

## Philips

# Limited earnings downside = Neutral maintained

Reiterate Rating: NEUTRAL | PO: 23.00 EUR | Price: 21.51 EUR

## Legal uncertainty remains, limited earnings risk = Neutral

Philips' (PHIA) investment case has been completely remodelled since the Respireonics recall in June 2021. Valuation doesn't come cheap vs recent history (14x P/E or 8x EBITDA) and the shares have risen c90% since the December 2022 trough. So why stay Neutral? First, we don't see material earnings downside for FY24-25E in D&T or Connected Care. Also, on litigation, in our view 1) the consent decree shouldn't prevent a +10% 23-25E CAGR in S&RC and 2) the personal injury settlement (could impact the shares the most) we expect should remain unclear until end-2024 at the earliest. We update estimates for the first time since May 2023 (+14% and -3% for FY23/24E EPS, respectively) and move our PO from €20.10 (\$22) to €23 (\$25) on EV/EBITA SOTP roll-forward to FY24E.

## Harder comps for D&T, BofA 1% below consensus

We turn more positive on hospital capex overall thanks to rising procedure volumes, strong financial health for US hospitals and better expected financing this year. However, PHIA's D&T business faces tough comps next year and should continue to underperform peer SHL (a +3.1% average organic sales CAGR since 2019 vs +6.7% at SHL's Imaging). We forecast +3.5% organic sales growth in FY24, but we stand only 1% below consensus for sales/EBITA, suggesting limited downside risk.

## +10% sales CAGR in 23-25E for S&RC looks achievable

We do not take into account the consent decree outcome or personal injury settlement, as these are difficult (or impossible) to accurately forecast right now. Instead, we judge what level of market share the S&RC business needs to reach the targeted +10% sales CAGR in 23-25E. Our analysis suggests that PHIA needs to regain only c.3% share in the global Sleep Apnea market to achieve at least a 10% CAGR. We believe the S&RC mid-term guidance of a +10% sales CAGR in FY23-25 is less ambitious than what many investors believe and, regardless of the consent decree outcome in the US, the guide may still be valid thanks to revenues generated in other markets.

Estimates (Dec) (EUR)	2021A	2022A	2023E	2024E	2025E
EPS (Adjusted)	4.65	0.59	1.08	1.34	1.59
EPS Change (YoY)	167.4%	-87.3%	83.3%	23.5%	19.3%
Dividend / Share	0.81	0.81	0.81	0.81	0.81
ADR EPS (Adjusted - US\$)	5.50	0.62	1.19	1.46	1.75
ADR Dividend / Share (US\$)	0.96	0.86	0.89	0.89	0.89
Valuation (Dec)					
P/E	4.63x	36.4x	19.9x	16.1x	13.5x
Dividend Yield	3.78%	3.78%	3.78%	3.78%	3.78%
EV / EBITDA*	9.74x	12.7x	10.3x	9.15x	8.17x
Free Cash Flow Yield*	6.33%	-3.11%	3.54%	8.28%	9.54%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 25.

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**Refer to important disclosures on page 26 to 29. Analyst Certification on page 24. Price Objective Basis/Risk on page 24.**

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Timestamp: 17 January 2024 12:30AM EST

17 January 2024

### Equity

#### Key Changes

(EUR)	Previous	Current
Price Obj.	20.10	23.00
2023E Rev (m)	18,478.2	18,604.8
2024E Rev (m)	19,562.3	19,290.1
2025E Rev (m)	20,721.2	20,227.6
2023E EPS	0.97	1.08
2024E EPS	1.42	1.34
2025E EPS	1.79	1.59

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### Stock Data

Price (Common / ADR)	21.51 EUR / 23.92 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)	19,989 EUR
Shares Outstanding (mn)	929.3 / 929.3
Average Daily Value (mn)	62.89 USD
Free Float	83.6%
BofA Ticker / Exchange	RYLPF / ENA
BofA Ticker / Exchange	PHG / NYS
Bloomberg / Reuters	PHIA NA / PHGAS
ROE (2023E)	7.6%
Net Dbt to Eqty (Dec-2022A)	52.9%
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](#)".

