

PHILIPS

Philips – Q1 2019

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Introduction

Pim Preesman

Head of Investor Relations, Royal Philips NV

Thank you, and good morning, ladies and gentlemen. Welcome to Philips' first quarter 2019 results conference call. I'm here with our CEO, Frans van Houten; and our CFO, Abhijit Bhattacharya. On today's call, Frans will take you through our strategic and financial highlights for the period. Abhijit will then provide more detail on financial performance and market dynamics. After that, we will take your questions.

Our press release and other related information slide deck were published at 7 A.M. CET this morning. Both documents are available on our Investor Relations website. A full transcript of this conference call will be made available by end of today on our website.

Finally, as mentioned in the press release, adjusted EBITA is defined as income from operations excluding amortization of acquired intangible assets, impairment of goodwill, other intangible assets, restructuring charges, acquisition-related costs and other significant items. Comparable growth for sales and orders are adjusted for currency and portfolio changes.

With that, I would like to hand over to Frans.

Overview

Frans van Houten

CEO, Royal Philips NV

Yes, thanks, Pim, and thank you all for joining us on the phone today.

We had a reasonable start to the year as we delivered 2% comparable sales and order intake growth further building on a strong growth and 2018. I'm pleased that we regained momentum in our Personal Health businesses as comparable sales grew by 5% in the first quarter. It is a good improvement compared to 2018 performance.

The Oral Healthcare business delivered high-teens comparable sales growth driven by our innovative solutions like the Sonicare ProtectiveClean power toothbrush and improved brush head supplies. Notably, we saw double-digit growth in both mature and growth geographies.

I'm also pleased with a double-digit comparable sales and order intake growth for the group in the growth geographies. As you are aware, we achieved double-digit order intake growth during the first quarter of 2018 which resulted in a tough comparable.

Our Diagnosis & Treatment businesses delivered 2% comparable sales growth and our Connected Care businesses a 1% comparable sales decline, mainly as a result of the Monitoring & Analytics business where the

large orders for 2018 came only in the fourth quarter. Based on these orders, we do expect growth to improve in the coming quarters.

Let me expand on our strategic journey to leadership and health technology. Our value creation story is built over 3 key levers of driving growth in our core business, innovating to solutions and driving operational excellence.

As a way to create value in our core businesses, we continue to drive market share through deeper more comprehensive customer partnerships and pursuing growth by increasing geographic coverage and market penetration.

During the first quarter, we entered into multiple new agreements in the United States, Europe and Asia. We signed our first long-term strategic partnership agreement in Vietnam to provide a turnkey hospital solution to the newly built Hong Duc General Hospital II, comprising the latest medical imaging and healthcare IT solutions as well as design, consulting and financing services.

As healthcare continues to transform from a volume- to a value-based approach and the amount of data available for each clinical decision is growing, our customers are seeking seamless integrated solutions to enable more precise Diagnosis & Treatment as well as optimized patient care pathways inside and outside the hospital.

We continued to bring new solutions to the market in the areas of Diagnosis & Treatment, Connected Care and Personal Health. Diagnosis & Treatment unites the businesses focused on precision diagnosis and treatment selection and planning, and the businesses related to image guided, minimally invasive treatments.

We continue to roll out adaptive intelligence enabled applications combined with successful innovations in our systems platforms. On the platform side, we expanded our Diagnostic Imaging portfolio with the new Incisive CT platform, integrating innovations in imaging, workflow and lifecycle management. We also received 510(k) clearance from the FDA to market our newest premium digital radiography system to digital diagnosed C90 in the United States. The C90 offers healthcare organizations a flexible and customizable imaging solution that helps to improve workflow and clinical outcomes.

We launched our new premium ultrasound system, EPIQ Elite which combines the latest advantage in transducer innovation, enhanced performance and is tailored to specific clinical segments such as General Imaging and Obstetrics & Gynecology.

On the informatics side, we launched the IntelliSpace Portal 11, the latest release of our comprehensive advanced visualization and quantification software. The new version further extends the clinical innovation of the portal with enhancements to improve workflow efficiencies, bridging superior data sharing between systems within the hospital network to address the security and privacy needs of customers globally. To complement this, we signed an agreement to acquire the Carestream Health's Healthcare Information Systems business, adding a cloud-based enterprise imaging informatics platform and complementary geographic footprint to our portfolio.

In addition, Philips expanded its radiology solutions portfolio with new teleradiology services, building on the acquisition of Direct Radiology's teleradiology platform.

We also reinforced our leadership in Image-Guided Therapy with the successful launch of the Azurion with flex arm in January, as a new extension of the proven Azurion Image-Guided Therapy platform, the Flex Arm includes innovations for optimal visualization across the whole patient in 2D and 3D dimensions to simplify and enhance a broad range of procedures.

We expanded our offering in mobile Image-Guided Therapy systems for conventional operating rooms with the launch of the Zenition, our new mobile C-arm imaging platform. Zenition is easy to move between operating rooms and allows hospitals to maximize the OR performance, enhance clinical capabilities and improve staff experience.

Image-Guided Therapy devices delivered double-digit growth, driven by all major diagnostic and therapeutic catheter product families. The continued strong performance is supported by the tight integration with our Azurion platform and by a growing body of clinical evidence such as the recent positive results of the DEFINE PCI study to assess the potential of iFR which is our next generation physiologic guidance technology for the treatment of coronary artery disease.

I also would like to provide an update on our Stellarex drug-coated balloon solution, which along with our other therapy characters such as the Turbo Power and Turbo Elite laser atherectomy catheters and the Angiosculpt scoring balloon is part of the peripheral therapy segment within our Image-Guided Therapy devices business.

