

# **PHILIPS**

## **Philips – Q4 2018**

Tuesday, 29 January 2019

## **Introduction**

*Pim Preesman*

*Head of Investor Relations, Royal Philips NV*

Thank you, and good morning, ladies and gentlemen. Welcome to Philips' fourth quarter and full year 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 can now be downloaded from our Investor Relations website. A full transcript of the conference call will be made available by end of today on our website.

Philips' shareholding in Signify, formerly Philips Lighting, is currently 16.5% of Signify's issued share capital. With Abhijit stepping down from the Supervisory Board of Signify effective as of December 31, 2018, the remaining stake is presented as a financial asset measured at market value. Value adjustments of the retained interest from this date will be recognized in other comprehensive income outside of the income statement. For Q4 2018, value adjustments of the retained interests are shown within discontinued operations.

On December 19, we provided you with guidance on the expected FX translation combined with the consolidation and deconsolidation impact on sales during the respective quarter and for the full year 2018. We will continue to do this twice a quarter this year. However, as we don't provide prior year restatements for the realignment of our reporting segments, we will combine this FX guidance with the reporting update later during the quarter.

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

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## **Overview**

*Frans van Houten*

*CEO, Royal Philips NV*

Yes, thanks, Pim. Hi, everybody. Thank you for joining us today.

During 2018, we did continue the transformation of Philips into a focused leader in health technology, and I am proud that we have made further substantial progress in a more challenging environment. Upfront, I would like to thank our customers, employees and stakeholders for their trust and hard work.

I'm pleased that we delivered full year 5% comparable sales growth, an adjusted EBITA margin increase of 100 basis points and a free cash flow of EUR 1 billion. By the way, excluding payments related to the U.S. pension fund liability de-risking and payments related to an early bond redemption, free cash flow actually was EUR 1.2 billion.

Most importantly, we ended the year with a strong order book driven by a 10% comparable order intake growth through the entire year. Looking back at our performance in the fourth quarter, I'm pleased with the continued strong 10% order intake growth as well as the operational improvements that we made. The adjusted EBITA margin improved by 70 basis points despite a 40 basis points adverse currency impact.

We delivered a 5% comparable sales growth with 5% growth in Diagnosis & Treatment businesses; 3% growth in our Personal Health businesses which is in line with the earlier guidance that we discussed at the Capital Markets Day; and sales for our Connected Care & Health Informatics businesses were flat year-over-year. This was due to slower than anticipated market growth and the consequences of the consent decree. Nevertheless, we contained -- we continued to gain market share in this segment, which is very good.

Finally, we ended the year with a significant year-on-year growth in IP royalty income for Q4.

Let me now expand on the strategic journey to leadership in HealthTech, I think a journey that you are all quite familiar with. Our value-creation story is built on the 3 key levers of driving growth in the core business, innovating solutions and driving operational excellence. As a way to create more growth in our core business, we continue to drive market share through deeper, more comprehensive customer partnerships and pursuing growth by increasing geographic coverage and market penetration.

We continue to deepen our customer relationships in order to create more value for our customers and for Philips. We do this with innovative solutions that deliver on the quadruple aim objectives of improving health outcomes, patient experience, staff experience while improving productivity of health care. And we form stronger relationships with customers through this methodology to help them transform the way health care is being delivered. You've seen customers where we start with a initial long-term strategic partnership in radiology and subsequently expand into other clinical areas such as integrated patient care or vice versa.

We continued with strong growth in long-term strategic partnerships. During 2018, we signed actually over 50 new multimillion strategic partnerships and further built a very healthy opportunity funnel. In the fourth quarter, we entered into multiple new agreements in the United States and in Europe. Let me give you an example.

We announced an agreement with the County Durham and Darlington NHS Foundation Trust in the U.K. to provide imaging and cardiology solutions across their sites; in the Netherlands, with the Erasmus University Medical Center; in Rotterdam, we entered into a multi-year partnership to take care of all their hospital-wide Ultrasound solution needs.

We continued to capture geographical growth opportunities. Continuing the positive momentum of the Diagnostic Imaging business in China, the company received CFDA approval for its advanced Vereos Digital PET/CT system in China. Supported by rich clinical evidence, the Vereos is world's first and only fully digital PET/CT solution powered by our proprietary digital photon counting technology. With more than 60 installations to date, Vereos is enabling hospitals to make an immediate impact on outcomes by increasing diagnostic confidence.

As health care continues to transform from a volume to a value-based approach and the amount of data available for each clinical decision is growing, our customers are asking and seeking seamless integrated solutions to enable more precise Diagnosis & Treatment pathway selection. Also in the fourth quarter, we brought new solutions to the market. We had very successful engagements at the Radiology Society of North America, the so called RSNA trade show, end of November last year. We showcased our new portfolio of digital imaging systems, smart devices, advanced informatics and services. Our AI-driven solutions and connected technologies were very well-received by the customers.

For example, at the RSNA, we introduced the IntelliSpace Discovery 3.0, which is a comprehensive open platform to enable the development and deployment of artificial intelligent assets in radiology with the aim to support radiologists in their clinical and translational research needs. In a very short period, this novel platform was already adopted by more than 50 hospitals and academic institutions worldwide for the development of their new radiology AI applications.

New York -- switching to adjacent topic, NewYork-Presbyterian Hospital selected our IntelliSpace Enterprise Edition to basically rollout through their whole enterprise of many hospitals a uniform clinical informatics platform for analytics and decision support which will help them deliver on the quadruple aim objectives.

Also in the United States at the University of Utah Health, the radiology departments will use Illumeo AI applications to enhance physician expertise and efficiency. Illumeo is an imaging and informatics technology with adaptive intelligence to more productively interact with imaging data retrieved from any packs.

We are also seeing a strong demand for our new Ingenia Elition 3 Tesla MR which we rolled out in Europe and in the United States in 2018. And our Ingenia Ambition 1.5 Tesla MR with the so-called BlueSeal magnet technology which we launched in Europe and in the United States in the second half of 2018. As an industry first, this Ambition X MR enables imaging departments to perform more productive helium-free operations. The fully sealed BlueSeal magnet dramatically reduces the amount of liquid helium needed to pull the magnet to just 7 liters which is a reduction of approximately 99.5%.

The Philips Ingenia Elition and Ambition X both feature our highly innovative Compressed SENSE software which enable clinicians to perform MR exams up to 50% faster with equal image quality. Compressed SENSE is also available as a software upgrade for the current Ingenia installed base. I'm pleased that in the course of this quarter, we saw an acceleration in the demand for these innovations.

