PHILIPS

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Part 1 – Plenary session – CEO and CFO presentation

Frans van Houten
Good morning, ladies and gentlemen. It's a great pleasure to receive you here at the Philips Headquarter's in Amsterdam and also welcome to everybody in the webcast.

Actually, it feels very good to have you here in our own home, and I hope you also get a taste of the atmosphere and how we all work together here. Without further ado, I would like to introduce you to the management team. The management team here that is welcoming you together with me, Abhijit, of course; Rob Cascella, Carla, Roy, as the 3 business segment leaders; Andy Ho, this year we invited him to represent China, last year, if you'll recall, we spoke about North America; and also Jeroen Tas is joining us here today; and of course, many other executive members of Philips will interact with you through the Zooms and also with the dinner tonight.

I think you will have a good chance to interact with people live and get a taste of how we look at the business and how we are evolving the business.

The key messages that I would like to share with you today are, first of all, continuing to emphasize the massive transformation that we have made away from a diversified industrial conglomerate into a focused HealthTech leader. We deliver innovations through a deep commitment on R&D as well as deep insights from hospitals, clinicians and consumers, and making innovations meaningful to deliver on the quadruple aim.

We have a plan that is, you could say largely the same as what we shared with you previously, to drive more value out of what we have by emphasizing of operational excellence, productivity, better customer service and intimacy and that drives a lot of value. Moreover, the categories that we have, have a lot of growth potential, so by just growing the core, for example, through geographical expansion, bringing these innovations to more countries but also by deepening our customer relationships, we can take a bigger share of the wallet of our customer. And thirdly, we are making this pivot from being a product company to a solutions company as we think that smart suites of system software, services and devices together, deliver a superior experience for our customers, and therefore, it's no longer a price game but it becomes really a value creation game for our customers, in which we participate. We will go extensively in these 3 important drivers. As we execute on that plan, we will deliver a much improved result.

Now many of you have asked, does your productivity plan finish in 2019 or is there more to come, and I'm happy to announce to you that yes, there is another year that we now have added to the program. Moreover, also to deal with any headwinds that we may encounter. We have also raised the plan, overall. So we have raised it by EUR600 million, basically to make it simple, we'll do EUR500 million next year and EUR500 million in 2020.

This enables us altogether to reaffirm our commitment to grow Philips by 4% to 6% organically, and we continue to have the ambition to gradually raise the growth profile into the higher bandwidths of this 4% to 6% guidance. We will talk about it in more detail. We will continue to annually improve the profitability by around 100 basis points, and we are happy to inform you that we have a plan to deliver a free cash flow above EUR1.5 billion in 2020, so also there, it is an increase as we become confident about our cash generating ability.

Let us dive a bit deeper into the Philips story. Today, we have an undivided attention and commitment to our purpose to improve people's health through innovation. This change from doing a lot in a more shallow way to really being deeply committed to health and healthcare is paying off handsomely for us in terms of customer recognition, in terms of talent, who wants to join our journey and purpose and going deep feels really good as the company progresses. Many of you will remember, however, where we come from. And for those of you who are new to Philips, I think it is a valuable to just pause for a moment and reflect on where we come from. When I joined as CEO in 2011, half of Philips was in television and lighting, and we have divested that. The remaining half today has a much better growth profile and a much better profitability profile, and you can see here how the profitability has gone up in the last 7 years and how the growth profile has improved.

Doing these divestments was not necessarily easy, but we have executed that well. Moreover, we have started to do some acquisitions in order to deepen our commitment to the health technology space. The journey does not stop here, because we are of course, very much aware that with this change in position, we are having a different peer group. We are now comparing ourselves much more to the med tech world, and then of course, we are only somewhere in the middle of that pack and by no means, from a profitability point of view, can we say that the journey is finished. And that of course, correlates to this commitment to every year improved profitability going forward.

Within our purpose of improving health, we have taken this strategy to look at health as a continuum.

We are all aware of the challenge of how does the world cope with the cost of health care and there is a trend to keep people out of hospitals, to have more outpatient care, more home care, and Philips is well-positioned across this, so-called, continuum of care. We offer connected products and services to keep people healthy, to prevent disease. We have a deep bench on delivering precision diagnosis by combination of modalities and clinical informatics. We have a strong proposition around minimally invasive therapies. We support people with a chronic disease at home.

Moreover, I mentioned that we look at integrated care, going beyond to product and at the bottom, we emphasize that we are connecting patients and care providers in a more effective way, in a more coordinated way, with less waste, by leveraging data, by leveraging informatics and that will result in better outcomes for patients but also less cost for society. This strategy resonates well with our customers. They are all grappling with this. Many providers ask us, help us keep people out of the hospital as reimbursements schemes are more going to be capitated or even -- and move away from volume. People struggle with that new conundrum and then there is Philips, we understand how you connect with patients, wherever they are. In fact, it is important to realize that wherever you go in the world, hospital providers, payers and governments talk about value based health care. How to improve health outcomes for people, for populations, improving the patient experience, improving staff satisfaction, reduce stress with care providers and lower the cost of care.

We have decided, in Philips, that every innovation has to deliver on the quadruple end. We need to be able to demonstrate how we contribute to these 4 goals that are noticeable from the United States to Europe to China, it is all the same. And by embracing health economics as a filter to judge innovation on, we come with more meaningful innovation.

As you will see today, we have embedded this logic in our value propositions, all our people talk about it and that is what the C-suite of hospitals want to hear. But also consumers, they look for value and impacts to their lives.

Within this strategy, we are fortunate to have many strong categories already. Over 60% of our portfolio enjoys leadership positions. And you can read here for yourself how rich that portfolio is across the categories, across the segments. With these leadership positions, we can build out our strength in a market that is growing and attractive. We see the market for health technology growing because of, first of all, a growing population and more people wanting to get access to care, especially in emerging markets; an aging population, not only in the Western societies, also in China that is a big issue; there is a rising burden of chronic and lifestyle diseases; and overall, society spend more money on health care. Whether they like it or not, this is still going up. The market is also changing from some other dimensions and it is important that we have that on our radar screen. First of all, the digital revolution is uprooting the way people connect to their care provider. With increased co-payments, consumers are becoming much more involved in their own health decisions. Digital technology enables precision care. Augmented with artificial intelligence, informatics, we can come to personalization of care. It's a dramatic change for a world of health care that has been relatively conservative. We see also that the health care world is consolidating, whether that's in providers or payers or even some of the, for example, pharmacies and the drugstores, who are finding new ways to interact with patients who look for care. That world as it shifts, of course, has an implication for us as well. And with reimbursement shifting, we see also care shifting out of the hospital. In fact a proportion of care delivered in a hospital has been trending down already for several years, and we expect that trend to continue.

I mentioned that innovation is at the core of the Philips DNA. We have a deep commitment to innovation. Some of you ask of course, whether 10% is the right amount. But it is what helps us differentiate and create value propositions that really matter. Anticipating this shift to more informatics and data science and AI, we have already over 60% of our R&D professionals in software and data science. We work together with clinical institutions, key opinion leaders in order to have the right relevant knowledge around the medical processes and how to embed that into our value propositions. Part of our R&D is, of course, to sustain our existing businesses but part of that R&D is also to create new businesses. We have a sizable commitment to seat new businesses, such as in digital pathology, in neurology, in medical wearables, in the IT medical cloud infrastructure, which we call health suite and many, many other areas that are exciting that position us well for long-term sustainable growth as a company. Many of these new businesses are only now coming to the market and start to contributing revenue growth, and of course, as they do that, they will also reduce the burden on the P&L and help us achieve our 100 basis points improvement.

On the right-hand side of this page, we have highlighted a few data points. I know that it's important for you to know how much of revenue comes from products that were launched in the last 3 years. At Philips, that is well over 50%. Moreover, this commitment to innovation is helping us drive higher order growth. Already for the last of 4, 5 quarters, we have seen a step up in order growth. We have had double-digit order growth in the last 12 months. I know that begs then the next question, how is that coming to revenue? And we will come to that, but I must say, it is a good place to be to see this much demand for our innovations and consequently, we see our market shares, especially in health systems edging up as we go. Moreover, innovations command better pricing, and we see that our gross margins have been expanding for the last 3 years, and we believe that, that is a trend that we would like to continue.

Nevertheless, as EUR1.8 billion R&D is a lot of money, we are driving R&D productivity, and we see that we can improve that also over the next few years.

Let us now go a bit deeper into our midterm plan to unlock the value that we are all after. We have 3 main drivers for growth and profit enhancement. These are the same as last year, and we are making progress on all of them. Still I think it is important that we talk through all 8 aspects of these 3 drivers. Let us start by the customer. We can still raise customer experience, deepen that engagement. We are working on quality. As you know, we are working on productivity, but we're also transforming Philips into a completely digitally organized company where we apply robotics and so on and so on. I'll come back to that. The second driver is boost growth. We have great product categories that have more growth potential, where we capture that through geographical expansion, but also by deepening our access with existing customers and go to a higher share of wallet. Much of our innovation is geared to go beyond the product and to deliver a suite of systems, devices, and software and services that together tackle these quadruple aim challenges that our customers have. And where we cannot do it organically, we will partner, or we also look for selected M&A.

This is the recipe that we all embrace in Philips. It is applicable to all businesses and markets, and I think it is worthwhile to go a bit deeper into this recipe. Let us start by the first driver of improving customer experience and quality and productivity. We continue to make progress with regards to our quality management system and regulatory compliance. I can tell you that we are on schedule with our plan with regards to the consent decree, we have ongoing inspections and there's no, let's say, new findings that we are very worried about, yet we are very vigilant to continue to push the envelope on making sure that we strengthen our quality management systems.

Additionally, of course, we have the European Medical Device Regulation that will come into effect and that specially next year, we will take an extra investment with regards to changing our IT systems in order to cater for the heightened demand in responsiveness and timeliness of complaint handling and so on and so on, and we will come back on that as well.

Already shared with you is we are extending and expanding the productivity program from EUR1.2 billion to EUR1.8 billion, Abhijit will talk more about that, so let me, for now, move on. Already some years ago, we deeply embedded lean and continuous improvement throughout Philips. This is not new but boy, are we seeing the benefits now as it is at all levels in the organization, where ever you come, you see daily management boards, you see problem-solving, you see kaizens, you see teams engaging in daily and continuous improvements and this engine starts running more and more by itself and that is really rewarding.

With regards to supply chain, you are aware of our plan to reduce the amount of factories that we have, and have bigger, better factories that have more scale, higher quality professionals but also reduced footprint, and I think, also on that point, Abhijit will come back to you. So this, altogether, makes up the Philips business system. It's a concept that we have taken lessons also from other companies that we admire, and we have taken these best practices into Philips.

I mentioned to you that we are also changing the gut of Philips becoming a digital company, so that we can capture the opportunities in the world, means that we are changing our products to become connected. So that we can, for example, remotely service them. We are connecting ourselves to our customers and consumers then we can leverage the data, the data on our products but also the data on our customers. The IT systems of Philips are all being overhauled to become cloud-based, the latest version of standardized SAP and so on. And of course, we are raising the talent base in R&D, already told to you, but also in marketing, also in how we adapt and adopt robotics in, for example, finance and accounting processes. And so it's a big and impactful digital transformation that affects every part of the company. At the right-hand side, you see a few exciting examples of what it results into. Our ability to connect to sleep apnea patients, with over 1.5 million patients connected to our cloud and over 8 million of these patients, from which we get the data on a regular basis, so that we can give them coaching on their sleep therapeutic adherence, but we can also demonstrate that to payers and providers. Another exciting example is how we have used gamification to engage children in their own brushing and oral hygiene routines. This is a hit product that has sold very well. And one of the new innovations coming to the market is digital pathology where there are not enough pathologists in the world and the ability then to leverage a pathologist wherever they are and have a network pathology practice is very exciting to the professional pathologist. All of that, of course, can only be done if both your enterprise, and your product architecture is fully digital. And we have taken the Philips health suite platform as our backbone to connect everything. The second driver -- [ph] category is, of course, driving growth. Building on that foundation that I just spoke about, bringing innovations to more markets, a great example of replicating proven propositions in other geographies is the innovation of OneBlade. OneBlade developed for young males that don't shave everyday from 0 to close to EUR 200 million in just a few years. This year we've added another 10 countries to that franchise, and we expect this growth engine to contribute to -- continue to give. Sleep and respiratory care, still highly undiagnosed in most parts of the world. Let's face it, today, it's mostly a Western market business, and we see double-digit growth in, for example, China, India, Brazil and many other countries.

In the middle, acknowledging that we had some weaknesses, we are strengthening our go-to-market to become more consistent. I always challenge my own people to say, "If we can have a market share in Diagnostic Imaging in Germany well into the 20s, why is that not the case in United States?" So we started on a strong program to capture share in North America and that is working and it is one of the contributors to this higher order growth that we have been reporting for the last 4 quarters. But it's not only happening in North America, we see this happening across the world and it is really encouraging to see how we can capture share from our main competitors, whereby one is more vulnerable than the other, I should add.

And then finally, the Philips global footprint can be leverage for acquisitions. We acquired Volcano and then later on, Spectranetics; together, in the Philips business system, they can supply products to all customers, all across the world, that's working well, and we see double-digit growth in the last 12 -- in the last 12 months from Q3. We expect to be able to continue to leverage this as we go forward.

I've also spoken about deepening the customer relationship and as we do that, that we can capture a higher share of wallet. This is perhaps, somewhat a busy slide, but we felt it's important to talk about how that works. We agree common goals. We agree a common governance around the challenges that a customer has. We agree on outcome-based parameters that we jointly strive for. The focus then is no longer on the price of the product but rather on the big gold that we want to achieve together. We get a much deeper relationship with customers through this methodology as we co-create solutions and then we get rewarded by more business. We have seen customers where we start with a long-term strategic partnership in imaging and then it expands into other areas, or it starts with patient care and patient monitoring and it expands in other areas. So it is also giving us a multiyear recurring revenue stream and much deeper and sticky relationship. Some examples of what we added in the last few months: Banner Health, NSW in Australia, the Dallas Children's Center, and perhaps, tongue-in-cheek, a nice example, winning the city clinic in Munich was once again something that we feel proud of.

