



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 Markets¹
Henk de Jong



North America
Vitor Rocha



Greater China
Andy Ho



Function Leaders



Innovation & Strategy
Jeroen Tas



Operations
Sophie Bechu



Legal
Marnix van Ginneken

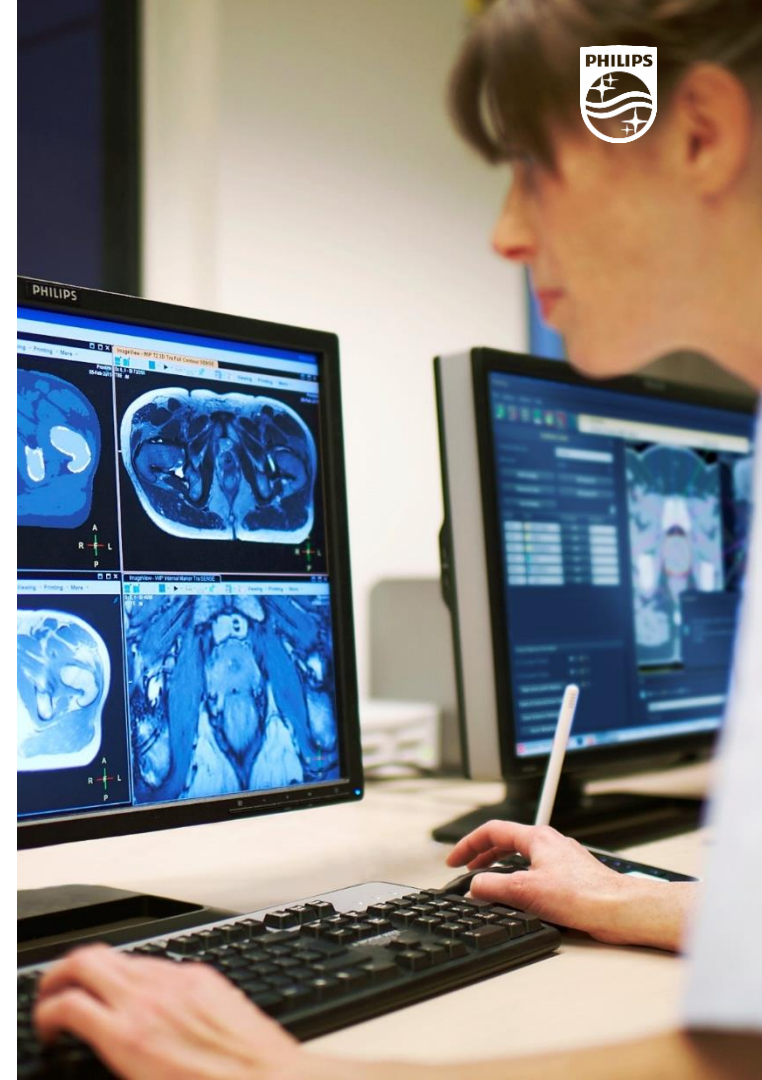


Human Resources
Ronald de Jong



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 1.8B¹**
- 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 Flow²** to above EUR 1.5B in 2020

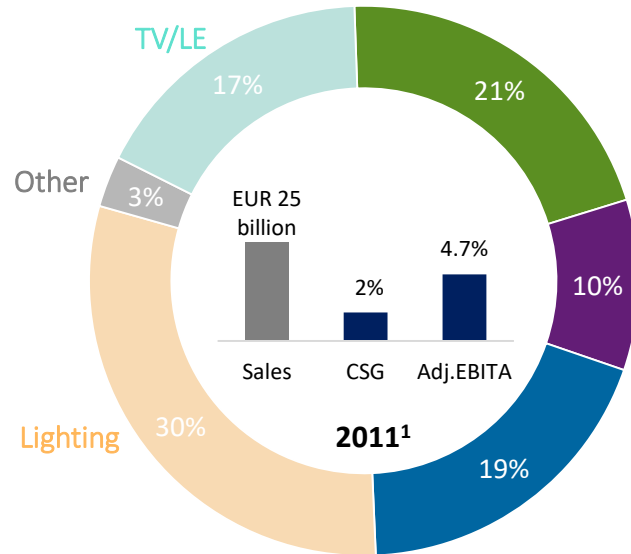




At Philips, we strive to make the world healthier
and more sustainable through innovation.



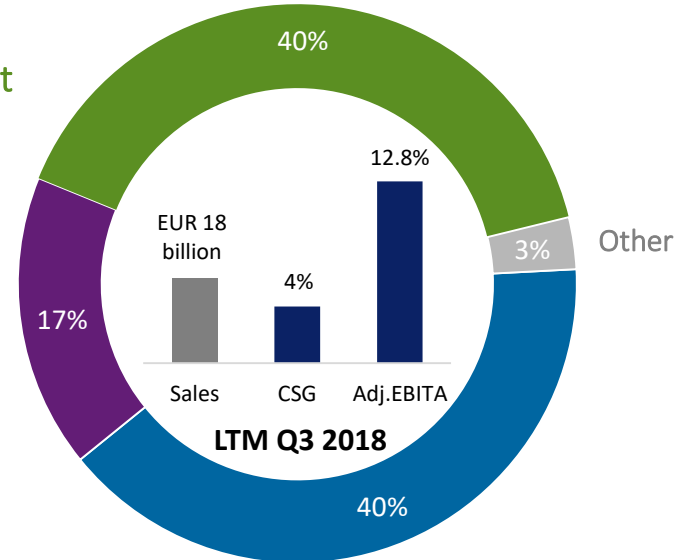
We have transformed into a focused global HealthTech leader



