

# **PHILIPS**

## **Koninklijke Philips N.V. Third Quarter 2020 Results**

Monday, 19<sup>th</sup> October 2020

**Operator:** Welcome to the Royal Philips Third Quarter 2020 Results Conference Call on Monday, 19<sup>th</sup> October 2020. During the call hosted by Mr Frans van Houten, CEO, and Mr Abhijit Bhattacharya, CFO, all participants will be in a listen-only mode. After the introduction, there will be an opportunity to ask questions. If any participants have difficulties hearing the conference at any time, please press the star followed by the zero on your telephone for operator assistance. Please note, this call will be recorded and a replay will be available on the investor relations website of Royal Philips.

I will now hand the conference over to Mr Leandro Mazzone, Head of Investor Relations. Please go ahead, Sir.

Leandro Mazzone

*Head of Investor Relations, Royal Philips*

Good morning, ladies and gentlemen. Welcome to Philip's Third Quarter 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 strategic and financial highlights for the quarter as well as the targets for accelerated growth, higher profitability and improved cashflow for the 2021-2025 period. Abhijit will then provide more detail on the Q3 financials. After that, we will take your questions.

Our press release and the related information slide deck were published at 7.00 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 the day on our website.

As mentioned in the press release, adjusted EBITA is defined as income from operations, excluding amortisation of acquired intangible assets, impairment of goodwill and other intangible assets, restructuring charges, acquisition-related costs and other significant items. The impact of COVID-19 on our results is not treated as an adjusting item. Comparable growth for sales and orders are adjusted for currency and portfolio changes. Finally, also as mentioned in the press release, the new targets exclude the Domestic Appliances business.

With that, I would like to handover to Frans.

Frans van Houten

*Chief Executive Officer, Royal Philips*

Well, thanks, Leandro and good morning to all of you on the call and webcast. I hope that you and your families are keeping safe and well.

It's clear that the COVID-19 pandemic is far from over and I'm pleased with how we are performing under the challenging circumstances, as our teams are focused on delivering what we call our triple duty of care, meeting critical customer needs, safeguarding the health and safety of our employees and ensuring business continuity.

The work that we are doing to support healthcare providers, medical staff, patients and consumers alike, remains a top priority for all of us at Philips. In close collaboration with our suppliers and partners, we have ramped up the production volumes of products and solutions

to help diagnose, treat, monitor and manage COVID-19 patients. We've also continued to create important COVID-19-oriented propositions to rapidly respond to customer needs.

Moving on to the Q3 financial highlights, we delivered strong growth and improved profitability in the quarter. Overall, comparable sales growth was 10% as we successfully converted our Connected Care order book, so consumer demand rebounding and elective procedures gradually normalising.

Connected Care grew a very strong 42% in the quarter, driven by the high volume of shipments to fulfil the order for patient monitors and respiratory care. Sales for Personal Health grew 6%. Our Diagnosis & Treatment businesses delivered encouraging sequential improvement, but still declined 3% in the quarter versus 2019.

Comparable equipment order intake grew 3% in the quarter, excluding the impact from the unexpected partial termination of the April 2020 contract with HHS which was communicated in August. Quarter intake growth was driven by the demands for patient monitors, hospital ventilators, computer tomography and portable ultrasound systems. Customer response to our innovative products and solutions remains very positive and we have – we expect to have a continued increasing market share in the professional healthcare market.

Adjusted EBITA margin was 15.4% in the third quarter, 300 basis points higher than in Q3 2019. Free cashflow increased strongly to €543 million.

Looking ahead, we continue to see uncertainty and volatility related to the impact of COVID-19 across the world but our order book is solid and we continue to expect to deliver modest comparable sales growth with an adjusted EBITA margin around the level of last year for the full year 2020.

Now, I would like to provide some colour on initiatives to respond to customer needs and support healthcare professionals. In the quarter, we introduced several new solutions for the intensive care unit, the general ward and the home, that feature virtual monitoring capabilities. These include our new Rapid Equipment Deployment Kit for ICU ramp-ups, allowing hospital staff to quickly deploy critical care, patient monitoring capabilities where and when additional care capacity is needed. The kit is a fully configured and ready-to-deploy ICU patient monitor solution which includes 20 ICU monitors, 20 measurement servers and a central management monitoring station.

Building on our leadership in defibrillators, we launched a new solution for emergency care in the United States consisting of a remote portable vital signs patient monitor and professional

defibrillator. This is called the Tempus ALS. It's a complete end-to-end system that combines innovative hardware and advanced software for emergency responders.

Also exciting, we launched major extensions to our industry-leading Azurion platform, comprising a new range of configurations addressing more therapeutic areas and more price points and further integrating therapeutic devices and imaging. With the new Azurion, clinicians can easily and seamlessly switch between imaging, physiology, hemodynamics and informatics applications, including state-of-the-art smart CT 3D imaging and IntraSight, a comprehensive suite of clinically proven IFR, FFR, IVUS and co-registration modalities.

We also expanded our Image-Guided Therapy devices portfolio through the acquisition of Intact Vascular, adding an industry first implantable device to treat peripheral artery disease. Moreover, we launched QuickClear an all-in-one thrombectomy system for the removal of blood clots from the vessels of the peripheral arterial and venous systems; and OmniWire, a solid core pressure wire, another industry first, to guide coronary artery procedures.

We continue to drive market share in our core businesses through deeper and more comprehensive customer partnerships to enhance patient care and improve care provider productivity.

During the third quarter, we signed 11 new long-term strategic partnerships with hospitals in the United States, Europe and Asia. We announced a multi-year partnership with Tampa General Hospital, one of the largest hospitals in the United States, to replace all of the hospital's patient monitors and upgrade key imaging technologies in the cath labs and interventional radiology rooms. We also provide unique workflow solutions and operational performance management services.

In Personal Health, we continue to invest in innovation and new product introductions to capitalise on the recovery opportunities. In the third quarter, we broadened our leading portfolio of power toothbrushes with the exciting launch of the Philips One by Sonicare in the United States. This is a battery-operated power toothbrush which is a step-up for consumers that switch from manual brushing and an entry-level proposition, thereby allowing us to expand in new consumer segments. The Philips One starts at USD 24.99 and also offers users a subscription service that seamlessly delivers a new brush head and replacement battery right to their door every three months. The automatic refill helps keep oral health routines on track and ensures optimal efficacy of brush heads.

