

PHILIPS

Koninklijke Philips NV - Philips International FY 22 Results

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Introduction

Leandro Mazzone

Head of Investor Relations, Philips

Hi everyone, welcome to the Philips Fourth Quarter and Full-Year 2022 Results Webcast. I am here with our CEO, Roy Jakobs; and our CFO, Abhijit Bhattacharya. We're also joined today by Shez Partovi, Chief Strategy & Innovation Officer; Wim Appelo, Chief Operations Officer; and Francis Kim, Head of Quality.

Agenda

I would like to first go through the agenda for today's webcast. We will start with a discussion of our fourth quarter and full-year 2022 results. We will then talk about how we will create value with sustainable impact with presentations about our focused organic growth and scalable innovation strategy and our three execution priorities: patient safety and quality; supply chain; and operating model simplification. We will wrap up with our value creation trajectory. We will have a session of around 70 minutes, followed by Q&A.

The press release, slide deck, and frequently asked questions on the Respiroics recall were published on our Investor Relations website this morning. The replay and full transcript of this webcast will be made available on the website as well.

Safe Harbour

Before we start, I want to draw your attention to our safe harbour statement onscreen. You will also find the statement in the presentation published on our Investor Relations website.

With that, I will hand over to Abhijit.

Q4 and FY 2022 Results

Abhijit Bhattacharya

CFO, Philips

Q4 2022 performance summary

Thanks, Leandro. Good morning and welcome, everyone. Let me start with our Group performance and profitability in the quarter.

Comparable sales growth was just over 3%, driven by improved component supplies, in particular in Hospital Patient Monitoring, Image-Guided Therapy, and Ultrasound. We delivered growth of 5% for Diagnosis & Treatment and Connected Care businesses on a comparable basis, which is partly offset by a decline in Personal Health due to China and Russia. Although the component supply situation is improving, the situation remains challenging, as we anticipate gradual improvements during the year.

Adjusted margin was 12%. We continue to see a significant component and wage inflation which had a 370 basis points impact on our margin. This was in part offset by our pricing and productivity actions, which contributed a further 260 basis points. As I've explained before, the positive impacts – positive pricing impacts on our Health System businesses – that is

Diagnosis & Treatment and Connected Care – will be reflected in the profit and loss account during the second half of 2023.

The adjusted EBITA margin was 11.3% in Diagnosis & Treatment, 12.6% in Connected Care, and 17% in Personal Health in the fourth quarter. In the quarter, our operating cash flow was €540 million and free cash flow was €301 million. Accounts receivables increased in the quarter, driven by the strong sales in the month of December, which we expect to convert to cash in 2023.

We won a further 35 new long-term strategic partnerships across our regions, bringing the total to close to 100 in 2022. This is a core part of our growth strategy and improves the quality of our recurring revenues.

Business highlights Q4 2022

Now, moving on to the segment highlights from this quarter.

In Diagnosis & Treatment, comparable sales increased 5% in the quarter, driven by high-single-digit growth in Ultrasound and Image-Guided Therapy. Order intake declined by 7%, on the back of double-digit growth in 2021. The decline was due to the cancellation of a few orders with lower margins in order to improve our order book margin profile.

In Connected Care, comparable sales increased by 5%, driven by strong double-digit growth in Hospital Patient Monitoring. Order intake fell 10%, due to the normalisation of demand for COVID-19-related acute care products, but continue to run above pre-COVID levels. We see a fundamental demand shift in adoption of our Patient Care Management solutions and expanding market shares in Connected Care Informatics and in the Patient Monitoring business.

Finally, in Personal Health comparable, sales declined by 4% with double-digit growth in North America and Western Europe, more than offset by double-digit decline in China and Russia. The impact of the COVID crisis significantly affected our sales in China in the quarter.

Order book and order book coverage improving

Now, moving to our order book. Our order book coverage is significantly higher than in 2020 and 2021, in particular, in Magnetic Resonance Imaging, which is 30% higher, and in Image-Guided Therapy and Monitoring, where coverage is around 20% higher. And in absolute terms, at the end of 2022, the order book was 30% higher than the end of 2020, and with the improving margin profile, as we proactively cancelled some low-margin orders that I just told you about.

Q4 2022 adjusted EBITA margin impacted by cost headwinds, partly offset by pricing and productivity

Turning to our performance for the full-year 2022. In 2022, results were impacted by operational and supply challenges, inflationary pressures, the COVID situation in China, and the Russia-Ukraine war. As a result of these ongoing headwinds, comparable sales for the Group declined by 3%, and our adjusted EBITA margin decreased 7.4%. Component and wage inflation had a significant negative impact of 300 basis points, which our pricing and productivity measures only partly offset. We also saw a negative 390 basis point impact from the lower volume during the year.

For the full year, Diagnosis & Treatment sales declined 1%, with an adjusted EBITA margin of 8.4%. Connected Care sales was down 11%, mainly due to strong double-digit decline in Sleep & Respiratory Care. The margin for Connected Care was 2.1%, as it was impacted by Sleep & Respiratory Care. Excluding this impact, the margin for the year was 8.3%.

Personal Health sales were flat with a margin of 14.8%. Excluding the impact of Russia, Personal Health sales grew by around 3% in 2022.

We recorded a loss in our income from operations of €1.5 billion, largely due to the previously disclosed €1.5 billion non-cash goodwill impairment for the Sleep & Respiratory Care business and the R&D impairment charges. In the full year, we had a free cash outflow of €961 million as a result of lower earnings, higher inventories, and cash costs related to the Respiroics recall. We will talk more about our actions to drive higher cash flow generation later in the presentation.

We will submit a proposal to the Annual General Meeting of shareholders to maintain the dividend of 85 euro cents per share to be distributed in shares.

Gradual improvement trajectory in 2023

Now, looking ahead, we expect to deliver mid-single-digit growth in Diagnosis & Treatment and Connected Care in 2023, supported by our strong order book. Slow consumer demand is expected to result in low-single-digit growth in Personal Health. Our guidance of low-single-digit growth at Group level in the year reflects uncertainties in the external environment. Adjusted EBITA margin is expected to improve to high single-digits this year, driven by productivity and pricing actions across businesses, partly offset by a 3% impact from component and cost inflation, as well as additional investments in Patient Safety & Quality and supply chain improvements.

We anticipate a slow start to the year, as solid growth in Diagnosis & Treatment and Connected Care is offset by a decline in Personal Health in the first quarter. I would like to remind you that Personal Health grew 8% in Q1 2022, and we had the sales in Russia in the first quarter of last year.

We aim to deliver a free cash inflow between €700-900 million this year, driven by improved earnings and the lower inventory, partially offset by cash out related to restructuring charges resulting from the further reduction of workforce announced this morning, which we will explain in more detail in a few moments.

Please note that the 2023 guidance excludes the impact of the ongoing discussion on proposed consent decree beyond current assumptions, as well as ongoing litigation and the investigation by the US Department of Justice related to the Respiroics field action. The current guidance assumes a compound sales growth rate of 10% for the Sleep & Respiratory Care business comparable sales for the period 2023 to 2025.

Restructuring, acquisition-related charges and other items in 2023

Restructuring charges are expected to be around 300 basis points, driven by further workforce reduction that I just mentioned and the right-sizing of our Sleep & Respiratory Care businesses in 2023. Acquisition-related costs are expected to be around 50 basis points, and Respiroics field action running remediation cost between 50 and 70 basis points for the year. Financial income and expenses are expected to be a net cost of €270 million in 2023,

excluding incidentals, if any. This is €70 million higher than in 2022, due to higher debt and interest rates as well as a fair value gain on the value of Philips minority participation of €30 million in 2022. We expect an adjusted EBITA loss of around €70 million in the segment Other in 2023. At EBITA level, we expect a net cost of around €200 million for the full year in this segment.

For Q1, we expect a net cost of around €45 million at the adjusted EBITA level and around €80 million at the EBITA level.

With that, we will now move to our next section after a short video, when Roy will present our plans on creating value with sustainable impact.

[VIDEO]

Health – the beating heart of your everyday. It's in every step of our journey through the ups and the downs, the smooth and the bumpy. But no matter where your journey takes you, we are there with you. Because caring for your health is at the heart of everything we do, whether you are in need of treatment, caring for yourself, or a loved one. We collaborate with scientists, researchers and hospitals to support doctors, surgeons, nurses, and caregivers across the world to give you the best possible solutions to improve your health – now and in the future. Together, we are re-imagining healthcare, and through innovation, we're setting its destination – a place where there's care for everyone with less waste and more hope. Innovation and you – Philips.

