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EDITED TRANSCRIPT

PHIA.AS - Koninklijke Philips NV Capital Markets Day

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PRESENTATION

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Good morning, to all of you. Welcome here at the New York Stock Exchange, a very iconic place for us, where we celebrate our 30th anniversary of our listing this year.

I want to take you through the agenda of the day, but first of all, I also want to give a warm welcome to everyone that's watching to us via the live webcast. We have a full packed, exciting day ahead of us, but while we go and talk to our transformation to become a focused HealthTech leader and also about our focus to -- our targets, our 2020 targets, where we are going to.

A few disclosures I want to make. First of all, we retain a 41% stake in Philips Lighting, and as such, we continue to consolidate the results of Philips Lighting. We will treat -- we are treating lighting as a -- discontinued operations in our financial statements.

Before I talk you through agenda, I would like to draw your attention to the safe harbor statement that you see behind me here, which you also have in your booklets and your decks.

Talking through the agenda of the day. After my welcome, Frans van Houten, our CEO, provides some -- an update about how Philips transformed to a global HealthTech leader. He will talk you through this transformation through the strategy and how we are creating value for our customers and shareholders today and in the future; followed by Abhijit Bhattacharya, our CFO, who will talk you further on how we will drive further performance improvement, linked to the strategic elements that Frans will talk about. After that, both Frans and Abhijit will come here on the stage to take your questions. This will be followed by a 30-minute break. And after that, we will reconvene here at 10:30 local time or 3:30 Central European time. After that, we will go through each of our 3 business segments and our North America update. First of all, we have Egbert van Acht, Chief Business Leader of our Personal Health segment, who will talk you through sustaining growth and margin expansion in Personal Health. He will

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be followed by Robert Cascella, Chief Business Leader of our Diagnosis & Treatment segment, who will talk with you about the delivering on performance in this segment. After that, Carla Kriwet, Chief Business Leader of the Connected Care & Health Informatics segment, will talk to you about delivering continued and accelerating profitable growth in this segment. This section will be finalized by Brent Shafer, Chief Market Leader for North America, who will give an update on further delivering growth and performance in North America. After that, we will have the 4 preceding speakers on the stage here together with Frans and Abhijit to take your questions. After that Q&A, we will end the live webcast. However, we will be recording all the Zoom presentations in the afternoon and we'll put them on our investor relations website shortly after this day. After the second Q&A, we will go for lunch. And after the lunch, we will split up in 4 groups and go into what we call business zooms, which are breakout sessions to bring our strategy to life and provide a deeper insight into 4 specific businesses. This will be for Integrative Therapy, Diagnostic Imaging, the Healthcare Informatics and Sleep & Respiratory Care. After that, we will have a break, and we'll reconvene in this room here at quarter past 3. Then Frans will do a wrap-up and we're also honored to ring the closing bell today here at the New York Stock Exchange. And just before that, we will have Chris Taylor, Head of Listings of NYSE here, to give us some words and take us to the trading floor. We should finish the day at a quarter past 4. And now with that, let me hand over the microphone to Frans. Thank you.

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

Well, good morning, ladies and gentlemen. It's a real pleasure to see you here today, some familiar faces but also new people that are going to discover the story of Philips. Welcome, everybody, in the webcast. It's great to have you. Without further ado, let's talk about Philips.

I'm here accompanied by several of my management team members and the one here shaded in blue are all going to be interacting with you to give you insight in what we are doing and how the business is developing. And as you also see, the management team is very diverse, very international and has a long track record of performance and experience. The key takeaways that I would like you to gather are that we have completed our transformation from a diversified industrial holding into a focused HealthTech leader. It's a great platform where we operate in attractive and high-margin markets. We think that we can win in this space given the deep clinical know-how that we have and that we also gather with our partners, but also our strong consumer insights as the world struggles with the cost of health care and it is going to be very important to make sure that we help reinvent on how the world keeps people healthy and prevents disease. And our innovations are going to play right into that opportunity. And we will talk, of course, a lot about that today.

It's all about value creation, and our first big driver of value creation is just to get more juice out of our existing businesses. The core businesses still have so much more opportunity that we will consistently drive that across the globe. Moreover, we see nearby adjacencies, nearby to the core that we can invest in and quickly leverage our skill base, such as the brand, the global presence, the deep insights, in order to get these adjacencies underway. We are deeply focused on expanding margins and cash generation as we have been over the last couple of years, but there, I would like to say the self-help story will continue because there is still a lot more optimization to be done.

We maintain our targets for the future, as stated last year, 4% to 6% comparable sales growth, where, of course, we would like to gradually get to the higher part of that range; and an annual average performance improvement in terms of margins of 100 basis points adjusted EBITA per year for every year until 2020. It will not stop at 2020, but that's kind of the period that we agree here with each other to have a deeper insight in.

Now for those of you who are new, I would value first establishing a bit of identity so that you know who we are and where we come from. Well, Philips is a 127-year-old company and I always say you should take inspiration from your past, but you cannot live in the sentiment of the past. Now what is the common theme for all those years is our commitment to innovation. But rather innovating in many, many different markets, we have said we're going to focus on making the world healthier and more sustainable. So the focus on health, coupled with innovation, we believe, fits very well with our DNA. Actually, our first x-ray machine dates back from 1918, right. So we have been in health for a long time, but we feel very comfortable in this space of health innovation going forward.

It was a courageous decision to change the course of Philips. And over the last 6 years, we have divested our consumer electronics. We have divested our lighting business. We will divest the 41% remaining stake over time, and we will not take forever on that. Rest assured. And we have started to also add new pieces to the portfolio given our focus to become a solutions provider in the Health Technology space.

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The transformation has massively changed our profile. Here, you see that we were quite diverse in 2011 with businesses that were declining, very low margin. And as a consequence, the total of Philips was low margin. We have shifted in this HealthTech concept. We have become a slightly smaller company, but the growth profile is up. The profitability is up. I would not claim here that we are finished on this road, not at all. There is a lot more to do. And that profitability, you could say, is kind of the halfway milestone on a marathon. And therefore, we will continue to further improve. Nevertheless, this is where we are now.

Just to give you a bit of insight on all the hard work that was done, we have listed here some of the major interventions. I've already talked to you about the portfolio transformation and carving out all those businesses and not, let's say, being stuck with a lot of stranded costs was quite a task, but we have accomplished that. Knowing that we want to become a solutions company and raising customer centricity was very important to us. I mean, we've always been a very innovation-driven company but some innovation needs to actually happen together with the customer. And we have been beefing up our competencies in our markets in order to co-create with customers and to have much more entrepreneurship in our markets. We have shifted resources to where it really matters. And you have also seen that over the last few years, we have upped the R&D considerably as we want to be a leader in Health Technology. And even so, we have improved profitability.

Of course, there were many changes to culture, also changes to talent. Just to name 1 aspect of it, 60% of our R&D people today are in software. We have established the Philips Business System because we believe you need to standardize what should be standard and drive efficiency Lean and Six Sigma and only focus your differentiation on where it matters. The Philips Business System is how we work.

We have still a lot of opportunities to further drive operational excellence, but we've come from a long way and we are proud of what we have accomplished and where we are now. And part of operational excellence is, of course, quality, but part of operational excellence is also productivity. And there, we have been taking out over EUR 2 billion over the last 3 years. That has brought us largely in the median of the benchmark. So we know that from a productivity point of view, we can still do more. We've also addressed many legacy issues, such as pension liabilities and so on and so on and legal issues, and we feel that we are in much better shape now.

And finally, the Philips brand has a new vibrancy to it. And we hear that from our customers. We hear that from employees, talent that wants to come and join us. So of course, that has resulted also in a value creation. You see that here. I think you are familiar with that on how the revenue profile has gone up, and how the profitability has been increasing, but of course, it's also reflective of the total shareholder return over the last few years that we have delivered, whether compared to our peer group or whether compared to the euro stocks by any standard. The last few years finally have started to deliver, and we are happy with that and we want to continue that.

The continuation of the value creation is depicted here. It's our goal to be consistently in the 4% to 6% growth bandwidth and to consistently drive up margins. Several of our businesses are actually world-class in profitability, but some are not. And the average of Philips is not yet at the benchmark that we would like to be. And we have basically said by taking every year a consistent step of around 100 basis point allows us to continue to transform, allows us to continue to invest while also delivering a return that everybody looks for. And of course that in line, the cash flow generation will edge up all the time, and that is a good thing. And also, the organic ROIC will continue to improve to the territory of the mid- to high teens. It will make us a company larger than EUR 20 billion, and that also puts us in the very top of the world HealthTech companies.

Let us go a little bit deeper into our portfolio, a portfolio that we manage as an integrated platform to deliver solutions to our customers. The 3 segments you are familiar with. 38% of our revenue are in Diagnosis & Treatment, where it is all about first-time right diagnosis and first-time right treatment. The second important segment is about Connected Care & Health Informatics, 18% of revenue there, and we have deep experience in monitoring, taking data of patients and interpreting that even with predictive algorithms and to understand what needs to happen with those patients. And the third segment, which we believe is also very important for the future of a healthier world, is Personal Health, focused on keeping people healthy and helping people live with a chronic disease.

From a geographical point of view, we are very strong here in the United States, 36% in North America. And I also would like to point out that we have a considerable R&D footprint here and manufacturing footprint. And net-net, we are actually an exporter from the United States into other geographies. Another thing to point out is our strong footprint in emerging markets. We all know that emerging markets will become a larger share of the global economic output and that the billions of people there are in need of more care. We see that reflected in our massive growth rates in China. We all talk about that more, but Philips is, more than most companies, strongly embedded in those geographies.

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You challenge us quite often. "can you make the business more predictable?" And yes, we would like to do that and we can do that by increasing the proportion of revenues that are recurring, partly service, partly consumables, but also partly contracts that have a more a fee-based characteristic. And we will drive this proportion of recurring revenues up every year.

We do believe that relative market share is important, and we are glad to say that 60% of our portfolio are actually in leadership positions already, and you can read here for yourself in the various categories where we accomplish that. But we will always strive to be a #1 or 2 because that is where you get the best return. That is where your customers love you because they want to work with winners and also where talent really wants to join you.

The markets that we play in are growing and have very attractive profit tools. So we are now positioned in markets that grow and have high profitability. But these markets are also having the characteristics of many changes. And I think you know that and I get a lot of questions from analysts and investors talking about the big drivers in the market for health. And here, we have listed them on the left side. The world will go to 9 billion people, aging, more chronic disease, but also consumers wanting to play a stronger role in health themselves, technologies that will drive personalized medicine and then people wanting to have the best treatment.

To -- for the world to afford that, we need to drive outcomes and efficiencies. We should not become victim of that. We should actually say, "For a technology company, it's a huge opportunity." There are so many CEOs of health systems that now say, "We love your strategy. Please help us drive outcomes and productivity" because their budgets will not go up, right. So within the same envelope of budget, they will need to do more. And that is where we say we will proactively deploy technologies and skills and consulting to help our customers benefit from that. And we even have today health systems that say, "How do we keep people out of the hospital?" and that is where our competence in Personal Health and Connected Care actually comes in.

So it's an exciting market where we feel that we have a lot of core competencies to operate. Our strategy is guided by the health continuum. I hope that you have this on the front of mind because it works very well for us. It works very well in the dialogue with our customers. The health continuum basically makes people at the center of the action, and you all know what happens if you go from healthy living and you fall sick. You want to be diagnosed first-time right. You don't want to wait 3 months until the cancer has been properly diagnosed. You want to be treated first-time, right, and then recover back in the comfort of the home back to a healthy lifestyle. In order to do that, which sounds so obvious, deep knowledge of care pathways is essential. And Philips has that. We have deep knowledge on cardiology, on oncology, on neurology, on pregnancy and parenting, on respiratory care. We employ many doctors, and they have deep research programs with, let's say, our clinical partners. And we know when we take all that knowledge and turn it into technology solutions, it's a winner. What we will help our customers with is to drive precision medicine and the personalization of that. You can talk about pop health, population health, but it's 1 patient at a time. You need to deliver it to an individual. We see that there's a lot of waste in the health care system so we can drive together with our customers productivity or what we call the "industrialization of care." I started to coin that term a couple of years ago and everybody said, "You can't do that. You're not industrialization." but it is what world of health care needs, right? And by actually naming that elephant in the room with our customers, they say, "You're so right. Let us take the waste out and get to first-time right medicine." And then we also need to make sure that health care's affordable. So lowering the prices again should be something where we work on proactively so that all the billions of people that don't have access can actually get to it.

On this page, you see basically what we do in each phase of the health continuum based on our deep insights, the leading innovations. We actually believe that we are uniquely placed. Of course, some of you ask, "What about all the newcomers: the Apples, the Googles, the IBMs?" But we are in the care pathway. We are in the last yard. Our technology and our software and our services touch nurses, touch doctors, touch consumers right where they are. We combine the physical, right, the hardware, the equipment with the software and the service as integrated value propositions in order to support people in their health and well-being, in order to deliver definitive diagnosis to help minimally invasive interventions and to support people with their chronic disease.

At the bottom is this darker gray bar. We want to emphasize how important data is. Data is basically the oil that makes the whole health continuum work, the glue that binds all those health care silos together. And we need to tear down these silos in order to deliver care that really works. So we are proud to have actually over EUR 3 billion worth of business in informatics that enables to deliver Connected Care based on deep knowledge of patient data, clinical analytics. And we turn that into knowledge, supporting nurses, doctors but also patients to take more accountability of their own health. We believe that this capability of going beyond the box and integrating to integral solutions is actually unique.

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Of course, we are an innovation company. R&D drives that funnel. It is one of the growth engines. There's also innovation in commercial terms, but technology innovation is very important. I already alluded that during the last few years, as we were transforming, we actually upped the investments in R&D. And currently, we spend -- invest close to EUR 1.7 billion in R&D. And a good proportion of that is targeting breakthrough innovations that will only get to revenue in the coming years. And actually, that's an investment that's high-value because it will drive future top line growth and a rejuvenation of the portfolio. 60% of our R&D professionals are in data science and in software. We are a leader in design thinking. It's a competence that our customers really love. And we have many clinical collaborations.

Now what this drives is a portfolio renewal that is profound. In Diagnosis & Treatment, if we look at the last 3 years, 40% of the portfolio is new. And today, you will hear from Rob Cascella and Kees Wesdorp that in the coming year, we are refreshing 70% of the D&T portfolio. So that is what the R&D investment gets you; in Connected Care & Health Informatics, a 50% renewal rate; and in Personal Health, 25%, but that's calculated on a year basis only. So in Personal Health, we basically refresh the portfolio 25% every year.

We have also invested significantly in the capabilities to connect our products to the cloud. We believe that connected products will enable new business models and get us to become more of a services company. Finally, conscious of the huge investment that we make, we have introduced disciplined portfolio management. Every R&D project has a business case and has complete transparency to the Executive Committee. We are reusing much more architectures and platform thinking in order to drive efficiency but also to assure interoperability of our products with our customers. And we will deliver R&D productivity. As more and more products will come to market, we will gradually also see a slight lowering of the R&D percentage over sales.

I want to be brief about something that is actually very important, and that is that Philips with this strategy, which is attractive, which has purpose, that we find that we can attract a lot of good talent. Data scientists, people that really want to make an impact to the world, the millennial population, people love to come and join us. The same applies to top customers who see that we are on the right path to reinvent how health care is delivered. And we get many recognitions in the world. I also want to emphasize to you that we are committed to do business in a sustainable matter. We think that's important. Many of our customers think that it's important, and I'm glad to see that also more and more investment funds look towards how do you do business, and do you do so in a responsible way. We will be carbon neutral by 2020. For 3 years in a row, we were recognized as the industry leader in the Dow Jones Index. And just another data point, we work closely with (inaudible) on what is called the "circular economy." And we are challenging our own organization to take back as much possible equipment as possible to repurpose it and to take back the valuable components and materials.

At this stage in my introduction, I would like to shift towards the drivers of future growth and go a bit deeper in what will get us to higher growth and higher profitability.

I think you will recall from last year that we recognize that there are 6 important value creation drivers in Philips. Three talk directly to the opportunity that we have to grow our core business: geographical growth; pivoting to deeper customer relationship and take a larger share of their wallet; and move from a transactional product model towards more integrated solutions that have better value for our customers and consumers.

Growth in adjacencies, whereby going beyond the core business, we can drive more value for our customers. And we will get many examples of that today. Not all of that is through M&A. Actually, quite a lot of adjacencies can be done organically as several of our business leaders will elucidate today. And then lastly, driver 4 and 5, we will continue to transform Philips, building on the knowledge that we have over the last few years and make sure that we drive productivity, quality, customer satisfaction, but also make Philips completely digital. And I will talk a bit more about that. You will recognize that these 6 drivers are very important for sustained growth, expanded profit, more cash flow and a better return on capital.

