PHILIPS

Koninklijke Philips NV – Q1 2020 Results

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Welcome

Leandro Mazzoni

Head of Investor Relations, Koninklijke Philips

Good morning, ladies and gentlemen. Welcome to Philips' First Quarter Results conference call. I am here with our CEO, Frans van Houten, and our CFO, Abhijit Bhattacharya. On today's call, Frans will take you through our strategic and financial highlights for the period. Abhijit will then provide more detail on the financial performance. After that, we will take your questions.

Our press release and the related information and slide deck were published at 7.00 CET this morning. Both documents are available on our Investor Relations website. A full transcript of the conference call will be made available by end of today on the website.

As mentioned in the press release, adjusted EBITA is defined as income from operations excluding amortisation of acquired intangible assets, impairment of goodwill and other intangible assets, restructuring charges, acquisition-related costs and other significant items. For avoidance of doubt, the impact of COVID-19 on our results in not treated as an adjusting item. Finally, comparable growth for sales and orders is adjusted for currency and portfolio changes. With that, I would like to hand over to Frans.

Q1 Highlights

Frans van Houten

CEO, Koninklijke Philiips

Thanks Leandro, and good morning to all of you on the call and the webcast. I hope that you and your families are keeping safe and well during these extraordinary times. With the COVID-19 outbreak, our mission to improve lives is more relevant than ever. I take great strength in the work we are doing to support healthcare providers, medical staff and a growing number of critically ill patients.

Delivering against our triple duty of care

This is a top priority for all of us at Philips, and I would like to update you on how we are responding to the constantly evolving situation and delivering against our triple duty of care: meeting critical customer needs, ensuring the health and safety of our employees and ensuring business continuity.

We have mobilised our resources since January to address this unprecedented challenge. In line with our business continuity system, we have implemented the relevant safety protocols and we have been able to continue our operations around the world. Our workforce is getting used to new ways of working and our commercial processes are working well, as reflected in the robust order intake result in the quarter. Our service teams are following stringent safety protocols and continue to deliver and install critical equipment and provide maintenance services.

Our global supply chain is fully functional, with sites in the Americas, Europe and Asia, including several in China, where we are back at normal capacity utilisation rates. We are making the necessary investments and closely collaborating with our suppliers and partners to steeply increase production where there is increased demand, especially for ventilators and monitors. We have also created COVID-19 crisis-oriented solutions propositions to rapidly respond to customer needs.

On employee health and safety, we have implemented personal hygiene measures and safety protocols throughout the organisation. Moreover, we have a global working-from-home protocol for employees whose roles can be carried out remotely. This also helps maintain a safe working environment for activities that need to be performed at Philips locations such as production, supply chain and certain R&D activities.

I would like to point out that the Philips Foundation continues to play a terrific role in providing COVID-19 medical aid and relief, helping to boost humanitarian efforts and protect the vulnerable. The Philips Foundation is actively driving an impressive range of multi-disciplinary projects to aid regions across the world that need it most, working with several partners.

Q1 financial highlights

Let me now move on to the first quarter financial highlights. COVID-19 has significantly impacted our results in the quarter. Demand for our professional healthcare products and solutions increased strongly, with comparable sales and order intake growth for the Connected Care and Diagnosis & Treatment businesses. At the same time, there was a significant decline in demand for our Personal Health portfolio, and we saw Image Guided Therapy procedures trending down as the quarter progressed. This resulted in a comparable sales decline of 2% for the group in the quarter. Adjusted EBITA margin was 5.9% of sales compared to 8.8% in the first quarter of 2019. Free cash improved to an outflow of €57 million in the quarter compared to an outflow of €206 million in the first quarter of 2019. Comparable equipment order intake grew a robust 23% in the first quarter, driven by the strong demand for patient monitors, hospital ventilators and diagnostic imaging.

New initiatives

I would like to provide some colour on some of our initiatives to respond to customer needs and support healthcare professionals. Earlier this month, we announced a contract with the United States government to supply 43,000 acute care hospital ventilators for invasive and non-invasive use. This builds on the initial demand in the first quarter, which already enabled additional supply to hospitals in the most affected regions in China, Southern Europe and in the United States. Together with partners Flex and Jabil, we are working on a four-fold production increase by the third quarter. To further address the strong global demand in hospital ventilation, we are rolling out our new Philips Respironics E30 ventilator, a versatile and easy to use ventilator for emergency use where there is limited access to a fully featured critical care ventilator. The E30 has been designed for large-scale production and will scale to 15,000 units per week in April.

With the strong demand to expand ICU bed capacity, we are also working to significantly increase the production volume of patient monitors.

Related to the COVID-19 diagnosis, we see increased demand for X-ray, CT scanners, Point of care ultrasound, clinical informatics, and interoperability applications. We see increased interest in tele-health solutions like eICU, teleradiology, telepathology, which can help remote working of care professionals, as well as move care into the community to relieve the tremendous pressure on the physical constraints of the hospitals.

Building on this theme, to support care providers and protect scarce critical care capacity, we have launched a COVID-19 screening and dedicated scalable tele-health solution that facilitates the use of online patient screening and monitoring, supported by external call centres. This solution aims to prevent unnecessary visits to general practitioners and hospitals by remotely monitoring the vast majority of COVID-19 patients that are quarantined at home. Patients infected can be remotely monitored via smart questionnaires about their situation and state of health, identifying if intervention is needed. This solution is already being used by hospitals and general practitioners in the Netherlands and will be rolled out to other countries.

Our eICU solution is also a key enabler for more COVID-19 patients to receive care. With this solution, a co-located team of intensivists and critical care nurses can remotely monitor patients in the ICU, regardless of location, supported by high-definition cameras, telemetry, predictive analytics, data visualisation and advanced reporting capabilities. Algorithms alert to the signs of patient deterioration or improvement, helping care teams to proactively intervene at an earlier stage or to decide which patients have stabilised and can be transferred, allowing scarce ICU beds to be allocated to more acute patients. We are currently helping several hospitals to expand their eICU capacity or reach into other settings.

Overall, I observe that our strategy to transform care along the continuum, leveraging informatics, is already validated during this crisis and we expect post-crisis a further step-up of Connected Care in the broader sense.

Partnerships, performance management and spending control

We continue to drive market share in our core businesses through deeper, more comprehensive customer partnerships. During the first quarter, we signed several new agreements. For example, we entered into an eight-year partnership with Paracelsus Clinics in Germany, offering solutions that maximise availability of imaging systems, leveraging digitalisation and process optimisation to realise quality and efficiency improvements.

As you are aware, there has been a significant decline in consumer activity, as a result of which our Personal Health business has been impacted. We currently expect that our Personal Health businesses will be steeply impacted across all geographies in the second quarter, despite witnessing the first signs of gradual improvement in China more recently.

We have a strong grip on performance management and are taking actions to manage inventory and manufacturing capacity accordingly. We are also driving a reduction of discretionary spending. Due to phasing, the effect of these actions will kick in in the second quarter.