Overall, this year, the ticker stands at 160 large scale partnerships, growing every year, and just to share with you, we are currently working on an opportunity funnel of another 350 hospital chains that are looking for this kind of a strategic partnership. Couple these deep partnership relationships with our effort around solutions, because basically that goes hand-in-hand, where we deliver more integrated solutions for seamless care, delivering on the quadruple aim, and we get actually to double-digit growth through this strategy. Some years ago, we were well below 30, now we are already seeing a 32% of revenue falls under this header of solutions business with recurring revenue streams and so on. Specific target areas are precision diagnosis, the minimally invasive therapies, sleep and respiratory care, connected patient care, including how do you get patients out of the hospital in a better way. We leverage there the systems, the smart devices, the services, but also informatics, and more, and more, the data play of machine learning and artificial intelligence. And maybe the best way to bring this to life is through an example.

The example that I brought for you here and that you will also hear about this afternoon in the Zoom sessions is what we called a Guardian early warning system. Now imagine patients being in an ICU, an intensive care setting, such a bed is very expensive. So what hospitals would like to do is move these patients into the general ward. Caregivers are worried about that because at the general ward, things go wrong. The patient-staff ratio is much higher, it's only a few caregivers for maybe 15 patients. Therefore, patients stay in that expensive ICU. We go to the hospital and say, let us help you move these patients to the general ward, where your cost per patient is a lot lower. The early warning system helps you, through predictive analytics, discover which patient is trending well and which patient may need additional support. Therefore, in a timely way, 6 hours in advance, we can predict cardiac arrest, for example, we can make sure that those patients get the support they need. The results are overwhelmingly positive. You can see it here at the right-hand side, in how this Guardian early warning system, through clinical evidence, has a massive impact on health outcomes, on the reduction of cost of care, while making staff less stressed and patients much more at ease and feeling being cared for. So this is growing, at the moment, very rapidly especially in North America, but we see it coming, picking up in other regions as well. So it's a nice example on how an integrated approach delivers better on the quadruple aim, and I can tell you, it's no longer about price, if you offer something like this.

Solutions are done through our own R&D but also together with partners and where necessary, we then would like to do an acquisition in order to complement our portfolio. And the example here is about image guided therapy, where we were already a leader in the system side. But the system side comes with the handicap of only doing a capital equipment sale once every 10 years. Whereas, if you want to deliver on the quadruple aim, then you need to be there all the time. You need to optimize the procedure. And by expanding into devices combining that with systems and software, we are actually able to innovate the procedure, doing procedures more efficiently, doing more patients during the day, making sure that they are treated first time right. This strategy is resonating tremendously, has resulted in an overall step up of market share, also in our market-leading systems business. The Azurion platform has resulted in a 300 basis points market share gain. The acquisitions are synergistic with our systems approach, and our KOLs tell us time and again how much they like our approach. And of course, then the financial results at the bottom of the page speak for themselves.

When you run a big company, especially when you want to change a company, the culture of the company is tremendously important. So let us also for a moment dwell on more of the soft side of what makes a company successful. It's not only dollars, it's not only headcounts and numbers, it is very much the leadership and how everybody goes into the job every day. And sometimes we joke, culture is what happens when you don't look, right, and we have been on a leadership transformation journey for the last few years. This year, we took 60 leaders into a somewhat frugal off-site, as you can see here, in order to get much deeper into what drives us, what is required from all of us. How do we get to success? Give each other feedback to say, "I need this from you, what do you need from me?" And have the difficult conversations but also cementing that deep commitment to a joint purpose and journey where to go from good to great, you have to be prepared to challenge the as is and make changes. When we have done this -- because we have done this, the commitment that we have seen has been tremendously growing. I'm sure that if you ask some of my staff members here today, they will tell you about it.

I also would like to talk briefly about how we do business. Because increasingly, companies are judged on their role in society. At Philips, we have taken a multi-stakeholder approach for many years already. And our sustainability programs are not CSR programs, they are deeply embedded in how we do business. And as a consequence, we can say that we will be carbon neutral in our operations by 2020. We are almost there. We have embraced circularity as a way to take back products and to recoup the value and to recoup the scarce material to avoid that they go to the landfill, but actually, closing the loop is good business because I don't want our medical equipment to fall in the hands of third parties who then cannibalize the systems and destroy my spare parts business. So it is actually -- it makes eminent sense to do this and close that loop for 100%, which we have committed to do. We are working on expanding access to care. We measure how many lives Philips touches. And one nice example is how we are pioneering primary care clinics in Africa, and by bundling solutions, actually the price tag of such a primary care center makes it also worthwhile for us to go after it because now it's a bigger project. And then finally, we are committed to the World Economic Forum Compact for Responsive and Responsible Leadership.

Let me come back to our value creation road map. This is an update of our segment performance trajectory. There are some changes on this page versus last year. Unsurprisingly, I suppose we are raising the outlook for our Diagnosis & Treatment businesses. We have had a lot of success in rising order growth in that business, and therefore, from a low to mid-single-digit growth, we are now projecting a 5% to 7% sustainable growth rate for the coming years, while maintaining the margin target of 14% to 16%. In Connected Care & Health Informatics, whilst we are extremely optimistic about the long-term, realistically and acknowledging that this year, the growth rate was quite modest, we have said next year we will first get into the 3% plus growth rate and then we are confident that by 2020, we can get through the high end of this bandwidth. So no change in, let's say, future confidence in this business but realistically, we need to first build this growth path. And a good message here is that our order growth has already been rising this year. So we are looking at a good order book to actually deliver this next year. And then on Personal Health, something that also has your attention. Yes, this year has been a slower year, and we will not hit this 5% to 7% this year. Abhijit, will also speak about that, but we are very confident that next year, we can, all right. So we have made this target a bit more precise versus last year also out of conviction that from next year onwards, this 5% to 7% is achievable, and the margin target also here is unchanged.

We spoke in the third quarter about headwinds, I think it's a matter of maturity that we just are open about that. The headwinds that we identified - trade tariffs, which we estimate next year at the net EUR60 million. We also have this EU MDR investments, and primarily adapting IT systems to have this higher granularity in reporting as is required and some current emerging markets volatility. The measures are already underway, adjusting supplier base, so that we can change, let's say, the supply origins so that we avoid duties. Reconfiguring the supply chain is possible and enabled by our supply chain strategy of having multimodality factories. That can mean that we bring some China sourcing out of China but also that we bring some exports from United States to China and do that in a different way. And of course, we will deal with currency through pricing. That just has a little time lag effect but is happening and then productivity programs, as we raised it from the EUR1.2 million to the EUR1.8 billion, will create ample of countermeasure to deal with these headwinds.

So we're working on it. It's fully embedded in our plans, and we, overall, don't change our guidance as we deal with these headwinds. So then in summary, these are our targets, the revenue growth, 4% to 6%; the margin expansion stays at 100 basis points annually; the cash flow generation is up to above EUR1.5 billion by 2020; and the organic ROIC will be in the mid-to high teens continuously. Also, after 2020, we will further drive improvement. So the journey of Philips will not stop in 2020.

So with that, I would like to hand over to Abhijit and continue the detailed explanations of our story.

Abhijit Bhattacharya

Thank you, Frans. Good morning, everybody here in Amsterdam. Good morning and good afternoon to everybody on the webcast, maybe very early morning in the U.S. Glad to have you here in Amsterdam. What I'm going to talk to you about is our performance trajectory, how we've performed so far and the way forward and maybe a bit of underpinning on how we plan to drive the improvements going forward. If you see the sales and the targets we set in 2016, they were for fairly long period of time, from 2016 to 2020. We have been in the bandwidth of growth as well as for the profitability improvement. Frans mentioned earlier, we have increased our productivity numbers for the next year and the year after because we will need that to combat some of the headwinds that we see coming our way. We see also there would be improvement of profitability towards the latter half of the decade. So in 2020, we will also be able to up our cash flow. And then I will show you a picture on how we've allocated our capital over the last few years to show that it's been balanced between M&A, CapEx as well as return to shareholders.

So first, let me start with the order intake growth. I think here is the most promising part because we are in double-digit territory, not only for this year, but also for the last 12 months. And we see that momentum being strong. You see that specially in Diagnosis & Treatments, where we are 14% up. CC and HI momentum is increasing, but we've had a period of low order intake and that's why you see the sales growth being a bit disappointing as Frans mentioned. If you see our comparable sales growth, we were at the 5% a couple of years back, but if you link it to the lower order intake in 2016, you see that, that had a bit of a lag effect, and therefore, gives us fair amount of confidence going into the last 2 years that's '19 and '20 that we will be moving more to the middle of the range then at the lower end of the range. Our growth -- geography growth continue to remain very strong, so China, India, Brazil, Russia, et cetera, and we expect, especially in the health systems part, stronger growth in North America to drive growth going forward.

A bit on the targets for each of the clusters. You see really now for Diagnosis & Treatment, the growth profile changing. So you see for the last 12 months at 7%. If you look at year-to-date, we are closer to the --'s we're actually above the 8%. And the good news here is that in all the categories we are driving not only sales growth but order intake growth. So in Ultrasound, where we have a very strong position in cardiovascular, we said we were going to make investments in OB/GYN drive point of care, and general imaging we are getting very, very strong order intake growth there. So that's driving a very profitable part of the portfolio.

In Image-Guided Therapy, again, very, very strong traction both in the system. So Azurion is doing phenomenally well, and you we'll see in the Zoom later, when Bert van Meurs talks about how the system is doing with some customers speaking as well, double-digit order intake growth, double-digit sales growth and also helping to improve margins. And then, Diagnostic Imaging, where we told you that 70% of the portfolio was renewed, we see also in the marketplace very, very strong traction across the portfolio.

Quite some new innovation coming there, and Kees Wesdorp will speak to it later today. Specially in the MR area, where we have the new magnets, which we call the BlueSeal magnet, which has dramatically reduced the consumption of helium. So we will use 99.5% less helium than what is currently being used. So good innovations, which we will talk about later today.

In Connected Care & Health Informatics, especially in patient monitoring, which is 60% of the business, growth there has been slow. Market growth has been slow. We are gaining market share. We have a strong market share there, well above the 40%. Above the 50% in the U.S. But being such a big part of the business, and the fact that the market is a bit slower this year, the overall growth for Connected Care is lower. However, as Frans mentioned, we still expect next year to be in the 3% to 6% range.

On Personal Care -- Personal Health, sorry. This year after -- I think, if I look back to 2010 to 2017, we've always been in the 5% to 10% growth range. So that if you look at a longer trajectory, this year we've had a couple of hiccups in the first couple of quarters. So therefore, just mathematically, it will be difficult to get into the 5% to 7% range. So we will be in the 3% to 4% range. But again, as Roy will show you later quite some plans to get back into the 5% to 7% growth range, because we are pretty confident on that.

If I move forward, in 2016, we said we're going to improve our profitability trajectory over a long period of time. And I think we had said it at that time as well, it is not possible to be precisely 100 basis points every year. Although, we've done a pretty good job at it so far. So if you look here from 10% to 11% to 12%, last 12 months at 12.8%. From 2015 onward, I think from quarter to -- every single quarter we've had year-on-year improvement. Sometimes more than the 100 basis points, sometimes a bit less. But this is over a period of time. And even going till 2020, it's not going to be precisely a 100 basis points every quarter, but directionally, we are so far delivering, and we have high confidence that we continue to grow on that range.

A big driver in the margin improvement has been the improvement in the gross margins. I think that is critical for us, because you see that over a period from 2015 to now close to 400 basis points improvement in margins.

So the money that we are put into innovation drives actually better value propositions, which are actually helping us to manage price erosion better, get better price realization from the market, and of course, the move to solutions is also helping this overall improvement.

So gross margin trends very good despite the headwinds that have come in terms of material prices and other stuff that we've spoken talked about.

Frans talked about the increase headwinds, and I will talk to you a little bit on what we are doing to mitigate that in fair amount of detail. But few things. So supply chain mitigation. So when there are duty tariffs, we have to move from where we source some of our products to some countries. Because we were already rationalizing our footprint in manufacturing, that gave us a bit of a head start. So we are more flexible than we were 2 years ago.

Price actions that we have to take specially when you have to respond to currency drops like we've had in Turkey or in Russia or in LATAM. And then we have upped our productivity program to combat that, so that we can keep driving the 100 basis points roughly per year.

If you look at the margin expansion, again, from 2015, so it's not a question of 1 quarter or 2 quarters, you see that happening across all our businesses. It's not that one particular business has made an improvement and the others have not. You see for Diagnosis & Treatment, you know we have gone from 8% to 11% in the 4-year period. Similarly for Connected Care & Health Informatics, we have moved from 9% this year. Because of the low growth rate, it's a bit of a stutter in terms of the year-on-year improvement. But this is a high gross margin business. So the moment we are able to get back to growth, the fall-through to the bottom line is very, very good. So that is why we are confident also in maintaining the margin targets, although we've take growth a little bit down. And Personal Care already is in the range of 17% to 20%, so -- and you see that also going from 14% to 17% over a 4-year period.

Now on the productivity program, we are so far a bit ahead. So we had said EUR 400 million a year, we are, I think, at about -- slightly above the EUR 800 million already by the third quarter. So we expect to get a little over the EUR 800 million this year, which takes then if you add EUR 0.5 billion for next that will take a slightly above the EUR 1.3 billion, and then around the EUR 1.8 billion for 2020. We had spoken to you about a few levers that we will be pulling on to drive this productivity. And the first one was the industrial footprint rationalization. We had talked about a 40% reduction in our footprint. Happy to report that by the end of this year, we would have done more than half of it. So 13 out of the 20 sites that we have planned to reduce would have been completed by the end of this year, and the balance will happen next year.

So if you look at the bars that go up the footprint, manufacturing productivity actually starts becoming bigger and bigger as we clean up the footprint. Similarly, in the overhead cost reduction, we are getting very good traction with the setting up of our global business services. So that was something we didn't have a couple of years ago. We are now with 1,700 people already in our 6 locations around the world and climbing. By the end of next year, we will be around the 3,000, and the year after at 5,000. So it's important to understand that we carry a lot of these double costs in the P&L today, which once we are done with the transformation those costs will drop off. So we have today the sending units as well as the receiving unit costs, and those costs are carried and not adjusted out of the P&L today. So they are sitting in our cost base.

I think one of our most exciting transformation projects is around the marketing transformation, where we have looked at the spend that we have. We spend about EUR 1.3 billion a year. And what we want to do is to double our customer facing spent. So we have a large part, which we spend on promotions. We have a fairly significant part, where we have costs of organization. We're going to streamline that. And although we keep the EUR 1.3 billion the same, the amount of money that is customer facing to drive growth will improve from 2019 onwards. So that is a big step.

We also spoke to you a couple of years ago on the IT footprint and the rationalization. I have the next slide which will tell us a little bit more on that, and Frans mentioned on the R&D productivity, which is not cutting R&D programs, but looking at the number of layers of, let's say, managers that sit on top, so that we can thin that down and drive productivity as we drive top line.