Creating Value with Sustainable Impact

Roy Jakobs

Chief Executive Officer, Philips

Thank you, Abhijit, and thanks, everyone, for joining us this morning. I'm Roy Jakobs, and as you know, I was appointed as President and CEO of Philips last October. I'm honoured to have been given the responsibility to lead Philips, and I look forward and commit to a transparent and constructive engagement with you and all our stakeholders.

Creating value with sustainable impact

Markets

There is no denying 2022 was a tough year, here at Philips, and that is also reflected in the financial performance that Abhijit just presented. As you all get to know me better, you will see a few things. First, I'm a realist and right now, it's very important to lead with realism. I'm also a great believer in knowing where I want to go and having a clear plan to get there – a plan that people can understand and have confidence in. Right now, Philips needs a clear strategy and a clear plan, focused on execution. And thirdly, you will see I like to take on a challenge. Right now, I could not be more excited about the future of this company, as we not only face down the tough challenges but also face up to the enormous opportunities for all of us at Philips.

And I'm very passionate about working in a company that serves patients and people. Like many of you, I've been a patient. For several years, at a young age, I experienced first-hand

the importance of good health and good healthcare. I understand the need to improve the outcomes for patients and that's a huge motivator for me.

Since take up the role in October, I've spent every minute exposing, examining, and exploring our challenges and opportunities. To tackle these challenges and opportunities, Philips must change. And making the change is what excites me, and will demand all my realism, my energy, and my passion.

Strength and challenges

Before I take you through what we will do, I wanted to share an insight from my first 107 days. I've been part of this organisation for a number of years. However, now in the role of CEO, I can see things from a different perspective. I can see all the moving parts: what works, what needs to be changed, what we're not doing, and what we have to stop doing, what makes a difference, and what's actually sucking energy and power out of the organisation. So, if we are to live up to our purpose, to make a difference to the lives of billions of people, a purpose that motivates all of us at Philips, and especially me, then we have to take firm actions, make changes, and improve performance urgently. We have to regroup. We look at what we do and renew for a future of value creation and sustainable impact.

Philips has been refocused with a business portfolio that operates in attractive, growing health tech segments. We have built leading positions in the majority of these segments with deep customer relationships, a purpose, a trusted and valuable brand, leading innovations, and a strong ESG DNA. But the reality is we have not taken advantage of these strengths. Why? Because we have not executed well. And today, we face multiple challenges as a result. We have to deal with the Respironics recall. We have not lived up to our customers and your expectations in recent years. So we must change, and we must change now.

Strategy and execution

Today, we will bring you through a plan that will address our operational challenges and drive progressive value creation through a strategy of focused organic growth, with people and patients, and innovation at scale to get maximum value out of our business segments – creating value with sustainable impact.

Value creation

There is no magic bullet here. Execution will be the key driver with three priorities. First, patient safety and quality; second, supply chain reliability; and third, a simplified, more agile operating model. This will be supported by a culture of accountability and empowerment and strengthened health technology, talent, and capabilities. This all means making deliberate choices about how we are organised, our size, where accountability lies, and what our priorities are. Taking these steps will result in progressive growth in revenue and margins.

Let's now go deeper into the elements of our plan.

We operate in attractive HealthTech segment

As I said, we operate in growing market segments, where attractive margins provide a foundation for sustainable value creation. This market is going through fundamental shifts and we are well-positioned to capture the opportunities this offers. Demand for care is growing, costs are increasing, and massive staff shortages exist. This drives greater demand

for improved outcomes, productivity improvements, care outside of the hospital, and for insights from growing health data. We also see increasing consumer demand in the area of health and care. The opportunities are clear.

Our four key strengths to build on

And we have significant strengths to build on. Over 70% of our sales comes from number one or number two positions in their segments. We have leading innovation hardware, software and services, in the hospital and in the home. We are the preferred strategic and innovation partner for many customers to provide imaging, therapy and monitoring solutions. 40% of our revenue is recurring and we have the largest multi-vendor enterprise informatics business in the industry.

Clear need to address recent performance challenges

As I mentioned, we are all very clear about the need to address recent performance challenges, including the recall, driven by lack of focus on strategy implementation, a technology-driven innovation model and poor execution.

Strong position across our portfolio of businesses

Now, let's go through how we will drive change in each of those areas. In recent years, we have transformed our portfolio to become a leading health technology company, with strong positions across Diagnosis & Treatment, Connected Care and Personal Health. We have market-leading capabilities, integrating platforms, informatics and services, but we are not extracting as much value out of these segments as we could.

Focused organic growth

When you look across our core businesses, the opportunity for focused, organic growth is crystal clear, but we need to change how we manage these businesses in order to realise these opportunities and maximise their value. We must make choices. Shifting from spreading our resources too thinly over too wide of a portfolio towards a sharper focus on what it takes to create growth and value in our segments and markets. In each segment, we must play to win according to the rules. We need to adapt our strategy and where we concentrate our resources, including pooling products and what countries we operate in. We must ensure that each segment and each region has the best strategy to drive the greatest value creation.

Leveraging attractive leadership positions to drive growth

We will prioritise and drive growth across Image-Guided Therapy, Monitoring, Ultrasound and our Personal Health businesses. These are businesses where we can accelerate growth and margins more quickly, given our strong leadership positions. At 70% of sales, you can imagine this will have a material impact at Group level.

Scale Enterprise Informatics, Unlocking access and insights from combined data pools of Imaging and Monitoring

We will create a new enterprise informatics business, leveraging and integrating our unique ability to integrate vendor-agnostic data from various imaging modalities and monitoring devices. For example, through remote nursing, remote radiology or remote pathology. Scalings of these platform will increase our margins.

Driving Operational Excellence And Services In Diagnostic Imaging

In Diagnostic Imaging we will drive better margins through differentiating innovation, such as Helium-Free MR, supply chain improvements to reduce our lead times and convert our strong book, as well as increased services pull-through. And, of course, we will continue relentlessly to work on the Respironics recall so that we can restore our position as the leading provider in this market over time. I will address this important matter in more detail in a few minutes.

Tailored approach to address customer needs and win in the different regions and countries

We also have a tailored approach to address different customer needs across the regions in the world. This is particularly important given the current geopolitical dynamics, which I expect will continue. The principle of leveraging our leadership positions will guide us here too. So, again, we have to make choices where we play based on the attractiveness of the growth opportunities; we can't and won't be selling everything everywhere anymore.

North America

North America is likely to be a softer market in the near-term. As healthcare providers are consolidating, we are well-positioned to serve customers with long-term partnerships to support their outcomes and reduce operating and staffing costs. Our multi-vendor informatics offer is a clear differentiator and we need to further strengthen regulatory relationships.

International Markets

Across the international markets, notably in Western Europe, we expect an opportunity to tap into the government investments to support the digitisation of healthcare, and providing care in hospital and home to deal with the continued increasing patient volumes. We are also very well-positioned with our strong consumer franchise to tap medium-term spending increases.

Greater China

In China, where we have been for a very long time with a strong brand and have a strong position, with significant manufacturing innovation footprint, we are adapting to the changing local environment across both the consumer and the health systems markets.

Responsible and sustainable business for Philips and customers

Innovation is our core strength and will continue to be our core differentiator, but we need to get more impact and more return from the investments we make in innovation. As such, we will shift our innovation model from being corporate and more technology-led to a more patient and people-centric model driven out of the businesses. A significant step will result in a shift from R&D resources being closer to where our customers are, and to improve patient safety and quality, impact and returns.

Patient and people-centric, scalable innovation*Shifting our innovation model to drive R&D impact and efficiency*

In the businesses, we will focus our efforts and resources on fewer, better, bigger projects. And we will prioritise innovation that has a bigger impact on patient outcomes and help care providers with their productivity and sustainability, based upon our unique portfolio of sustainability products and design experience. Patient safety will be central to all the design of all our innovations. You will hear more on innovation from Shez in a few minutes.

Execution with decisive action as key value driver*Patient safety and quality as highest priority*

You will gather by now that I see effective execution as the key value driver and the key driver for change. First, we will put patient safety and quality at the heart of everything we do. Across the company, we will anchor patient safety and quality in the core of our innovation approach to avoid future issues. We will step up accountability for patient safety and quality; for example, by giving all employees dedicated patient safety and quality objectives. We will further invest in our systems, capabilities and in training and education. And I'm elevating patient safety and quality to the executive committee by creating a new leadership position to drive this priority across the whole company.

Reliable end-to-end supply chain

Secondly, we will reshape our supply chain set-up to urgently improve our operations and to deliver on our strong order book. We'll move away from being organised around central functions to a structure where we organise procurement and supply chain in our businesses, a structure that works effectively, even with the volatile conditions that we have been experiencing over the past few years. We are also pruning our product portfolio, which includes a long tail of smaller product lines, including of older generations of our latest products. And we have a targeted team redesigning products and components to increase our resilience to more volatile demand. You will hear more from Wim on the topic.

