PHILIPS

Capital Markets Day

# Delivering performance, further unlocking our potential

**Frans van Houten**
CEO

innovation + you

# An experienced Leadership Team

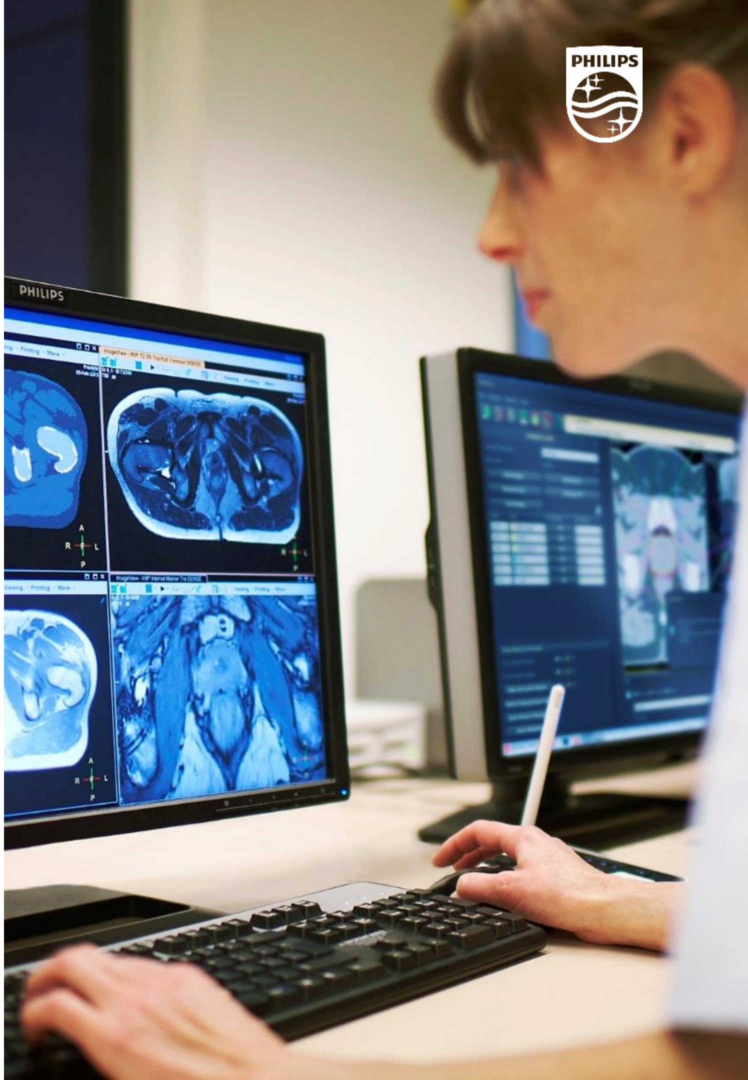
*Present today*

| CEO / CFO | Segment Leaders | Market Leaders | Function Leaders |
|---|---|---|---|
| *CEO* **Frans van Houten** | *Diagnosis & Treatment* **Robert Cascella** | *Global Markets*[1] **Henk de Jong** | *Innovation & Strategy* **Jeroen Tas** |
| *CFO* **Abhijit Bhattacharya** | *Connected Care & Health Informatics* **Carla Kriwet** | *North America* ***Vitor Rocha*** | *Operations* **Sophie Bechu** |
| | *Personal Health* **Roy Jakobs** | *Greater China* **Andy Ho** | *Legal* **Marnix van Ginneken** |
| | | | *Human Resources* **Ronald de Jong** |

[1] Excluding North America and Greater China

# Key takeaways

- We have transformed into a **focused global HealthTech leader**
- We differentiate through innovation based on **consumer & clinical insights** and **commitment to R&D**
- We are **driving value creation** by:
  - Improving customer and operational **excellence**
  - Boosting growth in the core by **geographic expansion** and **customer partnerships**
  - Winning with **solutions along the health continuum**
- We are **increasing and extending our productivity program** to **EUR 1.8B**[1]
- We reaffirm **4-6% organic growth** and an **annual improvement of on average 100 bps adjusted EBITA margin** over 2017-2020, and plan to **increase Free Cash Flow**[2] to above EUR 1.5B in 2020



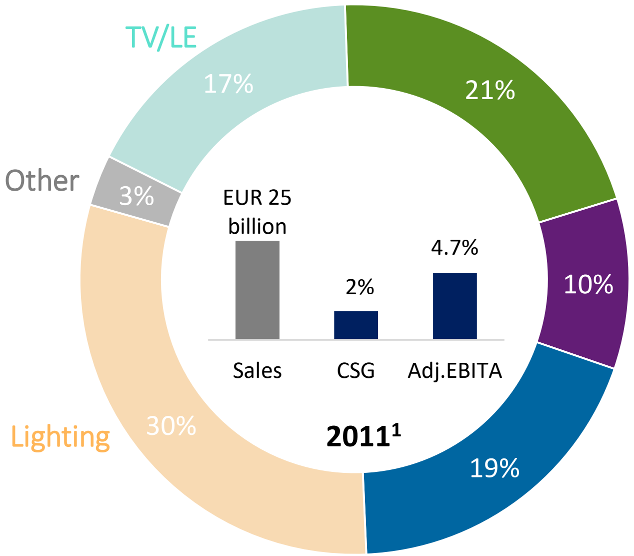



[1] 2017-2020; [2] Free Cash Flow adjusted for one-time pension contributions and significant legal cases


At Philips, we strive to make the world healthier and more sustainable through innovation.

# We have transformed into a focused global HealthTech leader

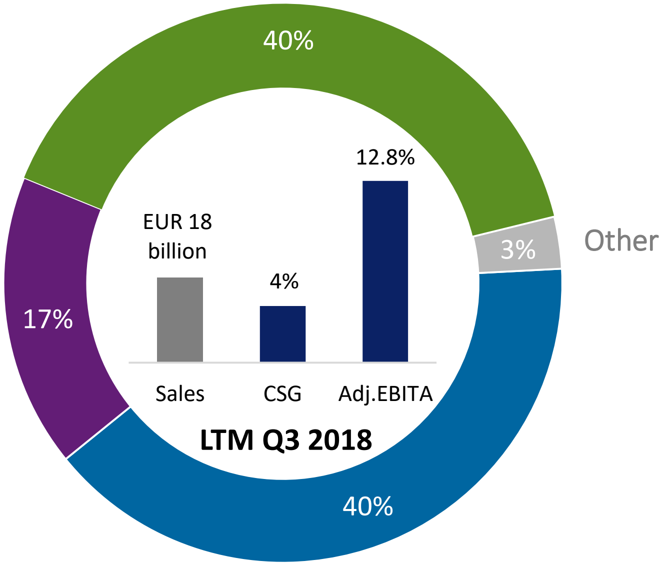
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|
| **Key acquisitions** | | | | | + Volcano | | + Spectranetics | |
| **Key divestments** | | - TV | | - Lifestyle Entertainment | | - Lighting (IPO) | - Lumileds/Automotive | |




