Q4 2021 Results

Monday, 24th January 2022
Operator's preamble

Welcome to the Royal Philips fourth quarter and full year 2021 results conference call on Monday, 24th January 2022. During this 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 participant has difficulty hearing the conference at any time, please press the star followed by the zero on your telephone for operator assistance. Please note that this call will be recorded, and replay will be available on the investor relation website of Royal Philips. I will now hand the conference to Mr Leandro Mazzoni, Head of Investor Relations. Please go-ahead sir.

Introduction
Leandro Mazzoni
Head of Investor Relations

Hi everyone, welcome to Philips' fourth quarter and full year 2021 results call. I'm here with our CEO, Frans van Houten, and our CFO, Abhijit Bhattacharya. Frans and Abhijit will take you through our operational and financial highlights for the period and after that, we will take your questions. Our press release, the related information slide deck, as well as frequently asked questions on the Respironics recall, were published at 7am CET this morning on our investor relations website. The full transcript of this call will also be made available today on the website. As mentioned in the press release, adjusted EBITA is defined as the income from operations excluding amortisation of acquired intangible assets, impairment of goodwill and other intangible assets, restructuring charges, acquisition-related costs and significant one-off items. Comparable growth for sales and orders are adjusted for currency and portfolio changes. Over to you, Frans.

Operational highlights
Frans van Houten
CEO, Royal Philips

Hello everyone and thank you for joining us today. As the disruption caused by the COVID-19 pandemic intensified in the fourth quarter, our teams remained focused on delivering against what we call the triple duty of care of meeting customer needs, safeguarding the health and safety of our employees, and ensuring business continuity. We remained fully focused on driving the necessary actions to deliver on our strategic performance roadmap while working through the global supply chain issues as well as doing everything we can to deliver a solution to patients and caregivers affected by the Respironics recall.

In the fourth quarter, we recorded €4.9 billion of sales, reflecting a 10% comparable decline with an adjusted EBITA of 13.1% of sales. As we announced on 12th January, sales were impacted by several headwinds, namely supply chain challenges, postponement of equipment
installations in hospitals related to COVID-19, and the consequences of the Respironics field action.

For the full year, we recorded €17.2 billion sales, reflecting a 1% comparable decline. The aforementioned headwinds had a combined impact of 5 percentage points on the group full-year comparable sales. Adjusted EBITA was €2.1 billion in the full year, or 12% of sales. Comparable sales growth was 8% in Diagnosis and Treatment, and 9% in Personal Health in 2021, despite supply chain headwinds in the second half of the year. Connected Care sales declined 23% in 2021 following the high COVID-19 generated demand in 2020 and a decline in Sleep and Respiratory Care due to the recall.

Our strategy and portfolio continue to resonate very well with customers and consumers, generating solid demand for our products and solutions throughout the year. Order intake grew a further 4% in the year, driven by 16% in the Diagnosis and Treatment business and strength in hospital patient monitoring. This further builds on the high single-digit group comparable order intake growth in 2020, resulting in an all-time high equipment order book for Philips, which in fact is 18% higher than at the end of 2020, as shown on page 30 of our presentation.

During 2021, we also signed 80 long-term strategic partnerships across the world, of which 35 were signed in the fourth quarter, demonstrating the trust hospital leaders have in our ability to help them enhance health outcomes, lower the cost of care, and improve patient and staff experience.

**Supply chain issues**

As I mentioned, 2021 sales were impacted by the intensified global supply volatility and issues, so let me now elaborate further on this topic. We face stronger than anticipated supply chain disruptions across our businesses, which was primarily related to the shortage of electronic components, shipping times and COVID also affecting our suppliers. We have been working through the global supply chain headwinds for some time now, but earlier in the year our ability to mitigate supply risks was higher. We were increasingly challenged with suppliers that are unable to give visibility on component availability and shipping times, or even de-commit orders on short notice.

During the first half of the year, inventory started depleting due to our strong growth and then global supply challenges intensified, making the inventory situation very tight. As a consequence, the risk in our plan increased, which was exacerbated with short-term de-commitments and delays from some of the semiconductor suppliers. This impacted our ability to deliver on part of the revenue upside that in fact we had planned to mitigate the shortfall from Respironics.

In addition to that, we saw customers struggle with the impact of COVID on hospital staff and operations in December, which also delayed site readiness, partly caused by local material and labour shortages. Our supply chain teams remain fully focused on further driving the mitigation actions we started in 2021, but we expect the headwinds to continue in 2022, especially in the first half of this year. To address these challenges, we have already expanded the long-term orders with our suppliers, we have increased spot buying when it is expedient to do so, we have partially moved to alternate modes of transport to bypass reliance on ocean freight and port congestion.
Our R&D teams are working on developing alternate parts as well as adjusting product designs to diversify sourcing of components. Moreover, we are calling on suppliers and governments at senior levels to prioritise healthcare products in the supply of components.

**Respironics recall**

Let me now speak about the Respironics recall. The repair and replacement programme is underway globally and we have substantially ramped up our production, service, and repair capacity. To date we have produced over 1.5 million repair kits and replacement devices, of which more than half have reached customers. We aim to complete the remediation programme in Q4 2022.

As announced on 12th January, following a comprehensive customer and patient outreach programme, Philips Respironics increased the field action provision by €220 million, mainly due to the higher volume of registered devices eligible for repair or replace, and increased supply and communication cost. As we said at the time, this was done in alignment with competent authorities in the interest of patients.

In December we provided an update on the positive VOC test results to date for the first generation of the DreamStation devices, which indicated that VOCs are within the limits of safe exposure specified in the applicable safety standard, e.g. ISO standard 18562. Comprehensive particulate testing and analysis are expected to be completed in the second quarter of 2022. We will continue to provide timely updates on the results from these and other assessments.

I would like to reiterate that we have a strong programme management in place to ensure the corrective actions related to the recall are completed as fast as possible. We have a competent team of over 1,000 people working under the leadership of Roy Jakobs, who is a member of our executive committee. We’ve also made organisational changes throughout 2021, which include onboarding new top management in the Sleep and Respiratory Care business and further strengthening our quality and regulatory affairs leadership for the group, the Connected Care and the Sleep and Respiratory Care businesses. Moreover, we have added resources to crosscheck learnings from the Sleep recall, their relevant and strengthened capabilities around post-market surveillance, medical affairs, biocompatibility, and toxicology within Philips. Our experts as well as certified labs and qualified third-party experts are closely working with the Respironics teams.

Importantly, we have submitted a comprehensive response to the November 2021 form 483 as well as a detailed action plan to the FDA. Philips Respironics continues to engage with the FDA, and we will work closely with the agency to clarify and follow up on the inspectional findings and its requests.

