally regarded as a leader in this space. And what we are doing with them is we are really looking at the true drivers of health.

And the true drivers of health are not just clinical; they are not just blood pressure, sugar levels, SPO2. They are also behavioural aspects. So how can we stratify patients not just on clinical aspects but also these other aspects, and how can we craft the right care programs that create the best outcomes at the best cost, and how do we engage not just these providers and their patient, but also payers that are changing to more of these outcome-oriented reimbursement models? How can we develop further on what we have learnt in our ambulatory care programs, we are number one in Telehealth? We know how to remotely monitor patients that are in need of a high acuity care.

We know how to transition a patient out of the hospital. So how can we start building these out into what we call configurable chronic disease management programs, addressing this 80% of the cost of healthcare? How can we better manage those transitions, so it becomes truly seamless and how can we help coaching patients like you heard from Pieter in the sleep and respiratory?

So all in all we are expanding our current position and personal response into true aging well. And what we are doing I hope I explain to you we are connecting those consumers and care professionals. This will lead to better outcomes and it will lead to better economic outcomes. We will build this on a strong business in Patient Monitoring. Our Health Informatics is really on a strong, strong trajectory. We continue to invest in HealthSuite because that is the glue that brings it all together and we invest in Population Health because that is where the world is going. And all in all, we will drive growth to mid to high-single digits and our profitability up to the mid-teens. Thank you.

I would like to invite my colleagues up for the Q&A.

Q&A

Patrick Wood (Citi): I have two diagnostics related questions please. The first would be obviously it is very small for you guys at the moment, but your point-of-care Troponin test.

The invitro diagnostics market is probably one you do not go halfway into. What are your views long time on how this looks on the sort of competitive space, and are there other areas of IVD you would be interested in playing in?

Jeroen Tas: Over the what market?

Frans van Houten: The Troponin test, that is the handheld diagnostics.

Patrick Wood: Exactly, exactly. And then the second just quickly if I may. On FFR and IVUS has the penetration of those continued to increase over time and how is the competitive landscape looking there?

Frans van Houten: Okay Jeroen take the first and Rob the second.

Jeroen Tas: Yeah on the Troponin test, it is essentially the first of a family of tests. So it is essentially a handheld platform for blood tests. We see this as something we want to do increasingly with partners because you know many of the tests are not our core capability, but the platform and the connectivity of that platform is definitely a core capability. So we are essentially going to look for strategic partnerships in that space.

Patrick Wood: And the question on FFR and the penetration of that, and IVUS is a proportion of total?

Rob Cascella: Yeah in MR for North America –

Patrick Willis: FFR and IVUS?

Rob Cascella: It is strongest in North America. I think some of that is facilitated just by time to market reimbursement. What we are seeing is that there are pockets of other markets around the world where through education, the healthcare systems themselves where we are seeing opportunities. You know so many new technologies are going to be based on whether the economics around them prove valuable for a local economy. So we are very selective about the markets that we are going into.

Patrick Willis: And just very, very quickly.

Frans van Houten: Yeah maybe Bert van Meurs this afternoon can go deeper into your specific question.

Patrick Willis: And just one more very quickly if I may. I think you guys historically said you are managing something like 15 petabytes of patient data. My question there would be what are the kind of core challenges in terms of anonymity of data and ownership, and it is a complex area. I would be curious about what you have to say?

Rob Cascella: Yeah that is exactly what we are looking at and we are already, I think, up to ten petabytes in the cloud already. So we are moving in that direction, but right now this is all owned by our customers. They have the key to the data. Some of the customers we made agreements that we can use the anonymised data for which they get approval from their patients. And for instance many of our analytics propositions are the result of working with our customers and their patients on analysing the data.

So our starting point is customer and/or patients own the data. They have to give us explicit permission. Virtually always it has to be anonymised, so that is how we structured the system as well. We are identifying data separate from clinical data, separate from contextual data.

Frans van Houten: And of course encryption is one way to do this is very well and our conviction is that cloud-based systems provide better security than all these on-premise based systems that are badly managed by our customers. And the security is an integrated part of HealthSuite.

Danny van Doesburg (APG): I have two questions for Mr. Cascella and three short ones for Mr. Nota. Very impressive EBITA performance in the Personal Health story from around 10 to almost 15 over the last ten quarters or so on average; can you elaborate on to what extent Respironics has played a role here, because I think I had the impression myself that Respironics had some tough years behind and may improved a lot as well on its own. So how has that helped to leverage and to improve your reported segment margin?

And then two short ones were on, I remembered that you are number one company in China for air purification and maybe you can see if that is still a high growth market and high potential market for you? And are you happy with the Saeco acquisition and did it work out for you so far?