To reinforce our leadership in image-guided therapy, we have just launched a new extension of the successful Azurion Image-Guided Therapy platform. This extension is setting a new standard in the industry. Azurion with

FlexArm includes the innovations for optimal visualization across the whole patient in 2D and 3D to simplify and enhance a broad range of procedures.

I'm pleased with the double-digit growth of the Image-Guided Therapy devices business in the fourth quarter. Our Volcano and Spectranetics acquisitions continued to contribute with a strong double-digit order intake and comparable sales growth for our overall Image-Guided Therapy business in 2018.

Within the devices portfolio, we are advancing with our unique low-dose Stellarex drug-coated balloon which is designed to restore and maintain blood flow to arteries in the legs of patients with peripheral artery disease. Stellarex delivers top-tier outcomes with the lowest therapeutic drug dose in common to complex patients and has a very strong safety profile. This was recently reinforced by an independent third-party pooled analysis of patient level data of over 2,300 patients that were treated with Stellarex and which demonstrated low mortality rates through the 3 years after treatment with no/zero devices related deaths.

Stellarex is already CE marked in Europe for above and below-the-knee treatment of patients with peripheral artery disease. In the United States, Stellarex is FDA-approved for above-the-knee treatments. And we have just announced the enrollment of the first U.S. patient in the Stellarex ILLUMENATE Below-the-Knee Investigational Device Exemption, or so-called IDE study. The trial will enroll 354 patients at 45 sites in the U.S., Europe and Australia in the next 12 to 18 months.

To strengthen our leadership in patient monitoring, we expanded our general care solution which comprises patient monitors, wearable biosensors and decision support algorithms with the new IntelliVue Guardian software mobile client application, which will optimize workflows in hospitals.

Leveraging our expertise in remote monitoring solutions, we partnered with Dartmouth-Hitchcock Health in the United States to implement our eICU technology at their hospital sites. The program which will go live in July aims to help reduce mortality, length of stay, ventilation days while providing patients the care they need. Following the success of similar programs in the Americas, the United Kingdom, Australia, the Middle East, Dartmouth-Hitchcock Health is the latest health system to actually leverage this eICU telehealth model to enable clinicians to deliver improved critical care to patients remotely across multiple sites.

Let me now move over from health systems to Personal Health. In early January, we introduced our new intelligent personalized solutions to improve consumer health at the Consumer Electronics Show 2019. We showcased the deep sleep heart band -- sorry, we showcased the deep sleep headband, the Smart Sleep, with an expanded suite of consumer sleep solutions. This suite includes the Smart Sleep analyzer, a clinically validated digital analysis tool designed to help people learn more about their sleep challenges and obtain information regarding solutions.

Our Sleep & Respiratory Care business continue to perform strongly. We have sold more than 10 million DreamWear CPAP masks and cushions in just 3 years after its introduction, highlighting the success of our patient-centric product design approach in health care. DreamWear is the first and only sleep apnea therapy platform with a modular mask system accommodating cushions to fit 95% of the patient population with nasal, full face and pillow options. With the hose placed on top of the head, the innovative design prevents red marks,

discomfort and irritation to the nose bridge for the patient. We are committed to improve the lives of patients living with sleep apnea by developing solutions that enhance the patient experience and comfort.

Moving on to the third driver of our strategic agenda, I would like to talk about how we improved margins through enhancing customer and operational excellence. Our productivity program continues to be a very important margin contributor and delivered annual savings of EUR 466 million. Our self-help initiatives to drive over EUR 1.8 billion in savings for the period 2017 to 2020 are in fact well on track. Each of the 3 main programs, i.e. procurement savings, manufacturing productivity and overhead cost reduction, are delivering on their milestones.

On manufacturing productivity, we have focused on the regional consolidation of our manufacturing footprint and are targeting to move from 50 to approximately 30 production locations by 2019. We are deep into the execution of this program, and to date, we have already reduced 13 manufacturing locations. We continue to expect the full discontinuation of our Cleveland manufacturing operations during the first quarter of 2019.

Ladies and gentlemen, while globalization and the ongoing geopolitical challenges were among the main headlines of the World Economic Forum in Davos last week, we had strong engagement with many health care providers and administrators. The digitalization of health care systems, the need for better orchestration of care across networks within the hospital and to the home, precision health and population health care programs were all central themes on the minds of the health care providers and administrators that I spoke with. All of these interests fit very well with our strategy. The sentiment in the health care community was actually optimistic as the ecosystem came together, sharing a strong commitment to transform health care systems around the world.

We, of course, shared our views with the health care providers, insurers, governments of how new technologies such as AI, IoT, telehealth can support the move to value-based care, increasing access, improving productivity, reducing variance and improving patient outcomes.

We also reiterated at Davos our commitment to the Circular Economy by confirming we are on track to take back and repurpose the large medical systems equipment that our customers are prepared to return to us by 2020. Further, we continue to drive industry-wide progress towards closing the loop for large-scale equipment through the capital equipment coalition, which published a new report in Davos titled the “Circular Value Creation: Lessons From the Capital Equipment Coalition”.

To further align our business with customer needs, we recently announced that we have realigned our internal business structures. Effective as of January 1, 2019 this will lead to changes in the composition of our reporting segments. The most notable changes are the shift to Sleep & Respiratory Care business from the Personal Health segment to the renamed Connected Care segment. The Connected Care businesses focus on patient care solutions, advanced analytics and patient and workflow optimization, both inside and outside the hospital. And aim to unlock synergies from integrating and optimizing patient care pathways leveraging provider-payer-patient business models to positively impact population health and value-based health care.

Additionally, we will shift most of the health care informatics business consisting of informatics related to diagnostics and treatment planning from the Connected Care segment to the Diagnosis & Treatment segment.

This segment unites the businesses related to the promise of precision diagnosis and disease pathway selection, and the businesses related to image-guided minimally invasive therapies.

Recognizing the importance of and investment in the Image-Guided Therapy business, I'm happy that Bert van Meurs has joined our executive committee reporting directly to me.

The Personal Health businesses will focus on healthy living and primary preventative care. As a result of moving the higher growth Sleep & Respiratory Care business to the Connected Care segment, we changed the 2019, 2020 growth guidance of both segments. The Connected Care and Personal Health segments' comparable sales growth for 2019-2020 is now expected to be 4% to 6%. And the adjusted EBITA margin is expected to be in the 16% to 18% range by 2020 for each of these segments. There is no change in the 2019 to 2020 sales growth of 5% to 7% nor the 14% to 16% adjusted EBITA margin by 2020 guidance for the Diagnosis & Treatment businesses. And there's also no change to any of the overall Philips Group targets.