So let's go through each one of them. An example of geographical growth -- I always say this is the lowest risk strategy to drive growth because you have a proven value proposition and you can just drive the heck out of it in other geographies. Now if you take a simple example of the power toothbrush, well-known here in North America, the market penetration, 35%, basically meaning 35% of Americans use a powered toothbrush. In China, a couple years ago, that was 0. Philips started to educate dental professionals. By now, the market penetration is 4% of Chinese households, not yet individuals, households. It's a massive market where we have over 50% share, where we have over 50% annual growth and it's a very profitable category. It's great. Now why would that stop tomorrow? This will go on for years to come as we just execute, and Philips has a very strong footprint in China, a very good brand. We are always recognized in the top 10 of high-innovation companies, and consumers see us as a

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very valuable contribution to their society. China will grow in mid- to high single digit over the years to come in a sustainable way to a EUR 3 billion part of our portfolio. And I'm very confident about our ability to sustain at least that kind of growth. There are other examples, more in the hospital sectors. We are penetrating the private market. We are penetrating the lower-tier hospitals, but there's not enough time in the day to give you all the examples. But you can see, of course, the geographical expansion can work for many of our categories, but also for Indonesia, India, Vietnam, Cambodia and so on and so on. The world is so large. There's so much still to do. This is something that will stay with us for some years.

I also mentioned to you that we want to move from a product company much more towards a solutions company, and that also requires a different kind of relationship. I mentioned to you that our customers struggle with the fact that their budgets will not rise, but they have more patients and they need to deliver better outcomes. We go to these customers and say, "You know what, why would you buy product by product and have these hotspots in your enterprise, struggle with interoperability, struggle with cyber security, and you're not getting really the benefit that you're looking for?" So we have introduced a concept of large-scale projects, large-scale strategic partnerships or LSPs, where we have common goals, joint commitment. It also has the benefit of more predictability and higher recurring revenues, and we are willing and prepared to take a share of the -- let's say, the responsibility to drive outcomes and productivity. Together, we can continuously innovate, and it is really rewarding to see how the dialogue then shifts from, "We need a piece of equipment" to "Please, Philips, help us redesign these care pathways. Philips, help us redesign the emergency department. Or help us make sure that patients can go faster from an expensive bed in the ICU to a lower-cost bed in the general ward or into the community." And that's exactly what we do with examples like Karolinska and Banner Health, where we have very rewarding relationships. Now of course, you heard me talk about this already for some time. And already today, we have now more than 80 of these partnerships, and the number is rising all the time. And as our skills evolve, we become better at this all the time.

A good consultative partnership requires, of course, that you can deliver solutions. And this is another feature of our strategy that I think is quite unique. We take an approach where we always want to understand deeply the customer need and then repackage suites of systems, smart devices, software and services into a value proposition that is recognized for customers to deliver value. The examples here on the page, some of which we will get into in more detail today, are, for example, into minimally invasive cardiac procedures. Now if a customer doesn't get more money for procedures, can we help them to do more procedures during a day by a smart combination of the lab, the catheters, the disease-specific software and also the services? Similarly, we do that in monitoring, a high priority for health care providers, and Carla will talk about that today, but also for people that have sleep issues. We go beyond the box. We connect it to the cloud. We deliver services. We demonstrate compliance. What we actually do is build business systems that are much more robust, much more sticky, where the whole price erosion or the price sensitivity actually goes to the background because if you demonstrate value, there is no pricing discussion as such and it has, of course, more recurring revenues. And that, we have summarized on this page. We see that the strategy is working. We see that the growth rate in this combination of solutions and consultative partnerships is higher than the average of Philips, much higher in fact.

Moreover, there's many customers who are interested to strike these deals. Now they do take quite a while to make, sometimes 12, 18, 24 months. So it does require an investment on our behalf to build these customer partnerships. In fact, this week, earlier in the week, I met 2 where we discussed with a C-suite on how we will do that. And I'm confident that all these opportunities in the pipeline will convert into successful contracts, and we have many in our pipeline. So here, we have actually listed where we are today. That number will still go up for the remainder of the year. We also got from Frost & Sullivan a best practice award as customers tell them that this works for them. I spoke to you about increasing the recurring revenue proportion also here. We aim to go to at least 32% and maybe more.

Besides the core business growth, we look at adjacencies. And you can build new growth in adjacencies in several ways. In fact, we are talking about 3 ways here. The first one is obviously through M&A. And we have done 2 significant M&A transactions over the last few years, which is Volcano inspector and ethics. Those were carefully chosen to meet our strategic objectives, to complement our leadership in the cath lab, which is basically a CapEx business, complementing it with the smart devices so that we can do complete procedure support, right, complete vascular procedures and interventions. Volcano has worked out very well. Basically, when we acquired it, it had flat, 0 growth; today, consistently a double-digit growth. We are leveraging all the synergies by -- of the Philips footprint, the Philips R&D, the Philips procurement contracts. And as a consequence, we also took USD 40 million of cost out. Volcano continues to track excellently well. Spectranetics, we're going to do the same and we will leverage our post-merger integration capabilities to unlock value. Post-merger integration driven on the one hand, by standard playbooks and on the other hand, by the talent base that we have, people that we insert into these businesses, and that can drive on a weekly basis progress on the top and bottom line.

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For example, on Spectranetics, we have already identified just in the United States cross-selling opportunities to over 500 accounts. And I was in Colorado Springs, where the headquarters of our newly acquired Spectranetics sits, earlier this week and reviewed the progress of this plan and was very happy to see the enthusiasm of the people on driving this, but also the granularity and the rigor in which we identify which sales person will drive what cross-selling opportunity. So this is not just a vague high-level goal. It's drilled down to the individual, into the organization and that you can see that people really get excited because they know exactly what they need to do.

So M&A is an important part of our, let's say, growth strategy, but we will be very disciplined about it. All M&A are approved by the Executive Committee, by the Investment Committee, going through a standardized process where we score on 12 KPIs and we are very critical and often send teams back to say, "No, this is not going to work. We are not going to do it."

The second method of portfolio extensions is by organic growth and the investments in R&D. You know that if you have looked at our R&D that we have increased it over the last years quite substantially. And some of that has gone into the areas that are mentioned here on the left side of the page.

We believe that our portfolio in patient monitoring is incredibly strong, and we want to extend that beyond the ICU, beyond the general ward, also into other care settings. And for that reason, we have invested in medical-grade wearables so that patients don't need to be wired up but can be continuously measured. This is part of Carla Kriwet's business, and we are already seeing very rewarding growth in that segment. I've often talked to you about Digital Pathology, which I believe is the last bastion of analog behavior. We will see that the world is going to embrace the digitization of the tissue studies. Since we gained FDA approval earlier this year, the telethon has been red hot, right, and the amount of visits that we entertain in our center where we develop pathology, Digital Pathology and computational pathology, we get weekly visitors because everybody now wants to understand on how this can transform the clinical practice of pathology.

HealthSuite, investments in that area in order to drive opportunities to connect products, enable new business models.

Let me pivot then to the right-hand side. We don't need to do everything ourselves. We have struck, for example, partnership with B. Braun, very reputable company. And they are benefiting from our image guidance. And as they benefit from it, they will drive more business for us. And there are many other partnerships mentioned here that we feel are very rewarding.

Let's talk a bit about the digital transformation. I see this as, first of all, a foundational transformation. I mean, everybody talks about digital, but you have to bring it deep into your DNA in order to benefit from it, for example, turning marketing and sales digital. And today, we drive 27% of Personal Health revenues online. Most of our marketing is done through social media and online channels. We can target individuals where exactly where we know that they need our products and then convince them. We are now transferring that skill from Personal Health also into our health systems channels so that we can target individual radiologists and sonographers and so on and so on, so that we are much more effective in reaching customers. Of course, you need to have digital talent for that and we have a world-class group of digital marketeers. We have a high proportion of data scientists and software people. So you can say 60% of our workforce in R&D is highly digital-capable.

We are transforming our back office into a digital company that is not just getting faster and more efficient procedures, but it also connects our ERP system towards our customers for recurring revenue streams for SaaS and PaaS business models, and we can then link to these new digital value propositions. Also remind customers that they're entitled to a new mask, right. And then we generate our own stream of recurring revenue streams. We can remind people to take the next Sonicare toothbrush in order to drive the highly margin accretive business.

And then finally, we have done a lot of work to make sure that our products are connected in a secure way so that we can leverage data. Our vision is that every consumer, every customer needs to become connected, better experience. We can start tapping into the data that they generate. We can have more recurring revenues and higher loyalty. Here are some examples on how we see that data will play a role that our cloud-based applications will be able to analyze but also orchestrate care, and then there are several examples where we create this deep relationship either with parents that want to get a baby or moms that are pregnant but also Wellcentive, the acquisition where we can analyze and identify cohorts of people that need certain treatment. And then of course, today, we will talk about our very successful Dream Family of products that deliver superior sleep therapy.

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Finally, we need to talk about our commitment to improve customer experience, operational excellence and productivity, a very important foundational program that you could say is basically the continuation of our Accelerate! program. We want really that the customer is part of our R&D process. It's a rule within Philips so that we really have co-creation with consumers and customers and where we design in an agile manner the right experience. We continue to outperform our -- improve our supply chain. You have seen that our working capital is going down all the time and we think that there is more opportunity to improve customer service levels but also become more efficient in terms of working capital.

We have introduced the concept of customer lifetime excellence that also means that we measure profitability on the customer on a multiyear effort so that if you make an investment that you also get a return. I spoke to you about the importance to have entrepreneurial teams in the markets, but it also means, of course, that we need to hold our people accountable on how the customer profitability evolves. In terms of productivity, Abhijit will talk about the successful program to drive, let's say, more efficiency.

So let me then talk a bit about operational excellence. The Philips Business System was introduced a couple of years ago. It's now deeply embedded in all our sites and in all our locations. Everybody is trained in Lean and Six Sigma. We start seeing huge benefits as people do problem-solving, daily management, [portion] planning and take accountability for improvement. We have introduced a more standardized quality management system, and I think given all your questions, it's important to also talk about where we are with regards to the recent consent decree and also the status of Cleveland.

Let me remind you, first of all, that both cases actually relate to findings of several years ago. In the case of the concent decree with regard to defibrillators, it is related to findings between 2009 and 2015. You cannot escape your legacy. You need to deal with it, but we feel confident that we are in a much -- that we are in a good position to stand, let's say, the scrutiny that comes with a consent decree and that our teams are fully prepared to receive, let's say, a -- fulfill the terms of the decree.

As you -- as we have told you in the separate call that we had earlier, this decree is focused on defibrillator manufacturing in the United States. We are already bringing the International Export business back on line and we believe that the consequence of the consent decree will be limited to the 20 million this year and the 60 million next year. So I want to assure you that we have a good grip and handle on the situation. It's not a nice situation. I acknowledge that, but we feel confident about our ability to live up to it. And it is contained.

With regard to Cleveland, we feel that we have made a massive improvement over the last years, and it was only logical that the FDA would come back over the summer and do an inspection. And it is also, in my book, relatively logical that there will always be still findings where you can further improve. So that doesn't upset me because quality and compliance is a continuous journey of improvement. Now we have said to you that the findings -- let's say, the inspection was done. There were a few findings. We have responded to the FDA. We have not yet met with them. That still needs to come. That's a normal process, and we will inform you when and if there are updates, right. But I get so many questions from investors. I want to reassure you that we believe that the situation is well under control, quite different than a few years ago. Moreover, we have other locations that are in great shape. And together, we feel that the Diagnostic Imaging business is on a very good platform where we see growing market shares, a completely renewed product portfolio, a good customer traction, increasing profitability, but you will hear more about that later from Rob and Kees. So let me not take away their thunder.

So in short, we will continue to further improve our quality management and regulatory compliance. We have made massive strides on culture. We are automating our complaint and improvement processes, our capital processes. We have gotten many inspections over the last few years, and I can gauge from all of those inspections, which have gone very well. That's in the progress that we have made, and we are in good standing with all the notified bodies. Moreover, we are already investing in preparing for the upcoming European MDR legislation, which, as you know, will go into effect by 2020. And so we have already started to prepare for that and to be in good shape.

All right. Let me sum up. We have great momentum. We feel very confident about our strategy. We know what to focus on in terms of growth for the core business, the adjacencies and operational excellence and productivity. It will drive every year this improvement in sales growth and margin expansion, cash flow and ROIC. And it will put us, I think, into a very attractive space for our customers, but also for you as our shareholders. In terms of key takeaways, experienced management team delivering on those objectives, we are on track with our programs, significant balance sheet and a responsible capital allocation.

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I would like to pause now and show you a nice movie and then invite Abhijit to talk more about these points. Thank you very much.

(presentation)

Abhijit Bhattacharya - *Koninklijke Philips N.V. - Executive VP, CFO & Member of the Board of Management*

Good morning, ladies and gentlemen. Welcome to the Philips Capital Markets Day here at the heart of the capital markets of the world, the New York Stock Exchange here in Wall Street. A picture says a thousand words. I think this video illustrated the huge transformation we've made as a company. Frans outlined that journey and what I want to do over the next 20 minutes is to say how we have transformed from a health -- from an industrial group to a HealthTech leader and how we've been performing while transforming at the same time. I think that has been the key to our success in the last few years.

So what I want to leave you with is the confidence that we are on track to deliver on the guidance that we've given. We talked about the 4% to 6% growth, the 100 bps improvement year-on-year for the next 3 to 4 years, productivity program to tell you where we stand on that. We've done a lot on our balance sheet, whether it's derisking our pension liabilities or managing our working capital, managing our receivables, managing our debt portfolio; and then last but not the least, talk to you about our capital allocation strategy, what we've done in the past, how does that look, how does work it out in terms of total return to shareholders, et cetera.

First, let me spend a few minutes on sales. So we've been saying for a while that between quarters, the business sometimes can be a bit uneven, but if you look on a 12-month rolling and you look at this now for 5 quarters, we are between the 4% and the 5%. So yes, there are quarters when you go down to 3%, 3.5%. There are quarters when you go to 5%, 5.5%. But on a 12-month rolling, we've been in line with what we've said. And that's largely driven by what Frans just mentioned. Innovation for us drives growth and improves margin. The newer the product portfolio, the higher the margin, the better the price points and, of course, the more the growth. Geographic expansion, a couple of examples that you saw, be it Sonicare in China or a large number of our Monitoring Solutions, which I will come to later in other parts of the world, and, of course, expansion in adjacencies. And I think the big example here is with Volcano and then how we further build on that with the Spectranetics acquisition.

I want to spend a couple of minutes on our order intake pattern because that also has been lumpy or uneven. And I think when we go through these cycles, people kind of wonder if there are a couple of low quarters. "does this mean your growth profile goes away?" And if you look at this, you'll see that this is a quarterly. This is not a 12-month rolling, right. So it's quarterly and you see it goes from 8% up to 0% to 2% to 8%. It's important to understand a couple of things. 30% of the order book or the order intake in the quarter has an impact in the immediate next quarter. So 70% doesn't have an impact. So it doesn't mean that if we have a lower order intake quarter, that the next quarter is immediately impacted in terms of sales. The other important thing about our order book is that from the orders we get, roughly 70% gets executed in the next 4 quarters, and 30% in the quarters after that.

Another thing I'd like to leave with you is our order intake booking policy. So we -- when we book these large, strategic partnerships, which are multiyear projects, we don't book the entire project in the order book immediately, the partnership and the value of that order. We only book that part which is within the lead time of the products we manufacture. So for example, if we have an ultrasound order, we book only 6 months worth of those orders into the order book. As you keep rolling forward, the further orders come in. For Monitoring Solutions, it's 12 months for -- let's say, the more big iron equipment where there's -- lead time is longer. It's 15. It's good to understand that because sometimes when competitors have large orders and they book it entirely in the order book, from a comparison point, I thought it would be good to help you understand that.

Let's move to our earnings. So if you look at our EBITA on a 12-month rolling basis from Q3 last year to Q3 this year, we have delivered 130 bps improvement. For the year, so far for the first 9 months, we are on track with the 100 bps improvement we talked about. So we need to do another 100 bps improvement on Q4 last year to meet our targets this year. Growth plays a big part in that. Our organic growth initiatives, that has driven the top line growth. We are well on track with the saving program, and I will come to the individual elements there and what we are doing to drive that.

We do have EUR 300 million worth of investments that we make, and the only reason for showing that is because very often, when people do valuation, they take the EBITA and put a multiple on it. And then of course, on the EUR 300 million, you apply the multiple as well. It's just to give

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a further level of transparency to say that EUR 300 million is not an amount that will go up every year. We keep it roughly flat. These are for businesses where we have costs now but no revenue and gross margin. And therefore, that will help to drive further growth in the coming years, as Frans mentioned.