As I have already referred to, as part of our focus on quality and following the Respironics recall, we have reinforced the awareness and focus on patient safety across the company. We have further stepped-up scrutiny and raised the bar around this topic and see the organisation responding to this. In that respect, in Q4 we recorded a provision of around €70 million in the Connected Care businesses in relation to other quality actions. As we are currently still in process of informing stakeholders, I cannot provide details right now. While the provision is sizeable, we believe the mitigation of these issues is well understood. The business that it relates to are small business lines in the Connected Care portfolio. These
efforts are ongoing and continue improvement of our quality culture and approach is top priority for management and for everyone at Philips.

As you know, Philips Respironics is a defendant in several class action lawsuits and individual personal injury claims. However, it is too early to draw any conclusions about the merits and the timelines to handle the claims at this stage. Right now, we are focusing on the patients and the corrective actions required as well as the completion of testing that I referred to.

As Leandro mentioned, we have published frequently asked questions, FAQs, on the recall to provide details and clarification on the progress. There are some areas, particularly related to litigation, where we are not able to provide further details at this time. We will share additional information in a transparent and timely manner as the situation evolves.

Supporting hospital leaders' plans worldwide

Now I would like to provide some colour on how we are supporting the needs of today’s hospital leaders across the globe as they plan for the future. At the RSNA annual meeting in December, we launched a slate of smart connected imaging solutions, featuring AI and workflow automation, to aid clinicians in providing early, definitive diagnosis and treatment.

We introduced our MR 5300 system, continuing the advancement of our unique helium-free operating portfolio. Powered by AI, the MR 5300 simplifies and automates complex clinical and operational tasks for outpatient clinical use and MR departments to help increase access to affordable quality care.

Further expanding our comprehensive CT portfolio, we have introduced the new CT 5100 Incisive, with CT Smart Workflow, a suite of AI-enabled capabilities, designed to accelerate workflows, enhance diagnostic confidence, and maximise equipment uptime. CT Smart Workflow is the latest in a continuous programme of performance enhancement for Philips’s market-leading Incisive CT system.

We also introduced the world’s first spectral detector Angio CT, combining our unique spectral CT 7500 system and industry-leading Azurion platform with flex arm in a single interventional suite solution. The spectral detector CT imaging brings valuable additional information in minimally invasive procedures for areas such as oncology, stroke and trauma care, and the integrated solution provides interventionists with immediate table-side access to these two key imaging modalities.

In the quarter we further expanded our leading image-guided therapy portfolio through the acquisition of Vesper Medical, adding a venous stenting solution to address the root cause of chronic deep venous disease. And complementing the ambulatory cardiac diagnostics and monitoring solutions that we already offer with biotelemetry, we now acquired Cardiologs, which is adding a vendor-neutral heart disorder screener and ECG analysis application based on machine learning algorithms. Cardiologs technology will accelerate diagnostic reporting and streamline clinician workflow and patient care.

In Personal Health, we continue to invest in new product introductions, and successfully completed the rollout of the Sonicare 9900 Prestige in North America, China, Europe, and the Middle East. This premium electric toothbrush finished number one in the Stiftung warentest, Europe’s leading consumer organisation. Moreover, we further expanded the oral healthcare
portfolio with the launch of innovative interdental cleaning devices in North America and China.

**Growth and margin trajectory**

Looking ahead, based on strong customer demand, our growing order book, and the actions that we have taken, we expect to resume our growth and margin expansion trajectory in the course of 2022. Short term, however, we continue to see volatility and headwinds related to COVID and the supply chain shortages, despite our ongoing mitigation actions. For the full year, excluding Sleep and Respiratory Care, we target to deliver 5%-6% comparable sales growth. For the overall group, we target to deliver 3%-5% comparable sales growth and 40-90 basis points adjusted EBITA margin improvement.

Our order book is very strong and clearly supports strong growth, but we want to be cautious as we manage through the headwinds. We will provide further colour or update as appropriate as the year progresses.

Our journey to leadership in health technology continues and I am optimistic about our potential to grow and create value, overcoming this year's issues. Our customers tell us that we are relevant to them. Our strategic roadmap will unlock higher growth. We are focused on execution and operational excellence to achieve our goals and manage the near-term headwinds that we are facing. We have a stronger than ever portfolio to serve our customers and I remain very confident on the medium-term growth and margin opportunity of our company. We plan to provide more colour on our medium-term performance roadmap in the summer.

And with that I’ll turn the call over to Abhijit.

**Financial highlights**

Abhijit Bhattacharya  
_CFO, Royal Philips_

**Order intake growth**

Thank you Frans. And thank you all for joining us today. Let me provide some colour on the comparable order intake growth. Diagnosis and Treatment order intake grew 10% in the fourth quarter, driven by strong growth in magnetic resonance imaging, image guided therapy and enterprise informatics. In the full year, Diagnosis and Treatment order intake grew 16% due to strong demand across the world and the strength of our innovation.

Short-term order momentum in China was affected by the additional procedures related to imported healthcare products, which were implemented in the course of the year. We have a strong position in China, including R&D centres, factories, local-for-local innovation and a fully Chinese management team and are further investing in local-for-local products and capabilities.

Connected Care order intake declined in the fourth quarter and the full year of 2021, as anticipated on the back of the spike in COVID-19 generated demand in 2020. Important to realise that activity levels remain double-digit above 2019 in these businesses and I’m very pleased that we continue to see a fundamental demand shift in an option of our patient care
management solutions in both high and low activity care settings and expanding market shares.

Group comparable sales declined 10% in the quarter. In addition to the high comparison base from Q4 2020 and the anticipated headwinds in our Sleep business, we also faced stronger than anticipated supply chain disruptions at the end of the quarter, as Frans mentioned. The impact is particularly strong on the high-volume businesses like patient monitoring, oral healthcare, and ultrasound, but also relevant in modalities such as image guided therapy and magnetic resonance imaging.

Adjusted EBITA in the quarter was €647 million or 13.1% of sales, impacted primarily by the lower sales. Adjusted EBITA was also impacted by higher supply cost, including extraordinarily high pricing on spot buys and an unexpected push-out of an IP deal, partly offset by productivity measures.

Full year comparable sales declined 1% for the group, with strong growth in the first half of the year offset by the impact of headwinds in the second half. Excluding the Sleep and Respiratory Care business, full year comparable sales grew over 5%.

Diagnosis and Treatment comparable sales were in line with 2020 in the fourth quarter, impacted by supply chain headwinds mentioned before, and some postponement of equipment installations in hospitals in December. The volume of elective procedures tracked above pre-COVID levels during the year, with some slowdowns seen towards the end of December due to the impact of the Omicron variants in various parts of the world. We continue to expect hospitals to normalise their operations and work through the backlog of patients in the coming quarters, although COVID remains a risk of course.

