



**PHILIPS**

Capital Markets Day



Delivering performance,  
further unlocking our potential

Frans van Houten  
CEO

innovation  you

# An experienced Leadership Team

Present today

## CEO / CFO



*CEO*  
**Frans van Houten**



*CFO*  
**Abhijit Bhattacharya**



## Segment Leaders



*Diagnosis & Treatment*  
**Robert Cascella**



*Connected Care & Health Informatics*  
**Carla Kriwet**



*Personal Health*  
**Roy Jakobs**



## Market Leaders



*Global Markets<sup>1</sup>*  
**Henk de Jong**



*North America*  
**Vitor Rocha**



*Greater China*  
**Andy Ho**



## Function Leaders



*Innovation & Strategy*  
**Jeroen Tas**



*Operations*  
**Sophie Bechu**



*Legal*  
**Marnix van Ginneken**

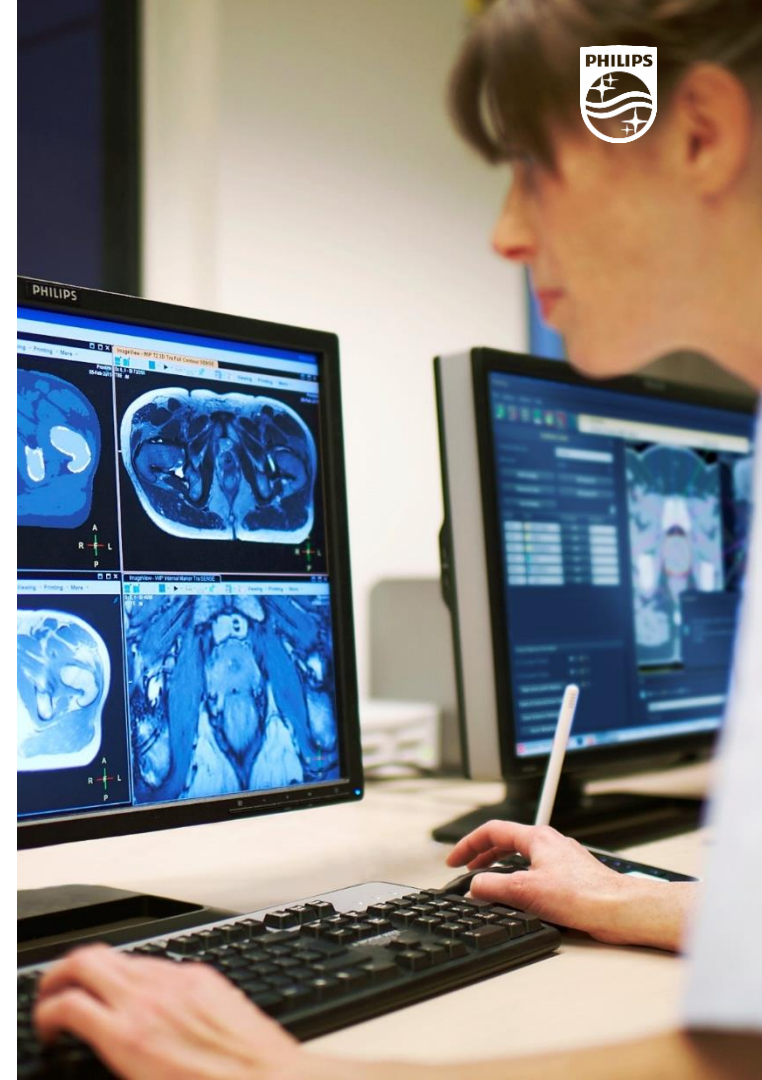


*Human Resources*  
**Ronald de Jong**



# 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<sup>1</sup>**
- 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<sup>2</sup>** to above EUR 1.5B in 2020

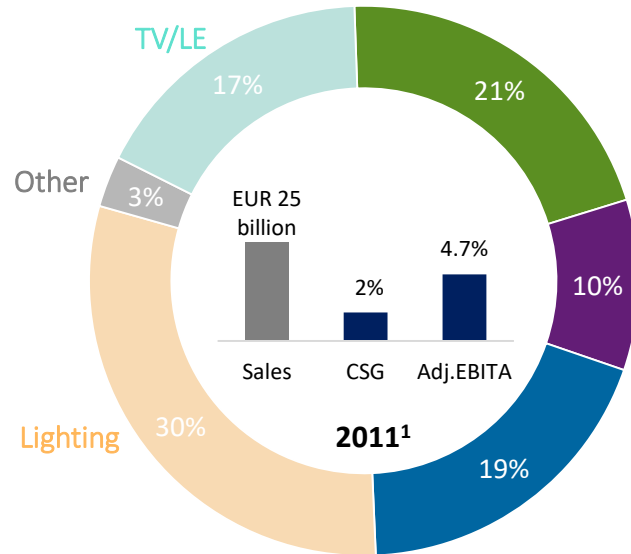






At Philips, we strive to make the world healthier  
and more sustainable through innovation.

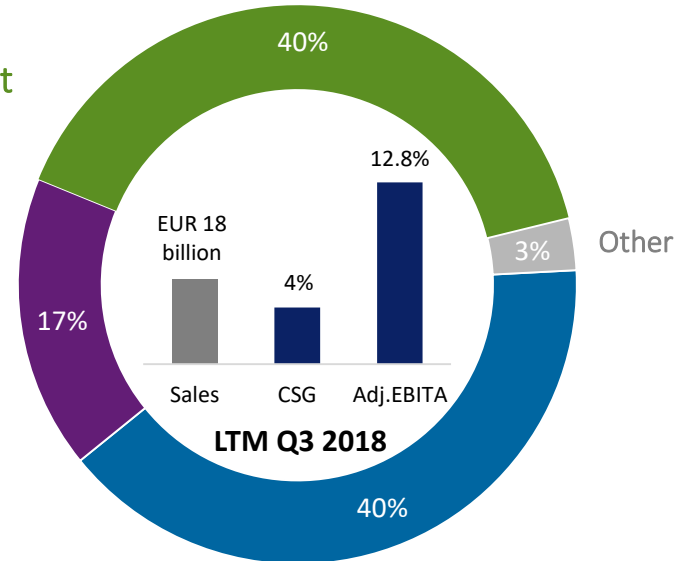
# We have transformed into a focused global HealthTech leader