On March the 15th, the FDA released an update on the treatment of peripheral arterial disease with the Paclitaxel-Coated balloons and Drug-Eluting Stents. The FDA conducted a preliminary analysis of long-term follow-up data, up to 5 years in a number of studies which identified signals of increased long-term mortality. There is no 5-year follow-up data yet from the pivotal premarket randomized clinical trial for our Stellarex DCB. The Stellarex trial was not one of the three trials specifically referenced by the FDA in its update. But very important for you to know at the three years follow-up, data from the Stellarex trials do not show any such signal of increased long-term mortality.

Stellarex is unlike any other drug-coated balloon in the industry for the treatment of peripheral artery disease. The Stellarex drug-coated balloon features the EnduraCoat technology which is a unique coating consisting of the polyethylene glycol as the base material, which is the so-called excipient at a combination of amorphous and crystalline paclitaxel particles dispersed in it. The EnduraCoat technology provides efficient drug transfer, effective drug residency with high coating durability and minimal particulate loss. And therefore, enables a low therapeutic drug dose. It's perhaps all a bit technical, but I value explaining this.

Our dedicated clinical studies with three-year follow-up data demonstrate the efficacy and safety of Stellarex in restoring and maintaining blood flow to the arteries in the legs of patients with peripheral artery disease. Stellarex delivers top-tier outcomes with the lowest therapeutic drug dose in common to complex patients and has a strong safety profile.

Our Connected Care businesses focus on patient care solutions, advanced analytics and patient and workflow optimization inside and outside the hospital. And we aim to unlock synergies from integrating and optimizing patient care pathways and leveraging provider payer patient business models.

To advance patient care in the hospital, we launched the IntelliSpace Epidemiology Solution that optimizes the detection of healthcare associated infections in the hospital. Philips IntelliSpace Epidemiology is the only decision-support solution in the United States that combines clinical informatics and genomic sequencing information from pathogenic bacteria aiming to assist infection prevention and control teams in identifying infection transmission. A recent study shows an 87% reduction in time when identifying infection transmissions using the Philips IntelliSpace Epidemiology Solution.

As a leader in home sleep care, we expanded the range of successful patient-centric CPAP mask designs with the launch of the DreamWisp, a first-of-its kind over-the-nose nasal mask that allows patients with sleep apnea to sleep in any position they want. With its robust nasal cushion and top-of-the-head tube design, the DreamWisp delivered a new level of comfort and freedom of movement, providing patients with the therapy option that best suits their needs.

We are also expanding our offering for pre-hospital settings. The Philips' Tempus ALS, a unique modular monitor/defibrillator is pending FDA 510k approval. It's a flexible deployment and enables emergency medical providers to improve their workflow and positively impacts same patient outcomes with wider clinical operational and financial advantages to meet the evolving needs of modern emergency medical services.

Our Personal Health businesses focus on healthy living and preventative care. Pioneering new business models, we teamed up with the largest U.S. dental health insurance provider, Delta Dental, aiming at developing clinically validated solutions designed to drive positive behavior change and support people's long-term oral health.

We also introduced our new S7000 shaver series globally. The shaver is designed to address skin irritation and discomfort from shaving. This is our first connected shaver and it comes with a personalized solution for sensitive skin. This S7000 has received highly positive user reviews.

Moving now to the third key driver of strategic -- of our strategic agenda namely to improve margins through customer and operational excellence. Our self-help initiatives to drive over EUR 1.8 billion in savings for the period 2017 to 2020 are well on track as we delivered EUR 113 million savings during the first quarter. The main three programs, i.e. procurement savings, manufacturing productivity and overhead cost reduction all delivered, on their milestones.

As progress update on regulatory matters, we continue to make progress towards fulfilling our obligations under the Consent Decree. The FDA recently reverted back to us with follow-up requests that we are acting on over the coming months. We continue to expect our performance momentum to improve over the course of the year. Based on the demand of our innovative products and solutions to improve people's health and enhance care provider productivity supported by our order book. We reaffirm therefore our overall targets of 4% to 6% comparable sales growth and an adjusted EBITA margin improvement of 100 basis points on average per year for the 2017 to '20 period.

And with that, I would like to turn over the call to Abhijit who will provide more detail on financial performance and market dynamics.

Financial Overview

Abhijit Bhattacharya

CFO, Royal Philips NV

Thank you, Frans, and good morning to all of you on the call and webcast.

Let me start by providing some color on the first quarter comparable sales growth of 2%. The Diagnosis & Treatment businesses delivered 2% comparable sales growth as well. Sales in the quarter were impacted by supply constraints resulting from a fire at a factory of one of our suppliers which we have mentioned during our Q4 2018 call.

Sales in Diagnosis & Treatment was mainly driven by Image-Guided Therapy which grew double-digit -- which grew double digits despite this impact. Ultrasound grew mid single-digit and Diagnostic Imaging declined mid-single-digit. To remind you, in Q1 2018, we started shipping the backlog of the Vereos which of course made the comparable tough for Diagnostic Imaging. That was the main cause for the decline. It's also important to mention that for Diagnosis & Treatment in Q1 2018, growth was strong at 9% which gave the tough comparable for this year.

The pattern of the Connected Care businesses order intake growth in 2018 which was strong only in Q4 2018 impacted sales for Connected Care businesses in the first quarter leading to a low single-digit decline, mainly driven by the Monitoring & Analytics business. We did have strong double-digit growth in our EMR business and the Sleep & Respiratory business has shown low single digit growth impacted by a decline within our hospital respiratory business.

