

Philips

Feedback From Management Meeting

Maintain Rating: NEUTRAL | PO: 23.00 EUR | Price: 19.92 EUR

Philips hosted analysts for a meeting after Q4 FY23 results. Below is our feedback from the discussions. No further details were provided on the Consent Decree, and Philips confirmed it would expect more insights on the civil liability cases in H2 FY24. Neutral maintained.

Focussed on building back S&RC business

Whilst there were questions on the detailed breakdown of the €1bn of S&RC revenue achieved in FY23, management were keen to steer the conversation towards building for the future. For context, PHIA has resumed selling sleep therapy devices and ventilators outside the US in the past year. The company commented that DMEs were happy to see PHIA back in the market outside the US, and it didn't have to discount its devices more heavily than before. The new face mask range has been performing well, and the company was confident that the pruned product portfolio would be competitive enough to re-enter the US market.

Confident in China order recovery in H2

Philips commented that China equipment sales for Q1 FY24 would likely be very weak, as procurement practices is still being set province by province, and Q1 FY23 benefited from reopening and government stimulus. It expects improvement in H2, although stressed that this will be gradual. Philips has not factored in capturing all pent-up demand from H1 in the latter half of FY24 within its guidance. Looking further, China performance in FY25 should be back to normal.

Diagnostic Imaging saw some pressure

Philips admitted that CT, MRI and ultrasound all saw pressure in the market this quarter, however DXR (imaging viewing tool) remained strong, and IGT kept on growing its market share. US has been the strongest market globally, and Philips commented there was big deals lining up which could not be closed in time for this quarter. Procedure backlog in US hospitals is strengthening, in line with observation from MedTech peers.

Enterprise Informatics is the new star performer

The company shared more details of its Enterprise Informatics business, which is seeing significant demand at the minute due to hospitals' desire to improve productivity. In PACS, Philips has no.1 market share in North America and Latam, and competes with Sectra in Europe. Capsule, the data services business, is head-to-head with Cerner in developed markets. Whilst these products are vendor agnostic, Philips commented that sometimes hospitals can be persuaded to switch onto the same equipment manufacturer, as it would be easier to train staff on the same set of system.

31 January 2024

Equity

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Stock Data

Price (Common / ADR)	19.92 EUR / 21.43 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)	18,514 EUR
Shares Outstanding (mn)	929.3 / 929.3
Average Daily Value (mn)	49.89 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

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S&RC: Sleep & Respiratory Care

DME: Durable Medical Equipment

CT: Computed Tomography

MRI: Magnetic Resonance Imaging

DXR: Digital X-Rays

IGT: Image Guided Therapy

PACS: Picture Archiving and Communications System

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Refer to important disclosures on page 3 to 6. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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Timestamp: 31 January 2024 12:31AM EST

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.

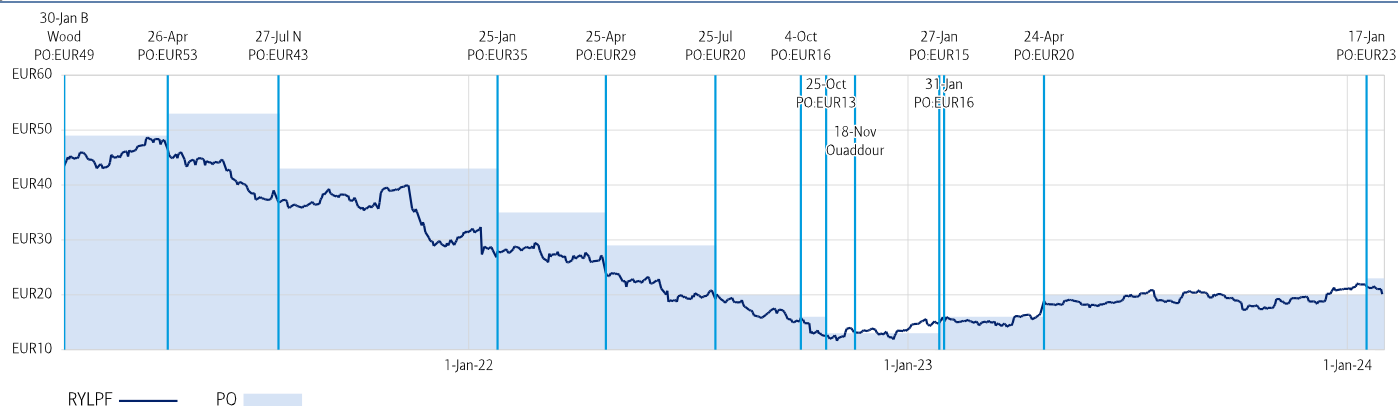
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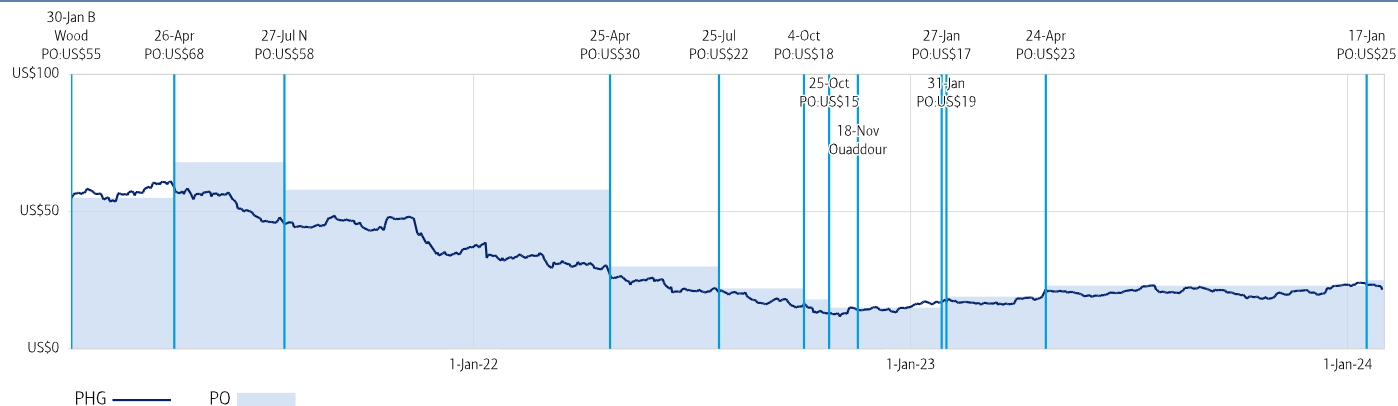
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Philips (RYLPF) Price Chart



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Philips (PHG) Price Chart



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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%

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Underperform	N/A	≥ 20%

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