We've also started reporting on adjusted EBITDA. And there, you'll see also over the last 12 months an improvement of 100 bps that we've achieved.

Let me go into the 3 segments. So if you look at Personal Health, that has had a very, very good growth run over the last few years actually. Between 6% and 7%, we had a bit of a lower quarter in the third quarter. But again, if you look on a 12-month rolling, we think that we are well on the way to the mid- to high single-digit growth guidance that we have given. If you look at the profitability improvement, you see every quarter on a 12-month rolling, we increased by 30 bps. So it's a significant performance improvement. We've been doing more than 100 bps improvement for the last couple of years.

Again, product innovation is the key. You will see a lot of examples that -- maybe I give you one, which is the OneBlade. It's a product which, last year before we launched, of course, had no sales. We will end this year well above EUR 100 million. So these are new initiatives, new product categories which you can create and then drive top line growth and, of course, margin along with it.

Geographic expansion, I talked about. I think Egbert will show you a couple of great examples on how we use our digital marketing capabilities. They give us a high return on capital that we employ for our advertising and promotion.

Operating leverage is a key to drive improvement in profitability. So we keep our cost base growing at a much lower rate than the overall top line that drives operating leverage. And we've been very strict on our portfolio management. Products, which have not been yielding the kind of gross margins that we wanted to, we have shut down over a period of time so that, that overall margin keeps improving. We've also come out with newer products, better quality, therefore, higher margins with more features.

Let's move to Diagnosis & Treatment. I think there, we are -- we have 3 businesses -- or 3 business units, and I'll go through each one of them. You see here also, we've guided to 3% to 5% growth. And again, on a rolling 12-month basis, that's a number we've been hitting consistently. More impressive there is the improvement in profitability. From 8% profitability on last 12 months in Q3 last year, we've now crossed into double-digit territory with 10.1%. We will have a zoom on DI, on Diagnostic Imaging, giving specific insights into how we will drive profitability there. But the good news here is the 6.5% order intake year-to-date. That is going to drive growth in the coming quarters. I think before Diagnostic Imaging, 70% of our portfolio will be new if you take this year and next year. That's also a big trigger for driving growth going forward.

Image-Guided Therapy. I think we have done well with the margin expansion. But we've also launched the new Azurion platform. And again, in the Zoom, Bert van Meurs who heads our Image-Guided Therapy business will talk to you about how we've been doing. But we are well above our own expectations in terms of the order intake where we have now quite a few hundreds of new orders on the Azurion platform, and of course, very happy with the growth of Volcano. As most of you remember, it used to be a business with a flat top line and loss-making when we acquired it. We are now well into profitable territory and a double-digit growth now for multiple quarters.

In Ultrasound, we have industry-leading profitability. This is a very, very good business. We have a very strong profile in the cardiology space. We have been wanting to expand in the OB/GYN area. I think we've made investments in the channel as well as in go-to-market there. The product range is now beefed up as well. So we are also getting a good traction in the order development of this business. So going forward, we continue to expect to gain share. 3% to 5% will be the growth in this business. That's a little bit over what the market is growing. And we want to get into the margins of the mid-teens, which is in the 14% to 16% range. So quite some improvement coming there, largely driven, I must say, by DI. And there we have quite some specific plans.

Let me move to Connected Care & Health Informatics, I think, a very, very solid business. Again, you see the profit trajectory going from 10% up to 11.4%. So we've seen that. And that, again, is a 12-month, so 140 bps. A lot of new product introductions, maybe a couple of examples is the new Efficia platform. This is a low-cost monitoring, which we have introduced in China for -- to help us gain further market share there. It also has a mid-segment and a sub-premium segment. So it's a use of an efficient platform to drive a strong product range. Or the IntelliVue X3, that's a fantastic contactless monitor. So you need to be hooked up to all these cables, with the IntelliVue X3, you don't need to. So you have continuous monitoring

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when a patient is moved from the ICU to the operating room and back. And that's the unique capability, which we have, and therefore, the main driver for growth.

The productivity initiatives on CCHI continue. So they have the program to reduce the manufacturing footprint. We -- and I will come to that, as an overall group how we are performing. And of course, you've seen that also in the Q3 results, when the top line grows, which is a bit uneven, the operating leverage is huge, because this is a high-margin business. And as soon as we start booking revenues, the fall-through of the gross margin is very high.

This business has about EUR 75 million of breakthrough investments. Again, the reason is to provide a little more transparency. And you will see a lot of these examples when Carla will speak to you on biosensors, where with a patch, you can have continuous monitoring of patients; the HealthSuite Digital Platform, as Frans put up; and the connectivity to the Internet of our various product portfolio that sits entirely in this business; Population Health Management and Healthcare Informatics, which also we have an interesting Zoom lined up later where Yair will take you through how we are developing that portfolio.

So this is a business, which we expect to get into the mid- to high single-digit growth rate. So you see it now coming back and improve margins again into the mid-teens, so from 14% to 16%, so quite some runway ahead for this business.

Let me spend a few minutes on how we're doing with our productivity program. This was a bridge we put up last year in the Capital Markets Day. If you look at the year-to-date performance, we have been roughly 90 bps on volume. We had planned for 100. We've been slightly short of the 4%. We are, I think, about 3.51% or so for the first 9 months. So as we go to the 4%, that will climb. Our gross margin improvements have been good. This is largely driven by our procurement savings, but also the manufacturing footprint reduction and an improvement in our overall product mix. The overhead cost reductions are on track. I'll give you some more details as we go through that in the next slide.

So overall our EUR 1.2 billion program, we are about EUR 350 million year-to-date till September. We had said we would do that EUR 400 million a year. So we are well on track to hit the EUR 400 million savings this year, and this really comes back in the P&L as you see. So you see the 100 bps improvement year-on-year.

The bar below gives the indication that we had given last year over a 3-year spell. So you see the -- we had expected 100 bps on volume. We are a little bit short. We're slightly below on gross margin. But we've done much better on the price erosion and kind of in line with the inflation. So the guidance that we had given over a 3-year period, we see -- we are moving in line with those plans pretty much.

What have we done in procurement, and this is important to understand, we have changed in the last few years the way we do procurement in Philips. In the earlier way of working, we used to have products designed and then have the procurement team step into negotiate better prices. That gives you limited flexibility, because of course, the supplier knows that if they wait long enough, they start affecting the launch windows. And therefore, you have limited room to negotiate. We have moved the entire procurement process in the front end of the innovation process. So you have cross-functional teams with sales, marketing, R&D, procurement and finance. We get in a large number of suppliers, 3 to 5, for key components. And they bid at a stage right in the beginning rather than the end. What that does is actually our procurement funnel of savings, which used to be 2% to 3% earlier, is now in the 5% to 6% range. And that gives us higher than what we ever got in terms of procurement saving, helping us drive the margins. And year-to-date, we are about EUR 100 million-plus on that.

The footprint discussion we had, of course, we put our factories through lean one-by-one, but we're also reducing our overhead cost. We're doing the regional consolidation. We had 50 plants, as we told you. We plan to take out 40% of the industrial base. So we go down to 30. We are -- by the end of this year, we will already be at 41. So good progress already and another 11 to go in the coming 2 years.

The overhead cost reduction is largely driven -- so for our overhead structure, we had set benchmarks for all functions. All functions. We had IT 2 years out, because we are now in the process of redoing our IT landscape and finance a year out because of the close linkage with IT. We are now driving significant savings there. And for the rest of the functions, we're basically keeping them flat going forward. So whenever we get growth in the 4% to 6% range, you start getting very good operating leverage from that.

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Significant steps in IT. We have -- we're starting with a landscape with 49 instances of SAP. We will go down to 6 in the coming years and not 5 years, but by end of next year, early 2019. So quite a aggressive rollout program. We've started rolling out the new kernels, and then we will complete that. And of course, delayering the organization, running our global business services, we started that this year. By the end of this year, we'll have close to 1,000 people in low-cost location hubs, which help to drive back-office process standardization. And then in the coming years, move that to about 3,000 people.

Let me spend a few minutes on working capital. So big improvements in inventory, and you see this is a 3-year trend and it's quarter on quarter on quarter. So it's not a spike of a year and significant improvements above 240 basis points over a 2-year period. In every single quarter, you see strong improvement in working capital, 170 to 260 basis points. We have reduced our aged inventory significantly. Our overdue receivables are at an all-time low. So we've managed those extremely well. We've partnered with our suppliers on improving our credit terms with them. And this is a very significant part of our overall performance management cycles. We still have close to 425 stock locations in the world. We are driving an aggressive program in the next couple of years to bring that to about 270 or so. So that will further help to get efficiencies within the supply chain as we roll out our new systems as well.

Let me move to what we've done on other elements of the balance sheet. Not too long ago, a few years ago, we had pension liabilities of EUR 27 billion, including lighting. We have significantly decreased that. We are now about EUR 3 billion, largely now in Germany where basically you can't have a funded pension plan and a few, let's say, deficits in North America and 1 or 2 other places. We have started a long program to derisk our pension situation in Brazil that will come to an end in the next quarter. The approval process is a 3-year cycle. So all these legacy issues have been dealt with.

I spoke to you last year about reducing our interest expense by EUR 100 million a year. We will deliver on that this year. So our interest cost will come down by more than EUR 100 million this year. And if you look at our adjusted free cash flow conversion, we are well above the 100%, because we have been getting more efficiencies from our working capital as compared to our net income, and let's say, within the guidance that we've spoken about of EUR 1 billion to EUR 1.5 billion. So we are performing pretty much on track there.

Our capital allocation policy, Frans mentioned how we do our M&A, a very, very strict process, which goes through our investments and alliance committee. Focused is our organic growth strategy on high ROIC investment. So we make the investments in areas where we think we can get high growth, high margin and therefore a high ROIC. We have been more active in M&A, but not a lot. And I will show you a track record of how many we've done in the past few years. We remain committed to a strong investment-grade rating. I think that is critical for us, so we will not take our rating levels down.

Our dividend policy has been stable. We have a payout ratio of 40% to 50%. We have been always above that ratio in the last couple of years. Now our earnings have grown, so we now come within that bandwidth. And then as we grow our earnings, we will grow our dividend as well. The share buyback program is moving well on track, the EUR 1.5 billion. And then we continue to drive balance sheet efficiency.

And you see the 2 graphs on the right-hand side of the page where we've compared it to 2 peer groups from 2012 to now with the peer group of the earlier industrial group, where you see compared to the Euro stocks, we've given a TSR of double. And compared to our peer group, we were about 30% more. And from last year when we moved more into the HealthTech space, you see that we are 3x the euro stocks and a little more than double of our peer group. So we have, let's say, the continuous improvement and performance is also recognized, and you see that back in the return for shareholders.

Dividend, I spoke to you about. We have roughly 3- to 4-year tranches where we hold, and then we've been increasing our share buybacks. We've done EUR 5 billion -- when we complete the current one in the last few years, we would have completed EUR 5 billion worth of share buybacks. If you look at our mergers and acquisitions from 2011, we've done basically 2 of size, which is Volcano and Spectranetics. So you see the other years that we have hardly been anything. And the return on invested capital into the teens with a WACC at 8.2%. You see it coming down slightly, because we take a 5-quarter rolling for the net assets employed. And as the -- as we go quarter-by-quarter, we get more quarters of the Spectranetics acquisition, this is only 1 quarter. So we will go down a bit to about 12% and then go back into the mid- to high teens range that we've guided for.

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So these are the targets, Frans mentioned them. On the EBITA improvement, I think it's important to understand that we have accelerated certain restructuring programs, because as we continue our transformation to solutions, we need to make certain investments there. We said okay, if we advance our cost savings, then we are able to generate enough money to not only keep to our targets, but also make the requisite investments. And then we should be on our way. So not something that is to worry about, but these will all result in cost benefits/margin improvements going forward.

So with that, let me invite Frans to join me on stage, and then we'll be happy to take questions from the group for a while.

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

Let's go there. Is there a microphone? Coming behind you.

Patrick Andrew Robert Wood - *Citigroup Inc, Research Division - Head of EMEA Medical Technology and VP*

Patrick from Citi. I have 2 questions, if I may, please. The first will be, I was interested to see the accelerating growth you're getting in the bundled services, essentially, it's offering into hospital groups. Do you have a sense of who is getting pushed out? If you're coming in with the bundled offerings, presumably it's not all replacing your end products. Who do you think you're replacing in that decision-making process? And how does that change over the long term? And then the second question I had was really on a portfolio perspective, Domestic Appliances. Should we expect any point a strategic review to look at that, or is the -- is there enough value in it showing the sales channels and brand equity to keep that for now?

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

That's great. The -- what you see is that as you make a large strategic partnership, that the share of wallet that Philips has could typically rise from maybe 30% to even 60% to 80%. It seldomly goes to 100%, because of course, we don't have everything, right? The people that are pushed out first are the smaller suppliers. We don't underestimate our key competitors, some of which also strive to do this with less or more success. What we do see is that some of our competitors don't have the wits to do this. They don't have the clinical depths nor the health informatics, right? So our decisions to step up informatics as well as also our design and consulting capabilities, because now we have a large design group that can basically do the legwork of data gathering on the inefficiencies and so on. So we see that we are better placed. I think it's too early to cry victory. I would not yet say that this war is over. What I'm very confident about is that this strategy works, right? So now we need to diligently continue to push it. And then maybe you repeat the question next year, we've pushed out. And then I would say, yes. All right. So your other question, I think we have said here in these kinds of rooms before is that we will always try to be objective whether we are the right owner of an asset. Okay? We have made massive portfolio shifts. When we do, let's say, the value-creation assessment on Domestic Appliances, we believe it will be value destructive to carve it out. We have deep relationships with our large retailers in several emerging markets. Often the first touch point was the brand is in these kind of categories. Moreover, we would be quite concerned to -- as the business is completely integrated to harm the positive momentum that we have. And then finally, we are actually growing very well. We're enhancing margins in this business. So I think we need to step over our own shadow and maybe not be completely intellectually pure and accept that a small part of the Philips portfolio is not, let's say, completely hardcore health and health care, although it's great to see how the DA team is stepping up to insert the notion of health even in that category, right? Think about the healthy breathing where it started with taking fine dust out of the air, and now we are taking pollen and allergens out of the air for people that have asthma. So I think it's early days, but we have decided that this is part and parcel of the Personal Health portfolio. And then we stay in that row and then -- Veronika, I guess.

Michael Klaus Jungling - *Morgan Stanley, Research Division - MD, Head of MedTech and Services and Analyst*

It's Mike Jungling, Morgan Stanley. I have a question about the second part of your growth strategy, and I'm referring here to these consultative partnerships. And can you comment perhaps on 3 things: firstly, the degree of upfront investments that you typically have to make with a view of how dilutive these transactions are before they turn to a more profitable stage; secondly, the challenges of monitoring and auditing the performance

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with those partners to make sure that you get paid the right amount? And thirdly, of the 80 agreements that you signed so far, how many have not worked out or how many of those are currently in dispute?

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

Okay, very good. And yes, there is an upfront investment in acquiring large-scale partners. And maybe later when Brent speaks and we have Brent on the stage, you can also come back to that. Typically, in 18 months period -- and you then need to have an account team that engages with the C suite, that does data-gathering, that prepares a business case that is convincing and attractive to that IDN. Sometimes, they voluntarily come with their challenges, right? I mean, the best are the customers that basically openly come on and say, here, study these data and help us transform. Sometimes, we need to be a bit pushy. But I find a very open door with these accounts. Now obviously, if you have a couple of people work for a year, 1.5 years, that means costs. On the other hand, if you work on 5 tenders for individual equipment, of which you only win 1/3 or 1/4, you also have costs, right? So we don't see a significant higher cost commitment on the average for Philips, even though it is significant to win a big account. That's a -- once you have won it, actually the selling expenses are lower, right? So over a 10-year period, I would make an argument that this is very efficient. Now then we have a comprehensive process around deciding on who we want to do a partnership with. So we have basically designed the process with deal boards where the country or the account team needs to pitch it to experienced leaders like Brent and -- but also our Philips Capital representatives, so -- where the experts will judge whether that account is -- all the elements are in place. For example, governments, right, in these large-scale partnerships, we need to make sure there is a governance in place also for dispute resolution on decision-making. If you take into account 2 or 3 renewals of technology and equipment, there needs to be discipline not only with us, but also with the account. And so what we typically look for is a preparedness of the C suite to adhere to a certain compliance in the contract so that our share of wallet indeed goes up to the desired thing. And if we don't have something that we then decide together what is the right investment. Now then Abhijit has designed a whole methodology for measuring cost and profitability, which we evaluate very regularly. I can tell you that maybe with 1 or 2 exceptions, every deal is larger, is growing beyond the initial scope and is margin accretive to the efforts of the Philips business. And for the 1 or 2 that are not, it is not because we messed it up, but something happened to the customer and maybe it delayed, they had a restructuring or they postponed an investment. But then we know that it will come later. So overall, I feel very confident about it.