We are safeguarding innovation and keeping NPIs – new product introductions – on track to be fully prepared to capitalise on recovery opportunities. While reducing advertising and promotion spend, we continue to accelerate digital channels with a focus on adaptive digital marketing to grow engagement as consumers get more health conscious than ever. We have endured consumer demand crises before, though of a different nature and scale, and I am confident that we will come out of this stronger.

Domestic Appliances divestment

Let me now give you an update on the current situation of the divestment of the Domestic Appliances business. As mentioned before, the business has solid financial performance and market positions. We are still in the early stages of the carve-out process and on track to complete it within the indicated 12 to 18 months. The preparations with regards to the deal itself are also in their early stages. We expect to start engaging with interested parties only after the summer and make a call on timing of the divestment based on value as well as the liquidity situation of the potential buyers.

Regulatory update

A progress update then on regulatory matters. We continue to address the follow-up requests of the US Food and Drug Administration, as part of the efforts to fulfil our obligations under the consent agreement[?]. We remain in dialogue with the FDA. However, given the nature of the process, we still cannot provide a definitive timeline for the expected lifting of the injunction. We are also making good progress with EU MDR certification.

Liquidity

Also important, while we have a strong balance sheet and robust liquidity position, in view of the possible continued impact of COVID-19, we have taken measures to further protect the liquidity position of the company, which will be detailed out by Abhijit in a moment. As part of those initiatives, we announced this morning that we maintain the proposed dividend of €0.85 per common share against the net income of 2019. The distribution of this dividend will be in shares only, instead of the currently proposed distribution in cash or in shares at the option of the shareholder. To that effect, we will withdraw the dividend proposal that was already submitted to the Annual General Meeting of shareholders to be held on April 30th. We plan to convene an Extraordinary General Meeting of shareholders in the second half of June 2020, the agenda of which will include the revised proposal to declare a distribution of €0.85 per common share in shares only. The increase in issued share capital is to be expected to be more than offset by our share buyback programme.

Management team

On changes in our management team, I am happy to inform you that Rob Cascella, who most recently led our Precision Diagnosis business and was jointly responsible for the Diagnosis & Treatment segment, together with Bert van Meurs, will take on the role of Philips Strategic Development. I want to express my gratitude for Rob's considerable contribution to the company since he joined us in 2015, and Rob will remain a member of the Executive Committee. Kees Wesdorp, currently General Manager of Diagnostic Imaging, will succeed Rob in his current roles, as of May 1st. He joins the Executive Committee with a strong record of accomplishment, having led the significant transformation in Diagnostic Imaging by increasing customer and employee engagement and reviewing the product and solutions portfolio.

Looking ahead

Let me conclude. Looking ahead, we remain focused on innovating with purpose, driving operational excellence and delivering on our transformation. We are also managing the headwinds from COVID-19 in some of our businesses, while at the same time capturing the upsides as we support healthcare providers to expand critical care capacity to fight the pandemic. The outbreak will continue to have a negative impact on the second quarter financials. Assuming that we can convert our existing order book for the Diagnosis & Treatment and Connected Care businesses as planned, elective procedures will normalise and consumer demand will gradually improve, we aim to return to growth and improve profitability for the group in the second half of the year. Consequently, for the full year 2020, we aim to achieve a modest comparable sales growth and adjusted EBITA margin improvement. Given the current uncertainty and volatility, we will not provide more specific guidance for 2020 at this time. While we have a great deal of hard work ahead of us, I am satisfied with the way Philips is able to handle the crisis. I am proud of the commitment, hard work and resourcefulness of our employees to keep the company fully functioning, and want to thank everyone who has worked so hard to mobilise our resources in this way. With that, ladies and gentlemen, I will turn the call to Abhijit.

Financial Performance

Abhijit Bhattacharya

CFO, Koninklijke Philips

Thank you, Frans and thank you all for joining today. I hope you are staying safe. Let me provide some colour on the first quarter comparable sales for the group.

Q1 comparable sales

As mentioned by Frans, we saw a strong increase in demand for our professional healthcare portfolio and a significant decline in demand for the consumer products in the quarter. The sales for the Connected Care businesses grew 7%. Sleep and respiratory care sales grew in the double digits, primarily due to strong shipments of respiratory devices. Monitoring and analytics sales in the low single digits in Q1.

Our Diagnosis & Treatment businesses delivered 2% comparable sales growth in the quarter, led by a solid mid-single-digit growth in diagnostic imaging. Comparable sales in Image Guided Therapy and Ultrasound declined in the low single digits. The decline in Image Guided Therapy was caused by a strong decline in our devices business, as hospital postponed elected procedures as well as a push-out of installations from the first quarter. For the Ultrasound business, we were unable to install against orders in China, as hospitals were battling the crisis and chose other priorities. Comparable sales declined 13% in the Personal Health business for the quarter. Lockdown and social distancing measures impacted demand for our consumer product portfolio, initially in China and Asia Pacific, starting late January, and subsequently in the rest of the world from March onwards. This led to a high-single-digit comparable sales decline in the oral healthcare business and a double-digit decline in male grooming and domestic appliances. Consumer sales through digital channels declined significantly less than in-store sales in impacted areas. Comparable sales in the segment

Other declined by €31 million, compared to Q1 2019, due to lower license income, in line with our expectation and prior guidance. Mature geography sales increased in 2% in the quarter, as growth in North America and Western Europe was partly offset by a decline in other mature geographies, driven by Japan. Sales in growth geographies decreased by 12% on a comparable basis due to a double-digit decline in Personal Health sales in China and certain Asia Pacific countries, as a result of COVID-19. To round off, on sales, we estimate an overall negative impact of COVID-19 on group comparable sales was around five percentage points in the first quarter.

Q1 orders

Moving on to orders, comparable order intake in Connected Care grew by 80%, driven by strong demand for patient monitors and hospital ventilators. The agreement to deliver 43,000 ventilator units to the US that we mentioned earlier in the call was signed in April and is therefore not included in the number reported in the first quarter. Diagnosis & Treatment comparable order intake was in line with Q1 of last year. Diagnostic Imaging delivered high-teens order intake growth, driven by strong demand for X-ray and CT scanners, as well as the continued strong performance of our MR portfolio. Ultrasound order intake grew in the mid-single digits in the quarter, as customers selected products they could easily place within reach of COVID-19 patients. Specifically, our hand-held and portable solutions – namely, the Lumify and the CX50 – are critical bedside tools for rapid assessment of patients with heart and lung distress in both the emergency department as well as the intensive care unit. Our hand-held ultrasound solution Lumify is a valuable tool for clinicians during COVID-19 as the portability, easy disinfection and remote integrated tele-ultrasound capabilities allow for clinical collaboration within challenging conditions. Similarly, the CX50 provides the big-system class performance for lung and cardiac imaging, while travelling easily and safely to disaster sites and compromised patients. This was offset by a low double-digit order intake decline in Image Guided Therapy, due to delays of elective, non-urgent procedures and a mid-single-digit decline in enterprise diagnostic informatics. It is important to note that we have not seen any cancellation of orders due to the COVID-19 outbreak. We also expect to have continued increasing market share in the professional healthcare market.

