

Philips

Q4 23 earnings call key takeaways

Reiterate Rating: NEUTRAL | PO: 23.00 EUR | Price: 20.12 EUR

With consent decree now behind, what's next for PHIA?

As expected, the consent decree topic has taken most of airtime at the earnings conference call, despite PHIA having not revealed key details such as expected time for US market return. Based on investors' feedback we have, return to US market for CPAP/BiPAP isn't expected to be before FY25, which also matches our expectations. Exact terms of the consent decree should be the next important catalyst for the shares, before we get more colour about the potential personal injury claim in the back-half of the year as bellwether trials start. As highlighted in our recent deep-dive report ([Limited earnings downside](#)), the mid-term guidance is confirmed and now includes the consent decree, which limits downside risk to earnings. With uncertainty remaining on personal injury claims, we stay Neutral and our is PO unchanged at €23 despite 6% FY24 EPS cut.

3 key takes from the call:

1) Order book: -3% order intake in 4Q23 (similar decline for D&T and CC) as China continues to impact growth. Order book is 15% above pre-supply chain crisis, and order intake is expected to grow in FY24, supported by financing improvement & China in 2H.

2) Consent Decree: Key takeaway is no new CPAP/BiPAP devices to be sold in the US until relevant CD requirements met (multi-year plan). Terms of the agreement including "relevant requirements" and timeline have not been disclosed. Respironics business is worth €1bn in FY23 (from €1.3bn in FY22). On top of €363m provision in 4Q23 (ie. Remediation costs, inventory write-down, etc), PHIA will have -100bps of costs related to remediation activities and disgorgement payments and -100bps of costs related to field action and quality charges. (incl. in cash outlook for FY24-25).

3) FY24 and mid-term guide: The previously communicated mid-term guide (MSD organic growth, low-teens EBITA margin) remains unchanged and now incorporates the consent decree. For FY24, growth will be back-end loaded, and the company aims for margin improvement across all business segments. Pricing action in the past year should have its fully impact as order book translates into revenue.

Estimates (Dec) (EUR)	2022A	2023A	2024E	2025E	2026E
EPS (Adjusted)	0.59	1.00	1.26	1.50	1.65
EPS Change (YoY)	-87.3%	68.8%	26.1%	19.2%	10.5%
Dividend / Share	0.81	0.85	0.85	0.85	0.85
ADR EPS (Adjusted - US\$)	0.62	1.08	1.36	1.62	1.79
ADR Dividend / Share (US\$)	0.86	0.92	0.92	0.92	0.92
Valuation (Dec)					
P/E	34.1x	20.2x	16.0x	13.4x	12.2x
Dividend Yield	4.04%	4.23%	4.23%	4.23%	4.23%
EV / EBITDA*	11.5x	9.28x	8.43x	7.63x	7.22x
Free Cash Flow Yield*	-3.33%	9.71%	2.73%	10.1%	9.52%

* For full definitions of *IQmethod*SM measures, see page 6.

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Refer to important disclosures on page 7 to 10. Analyst Certification on page 5. Price Objective Basis/Risk on page 5.

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Timestamp: 30 January 2024 12:30AM EST

30 January 2024

Equity

Key Changes

(EUR)	Previous	Current
2024E Rev (m)	19,290.1	18,653.2
2025E Rev (m)	20,227.6	19,521.1
2026E Rev (m)	21,192.0	20,384.2
2024E EPS	1.34	1.26
2025E EPS	1.59	1.50
2026E EPS	1.81	1.65
2024E DPS	0.81	0.85