Rob Cascella: Yes so I think it was. I will take the questions in the same sequence as you asked them. So first of the numbers on profitability for Personal Health that I showed in my presentation are all on a comparable basis. So the sleep and respiratory care portfolio is included there. So the step-up that you see includes also a healthy development in the sleep and respiratory care portfolio.

For the rest it is really driven in total by both like for like improvement for all the individual businesses, but also, as I mentioned, mix improvement, because we prioritise the higher margin businesses, and sleep and respiratory care is part of that. But also for example Oral Healthcare, Male Grooming, our Mother and Child Care portfolio, we prioritised those for growth. So within the total portfolio they grow above average and that of course also drives up the mix. So the margin improvement that you see at adjusted EBITA level for Personal Health is a combination of like for like improvement of all the businesses over the majority of that timeframe that you mentioned, but also mix.

And then the question you asked about let me take the coffee question Saeco. So the Coffee portfolio is growing healthily and also seeing development into improved profitability levels. So we are actually quite pleased with the development there. That also adds to the valuation of that business.

And then your third question about air purification. Yeah so yes we are the number one in China. And so we are also expanding globally. So in China of course the business is very much around air purification. So as consumers believe that the air quality of course in their homes need to be improved. We are also moving outside of China where we are also looking at allergies. So really helping people with allergies also to get a better air quality.

Danny van Doesburg: Okay, and then two short ones for Mr. Cascella, maybe you can you quickly give an indication of every one euro let us say equipment sales in your department, how was the spin off for the order of related business groups in Philips like services like

Informatics, like Patient Monitoring etc? So it would be helpful if you could shed some light there.

And then the other question is on your installed base over 300,000 units on a sales of roughly 6 billion I would say excluding Volcano, can you elaborate what is roughly your annual unit sales?

Pieter Nota: Yeah you know as we look at the more broader solution sales, the attachment rate of things like Informatics and different technologies around connectivity workflow and otherwise become a bigger portion of it. If we think about that today it is probably 20%. If we think about service, the attachment rates are very, very high. And so if we think about major modalities like MR or cardiovascular, you know 90% attachment rates relative to service contracts, and with an average economics around that of about 10% of whatever the sale value was of the equipment, so if that works. The second question?

Danny van Doesburg: Yeah more on the install base and maybe that is me to work out the economics of growth. Because I would say with an economic life of about ten years for your installed base that would roughly already point to about 10% growth if you just reinvent the installed base. But then it is also on a 315,000 units you probably could sell over 30,000 units per annum. So my question would be if that is the case how much sales would that deliver to you?

Pieter Nota: Yeah and I think you have to look at it by modality. So you know a 175,000 of the 300,000 is Ultrasound. So a great opportunity for a turnover, but unfortunately the contra-indicator is that everybody is holding on to their equipment longer. So we see the installed base turning over less than the 10% that normally an installed base would rotate, and so consequently people are holding on depending on markets longer from an equipment perspective. And since most of that is Ultrasound, the average value is lower as well. But I would say that the biggest negative that we see is just that instead of the average of 7 years we are now seeing people hold 10, even 12-15 years depending on the technology, and the modality.

Gael de-Bray (Deutsche Bank): How do you incentivise people on finding the next blockbuster around the three divisions?

Frans van Houten: Well we have moved from a kind of a holding approach where every business unit just kind of free for all can invent, towards a more orchestrated roadmap of value propositions. Because now the Lego bricks that every Business Unit makes needs to fit into the overall let us say ability to build solutions. And therefore the road mapping is supervised by our Chief Strategy and Innovation Officer. And we use themes to direct the innovation direction. For example, we have the cardiovascular space or the oncology space. And then we bring people together to kind of bring in their ID's for innovation and we judge how they fit in the overall scheme of delivering better solutions for cardiology, and oncology and so on. And then we prioritise the investment. So people are free to innovate, let us say, what they want. But before we really allocate budget to it we look at the priority list on our strategy, and how we can let us say drive the best returns.

There is no lack of creativity in Philips. In fact you could say that is our historic strength, right but choosing which creative ID is funded, we have strengthened that capability a lot right. And therefore it is about channelling the creativity rather than incentivising for more creativity. We have more ID's than we can do and we do not need to put money on creativity. Alright, but we put money on let us say the scaling up of creativity in the selected areas. And that is going increasingly well.

Gael de-Bray: And can I have a second one on the competitive landscape in China for Patient Monitoring and Imaging Systems. I mean it is been pretty clear that for a couple of years and a bit more than a couple of years now that the procurement policies have started to favour the Chinese players. So how did you prepare the organisation to cope with the inevitable rise in the Chinese competition?