Abhijit Bhattacharya - *Koninklijke Philips N.V. - Executive VP, CFO & Member of the Board of Management*

Yes, I think we've mentioned 2 things. We mentioned the share of wallet and we mentioned the absolute business. So if the IDN or the hospital group has been slower in the offtake in the beginning, our revenues would be lower, but our share of wallet of the orders placed has always been equal to or higher than the business case for each of the ones that we started so far.

Unidentified Analyst

Have you had skewed settlement? Have you had major...

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

No. If we have had, let's say -- there have been 1 or 2 issues, but then given that we have put in place a governance with also escalation methods, where you have regular account reviews with the customer also at a higher level on the basis of shared dashboards where also the customer has their obligations, you can basically put it all in the open and talk about it and very mutual satisfaction on both sides here. Okay? Maybe if you pass the microphone to Veronika, then we'll take the next question.

Veronika Dubajova - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Veronika Dubajova here from Goldman Sachs. I have 2 questions, please. My first one is on the capital allocation framework. And Abhijit, it's helpful to serve -- see how you think about the priorities. But if I look at your balance sheet, in particular pro forma for the lighting's sake, it seems that you have much lower leverage than your peers. How were you thinking about what an efficient balance sheet would look like for you from a leverage

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perspective? And maybe you can comment a little bit on the time line to the lighting disposal being fully executed. I know, Frans, you made some comments at the beginning, but maybe Abhijit can give us a slightly clearer time line? And then my second question is on the EUR 1.2 billion restructuring program. You're tracking very well so far, but you have raised the overall cost of delivering that program. And it seems that you're front-loading quite a lot of costs into this year. So can you put into context for us what that means, either -- is it harder for you to hit the EUR 1.2 billion and is that why you're raising the cost? Is it that there are more opportunities? And then why are so much of the restructuring costs front-loaded to this year?

Abhijit Bhattacharya - *Koninklijke Philips N.V. - Executive VP, CFO & Member of the Board of Management*

On the first one, I think you say that our leverage is low, but actually we are in the EUR 1 billion to EUR 1.5 billion. That's the target leverage we have. We've done an extensive benchmarking with our peer group. Most of the peer group is in that range. There are a couple of companies with a higher peer leverage, but those are the companies which have done a big acquisition recently. So they have a little more data, then they will come back. So I think if you look at Q3, we are in that range. End of the year, we will be in that range. Yes, there will be some inflow from lighting. There will be some outflows for pension that we've done. We're also going to -- we're in the middle of our buyback program. So that will kind of even out. So I don't think we will have a lazy balance sheet. Maybe an odd quarter where we have an inflow and an outflow match. But I think if you look over a longer period, we should be fine. The other question on the lighting sell down, yes, I mean, I'm happy to give you a date, but then we will probably be meeting in jail next time for market abuse regulations, and that's not the plan. But as Frans mentioned, we don't have a long-term plan to hold onto lighting. We're not in a hurry. So lighting has been performing extremely well. Their earnings have gone up. They've delivered good growth in the quarter. So we will pick up moments where we need the cash and then execute accordingly. And so far we've been pretty quick on that, so it should not be a worry that we will hold on. It's not the intention to keep them -- keep that stake for long.

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

Okay. We'll go behind you.

Veronika Dubajova - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

And on the restructuring program?

Abhijit Bhattacharya - *Koninklijke Philips N.V. - Executive VP, CFO & Member of the Board of Management*

Yes. So we are not doing more restructuring than planned, but we are pulling that in, because we also see that we can make some more investments to drive growth for that, specially in the solutions area. Yes, then we don't want to be behind the curve in terms of our profitability improvement. So actually, we see the productivity program as a very strong enabler to save money, which possibly we can reinvest. And if we pull that in, then hopefully, we get some more momentum in the growth as well.

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

Very good. Mark, we go to you.

Mark Antony Troman - *BofA Merrill Lynch, Research Division - Head of the Pan Europe Capital Goods Research*

Mark Troman, Bank of America Merrill Lynch. Just following on from Veronika's question. I mean, I guess, when we -- if we come back here next year, you'll be less levered with years of great cash flow, the strong conversion you have. So could Philips -- with Philips in a position to do another Spectranetics like deal from -- given that funds are available, or is the focus to integrate the Volcano and Spectranetics get out to a certain stage in terms of management resource? Question number one. And question number two, the market share gain story, I guess, particularly in D&T, is

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that because of the new business models? I'm trying to sort of isolate the drivers of that? The new business approach in terms of the solutions, is that new product driven? Is that catch-up from Cleveland, if you like, getting back into the marketplace and regaining some market share? What is really driving the ongoing market share gain?

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

Yes, let me first say, I think Philips has the capability to do more M&A. We are in a healthy situation indeed, to your point. The balance sheet would permit it. And I have actually gone on record to say that M&A will play an active role in our strategy. So yes, we could be doing another acquisition. But most of the Philips story is an organic story. So we are laser-sharp focused on delivering on the organic plan, because that is what's going to give us the entitlement to do more. That is what will close the gap on profitability towards best-in-class peers. So the 90% focus sits on that, right? So if we cannot find an attractive M&A deal, then we don't, right, it doesn't have to be. And then maybe for a while, that leverage ratio is a little bit lower, and so be it. We will take a very responsible approach. Now to dissect the growth and the strategic drivers, that's not so easy. Stephanie here has helped me to do a lot of analysis, which is great. For example, we know that in the large strategic partnerships, actually DI has a predominant role to play, right? And we see that there is appetite from customers to work on transforming their radiology departments, because it's a cost center for them, they know it's not efficient, they need help. And so there is a good opportunity. And maybe later when Robert -- in the Zoom case, they can refer to that as well. Now we couple the DI strength with the strength of Carla's Health Informatics business where we have practice management and radiology solutions. So we can actually create a bundle. And if you -- we have talked about our order intake rates in D&T and in DI, and it is on a positive momentum and it is also related to, let's say, business model innovation, right, which is the sister or the brother of the technology innovation. So it's scoring well for us. But we are not, let's say, detailing it out exactly also, because sometimes, it's the 2 drivers at the same time that make you win a deal. We move to the back there.

Max Yates - *Crédit Suisse AG, Research Division - Research Analyst*

Max from Crédit Suisse. Could I ask also about the Personal Health margins where you showed the chart about how quickly margins have been coming up over the last sort of couple of years? And obviously, the 17% to 19% targets, you've done 16.5% in the last 3 -- in the last 4 quarters. So it kind of implies a bit of a slowdown. Is that sort of anything related to investing more? Or could you talk a little bit about how you think about those Personal Health margins and why maybe we will be expanding in a slower rate than we have been in recent years?

Abhijit Bhattacharya - *Koninklijke Philips N.V. - Executive VP, CFO & Member of the Board of Management*

Yes, I think a lot of the improvement in the past was very rapid, because there were quite a few turnaround cases, portfolio management, et cetera, which we did to get the curve a bit steeper. But 100 bps improvement every year is still a pretty steep trajectory going forward. So I don't think that's something to be considered really as a slowdown. Yes, you have different phasing, it'll never be equal. But I think it's still from 16.5% to go into the 19% or 19%-plus range is still a pretty stuff year-on-year improvement.

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

Okay. And you will hear later from Egbert who is going to give all the testimony, how this business will continue to perform.

Max Yates - *Crédit Suisse AG, Research Division - Research Analyst*

And just maybe the second question on China. I think -- so China has obviously turned around for you sort of quite a lot in the last 12, 18 months and growth rates have accelerated. I think we've kind of talked about before, there was sort of a trend of the government sort of preferring local payers and they'll be moving slightly away from international players. But that doesn't seem to be the case in your growth rates. So could you talk a little bit about what you're seeing on the ground in China in relation to that trend?

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François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

So the difficult year was 2015 when the brunt of anticorruption as well as preference for local brands as well as a slowdown in the economy kind of all hit at the same time. We also had a leadership change at that time, right? I'm very happy with how Andy Ho is running the business in China and also targeting, let's say, new areas of growth, for example, in the lower tier hospitals, for example, in the private hospitals, introducing the solutions strategy in what is a very transactional market, right? But at first, people said there is no solutions market there. But it's not true, right? We just need to unlock it, and we have started to do that. We also have partnerships in China. So for the more sensitive technology areas that we can work with a local partner so that the data of Chinese patients can actually be hosted by Chinese partners rather than by us as a foreign actor, although of course, we try to position ourselves as a Chinese company in China. But -- so we will collaborate there with local partners. And all of that works out well, in my view, is sustainable. It doesn't mean that those government policies or, let's say, tendencies have gone away, because I've gone personally to Beijing and asked what about it. I mean, WTO and so on. And they say, this is not government policy to favor locals. I mean, if you are a responsible player, and Philips is because we do R&D in China, manufacturing in China, we have large footprint. And that, of course, we all convey. And we think that sometime, it's over. And let's say, local actors that do this, whereas it's not necessarily national policy. But anyway, we find that we can navigate all those cliffs. Indeed, the performance is very good, both on the consumer side as well as on the professional side. And I feel confident about our ability to perform there.

Abhijit Bhattacharya - *Koninklijke Philips N.V. - Executive VP, CFO & Member of the Board of Management*

I think also on the Personal Health side, our investments in digital are really paying off. So you see our growth in the online channels have been very spectacular there. So the targeted investments that we have been making, we start seeing a return on that as well.

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

Yes, that's right. Maybe we go a little bit into the back on the other side, give everybody a chance.

Scott Bardo - *Berenberg, Research Division - Analyst*

Scott Bardo from Berenberg. Just a couple of financial questions and hopefully also a strategic one for you, Frans.

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

No, that's okay.

Scott Bardo - *Berenberg, Research Division - Analyst*

So just to understand, clearly, you've got pretty attractive top line margin targets, quite progressive guidance from a P&L perspective. And I was quite surprised to see you not give progressive free cash flow guidance. It seems to me there need to be quite some significant outflows to keep it in that bandwidth, given your profitability expectations. So can you perhaps just give us some sense as to what are some of the drawdowns, if you like, on your cash position over the mid-term, please?

Abhijit Bhattacharya - *Koninklijke Philips N.V. - Executive VP, CFO & Member of the Board of Management*

I think we have guided on cash flow. We've said EUR 1 billion to EUR 1.5 billion. We probably, with the stuff we're doing on our working capital, will be at the higher end of that range. But if you look at the EBITA of, let's say, 15% on a EUR 20 billion business in the next few years, we will have, let's say, depreciation, amortization getting offset with CapEx that is kind of a wash. You will have the restructuring cost, the interest expense of a couple of hundred million a year. And the tax rates are -- tax rates have been favorable in the last few years, largely because of release of uncertain tax positions, which is, as you know, a bit of a luck situation. And we have couple of DTAs, or deferred tax assets, which we have, which will expire. And

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then if the tax rate comes up to the normal ETR, which is about 30%, those will kind of be the detractors from the net income -- sorry, from the EBITA. And then you will end at pretty much the higher range of the EUR 1 billion to EUR 1.5 billion.

Scott Bardo - *Berenberg, Research Division - Analyst*

And you've provided very granular guidance on your savings and your margin expansion targets, and that's been very appreciated. I noticed you still have, and it's understandable, this terminology of an average margin improvement. And I just wonder if you could comment a little bit directionally. Next year, there seems to be a few incremental headwinds, maybe currencies, just sort of consent decree, maybe some additional remediation. So I mean, is this still your expectation to have a relatively linear progression, or could that be a little bit more back-end-loaded?

Abhijit Bhattacharya - *Koninklijke Philips N.V. - Executive VP, CFO & Member of the Board of Management*

Yes. We've said, on an average, 100 bps annually. So we look at that whether it's 90 or 110, given which year is good and which year has some headwinds. But I think the plan is by advancing some of our cost-saving initiatives that we are well prepared for headwinds for next year and are able to tackle them. So on a full year basis, I think we will continue to look at the -- on an average 100 bps a year.

Scott Bardo - *Berenberg, Research Division - Analyst*

Okay. And lastly, just strategic one for me. So it certainly feels to me that Philips is very well positioned in this cycle of transition to value-based care in the U.S. So I just wonder if could share a little bit your experiences. How much of your conversations or the marketplace, would you say, is transitioning to value-based care? And how is Philips winning more so in this new environment?

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

Yes. It's -- I see it as a multiyear process. So the market is not magically going from fee for volume to value-based care and eventually accountable care propels that will take several years. You see states that go faster, like the smaller state of Vermont, I believe, that has embraced it; and others that go slower. We also see some hospital systems making deals with, for example, Medicaid in order to say, how do we take care of this cohort of population within the envelope of the Medicaid payment for that cohort? So real accountable care, I think, is still a few years away, but it is a trend that's going to be inevitable. Now the halfway station is what we would call value-based care where you will see that reimbursement is going to be capitated, hospitals will need to take accountability of the intervention. Now you could say that's the guarantee, no new reimbursement if the patient comes back within a certain period. And that is where you then make the pivot to value-based care. And where -- then hospitals need to have partners that help them do that. And so it is -- productivity is top of mind of hospital system CEOs, right? So productivity consolidation and putting in place the ingredients to be ready for the future. So you'll also see more partnerships with primary care, emergency response services in order to create that ecosystem so that care can be optimized and better coordinated and avoided. Also we see now a strong trend towards telehealth, which is another floorboard of what is to come, right, because you put in place a telehealth infrastructure and you can avoid patients coming to the ER where they cost more. And you see networks that are very advanced in this like Kaiser Permanente, who is doing a lot of it. So expect a transition over several years. And maybe when Brent is up, you can weave in a few more comments on this.

Pim Preesman - *Koninklijke Philips N.V. - Head of IR*

We have one more question from Mr. Uglow. If you...

Abhijit Bhattacharya - *Koninklijke Philips N.V. - Executive VP, CFO & Member of the Board of Management*

One more. Last one before the break.

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Benedict Ernest Uglow - *Morgan Stanley, Research Division - MD and Head of European Capital Goods Equity Research*

So 2 questions, first of all just on R&D. Your absolute spend is about EUR 1.7 billion. How do you think of that? How does that stack up versus your major competitors? So when you look at Philips R&D versus GE, Siemens, et cetera, how do you think about that problem? And is there anything that you are doing differently in the way you conduct your R&D, i.e., is there something special or very differentiated in your R&D versus...

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

If you say problem then. I hear you say that. It's not a problem.

Benedict Ernest Uglow - *Morgan Stanley, Research Division - MD and Head of European Capital Goods Equity Research*

The second question relates -- and I'm surprised nobody wanted to mention it, but to the FDA. If -- we are looking at a few charges now into 2018. If -- well, I guess, my question is, and I want to ask you in the right way, is it would be easy to assume from the outside without knowing all the details that there was some kind of underlying systemic issue with the FDA. Is that an overly simplistic assumption? Or -- and what I'd like to know is what was it in the past, and I agree that it may well be in the past, which is related to these issues with the FDA that we're seeing today?

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

Yes. Do you want to take the R&D and productivity?

Abhijit Bhattacharya - *Koninklijke Philips N.V. - Executive VP, CFO & Member of the Board of Management*

Yes. So we've done benchmarks, and we're probably 100 bps more than where we should be, because we have different businesses. The software businesses have higher rates. The hardware business is lower. On the consumer side, we spend a little bit more, but we have growth rates far in excess of any of our competitors. And the plan is that, as Frans put up, that in the coming years, the top line will grow faster than the overall growth in R&D. So we will get -- we will pare back about half that difference and the rest, we believe, we can carry simply because then we'll get an additional leverage on the top line and help the transition to solutions, because you need to make those investments to make that move. So we will go higher on -- or harder on taking out, let's say, overhead related cost, back-end simplification, putting in simpler IT stuff so that we are able to build room so that we use this more as growth and margin driver rather than a problem, Ben.