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Stock Data

Price (Common / ADR)	20.12 EUR / 21.53 USD
Price Objective	23.00 EUR / 25.00 USD
Date Established	17-Jan-2024 / 17-Jan-2024
Investment Opinion	B-2-7 / B-2-7
52-Week Range	13.92 EUR-22.18 EUR
Market Value (mn)	18,693 EUR
Shares Outstanding (mn)	929.3 / 929.3
Average Daily Value (mn)	46.77 USD
Free Float	83.6%
BofA Ticker / Exchange	RYLPF / ENA
BofA Ticker / Exchange	PHG / NYS
Bloomberg / Reuters	PHIA NA / PHG.AS
ROE (2024E)	9.5%
Net Dbt to Eqty (Dec-2023A)	48.3%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

D&T: Diagnosis & Treatment

CC = Connected Care

CD = consent decree

CPAP = continuous positive airway pressure

BiPAP = bilevel positive airway pressure

MSD = mid-single digit

iQprofileSM Philips

Key Income Statement Data (Dec)	2022A	2023A	2024E	2025E	2026E
(EUR Millions)					
Sales	17,827	18,169	18,653	19,521	20,384
EBITDA Adjusted	2,229	2,758	3,035	3,351	3,544
Depreciation & Amortization	(1,275)	(1,127)	(1,199)	(1,257)	(1,308)
EBIT Adjusted	954	1,631	1,837	2,094	2,236
Net Interest & Other Income	(204)	(295)	(292)	(246)	(201)
Tax Expense / Benefit	(215)	(313)	(386)	(462)	(509)
Net Income (Adjusted)	543	913	1,153	1,381	1,521
Average Fully Diluted Shares Outstanding	921	917	919	923	920

Key Cash Flow Statement Data					
Net Income (Reported)	(1,608)	(464)	374	1,219	1,379
Depreciation & Amortization	1,275	1,127	1,199	1,257	1,308
Change in Working Capital	(862)	913	(412)	35.8	(256)
Deferred Taxation Charge	0	0	0	0	0
Other CFO	1,022	560	(98.0)	(58.4)	(58.9)
Cash Flow from Operations	(173)	2,136	1,063	2,454	2,372
Capital Expenditure	(444)	(345)	(560)	(586)	(612)
(Acquisition) / Disposal of Investments	(750)	(117)	0	0	0
Other CFI	(292)	(175)	(435)	(456)	(476)
Cash Flow from Investing	(1,486)	(637)	(995)	(1,041)	(1,087)
Share Issue / (Repurchase)	(175)	(662)	(167)	0	0
Cost of Dividends Paid	(418)	(5.00)	0	(781)	(785)
Increase (decrease) debt	1,222	(512)	0	0	0
Other CFF	(131)	331	0	0	0
Cash Flow from Financing	498	(848)	(167)	(781)	(785)
Total Cash Flow (CFO + CFI + CFF)	(1,161)	651	(98.2)	632	501
FX and other changes to cash	29.0	46.0	0	0	0
Change in Cash	(1,132)	697	(98.2)	632	501
Change in Net Debt	2,354	(1,209)	98.2	(632)	(501)
Net Debt	7,029	5,820	5,918	5,286	4,786

Key Balance Sheet Data					
Property, Plant & Equipment	2,638	2,483	2,406	2,319	2,230
Goodwill	10,238	9,876	9,876	9,876	9,876
Other Intangibles	3,526	3,190	3,063	2,934	2,802
Other Non-Current Assets	4,027	3,916	3,916	3,916	3,916
Trade Receivables	4,115	3,733	4,029	4,109	4,291
Cash & Equivalents	1,172	1,869	1,771	2,403	2,903
Other Current Assets	4,972	4,338	4,526	4,507	4,691
Total Assets	30,688	29,405	29,587	30,064	30,709
Long-Term Debt	7,270	7,035	7,035	7,035	7,035
Other Non-Current Liabilities	2,201	2,022	1,896	1,790	1,683
Short-Term Debt	931	654	654	654	654
Other Current Liabilities	7,003	7,633	7,731	7,874	8,029
Total Liabilities	17,405	17,344	17,316	17,353	17,402
Total Equity	13,283	12,061	12,271	12,711	13,307
Total Equity & Liabilities	30,688	29,405	29,587	30,064	30,709