Frans van Houten: Yeah so 2015 was a darker year in a way. It was not as good for us, and we have recovered greatly to high order intake growth and sales growth. A couple of factors there. First of all, governments were seeing the long waiting lists for patients. And therefore from a macro policy there is more authorisation for new expansion of hospitals, that is one. Two, the immediate hype around local competition has died down a little bit. I mean serious competitors for sure, but last year slots were being reserved for Chinese locals. And that has kind of yeah eased off a little bit and now it is again open competition rather than you know that slot is reserved for that local competitor.

But more importantly finally China is also gradually migrating from a transactional model to a solutions model. And we have succeeded Patrick Kung by Andy Ho. And Andy Ho is our new leader for Greater China and he comes from IBM. And because we see that we need to break through in the same way with solutions like we do in Europe and in the United States.

And I was in China last week and discussing this with the Minister of Health, you know how do you build the cancer centres of the future right, and how you then create that integrated environment where data is being leveraged for better patient outcomes. And so I see now the pivot in China happening towards a more integrated solutions demand and that plays into our cards, right. So that does not mean that local competition threat is going away but we are starting to bring in our competitive differentiators in China. And I find that very encouraging and I said in the Q3 results that we believe that this strong growth in China is there to stay. And I can say that with a level of confidence.

We have also replaced quite a few people in our China organisation to enable that pivot to more solutions orientated sales.

Tim (JP Morgan): One strategic question and maybe a couple of housekeeping questions. You are moving into invasive ventilation; where does that leave anaesthesia and maybe incubation? Are those white spaces that would make sense with a new portfolio?

Frans van Houten: Well we take it one step at a time. It is a good question for this afternoon when Carla Kriwet is presenting. Can you take it at that time?

Tim: Will do. The housekeeping ones which is really just to make sure we are all understanding this right? On your margin targets is the starting point the 11% you are targeting this year including legacy costs or maybe a number higher than that excluding writing legacy costs?

The second one is on your margin improvement of 100 bps per year. Is it going to be a bit underneath that in the first couple of years, how do you see that scaling through years one to four and should we be thinking about any big cash draw either through inventory buffering or cash expenses that may surprise us in the early 2017? Thank you.

Abhijit Bhattacharya: A couple of things. The target for this year that we had said around 11% was for the Philips Group. So that is the consolidated results for the company that remains so no change in that.

The next question on you know whether it is going to be lower in the first couple of years, higher in the next, that is precisely what we want to get away from. On an average we want to do hundred basis points a year. It could be a bit lower in the first year. It could be higher. That depends on how the economy plays out and that is where we have kept that flexibility. So that we do not have this kind of support of every year, you know do you make the target by ten basis points plus or minus? So it could be a little bit up or down, but around the hundred basis points a year to get to the mid-teens that we are planning to get to.

And in terms of cash like I mentioned you know there are a few de-risking issues where we will deal with. There are some loan repayments, but apart from that we are not going to buffer up inventory. Actually we want to buffer down inventory.

James Moore: I wondered if I could get back to the issue of the US market share on imaging. And there seemed to be a comment this morning about losing some share in other modalities, not just CT. I can understand why CT would have had some challenges given Cleveland. I am less clear on MR or X-ray. I wonder if you could perhaps talk a bit about that.

And secondly on the Personal Health business, great business. The Domestic Appliances is perhaps mentioned less. I wonder if you could talk a little bit about how the profit is developed there. And I know there are pieces in there, Coffee, SDA, I wonder if you could talk a little bit about how the different pieces are moving and whether it is a core business as a whole or in pieces? And then just finally PCMS is quite a complicated business within CCHI. I wonder if you could talk about whether there are different parts and different trends within that, where there are any risks related to margin in that core engine of profitability over the next couple of years?

Frans van Houten: Sure, well in sequence?

Rob Cascella: Yeah sure, relative to the US market share – and I will isolate it to DI, and not include all of D&T because that is not the case with Cardiovascular or IGT and Ultrasound. You know I said it there is a little bit of guilt by association, would that resonate, unfortunately that is the reality. So you close down a factory in what would be defined as traditional big iron, you get a bad reputation for that. I think our markets people did a phenomenal job with shoring up the other modalities primarily MR which is a very complicated and sophisticated one. But nonetheless there was some fallout because of that, and that is what we are building on.

Pieter Nota: Yeah on the Domestic Appliances business, so I did also answer on the previous question on Personal Health that we do see actually growth and profitability improvement across the portfolio, so which is helping the growth and margin expansion that I talked about in my presentation. So within the domestic appliance portfolio of course we have multiple businesses like our kitchen appliances business globally but also air, air purification. Coffee is in there. So Coffee I mentioned is showing good say progress in terms of profitability and also the entire DA portfolio, the Domestic Appliance portfolio. So also in Q3, we could show mid-single digit around 5% comparable sales growth. So that is also contributing to the overall performance improvement trajectory that we are showing in Personal Health.