Diagnosis & Treatment

Connected Care & Health Informatics

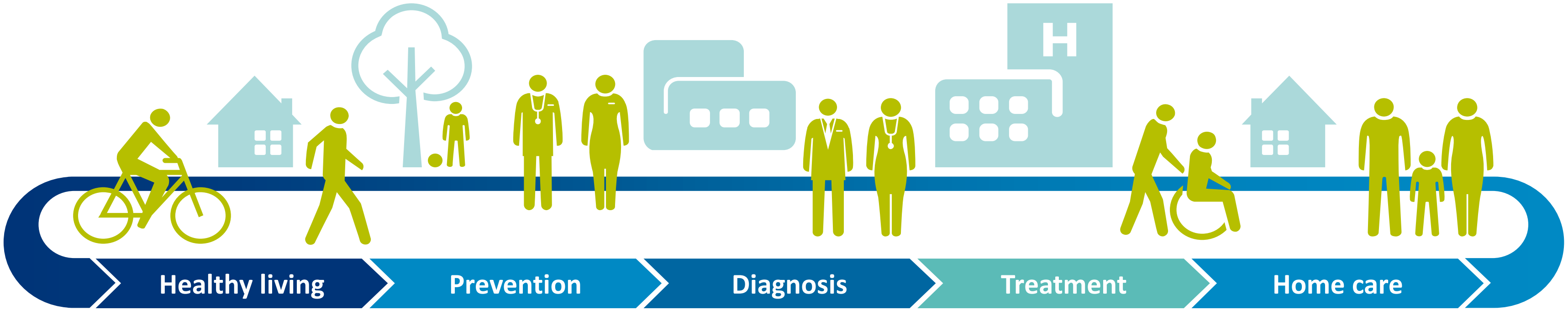
Personal Health




[1] Personal Health in 2011 includes Sleep & Respiratory Care

# Our strategy resonates with customers, addresses their needs

## Uniquely positioned in the "last yard" to consumers and providers




| Healthy living / Prevention | Diagnosis | Treatment | Home care |
|---|---|---|---|
| Connected products and services supporting the health and well-being of people | Integrated modalities and clinical informatics to deliver precision diagnosis | Real-time guidance, smart devices for minimally invasive interventions | Connected products and services for chronic care |

Connecting patients and healthcare providers for more effective, coordinated, personalized care
Managing population health, leveraging real-time patient data and clinical analytics

# Addressing the Quadruple Aim

- Improved health outcomes
- Improved patient experience
- Improved staff satisfaction
- Lower cost of care

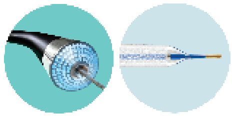
# Over 60% of sales from leadership positions[1]

## Diagnosis & Treatment

**Ultrasound**
*Global Leader*

**Image-Guided Therapy Systems**
*Global Leader*

**Image-Guided Therapy Devices**
*Global Leader*



**Diagnostic Imaging**
*Global Top 3*

## Connected Care & Health Informatics

**Patient Monitoring**
*Global Leader*

**ICU Telemedicine**
*#1 in North America*

**Non-invasive Ventilation[2]**
*Global Leader*

**Personal Emergency Response**
*#1 in North America*

**High-end Radiology and Cardiology Informatics**
*#1 in North America*

## Personal Health

**Male Grooming**
*Global Leader*

**Oral Healthcare**
*Global Leader*

**Sleep Care**
*Global Leader*

**Respiratory Care**
*Global Leader*

**Mother & Child Care**
*Global Leader*



[1] Leadership position refers to #1 or #2 position in Philips addressable market; [2] Based on non-invasive ventilators for the hospital setting

# We operate in growing, evolving markets

**Strong growth fundamentals**

| | | | |
|---|---|---|---|
| Growing population | Aging population | Rising burden of chronic diseases | Increasing spend in developing markets |

**Market evolution**

**Digital**

Connecting consumers, patients and care providers

**Consumer centric**

Increasing consumer engagement in their own health

**Precision**

Importance of AI, informatics and personalization

**Consolidation**

Increasing horizontal and vertical consolidation

**Post Acute Care**

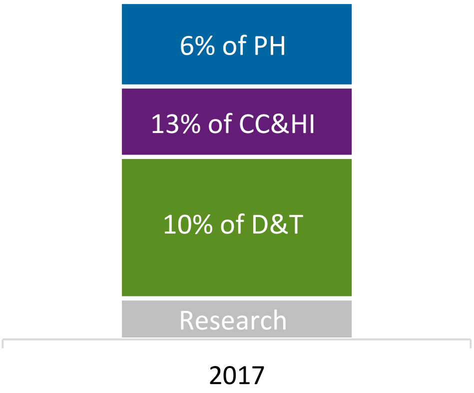
Shifting to lower-cost settings and the home

# Innovation is core to our value creation

## Commitment to innovation

**EUR 1.8 billion in R&D**

9.9% of sales




**60%**

R&D professionals in software and data science

**Deep clinical partnerships**

With academic institutions and with key opinion leaders

**New businesses**

e.g. Digital Pathology, neurology, wearables, HealthSuite cloud applications

## Driving growth and margins

**>50%**

New product sales[1]

**>10%**

LTM[2] order intake growth

**Expanding gross margins**

With higher-margin innovations

**40-50 bps**

R&D productivity gain by 2020

[1] New product sales over three years based on YTD Q3 2018; [2] LTM Q3 2018


# Drivers for continued growth and improved profitability

# Drivers for continued growth and improved profitability

**Better serve customers and improve quality**

- Improve customer experience, quality systems, operational excellence and productivity
- Continue to lead the digital transformation

**Boost growth in core business**

- Capture geographic growth opportunities
- Pivot to consultative customer partnerships and services business models

**Win with solutions along the health continuum**

- Drive innovative, value-added integrated solutions
- Reinforce with M&A, organic investments and partnerships

Customer satisfaction

Revenue growth

Margin expansion

Increased cash generation

Value creation

Better serve customers and improve quality

# Improve customer experience, quality systems, operational excellence and productivity

- Further strengthening Quality Management System and compliance; on schedule for EU MDR[1]
- Increasing and extending productivity program to EUR 500 million annually for 2019 and 2020; current total planned net savings of EUR 1.8 billion for the period 2017-2020
- Leveraging LEAN across the organization
- Driving for excellence in the supply chain


[1] The European Union Medical Device Regulation

Better serve customers and improve quality

# Continue to lead the digital transformation

## Leading to deeper customer relationships and higher value propositions

### Main aspects of transformation

- Connected, digital products
- Connected customers and consumers
- Leveraging data
- Digital Enterprise IT
- Digital talent

### Example of connected propositions

**Dream Family**

*Patient-centric solutions that connect patients and care teams*

**Sonicare for Kids**

*Connected platform to engage consumers from an early age*

**Tele-pathology**

*Integrated multi-disciplinary assessment supported by AI*

Philips HealthSuite

Boost growth in core business

# Capturing geographic growth opportunities

## Replicating proven propositions in new markets

- OneBlade rolled-out to 10 new countries in 2018, adding up to a total of 33 countries
- Sleep & Respiratory Care, delivering >20% growth in China, India, and Brazil

## Further strengthening go-to-market

- +160 bps[1] market share gain in Diagnosis & Treatment North America
- +120 bps[2] market share gain in Diagnostic Imaging globally

## Leveraging global footprint for acquisitions

- Volcano and Spectranetics delivering double-digit growth[3]
- Spectranetics presents a large growth opportunity following Volcano model

[1] As per NEMA data YTD Q3 2018; [2] Implied equipment market share 2018; [3] LTM Q3 2018

Boost growth in core business

# Pivot to consultative customer partnerships and services business models

PHILIPS

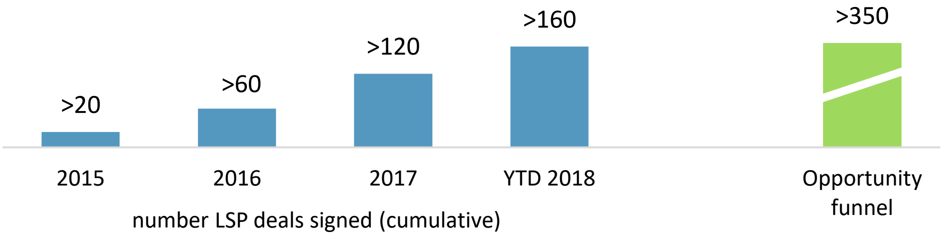
## Long-term strategic partnerships unlock value for our customers and us

Built on:

- Common goals
- Joint commitment
- Outcome-focused business models
- Continuous improvement
- Collaborative innovation

Leading to:

- ✓ Deeper C-suite relationships
- ✓ Delivering success to customers
- ✓ Increasing share of wallet
- ✓ Multi-year, recurring revenues
- ✓ Excellent references




number LSP deals signed (cumulative)

## Recent deals

Banner Health

NSW GOVERNMENT | Health Illawarra Shoalhaven Local Health District

städtisches Klinikum München

children's MEDICAL CENTER

Kliniken Köln Beste Medizin für alle.

