

PHILIPS

Philips – Q3 2018

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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' third quarter 2018 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 the financial performance and market dynamics. After that, we will take your questions.

Our press release and the related information slide deck were published at 7:00 a.m. this morning. Both documents are now available for download from our Investor Relations website. A full transcript of this conference call will be made available by end of today on our website.

I would like to remind you that Philips' shareholding in Signify, formerly Philips Lighting, is currently 18% of Signify's issued share capital. The stake is presented as an investment included in assets classified as held for sale in the financial statement of Royal Philips as from the end of November 2017. We provided you with guidance for the expected FX translation combined with the consolidation and deconsolidation impact on sales during the respective quarter and for full year 2018. We will continue to do this twice a quarter, once immediately after the results publications this morning and once during the last week of the quarter, both available on our IR 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 and other intangible assets, restructuring charges, acquisition-related cost 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, thank you, Pim, and thank you all for joining us today.

While I am pleased with the continued strong 11% order intake growth, operational improvements were partly offset by increased foreign exchange headwinds. This resulted in 40 basis points in adjusted EBITA improvement on the back of 4% comparable sales growth. We continued the good traction of the new products and solutions that we have recently introduced, resulting in 15% order intake growth and 6% comparable sales

growth for the Diagnosis & Treatment businesses. The Connected Care & Health Informatics businesses continued to deliver a solid 5% order intake growth, however sales decreased to 2%. Main reasons were a tough compare of 8% in the third quarter of last year and a low single-digit growth in the patient monitoring market globally in 2018.

I'm encouraged by the step-up in sales growth of the Personal Health businesses compared to the first half of 2018, but the recovery was a bit slower than expected as good growth in our growth geographies was partially offset by lower growth in our mature geographies.

Gross and operational improvements mainly drove the increase in adjusted EBITA of 40 basis points, partly offset by increased foreign exchange headwinds which had an adverse impact on adjusted EBITA of approximately 60 basis points. All segments were negatively impacted. However, predominantly in Personal Health, was approximately 80 basis points.

During the quarter, we continued to make good progress with our productivity programs. Let me expand on our strategic journey to leadership in health technology. Our value-creation story is built on 3 key levers: First, by creating value in our core businesses by gaining market share through deeper, more comprehensive customer partnerships, innovative solutions and pursuing growth by increasing geographic coverage.

On the first lever, innovation partnerships and increased geographical coverage were the main important drivers of the solid sales growth of 6% and the continued momentum in order intake growth of 15% in the Diagnosis & Treatment business.

Following the rollout of our new Ingenia Elition 3 Tesla MR scanner in Europe and in the United States in the first half of this year, we now continued the renewal of the Diagnostic Imaging portfolio with the launch of the Ingenia Ambition X 1.5 Tesla MR, which has BlueSeal magnet technology, and this is an industry first. The Ambition X enables imaging departments to perform more productive, in fact, helium-free operations. The fully sealed BlueSeal magnet dramatically reduces the amount of liquid helium needed to cool the magnet. Just 7 liters of helium is required for cooling compared to approximately 1,500 liters in conventional magnet technology. This results in significant operational benefits for our customers, including a smaller, lighter and more flexible installation footprint and a more efficient return to normal operations even if interruption in service should occur.

Ingenia Ambition X 1.5 Tesla MR together with our highly innovative Compressed Sense software enables clinicians to perform exams up to 50% faster with equal image quality. Compressed Sense is also available for the current Ingenia install base.

I'm pleased with the continued success of our Ultrasound business. We launched our highly innovative Lumify mobile TeleUltrasound solution in Nigeria and Kenya designed to extend the reach of Ultrasound applications to a broader network of health care providers as well as helping to improve care. Philips Lumify Ultrasound ecosystem brings together mobile applications, connectivity, advanced use of technology, training, education and support services into a fully integrated subscription-based tele-ultrasound solution.

To strengthen our leadership in cardiac Ultrasound, we launched the EPIQ CVx cardiovascular ultrasound system which has embedded anatomical intelligence for increase diagnostic confidence and simplified workflows. The EPIQ CVx includes true view giving clinicians the ability to see photorealistic renderings of the heart, which improves cardiac anatomical analysis.

Ultrasound also plays a crucial role in Image-Guided Therapies of the heart where it is used in conjunction with interventional x-rays such as our Azurion platform. We launched also another EPIQ version, the CVxi Ultrasound system, combined with the latest version of our unique EchoNavigator software that is specifically designed for minimally invasive structural heart repairs and fast-growing Image-Guided Therapy segment.

We reached a major milestone with the incorporation of our proprietary iFR technology in the European Society of Cardiology updated guidelines for the assessment of coronary artery lesions. The findings from the multi-center defined FLAIR clinical study have already demonstrated the benefits of iFR showing that an iFR guided treatment offers proven outcomes, reduce costs and procedure time. The incorporation of the ESC's revascularization guidelines is expected to further accelerate the adoption of iFR.

We are looking forward to the RSNA annual meeting at the end of next month in Chicago. This is one of the largest radiology trade shows globally and we will be showcasing our latest innovations in radiology, taking the next step in achieving an integrated imaging ecosystem that connects people, data and technology. We will, for example, be introducing new artificial intelligence applications that are embedded across the radiology workflows to support precision diagnostics.

In Connected Care & Health Informatics, we introduced the Avalon beltless monitoring solution, the latest addition to our comprehensive obstetrical care or so-called OB solution, in Europe. This solution allows for continuous fetal and maternal monitoring that automatically streams patient data to the EMR through our OB information management system, the IntelliSpace Perinatal.

Building on our strengths in healthcare informatics, we entered into a multi-year partnership agreement with the St. Andrew's Toowoomba Hospital in Australia for the hospital-wide installation of Philips Tasy Electronic Medical Record system. We will fully digitize the hospital's entire care management processes and enable anytime, anywhere access to clinical analytics.