The adjusted margin decreased to 13% in the quarter in Diagnosis and Treatment, mainly due to the lower sales. For the full year, however, the Diagnosis and Treatment businesses recorded 8% comparable sales growth and an adjusted EBITA margin of 12.4%. This compares to an adjusted EBITA margin of 10% in 2020.

The comparable sales for the Connected Care business declined 32% in the fourth quarter, driven mainly by a substantial decline in the Sleep and Respiratory Care business on the back of a very strong last year as well as the impact of the recall. The adjusted EBITA margin amounted to 11.7% in the quarter. For the full year, the Connected Care businesses recorded 23% comparable sales decline and an adjusted EBITA margin of 10.6%.

Personal Health comparable sales declined 3% in the fourth quarter, driven by supply chain shortages, while the underlying consumer demand for our strong portfolio remains solid. The adjusted EBITA margin increased to 21.6% in the quarter, mainly driven by productivity measures.

For the full year, the Personal Health businesses delivered a 9% comparable sales growth and an increased adjusted EBITA margin of 17.6%. This compares to an adjusted EBITA margin of 13.4% in 2020.

**Productivity initiatives**

We continue to focus on driving productivity initiatives that delivered growth savings of €91 million in the fourth quarter and around €400 million in the full year 2021. After
deducting the impact of cost increases related to freight cost and spot purchases, net savings amounted to €19 million in the fourth quarter and €279 million in the full year.

Adjusting items were €417 million in the fourth quarter. This included the provision related to the recall and the provision for other quality actions which we mentioned earlier. Adjusting items also included an increase of the provision for the onerous ventilator contract of 2020 and a legal provision which are not related to the recall.

Income tax expense was a gain in the quarter, mainly due to the positive impact from tax benefits relating to business transfers.

Free cash flow was an inflow of €519 million in the quarter, resulting in a €900 million inflow in the full year 2021. This is lower than our usual expectation of around €1.4 billion inflow early in the year due to the lower income and the cash-out related to the Respironics field action.

**Additional guidance**

Let me provide some additional guidance for certain areas of our business. In the segment Other, we expect an adjusted EBITA loss of around €100 million in 2022 and the improvement of €5 million versus 2021, mainly due to higher licence income.

At the EBITA level, we expect a net cost of around €160 million for the full year 2022 compared to almost €240 million for 2021. For Q1, we expect a net cost of around €50 million at the adjusted EBITA level, broadly in line with the first quarter of 2021, and around €75 million at the EBITA level.

Restructuring charges are expected to be around 80 basis points and acquisition-related costs to be around 80 basis points in 2022. We expect running costs related to the Respironics recall, such as testing, external, advisory, and other, as well as costs related to the commitments made as part of our response to form 483 from the FDA and broader quality improvements in Connected Care, to be around €40 million per quarter.

Financial income and expenses are expected to be a net cost of around €160 million in 2022 excluding incidentals if any.

Free cash flow is expected to be around €700 million in 2022. This is lower than the 2021 free cash flow as higher income will be more than offset by approximately €400 million cash costs related to the field action provision taken in 2021.

On capital allocation in the fourth quarter of 2021, we completed the €1.5 billion programme which was initiated in the first quarter of 2019. Under the €1.5 billion programme announced in July 2021, we acquired a total of approximately 22 million shares in the fourth quarter of 2021 and in January 2022 through open market purchases. In previous quarters we had already entered into a number of forward transactions related to this programme, with the settlement dates in 2022, 2023 and 2024. In December 2021 we completed the cancellation of 33.5 million shares that were acquired under both the repurchase programmes, resulting in a reduction of almost 4% of the outstanding shares. More details on the share buyback programmes are available on our investor relations website.
We will submit a proposal for dividend of €0.85 per share against a net income of 2021 in cash or shares at the option of the shareholder. This is within the targeted pay-out ratio of 40%-50% of continuing net income.

**Outlook for 2022**

To conclude I would like to take you through how we expect the year to progress in more detail. As Frans mentioned, our order book is strong. But we do expect to continue to see headwinds related to COVID and supply chain shortages in 2022, especially in the first half of the year despite our mitigating actions. This cause significant volatility in the sales realisation during the year.

Excluding the Sleep and Respiratory Care business, we expect low single-digit sales decline in Q1 and the first half of the year on the back of 14% growth in the first half of 2021. We expect to experience a strong recovery in the second half of the year as we manage through the headwinds and on the back of weaker comps.

Excluding the Sleep and Respiratory Care business, we target to deliver 5%-6% comparable sales growth for the full year. For the total group, this means a high single-digit decline in Q1 and a mid single-digit decline in the first half of the year on the back of 9% growth in the first half of 2021. For the full year, we target to deliver 3%-5% comparable sales growth for the group and 40-90 basis points adjusted EBITA margin improvement.

Let me sum up by saying that 2021 was a mixed year for Philips. While we were impacted by the Respironics recall as well as supply chain headwinds, a strong start in the first half of the year meant that excluding the Sleep and Respiratory Care business, our sales grew 5% in the year and the corresponding adjusted EBITA margin increased by 230 basis points. And we ended the year with our highest order book. Our focus going forward will be to complete the repair and replace programme for the recall as fast as possible and mitigate supply chain headwinds so that we can get back to our strategic improvements.

With that, Frans and I will take 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 yourself to one question with a maximum of one follow-up. This will give more people the opportunity to ask questions. And if you're using speaker equipment today, please lift the handset before making your selection. We will now take our first question from Veronika Dubajova from Goldman Sachs. Please go ahead.

**Veronika Dubajova (Goldman Sachs):** Yes, hi guys, good morning and thank you for taking my questions. I would love to understand the thoughts you have on the supply chain, and I know it's a very broad-based question and I appreciate there's lots of moving parts there, but maybe you can give us a little bit of flavour for how much visibility you feel you have at this point in time. And just looking at your guidance, versus the sort of almost €0.5 billion headwind that you had experienced in the fourth quarter, it would be great to understand exactly what you have embedded in terms of supply chain headwinds and how much wiggle room you have as we progress through the first and the second quarter, to the
extent that things that don't turn out the way you're anticipating, to compensate for that. I'll leave it there and I'll have a follow-up after that, but if we can start with that. Thanks.

**Frans van Houten:** For sure. Hi, Veronika. Yeah. I'd love to go a bit deeper there because I understand this is on everybody’s mind.

If we look back at Q4, the supply chain headwind that I flagged in October basically became a bit like twice as much, alright? And then on top, we had customer pushouts because also customer struggled with site readiness and some of their own supplies to make rooms ready.