Diagnosis & Treatment

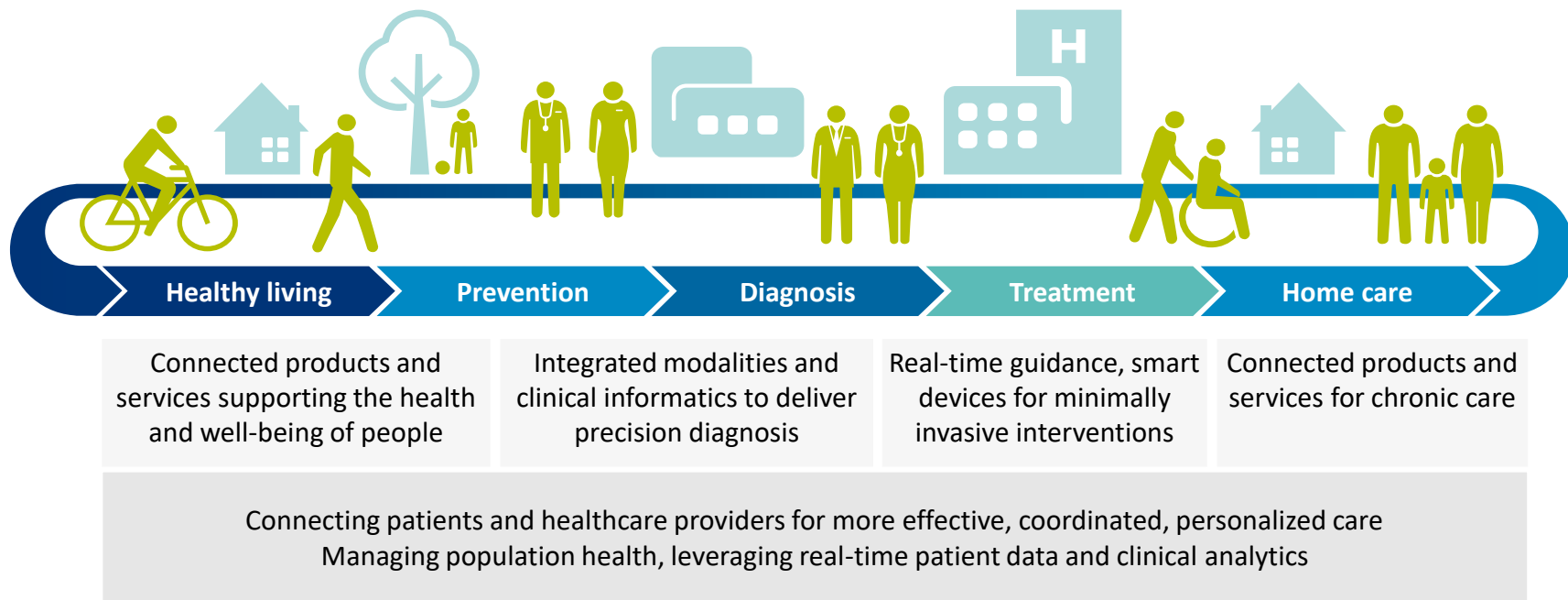
Connected Care & Health Informatics

Personal Health



# Our strategy resonates with customers, addresses their needs

Uniquely positioned in the “last yard” to consumers and providers



## Addressing the Quadruple Aim



Improved  
health  
outcomes



Improved  
patient  
experience



Improved  
staff  
satisfaction



Lower  
cost  
of care



# Over 60% of sales from leadership positions<sup>1</sup>

Diagnosis & Treatment		Connected Care & Health Informatics		Personal Health	
<b>Ultrasound</b> <i>Global Leader</i>			<b>Patient Monitoring</b> <i>Global Leader</i>		<b>Male Grooming</b> <i>Global Leader</i>
	<b>Image-Guided Therapy Systems</b> <i>Global Leader</i>	<b>ICU Telemedicine</b> <i>#1 in North America</i>		<b>Oral Healthcare</b> <i>Global Leader</i>	
<b>Image-Guided Therapy Devices</b> <i>Global Leader</i>			<b>Non-invasive Ventilation<sup>2</sup></b> <i>Global Leader</i>		<b>Sleep Care</b> <i>Global Leader</i>
	<b>Diagnostic Imaging</b> <i>Global Top 3</i>	<b>Personal Emergency Response</b> <i>#1 in North America</i>		<b>Respiratory Care</b> <i>Global Leader</i>	
			<b>High-end Radiology and Cardiology Informatics</b> <i>#1 in North America</i>		<b>Mother &amp; Child Care</b> <i>Global Leader</i>



# 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

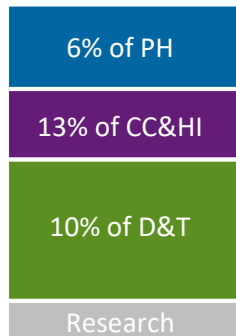
Shifting to lower-cost  
settings and the  
home