As progress update on regulatory matters, ladies and gentlemen, we continue to make progress toward fulfilling our obligations under the consent decree, which as you know is primarily focused on the defibrillator manufacturing in the United States. Currently, we are awaiting feedback from the FDA which has been postponed due to the recent partial U.S. government shutdown.

Next, I would like to update you on the topic of capital allocation. We have significantly improved our performance over the last few years and we have the confidence to continue on our improvement trajectory. This confidence enables us to propose a 6% dividend increase to EUR 0.85 per share. The dividend increase builds on our -- on a over 20-year period during which we have steadily increased our dividend. After being for several years above our guided payout ratio, we are now back in our payout ratio of 40% to 50% of continuing net income. And that is the rationale behind the dividend increase at this time.

As you are aware, we are in the final leg of our share buyback program that we announced in June 2017 which will effectively end in July 2019. Having considered our own performance trajectory, balance sheet strength and current market conditions, we have decided to initiate a new share buyback program for an amount of up to EUR 1.5 billion which will start immediately and will run for a period of 2 years. At the current share price, the buyback program represents approximately 46 million shares.

As the program will be initiated for capital reduction purposes, we intend to cancel all of the shares acquired under the program. Both the dividend increase and the share buyback fit within our overall capital allocation policy and do not affect our ability to also pursue mergers and acquisitions should attractive opportunities materialize.

Rounding off. As we continue to navigate global geopolitical challenges and market volatility, we are taking the necessary actions, and we expect that our performance momentum will improve in the course of the year. We reaffirm our overall targets of 4% to 6% comparable sales growth and an adjusted EBITA margin improvement of 100 basis points on average per year for the period 2017-2020.

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

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## Financial Overview

*Abhijit Bhattacharya*

*CFO, Royal Philips NV*

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

Let me start by providing some color on the fourth quarter comparable sales growth of 5%. The Diagnosis & Treatment businesses delivered a 5% comparable sales growth, driven by double-digit growth in Image-Guided Therapy, high single-digit growth in Ultrasound and flat in Diagnostic Imaging. We are very pleased to reach double-digit sales growth for the full year 2018 for both the Image-Guided Therapy and Ultrasound business, while the Diagnostic Imaging order intake grew by high single-digit in 2018.

Frans has mentioned the main reasons for the flat fourth quarter comparable sales in Connected Care & Health Informatics. In addition, the Monitoring & Analytics and Therapeutic Care businesses grew by low single-digit with the Therapeutic Care business being impacted as a result of the consent decree. Sales in health care informatics declined by low single digits; while on health care informatics, it's important to note that the strong double-digit order intake for the year was encouraging.

The Personal Health businesses delivered 3% comparable sales growth during the fourth quarter and for the full year in line with the guidance provided during the Capital Markets Day. Strong growth in India, Russia, Central/Eastern Europe and Asia Pacific was partly offset by softer performance in North America, primarily due to lower Personal Care market growth and Health & Wellness.

Sleep & Respiratory Care business continued its strong performance with high single-digit growth for the quarter and the year. The successful launch of the DreamWear Full Face mask at the end of the first quarter continued its good momentum as the fourth quarter and full year delivered double-digit growth for masks overall.

The Personal Care business grew low single-digit during the quarter. And the Health & Wellness business had a slight decline on the back of high single-digit growth in Q4 2017.

For Personal Health in 2019, we expect to be in the range of 4% to 6% comparable growth range as per the new reporting set up. We have taken various actions in the course of 2018 based on which we expect the Personal Health growth momentum to progressively strengthen after Q1 and come back into the growth range of 4% to 6% for the year.

Group sales in mature geographies in Q4 increased by 5% on a comparable basis led by other mature geographies and Western Europe which delivered good growth. Sales increased by 7% on a comparable basis in our growth geographies led by double-digit growth in Latin America, Central/Eastern Europe, Russia and India.



For the fourth quarter, comparable order intake overall grew by 10% with the Diagnosis & Treatment businesses growing low single-digit. Important to note that comparable order intake growth for Q4 2017 was double-digit.

China continued to perform strongly and with a double digit order intake in the quarter. The Connected Care & Health Informatics businesses grew strong double-digit with Monitoring Analytics, Health Care Informatics and Population Health Management businesses all growing strong double digits.

In the Health Care Informatics and Population Health Management businesses, we concluded a number of significant long-term strategic partnerships. These are mainly multi-year software contracts like the NewYork-Presbyterian which Frans talked about earlier.

For the full year 2018, order intake growth amounted to 10% reflecting double-digit order intake in the Diagnosis & Treatment businesses and high single order intake in the Connected Care & Health Informatics business. Order intake was strong across all geographies, with double-digit growth in growth geographies and high single-digit growth in North America, Western Europe and other mature geographies.

Let me now turn to the EBITA development for the group in the fourth quarter. Adjusted EBITA increased by EUR 87 million and the margin improved by 70 basis points compared to the fourth quarter of 2017 mainly due to growth, operational improvements and higher IP royalty which were partially offset by adverse currency impact of 40 basis points.

The adjusted EBITA margin improvement in Q4 for Diagnosis & Treatment businesses was mainly driven by growth and operational improvements. The lower adjusted EBITA margin in Connected Care & Health Informatics and Personal Health businesses was mainly as a result of lower growth. And for CCHI in particular we also saw higher investments in innovation and adverse currency impacts.

Our productivity program delivered EUR 135 million net savings in the fourth quarter. More specifically net overhead cost reduction amounted to EUR 12 million in nonmanufacturing costs. The productivity program contributed EUR 45 million to the gross margin and procurement savings in part driven by our Design for Excellence program delivered EUR 79 million of bill of materials savings year-on-year.

Overall, contributing to a 200 and -- to an 2018 productivity savings of EUR 466 million and with that we are well on track for our overall 2017 to 2020 productivity program.

In the segment Others, the adjusted EBITA amounted to EUR 57 million, 81 million better compared to the prior year, mainly as a result of higher IP royalty income. This was also the main deviation compared to the previously given guidance for the quarter.

As Frans mentioned, adjusted EBITA for the year improved by 100 basis points during 2018 reaching 13.1%. Adjusted EBITA improved by 310 basis points over the last 3 years from 10% in 2015 to 13.1% in 2018.

Overall adjusted EBITDA in the fourth quarter improved 70 basis points to 20.9% of sales. For the full year, adjusted EBITDA increased by 120 basis points to 17.1%.