During the third quarter, we signed 6 new long-term strategic partnership agreements across the globe. For example, we partnered with Children's Health Hospital in Dallas, one of the top pediatric hospitals in the country, to improve pediatric care with our patient monitoring and health informatics solutions. In Australia, we announced our first 2 long-term strategic partnership agreements with the Illawarra Shoalhaven Local Health District and the Nepean Blue Mountains Local Health district. These partnerships aim to support precision diagnosis and therapy and drive operational performance improvement across 9 hospital sites.

Our investments over the past few years focused on building solutions. Selling capabilities are paying off and we have a healthy pipeline of pending partnerships.

Now moving to our Personal Health businesses, our Sleep & Respiratory Care business continues to garner attraction for its market-leading home ventilation offering such as the new Trilogy Evo ventilator platform, which is the only portable life-support solution designed to stay with patients as they change care environments.

In Personal Care, we continued the successful rollout of the Philips OneBlade Face + Body to additional markets within the Americas, Asia Pacific region and Eastern Europe. We also completely renewed the high-end range of our leading male grooming portfolio with the introduction of the Series 9000 Prestige shaver, which cuts facial hair feeling as close as a wet blade while being very gentle on the skin.

The second lever of creating value in adjacencies through organic investments, partnerships and selective M&A, we further expanded our global leadership in digital and computational pathology solutions. We teamed up with Oxford University Hospital's NHS Foundation Trust to create a digital pathology network in the United Kingdom. We also released a new version of our AI-power TissueMark, which will enable molecular research labs to reduce variability in tumor estimation and related cost.

In addition to these and other organic growth initiatives, we further strengthened selected businesses through targeted bolt-on acquisitions.

Speaking about which, let me first share how we are doing on our main acquisitions. Volcano has been growing with double-digit comparable sales growth since acquisition in Q4 2014. And our full devices portfolio, including Spectranetics, grew double digits during the quarter as well.

Sales and cost synergies are on track, and we continue to expect to reach double-digit profitability in the fourth quarter this year.

During the third quarter, we acquired Xhale Assurance, a U.S.-based company developing and commercializing next-generation sensor technologies. Xhale Assurance unique disposable pills oximetry sensor is placed on the wing of the nose and can reliably measure and transmit a patient's heart rate and blocked oxygenation on the low blood circulation conditions, for example, following a heart attack that are challenging for conventional fingertip tools oximetry sensors. As such, the sensor complements our range and we can provide caregivers with the early warning signals of impending adverse events.

To enhance the quality of care and cope with rising demand, senior living communities are increasingly seeking to modernize their infrastructure, participate in more care settings and better support residents through data. The acquisition of Blue Willow Systems complements our existing Carepoint 6.0 senior living platform by providing our customers with new solutions for resident and staff management with a software-as-a-service business model and added functionality such as the Bluetooth-enabled wearable devices and access points, real-time location tracking and enterprise reporting.

Thirdly, we are creating value by improving margins through customer and operational excellence. Our self-

help initiatives to drive EUR 1.2 billion in savings for the period 2017 to 2019 delivered EUR 124 million savings during the third quarter. The main 3 programs, i.e. procurement savings, manufacturing productivity and overhead cost reduction, all 3 delivered on their milestones. With year-to-date productivity savings of EUR 330 million, we are well on track to deliver annual savings of EUR 400 million in 2018.

As progress update we expect to complete the discontinuation of our Cleveland manufacturing operations during the first quarter of 2019.

As another update, we continue to make progress in line with the terms of the consent decree, which is primarily focused on the defibrillator manufacturing in the United States.

The score 81 out of 100 points overall in the health care equipment and services industry group of the 2018 Dow Jones Sustainability Index. With this score, we came in second in the first year that we have been reclassified to this category and in line with our transformation into a focused health technology leader.

The imposition of tariffs between the United States and China, which were announced in several rounds up to September 23rd, will create quite some headwinds going forward. Based on the announcements so far, we estimate a negative net impact after mitigating actions consisting of pricing, the supply chain adaptations of around EUR 60 million in 2019. This will require us to work on additional productivity measures to absorb these negative impacts. Since there will always be a time lag for the mitigating actions to take effect, the negative impact will be stronger during the first half of the year.

Looking ahead, we reiterate our targets for the 2017-2020 period of 4% to 6% comparable sales growth and an average annual 100 basis points improvement in adjusted EBITA margin.

With that, I'll turn 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 third quarter comparable sales growth of 4%.

The Diagnosis & Treatment businesses delivered a 6% comparable sales growth, with double-digit growth in Ultrasound, high single-digit growth in Image-Guided Therapy and mid-single-digit growth in Diagnostic Imaging. We are very pleased to see the continued strong traction of these businesses, specifically in Ultrasound where all business segments of cardiovascular, OB/GYN, General Imaging and point-of-care

demonstrated double-digit sales growth. In the Cardiovascular segment, we introduced the EPIQ CDX Ultrasound system, which perform strongly since launch.

Frans mentioned already the reasons for the 2% comparable sales decline in Connected Care & Health Informatics. This reflected mid-single-digit growth in Therapeutic Care, offset by low single-digit decline in Healthcare Informatics and Monitoring & Analytics.

The Personal Health businesses delivered 4% comparable sales growth, driven by mid-single-digit growth in Personal Care and Sleep & Respiratory Care. In Sleep & Respiratory Care, following the successful launch of the DreamWear Full Face mask at the end of the first quarter, we recorded another quarter of double-digit growth in the largest mask segment. Unfortunately, currency headwinds, mainly in Turkey and Argentina, trade sanctions in Iran and supply chain disruptions due to adverse weather conditions like floods in Hong Kong and India, impacted comparable sales growth negatively by about 80 basis points in Personal Health.

Group sales in mature geographies increased by 2% on a comparable basis, low single-digit growth in North America and other mature geographies and mid-single-digit growth in Western Europe. Sales increased by 9% on a comparable basis in our growth geographies led by double-digit growth in Latin America, APAC and Central and Eastern Europe. In China, we recorded high single-digit growth in the third quarter.

Comparable order intake overall grew by 11%. The Diagnosis & Treatment businesses showed 15% growth, with strong growth among most markets, most notably North America, China and Latin America. Similar to the previous quarter, the Connected Care & Health Informatics businesses grew 5%. Excluding the defibrillator business, where we expected a decline, comparable order intake grew high single-digit.