The successful DreamWear Full Mask range continued its strong momentum delivering double-digit growth for masks overall. The launch of our DreamWisp mask in the first quarter will be supporting growth in the coming quarters as well. Based on the order book, we expect sales momentum to increase in the coming quarters.

The Personal Health businesses delivered 5% comparable sales growth during the first quarter. This was led by strong double-digit growth of our Oral Healthcare business. The Personal Care business and Domestic Appliance business grew low single digit in terms of comparable sales.

Group sales in mature geographies in the first quarter declined by 1% on a comparable basis, reflecting flat sales in Western Europe and low single-digit decline in North America and other mature geographies. Sales increased by 10% on a comparable basis in our growth geographies led by a double-digit growth in China, Russia, Central and Eastern Europe.

For the first quarter, comparable order intake overall grew by 2% with Diagnosis & Treatment businesses growing mid-single digit. Important to note that comparable order intake for Q1 2018 was mid-teens resulting in the tough comparables. China continued to perform strongly with a double-digit order intake in the quarter. Following a strong fourth quarter, the Connected Care businesses declined mid-single-digit during the first quarter continuing on the uneven pattern of order intake that we have witnessed last year.

Let me now turn to the EBITA development for the group in the first quarter. The adjusted EBITA increased by EUR 20 million and the margin improved by 10 basis points compared to the first quarter of 2018, mainly due to operational improvements which were partly offset by lower growth, an adverse currency impact of 30 basis points and a net tariff impact of 20 basis points. The adjusted EBITA margin of 120 basis points for the Diagnosis & Treatment businesses in Q1 was mainly driven by operational improvements.

Lower adjusted EBITA margin in the Connected Care businesses was mainly a result of negative growth, adverse currency impact and tariffs. Higher adjusted EBITA margin of 10 basis points in Personal Health was mainly due to growth partly offset by some investments.

Our productivity program delivered EUR 113 million net savings in the first quarter. Most specifically, net overhead cost reduction amounted to EUR 35 million in non-manufacturing costs. The productivity program contributed EUR 40 million to the gross margin, and procurement savings in part driven by our Design for Excellence program delivered EUR 38 million of bill of material savings year-on-year.

In the segment Other, the adjusted EBITA amounted to a loss of EUR 18 million, EUR 19 million better compared to the prior year, mainly as a result of higher IP royalty income and lower cost in innovation and central costs.

Overall, the adjusted EBITDA in the first quarter improved by 90 basis points to 13.9% of sales compared to Q1 2018, mainly due to the adoption of IFRS 16 lease accounting as of January 1, 2019. The impact on adjusted EBITDA is approximately EUR 150 million increase for the full year 2019 reflecting the depreciation on the leases capitalized under the new standard. So just to repeat, this is EUR 150 million on the adjusted EBITDA.

In Q1, income tax expense increased by EUR 38 million, mainly driven by higher income in 2019. As for the fourth quarter of 2018, we started to report adjusted diluted EPS from continuing operations per share. For the first quarter of 2019 the adjusted EPS increased by 26%. For the full year 2018 the adjusted EPS increased by 14% to EUR 1.76.

Net income increased by EUR 38 million compared to the first quarter of 2018 mainly due to improvements in operational performance and lower net financial expenses which were partly offset by higher income tax expense.

Net cash flow from operating activities decreased by EUR 78 million in Q1 2019 as higher earnings were offset by higher working capital and higher taxes paid. Higher working capital is mainly due to inventories in Q1 which was primarily the result of an inventory build for ongoing industrial footprint rationalization and the temporary supply disruption in Q1 at an Image-Guided Therapy supplier.

Let me now provide you with an update on the U.S. Healthcare market and our outlook for the Western European and China healthcare markets.

North American healthcare customers continue to focus on the priorities around the Quadruple Aim. That is lower cost while delivering better outcomes with improved patient and employee experience; we see gradually improving momentum along value-based care which confirms our priority of bringing value-based solutions to the market. The continuing consolidation of healthcare systems underlines the importance of our focus on developing long-term strategic partnership with key customers. Overall, we expect the U.S. healthcare market to grow in 2019 in the low to mid-single-digit range. For Western Europe, we continue to expect modest low single-digit market growth in 2019.

For China, we expect mid to high single-digit healthcare market growth for 2019 mainly driven by government policies to further increase access to care via existing Tier 2 and Tier 1 hospitals and the expansion of private sector investments in healthcare facilities. Consumer sentiment in China continues to be a bit subdued, however, we did see initial signs of recovery towards the end of the quarter.

The imposition of tariffs between the U.S. and China which were announced in several rounds up to September 23rd creates headwinds. Based on the announcement so far, we continue to estimate a negative net impact after mitigating actions consisting of supplier based adjustments, reconfiguring the supply chain and selective pricing actions of around EUR 45 million in 2019. This is lower than the guidance of EUR 55 million provided during the fourth quarter call and mainly the result of continued postponement of U.S. Batch 3 tariffs from 10% to 25%. We continue to invest in necessary countermeasures to compensate for tariff risk since there will be a time lag for the mitigating actions to take effect, the negative impact is stronger during the first half of the year.

Let me now provide some additional guidance for certain areas of our businesses. In the segment Other on an adjusted EBITA level, we expect full year costs at EUR 100 million which is a decline of EUR 72 million versus last year mainly due to lower expected royalties in 2019 on the back of a strong Q4 2018 finish. We expect the net cost of approximately EUR 70 million in the second quarter and approximately EUR 130 million for the full year 2019 both at EBITA level. Included in these numbers are EUR 25 million of restructuring costs and other incidental items in Q2 and approximately EUR 30 million for the full year.