In Q4, income tax expense decreased by EUR 240 million compared to Q4 2017. The decrease is largely driven by one-time non-cash benefits from tax settlements and business integrations in Q4 2018.

As mentioned during the Capital Markets Day, as per Q4 2018, we started to report adjusted diluted EPS from continuing operations per share. For the full year 2018, the adjusted EPS increased by 14% to EUR 1.76. And the EPS CAGR for the period 2015 to 2018 is now 18%.

Discontinued operations was a loss of EUR 44 million mainly consisting of a EUR 34 million charge related to the value adjustment of the retained interest in Signify as the share price declined.

Net cash flows from operating activities increased by EUR 91 million in the fourth quarter compared to Q4 of last year mainly due to higher earnings and higher working capital inflows. Free cash flow was EUR 1,019,000,000 in Q4 2018, an improvement of EUR 71 million compared to the year before. Full year 2018 free cash flow was EUR 1 billion. And to remind you, we made contributions to the U.S. pension fund as part of the liability de-risking payments and we did early bond redemptions. And if you include these -- exclude these 2, our cash flow for the year was EUR 1.2 billion.

The year-on-year inventory as a percentage of sales increased by 150 basis points of which 70 basis points was due to currency effects and 30 basis points was temporary inventory build for our industrial footprint rationalization and tariff mitigation efforts.

Let me now provide you with an update on the U.S. health care markets and our outlook for Western European and China health care markets. North American health care customers continue to focus on priorities around the quadruple aim, lower cost while delivering better outcomes 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 of our focus on developing long-term strategic partnerships with key customers. Overall, we expect the U.S. health care market growth in 2019 to be in the low to mid-single digit range.

For Western Europe, we expect low single-digit health care market growth for 2018. We've seen stronger growth in Iberia driven by investments in the oncology space, offset by weakness in the U.K. mainly resulting from ongoing financial pressures on the NHS. For 2019, we expect modest low single-digit growth.

For China, we expect mid- to high single-digit health care market growth for 2019 mainly driven by government policies to further increase access to care via existing Tier 2 and Tier 1 hospitals and the expansion of private sector investments in health care facilities. Consumer sentiment in China is a bit more subdued currently.

As mentioned during the last call, the imposition of tariffs between the U.S. and China, which were announced in several rounds up to September 23, creates headwinds for us in meeting our profit improvement objectives.

Based on the announcements made so far, we continue to estimate a negative impact after mitigating actions consisting of supplier base adjustments, reconfiguring the supply chain and selective price actions of around EUR 55 million in 2019 which is a bit lower than the original guidance of EUR 60 million mainly because of the 3-month moratorium in Q1. We are taking necessary action to compensate for this and continue on our profit

improvement trajectory, since there will always be a time lag between the mitigating actions to take effect and the negative impact will be stronger during the first half of the year.

Let me now provide some additional 2019 guidance for certain areas of our business. Due to a fire in December 28 -- sorry, due to a fire in December 2018 at one of our key suppliers of certain critical components for the production of our Image-Guided Therapy systems, part of the supplier's inventory was lost. We have been supporting this supplier named Prodrive with the successful restart of its production and are working with other suppliers to secure alternative sources of components. Nevertheless, due to the temporary impact of this fire, we expect the Diagnosis & Treatment sales in the first quarter of 2019 to be impacted by EUR 50 million, which we expect to fully recover during the remainder of the year. This will impact our sales growth in the first quarter for overall Philips Group by over 100 basis points, as a result of which sales growth for Q1 is likely to be below the guided range of 4% to 6% for the year.

I would like to reiterate that this is not lost sales but only delayed sales. And we expect our performance trajectory to strengthen as the year progresses.

In the segment Others, on an adjusted EBITA level, we expect full year costs at EUR 100 million, which is a decline of EUR 72 million versus last year mainly due to lower expected royalty incomes in 2019 on the back of a strong Q4 2018 finish. We expect a net cost of approximately EUR 65 million in the first quarter and approximately EUR 165 million for the full year 2019 both at EBITA level.

Included in these numbers are EUR 25 million restructuring costs and other incidental items in Q1 and approximately EUR 65 million for the full year.

In line with our guidance during the Capital Markets Day, restructuring charges are expected to be 90 to 100 basis points and one-time EU MDR investments of 45 million in 2019. Acquisition-related costs are expected to be approximately 40 basis points.

We will provide prior year restatements as for the new reporting structure ultimately by the end of March.

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

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

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## Q&A

**Patrick Wood, Bank of America Merrill Lynch:** I'll just ask my 1 and my follow-up at the same time, if I can, please. On the Imaging side, if delivery in 2019, how much is that about IGT rather than Diagnostic Imaging given the relatively tough comps? And how confident on your order book are you that you can hit the kind of growth that you've looking to do? I guess how much is IGT in your mind and how much is DI within the growth? And then the second one on a similar topic, thanks to the details on Stellarex. I'm curious if there's any paclitaxel feedback you're getting at the moment in the U.S. given some of the safety concern -- not safety concerns on

for but some of the concerns that are arising around that or whether that was a concern years ago with stents. But I'm just curious if there's anything you're hearing around that side as well.

**Frans van Houten, CEO Royal Philips:** Yes, hi, Patrick, Frans here. Let me start with the Stellarex while Abhijit prepares for your first question. There are differences between the various drug-coated balloons. And one of our competitors has a much higher dose of paclitaxel on their DCB which causes the safety concerns over time. The -- of course, immediately delve in deeply and with our clinical partners' evidence and FDA, we can demonstrate that given that Stellarex has a much lower dose that there are no safety concerns applicable to our DCB. We are currently advocating that and sharing all that information with all the interventionists and practitioners. So that the negative impact for that one particular vendor in the United States does not basically put a shadow over all DCBs. We position ourselves as the safe alternative and we hope actually to be able to get some upside as a consequence. So that -- all of that advocacy and marketing, if you like, is in full swing. In the meantime, I look to my right and see whether white smoke here.

**Abhijit Bhattacharya, CFO Royal Philips:** Yes. Hi, Patrick, good morning. So regarding 2019, I think you need to look at the whole Diagnosis & Treatment a bit. I think order intake for the whole year for Diagnostic Imaging is a very high single-digit, for Image-Guided Therapy in the low teens, and in Ultrasound also in the high single digits. So we expect good growth across the 3 businesses, but maybe a bit stronger in IGT because, yes, we have really gained very, very strong momentum there and we are gaining market share and hopefully impacting competitors.