Procurement, our DfX program as you see continues to deliver. We will be close to the EUR 850 million by 2020. But there are some tougher market conditions that we are dealing with, you know the price of helium has gone up tremendously that gives a headwind. There are some other material prices which are tightening as a result of which we are, let's say, going to compensate on the other measures that we are taking.

The result of this -- and also because of the tariffs. So the tariffs also from the second tier suppliers to us, we have to pass some of it on, but some of it we have to compensate. So the result of this is that we had initially planned that since most of our footprint activity will be done by 2019, that restructuring costs in 2020 would come down. We extend that by a year, because with the big push in GBS, we will need remain around the 90 to 100 bps for a year longer and then come down from 2021, that's simply what we need to do to combat the additional headwinds that we are facing now.

On our digital footprint, you know we started with the footprint of 49 instances of SAP. We said we would go down in a couple of years to 6. We are actually well on track to do that. By the end of this year, we would have been less than half. Our rollouts have been pretty steep. So the new IT that is being rolled out, we had -- these are not separate instances, but across the world, we had 6 in 2 years ago, 12 last year, 50 this year. And these rollout costs sit in our P&L today as we speak. So I think it's important to understand that we are performing and transforming at the same time, which therefore, carries certain additional costs, which sits in our P&L, once we are done with this we'll drive further margin improvement.

I think the other important thing here is, of course, we now get a much more state-of-the-art IT infrastructure with cloud applications that help our sales force to sell better, get real-time information on the ground. But most importantly, for our B2B businesses by the end of this year, we will have all our B2B businesses on one kernel. By the middle of next year, we will have all the B2C on one kernel. And if you club that with the work that we are doing in the back office in global business services, where you can standardize the process flows, which are different across the world, that's where you can drive further efficiency that has given us the confidence to raise our productivity targets. While we do this, we also drastically reduce the number of IT applications we have. So not only are we rolling out, but as we rollout the important thing is to shut down the older applications. We're close to 1,000 by the end of this year from when we started. So we are really cleaning that part of our backbone.

So let me come now to how we've driven the performance improvements so far. As I said from 2015, every quarter, we have been driving this. We said in 2016 that we would get about 100 bps on volume, 190 bps on gross margin, 50 bps on overhead reduction that you see on the top line here. We anticipated price erosion of 130 bps and inflation of 110 . This bar shows you from 2017, 12 months prior to 2018, last 12 months, and you see we've been very close. We've had a bit of headwinds around the FX. And if you add 2017 to this -- the full year 2017 you will find that we have done more or less exactly as we had planned to.

Going forward, however, this mix will change a little bit, because as we said, the pressure on the material prices will go up. So we expect volume to still be around the 100 basis points. But on gross margin with tariffs and other costs, we expect that to come from 1.9% to 1.6%. We will compensate that partly in pricing, so you see we take the price erosion down, and we've taken the overhead cost savings up. So this is how we expect for the next 2 years the bridge to develop. Not a big change, but a small important change, as the gross margin development may tend to be slightly different than what we have shown so far.

Let me then go to the balance sheet. A few things that we've done: One is we have restructured our debt pretty well. We have brought down with the liability management that we've down, our interest costs are down 45% to what they were a couple of years ago. So I think that is good. We've significantly restructured our debt, redeeming more than EUR 2.5 billion of high interest debt, which we've replaced by debt, which is actually very cheap. On the pension front, on -- in 2014, before we separated, we were a EUR 25 billion company with pension BBO liabilities of EUR 27 billion. That has dramatically changed now, it's down to less than 3. That has a significant impact on our pension costs. Our pension costs are down both if you look at the interest line as well as the service costs by EUR 50 million in this period. Our unfunded status is very low now. It's about EUR 820 million, half of that is in Germany, where you know you cannot fund it. So we believe now that the pension situation is also very well under control.

Let me touch a bit on working capital. So the efforts that we put into lean out our supply chain, focus on our aging inventory, reducing the number of stock points, we will reduce by 2019, compared to 2016, 40% of the number of stock points that we had. So that significantly reduces and improves our good flow movement. As well as we worked with our suppliers through some creative financing solutions to help them also an increase our repayment terms. All this you see has resulted in roughly 100 bps reduction in our working capital every year. We also have brought down significantly our inventory. And let me -- currently, this year I think Q2 and Q3 was the first time in 3 years it went up a little bit. And that is very much due to the tariff impact and the industrial footprint impact.

So as you shut down a factory, you need to build certain inventors so that you are protected from many loss of sales. And a similarly when duties were coming into effect, we needed to ship certain extra amounts to China and in the U.S. to help us mitigate some of the duty impacts.

Looking forward, in terms of our free cash flow conversion, so far we have been actually above the 100%, that is not a long-term sustainable plan of cost, because we've done big reductions in our working capital. But we expect going forward to be between 90% and the 100%. So still a very, very good free cash flow conversion. And that is what takes us into 2020, where we believe that we can go above the EUR 1.5 billion, because the profitability by then on a much bigger company would have improved. And since we would have been done with most of our restructuring we believe that, that's when we will see a step up in free cash flow generation.

Let me touch quickly on our capital allocation, so we had set out a target of being in the mid-to-high teens for our organic ROIC. We are very much in that range. On M&A, we had a relatively quiet period from 21 to -- 2011 to 2014. We did volcano in 2015. Fairly quiet in 2016. 2017, we did a few of the big one being Spectranetics. And this year, the medium-size one being EPD.

In terms of dividend, we have said we have a stable to increasing dividend policy. So you see over the period, we have consistently increased our dividend as well as done share buybacks. So if you look at a 5-year period, and I just had a look the other day, we've spent about 1/3 of our capital in terms of M&A., we have -- about 1/3 of our capital in CapEx, and about 1/3 of our capital in return to shareholders, if you add the dividend and the share buybacks that we've done. And we expect roughly this balance going forward as well.

What has that resulted in? I think in total shareholder returns, if you look back since 2016, since we separated with lighting, compared to the euro stocks '15 as well as our peer group, we have done reasonably well. So we expect, let's say, going forward if you keep on the performance trajectory that we'll do well.

There was also a lot of requests from you to come out with a metric regarding EPS and adjusted EPS. So we will do that. This gives you the details from 2015 to 2017. We have tried to keep the definition very simple. So whatever is adjusted out of adjusted EBITDA is the only adjustments that we will take for adjusted EBITDA -- sorry, for adjusted EPS. The only addition to that is if there are one-off liability management costs that we do for financial income and expense which comes below. So it's a fairly simple one. We have put out and anyone of tax impacts like we had in the U.S. for example. So we will circulate the full table on the reconciliations and how it's done and going forward every quarter, we will publish this number.

So let me end by reiterating what Frans just said, and hopefully, the gist of what I've been covering so far. We will -- we have been delivering on these targets for the last 3 to 4 years, we see a path to get there. Although, there are some headwinds, which we have to mitigate. So it may not be always a straight line, but a bit bumpy, but we'll get there. And 2020 is not the end of the story, because let's say, by then since most of the restructuring and the transformation would have been completed then it gives us a highway to further growth and value creation. So with that, in fact I can invite Frans to join. And then we're going to take questions from them.

Frans van Houten
All right. In a bird's eye, this is our introduction. So what is on your mind? Who would like to ask the first question.

QUESTIONS AND ANSWERS

Patrick Wood ***BAML***
It's Patrick from Bank of America. I have 2, please. And the first would be, I noticed on the slide that the ever so slightly the price mix had gone a little bit better than you expected. And there's been some commentary from P&G as well that they're stepping back a little bit from aggressive pricing. Is this what's given you the confidence to allocate more of your marketing spend to direct-to-customers, oppose the promotion, because that's a big change in that? So that's the first question. The second part is. You, obviously, still own about 18% of Signify, and I'm just curious, are you waiting for something specific to happen? Or when can we expect to have that cleaned up and done with, I guess?

Frans van Houten
Okay. Let's first take the first one. I would say these 2 things are unrelated. So the marketing transformation is unrelated to, let's say, confidence around pricing. Although, if we spend more on demand generation and consumer marketing, it will reinforce it. But it's not linked, okay? We have just realized that traditional marketing through retail and push, only gets you so much preference. And moreover, when we pull up the net and look at all the creations that we do, do we really activate all of them? In other words, there is waste, right? So we have said, we need to reduce the spend with agencies and internal people cost. And spend more in the market. And what we spend in the market? We want to spend more on really driving preference and engagement. That is also than in line with the trends that we see that we can go more direct to consumer. And also build more recurring revenue streams, such as

brush heads and blades and consumables. So we see it also as a strategic enabler for the future. And yes, it will help the price game. I was also encouraged to read that commentary, Patrick. And I think generally speaking with some material prices going up, I think we will see an upward push on pricing across the world. Also the price ratio will be affected by us increasing prices in emerging markets for currencies. So -- in that respect, 1.1% or even 1% would be more realistic. Anyway, that's a direction. Now on Signify, we are committed to selling down. And we are progressing nicely until Q1. And then we post for obvious reasons this -- it's still on our mind to sell down. But we are not in a hurry. So in due course, we will let you know when we do so. And yes, we'll also look, of course, carefully what the share price of Signify is doing. Where do we go? Here, Veronika maybe.

Veronika Dubajova ***Goldman Sachs***
Veronica Dubajova from Goldman Sachs. I have 2 question, please. The first one's on the D&T targets. And it's great to see you raised the revenue target given how well the business is performing. I'm curious why you haven't raised the margin target? And I guess, is the way to think about it that you were before tracking to the lower end of it and now you're tracking to the upper end of the 14% to 16%? So if you can comment on that, that would be helpful. And the second thing, thank you Abhijit for the cash allocation framework. How are you thinking about target leverage that's reasonable for the business going forward?

Frans van Houten
Yes, look, when you have a margin target, you're always looking at your organic improvement and also the investments that you make for the longer term. Also in this case, we have allowed ourselves some extra room for investments in the longer term. So rather than just saying everything will then be a resettled targets, we've said, there are so much opportunity in precision diagnosis. The Radiology Solutions appeal to our customers, we are developing more and more algorithms and AI apps. So we've also stepped it up a little bit, which you could say takes a little bit of that upward pressure out. May be anything else that you want to mention?

Abhijit Bhattacharya
No, I think, look, we've given the bandwidth of 14% to 16%. We didn't say last time, we would be at the lower end. We are not saying now that we are going to be at the higher end. The additional growth gives us a better chance. But don't forget, we are coming from 8.5% to 14% to 16%, that's a doubling of profitability in 4 to 5 years. So I think if we get into that range we would have done well and then post, let's say, most of the transformation, we would keep moving it up.

Your second question was?

Yes, the target leverage remains the same actually. We had said gross debt-to-EBITDA would be 1.5, and net debt we said would be around 1. There could be a couple of quarters when we are a bit lazy, which would be may be a bit below. So far we have been exactly in that bandwidth. But you know we are not in a rush to spend that money just because we're not in the ratio. So a couple of quarters left or right but directionally between 1 and 1 .5 is what we have said.

Frans van Houten
Lazy?

Abhijit Bhattacharya
Yes, that's lazy balance sheet.

Frans van Houten
don't associate the word lazy.

Unidentified Participant
I had some question on R&D and then a bit on the EU MDR. So on the R&D side, I guess you have been very good at kind of driving innovation in the consumer side of the business. But arguably on the therapeutic side, it's been more acquisitions, I guess driving portfolio breadth and gross margin improvements. So I'm just wondering when we should see the high R&D spend come through to kind of product launches on the therapeutic side. I don't know if there any specifics you want to call out? Also on R&D. I mean, there's been some talk recently of Amazon struggling to higher enough people on AI and tech side, and you mentioned CCHI is going to be a big part of the business in future. So how is the business like Philips able to higher the right people there? And then lastly, on the EU MDR. I'm just wondering if you could be a bit more granular on what the spend is there? How much relates to documenting R&D? How much is post-market surveillance? And how much manufacturing, documentation and regulation? So appreciate a bit more color.

Frans van Houten
Yes. This afternoon, we have a Zoom session with Bert van Meurs on Image-Guided Therapy. And I think that would be good moment to ask what is in the pipeline. The Azurion launch was a very, very big effort for us. And in fact that commitment and the extension of that platform is still going on, all right? So it is not that it's done and now suddenly all the R&D is freed up. So there is -- that is our big innovation. But I think it's better to let Bert speak about it this afternoon.

Yes, it's an interesting question, how do you get your talent. On the one hand, we compete for the same talent, also in big places like Cambridge or India, Bangalore and so on. But what really helps us is the clarity of our purpose. And we have seen quite a lot of millennials, but also data scientists who say, I rather apply my knowledge to saving lives, improving lives, being part of a healthcare company, rather than fashion companies or anything else. So, so far this has been working well for us. I do see that markets are a bit tighter, all right? So we do have if you look at our website, we have quite some vacancies in very specific areas. But I don't flag it as a concern. So, so far we continue to be able to attract the talent.

Now then on the EU MDR, let me say that the total costs of the EU MDR program is much higher than what we shared, okay? But some of it is kind of in the operation, what R&D people need to do or operations people need to do or what we need to do in the market. So here we have distinguished what we could say is, yes, truly onetime and more infrastructure. I don't know whether you have an example...

Abhijit Bhattacharya
Yes. No, I think, the IT systems that we need to put in for the extended reporting requirements that's just a onetime expense. There are a lot of work that have to be done on the technical files to get the data in the way that it needs to be presented for recertification. That's some a onetime cost. So it's just too big buckets and overall, EU MDR will result in a higher cost structure. That's just something we have to absorb as part of doing business in this regulated environment.

Frans van Houten
We'll also prune some of the product portfolio, because to recertify products on the EU MDR sometimes you will also need new clinical evidence. And we have a whole lot of clinical evidence, but it is not always in the format that the European Commission wants to see it. And then for some products, we say it's not worth it to do it and then we approve in the portfolio, which frankly speaking is a good exercise anyway to do. Okay? You and then we go to Danny afterwards.

Abhijit Bhattacharya
You've done this.

Max Yates *Crédit Suisse*
It's Max from Crédit Suisse. Just the first question would be around these additional costs. I'm just trying to understand. So when you talk about the net cost impact, is that after the benefits of productivity savings? So i.e for the tariffs? So because if we look at the tariff costs, the MDR costs, it's about EUR 100 million, it's about 50 bps of margin, is that...