Acquisition-related costs are now expected to be approximately 50 basis points, 10 basis points higher compared to our earlier guidance mainly due to the acquisition of Carestream's Healthcare Information Systems business.

I would also like to provide an update on our effective tax rate. We lower our ETR mid-term guidance from a range of 26% to 28%, now to 24% to 26% excluding incidentals.

As Frans mentioned, we reiterate our targets for 2017 to 2020 period of 4% to 6% comparable sales growth and average annual 100 basis points improvement in adjusted EBITA margin and free cash flow between EUR 1 billion to EUR 1.5 billion for 2019.

Before opening the line for the Q&A, as you've seen in the press release, I would like to take this opportunity to thank Pim for his outstanding contribution as Head of Investor Relations during the past 3 years. He will now take up a new role as country leader for Philips in Indonesia. I'm also pleased to welcome Leandro Mazzone as the new Head of Investor Relations for Philips, who I'm sure some of you will know from his time in IR from

2013 to 2016. Apart from his time in IR, Leandro has performed many business partnering roles in our healthcare businesses both within and outside the company. Currently, he is head of finance for Brazil. Please join me in welcoming him back to Investor Relations. I know that he looks forward to engaging with all of you.

With that, we will now open the line for your questions. Thank you.

Q&A

David James Adlington - JP Morgan

Just obviously with one, maybe just sort of the cash flow which I think was relatively poor this quarter. You cited working capital there. Just wanted to get some further color and your expectations going forward from here.

Abhijit Bhattacharya - CFO Philips

David, good morning. No, think cash flow wise, as I mentioned from our inventories are high, that was part of the plan because we are executing on our footprint transformation as we speak or as a result of which we need to build inventories in both locations and to protect against any loss of sales or upsetting customers. So this will come down more in Q3, Q4. So our expectations for the cash flow for the year between the 1% to 1.5% still remains -- billions, sorry.

Veronika Dubajova - Goldman Sachs

I would like to start off with Personal Health. And given that we're one quarter ahead, what I'd like to sort of understand what your confidence is in that 4% to 6% guidance range for the year. And I think if I go back a quarter ago you have guided to acceleration as we move through the year. Obviously, Q1 has come in quite strongly. Do you still think you can accelerate growth from the first quarter, or is it more about maintaining the current momentum as we move through the rest of the year?

Frans van Houten – CEO Philips

Veronica, this is Frans. Great to hear you. We took several measures in the second half of 2018 to turn the growth rate back up in PH. And this ranges from leadership interventions, and you have met Roy Jacobs, a strong leader, to accelerating new product introductions and reviewing our advertising and promotion effectiveness. On all these levers, we see positive traction. And it's great to see that in oral care we now have strong growth again. The new product that were introduced in Q1 start to have really good traction. The brush head supply is fully back on track. Also in some of the other PH areas, we have done good product introductions. I referenced one of the shavers in my speech. So we can say that Personal Health is back on track where we all like it to see. With regards to the question can we accelerate it further, at this time, I'm happy with the 5% growth we have given after the reorganization of the segments, we have given a guidance of the mid-single-digit growth. We are well in that bandwidth. So let's first sustain and consolidate, make sure that we consistently deliver this kind of a growth before we raise further expectations.

Veronika Dubajova - Goldman Sachs

That's great. And can I ask a follow-up on Connected Care? I look at the performance in its third quarter of quite meaningful margin declines in the business. Is there anything you can do from a cost perspective to try to stem this margin momentum and start delivering some improvement? Abhijit, any guidance from you on how to think about this for the year?

Abhijit Bhattacharya - CFO Philips

Yes, I think in Q1 we've had a particularly big dip, so you are absolutely right. There are quite some productivity measures which are in place, so they will start impacting, let's say from Q3, Q4. So as you see the year progress, you will clearly see us making up the shortfall in Q1. So we also had -- apart from the growth, this is a high-margin business, right? So the growth as we start delivering on those orders, we had some currency and tariff headwinds also and the phasing of productivity which will come more in the second half, as I just mentioned.

Frans van Houten – CEO Philips

Maybe I can add a strategic angle to this answer as well. Monitoring & Analytics originates out of what is called the intensive care environment, all right? And Philips is an absolute market leader there. The intensive care market has matured and there is less growth currently in ICUs. We are shaping the market towards monitoring and analytics and telehealth and command center technology to optimize care pathways across all care settings, enabling hospitals to move patients from the expensive ICU beds to the general ward to skilled nursing facilities and into the home environment. That strategy has already been validated by -- with healthcare providers. And do you know that we're on the right path. This also means that we continue to invest in innovation despite the near term kind of slower growth. The 14% order growth in Q4 is just testimony to the belief that we have in this business, and several large orders are being -- working its way towards sales recognition later in the year, and we expect a step up later this year in revenue. And then with the high-margin that Abhijit already referred to in terms of gross margin business, that we will see a big step up. So it's a bit of several headwinds coming together in Q1, but structurally, it's a great business that we continue to have strong belief in.

Patrick Wood - BofA Merrill Lynch

I have two, if I can, please. The first, in Sleep and Respiratory, obviously it's slightly different category definition to how it used to be. But my understanding was perhaps if you make it more like-for-like to how it was in Personal Health that probably grew something like mid-single digits in the first quarter. And within that, given the masks already growing quite nicely, what is it that's really going to drive the growth in the coming quarters? Is it really Wisp? Is that what's getting us there? And how confident are you in that base market longer term, it would be great to know. And then the second one, thank you for the details, Frans, on the DCB on the Stellarex side. It's a steady, chunky market and I'm wondering how you guys are thinking about internally from a competitive standpoint? Because obviously some of your competitors are on a somewhat tricky situation given the tone that the FDA is taking towards Paclitaxel. Is there an opportunity here for you to take a little bit more that market? Given your one of the smaller players that could be reasonably meaningful for you? Is that a fair way to think about this or is it too early to say?