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**Veronika Dubajova, Goldman Sachs:** I have 2, please. The first one is I want to follow up on the divisional reorganization that you have announced earlier this year. And I'd like to understand, Frans, why make this change now and what do you hope it will achieve and accomplish if you think about the 3 businesses under the new reporting structure and with new management team? If you can comment on that, give us some insight, that will be helpful. My second question is a financial question for Abhijit. Given the headwinds that you have from the lower royalty income, how confident are you in your 100 basis points guidance for the year? And I guess what's going to compensate for that headwind from that IP income rolling off as you move into '19?

**Frans van Houten, CEO Royal Philips:** Hi, Veronika. As we shift from being a product company to a solutions company, we create more and more propositions that you could say are bundles of various products. We then had created solutions teams that worked across the various business units to coordinate that integration of the value propositions. That worked for a while but it also demonstrated that there's a lot of internal coordination. For example, radiology informatics part of Carla's cluster and Imaging part of Rob's cluster. It means you're basically in the upstream product creation area, you already have 2 organizations who need to align on pricing strategies, software integration and so on and so on. Moreover, in the so-called go-to-market, it means that sales forces need to take direction from 2 different business groups at the same time and then additionally from that solutions team. I mean, all of this of course sounds complicated, but you asked, right? So I'm just sharing it frankly with you. So by rearranging, we get more logical clustering of the businesses that need to work closely with one another. And so we have a cluster around Precision Diagnosis, we have a cluster around Image-Guided Therapy, we have cluster around Connected Care. Now we move Sleep & Respiratory Care from Personal Health into Connected Care. All the hospital providers that I talk to but increasingly also

the insurance companies, they wanted to talk about end to end patient care from inpatient to outpatient and from primary prevention to secondary prevention. Now all of that becomes a connected care ecosystem where on the one hand you need the IT cloud infrastructure; on the other hand, you need to tie in the therapeutic programs like respiratory care, sleep apnea. And we see new business models emerging between payers, providers and patients, a B2B2C business model. So even though the consumer angle of Personal Health is relevant and the competencies are relevant from a business modeling -- the provider and payer angle are far more important and this is why we moved Sleep & Respiratory Care into Connected Care. Already 1 million sleep patients are online in real-time connected to our cloud and connected to the doctors and insurance companies want to have their data. So this is -- this logic is the main driver for the change. And as we move forward, we will also step up key account management of all the key IBMs but also introduce key account management for, for example payers, and strengthen our engagement on health economics and reimbursement. This is still to be strengthened. And finally, we will strengthen the customer delivery management. So as we get more and more of these large-scale or long-term strategic partnerships, we are increasingly judging the account teams on multi-year success rather than on transactional success, right? You can see that that's a logical transition. And we have introduced the notion of customer P&L so that we can optimize the relationship over multiple years. That, in a nutshell. Is that sufficiently clear, Veronika?

**Abhijit Bhattacharya, CFO Royal Philips:** Veronika, on the 100 basis points improvement, yes, I think our confidence level is high. And I think we should not look at it just as 1 year. We have been doing this improvement journey over a number of years. And therefore, the let's say mitigating actions also have started well into this year. So if you look whether it's for next year, procurement savings are actually further getting benefits over the full year for the number of industrial sites we are consolidating, the cost-reduction actions that we have taken, we carry now. As we start up our global business services operations, we carried double costs in our P&L of the new staff as well as the existing staff. We have had a tough year in CC&HI and I think you see that largely in patient monitoring where although sales have been flat, we have gained market share. But the good news is that in Q4 and we've been saying that all through the year that the funnel is good and we expect the orders to come in. It came in pretty nicely in Q4 where order intake growth was in the teens. And in these kind of high-margin businesses when you pick up, you will more than compensate for the lower royalty income next year. So I think we have quite a few actions that are in place to drive margin up next year and the year after that. And I think that covers that question.

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**Michael Jungling, Morgan Stanley:** My first question is on the 2019 sort of guidance. You mentioned in your prepared remarks that the environment has become more challenging. Does that mean that we should be focusing on towards the bottom end of the organic sales growth guidance for 2019, meaning somewhere around 4%? And then secondly on Personal Health, can you comment on the adjusted EBITA margin outlook for 2019 and how much scope there is for margin expansion on a like for like basis. I look at your development over the last 4 quarters and it doesn't look particularly encouraging, and hence, the question.--

**Frans van Houten, CEO Royal Philips:** Okay, thanks, Michael. Well, we obviously don't want to end up at the bottom end of our guidance, right. And while there are no guarantees in life, in 2017, we were at 14%. In 2018 we were well into our range. And Abhijit and I emphasized that we have done 10% order growth throughout the year. At JPMorgan conference, I was repeatedly asked about how do we regain momentum in Personal

Health, and I've answered that, that it was a combination of overcoming the supply constraints that we had in 2018 and new product introductions that will help get us on a higher trajectory. Now of course, the high-growth of Sleep & Respiratory Care will move into Connected Care. And that's the main reason why we adjusted the growth bandwidth for Personal Health to the 4% to 6%. But we have definitely confidence that we can achieve -- that we can be well into that range. And then on the EBITA outlook, as Abhijit promised, we will do a full restate in the course of the quarter so that it will help your own analysis. But there is definitely space for margin expansion. And partly because in 2018, we saw actually some of the high-margin category grow slower due to the supply constraints. Take for example oral care. And in fact, we saw higher growth in some of the Domestic Appliances category. So as the high margin categories come back fully on steam which they should and they will, then we already get a nice mix effect there. Moreover, the productivity program that we have across the company apply to Personal Health as well. We did already referred to the nation's program around marketing transformation, which very much will benefit PH, Personal Health. As we are working on shifting into low marketing spend to outside external working marketing spend which could have significant impact in the -- in how many consumers see our promotions and advertising. So anyway, multiple, as this say in Dutch, (foreign language) in the fire, abilities to improve. And therefore, we remain confident about PH.

**Abhijit Bhattacharya CFO Royal Philips:** Maybe to add a bit, just Michael, as far as you over the last few years we have made strong margin improvements in PH and if you do a very rough restate, which would be a reasonably accurate, we are around the 15.5-plus margin for PH with the new structure. So given our range of 16% to 18% over the next 2 years, we have high confidence that we will get there.

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**Michael Jungling, Morgan Stanley:** Follow-up on personal health on the oral care, are your margins being negatively impacted by the rolling out of these electric toothbrush clubs such as UberSonic and Quip and (inaudible)? Are they pressuring the margins of your Sonicare business?