In growth geographies, comparable order intake grew over 20% compared to Q3 of 2017.

Let me now turn to the EBITA development for the group in the third quarter. Adjusted EBITA increased by EUR 36 million, and the margin improved by 40 basis points compared to the third quarter of 2017, mainly due to growth and operational improvements, which were partly offset by currency effects of 60 basis points. Emerging market currencies were very turbulent in the third quarter with the fed increasing rates, higher oil prices, sanctions and rising protectionism. These negative currency impacts our partly offset by compensating factors such as pricing actions and additional productivity.

Adjusted EBITA margin for Diagnosis & Treatment was 40 basis points higher than in the same period last year, mainly due to growth, partly offset by investments in growth. In Connected Care & Health Informatics, the adjusted EBITA margin decreased by 190 basis points year-on-year, mainly due to lower sales and an unfavorable mix impact driven by the lower Monitoring & Analytics sales. For Personal Health, the margin increased by 10 basis points, reflecting operational improvements, largely offset by adverse currency effects of 80 basis points.

As mentioned in this call during the previous quarter, we did step up our advertising and promotion during Q3, and this step-up was 80 basis points above last year.

Our productivity program delivered 124 million in net savings. More specifically:

- Net overhead cost reduction amounted to EUR 13 million in nonmanufacturing cost;
- The productivity program contributed EUR 39 million to the gross margin;
- And procurement savings, in part driven by our Design for Excellence program, delivered EUR 72 million of bill of materials savings year-on-year.

In the segment Other, the adjusted EBITA amounted to a loss of EUR 3 million, lower than previously guided, due to lower overhead cost and release related to provisions and lower charges related to a movement in our environmental provisions.

In Q3, the income tax expenses increased by EUR 109 million, mainly due to higher income and lower release of tax provisions compared to third quarter of 2017. Our effective tax rate in the third quarter was 27%, and we expect to be in the 26% to 28% range for the full year 2018.

Discontinued operations was a loss of EUR 15 million due to EUR 14 million of charges related to movements in environmental provisions.

Net cash flows from operating activities decreased by EUR 30 million in the third quarter compared to Q3 of last year, mainly due to higher inventories, higher taxes paid and EUR 18 million of outflow related to the conclusion of the European Commission investigation.

The third quarter also included an outflow related to pension liability de-risking in the U.S. of EUR 130 million compared to an outflow of EUR 219 million in the same quarter last year.

Let me now provide you with an update on the U.S. health care market and our outlook for Western European and China health care markets. The third quarter saw North American health care customers continue to focus on priorities around the quadruple aim. That is lower costs while delivering better outcome with improved patient and employee experience. We see positive momentum around value-based care, which confirms our priority of bringing value-based solutions to the market.

The continuing consolidation of health care systems underlines the importance for our focus on delivering long-term strategic partnerships with key customers. Overall, we expect the U.S. market growth to be in the low to mid-single digits with imaging being stronger than the monitoring markets.

In Western Europe, we expect modest low single-digit health care market growth overall. We see a bit stronger growth in Southern Europe. However, this is offset by the decline in the U.K., mainly resulting from ongoing financial pressures on the NHS.

In China, we continue to expect high single-digit market growth for 2018, mainly driven by government policies to further increase access to care via existing Tier 2 and Tier 1 hospitals and expansion of private sector

investments in health care facilities.

Let me now provide some additional guidance for 2018 for certain areas of our business. In the segment Other, we expect a net cost of approximately EUR 20 million in the fourth quarter and expect approximately a net cost of EUR 95 million for the full year, both at EBITA level.

Included in these numbers are EUR 15 million of restructuring costs and other incidental items in the fourth quarter and approximately breakeven for the full year.

On an adjusted EBITA level, we now expect full year cost at approximately EUR 95 million, which is an improvement of EUR 20 million versus the guidance of last quarter, and an improvement of EUR 62 million versus last year. The year-on-year EBITA improvement was EUR 122 million.

Overall restructuring for 2018 is expected to be approximately 90 basis points. Acquisition-related costs are expected to be approximately 50 basis points both in line with previous guidance.

As a consequence of the consent decree mainly related to our defibrillator businesses, we continue to anticipate an EBITA impact of approximately EUR 60 million for the full year 2018. As Frans mentioned, we reiterate our targets for the 2017 to 2020 period of 4% to 6% comparable sales growth and an average annual 100 basis points improvement in the adjusted EBITA margin.

Before we open the line for questions, I'd like to remind you that in 2 weeks, we will host our Capital Markets Day here in Amsterdam on the 8th of November, where we'll provide an update on our strategy and deeper insights on the path to value towards 2020. We look forward to meeting many of you in Amsterdam while a live webcast will be available for the plenary presentations as well.

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

Q&A

Patrick Wood, Bank of America Merrill Lynch: I have 2, please. The first will be in the Personal Health side. Have you seen any change from P&G on their competitive position? Partly because the numbers that they put out were pretty strong. Trying to work out how to reconcile that with the oral care that you guys may have seen. Then the second one, just trying to get a sense of the order backlog. Structurally, when would you expect some kind of a party between the growths of the core D&T business in the order backlog? Obviously you give a sense for how those translate into sales but it seems you're getting a larger and larger backlog over time. I'm just trying to understand when that comes through into the core business.