Jeroen Tas: Okay so on PCMS, so essentially we have three businesses: Patient Monitoring, which is a very solid franchise as you know; we have the Ventilation business; and we have our AED Defibrillator business.

What we are looking at in terms of growth is exciting new extensions to the portfolio, but the real growth will come from software and services. We already see tremendous order intake in the services. We are investing in the software that actually combines what we are getting from our medical devices with patient profiles so that we can better help intensivists and nurses to intervene at the right point. And we see increasingly that patients are interested in paying for these kinds of solutions. So I think it is actually a very well-established, well-run business and you have the opportunity this afternoon to talk to Carla who is responsible for that business. And I think we are building this out from a position of real strength.

Frans van Houten: If you would quickly rank the level of protection, then Patient Monitoring we feel extremely strong and not easily to be disturbed by competition. Ventilation, we are the leader again very strong franchise, not easily to be disrupted. And in the AED landscape there are more competitors and therefore relatively lower barriers. But as we connect these devices then we start to differentiate further.

Jeroen Tas: Yeah for instance we are now combining a monitor with a defibrillator which we will show you this afternoon and that is hard to do for pure play you know AED providers.

Ben Uglow: The first question was for Pieter. In your presentation you said, or it was in the slide, that you needed to gain scale. And I was a little bit surprised by that because you have got a very big footprint already. What was the intention with that comment? So that was question number one.

Secondly for Jeroen, I think it was in Frans' or Abhijit's presentation where you highlighted the lack of growth in the patient care business in the second half of last year, a year ago. Can you just remind us what exactly was the problem then, what did you identify and how has that been resolved?

And the final question is for Abhijit. In terms of the margins – and thank you very much because you are giving quite a lot of subtle margin information I am trying to absorb – what I am so struggling with is the trajectory in Connected Care? You have got a patient monitoring business which should be doing frankly very well; it should be doing mid-teens and the high teens already. That is where the peers are. And then we have got the Healthcare Informatics which somebody and I cannot remember what the message was there, but it is already on a trajectory to teens. So what I am trying to work out in my head is the blend between what the core product Patient Care business is roughly and where you are today, not where you want to go to in Healthcare Informatics in a broad context?

Abhijit Bhattacharya: Yeah I will first take the question on Personal Health on the scale. Yes, you are absolutely correct. We do already of course today have a good global footprint so absolutely. But there are still if you look at the more granular level at our portfolio, say scale is still to be advanced. So take our successful Oral Healthcare portfolio, so we want to geographically expand. And the example I showed from China, of course that was built over the last couple of years. So we are now the number one in Power Toothbrush, and of course it positions us very well to capture further growth. Because I firmly believe that China is the next big market for Oral Healthcare. So that to the point on scale.

Frans van Houten: Yeah maybe add to that, that we all have a conviction that relative market share creates more distance to your competitors and therefore higher leverage. So we all believe that scale is important, and that never stops. Alright, Jeroen.

Jeroen Tas: Yes, so when Carla took over the PCMS business last year, she actually did two things that had a major impact. She really doubled down on the quality of our products, our ability to deploy and install and get that right. And the other one was to market. So she spent a lot of time in upgrading our market capability, a lot of investment in the sales force training, the sales force getting the right leadership in place. And I think on both dimension, she managed to get the business back into growth. And so she did some real structural changes that I think will definitely play out in the next couple of quarters.

Abhijit Bhattacharya: So Ben’s not so subtle question. So three parts in CCHI, right, PCMS good margins, mid-teens. We will see that later this afternoon. Hospital Informatics Solutions and Systems, HISS we call it, the Hospital IT business which Frans was referring to, good profitability. But together we club the HSDP investments which then make that business just profitable. Because you have the investment sitting in there, and then you have Population Health management which is still today a very nascent business. So our investments they have outstripped the revenues and profits that we make there. Does that clarify?

Frans van Houten: Rescued by Abhijit. Thank you. Alright, I hope you had an enjoyable morning. We threw a lot of information at you, many subtle messages indeed, Ben. Over lunch I am sure that you will grill all of us further. There is a wide representation of management that will sit at the various tables. And then this afternoon we will have an exciting afternoon. Over to Pim.

Pim Preesman: Yeah thank you Frans. So we have lunch in the drawing room which is in the right corner there, and then we all get together at ten past one on the other side of the hall for the business of Zooms. And everyone has on the back of their badge a number in which is Zoom which of the four Zooms they will start. Thank you.

[END OF TRANSCRIPT]