Simplified operating model

Finally, we will simplify our operating model by putting prime accountability into the businesses, supporting by lean functions and strong regions. Over the past years, the organisation has become too complex, with a matrix of multiple layers leading to a lack of clarity and a lack of accountability. We will reduce the size of central corporate functions and simplify internal processes, with fewer KPIs and more focused targets. This was also the strongest area of feedback from our employees as the key reason holding them back. I will come back to this topic later in the presentation.

The Respironics recall remains highest priority

Let me now provide an update on the Respironics recall. We understand how important these sleep therapy devices and ventilators are to the patients, and how they improve their lives every day and night. Resolving this for our patients and customers has been, and remains, the highest priority. A complex and difficult task, but we are making encouraging progress. Heading into 2023, we have reached, as promised, 90% production for the delivery of replacement devices to patients.

Encouraging test results for DreamStation1 devices

Last month, we also provided an update on the completed first-generation DreamStation sleep therapy devices, which were reassuring. The tests are run by independent international laboratories, who use a rigorous methodology, including various external parties, using very conservative risk assessments to ensure confidence in the results. The completion of the remediation, as well as the testing programme, remain our highest priority.

Test and research programme – next steps

As you already know, various civil complaints have been filed in jurisdictions across the world, alleging economic loss, personal injury and the need for medical monitoring related to the devices subject to the recall. While the litigation is progressing, it's too early to speculate about any potential impact or exposure. We are dealing with the investigations and reviews from the competent authorities and the US Department of Justice. We're also still in discussions with the DoJ on the proposed consent decree and cannot provide details at this time.

We've also taken actions to ensure that the sleep and respiratory care business can operate with full authority and end-to-end necessary competences from 1st February, to swiftly respond and deliver on the commitments to patients, regulators and customers. It remains our clear intention to resolve all of these issues comprehensively and to restore Philips' position in this market. I'm confident that the learnings from this recall will inform how we position patient safety and quality at the heart of our business and at the heart of our business and innovation strategy. Francis will talk about that today as well.

Progressive value creation

Supported by balanced capital allocation

Our strategy, innovation and execution plan is all about progressively creating value with sustainable impact. We will do this with a balanced capital allocation policy. Abhijit will talk about this in more detail, but you can see here what we realistically expect to deliver in 2023, 2025 and beyond. This year is about further addressing the challenges in the business and laying the foundations for growth and value.

As we move through the simplification process, implement the strategy and increase our innovation impact over this year and next, we're looking to see revenue and margin growth accelerate. And we are targeting to reach our full potential beyond 2025 with strong mid-single-digit growth and with adjusted EBITA margin reaching mid- to high-teens. This guidance excludes the impact of the ongoing discussions on the proposed consent decree beyond the current assumptions, as well as the ongoing litigation and investigation by the US DoJ related to the Respiroics field action. This planned strategy lays out how we will manage Philips through this next phase of the company's journey to create value with sustainable impact.

Now, we will go deeper into some of the areas I've covered, and we start with the exciting area of innovation. So let me hand over to Shez.

Focused Scalable Innovation

Shez Partovi

Chief Medical, Innovation & Strategy Officer, Philips

Delivering High Impact Innovations to Customers

Thank you, Roy. At Philips, we have a long heritage of leadership in innovation. Our plan is to build on that strength to achieve even greater impact for patients and customers. For

years, Philips has had a large corporate research function that has led to the launch of historically successful new products.

In the past, when the lifecycle of healthcare transformation was slower, a functional approach to innovation was reasonable. In that model, innovation was mostly technology-forward. Innovative ideas emerged from corporate research and moved from one function to the next in a stepwise fashion, until it reached the end customer. However, recent industry trends have accelerated technology adoption lifecycle within healthcare.

Innovation model for focused scalable innovation

'Fewer, better, bigger'

As a leading HealthTech company, we are embracing this trend and shifting how we innovate. To deliver impactful outcomes in an industry with rapidly changing end customer expectations, innovation must start with the end customer and work backwards. In other words, we must innovate on behalf of patients and customers. To do that, we will move innovation into the heart of the business by bringing all components of innovation to the same leadership roundtable under one accountable leader and focused on patient safety and quality by design. In this new model, innovation is business-led and closer to the customer segments we serve.

In addition to bringing patient and customer centricity to our innovation model, we will also focus on fewer, better-resourced, more impactful initiatives so we can scale them. We will sustain our significant R&D commitment, but retarget efforts towards high-impact areas that align with our strategic objectives.

Practically speaking, that means pruning products and projects that are not aligned with our scaling ambitions and instead, doubling down on our strengths in the customer segments we lead. This plan will be supported by an R&D investment of about €1.7 billion in 2023, which is roughly 9% of sales.

Now, while this is reduced compared to prior years, it is deployed more effectively and efficiently, and it remains significantly above our industry peers.

Another key enabler of scaling is tailoring innovation processes to match the operating model of the business, so that businesses are empowered to move with speed and scale. The best way to tailor innovation to a business operating model is to actually move R&D directly into the business itself. And so, we will deploy 90% of our R&D talent directly in the businesses, whereas previously it was about 70%.

These are the innovation shifts you will see at Philips. Innovation will be patient and people-centric. It will be business embedded and business led, focused on products with greatest impact in the segments we lead and with the aim to scale.

Philips BioTelemetry

So let's look at some of our innovations that will drive our growth and in doing so, let's start from care at home, and then move to the hospital. With the aging population and increasing demand for remote care, Philips BioTelemetry helps physicians monitor a patient's heart rhythm while they're at home.

Today, thousands of US physicians refer patients to Philips BioTel, resulting in five times better diagnosis of post-stroke atrial fibrillation. Philips BioTel can detect abnormal heart rhythms much earlier, not only speeding up time to diagnosis, but also reducing cost of care by eight times.

Sonicare 9900 Prestige

In addition to helping monitor patients at home, we're also innovating to satisfy increasing consumer interest in self-care. In our Personal Health franchise, our Sonicare Prestige 9900 is the most advanced AI-supported electric toothbrush for personalised oral care. Prestige senses pressure, motion, tooth coverage, and other brushing actions, and then automatically adapts in real time to those consumer behaviours. Prestige 9900 enjoys 4.7 star rating globally and removes 20x more plaque than manual brushing.

IntelliVue

Now moving to the hospital, patient monitoring is the cornerstone of acute care delivery. And as aging patients develop more complex medical conditions, AI-powered patient monitoring is increasingly critical to care delivery. Our IntelliVue patient monitoring solutions are based upon superior hardware and predictive AI-based software that together monitor patients throughout their hospital stay.

IntelliVue is so easy to use that hospital staff report a 40% improvement in satisfaction, plus over five minutes time savings during patient transport between surgical cases.

Azurion

Another key industry trend is a move towards less invasive procedures to improve patient recovery and reduce cost of care. Now, Azurion is our next-generation platform for image-guided therapy that supports less invasive procedures. Azurion helps physicians deliver outstanding patient care by combining clinical excellence with workflow automation. Azurion platform allows data to be collected from every aspect of a procedure, simplify the task of the physicians, and enabling 17% reduction of time spent per procedure and a 28% reduction of post-procedure activities.

Simply put, the Azurion platform allows physicians to focus on what matters most: the patient.

Helium Free MR

Now, healthcare organisations all over the world are becoming increasingly concerned with their carbon footprint and are demanding environmentally more responsible medical equipment. To that end, one of our industry-defining innovations is our BlueSeal MR scanner that doesn't require any helium refills. This MR scanner has a breakthrough design where the magnetic components are completely sealed and only need seven litres of helium over its lifetime instead of roughly 1,500 litres.

Our helium-free MR uses 53% less power per patient and is an environmentally friendly MR scanner, supporting our commitment to sustainability.

Spectral CT

The workhorse of medical imaging in a hospital is CT scanning, where it is critical to arrive at a correct diagnosis quickly and not have to bring the patient back for rescanning. To solve

that challenge, Philips introduced the world's first and only Spectral CT, delivering enhanced tissue characterisation far beyond what a conventional CT scanner can do.

Studies have shown that Philips Spectral CT results in a 34% reduction of time to diagnosis and a 26% reduction in the need for follow-up scans. In other words, Spectral CT helps physicians deliver first-time right diagnosis, improve the quality of care and reducing costs.

Ultrasound Compact 5000

Ultrasound is a unique modality, where the technician interacts heavily with the machine and so, user experience is critical to adoption and business growth. Our Compact 5000 Ultrasound is a compact unit but without compromising performance or image quality. It has a host of features that improves the operator's user experience, such as real-time collaboration with the remote expert, real-time remote training, wireless connectivity and a streamlined and automated user experience.

These innovations result in a 42% reduction of button pushes which significantly improve the operator experience while at the same time delivering a 22% increase in diagnostic confidence.

