



## Frans van Houten: 'We never really left'

Chief executive Frans van Houten (60) turned Philips into a global medical technology player. It is still a 'truly Dutch' company, but also 'American, Chinese and French.'

Frans van Houten is speaking from the Amsterdam headquarters of Philips, but via a video-teleconference connection. Since the corona crisis began, visits to the Breitner Tower on the river Amstel have been kept to a minimum. The CEO begins by making an opening statement about Philips' dual role during the crisis: "We support our customers, the hospitals, but we also have to protect 81,000 employees. In China we felt the first effects as early as January. Ultimately, we've had about 150 cases of corona in the company over the past six months."

### Frans van Houten

Born April 26, 1960. Studied economics at Erasmus University Rotterdam, joined Philips Data Systems in 1986, and joined the consumer electronics division in 2002. In 2004, he became chief executive of Philips Semiconductors, which continued independently as NXP from 2006 onwards. In 2008, under pressure from the new shareholders, he left the company. He was then involved in splitting ING into a bank and an insurance company. He has been CEO of Philips since April 1, 2011.

According to the Rotterdam-trained economist, one thing is crystal clear: "The crisis is a catalyst for change in the healthcare system. Remote care, in which monitoring the health of patients can take place outside the hospital, is getting closer. Until recently, telehealth was a theoretical concept. It did not fit in with the business model of hospitals or insurers."

Together with the Rijnstate Hospital in Arnhem, Philips is undertaking a project in which patients wear sensors on their bodies, so that medical data can be read remotely and treatment costs can be reduced. "When the doctor calls the patient, he already has the data. Then you not only have a good conversation, but also a conversation that is anchored in the medical data. In the end, the hospital and Philips are judged on the results, rather than only providing technology. That appeals to me enormously. Why not sooner? Maybe the urgency was not great enough. Now, because of corona, we see the limitations of the traditional system."

### Impact beyond the coronavirus itself

The impact of the corona crisis goes beyond the virus itself. The initial shortage of face masks alone raises the question of whether or not we have gone too far in swapping local factories for elusive international supply chains. That discussion is justified, says Van Houten. "But you can't produce everything in every country - that would go too far. In normal times, the market for hospital ventilators

is quite small. When demand falls back to normal levels, we as Philips can only afford one or two factories. Between March and May, we doubled our production and created a production site in Europe to have a degree of geographical spread. But it's an 'idée-fixe' to think that you can make everything in any country."

This would be difficult even at the European level. "You could still do the assembly on this continent. But people have to ask themselves: where do the chips come from, the sensors, the materials, the rare metals? You're always dependent on a limited source somewhere. In fact, Europe hardly has its own semiconductor industry anymore. NXP is still there, Infineon and STMicroelectronics, but even they make most of their chips in Asia. So we'll still be dependent on global value chains, especially for advanced products."

How sensitive is Philips itself to production disruptions? "We know up to three levels deep who does what for us. We know our suppliers' suppliers' suppliers. That's why we were able to act fast. We used the embassy network to let the Philippines know: this supplier needs to be open, because it is essential for medical products. The whole network helped each other."

The discussion about bringing back production ('reshoring') began even before the corona crisis, Van Houten emphasizes. Trade and geopolitics have again become more intertwined, with the American-Chinese trade war as a temporary apotheosis. "By the way, we never fully offshored. We have two very large factories in the Netherlands, in Drachten and Eindhoven. From there, we supply the whole world. We never really left."

With 30 factories worldwide, does Philips still consider itself a Dutch company? "I think we are still a truly Dutch company, despite the fact that we only achieve 2.5 percent of our global sales in the Netherlands. The home market is relatively small. But we do almost 40 percent of our R&D in the Netherlands. The export value of our factories is more than 2 billion euros, which is four times as much as we sell in the Netherlands. I also think Philips has a healthy dose of Dutch culture in how we run the company. Every company needs a culture, and the culture starts with the boss."

#### **Philips' results**

Philips recorded sales of EUR 4.4 billion in the second quarter, which was dominated by corona. That is 6 percent less than a year earlier. Sales to consumers (shavers, toothbrushes etc.) fell particularly sharply - by 19 percent.

On the other hand, hospitals and other customers placed 27 percent more orders between April and June for, among other things, hospital ventilators and patient monitors. Net profit was 213 million euros, nearly 50 million less than one year earlier. Philips expects sales to show 'modest' growth this year.

#### **Is it logical that all decisions will still be made in Amsterdam?**

Unilever recently announced its intention to relocate its headquarters to London. Shell is flirting with the idea. At Philips, relocation is not on the agenda. But how logical is it that all decisions will still be made in Amsterdam?

Van Houten: "That's a legitimate question, and I think we should also dare to ask ourselves that question. Thirty-six percent of our revenue comes from America. Western Europe accounts for 25 percent. The home market is small, and then you see that the world has more geopolitics. It is important

that we are sufficiently seen as an American company in America, that we are sufficiently seen as a Chinese company in China. You can never say: yes, we are a Dutch company, so we do everything in the Netherlands. That's not going to work. The interests are too big for that.”