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

Okay. On your second question, I want to say clearly that we don't have a systemic issue. We have over 100 innovation centers and over now 40 factories. We get routinely inspections on all those sites. Off the top of my head, over 70 inspections and no new warning letters. It is an indicator that should give you some confidence, right? And now historically, we should have been tighter, right? But we have made a massive improvement, which gives us that confidence and also the fact that all these, let's say, more recent inspections go well, right? But there's a long memory, and therefore, what -- your sins of the past can follow you, and then you have to remediate that and make sure that everything is in order. Now the second point that I want to make is that there is no quality issue on the product, right? This is about regulatory compliance, your quality management system. It's also a moving target where the requirements are going up, right, where there is incremental requirements that we, of course, comply with. And then you need to deal with it. Now in the case of defibrillators, it is actually something -- it's a category that has been getting a high attention and several of our competitors were also in the spotlight with their own challenges. Our defibrillators are having the highest market shares, the lowest return rates from the field. And actually in this consent decree, we were allowed to continue to ship several models because of their importance to the patient base, right, because they save lives. And so the actual scope of what is, let's say, put on hold is quite limited, right? Not all the defibrillators are put on hold. And I think that's important. It also underlines that it's not all broken, not at all, right? But let's say, the consent decree as a penalty for past sins is something that is, yes -- something that we need to live with and live up to, and as I said, I feel confident

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about it. Now there's always room for improvement, because you should have 0 issue, right? And this is why I underline so much the importance of stepping up quality management systems, automating quality management systems, because a noncompliance on a quality management system is something that can happen very easily. If you have hundreds of thousands of CAPAs every year, if you fill out their own form on one, you're already noncompliant. So helping our staff members and teammates to perform well through, let's say, electronic device history records and automated CAPA systems and design controls that all the way go to your suppliers, these are all great ways to make sure that you are 100% compliant all of the time, right, rather than doing it manually. And so part of our improvement process is also introducing the aids to our people that it makes it easier to be compliant, right? So -- and we can talk long about it, but I think this should suffice, because you want to get us to the coffee.

Pim Preesman - *Koninklijke Philips N.V. - Head of IR*

Yes. We will take a 50 minutes break, and there will be lot of opportunities for further Q&A during the day at the lunch, at the other plenary Q&A. So we will reconvene here in 15 minutes at 10:45. Also, the webcast will start again at 10:45. Thank you.

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

Very good. Thank you.

Abhijit Bhattacharya - *Koninklijke Philips N.V. - Executive VP, CFO & Member of the Board of Management*

Thank you.

(Break)

Egbert Van Acht - *Koninklijke Philips N.V. - Chief Business Leader of Personal Health Businesses*

Well, good morning, and welcome to this Capital Markets Day. My name is Egbert Acht, and since October 1, leading the Personal Health business of Philips. And I'm delighted to be with you here today at this inspiring location and share the insights on our business, also the trajectory moving forward.

So before I do that, however, I think it's maybe a good idea to say a few words about myself, as I've just started a month ago in this role. My background is, prior to joining Philips in 2002, so that's 15 years ago, I had started my career in Procter & Gamble, P&G, also worked a few years in a digital marketing company and then joined Philips in 2002.

I love the company. It has offered me very, many exciting roles, running markets, working with customers, leading the marketing function for the consumer business in the past, and since 2010, leading the health and wellness business. And over that time and it makes me very proud to say that with the great team out there, we managed to triple that health and wellness business. Health and wellness is consistent with Philips Sonicare business or healthcare; and also the Mother & Child Care business, Philips Avent. And we managed to triple that business and also a very strong profit improvement past (inaudible).

So the key takeaways that I would like to share with you are the following. The leading Personal Health businesses that we run and that we built enable people to have healthier lifestyles and also to live well with chronic disease. And I'll give you some examples about that. We continue strong growth and margin expansion, and it's driven by a few engines, a few cylinders, if you like. Share gains in growing markets, and I'll give you 2 very telling examples of that. So we are gaining share globally and particularly in growing markets.

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Geographic expansion with proven propositions. So like I always mention, but there's many more examples, so proof of propositions expansion. Innovation at the forefront of digital health, also give you 2 interesting examples. High-impact digital marketing programs with strong ROI and leadership in online sales. We'll come back to that in more detail.

Finally, with the great team in Personal Health around the world, all those men and women we are committed to really go for continuation of the growth path mid- to high single-digit growth, while stepping up the profitability towards 17% to 19% towards the year 2020.

Maybe a little bit of inside in what this business is comprised of. So the leading businesses in Personal Health, if you relate back to the health continuum of Philips, you see very much a role that we play in healthy living and prevention, which is very important, because personal health and professional health together makes Philips a very strong company, a very differentiated company. But also in the home care part, and I'll come back to that in a minute with some examples.

So first, the health and wellness business, 21% of our total sales in Personal Health, EUR 1.5 billion. And as I said, this consists amongst others of the Philips Sonicare business, very steadily growing, highly profitable business; and as well as the Mother & Child Care business, Philips Avent.

Also the fact that we are in sleep and respiratory health, and you will see later in this room a session by John Frank some real insight and some demonstrations on what we do there. But it's a business of EUR 1.6 billion, 22% of our sales. Philips Respironics, also a very reputed brand and a very strong leading position we have in those businesses.

Personal Care. Personal Care also known in this country as Philips Norelco for male grooming and also a great beauty business for women. So many leading positions in the world also in the Personal Care business.

And finally, Domestic Appliances. A global leader in segments like healthy breathing, but also in healthy foods, nutrition, right? So we make appliances that are doing a great job in getting nutritious value to the consumer. More to come later on this.

So I have 2 examples. The first example, that I would like to share with you is about oral healthcare. And we are still gaining market share in this growing market. I talked previously in this about this very strong position we have. We have gained another 2 share points over the past 12 months, which is, I think, a real achievement by the team. And the big, big opportunity is still very much in the conversion from manual to power. Still 80% of the consumers globally are brushing manually. You see here also that is an attractive, growing and profitable market, and this will continue well beyond 2020 because more and more dentists are recommending power toothbrushes. And we have a leading position there.

With Sonicare in the overall Healthcare business, we have a strong portfolio with over 75% of our portfolio is actually in #1 positions. And I listed examples here. In this great country, in the USA, we are number #1 in rechargeable toothbrushes. We leverage dental professionals, but also very much clinical studies. And you saw in the TV ad and the campaign that we are running as we speak, also side-by-side a comparison where we've showed a superiority based on clinical studies.

We are also #1 in Japan, also a very, very important market, also a big market for us and growing. There, we also have stepped up even more dental professional recommendation. You see an example of one of the leading dentists who is also our KOL, key opinion leader, for Philips. And that is really driving brand preference. So the dental professional recommendation is driving brand preference and also retail sales.

Finally, we have a very strong position, Frans already mention it earlier this morning, in China; #1 position in China by a long way, I must say. And in China, we are leveraging innovations like we do in every market. And DiamondClean Smart, which is the latest connected, high-end toothbrush that we have launched, it's more than a toothbrush, it's actually a solution with coaching and feedback, you will see that in a minute. And in China, we work with Zhang Zilin and she is a former Miss World. She is also a famous actress and TV star in China. And she's helping us to create the awareness for the great propositions that we have. So let's have a look at this TV campaign in China, please.

(presentation)

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The second example that I would like to share with you is about the interesting market, very interesting and growing profitable market of sleep apnea. Also here, we have leading positions; I mentioned that before. And similar to the Oral Healthcare case, here is also a huge value creation potential because over 85% of patients suffering from obstructive sleep apnea are not aware of that today. So they're not yet diagnosed. So you will see here a little map of the world. And you see that there are rising incident rates across the world, and it also comes with low awareness. So let's take an example, the U.S. this market, this country. About 40 million, 4-0 million people are suffering from sleep apnea. However, less than half of this total group is even aware because they've not been diagnosed. That means a huge potential if we can drive the awareness and thereby could be more diagnosis and then also our products and services come in. So big value creation potential.

Also here, we have a very strong position. You see, for example, the #2 position in China, double-digit growth there, multichannel, online, offline, special clinics, et cetera. #1 in Middle East and Turkey where we also leverage a lot of our clinical strength and educational tools to get to that position.

And finally, the #1 in the masks, so the patient interface or the masks that consumers or patients are using in India. And these masks, and later, John will show you in 1 of these rooms how special these masks are and how superior we are in designing these masks. And we have already gained a lot of market share globally, but also, particularly in India with these masks. High-margin, recurring revenue. High-margin, recurring revenue.

Let's have a look at the campaign that the team has been activating in India to raise this awareness. This is, again, an example of celebrity endorsements, Mr. Ram Kapoor is one of the most famous TV actors, many times awarded for that. So let's have a look.

(presentation)

Egbert Van Acht - *Koninklijke Philips N.V. - Chief Business Leader of Personal Health Businesses*

And now, we'd like to share with you what we are doing in innovation, but also in the marketing and also the e-commerce sales part of our business. So to start with innovation. Our innovation focus is very much forefront of digital health. And we are more and more building these consumer engagement platforms because we have deep consumer insights on one hand and also, the clinical validating. The 2 examples that I have here is around sleep. In sleep, and you will see a demo later on this afternoon of that by the team, Care Orchestrator, which is a clinical management solution platform for patients. Patients are central, but it's linking up the homecare providers, the payers, the physicians and clinicians onto 1 single cloud-based platform. And the key benefit for patients is that they are getting better, personalized advice for their particular situation, so they get better help, better outcomes.

The second example is around pregnancy and parenting. And in pregnancy and parenting, we have built, and we are scaling this now big time, the uGrow parenting platform. It is the first medical platform that is really helping moms and dads around the world to give their babies the best healthy start in life. It's a medical-grade application both -- by the way, both the sleep and the practicing parenting are powered by Philips HealthSuite. We'll talk about it more, but you may say, yes, so that's interesting to we have these platforms, so what does it to do for value creation? Well, I can tell you. Already now, we have multiple proof points that show that the insights we get through these platforms and this direct relationship that we have with our consumer or with our patient is helping us in driving more innovation, more targeted innovation, that's more relevant to them on a personal basis, more loyalty over time. So we've really built customer lifetime value instead of just a transactional model, trading up, trading up to higher price points and, of course, a lot of locking high-margin recurring revenue because we have that direct relationship and we will continue this path. And I believe that this is something which is a very exciting new chapter moving forwards.

The digital marketing, so the digital activation next of that innovation. I think we're doing a great job there too. One example that I'd like to share with you is a high-impact digital marketing campaign with very strong results on OneBlade. And Abhijit already mentioned it. OneBlade is a revolutionary, well-patented hybrid styler that is establishing or has established a completely new consumable category in the male grooming space. Over 100 million already in sales. It's just beginning. You see we are rolling out to various markets as we speak and with a very high consumer rating and review, you see that as well. The most interesting thing or one of the most interesting things, this is also, again, bringing a lot of high-margin recurring revenue because of the replacement of these electrical blades. And we have already attracted a lot of users, young millennial

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guys from blade competition, and we want to continue doing that. Over 3.3 million to date and the year's not over yet, so this is going to be, I think, another very impressive step.

5 share points gain. 5 share points gain, that's a lot behind this innovation. And I think we can be very proud of that team who developed that plan, but also, this campaign.

The campaign that I would like to share with you is not a traditional campaign. More and more in Philips, we are very laser focused with a -- very much a focus on return on investment of our A&P marketing investments. This example is from Facebook, actually a Facebook campaign on mobile targeting very specifically the young millennial guys. A lot of user-generated content you will see here and it also ends with closing the deal because you can go to a certain retailer to buy the product and get it shipped to your home. So let's have a look at this Facebook campaign, please.

(presentation)

Egbert Van Acht - *Koninklijke Philips N.V. - Chief Business Leader of Personal Health Businesses*

Now I think this is really super cool. I have 3 sons. They love this proposition. They recommended to all their friends and that makes me happy again because it helps our business. So OneBlade, a great innovation, more to come.

Next to the innovation and the digital marketing programs, I also want to spend a little bit of time on the e-commerce sales. And that is, I think, very relevant and also a key strength that we have and a leadership position. I call this a triple turbo. So in very simple terms, this market, the e-commerce market, where we play in Personal Health, is increasing. You see the numbers, there, 21% and, of course, we'll continue to grow. We have a 27% share in our business so we are ahead of the market and we will continue that. You see that's the first, let's say, turbo.

The second turbo is that we have a higher market share in the online business and in the offline business. So overall, our market shares are growing, but particularly turbo-ed by the fact that we have a higher share there.

And the third turbo here is that of the propositions sold online, there's a big majority actually of high-end premium, high-margin proposition. So that helps, again, right, so to capture more value.

To give you one example, we talked about China and the DiamondClean launch in China. In China, we sell close to 90%, 9-0% of our Oral Healthcare business online, right. And that also, by the way, the online model also gives us the opportunity for subscription of brush heads and we get more high-margin recurring revenue as a result. So very exciting, very strong position. We have hired a lot of very strong people from the industry to come and work with us because it is a game that you really need to understand how to play it and we do that.

We are also building, at the same time, more the engagement platforms with specific consumer groups. And particularly, we talk about loyalty and lifetime value, and we are very much focused on getting in young consumers. So get them in early into the franchise, keep them with us through the lifetime literally. And by doing that, we can, again, drive the high-margin recurring revenues, we have loyalty with the starter group. So I mentioned already the example, OneBlade, with over 3 million millennial guys in the franchise. The second example is around AVENT uGrow where we have over 15 million expecting parents into the franchise powered by Philips HealthSuite as I mentioned. So this is -- even during the pregnancy, we already reach out and we get the relationship with mom and dad early on and then we'll keep that relationship for our great business, not just in mother and childcare business, but also the rest of our portfolio.

The third and last example I would like to share with you is Philips Sonicare for Kids. Since the launch of Sonicare for Kids, we have recruited 4 million young kids into the franchise and this will continue. The application and the platform, also again, powered by Philips HealthSuite. And what I think is interesting in this particular example is that we apply gamification, gamification to help kids brush independently, have better compliance. So it makes dentists very happy, better compliance, and it also makes the parents very happy and the children very proud. So I would like to share with you a little video to show how that works.

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The performance drivers in Personal Health, again, the buckets you see growth in core business, actually the top priority: category leadership; gaining scale and I want to repeat it, but geographic expansion's important; and also, the mix in pricing power we have in our portfolio that is often renewed is enabled by the strong consumer ratings and reviews. So that's a very -- very much a focus area for us.

Growth in adjacencies, we talked about engagement, platforms and communities.

And finally, we are actually laser focused on getting savings in procurement, in the manufacturing productivity and overhead cost reduction. So the 2020 targets are, again, mid-to high single-digit growth and adjusted EBITA between 17% and 19%.

The small wrap-up or the key takeaways. So we have leading Personal Health businesses with a clear purpose and also a clear role in the health continuum to enable healthier lifestyles and help people living well with a chronic disease. Continued strong growth and margin expansion by the 5 drivers that you see listed here. And with the great team of Personal Health globally, we are absolutely committed and determined to go for the continuation and expansion of our growth trajectory, both in top line, mid-to high single-digit growth and the profitability moving up to 17% to 19% over the coming years.

Thank you very much.

Unidentified Company Representative

Thank you. I hand over to Rob Cascella.

Robert A. Cascella - *Koninklijke Philips N.V. - EVP of Diagnosis & Treatment Businesses*

Thank you. Thank you, both. Sure. Thanks. Well, I just want to want warn everyone that Egbert's videos are a lot nicer than mine, but -- but I'm really -- I'm Rob Cascella. I'm very pleased to be here and share with you a little bit about Diagnosis & Treatment.

The Diagnosis & Treatment business, we believe, is really at the heart of our HealthTech strategy. A few years ago, we looked at a strategy around how to build this business and truly, this is a business at about market share gains and improving profitability.

And that's really being achieved in in a few different ways. First off, it's really about an innovative new portfolio of products and you heard both Frans and Abhijit talk about 70% of DI, well, I'll show a slide about 60% of all D&T is really a new or will be a new product over the course of '17 and '18. And so we understand DI incorporates things like MRI, CT and molecular imaging as well as digital x-ray. Our interventional business is all of our wonderful cath labs and our new expansion into devices for treatment and therapy. And then, of course, we have ultrasound that is a spread amongst various segments within the healthcare marketplace, things like cardiovascular, obstetrics and gynecology, general imaging and things like that.

So if we look at where we're going with this business, DI is about much more operational improvements. We want to scale the business. We want to grow it more quickly. We want to take share and we want to improve on our operations. So a tremendous focus and case, I'll share with you do in terms of operating effectiveness. When we talk about our interventional business or image-guided business, it's really maintaining our leadership in the cath lab and the vascular suite, but also building on this new device portfolio that you're well aware of between Volcano and, more recently, Spectranetics.

In ultrasound, it is really aggressively pursuing these untapped market opportunities. We were #1 in the world in cardiovascular, but didn't spend a lot of time focusing in OB/GYN, in point of care, in general imaging and those are, in fact, equal to or even bigger markets than the market in cardiovascular. And then you'll hear a lot of us talk about solutions, and I'm going to spend a lot of time talking about that later on in the presentation.

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But we're focused in a variety of different areas. For Diagnosis & Treatment, those solutions are focused in radiology and oncology and obviously, cardiology.

We're targeting, as Abhijit shared, 3% to 5% on revenue growth and adjusted EBITA between 14% and 16% by 2020.