While we have been working hard on managing our business during these uncertain times, we continue to progress on our strategic and performance roadmap for the coming years. Our journey to health tech leadership continues as we innovate to drive growth, improve operational excellence and deliver on our transformation.

Our strategy to transform care along the health continuum strongly resonates with customers and has been further validated during the COVID-19 crisis. Moreover, we see increased interest in telehealth solutions like Tele-ICU, tele-radiology, tele-pathology which can help virtual working of care professionals as well as move care into the community.

We are glad to announce our targets for accelerated growth, higher profitability and improved cashflow for the 2021-2025 period ahead of our upcoming Capital Markets Day that will be held virtually in November.

We play in attractive market segments with solid growth fundamentals and with long-term trends that align with our strategy. We expect these markets to grow around 4% per year, assuming that the world economy returns to growth next year.

Building on our transformation and investments over the last few years, we anticipate an acceleration of our average annual comparable sales growth to 5-6% with all business segments in that range. This is underpinned by our strategic imperatives to further improve customer and operation excellence; boost growth in our core businesses through innovation, geographical expansion and more customer partnerships, and of course, winning with innovative solutions along the health continue.

For 2021, our current view is that Group comparable sales will deliver low single-digit growth, driven by solid growth in Diagnosis & Treatment and Personal Health, but partly offset by lower Connected Care sales as demand in these businesses normalise from the spike in COVID-19 generated demand in 2020. We aim for an average adjusted EBITA margin improvement of 60-80 basis points annually, starting in 2021 and reaching high teens by 2025.

Looking at the business segments, we expect Diagnosis & Treatment to reach 15-17% adjusted EBITA margin, Connected Care to reach 17-19% and Personal Health to reach 19-20%. This profitability step-up is driven by abovementioned growth, delivering operating leverage; increasing return of investments in growth businesses like telehealth and informatics; and a further step-up in the profitability of Diagnostic Imaging; as well as operational excellence resulting in further sizeable productivity savings over the next years.

Next to this, cash generation will step up to above €2 billion of free cashflow and organic ROIC will improve to mid-to-high teens by 2025. We will discuss this strategic and overall performance roadmap in more detail during our Capital Markets Day on 6<sup>th</sup> November, but we did not want to keep the suspense until then so that investors can reflect on it in the meantime. We look forward to very engaging dialogue during Capital Markets Day.

I'm also very proud to share with you that we are reinforcing our commitments as a purpose-driven company with a fully integrated approach to doing business responsibly and sustainably. Our leadership in environmental responsibility is recognised by our stakeholders and we have been consistently raising the bar. For example, earlier this month, Philips ranked number two over 5,500 publicly traded companies on the *Wall Street Journal* list of the 100 most sustainably managed companies in the world.

We expect to deliver on all targets set out in our 2016-2020 Healthy People Sustainable Planet Programme by the end of this year. And in September, we announced a comprehensive new set of commitments and targets across the entire spectrum of our environmental, social and corporate governance activities that will guide the execution of our company's strategy.

We are enhancing our ambitions to reduce CO2 emissions in line with a 1.5 degree Celsius global warming scenario set out by the Paris Agreement. By 2025, Philips will be 75% powered by renewable energy. All our products and services will be designed in line with eco-design requirements. And where we cannot completely eliminate our CO2 emissions, we will offset them by investments in health-benefiting environmental projects.

When it comes to social responsibility, we commit to improving the lives of 2 billion people a year by 2025, including 300 million in underserved communities. We have also set a new goal of 30% gender diversity in senior leadership positions by the end of 2025, up from 25% in 2020. And when it comes to good governance, we commit to being transparent in the tax contributions we make in all countries we operate in.

Bringing together all these aspects of responsible and sustainable business into a single framework will not only help us improve lives throughout the world but it will also reinforce our purpose and strength in our power of innovation.

Ladies and gentlemen, let me also give you an update on the current status of the divestment of the Domestic Appliances businesses. The separation process is on track and expected to be completed in the third quarter of 2021. As planned, we started to engage with interested parties and continue to see good interest for the asset. Domestic appliances is a solid business and has returned to robust growth, with increasing margins in the third quarter based on a strong portfolio of innovations with market-leading positions.

To round off, I'm pleased that we are delivering to plan and very thankful to our employees. I'm also convinced that Philips is well positioned to serve the current and future needs of hospitals and health systems, next to supporting consumer health, and that the growth and margin profile of our company is well underpinned.

And with that, I'd like to turn the call to Abhijit.

Abhijit Bhattacharya

*Chief Financial Officer, Royal Philips*

Thank you, Frans, and thank you all for joining us today. Let me start with providing some colour on the third quarter comparable sales for the Group.

Our Diagnosis and treatment businesses comparable sales declined 3% in the quarter on the back of strong 9% growth in Q3 2019. Diagnostic Imaging sales declined below single digit as growth in Computer Tomography and Diagnostic X-ray was offset by lower volume of installations in MR. Ultrasound sales declined double digit with strong demand for point-of-care devices more than offset by lower installations of cardiac systems in the quarter. Image-Guided Therapy sales declined low single digit in Q3. The volume of elective procedures continue to recover, being very close to pre-COVID-19 levels by the end of the quarter. As a result, our Image-Guided Therapy devices business delivered low single-digit comparable sales growth in Q3. Sales for Image-Guided Therapy systems improved to a low single-digit decline compared to high-teens decline in Q2 as hospitals are gradually resuming installation. Services sales for our Diagnosis & Treatment businesses grew low single digit compared to the same period of 2019. Let me remind you that recurring revenue streams from services represent more than 35% of the total sales of our Diagnosis & Treatment businesses.

The sales for Connected Care businesses grew a very strong 42% in Q3, driven by shipments of patient monitors and respiratory care solutions. As mentioned by Frans, we have ramped up the production of these devices to meet urgent demand and fulfil the orders we have on hand for these products.

For Personal Health, we saw steady recovery in demand in the third quarter and helped by the normal pattern of selling ahead of the high season in Q4. Comparable sales increased by 6% with high single-digit growth in Personal Care and Domestic Appliances and low single-digit growth in oral healthcare.

North America and Western Europe delivered double-digit growth. This was partly offset by a decline in both geographies driven by China.

Consumer sales through digital channels grew double digit in the quarter and represented 37% of total sales for the Personal Health businesses. This compares to around 33% of total sales before the COVID-19 pandemic.