**Frans van Houten, CEO Royal Philips:** No, they in fact target a lower end segment. It will actually help people getting into the electric toothbrushing market. The products you mentioned are low end battery solutions that actually don't -- they are well-marketed but they don't give a very good in-mouth experience. And the dental recommendation is clearly for the stronger products. But as consumers experiment with these low-cost, low end solutions, then we think that over time, they will actually trade up into our franchise. We will however as we also mentioned before, introduced a new product so that we will widen our product range, cover more price points in recognition that especially in the more mature market, there is demand for lower-priced products as well. But I don't expect a structural impact on margins as we go forward. Moreover, we still expand, of course, the installed base. So the amount of brush heads that we can sell is rising. And as you will appreciate, brush heads have fantastic margins.

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**Sebastian Walker, UBS:** So on Personal Health if I could as well there. So on the marketing environment, when I look at you and also your toothbrush and razor peers, I mean, the growth we're seeing is still quite slow. So could you maybe comment on what you're seeing in the market and I know pricing actions by competitors was a topic earlier. Are you seeing anything of that? Secondly, could you confirm if the supply constraints are

resolved? And then finally just to confirm on the change in the divisional guidance, I just want to make sure that's purely mix and that there's no change in the underlying expectation for each of these sub-segments.

**Frans van Houten, CEO Royal Philips:** Yes, okay. Well, let's first talk market environments. Market environment in the second half of 2018 was already slower than the first half. China has a more subdued consumer outlook, also was already happening in 2018. We expect that to continue. We do not expect that at this time to deteriorate significantly. The categories that we are in, oral care, we continue to see that as a high single-digit growth category despite our hiccups in 2018. Market penetrations in many parts of the world are low. But even in mature markets where the penetration hovers around 35%, there is still plenty of room to grow. Early, we talked about expanding the range so that we can cover more price points. We have resolved the supply constraints so that is done. Yes, we continue to see price actions by some of our competitors and -- but rather than like-for-like doing the same discounting, our response is basically to expand the amount of products and price points. So that we think is a good move. You may recall that we spoke last year also about introducing brush heads with so-called RFID technology which locks the brush head to our handle and it will reduce the threat of knockoff brush heads that are at a low price. So it will also further expand the proportion of brush heads in our mix, therefore actually increase and improve margins. And then your final question on the rearranging of the reporting segments, the guidance change is purely related to the taking out of the high-growth and high profitable Sleep & Respiratory Care business. And there's no change in the underlying expectations that you have on us but that I have on the business. So we actually are on the same side there.

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**Scott Bardo, Berenberg:** Yes, just a question on the Sleep & Respiratory which performed pretty strongly this year, high single-digits. I noticed that one of your competitors, ResMed, has had a bit of volatility in the rest of the world. I wonder if this is some signal that you are gaining momentum here or gaining market shares. And perhaps you could comment a little bit about the sustainability of this sort of growth for that important business of Philips. Second question, please, just related to the capital deployment consideration, pleasing to see you stepped up the dividend and renewed the buyback at this place. But it seems to be given the strength of the company's balance sheet, you could have materially increased the buyback at relatively the share price for Philips. I just wonder if you could elaborate a little bit as to the thinking surrounding the share buyback at this level.

**Frans van Houten, CEO Royal Philips:** Sure. Sleep & Respiratory Care has actually a very strong performance in rest of the world. We believe we have gained some share. On the other hand, earlier in the year, (inaudible) did a little bit better than us, so there was also every reason to put the foot on the gas. Overall, I have high confidence in the sustainability of growth for this category. There are many people that are not diagnosed with sleep apnea. We are expanding the sleep labs and the collaboration with sleep centers to help aid the Diagnosis & Treatment of all these elements or diseases. And then moreover, as you remember, we have expanded the portfolio from sleep apnea also to sleep disorders with the sleep band and so on. And also the ability to nudge people when they have light apnea and they don't want to have a full mask solution so with the new products that will further enhance revenue. And then on the respiratory side, we saw actually -- we are gaining momentum both with the portable oxygen generator as well as the respiratory side. So overall, a positive and optimistic outlook. Now on your challenge on capital deployment, I daresay everybody should be pleased with these moves. The consideration is as follows: We have several years of improving results it's logical to make a



step on the dividend payout so that we stay in that 40% to 50% payout bandwidth of continuing net income. It's also a vote of confidence that we believe that we continue on this path. Secondly, even before the current share buyback is fully finalized because it still runs another half year, we want to take advantage of the current market conditions. Yes, we have a strong balance sheet, and therefore, we have basically advanced the decision for another share buyback whereas maybe originally we would've thought to only think about that at the end of 2019. We are currently doing this one in parallel to the existing share buyback. So we are actually taking proactive action and in situational environment. We will also continue to look at M&A and continue with a balanced capital allocation across the drivers as we have outlined at Capital Markets Day.

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**Scott Bardo, Berenberg:** If I may just 1 quick follow-up, just a financial question for Abhijit. Thanks for giving us some indication as to the supply constraints in Diagnostics & Treatment for the first quarter or 2. I don't know, correct me but is it fair to assume then that margin progression in the first couple of quarters will be, if you like, below the 100 basis points of the full year given the slightly lower revenue volume you expect in the first quarter or 2?

**Abhijit Bhattacharya, CFO Royal Philips:** Yes, I think that's also what we have said we expect. Let's say the performance momentum to gain during the course of the year. So we will probably be a bit lower in the beginning and then catch up and then have a stronger second half.

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**Yi-Dan Wang, Deutsche Bank:** So 2 questions. The first question is on the Personal Health business. So just wondering how confident you are that the actions you are taking in oral care would give you sufficient growth to get you out of this low single-digit decline level. I mean, looking at the market, it seems that in the quarter, you declined in that business by mid-single-digit. Your competitor Procter & Gamble has grown by mid-single digit. So how confident are you in, I suppose, more than offsetting that decline? And then in the Personal Care business, what is happening in that market? I mean, your competitor Procter & Gamble had high single-digit declines. So I just thought that you would actually do a lot better than the low single-digit growth you had given the strong product lineup you have there. And then the second question is on the Diagnostic Imaging business. That business seems to have slowed in the fourth quarter despite very strong order intake. So how confident are you that, that will pick up meaningfully in the course of 2019?

**Frans van Houten, CEO Royal Philips:** Oral care, not exactly correct what you observed in Q4 because actually, we were low single-digit growth -- low single-digit decline but almost flat. And we expect, let's say, the growth to come back strongly in 2019. I'm looking at the notes that -- why don't you...