# Innovation is core to our value creation

## Commitment to innovation

**EUR 1.8 billion in R&D**

9.9% of sales



2017

**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<sup>1</sup>

**>10%**

LTM<sup>2</sup> order intake growth

**Expanding gross margins**

With higher-margin innovations

**40-50 bps**

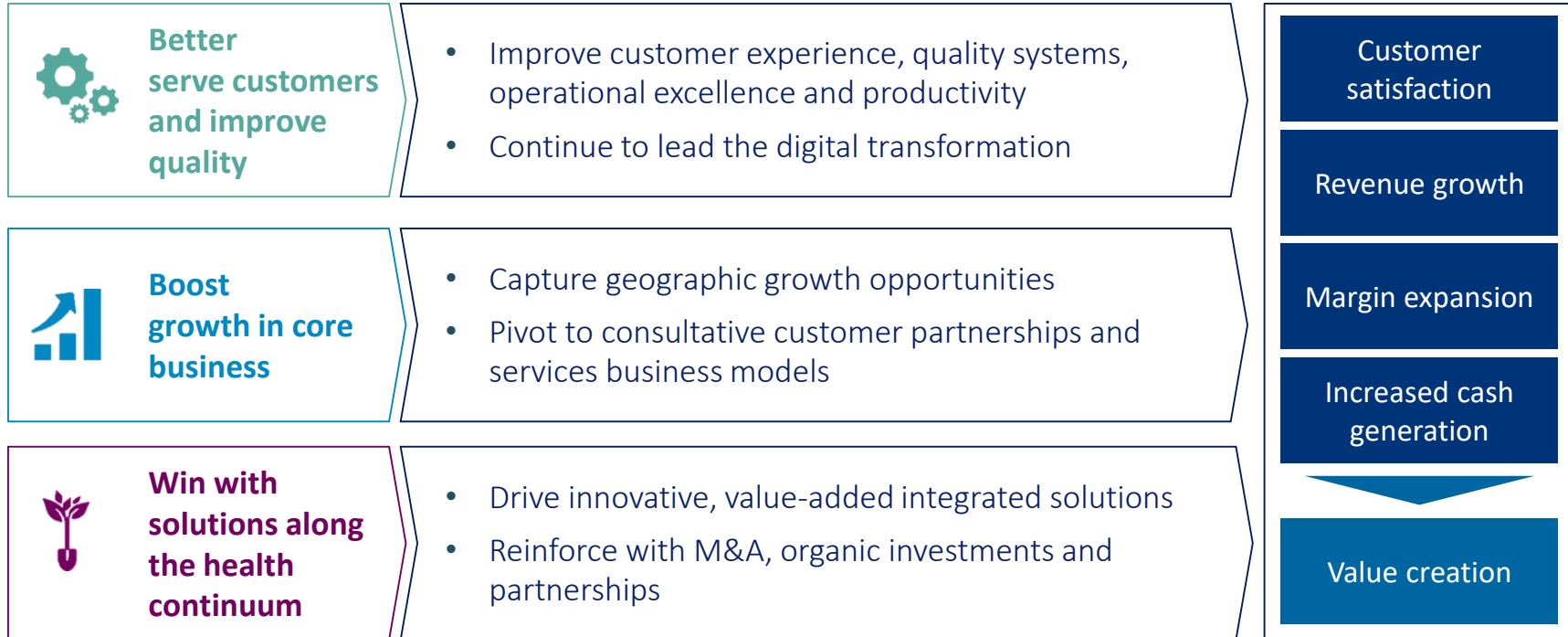
R&D productivity gain by 2020



# Drivers for continued growth and improved profitability



# Drivers for continued growth and improved profitability







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



- Further strengthening Quality Management System and compliance; on schedule for EU MDR<sup>1</sup>
- 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





# 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*



# 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<sup>1</sup> market share gain in Diagnosis & Treatment North America
- +120 bps<sup>2</sup> market share gain in Diagnostic Imaging globally



## Leveraging global footprint for acquisitions

- Volcano and Spectranetics delivering double-digit growth<sup>3</sup>
- Spectranetics presents a large growth opportunity following Volcano model



# Pivot to consultative customer partnerships and services business models



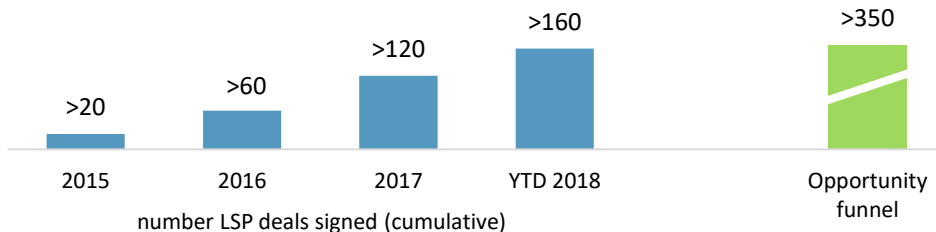
Long-term strategic partnerships  
unlock value for our customers and us

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



Recent deals







Win with  
solutions along  
the health  
continuum

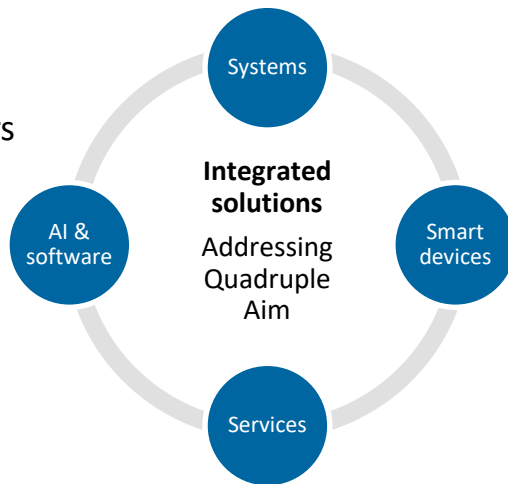
# Drive innovative, value-added integrated solutions

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<sup>1</sup>, growing double-digit



Win with  
solutions along  
the health  
continuum

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



## Health outcomes

**86%** reduction of Cardiopulmonary Arrests<sup>1</sup>

**66%** reduction in mortality of patients transferred to the ICU<sup>1</sup>



## Patient experience



Patients feel safer in general care unit<sup>2</sup>



Faster hospital discharge<sup>2</sup>



## Cost of care

**24%** reduction in ICU admission rate<sup>1</sup>



can reduce length of stay<sup>2</sup>



## Staff satisfaction

**35%** reduction of severe Adverse Events<sup>1</sup>

**52%** improvement in notifications to trigger interventions<sup>1</sup>



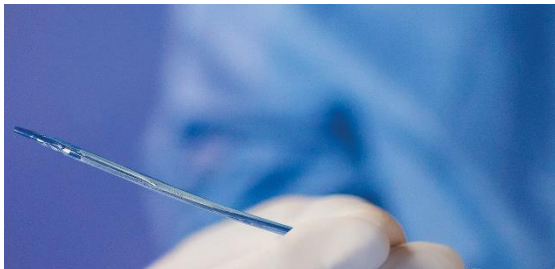
# Reinforce with targeted M&A and organic investments

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



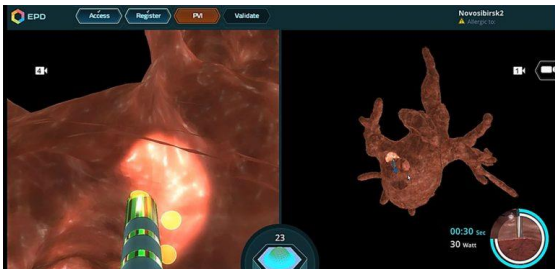
### Leadership in systems

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<sup>1</sup> | **High-teens** Adj. EBITA in 2020



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<sup>1</sup>



## 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<sup>2</sup>, including 300 million in underserved healthcare communities



## The Compact

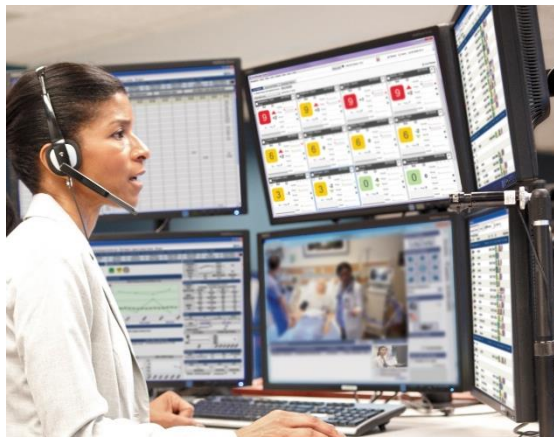
Committed to the WEF Compact for Responsive and Responsible Leadership