Abhijit Bhattacharya
Yes. No, I think you should look at it separately. So the tariff cost is after mitigation in terms of supply chain mitigations moving supply sources to different parts of the world. So that's not net of the productivity. Net of the productivity, of course, we say we will increase our margins by 100 bps. And the additional productivity will compensate some of this cost. But the EUR 60 million is the cost that is going to sit on the P&L, and the productivity will have to compensate for it.

Max Yates Crédit Suisse
But the MDR is much higher and that is net of cost.

Abhijit Bhattacharya
The EU MDR cost -- the running cost is part of the normal P&L, the onetime cost is what we've called out the EUR 45 million.

Max Yates Crédit Suisse
And maybe just then on the phasing of that through 2019. Will you have to take a lot of that costs?

Abhijit Bhattacharya
The EUR 45 million is almost entirely in 2019.

Max Yates Crédit Suisse
But upfront in 2019, are you first half? Or will it be through next year?

Abhijit Bhattacharya
No, no, it's through the year.

Max Yates Crédit Suisse
And just second question on sort of Personal Health. Obviously, your calling from an...

Frans van Houten
So maybe while we're phasing. It's may be good to realize that some of the mitigation of headwinds still need to be executed in the first half, right? Therefore, the full mitigation benefit comes more in the second half. That is important to realize.

Max Yates *Crédit Suisse*
And then just maybe on sort of Personal Health. And I appreciate you'll probably touch on this in the afternoon. But just you seem very, very confident that sort of you're going to do 5% to 7% and accelerate next year. What is that you're really seeing that gives you the confidence? Because, obviously, there's a lot of uncertainty out there in various end markets. So what are the 1 or 2 things you'd really call out?

Frans van Houten
Well, the new product introductions give us confidence on a year-on-year comparable basis. Secondly, supply chain issues would not reoccur. Some easing of the let's say aggressiveness on pricing. Abhijit, anything?

Abhijit Bhattacharya
Yes, I think those are the 3 big ones. But also if you look at our ratings and reviews for all of our new product launches, they come in very, very high. And as we then phase out the older program -- the older product portfolio, the preference for us is really going up. So we see that actually quarter-on-quarter both on brand preference as well as on product preference that gives us the confidence that we will continue to grow.

Frans van Houten
We have Yi. Sorry, Danny, lady first.

Yi-Dan Wang *Deutsche Bank*
Just 2 questions. So it's good to see that you're able to get additional productivity savings out, but that doesn't seem to come through in the margin. Can we understand that to pay for the FX headwind and the various impacts you have, for example, tariffs? And then secondly for the CCHI business, you seem to

have notch down your expectations for that, but the margin guidance has remained the same. If you could put some color around that, that would be helpful.

Abhijit Bhattacharya

Yes, so when you say that it doesn't seem to compensate, I would beg to differ, because we've said, we will deliver the 100 basis points, which basically means that we will compensate for the headwinds. Now if there is a massive currency drop in 1 quarter, within the quarter to compensate is close to impossible. So it takes a bit longer to do. The impact on duties and reshuffling the supply chain, you can't do that in a quarter. So therefore, we say, don't -- I mean there is like I said from 2015 onwards every quarter an improvement, sometimes a bit bigger, and sometimes a bit smaller. And similarly for next year, we expect, let's say, a lot of these improvements to kick in fully, therefore, the second half of the year will be stronger in terms of profit improvement than the first. So you have to look at it at a -- in a longer timeframe than just a quarter. It's close to impossible to mitigate a headwind that comes in the quarter within the quarter.

Yi-Dan Wang ***Deutsche Bank***

I was actually thinking about the EUR 200 million of extra costs savings that you have put out. And if you look at your margin guidance for 2020, you've put around 15% for that. Previously, it was 14% to 16%. So given that some of the businesses have been performing actually a fair bit better than expected when you initially issued that 14% to 16% guidance, one would have expected the EUR 200 million of additional savings, which is worth about 100 basis points to somewhat -- to hopefully land you in the upper end of that 14% to 16% range.

Abhijit Bhattacharya

We are not changing the guidance that we've given. I mean, there are -- like we said -- in Q1 this year, when we did well, everybody said, "Hey, you can do much better." When you look at a longer period of time, there are headwinds that come at different points in time and there are countermeasures that we take over that period of time and when you look at a 3- to 4-year horizon moving from a 9%, 10% business to a 15% business, I think is a big step. And if we are able to do a big -- a bit, better, great. If not, we would be in and around that range. I think we'll leave it at that.

Frans van Houten

Some cushion is also one of the best thing to have as have learned. All right, Danny here in the front row.

Yi-Dan Wang ***Deutsche Bank***

Sorry. CCHI?

Abhijit Bhattacharya

Oh, yes, CCHI. Look, we have strong confidence in the margin of that business. It's like I said, it's a high-gross margin business. There is a lot of productivity, which is being driven in CCHI. So even with the lower growth, we are very confident.

Frans van Houten

What we can add to that is that we've said, in CCHI we make significant investments in new innovation, all right? And that brings down what is a very high margin, gross margin business. Now as we bring some of those innovations to market, all right, they will turn from a drag into a tailwind, also supporting the higher growth, for example, we see a lot of traction with customers on building command centers, building telehealth centers, that is some of the areas where we have been investing in, all right? So -- and that is also then underpinning the confidence that we see the order and revenues grow up. So it goes hand-in-hand. But the gross margin of that business inherently is very strong. (inaudible) to our Danny, try to pass it to you.

Danny van Doesburg

Three questions, 2 small ones and 1 somewhat about portfolio. First question is about FX. You gave some -- you have a bit of negative headwind on the emerging market currencies. But could you update us on how the U.S. dollar will impact next year? Because we all know Cleveland has reduced a bit. And we also know that especially half-year 2019, the euro dollar will be about 6% positive for euro. So in respect to the possible you now benefit a bit on currency? So that's the first question. The second question is about trade tariffs. But then mainly on, is it true that it could be also explained as a bit of a positive given that we hear from some U.S. companies that they feel that they're being sort of negatively treated in some tenders in competing, especially in Asia, because it being perceived as a sort of U.S. invoked measure? So -- and also yourself mentioned somewhat weaker of your 2 competitor. So how about the competitive position regarding that item? And last question is a bit more philosophical one but it's, I think, also important for us as investors. If you look at your margin currently at Personal Health and also your margins at let's say the HealthTech part of Philips, also the growth rates and also the R&D expenditures and also hence, mathematically your cash conversion and also your free cash flow and return on invested capital, on Personal Health, I think it's about cash conversion of 80% and ROIC of maybe 25% to 30%, whereas as in your HealthTech business, your cash conversion is maybe 55% or 60%, also a bit lower growth, a much lower return on invested capital. So I as an investor always ask, why aren't you growing your Personal Health more because every euro, you are being able...

Frans van Houten

Understood, as in we get the question.

Danny van Doesburg

That's the question, but also in respect to that. Personal Health could offer you a benefit because if you carve out part of your Personal Health, maybe monetizing your stake in Personal Health, you could use that as fueling the growth in digital health and pick because you're a bit way ahead of your two strongest competitors.

Frans van Houten

Danny, for the sake of time, okay? So if you take the ForEx.

Abhijit Bhattacharya

Yes, so if look at the ForEx in terms of euro/dollar, our footprint is fairly balanced, and we have a hedging policy that for let's say more developed market currencies, we have a hedging strategy that keeps us close to neutral. There could be a bit of movement once in a while. For emerging market currencies, the cost of carry is just too heavy for you to hedge. So the way you react is by pricing, and therefore -- and also the way we fund those markets, right? So we have funded those markets in local currency, therefore you don't have a big hit in the funding structure, but in the absolute business if you have a 30% hit in the Turkish lira, demand drops for a while. You then do price increases that gets absorbed in the system and then you pick back up. We had to do, I think 6 price increases in Argentina this year, that's how you react. So I think we -- and if you compare the FX hits that we've had toward our competitors have given it's been a fraction of what, let's say, other companies in the industry have been. So we think we're fairly well managed there.

Frans van Houten

On your second question, let me first say that my remark on the competitor was unrelated to trade wars. It's just that, that competitor is now faced with what we were faced with 8 years ago. So that creates some turmoil and therefore, we can try to benefit from it. Your question on the geopolitical side is interesting, I must say China has avoided to play the consumer sentiment card, right? So far, it has not been played up as it's the clash of 2 nations. And I can only applaud them for that. And that may change in the future, I don't know. So far we have not seen any effect of let's say companies exploiting the geopolitical positioning. So and I also think it's not our task or role to do that. I think we should stay very calm because after all we are 1/3 American, we are 1/3 European, right, so we are Switzerland in that sense. Okay?

Abhijit Bhattacharya

The last part on the portfolio because...

Frans van Houten

Yes, the portfolio, look, of course, we benefit if we grow Personal Health as fast as possible. So that's also the mission for Roy. And he is going to tell us after lunch how we are going to do it because that -- you're right, it's helps the overall portfolio. All right? Question? Last question. So we do one more. All the way in the back.

Paul Carthy

Paul Carthy with State Street Global Advisors. Quick question on your ROIC outlook. I guess I can understand why you've given asset prices, your ROIC inclusive of M&A. Might I guess come down over the years but your guidance looks for mid- to high single-digit ROIC, I guess you've already done 17% or so. And then I look at the -- your outlook for top line growth or margin expansion and coupled that with the, I guess, the sliming down the manufacturing footprint and the progress and working capital, it would look organically to signal an improving ROIC outlook. Can you maybe comment on the puts and takes for your, I guess, to a wide range you have for organic ROIC.

Abhijit Bhattacharya

Yes, so the ROIC guidance is not mid to high. It's actually mid- to high teens, so let's say 14 to 19. We are now at the higher end of that. We are closer to the 17. Our WACC is at 7 and thereabouts, so I think we are significantly above the WACC. The reason why we took organic ROIC at that point of time was you don't know what you're going to do with M&A going forward, so therefore you keep -- have to adjust it. Given the improvement in working capital, yes, we see room to go at the higher end of that guidance, for sure, in the coming 2 years. But 2020 is just 2 years away. So if we make a leap from 17 to the 19 in 2 years that will still be a very good improvement in the return on invested capital.

Paul Carthy
Sure, but your, I guess, your low end of the range is mid-single digit, or you're already at high single-digit so...

Abhijit Bhattacharya
It's not single digit, that's the WACC. That's the WACC. The ROIC target is teens, so it's not low single digit at all.

Paul Carthy
Right. But you're 17 now.

Abhijit Bhattacharya
Yes. Yes, so that's not single digit, that's teen, 17.

Paul Carthy-
Okay.

Abhijit Bhattacharya
Yes? Sorry. Maybe we can take that offline.

Frans van Houten
All right. We are at the beginning of the lunch break so can you explain the logistics?

Pim Preesman
Currently, a 1-hour break. The lunch will be served there, right next to us and we will reconvene here and also resume the webcast at 2 p.m. Thank you.

Frans van Houten
Thank you very much.

Abhijit Bhattacharya
Thanks.

(Break)

Part 2 – Plenary session – Segment presentations

Pim Preesman

Welcome back, and we will now start our second part of the plenary session. And I would like to ask Rob Cascella, Chief Business Leader of Diagnosis & Treatment to resume.

Diagnosis & Treatment

Robert A. Cascella

Sure. Well, hello and good afternoon. I hope everybody had a great lunch. You're going to be totally stimulated by the Diagnosis & Treatment update. I want to start by saying Frans mentioned a comment about and showed some detail on the quadruple aim, and I don't want to pass by that. What I'm really emphasizing is that everything that you're going to see in Diagnosis & Treatment and for that matter, our other businesses, are really focusing on delivering better outcomes, lowering the cost of care delivery, taking a lot of the burden away from the staff and enhancing, of course, the patient experience.

So when you think about our businesses, a lot of what you'll see today is really emphasizing that. Our product road maps, our go-to market and so on and so forth. So we're gaining traction with a new and differentiated solutions portfolio of products, smart devices, software and services. If we think about each of the individual businesses a little bit, Image-Guided Therapy, in addition to systems or device business, of course, is growing in their leadership position in cardiovascular. And we're broadening that portfolio with applications, other devices and the like.

Ultrasound, we talked about, over the last few years about maintaining our strength and leadership in cardiovascular, but also broadening into areas like OB/GYN, GI and Point-of-Care. In fact if you think of it, the GI market, it's twice as big as the cardiovascular market. And similarly, the OB/GYN market is about the same size, so we have great opportunity with very similar product just maybe different software applications, different probe geometry and things like that to be very successful. And we're getting great traction in that area and we'll talk about that in a little bit.

And then finally Diagnostic Imaging. We're gaining market share and we're delivering on our productivity targets, and we really improving our profitability. That was really a matter of strengthening the core and really getting back to delivering products that we are all proud of and we're going to chat about that a little bit later as well.

And then finally, in our -- we're investing heavily in our solutions businesses and -- once a part of Diagnosis & Treatment, our radiology, cardiology and oncology. And in radiology, it's really about operational performance, we're trying help you run a better department. In cardiology, we want to help you run a better cath lab, but we also want to help you set it up. We want to show you how to run an office-space lab, provide a lot of equipment inside and device in site. And then finally on oncology, we're trying to automate the process in radiation oncology that's very cumbersome, about treatment planning and providing tools, software for the accelerating the whole image to plan process. So we won't deliver the energy, but we'll help you accelerate the process of getting that patient ready for a radiation therapy procedure. In addition to that, this is also the business in that incorporates our oncology informatics platform as well as our pathology.

What we intend to do with these businesses is really solve problems for customers. And it's been a great door opener for us in terms of gaining access to accounts that otherwise we might have struggled with. So we, as Frans and Abhijit had indicated earlier, we've raised our revenue targets. So a range of 5% to 7%. We're holding our EBITA margin at 14% to 16% by 2020.

I'm going to talk a little bit about each of the businesses just from a size and scale perspective, the interventional or Image-Guided Therapy business is about EUR 2 billion, Ultrasound about EUR 1.5 billion and DI about EUR 3.4 million. All of these businesses have some very special aspects in terms of their market positioning. In Image-Guided Therapy, we are #1 in cath labs. And we're also the #1 player in IVUS, intravascular ultrasound as well as physiology. In Ultrasound we're the #1 player in cardiovascular, as they said a little while ago. And we're becoming a #2 player globally, in all the other segments. And in Diagnostic Imaging, we're are a global #3 player with a very keen eye on #2 and really fighting every day to make that happen.

All of these businesses are tied together with a very deep informatics platform. So it really functions as the glue, makes images available from a distributed perspective, has a heavy content of AI, it brings workflow confidence and it also really is the way that we could affect where we think this business is going in the future, which is maybe virtual radiology in many respects.