See page 23 for abbreviations

# iQprofile<sup>SM</sup> Philips

Key Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(EUR Millions)					
Sales	17,155	17,827	18,605	19,290	20,228
EBITDA Adjusted	2,915	2,230	2,759	3,103	3,474
Depreciation & Amortization	(1,175)	(1,275)	(1,128)	(1,202)	(1,263)
EBIT Adjusted	1,740	955	1,631	1,902	2,212
Net Interest & Other Income	(39.0)	(204)	(275)	(256)	(241)
Tax Expense / Benefit	(200)	(215)	(339)	(411)	(493)
Net Income (Adjusted)	4,204	544	994	1,228	1,472
Average Fully Diluted Shares Outstanding	910	921	918	919	923

<b>Key Cash Flow Statement Data</b>					
Net Income (Reported)	3,343	(1,607)	8.36	1,135	1,401
Depreciation & Amortization	1,175	1,275	1,128	1,202	1,263
Change in Working Capital	(401)	(862)	190	(33.1)	(95.5)
Deferred Taxation Charge	0	0	0	0	0
Other CFO	(2,488)	1,021	(69.9)	(87.9)	(66.2)
<b>Cash Flow from Operations</b>	<b>1,629</b>	<b>(173)</b>	<b>1,257</b>	<b>2,215</b>	<b>2,501</b>
Capital Expenditure	(397)	(444)	(558)	(579)	(607)
(Acquisition) / Disposal of Investments	(3,098)	(750)	0	0	0
Other CFI	(177)	(292)	(434)	(450)	(472)
<b>Cash Flow from Investing</b>	<b>(3,672)</b>	<b>(1,486)</b>	<b>(992)</b>	<b>(1,029)</b>	<b>(1,079)</b>
Share Issue / (Repurchase)	(1,613)	(175)	(521)	(167)	0
Cost of Dividends Paid	(484)	(418)	0	(747)	(748)
Increase (decrease) debt	45.0	1,222	0	0	0
Other CFF	(295)	(131)	0	0	0
<b>Cash Flow from Financing</b>	<b>(2,347)</b>	<b>498</b>	<b>(521)</b>	<b>(913)</b>	<b>(748)</b>
<b>Total Cash Flow (CFO + CFI + CFF)</b>	<b>(4,390)</b>	<b>(1,161)</b>	<b>(257)</b>	<b>273</b>	<b>675</b>
FX and other changes to cash	3,468	29.0	(10.0)	0	0
Change in Cash	(922)	(1,132)	(267)	273	675
Change in Net Debt	967	2,354	267	(273)	(675)
Net Debt	4,675	7,029	7,296	7,023	6,348

<b>Key Balance Sheet Data</b>					
Property, Plant & Equipment	2,699	2,638	2,609	2,549	2,479
Goodwill	10,637	10,238	10,238	10,238	10,238
Other Intangibles	3,650	3,526	3,419	3,306	3,192
Other Non-Current Assets	3,627	4,027	4,027	4,027	4,027
Trade Receivables	3,787	4,115	4,123	4,275	4,483
Cash & Equivalents	2,304	1,172	905	1,178	1,853
Other Current Assets	4,257	4,972	4,767	4,716	4,702
Total Assets	30,961	30,688	30,089	30,289	30,975
Long-Term Debt	6,473	7,270	7,270	7,270	7,270
Other Non-Current Liabilities	2,563	2,201	2,095	1,984	1,887
Short-Term Debt	506	931	931	931	931
Other Current Liabilities	6,944	7,003	7,019	7,107	7,233
Total Liabilities	16,486	17,405	17,316	17,292	17,321
Total Equity	14,475	13,283	12,773	12,998	13,654
Total Equity & Liabilities	30,961	30,688	30,089	30,289	30,975

<b>Business Performance*</b>					
Return On Capital Employed	7.03%	3.03%	5.33%	6.28%	7.18%
Return On Equity	32.0%	3.93%	7.65%	9.56%	11.1%
Operating Margin	10.1%	5.36%	8.77%	9.86%	10.9%
Free Cash Flow (MM)	1,232	(617)	698	1,637	1,895

<b>Quality of Earnings*</b>					
Cash Realization Ratio	0.39x	-0.32x	1.26x	1.80x	1.70x
Asset Replacement Ratio	0.34x	0.35x	0.49x	0.48x	0.48x
Tax Rate	11.7%	28.6%	25.0%	25.0%	25.0%
Net Debt/Equity	32.3%	52.9%	57.1%	54.0%	46.5%
Interest Cover	9.26x	3.65x	5.34x	6.54x	8.01x

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 25.