In-store sales grew low single digit in Q3. Given the uncertainty around consumer demand and the slower pace of recovery in China, we continue to expect our Personal Health businesses to delivery low single-digit comparable sales growth in the fourth quarter of this year.

Moving to orders, as mentioned by Frans, order intake grew 3% in Q3, excluding the impact on the partial cancellation of the HSS contract. This based on double-digit growth seen in the first half of the year, resulting in double-digit growth year-to-date and a strong order book for the Group as depicted on page 29 of our IR booklet.

For reference, if the booking and cancellations of the HHS deal had taken place in the same quarter, so assuming that the booking and cancellation had happened in Q4, the order intake growth for Q2 would have been high single-digit compared to the 27% reported previously.

Comparable order intake in Connected Care grew by 26% in the quarter, excluding the impact from the HHS contract, with double-digit growth across all businesses. Including the impact of the cancellation, order intake for Connected Care declined by 56%. I'm particularly encouraged by another strong quarter in Monitoring & Analytics with more than 20% order growth compared to last year.

We also witnessed strong traction in our Connected Care Informatics & Therapeutic Care businesses. Based on this order intake performance, we expect to continue to see solid growth in Connected Care sales in the fourth quarter, although not comparable to the magnitude seen in Q3.

Diagnosis & Treatment comparable order intake improved to a decline of 5% in Q3 compared to a 20% decline in Q2. Growth in computed tomography, X-ray and portable ultrasound was more than offset by a decline in other parts of the portfolio. High single-digit growth in Western Europe was more than offset by a decline in North America and growth geographies.

We expect that some areas of the Diagnosis & Treatment businesses will continue to experience a gradual recovery in demand through the fourth quarter, but it's important to note that we have not seen cancellations of orders due to the COVID-19 outbreak and continue to experience positive competitive momentum for our portfolio.

Let me now turn to the profitability development for the quarter. Adjusted EBITA for the Group was €769 million, or 15.4% of sales compared to 12.4% in the third quarter of 2019. Looking at the business segments. Connected Care delivered an adjusted EBITA margin of 27.1% of sales compared to 11.3% in the third quarter of 2019, a strong operating leverage and productivity measures initiated from last year more than offset the investments to ramp up production.

In Diagnosis & Treatment, the adjusted EBITA decreased to 9.7% of sales. This was a result of lower sales and lower factory coverage and an unfavourable product mix driven by lower growth of the cardiac ultrasound and Image-Guided Therapy portfolios.



In Personal Health, the adjusted EBITA was 14.5%, broadly in line with last year. Sales growth and cost savings were offset by adverse currency impacts of 50 basis points due to the depreciation of growth geography currencies as well as the planned higher investments in advertising.

We remain on track to deliver over €400 million productivity savings this year and exceed the €1.8 billion productivity target set for the overall period of 2017-2020.

In the third quarter, our productivity programme delivered €120 million net savings. More specifically, procurement savings delivered €62 million of bill-of-material savings. Net non-manufacturing cost reduction amounted to €26 million and the manufacturing productivity programme contributed to €32 million.

Restructuring, acquisition-related and other charges were higher than the guided range, mainly due to the provision of €38 million related to a legal matter and an onerous contract provision of €57 million in relation to changes in ventilator demand and certain aspects of the partial HHS contract termination.

Net income amounted to €340 million in the quarter. The adjusted diluted EPS from continuing operations grew 30% in Q3 to €0.60. Free cash flow was an inflow of €543 million compared to €126 million in Q3 2019. In the first three quarters of 2020, our free cash flow generation was around €800 million, €700 million better than the same period of last year as a result of strong working capital performance.

Our customers continue to face cash pressures due to the impact of COVID-19, but we do not expect it to impact our total cash flow generation over a 12-18 month time horizon.

Let me provide some guidance for certain areas of our business. Based on the announcement made so far, we continue to expect the full year gross impacts of tariff to be around €70 million. Including mitigating actions, we expect the net tariff impact to be around €40 million in 2020. This is €30 million lower than the net impact seen in 2019.

In the segment Others, we expect an adjusted EBITA loss of around €115 million in 2020. This is €20 million lower than our previous guidance due to cost savings delivered in the third quarter. At EBITA level, we now expect a net cost of around €240 million for the full year 2020. This includes €50-60 million of costs related to the separation of the Domestic Appliances business, as explained before.

Financial income and expenses are expected to be a net cost of around €100 million in 2020. This is €50 million lower than our prior guidance, mainly due to lower interest expenses paid and positive value adjustments of financial assets.

To summarise, we ended the quarter with 10% comparable sales growth and 15.4% adjusted EBITA margin. For the fourth quarter of the year, we continue to expect to deliver growth and improved profitability for the Group. Consequently, for the full year 2020, we expect to deliver modest comparable sales growth and an adjusted EBITA margin of around the level of last year.

We have seen increasing interest from investors seeking clarity on our post-2020 performance roadmap. And as Frans mentioned, we decided to announce our targets for accelerated growth, higher profitability and improved cash flow today to give you sufficient time to prepare for an engaging dialogue during our Capital Markets Day on 6<sup>th</sup> November.

We request you to kindly reserve your questions on the performance roadmap for the Capital Markets Day so that we can focus today's Q&A on the third quarter performance and the outlook for the year.

Due to the current restrictions around COVID-19, we will have a Virtual Capital Markets Day this year. Despite the change in format, we will have sufficient time for Q&A and interaction. Additionally, we will hold a series of fireside chats during the weeks following the CMD to be hosted by Frans and our segment leaders. More information on these events are published on our Investor Relations website.

To conclude, I want again to thank our customers for their support as well as our employees for how they have stepped up to deliver against our triple duty of care during these difficult times. This has also been reflected in our high employee engagement scores.

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

## Q&A

**Operator:** Thank you sir. If any participants would like to ask a question, please press the star followed by the one on your telephone. If you wish to cancel this request, please press the star followed by the two. Please limit yourselves to one question with a maximum of one follow-up. This will give more people the opportunity to ask questions. If you're using speaker equipment today, please lift the handset before making your selections. There will be a short pause while participants register for a question. The first question comes from Veronika Dubajova from Goldman Sachs. Please state your question.