Scaling large multi-vendor Enterprise Informatics business

Now, all these leading Philips innovations that I just reviewed for you generate large quantities of imaging data and patient monitoring data. And our customers are asking us to help them manage all this data and unlock clinical insights so that they can deliver superior patient care.

That's exactly what our Informatics Solutions do. We have the largest multi-vendor enterprise informatics business in health tech, helping our customers unlock insights from combined data pools of medical imaging data, patient monitoring data and even third-party systems.

Since our Enterprise Informatics propositions are vendor-agnostic, they can be scaled beyond the Philips install base. For example, our Philips Capsule interoperability solution can connect over 1,000 third-party medical devices, bringing all their data together for our customers.

Our Philips Medical Image Management platforms offer over 70 AI-powered applications and help increase staff productivity by 50%.

Finally, Philips has been offering remote care management solutions for over 20 years. Our solutions for the intensive care unit are used by health systems all over the world. We have helped customers remotely monitor over 15,000 ICU beds, helping reduce complications in remote hospitals.

Now, going forward, we have combined our Informatics Solutions into one single vertical end-to-end Enterprise Informatics Business. And we project this business will achieve €1.5 billion revenue by 2025, with a growth rate roughly double that of Philips itself.

Well, this wraps up our discussion on focused scalable innovation. And we will now turn to discuss execution as a value driver, starting with Francis Kim on patient safety and quality.

Patient Safety & Quality as Priority

Francis Kim

EVP, Chief Quality and Regulatory Officer, Philips

Patient safety and quality as highest priority

Good morning. I am Francis Kim, and I lead the Quality and Regulatory function. As Roy set out earlier, patient safety and quality is our highest priority. Today, I'd like to explain how this translates into changes we have made and will be implementing to our personnel, structure and approach.

Firstly, we're enhancing patient safety and quality by continuing to drive a cultural shift, ensuring a greater level of accountability within the business. We are elevating leadership to the Executive Committee and holding all business leaders directly accountable for patient safety and quality within the businesses they run. This involves continuous and deep engagement with quality, regulatory and clinical functions.

Moreover, patient safety and quality is now a KPI for all employees, structurally embedded into the performance appraisal process. We continue to strengthen our competencies to ensure we have the best team in the industry. This includes recruiting more quality, regulatory, clinical, and medical device experts across the enterprise.

We are making progress. However, we fully acknowledge there is still much more work to do, which is why we view our efforts as a multiyear journey and have expanded our patient safety and quality programme.

Shift to patient and people-centric product design

Multi-year effort through our expanded patient safety and quality programme

Our next major area of focus is to ensure that all product design starts with a patient safety and quality in mind to avoid further issues. Technology has been one of our core strengths at Philips.

Going forward, as Shez has mentioned, we need to make sure that our great product innovation starts with a patient-centric lens. Almost 70% of the issues we face in the past few years have been design related. Therefore, our primary task has been to ensure the design process is extremely robust. This means linking product development from inception with a patient view and the highest product performance requirement embedded throughout.

The result will be innovative products with highest safety and efficacy. We are catalysing innovation by simplifying and upgrading critical systems and data integration for faster and better decision-making. We have also hired significantly more med-tech experts who know how to operate in this highly regulated space. This allows us to undergo more robust product design, development and validation.

Moving to compliance. We are running ongoing regulatory and compliance reviews to increase the standards across the portfolio, and we are making sure we prioritise higher risk areas to better risk manage, as well as deploying supplemental resources in the most sensitive areas. This transformation will be supported by an investment of €350 million over three years.

Progress indicators

Let me highlight some of the progress we have made. In the last two years, the quality and regulatory leadership team has been 90% renewed with a broad range of experience, predominantly from other high-performing med-tech companies. We have reduced the number of quality management systems by 30% to significantly simplify and standardise the way we work.

Around 30,000 employees have received role-based training to ensure our skills base is fully relevant. We have standardised 75% of our ways of working for managing complaints. This translates into more reliable customer and data insights, which prioritises risk identification, and enables us to make better informed decisions. The data insights will also provide a great platform for identifying areas of future innovation.

We have also reduced the number of major findings per audit by 50%. But let me emphasise the rigour within our processes. For example, if we look at corrective and preventive action system, we are proactively identifying more issues and we're increasing the number of investigations by design. It will take time to address the root causes and implement fundamental actions. We are, of course, focused on this number improving dramatically as we fully implement our plan.

I am proud of the journey Philips has been on, and the progress that has been made while knowing there is more to be done. We are confident that through our expanded programme with a focus on patient-centric innovation, we will uphold the highest standards within the industry.

Thank you. And with that, I will hand it over to Wim.

Reliable Supply Chain

Willem Appelo

COO, Philips

Context and challenges for supply chain

Thank you, Francis. Hello, everyone. I'm Wim Appelo. I've recently joined Philips and taken on the role of Chief Operations Officer. Before this, I held several roles in the med-tech industry, and before that in the technology industry. Let me give you an update on the current supply chain situation.

Five years ago, in the context of a changing business portfolio, Philips centralised the functional supply chain organisation at the enterprise level. Over the years, this structure delivered value by creating common practices and capturing cost efficiencies for Philips. It created multi-modality manufacturing sites, shared innovation and excellence, standardised product development and processes.

However, in recent years, our industry has seen a number of extraordinary headwinds, including significant disruptions due to COVID, markets that are becoming more and more volatile, global supply chain disruptions, and in particular, e-component shortages and supplier de-commits. These headwinds severely challenged our internal functional structure

and led to an accumulation of issues, impacting our agility and resilience, sub-optimised information flows compounded by a broad and complex product portfolio.

As a result, the delivery of our health systems has suffered delays, increased backlogs and inventory levels. And thus, our customers have been negatively impacted.

Towards a reliable end-to-end supply chain

To ensure reliability of delivery for our customers going forward, we have taken a close look at our supply chain and have concluded that we need to change on three fronts: our end-to-end supply chain setup; our products and processes; and third, our supplier management.

Supply chain set-up

With respect to supply chain set-up, the current environment requires agility and resilience in each individual business. Therefore, as of April this year, we're moving to customer-centric end-to-end supply chain teams. These are going to be closely aligned to the different businesses we operate and there's dedicated leaders for each individual business.

It will help us to step up capabilities tailored for specific business requirements, such as enhanced data transparency, digitisation of the information flow, and improved procurement and ordering practices. This will further enable our businesses to grow and deliver quality products on time and in full.

Product

With respect to our products and processes, we plan to reduce the complexity, and where appropriate, develop more fit-for-future modular platforms, as Shez talked about earlier this morning.

Given the rapid changes in technology and e-component shortages, we have started the redesign of electronic subsystems and printed wire boards, of which the first 200 are well on the way.

And finally, to make sure we deliver our products when patients and consumers need them, we will improve our planning and forecasting processes, considering the specificity of each business.

Suppliers

In terms of supplier management, our base has become too broad in recent years with well over 5,000 suppliers and has been hampered by significant de-commits and visibility challenges, resulting in increased material supply risks. To respond to this, in the short-term, we are strengthening our relationships with suppliers and driving better visibility deeper into our supply base. We are also continuing to improve resilience and re-evaluating dual sourcing initiatives.

The next stage is to reduce the number of suppliers and develop long-term strategic partnerships, which we strongly believe will improve quality, consistency and delivery.

Enable our businesses to deliver quality products on time to hospitals, patients and consumers

If there is one thing we have learned this year, it is that we need to be capable of navigating volatile market conditions better in the future. As such, we have started on our journey towards a more predictable, reliable, and efficient supply chain that we are confident will better serve our customers and the patients around the world, even under the kind of challenging external conditions we have experienced recently.

It is clear that this will be a multiyear effort, but we know what changes we need to make and have set our targets to ensure this programme remains on track. We will significantly improve service levels for our customers and partners and plan to take around €400-450 million in cost.

On supplier resilience, we target zero high risk components by the end of this year. And to get back to a superior supply chain, we plan to invest €200-250 million in the next three years. We are committed to share our progress on this, rebuilding the trust of customers and patients and of our employees.

Examples of our progress in Q4 2022

Let me conclude by highlighting a few examples of our progress so far. 2022 marked the start of this programme and we have already seen proof points of success in the last quarter.

We reduced our backlog by delivering more systems than planned, contributing to patient monitoring sales being up 22%. We also have record production of IGT Systems with sales up 7%. And in Ultrasound, we supported revenue growth of 8% by overachieving our expected output in equipment. We also made progress in accelerating redesigns of components by completing the first 56 printed circuit boards. And we have continued to diversify sourcing of high-risk components and are now at over 700 compared to 400 at the end of quarter three.