Frans van Houten – CEO Philips

Okay. Well let me dissect all of those questions because it's quite a chunk. Let's first talk about S&RC. Indeed, for everybody on the call, let's remind ourselves that we included now in S&RC also the Hospital Respiratory Care business that originally was separate. And the Hospital Respiratory business declined slightly and that masks affect that S&RC for the out-of-hospital continues to grow nicely, at the mid single-digit area. Overall, the growth expectations for S&RC remain strong. The drivers for that are as follows: first of all, continue traction with the masks. You know that historically, we lag behind our competitor in the mask area and with all those innovations, we think that the proportion of mask sales can go up and masks have very nice margins, so that would also be good. Secondly, in North America, we increasingly develop ultimate go-to-market strategies, also recognizing what another competitor is doing with a more direct contact with patients. We think that this is a logical direction as we provide additional services around our platforms, for example, cloud-based coaching. We think that this will enhance stickiness with customers, but also boost growth. On international markets, sleep apnea is still very much underdiagnosed and we would expect in international markets to see a high single digit growth rate at least. So overall -- and then lastly in-hospital part, which I just said first quarter was -- had a small decline. We do expect in the course of the year to see a step up in the hospital respiratory care business as well. So overall, we think that this is a great business to be in. It takes just a bit of good more work to deliver it out. Then let me talk about the drug-coated balloon business. Inevitably, I think near term, the dust has to settle on this whole FDA discussion, which is bound to have a temporary negative effect on the segment, on the marketplace in the coming quarters. We haven't seen that much yet in Q1. In fact, Q1 for DCB was strong. We think that we have taken market share in Q1 and it contributed over also to the overall growth of our device business.

As he could hear from my description about the technical details, we think that DCB, Stellarex is a different implementation of a drug-coated balloon and we have not seen any of the mortality indicators that the FDA is worried about. In the second quarter, there will be a dialogue with the FDA and where we are of course going to strongly make our point that we are different from the rest, and we will try to market our differences to our customers. I think we should be realistic that it takes some time to get this all clarified in people's minds. So I would not, let's say, get over excited now already for the near term, but I do think that it will strengthen over time Stellarex position versus competitors. I hope, Patrick, that answers your questions.

Michael Jungling - Morgan Stanley

I have two questions. Firstly on geographic sales growth, when I look at your comp adjusted growth for the first quarter, Western Europe and also North America has been slowing in the first quarter. Why is that? And why would the developed markets improve for you for the remainder of the year? Question number two is on D&T Prodrive. Can you comment whether you actually lost the entire 50 million that you guided to in the first quarter? And, so, is that still a thing that a EUR 50 million that you've lost will return pretty much in the second quarter of this year?

Frans van Houten – CEO Philips

Okay. It was regards to the geographical split. I mean, of course we are very pleased with the growth markets, the emerging markets that have done very well for us. Notwithstanding that, we love to see the mature markets

grow as well. We are sitting on a strong order book for both Europe and North America. That order book will come to revenue recognition in the course of the year. When we spoke about Connected Care having a slight decline in Q1, very much related to the same situation, where several large orders are making its way towards customer acceptance in Q2, Q3 timeframes. Similarly on Diagnosis & Treatment, the order pipeline will help us get to strong growth. Obviously, with the confidence that we have expressed to reach our 4% to 6% growth, we need mature markets to contribute. That can never be done only on the back of emerging markets. So we see the growth stepping up there. Maybe I'll hand it over to Abhijit to give a bit more color on the IGT business, the Prodrive situation.

Abhijit Bhattacharya – CFO Philips

Yes, on the Prodrive situation, we lost a little bit less than the 50, so around 40 or so. And then as we have said come it will return in Q3 -- Q2 and Q3. I think the bulk in Q3 some of it in Q2, so that's how it will come back. And all of the sales will come back. As I mentioned in the beginning of the year, we don't lose a single dollar of revenue on this one, euro of revenue.

Scott Bardo - Berenberg

So first question please just relates to the Connected Care business. I understand you're making material investments into R&D in this division. I think it's the highest ratio invested in all of your divisions. So the question really relates to when do you expect some of these material investments in telehealth and digihealth and broadening the addressable monitoring & analytics opportunity to start to inflect the growth profile on profitability profile of this business? I think you mentioned in your previous plan towards the end of your previous financial plan which is sort of coming into effect now. So I just wonder if you can talk a little bit about how some of those investments are materializing. Second question please, just relates to the update from the FDA related to the consent decree. And how perhaps give a little more details as to what some of the responses from the FDA were and how quick they

Are to be addressed? And perhaps can you give us the latest update on the closure of the Cleveland plant or any regulatory updates you are having across your plants?

Frans van Houten – CEO Philips

All right. Scott, I'll give it a try. Well you've heard my response to Veronica's question on Connected Care, right, so strategically important, we are developing a much more end-to-end care orchestration environment that hospital and care providers are excited about. As is often the case with breaking new ground in these areas, it takes a little bit longer than originally estimated. So I would admit that as well, and we, as you recall, we have down adjusted the Connected Care growth near term growth in our Capital Markets Day and also in our January call. That doesn't mean that we are not optimistic about it. I am personally very optimistic about it. This year, we will see Connected Care solidly contributing to our mid-single-digit growth outlook, and therefore, recover significantly through the year. The FDA and the Consent Decree, you recall that in January, we said that we didn't have a response yet due to government closure and all these situations. Now of course then in the course of Q1, we did get the response of the 2018 audit, and there were several, let's say, deepening questions on our response for further information, among which, analytics on service orders and how we have handled those.