**Veronika Dubajova (Goldman Sachs):** Good morning and thank you for taking my question. Can we please start just – I'd love to understand, Frans, what you're seeing a little bit from a hospital CAPEX perspective. Obviously, the D&T order momentum, big improvement versus Q2. But if you can give us a little bit of sense for how it progresses as you moved through the month and your degree of confidence in order growth either turning neutral or positive in the fourth quarter, which I think was your original expectation of quarter ago. That would be a great place to start. And then I have a follow-up after that, if that's all right.

**Frans van Houten:** Okay. Hi. Good morning, Veronika. Well, the hospital CAPEX has been directed to the acute care areas. So, it's not that hospitals are not investing but they have prioritised their emergency response. And that went to the expense of, let's say, the other modalities, leading to some delays in installations.

If we look at the plans that hospitals are making, then we see a great desire to invest in the more profitable elective procedure areas. So, we actually do not expect a structural impact on hospital CAPEX because this is the lifeline of the providers to generate the support to patients with chronic disease, and generate their revenue stream.

So, while there is a delay, we don't think that that is structural. And the improvement in D&T from Q2 to Q3 is step in the right direction. It's maybe a tad slower than what you all expected. But there's quite an old installed base in the world, especially in the United States and Europe, that is 10, 12 years old and that needs to be upgraded. And we – if we look at our funnel, then we have every reason to believe that we can see the recovery of the D&T segment strongly.

Now, if you look, Veronika, at our guidance for next year, we are basically indicating that we expect 5-6% growth across D&T and Personal Health, while only Connected Care will be negative due to the very difficult compare. And that means that the totality of Philips will then be low single-digit and then from there on we will take the growth to 5-6%. That indicates a strong confidence in our ability to get the order intake back up to a level to support that revenue growth. Let me pause there.

**Veronika Dubajova:** Now, that's very helpful. And can I just follow-up on that 2021 comment? I mean, it's obviously tough for us to see, there is quite a lot of moving parts, but I'm just curious when it comes to profitability, your degree of confidence in that 60-80 basis points and potentially what might be some of the upside risk to that as we think about 2021 margin. Clearly, this year you've demonstrated much better margin resilience than I think a lot of us would have expected at the outset. So, just curious how you were thinking about that dynamic or the margin side for 2021.

**Frans van Houten:** Yeah. Well, I could of course say that this is not typically a question that belongs to the Capital Markets Day. But let me at least say something about it, Veronika. It's a complex calculation, right, because the categories of patient monitoring and hospital respiratory care generated a lot of operational leverage in 2020. Some of that will fall away next year, although we do see resilience in the order funnel for patient monitoring because monitoring will get into other care settings and I think the category will prove to be much more resilience than hospital ventilation. But then the other Connected Care modalities will come back up.

We will provide, at Capital Markets Day, the typical bridge that you have gotten used to. And you will see there a balance coming from growth – gross margin expansion, thanks to innovation; productivity gains, because we see a lot of opportunity to continue to drive productivity programmes over the next five years in fact; and then, yeah, other improvements.

So, I think – I'm being prompted here by Abhijit who also mentioned something about while the, let's say, hospital ventilation goes down, actually sleep will come back up. And also, of course, the elective procedures recovery means that the high growth IGT area and especially IGT devices will demonstrate strong growth, and also cardiac, ultrasound and MRI.

So, there's plenty of excitement brewing to underpin both growth and profit expansion. Again, let me pause there, Veronika.

**Operator:** The next question comes from Michael Jüngling from Morgan Stanley. Please state your question.

**Michael Jüngling (Morgan Stanley):** Great. So, good morning all. I have two questions, both on Personal Health, please. The first one is, are the accounts receivables with your customers becoming an issue or have you taken already sufficient amount of provision against doubtful debt charges going forward to avoid a negative surprise in the fourth quarter?

And then question number two also on Personal Health is, how do your customers normally purchase for the Christmas period? Most of, let's say, 90% of the orders taken in Q3. And is this year different as customers wait to see how difficult COVID is and are coming with some last-minute orders for the Christmas period? Thank you.

**Frans van Houten:** Yeah. Hi, Michael. Well, let me reassure you on the accounts receivable side because we have not seen difficulties on the Personal Health side. In April Q2, we were a bit worried about it, but we are in close contact with our customers and we think that this is entirely under control.

On the health system side, let me deviate slightly from your question and also cover the accounts receivable on the health system side. There we have seen some hospitals asking for help, but then we have been able to leverage our Philips capital financial services portfolio to help them out. And as a consequence, collections have been very strong and you also see that our working capital has been very much under control.

With regards to the PH ordering, of course, Q3 was very strong. There was an element of stocking up for the fourth quarter, as is normal in a seasonal pattern, as you get Prime Day and Black Friday and all these other things coming up. But I think what is very reassuring is that our sell-out data is also strong.

And that means that there is really underlying demand from consumers that want to buy into good personal care, good personal hygiene and the products that we have on offer. Also our Domestic Appliances business is very resilient, very strong recovery in Q3 across the entire portfolio.

Yeah, in passing, Michael, I mentioned that Prime Day is coming up, that as you know Amazon has moved their Prime Day from Q2 to Q4. And so there's a lot of seasonal festivals coming up in the fourth quarter. That's I think how I look at Personal Health.

**Michael Jüngling:** Okay. Because you guided for the fourth quarter to a little bit of growth in Personal Health. Are you taking a very conservative approach just in case things go the wrong way? Because the way it sounds right now that things could actually go a bit better than what you initially planned to do.

**Frans van Houten:** That guidance for Q4 is more because given the long shipping lines for Personal Health, the typical highest quarter in terms of selling in is the third quarter, right? Therefore, we should not expect to repeat what we did in Q3 in Q4. So, I would not label it as conservative on how we see consumer demand, but given the pipeline and the time lag, some of Q4 sales is already recorded in Q3 as a consequence.

**Operator:** The next question comes from Patrick Wood from Bank of America. Please state your question.

**Patrick Wood (Bank of America):** Perfect. Thank you for taking my questions. I'll just ask both upfront, if I can. First one maybe China, a little bit of a surprise there on – at least on my end. What are you seeing there? I mean, some of the macro data seems to suggest that the recovery is relatively strong, but I'm just curious what you guys are seeing on the commercial side with consumers and just a little surprise that weakness and how you feel about that going into next year.

And then the second question is on Connected Care. Maybe just a little bit of help in terms of the phasing. Thank you for the commentary around Q4 still being strong growth, but should we expect generally over the next bunch of quarters, however you want to define it, growth to fairly meaningfully retreat down? I mean, I'm trying to get a sense of how sharp the drop off is. Thanks guys.