On reporting matters, I would like to mention that effective Q1 2020, we have simplified our order intake policy by aligning the order book criteria for all equipment modalities to an 18-month time horizon from order to revenue. At the same time, we have also aligned our order book criteria for software contracts to the same 18-month horizon, compared to the full contract value that was recognised under the previous policy. This change aims at eliminating reported order intake growth variances caused by different lengths of software contracts and better reflects near-term expected revenues from orders recognised in the reporting period. Even though we previously used different horizons per modality, this realignment has not resulted in any material impact to comparable order intake in the first quarter of this year.

First quarter profitability

Let me now turn to the profitability development in the first quarter. Adjusted EBITA for the group was €244 million or 5.9% of sales compared to 8.8% in the first quarter of 2019. We estimate that the overall negative impact of the COVID-19 outbreak on our profit was around three percentage points. This was primarily due to lost margin on lower sales, factory coverage due to lower production and other direct costs. Looking at the business segments, we are encouraged to see an adjusted EBITA margin increase of 150 basis points in Connected Care in the first quarter to 9.8% of sales, as a result of growth and productivity. The Diagnosis & Treatment business delivered an adjusted EBITA margin of 6.3% of sales, up 10% compared to the first quarter of 2019. The positive impact from growth and productivity was offset by unfavourable product mix, driven by lower growth of the Image Guided Therapy and cardiac ultrasound portfolios.

In Personal Health, adjusted EBITA decreased to €81 million or 7.1% of sales due to the impact of lower sales. As mentioned by Frans, we are taking actions to manage manufacturing capacity and drive reduction of all discretionary spending. Due to phasing, the effect of these actions will start kicking in in the second quarter, and will partly offset margin headwinds from lower sales in the segment in the period. Adjusted EBITA for the group was also impacted by a decrease of license income in the segment Other in the first quarter, in line with our prior guidance. Income tax expense decreased by €88 million in Q1, mainly due to lower income and a non-cash benefit from lower tax liabilities. Net income amounted to €39 million in the quarter, including charges of €31 million related to a value adjustment of capitalised development costs resulting from actions we have taken to address parts of the portfolio and performance in Diagnosis & Treatment.

The adjusted diluted EPS from continuing operations was €0.18 in the first quarter, compared to €0.29 in Q1 2019. Net cash flow from operating activities increased by €129 million compared to the first quarter of 2019, mainly due to lower cash outflows from working capital and lower payment of taxes. Free cashflow was an outflow of €57 million compared to an outflow of €206 million in Q1 2019.

We have not seen a material impact of COVID-19 in our working capital or cash flow generation in the first quarter. While we expect to face accounts receivable delays in the near term due to the impact of COVID-19 on our customers, this is not expected to impact our total free cash flow generation over the next 12 to 18 months time horizon. We remain well on track for our overall 2017 to 2020 productivity savings target of €1.8 billion and our productivity programme delivered €95 million net savings in the first quarter. More specifically, procurement savings, in part driven by our Designed for Excellence programme, delivered €36 million of bill of material savings year-on-year. Net non-manufacturing cost reduction amounted to €30 million and the manufacturing productivity programme contributed €29 million in the quarter.

Strong liquidity

As mentioned by Frans, Philips has a strong balance sheet and robust liquidity position and in the first quarter we took action to further protect our liquidity in view of the possible continued impact of COVID-19 on markets in 2020. We successfully placed €500 million fixed Sustainability Innovation notes, due in 2025, and €500 million fixed-rate notes due in 2030, both at very attractive rates. With that, we ended the first quarter with a net debt position of €4.7 billion, or 1.4 times adjusted EBITDA – well within our target range. Our debt has no financial covenants and a long-term maturity profile with an average tenor of long-term debt of more than nine years.

As of the end of the first quarter, we have completed 50.3% of our €1.5 billion share buyback programme for capital reduction purposes that was announced in January 2019. This was done through repurchases by an intermediary to allow for purchases in the open market during both open and closed periods. In March, we announced that the remainder of the programme will be executed through individual forward transactions, to be entered into in the course of 2020, with a majority of the settlement dates expected in the second half of 2021. The size of the share buyback programme, up to an amount of €1.5 billion, remains unchanged. By using forward transactions, we came to optimise the number of shares to be repurchased under the programme, while maintaining our current liquidity position.

With regards to dividend, as mentioned by Frans, we maintain our proposal to make a dividend distribution of €0.85 per common share, against the net income for 2019. However, the proposed dividend will consist of shares only. To arrange for the changed distribution method, the dividend topic will be withdrawn from the AGM agenda and an Extraordinary General Shareholder meeting will be called to approve the adjusted dividend distribution of €0.85 in shares.

Tariff impact

Let me provide some guidance for certain areas of our business. Based on the announcements made so far, including the recent ruling on tariff reliefs on medical devices that can be used to treat chronic respiratory disorders, the full-year gross impact of tariffs is now expected to be around €70 million, including mitigating actions. We expect the net tariff impact to be around €40 million in 2020. This is €30 million lower than the net impact seen in 2019.

In the segment Other, we expect a net cost of around €60 million at the adjusted EBITA level and around €70 million at the EBITA level for Q2. In line with our previous guidance, restructuring charges are expected to be 90 to 100 basis points and acquisition-related costs are expected to be around 40 basis points for 2020. We expect one-time EU MDR investments of around €50 million in the year, and consent decrease-related cost to be around 10 million a quarter, similar to the quarterly run rate of 2019 until any change in status with the FDA.

COVID-19 investment

Taking our full COVID-19 diagnostic and Connected Care portfolio into account, we are investing more than €100 million to meet urgent demand from our customers for ventilators, patient monitors and certain diagnostic modalities.

Part of this CapEx is CapEx and part of this is additional cost. Despite this, we expect our net CapEx, as a percentage of sales, to remain broadly in line with last year, due to expenditure decreases and re-prioritisation in other parts of the portfolio.

While the impact of COVID-19 gradually increased in the course of the first quarter, the outbreak is expected to cause a steep revenue decline for our Personal Health business and a sizeable high single-digit decline of the Diagnosis & Treatment business in the second quarter, partly offset by a significant increase in revenue in Connected Care.

Assuming we can convert our existing order book for the Diagnosis Treatment, and Connected Care businesses, as planned, elective procedures normalise and consumer demand gradually improves, we aim to return to growth and improved profitability for the group in the second half of the year.

Full year 2020

Consequently, for the full year 2020, we aim to achieve a modest comparable sales growth and an adjusted EBITA margin improvement. Given the current uncertainty and volatility, we will not provide more specific guidance for 2020 at this time.

Thanks to employees

To conclude, I also want to thank our employees for their incredible resourcefulness to keep the company fully functioning, and especially our finance colleagues and auditors, who timely closed the first quarter books, while working fully remotely.

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

Q&A

Michael Jüngling (Morgan Stanley): So, I have two questions then. The first question is on ventilators and the second question is on tele-health. So, question number one is, can you talk about how the ventilator order book, the growth rate or order book backlog will be recognised as revenues throughout the coming quarters? And what visibility do you have that you have the parts necessary to deliver on that order backlog?

And then, question number two is on tele-health. It seems that the US is pushing quite hard towards tele-health. I think the Cares Act is making a push towards that as well. How big is the tele-health business for you? And, how are you being impacted by the Cares Act for tele-health going forward? Thank you.