Beyond that 40% of our revenues are recurring and are made up of services, devices and software. I'll spend some time on each of the individual businesses.

So with Image-Guided Therapy, gaining strong traction with our portfolio, very unique systems and complemented by a growing device portfolio. So if we think about systems, we have a greater than 40% market share in cath labs and we're gaining additional share with the strength of our Azurion platform and new applications that we're bringing to market. We gained 300 market share points with Azurion. And we're experiencing and enjoying double-digit order growth for the last 12 months. So we're very happy about the progress in that business. We're on track to improve our profitability on the device side and we will be at double-digit profitability in that business this year. If we think about going forward, we have high single-digit growth in our sales, and we're achieving our profitability targets for 2020, which will be in the high teens. So we're very happy with the progress with that business is making overall.

A little bit more about the technology, and some of the products that we brought to bear. So Azurion was really great-image quality, phenomenal work flow and a really an ease of use that allows the cath lab operator to do a really 20% more patients in the course of a day. So phenomenal product, really achieving everything that the quadruple aim intends to do. You recognize that we acquired a company called EPD, which is very unique dielectric imaging that's targeting the mapping and treatment of atrial fibrillation. So it opens the door for us in the mapping part of this business and in the diagnostic part to really have access to the electrophysiology market, which thus far other than imaging, we have not been a strong part of. So we're very excited about that. It's very unique in terms of its approach.

Finally, you probably read about iFRs being a certainly less costly, more comfortable for the patient alternative to FFR and that's unique to us. So we're very proud of that and we obviously think that's a further differentiator.

So Ultrasound, we chatted about it earlier, we're expanding our leadership in the cardiovascular area. We're driving additional applications. We're doing a tremendous amount around workflow, obviously, great image quality and so on and so forth. In the OB/GYN space, we've now completed and we'll continue to invest but completed, a significant round of advanced applications in women's health. So primarily in the obstetrics area, but we are moving into gynecology as well. So a lot of effort is going into that.

Here again, double-digit order growth on last 12 months basis, we're gaining market share as a result of our strength in cardiovascular and moving into GI and OB/GYN. And we're really maintaining, our market-leading margins in that business.

A little bit about some interesting technology applications. So we -- with the introduction of TomTec, we are building advanced applications around the strength of both our epic and our Affiniti platforms, and this is about better image quality, better disease characterization and improved workflow. What you see in the center is really an ultrasound image, which is phenomenal. And that's our heart valve and it's our photorealistic imaging capabilities that we are now able to deliver. So from a treatment planning point of view and from a diagnostic point of view, it's an extraordinary benefit. That is that -- I hope everybody recognizes it. That's a beautiful image from an Ultrasound machine.

Portable Ultrasound, we think the point-of-care market is huge, we believe that the -- our Lumify product brings superior image quality to really a smartphone or a tablet, so really used in a multiple applications, either sports medicine, emergency medicine, you name it. And we believe, that's a very, very fast growing market that we are investing in because we think it is yet the next phase of how ultrasound becomes a ubiquitous technology in health care.

Diagnostic imaging. Again, gaining market share, improving profitability, our strategy delivering value, and we're doing that by innovation and we're doing that by being much more customer-centric and really driving productivity. So we've spent a lot of time investing in advanced solutions for precision diagnostics. So the ability to combine different technologies in order to get a first-time right diagnostics. Using much more of our IntelliSpace as a way of creating an AI platform for precision diagnostics as well. 70% of that portfolio is new and deeply integrated with informatics, deeply integrated with things like our PerformanceBridge radiology solutions product. 120 basis points of market share gain here, too, double-digit order growth in DI over the last 12 months, so phenomenal progress in terms of an uptick in the market, acceptance of our product portfolio.

Interesting things, and we won't cover all of these but some new features, Compressed SENSE is on our MRI platforms, both new products and backwards-compatible. And it is a software technology that allows us to reduce the scan times significantly by 50%. So if you think about workflow in a very challenging modality, this has been received extraordinary well in the marketplace.

In addition to that, right below it, something that we think is very unique. And it is unique to the market, we've introduced our BlueSeal magnet. And that is magnet that has a fraction of the amount of helium as a standard magnet. You heard, Abhijit talk about 99.5%, I thought. And who would know better than Abhijit, right? And most importantly, what that drives is that Helium creates a maintenance issue and it creates a significant downtime issue, not to mention an extraordinarily high cost. This is a sealed magnet. There is no maintenance on it, relative to helium. Instead of days of being able to take the magnet down and bringing it back up, it's hours. So -- and we are the only people in the industry that have this. So we have a 1.5 Tesla, that's been introduced, under development as a 3.0. So we think that's a very, very important new addition. And that is just coming out this year for '19.

Another interesting technology is our icon product, and the reason why I bring it up is that's a product, again, if we think about the quadruple aim, it allows us to do our proprietary spectral imaging to do dual energy always, meaning that we don't have to select pre the exam, a decision about whether we use multiple energy levels on that patient. It always take multiple energy levels. So what that means is that we get much better imaging, much better disease quantification, in areas, where that, that patient would've had to have been called back, if we in fact needed a low-energy level image, or we would have had done a re-scan. So what we've tried to do with this product in addition to it being terrific image quality is again take cost side of the system by limiting the number of scans, making the patient experience better, delivering on the quadruple aim. So everyone of these, as I said I won't talk about it, but every one of these products really enables that.

A little bit about IntelliSpace and I'll sum it up with less clicks, less time. What we've have done with IntelliSpace through a lot of hard work and collaboration between that business and DI, particularly, is that the right image acquisition with intelligent support. So help the technologists get a better image. So to remove some error, lack of standardization. Right-image interpretation with informatics help diagnose the image more appropriately, help to interrogate the data.

And then finally, the operational insights. Let me be more efficient, help the radiologist to be more efficient, help the department to run more efficiently. So what IntelliSpace does is it's a great way for we to drive home all the power of the modalities with a visualization and display technology that has a lot of power that's already built into it for advanced applications, artificial intelligence and so on and so forth.

A new business for us, but a very important one is Digital Pathology. So very aligned with imaging, a visual diagnostic, slide-based, of course, but we're having a great success with our Digital Pathology systems and what that consists of today is a slide digitizer as well as a visualization element. Only FDAapproved system in the market today for that. And that is really being used not just to digitize and have an electronic image capability of pathology but also to do expert sharing and consultation, namely telepathology. So it plays very consistent with exactly where the image market is going or the imaging market is going. So teleradiology, telepathology. What we're trying to do is really bring medicine to a higher standard irrespective of wherever the site of care is. So whether you're down the street or around the block, in the next state or in a resource-scarce part of the world, through IntelliSpace, we can move images from a side of acquisition to where there are appropriately skilled higher competency levels of professionals that can then interpret those images.

The next phase of that is computational pathology, where we bring more of the power of intelligence, artificial intelligence and deep learning to interrogating these slides and making determinations about tissue characterizations. The extent of the density of the tumor, the extent of how clean the margins were on the tumor. All of those sorts of things can be done, but now, it's something that brings artificial intelligence to the pathologist. That is under development, we'll continue to focus in those areas. But it's -- it will a very powerful tool, but it will also be a accuracy and workflow benefit to the hospital, to the lab or otherwise.

We talked a little bit about our precision diagnostic platform. And what we're doing here is really -- it's the culmination of all the things that we've just talked about. It's taking pathology and whatever the phenotypical information is from a slide, comparing that to all the morphology that we get out of radiology, and we're running sequencing information, and we're determining what types of disease are best treated with this sort of treatment mechanism or this imaging protocol or this radiation therapy protocol. So what we're ultimately doing is, again, delivering on the quadruple aim but we're trying to extract data and from that data create the knowledge and the wisdom to pick the right treatment for the right patient at the right time.

And this is a platform product that takes many different forms. It could be as simple as using a biomarker and imaging and ultrasound to make a determination about the extent of liver disease. So very practical, something that we're all faced with today. But in addition to that, it can certainly make a determination of the recurrence rate of a particular type of prostate cancer or breast cancer, or the proper protocol for breast cancer and so on and so forth. And it is built on an informatics platform, it has a tremendous amount of artificial intelligence in it and it is under development. We currently sell this product but we sell it in different levels of sophistication. But ultimately, it is where we believe that precision diagnostic and then precision medicine will go.

I wanted to run a video, and I wanted to share a customer experience with you on some of the things that we're doing with precision diagnosis.

[video playing]

That's great. I have to say that Dr. (inaudible) is just a great ally and partner of ours, and we love the things that she's doing.

So just to conclude, I want to reiterate that Diagnosis & Treatment is all about the quadruple aim and hopefully, you've seen how we're trying to deliver on that with these businesses. And hear a little bit on even a customer in that respect. We're getting strong traction, our portfolio is differentiated. We believe that we're delivering on solutions and we believe that we're now delivering a portfolio of products that is truly resonating with our customer.

We have a long way to go, but we are on the journey. Again, we're going to raise -- we raised our revenue targets 5% to 7% sales growth and 14% to 16% EBITA by 2020.

And with that, it's my pleasure to introduce Carla Kriwet, who runs our Connected Care & Health Informatics business.

Connected Care & Health Informatics

Carla Kriwet

Thank you, Rob. Good afternoon. It's great to be here and thank you for listening to the exciting Connected Care & Health Informatics story. Connected Care & Health Informatics is a critical role for our customers, why? Because we are helping them to deliver on the quadruple aims Frans and Rob just refereed to. We have strong differentiating solution, putting us ahead of competitions. We are enabling superior data-driven clinical decisions at the bedsides. So our customers don't have to dig into the EMR and into large analytics. They have it right there on the monitors at the Point-of-Care.

We're helping them to improve staff and equipment productivity, and focus on customer satisfaction, their patients and engagement. So we have a very patient-centric model.

Last but not least, we are helping them to reduce retention, which is very important in times where turn rate of hospital professional is very high and is increasing. We are targeting to deliver 3% to 6% organic revenue growth and adjusted EBITA margin of 14% to 16% by 2020, by leveraging our strong positions, but also investing in health informatics and Population Health Management.

How does this look in practice? We have always been the company who is strong with monitoring. Monitoring analytics, EUR 1.9 billion, and 50% market share in the U.S., more than 40% internationally. And we are growing and we are gaining market share in that business.

Therapeutic Care. We are the leader in noninvasive ventilation, and I'm very excited that we are entering the invasive ventilation market, but a great product in 2019. We are #1 one in AEDs.

And in health informatics, we're investing in a business, which is supporting all businesses in Philips. We are #1 in cardiology, radiology in the United States. And the #1 EMR player in Latam, we are growing that business with a great proposition called TASY, rapidly in Europe and Asia.

Population health management emerging business. We are the leader in personal emergency response in the United States. And after acquiring VitalHealth in 2017, we have the leading patient-engagement platform. Also important to note is that already today, 40% is -- comes from recurring revenue from services, from consumables, from software, which is also a very profitable business.

We are regaining growth and strengthening our operational performance as we speak. The revenue growth has been slower beginning of the year because end of 2017, we saw a slow order intake, mainly in the United States where there was some political insecurity for investment and you've seen it for many big IT installations in the market. So the market was basically flat and with 50% market share, we saw that, that has picked up very nicely, recently. But we also have to note that there's a lengthening cycle from order intake to sales, with a shift from equipment to service business models. And we saw the impact as expected from the consent decree for our ECR business.

Why are we committing to 3% to 6% growth? Because we are expanding especially in the growing areas of eICU, a hub-and-spoke model for the ICU, I will come back to. And the command centers, where hospitals more and more ask for a centralized IT system, improving their operations but also the clinical workflow.

We are driving services and consumables, and I'm very happy to say that we are gaining market share. We have mid-single-digit order intake growth and double-digit order intake growth for services.

Most importantly, we are really at the core of what the customers are asking for. And you look at a picture here of the classic C-suite of a hospital. The CIO is asking for quadruple aim models for value-based health care and ways to transform his organization to achieve these targets. The CIO is concerned about data security. And I'm happy to say that Philips has a leading position there, situations like [mono cry] are set, but for us it was good business because customers came back and say, hey, we want to work with the customer -- with the providers, sorry, who is leading in data security.

And they're concern about interoperability and we are investing in that area. We have open systems. We have bough Forcare that is enabling interoperability and are leading in that area.

The medical C-suite. So the Chief Nursing Officer and the Chief Medical Officer, they're all about patient satisfaction and that is getting more and more transparent with all the rankings, but also the staff retention and the patient flow, the patient pathway between the hospital and the home and back.

And the CFO is looking for ways to reduce costs but also to find the new business models, which are shifting from fees for equipment, to fees to service, to eventually fees to outcome. All of that coming together in the quadruple aim and the C-suite who's really making the decision for our businesses are asking for proof points how we are supporting them to achieve these aims?

How are we doing that? We've always been the company who is great in collecting data. But we get the feedback from our customers as one of them put it nicely, we are drowning in data and we are starving for wisdom. So data alone, Big Data alone is not the name of the game. It's about organizing it in a smart way, make it context-specific and predictive. So if you look, for example, at our heart failure rate that is very different if you're talking about a chronic heart failure patient versus an elderly patient coming from the OR or a child. You have to put it in the context, in the situation and get the predictive insights out of it, plan the interactions and the clinical pathway accordingly and act in an integrated way between the caregivers. Because lots of the inefficiency of the health care system is happening in the interfaces between various caregivers inside the hospital, but also outside the hospital. All of that is based on advanced analytics, AI, where we have a leading position and can really make it practical in this workflow.

This is the slide, you've seen before from Frans, and he mentioned that actually the general care is a very risky area because the caregiver patient ratio is so high. That's the second reason why this is a critical area and that is -- there's no constant monitoring.

We now introduced last year, we shared that with you the patches, the connected sensors where there is continuous monitoring and you're going to see that in one of the deep dive sessions with Felix, this afternoon. And with that combination, you can really predict like a cardiac event, 6 to 8 hours before it happens. So lots of cost savings for the hospital because you're keeping patients out of the expensive ICU. But also when I go to customers and show them mortality rate reduction of 66%, it's very hard for them to say no to that. Even though it is a new business model, they are excited about that opportunity, that's what they're all about and that is what's being published increasingly. So also commercially for us, it's a great business. A true global hospital issue and market estimated EUR 3 billion, just from missed deterioration in the general ward and the changing patient population. So more and more sicker patients coming earlier to the general ward hospitals are struggling to get the patients out of the ICU earlier and earlier. More chronic patients, more core mobilities, more elderly patients, so the pressure is increasing. The cost pressure is increasing as well. And they want to deliver on the quadruple aim and this is a great solution to do so. We started with basically no business, end of 2016. We are now in 19 markets, business close to EUR 100 million, growing rapidly and huge opportunity. We are the market leader in the ICU. We are going to be the one who is leading in this lower acuity areas, first in the general board but also in emergency department all the way to the home.