Diagnosis & Treatment

Connected Care & Health Informatics

Personal Health





Addressing the Quadruple Aim



Improved
health
outcomes



Improved
patient
experience



Improved
staff
satisfaction



Lower
cost
of care

Over 60% of sales from leadership positions¹

Diagnosis & Treatment		Connected Care & Health Informatics		Personal Health	
Ultrasound <i>Global Leader</i>			Patient Monitoring <i>Global Leader</i>		Male Grooming <i>Global Leader</i>
	Image-Guided Therapy Systems <i>Global Leader</i>	ICU Telemedicine <i>#1 in North America</i>		Oral Healthcare <i>Global Leader</i>	
Image-Guided Therapy Devices <i>Global Leader</i>			Non-invasive Ventilation² <i>Global Leader</i>		Sleep Care <i>Global Leader</i>
	Diagnostic Imaging <i>Global Top 3</i>	Personal Emergency Response <i>#1 in North America</i>		Respiratory Care <i>Global Leader</i>	
			High-end Radiology and Cardiology Informatics <i>#1 in North America</i>		Mother & Child Care <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

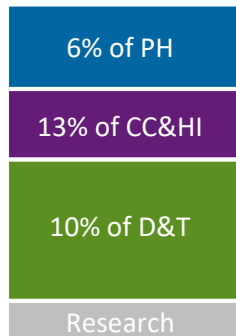
Shifting to lower-cost
settings and the
home

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 sales¹

>10%

LTM² order intake growth

Expanding gross margins

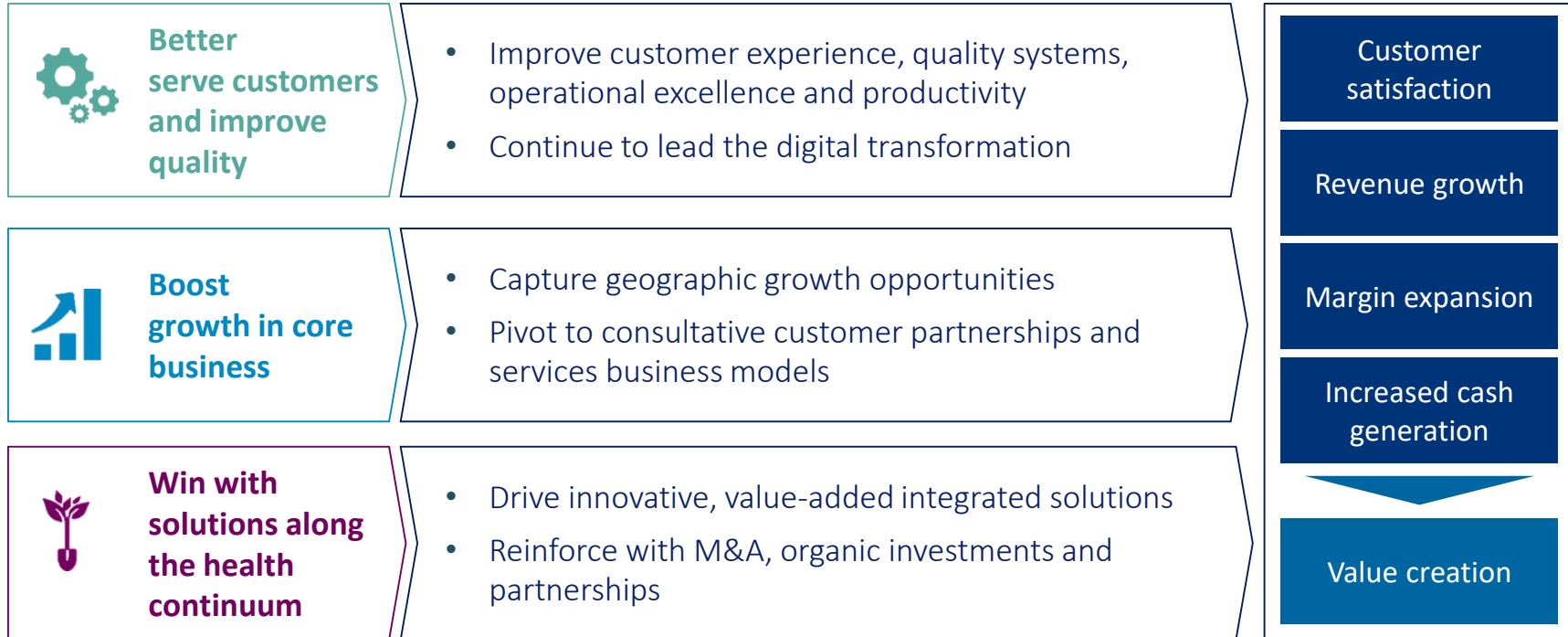
With higher-margin innovations

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 MDR¹
- 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

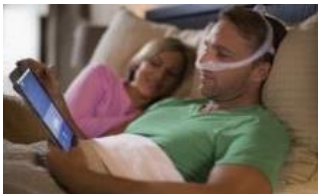
Connected customers and consumers

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 bps¹ market share gain in Diagnosis & Treatment North America
- +120 bps² market share gain in Diagnostic Imaging globally



Leveraging global footprint for acquisitions

- Volcano and Spectranetics delivering double-digit growth³
- Spectranetics presents a large growth opportunity following Volcano model