Frans van Houten: Hi, Michael, this is Frans. We already saw in the first quarter a significant order intake increase. We expect also, in the second quarter, a significant order intake. At this time, it is difficult to forecast how many orders we would get in Q3 and Q4. The order book that we built up in Q1 and Q2 is of such a size that it will take us the whole year to deliver that.

We have given some guidance as to the revenue increase that we expect in the second quarter in Connected Care; we have not made it more specific than that. You are right to point to parts delivery; the supply chain all has to follow what our ramp-up plan is, and that is quite hard.

We have gone to tier two, tier three suppliers in order to work with them collaboratively to help them sometimes to re-open if they were on the lockdown. We help them expedite logistically to get the components to our factories as fast as we can. I have been personally on the phone with many of these vendors to also get the right priorities.

The Philips team, but also our contract manufacturers, are doing an incredible job in ramping. So far, that is going reasonably well, but it is certainly, as we are going to quadruple production it is going to be the gating item, frankly speaking, as to how fast we can turn the order book into revenue. We have taken a kind of a middle of the road scenario in our forecasting to not take the best case but also not take the worst case as you would be reasonably able to expect.

Then, on your second question, we see some vindication in our strategy. We have been investing, as you know, in tele-health, in Connected Care, in cloud technologies, sometimes causing you guys to ask questions, you know, is this all deserved as an investment. We do expect now an acceleration of the deployment of cloud technologies to connect patients and care-givers.

How sizeable that is in terms of phasing is still to be determined. Also, the Cares Act, while talking big numbers, we still need to see how fast it will turn from intent into revenue. But, definitely, there are parts of the Cares Act that are applicable to us and that we will be engaging with the government and DOD and VA on.

I think it is a topic that we probably should come back on in a future quarter. It is also good, by the way, to see that reimbursement is also going up. So, there are more and more consultations and monitoring activities that are going to be rewarded. From my personal interaction with several large IDMs in the United States, I know that there is keen interest to build out command centres and tele-health programmes. Let me leave it at that, Michael.

Michael Jüngling: And, Frans, can I just follow up please on the spare parts situation? So, for the Q2 revenue guidance for ventilators, is it fair to assume that you have secured all the parts necessary for at least the second quarter for those ventilators?

Frans van Houten: Yes, just a small correction there, not spare parts, of course; if they were spare then we would have an easy time. No, but sorry, I was not trying to be cute on that.

We have not yet secured all the parts necessary to realise the full revenue of Connected Care in the second quarter. But, we are becoming increasingly confident that our suppliers will follow. But it is not done yet and this is a 24/7 daily battle, where we get a lot of support from our suppliers but it is not yet in the bag.

Abhijit Bhattacharya: That is why we do not give more specific guidance, Michael, because there are a lot of moving parts and the situation, as Frans mentioned, keeps improving; but, for us to be precise at this point is not possible.

Michael Jüngling: Great, thank you.

Veronika Dubajova (Goldman Sachs): Good morning gentlemen, and thank you for taking my questions. My first question is on Personal Health. It would be great if you could comment a little bit on the growth that you are seeing in China at the moment? So, if you can share any data points with us in terms of April performance.

And then, I think myself, as a lot of other folks, were a bit surprised by the magnitude of the lost EBIT in PH. So, Abhijit, can you maybe give us a little bit more insight into what are some of the cost measures you are taking into the second quarter and how those will improve the margin performance?

And then, if I can, just a big picture question on the guidance please. You make a number of assumptions in the press release as to what the guidance assumes. It would be great to get your thoughts on when do you think elective procedures normalise? I think it is a big debate out there in the industry and it would be great to understand what you are assuming for that within your guidance? Thank you.

Frans van Houten: Okay. Hi, Veronika, good to hear your voice. PH China insights, I think are quite interesting as they could be a proxy for the rest of the world, although there are some differences. Abhijit's team did a very good analysis comparing the depth of the crisis in week four, where we saw a 62% decline in consumer sell-out, even more steeply so in retail brick-and-mortar stores, but also online was a significant decline.

In March, that all started to recover, with an online back to net-net growth, but offline retail brick-and-mortar stores still about 50% down. Now, of course, some of that business also shifted to online; that is probably why online was already positive again.

The totality of PH in China, in week 13, was still close to 20% below last year. So, it does also show that it takes some time to come back. In April we see further recovery, but probably it will take the whole quarter before we are back to net growth. Of course, the rest of the world is a quarter behind, and we take quite a conservative view on how fast PH is back to growth. I think for the whole year we expect quite a modest situation there.

China, of course, is quite profitable for Philips; also for Personal Health, with shavers and oral care being the high-runners and the big contributors to profitability, and more so than, for example, in emerging markets in international markets, and therefore the lost sales had a significant loss of profitability in the first quarter.

You asked for cost measures, and I will be passing to Abhijit for that. Let me first say something around the elective procedures. So, we have seen in March a significant drop down of elective procedures as hospitals prioritise emergency care. We think that will continue throughout the second quarter and therefore, Q2 for IGT will see a significant drop.

Nevertheless, we are, of course, in contact with interventionists and we know they are discussing and preparing for the resumption of elective procedures, which we think will start happening in Q3. Perhaps, you even faster in office-based labs, but then certainly also in hospitals at large. It may then take a little while for it to normalise, but for IGT we expect a strong second half of the year, assuming that hospitals are open for the postponed orders to be installed.

Abhijit Bhattacharya: Yeah, so on PH, let us say most of the costs for Q1 were committed; so, therefore, on a high-margin business like Personal Health, the drop through of the gross margin, when you come with so much lower sales, it pretty much hits your bottom line.

On top of that, we also curbed our production because on top of this we have built a lot of inventory; then from a cash position we would be in strife. So, we basically cut back production so that we could keep our inventories in check and that, of course, does not help the P&L at that time.

So, you will see in Q2, of course, the drop will be more severe because in Q1, although you saw a drop about 12% or so, March ended with a much higher drop; somewhere in the mid-20s. And, of course, the exit in March was even higher. So, we expect Q2 to be weaker and then, so the cost measures will drop but profitability will be impacted with such a severe drop in top line.

And cost measures include, you know, factory slow-downs, asking people to take leave, cutting of all discretionary expenses, quite a steep reduction in advertising and promotion. So, there are a skew of measures we are taking to manage our costs, but when this business comes down that steeply the impact on profitability is reasonably high. So, until we get back to flattish to upward growth, we will have this.

And, important to note, and I think Frans mentioned it in his introduction, we are ensuring that our new product introductions remain on track. So, we are not going to cut those because we also want to emerge from this crisis much stronger. So, as consumer activity returns, we also want to have our newer product propositions available so that we can some out strong.

I hope this gives you a good picture, Veronika, of what is happening.

Veronika Dubajova: That is very helpful. And, if I can just one quick follow up, in terms of your conversations with hospitals, and I am curious, obviously, the D&T order growth was still pretty robust but there are a lot of moving parts in there. Are your conversations changing at all? Are you hearing from hospital administrators that they are becoming more cautious in spending money, given everything that is happening? Or, has that not yet entered the discussion you are having in terms of orders?