# Segment performance trajectory 2019-2020



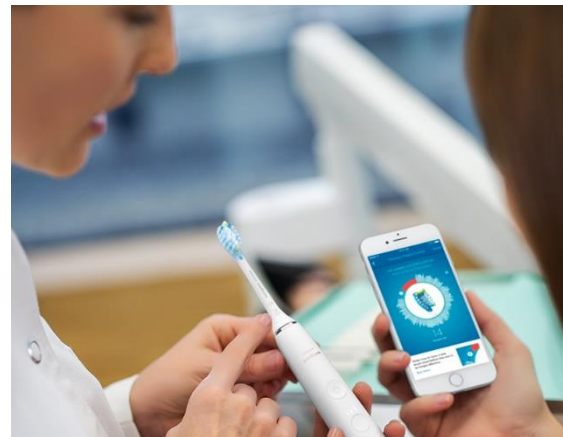
## Diagnosis & Treatment

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

# We are pro-actively addressing headwinds

## Headwinds

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- Trade tariffs<sup>1</sup>, estimated net EUR 60 million in 2019
- One-time EU MDR investment, estimated EUR 45 million in 2019
- Emerging-market currency volatility

## Mitigation actions

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- 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

# Continued focus on value creation

## 2017-2020 targets

### **Revenue growth**

comparable sales growth

**4-6% annually**

### **Margin expansion**

Adj. EBITA improvement

**average annual 100  
bps improvement**

to ~15% in 2020

### **Cash generation**

Free Cash Flow in 2020

**above EUR 1.5 billion**

### **ROIC**

Organic ROIC in 2020

**mid-to-high-teens**

After 2020 we will drive further improvement



# Delivering performance

**Abhijit Bhattacharya**  
CFO



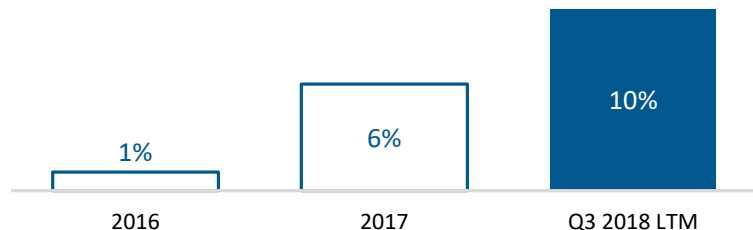
# Key takeaways

- 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<sup>1</sup> of **above EUR 1.5 billion in 2020**
- We have **balanced capital allocation** with investments in growth, M&A and total shareholder return



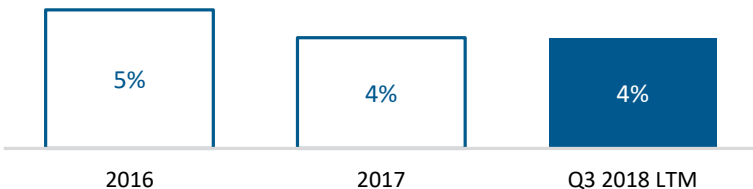
# Delivering double-digit OIT growth and 4-6% CSG

## Order Intake (OIT)<sup>1</sup> Growth %



- 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

## Comparable Sales Growth (CSG) %



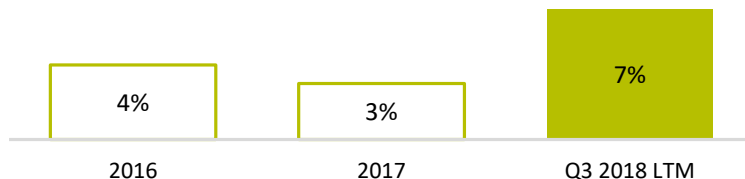
- Achieving sales growth in the targeted range of 4-6%
  - Driven by high-single-digit growth in our growth geographies<sup>2</sup>
  - Sales growth to improve, mainly driven by order intake momentum and stronger Personal Health growth

# Sustaining growth through innovations & geographic expansion



## Comparable Sales Growth %

### Diagnosis & Treatment

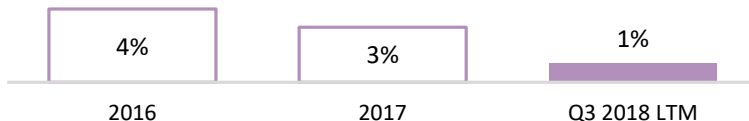


## Guidance<sup>1</sup>

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

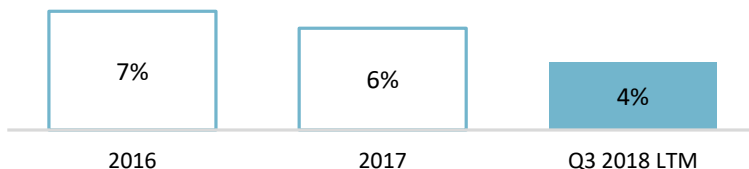
### Connected Care & Health Informatics



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



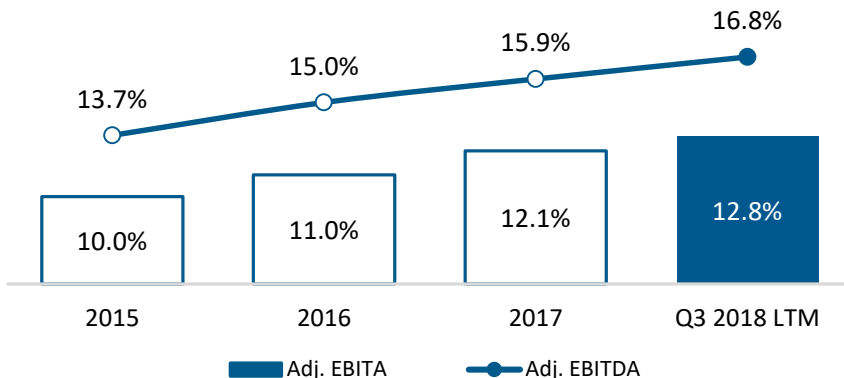
5-7%

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

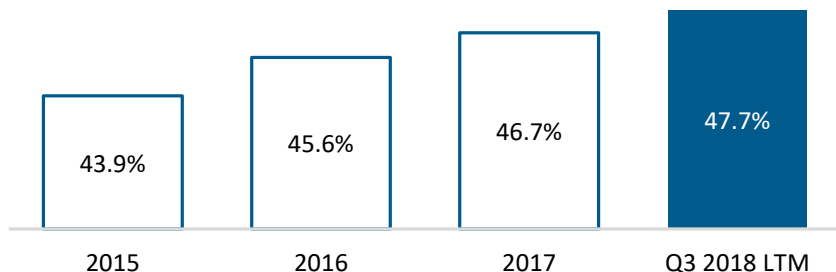
# Delivering ~100 bps Adj. EBITA margin improvement annually