Business Performance*					
Return On Capital Employed	3.03%	5.71%	6.64%	7.25%	7.63%
Return On Equity	3.92%	7.22%	9.51%	11.1%	11.7%
Operating Margin	5.35%	8.98%	9.85%	10.7%	11.0%
Free Cash Flow (MM)	(617)	1,791	504	1,868	1,761

Quality of Earnings*					
Cash Realization Ratio	-0.32x	2.34x	0.92x	1.78x	1.56x
Asset Replacement Ratio	0.35x	0.31x	0.47x	0.47x	0.47x
Tax Rate	28.6%	23.4%	25.0%	25.0%	25.0%
Net Debt/Equity	52.9%	48.3%	48.2%	41.6%	36.0%
Interest Cover	3.64x	4.56x	4.75x	7.44x	9.08x

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Medical Technology

Company Description

Philips is a leading health tech company focused on improving people's health and enabling better outcomes across the health continuum from healthy living and prevention, to diagnosis, treatment and home care. The company is a leader in diagnostic imaging, image-guided therapy, patient monitoring and health informatics, as well as in consumer health and home care. Philips' MedTech portfolio generated 2023 sales of €18bn and employs around 70,000 employees in more than 100 countries.

Investment Rationale

On paper, PHIA should be growing +5-6% organically each year with +60-80bps added to the group EBITA margin, but historic execution has prevented the company from realising this vision. While not all the issues have been home-grown, we struggle with uncertainty in the sleep & respiratory business, as well as the consistency of execution. With limited upside to Street numbers, we are left with the potential for multiple expansion, which is difficult in isolation - hence, our Neutral rating.

Stock Data

Shares / ADR	1.00
Price to Book Value	1.5x

Key Changes

(US\$)	Previous	Current
2024E EPS	1.44	1.36
2025E EPS	1.72	1.62
2026E EPS	1.95	1.79
2024E DPS	0.88	0.92

Earnings changes

Exhibit 1: We cut our EPS by 6% in FY24 and FY25, driven by higher interest expenses