Frans van Houten, CEO Royal Philips: Yes, hi, Patrick. This is Frans, good morning. Thank you for your questions. Indeed, on Personal Health, we have pointed out in the past some aggressive discounting, especially in the North American market that we elected not to follow because we believe we have premium innovations that

deserve to hold their prices. Of course, we noted with interest the statements around increasing prices. I don't think that, that applied to the third quarter. So it should be then more forward-looking. That would be good. As I said, we have not followed that kind of discounting ourselves. I think that should address your first question. And then on the order backlog, indeed, we are actually at an all-time high order book for Diagnosis & Treatment, up several hundred million. It's elucidated on Page 26 of the investor deck where we give you an indexed order book development. We also see that the time between order and revenue recognition is trending up a little bit, with many orders taking at least 9 months to get into revenue recognition and the hybrid operating rooms with the Azurion platform can even be longer than a year. Of course, that is then offset by Ultrasound, which is more fluid and faster to revenue. But overall, I think your implied message that is there a little bit of a longer period of translation, that is indeed the case. And while I'm on the topic also for Connected Care & Health Informatics, we see such a longer period with larger contracts, takes longer to get to decisions and then it takes time for the overall revenue to kick in. Now I will finish by saying that we have had double-digit order growth for D&T for the whole year now. We are well-positioned to underpin our 2019 revenue. And currently, we already tracking at a year to date growth of 8%. So maybe that all helps.

Veronika Dubajova, Goldman Sachs: My first question is actually on the margin development in D&T. Looking at this quarter, it seems to be tracking meaningfully below where you were at the first half of the year. And so Abhijit, I know you mentioned in the press release and in your prepared remarks that you had some growth focused spending, but can you maybe give us an insight on why the margin improvement wasn't as impressive this quarter in D&T? And then I have a follow-up that I'll ask after that.

Abhijit Bhattacharya, CFO Royal Philips: Yes, I think 2 main reasons, Veronika. You see with the growth of the equipment business that from a mix perspective that has a slightly dampening effect. And secondly, with the launch of the slew of new product, quite a bit of the capitalized R&D now starts flowing through the P&L. So those are the 2 impacts that we've had, as well as we've had some FX impact, which has impacted not as much as Personal Health but still an impact for D&T. I think these would be the 3 main contributors.

Veronika Dubajova Goldman Sachs: Okay, Abhijit. As a follow-up, I think you've always said that you'd need to deliver more than 100 basis points in D&T to make the guidance for the year on a full year basis. What's your degree of confidence in being able to deliver that let's call 150 basis points in D&T on a full year basis?

Abhijit Bhattacharya, CFO Royal Philips: Actually, what we have said was we need to deliver much more than 100 basis points on the DI in principle. And then let's say most of the businesses would deliver or the businesses would deliver in the 100 basis point range. I think the confidence still remains because as you've seen with the order book, there is still more growth to come in the coming quarters. And then once the service revenues start kicking in, we will also see a meaningful improvement in the margins. So I think so far, we are pretty much on track. And even if you look overall for the company, right, I mean, yes, we've had a big impact on currencies this quarter, but year-to-date, we are, I think, 96 or thereabout basis point improvement. So we are still close to the 100 basis points that we talked about on an average annual improvement.

Ian Douglas-Pennant, UBS Investment Bank: So first, on Personal Health, your 2 high-margin business lines, a

bit facing some reasonably long-term headwinds now for the past year or so. With this mixed headwind in mind and assuming it continues, could you confirm whether you still believe your long-term guidance of high teens in these businesses is still valid and could that include 17%, which we suggest you've got no further margin upside from here? And then the second question which is very short, I'm having trouble knowing how to think about the cost that you book in you HealthTech other line going forward. Should we kind of take the minus 10% that you're implying for Q4 and annualize that or I mean, how should we think about 2019 onwards there?

Frans van Houten, CEO Royal Philips: Hi, Ian, Frans here. On your first question, in fact, we have 3 high-margin business lines in PH that are all fantastic. And I would not take the headwinds as structural. We continue to expect strong growth potential in all 3. I mean, I'm referring to Sleep & Respiratory Care, Health & Wellness and Personal Care as businesses with very strong profit potential and growth potential. The guidance that we have given is very much intact on profitability, and we will come back on that during the Capital Markets Day in 2 weeks. We have seen already a step-up in growth from second quarter to third quarter. Abhijit said that we -- besides the headwinds on currency, we also have invested about 80 basis points more in advertising and promotion. That's also anticipating a strong fourth quarter. So yes, franchise intact, and we'll talk about in 2 weeks. The other question will be handled by Abhijit.

Abhijit Bhattacharya CFO Royal Philips: Yes, so maybe to close on the PH quarter, we are already -- if you look at the last 12 months, we are in the 17% to 19%. And if you look at this quarter, even with the 4% growth, we had let's say 160 basis points, 80 on advertising, 80 on currency. So operationally, the business is still in very good shape. So I think we are well within the guided range for 2020 already. And therefore as this business grows, the margins will improve. The HealthTech Other to multiply Q4 by 4 is not going to work. As you know, Ian, it changes between quarters, depending on how we get our license revenues. So we guide to the full year, and we will do that again at the start of next year. But I'm glad that so far, we have been able to outperform the guidance for this year, and we have brought quite a meaningful reduction year-on-year, which helps overall the results of the company.

Ian Douglas-Pennant, UBS: So on that, so there's no kind of regime shift this quarter. I mean, there's no reason to think that Q3 is the run rate going forward probably take the 2018 guidance as a reasonable way (inaudible)

Abhijit Bhattacharya, CFO Royal Philips: Yes, yes, exactly, yes.

Michael Jungling, Morgan Stanley: I have 2 questions. Firstly, on HealthTech Other and then secondly on U.S. China tariffs. On HealthTech Other, can you comment on why the environmental provision has been where the charge have been lower? Have there been some changes in your negotiations with the state and federal governments in the U.S? And within HealthTech Other, can you comment on what the release in the provision actually is? There was no specific, I think, in the press release. And then on U.S. China tariffs, could you please clarify whether the EUR 60 million that you mentioned refers to EBITA? And what is the gross impact of the EUR 60 million? Because I think you mentioned net. So what is the gross amount before your own mitigation developments?