With this programmatic structure in place, a customer-centric organisation, with talented leaders in key roles, we are confident that we will deliver on our 2023 revenue commitments and accelerate growth. We know how important our devices are for patients and customers, and we are committed to ensuring predictability, reliability and efficiency going forward.

Moreover, progress on our supply chain improvement programme will be a catalyst to deliver on the quality programme Francis just walked you through earlier, which is our highest priority.

Back to you now, Roy.

Simplified Operating Model

Roy Jakobs

CEO, Philips

Simplified operating model: accountable, lean, and agile

Thanks, Wim. I want to give additional colour on the simplification of our operating model that I explained earlier. Our goal is to remove complexity and become much more focused on strategy and innovation execution.

We will organise around the business segments, supported by strong regions and leaner functions at the centre. These businesses will have end-to-end accountability, including sales and services, direct supply chain support, and more integrated patient and people-centric innovation resources.

This will also include the difficult but necessary further reduction of our workforce by an additional 6,000 roles globally by 2025. 3,000 will be implemented in 2023. This is in addition to the reduction of 4,000 roles announced in October 2022. This change and these reductions will help make Philips more agile, more competitive, and ultimately result in supporting better outcomes for our customers. And a simpler more productive, and more engaged workplace for employees, motivated and attracted by our purpose.

Reinvigorating patient and people-centric culture

To enable this, a renewed culture will be built at Phillips, focused on a core purpose, transparency, being patient and people-centric, and where we have all clear accountabilities and feel fully empowered. We are also strengthening our teams with new technology talent, including seasoned leaders with deep domain expertise, and will include changes to our Executive Committee.

Executive committee new members

I mentioned that we have elevated the patient safety and quality function to the Executive Committee level. Steve C. De Baca has been appointed as new Chief Patient Safety and Quality Officer and member of the Philips Executive Committee, effective 6th February. Steve brings more than 30 years of quality and regulatory affairs experience in the health technology industry.

Additionally, Jeff DiLullo, a leader from within Phillips, has been appointed as the new Chief Market Leader of Philips North America. Jeff brings vast experience in customer and service delivery, enterprise account management and government relations to drive growth in this very important region for Philips. Jeff will succeed Vitor Rocha, who has decided to leave Philips.

Our experienced and passionate executive team

We also expect to announce the new leaders for Precision Diagnosis businesses as well as the Connected Care businesses in early 2023. And here, you have the experienced and highly motivated team that creates and owns this plan together.

With that, I would like to call back Abhijit to the stage to take us through the financial details of our value creation plan.

Path to Value Creation

Abhijit Bhattacharya

CFO, Philips

Progressive value creation

Supported by balanced capital allocation

Thank you, Roy. Let me now take you to our value creation path. And as Roy mentioned earlier, you saw on this slide, it's a progressive part in three phases. 2023 is when we lay the foundation. You then see an improvement and an acceleration in performance during the period 2024 and 2025. And then moving to the full – delivery on our full potential in 2025.

For this year, 2023, as I guided earlier, you will see low single-digit growth, high single-digit EBIDTA and a free cash flow of between €0.7 billion and €0.9 billion that moves in the 2025 phase to a cash flow above €2 billion, moving to the higher range of the mid-single-digit bandwidth and moving profitability to the mid- to high-teens.

Driving organic growth and margin improvement

What I'll do now is take you a little bit more in detail on each of the segments. So if you look at Diagnosis & Treatment, you'll see that the growth rate will be in the mid-single digit but progressively increasing over time. You see the same for Connected Care and Personal Health, as I mentioned, will have a low single-digit growth this year, returning to mid-single-digit growth over the period from 2024/2025 and onwards.

You will see across all clusters an improvement in the EBITA margin and you will also see that Diagnosis & Treatment moved from low-teens to the mid-teens, and then Connected Care moving also from low-teens to the high-teens.

Personal Health is already in the high teens and will improve this year over last and continue in that journey in the high-teens.

Productivity initiatives to deliver EUR 2.0 billion in the 2023-2025 period

Operating model

This will – this improvement in profit trajectory will be driven in a big part with productivity initiatives that we have taken, and we have stepped that up from the €1.5 billion now to €2 billion. A big part of those savings, about a €1 billion of that comes from the change in the operating model, the simplification that Roy just spoke about and the reduction of the 10,000 roles that we have spoken about earlier today.

Procurement

Procurement savings still forms an important part of the reductions that we have been planning. You see that it will be between €550 million to €600 million. We have a strong team that now is adequately staffed and working as we de-risk our supply chain but also drive lower costs as a result of that.

Other productivity

And then there are a string of other productivity measures, including the right-sizing of Sleep & Respiratory Care. Our business has been impacted. It now is at a lower base. We will need to right-size our cost so that we bring the business back to profitability as soon as

possible. We will continue on our price reductions in the service domain as well as in R&D, as Shez just highlighted a short while ago.

Margin increase from productivity, pricing & supply chain improvements – cumulative drivers 2023-2025

So if I sum this up, how do you see the profitability improving from 2022, we get about 4-5% from growth, a similar range from pricing, as well as the improvement in the cost of goods sold. Cost reductions that will happen will drive savings of between 3% and 4%. We have taken inflation about 6%, starts heavier in 2023 but gradually tapering. And we have built for certain risks and unforeseen circumstances to get us to the low teens. That's how you see the profitability improving.

A big part of our progressive journey in value creation is the improvement in cash flow. And a big part within that cash flow is the improvement that we need for inventories.

Inventories improvement plan to drive normalisation to historical levels

Now, you see here that over the last three years we have been building up inventory. That's the two primary factors. One is the sleep recall where we had to have significantly more inventory to be able to build the material that we need for the recall that will be wound down as we come to the end of the recall. But also, we have a lot of incomplete inventory, right, 90% of an MR or 95% complete because we cannot complete the coils and ship. And as the supply situation is remediated, you will find more of this going into revenue, and therefore we will bring it down, apart from the other measures that Wim just highlighted in his part of the presentation.

Higher earnings and lower cash cost related to Respiroics recall will result in higher Free Cash Flow

Let me then tell you how the cash situation will improve over time. We start this year with a poor cash flow, as I mentioned, a negative of €1 billion that had two big things, the earnings of this year, the cash cost on the recall, as well as what we had to do in terms of additional inventories.

Now, if you look at next year, we have better cash earnings. So that helps to get from negative €1 billion with 400 million improvement. And the big element is the working capital. So, the receivables as well as the inventories will help next year get to a much better level. So then we get to the €0.7-0.9 billion. And then going further to 2025, you see that we will further improve our earnings, as in the trajectory we just shared with you. Our one-off costs will come down as we get towards the 2025 period. And of course, once we return to growth, there will be some more investments in working capital.

With that, we expect the 2025 cash flow to be in the range of about €1.5 billion.

Balanced capital allocation focusing on organic growth, margin improvement and cash

Let me now take you through what we want to do in terms of our capital allocation policy. It's a balanced capital allocation policy, as we always say. And the primary focus of this plan is organic growth. So that's our first priority. We also stress dividend stability. So we have a pay-out ratio of 40-50% of our net recurring income, with stability, as we showed this year.

M&A will be on a reduced basis, which will be a few bolt-on acquisitions if we find it necessary in our stronger businesses, which are going to be the beachheads for growth.

And finally, we have an ongoing share buyback programme for €1.5 billion. And then, as and when the cash situation evolves, we will make a call on whether we do further share buybacks or not.

Target an improvement of leverage ratio towards 1.5x EBITA

Let me now tell you a bit about what we are doing to ensure that we are adequately funded. We have made quite some improvements this year. Our actions on liability management have led us to improving the debt repayment profile over the next two years. We've brought that down from €3.2 billion to €2 billion, so that gives us some room. In addition, we have increased the maturity period of our bonds by about 20%, so that goes up now close to eight years. And I think a very important point to understand is that none of our financial instruments have financial covenants on them, so that gives us a certain amount of freedom to operate.

Profitable growth acceleration

So what does this – all of this tell us? So let me try to capture what I just told you in a nutshell, right? So our comparable sales growth will be in the mid-single-digit territory, moving from the lower end to the higher end of that range between 2025 and onwards.

The adjusted EBITA will move from a range of low-teens to mid- to high-teens. The cash flow from a range of €1.5 billion to the €2 billion range. The adjusted EPS growth over the period will be in double digits. The organic ROIC will grow from low-teens to mid- to high-teens. And through that period, we will maintain a strong investment grade rating that is critical for us. We will also maintain dividend stability as well as the pay-out ratio.

In the short-term, we'll see the tax rates being between 24% and 26%. In the longer term, that will be determined by how tax rates change around the world. But this picture should convey to you that we have a strong financial plan to create the path to value that we talked about.

Now, let me invite Roy back on stage to sum up this section before we go to Q&A after that.