**Frans van Houten:** Yeah. Hi Patrick. Yeah, China was a bit weak in the third quarter and we have some work to do on the Personal Health side in China, where we think we can step up the effectiveness of our marketing. We have several launches planned that will support the future, but – and even though the gross numbers in China showed a good recovery, we feel that the market is not completely there yet, to a degree that also applies to the health system side where we saw growth a little bit softer than we had hoped for.

So, some work to be done in China. That is, of course, compensated by a very resilient Europe and United States market that we feel very good about.

On the Connected Care, I think it's a bit in line with the question from – and the discussion we had on Veronika's question. So, Abhijit already said that order book and order and pipeline for Connected Care in fourth quarter looks strong. I mentioned that I see monitoring also extend into other care areas and that, therefore, monitoring will be an area where we can see a longer demand cycle than hospital ventilation, which is a market that is going to be more saturated, expectedly.

However, the home ventilation and sleep categories, sleep apnoea categories have suffered this year because of the COVID pandemic. Fewer sleep tests are being done. That means that there are quite a lot of patients that are under-diagnosed and under-treated. We think that that will get a big boost next year. Even so, the comparison from 2020 to 2021 will, of course, be very hard, given the high revenue in CC this year. And therefore, we expect a negative growth in Connected Care in 2021 just because of the comparison. And therefore,

Philips, as a Group, comes into the low single-digit growth rate for next year, while D&T and Personal Health are expected to grow in the 5% to 6% bracket. I hope that helps a bit.

**Operator:** The next question comes from –

**Frans van Houten:** And maybe one more thing Patrick. That is that we see strong demand for Health Informatics in Connected Care, tele-health related and we certainly think that that's on a winning streak with a lot of demand. And we think that's permanent, that's the final – the acceleration that we have been hoping for and that we talked about many times in the past, when is it coming with all the investments done, and we think it's coming now.

**Abhijit Bhattacharya:** Maybe just to give a bit more colour. So, in patient monitoring, we are – we have grown order intake, I think, 20% in the quarter, 50% the previous quarter. So, we have good momentum there. So I think, Patrick, a good way to look at it is to compare the 2021 growth over 2019 and then you see – if you take out the spike of 2020, you see really good steady growth. But yeah, compared just mathematically to the spike of this year, there will be a decline.

**Operator:** The next question comes from David Adlington from JP Morgan. Please go ahead.

**David Adlington (JP Morgan):** Morning gents. Thanks for taking the question. I just wanted to check if the consolidation in the Imaging & Radiotherapy space had changed your thoughts on the outlook for your D&T business and its competitiveness going forward. And associated with that, I just wondered if you've recognised any one-off costs in the quarter associated with aborted M&A attempts.

**Frans van Houten:** That is an interesting question. You're referring to the Siemens-Varian deal, which is a big deal, but I bring to your recollection that we have a partnership in the radio therapy area with Elekta. That partnership is going well. It serves us well.

We do believe that the care pathways in oncology benefit from a good integration of technologies and software, clinical decision support systems. We think that we can accomplish that through this partnership, and therefore, nothing to report. There are no charges for whatever in that space, so negative on your second question.

And perhaps a wider perspective on the market of oncology. You know that we are already active in oncology in many years with the combination of our diagnostic informatic systems, therapy planning and more recently oncology informatics, where we combine radiology, pathology and genomics and longitudinal data of patients. We combine it with the Dana-Farber Clinical Decisions support for decision-making, and we are making a lot of headway in that segment. That – so let me leave at that.

**Operator:** The next question comes from Hassan Al-Wakeel from Barclays. Please state your question.

**Hassan Al-Wakeel (Barclays):** Thank you for taking my questions. I have a couple please. So, firstly, where do you think ventilator capacity is now globally and how much of the HHS contract cancellation do you think you can offset? And what about critical care capacity and do you expect the strong growth in patient monitoring to persist?

Secondly, on the medium-term top line guidance, could you elaborate on the most significant drivers for your increased optimism and the narrowing of this range relative to your prior

range? And also what is the net margin benefit you have assumed from the disposal of Domestic Appliances at a Group level please? Thank you.

**Frans van Houten:** Right, Hassan, good morning. That's three questions I think. Firstly, the ventilator capacity, I don't have the industry top of my mind, but we had approximately 30,000, or so, ventilators in 2019 and a seven-fold increase this year, in which the cancellation of the 30,000 by the US takes a bite out of that. But it is still a very sizeable step-up versus 2019.

It's the expectation that the hospital ventilator market will return to a 2019 level in 2021. Now, that's a rough outline and we are not the only one that is affected, by the way, by partial cancellation; also two other vendors it happened to them.

And still, as Abhijit said, we still see orders coming in, in the fourth quarter. There are still countries in the world that are under-equipped when it comes to acute care, and depending on how COVID-19 develops, it could well be that we will also see stockpile programmes coming up from various governments. It's, for example, being debated in the European Commission. And if stockpiles programmes would emerge then that could actually change the narrative I've just given for 2021. So, it's a bit fluid situation.

On monitoring, I think we can be much more optimistic longer term because historically, monitoring was something for the intensive care department. In the meantime, we see more and more hospitals equipping patients also in the general ward where the surveillance or the continuous surveillance of patients reduces the stress on hospital staff. It provides with the predictive analytics on how a patient is doing, and the health economic benefits of monitoring in the general ward, as well as the clinical benefits are well documented in the meantime.

We also expect to see monitoring to take off in the out-of-hospital space with more and more chronic patients being monitored on a continuous basis, or at least certainly after discharge for a while. These are new monitoring markets that will kick in also post-COVID, and therefore, we are very expectedly very positive about the monitoring and analytics marketplace for the years to come, certainly something where it will sustain that 5-6% growth.

I mentioned hospital respiration to go down, but then the home ventilation and sleep apnoea market will strongly recover, right, and therefore, we can be – and then the tele-health market will also get a boost, so we can expect Connected Care to be in that 5-6% bracket in 2022 after we have compensated for the spike. And you heard Abhijit say basically that if you think about Connected Care versus 2019, then next year should be in positive growth territory as well. I think first that, we should be able to model that.