And this way of thinking is also changing our business models. Give you a example up here from Jackson Memorial, Frans mentioned another one with Dallas Children where we have this long-term strategic partnerships. Up here, 11 years, close to 3 million patients being monitored. And our customers are stepping away from the equipment only. But they say, Philips, you take care of the equipment, you take care of the solutions, of the services, of the software, of the intelligence behind it. All I want to see is standardized care delivery across my entire enterprise and a fixed fee per patient.

For us, it's great because we are partnering with leading institutions. We have stability in the revenues. We get all the services in, and we can commercialize our new innovations like the biosensor. And I'm very convinced, this is the future. We are moving away from transactional to long-term partnerships, building these trustful relationships you have also seen in the movie from (inaudible). But we are not confined to only a hospital or hospital system. More and more, our hospitals are consolidating, our customers are consolidating and they are looking for solutions to increase access of care, but also to reduce the costs without compromising on the quality of care. And the best solution for that is eICU, where you have a hub-and-spoke model for a big university hospital with all the clinical expertise and leveraging that across.

Let's have a look.

[video]

So good example of value-based health care and proven outcome in practice. As strong differentiator, we in Philips have our capabilities to really impact workflow from the hospital to the home. And as you can see on this slide, there is an ever increasing demand for that. 83% of the hospitals are asking for more telemedicine. 57% want to increase the access to ambulatory care. And treating patients at home is not just better in terms of clinical outcome but also reduces costs due to a higher mobility. This as such is not new. We know that since long. So what has changed? Why is population health picking up? Because reimbursement models are changing. Pressure on the health care systems are increasing everywhere globally, and more and more pairs change their models. And there is a bonus and malus system. The bonus is that CMS, for example, is expanding the reimbursement for a remote patient monitoring and Philips has just been named as a leader by class independent review in -- for our remote monitoring and virtually care, so more reimbursement, more money for the hospitals if they engage in that. At the same time, the bonded payments system leads to the fact that they don't get reimbursed if a patient comes back for the same cause or if a chronic patient stays long in a hospital. So the reimbursement changes are driving our business here.

What is our business exactly for Population Health Management? After we acquired Wellcentive analytics platform and, VitalHealth, a leading patient engagement platform, we have a great position in analytics and workflow optimization platform. It's integrated and it works from taking a full population, let's say of chronic heart failure patients to really understand them, navigate and activate, and that order is important because there are many apps out there engaging a patient with the caregiver, but if you don't know what patient is, if you don't know if the doctor is available, if you don't know the reimbursement behind it, it's of no value. You really have to get the analytics behind it and get this order straight. And we are. We are optimizing the patient care way, and we are also helping the customers, our hospitals to get reimbursement across the entire revenue cycle by proving the effect on a certain patient population. Remote monitoring is a cornerstone of our proposition and patient engagement is improving compliance because you get regular feedback and also motivation from the caregiver and active -- supporting a more active mobile lifestyle leading to better clinic and also financial outcome.

We have a platform, Population Health Management, data integration platform. And on that applications like care pathway, patient engagement, revenue cycle, telemedicine, all the things I've shown before are built. And it is open device-agnostic platform, so we're partnering with lots of thirdparty providers in the industry. And that platform allows us to propositions up there all the way from COPD to oncology in a disease specific way.

2018 has been a very good year for Population Health Management. We have been growing double-digit. We have large engagement with customers like NewYork-Presbyterian, Humana, who is a provider to pay at the same time. And they all look for better charging of the patients, lower costs, and leveraging of remote monitoring and home care.

2019, we are going to expand our propositions further. We are already in 9 countries with VitalHealth. We'll expand that geographically faster. And we also will bring key innovations for telemonitoring to the market. In 2020, we were breakeven. We have been investing in that business to put us in this leadership position and we will fully leverage the benefit of this open platform.

So in summary, Connected Care & Health Informatics is key for achieving the quadruple aims, and we get that feedback all the time from the customers with their changing needs and that's very motivating. We have a strong differentiating value proposition both for our clinical, but also for financial and operational outcomes, focusing on workflow optimization. And we will deliver 3% to 6% organic growth and adjusted EBITDA margin organically of 14% to 16% by 2020.

I'm very excited to lead this business. It's a great part of Philips and it shows how we are leveraging our strength across the entire health continuum. And with that, I would like to hand over to our newly appointed leader of our Personal Health business, Roy Jakobs who will start with a very cool movie about Personal Health.

[video]

Personal Health

Roy Jakobs
Good afternoon. My name is Roy Jakobs, I'm the newly appointed leader of Personal Health. Very happy to be here with you. In my 8 years with Philips, I've been building global experience by operating out of Dubai, Shanghai, and recently I moved back to Amsterdam. I started as Chief Marketing Officer, then I moved into the market leading Middle East and Turkey, overseeing health systems and Personal Health. In the last 3 years, I've been the leader of the Domestic Appliances business, taking that to growth and margin expansion. What I want to talk about today, with you, is about the path that we sleep forward for Personal Health.

With the core asset-out leading innovations, enable healthy lifestyles and support living with chronic disease, we are executing on 3 core levers for driving profitable growth; the first one being growing the core, where we still see ample opportunity through geographical expansion and increased penetration. The second, is unlocking value through direct digital engagement, leading to higher brand preference and more recurring revenues, getting consumers earlier into our franchise. The third one is extending the core, where with innovative solutions and new business models, we want to address unmet needs. By doing so, we are confident that we can deliver the targeted 5% to 7% range of organic growth, and the 17% to 19% adjusted EBITDA margin by 2020.

Let me start with setting the seen while Personal Health is playing. First and foremost we're coming from a strong position. We have a brand ranked number 43, growing its brand value at over EUR 12 billion, that is giving us a very strong connect into the market. As a innovation technology company, we keep on investing and delivering exciting innovations on the back of a great environment, IP portfolio, where year-to-date, we have again filed more than 200 patents in this domain to keep our franchise going.

Thirdly, we are leading in online having already more than 30% of our sales in the online channel whilst at the same time we still leverage that we are present in more than 100 countries worldwide with a strong local off-line retail presence as well. Building on these unique strengths, we are addressing the market. A market, where consumers are changing. Consumers are getting more interest in their health and in self management of their health. They're also looking for more premium and a better experience from brands. We see, at the same time, that in the industry our retail partners are transforming into online, but also already the next step into omnichannel because consumers are shifting their buying behavior, and retailers, but also we need to shift with them, wherein also the Direct2Consumer opportunity fits in. We have in Personal Health built strong and vibrant businesses. As on this page, you can see first Health & Wellness business, a EUR 1.5 billion business with 2 pillars and global leading positions. Oral Healthcare with the strong toothbrush franchise but also I will tell you about other assets that we have that we can leverage growth from. And motor and childcare business, which has a leading position in providing solutions in that domain.

Secondly, Sleep & Respiratory Care, which has a huge uptick in the month in the market, and we have leading position both on the respiratory side as well as the sleep side.

Thirdly, Personal Care business. A stronghold for years in Philips, de-franchise in male grooming, where we're the leading provider of male grooming solutions as well as in beauty applications. And then the fourth business, Domestic Appliances business that, of course, I am very familiar with, where we added EUR 2.3 billion sales, and we are on the continued part deliver higher growth at higher-margin.

The roadmap that I see for us to drive higher growth and deliver on the adjusted EBITDA is built on 3 pillars; the first pillar growing the core. And I will give you examples of how that will look like. The first one is, continue our track in product innovation and product line extension. I will talk about our latest shaver innovation, the premium S9000 Prestige that we just launched. I will also talk about geographical expansion, where Frans already alluded to what we're doing with OneBlade but with much more potential to come.

The second pillar that you see outlined here is how we want to unlock value through Direct2Consumer engagement. On one hand, by building on a professional recommendation that we have to develop products, but also to develop trust and enrolled into market. But multiple propositions in the Oral

Healthcare domain. Secondly, by actually building digital engagement platforms where we have a great asset such as Pregnancy+, where actually we pull to be mothers and families early into our franchise by addressing them, supporting them along their pregnancy journey. The third pillar you see here is about extending the core with solutions and business model. I will talk to a personalized health solutions called Care Orchestrator, an excellent example of what we're doing in an innovation that actually serves not only consumers, or patients in this case, but also connects to payers to providers and to clinicians.

Last, that we want to talk about is also, how new business models can help us to unlock growth. I will talk about Lumea, which is of a hair removal solution at a very high retail price, but actually by new models we can lower the threshold and get more people into this great category. Of course, this can only be delivered if we have great customer service and operational excellence, which is a prerogative for us to grow overall.

Let me go to the first example. The Philips S9000 Prestige and let me show you what this beauty is about. I hope many of you have it in your pocket or at home, but I can highly recommend that this is a great shaving experience. So if you're not into it yet, please this is the moment because this is the best ever shaver, meaning it's close to shave in the electric domain but with a great skin comfort. It has been designed over multiple years to deliver the next revolution in premiumness. It's also tapping a great opportunity in the shaver category because we look where the growth is, we see actually the premium segment growing at 18%, which is far beyond the average category growth of Personal Care. So it's not only the best shaver, it's also tapping in clear distinct need of the consumer to get a more premium offering. The second example that I wanted to talk about is about geographical expansion.

And I have 3 examples I want to share. First, OneBlade. Staying in the category of Personal Care, we saw a big need come up in the market, which the traditional electric shaver could not foresee in. It's a hybrid shaver that actually addresses the need to shave at the same time, longer hair and shorter hair. It's especially with millennials up-and-coming because they don't want to shave every day. So we came up with a new proposition, a hybrid proposition, which is electrical, still with a blade and recurring revenue with it. And it's really making an impact. As Frans shared, now we launched 3 years ago and we are on our way to the EUR 200 million. We added 10 more countries this year which we will reap the benefit from moving forward. And there are many more countries to follow. It's not only addressing a need, it's giving us recurring revenue and it's expanding the growth in Personal Care category, which also is highly profitable as you know.

Secondly, Philips Sonicare, a great asset that we have. But if you look to the globe, still so many people do not brush electronically. So we have a massive conversion opportunity but also obligation because this is in the best interest of the user. Not only of the user, we also see interest coming in from other players to actually tap into that and we'll talk to you about that later. So we are, for example, on the back of our strong professional recommendation expanding into CE with a successful inroad into that market but also in LATAM México, where actually we're using new channels for us there on the ground like farmer to really get this into the hands of our consumers.

Third, the Sleep & Respiratory business. That also is a very strong opportunity. As Frans said, this is firstly known in the western world as a challenge for people. Sleep apnea is something most people and consumers are awakening to. We need to drive to awareness. That's something that we are doing in Brazil, in India, in China, but also in other markets. Where you see growth rates, this plate here, and we believe we can take it up further. The core is, more than 80% of population does not know if they have sleep apnea, that they have a problem. Respiratory care has similar opportunities. Then the second trust, building more Direct2Consumer engagement. There we want to get closer to the consumer where in a traditional model, we have been selling more through partners. We also see auto models how we can engage.

In oral care, we want to do that together with strong professional recommendation because that has been our strong belief not only from a consumer but also from the dentist side to recommend our products. We are still the most recommended toothbrush in the world, and that is growing. On the back of that, you cannot only deliver a premium product but you can also actually get an whole dentist community helping to spread the world and actually penetrate. That is also what we're doing in other countries and not only as I said with the toothbrush, we also have an AirFloss. We also have whitening and we just launched teledentistry services, where actually our consumers can call up dentist for a service. We see that as a big new trend actually in consumer health for tailored services will be a near-future opportunity.

Let me show you a video on how we collaborate with our professional partners.

[video]

I spoke about digital engagement platforms, a new way how to reach consumers. And how to reach consumers earlier, building stronger brand preference with them, but also a natural environment to engage. What is Pregnancy+? Pregnancy+ is an app that provides you with guidance along your pregnancy. In Germany, this has a market share of 45% amongst the pregnancy population. As you can imagine, if they come back on a daily basis to get advice, it's a perfect platform to build trust but also, of course, get them into franchise with our products. So this is a platform we will roll out globally, and where we will actually naturally traditional franchise that we have in Mother & Child care also engage with consumers in a direct manner.

The third pillar is about personalized health solutions as a new source of revenue growth, and I want to share the Philips Care Orchestrator. John will talk about it later as well in the SRC room. This is a very big proposition where actually we have a care management system, not only for the patient, but also for the provider, for the payer and for the clinician. Currently, 8.5 million users globally of this platform already. We are 1.6 million exchange on daily basis, their information on USEARCH, their specific request for coaching or support and also the care side where they see what their patients are doing and how they can best manage the flow. So it's a cloud-based solution that enables us to directly engage with consumers in this area, both in sleep and respiratory, and again as a future fit area where we see ample opportunity to grow.

Last but not least is different business models. We have great innovations. We also see that the level of premiumness to our innovations is going up. It also sometimes need that the price go up. So the Lumea that you see on this page is a intense pulse light hair removal solution. It's making a great inroad and we are market leader in this segment, but it has of cost. This latest innovation cost EUR 550 retail recommended price. That might for some consumers be a threshold to overcome. As a result, we also now introduced a try-and-buy model, where actually we lower the threshold significantly because at EUR 39.95 per month you can get access to days. Actually, we see already an uptick. 25% more users that actually searched on this that want to explore. And the additional benefit is, not only once they explore they get convinced and keep on using it, secondly you actually extract even more value because as you give it into lease, you don't only stick to the recommended price. This is one model but of course, you can also do it with many other products that we have.

So that is the summary for Person Health moving forward. So where we see still ample opportunity to grow, the market is growing. We have strong assets and positions. Yes, this year is not as you would like it be, but we see great opportunity by still growing the core, where we have geographical and product line expansion opportunities by unlocking value through new models of engagement, building brand preference, getting people into franchise where we can sell but also get into recurring revenues and extending the core with new solutions like personalized health solutions as Care Orchestrator, with also new business models to address unmet needs. And by doing so we are confident that we will return by next year into our targeted growth trajectory of 5% to 7% and EBITDA bandwidth of 17% to 19% towards 2020.

Thank you so much. Let me then bridge esteemed colleague Andy, leader of Greater China Market for the presentation about Greater China.