So you've seen this graphic, everyone, all of us, use this, but just to go over a little bit of these businesses, with some details on numbers. Diagnostic Imaging makes up about 50% of our total revenue in D&T; that's EUR 3.4 million. And I said, that's all the exciting things around MRI and CT and molecular and all of the wonderful new applications that are emerging as a result of this changing in their technology. With ultrasound, about 21% and EUR 1.5 billion in revenue and we'll talk more about that later. And, of course, on interventional, nearly 30% and right around EUR 2 billion in revenue. And we have obviously this emerging device business that is very exciting in that. All of these are underpinned by a phenomenal informatics platform that really is the glue that you'll hear us talk about and you'll see Yair's presentation as well on that. But, again, it is what differentiates us and it is, to many extent, that the connectivity backbone that makes our product so user friendly.

So to the portfolio overall. We -- the 60% of this portfolio will be new or is new, either released early in -- during the course of '17 or will be released in '18 and at RSNA. In MR, we'll have a few different samples at RSNA of new product. And the focus for MR is really going to be simplifying the use of it. Changing the scan times, make it faster and make it easier to use, make it more efficient. So we're going to love seeing you at RSNA to talk about that.

In CT, we this year released the IQon product, which is our super-premium CT. That is a product that has dual energy, always on, so that rather than having to do 2 separate exposures of a patient, 2 separate image settings, it all is done at the same time. So again, first time right, ease of use, more patient throughput. That was complemented by a value segment product called the Access 16, which has had great success in some of the emerging markets that we talked about earlier. And this year, we're going to introduce a mid-tier CT, scalable, that will cover the broadest area of the CT market. And that will range from different configurations in detector functionality as well as the software and slice capability. We also introduced this year our Vereos which is the first really and only fully digital PET CT. And we just started shipping that about a quarter ago. That product has proven in clinical trials to be able to reduce dose and improve both sensitivity and disease quantification. So really giving the user much better insight on not just the presence of disease, but the severity of the disease. We talked about interventional and our brand-new cath lab, the Azurion, was just released this year for volume. You'll hear Bert talk about that where our expectations were wildly exceeded by the market traction that that is enjoying and that is complemented by the addition of Spectranetics with now our drug-coated balloon.

Ultrasound, it's really a combination of different applications on an already great ultrasound platform. We believe that that product has tremendous potential in different areas of the anatomy, and so there are software for disease characterization, elastography, there's tracheoesophageal echocardiography. All these applications are being developed around a product that, we believe, can be ubiquitous in terms of its use in the medical profession.

Below all of that, you'll see a sampling of our dedication to software, our application development as well as services.

So to talk a little bit about Diagnostic Imaging, again, strategically 70% of the DI portfolio will be new. And this is really about must-win markets that we're chasing after market share in North America and China. And you heard some of the successes on that. And it's also really focusing the portfolio on ease of use, again, greater utility, shorter scan times, remote diagnostics, remote operation, the capability to really, fully realize the potential of teleradiology.

Operationally, a tremendous amount of work has gone into our quality systems. And then, again, we'll do a deep dive for you today in all the things that are happening around productivity and procurement and our bill of materials and obviously, in our manufacturing overhead structure. If you look at what's happened over even as recently as the last 24 months, we've improved our working capital by 570 basis points. So a lot of good work has gone into that business.

Image-Guided Therapy, a terrific business in and of itself. The addition of now not only having catheter-based diagnostics, but now catheter-based true treatment and therapy capability, drug-coated balloon, thrombectomy, atherectomy devices, we're extraordinarily excited about the addition of Spectranetics and the perfect fit that that now has with our business. I think Volcano laid the groundwork and Spectranetics fit into that framework

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perfectly. And I don't want to steal Bert's thunder, but we're going to give you a couple of demos and show you the exciting stuff that's happening in that area. Most importantly, because of the great talent that we've also picked up in these acquisitions, we're now moving to much more organic growth in addition to our inorganic strategy. So that the capability of now expanding into different areas, certainly below the knee for things like drug-coated balloon or vessel preparation, different configurations for lead extraction and lead management in electrophysiology.

All of that is complemented by the introduction of Azurion which is a -- the new cath lab, our new solutions system that has been designed to really reduce cost, reduce the amount of prep time that's necessarily, the amount of procedure time, dramatically reduce dose, improve workflow. It is a product that today meets all of the requirements of the emerging users and not just cardiology, but interventional radiology and the like. So powerful is this product that with the development of advanced applications, we have the capability to now move into neuro, spine, lung, so that it opens the door to many different disease categories for where to use this great tool. I have a short video that I wanted to play for you, just to show you Azurion in action. If you can play that, please?

(presentation)

Robert A. Cascella - *Koninklijke Philips N.V. - EVP of Diagnosis & Treatment Businesses*

That's great stuff. The last business that I'll talk to as a specific business group within D&T is Ultrasound. Tremendous business in terms of growth potential and industry-leading profitability. We -- as I said, earlier, we are leaders in cardiovascular ultrasound and with the recent acquisition of TomTec, we bring much more powerful image processing tools to us. So the things that you see in terms of HeartModel or our Anatomical Intelligence are really tools that are being used by clinicians in order to plan treatment, not just diagnose, but very interactive. So TomTec has many capabilities that also extend into some of the other disciplines that we talked about and below, and we, expanding into these adjacencies, is, from my perspective, really an untapped opportunity for us. And I think we have a great series of products and applications and, most importantly, we start to expand in a point of care, which opens up an opportunity for our ultra-mobile or Lumify product and then, obviously, you heard Frans talk about our relationship with B. Braun, where we're using ultrasound to guide anesthesia procedures as well as vascular access.

On solutions. In radiology, the simplest thing to categorize this as is we are focusing on operations. What we're trying to do is help our customers run a better radiology department, have more efficient radiologists, have certainly a capability to provide insight on appropriateness of imaging, on staff competencies. It's practice management on steroids. And in terms of the capability to be able to benefit the user, you can imagine the value proposition of being able to tell our customer or our partner that we're going to save money for you. It absolutely opens tremendous doors for us. So we're very happy with that as a services business of ours.

Oncology, relatively new. We've always been in it in terms of we providing guidance. We're taking it much further in terms of a very integrated approach. In its earlier stage, it's focused in radiation oncology. And what we're doing is automating the treatment planning process. So from a imaged plan, from a customer's perspective, would take days. We're looking at compressing that to a day and through a lot of intelligence, a lot of machine learning and really, an understanding of the clinical requirement. Longer term, it's really a matter of precision medicine. We're bringing the power of the morphology from our images, combined with the phenotype information that we get from our slides and our genomics informatics platform and really defining not just the definitive diagnosis, but really precision medicine, that choice of treatment that is going to be more effective than another; that medicine, that chemo drug, that surgical procedure, whatever might be, to make that much more tailored to the individual disease, the individual patient; and then having that data available for many others to use in terms of expert systems, types of consultation.

On the cath lab side, equally exciting. So we now have wonderful systems. We're in the device business. We're also helping customers design cath labs. We're helping them to manage their cath labs, third-party product or otherwise. We might risk share with them in terms of really showing that we are great partners. But at the end of the day, it's a very sticky revenue model that allows us to get very close to a customer and have a much longer trend of earnings than just the transactional event of selling a system. So we're very excited about those 3 in D&T for solutions.

So as we look at the summing up a bit, I have one more slide to go, but I [didn't] want to talk about a few things in terms of what our businesses are about. And so we want to grow the core and we want to strengthen the core. And we're doing that through a new portfolio, we're doing that in the must-win markets like North America and China. We're certainly back to shipping our CT and molecular portfolio, so we're very excited about that. And then furthermore, we want to grow into adjacencies. We're extending our cath lab systems business into devices for treatment and

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therapy. We certainly are moving into very attractive adjacencies in Ultrasound. And we have an array of solutions businesses that open up a very unique revenue model for us. So we're thrilled about that as well.

And then finally, we're laser-focused on quality. Obviously, it's a way of life for us, and we certainly want to improve across all of our businesses, our productivity, our cost of operations and obviously, our profitability.

So here, again, 3% to 5% revenue growth. We're doing to drive our adjusted EBITA to 14% to 16% by 2020. So indeed, D&T, Diagnosis & Treatment, is at the heart of the HealthTech strategy. More so, we think it is fundamental to definitive diagnosis. As we look at it, it's very simple in terms of we improving our products, moving into adjacencies in terms of untapped markets, expanding into product line extensions like what we're doing with devices and obviously, making our profitability much more representative of where this business should be.

If I summarize, we want to deliver on really the promise that our customers are looking for: help us improve outcomes, lower cost and, above all, help us enhance the experience of both our patients and obviously, our work staff. So thank you very much.

And now you have that special opportunity to have Dr. Kriwet talk about our CCHI business. Please.

Carla Kriwet - *Koninklijke Philips N.V. - Chief Business Leader of Connected Care and Health Informatics & Executive VP*

Thank you. Good morning. My name is Carla Kriwet. I lead the Connected Care & Health Informatics business at Philips. And I'm very happy to be with you here today.

Connected Care & Health Informatics is really in the center, it plays a critical role across the entire health continuum. We have a differentiating value proposition because we have the clinical insights and the digital innovation and a great informatics franchise. And we are focusing on the areas that are most important for our customers, which are: superior data-driven clinical decisions, which are based on true insights, so not just data, not just information, but actionable insights; efficiency, productivity of equipment and of staff, better outcome and better patient engagement; and let me add, also increased staff satisfaction, which is very important in times where staff scarcity is a big problem for hospitals.

We have a growing business and exciting new product introductions, and I will give you a sneak preview in just a few moments. We are getting market share as we speak and we our target to deliver mid- to high single-digit growth and stepping up profitability to 14% to 16%. How? By leveraging the great position and leadership position we have in our business and further accelerating growth with informatics, population health and monitoring.

Everything we do starts with the customer. All our R&D activities, all our commercial activities start with a very clear customer view. And as you can see up here, it's more and more the C-suite that is our customer. So it's the CEO, it's the CIO and you will hear Yair talk about it and -- sorry. And as you see up here, it's the Chief Medical Officer, who is also a very important decision maker.

The themes things that keep coming back are fourfold. First thing is clinical outcome. So they want to reduce mortality rates. They want to see better patient safety and less hospital-acquired infection. They are also asking to help them to reduce medical errors, which is a big problem still in hospitals.

Second thing, it's all about workflow efficiency and savings. So less time of patients in expensive areas of the hospital like the ICU. And overall, a reduced length of stay and half the time, which we enable with our precise diagnostic tools.

Next thing it's about IT systems, and they have to be interoperable, connected, intelligent and secure. And Yair will talk a lot about the intelligence of the systems in his zoom later on. Let me talk a bit about the security. We are already investing 20% of our R&D expenses in informatics only on cybersecurity. And we actually get the feedback in the market that this is a great competitive advantage.

Last but not least, our customers are asking for a shift of patients to lower acute areas like the general ward and the home. And our home care proposition but also our Population Health offerings is targeting exactly on this need.

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If you look at our portfolio up here, you see that 77% of it is Patient Care & Monitoring Solution and here, we are the market leader, with 50% market leader here with patient monitoring. But we're also the global leader for AEDs and noninvasive ventilation. Why is that important? Because we have a great installed base, which we can leverage for the very profitable and recurring revenues in services and consumables. But also, we live in an industry, we work in the industry healthcare where our customers are consolidating. And they want to be with the winner, and the winner is Philips in patient monitoring, in these areas and we are co-creating the future together with our customers.

Let me move to Health Informatics. Here, we are the global leader in cardiology informatics, and in the U.S., also for radiology. We are also the market leader in Latin America for EMR. You see up here a EUR 500 million business, but that's only the part of informatics which is in this business. Overall in Philips, we do more than EUR 3 billion with informatics. And we're helping other business groups with platforms, with tools, with security and with smart applications.

Population Health Management, that's a new business. It's a market that's just being created and we are part of it. We are shaping it together with our customers. We acquired its Wellcentive who is the leader in pop health analytics, and we have a leading position in home monitoring.

Before we look into the future, let's look at the proof points we already have right now. We have the solution approach, which is very differentiating because it's about smart devices, systems, software and services all coming together. And we have the clinical insights. Frans was mentioning that we are there with the last yard. I would even say we own last inch. We are there at the bedside when the data is being created, really actionable. And we have digital innovation, where we don't just benefit from the clinical input and the clinical expertise, but also from our population health business because healthcare is getting more and more consumerized. Patients play a bigger part in the decision-making process, and this consumer thinking is extremely helpful.

And we have great proof points, as you can see up here. Let's start with Lakeland. Lakeland Health introduced patient monitoring in the ICU, but also in the general ward and totally, we integrated it with the EMR system. So before, they had to type in all the data manually. Now there is a very integrated workflow and data flow and far less errors. And as you can see up here, cardiac and respiratory arrests reduced by 56% because they have the information at their fingertips whenever and wherever they need it, also on mobile devices.

Ysbyty, in Welsh, that's a hospital where we have a great guardian solution. That's the early warning system implemented in the general ward and I will talk a little bit more about it in a second. But you can see the result up here. 35% reduction of severe adverse events. I mean, these are lives being saved, every day, every minute and also costs being prevented because these patients don't have to go to the expensive ICU.

Last but not least, Emory. Here, we introduced a telehealth proposition. It's a hub and spoke model where you have one advanced hospital connected in a frequent data stream, but also via video with more remote hospitals and, therefore, the remote hospitals can, real time, benefit from all the expertise in the center hospital. And you address scarcity of staff, as I mentioned before, but also have great cost savings. $4.6 million savings for that hospital group within 15 months and that was actually measured by the Medicare and Medicaid. And they used that as input also for the reimbursement as part of the value-based healthcare.

Moving on to our road map. You see up here the upper left connected biosensor. That is a patch. You put it on your chest and it measures the 8 most important vital signs. Among them health rates, heart rates, respiratory rates and temperature, and it connects it automatically with a early warning system allowing mobility for the patients, but also early warning for the caregivers. Camera-based contactless monitoring, great innovation, where you have a camera actually watching the patients in the bed and allowing the caregivers to prevent falls, which are a big issue for clinical outcomes in hospitals. It also shows respiratory rhythms and can detect if there is a change in the breathing pattern, allowing doctors to intervene early. You see 2 innovations from our ventilation franchise. One is a BiPAP more for obstructive older patients. Here, we are benefiting from the great innovation from our respiratory business and we're using the benefits and all the advantages you are going to see in the presentation from John Frank later on also within the hospital. The second one is a high-flow noninvasive ventilation therapy for the more acute patients, where we also have a great feedback from the customers for the innovation on the flow rhythm.

Moving to informatics information. Specifically in this business group, IntelliSpace Enterprise Edition that, as you can see, is Software-as-a-Service proposition, managed service, where we take the burden from IT, off IT from our customers. We allow them to focus on what they want to do, diagnostics and treatment. And we manage IT, all the cost, all the maintenance, security and interoperability.

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Illumeo Adaptive Intelligence. You will see a little bit more about it in the segment but basically, it's a new way for physicians to secure, to see and to share data. And you see diagnostic data of radiology pictures from all different kind of sources. You can combine it and the system adapts to the user in a very intelligence and also predictive way.

GoSafe is an innovation from our Home Monitoring business. It's an alarming button for elderly people at home, but it's more than that because it transfers all the time automatically location and movement. That's very important. If you think of your father, your mother at home, you want to know and she wants you to know when she's leaving the house. And also, if there is not enough movement for some time, you want to know that and it's triggered to the call system, to the call center up here and to the ambulances, so that they can intervene in time.

Population Management Outcome Manager, that is a great dashboard which allows hospitals to look at patient populations from a value case -- value care perspective, really showing clinical and economical outcomes and allow them to manage a patient population far more proactively.

One area where the investments in clinical analytics has really been paying is the general ward where we are growing double digit with our solution. You see the page up here, which I described before, and it's automatically connected to the early warning signs. Why is it so important to be in the general ward? General ward is actually a quite risky area to be in. There, the caregiver to patient ratio is not 1:1 or 1:2 like in the ICU, but it can be 1:10, even 1:12 in some countries. And actually, if you have a heart arrest in a general ward, today in the United States, you have a risk of up to 80% of dying. Why is that? Because there has been no continuous monitoring and the patient caregiver ratio is not good enough. Now with the patch, we cannot only monitor the patients all the time, but we can predict heart arrest by a smart combination from respiratory rate and temperature, alarming the caregivers 6 to 8 hours before the event happens. Great benefits, as you can see up here, for the customers: improved mortality rate, better clinical outcomes, cost savings, keeping patients out of the expensive ICU, great integration with the EMR, totally seamless. And for Philips, it's a great SaaS model, recurring revenue, profitable, but we are also building a ecosystem for our customers all the way from the OR, from the ICU to the general ward and then the telehealth and tele ICU and population health outside the hospital to the home. Let's have a look.