Earnings changes, in €mn

PHG Changes - 2024 (€mn)				PHG Changes - 2025 (€mn)			
	Old	New	Change		Old	New	Change
Personal Health	3,779	3,692	(2.3%)	Personal Health	3,931	3,802	(3.3%)
Diagnosis & Treatment	9,272	9,070	(2.2%)	Diagnosis & Treatment	9,689	9,468	(2.3%)
Connected Care	5,586	5,326	(4.7%)	Connected Care	5,948	5,680	(4.5%)
Healthtech Other	653	565	(13.5%)	Healthtech Other	660	571	(13.5%)
Philips Lighting	-	-	-	Philips Lighting	-	-	-
Legacy Items	-	-	-	Legacy Items	-	-	-
Total Sales	19,290	18,653	(3.3%)	Total Sales	20,228	19,521	(3.5%)
EBITA - Personal Health	634	617	(2.7%)	EBITA - Personal Health	674	639	(5.3%)
EBITA - Diagnosis & Treatment	1,182	1,089	(7.9%)	EBITA - Diagnosis & Treatment	1,299	1,168	(10.1%)
EBITA - Connected Care	444	471	5.9%	EBITA - Connected Care	596	626	5.1%
EBITA - Healthtech Other	(67)	(50)	(25.3%)	EBITA - Healthtech Other	(66)	(49)	(25.5%)
EBITA	2,194	2,127	(3.1%)	EBITA	2,504	2,384	(4.8%)
Amortization on AI	(292)	(290)	(0.7%)	Amortization on AI	(292)	(290)	(0.7%)
EBIT	1,902	1,837	(3.4%)	EBIT	2,212	2,094	(5.3%)
Interest Income	35	95	171.4%	Interest Income	35	35	-
Interest Expense	(291)	(387)	33.1%	Interest Expense	(276)	(281)	1.9%
EBT	1,646	1,545	(6.2%)	EBT	1,970	1,848	(6.2%)
Tax Expense	(411)	(386)	(6.2%)	Tax Expense	(493)	(462)	(6.2%)
Minority Interests	(3)	(2)	(33.3%)	Minority Interests	(3)	(2)	(33.3%)
Discontinued Operations	-	-	-	Discontinued Operations	-	-	-
Associates	(3)	(3)	-	Associates	(3)	(3)	-
Other Results	-	-	-	Other Results	-	-	-
Net Income	1,228	1,153	(6.1%)	Net Income	1,472	1,381	(6.2%)
Post Tax Exceptionals	(94)	(779)	730.9%	Post Tax Exceptionals	(71)	(161)	126.3%
Net Income Post Exceptionals	1,135	374	(67.0%)	Net Income Post Exceptionals	1,401	1,219	(12.9%)
Basic EPS (Pre-Exceptionals)	1.34	1.26	(6.1%)	Basic EPS (Pre-Exceptionals)	1.59	1.50	(6.2%)
Diluted EPS (Pre-Exceptionals)	1.34	1.26	(6.1%)	Diluted EPS (Pre-Exceptionals)	1.59	1.50	(6.2%)
Basic EPSA (Pre-Exceptionals)	1.57	1.49	(5.3%)	Basic EPSA (Pre-Exceptionals)	1.83	1.73	(5.5%)
Basic EPS (Post-Exceptionals)	1.23	0.41	(67.0%)	Basic EPS (Post-Exceptionals)	1.52	1.32	(12.9%)
Diluted EPS (Post-Exceptionals)	1.23	0.41	(67.0%)	Diluted EPS (Post-Exceptionals)	1.52	1.32	(12.9%)
GROWTH				GROWTH			
	Old	New	Change		Old	New	Change
Sales	3.7%	2.7%	(1.0%)	Sales	4.9%	4.7%	(0.2%)
EBITA	14.1%	10.7%	(3.4%)	EBITA	14.1%	12.1%	(2.0%)
EBT	21.4%	15.6%	(5.8%)	EBT	19.7%	19.6%	(0.1%)
Net Income	23.6%	26.3%	2.7%	Net Income	19.8%	19.7%	(0.1%)
Diluted EPS	23.5%	26.1%	2.7%	Diluted EPS	19.3%	19.2%	(0.1%)
MARGINS				MARGINS			
	Old	New	Change		Old	New	Change
Gross Margin	40.4%	41.0%	0.6%	Gross Margin	40.4%	41.0%	0.6%
EBITDA Margin	16.1%	16.3%	0.2%	EBITDA Margin	17.2%	17.2%	(0.0%)
EBITA Margin	11.4%	11.4%	0.0%	EBITA Margin	12.4%	12.2%	(0.2%)
Personal Health	16.8%	16.7%	(0.1%)	Personal Health	17.2%	16.8%	(0.4%)
Diagnosis & Treatment	12.7%	12.0%	(0.7%)	Diagnosis & Treatment	13.4%	12.3%	(1.1%)
Connected Care	8.0%	8.8%	0.9%	Connected Care	10.0%	11.0%	1.0%
Healthtech Other	(10.2%)	(8.8%)	1.4%	Healthtech Other	(9.9%)	(8.6%)	1.4%
Philips Lighting	NA	NA	-	Philips Lighting	NA	NA	-
EBIT	9.9%	9.8%	(0.0%)	EBIT	10.9%	10.7%	(0.2%)
EBT Margin	8.5%	8.3%	(0.3%)	EBT Margin	9.7%	9.5%	(0.3%)
Effective Tax Rate	(25.0%)	(25.0%)	-	Effective Tax Rate	(25.0%)	(25.0%)	-
Net Margin	6.4%	6.2%	(0.2%)	Net Margin	7.3%	7.1%	(0.2%)
RETURNS				RETURNS			
	Old	New	Change		Old	New	Change
ROIC Including Goodwill	7.9%	8.4%	0.5%	ROIC Including Goodwill	9.1%	9.5%	0.4%
ROIC Excluding Goodwill	15.4%	17.5%	2.1%	ROIC Excluding Goodwill	17.9%	19.8%	1.9%
Return on Equity	9.5%	9.5%	(0.1%)	Return on Equity	11.0%	11.1%	0.0%