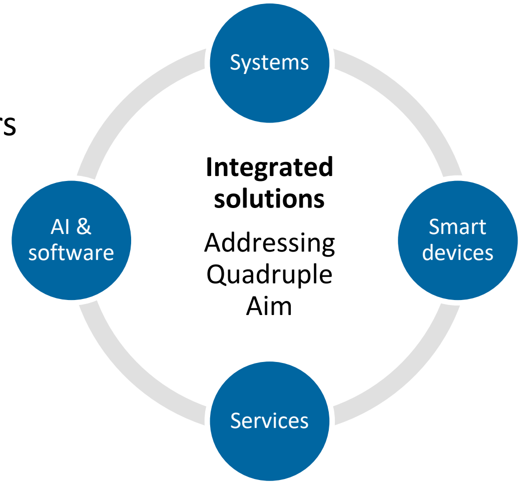
Win with solutions along the health continuum

# Drive innovative, value-added integrated solutions

## We are uniquely positioned to deliver integrated solutions

We bring together:

- A holistic view on the needs of consumers, patients and providers
- Deep consumers insights
- Leading clinical and operational expertise
- Broad portfolio of technologies




Example solution areas:

- Precision diagnostics
- Minimally invasive therapies
- Sleep and respiratory care
- Connected care

**Solutions deliver 32% of revenues[1], growing double-digit**

[1] LTM Q3 2018

Win with solutions along the health continuum

# Guardian Early Warning connected care solution – addressing the Quadruple Aim

**Guardian connected care solution**

- Vital signs monitors
- Wearables
- Turnkey delivery
- AI and data mining

## Health outcomes

**86%** reduction of Cardiopulmonary Arrests[1]

**66%** reduction in mortality of patients transferred to the ICU[1]

## Cost of care

**24%** reduction in ICU admission rate[1]

can reduce length of stay[2]

## Patient experience

Patients feel safer in general care unit[2]

Faster hospital discharge[2]

## Staff satisfaction

**35%** reduction of severe Adverse Events[1]

**52%** improvement in notifications to trigger interventions[1]

[1]Subbe et al. Effect of an automated notification system for deteriorating ward patients on clinical outcomes. Critical Care (2017) 21:52. Effect of an automated notification system for deteriorating ward patients on clinical outcomes. 2. Lilly CM, et al. Hospital Mortality, Length of Stay and Preventable Complications Among Critically Ill Patients Before and After Tele-ICU Reengineering of Critical Care Processes. JAMA. June 2011

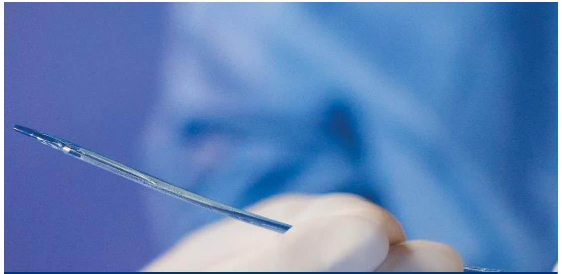
Win with solutions along the health continuum

# Reinforce with targeted M&A and organic investments

## Creating a unique solution offering in Image-Guided Therapy

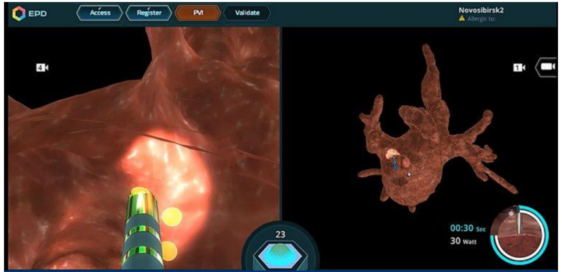
**Leadership in systems**

Better margins and market share gains +300 bps



**Expand into devices**

Acquisitions perform better within Philips




**Innovate the procedure**

Solutions delivering on the Quadruple Aim

Image-Guided Therapy: **Double-digit** order and sales growth[1] | **High-teens** Adj. EBITA in 2020



[1] LTM Q3 2018

# Leadership culture is an important element of our transformation

# Our sustainability programs address pressing societal issues

## Focus on United Nations Sustainable Development Goals, in particular #3, #12 and #13[1]

**Climate change**

Carbon-neutral in our operations, 100% renewable electricity (2020)

**Circular economy**

15% circular revenues, zero waste to landfill (2020)
100% closed loops for all medical systems (2025)

**Access to care**

3 billion lives improved per year by 2025[2], including 300 million in underserved healthcare communities


**The Compact**

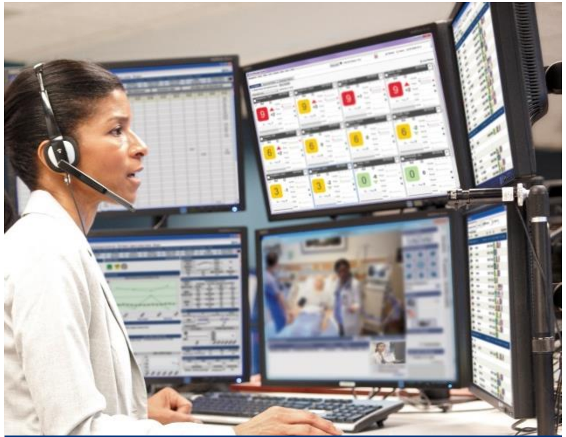
Committed to the WEF Compact for Responsive and Responsible Leadership

[1] #3 “Ensure healthy lives and promote well-being for all at all ages”, #12 “Ensure sustainable consumption and production patterns”, #13 “Climate Action”; [2] Including Signify (Philips Lighting)

# Segment performance trajectory 2019-2020

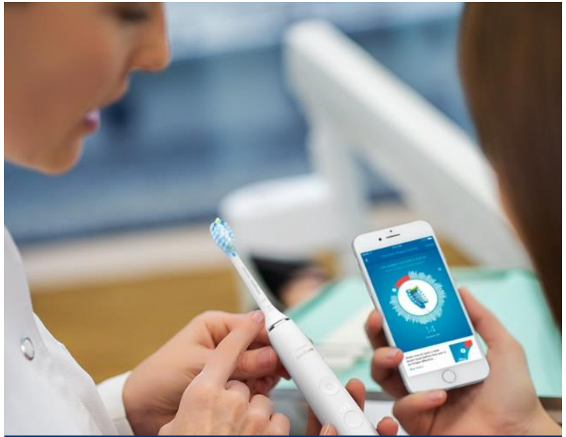
Diagnosis & Treatment

5-7% sales growth
14-16% margin



Connected Care & Health Informatics

3-6% sales growth
14-16% margin



Personal Health

5-7% sales growth
17-19% margin

Note: Margin refers to Adjusted EBITA margin by 2020

# We are pro-actively addressing headwinds

**Headwinds**

- Trade tariffs[1], estimated net EUR 60 million in 2019
- One-time EU MDR investment, estimated EUR 45 million in 2019
- Emerging-market currency volatility