## Adj. EBITA and Adj. EBITDA %<sup>1</sup>



## Adj. Gross Margin %<sup>1</sup>



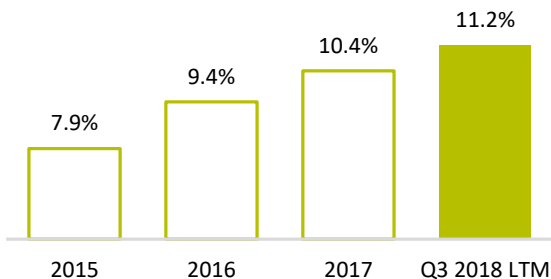
- We have delivered ~100 bps profitability improvement annually since 2015 and are on track to deliver in 2018 with 96 bps YTD Q3 2018
- Gross margin significantly improved, driven by innovation, mix and productivity savings
- We are addressing increased headwinds from trade tariffs and currency volatility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

# Expanding margins<sup>1</sup> through growth and productivity initiatives



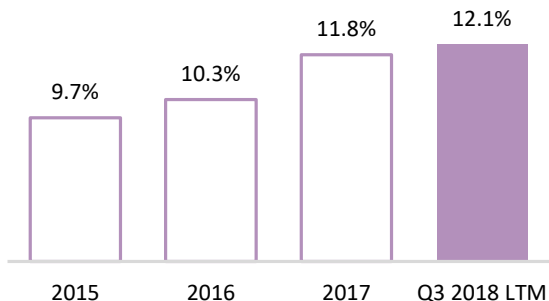
## Diagnosis & Treatment

14-16% by 2020



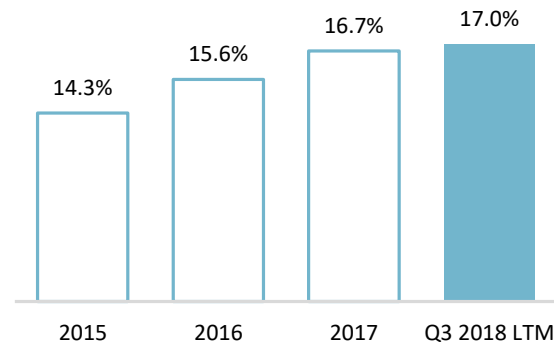
## Connected Care & Health Informatics

14-16% by 2020



## Personal Health

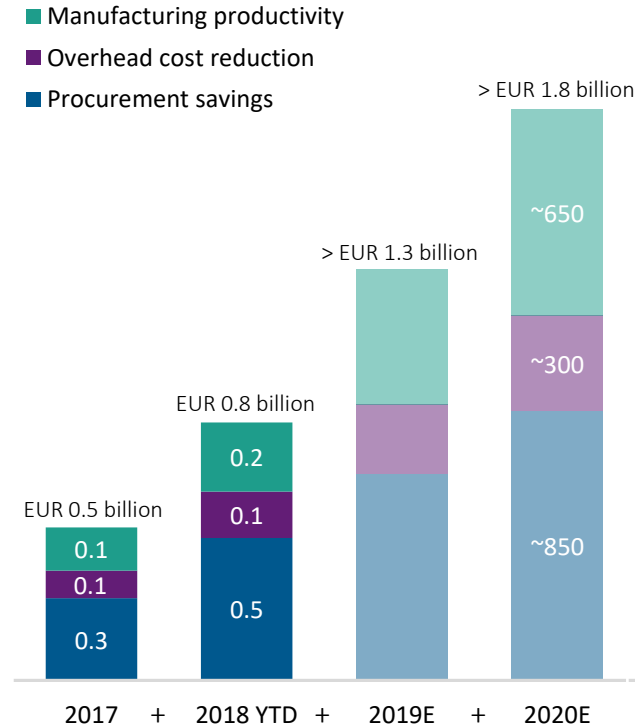
17-19% by 2020





# 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<sup>1</sup>; 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