Frans van Houten: The discussions are, first of all, focussed on the immediate urgency of having enough diagnostic equipment and monitors and ventilators for critical care. And there are some changes – differences in the mix, depending on the country. For example, we have seen sizeable CT interest in Europe and Asia, but less so in the United States, as countries have their preference for diagnostic modalities.

The second thing that we observe is the postponement of installs that are not related to critical care. For example, IGT operating rooms, Azurion systems. Those orders were not cancelled, they were postponed and we assume that from Q3 onwards that we can actually install that.

The third remark is that we see heightened interest in building tele-health and command centres, as that will increase resilience of health systems in allowing people to work remotely and to keep as many as possible patients at different locations.

And then lastly, and I think that is the brunt of your question, what about CapEx budgets, and what about cash flow of hospitals? I think this remains a bit the unknown and this is also why we take a conservative view on our liquidity measures, just to be sure that we are prepared.

We do not know how fast insurance companies will pay out to hospitals and therefore, it is difficult to gauge what credit crunch hospitals may find themselves in, in the near term, even though they are very busy. So, we think that, if they are having to postpone payments, then it is probably a temporary issue, rather than a structural issue, but still we need to be prepared for all contingencies.

Veronika Dubajova: That is very clear. Thank you very much.

Patrick Wood (Bank of America): Perfect, thank you very much. I will keep mine to two please. The first is on the E30 ventilator units; it looks like a very big run-rate that you guys are gunning for in terms of absolute units. How sustainable is that from a production standpoint? And, the pricing should be, is this a $1,500 system or just trying to get a sense of roughly how big that opportunity is? So that is the first question.

And then, on the second side, is there any risk that people are putting orders in for ventilators in totality with multiple vendors, because they are desperate, and then they end up cancelling on them before they actually foresell? Not meaning to sound downbeat on it, I am just curious? Thanks.

Frans van Houten: Yeah, hi, good morning, Patrick. Let me just give a bit of colour on the E30; it is an adaptation from a bi-plane ventilator, to which we have changed the software, added sensors, added filters, so that it is safe and suitable for critical care. But, as it is a derivative of a bi-plane, it comes from a high-volume platform. That also makes it easier to manufacture at high volumes and without lots of accessories, it would be in the order of magnitude of €2,500.

On how sustainable it is, we think that there will be a peak demand and then it will go down again. This of course depends on what will happen in emerging markets. I think that is the big unknown. This could be quite a suitable product for emerging markets, but we are not counting on this being a long lasting, high volume product. Since we are leveraging our other existing production lines for sleep and respiratory care, we would then go back to producing other types of equipment there.

In terms of the order book, most of the orders that we have received are firm orders. I think what we can all observe from the dialogues or from the medical folks is that this pandemic will be with us for quite a long time. It may have its resurgences, therefore we can expect that health systems around the world will want to have some spare capacity in their critical care equipment, in their ICU capacity. Call that stockpiling or call it something else, I think society will demand from these healthcare systems that they are prepared for a resurgence of cases, and therefore I am not that worried that orders would be cancelled.

Patrick Woods: That is helpful. And thank you for being so specific in your answers to this.

Hassan Al-Wakeel (Barclays): Thank you for taking my questions. I hope you are all doing well. Firstly, could you talk about the ventilator business and whether there are any meaningful price concessions, be it for the US government contract or indeed elsewhere?

And secondly, on your China commentary and how this is recovering in Personal Health, are you seeing any meaningful differences between products within the portfolio?

And then finally if I can, a longer term question. Frans, do you expect healthcare expenditure to be structurally higher over the medium term as a result of this crisis and for this to translate to higher hospital CapEx, whether it be for diagnostics or intensive care capacity? Thank you.

Frans van Houten: If we all had a crystal ball, Hassan, would that not be nice? On ventilators, you know, our approach has been that we do not raise prices. We take our list prices, that is the starting point. You can see at the HHS website what the various prices have been for the different vendors. I mean, if you take volume and divide by the value of the contract, you can work out the prices from all the competitors. So we are not wanting to raise prices, we do not want to take advantage. At the same time we of course are not giving big discounts, either because we are incurring a lot of extra costs; we are investing over €100 million, partly in CapEx, partly in expediting charges and higher component cost prices, in order to ramp up fast and to get the priorities that we need. We need to take that into account. Nevertheless, the operating leverage that we will get from the higher volume will still make a positive contribution to the bottom line of Connected Care. So I think that can be then the takeaway that you are looking for.

I did not fully understand your China question.

Abhijit Bhattacharya: Do you see a different demand in products in China compared to the rest of the world?

Frans van Houten: Yeah, well let us say we are not selling exactly the same ranges in the different geographies. For example, China is a high-end market for us and we are selling predominantly oral care and shaving and beauty products, and to a lesser proportion, domestic appliances. Whereas in international markets, domestic appliances has a bigger proportion as some of those emerging markets are not yet, you know, big on power toothbrushes. So the profitability of PH China is higher than our international market footprint for PH. If that is behind the question.

Hassan Al-Wakeel: I get that Frans. What I was trying to ask was, if you are seeing any deviation or if one of the businesses is slightly more resilient than others? Or if the impact is fairly uniform across the businesses within PH?

Frans van Houten: Yeah, I was going to give you the fun part of the session is that of course we have seen demand for hair clippers and OneBlade go through the roof, as people are now involved in home haircare. But that does not change the picture, of course, that is more anecdotal but I thought it was fun to mention. We have not seen a big shift in demand.

Abhijit Bhattacharya: Hassan, is your question only PH or is it broader? Just to be clear.

Hassan Al-Wakeel: Mainly PH.

Abhijit Bhattacharya: Okay.

Frans van Houten: And then on your third question on hospital CapEx, well at least in the 12-18 months timeframe, COVID will drive hospital CapEx up. We have not seen any order cancellations and the patient days that the severe patients will, it seems they have some residual effect on their health. And net-net those people will probably have a higher demand on the healthcare system than before. So we do not see a reduction in the need of infrastructure and therefore CapEx will probably remain.

Now, Veronica had a question around, I think, liquidity and CapEx of hospitals. We still need to see of course how hospitals come out of this pandemic from a financial point of view and to what extent they can afford to do what is needed. So I am answering this first by what is needed. I think CapEx needs will be higher for a longer period, and next comes the affordability question, where that remains to be seen.

Hassan Al-Wakeel: That is very helpful, thank you.

Ed Ridley-Day (Redburn): First of all, fantastic to hear about all the stuff that Philips is doing to help your clients during this crisis. Very encouraging. So, a number of questions on it from a number of areas. Just on China, obviously your geographical exposure compared with some of your peers is quite marked there. In terms of Oral Care, one of your largest peers seemed to report stronger growth in oral care globally. I was wondering if that was partly due to the relative geographic breakdown in P&G's [inaudible]. That is the first question.

And secondly on [inaudible] plus investment, can you give us a bit more colour on the split between D&T and Connected Care and to help our understanding of the progression of that investment? If you can, Abhijit, how much you have already made and how much we should expect through the remainder of the year?