## 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 2020 sales of EUR19.5bn 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	1.6x

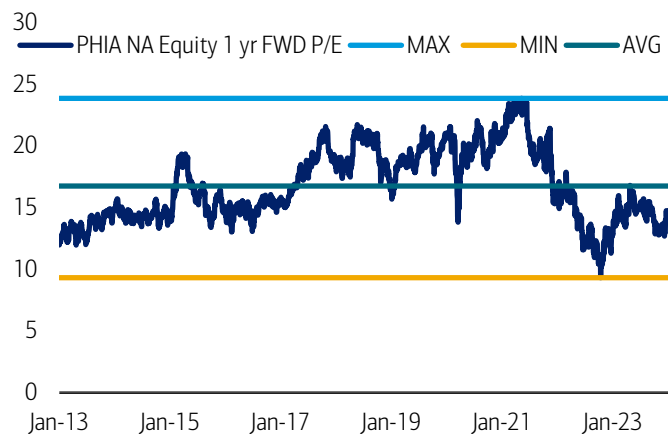
## Key Changes

(US\$)	Previous	Current
Price Obj.	22.00	25.00
2023E EPS	1.07	1.19
2024E EPS	1.56	1.46
2025E EPS	1.96	1.75

# Valuation: New PO = €23

## Exhibit 1: Despite ongoing legal controversies, PHIA trades not far from its 10-year average on P/E

Philips 12m fwd P/E



Source: Bloomberg, BofA Global Research estimates

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## Exhibit 3: Discount to MSCI Healthcare has reduced from -30% at trough to -20% currently

PHIA 12m fwd P/E versus MSCI Healthcare

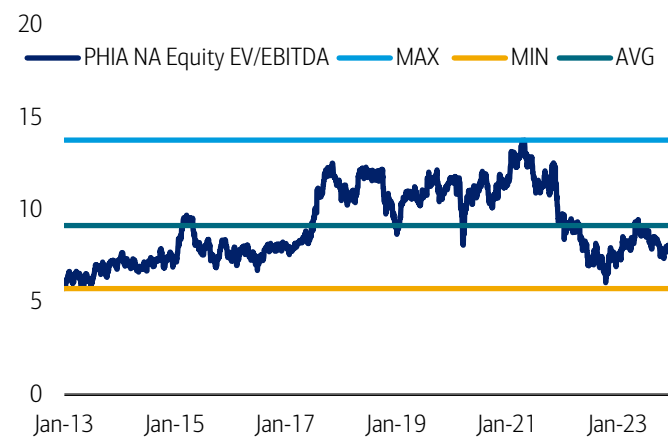


Source: Bloomberg, BofA Global Research estimates

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## Exhibit 2: As well as for EV/EBITDA

Philips 12m fwd EV/EBITDA

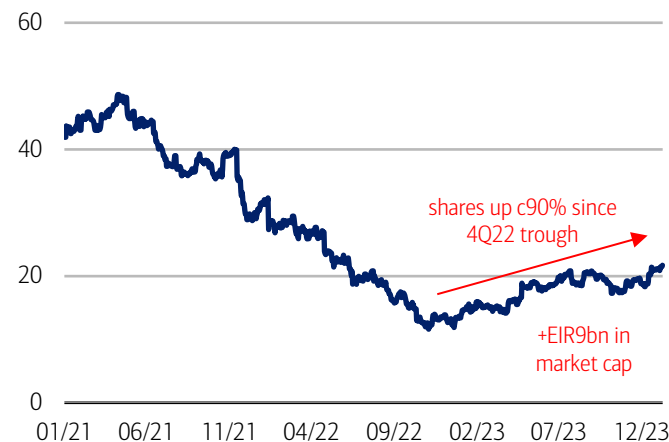


Source: Bloomberg, BofA Global Research estimates

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## Exhibit 4: Shares up c.90% since 4Q22 trough, c.€9bn market cap gain