[video]

Greater China

Andy Ho
Good afternoon. My name is Andy Ho. I'm the chief market leader of Greater China. This afternoon, I'm extremely happy to have the opportunity to talk about China growth story. As we just saw from the video, the China market is the second largest in the world in terms of the health technology actually with significant growth potential in terms of health-related products and other solutions. Driven maybe mainly by the aging problem in China, as the rise of what we call the upper middle class of consumer in China. They always like to manage their own health. I think we have created good market momentum in China. The combination of the business momentum and also market leadership in China, I believe, basically is the result of our sustained investment into this particular country. In actual fact today, we already have a penetration into more than 600 cities in China. This is also backed up by a very strong alignment between the health continuum story that Frans talked about, and also the China, Healthy

China strategy 2030. Basically, we have a strategy to execute in China, and I believe that our strategy has been working because we have produced for a company a double-digit order in the growth over the last two years and also high single-digit sales growth in year 2017.

Now, we are about to create a EUR 3 million business for Philips over the near future. But set aside the financial performance for a moment, I also believe that we are on the right track to transform ourselves to be a health technology (inaudible) leader in China by partnering with the top local ecosystem partners. They're all endorsed by the Chinese government. So that would be my key take away. Let me continue with the China growth story. The China has very attractive growth for potential with tremendous health demand. I talk about the Healthy China 2030 national strategy. When I look at this strategy, basically the Chinese government will like to kind of extend the Chinese lifespan from average 75 years old to 79 years old. But not only that, the Chinese government will like to basically increase the quality of life for China and then by tackling the top chronic disease in the best possible way. That is a very important task. Now let me kind of frame the (inaudible) basically what I see the China economic growth. I just came back from Shanghai. I attended the what they call the CIIE, the China International Import Forum. Basically, President Xi talks about his perspective of the China growth. This year, the economic growth is probably coming down from around 6.8%, 6.9% to about 6.5% while he publicly declared that he is so happy about this 6.5% growth, he declared that it's within the expectation and also plan by the Chinese government. I'm pretty sure that all of you have heard about the recent MOH, Ministry of Health, announcement about what we call, the new medical device license plan in China. They talk about let's say -- issuing 10,000 license over the next 3 years. Basically, I believe, that maybe not 100% will be materialized, but that actually represent very positive growth or very positive market opportunities for a company like Philips.

Let me kind of describe how we look at the Personal Health dynamics here. I probably would not complete the story if we don't talk about the e-commerce market dynamics. Basically China today has already over 500 million online shoppers, okay. We're now going to be refreshing on what happened to the [Turbo 11], which is coming up very soon. Many years ago, year 2009, one day online sales was around EUR 3 million -- sorry let me take it back, it was around EUR 6 million. After eight years, the same date of 11/2017, this number has grown from EUR 6 million to EUR 21 billion. I don't know how many times that is. To me, that also represents tremendous opportunity for any players in China. Now opportunity also represent a competition into this market. Last year, there were over 400 new product categories entering into China. And when I look at, roughly speaking, there are also more than 4,000 product launches in China as well. Like given such competition, Philips, in China, has still firmly be in a market-leading position in China by partnering with the top e-commerce online players in China, namely, Jingdong or JD by AliBaba.

Now let me kind of describe a little bit what is happening in the professional health care space. China actually is a country that has a lots of people having health problem. Basically, a lot to do with chronic disease, cardiovascular disease and also heart-related disease. As you see from the chart, almost 1/4 of the Chinese adult has high blood pressure in China, not to mention millions, you see from the chart, 4.3 million new cancer incidents every single year in China. But then when we compare the health expenditure between China and also U.S., we still see a major, major gap. Basically, the spending in China is only 1/3 of the spending in U.S. That actually represent also tremendous opportunity for a company like Philips. Philips in China has been helping China to improve the quantity and quality of their primary care through our technology and services to deliver to your hospital or what we call the country level hospital. We have also increased our strategic investment into the fast growth private segment. Our investment has basically yielded us a three-digit growth in 2017. 7% market share gain and we have overtaken many top players in the market and we have become the #2 player in the fast growing private segment.

Now let me, kind of, switch gear to talk about our strong local presence in China. Everybody knows Philips is a company of longer than 100 years. In fact, Philips entered China back in 1920. And also, we formed our first joint venture on 1985. We talk about local government engagement that has been part of our core strategy. Philips in China take localization seriously. In fact, I would describe it as we were role modeling localization on local-for-local in China. 6 industry footprint in China, 40% to support domestic demand and also 40% to develop local-for-local technology for China as well. This localization strategy has been well received and also well welcomed by the Chinese government. In fact, I believe that, that has helped us to relieve part of the pressure from trade war between U.S. and also China. The other commitment that we have really make for ourselves in China, is to be locally relevant by also building a lot of local ecosystem partnership. But I mentioned already our partnership with the top e-commerce partners, JD or Tmall. We also partnered with the -- a quality government medical association in China. Some good example would include CCA, China Cardiology Association, another example would include SPPC, Stroke Prevention Project Committee. We also partnered with the China Healthcare Big Data, I call it, national teams, digital China health that my colleague mentioned and also CEC, China Electronics Corporation. Of course, there are also numerous cocreate projects with the top-notch hospital. My colleague mentioned Shanghai Hospital, which is the top hospital certified being the #1 advanced general stroke center facility in China as well. We also partnered with PKU, basically Beijing University, #1 hospital in a cardiovascular project as well. But Phillips also has been named as one of the top employers who can attract the top 10. In actual fact, when I look at the Credit China management team at this moment, more than 95% of the management team is coming from local Chinese. That signifies our local commitment and also strong local capability.

Now let me spend a moment to talk about our strong leadership position, also driving value-creation. I already talk about double-digit order intake growth in the last two years and also high single-digit sales growth in year 2017. And in actual fact, as a result of our strong local relevance and also technology partnership, 2/3 of our sales today is basically generated by, I call it, market-leading categories. By saying market-leading, it means either #1 or #2. We have demonstrated the fact that we have the capability to generate the profitability for our company and become the second most-profitable market in the world. We also have made a very conscious decision to take the profitability to reinvest into our business. One example would be, with the self-optimization to create a organization called integrated solution center. That center is for us to drive the clinical and workflow solution development with also services capability as well. This organization has help us to speed up the transformation in the health technology journey.

Our personal health business in China continued leadership and also growth. Now I talk about the partnership. In fact, our partnership with JD and also Tmall have taken our personal health business in China to be 70% online, okay? So -- but people may speculate that as a gap to the online business. So our next episode is we are to implement what Jack Ma referred to as new retail, okay? And when we look at what new retail really missed, basically, is the implementation of the omnichannel and online-offline strategy. Our e-commerce partner, they also have very significant off-line operation in China. Both of them are, in fact, also what we call the internet giant in China, we are partnering with them and also leverage their Big Data engine to really analyze the consumer buying behavior, so that that we can really get into this consumer decision journey, so that we can convert the online traffic to real consumer purchase as well. Now the other thing I would like to talk about is Philips in China is also a category creator. You saw the previous story on the OHC, Oral Health Care. The China story is that a couple of years ago, we created new category called power toothbrush. We turn the manual user into, I call it power automatic user. So in about 5 years, we are able to grow this business from EUR25 million by 10x. The next story I would like to talk about, we are also pioneering the connector slip solution in China. At this moment, I would like to play a video, just to show how we are doing on that.

[video]

Yes, in China, there are around 60 million to 65 million OSA patients or potential OSA patients. Many of those are diagnosed and then the next challenge, in fact, how can we comfort the large landscape of China? One example of it I would like to use is that in the province called [Ling-sa] Phillips is already connecting 50 level 1 and level 2 hospital to a sleep crowd, we have a hole bunch of expert to helping our patient. In fact, what we're trying to do is to enable the patient to be diagnosed earlier so that they can be treated earlier as well.

Now let me kind of flip to, sorry -- I will later stay a moment and talk about this professional healthcare space. We have been extending our lead -- market leadership by, of course, our technology leadership and also our customer-centric or go-to-market approach and also, of course, our investment into the integrated solution in China. I would like to talk a little bit about our market share, given the local competition in China. We have been gaining share in the last two years, CT reaching 2.5% market share, MRI reaching 2.4% market share, image cardiotherapy reaching 4.7% market share in China. I think we have a good story to tell. Not only that, we are able to create strategic long-term partnership. In fact, you'll see one customer is called Health 100. We have signed a strategic partnership with this particular customer who is the largest health examination center chain in China. Today, they are doing around EUR60 million to EUR50 million business with Phillips every single year. The other strategic partnership I would like to talk about is the one in the middle called Ruici. In about 3 years ago -- sorry, 3 months ago, we signed a strategic partnership with this particular customer. They are committing over USD 80 million to us over the next 3 years. Not only do we partner with commercial organization in China, as I mentioned, we also drive strategic partnership with the other government-backed medical association in China, one example, as you see in the chart, is CCA, China Cardiology Association. We just signed a strategic partnership with CCA and also ACC, American College of Cardiology. ACC actually is running a quality control system in U.S., which will provide benchmarking report to the member cardiovascular hospital. So ACC is basically helping to raise the entire quality standard in U.S.. So we are partnering with CCA to replicate exact same system on to China. This kind of technology partnership, I would believe that, that is a reconfirmation of Phillips' capability and also contribution to China to elevate the standard of the healthcare delivery in China.

So my last point I would like to make for today is our effort to scale up the integrated solution in China. I also believe that it really doesn't take rocket science for people to believe the world has shift. Even though there is still a gap to U.S. -- exactly what U.S. is doing in terms of integrated solution strategy, but then there are mainly customer in China who are shifting from buying foreign products only to an integrated solution. By integrated solution I mean basically is a combination of medical equipment, software, smart devices and services, all combined together and also create a unique value proposition to our customer. Now as I mentioned, we set up a organization in China called integrated solution center. Basically, we count on it to take global technology every single day, and also localize for China. And also, of course, we need to develop our local services delivery capability as well. And also we are aligning our integrated solution strategy with the government agenda. In the last 2 years, the Chinese Government is trying to promote the concept of stroke center and other chest pain center. In fact, there is government directive for the country to set up more than 2,000 such centers. So that's why we make a decision to partner with Shanghai Hospital, which is the most advanced stroke center in China. We are trying to improve the services to the stroke patient. Now to every single stroke patient, when the incident occurs, the most important thing is that how we can shorten what we call the door-to-needle time. The door-to-needle time is being measured by the time difference between the time the patient arrive at the hospital to the time the patient be treated. But the national or even the international guidance is that the patient have to be treated within 60 minutes. If it's longer than 60 minutes, some fair consequence may happen. So by partnering with Shanghai Hospital, not only are we able to kind of integrate the advanced modality technology with the latest AI-enabled neurology technology provide the best patient outcome but also we're able to kind of collect and manage data for all the entire clinical pathway so that we are able to identify where the bottleneck is so that we can shorten the time from -- in the case of Shanghai Hospital, from more than 2 hours before to, today average, 20 minutes. So I think Phillips is making contribution. Phillips is adding value to the entire medical system. Phillips actually save life.

Okay, let me kind of summarize today's take away. Tremendous opportunities in China, tremendous customer demand. We are deeply rooted in China. Our strategy, perfectly aligned with what the government agenda is and basically, eventually, on a growth momentum to create a EUR 3 billion business. And last but not least, we're on the right track to transform ourselves to be health technology integrated solution leader in China. Thank you.

QUESTIONS AND ANSWERS

Pim Preesman

Thank you. Thank you very much, Andy. And I would like to ask the other presenter to come to the stage for our next Q&A. we'll get couple of tables here as well. Thank you.

Frans van Houten
So time for Q&A again. And we gave you a lot of information and okay, we're going to try and manage. Maybe we'll start at this corner.

Michael Klaus Jungling *Morgan Stanley*
Good afternoon. It's Michael Jungling from Morgan Stanley. I have 2 questions. Both questions are for Roy on Personal Health. The first question is on, to achieve 5% to 7% organic sales growth per year, how often do you think you have to create new categories such as the single blade or an air fryer or a sort of air cleaning device in China? And the second question is, how much of the deceleration in organic sales growth in 2018 is driven by home-made problems versus the market decelerating in some categories?

Frans van Houten
Go Ahead, Roy.

Roy Jakobs
Okay. So first of all.

Frans van Houten
You're put on the spot. Go for it

Roy Jakobs
No. Sure. I was -- so on the first question. So I don't -- so for me, if you think about the range, so market growth in domains we play on average is around the 5%.

So if we do that and exploit our core, we should be trending around to 5%. You need, also, new innovations to take you beyond and that's what we're doing. So we have, as Frans, laid out an innovation approach in which we invest behind the core and we invest, a part, in what we call game changers or new development, new categories. So that will be part of what we will continue to invest behind. So for me the core should be able to deliver within the bandwidth, then to go beyond, it is fueled and supported by new innovations and new categories that you can exploit. And at the same time, we are also, even in -- if you talk about the -- and oral healthcare for example, where it's not reinventing a new category but like the air fryer, it's really penetration potential that we have still massively. If you think about only 20% really using it then we have -- we don't need to invent a new toothbrush to get them to electronic toothbrushing. So I think that is part of our innovation strategy, that said, that I would foresee. And I see actually ample opportunity in core to revive. Going back to your second question on what I see as, kind of, what is cost internal, or maybe external dynamic. I think 2018 has been a year of growth, where we see indeed somewhere we started the year, suddenly just roll up in air and we are all living it. That was expected because this, kind of, is something very hard to predict, it's like weather. So that's something that is a market headwind. But we also had headwinds, like Frans alluded to, like supply that actually we can and will fix. And that's also why I have the confidence that we can and will get back to that bandwidth next year because we have the visibility of part of that what we can fix ourselves, but also an air drop that we had in first half -- of first quarter can happen again. But we, overall, believe that the market is strong also next year.

Frans van Houten

So just 4 weeks on the job. He's going to fix it. All right. Behind you, yes?

Unidentified

Can I ask on the Diagnosis & Treatment business? To the nonspecialist, can you just help me understand a little bit the degree of margin difference between your business and at least at the targeted margin of the Siemens equivalent imaging business? Last year, you were 10% plus margin, this year, 11% plus. Target of 14% to 16%, their target is 20% to 22%. Just help me understand, what -- why the difference?

Robert A. Cascella

Why.

Unidentified

Why your margin is half theirs?