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

Philips (RYLPF / PHG)

We value PHIA using a sum-of-the-parts (SOTP) model for its core businesses, using EV/EBITA as a core methodology to adjust for capital intensity relative to other EU MedTech peers.

Our price objective of €23, \$25 ADR is based on the following assumptions:

Personal Health (14.5x our 24E EBITA, unchanged multiple): for the fast-growing PH business, we have a 14.5x multiple, which is comparable to best-in-class EMEA staples businesses, given organic growth at PHIA above these peers and further upside risk to margins.

Diagnosis & Treatment (16x our 24E EBITA, unchanged): For D&T, we are using a 16x multiple, or 15-20% discount to peer Siemens Healthineers, given the material growth differential between the two businesses over the past 10 years and SHL's market leading position.

Connected Care (10.0x our 24E EBITA): For CC, we have 10.0x EBITA, a c. 20-30% discount to a blended group of sleep / respiratory and patient monitoring peers to reflect the considerable uncertainty in the sleep business due to the recent product recalls

Upside risks to PO are 1) faster-than-expected delivery on cost savings, 2) incremental share gains in the imaging market versus peers.

Downside risks to PO are 1) higher price pressure in consumer health markets, 2) manufacturing regulatory issues.

Analyst Certification

I, Julien Ouaddour, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EMEA - Medtech & Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Amplifon	AMFPF	AMP IM	Julien Ouaddour
	Coloplast A/S	CLPBF	COLOB DC	Marianne Bulot
	Coloplast A/S	CLPBY	CLPBY US	Marianne Bulot
	Fresenius SE & Co KGaA	FSNUF	FRE GY	Marianne Bulot
	SCHOTT Pharma	XCVOF	1SXP GR	Julien Ouaddour
	Siemens Healthineers AG	SEMHF	SHL GY	Julien Ouaddour
	Siemens Healthineers AG	SMMNY	SMMNY US	Julien Ouaddour
	Smith & Nephew	SNNUF	SN/ LN	Julien Ouaddour
	Smith & Nephew	SNN	SNN US	Julien Ouaddour
	Sonova	SONVF	SOON SW	Julien Ouaddour
	Sonova Holding AG	SONVY	SONVY US	Julien Ouaddour
	Straumann	SAUHF	STMN SW	Julien Ouaddour
	Straumann	SAUHY	SAUHY US	Julien Ouaddour
NEUTRAL				
	Alcon	ALC	ALC US	Julien Ouaddour
	Alcon	XSLCF	ALC SW	Julien Ouaddour
	Carl Zeiss Meditec AG	CZMWF	AFX GY	Julien Ouaddour
	ConvaTec	CNVVF	CTEC LN	Marianne Bulot
	Philips	PHG	PHG US	Julien Ouaddour
	Philips	RYLPF	PHIA NA	Julien Ouaddour

EMEA - Medtech & Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM	Demant	WILLF	DEMANT DC	Julien Ouaddour
	Elekta AB	EKTAF	EKTAB SS	Julien Ouaddour
	Fresenius Medical Care AG & Co. KGaA	FMS	FMS US	Marianne Bulot
	Fresenius Medical Care AG & Co. KGaA	FMCQF	FME GY	Marianne Bulot
	GN Store Nord	GGNDF	GN DC	Julien Ouaddour

iQ^{method}™ Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales
Basic EBIT + Depreciation + Amortization

iQ^{method}™ is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of **iQ^{method}** are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