(presentation)

Carla Kriwet - *Koninklijke Philips N.V. - Chief Business Leader of Connected Care and Health Informatics & Executive VP*

In other area, helping us to focus on lower acuity areas. Population health. Here, we are building a great business and our strategy is a 3-step approach. First, we help our customers to understand their population from a clinical and financial perspective. Then, we help the patients to navigate in the care system outside their hospital with their GPs, their nurses, their families. And as a third step, we activate and engage the patients with our telehealth propositions. We have great results. As you can see up here from banner, significantly reducing costs and hospitalization. And also industry analysts leading one-like class ranking us as leaders in population health.

In other area where we are making great advances is artificial intelligence. We use it in all our new propositions, using deep learning and machine learning for improved data efficiency and clinical insights. And I think it's better if you look at the video to get a feel of how this is actually -- how health care is applied today.

(presentation)

Carla Kriwet - *Koninklijke Philips N.V. - Chief Business Leader of Connected Care and Health Informatics & Executive VP*

So let me wrap it up. In Connected Care & Health Informatics, we are very much focusing on our core business. Why? Because it's a great business. We have a market-leading position. We can leverage for consumables and services. We have a great informatics franchise throughout Philips that is helping us to win deals. You will hear from Brent later on how important informatics is and how much it is on the top of the mind of every CEO in today's health care world.

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We are growing our Software-as-a-Service proposition, so ultimately a lot of commercial innovation going on, but we are also investing in our adjacencies and are benefiting from the investments of the past with population health, with investments and great, great growth in the general ward, as you have just seen, but also entering invasive ventilation in the acute area.

We are executing on our enablers, foremost quality system compliance, something which is very close to my heart, it's all about supplier quality, it's about design for quality and quality culture. And we are doing really good progress in this area and it came to a much, much better space. Productivity programs, including footprint consolidation, we eliminated 5 sites last year. And there are more on the road map to go. And we are growing our e-commerce channel. This is a great channel, not just for consumables, but also for our home monitoring equipment and for our AEDs.

Key takeaways. Connected Care & Health Informatics is growing across the entire health continuum. We are focusing on the areas, which are most important for our customers. We are making them win and making them prove because they have to prove and they have to publish that more and more on clinical outcomes efficiency and patient outcome.

We are growing with exciting new product propositions but are also enhancing the selling capabilities, solution selling in the market. And we target to deliver mid to high single-digit growth and the profitability, which will increase to 14% to 16%.

So I hope you share my excitement for this great business. Thank you very much for your attention. And I'm happy to hand over to Brent.

Brent Shafer - *Koninklijke Philips N.V. - EVP of North American Market*

Thanks, Carla. A pleasure to be here with you this morning, almost afternoon, I think, in about 1 minute or maybe now, afternoon. And welcome, welcome here to New York City, and on behalf of the over 10,000 employees Philips has in the United States welcome and I mentioned that because it's very important, given our presence and our business that we have with the U.S. government. And the U.S. government is a policy maker and the Veterans administration is a major customer of ours. We are very proud to be a net exporter and our presence here and the contributions we make back to communities across the United States and Canada.

So a couple of things I'd like to make sure I get across this morning. One is that our strategy and everything you've heard here comes together in the market, but our strategy is on target for the major trends impacting North America, and I'll kind of describe those trends. You've heard them and I'll make them a little more specific to North America. It's very much on target and resonates with what our customers are concerned about and what they need.

We are gaining strength. We're gaining momentum. We have been on a pretty steady track of market share gains. And we want to keep that momentum going and build on it. And then our strategy of partnership, which you heard described by Frans is very much embraced by not all customers, but a segment of customers who are really looking for someone to help them solve these major challenges that they face in a changing marketplace. And a changing marketplace is, in fact, what we're in. And so if you live here or if you watch the media or no matter where you live, you can't miss it because health care policy has been on -- in the media and in the papers almost everyday since the beginning of the year, almost every day. And so it is a very hot topic. And as you can imagine for our customers, that creates a sense of uncertainty, and they are watching, we are watching, what's going to happen next, how does this unfold, and so you know these, I'm sure as well as I do. But what is the future of the ACA? Is it repeal and replace, does it come back in some other form? That's been almost a daily discussion in the United States currently on hold and to be determined. The medical device tax, which was intended to be repealed permanently as part of the ACA reform or repeal, pick your most appropriate label, that's unaddressed, right? So it was addressed temporarily. If you spent time in Washington, you will find most people feel like it should go away permanently. That is not a good thing for the industry or for patients. At the moment, the legislation has not been addressed.

So we need to see how that plays out. Hopefully, it will go away permanently.

Bundled payments. If you follow that, CMS was promoting. Bundled payments, they've sort of stepped back from that, but you do have, on the other hand, private insurers who have taken that route. So it's sort of a mix back there. And then most recently in the press, you've seen the discussion very current, very real-time about the insurance exchanges. And so these are proposals that have been put forward. President is against it. Where does that go? We'll all see.

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So bottom line, some uncertainty for our customers. And so as you go around and talk with them, they interpret it differently. It depends on where they sit in the United States. But what you find is a certain level of consistency. And that is, most of them if you ask them, they'll say, "Okay, I'm concerned short term. What is the discussion of the day?" However, I know that I have to address the following things. These things won't change based on aging population, chronic conditions, pressure on overall funding to take care of patient, I have to pursue the quadruple lane. And so if you haven't heard this term, this is about the shift of value. So it's better outcomes at lower costs providing a better patient experience because of consumers and in health care, very important and better staff engagement because retaining skilled employees who can deliver health care is really critical. So how do we keep the staff motivated throughout this pressure?

So I think the point here is that our business models that you've heard -- you just heard described by Rob and by Carla and by Frans, are intended to address these things. They're very much on target. And our strategy is yielding results. We are seeing the strategy yield results that resonates, people like it and they're acting on it.

So we feel very good about that.

So maybe just to talk a little bit about what are some of the trends then in health care at the moment that are so driven by these drivers around the macro drivers, around chronic conditions, aging population and these policy changes. So one, you have this high driver around the shift of value-based care. And I think one of the questions was -- for Frans was how fast is that going and so on. It depends state-by-state. It depends on the systems payer mix. How much private pay versus Medicare. So it varies across the country but everybody is going there. Everybody is going there. So it's a question of what speed. So that's a consistent move.

What is also happening, I'm sure you're aware of this, is consolidation. So in an uncertain environment with less margin, less money to go around to provide health care, what you see is the big systems integrating in a -- at a rate of about 1 deal every 4 days in the IDN or hospital space buying, emerging, consolidating. And then what they try to do then is reduce overhead, leverage infrastructure further. They try to standardize in -- often on equipments, on processes, all the things you would expect to find efficiencies. Standardizing processes to suppliers. And in some cases, to find partnerships, select partnerships, so to keep -- identify a few key people that they want to partner with to help address these things often because they realize their time and energy is better spent in another place than it is necessarily managing equipment, where the asset planning that needs to take place over 4 or 5 or 10 or 15-year period.

Consumerization. We all recognize this. How does this play out? Well, in many ways, one, there's just much better information available now about quality of care and outcomes that's readily available and can be searched. And in the United States, most people today have -- see higher deductible, so a higher portion of the health care that they pay for themselves with cash before insurance kicks in. And so they seek information about where -- if it's my cash out first before insurance pays, where am I going to get the best results? So the consumers want to be increasingly informed, have more knowledge about what's going on.

And then digital, of course, enables all of this. So the information is available. There's an incredible array of digital capabilities of just exploring that help with patient care, help engage parent to patients, et cetera. So in our strategy really here, our innovations improve the health and well-being of individuals. And our strategic partnerships with health systems help improve patient outcomes and reduce costs. So it's right in line with that quadruple aim. That's -- and that is what we see resonating.

So if we just kind of go by business area, so Diagnosis & Treatment, and Rob talked through the highlights here, so I'll try not to repeat. But ultrasound is a very strong business for us. We seek to extend our leadership position in cardiology. We have very high customer loyalty in this area that dates back many years, and people who used Philips Ultrasound, who used echo or where it's commonly called (inaudible) , are very loyal to the product. And we're building a much stronger position in general imaging. We've done -- had a lot of good growth there. And we see a lot of opportunity in OB gynecology and have seen double-digit growth there in recent quarters. Overall, we've been gaining share in ultrasound at a pretty steady rate.

The DI. So in the core Diagnostic Imaging, really, our task is to regain share and that was one of the questions, where are we now? So no secret that our experience with Cleveland hurt us. And there's some rebuilding that has been going on. And the products are flowing. There's more that's been done there. And what we've been doing is also investing in our field organization. So we've added salespeople, significant number of salespeople. We've turned over a significant portion of the population to higher skill set. And we've invested a significant amount in training and

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just reenergizing the training, making it much more contemporary and much more effective in extending our reach. And those have all have been significant investments. And we are seeing double-digit order growth in DI as a result of the product flowing and the sales traction's starting to dig in. And we're very optimistic about the opportunity for growth there.

Image-Guided Therapy, which Rob mentioned, and I know you'll get to spend some time with Bert, this is just -- has incredibly high appeal. We just had a TCT as probably the premier shallow place for this kind of technology, it was in Denver last week. I talked to several people who were there and said, it's completely the buzz of the show. It is a game changer. Our customers like it. The testimonials back on this are just fantastic. And I'm sure Bert will show you. It changes what was a very mechanical kind of orientation around moving the patient, moving the gantries, moving the images is now fundamentally hand-driven at very contemporary way that gives the look and feel of kind of an iPAD-like approach, but I think you'll enjoy seeing that. And great synergies with what we bring at the department level with Volcano and Spectranetics acquisitions. So our brand, our presence is very, very strong in this area.

In Connected Care & Health Informatics. You just heard Carla talked through this. Patient monitoring, our share position is very high, we're over 50% in United States. So if you spend any time in intensive care unit in any hospital in the United States, chances are very high you're looking at patient monitoring. I just had the experience of being in a facility that for 30 years has used Philips monitoring, 30 years continuously. So each generation that comes out, they upgrade, they add on, they expand. And this is, as you can imagine, hands-on clinical people is very intimate user experience taking care of very sick people. It built -- that builds a very strong loyalty. And it's very core to our presence in informatics and helps us leverage really what we're doing in telehealth, which is an expansion of those kinds of technologies. And also with our broader management of images and everything that Carla just described. And all of these things, of course, if you're in the executive suite, this is very much what you're thinking about. How do I address care of patients from acute care all the way into the home across the whole health care continuum? So our position's very well there.

Population Health Management. Carla described as our recent acquisition and it is a business in and of itself. I would tell you, if you are a health care administrator, CEO with an IDN in the United States, you want to talk about this. This is on your list. This is one of the things you're thinking about is just again how fast you go to population health. So I take care of my patients, we take care of certain conditions. I'm starting to think about how do I take care of communities. And this is -- this toolset is squarely in the middle of what the problems they need to solve. So it's important, as a business itself, it's also very important for us as a company to have a presence there because it is very much part of their future thinking. So we're very well positioned, and it helps us in our market presence.

And Personal Health. Without -- I don't want to duplicate what you heard, but a couple of fun things here around male grooming. So we have a very strong presence, strong growth in this category. In the U.S., we're largely recognized as Norelco, which Norelco Philips, we want to drive that further. A couple of fun things coming up which weren't mentioned. This is very short term. Fourth quarter is very important quarter for us. And we're just launching in grooming a Star Wars collectible set of shavers. So if you haven't done your shopping yet, I would urge you, these are fantastic. And you can't buy 1 or 2, you've got to buy a whole bunch because you have to take some and put them away and keep in the the box because they're going to be worth a fortune, Star Wars collectible groomers, so it's fun stuff.

And Oral Healthcare, which also a very strong brand identity and great growth. The holidays are an important time, gift giving, important time. And we're just very pleased again to be named on Oprah's list of favorites, right? For the holiday season. And if you don't know Oprah, it's a favorite of Oprah's, people buy millions of whatever it is. So we're excited about that and that's great for the holidays.

Sleep & Respiratory Care. I think you will have an opportunity to go in some depth here this afternoon with John Frank. This is a great business. We're doing some really good things here. We've seen good growth in our mass category, a great growth in ventilation, and we have a changing customer base. So DMEs, who are the providers to home care are under pressure in consolidating, much like acute care. What are the same pressures, what John and his team had been able to do, they find ways to help them deliver the care, monitor that patient's status, make it easier to do what they need to do and make the therapy more effective. Sleep apnea and -- it is a therapy. So if you don't utilize the therapy, you don't get the benefit. And almost as importantly, the DME does not get paid unless they can show a certain degree of utilization. And so all those tools are there and John will show you more about those.

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And then partnerships. A lot of discussion about partnerships. So we do partnerships and solutions at different degrees of size and scale. Most of what we've talked about have been the larger ones.

And so just to give you a feel, some of these -- these have all been announced. These are all public information. But you kind of see the array of partnerships. And these are the larger ones that were there. So these tend to be a duration of 10 to 15 years is typical, average value around $200 million, if you go across the group. And these resonate, right? So these are customers where they have a need, we help bring solutions to their needs. There's a good fit in shared goals between what they hope to accomplish and what we hope to accomplish. And I would tell you also, it's really important in this because in a 10- to 15-year -- so I know some of the questions were around, what risk is there in these. It's really important upfront that there are shared -- there's a shared understanding of the goals, that there's discipline around the government and that the cultures are compatible. Because 10 to 15 years, the cultures have to be compatible or you're going to have problems. And we've - so we've actually been quite selective about this and have walked away from a couple that we did not think we're good fit for the long term. So I think we're -- there's some good ground there covered, it's a good precedent. And what I'd like to do is, speaking of our culture where we are very compatible, is a role -- a video now of Phoenix Children's Hospital and some of the great work we do with this partner.

(presentation)

Brent Shafer - *Koninklijke Philips N.V. - EVP of North American Market*

Now these are great people and a great partner. We're proud to be working with them. So this partnership approach is really key to our growth ambition. It is not all of our growth ambition, but it plays a role and where it does, it has a very strong appeal because it is aligned with what our customers need and really this market opportunity we're talking about.

We've seen early success. We need to learn from that, adjust and go forward, but we see a really -- a very strong opportunity here in 2 forms. One, to expand these relationships once they're in place because you have consolidation, right? So if you are working with customers who are consolidators as they grow, we grow and we want to be part of that. Also that we have a very strong pipeline here. Frans mentioned that. Very strong, a lot of interests. They move at a slower rate in less predictable rate, but it's very strong and very promising. So we feel good about that.

So some key -- just the key takeaways then and come back to the things I mentioned. Our strategy, I think, geographically and overall as a country, are very much on trend with -- on target with the trends in the marketplace and the drivers. We are intent to continue to gain strength in North America. And we're continuing on our track record of strong delivery with these key partnerships.

So thank you all very much. And I believe with that, we'll move to Q&A.

QUESTIONS AND ANSWERS

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

All right. If I can have my team over here then we will go -- we're going to cover as many questions as we can within the limited time that we have. So please -- where is Carla? Oh, she's coming. Can't do this without you, Carla. Veronica, you want to start? You look really eager.

Veronika Dubajova - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

I've lots of questions but I'll keep it to 2, I promise. The first one is actually for Egbert. I'm curious, obviously, you run one of the most successful franchises within Personal Health before taking over as head of the business. And I'd love to hear your thoughts and what are the some of the lessons you can take from Sonicare and make them broader across the whole business? How are you thinking about Personal Health working differently under your leadership? Or maybe not, but I'd love to hear your thoughts on that. And my second question is for Brent on the recovery North America post-Cleveland. What has been the strategy for you to start reengaging with some of the customers who were disappointed when

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you had the manufacturing issues? Has it been pricing? Has it been product innovation, et cetera? And clearly, you have a very strong pipeline coming through over the next couple of years in DI, in particular. How are you thinking about that as an opportunity to drive growth from here?

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

Go ahead, Egbert.

Egbert Van Acht - *Koninklijke Philips N.V. - Chief Business Leader of Personal Health Businesses*

Thanks for the question. So first of all, yes, health and management growth, I mean, the total of PH, Personal Health has grown in a very consistent manner. The drivers of success apply to the whole portfolio. So not just -- I mean, we leveraged some of the learning in our health care, but also we have great learnings and success factors in the other businesses. And it's about superiority and innovation, real differentiation versus competition, creating new categories, which I think, is always very interesting in a sense that we can capture all the value there. Geographic expansion, so roll out proof and propositions, as I mentioned before, is also a lower risk, right? So I think that's another learning. And I think, thirdly, definitely, the digital engagement. So the innovation, the digital marketing and the e-commerce part, that will continue. So the levers of growth will continue in the future. And that's also actually my goal to expand that growth and profit trajectory. And it's all enabled by, on one hand, sale suite, but on the other hand more importantly even, I think, our people because we have very engaged, highly motivated, highly energetic team around the world with a lot of pride. So that's -- that gives me a very confident feeling we will continue this journey.