Frans van Houten: I am not sure that we fully understand your second question, but let me deal with the first question and then come back on the second. Philips with its Sonicare portfolio versus our nearest competitor, we always have a bit of a tech-race, right? We are about equal. So I feel that we are holding our stance in oral healthcare. Before the crisis, we were back in high single-digit growth globally and double-digit growth in China. And then of course when the crisis hit, that got deprioritised by consumers. But our competitive position is strong, our product range extensions are doing very well, especially since last year, as you know, we broadened the range with more modestly priced products. I am not aware of a specific geographical footprint difference between our nearest competitor and ourselves that would explain a difference of performance.

Abhijit Bhattacharya: Maybe one thing, Ed, if you look at our oral healthcare portfolio, we have power toothbrushes, whereas the competitor you mention has not only power toothbrushes but also toothpaste and manual toothbrushes as well, so that of course comes with a completely different market spread. If you look at power toothbrushes, there are five big markets in the world, whereas of course people all over the world are brushing. So that is the, let us say, geographic footprint difference between us and them.

Ed Ridley-Day: Thanks, very useful.

Abhijit Bhattacharya: On the 100 million investments, in Q1 it was the smaller part of that. Most of it will come in Q2 and then in Q3 as well. So let us say of this 100 million of course we have spent some of it in the accelerations etc., but large part of that is commitments that we have made for deliveries that are yet to come.

Ed Ridley-Day: Thank you, that is helpful.

Scott Bardo (Berenberg): Thanks very much and good morning. First question just relates to Personal Health. I wonder if you could comment actually as to whether the channel mix in Europe and the US is materially different from China. I know you mentioned that retail was a more significant drop in China, I just wonder if you can relate those comments to the West.

And I just wanted to understand, is it a reasonable expectation for you to be loss-making in Personal Health in the second quarter? Perhaps then further sharing some thoughts about your history with respect to recovery of this business. I know there has been no economic crisis similar to this one, but would you expect this business to rapidly snap back in line with economic development or maybe share some perspectives there please.

Second question set just relates to Diagnostics and Treatment. I am just trying to square the significant order book that you have with the indication of a high single-digit decline for this business in the second quarter. Is this all interventional imaging or are there portfolio related effects that we should be aware of?

Just lastly on this topic please, amid this uncertainty of the global capital market this year, perhaps next, are there any efforts in place to extend your enterprise service relationship agreements with hospitals or take use of the low interest rate environment to strike capital deals? Thanks.

Frans van Houten: Let us first talk about the channel mix. China is way ahead of the rest of the world when it comes to proportion of online versus offline revenue, okay? Off the top of my head, over 50% in China is via online channels.

Abhijit Bhattacharya: Close to 70%.

Frans van Houten: And that is shifted further online as online is back to growth and so we are now over 70%. That proportion is much lower in Europe and in the United States. That also means that we now expect the recovery of consumer demand in the Europe and the United States will be a bit slower than in China as not all consumers will as rapidly go online to buy their appliances. Of course we will see an acceleration also to the channel mix shift in Europe and in the United States. Also, as Amazon has now entered mainland Europe in a much broader sense in many countries, we can expect that shift to further accelerate.

Your question on profitability of PH in the second quarter, despite the steep decline in top line, we plan to make a small profit in Personal Health in the second quarter.

And then the last part of that first question, SARS and post-SARS and post the Great Depression we saw a fairly rapid recovery, whereby you could say consumers may postpone big expenditures but many of the Personal Health products are relatively small expenditures and still within the discretionary budget possibilities for consumers. And therefore we expect to get back to a more normalised situation by the end of the year.

Then on D&T we saw order growth, of course especially in Connected Care, also in DI, less so in ultrasound for cardiovascular and in IGT. Nevertheless, across the board we have a very strong order book, but hospitals are postponing the installation of anything that is not immediately critical. And that is why we expect still in the second quarter a negative revenue growth for D&T and only a resumption of positive growth in the third quarter onwards.

The last question, the interest in solutions remains, but it has been more complicated to do sophisticated deals in the first and in the second quarter, because all commercial efforts now go through Skype and Teams and Zoom and whatever else we can lay our hands on, and the focus of hospital administrators is to deal with the crisis. I have been personally in touch with CEOs of hospitals who say despite the crisis they want to continue the dialogue on transforming healthcare, preparing for things like command centres, community care, tele-health. So I expect also the adoption of solutions to come back the moment people can spend their time on these kind of deals again.

Scott Bardo: Very helpful. Thanks very much indeed.

Max Yates (Credit Suisse): Thank you. Just my first question is on the Connected Care order growth. Could you talk a little bit about the growth of monitors versus ventilators in Q1? I just wanted the extent to which we are also seeing a very significant step up in monitors as well as ventilators. So perhaps if you have the monitors growth rate in Q1 in order intake, that would be helpful.

Abhijit Bhattacharya: I just need to look it up. Both were strong growth. I think monitors was also very, very high, close to the average of what we said. So it would be around 70% plus for monitors and overall 80%. So overall, both monitors and ventilators very strong, Max.

Max Yates: Okay, and just on that, you have talked about a four times increase in your ventilator business by Q4, is the CapEx that you are spending and your plans for the monitor business also of similar magnitude, of similar proportions, based on the CapEx that you are spending and conversations with customers?

Frans van Houten: Yes and no. So we expect a strong demand and growth in patient monitoring for sure. For the ventilator production, we really have to set up additional factory lines and also outside of our own facilities, which requires more CapEx, also investing more tooling in more test equipment. So relatively speaking there is a somewhat larger amount associated with ventilators versus monitors.

In monitors, we can handle the growth of demand within our existing factories in Boeblingen and South China. It is a more complicated story because the product range is wider and of course it was politically less in the spotlight, so to speak. So, everybody talks about ventilators, not everybody talks about monitors. But yes, we expect also to significantly increase production in monitors also during the second quarter. We will also have extra cost there. So maybe I will keep it at that.

Max Yates: Okay. Maybe just one follow up on Personal Health. I think you talked about, Abhijit, having done some scenarios around Personal Health and where we were in February and March in China, and I think you mentioned a 62% decline in sell out in week four, but could you just clarify some of those numbers? So maybe what you were seeing in China in February and March, and then if, in April, what we are seeing in US and Europe is comparable to what you saw in China in February or whether, because of the differing channels, it potentially troughs at a lower level before recovery?

Abhijit Bhattacharya: Yeah. So couple of things there. One is the online/offline mix in China is much ahead of the rest of the world. So if you look at PH I think about 40% of our business is online, whereas in China it is about 70%. So then, of course, for Europe and the rest it is lower than the 40%. That should also tell you that the hit in Europe and North America will be higher because it is the offline which basically comes to a bit of a grinding halt. So I think that is the colour I can give you. Matching exactly week by week what are we doing with online and offline in Europe is still a bit too early to have that information now.

Max Yates: Okay. I mean would you be able to give the February and March numbers for China in terms of how much they were down?

Abhijit Bhattacharya: Yeah. That is what Frans mentioned. So he said in the peak it was down 62%, that was in February, and when we exited March overall sales were still down 20%, as Frans mentioned, but the –

Max Yates: Yeah.