The midterm optimism, well, over the last five years, we have been delivering consistently around 4.5% growth, and we have been stepping up investments, repositioned the portfolio towards higher growth categories. Let me just mention one. IGT devices, double-digit growth. This year, of course, a bit under pressure due to the postponement of elective procedures, but with all our exciting moves in Image-Guided Therapy, we expect IGT overall to be high growth, but then IGT devices to be double-digit. And we're now getting closer to the €1 billion in size for IGT devices, so it becomes a sizeable business and really contributing to the overall growth of Philips.

I mentioned health informatics as an area where we have invested quite a lot and that is expectedly getting to much – structurally a much higher growth ratio. And then, there is all the other – then Personal Health structurally on a 5-6% growth. In fact, that should not be a surprise because also, historically, we have been performing in that level. Then, we see the strong performance with long-term strategic partnerships. We have recorded another 11 deals with customers across the world who believe in the fact that if you partner, you get better health productivity, better health outcomes.

And the recurring revenue portfolio is increasing year-on-year, right? It makes us more resilient, but it also adds to the growth, and we saw double-digit growth in the solutions part of our portfolio. So, plenty to think of when it comes to underpinning the midterm targets.

And on the profitability side, of course, that goes back to the question on the bridge partly driven by growth, partly by innovations and higher gross margins, partly by productivity programmes that we will elucidate at the Capital Markets Day, but I can tell you that we see productivity programmes to go through every year over the next four years. So, also, there I think quite some – as it is called, there is a Dutch expression, we have quite a few irons in the fire, as it is called.

And then your third question on the DA impact, so the guidance is exclusive of DA. We expect to complete the deal by the third quarter of next year. DA is slightly below the average profitability of Philips, therefore, maybe 10 basis points.

**Abhijit Bhattacharya:** That is not material.

**Frans van Houten:** It is not material impact on the profitability, and it's a great asset, has nice growth. Also, there is not a material impact in the portfolio mix. I hope, Hassan, that answers all your questions.

**Operator:** The next question comes from Lisa Clive from Bernstein. Please state your question.

**Lisa Clive (Bernstein):** Hi, three questions please. First of all, just a comment you made around the long-term contract adding to the growth. I guess, this is more an accounting question for Abhijit. So, I assume you only book one year of revenues in the first year of, say, a 10-year contract and versus selling that – selling equipment outright to that customer, this actually would be a headwind to growth as you aren't accounting for the full value of all the unit placements in year one.

So actually, if we look at your long-term – your new midterm guidance and that includes an acceleration in these long-term contracts, should we actually see that as a positive?

Second question on Connected Care, could you give us some guidance on the margins around Connected Care informatics? I assume it hasn't been that profitable to-date just because of investments required and being fairly small. But as we look out at that three, four years out, would that become a strong contributor to your EBITA growth?

And then lastly, you mentioned the old installed base of imaging equipment in the US, in Europe. What about patient monitors? I assume in order for hospitals to be able to take advantage of eICU and other platforms, that they need to have newer monitors that are Wi-Fi enabled, etc., how should we think about the installed base that you have out there, and how quickly that can turn over so that you can offer more of your software-as-a-service solutions?



**Frans van Houten:** Okay, great. Lisa, let me start with question three, and then hand it over to Abhijit for one and two. But the installed base in patient monitoring is not as old as, let's say, you see on the imaging side. And many of our patient monitoring systems are already connected to a central station where, on a departmental level, you can oversee the entire ICU ward.

The interoperability with the electronic medical record is already arranged. Therefore, integration with hospital networks is completely there, that also – and given that we are so advanced, it actually helped us to be the market leader, right? So, it's not correct to think of patient monitors as an old-fashioned hardware device next to the bed. This is very advanced informatics applications.

We do offer hospitals, of course, the newer systems, and they become more and more artificial-intelligence-enabled and predictive in their nature. So, it is a very exciting area. And that's also why earlier in the questions I said, I see sustained growth in Monitoring and Analytics. Abhijit?

**Abhijit Bhattacharya:** Yeah, so Lisa, let me explain a bit about the long-term strategic partnerships. It is not necessarily that they are as a service dealer. Let me explain the difference.

So, some of them, we have a contract over 10 years to renew their equipment, as and when necessary, with newer technology. So, actually, it just locks us in with that hospital group over a period of 5 or 10 years, where we just execute capital sales over that period which is pre-committed, so it helps us to plan better, helps the hospital to plan better.

Now, in some cases, these hospitals also prefer, over that period, to have a fixed cash outlet through the period. And then we arrange it through Philip's capital so then it becomes a financing arrangement, which in most cases we even offload to banks. So, as far as our sales is concerned, it provides assurance of sales in the coming years, but does not necessarily convert capital sales to, let's say, per-use sales.

There are a couple of sales that we do, which is based on per-use models. That has an impact, but it's in the larger – and it will be bigger as we go forward. But in the larger scheme of things, not that big. And this can be also, let's say, collaborated with our overall solutions sales, which has grown significantly above our, let's say, equipment sales business.

So, if you look, I think few years ago, we had solution sales around 28%. We are now north of 35%, that our target was to get to 35% this year, so actually we grow our solutions business and recurring revenue business by more than double of what we are growing our equipment business. So, hopefully that gives you a bit more than background as to why we have a higher level of confidence on the sales growth.

We don't give specific guidance on Connected Care informatics, but just to tell you, yes, it is a relatively small business. And with the expected growth coming forward, we expect it to get into margins in the range for a normal informatics business, which is in the teens, so there is a significant part of that improvement still to come.

**Operator:** The next question comes from Ed Ridley-Day from Redburn. Please state your question.

**Ed Ridley-Day (Redburn):** Good morning, thank you. First of all, great to see explicit return-on-invested-capital targets as part of your midterm guidance. Frankly, far too rare seeing that from companies we look at. Abhijit, can you just remind us of the base there from 2019 in terms of your organic ROIC? And also in terms of organic ROIC, I presume that is including bolt-ons, but nothing in terms of strategic acquisitions?

**Abhijit Bhattacharya:** Yeah, Ed, maybe a couple of points. So one, you said not many people have it, but we have actually always had a ROIC target. We ended 2019 with 14.8%, so in the mid-teens. It will go slightly lower this year as we get the NOC for Volcano into our net operating capital.

But I think what we do for our acquisitions – and we mentioned that very clearly because it's very difficult to give a prediction on how M&A will go. We have a five-year period for which M&A is excluded. So, from year six of an M&A, we put it into it as an organic target, so that's why you see this year Volcano comes in.