Robert A. Cascella

Yes. it's a great question. So I think some of it has to do with scale. So bigger business. I also think that they're -- It's no secret, they're really better market position than we, in certain parts of the world, and as a result of that, I think, command some better pricing. I think that if we attribute it to both scale and that market positioning, I think it represents an opportunity for us more than anything else. So, sure, we're doing a bunch of stuff from productivity perspective. We were a little bit behind in all of that because of some of the FDA woes that we had several years ago. And so much work is going into fixing the P&L from a cost structure perspective but also from a go-to-market perspective, it's about growing this business and growing it more profitably. So I think it's a combination of those 2 things.

Frans van Houten

Well, maybe to add to that, so given the scale issue, the scale difference, we will not completely close the gap, right? So we -- if you do it by business, Ultrasound's better than our competitor in profitability. IGT, actually the prospectus that came out from our competitor was interesting because we feel we are larger but we have a profit gap. Now partly, that is investments but partly, it's also performance improvement that we need to close and we will close that. And then on the Diagnostic Imaging, given that we are smaller, we cannot completely close the gap. But getting to the mid -- to the double-digit profitability is a first good step and from there on, we take it further. Over there, we'll take both of you one after the other.

Wim Gille *ABN*

Yes, I got a question a -- Wim Gille with ABN. I got a question on CCHI. Third quarter was bit of set back both in the top line and bottom line. You already kind of alluded on the bottom line kind of being a temporary issue, which might be fixed now with, kind of, political uncertainty or whatever. But also there's a shift going on to monitoring as a service. And to what extent does that impact your top line? And will it kind of prohibit you from growing towards the 3% to 7%?

Carla Kriwet
Monitoring as a service, first of all, differentiates us. And lots of the order intake, good order intake growth we are seeing is being attributed to the advanced solutions we have versus competition. What is true that in these business models, where you see a shift from CapEx to OpEx, revenue is delayed, right? It comes with the insulation over the 10-year period. So you see a build up of the revenue but you have short-term gap. And that is a shift we are managing right now and you'll see improved performance on the orders revenues will follow. But monitoring as a solution is a good model for us. Also because it includes services and consumables, very profitable, but there is a delay in terms of revenue conversion or order; conversion to revenue.

Julien Dormois ***Exane BNP Paribas***
Yes, Julien Dormios from Exane. Again a question on CCHI, which you place great emphasis on the long-term partnerships that you signed with hospitals and have signed like I think 300 or 400 for the past 3 years. Just curious to know how much -- how you book revenues? Is it on a per patient basis? On -- what's the metric that allows you to book revenues? And does that increase the level of revenues you make with those hospitals compared to what you would do just on the matching side or the equipment and service side of the story? And as a follow up, in terms of reaccelerating growth in the business, are you still looking for the reapproval or the resumption of shipments of defibrillators in the U.S.? And would that mean reacceleration or a contribution to 2019 revenues?

Carla Kriwet
Okay. Two different businesses. Let's start with monitoring, monitoring as a service. Yes, a, we have a bigger business because as I said, we're including all the innovation in it. So we are getting a bigger share of wallet from that customer than pure monitoring tender, certainly. And there is a shift in timing, as I mentioned. The payment models vary. Right now the vast majority is still payment for the integrated systems solution, right? Including equipment services over the time period. It is shifting if you do monitoring as a service, it's per patient, actually. And the future and we see that in remote monitoring, is payer outcome, but the majority is still in the more integrated system equipment side but it is shifting. And we have the solutions to actually prove that the outcome will come because of our -- really positioning across the health continuum and the way we develop these innovations, putting these outcome measurements in from the very beginning at the R&D. The other question was related to the ECL business in therapeutic care. And yes, we are planning to resume shipment and picking up that business again.

Frans van Houten
Okay, over here. Veronica?

Veronika Dubajova ***Goldman Sachs***

Okay. I have two questions. First one is on Personal Health, for Roy. Just wondering if you can discuss the degree of confidence and visibility you have on end-market demand because it -- we had a negative surprise in the second quarter with China. It sounds like maybe the fourth quarter may be not as strong as you had originally expected even 3 weeks ago. And so I'd like to understand, kind of, how confident you are in that end-market dynamic? And how much forward can you see in terms of the demand path? And I guess, what has changed versus a month ago for you? And why you are maybe a little bit more cautious? And my second question is from Andy on China, on the competitive environment on the medical side on the D&T site in particular, now that we are in a tariff war, are you seeing any changes in how you're being treated as an MNC versus some of the local players

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Frans van Houten

Roy?

Roy Jakobs

Yes. So maybe starting from the -- so I think, we probably need to get accustomed to that there is bit more volatility in the retail markets, we're leaving now Q4, I said. You have 11/11 which is a big event and it's hard to predict exactly how that goes. I think that's a combination that kicks in when you look at, kind of, how the year trends. I think that we are weighing in looking forward to the fundamentals of the business and that's what I said. We see the fundamentals unchanged, where we have strong confidence in that 5 percentage growth range of the market where we have been outgrowing the market and growing market share as well. So albeit it can change a bit over the quarters, it's not as predictable when it exactly will hit because consumers are just shifting, right? We are first -- we're going to 11/11 maybe then it's 12/12 because there's an order segment and it's Christmas or Chinese New Year. So I think the traditional pattern that we had where it was quite nicely phrased around the major events that is shifting more. And that can cause a bit of more fluctuations over the year where the overall demand that we see has not fundamentally changed. If we take and see our respiratory care business, massive penetration potential that I think, regardless even of this, it's different dynamic and that will not be kind of influenced by these kind of events. So you also have, in the portfolio, different heartbeat. So overall, we stick to that outlook which we are confident in

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Frans van Houten

Andy?

Andy Ho ***Royal Philips - EVP of Greater China Market***

Let me try to answer that question, which is a good question. I believe that a local competition is always there. Given the nature of the enterprises, I believe that they always have a space in China. For Philips in China, I believe that we also have to stay in course, execute our strategy, in fact, the growth momentum that we have created in the last 2, 3 years, case in point, in terms of executing capability and also our technology leaders in China. But I also would like to also mention a couple of other points, right? Number one, every time we have a meeting with the Chinese Government officials, we keep hearing their emphasis in terms of having a fair trading platform for the country. So on one hand, I believe that Philips as an MNC, will be and should be fairly treated, on the other hand, probably this is politically correct. Basically, we also we experience some kind of inconsistency in terms of execution of the policy across different locations and also across different timing. But the positive sign is that, there are a couple of new policy or new situation coming up in the last 8 or 6 months, Right? Some example would include, the government is trying to upgrade or move, let's say, the value chain for the hospital, meaning asking the level 1 to become level 2, asking the level 2 to become level 3, by increasing the, kind of, infrastructure that they have. So that signifies, I would believe, positive demand. And secondly, in the context of your question regarding MNC, as I mentioned, I just came back from interesting forum called the First China International Import Expo. That was a pretty high profile event, right? Presidency, basically, personally present, with more than 20, 30 country leaders and then the sole purpose is to promote import product and you'd have read from the newspaper that people are trying to signifying in terms of the volume that they have signed to import product. So many of the China hospitals so feel proud of the signing warrant that they have. So I remain positive about the market demand.

Frans van Houten
All right. Thank you. Patrick?

Patrick Wood *BAML*
I have two questions please. Maybe firstly for Rob on the, sort of, big iron old-school, sort of imaging market. Obviously, we have seen globally, quite an acceleration that recently, if you add all the players together, I'm just curious, how much of you think -- how much do you think that's from a single market like the U.S.? Or how much broad-based that's -- that performance has been? And how sustainable it is? And then maybe for Roy on the second one. You obviously got background -- you ran the domestic appliances business but I noticed you didn't really talk about it the presentation. Is that a function of lack of growth opportunities? Or is that because it's quite a difficult segment to talk about given all the different pieces that you operate within that? That'd be helpful.

Robert A. Cascella
Yes. So relative to markets like the U.S. and their stability in terms of buying patterns and how they're being impacted by external dynamics. Obviously, there's a lot of headwinds as a result of the things that are happening with the value-based care and concerns over that. I think that what we're seeing is that obviously there are equipment cycles in capital equipment and that we are witnessing that those equipment cycles and times to turnover equipment are lengthening. So consequently, what's happening for us is that we're turning over the equipment at a faster rate as a result of offering up a value proposition that we think resonates with the customer. So all of the things that we said earlier, relative to cutting costs, saving time, saving efficiencies and improving outcomes are reasons that are motivating customers to turn over equipment at a faster rate than what they normally would as a result of some of the things that they're facing from an economics perspective.

Frans van Houten
Roy?

Roy Jakobs

Yes. On Domestic Appliances. No, of course happy to talk about Domestic Appliances. Domestic Appliances is and stays as a consistent part of growth both in terms of CG and profitability. As a truly global play, so therefore, in that sense, it is quite diverse, both in the categories that we have, 5 categories were underneath, as well as serving 100 countries. So it is a quite granular development also to monitor but I can reassure you that actually it has been staying on its path and also we projected to move forward in it's steady improvement trajectory. So I think that's maybe why I've less touched upon it but good prospects.

Julien Dormois ***Exane BNP Paribas***

Yes. And question for Abhijit and question for Rob. In the earlier representation, you outlined, obviously, the manufacturing footprint reduction, your IT system reduction and you've upgraded your free cash flow expectations. One thing you haven't really elaborated on is the CapEx outlook for the business over the longer term. I would've thought, as well as working capital improvement in cash conversion, that's a big part or should be a big driver improvement in your free cash flow. Maybe you can provide a little bit of a road map around that? And then Rob, on D&T, there's a few different questions here. But in Ultrasound, can you maybe just elaborate on the type you've announced with Hologic and how that you hope it -- you talked about OB GYN, how you think that will help expand that business for you? In IGT, you've talked a lot about teleradiology but you haven't talked about this year about robotics within the Cath Lab. And you have a strategic stake in a robotics company who made a presentation of a remote PCI at TCT this year. So I was wondering if whether you could talk about that? And then just lastly on Spectranetics, you've talked about the benefit of being there everyday in the Cath Lab for system sales, perhaps, but we haven't really heard about the uplift from owning the likes of Stellarex or lead management or, indeed, laser atherectomy devices. Can you just talk about that, please?

Abhijit Bhattacharya

Let me take the CapEx part. So our CapEx is around EUR 800,000 per year -- sorry, EUR 800 million. It's not big for a company of our size and we keep it roughly flat going forward. So there's not going to be an increase in the CapEx neither a decrease. So therefore, that'll not be the big swing factor for the cash flow to go up. What will happen is, largely the improvement in earnings will generate the higher cash flow.

Frans van Houten

Rob?

Robert A. Cascella

Sure. So I think, with respect to first one about the relationship with Hologic in breast imaging, primarily. The tomo relationship is one where we partnered with them to have a mammography product that would be available when we had multimodality transactions. And we needed a breast care product. So they were very open to that. We certainly see it as a positive relationship for us. But I don't think it's going to be -- and Hologic recognizes it as well, not really material at this point.

With respect to Ultrasound, sure, we would love to talk to them more in depth about Ultrasound as well.

But for now, we're exercising the relationship that we have and we're also in ongoing discussions with them. On robotics, I don't think we could disagree with you. And you're going to meet Bert and [Azoom] for IGT later today and we can bring it up again. But we are always looking at different disease categories where robotics along with imaging will be a great combination. And whether it is in spine or whether it's in different gynecologic applications or neurologic applications in -- on the heart side as well. But right now, what we're doing is exploring where we would get the best bang for our buck from a robotics partner or a robotics company. And it's much more about the disease category and the market that it represents. On the last question -- what was the last question again, remind me?

I'm sorry?

On Spectranetics, I think it's a brand new company to us. Clearly the margin dynamics over device business are going to be very attractive for us over time. But it's effectively an annuity business, so we're growing it but I think the overall margin impact of the significance of it is going to take some time to really see in our margin returns. But absolutely, things like a Volcano and Spectranetics change the margin dynamics dramatically of our P&L.

Frans van Houten
Okay. We take the last question there in the middle.

Daniel Wendorff *Commerzbank*
I'm Daniel Wendorff, Commerzbank. Thanks. Two questions on the D&T division, please. First one, when you think of your margin target for 2020, what does that imply for the margin and imaging? And the second question is around the IntelliSpace Platform. Is that an open platform? Do customers get this automatically when they buy an MR for you, for example? Or is it that a separately run business entity?

Robert A. Cascella
Yes. Sure. Sure. And the first question about margin, I was just talking to Abhijit when you were asking, I am sorry, can you repeat that -- the first one?

Daniel Wendorff *Commerzbank*
Yes. So the question was, when you think of your D&T margin goal for 2020, what does that imply for your imaging margin in 2020?

Robert A. Cascella
Sure. I mean we think imaging benefits by several things, not the least of which being that we're growing, and as a result of that we're certainly leveraging fixed cost and expenses, right? In addition to that, all the productivity things that you've heard Abhijit talk about earlier with factory consolidations are all having a very specific benefit on our margin returns as a result of lowering our footprint and lowering our fixed costs structure. With respect to I am...

Frans van Houten

I think you mean specifically to DI right?

Daniel Wendorff ***Commerzbank***
Yes, I mean specifically DI.

Abhijit Bhattacharya
What we had said last year was a 200 bps improvement every year moving to double-digit. That remains, basically, the same guidance.

Robert A. Cascella
The -- and with IntelliSpace and everything that we're doing around teleradiology and the like, we offer a complete enterprise solution. But if somebody wants just visualization from us in IntelliSpace, we can provide that as well. So when we sell an MR, we bundle it with visualization. We sell CT, we do the same and there are applications that then can be used by the customer that would be specific to that modality. But if we can do a variety of different configurations in order to either satisfy the enterprise problem or requirement or that of just the specific modality and radiology.

Frans van Houten
All right. I realize that there must be at least another 20 questions here in the audience. So I'll discuss with team how we will deal with that. Thank you for that strong interest. We will now have a break, there will be zooms that will give you other opportunities to ask questions. And then all of the Philips people will be around the entire evening. So I hope you will find the people that you want to talk to. And so if we can not do it all plenary, apologies for that. But we also would like to stick to the schedule.

Pim Preesman
Yes. Thank you, Frans. And with this, we also end our live webcast. On behalf of the full team, thank you for joining online. We will put all the presentations, this afternoon, online, shortly because we will all record them. And for the people in the room here, we will have another 15 minute break in the same place where the lunch was. And afterwards, there's a number on each of your badges. So maybe you question yourself why there is a number on my badge? But there will be for 4 groups that we will split ourselves in.

Frans van Houten
The other badge, right?

Pim Preesman ***Royal Philips - Head of IR***
The other badge. It's the name badge. Correct.

Thank you for that.

Very good. Thank you very much.