A significant part of that, let’s say, missed sales in Q4, moves into this year, but some of Q1 moves into Q2. So we see moving – a lot of moving parts. To work this through, we have had our teams make multiple scenarios to understand the variability of, let’s say, the quarter-on-quarter results of sales and results.

We have taken the more conservative view on Q1 and Q2 because we want to be cautious, and we do see a lot of uncertainty in the near-term. We have, of course, worked with all our suppliers. We have long-term orders in place. We have increased visibility to tier two, three and four suppliers. We have been working on mitigation, such as qualifying other suppliers. Still, we are, from time to time confronted with suppliers who de-commit or – and/or postpone deliveries.

Similarly, with port congestions and supply chains – and a typical example is how batteries were stuck on a boat on the West Coast of United States, basically delayed by five weeks or so, holding up our ultrasound production and not being able to get that to our customers. So we have a lot of people working these issues. We feel that we are getting a better handle on it, but – and I know that many of you said, why do – does Philips seem to be affected so much?

Well, we all remain to be seen about others. But I want to bring you back to the beginning of 2021, where we were growing at a much higher pace than the year before which started to deplete any safety stock that we had. And then with the strong orders and our eagerness to compensate for the Sleep recall missed sales, it all became very tight in the second half year, which what you could call really hand-to-mouth or just-in-time deliveries.

To restore buffer in that inventory or in that supply chain is not so easy. It takes a bit of time. As I said, we want to take a cautious approach to 2022. We have provided on page 21 a table with our sales guidance by quarter and for the first half of the year to give you more insight in how we look at it. And then we expect to gradually be in a better place as the year progress.

**Veronika Dubajova:** And Frans, can I just ask related to that? I mean, I appreciate everyone’s facing different challenges here, but are you seeing any signs that the problems that you are having specifically are starting to impact your customer retention, the pace of orders, just broader relationships? Because we are indeed hearing from some of your competitors that they’re not facing these issues. And I’m just curious if your customers start cancelling orders and ordering their MIs from someone else who might be able to deliver them faster?
Frans van Houten: No. I have not seen any indication that customers are taking this out on us. We have not lost a single order. Customers also face their own supply challenges as I referred for example the site readiness.

Now, you may say, what does that mean? Well, if a customer needs to place an air-conditioner in a room, and that’s also stuck on a boat. Customers have actually more understanding for our own delays. It also means that some customers have postponed orders or installations from Q4 to Q2 and skipping Q1. Also COVID has an influence there.

But the short answer is no. I’ve not seen cancellations. And also in terms of recording new orders, I have not seen issues there. I am actually aware that some competitors also tell customers long lead times for new orders to be delivered, right? So I don’t think we are unique in this actually despite what you said.

Veronika Dubajova: Okay. That’s helpful. Thank you, guys. I’ll jump back into the queue.

Operator: We will now take our next question from Hassan Al-Wakeel from Barclays. Please go ahead.

Hassan Al-Wakeel (Barclays): Thank you for taking my questions. I have a couple, please. So firstly, just following up on the supply chain volatility. To what extent, if at all, is the Respironics recall having an impact on your ability to supply and source electronic components for other parts of the business? And then secondly on the full year guide, how do you think about the composition of growth across the segments? And should we expect any growth at all in Connected Care? And is D&T and PH likely to sit in the medium-term range? Thank you.

Frans van Houten: Yeah. Hi, Hassan. Good morning. There is no relationship between supply chain volatility and the Respironics recall. Of course also for the recall, we need a lot of materials. Think about plastics, blower motors, but that is unique to that particular production. We have been able to increase production for the recall significantly. We are currently running at a triple rate versus last year. We have a further intent to raise that and it will follow its own course.

We are working intensely with suppliers on our other businesses. Abhijit will give you a bit of colour on the growth rates by reporting segment.

Abhijit Bhattacharya: Yeah. Hi, Hassan. For Diagnosis & Treatment, we expect to continue, let’s say, the strong trajectory that we’ve built over the last couple of years. So we will have a high single-digit growth rate. In Personal Health, we’ll be mid-single-digit. And in Connected Care, we’ll be a low single-digit decline, although, if you exclude Sleep and Respiratory Care, then it will be about a mid-single-digit growth as well.

Hassan Al-Wakeel: That’s helpful. And if I can just follow-up on, given the performance in 2021 and what looks to be another transitional year in 2022, can you give us your thoughts on the medium-term outlook and your confidence in achieving this?

Frans van Houten: Yeah. We flagged that we would like to come back on the medium-term outlook over the summer. At the same time, I don’t want to leave that to – start living its own life, right? We have full believe in our growth opportunities at Philips. And of course, we
ended the year ‘21 at a lower starting base, right, which means that the trajectory has to become steeper, right?

We have also guided you for this year. And we felt that we need to get some water under the keel this year before we start making all sorts of statements, which you then will question, right? So we remain committed. But in terms of underpinning and detailing out the steepness of the trajectory and all the other questions that you rightfully will have, we felt that we should have a dedicated session over the summer rather than piecemealing it year-to-date.

So I really take courage out of the strong interest in our innovations and the order book development. All the partnerships that we get, we don’t see any reluctance of customers contracting with us. So as we gain confidence in working through the issues this year, we feel that that would be a more appropriate time to have a deeper conversation about the trajectory next year.

**Hassan Al-Wakeel:** That’s helpful. Thank you.

**Operator:** We will now take our next question from Kate Kalashnikova. Your line is open. Please go ahead.

**Kate Kalashnikova (Citi):** Hi, Frans. Hi, Abhijit. This is Kate Kalashnikova from Citi. My first question is on testing results. Could you please explain what additional tests FDA asked Philips to do in respect of particulates test, that mean it will now take longer than you initially expected to get results? And specifically, what kinds of tests are being done to assess risks of foam being ingested or implanted? For example, for VOC emission, there is clear applicable ISO standard. But it’s less clear what you need to show with respect to particulates testing. If you could comment on this? And I’ve got one follow-up question afterwards.

**Frans van Houten:** Yeah. Hi, Kate. You sound already pretty expert to me with regards to this testing. So indeed, let’s first dwell briefly on the VOC testing on the DreamStation One, where we take a lot of encouragement out of the fact that these tests have come out well within the safety norms of the respective ISO standard. And therefore, for patients that continue to use the device, this is really very reassuring.

The testing related to the particulates and the fact that we take longer for that have to do with, indeed, as you said, what happens when you ingest the particulates and they stay in your body, alright? And so then a different testing protocol applies. So it’s then no longer just about testing the device, but it is the understanding of what the particulate does inside the body.

The two relevant ISO standards that apply are ISO 18562 and ISO 10993. Both need to be done on a duration, right? So it’s not a momentarily test, but it is a test over a period of time. And that is why it takes longer. We expect test results in the second quarter of this year.