**Mitigation actions**

- Adjusting supplier base
- Reconfiguring supply chain, leveraging multi-modality factories
- Selective pricing actions
- Increasing productivity program to EUR 500 million annually for 2019 and 2020

[1] Imposed tariffs between the US and China announced in several rounds up to September 23, 2018

# Continued focus on value creation

## 2017-2020 targets

| Revenue growth | Margin expansion | Cash generation | ROIC |
|---|---|---|---|
| comparable sales growth | Adj. EBITA improvement | Free Cash Flow in 2020 | Organic ROIC in 2020 |
| **4-6% annually** | **average annual 100 bps improvement** to ~15% in 2020 | **above EUR 1.5 billion** | **mid-to-high-teens** |

After 2020 we will drive further improvement

# Delivering performance

**Abhijit Bhattacharya**
CFO

# Key takeaways

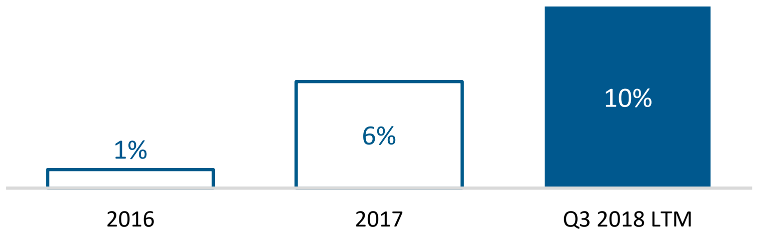
- We are delivering on our targets of **4-6% organic growth** and on average an annual improvement of **100 bps Adj. EBITA margin**
- We are increasing and extending our productivity program to save **EUR 500 million annually for 2019 and 2020.** Total planned net savings of **EUR 1.8 billion for the period 2017 – 2020**
- We plan to deliver Free Cash Flow[1] of **above EUR 1.5 billion in 2020**
- We have **balanced capital allocation** with investments in growth, M&A and total shareholder return



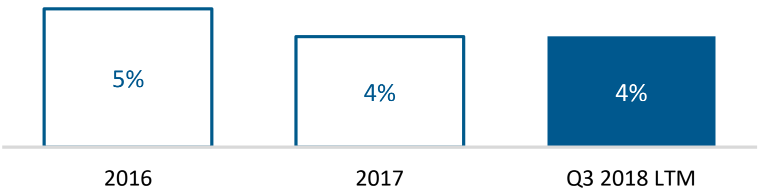

[1] Free Cash Flow adjusted for one-time pension contributions and significant legal cases

# Delivering double-digit OIT growth and 4-6% CSG

**Order Intake (OIT)[1] Growth %**




**Comparable Sales Growth (CSG) %**



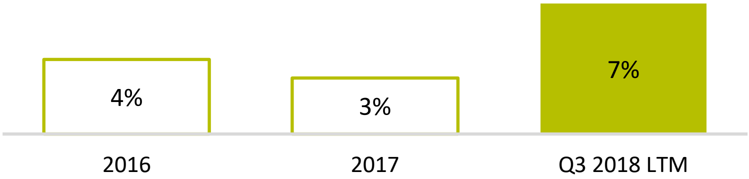

- Gaining market share with double-digit order intake
  - 14% LTM order intake for D&T, strong across all businesses, particularly in North America and China
  - CC&HI order intake momentum improving, strong performance in Healthcare Informatics
- Achieving sales growth in the targeted range of 4-6%
  - Driven by high-single-digit growth in our growth geographies[2]
  - Sales growth to improve, mainly driven by order intake momentum and stronger Personal Health growth

[1] Equipment; [2] Africa, APAC, Central & Eastern Europe, Greater China, Indian subcontinent, Latin America, Middle East & Turkey and Russia & Central Asia| LTM stands for the last twelve months

# Sustaining growth through innovations & geographic expansion

**Comparable Sales Growth %** | **Guidance[1]**

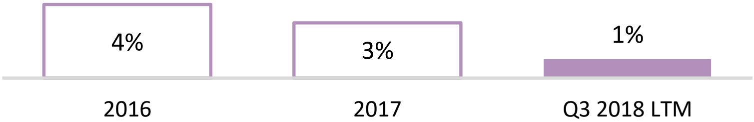
**Diagnosis & Treatment**




**5-7%**

- Double-digit growth in Ultrasound across modalities, e.g. CV, GI, OB/GYN and point-of-care
- State-of-the-art Azurion platform in Image-Guided Therapy continues to drive high growth
- 70% renewed portfolio in Diagnostic Imaging delivering strong OIT supporting future growth

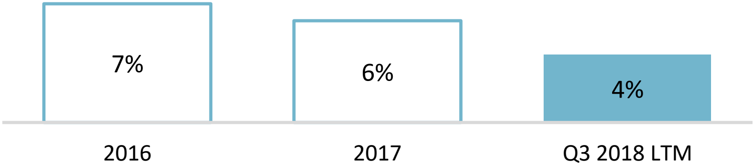
**Connected Care & Health Informatics**




**3-6%**

- Low-single-digit market growth in Patient Monitoring impacting overall CC&HI
- Good order intake momentum expected to improve sales growth

**Personal Health**




**5-7%**

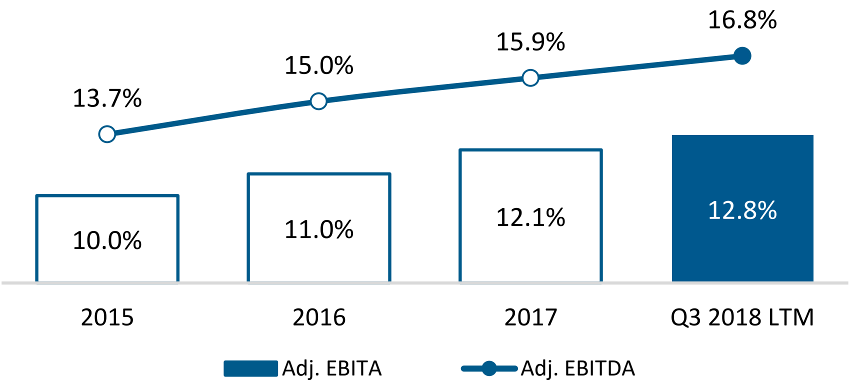
- Going forward we expect higher growth through new innovations strengthening the core and through geographic expansion



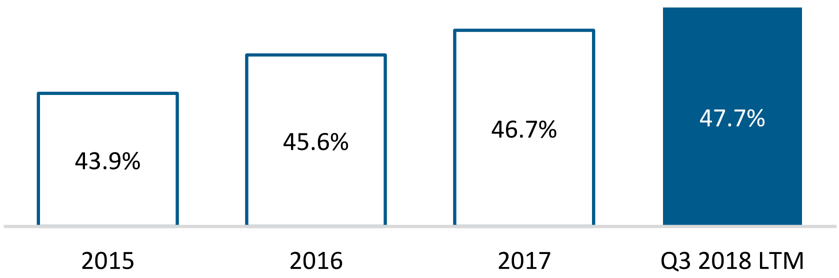
[1] 2019 - 2020

# Delivering ~100 bps Adj. EBITA margin improvement annually

**Adj. EBITA and Adj. EBITDA %[1]**




**Adj. Gross Margin %[1]**




- We have delivered ~100 bps profitability improvement annually since 2015 and are on track to deliver in 2018 with 96 bps YTD Q3 2018
- Gross margin significantly improved, driven by innovation, mix and productivity savings
- We are addressing increased headwinds from trade tariffs and currency volatility by:
  - Supply chain mitigation
  - Selectively increasing prices
  - Increasing and extending productivity program