Pivot to consultative customer partnerships and services business models



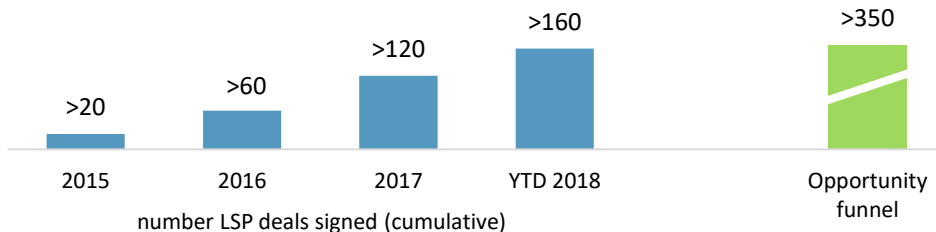
Long-term strategic partnerships
unlock value for our customers and us

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

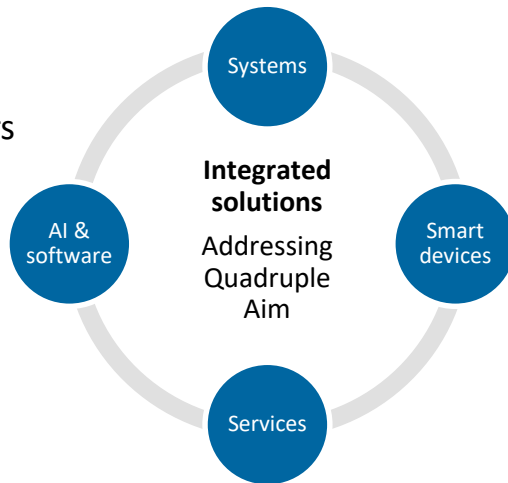
Drive innovative, value-added integrated solutions

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 revenues¹, 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 Arrests¹

66% reduction in mortality of patients transferred to the ICU¹



Patient experience



Patients feel safer in general care unit²



Faster hospital discharge²



Cost of care

24% reduction in ICU admission rate¹



can reduce length of stay²



Staff satisfaction

35% reduction of severe Adverse Events¹

52% improvement in notifications to trigger interventions¹



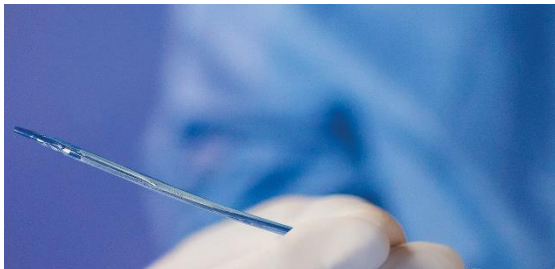
Reinforce with targeted M&A and organic investments

Creating a unique solution offering in Image-Guided Therapy



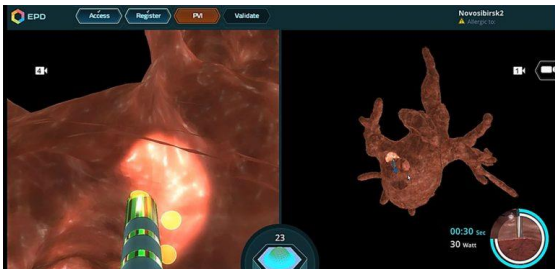
Leadership in systems

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 growth¹ | **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 #13¹



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 2025², including 300 million in underserved healthcare communities



The Compact

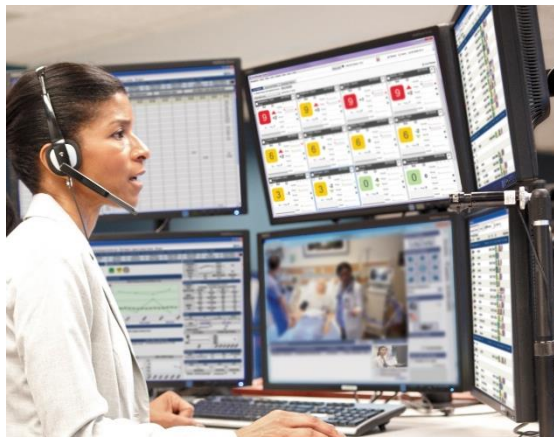
Committed to the WEF Compact for Responsive and Responsible Leadership

Segment performance trajectory 2019-2020



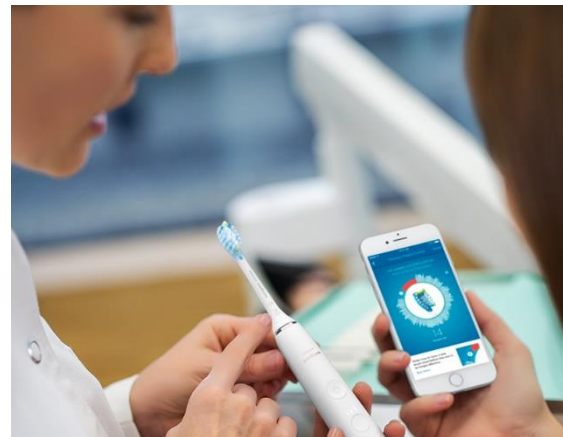
Diagnosis & Treatment

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

- Trade tariffs¹, 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

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

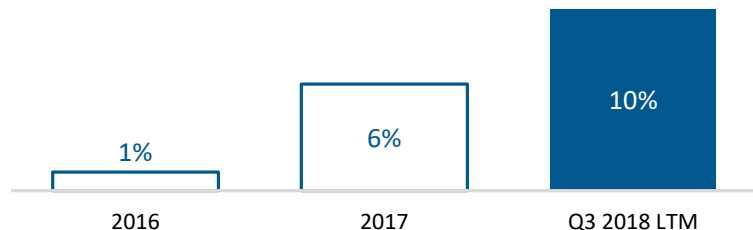
Key takeaways

- 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 Flow¹ of **above EUR 1.5 billion in 2020**
- We have **balanced capital allocation** with investments in growth, M&A and total shareholder return