The Chinese government looks with suspicion at what the country gets in return for the billions in turnover, says Van Houten. “They expect this to result in a certain number of jobs. The same thing is happening in America. So we have to navigate well and make sure we responsibly balance revenue and actual activities at a certain location, and where you pay taxes. You have to contribute to society wherever you have sales. Otherwise, in the end there will be issues.”

In this context, the Philips executive refers to the large internet companies. Europe is right to say: ‘you report revenues in a certain country, but you don't pay taxes’. That's all part and parcel of a social discussion. Differences in perception will remain. I'll agree with the Dutch that Philips is a Dutch company. But we are also a global company, an American, Chinese and French company. After all, you have to make a local contribution in all the countries in which you operate. It can never be black and white in this discussion.”

Do we think too simply in the Netherlands? “I always say we have two sets of shareholders: the real shareholders, and the Dutch who think Philips is Dutch. That's fine too, and we're proud of that. But the nuance is a little deeper than that.”

### **Van Houten has proven a willingness not to shy away from strong actions**

Frans van Houten has been at the helm of Philips for more than nine years now, and has a proven record of not shying away from strong actions. Televisions and audio equipment were divested. Lighting was separated and listed on the stock exchange. “This didn't mean the end of these products. Our brand name is still there, for a fee of course, and we will also make sure that the quality of these products is unabated. The consumer will therefore notice very little about it'.

The transformation to a purely medical technology company has not yet been fully completed. At the beginning of this year, Van Houten announced that the company also wanted to say goodbye to household appliances, such as vacuum cleaners, irons and coffee machines. Shortly after, the coronavirus struck.

Van Houten doesn't see a delay. “The sales process will take 18 months in any case. We had foreseen that back then. You have to talk to the social partners, disentangle the company, set up the sales process. Which parties will we be working with? It all takes time. We still think that the sale will take place in 2021. There's enough interest”, Van Houten observes. “But we are still in the early phase of the process and we haven't engaged in talks yet. There are buyers of all shapes and sizes.”

### **The achievements**

Under the leadership of Frans van Houten, Philips has definitively pivoted into a medical technology company. In 2012, the production of TVs was transferred to the joint venture TP Vision, which has been fully Chinese owned since 2014. In the same year, the audio activities (Lifestyle Entertainment) were divested, which also ended up at TP Vision. This was followed in 2016 by the separation of Philips iconic lighting business, which was listed on the stock exchange and has been operating under the name Signify since 2018. The new owners will pay for the use of the Philips brand name. The sale of the household appliances business was announced at the beginning of this year.

### **Still active in the consumer market**

After the separation, Philips will still be active in the consumer market in the area of personal care, such as shavers and electric toothbrushes. Does that still fit in with a company that mainly does business with hospitals instead of retail chains?

According to Van Houten, this is a conscious choice. “We're very happy that if you walk into the average bathroom in a Dutch house, you'll see Philips appliances there. We think that in time you will take your health measurements during your morning routine.”

Will the measurements from your Philips toothbrush go into your medical records? “Whether this data will be stored in a personal file is up to you. But absolutely. We can already measure how you brush. In America, we already have a model in which, with the patient's consent, the dentist gets the data. Regular brushing can lead to lower insurance premiums. It's been proven – good oral hygiene even leads to fewer cardiovascular diseases.”

But what about those shavers? Shaving doesn't make you healthier. According to Van Houten, it's extremely important that Philips remains a visible name in the field of personal care. “It's not even about what product I sell, it's about: do we have a clear presence in people's health routine? For example, if there is a personal diagnostic test device next to the shaver and toothbrush, we will be a trusted brand name to the general public.”

### **Philips competes with Siemens and General Electric**

In the hospital environment, Philips competes with, among others, Germany's Siemens and the American company General Electric in the field of diagnostic imaging equipment (scanners). “We are the only ones who still have a clear consumer portfolio,” Van Houten observes. “Because, to keep healthcare affordable, we also believe in prevention. We all know that healthcare weighs heavily on budgets. We are convinced that capacity can be better used, that productivity can be increased, that we can support patients in a different way through technology.”

Collecting and processing patient data is becoming increasingly important. That's why analysts expect large tech companies with huge customer bases – Facebook, Apple and Google – to enter this market more often. “We have to take all these Silicon Valley companies very seriously, because they have very deep pockets and a lot of talent. Let's face it, consumers are already entrusting a lot of data to these parties. If you're talking about remote care, I think you need integration between the data, devices and care systems. We at Philips have put a lot of effort into that. It's not true that the Facebooks of this world are familiar with healthcare, with hospitals, with health insurers.”

How about cooperation with the American tech giants? “I certainly see it happening. If the consumer chooses to have an iPhone and keeps track of the number of steps they take, that may be relevant for the doctor,” says Van Houten. “That kind of data will be reused more and more by making exchange possible. Although that will always have to be a conscious choice for the consumer.”

Is an independent Philips a goal in itself for Van Houten? “Personally, I think that is important. The best way to guarantee it is to perform well, to lead the way as a company. China is the fastest growing market, but new competitors are also emerging from there. That means we have to innovate faster by integrating different disciplines – hardware, software, data, clinical knowledge. Philips is never finished. Companies that cling too frenetically to the past lose relevance and ultimately no longer have a right to exist.”