Besides particulate testing, we, of course, also have a few other tests that we are working on, such as the – all the tests with regards to the use of ozone. But we deem that, let’s say, publication of results on ozone should only happen after the particulate testing is also completed. It doesn’t make sense to take that out of sequence.
We work closely with the FDA on making sure that all the tests are done with independent test houses and external bodies to evaluate the test results. We believe that being careful here is the right thing to do rather than to rush to an outcome.

Kate Kalashnikova: Thank you, Frans. But – so when do we actually expect to receive testing results which were requested by the FDA on the replacement silicone foam? And also, do I understand correctly that the test to show how ozone accelerates foam degradation and to assess the risk of VOC emission when ozone cleaners are used will likely come after particulate testing, so after Q2 at some point?

Frans van Houten: Yeah. So let’s first talk about silicone foam testing. All our own test on silicone foam demonstrate that silicone foam is safe. All the products that use silicone foam have passed the tests and are released for the market in line with the FDA requirements. And you’ll recall that when FDA authorised our repair and replace programme with silicone that that was in the full knowledge of that we were – are using silicone foam and they’ve authorised it.

I take the desire for additional silicone foam testing also as an indication that the whole industry needs to, let’s say, do more testing. I don’t expect anything negative to come out from it. The FDA has asked us for a comprehensive proposal on how these tests should be conducted, and we are engaged with the FDA on the execution of those tests, and we expect that in the second quarter, the results are available.

On the ozone testing, both what it does to the foam and particulates, but also potentially VOCs, a battery of tests are ongoing. And those are also expected to be completed in the second quarter.

Kate Kalashnikova: Okay. Thank you for clarifying. Thanks, Frans.

Frans van Houten: You’re welcome.

Operator: We will now take our next question from David Adlington from JP Morgan. Please go ahead.

David Adlington (JP Morgan): Hi, guys. Thanks for taking my question. I just wanted to touch on the wider quality issues you mentioned. I know [inaudible] a lot of other commentary about €70 million provision. But maybe just should be viewing that as a one-off cost, or do you expect further ongoing costs around those quality issues going forward? And secondly, should we see any risk around product recalls or sales set as a result of those quality issues?

Frans van Houten: Yeah. Hi, David. Good morning. The two quality issues referred to in our 12th January release relates to recently discovered product issues that need to be remediated likely through a field call order. These are relatively small businesses, and the issue is well-defined. It is a sizeable amount of money, but in your terminology, we should see this as a one-off amount.

It’s unfortunately not unusual to have FCOs in the medical technology field and I realised that the timing comes on the back of the Sleep recall. I apologise for that. But these, you could think, are the issues that were just recently discovered in two products, and we are
forthrightly dealing with it. We haven’t disclosed the products because we are still, let’s say, working with the stakeholders on the exact FCO.

**David Adlington:** And just a quick follow-up, Frans. When do you expect to be able to disclose what the products are?

**Frans van Houten:** Yeah. As soon as we have agreed with the regulator on what the FCO should be like, alright? That probably will happen in Q1. But that would – that’s what I would expect.

**David Adlington:** Great. Thank you.

**Frans van Houten:** You’re welcome.

**Operator:** We will now take our next question from Lisa Clive from Bernstein. Please go ahead.

**Lisa Clive (Bernstein):** Hi, Frans. Just actually a follow-up on the FDA topic. The – about €90 million that you took in Q4 around quality actions. Given the extensive commentary in the Form 483, are you looking into a broader sort of regulatory and compliance overhaul across Connected Care, maybe even across D&T as well? And is this something that you may think about doing over the next few years just to avoid any future issues with the FDA?

**Frans van Houten:** Yeah. Hi, Lisa. Let me first correct the number. In that release, there was €70 million on quality actions, not €90 million. The – Philips has been on a trajectory of quality improvement – cultural improvements already for several years. And I claim that broadly in Philips, we have made a ton of progress.

In Connected Care, we have taken several measures also following the discovery of the recall in April or – March/April last year with people consequences in the Sleep and Respiratory Care business, as well as with regards to the quality and regulatory function in the Sleep business, as well as in Connected Care. And also for all of Philips, we have already, 1.5 years ago, replaced the overall Q&R leader. So a whole set of people measures.

We have used the occurrence of the recall to also reinforce in the whole company the importance of patient safety and quality actions. The feedback of the FDA that we need to strengthen within the Sleep and Respiratory Care business, the risk assessment and post-market surveyanse, we are also taking that as a moment to do a broad-based look left and right and look back to say, have we missed anything so far that has not yielded a discovery that we have missed something?

It is a very important topic. We are on top of it. We very much want to demonstrate to the FDA that we are always in compliance in that respect. I can point to you that we also have many audits that we pass without issues. So it is not all doom and gloom across Philips when it comes to quality. We routinely pass inspections from the FDA and other regulatory bodies.

**Lisa Clive:** Thank you, Frans.

**Operator:** We will take our next question from Ed Ridley-Day from Redburn. Please go ahead.

**Ed Ridley-Day (Redburn):** Good morning. Thank you. A couple of follow ups, please. Abhijit, thank you for the commentary around the divisional growth outlook this year. Can
you just also help us bridge the ‘22 margin guidance that you’ve given? Firstly, on your assumptions around on Personal Health profitability this year, obviously, clearly, we know the headwinds in first half. And if you could speak to where you would potentially see that relative to historic levels? That would be helpful. The same for D&T. And also just in terms of the wider assumptions you’re making on supply cost inflation. Where were you assuming sort of normalisation of that inflation? Are you assuming that in the second half that we should see inflation stabilise? Or do you see inflation – the challenge is for the full year?

**Abhijit Bhattacharya:** Yeah. So let me start with Personal Health profitability. You saw during the course of the year, we continually stepped-up profitability. We will see price increases in Personal Health already from January. So we are putting in place, measures to compensate for the increase in input cost. So overall, you will see Personal Health profitability go up in the year.

I think similar for Diagnosis & Treatment, you will see an increase in profitability because the sales – the operating leverage that we’ll get from the high-single-digit growth that I mentioned will give us an impact. We are also putting in price increases but of course, the impact of that in the health systems businesses is limited, because we have a big order book which has come at earlier prices. And so, therefore the new orders only will come at better prices.

I think supply chain cost but whether it is a component pricing but also in terms of higher cost of people, staff cost, et cetera, that’s something that will happen through the year. So normalisation I think before 2023 is not likely to happen, and therefore we have put in the pricing measures that we think we need to drive the margin expansion we’ve talked about.