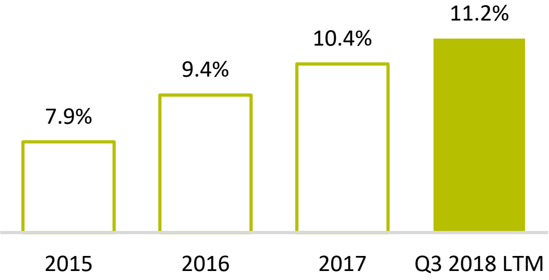


[1] Excluding restructuring costs, acquisition-related charges and other one-time charges and gains

# Expanding margins[1] through growth and productivity initiatives

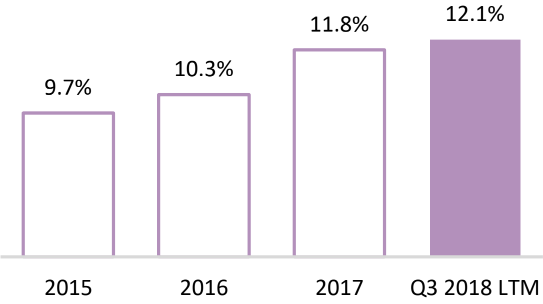
**Diagnosis & Treatment**

14-16% by 2020




**Connected Care & Health Informatics**

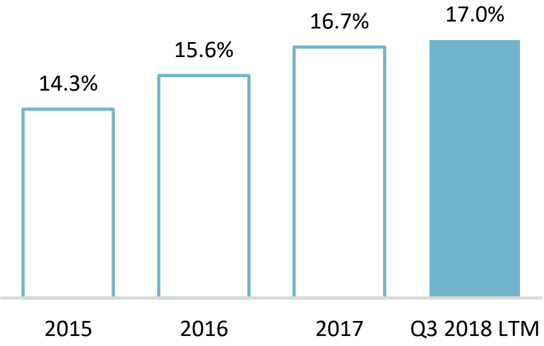
14-16% by 2020





**Personal Health**

17-19% by 2020

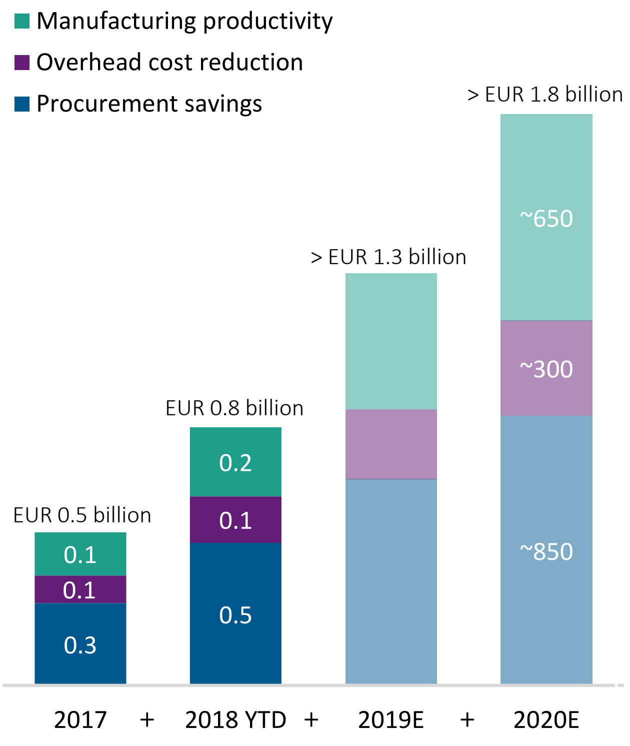





[1] Adj. EBITA excluding restructuring costs, acquisition-related charges and other one-time charges and gains

# Increasing productivity program to > EUR 1.8 billion by 2020

**2017 – 2020 cumulated net productivity savings**




### Manufacturing footprint

- Consolidating regional manufacturing footprint from 50 to ~30 production locations[1]; 13 locations completed this year

### Overhead costs

- Significant increase in scope and traction in Global Business Services
- Marketing transformation to fund more advertising firepower
- IT landscape simplification on track
- R&D to deliver 40-50 bps productivity by 2020

### Procurement

- Expanding proven DfX approach to the full value chain
- Tougher market conditions mainly from trade tariffs

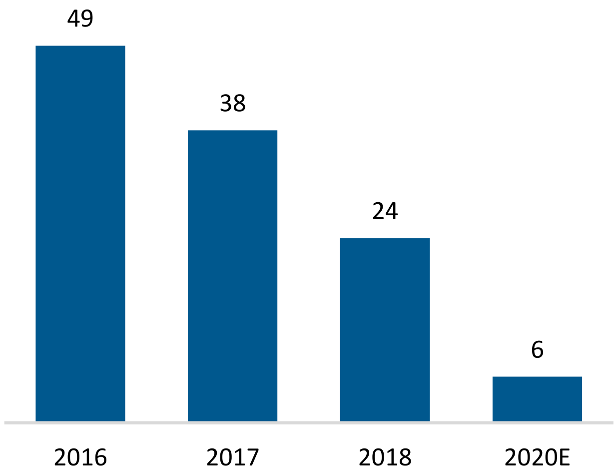
### Restructuring

- Due to additional productivity, restructuring charges expected to be 90-100 bps till 2020, thereafter ~40 bps