Closing Remarks

Roy Jakobs

CEO, Philips

Thanks, Abhijit. So let's move to conclude, and let me summarise where we are and where we are going. Then we will have time for your questions.

When I spoke earlier, I said that it's important to lead the company with realism right now. The approach we have taken and presented to you through to the strategy and plan is to be realistic. And with the team around me, I am both confident as well as excited for the roadmap we have laid out for you to deliver the change and to create growth and value.

We have the determination and we are and I am committed to improve the performance and fully capture Philips potential.

Creating value with sustainable impact

So let me remind you how we will create value with sustainable impact. Philips operates in attractive, growing markets and holds leading positions in key segments. Our portfolio is very well-positioned to take advantage of the growth and margin opportunities in the segments where we operate. The combination of strong customer relationship, an established trusted brand and purpose gives us a compelling platform to build on, but the opportunities can only be realised if we confront the structural challenges facing us. And we are ready to do that.

Our strategy and plan to focus on segment leadership positions, adopt a patient and people-centric approach to innovation, radically simplify how we work, and executed patient safety and quality top of mind are the ingredients that will drive change and create value with sustainable impact.

And the oil that will lubricate this process is operational excellence and disciplined execution. We look forward to being a force of innovation and change in a world where making a difference has never been more important.

I would like to thank you for being with us. We will be back to take your questions in a couple of minutes.

Q&A

Operator: ...star, followed by two times one on your telephone. To withdraw your question, please press the star followed by two times one again. There will be a short break while participants register for questions.

Leandro Mazzoni: Welcome back, everyone. Let me hand over to the operator for Q&A.

Operator: Thank you. We will go to our first question. And your first question comes from Ms Veronika Dubajova from Citi. Please state your question.

Veronika Dubajova (Citi): Hi. Good morning, and thank you guys for taking my questions. I have two, please. One, Roy, would just love to hear a bit more from you on the operational and organisational changes that you're making within the company. In some ways, as a long-term follower, it strikes me, what, like, we're moving a little backwards in terms of what the organisation looks like in the supply chain and R&D sitting more within the individual businesses. Just would love to get your thoughts on why that's the case. Maybe some of the risks that you see to the businesses as you, kind of, implement this plan and to what extent they are reflected in the guidance in 2023 and 2024. And just conceptually, kind of, how you're thinking about this change.

And then my second question is, please, if you can just give us an update on where you are with the consent decree and DoJ discussions. And to what extent you would expect – or when we might expect an update from you on that and how much longer you think that process might take. Thank you so much.

Roy Jakobs: Thank you Veronica, let me start with the first question. So, when we look at the simplification of the organisation, we're responding, in the first place, also to what we have heard from our employees; we have become too complex, both in terms of how we have been setting up, as well as the process that we run. So there's a real need and opportunity to

make it simpler for all of us to work. And what we do actually, we'll make very clear single accountability and bring that to the businesses, and they will be supported by leaner functions, and strong regions where we have the customer-facing interactions. So, we're moving from a phase where we have been functionalising quite strongly toward actually going more integrated about winning in specific segments, and making sure that the segment is set up to win.

Take an example, in the exciting area of Image-Guided Therapy, which we have leadership position, we actually have strong plans to grow further. Now, that means that you really need to focus on how do you serve those customers the best. Therefore, actually we bring the innovation forward into the business, to more closely, with the customers, innovate.

Secondly, IGT has also its own supply chain demands, because it's very different if you orchestrate your supply chain to deliver a complex system in a cath lab, like in Azurion, versus if you, for example, deliver a toothbrush to a consumer. So, we are actually making sure that a supply chain is integrally organised around the specific demands for that segment. We are also putting patient and people-centric innovation in that business and making sure that the quality norm is exactly for what you need to do. And again, there are differences across the different segments that we serve. So, actually where we are moving towards is really winning in all these strong portfolio elements that we have, but doing it with the rules of the game of that specific segment.

Now, then your second question on the consent decree, we are in continued dialogue with the regulator on that, so therefore it's too early, currently, to disclose what any outcome could be. Of course, we know how important it is for all of you, and also for us, so when we have news, you will be the first one to be updated on that.

In a similar fashion actually, it's about the litigation; we are also there still in early phases. There's nothing that we can say currently about any quantification of potential impact. We also know that that's something that you are very eager to learn about, as do we, but in the process of the discovery of the litigation, and actually then leading up to the consequences, we are not yet in a position to disclose that. But, we will hope to do that in the second half of this year.

Veronika Dubajova: Understood, thanks Roy, and maybe just as you've done the structural review of the company, I, kind of, wonder what your commitment remains to the Sleep and Respiratory business, and how you think it fits into the broader portfolio at Philips, and is this something that still makes sense for the business to retain.

Roy Jakobs: Yeah, as you saw earlier in my presentation, so when looking at Philips, actually we have refocused the portfolio, and the portfolio we have, actually, I think is a very strong and compelling portfolio. And that is including the Sleep and Respiratory Care business. If you look to the fundamentals of that business, we know that actually sleep apnoea as a disease, as something that needs to be treated, is still growing in size; patients still are need for more treatment, and we are in that segment, the second player. We are still the second player. So, actually we see a role for us, when we work through remediation of the recall, work also through potential consequences that a CD might bring, to restore our business position, because this is something that really fits. What we are good at is bringing innovation to patients in the home, but also in hospital settings.

Veronika Dubajova: Understood. Thank you guys. I'll jump back into the queue.

Operator: Thank you. We will now go to our next question. And your next question comes from the line of Hassan Al-Wakeel from Barclays; please go ahead your line is open.

Hassan Al-Wakeel (Barclays): Good morning, thanks for the presentation, and taking my questions. I have a couple please. Firstly, on the outlook for 2023, could you talk about how you are thinking of the year in terms of supply constraints, particularly given a strong exit rate, in Q4 2022? Is it fair to assume that this is not a stretch target in the way that Abhijit has guided and talked about in the past, but maybe a more conservative or realistic one?

Secondly, could you talk a bit about the Sleep and Respiratory Care assumptions for this year in terms of revenues and margins, and whether you are assuming a consent decree that is broader than just systems and encompasses all of Respiroics? Thank you.

Roy Jakobs: Thank you. Let me maybe start with the first one. So, as I presented today, we are – and I have put out a realistic outlook, and that's what you see reflected in the plan for 2023. We were happy to see what happens to audible conversion, like in Q4, if you get more supply. And we will work very hard to get more supply so that we actually see that continued in 2023. And that's also what we have built into the plan. But, it's also fair to say that we are not yet at a point that we can count on that all the time, that is so reliable and so predictable that we already have the full year outlook on our supply chain and the supply chain availability, to underpin an even stronger plan that we have presented.

So, we go in with a really realistic plan. We will take our measures to improve the supply chain, and also the other measures that we presented, and then actually we will come forward, step by step, in terms of how we deliver on the plan.

Secondly, if you talk about the SRC assumptions, you have seen that what we included in the guidance is that we said for SRC, we have taken the base assumptions that we also took last year, in terms of the outlook that we currently hold, which is a 10% CSGR, and in that we have a modest assumption of low single-digit growth, and a breakeven assumption for 2023. So, that's the grounding of the plan, also as we don't know yet what consent decree will have as a potential further impact to this.

Hassan Al-Wakeel: That's very helpful, and if I can squeeze in one other on the order book. Could you talk about the rationale for cancelling orders and which modalities these were for? Given the order book was flat-ish, excluding this globally as well as in the US, are you concerned about the state of the US hospitals?

Roy Jakobs: So, maybe two answers to that. First, we have been looking at the quality of the order book, and where we have been going in, especially in orders that have – and were older, because they were actually contracted at earlier pricing, as well as the lead times for them are long. If you look into specifically where that was – and a good area, as an example, is the MR. We have a lead time that is over a year, so that means that actually also in this area, we have long lead times for customers, as well as then if you take the pricing that we had from the past, that actually has a negative effect. So, we combined both and said, okay, if we go back to the customers, but then also work on the quality of our order book, actually we take lower margin orders out, strengthen the order book in terms of what we can deliver on when. And therefore, we have a better strength of the overall order book that we have.

If you look at the American hospital system, and I think you have seen how they have been trending, we do put a bit more cautious outlook on the spend profile for 2023 that they will have. We believe that they are under tremendous pressure, they have huge staff shortages. They are also dealing with inflation. At the same time, they also still need to catch up from the technology that they need to, kind of, invest in, that they did not invest in during COVID. So there are multiple trends playing, but therefore we are cautious on the immediate outlook. We do think that mid-term it will pick up again, and also if you look to the order book that we have, we can still actually generate an attractive growth there, but we do – we are mindful of the state of affairs in the US.

Hassan Al-Wakeel: Perfect. Thank you.