Now we’ve given a bit of a broader range and that depends about, of course, on how much growth we are able to ultimately get. As Frans mentioned, the Group – the challenge around growth is not related to the orders because we have them. It’s about the supply chain. And once we are able to make it, yeah, then we will get there. And this is all part of the guided range in sales, including the quality issue that David just mentioned.

**Ed Ridley-Day:** Thank you, Abhijit. That’s helpful. And can you give us any colour on the price increases you’ve been able to push through in Personal Health?

**Abhijit Bhattacharya:** Yeah, I think, it’s different per category. But it’s – there are two rounds of pricing increases, one in January and one from April. So it’s about a mid-single-digit kind of price increase – mid-single-digit percentage.

**Ed Ridley-Day:** That’s helpful. Thank you.

**Operator:** We will take our next question from Julien Dormois from BNP Paribas. Please go ahead.

**Julien Dormois (BNP Paribas):** Hi, good morning, Frans. Good morning, Abhijit. Thanks for taking my question. The first one relates to Respironics and would be just curious to get your thoughts on the pace of recovery of the business from Q4 onwards, and particularly, if you’d already feel comfortable giving your thoughts on how long it could take to return to the run rate of €150 million per quarter, whether that is a multi-quarter process or whether it is a multi-year process in your mind. And maybe just a quick follow-up on that one. I’m sorry if I missed that. But could you just provide an update on the legal action, maybe in terms of...
number of cases and number of plaintiffs, if you have it? And then second question is some sort of a housekeeping one. But I was just curious to understand why, in D&T, you were able to deliver double-digit-growth in IGT despite the supply chain issues? Is it because the underlying trend for IGT was much stronger in Q4, and you got impacted by supply chain, but it was still growth? Or is there anything else at play here?

**Frans van Houten:** Hi Julien, Frans here. The – we are very intent on getting the Sleep business back in play, and we are expecting to be able to allocate some production capacity to that in the fourth quarter. Of course, then we have to rebuild pipeline inventory with the D&Es, et cetera, right. But we are – we have a team working on the recovery of the business as we speak.

When I refer to a session perhaps over the summer, I can imagine that we would also dare talk about how we look at Sleep business from 2023 onwards. Today, I find that it’s too early. Nevertheless, I don’t want to leave you hanging there. I think the recovery of our strong market share is likely to take a few years. However, there’s a strong pent-up demand in the market for Sleep devices. And so we should get a kind of out-of-the-gate boost to the revenue once we are back in the market, right?

But at the same time, it’s not realistic that our 50% market share in Sleep apnea systems will just fall into our laps in the first months, alright? So it will take a bit of time. And I hope to give a lot more colour on that when we kind of speak then over the summer as I refer to that session.

Now on your question of legal action, we have about 100 class actions, about 120 personal injury suits, alright? And then otherwise – this is in the United States and then outside of the US, not many. One or two, let’s say, in Australia, Canada, similar nature as in the US. And then we have the SEC claim as well from the shareholder suit. So that is the situation. It’s really very early to classify this.

And as you know, we are very, very determined to provide, let’s say, the data such as with the VOC testing to start scoping what is now the real risk. And therefore, there’s no point in getting ahead of ourselves before we have kind of put all that evidence in place. It’s my estimation that the earliest that we are able to scope litigation is going to be somewhere in 2023.

Now then on your last question, our Image-Guided Therapy business is really on a tear, right? We see strong demand, a lot of interest. We see hospitals wanting to buy more ambulatory surgical centres and expand capacity for elective procedures. We see that minimally invasive therapy is being expanded beyond cardiovascular into neuro, stroke, spine into onco – into minimally invasive oncology, so broader and broader application, more therapeutic areas.

And Philips is just very well positioned in all of this. Also, our portfolio of devices very much reinforces our strength in this business. We do have significant supply chain issues also in IGT, but the order book is growing very, very nicely.

**Julien Dormois:** Okay. That’s very helpful. Thank you, Frans.

**Operator:** We will now take our next question from Delphine Le Louët from Société Générale. Please go ahead.
Delphine Le Louët (Société Générale): Yes. Hello. Hi. Good morning, everybody. I was wondering, can you – Abhijit, can you give us more precision regarding your inflation targets within your guidance? And can you size that on a divisional basis? That would be the first question. And Frans, please, you’ve certainly been very active in reorganising part of the organisation regarding post-marketing quality. But how far do you think you are in this journey? Do you think you have the appropriate setup right now? Or there is still internally some more additional restructuring to be made? And finally, can you give us more precision regarding the Respironics business distribution way of doing it, meaning the normal term shifts in terms of the contracts? And when you’re talking about multiyear recovery of the market share, do we have to think of the two- or three-years’ time frame or more five to seven years according to your current contract you have with your distributor? Thank you very much.

Frans van Houten: Well, are you ready for your inflation question?

Abhijit Bhattacharya: Yeah. So on the inflation, I think we will probably have more than 1.5% on top of what we normally have. So we typically guide to about 1.1% inflation, and it’ll probably be more in the 2.5% range for next year. And then, yeah, we will do – like I said, there are cost increases to compensate for that. So per business, there’s not really a huge shift from one to the other.

Frans van Houten: Then, Delphine, the question on quality journey. I feel that we have taken the right measures on the organisation structure, alright? So, this is not a matter of reorganising. We have also stepped-up quality of people. We have been able to attract quite some new talent who can look with fresh eyes, right? And we have been upgrading processes and systems so that we have also the ability to do AI-enabled review of post-market surveynance data and also there have an opportunity to have multiple sets of eyes, look at the data rather than only the business unit.

As part of the programme to raise patient safety and quality, we have taken a commitment to re-look all our past severe incidents or S3 and S4 rated incidents to say, what can we learn from it? Have we missed anything? We are already kind of halfway through that look back. And as I inferred on an earlier question, we have not found anything significant that we missed.

Nevertheless, I want to see that through completion also as a learning exercise for the whole company to say, I want diligence in that process. Probably in the next two or three months, we will complete that look back, and then undoubtedly we’ll have your question again to say, what have we learned from that, right?

So we are using the incident also very much to reinforce the importance of diligence in all these processes that you cannot skip a beat and you can never look away, right? But so far, we have not discovered another big issue.

Then on your third question on the recovery of the Sleep business, look, I just wanted to be realistic when I said it will take time for the market share to recover. I do know from discussions with both the physicians as well as with the DMEs, is that they all want us to be back, they want our brand in their line-up. They – the doctors appreciate the device and the informatics capabilities to analyse the disease progression and the patient experience, and the DMEs don’t want to be dependent on one big player only.
So all those signs are positive. The product is competitive, so we are going to make a compelling case to recoup our market share. At the same time, I want not to get ahead of our skis and claim victory while we still have to get started. By the way, as a data point the mask business is continuing as we speak and we actually have some good traction with that, even to the extent that the originally guided sales gap has become a little bit smaller because of an ongoing ability to sell masks and accessories.