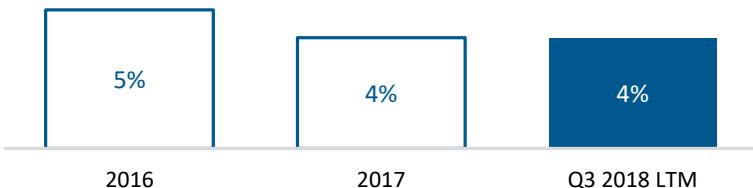
Delivering double-digit OIT growth and 4-6% CSG

Order Intake (OIT)¹ 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) %



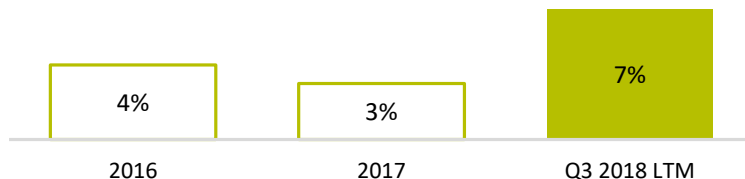
- Achieving sales growth in the targeted range of 4-6%
 - Driven by high-single-digit growth in our growth geographies²
 - Sales growth to improve, mainly driven by order intake momentum and stronger Personal Health growth

Sustaining growth through innovations & geographic expansion



Comparable Sales Growth %

Diagnosis & Treatment

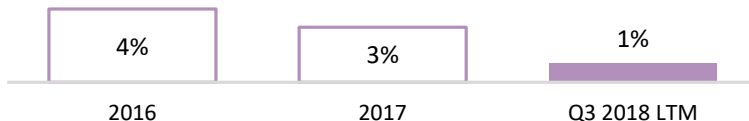


Guidance¹

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

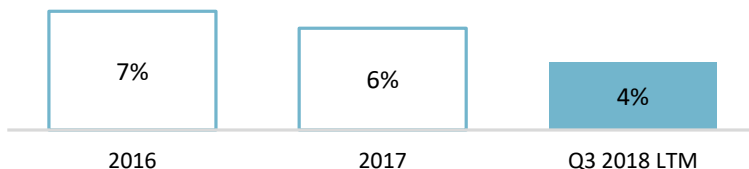
Connected Care & Health Informatics



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



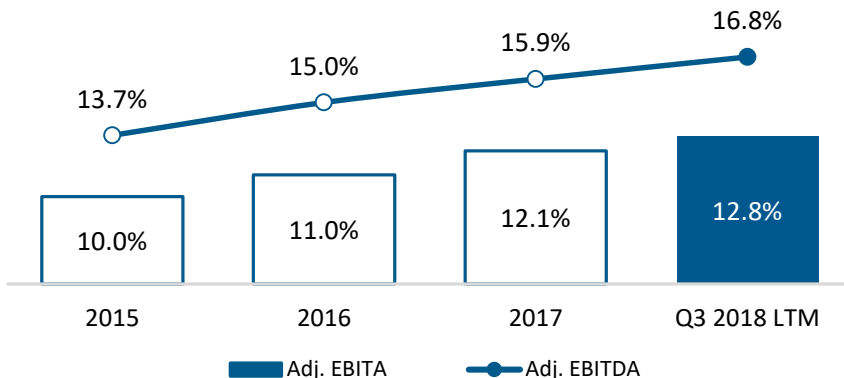
5-7%

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

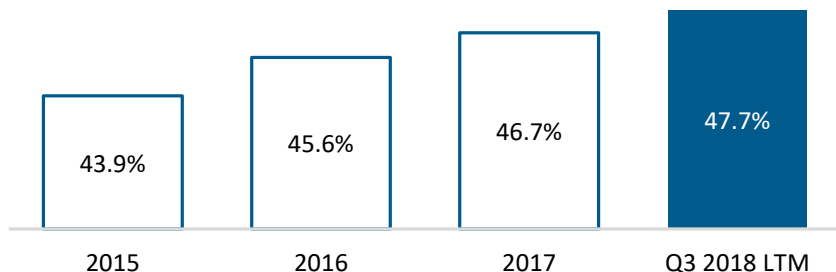
Delivering ~100 bps Adj. EBITA margin improvement annually



Adj. EBITA and Adj. EBITDA %¹



Adj. Gross Margin %¹



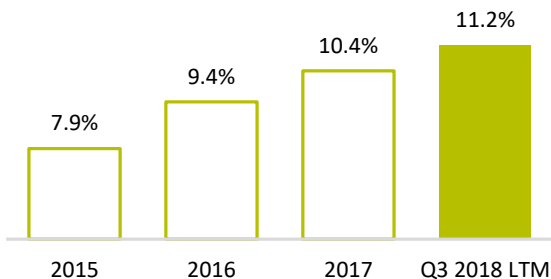
- We have delivered ~100 bps profitability improvement annually since 2015 and are on track to deliver in 2018 with 96 bps YTD Q3 2018
- Gross margin significantly improved, driven by innovation, mix and productivity savings
- We are addressing increased headwinds from trade tariffs and currency volatility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