The data analytics process is currently going on. We expect to respond to them in the course of the second quarter. There were some other validation questions for which some work is being done. I would say this is all in the normal course of work. This is how the FDA routinely operates. I don't read anything particularly worrying in it. It does mean that things take a little bit longer. Originally, we had hoped that the injunction in Bothell will be lifted already. But I think now we need to be realistic and then it can take a couple of months more. In the meantime, as we also said in the press release, in the footnote, we are shipping the defibrillators. So there's no real material financial impact to this delay that we feel we need to highlight. And then your final point, the Cleveland closure. It's all moving according to plan. The last unit is making its way out of Cleveland, and we are on track for the closure imminently.

Abhijit Bhattacharya - CFO Philips

I think maybe just to add to the FDA questions that came. The audit actually came before the end of the year, so there were some third-party auditors to validate the work done from the time their audit end to what we say be completed at the end of the, so that's also one of the clarifications that will take time.

Scott Bardo - Berenberg

Just to squeeze in one quick follow-up. And just with respect to Stellarex, I also share your optimism about the clinical profiles of your product. I think at the time of the acquisition, you highlighted an aspiration for about EUR 1 billion or so in revenues combined with Volcano from Spectranetics deal by 2020. Given some of your comments about the dust needing to settle in the market. Would you say those targets are now more aspirational or somewhat at risk?

Frans van Houten – CEO Philips

Well, I mean Stellarex is only a small part of our overall device business. And all of last year, we have double-digit growth in devices. Q1, we again have double-digit growth in devices. So we will get awfully close to the EUR 1 billion aspiration that we formulated. And thanks for reminding everybody in the call, so we said our IGT business we aim for 3 billion, 2 billion systems and services, and 1 billion devices. So we will get within a hair of that target, I hope. The double-digit growth in Q1 is certainly a good start to the year.

Yi-Dan Wang - Deutsche Bank AG

On the effective tax rate. I think you heard that it's coming down to 22% to 24%. Can you just talk about what the key drivers for that and how sustainable that is? And then the second question is the Health and Wellness business. Can you comment on what the growth of that business as a whole including oral care? And then for oral care, it seems like a lot of the growth came late in the quarter. So how much of that is driven by distributor inventory buildup? And how will that impact your growth in the second quarter.

Abhijit Bhattacharya - CFO Philips

On the tax rate, we are guiding to that in the medium term because we believe it's sustainable, right? So the main benefit comes from the change in the tax rate in the U.S. I think given the clarifications that came out post the change in the corporate tax rate in the U.S., we are able to find certain benefits also for our exports,

which helps let's say to structurally bring it down to the 24% to 26%. So that is structural mainly driven by the U.S. the Health and Wellness growth rate was double-digit as well. So I think there the momentum is good. I don't know where you got the perception that it came late in the quarter but it has been building over the quarter, and there is not really any inventory buildup associated with this at all. So there is -- yes, I don't have any concern on that front.

Yi-Dan Wang - Deutsche Bank AG

Okay, on the tax rate, did you say 24% to 26%? I thought I heard 22, 24.

Abhijit Bhattacharya - CFO Philips

No, 24% to 26%.

Sebastian Walker - UBS

Just one on Personal Health. So the margins, there was limited improvement in the quarter despite the strong top line development. So can you maybe comment on how you expect R&D investments in other investments to continue throughout the year?

Abhijit Bhattacharya - CFO Philips

So if you look at Q1, first of all as we said the growth was good. A couple of things, so the phasing of IT investments this year not only for the, let's say, the ERP side but also on the digital side has a different phasing. We started those investments last year. So the first couple of quarters had low investments. This year, it's higher. And also, we had higher A&P to back our new product investments. So let's say I think if you look -- if you take a step back and look at Personal Health, last 12 months we were around the 15.5% adjusted EBITA, just shy of our targeted range for next year of 16% to 18%. So we are actually very confident of getting into the range. And I think the bigger improvements in the margin you will see towards the second half of the year. That's how I would look at it.

Edward Ridley-Day - Redburn

A couple of follow-up questions. Firstly, just on the North American market. Would you say in imaging, you have grown broadly in line with the market or slightly below market? Because we have seen some softness in North America from other customer equipment companies this first quarter. That will be my first question. And secondly, if we return to Prodrive, I'm still quite surprised this has had a large effect. What have you done perhaps to look at alternative supply going forward in that area of your business?

Frans van Houten – CEO Philips

Okay, Ed, let me give it a try. North American market, let's first talk about the general market in imaging. Last year was fairly strong, around 4% growth. Philips had order growth in that market of high single-digit. So it's our belief that we have grown market share. Abhijit already mentioned that Q1 last year was boosted by accelerated revenue growth of the Advanced Molecular Imaging business and that gave us a difficult comparer for this year. If I would look at the North American market this year, I would maybe guesstimate that it would

grow a little bit less than 2018. But at this time, I would not use that as an excuse. It's also a bit lumpy. So a slower start of the year is not necessarily giving us a final, let's say, conviction. What gives me a lot of confidence is that we are sitting on a large order book and that will definitely underpin good growth this year. Then the Prodrive, look, we were definitely irritated by this incident with our supplier. And we worked the organization hard to find compensation for the impact. To some extent, the Prodrive impact became therefore lower, that was what Abhijit explained. But the compensation by accelerating other business deals and also looking at work in progress that was already making its way into the field of prior manufactured systems trying to get them to customer acceptance, all that helped, right? So we are pleased with how the team has responded to that. And now the delayed Prodrive revenues can make it into Q2 so we also don't expect a disruptive pattern for the year.