[1] Excluding the acquisitions post 2016

# Building our digital foundation - one integrated landscape

**Number of ERP kernels**



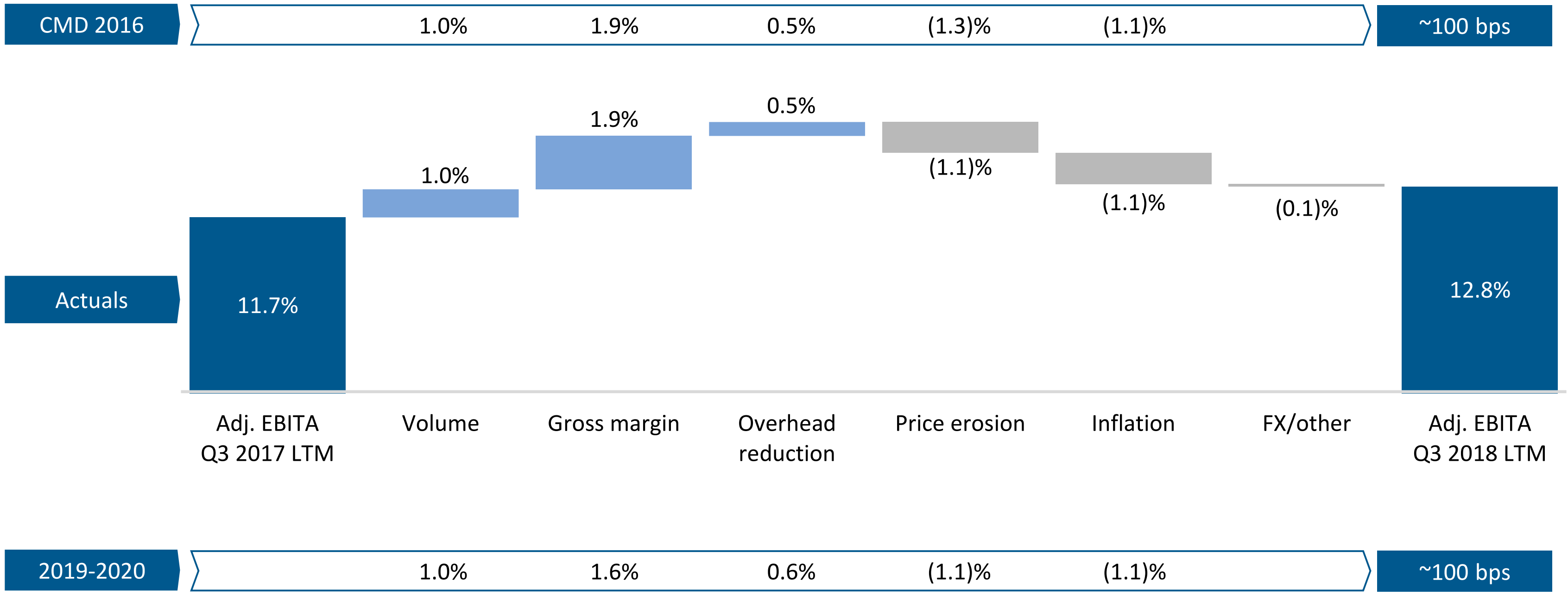

**Highlights of the program**

- Building an integrated digital backbone across all domains (commercial, supply chain, financial) to deliver an end-to-end and seamless value chain
- Stepping up cloud applications and direct-to-customer business models
- Simplified landscape with 6 ERP kernels by 2020:
  - All B2B commercial operations on a single ERP kernel in 2018
  - All B2C commercial operations on a single ERP kernel by mid-2019
- ~900 applications decommissioned since 2016

# Driving ~100 basis points annual improvement up to 2020

## Compensating tariff headwinds through additional productivity

**Adj. EBITA %[1]**

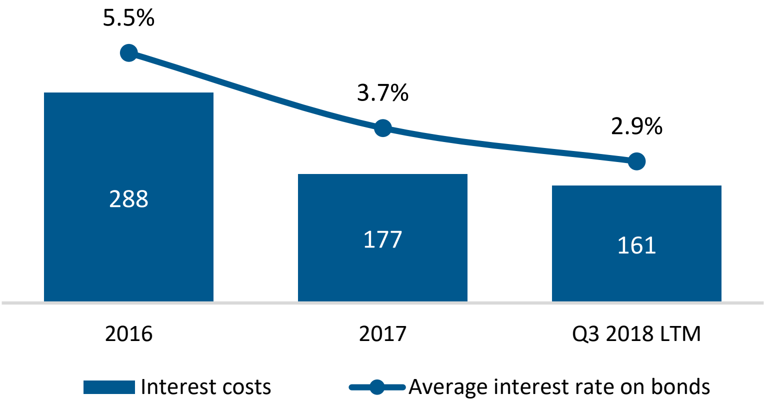



[1] Excluding restructuring costs, acquisition-related charges and other one-time charges and gains

# Strongly reduced interest costs and de-risked pension liabilities

**Interest costs on debt and borrowings**

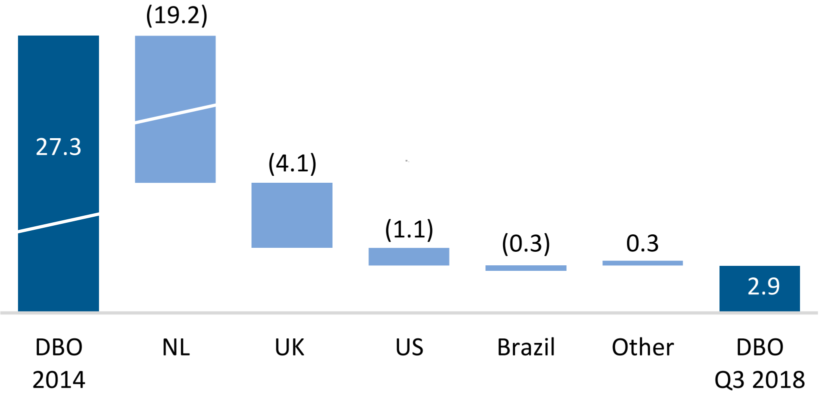
EUR million




- Significant liability management actions executed to reduce interest costs by ~45%
  - Redeemed more than USD 2.5 billion high-interest debt over the last two years
  - Refinanced EUR 2.0 billion bonds at attractive rates in Q3 2017 and Q2 2018

**2014 – 2018 reductions in Defined Benefit Obligations (DBO)[1]**

EUR billion



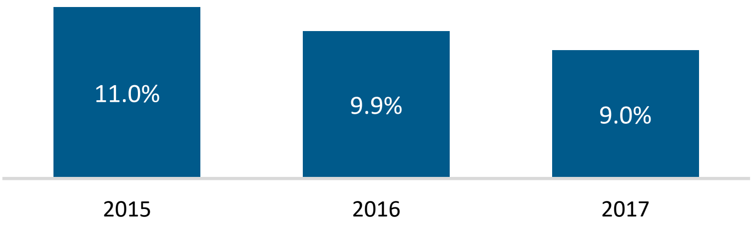

- Pro-active pension de-risking actions to significantly reduce DBO
- Current unfunded status is at EUR 820 million, of which approximately half accounts for Germany



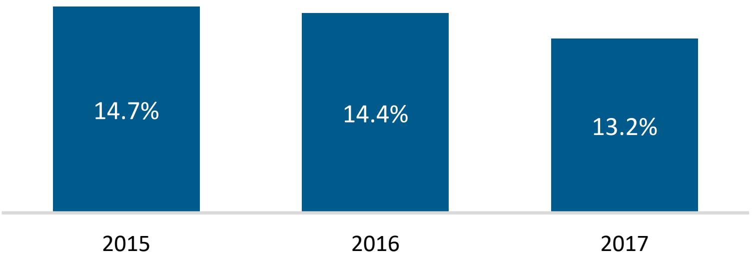
[1] NL (2015), UK (2015) and US (2015) settlements contain DBO of Signify prior to its divestment in 2016. Brazil (2017) settlement. Other contains the transfer of remaining DBO to Signify after the divestment and other movements.