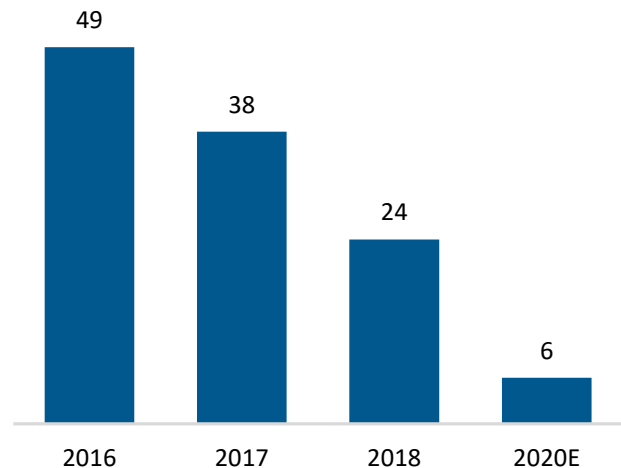
### Restructuring

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

# Building our digital foundation - one integrated landscape



## Number of ERP kernels



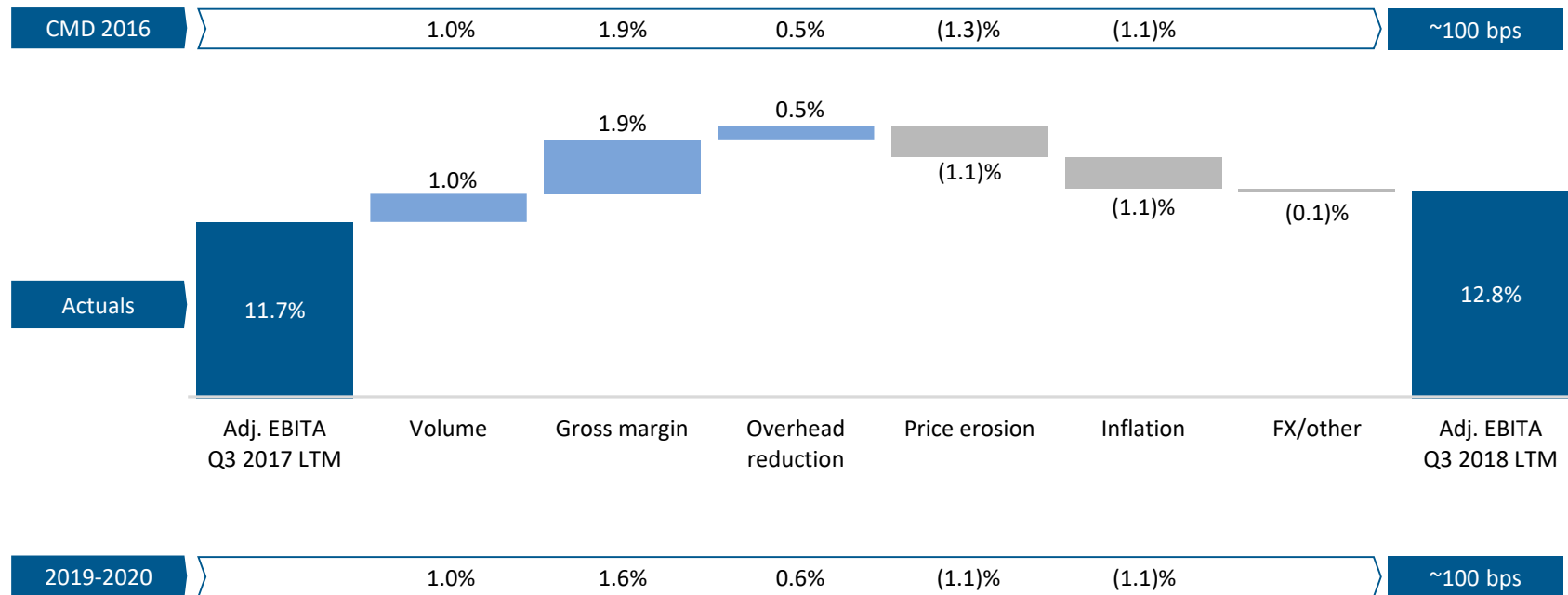
## Highlights of the program

- 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 %<sup>1</sup>

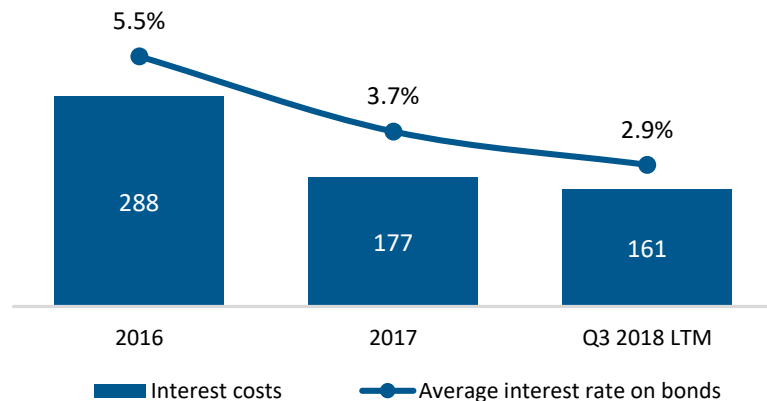


# Strongly reduced interest costs and de-risked pension liabilities



## Interest costs on debt and borrowings

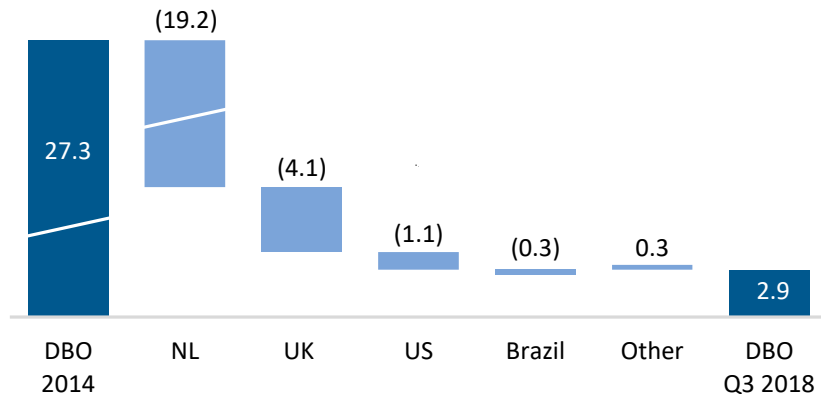
EUR million



- 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)<sup>1</sup>

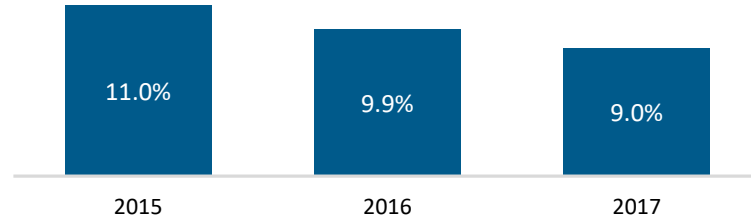
EUR billion



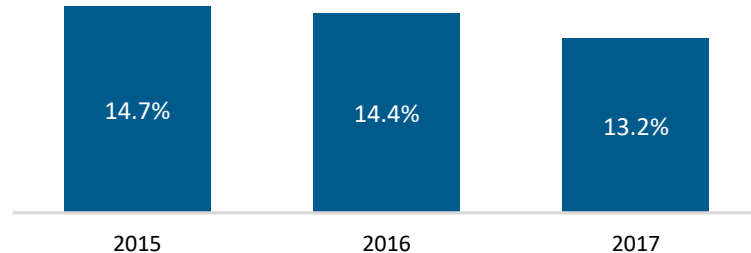
- Pro-active pension de-risking actions to significantly reduce DBO
- Current unfunded status is at EUR 820 million, of which approximately half accounts for Germany