Frans van Houten, CEO Royal Philips: Yes, let me take the second question while Abhijit prepares for the first

question. The gross effect of the tariffs are higher. We don't find it meaningful to only talk about a gross number because the moment you take a mitigating action, you actually make that impact disappear. We have various levers to pull to mitigate the impact from duties. One is rearranging our supply chain. Of course, that is perhaps the easiest because we have manufacturing facilities in the United States, in Europe and in Asia, about 1/3, 1/3, 1/3. We are already on a path to create so-called multimodality factories where we can manufacture stuff from other business units. We were already anticipating that we need to have regional representation in a world that is more polarizing. So in fact, you could say mentally, we were prepared for this. Now it takes some time to effectuate bringing some U.S. production into China and vice versa. We expect that to have a beneficial effect already during next year. Then we will try to raise prices where the competitive landscape would allow that. So if you are asking how much of the EUR 60 million will we see in the top line, then that's not an easy question. Because if we just rearrange the supply chain, then actually you will not see a top line effect. If you raise prices, it will have an upward effect on revenue, although at this moment, we are not counting too much on price raises. And then finally, the EUR 60 million, yes, that's an EBITA impact. But that EUR 60 million EBITA impact will be compensated by additional measures elsewhere in the company, all right? And we are stepping up our productivity measures so that we will be able to still comfortably deliver 100 basis points next year. Abhijit?

Abhijit Bhattacharya, CFO Royal Philips: Yes, on the environmental, I think this has nothing to do with changes in regulation by any government or anything. We carry environmental provisions for sites that we have which are discounted. And basically the discount rates on 5-year and 30 year-long-term yields have gone up by 15 to 13 bps, respectively. And that just calls for recalculation of the provision, which then gives you a bit of the release. So these things happen every quarter a bit. And this time, we got a positive impact because last year, we had a negative one. And that's why the gap is so big.

Michael Jungling, Morgan Stanley: Great, and then the other provision that you released (inaudible)

Abhijit Bhattacharya, CFO Royal Philips: That was related to a tax claim that was on the company which we have got a judgment that we don't have to pay anymore. So that was a benefit.

Michael Jungling Morgan Stanley: Great. And then finally on the tariffs, may I quickly clarify? The impact from the U.S. China tariffs, will they be treated as an adjustment to your EBITA or will you absorb that in your adjusted EBITA as a normal course of doing business?

Abhijit Bhattacharya, CFO Royal Philips: We will adjust that. I mean, this is here to stay. It's not a one-off items so you don't adjust it out. So we will have to absorb that and find countermeasures.

Yi-Dan Wang, Deutsche Bank: I have 2 questions. So first, before -- on the FX, could you quantify the FX impact on your margins by business for the fourth quarter and 2019 based on current rates? And also, a suggestion, if I may. You already are very helpful in giving us the top line impact. But without details of your currency exposure, it's quite difficult for us to estimate the margin effect. So would you be able to do a similar exercise for us on the margins? And then the second question relates to the slowdown in the D&T division. Yes, year-to-date, it's a very nice impressive number. But in the quarter ended September, things do seem to have

slowed. And it seems to be on the back of lower service revenue. So could you give us a phasing of your service businesses and how we should think about trends going forward, whether there's just a 1 quarter affect or we should build in something that lasts slightly longer than that?

Abhijit Bhattacharya, CEO Royal Philips: *Look*, on the FX, it's very difficult to predict. I mean what happened in Q3 also -- so let's take a step back, right. For developed market, currencies either we have natural hedges or we have a hedging policy in place which has put us in very good stead. So if you compare the FX impacts we have had with competitors, then it has been significantly lower than a lot of our competitors. So I think there, we have done well. We do not hedge most of the emerging market currencies simply because the cost of carry is too high and therefore doesn't make sense. And therefore, unfortunately, we are exposed for emerging market currency changes. And that is pretty unpredictable. So for us to predict what will happen going forward is difficult. If you saw -- I think the Brazilian Real has dropped and then came back at the end of the quarter, so depending on how these currencies move, we will either take pricing actions or other cost actions, and there is a small lag between the currency moving so sharply and the actuals that you can take. And therefore, you have a shorter term impact. We will have a bit of an impact in Q4. We expect that to be less than what is in Q3. But it's almost impossible for me to predict to you now what will happen with the currencies. And then if you look at the -- D&T, to call it a slowdown, in Q3 I think a bit harsh, given a 6% growth in the market, which is growing 3% to 5% at best with a strong order intake growth, I think these are phasing issues that happen through the year. So there's lower service, yes. I mean, over time, that will pickup. But...

Frans van Houten, CEO Royal Philips It was about the translation of growth into profit.

Abhijit Bhattacharya, CFO Royal Philips: Yes, so I think as we go into next year with the service revenues also picking up on the basis of strong installed base growth, you would see margins continue to rise because we have to keep -- go towards the 14% to 16% range in the next couple of years.

Yi-Dan Wang, Deutsche Bank: Okay, sorry. My line dropped off while you were commenting on the last bit of the FX. So did you say that the FX impact for the fourth quarter will be less than the third quarter?

Abhijit Bhattacharya, CFO Royal Philips: Yes, I did. Yes, I did. But difficult for me to predict. No, it's simply difficult because like I said, we don't hedge on emerging market currencies. If they bounce back a little bit like we saw the Brazilian real is bouncing back, that will help us. We also see that in a couple of currencies, also emerging markets now given the increased volatility, the cost of carry has not moved as much as the increase in volatility. So on those currencies, we can also take certain shorter-term hedging measures, as well as pricing measures. So we think we can mitigate some of it in Q4. But there will be some headwinds in Q4, for sure.

Yi-Dan Wang, Deutsche Bank: In your margin improvement target, is that on an as-reported basis or is that in constant currency? Given the...

Abhijit Bhattacharya, Royal Philips: No, that is as reported. So despite the hits that we get on currency, we have to compensate for those. So it's a tough target without taking out currency impacts.

Scott Bardo, Berenberg: So firstly, on Personal Health, and given the slightly softer recovery and growth that you've seen in the third quarter, I wonder if you could add the comments about expectation for the full year where I think you'd previously shared the view of mid-single-digit growth for that division. Is that still now attainable in your mind? And also, just I'd like to follow up a little bit on the messaging for margins for that division given the headwinds you face into next year. (inaudible) underlying message that you don't expect much in the way of margin improvement and Personal Health in H1?