PHIA share price, in €



Source: Bloomberg, BofA Global Research estimates

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## New PO set at €23

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 new price objective of €23 (\$25 ADR) is slightly up (vs €20.10 and \$22) and 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.

### Exhibit 5: We slightly increase our PO from €20.10 to €23 as we roll-forward our SOTP methodology

PO changed from €20.10 to €23 per share

Philips SOTP (2024)	Sales	EBITA	EV/EBITA	EV/Sales	EV
Personal Health	3,626	598	14.5x	2.4x	8,669
Diagnosis & Treatment	8,290	1,115	16.0x	2.2x	17,837
Connected Care	5,268	279	10.0x	0.5x	2,789
Central Costs & Other	643	(68)	10.0x	NM	(684)
Other Assets & Liabilities	Comments				EV
Net Debt	Net of pension obligations				(6,990)
Net Pension					(830)
<b>Implied Equity Value</b>					<b>20,791</b>
<b>Value per share (EUR)</b>					<b>EUR 23</b>

Source: BofA Global Research estimates

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## Hospital capex better, D&T comps harder

We turn more positive on hospital capex overall thanks to rising procedure volumes, robust financial health for US hospitals and better expected financing this year. However, PHIA's D&T business faces tough comps next year and should continue to underperform peer SHL (a +3.1% average organic sales CAGR since 2019 vs +6.7% at SHL's Imaging). We forecast +3.5% organic sales growth (OSG) in FY24, but we stand only 1% below consensus for sales/EBITA, suggesting limited downside risk.

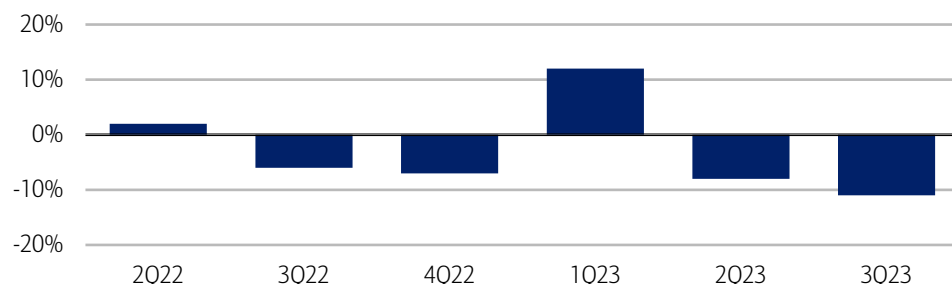
### Hospital capex concern has been around a while, but demand remains strong

#### PHIA experienced lumpiness in order intake in previous quarters

Hospital demand has been the most debated topic for capital equipment names, including Philips, at least since COVID. First, the pandemic put pressure on the hospital system and the fear was that large equipment investments would be delayed. Then, hospital staff shortages and higher interest rates added fuel to the fire. We note that Philips has been more cautious than peers regarding the US hospital demand environment in the past quarters, and the company even decided to cancel some orders in 4Q22 as the lead time was long and profitability low (something peers didn't do).