Delphine Le Louët: Okay, thank you very much.

Operator: We will now take our next question from Seje Ozama from HSBC. Please go ahead.

Seje Ozama (HSBC): Hi. Thanks very much for my question and thanks for the presentation. I think your slide 21 was very helpful in terms of seeing the sales growth progression for 2022. Would you be able to provide a similar progression for your EBITA, adjusted EBITA guidance expansion of 40 to 90 basis points in terms of how that will be divided over the quarters, as well as how that will be – how you expect that to breakdown over the different segments?

And my second question would be about, like, the recall issue. You changed the mix from 70% to 30% to 50:50 between repair and mix – repair and replace. Maybe you could give some idea about, like, what changed there?

Frans van Houten: Yeah. Maybe I’ll start with the repair/replace and then pass it to Abhijit on the margin development. You know, initially we were unsure about how many products we would get back from patients and in what state they are, and whether they are repairable in the first place. In the meantime, we have a sizable quantity back and evaluated by our factory, and we know that we can repair a significant volume that comes back. Still, there is a time – also a time lag between, you know, what you got – what you get back and how you can deal with it. So, in the early days, the replace ratio was much higher as a consequence of the two factors, you know? Now, as we gain experience we feel, now, more comfortable – confident that we can achieve the 50:50 ratio, right? And if you would plot that out between last summer and, let’s say, towards the next – this summer then you will see, of course, the repair ratio go up constantly because we get more and more volumes back and the logistics of filling the pipeline have then been covered, right, therefore the need for replace only, which happened in the beginning, will become smaller. So that’s basically what has happened. And, also, maybe I should add that initially we only had authorisation from the FDA for replace, right – that was the August/September message – and repair protocols were, in fact, only approved in – what was it? – October, if I recall off the top of my head.

Abhijit, maybe I think we are not able to give a lot of guidance on the EBITA development by segment, but....

Abhijit Bhattacharya: Yeah. I think, you know, Seje, given the volatility that there is and the uncertainties, I think, now, giving per segment, per quarter is only going to make it more complex. So I think, you know, we’ve guided to lower growth in the first half; that has a big impact, of course, on the profitability, so using that I think you should be able to model it.
Seje Ozama: Okay, thanks, very helpful. And just as a follow-up, is there a cost difference between replace and repair nowadays, like has it changed or, like, is there a difference in terms of the cost you’re projecting that might lead to the eventual—

Frans van Houten: Yeah. I mean, obviously, there is some cost difference between repair and replace, even intuitively I think everybody would realise that. Nevertheless, the logistical processes on repair are much more substantial than on replace because you have a return pass, you need to clean the device, you need to inspect it. By the way, we also need to photograph all the units that come back. So the cost difference is therefore not that huge, but still, of course, repair is more favourable to us than replace. All of this is included in the provision. Yeah, let’s leave it at that.

Seje Ozama: Okay, very helpful. Thanks a lot.

Frans van Houten: You’re welcome.

Operator: We will now take our next questions from James Vane-Tempest from Jefferies. Please go ahead.

James Vane-Tempest (Jefferies): Hi, good morning. Thanks for taking my questions. I’ll start with the first one and then I’ll pause for a follow-up. Just on the €17 million for quality-related items. You mentioned this relates to two recently discovered product issues. Just wondering if you can confirm these are from the same facility you received the 483 and what risk you see of further product recalls, and if your revenue guidance includes any potential for sales disruption there? Thank you, then I’ll come for a follow-up.

Frans van Houten: These two products are out of different facilities than the one that is — let’s say, we got the 483 on from the FDA. It’s likely that the two product issues will come with an FCO, a Field Call Order, and that there will be some sales impact on those product lines. We have said in the introductory comments that these are smaller product lines and therefore we don’t expect a major impact, and on an earlier question I said the provision was a one-off.

James Vane-Tempest: Thank you, that’s helpful. And then just on your overall Group guidance, the mid-single-digit decline in the first half and high single-digit growth in the second half. We’ve heard some other companies give, perhaps, more of a cautious tale in the second half, so I’m just, kind of, curious what you’re seeing at this stage to give you more confidence. And just related to that, if you can help us bridge the first half to second half for the full year, because if I look at, you know, first half and give that a mid-single-digit decline at the low end and a high single digit in the second half I get to around 3%, which is at the lower end of your 3% to 5% guidance. So I’m just wondering what else we need to see to get to 5%? Thank you.

Abhijit Bhattacharya: Yeah. Let me take the second question first. So, look, if you – we have not given a guidance range, so if you take, of course, the low end in the first half and the high end in the second half you get – and then you would get roughly to the lower end of our guidance. If we do better in the first half and better in the second half you will get to a higher range of the guidance. I think the important thing about the growth in the second half is you need to look at the comps, right? So if you look at 2021, we grew by 8.8% in the first half and we declined by 8.8% in the second half. And now, because of the higher weightage
of the second half, overall we declined 1.2%. So if you take the similar weightage for this year, on the basis of the high – top end of the high single-digit range you will come roughly to the area that we guided for.

Frans van Houten: But we thought, for that reason, the table on page 21 would be helpful to you.

Abhijit Bhattacharya: Yeah.

James Vane-Tempest: Thank you.

Operator: We will now take our next question from Max Yates from Credit Suisse. Please go ahead.

Max Yates (Credit Suisse): Thank you. I just had a quick question on the portfolio. And, obviously, you completed the Domestic Appliances disposal, but I was wondering whether you had any, sort of, further thoughts on portfolio and thinking about, sort of, where we are today, whether they were some further opportunities that you may consider in 2022? That was my first.

Frans van Houten: Yeah, hi Max. We are happy with the portfolio as we have it and there are no further plans to make divestitures at this time.

Max Yates: Okay. And just quickly on the buyback. Obviously, you’ve completed that, sort of, quite a bit more quickly than expected. I mean, clearly, this probably relates to, sort of, the opportune moment in the share price, but when you think about, sort of, updating the market in the summer or how, sort of, capital returns may go from here, is this something you’re continuing or you’re thinking of doing more of when you update us in the summer, or I’m just wondering about how you think about plans going forward, given the speed of completion of the last plan?

Frans van Houten: Yeah. We added the buyback last summer, also recognising the low share price and the – let’s say, looking at the priorities for the company also vis-à-vis M&A. And so, continuously, we make the evaluation about capital allocation within the policy, that is also in the slide deck, that we will continue to do. We accelerated the buyback, again, given where the market was, taking a responsible view. At this time there’s nothing else to announce, other than that we continually review on how we can enact the policy.