Abhijit Bhattacharya, Royal Philips: So if you look at the PHA, yes, I think there was some noise around whether we will be in the 5% range given where we ended Q3 and specially the 80 basis points impact from currency trade restrictions as well as the weather. We will be at the lower end of the mid-single digit. So the mid-single digit is 4% to 6%. We will be at the lower end of that range. But still within the 4% to 6% is what we expect. And regarding the margin improvement, yes, for the first half of next year, we will have not only the FX headwinds. Depending a bit on how currencies develop, but they will also have the headwinds on account of the tariffs and the mitigating actions would come more towards the second half in terms of actually impacting the P&L. So therefore, the year-on-year step-up in the first half of the year will be lower.

Scott Bardo, Berenberg: Understood. And just a point of clarification on group guidance, I appreciate you reiterated your mid-term expectation today. But I think again, the group had commented that you expect to come comfortably within your top line guidance this year. And also within your 100 basis points margin expansion. And I just wonder given the year to date top line development and slightly more burdensome currency, do you still expect to deliver your midterm framework this year?

Frans van Houten, Royal Philips: Yes, absolutely, Frans here. I can confirm that. I mean, year-to-date revenue growth is at 4.4%. We expect to be comfortably in our range for the full year. We also believe that we are on track to deliver the 100 basis points for this year.

Max Yates, Crédit Suisse: Just my first question is around free cash flow. Obviously, you have the guidance of EUR 1 billion to EUR 1.5 billion per year. Is there any reason when we look ahead your sort of usual very strong Q4 that you shouldn't be entering into, I guess, the lower end of this range this year or is there anything we should be aware of as we go into Q4 as to why it may be difficult to get in that range?

Abhijit Bhattacharya, Royal Philips: No, Max. The plan is to be in that range. If you look at the last 12 months rolling cash flow, we are in that range as well. We have had a bit of a dip in Q3 because we had to move some inventory around and build some inventory as well, lining out for some plant closures as well as to, let's say, shift stuff to countries before the duties came into effect. And we carry that at the end of Q3. The plan is to convert that to cash in Q4. So we should be okay. And also, Q3 includes the one-off pension contribution of EUR 130 million. So if you take that out, I think we still have a, let's say, EUR 900 million or slightly less than that for Q4, which we are planning to do.

Max Yates, Crédit Suisse: Okay, and just a second one, obviously within Personal Health, the China growth was double digits, so relatively strong. But could you give us any sort of feel of how demand evolved through the quarter, whether within September, you were may be picking up sort of any weakness in China given trade

tariffs, obviously, some weakness and potentially weakening signs in the economy and whether there was any sense that, that feeding future underlying demand as we move through the quarter?

Frans van Houten, Royal Philips: Hi, max. Frans here. The -- we actually saw pretty even quarter. So there is no telltales of weakening demand at all.

Julien Dormois, Exane BNP Paribas: I have 2 questions. The first 1 would be on the CC&HI division. I was just wondering what it will take to go back to the kind of mid-single-digit to high single digits growth guidance that you've given for the next few years? Is it just a matter of the defibrillator sales resuming in the U.S. or is there something we should expect in the next few years? And the second question is actually on Diagnosis & Treatment. You will now be entering a period where you're going to face very tough comps from an organic growth perspective, so from Q4 onwards. So I know you have now very strong order book and you have indicated that it should flow through sales. But I'm just wondering whether you are confident on maintaining kind of a mid-single digits growth going forward in that business.

Frans van Houten, Royal Philips: Yes, hi, Julian. Let's first talk about CCHI. Order growth in 2017 was not strong, and the market in 2018 is kind of flattish. Philips is 50% of the monitoring market in the United States with a flattish market. That has reduced our ability to grow. Nevertheless, our order intake growth is around 5% in the third quarter, underlining the strength of the innovation portfolio. And we know from our funnel analytics that we have many customers that are engaged with us on large projects. And now decision-making and in large hospitals has certainly not improved. There's quite some carefulness on the CapEx side. Moreover, some of these deals become subscription deals like Jackson Health in Florida, which is a platform-as-a-service, and therefore, I will not come with a big spike in business. So to round it off, I'm confident that CCHI can get back on a higher growth rate starting now, underpinned with higher order book -- order growth already. But also, let's say, continuing next week -- next year. I'm sure we will talk about it during Capital Markets Day and give you more color. On D&T, we are outperforming the market. We expect to continue to outperform the market in all 3 businesses in D&T, we have strong innovations that are well-received. And we have been outgrowing the market by a factor, if not more than that. So you can expect us even when the comp becomes more difficult to continue to outgrow the market. And then of course, this massive order book increase starts to become translated into higher revenue growth as well.

Elisabeth Clive, AllianceBernstein: I have to sort of longer-term questions. 1, just thinking about these long-term partnerships that you're signing, data analytics and artificial intelligence him become a bigger theme and medical imaging and patient monitoring access to data is likely to be a notable competitive advantage. So what exactly are you doing to ensure access to data now in the future and I suppose specifically I'm wondering whether in the various long-term partnerships that you've signed over the past several years. You have terms in those contracts around data sharing where you can use patient information for R&D purposes.

Frans van Houten, Royal Philips: Yes, great question. We tried to collaborate as much as possible with our customers on learning from data. I would like to point out that we knew will need to own the data in order to learn from data. In LSP, this very often also research component tin contracts where we have certain focal points on advancing our platforms. The besides LSPs, by the way, I'd like to point out that we have a great

platform called IntelliSpace discovery, which is targeting research hospitals where we do an open platform play to have these hospitals elaborate on AI application development. This is going very, very well, and we have already some 30 hospitals doing collaborative research on our IntelliSpace discovery with the aim to unlock the power of data. So it's an exciting topic, and our review of our program Capital Markets Day to be sure that we took enough and give you some more data points on how that is going.

Elisabeth Clive, AllianceBernstein: And second topic. In the press release, you meant there was mission of the iFR technology and becoming part of the European society of cardiology's updated guidelines. Could you just give us an -- some color on the outlook for that technology? Amongst your existing customers, do you have any idea of how often they use iFR versus FFR where do you think penetration could get to in the next 5 years and given the changes in the guidelines in Europe, should that be a much faster-growing market than the U.S. or other regions?