**Abhijit Bhattacharya, CFO Royal Philips:** I can -- on personal -- sorry, on Health & Wellness, especially in Oral Healthcare, our confidence is pretty high on regaining growth because the brush head supply should not only just affect the brush head sales but also let's say the overall package with the handles, and therefore and we have stepped up our marketing efforts also in Q4. So we actually enter Q1 reasonably strong in that business. I think on personal care which was your next question, the market is -- has slowed towards the end of the year. And that's why you've also seen you said softness with the competitor. We are still good growth in terms of our portfolio. We are probably at a very, very strong point. We also launched recently the S9000 which is the top-of-the-line range of our shavers. So from a portfolio and marketing activity point of view we are well-placed



but slightly behind let's say in the market is a bit softer. And that's why you see both the bigger players being a bit soft. On DI, yes, I think this is a capital goods business. So it's not that we had every quarter there is a run rate. But I think overall for the year we have a decent growth also for the order intake although it was low single-digit for Q4. For the whole year it's in double-digit territory. So I think it gives us a lot of confidence especially in DI. The new MR systems which Frans talked about with Compressed SENSE and low helium, et cetera, those deliveries will start from the second half of 2019 and then we should get good momentum in the sales as well.

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**Ed Ridley-Day, Redburn:** A couple of follow-up questions. First of all, just on the divisional guidance, in terms of the move what you're moving for and health IT to the D&T business from CCHI, can you just give us a bit more color what you're going to leave on CCHA population health or anything else we'll be left in the knee connected care business? First question. And then in terms of the Spectranetics, can you give us a bit more color in the growth in that business? Clearly, underlying demands for SCB has held our pretty well despite reimbursement cuts and the recent debate of paclitaxel. So -- but can you give us some more color on the growth in that business, please?

**Frans van Houten, CEO Royal Philips:** Sure, let me first tackle the divisional guidance. So yes, we are moving most of health informatics as a business to D&T but that does not mean that there is no informatics left in Connected Care. In fact, the naming of the business unit health informatics, is a bit misleading it because it would imply that that's our only informatics business, which is not true, right? So within CC, we see that the activities around patient monitoring but that is already expanded into care management and care coordination. Think about the early warning system, think about the eICU, the command centers for care coordination and clinical decision making. So connected care will have the informatics for both in-hospital care management, the TASY solution, the hospital EMR solution for the rest of the world. And then indeed, as you mentioned Population Health Management for the out of hospital care management. This is where combinations of Lifeline, Wellcentive, VitalHealth, all come together to provide a platform for telehealth and chronic health management. And then as we move Sleep & Respiratory Care into Connected Care, Sleep & Respiratory Care has also a cloud application and CareSage and the care coordination, care orchestration. So in fact, we're going to see more synergies by leveraging that collaboration within connected care. So there's a strong proportion of informatics left in connected care, and we will take -- we will put a note to ourselves that when we give the update by the end of the quarter that we also give enough descriptive descriptors so that you have a better understanding on how we look at the pieces within each segment, right? Then what we move into D&T is primarily radiology, informatics, the PACS business, the Cardiology informatics, the onco informatics, which are all more diagnostics and treatment pathway selection and therefore, build towards precision diagnostics. Then the next question on Spectranetics, yes, I don't really want to go into the specifics on product level. But I can tell you that both comparable sales growth as well as order intake growth for our devices are in double-digit territory. And consistently, right? And therefore, it is also clear that Spectranetics and in particular, Stellarex, are doing well.

**Ed Ridley-Day, Redburn:** Okay, sure. So all devices within the IGT business double-digit?

**Frans van Houten, CEO Royal Philips:** Well, as I said, don't want to go into the specific for each business. Collectively, they all do well. And Stellarex is not only selling in the United States, right? I mean, should also think about how we are selling this in Europe, which is going very well. And then we already refer to the fact that for -- we hope that for below-the-knee that we will be able to make quick progress. So we think that this is a nice platform.

**Ed Ridley-Day, Redburn:** One very quick follow-up. The royalties, the IP royalties, can you just give us a bit more color on those and whether we should see any more coming through in other quarters this year?

**Abhijit Bhattacharya, CEO Royal Philips:** Yes, I think -- let me take that -- see, I feel royalties at the end of the day is always an estimate because we go after people who infringe our patents and then it's a period of long negotiation and then you don't know when actually you will close those discussions. And that is why it becomes very difficult to forecast. We, let's say, do give guidance on others for the whole year and we then give a guidance for every quarter. In the fourth quarter, it so happened that we made 1 last settlement which we thought we will make in 2019. So that came in 2018. So that's a small -- that's a shift of a few weeks left and right and that had a good impact for us in Q4. But yes, for 2019, we still have a very, very solid base of IP royalty income during the year.

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**Max Yates, Crédit Suisse:** Just 1 for me, please. On the Connected Care business, obviously, you've talked about the order intake being better for Q4. Could you give us an idea of how much of that business is driven by backlog, and therefore, how much visibility you have on next year's revenues given the orders that have taken this year? So effectively, what will be driven by in for out orders next year and what's underpinned by what you already have on hand in your backlog?

**Abhijit Bhattacharya, CEO Royal Philips:** Yes, I don't have a specific ratio of how much is book and bill in the year and how much is based on the year in order book, but I can tell you that let's say we have a significant exit order book for 2018, it's significantly better than the exit order book for 2017. And I think you will remember that we had said I think it was even 1% growth in 2017. And we -- especially in monitoring for the full year of 2018, we had a good mid-single-digit order intake growth. So that by definition tells you that we have, let's say, better growth possibilities in 2019 on CCHI. And the good news, of course, as I mentioned earlier that the order intake in both Population Health Management and in health care informatics is also growing -- has come in strong at the end of the year. So that -- these are multi-year orders especially in health informatics and in Population Health Management. So that gives us also, let's say, good confidence going past 2019 into 2020 and further.

**Max Yates, Crédit Suisse:** Okay. Is there any sense you can give of sort of that strong order intake in Q4, the 10%? What will fall into 2019 and what part of that is made up by multi-year contracts that will affect outer years, i.e. not 2019?

**Abhijit Bhattacharya, CEO Royal Philips:** Yes, I think let's -- it's still -- if you just look at 12-month revenue, it's still in the high single-digit territory whereas the, let's say, the overall order intake is in the double-digit territory. I think that gives you a good idea of where we're going. And again, the big part at 60%-plus of CCHI is patient monitoring. For me, that is the biggest indicator that you end the year with a mid-single-digit growth and we end Q4 actually with the order intake in the teams. And that gives us the visibility for next year.