# Focus on improving working capital

## Working capital %<sup>1,2</sup>



## Inventory %<sup>1</sup>

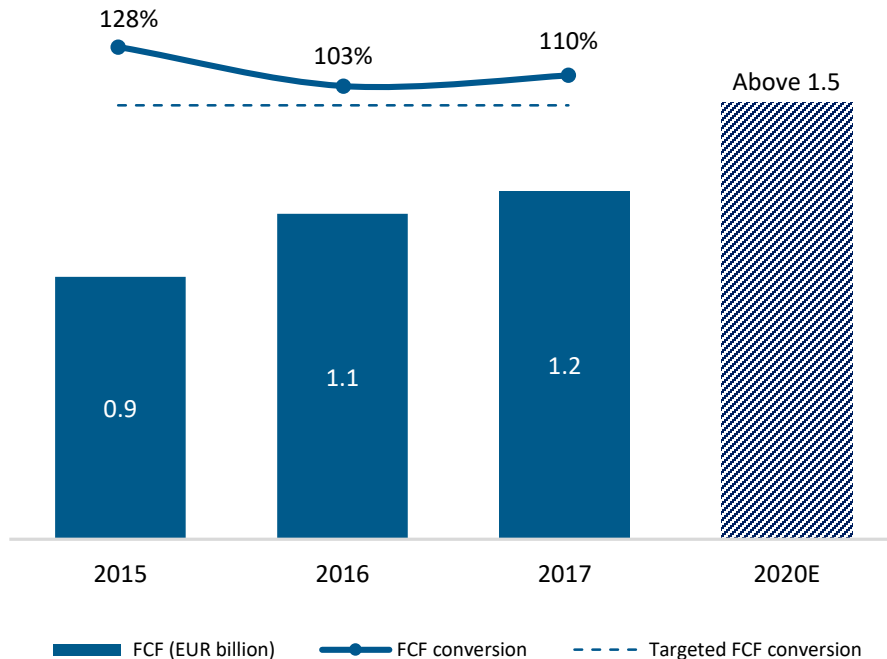


- Continue to focus on reduction of working capital through:
  - Leaning out end-to-end supply chain, improving cycle time and quality
  - Strong focus on aged inventory
  - Reduction in number of stock points
  - Focus on overdue receivables
  - Partnering with suppliers on payment terms
- Current increase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



# Increasing Free Cash Flow<sup>1</sup> generation

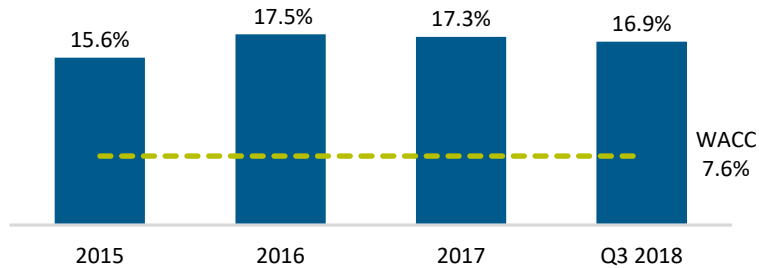
## Free Cash Flow conversion (FCF) %



- 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

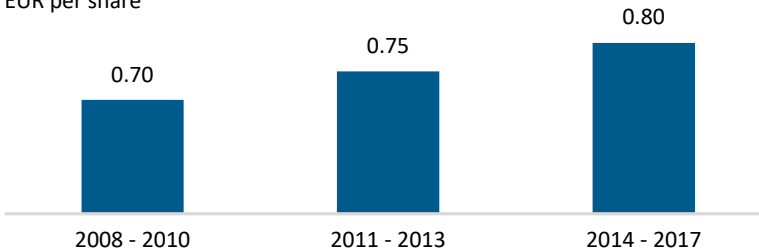
# Balanced capital allocation policy

## Organic Return on Invested Capital<sup>1</sup>



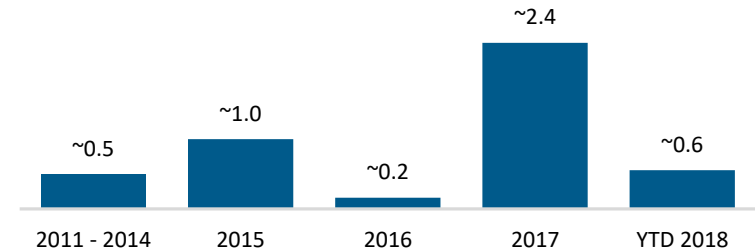
## Dividends

EUR per share



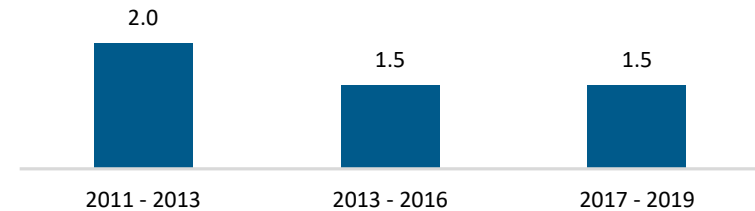
## Mergers & Acquisitions

EUR billion



## Share repurchase

EUR billion



# Balanced capital allocation policy

## Reinvest

in high-return growth opportunities

## M&A

disciplined but more active approach

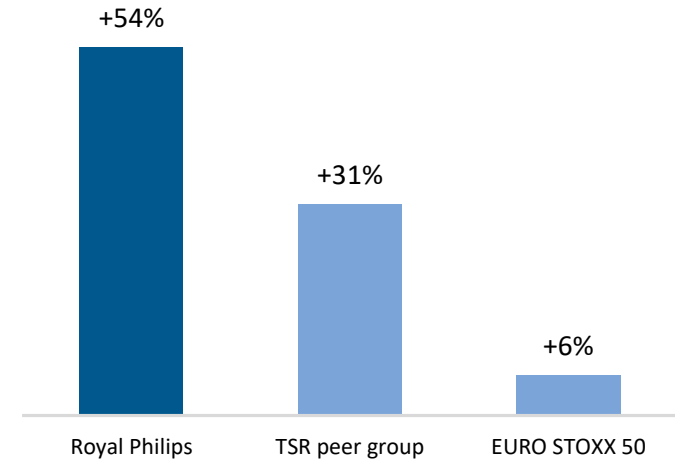
## Dividend

aimed at dividend stability

## Share repurchase

for capital reduction purposes

## Total shareholder return since 2016<sup>1,2</sup>



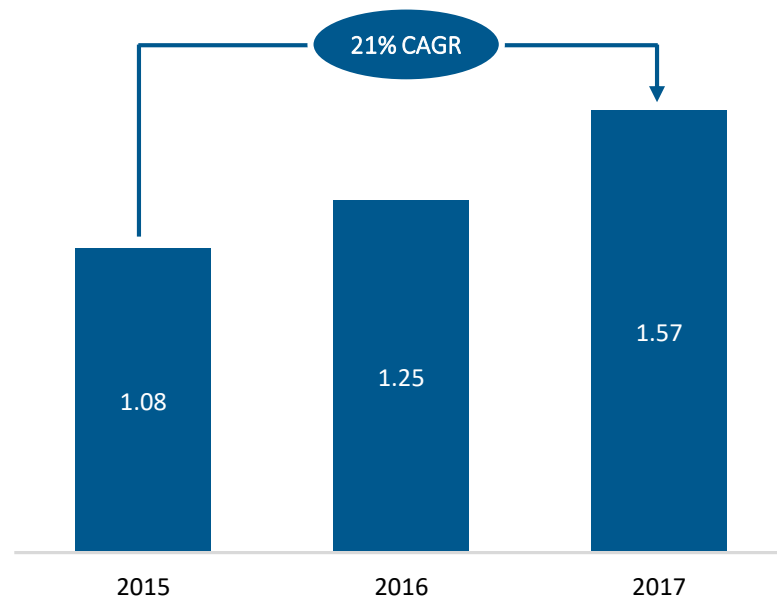
# Introducing adjusted diluted Earnings per Share