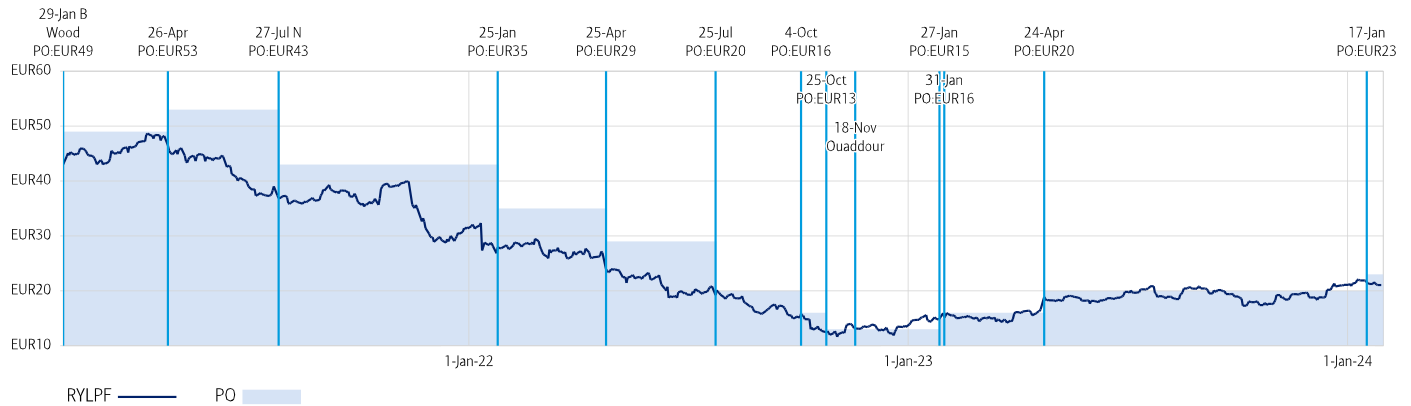
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Disclosures

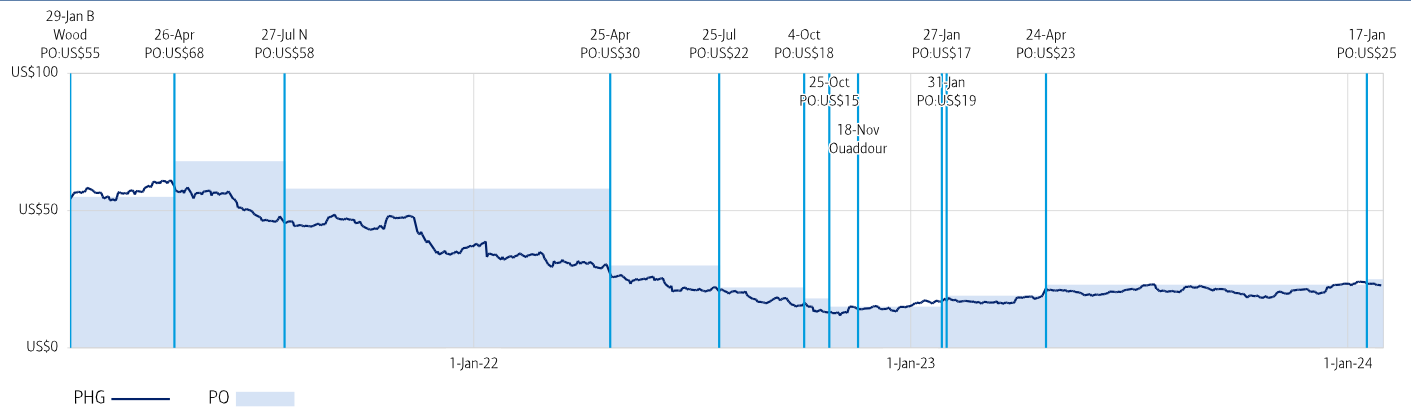
Important Disclosures

Philips (RYLPF) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Philips (PHG) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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