Edward Ridley-Day - Redburn

Just one quick follow-up on Stellarex. One of your competitors has highlighted they are expecting about a 50% reduction going forward throughout the year, that's about Boston for their Drug Eluting Stent and different product but like Stellarex can they have a significantly lower dose than Medtronic and the other companies named by the FDA. Can you just remind us what sort of growth are you assuming? Clearly you had a very good first quarter, very encouraging. But as you've also rightly highlighted, it has been a class effect at the moment. So what are you assuming for the year for Stellarex? That would be helpful.

Frans van Houten – CEO Philips

Yes, we are not breaking out the Stellarex category from the rest of the medical device business. I want to be cautious. The class effect may be kicking a bit stronger in Q2 than in Q1. After all, everybody had to digest the news. And before it affects people's habits, it takes time both negatively and positively. As I said we do think we have gained share in Q1, but the two effects combined of our share going up while the category may be a bit under pressure makes it very hard to give a precise forecast for the year. So I don't want to do that now. But I have said that I remain very confident about our device business overall in line with the question that we got earlier where I responded that we are well on our way towards 1 billion in device business by 2020.

Max Yates - Crédit Suisse

Just my first question is on Oral Healthcare. So you grew double-digit in the quarter. I just wanted to come back to sort of how you think about any restock of brush heads and sorting out the supply chain issues and how that could have an effect. Because it's quite a lot faster than the underlying categories going. So maybe you can talk about what the core Oral Care business was growing and maybe the growth rate that we should expect going forward and actually whether there was any benefit from supply chain issues being removed and therefore customers restocking brush heads. That's my first question.

Frans van Houten – CEO Philips

Yes, I don't think that the restocking as such is the reason for a boost in the revenue. But the fact that we have brush heads again on the shelf also meant that retailers were more inclined to support us with our handle business. So the whole category for Philips was under a cloud last year because of lack of confidence and the brush heads contributed very much to that. So once that's restored, we now see this positive inclination added

with the new products that we launched, added with a better A&P execution. We get to this much higher growth. Let's also not forget that the category as such is still growing. So we are lifting on a growing category in which we are restoring our rightful market share.

Max Yates - Crédit Suisse

Okay. And maybe just Abhijit, on FX, if you can talk a little bit around just firstly how much of that 30 bps at group level went through Connected Care so we can understand how much margin was going specifically for FX. And maybe you can give any guidance on the transaction for margin impact as we go into the second quarter? How that 30 basis points evolves into Q2?

Abhijit Bhattacharya - CFO Philips

Max, if I could give you FX projections, I will be a rich man. But let me attempt a little bit. I think what happened in Q3 last year were the emerging-market currency has dropped, that has of course impact to-- for 12 months so, so I think it will be safe if you had a similar impact for Q2. Connected Care had a bigger than expected income mainly because of how the flows work. So they are there slightly more than 50 basis points of currency impact also in the quarter.

Max Yates - Crédit Suisse

Okay, and if I have a quick housekeeping question, just in Connected Care, when you think sort of the order intake that you have said of the last 4 quarters averaging at mid-single-digit, how much of the actual Connected Care revenues are underpinned by that order backlog? And then is there any way we can think about the average lag time for when we see an order translate into revenue growth across the business? Just to try to understand how much of that growth flows through to how much revenues is in Connected Care and how long that should take?

Abhijit Bhattacharya - CFO Philips

So if you look at last year, I think overall Connected Care order intake grew by 5%. But that happened largely in the fourth quarter, right, when we had a 14% growth. Now given that we recognize revenue not when we ship the equipment but when it installed and ready for first patient use, I think you should start seeing impact already from Q2 onwards. But let's say Q2, Q3 Q4, you will see a strengthening as the order book starts maturing to revenue.

Max Yates - Crédit Suisse

My understanding is that in-- say D&T. half of the order book -- half of the revenues are driven by the order book and the rest is service and booked and built in the quarter. Is a similar level true in Connected Care?

Abhijit Bhattacharya - CFO Philips

Yes. I think more or less -- it's a little bit higher, but not significantly.

Daniel Wendorff - Commerzbank

It's actually related to the D&T division and the Diagnostic Imaging business. When I look at the growth contributions in Q1, Image-Guided Therapy versus Diagnostic Imaging and with the commentary that you gave us in the drug coated balloons. When you look into Q2 to Q4, how should we think of the growth projections for these 2 different types of businesses under the D&T division? Is it that Image-Guided Therapy will likely go down a little? And how fast will Diagnostic Imaging terms be a little bit more color there will be helpful. And on the margin in the D&T division, quite strong uplift in my view year-over-year. Is it largely due to mix? Any more color there would also be helpful.

Abhijit Bhattacharya - CFO Philips

Yes, maybe a couple of things. So IGT will remain strong throughout the year. Our devices business is growing strongly that will continue to remain strong and our system business will also remain strong. DI had a little bit of an impact mainly the decline happened because of the comparables with the AMI business as Frans mentioned and I mentioned also as part of the opening remarks. So once we see through that, DI will also have a low to mid-single-digit growth throughout the year. So I don't think you should look at, let's say, declining sales in DI for the rest of the year. The margin uplift was quite a few things. So the productivity plans that we are executing that contributed a big, big amount to the increase. And I think the operational improvements, the factory is part of the productivity and manufacturing footprint rationalization et cetera, these are all pieces of the puzzle that are contributing to the improvement in profitability. So going forward, that trend has to -- or we plan keep that trend going as well for the remainder of the year.