Expanding margins¹ through growth and productivity initiatives



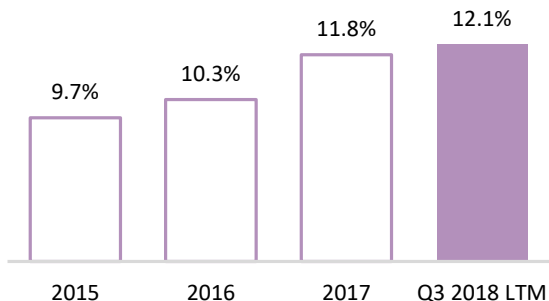
Diagnosis & Treatment

14-16% by 2020



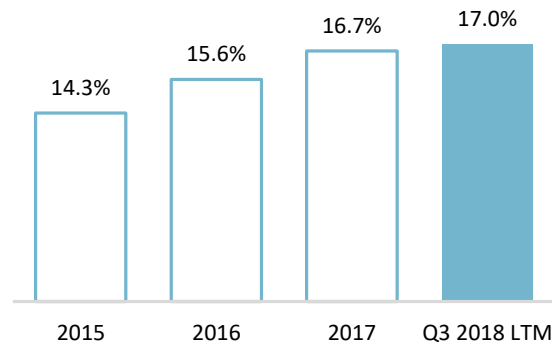
Connected Care & Health Informatics

14-16% by 2020



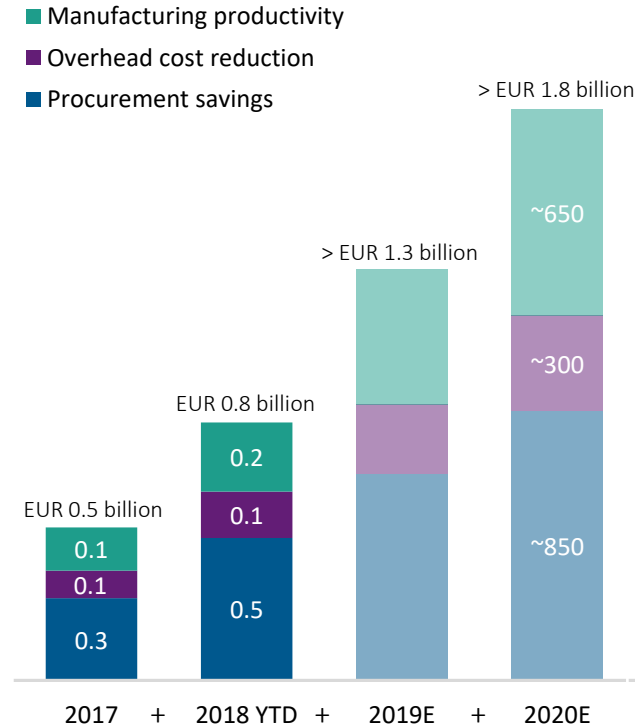
Personal Health

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 locations¹; 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