**Max Yates, Crédit Suisse:** Okay, and just a final question on Health & Wellness I think you talked about Q3 that you picked you stepped up advertising and that was part of the negative margin impact in Personal Health. And you also talked about -- I mean, are you slightly surprised that you haven't seen that business reacting faster to the increased investment? I mean, I normally would have associated this with you. You put in the Investment 1 quarter and we tend to see a reaction to the business sort of fairly quickly the next quarter. So am I sort of missing anything there or can it take longer or...

**Abhijit Bhattacharya, CEO Royal Philips:** Yes, it takes a bit longer...

**Frans van Houten, CEO Royal Philips:** After all, we also did not increase A&P that much. And we are basically planning and gearing up for a step-up in 2019. What also took time was that for the customers where we've had a not-so-strong supply performance that before they really then help us to boost the sellout. That takes some time. And perhaps we had underestimated that a little bit but we had many top to top with our key retailers in December and November and December. And we feel that we are well set up for 2019.

**Max Yates, Crédit Suisse:** And I mean, just the final thing. One understanding I had was that the 11/11 sales sort of in China were maybe a little bit tougher. We've kind of seen it from a number of consumer companies. Is there any nervousness now around the subsequent inventories among those online retailers and obviously that we revert back to some sort of de-stocking as a result that may impact growth because obviously that was something we saw fairly recently? Is there anything that we should (inaudible).

**Frans van Houten, CEO Royal Philips:** Yes, look I think it was me who said Q4 is hard work, right, on Personal Health. And that indeed also related to China. We do see that the selling out in China is actually healthy, right, which also is an indicator that consumer sentiment is not deteriorating any further, right? So yes, there could be some aspects of inventory in the pipeline, although we feel that we are at a good level. And I would not expect near-term any negative development there. In fact, we look at China as an opportunity to have especially from the second quarter onwards an update versus '18, 2018.

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**Julien Dormois, Exane BNP Paribas:** I have 2. The first 1 relates to the phasing of growth for Personal Health into 2019. If I understood correctly, you are envisaging a somewhat slow start to the year. Just making sure that I understand why. So if you could give a bit more granularity on that. And just confirm that for the full year, you will be targeting the new range of 4% to 6% for Personal Health. And the second question relates to the U.S. China disputes on tariffs. Just in case this were to be fixed in the coming weeks or months, what would be than net positive on your side, i.e. what kind of measures you've already taken that you will not be able to recover but what would be the relief on your side from a cost perspective.

**Frans van Houten, CEO Royal Philips:** Okay. Well, indeed, the first question is building on the previous conversation, right? Because I just said that we would expect China, for example, to contribute to growth as of the second quarter. That also has to do with comparisons year-on-year. Moreover, we just a few questions earlier, we spoke about the top 2 talks what we had with our key retailers and the programs that we have agreed for 2019 in terms of marketing and promotions that also lead us to believe that we will be on a gradually improving momentum trend during the year. So yes, somewhat slower start to the year. But then it builds momentum. And we definitely expect to be into the range as guided. So we owe that to you, but we strongly believe in this business that we can deliver that. Then yes, on the U.S. China dispute, we are taking all the measures as previously discussed. So we are not gambling or hoping that this will suddenly disappear, right? And I tend to be on the very cautious side that it probably will not disappear. So we are rearranging our supply chains. We take measures with suppliers and so on and so on. It's a lot of work actually, but we are putting in all that effort because we are not immediately so optimistic that it will go away, right? Now if miracles happen, let's hope so. Then a headwind would turn into a tailwind because our step up in productivity programs, as you recall, was specifically done also to compensate for additional headwinds. And obviously, once we are underway with the productivity program, you know Abhijit, he's not going to let it go. So that would then still continue and therefore, it could turn into a net positive. But let's -- for me, all of this is now speculation. I think it would be completely wrong to count on it. That's -- I will continue to read the newspapers on the China-U.S. developments.

**Julien Dormois, Exane BNP Paribas:** If I may just 1 follow-up still for guidance for '19, what are the current exchange rates so on currencies? What would be -- would you have an FX headwinds in 2019 for the full year?

**Abhijit Bhattacharya, Royal Philips:** Yes, will have some but that is factored into our overall 100 bps improvement plan that we have given. So (inaudible) yes.

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**Wim Gille, ABN AMRO:** Wim Gille, ABN AMRO. I've got a question on the royalty income because the swing this quarter was quite a bit bigger than what most of us expected. So can you give us a bit of a feeling what the kind of recurring, let's say, iron inventory is, if you will, from that income stream and what we should be considering as kind of a one-off for the quarter? And also, in relation to that, how big is Signify within the other segments for you? My follow-up question will be on the, let's say, disappointing growth in the CC&HI business. Can you give us a bit of a feeling what the impact has been there from and particularly in the United States, from a business model, whereby you are selling boxes or shifting boxes towards monitoring as a service. If that shift would not have occurred, what would have -- what would your growth rate have been approximately for the quarter?

**Frans van Houten, CEO Royal Philips:** Yes, are you ready for the...

**Abhijit Bhattacharya, Royal Philips:** Yes, on the Signify amount, we don't disclose that specifically. But let's say for our overall IP royalties for the year, we expect about a EUR 40 million decline year-on-year. So yes, that is the number for the royalty income.

**Frans van Houten, Royal Philips:** Yes, then on your second question, good question. I mean, we of course saw more or less flat performance. We saw a quite subdued market. And in that market, we gained share and we are pretty confident of that. We also have -- we, of course, monitor all the deals and look at the loss win ratios. And we feel actually very strong with our proposition. So the market was disappointing as such, okay? Now you're right, there's also an effect of the CapEx to OpEx business model shift. And we have actually very strong service growth also in the business. There is a higher amount of contract that come with a recurring revenue stream. This is something that is difficult to predict proactively but it's playing a bigger role. And if that wouldn't have happened, I think we would have seen a more healthy growth already in that business, right, as we see this transformation in the business models. I don't want to, let's say, off the top of my head now elucidate this more. Let me say that I take note of this as a topic for a future interaction with shareholders, maybe to do a bit of an education session. But I think it is not a topic that is easily explained over the phone as we are here together now. So I'm not ducking the question. It's a good question. And it will come back on it.

All right, okay. Ladies and gentlemen, we are out of time, basically. But I thought this was a good call with many great questions. We hope that we have given you details and possible all the answers that you were looking for.

Thank you very much for attending and we look forward to engage with you on the respective roadshows that both Abhijit and I will be doing. Abhijit is going to the States and I will be touring Europe next week. So see you around.

Thanks. Bye-bye.

This concludes the Royal Philips fourth quarter and full year 2018 results conference call on Tuesday, the 29th of January, 2019. Thank you for participating. You may now disconnect.