Julien Dormois - Exane BNP Paribas

I have two housekeeping questions left. Just curious on your comparable order intake. You have reported pretty significant decline in North America, so I think high single-digit decline in the quarter. So just maybe a recap of where that's coming from and how should I think about the rest of the year. And the second question is again on Stellarex. Maybe just to ring-fence the potential risk here, can you just remind us or give us a ballpark estimate of how much sales you deliver on that side? Is that like a mid-double digits million euros, something like this? That would be helpful.

Abhijit Bhattacharya - CFO Philips

Okay. On the North America order intake as Frans mentioned last year, we had overall for North America, a very strong order intake last year. So we grew 8% order intake last year and we ended actually Q4 with a 10% order intake. So the weakness in Q1 was both in Connected Care and in Diagnosis & Treatment. So it's not really linked to one side or the other. I think part of the catch up impact, I think more because some of the businesses -- some of the orders we expect to come in Q2. Regarding Stellarex, do you want to...

Frans van Houten – CEO Philips

I just checked, Stellarex is several tens of millions. In fact in the totality of our medical device business, it's still relatively modest. I hope that answers your question.

Wim Gille - ABN AMRO

I would have a follow-up question on the Personal Health business which had a good start of the year, partly obviously driven by the product introductions that you did with the Value Line in oral and OneBlade in China. Can you give us a bit more color on what you expect to see in terms of your products pipeline for the remainder of this year? Is this kind of sufficiently strong to sustain the momentum that we see today? And then a bit of a follow up -- or not a follow-up, a bit of a housekeeping one. You mentioned the IFRS split of EUR 150 million for the EBITDA. Can you also give me the guidance on the adjusted EBITA and the phasing throughout the years?

Frans van Houten – CEO Philips

Let me start with the first question and then hand it over to Abhijit. Innovations are a big driver for success. In fact, Personal Health derives about 50% of its revenue from innovation that were brought to market in the last 36 months. Between the new Sonicare range, the shaver introductions last year the P9000 now the S7000, the OneBlade several products coming out in Mother & Child Care and in Domestic Appliances, we feel good about the product pipeline, and the underpinning for the revenue growth for the whole year, couple that with a strong management focus and improved A&P effectiveness. We believe that we can sustain this higher growth rate through the year.

Abhijit Bhattacharya - CFO Philips

On the IFRS 16, the main impact comes because -- not main, most of the impact comes because of the capitalization of the lease assets which therefore creates an additional depreciation which therefore when you take it out of the EBITDA, therefore, that goes up. So the impact on adjusted EBITA is almost nothing. Regarding the phasing of the year, let us give back to you with Pim and team. I think it will be more or less even throughout the year but you never know. I will make a double check. But we expect it to be evenly spread through the year.

Maarten Verbeek – The Idea

If you look at your targets regarding last twelve months growth rates and adjusted EBITA margin, in the past two quarters you've been helped very much by development of Other but you have never disclosed any targets for the Other division, let me address it like that. Could you give some color on that, please?

Abhijit Bhattacharya - CFO Philips

Yes, I think what we do every year is we give guidance for the full year. I gave that as well earlier in my opening remarks. I think it's EUR 100 million for the year. So we guide to that. It becomes a bit difficult to be very precise during the quarters especially because of the IP&S part. And after IFRS 15, actually you need to book. So earlier if you sign the licensing deal with certain counterparty, you would book that income over the period of the deal which is why if you signed a few big deals, you never got a big impact. When you signed a deal, you need to book all of that in your income and that causes a bit of lumpiness. However, overall for the year, we are still pretty much on track towards what we have guided for. So we guide for it, that the number is EUR 100 million

for the year for other and again if you have some further clarifying questions, we are more than happy to take it on later on through IR.

Michael Jungling - Morgan Stanley

I have one question about the EBITA impact, the impact from foreign exchange transactional headwinds. And for the first quarter, I think you've guided towards a (inaudible) 30 basis points but if I look at current exchange rates, I would assume that headwind goes away or becomes less for the remainder of the year. Am I correct? And perhaps you can be more precise in guiding what the transactional headwind may be for the full year.

Abhijit Bhattacharya - CFO Philips

Yes. Michael, as you know, if I knew more how foreign currency would behave for the next year, I will give you a very accurate estimates. Based on the rates as of now and based on what happened in Q3 last year, the FX headwind should be there until the middle of the year if no currencies go kind of big time down after that, then let's say from Q3 onwards we should see that impact going away.

Michael Jungling - Morgan Stanley

Okay, great. And maybe 1 follow-up on the D&T. The EUR 40 million that you have lost in sales, could you quantify what impact that had on the margin in the first quarter?

Frans van Houten – CEO Philips

But we also said that we compensated the loss of sales through other means, and therefore impact is low.

Abhijit Bhattacharya - CFO Philips

Still the profitability wise, there will still some impact but it will be too precise to start giving for everything those details. But this is a high-margin business. So as Frans we mentioned, we compensated some of it through other businesses. The loss on D&T, yes, would be most of the margin that we make on this EUR 40 million of sales. But we are not going to get into that level of granularity.

Michael Jungling - Morgan Stanley

For the compensation that you made in the first quarter, will that not remain for the remainder of the year?

Abhijit Bhattacharya - CFO Philips

No, it's some stuff that we can pull in from Q2 to Q1 to mitigate some of the -- so it's not on top of the business. As you know, this is an order book driven business, so it's not something that can come on top at such a short period of time. So it's more a timing thing that we try to smoothen out.

Frans van Houten – CEO Philips

All right, everybody. We thank you very much for your attendance, and we remain at your disposal through IR for further questions. Thank you very much.