Abhijit Bhattacharya: – offline was still down 50% and there was a slight growth in online.

Max Yates: Okay. So April is probably better now than the –

Abhijit Bhattacharya: So online sales grew, offline sales still down 50%, but because of further mix shift, because more and more is shifting to online, you cannot really say that the online growth in the last week of March is on a similar base to one year ago; that is also what Frans explained.

Max Yates: Perfect, thank you.

Abhijit Bhattacharya: Yeah? Very good.

Kate Kalashnikova (Citigroup): Hello, this is Kate Kalashnikova from Citi. Frans, following up on Scott's question on Personal Health earlier, could you talk about how this accelerated shift to online will impact the consumer business medium and longer term in your view? Specifically, could you talk about Philips' position in the online channel compared to its competitors and how margins in the online channel compare to margins in the traditional store channel? Thank you.

Frans van Houten: Philips has been on a path to shift to digital marketing already, for quite a while, and our digital team works closely with the online retailers to analyse data and to hone our skills to target consumers online, so the more sales will go to online in fact the richer the data analytics becomes, and the more precise our marketing can become. I do not expect a significant product mix change for Philips as we shift from offline to online, and in terms of margin or earnings capabilities I also do not see a significant difference in performance between the channels. Of course there is a difference in marketing expenditures; I mean in retail, or brick-and-mortar, you have more floor stands and so on, whereas in digital you have to pay more for search terms and so on, but that is all part of the game. Net-net profitability is comparable.

We have seen here, in Europe, that a store like Media-Saturn, which is still very dependent on brick-and-mortar, is making a lot of effort to move to online sales, trying to accelerate this shift. Nevertheless, for I think both US and for Europe the impact on high street shops is profound, and I think that is also why we expect at least it will take a bit longer for the recovery to happen in Europe and the United States versus Asia.

Kate Kalashnikova: Okay, great. Thank you.

Frans van Houten: Thanks Kate.

Lisa Clyde (AllianceBernstein): Hi. I have a question on the different types of technology that are being used to treat COVID-19 patients. Clearly, it is helpful to have both invasive and non-invasive modalities on the same ventilator, which appears to be one of the attractive features in the model you are selling to the US government, but we have also seen some press reports on hospitals using CPAP machines sort of in a pinch. What is happening with your Sleep division and do you think that could likewise see an uptick in orders?

Frans van Houten: Yeah. When patients are in respiratory distress hospitals will do anything to help these patients, including using CPAPs; however, that is not a recommended treatment modality. You need to have ventilators that measure the distress the patient is in, that can react to that, so there needs to be sensors and analytics. Moreover, there needs to be filters adapted to the machine to avoid viruses spreading through the exhaust of the machine. Moreover, the insight is that even non-severe cases still need higher saturated oxygen levels to help them with their recovery and a CPAP machine cannot do that. So our

E30 and EV300 can all deliver higher oxygen levels as they can be connected to oxygen supplies, whereas the CPAP machine just takes normal air out of the atmosphere and blows it into the lungs, so it is quite a different therapy.

Now, the E30, that is derivative of the biplane, comes out of our high-volume production lines. We are redirecting some of the capacity from our Sleep business for that, but the factory lines that we have in that business we can ramp them quite easily, and therefore we do not see/expect a big impact on our Sleep business. By the way, the Sleep business had a positive growth in the first quarter, which was, of course, rewarding to see. I know that many questions were there with regards to how we are performing in Sleep, so first quarter a positive growth.

Lisa Clyde: Okay, great. Then just one follow-up question. Of the €100 million incremental CapEx for manufacturing capacity, could you give us an indication of the geographic split of that spend? Then just a second question on manufacturing in general. Are you comfortable with the geographic distribution and do you feel like you have enough redundancies in place, if any countries get particularly hard hit, that you will still be able to manufacture through this?

Frans van Houten: The €100 million is not all CapEx. It is partly CapEx, partly extra cost that we need to make to operate in three shifts to expedite to do the fast logistics to pay premium prices to some of the component vendors that need to distribute faster. Part of it is, indeed, geographically related to the United States, part to Europe, but also some of our contract manufacturers that support the US expansion are also located outside of the US. So it is a difficult question; I do not have a top-of-mind split in my mind to give you. Of course, we will take a careful approach and look at an accelerated depreciation of any investment amount so that we do not have residual risk after that volume would normalise.

Many of the suppliers are in distressed countries and we have had to help them get government permissions to open up while the country is in lockdown. We have also helped suppliers with, let us say, health and safety measures to keep their people safe, whereas that was in the Philippines or in other countries in the world where we had certain components that we needed for the ventilator ramp-up. So does that answer your question Lisa?

Lisa Clyde: Yeah, that does. Thanks very much.

Frans van Houten: Okay, thanks.

Daniel Wendorff (Commerzbank): Hi, good morning everybody and thanks for taking my questions. Two if I may? The first one is can you talk a bit more about the service revenues within your DNT division; were they impacted at all during the crisis so far? My second question will be a follow-up on the E30 ventilator. What regions, or what customer groups, are you primarily targeting for placing the modified E30 ventilators? Thank you.

Frans van Houten: Okay. Hi Daniel. Service impact was slightly impacted in the first quarter. We have some 3,000+ field service engineers, heroes because they have been going into hospitals that are affected, using PPE protective gear, servicing x-ray, CT machines, ventilators; incredible, I have huge admiration for these people. Hospitals have postponed, let us say, certain services as they did not want to, for example, do a major overhaul of an informatics installation during the crisis, but all urgent services has continued. Of course, as you know, many of our service revenue is on a service contract and therefore not immediately impacted by variations in demand peaks. Service order intake, you could say some hospitals are not spending time on negotiating contracts at this time and they are focused on the crisis.

Then your second question. The E30 is really targeted to support and augment capacity of hospitals in the crisis. It is not intended to replace intensive care ventilators as such, but more to support those patients that are already having respiratory distress but are not yet in the intensive care unit. The product is just launched, so it is early days to say how much uptake there will be. We expect, certainly, emerging markets to have a strong interest. The E30 can support both invasive as well as non-invasive ventilation and so it was approved under the FDA emergency regulation, so it is a versatile product and it is at much lower cost. So early days but we expect high demand, and, as we have shown, we can quickly ramp-up and, if necessary, we can also ramp-down if the product would have less uptake, but at this time we expect a big uptake.

Daniel Wendorff: Okay, thank you very much.

Julien Dormois (Exane BNP Paribas): Hi, good morning Frans, good morning Abhijit. Can you hear me?

Frans van Houten: Yes. Hi Julien.

Julien Dormois: Yeah, okay. So I will try to be quick. I know you guys do not have a crystal ball and you might not be willing to give much more around the 2020 guidance and the specifics, but I just have two questions. One is on Connected Care, where you had to cut your mid-term margin guidance at the end of last year, moving it to 13% to 15%.

Given the sales trends and the order book you have in that business, is it fair to assume that could actually bring it back up to the to a formal level, at least for 2020? And the second question is on PH –

Frans van Houten: That is a fair assumption.