Frans van Houten, Royal Philips: Look, we are optimistic about it. The level of detail that you now ask, I think exceeds the scope of this meeting. We have Bert Van Meurs who is the leader of our Image-Guided Therapy business at the Capital Markets Day. So please be my guest to grill him personally on these questions.

Wim Gille, ABN AMRO: My first question will be on CC&HI. The margin dropped by 190 basis points. You also indicated FX had an impact in this division as well but not as big as in Personal Health. So the FX impact clearly accounts for a small portion of that 190 basis points. Is the rest of the impacts purely a mix effect and can you walk me through how that works in terms of margins between the monitoring business and the rest? And my second question would be on the Brexit theme. You've given us great detail on how to model the U.S. trade implications. But can you give us a bit of a flare on what they expect to happen in case a hard Brexit comes closer?

Abhijit Bhattacharya, Royal Philips: Let me take the first part. So the decline is primarily a mix impact. There was an FX impact, but we don't want to call it out as the big thing. But also, the sales -- lower sales, this is a high-margin business with a relatively fixed cost base, and therefore, when you have a top line decline, in CCHI, about 75% of sales come from patient monitoring and when that is a slower as Frans mentioned, market is kind of close to flat or marginally up. That's what hits the margins. So going forward, ones we are able to execute a few more of the monitoring sales, then we should see margins coming back pretty quickly.

Frans van Houten, Royal Philips: Okay, yes, on your second question, Wim, on Brexit, as part of European Roundtable of industrial companies, we have been extensively dialoguing with the U.K. government on consequences of Brexit. At Philips, we estimate the impact on cost, especially due to higher administrative burden, potential duties and other cost factors, to be in the high single-digit impact on the goods flow. But the whole of Philips, I would say that is still going to be relatively minor. So I don't think the take away should be that this is going to be influencing our global results, but it does potentially make manufacturing in the U.K. less attractive. I've always advocated for a frictionless border, which should actually be a cost of union. And yes, I think we are all concerned with the lack of progress in that context. But I want to reiterate that for the bigger Philips, we should not take away that this is going to influence our overall commitment on delivering 100 basis points improvement next year.

Danny van Doesburg, APG: Two short questions. May be an update on the Spectranetics, especially for European situation, where are we there in the new product launches and sales? And second question is about research and development. Happy to see that productivity of R&D is now mentioned as a concern or at least a target. To but how would you define productivity and especially that you measure it to be up 40 to 60 bps going forward?

Frans van Houten, Royal Philips: Yes, hi, Danny. Spectranetics, is doing well in the quarter, we had strong growth. Also, Europe is contributing to that growth. We had double-digit growth globally for Spectranetics. So I'm very positive about it. Then indeed, R&D productivity is a theme. I mean, for company like us who invest EUR 1.8 billion annually in R&D, clearly, becoming more data-driven around R&D productivity is a natural direction. I can tell you that every R&D project run in the company is in a central database. It is and has a business case to it. We are tracking on time lines, on cost levels and on the business case, putting a minimum threshold of value creation on every R&D project. All of these efforts mean that less important projects will be filtered out. We are also able then to reduce overhead cost in the R&D organization. We have more than 15,000 people working in R&D. So you can also work on indirect costs there, which we are doing. And then finally, in terms of talent management, we also find that some people are more productive than others, and therefore, we can also optimize on that front. So it's a very interesting source of productivity gains that perhaps historically we had left more to the lower levels to manage. But these days, we are also having it firmly into our scope.

Danny van Doesburg, APG: But on Spectranetics, Frans, is it already selling in most of the European countries today or is still some countries left on introduction (inaudible)

Frans van Houten, Royal Philips: No, no, sorry, I misunderstood your question. Yes, the Spectranetics products are being sold in all European countries. And that's also contributing to the higher growth. I mean, in fact, due to the discontinuation of the drug-coated balloon extra reimbursement in the United States, the revenue growth there was a bit under pressure. But let's say the growth elsewhere in the world has picked up. Altogether, being able to do double-digit growth for Spectranetics in Q3 is just a testimony of the traction that we are having. So I hope that helps your...

Veronika Dubajova, Goldman Sachs Group: I just have 1 more follow-up on the Personal Health slowdown this quarter. And I'm curious, Frans, Abhijit, if you can talk a little bit about where you see respiratory in the fourth quarter and into '19. It's historically been a business that was pretty consistent in terms of growth, so I'm a little surprised by the magnitude of the slowdown that you've seen and what you're putting into place to try to accelerate that growth.

Frans van Houten, Royal Philips: I think the Sleep & Respiratory franchise is strong. International markets continue to grow double-digit. In United States, we have seen a little bit more lumpiness to -- in relation to large customer orders. I would say there is nothing structural to be concerned about. The franchise is intact, and we expect also next year a strong growth. Perhaps on the back of this question, happy to report that our endeavors to step-up mask sales is going well. This, of course, always the difference between our competitor and us is that they have more mask sales and we had more systems sales. Therefore extremely pleasing that

we are growing double-digit in -- on the mask side with our Dream Series masks. And yes, as I said, I see no reason to change our outlook on the Sleep & Respiratory Care business.

Ian Douglas-Pennant, UBS: I'll be very quick. Small questions, could you -- I'm sorry if I missed it, can you give us the Health & Wellness for domestic appliances revenue growth rate numbers for the quarter, which is an indication of where they were? And secondly, a request on currency. In the past, you have declined to give us any indication of what currency impact might be on margins and that of course, this quarter, it's a major driver of the disappointment. I mean, could you just reconsider doing that, a, in the future because evidently, you do have an idea on the impact you would have just some kind of guidance that you could circulate will be helpful even if you don't have it at hand now.