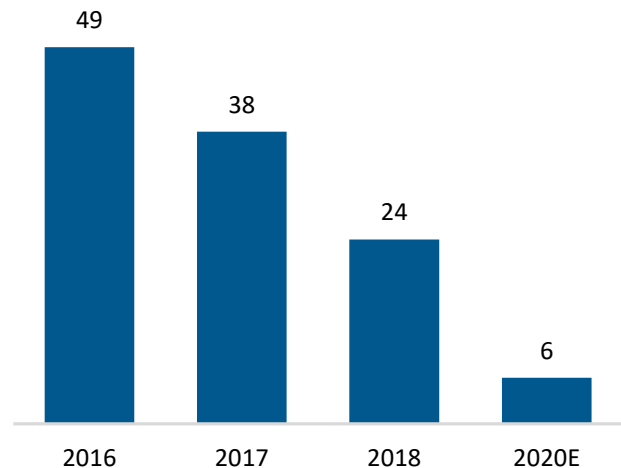
Restructuring

- 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



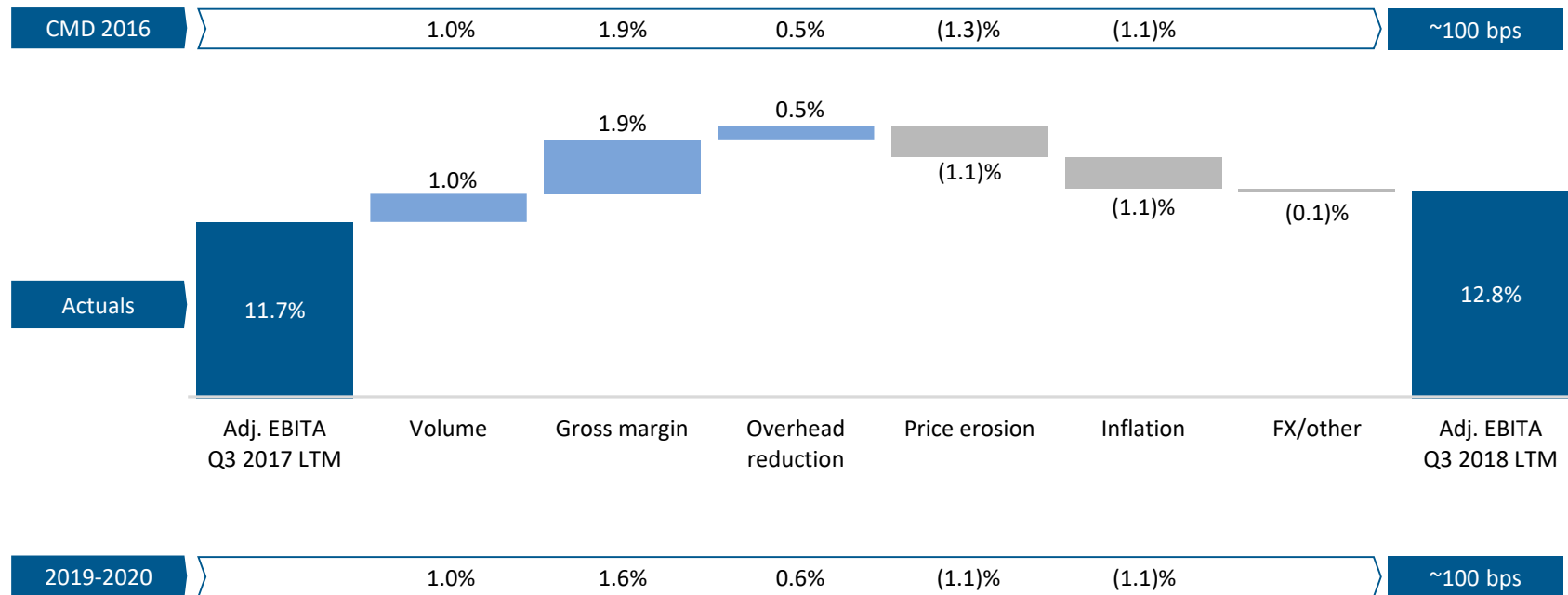
Highlights of the program

- 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 %¹

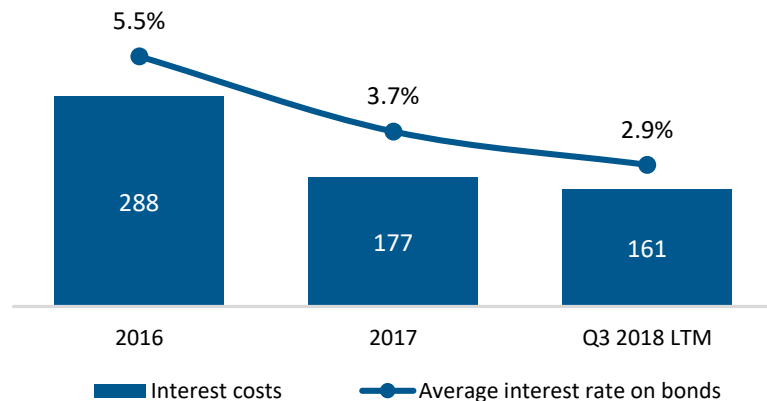


Strongly reduced interest costs and de-risked pension liabilities



Interest costs on debt and borrowings

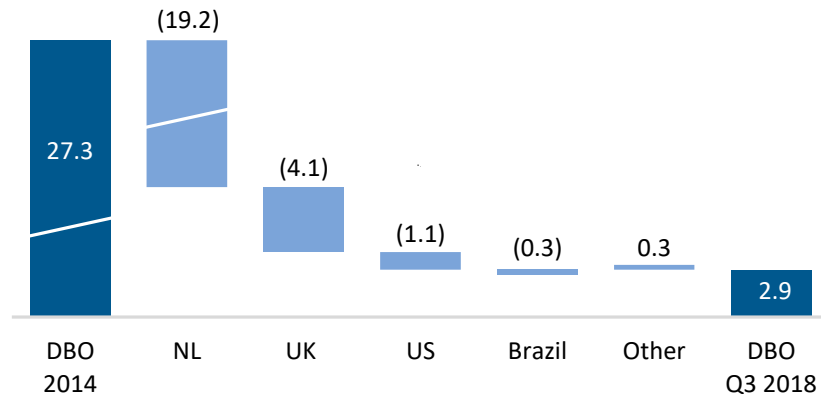
EUR million



- 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

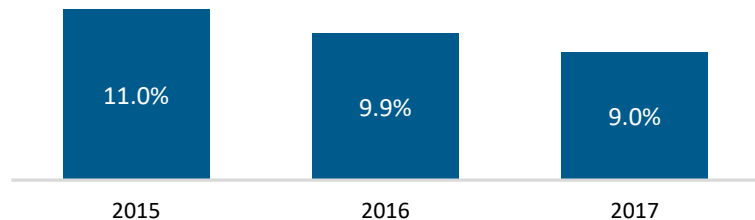
EUR billion



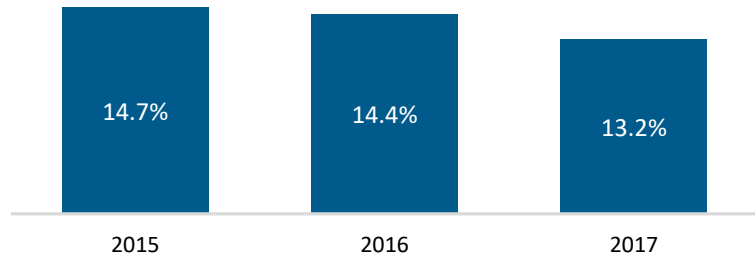
- Pro-active pension de-risking actions to significantly reduce DBO
- Current unfunded status is at EUR 820 million, of which approximately half accounts for Germany