And then, let's say, over the course of the next five years, the other acquisitions that have happened subsequent to 2025 will keep coming into the numbers. So, I think we would end this year if you – around the mid-teens. So, maybe around the 13% if you – specially, if you exclude there was a big impact of a change in accounting. So, when we had actually set out the targets, the IFRS guidance on capitalisation of lease assets was not there. So, if you keep it on that basis, we will end around the mid-teens; that is what we had targeted. And then over the period, we expect it to go higher.

**Operator:** The next question comes from Scott Bardo from Berenberg. Please state your question.

**Scott Bardo (Berenberg):** Yeah, thanks so much for taking the questions. So, the first question please just relates to the new midterm guidance you provided, and I appreciated you want to wait until the Capital Markets Day to outline your strategy and how you achieve that. But the question is, does the midterm targets imply a very heavy gearing to the Diagnostic and Treatment business to be achieved?

If my calculations are correct, the Personal Health business already achieved a 19% margin last year when you exclude the Domestic Appliance business, and Connected Care I think is already, for the nine months, at the upper end of the new margin range you set for 2025. So, I just want to understand whether there is a very heavy weighting to D&T progression embedded in these targets please?

And the second question following on from that, I think that some of your competitors are launching new products in the diagnostic imaging space. And we've talked a little bit about broader consolidation in the channel. Can you give us an update please as to where Philips is within its innovation cycle here? Should we expect some new products to come at the RSNA and so forth? Thank you.

**Frans van Houten:** Yeah, hi Scott. Well, all three reporting segments will improve their profitability in the next period. And certainly, a big step up by D&T as you imply, but also by Connected Care, right, which, in fact, we would all say has been underperforming up till 2019, and now has this nice boost from acute care, but still has to structurally further improve over

the next years. So, that underpins the Group targets next to, of course, the operational productivity programmes that we will elucidate at Capital Markets Day.

The questions around launches and innovation, especially related to Diagnostic Imaging, we feel very confident about the product range and launches of innovations are not necessarily restricted to RSNA. In fact, I think that's a little bit overrated as a launch platform. We have just launched the extension of the Azurion platform, which is several years ahead of the competition, according to our customers and the feedback that we are getting. We have a very strong MRI portfolio. The demand, for example, the Ambition, which is a helium-free operations platforms, with the Compressed SENSE, the scan time is less – 50% less, so a very fast system. That demand is very strong, now, currently, of course, impacted by COVID. We have a renewal of our ultrasound portfolio. We have a strong slate of enterprise diagnostic informatics. The acquisition of Carestream has worked out very well; we get very good ratings on the Vue PACS implementation. We see strong interest in the oncology informatics platform.

So, I can go on and on. The innovation portfolio is very strong and it underpins, basically, the fact that we have been and are growing market share versus several, maybe not all, of our competitors.

**Operator:** The next question comes from Max Yates of Credit Suisse. Please state your question.

**Max Yates (Credit Suisse):** Thank you. Just – my first question is on the D&T margins and I just wondered, could you give a little bit more colour about the headwinds that you face – that you faced in the quarter? Because, I guess, looking at it, Q2 had a greater growth headwind, yet margins, on a year-on-year basis, were more resilient than what we saw in Q3. I imagine many of the same trends of factory under-utilisation were there in Q2, so I'd just like to understand a little bit better what happened this quarter and what was, perhaps, a headwind that we had this quarter that we didn't last. That's my first question.

**Abhijit Bhattacharya:** Hi Max. So, I think, as we have seen, let's say, slower installs on Diagnosis & Treatment, we have adapted our supply chain a bit stronger in the third quarter, so that gives slightly higher impact on factory leverage. But also, I think important to understand two more things. One is the mix, so, let's say, the more profitable categories of cardiac ultrasound or IGT, right, which are big drivers, they have suffered from low growth. And that has impacted us to a certain extent. And I had one – and we have mentioned, right, through the crisis, that we are not scaling back on R&D. And that's linked to Frans's reply that he just gave on the innovation pipeline. We know that there are a couple of tough quarters with demand getting postponed, but we want to come out with all innovations at the right time, so we are not dealing or postponing any R&D-related investments that we have. And that also weighs a bit heavily. And if we – as soon as we start getting elective procedures back and then there is a bit of installations which start going quicker, you will find it coming back in subsequent quarters, with a higher leverage.

So, I think there is not more to it than that.

**Max Yates:** Okay. And just my follow-up question is on the ventilator business. I mean, I think in 2019, we had the figure of – it was around €300 million. I think you talked about the capacity earlier in this call but could you give us – given you should have good visibility on Q4

deliveries, just, in absolute revenue terms, how big you expect that business to be. And also contribution to adjusted EBITA this year would also be helpful, just to understand where we are with that business today versus 2019 levels, given your assumption of going back to those 2019 levels is probably a reasonable outlook?

**Abhijit Bhattacharya:** Yeah, let us come back to you on that on the Capital Markets Day because otherwise we could get too much into the details of what's happening next year. That's a couple of weeks off. We'll give you a bit more colour but we have seen quite some increase this year, which would not come next year, maybe close to 3X of what we had last year. So, that should give you, let's say, a good idea of how much to factor in.

**Operator:** The next question comes from Julien Dormois from Exane BNP Paribas. Please state your question.

**Julien Dormois (Exane BNP Paribas):** Hi, good morning gentlemen. Thanks for taking my questions and I'm left with two. One relates to the use of cash because you should get a pretty sizeable amount of cash from the divestiture of Domestic Appliances early next year. And that should probably take you to close to cash positive by the end of 2021, so how should we think about cash utilisation in the near term? Is it more about shifting gears on M&A and possibly proceeding with a large M&A deal, or more about cash redistribution, maybe?

And the second question just relates to growth in PH in Q3. There was a slight discrepancy between Personal Care, Domestic Appliances and lower growth in Oral Healthcare. Is that just a phasing quarterly, issue or is it the sign of a return of price pressure in that segment?

**Frans van Houten:** Yeah, hi, Julien. Well, with regards to the use of cash, we will apply our capital allocation policy, right? So, judging carefully what is driving the best return on investment.

We have a balanced approach, we have been using all instruments in the past, ranging from returns to shareholders, as well as organic and M&A and it's very likely that we will continue to do that, also, in the future. And we are also quite comfortable with cash sitting on the balance sheet for a while, while we figure out what is the best way forward.