Abhijit Bhattacharya, Royal Philips: Yes, Ian, thanks. Couple of things. So DA growth was also mid-single-digit and Health & Wellness was flat for the quarter. So that answers your first question. On the FX guidance, it is close to an impossibility to do because if I have guided you at the start of Q3, I wouldn't have known what exchange rate movements happened in the quarter. So yes, we could appear to be very intelligent at the beginning of the quarter and give guidance and then change it later on. So that's simply an area which I'm sorry, but I don't want to get into because we just don't know what will happen. Like I said, the worry is less on the developed market currencies and the exposure is on the emerging market side. So that part we just have to unfortunately keep open.

Frans van Houten, Royal Philips: Okay, always open to your guidance. Thank you.

Yi-Dan Wang, Deutsche Bank: So a quick follow-up on FX and I've got a couple of others. So on the FX, you already do it for the revenue so and that's based on spot rates. So it would really be helpful if you could do it on a margin too on the same rationale. And then on CC&HI, previously, you said that you were happy to -- well, you were on track to deliver around a mid-single-digit growth for '18. That seems unlikely to occur. So just wondering what has changed. Has the time it takes for your customers to accept the technologies lengthened even further or has something else occurred? And then for the D&T margins, you commented on growth investments. So just wondering how much of the margin, I suppose, shortfall is due to additional investments that you are placing. How should we think about that going forward given the large number of new products that you have going on currently?

Abhijit Bhattacharya, Royal Philips: So on the FX guidance, I think you repeat Ian's request. We will have a chat with a couple of you to see if there's a way to give you some idea. But like I said, that's a very volatile area and giving any kind of definitive guidance has -- doesn't work. But I'm happy to listen and talk to you after this. Regarding CCHI, could you repeat the question? Because you talked...

Yi-Dan Wang, Deutsche Bank: Further in the year, you commented that you were happy -- you were expecting around mid-single-digit growth for that business. It's going to be very back-end loaded. So looking at the performance of the business year-to-date, it doesn't seem that you get there unless you tell me that you still will get there.

Abhijit Bhattacharya, Royal Philips: So if you look at the first 3 quarters, it becomes close to impossible to get there. So let us not -- I think there we will be clearly lower in terms of growth. And regarding the growth investments in D&T, as I mentioned earlier, it's largely R&D which was capitalized which now flows through the P&L. So I think most of our product launches have been done. So those costs are coming in as we speak. So I don't expect a further step-up of those costs in the quarters going ahead.

Yi-Dan Wang, Deutsche Bank:

Okay. On the CC&HI was really what has changed that we will get to the mid-single digit? Has the time to for your customers to take the product? Is that taking even longer?

Frans van Houten, Royal Philips: No, no, no. I mean, we have a need in the past referred to customer orders taking longer to get to revenue as a, let's say, argument why, for example, a quarter was a bit lower and then it flowed into next quarter. What we haven't really talked about so much is that CC&HI also has a book and bill business, more of a flow business, for monitors and consumables and so on. Overall, we see the whole monitoring market in the United States as flat with no growth basically. And we are 50% of that market, right? Which means that the overall growth rate of CCHI has a setback when it comes to our ability to deliver on our targets. The big orders continue to come. There continues to be a strong interest, but it is not the only source of growth possible. And therefore, the overall market sentiment has also given a slower environment. We have not been losing market share in CCHI. I'm very confident about that. And when I speak with -- and with Carla Kriwet, and when we speak with hospital C-suite, this continues very interesting area for them, and therefore, I do expect the market to recover. And if any signal is giving confidence, it is the order intake in the third quarter, which for the second quarter in a row now is at mid-single digit. And that means we are starting to rebuild order book for -- to underpin next year's growth.

Yi-Dan Wang, Deutsche Bank: But has the market deteriorated quite significantly the third quarter because last quarter, you were relatively confident about achieving that mid-single digit growth based on your the order funnel that you mentioned.

Frans van Houten, Royal Philips: If I recall last quarter, we spoke at length about the imaging market where we are growing double-digit. And I think I acknowledge that the imaging market was growing around 4%. In hindsight, I think I perhaps have not been clear enough that the telltales of the connected care monitoring markets being at that time at a flat to low single-digit growth rate is -- seems to be continuing, right? And perhaps we were a bit more optimistic that it would already recover, but it hasn't yet. So it's still flat.

Scott Bardo, Berenberg: Real quick, you mentioned that the Cleveland is slightly underway in Q1 2019. It was my understanding that it was supposed to be an H2 '18 event. So I just wonder if you could confirm that it's a little bit delayed and perhaps going to some explanations why. Also, just please a follow up on Abhijit's description of the slightly softer margin in D&T. I think you mentioned that it was due to mix effects. Could you square that a little bit with the strong growth that you've seen in Ultrasound and in interventional, which I thought was slightly higher-margin businesses?

Frans van Houten, Royal Philips: Yes, hi Scott. Yes, Cleveland, I think we have talked about closing the last line

by the end of the year. We have some remaining inventory of components that we would like to burn off, and therefore, we see that continuing into Q1. That's the most efficient way for us to deal with what is in the warehouse. And I don't see it as a structural slip as such. Then the margin, I think for the call, we have had a couple of times that we talked about it. On the one hand, we referred to or you have high equipment sales growth, then you get a mixed shift because equipment has lower profitability than service. It will take some time for the service revenue to catch up with the equipment revenue growth because first year, you are always in warranty period. The equipment growth rate was north of 6% in the quarter. Service growth rate was I think around 2%, just to elucidate the mixed shift there. Besides that, Abhijit mentioned that you get the slowdown of R&D depreciation that -- of capitalized R&D into the P&L. And you're right with the strong growth of Ultrasound that does have a higher profitability. So altogether, I'm not worried about our ability to bring D&T to the mid-teens over time. I mean, that is our commitment. We can dissect it on a quarter basis in great detail. But what matters is that D&T will get to the mid-teens. And that is what I'm confirming here today.

All right, you're welcome. All right, I think we're at the end of the call. I appreciate everybody's questions, great questions. And if there's any message that I want to leave with you is that, yes, I am very conscious of the reaction today. But our conviction here at the table is, is that we have a great company with many levers pointing in the right direction. And we stay entirely committed to our guidance of -- on growth and profitability improvement. And I hope that will have some credibility with you guys.