# Focus on improving working capital

**Working capital %[1,2]**




**Inventory %[1]**



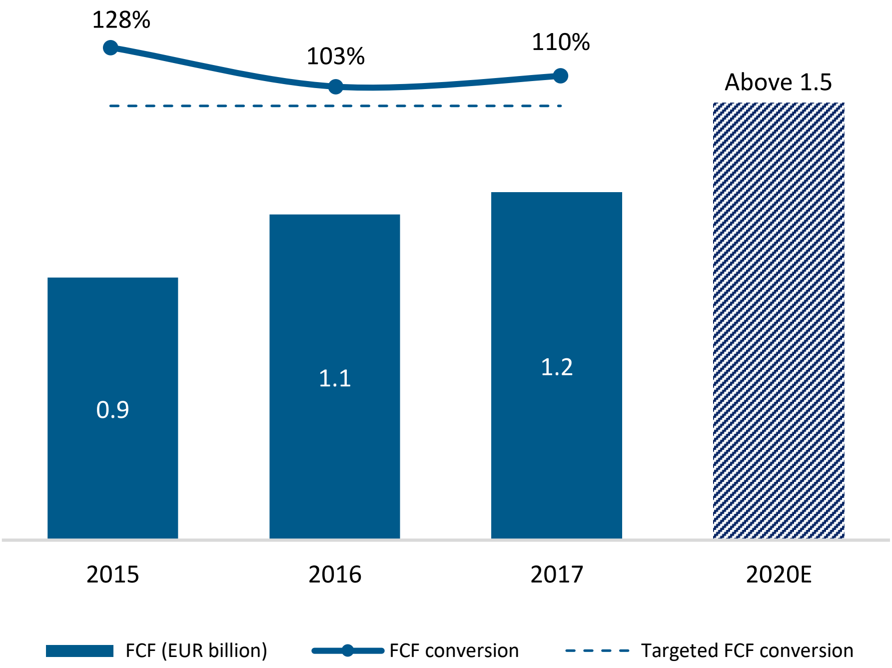

- Continue to focus on reduction of working capital through:
  - Leaning out end-to-end supply chain, improving cycle time and quality
  - Strong focus on aged inventory
  - Reduction in number of stock points
  - Focus on overdue receivables
  - Partnering with suppliers on payment terms
- Current increase in working capital, mainly driven by inventories:
  - Response to trade tariffs
  - Industrial footprint rationalization



[1] Excludes acquisitions, divestments and discontinued operations; [2] Excluding segment Other

# Increasing Free Cash Flow[1] generation

**Free Cash Flow conversion (FCF) %**

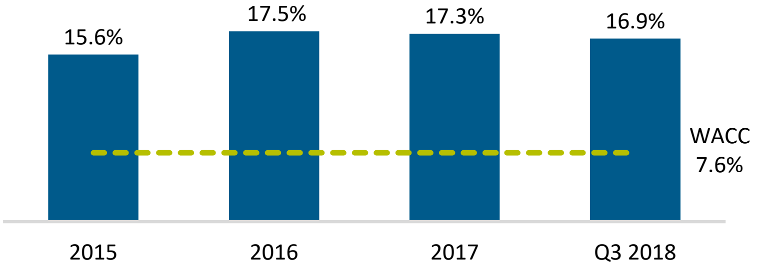



- We are delivering EUR 1-1.5 billion Free Cash Flow as per target
  - Improved profitability
  - Effective working capital management
- Plan to increase Free Cash Flow to above EUR 1.5 billion in 2020
- Targeting to maintain over 90% cash conversion rate

[1] Free Cash Flow adjusted for one-time pension contributions and significant legal cases

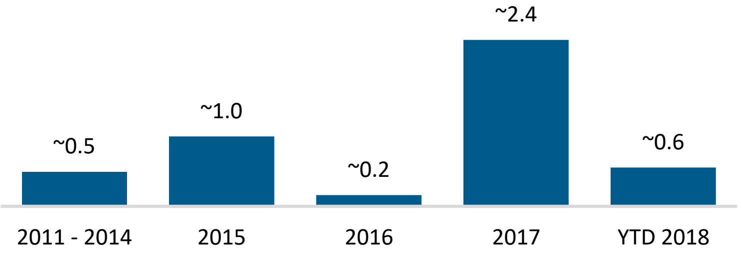
# Balanced capital allocation policy

## Organic Return on Invested Capital[1]



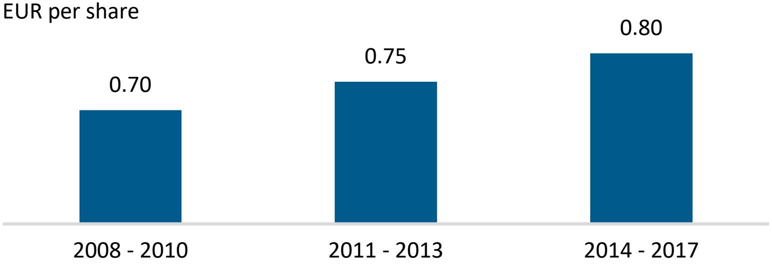

## Mergers & Acquisitions

EUR billion



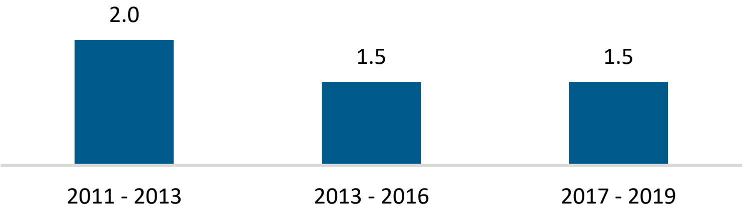

## Dividends

EUR per share




## Share repurchase

EUR billion




[1] Organic ROIC excludes acquisitions over a five years period and pension settlements in Q4 2015; ROIC % = LTM EBIAT/ average NOC over the last 5 quarters

# Balanced capital allocation policy

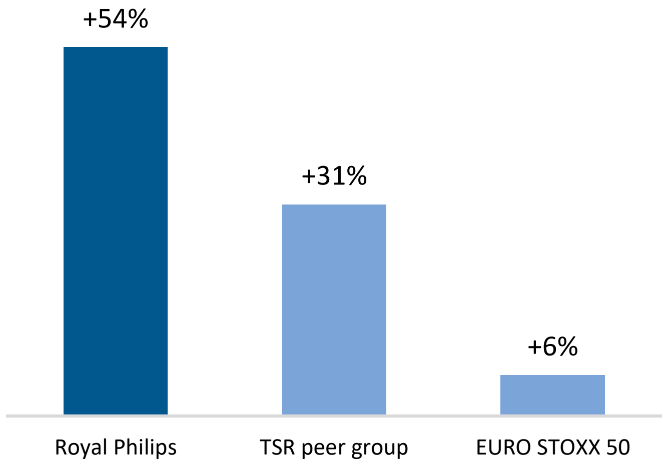
**Reinvest**
in high-return growth opportunities

**M&A**
disciplined but more active approach

**Dividend**
aimed at dividend stability

**Share repurchase**
for capital reduction purposes

Total shareholder return since 2016[1,2]



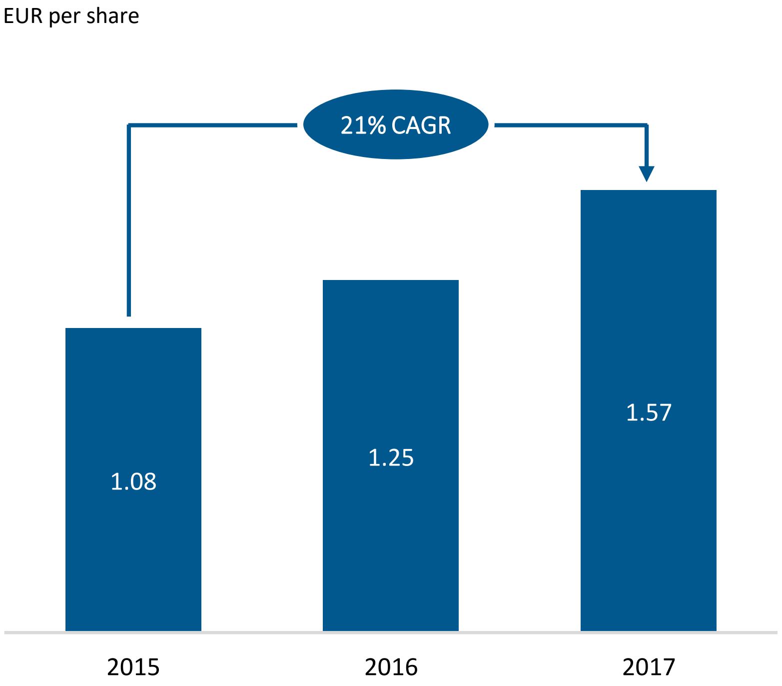

[1] As per Nov 6, 2018; [2] TSR peer index includes companies as described in the Philips Annual Report 2017