Operator: Thank you. We will now take our next question. And your next question comes from the line of David Adlington from JP Morgan. Please go ahead, your line is open.

David Adlington (JP Morgan): Morning guys. Thanks for the question. Just also on the orders, I just wondered in terms of cancellation, what customer reaction to those cancellations was, and where they were going, in terms of trying to source those cancelled orders.

And then secondly, just in terms of the dividend, I just wonder what your plans are, on returning to the cash dividend, and why put in place a full script dividend. Thanks.

Roy Jakobs: Thank you David. Maybe Abhijit, do you want to take the question on the orders?

Abhijit Bhattacharya: Yeah, I can. I think also following up on what Hassan was asking, this is largely the domain of Diagnosis & Treatment, where we have – I think we have had good dialogue with the customers, because these orders were taken long back. They were not at the margin generation that we were expecting, so it has been done in collaboration with the orders.

Regarding the scrip dividend, I think, given that last year in 2022, our cash flow was negative, and for a number of reasons which I just explained in the presentation – first we had a lower income, the build-up of our inventories, as well as one-off costs related to the Respiroics recall – it puts us in a position where we don't want to further pay out cash in terms of dividend for this year. So, we have therefore taken this plan to make it a scrip dividend, and then as we see how it develops during the course of the year, we will see how we decide on this going forward.

David Adlington: Perfect. Thanks. And then just a follow-up, just in terms of, I think it was a €60 million litigation in the fourth quarter. I just wonder if you can tell us what that related to.

Abhijit Bhattacharya: Yeah, it's not related to the sleep recall, it's an old litigation that was on, and we have – we expect to come to a settlement of around that amount and therefore, we have provided for it. But it is nothing to do with the sleep recall, if that was the type – intent of the question.

David Adlington: Great. Thank you.

Operator: Thank you. We will now go to our next question. And the next question comes from the line of Graham Doyle from UBS. Please go ahead, your line is open.

Graham Doyle (UBS): Morning, thank you for taking my questions. It should be two from me. So just firstly on, sort of, phasing, I suppose. So, you obviously had a really high conversion rate in Q4 2022, given revenues were up and order book down, but you're pointing towards a, sort of, slower Q1, and then order conversion improving through the year in 2023. So, is it reasonable to assume that there is a slower or weakened order conversion in Q1 versus Q4? Is there any risk that there was some pull forward of revenue there, I suppose?

And then second question relates to ozone testing. You've been pretty helpful in the detail you've provided in the past, and obviously today you've given us a bit of a timeline for testing results. But, one of the things you disclosed in 21st December, was the level of VOCs being measurable at cycle 200, and I suppose, having run through it again, is there – you did the same cycle, and presumably the same testing, up to cycle 500, so it would be good to know what happened beyond cycle 200. So, that VOC level, did that change once you went past cycle 200? Be great to know that, given the test should have been run. Thank you very much.

Abhijit Bhattacharya: Maybe let me take the first one, Graham. So, the conversion rate, what we've already said on Q1, with the slow start, we have indicated that the health systems businesses or Diagnosis & Treatment and Connected Care, which are built off the order book, they actually start also with good growth. The issue is in Personal Health, we start with a decline because last year we had a strong growth of 8%. We had a 17% growth in North America, so there is a bit of that comparables that play, and of course the China situation does not improve in Q1. So, we have lower sales in Connected Care, and we have lower sales in license revenue, and that is causing the, kind of, slower start that we have indicated for Q1. Let me hand over to Roy on the testing.

Roy Jakobs: Yeah, let me take the testing. So, indeed, we have shared encouraging testing results in December, including the details that are also part of the deck that we shared. The ozone testing is still due. As we shared earlier, we hope to disclose the data in due course, early 2023. Actually, we are also there positive on what we are seeing, but we need to run through the full cycle, and most importantly we also want to do it in, again, good alignment with the regulator before we bring out the data. So, we are testing all the cycles, so including, indeed, 200 and beyond. I do want – I do not want to pre-empt the results because we will disclose them when we also have discussed that, and in alignment with the regulator. But I can tell you that we are positive on it, and, kind of, we will come back to you when we are able to share.

Graham Doyle: Okay, thank you very much. Just a quick follow-up on the order book actually, just the, sort of, trimming that was done, in order to, I suppose, reprice it and improve the quality of the order book. Is there any more of that to do, or do you feel like you've, kind of, gotten through that?

Abhijit Bhattacharya: No, we have done that; so that is done, it was a onetime clean-up that we did, and that's the end of it.

Graham Doyle: Okay, great, thank you very much guys.

Operator: Thank you. We will now go to our next question. And your next question comes from the line of Falko Frederich from Deutsche Bank. Please go ahead, your line is open.

Falko Friedrichs (Deutsche Bank): Thank you very much, good morning. My first question is whether you can update us on your latest thinking about your return to the market in your Sleep care business, and when you think you can be back to your previous market shares. And then my second question is on a definition of your low-teens adjusted EBITA margins target. Does that mean 10-13%? I'm asking because for some people our teens are starting at 13%, so it would be great to clarify that. Thank you.

Roy Jakobs: Okay, let me take the first, and then probably Abhijit can take the second. So, as we shared, the first priority for the Sleep and Respiratory Care business is finalising the recall, so we have all our efforts on that, and we were encouraged, and also as you saw, as promised, we got to the 90% produced in end of 2022. We now want to bring that to 100% for sleep therapy devices by end of Q1, so that then we can ensure all patients will get the devices, whilst we also then need to work through the respiratory side.

Now, that in combination with the dialogues that we currently have with the regulator, will determine when we can go to market. As these dialogues are ongoing, we don't want to, kind of, get ahead of us, and get ahead of that, in terms of coming out with any specific detail around that. As shared, whenever we have that outcome, we will immediately come back to you.

For the moment, the first priority is really finalising the recall and we have all our efforts and resources focused on that; as well finalising the testing, as you have seen, because we know how important that is for patients; and then also working through any other consequences, so that we can restore in full, the market position that we had. Now, I think it's realistic to say that this will take a bit of time, because of the position that we are in, but we are really determined to get back to where we were.

Abhijit Bhattacharya: Yeah, and on the second one, we have taken 11-13% as the low teens range, just to clarify Falko.

Falko Friedrichs: Okay, thank you.

Abhijit Bhattacharya: Thanks.

Operator: Thank you. We will now go to the next question. And your next question comes from the line of Sezgi Oezener from HSBC. Please go ahead, your line is open.

Sezgi Oezener (HSBC): Hi, thanks for taking my questions, and thanks for the presentation. The first one is on the 4,000 plus, now 10,000, plus 6,000, now 10,000 of personnel that you have decided to reduce. We see that in the last quarter, since you've announced the 4,000, the number came down roughly by 2,000, so what's the timeline for the rest of the 4,000? I know for the 6,000, you said 3,000 will be reduced in 2023. So, the rest of this. And also the breakdown from the different departments where you expect this reduction to be more. And post this reduction, what kind of wage inflation are you calculating?

And my second question relates to the insurance pay-off for the product liabilities. You've mentioned in the past that you had some insurance on the products. I know that you don't

have an estimate of the legal liability or the other legal costs that come with the recall, but do you have an estimate on the insurance liability, and how that adds up for you?

And the last one will be, you mentioned that you've shifted the R&D more from commercial to the business side. Could this have a negative impact in terms of reducing the synergy that you extract from this? Thank you.

Roy Jakobs: Thank you Sezgi. Let me take the first and third question, and then Abhijit can take the second. So, let me be very clear on the reduction of force, and let me also again stress how painful it is, but how necessary it is, and that we will, of course, execute this with the most respect, and also with best care for our people, trying to get them to other workplaces, and where needed, to give them a plan that goes with it.

If you look to the numbers, I announced in Q4 that we would reduce 4,000. Of those, we have executed 3,000 in 2022. Then today, we announced another 6,000. Of that 6,000, we will do 3,000 in 2023. If you then take the remaining 1,000 of 2022, it will mean that we have another 4,000 that we will have to reduce this year. It also means then, of the total, we have 3,000 remaining which we'll do in 2024, up to 2025. There is a phasing that actually relates to the first interventions that we are taking now, as announced in 2022; it was a generic reduction across the organisation. We are now going very targeted. With the shift of model, we indeed take on the functions, in particular to lean out the organisation and bring more into the business, but also strengthen the regions. And then we have a shift in innovation model that also plays part, but that's also a big part of shift of resources more into the businesses.