Focus on improving working capital

Working capital %^{1,2}



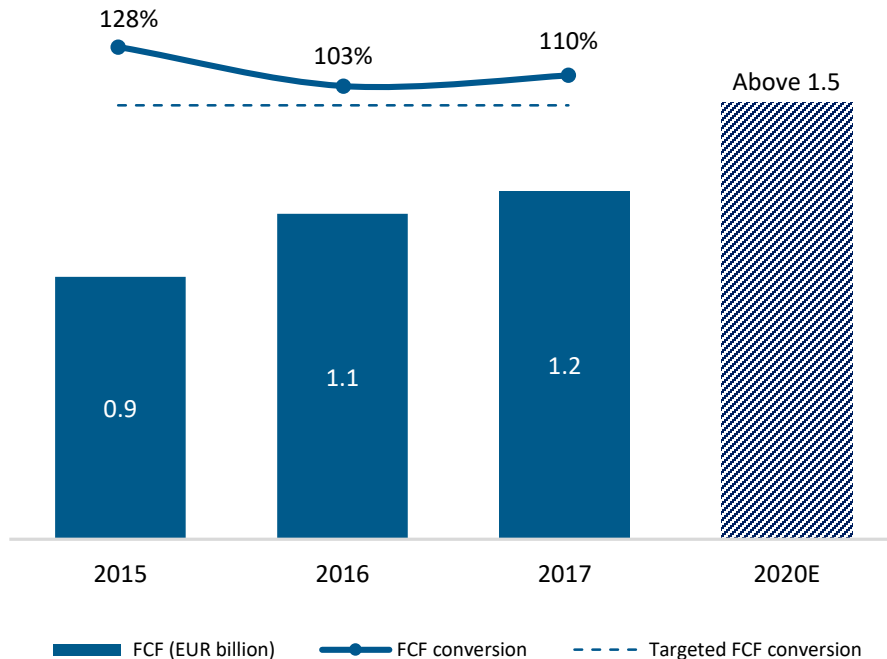
Inventory %¹



- 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

Increasing Free Cash Flow¹ generation

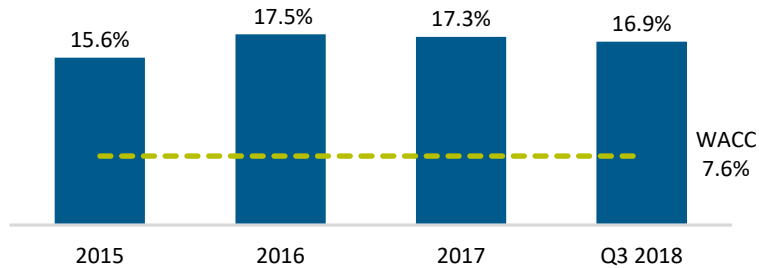
Free Cash Flow conversion (FCF) %



- 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

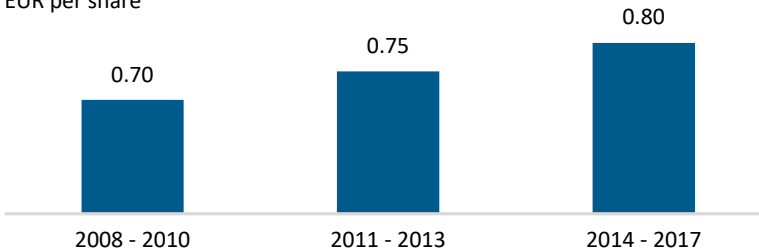
Balanced capital allocation policy

Organic Return on Invested Capital¹



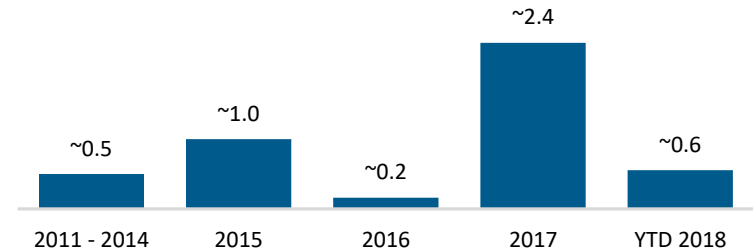
Dividends

EUR per share



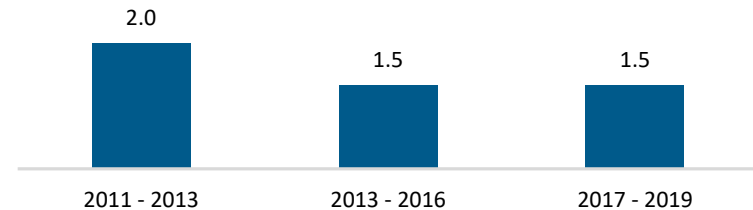
Mergers & Acquisitions

EUR billion



Share repurchase

EUR billion



Balanced capital allocation policy

Reinvest

in high-return growth opportunities

M&A

disciplined but more active approach

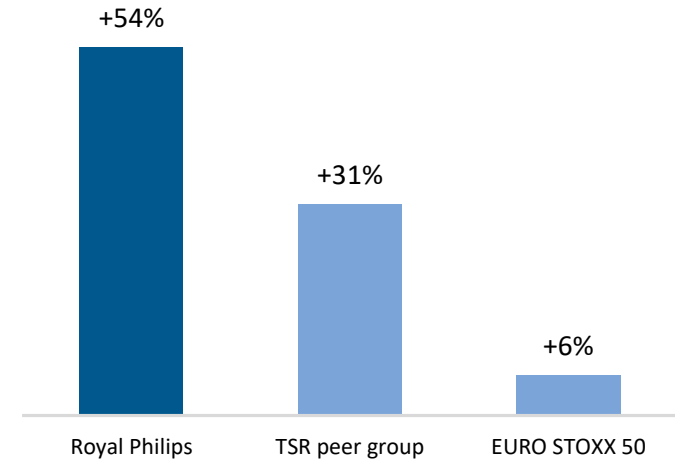
Dividend

aimed at dividend stability

Share repurchase

for capital reduction purposes

Total shareholder return since 2016^{1,2}