## Adj. EPS<sup>1</sup> 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<sup>2</sup>
  - Amortization and impairment of acquired intangibles including goodwill
  - One-offs related to net financial expenses<sup>3</sup>
  - Tax based on underlying ETR<sup>4</sup>
- Full bridge provided in the annex

## 2015 – 2017 Adj. EPS

EUR per share



# Continued focus on value creation

## 2017-2020 targets

### **Revenue growth**

comparable sales growth

**4-6% annually**

### **Margin expansion**

Adj. EBITA improvement

**average annual 100  
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to ~15% in 2020

### **Cash generation**

Free Cash Flow in 2020

**above EUR 1.5 billion**

### **ROIC**

Organic ROIC in 2020

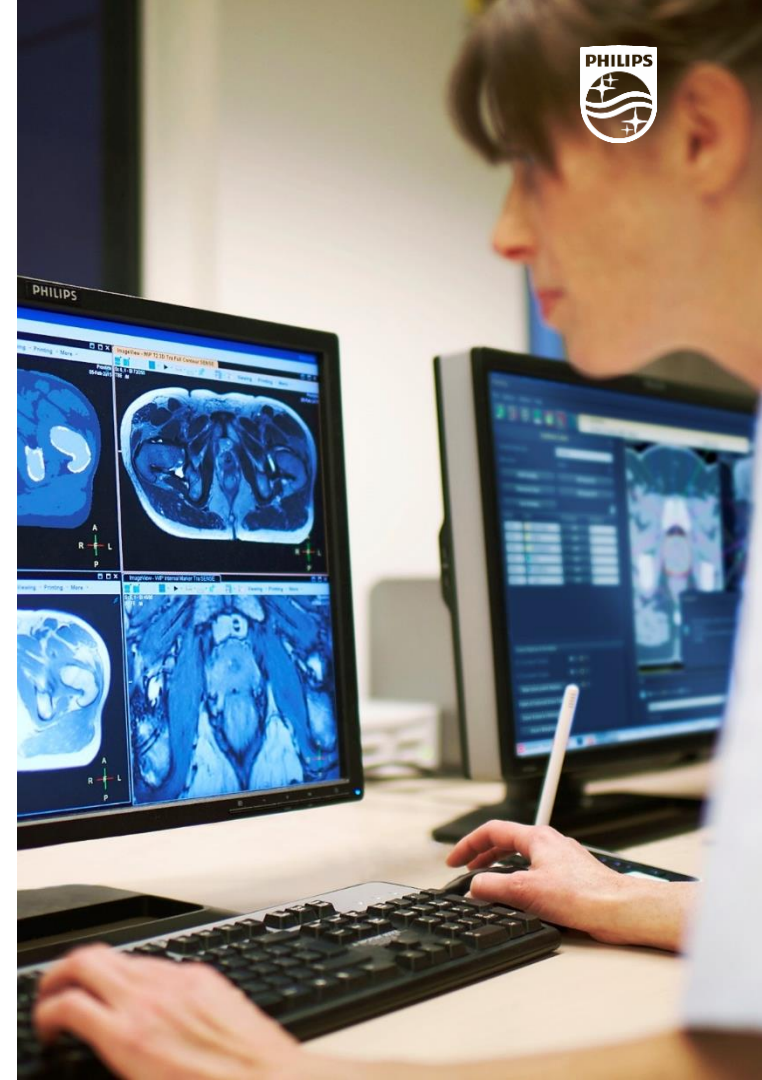
**mid-to-high-teens**

After 2020 we will drive further improvement



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- We differentiate through innovation based on **consumer & clinical insights** and **commitment to R&D**
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- We are **increasing and extending our productivity program** to **EUR 1.8B<sup>1</sup>**
- 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<sup>2</sup>** to above EUR 1.5B in 2020



# Annex

# Reconciliation of Adjusted Net Income

<i>in millions, except per share amounts</i>	FY 2015	FY 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	FY 2017	Q1 2018	Q2 2018	Q3 2018
<b>Net Income</b>	<b>638</b>	<b>1,491</b>	<b>259</b>	<b>289</b>	<b>423</b>	<b>899</b>	<b>1,870</b>	<b>124</b>	<b>2</b>	<b>292</b>
Less: Discontinued operations, net of income taxes	479	660	131	128	160	423	843	30	-184	-15
<b>Income from continuing operations</b>	<b>159</b>	<b>831</b>	<b>128</b>	<b>161</b>	<b>263</b>	<b>476</b>	<b>1,028</b>	<b>94</b>	<b>186</b>	<b>307</b>
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
<b>Adj. income from continuing operations</b>	<b>1,001</b>	<b>1,158</b>	<b>180</b>	<b>286</b>	<b>365</b>	<b>639</b>	<b>1,469</b>	<b>215</b>	<b>328</b>	<b>393</b>
Less: Continuing operations NCI impact	0	-4	-5	2	1	-8	-11	1	-1	1
<b>Adj. income from continuing operations attr. to shareholders</b>	<b>1,001</b>	<b>1,162</b>	<b>185</b>	<b>284</b>	<b>364</b>	<b>647</b>	<b>1,480</b>	<b>214</b>	<b>330</b>	<b>392</b>
EPS:										
Income from continuing operations attr. to shareholders EPS - diluted	<b>0.17</b>	<b>0.90</b>	<b>0.14</b>	<b>0.17</b>	<b>0.28</b>	<b>0.51</b>	<b>1.10</b>	<b>0.10</b>	<b>0.20</b>	<b>0.32</b>
Adj. income from cont. operations attr. to shareholders EPS - diluted	<b>1.08</b>	<b>1.25</b>	<b>0.20</b>	<b>0.30</b>	<b>0.38</b>	<b>0.68</b>	<b>1.57</b>	<b>0.23</b>	<b>0.35</b>	<b>0.42</b>