Brent Shafer - *Koninklijke Philips N.V. - EVP of North American Market*

So good -- great question. So 2014 was a little bit of everything that could happen in 1 year, did. And if you're around at Cleveland, you probably also know that we chose that exact moment to have a major reorganization in the U.S. field. So we've been working in these 2 paths together, together with Rob. So as Cleveland has come up and product starts to go out the door, at the same time, we have stabilized, cleaned up some of the damage that was done from the reorganization, invested in new people, invested in training, basically invested in service as well. So everything that has to do with what is that customer's experience and rebuilding confidence and rebuilding consistency. For the most part, I think what customers have been looking for from us is just consistency, showing up, doing what you say, knowing what you're doing, product shows up on time. And there's a lot of good traction that has come from doing that. And it sounds basic, but it's been very hard work given where we were. So we're starting to see the results of that traction. I think what comes next now is with new innovations on the horizon. It's how do you then extrapolate. Yes, you can trust us. Yes, we're delivering on our commitments. And there's a whole lot more we can bring to this. And that's very much where we want to go. We have not been using a price lever as a way to solve reputational issues, let's say. We have also been investing in our brand, restoring the brand, restoring how we're perceive specifically, in radiology, but in the market overall. And I think all these things are starting to come together now and...

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

With great order intake for...

Brent Shafer - *Koninklijke Philips N.V. - EVP of North American Market*

Diagnostic, yes. Very good order intake. So we're pleased with the progress. Lots more to do.

Unidentified Company Representative

Okay. We'll take a question over there.

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Michael Klaus Jungling - *Morgan Stanley, Research Division - MD, Head of MedTech and Services and Analyst*

It's Michael Jungling from Morgan Stanley. Again, I have 2 questions. First on innovation for your professional medical devices. And how does the investment of $300 million in the sort of breakthrough technologies impact your approvals for medical devices going forward being a split between 510(k)s and PMAs, are we going more and more towards the sort of PMA-type approval prices? And secondly, for your solutions approach, I mean, you guys mentioned examples of efficiencies. But I'm quite surprised that you haven't showed any examples in the U.S. of winning contracts with large health care systems, for instance, HCA, Community Health, [Sentio], Tenet. And why have you not been able to do that if those cost savings are so significant? I expect that these large incentives would really benefit from it.

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

Okay. Carla, take the first and Brent, the second.

Carla Kriwet - *Koninklijke Philips N.V. - Chief Business Leader of Connected Care and Health Informatics & Executive VP*

Thank you. Good question. PMA approval, a part of our business is already there. Our entire AD business is subject to PMA approval. And that is, as you know, a tougher way of looking at the approval process. And our entire R&D development is gated towards that. So we have very strict gates where we have all quality and also development milestones checked in interdisciplinary teams in order to get to our excellent position before we launch and then the PMA approval follows. We see the industry rising up to more and more scrutiny from regulatory bodies also in the approval process, you see that in China, but we also see it in Europe with the EMDR coming up. The fear was our position coming from the critical care that we are actually very well equipped to do so.

Brent Shafer - *Koninklijke Philips N.V. - EVP of North American Market*

I guess the question is, what is the funnel look like or where could it go, is maybe what's behind that so?

Unidentified Analyst

Question. Why (inaudible) backs with these logical business (inaudible) you've given (inaudible) isolated possibility (inaudible)?

Brent Shafer - *Koninklijke Philips N.V. - EVP of North American Market*

Yes. Well, 2 big mentions were for profits. And so it's a little bit different dynamic. And I think what -- I mean, if you just think about where do you start in a partnership, you got to start with the physician or customer where you have a pretty large physician already, right, and a trust -- there's a trust-based relationship that you can build on. And so that's kind of -- these are organic. This is where we've been starting and going, but I would say that some of the opportunities we see forward looking are considerably larger in scale as we gain experience and gain credibility here and people see that we can deliver on this, I think there is the opportunity to go bigger.

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

But if you would largely categorize, also with the system there are 3 buckets from academic to these large IDN networks and then the mid-tiers then actually, the mid-tiers are the most pragmatic in moving into the space. The academics were -- want to have everybody, want to have their own sync. So getting the compliance of orchestration is difficult. And some of the very large networks, they have actually big departments running this, and they still need to realize that maybe they shouldn't do it in-house, but they should outsource. I mean, in a quick nutshell, I think here is where it's moving. I always say, which company today still runs their own copying machines? Nobody, right? So I think the trend towards making

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this a service is going to be unstoppable. And we have the best experience in the industry with these 80 contracts already and expanding rapidly every year. Behind you, [Steph]?

Patrick Andrew Robert Wood - *Citigroup Inc, Research Division - Head of EMEA Medical Technology and VP*

It's Patrick from Citi. Two questions, please. The first I think for Egbert. I'm curious how we should think about the channel mix shift online? And what that means for things like above-the-line spend, brand equity? What are some of the challenges that going forward as that penetration goes higher and higher? I think maybe the second one for Rob. I'm curious on the ultrasound side, reading a lot about ultrasound on a chip and things like that. I'm curious as to how you see that kind of technology going forward. And also Lumify seems like an amazing product. I'm just curious why some of the uptake on that seems maybe a little bit slower than, I don't know, at least, I expected.

Egbert Van Acht - *Koninklijke Philips N.V. - Chief Business Leader of Personal Health Businesses*

So maybe to your question on the online development. So -- we see this as a big opportunity. We are a leader. We have invested in this, I also mentioned in my story a lot in digital talents. So people have come to us also because of our mission and vision to help us - to create this leadership position. So I think there's many advantages. For example, campaigns are inherently measurable real time. So in terms of ROI on the investment, I think it's laser focus in that sense. And we also do a lot of data analytics on campaigns, change our campaigns real time to see conversion to sales, right? So I think this is a more sophisticated game. And I think we're pretty good at it, to be honest. So and the interest of other consumers all of us, our behavior, where do we want to show, where do we want to buy? And it's increasingly on mobile and it's just what I mentioned, the China example, but also, of course, the Europe and the U.S. So big opportunity and it also enables to our direct contacts, what I said, to get more high margin recurring revenue streams even more than we have today.

Brent Shafer - *Koninklijke Philips N.V. - EVP of North American Market*

From our perspective, we view ultrasound as really being ubiquitous in terms of capability. So and relative to point-of-care, you're absolutely right. Lumify is an excellent product. And we've changed our go-to-market so that although we still have a subscription-based model, we'll also have a more traditional sale-based model. So it's incorporated either with the user staff versus our own, and we're now seeing a lot of traction in a variety of different applications, all of which being in places where you can take medicine into the field. You can take medicine into the factory. So it's actually really living up to this extraordinary opportunity of really ultrasound being anywhere. The ultrasound on a chip, it's there. I mean, if you look at our catheter-based ultrasound, if you look at all the things that are being done around [SIMA]. Those are all the opportunities that we have in terms of shrinking a form factor, putting it in the body either it's your cavitary or otherwise, and really having the same kind of extraordinary imaging we have on an external perspective. So now we're obviously really very bullish about our Ultrasound business.

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

Okay. Let's have a couple of hands, so we go there in the back where there are other hands.

Scott Bardo - *Berenberg, Research Division - Analyst*

Scott Bardo from Berenberg. Couple of questions for Rob, please. So obviously, you've outlined a margin profile for D&T back to more like your competitive benchmarking. I just wondered if you could talk about a little bit whether there's any structural considerations or headwinds you obtained in that target with respect to the service mix of your business versus peers, whether you're more exposed to less profitable businesses, like X-ray or so. And obviously, you talked a little bit about scale impact. So are those some of the things that are baked into your consideration, maybe you could elaborate a little bit on that?

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Robert A. Cascella - *Koninklijke Philips N.V. - EVP of Diagnosis & Treatment Businesses*

Yes. So when we think about the our, let's say, cost structure of the business, both from a product perspective and in infrastructure perspective, we're viewing it as there being tremendous opportunity. I think what we're seeing is that number one, I think the legacy products were not designed to really have costs in mind. So now we're designing for a much cost effective -- much more cost-effective product and also much more from a serviceability and a manufacturability point of view. So we're really taking a lot of cost out of the design and the manufacturing of the product and the delivery of the product. So service organizations are doing more things remotely. We're enhancing the levels of service that we have now so that it's not just going out and doing maintenance or fixing things, it's actually selling a value proposition to our customer. So does that answer it a bit?

Scott Bardo - *Berenberg, Research Division - Analyst*

I think so. I mean, just to what I understand -- I mean, GE for example, we understand they've -- 50% of their diagnostic revenues come from service. I just wonder, could you share where that is for Philips? So are you...

Robert A. Cascella - *Koninklijke Philips N.V. - EVP of Diagnosis & Treatment Businesses*

We view -- first off, service is an incredibly important business for us, but we view it is integrated with our products. So we -- you almost can't have one without the other, right? So we're viewing that there's an equal amount of attention on building service as an independent business as well as one that is highly leveraged by our success in gaining market share.

Scott Bardo - *Berenberg, Research Division - Analyst*

Very good. And maybe just last question, sorry, Frans, just to go back on to Cleveland. And I think you mentioned that you're obviously a global operation, you have lots of facilities. Can you confirm that Cleveland is still an important facility being your only FDA-approved CT facility? And can you go further to draw aligning the sign that just say that you don't anticipate any further manufacturing output disruptions from that facility going forward?

Robert A. Cascella - *Koninklijke Philips N.V. - EVP of Diagnosis & Treatment Businesses*

So we are capable of manufacturing CT and molecular in multiple facilities around the world. I just want to make that a statement. As a matter of fact, some of the superpremium products that you saw that we just introduced, they're made of between a combination of Suzhou and Haifa. Cleveland is an important facility for us. If there's a fundamental engineering expertise, it's there. It's obviously a building that -- and incorporates a training facilities and so on and so forth. With respect to the FDA, I think we -- I've been here for 2.5 years. And I've seen a dramatic improvement in not just what we've done from a quality systems perspective, but our culture, our dedication and our commitment to it. I -- so I feel -- I have to feel that we've come a long way, and are we done? No. I thought you've heard Frans talked about it. This is a long journey that's been going on for years, and it will remain that way. But I think what's most important is, it's our commitment to deliver in quality products today that it's different.

Scott Bardo - *Berenberg, Research Division - Analyst*

Oh, you've personally met the FDA?

Robert A. Cascella - *Koninklijke Philips N.V. - EVP of Diagnosis & Treatment Businesses*

I have been to the FDA a few times -- I've been to the FDA a bunch of times in my career. A few times here at Philips. And look, I think even from the agencies perspective, what we hear is, we want to see that you're doing better. We know you're not going to be perfect, we want to see that you're on a -- the mend and on the right kind of path. so I feel very good about what we've done thus far.

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François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

Very good. Anybody in the back on that side? No? Then we go here to the front. Ben?

Benedict Ernest Uglow - *Morgan Stanley, Research Division - MD and Head of European Capital Goods Equity Research*

I'm sorry if I missed it earlier, but on health care, the Informatics business, which is about $500 million at the moment. Did you give a growth rate for that? If not, please can we know kind of how that is growing? And I think, last year, you gave some figures on the investment that was being made in that particular business in Health Informatics. Has that investment now begun to kind of peak or run off? I -- what I'm asking is, will 2018 be the year that we see Health Informatics margin sort of go up to normalized levels? So that was question one. Question 2, which is for Frans. Frans, last year, you were very open about having a double-digit market share loss in North America as a result of Cleveland. You've said that there has been an improvement, could you quantify for us at all, so how much of that double-digit loss has been regained?

Carla Kriwet - *Koninklijke Philips N.V. - Chief Business Leader of Connected Care and Health Informatics & Executive VP*

Let me start. So the guidance we gave was for the Connected Care & Health Informatics business overall to grow mid to single -- mid to high single-digit. I also said and I would like to repeat that in Informatics isn't all our businesses. I used to run as a business group leader patient monitoring. I find it extremely hard to think of patient monitoring without informatics. All we are saying is connected software -- integrated software systems. Also the profitability in the mid-teens shows: a, the great profitability businesses we have and also the leverage we are getting by growing them further. But to your second question, we will continue to invest significantly in that business because it's a growth engine, and we are also seeing the scale and the margin benefits coming back.

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

Yes. On your second question -- but before I go to that, I want to reinforce that informatics in Philips is not only the health informatics business unit, right? Most of Carla's business is in informatics. Part of Rob's business is in the informatics. And if you add that up, you are well into this $3 billion of informatics business is making us one of the largest informatics businesses in health care. And yes, I was open and transparent, I hope as I always have perceived, Ben, but let's say, the market share in Diagnostic Imaging in Europe, in Asia is well in the 20%, right. And in the U.S., it is -- in the -- between the 10% and 15%. Brent, your order intake over the last couple of quarters in DI, you want to say a little bit about it? Give a little bit of color?

Brent Shafer - *Koninklijke Philips N.V. - EVP of North American Market*

We've been in the double-digit range for a couple quarters in DI. And that's the main area to turn, right? So we continue to be strong in Ultrasound, continue to be very strong in IGT, but a significant shift in DI. And we still have a lot of good ground to gain. I mean, there's no question about it.

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

Yes. So -- I mean, in a flat market having those kind of order intakes has improved to point of order -- or at market share recovery. Now there's a long way to go, and we are committed to do it. And there's no reason why we can have market share in the 20s in one region and not in the other region, so we'll go for it. [Christian].

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Unidentified Analyst

So just 2 questions from me, just on sort of Ultrasound, and in the same way that you're trying to catch up with competitors in sort of MRI and CT. I think some of your other competitors are trying to catch up with you in Ultrasound. So could you -- you talked a little bit about the competitive landscape and whether those guys would be pushing to try and close the gap, whether you've seen any change?

Brent Shafer - *Koninklijke Philips N.V. - EVP of North American Market*

Yes. Unfortunately, they've -- the likes of our competitors are not going to go away. So we have a very strong hold on cardiovascular, north of 40% on a global basis. So huge business and a very important one. The -- we do see that there are threats, but one of the reasons why we're the leader is that we continue to invest very heavily, and we innovate in that area. The addition to TomTec, one of the reasons and the rationale behind it was it gives some very -- image processing capabilities and allows us to stay ahead of our competition in cardiovascular but also be much more successful in that -- in anatomical intelligence capability in obstetrics. So we're -- I -- this is a matter of having to continue to invest, and that's exactly what we've done. But I don't know if that -- if that's what you're looking for or not.

Unidentified Analyst

And just maybe a sort of follow-up on OB/GYN and -- when you say you're sort of growing double digit there, who -- is that effectively as sort of new market or your taking share of...

Brent Shafer - *Koninklijke Philips N.V. - EVP of North American Market*

No. I've said -- that is clearly taking share. I mean, it's a -- the OB/GYN market is a EUR 1 billion market. We own very little of it. Yes. And the part that we occupied was really the premium section. And what I mean by very little of it, less than 20%. So we have a real opportunity, but, yes, it will be at the expense of someone else that has a broader OB/GYN holdings.

Unidentified Analyst

And I mean is it -- should we think of it as traditional large health care players or health care equipment players? Or is it a more niche market?

Brent Shafer - *Koninklijke Philips N.V. - EVP of North American Market*

Well, I think we've invested in both the product, their transducer geometry, but most importantly, the channel. We've invested heavily in a dedicated channel in both GI and in OB/GYN in North America primarily and we've done the same in China. And we're seeing tremendous results. I mean, we needed a product portfolio that was appropriate for the workflow of a -- the OB/GYN, but now that we have that, and we have a new transducer line that do very appropriate for it. We now had to build the channel around the great products that we came to develop. And that's what -- we're now seeing the fruits of that, so that the OB/GYN business in North America just in this last quarter was low double digit, the growth. So I mean, pretty compelling in a market that really is not growing.

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

So things are going well there. I think we are at the end of the morning session. Aren't we, Pim?

Pim Preesman - *Koninklijke Philips N.V. - Head of IR*

Correct. Thank you, Frans. This concludes the live webcast that we have today. So thank you for joining for the people online. And the presentations this afternoon will be recorded and will be posted shortly on our website. And now we wanted to go for lunch. The full management team here

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will host each the table together with Jeroen as part of the management team as well and the 4 business leaders that will conduct the business zooms this afternoon. The breakfast and lunch, I have to say, will be here to the right downstairs, and we will reconvene at the zooms at 1:30.

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management, CEO & President*

Thank you.

Brent Shafer - *Koninklijke Philips N.V. - EVP of North American Market*

Thank you.

Robert A. Cascella - *Koninklijke Philips N.V. - EVP of Diagnosis & Treatment Businesses*

Thank you.

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