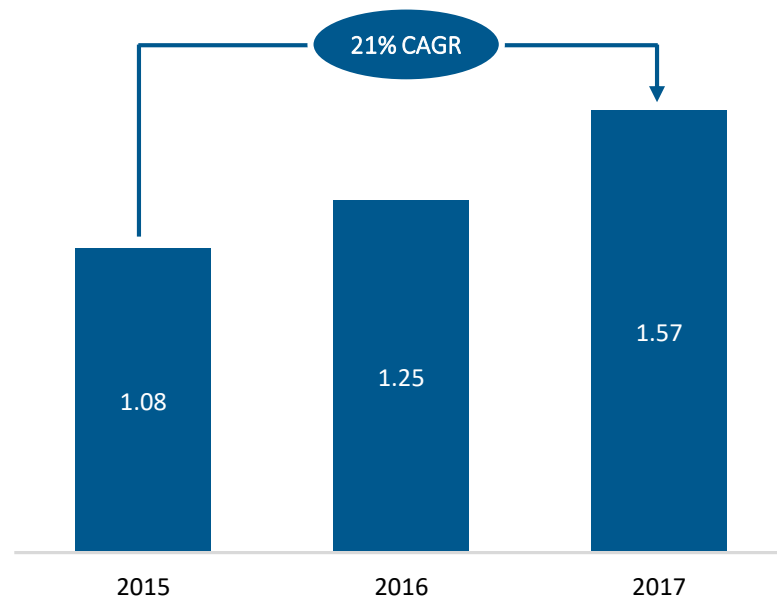
Introducing adjusted diluted Earnings per Share

Adj. EPS¹ 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 gains²
 - Amortization and impairment of acquired intangibles including goodwill
 - One-offs related to net financial expenses³
 - Tax based on underlying ETR⁴
- 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
bps improvement**

to ~15% in 2020

Cash generation

Free Cash Flow in 2020

above EUR 1.5 billion

ROIC

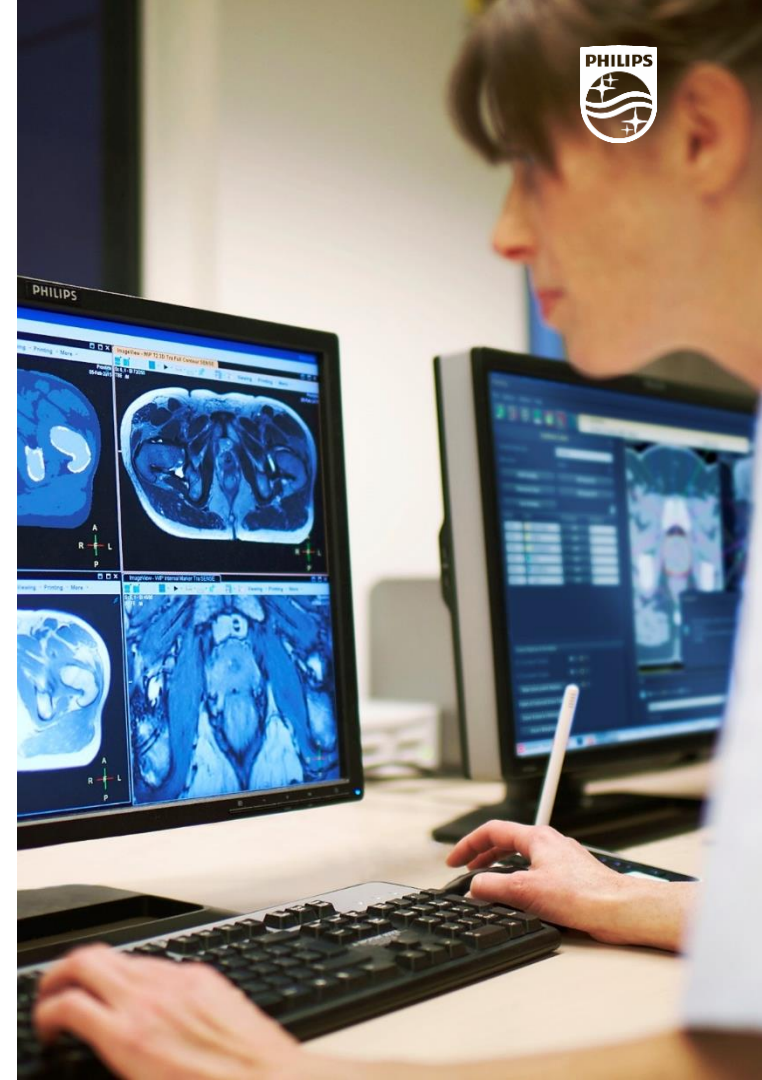
Organic ROIC in 2020

mid-to-high-teens

After 2020 we will drive further improvement

Key takeaways

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- We are **increasing and extending our productivity program** to **EUR 1.8B¹**
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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
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