Yeah, the growth in Personal Health, very much driven by North America and Europe, strong across the range. And I referred that China was slow in Q3 and also there Oral Care, which is normally a very high-growth category, was low and that dented the global Oral Healthcare growth percentage.

**Operator:** The next question comes from Falko Friedrichs from Deutsche Bank. Please state your question.

**Falko Friedrichs (Deutsche Bank):** Thank you, good morning. I would have one question left, please. It's very good to see you implementing new ESG targets. Could you share some more colour on how you aim to measure those targets. And especially this target of improving the lives of 2 billion a year by 2025, how do you measure this exactly and what specific improvements in the lives of these people are you looking for?

**Frans van Houten:** Hi Falko. Yeah, we measure, of course, all our commitments and at the Capital Markets Day, there will, in fact, be a presentation around ESG, to bring it to the fore. The measurements are also elucidated on our website, among which the lives improved. And we track how many patients and consumers have benefit from our products, either directly

because they own them or indirectly because they are either diagnosed or treated in hospital. And then we take out double-counts, so that we cannot count the same person twice. Of course, that is a statistical method, where we look at how often a consumer is touched by Philips innovations. So, I gladly refer you to the website for the exact calculation.

It's, by the way, clear that to drastically increase the number of lives improved and given that you cannot double-count people, that much of that growth also needs to come out of emerging markets in Asia, as we are still, let's say, underpenetrated versus what the market share could become. So, quite a lot of exciting growth opportunities there.

But I was encouraged to see the wins, now, in Indonesia and in Vietnam. Indonesia, as you recall, where we sent Pim Preesman after his stint in Investor Relations and already, a few months later, he comes back with a big order, so that was very nice.

**Operator:** The next question comes from Daniel Wendorff from Commerzbank. Please state your question.

**Daniel Wendorff (Commerzbank):** Yes, good morning and thanks for taking my questions. Two, if I may? The first one, on Diagnosis & Treatment. How do you see your IGT portfolio develop in Q3 now and is there a risk for that if hospitals get filled with COVID-19 patients again, as it looks like, at least in some European countries?

My second question is on the Patient Monitoring business. How do you see the competitive market there develop, with hospitals demanding, apparently, more holistic solutions? And you're also moving monitoring solutions beyond ICUs; is that having an impact there, on the competitive environment? And maybe, can you remind us again on the contribution of your Patient Monitoring business to your divisional sales and adjusted EBITA now, going into 2021? Thank you.

**Frans van Houten:** Okay, Daniel. Yeah, the IGT business, of course, is dependent on the return of elective procedures. About one-third of IGT is devices and the devices are directly linked to the recovery of elective procedures.

Our business is overweight in the United States and there, the COVID improvements are still going in the right direction. And therefore, we also still expect a further recovery of elective procedures, on the whole, even when some countries in Europe are, let's say, scaling down elective procedures. It may have some effect but in the world it may be limited.

If the second wave accelerates, we could also see some risk to hospital installations, although at this moment, we have our revenue plan well backed up by the installation schemes agreed with customers. And we feel confident that we can deliver on the growth that we – of course, the growth in Q4 will be lower than the growth in Q3 because we gave a full-year guidance of low single-digit growth for Philips, so you – but we feel confident about our ability to deliver that.

Then, the question around monitoring, so I think we have been quite vocal that we see monitoring to become more and more an informatics application, where we leverage big data to do predictive analysis on patients and how they are faring. And as that gets extended beyond the ICU, it becomes really an enterprise-wide installation. And we have, increasingly, then, to deal with the CIO of hospitals and the architecture of patient monitoring is well catered for enterprise-wide installations. And even we expect that, as patients are monitored

outside of the hospital, that it will follow the architectural choices that hospitals have made for their hospital environment.

Versus competition, Philips is ahead of the typical competitors, who are still more in the standalone monitors, bedside, and, therefore, more in the hardware era than Philips, where we are much more in a client server model, if I use an informatics term, in how we measure and we put sensors on patients. Those sensors give data that gets processed in our central systems. So, we feel good about our competitive position.

The contribution to margins, I'm looking to Abhijit.

**Abhijit Bhattacharya:** Yeah, I think that Patient Monitoring analytics contributes a little more than 40% to the Connected Care sales and a little bit more to the margin because, let's say, our informatics piece, as I mentioned earlier, is still low on profitability. So, as that keeps increasing, let's say, over a period of time, you will find that the sales and profit contribution will equalise. But at this moment, it's a little bit above 40% of sales and slightly above that in terms of EBITA.

**Operator:** Due to time, we will take one last follow-up question from Veronika Dubajova from Goldman Sachs. Please state your question.

**Veronika Dubajova:** Great guys, thanks for squeezing me in at the end. If I can, just a follow-up on the mid-term guidance. Just it would be helpful to understand, Abhijit, I guess, that 60–80 basis point margin improvement that you have. If that organic growth rate were to be more consistent with what you've delivered historically, so 4–5% as opposed to the 5–6%, what would that 60–80 basis points look like? Would it be lower and if so, how much? If you can help clarify, that would be super helpful.

And then just a quick follow-up on the Connected Care fourth quarter expectations. You said lower growth than Q3 but is it higher than Q2 or is it lower than Q3 and Q2?

**Abhijit Bhattacharya:** Well, I have to check that but regarding the mid-term guidance, we give a range of 60–80 basis points. If it's a little bit lower or a little bit higher, I think we will be in and around that range, so I don't want to get more specific around that at this time. I think –

**Frans van Houten:** And it is an all-in number.

**Abhijit Bhattacharya:** Yeah, yeah. And I think Q4 will be similar to Q2 and not with the big bubble in Q3. So, that's, I think, how you should look at Q4 for Connected Care.

**Operator:** Thank you Mr van Houten and Mr Bhattacharya. That was the last question; please continue.

**Frans van Houten:** Well, I'd like to thank everybody for tuning in this morning with us and to be part of the exciting Philips journey that, with the new mid-term targets, will continue full force. And we look forward to engage with you at our Capital Markets Day, where we will be elucidating and underpinning – providing underpinning on how we expect to achieve those targets. Thank you very much for today.

**Operator:** This concludes the Royal Philips Third Quarter 2020 Results Conference Call on Monday, 19<sup>th</sup> October 2020. Thank you for participating, you may now disconnect.

[END OF TRANSCRIPT]