# Introducing adjusted diluted Earnings per Share

**Adj. EPS[1] definition**

- Adj. EPS to be reported from Q4 2018 onwards
- Adjustments for EPS:
  - As per Adj. EBITA definition, i.e. restructuring costs, acquisition-related charges and other one-time charges and gains[2]
  - Amortization and impairment of acquired intangibles including goodwill
  - One-offs related to net financial expenses[3]
  - Tax based on underlying ETR[4]
- Full bridge provided in the annex

**2015 – 2017 Adj. EPS**






[1] Adj. diluted Earnings per Share from continuing operations attributable to Philips shareholders. A detailed reconciliation of the Adj. Net Income and Adj. EPS is included in the annex; [2] Above EUR 20 million; [3] FI&E related to listed above adjusted items and FI&E items above EUR 20 million, e.g. bond redemption cost; [4] Underlying ETR is the sum of Weighted Average Statutory Tax Rate and recurring tax costs/benefits

# Continued focus on value creation

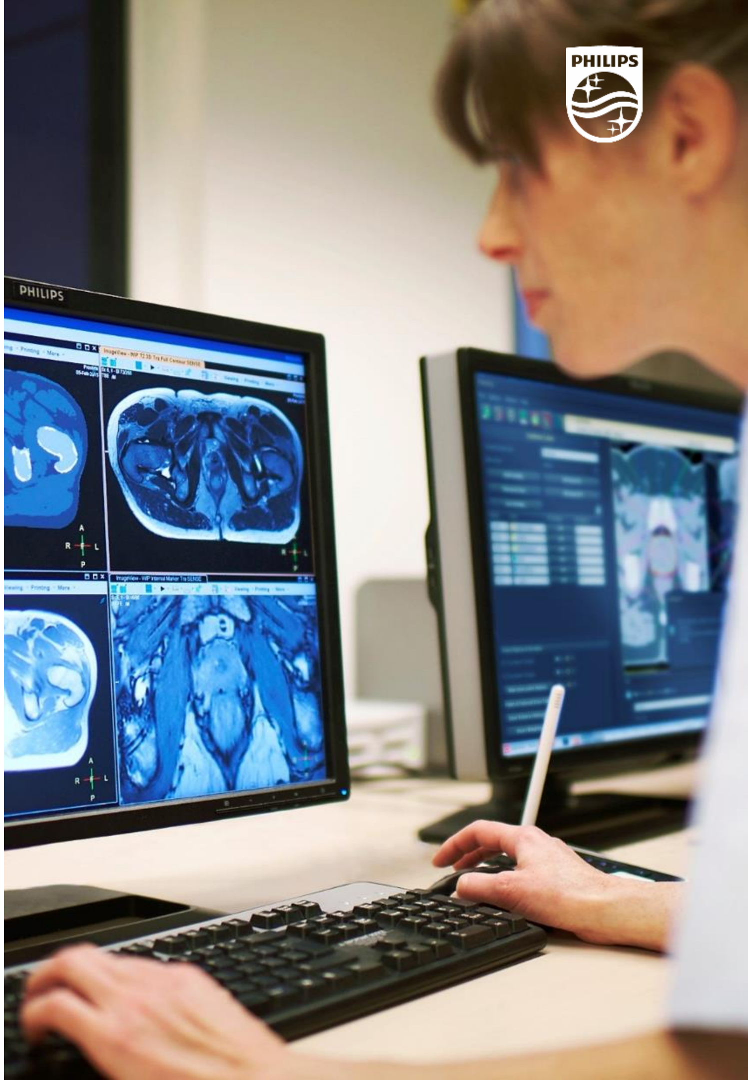
## 2017-2020 targets

| Revenue growth<br>comparable sales growth | Margin expansion<br>Adj. EBITA improvement | Cash generation<br>Free Cash Flow in 2020 | ROIC<br>Organic ROIC in 2020 |
|---|---|---|---|
| **4-6% annually** | **average annual 100 bps improvement**<br>to ~15% in 2020 | **above EUR 1.5 billion** | **mid-to-high-teens** |

After 2020 we will drive further improvement

# Key takeaways

- We have transformed into a **focused global HealthTech leader**
- We differentiate through innovation based on **consumer & clinical insights** and **commitment to R&D**
- We are **driving value creation** by:
  - Improving customer and operational **excellence**
  - Boosting growth in the core by **geographic expansion** and **customer partnerships**
  - Winning with **solutions along the health continuum**
- We are **increasing and extending our productivity program** to **EUR 1.8B**[1]
- We reaffirm **4-6% organic growth** and an **annual improvement of on average 100 bps adjusted EBITA margin** over 2017-2020, and plan to **increase Free Cash Flow**[2] to above EUR 1.5B in 2020






[1] 2017-2020; [2] Free Cash Flow adjusted for one-time pension contributions and significant legal cases

# Annex

# Reconciliation of Adjusted Net Income

| *in millions, except per share amounts* | FY 2015 | FY 2016 | Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 | FY 2017 | Q1 2018 | Q2 2018 | Q3 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Net Income** | **638** | **1,491** | **259** | **289** | **423** | **899** | **1,870** | **124** | **2** | **292** |
| Less: Discontinued operations, net of income taxes | 479 | 660 | 131 | 128 | 160 | 423 | 843 | 30 | -184 | -15 |
| **Income from continuing operations** | **159** | **831** | **128** | **161** | **263** | **476** | **1,028** | **94** | **186** | **307** |
| Adjustments made for: | | | | | | | | | | |
| Restructuring and acquisition-related charges | 188 | 95 | 24 | 65 | 120 | 108 | 317 | 64 | 52 | 43 |
| Other items | 571 | 120 | -31 | 46 | 47 | -12 | 50 | 17 | 0 | 13 |
| Amortization/impairment of acquired intangibles (incl. goodwill) | 273 | 243 | 62 | 76 | 65 | 66 | 269 | 62 | 133 | 61 |
| Adjustments to net financial expenses | 11 | 94 | 0 | 0 | 0 | 0 | 0 | 30 | 16 | 0 |
| Tax impact (on adjustments above) | -201 | -225 | -3 | -62 | -130 | 1 | -194 | -52 | -58 | -31 |
| **Adj. income from continuing operations** | **1,001** | **1,158** | **180** | **286** | **365** | **639** | **1,469** | **215** | **328** | **393** |
| Less: Continuing operations NCI impact | 0 | -4 | -5 | 2 | 1 | -8 | -11 | 1 | -1 | 1 |
| **Adj. income from continuing operations attr. to shareholders** | **1,001** | **1,162** | **185** | **284** | **364** | **647** | **1,480** | **214** | **330** | **392** |
| EPS: | | | | | | | | | | |
| Income from continuing operations attr. to shareholders EPS - diluted | **0.17** | **0.90** | **0.14** | **0.17** | **0.28** | **0.51** | **1.10** | **0.10** | **0.20** | **0.32** |
| Adj. income from cont. operations attr. to shareholders EPS - diluted | **1.08** | **1.25** | **0.20** | **0.30** | **0.38** | **0.68** | **1.57** | **0.23** | **0.35** | **0.42** |