Abhijit Bhattacharya: Yeah. And delivery of the forward transactions will continue to happen in ’22, ’23 and ’24. So it’s not that we paid for everything and it’s all in.

Max Yates: Understood. Just the final quick question I had was on backlog margins. And I just wanted to understand kind of exactly how the sort of mechanism actually worked between taking an order in sort of Diagnosis & Treatment maybe delivering it six months later. Do you sort of then go out and acquire the materials required, is there any sort of hedging? And just whether we could see margins in that division under pressure in the short term as you maybe deliver on orders that were taken sort of mid last year or later last year and we’re sort of are reflecting the current cost environment?

Frans van Houten: Yeah, maybe it’s helpful to think of the portfolio as three buckets, right? First, you have Personal Health business with relatively fast cycle business, and Abhijit
already mentioned that we have increased prices as of January. And therefore, we can cope with the higher input cost and still expand margins, yeah.

Then the second bucket is basically our recurring revenue on service, which is sizeable bucket and where we also have, in many cases, indexation clauses on cost, right? So we have some protection on higher input costs in the service arena.

And then the third bucket is, of course, where you refer to, which is the health systems equipment business. Abhijit mentioned that, of course, those orders that came in last year were against prices of last year. Now you can look at the WIP inventory and you see that quite some inventory is already in the – in stock, right? So because typically the process of starting to build and then ship and then staging for an installation can take several months with a make to order programme, where a lot of things have to come together.

And some of the postponed deliveries or installations, of course, have their inventory already allocated. So that gives some protection to higher input cost on the order book, but part of the order book, of course, is exposed. And then Abhijit, you wanted still to mention something about the flow business?

**Abhijit Bhattacharya:** So the flow business is like ultrasound, the BioTel business, as well as monitoring, where you have a large amount of book and bill in the year. Those we, of course, have better options to move pricing along.

**Frans van Houten:** That follows more in the same category as Personal Health.

**Abhijit Bhattacharya:** Exactly.

**Frans van Houten:** That’s right.

**Max Yates:** Okay. Understood. Thank you.

**Frans van Houten:** You’re welcome.

**Operator:** We will now take our next question from Wim Gille from ABN ODDO. Please go ahead.

**Wim Gille (ABN ODDO):** Yes. A very good morning, gentlemen. My question would be that if I look at the guidance for 2022 with 3% to 5% comparable sales growth and a margin of between 40 basis points and 90 basis points that is quite well within kind of medium-term guidance. And then the second comment that you guys made already on 12th January is that the sales that we missed about €350 million, about 85% of that was related to systems and 15% to Personal Health. And back then, you said it remains to be seen that the Personal Health miss is a tangible business so that will likely not come back, whereas you guys more or less said, the other 85% is more related to, let’s say, shifting in time, orders moving from one quarter to the other rather than actual, let’s say, cancellation of orders. So how should I combine these two statements? Is it that you are guiding conservatively for 2022? And if all the orders that you missed in the fourth quarter indeed shift to the coming year that there’s actually upsides to, let’s say, your guidance for 2022? Or are we more likely to basically see the missed sales that we have in the fourth quarter as just lost in the guidance? Thank you.

**Frans van Houten:** Yeah, it’s quite a perceptive question, Wim. And – because if everything goes right, we could look at quite an attractive sales growth this year. But we said also in the
opening comments that we need to be a bit cautious. And therefore, the range of 3% to 5% is how we want to talk about it.

The order book gives a lot of credibility to a strong year. But yeah, if we can’t get the supplies, then the sales realisation wouldn’t happen, right? So hence the 3% to 5%. Anything to add, Abhijit?

**Abhijit Bhattacharya:** Yeah, no, so I think it’s good to reiterate that we are not saying that any of the €350 million in the health systems business are lost sales. They will flow into this year. But in our guidance, there is some that will flow from this year to the next year because we don’t expect all the supply chain issues to be fully remediated or will be fully dealt with this year. So that’s why I think that’s how we’re explaining it.

**Wim Gille:** So basically to summarise that the guidance that you gave is also taking a bit of a cautiousness into account with respect to then sales that might slip over to the next year?

**Abhijit Bhattacharya:** Yeah.

**Wim Gille:** If that indeed – yeah, and if that indeed happens, then, let’s say, for 2023, we will likely see a year where it is possible to outgrow the mid-term guidance that you’ve given?

**Frans van Houten:** Well, so actually yes, some orders can shift into 2023. The – in an earlier discussion, I already said, growth-wise, we feel quite comfortable with the originally guided range to now start speculating how far above we are going to be. I think then that’s more of a discussion that we wanted to have in the summer, alright, to speak about how to get back to the ambition statement as fast as possible, right. And I don’t think it’s very useful to do that today.

**Wim Gille:** Thank you very much.

**Frans van Houten:** You’re welcome.

**Operator:** Due to the time, we will now take our last follow-up question from Veronika Dubajova. Please go ahead.

**Veronika Dubajova:** Thank you, guys, for squeezing me in at the end. And just a point of clarification, Frans. Because I think maybe there is a little bit of misunderstanding of what you’re saying about the mid-term guidance, so certainly I am unclear. So I want to understand the update you will give us in the summer is the intention of that to give us a new mid-term guidance? And are you therefore implicitly stepping back from what you told us last year? Or does the mid-term guidance still hold in your mind and it’s about the path with which you get there? Just if you can clarify that.

**Frans van Houten:** It’s the latter, Veronica, alright? But I also realised that in terms of credibility with you and others, we need to get some water under the keel, and make some progress to give credibility to that path to the targets. And so we are not walking away from any ambition and commitment. But we need to detail out how we get there, and a lot depends on how we perform this year, right? And therefore, let’s focus on performance this year, which we are intensely focused on, make some progress on that, and then talk about it with much more credibility than I, let’s say, can do today. At least, that’s how I feel about it.
I need – we need to deliver in the coming months and quarters, right, and get on with, let’s say, the supply chain challenges and the recall, and then we can have the conversation about next year.

**Veronika Dubajova:** Perfect. Excellent.

**Frans van Houten:** But by no means is it – by no means is this signalling that we want to walk away from anything. That’s not how it is intended at all.

**Veronika Dubajova:** That’s very clear. Thanks guys.

**Frans van Houten:** All right. Well then, thank you for book ending this conversation, Veronika. I really appreciate that. We didn’t want to leave that hanging. And I thank everybody for your engagement with Philips and all your questions. So with that, I think we can close the conference.

**Operator:** This concludes the Royal Philips’ Fourth Quarter and Full Year 2021 Results Conference Call on Monday, 24th January 2022. Thank you for participating. You may now disconnect.

[END OF TRANSCRIPT]