Julien Dormois: A fair assumption. Okay. And then the second one would be on PH and on the sales trends for PH. I mean, you have given a lot of information across the call, so thank you for that. From what you see today, are you assuming an organic sales trend for that business for the full year 20 to be in the mid to high single digit decline, or would that be too pessimistic in your view?

Frans van Houten: So we expect a strong decline in the second quarters, and that is assuming that consumer demand starts coming back in Q3, Q4, maybe around flattish in the second half, so then you can do the math for the full year.

Julien Dormois: Okay, that is really helpful. Thank you, guys. Thanks a lot.

Sebastian Walker (UBS): Hi both, thanks for taking the questions; two for me as well. So on ventilators and monitors, clearly, we have seen shortages there, but a lot of manufacturers have announced increased capacity. So would you say with the newly announced capacity supply and demand are more balanced broadly in mind? And then a question just what recurring revenues do you have attached to those products?

Then the final one on Image Guided Therapy, so if you could remind us what proportion of that business is consumable sales, what proportion of procedures done in cath labs cannot be delayed? And then are you hearing about any in the early indications and presumptions of those procedures?

Frans van Houten: Yeah, lots of people are increasing capacity. Of course, there are lots of companies that claim to be ventilator manufacturers, that does not mean that they are all going to succeed. And so, the jury is a bit out on what will materialise, and what I hear is that all professional ventilator makers, of course, struggle with their ramp up. And having to put in a lot of extra work to make that happen.

At this time, there is more demand than supply. Right, of course, this theoretical supply, if you add up all the announcements, looks high, but the factual supply is still much lower than the demand. And this is, I think, a situation that is likely to stay at least for the next two quarters.

The recurring revenue, I think it is a fair question. We expect providers to want to maintain their installed base of ventilators. However, we have not yet made the contracts for service in the long term. That was not the priority of the providers. They first wanted to get their hands-on ventilators. So that is something that we will be working on and see what we can accomplish over the next month.

IGT, the decline in elective procedures is really steep. And therefore the revenue of IGT devices will go down substantially in the second quarter. Of course, some interventions will still happen. If a patient has a stroke that that patient will be helped by the hospital, but if the patient has a stent to be placed, that can perhaps be delayed. And so it is a mixed situation. We use the word for steep decline in the elective procedures because that is what we are seeing. At the same time it is the livelihood of the interventionists, the cardiologists; they need to earn their bread. And we all hear them talk about that they want to restart as soon as possible. And of course, the pent up demand of patients who need care does not go away either. So it is our current expectation that already in the third quarter, we see demand quickly restore for IGT devices, and of course, then the IGT systems installations to resume as well.

Sebastian Walker: Great, thank you.

Falko Friedrichs (Deutsche Bank): Thank you for taking my question. Firstly, can you shed a bit more colour on the growth and order intake you saw in CT scanners? And how is your capacity level for CT scanners currently? Do you think it is enough to meet the high coronavirus-related demand?

And then secondly, can you potentially give more colour on the margin profile of hospital ventilators and patient monitors, and whether these are above or below the Connected Care segment margin?

Abhijit Bhattacharya: So on CT, we had a very robust order intake growth. I think it was well above the 30%. In terms of growth also it was a high double-digit growth if I remember from the top of my head, but I can quickly check and get back to you. What was the second question?

Frans van Houten: Margin of ventilators and patient monitoring. Yeah, for the sake of this discussion let us say it is more or less comparable. What is difficult to gauge here is, with the operational leverage of the higher volume that will have of course a margin effect which could be different from the normal margins of the of the running businesses.

Abhijit Bhattacharya: For CT it was a high single digit sales growth and a very strong order intake growth.

Falko Friedrichs: And your capacity levels are fine for now in CT?

Abhijit Bhattacharya: Yes, for the year, yes. So this is quite heightened demand, shorter term, but based on current plans, we have enough capacity.

Falko Friedrichs: Okay, thank you.

Michael Jüngling: Great, thank you. I have I have two more. Firstly, on the government support packages that we are seeing in some of the countries that you have a material presence. Are you taking advantage of putting some of your employees on furlough? And if not, do you intend to do so? And then question number two is again, on ventilators: can I just confirm that the orders that you are taking in come with the natural deposits that you would expect if someone places an order? So I am just trying to understand the quality of the orders and the deposits that may be associated with those orders. Thank you.

Frans van Houten: Let me first take the first question. We are not taking advantage of the government support packages at this time. Of course we have talked about reducing cost where possible. Some factories with less demand, we have asked our people to take voluntary vacation. We have some what is called workday banks, where we can play with capacity fluctuations. But we also have a social responsibility and we do not believe in furloughing at a big scale at this time. It all depends, of course, you know, how severe the situation will develop, but for now that is not the case.

On the ventilator orders, do you mean deposit in advance payment?

Michael Jüngling: Yes. The answer is yes, the advanced payment. I am not an expert at ventilators but I suspect that people normally put a 10-15% deposit on an order to make sure that is fulfilled.

Abhijit Bhattacharya: There are standard terms for deposits against orders and it differs in geographies: certain geographies, we take actually a very high percentage of the sales in deposits; in some it is lower. But there is nothing out of the ordinary in the orders we have booked. In fact, there is a substantial amount of orders that we have which are cancellable, which are not in the order intake number. So what we book in the order intake number are the fixed orders which are not cancellable. So, yes, you can still potentially have a cancellation if something dramatically changes, but right now the orders that we recognise are the orders that have no cancellation clause.

Michael Jüngling: Great, thank you.

Scott Bardo: Thanks very much for the follow up; you have been very good with your time. I just wonder if you could share some comments, Frans. Obviously it is remarkable that Philips has adapted to meet the current demand for CT monitoring, ventilation, but as we think about the future, is a benefit or revenues today a problem tomorrow for Philips? Do you see the prospect that you frontend loaded supply of the solutions, such that the end market demand for these solutions is materially impacted over the medium term? Thanks.

Frans van Houten: Hi, Scott. Well, to some to some degree, that may be the case. I mean, if people load up on motors or ventilators then likely that demand will slow down next year or the year after. Although I think we should also expect that hospitals, systems and governments need to see the ICU bed capacity to double in the world. Now if you if you analyse that deeper, doubling ICU bed capacity would put a lot of us to good work for quite a while, because that takes a lot of effort. At the same time as potentially, when monitoring, ventilators go down, you get the opportunity for service contracts with what we have just delivered. That was an earlier question. We get an opportunity to add informatics and analytics on the monitoring, which, for much of these rush orders, were not always included.

Then we will see IGT resume; we will see Personal Health resume. We see the heightened interest in command centres, tele-health and all those things. That is the validation of the strategy that we refer to. So overall, I would say the growth profile the growth potential Philips should be well supported post-pandemic. You know that we have postponed our capital markets day but I am sure that this will be the mainstream discussion on what is our growth potential. And we have always said, we want to be gradually moving towards the higher end of our 4-6% range so that that ambition, of course, stays. The question is timing and underpinning, but we will have plenty to talk about, next time we see each other physically, instead of remotely.

For now, as this was the last question. I would like to thank everybody, for your attendance, your interest. And I know that you care on how we are doing, and I appreciate it very much. Thank you. Be safe.