And that ties into your second question. We were doing 30% of our investment in research – or in R&D, in corporate research. Now we are shifting that to do 90% in the business. We still will have €1.7 billion of investment in innovation, so innovation is the core of what we do, will remain core to what we do, but we want to get it closer to the customer, so that we increase the innovation cycle, and make it as patient and people-centric, but also we want to get better returns by doing fewer projects, and scale them more. So, that's actually what we intend to achieve with this different approach to innovation. So, we expect actually to have even more relevant and impactful innovation to deliver to our customers, to our patients and our consumers, but doing it in a more efficient manner, while still spending above industry on innovation. Maybe you can take the second?

Abhijit Bhattacharya: Yeah, on the liability insurance, we have mentioned earlier, we have a coverage which will be between the €500 million and the €600 million. Now of course, if you don't know the liability, it becomes more difficult to settle with the insurance companies. So, that's a dialogue that will still continue, and okay, once we have, let's say, clarity on that, we will again come back to you and make it clear.

Roy Jakobs: Maybe on the third question, let me give you a concrete example how this will work. So, if you think about one of these exciting areas that we are operating in, it's the Image-Guided Therapy business segment. This is an area in the hospital where actually a lot of development is still taking place. Minimally invasive surgery is the surgery of the future. There are actually more therapy areas being developed where this can be applied. So, actually to develop that, you do a lot together with customers. So, if you look to our IGT business and the platform that we have developed, the Azurion platform, which is the leading

system, more than 40% market share, actually that's a very close collaboration with our customers. So, we have developed that out of the business, and we continue to develop that.

Now, we put the best in that solution from hardware, from software and from services. So, actually we pull from across Philips, the best of technologies to actually then make it the most useful, impactful application for the practitioners to use every day, but then also for the hospital to do in an efficient way.

That's in IGT, but the same you can say for hospital Patient Monitoring, another very important business, where we have a lot of opportunity, where we develop the next generation of platform, the AMEX[?] 7500, together with the surveillance solution that actually is developed a lot in collaboration with our customers.

So yes, we will still do some breakthrough, out of the corporate research, but more we will do in the businesses, to gear up that is really specific for the segment that we play in, and therefore yield more impact and more return.

Sezgi Oezener: That's very helpful. Thank you very much.

Operator: Thank you. Once again, if you would like to ask a question, please press the star, followed by two times one, on your telephone. That is star, followed by two times one. We will now go to our next question. And your next question comes from the line of Ed Ridley-Day from Redburn, please go ahead your line is open.

Ed Ridley-Day (Redburn): Good morning, thank you. First question, a follow-up on the order book, if you could give us the year end book to bill, that would be helpful. And how are you thinking about order book progression, this year, that would – also coming off the 8% obviously decline, in the fourth quarter.

And so the related second question there is, can you actually define how much of that year-on-year decline was due to the one-time reorganisation of the order book; I think that would help everyone, if you could give that clarity.

And I also had a follow-up on the 10%, 2022-2025 sleep and respiratory growth assumption. Not so much for this year, but what does that already assume for 2024/2025. Are you assuming – what – are we in a position to make an assumption there, given that we do not know the full outcome of a consent decree? That would be helpful if you could speak to that. Thank you.

Abhijit Bhattacharya: Yes, so let me start first with the book to bill; it was about 1.14, so again a more booking than billing. The overall cancellation impact is about – slightly more than 8%, so if you take out the impact of the cancellation, as well as the normalisation due to COVID – because in the Connected Care segment, you see the 10% decline, and that's principally because of the COVID demand that came in last year. So, the impact of both of these put together is more than the 8%, so it would be roughly a, kind of, 1% growth. I think we have a lot of questions on the order book, and I'd like to clarify what we also showed on the slides earlier, that we start the year with a very, very good coverage for sales in 2023. You've seen in MR, we have 30% higher coverage in IGT and Patient Monitoring, and we didn't have it on the slide, but also in Ultrasound, we have more than 20% better coverage, so the coverage for this year is actually in a very good space.

Then coming to your question on the SRC assumption, you, kind of, had answered the question a bit. Until we know the outcome of the consent decree, putting a year-by-year guidance becomes a bit premature, so I think as Roy mentioned at the start, we are assuming a low single-digit growth this year, and then we will come with more clear guidance on the intermittent years as we have clarity around the consent decree.

Ed Ridley-Day: Thank you. Thank you, Abhijit, for that. And a quick follow-up on the capital allocation. You highlighted obviously some thoughts around the buyback. Can you confirm whether you're going to go ahead with that, or when might we hear some further thoughts on the buyback commitment, obviously considering the broad cash demands that you have this year?

Abhijit Bhattacharya: Yes, so the existing buyback, we have, as you know, executed in the – through forward, so those will – are due this year, and we will execute on that, so there is no change in the commitment there. So, that's basically where we stand on that.

Ed Ridley-Day: Fair enough. Thank you.

Operator: Thank you. We will now take our next question. And your next question comes from the line of Robert Davies from Morgan Stanley. Please go ahead, your line is open.

Robert Davies (Morgan Stanley): Yes, thanks for taking my question. My first one was just on I think your bridge that you had for 2022, up to 2025, I saw you had, in amongst, I think it was pricing mix and COGS at 4-5% increase. I'd just be curious there, how much of that is underpinned by what you can see in your current order backlog, versus what you're intending to put through effectively in your book-to-bill part of your business.

And then my second question was just around the Personal Health, just around the consumer outlook there. I'd be just curious in terms of what you're seeing – I know you mentioned a, sort of, more difficult comp moving into the first quarter, but just on an underlying basis, just be curious to see how customer behaviour is, sort of, feeding into growth trends there through the early part of the year.

And then on the last one, it was just around the, sort of, post 2025 outlook, I saw you put, sort of, mid to high-teens. In simple terms, how do you get there? I mean, that's obviously well above anything Philips has done before, and I think probably, if anything, the margin targets have always been a bit more of a stretch than the growth targets. But what would need to change really between now and 2025, to turn this into a mid- to high-teens margin business? Thank you.

Abhijit Bhattacharya: Should I start with the first one and then... So for the pricing mix, actually, if you look, most of that is underpinned by the plans we shared with you. Part of that is pricing, and I think I also explained that the pricing that we are seeing now in the order book will start flowing into the P&L from the second half of this year. There is, of course, some assumptions on the savings that we will do in our bill of material. That is always an outlook that we take. But we do say that, let's say, in the medium term, the huge spike that we saw in prices, in the last couple of years, that will start easing. So, I think most of that, we have taken in. Is it 100% underpinned? Obviously not, because a lot changes between now and 2025, but it gives us a good level of confidence, on the basis of which we have presented that plan. Do you want to take the one on consumer demand or...?

Roy Jakobs: Yeah, so if you look to the consumer demand, we – and we saw it also in Q4, there is still quite some pressure on consumer demand, globally, given the macroeconomic environment consumers have to deal with. Also, we saw some particular pain in China. Now, we expect that in the, especially, early part of 2023, to continue. We do expect that it will ease towards more the back of 2023. So, we also expect return to growth in Personal Health, as we have shown to you, in due course of this year. It will be not yet as strong as the health system side, but we expect a gradual recovery as we work through the global crisis and then also the inflationary impact on the consumer side. So that's the outlook there.

Then, in terms of your post-2025 question, I think that also really goes to the heart of what we present today, in which we say, actually we have a very compelling and strong portfolio, but we need to go in differentiated with our approach, to actually extract the maximum value. Now, if you sort through the four buckets that I presented, the first bucket, accelerate growth and profit is a bucket that consists out of IGT, Ultrasound, HPM, PH. All of those businesses have been already in the range that you allude to, are 70% – close to 70% of our sales, and actually dialling them up fast actually will get us very strongly into that range.

Now, then it's also about how we can scale informatics, where we have been investing. It becomes a really very interesting differentiator for us, also with the customers, and we have the plan that we presented to you, in which actually you see informatics really starting to contribute. Then we know that we have to improve our margins in imaging. Now, that's very much in conversion of the order books, so supply chain, operational excellence, but also service as pull through. And then ultimately it's the SRC part, where, if we get back into restoring our business – and, indeed, that is also what we expect beyond 2025 – that in totality actually should allow us to get into the range. So, actually we have been realistic in our plan, looking at the strengths that we have across the portfolio, and what needs to be done in each segment, in particular, to actually extract the most value.

Robert Davies: That's great. Thank you for your answers.

Operator: Thank you, gentlemen, that was the last question. Please continue.

Leandro Mazzoni: It was the last question.

Roy Jakobs: Okay, then let me thank you for being with us today. It was a bit of an extensive session, but it was an important session, because we presented to you how we will bring back Philips, where it belongs. I want to close in saying that we are realistic in the situation that we are facing, but we are very confident in the plan that we presented to you, and we are extremely excited about the future that Philips has, with all the actions that we are undertaking.

So, I want to thank you again for dialling in, I look forward to talk to you soon when I'm on the road with all of you. Thank you so much, and wish you a great day.

[END OF TRANSCRIPT]