#### Exhibit 6: PHIA's D&T order intake has been weak recently, highlighting market share loss in our view

Philips' D&T order intake underlying growth by quarter



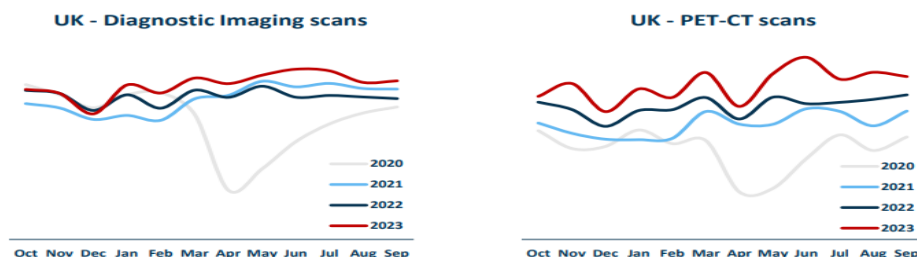
Source: BofA Global Research estimates

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Importantly, we believe the equipment market for Imaging is driven by procedure levels. While increased productivity should naturally offset a bit the healthy rise in procedure volumes, the latter remains a good indicator of the hospital system's health and willingness to invest to upgrade the installed base. Most recent data published by Life Healthcare shows good growth in imaging procedure volumes.

#### Exhibit 7: Good level of imaging scans should support equipment demand

UK scan volumes for Life Healthcare



Source: Company presentation

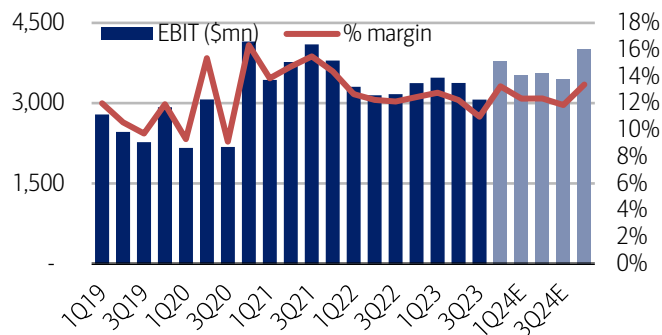
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## US hospitals start to restore profitability, suggesting better investment

Hospitals have notoriously high operating leverage, so the natural concern is that even a small drop in patient volumes or profitability could hit budgets for next year. However, we tracked the main US listed hospitals and data reveal that the margin is likely to have troughed in 2023, helped by better utilisation, and the capex/sales ratio should remain at a healthy 6% level in 2024E.

### Exhibit 8: Large US hospitals are expected to increase profitability

Aggregate EBIT (\$mn) and margin of the large US hospitals

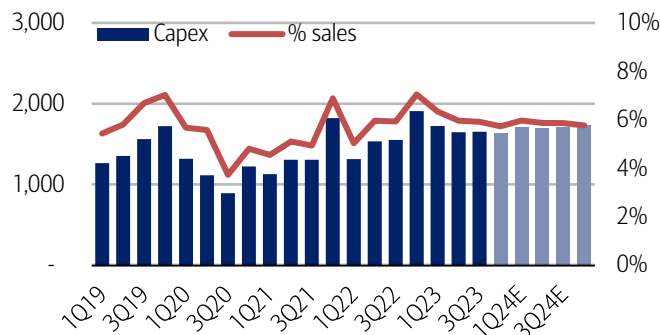


Source: Bloomberg, BofA Global Research estimates

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### Exhibit 9: And capex to remain at healthy level next year

Aggregate Capex (\$mn) and capex to sales ratio of the large US hospitals



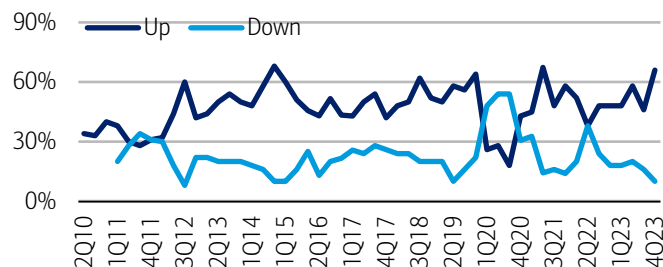
Source: Bloomberg, BofA Global Research estimates

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The quarterly data from our US team's survey of planned hospital capex ([see our 4Q23 Survey report](#)) also suggests that hospital budgets will increase next year, with general imaging equipment at the top of planned spending for the next 12 months.

### Exhibit 10: 66% of US hospital CFOs expect Capex budget up for 2024

Expected Capital spending for the next 12 months – BofA Hospital Capex survey

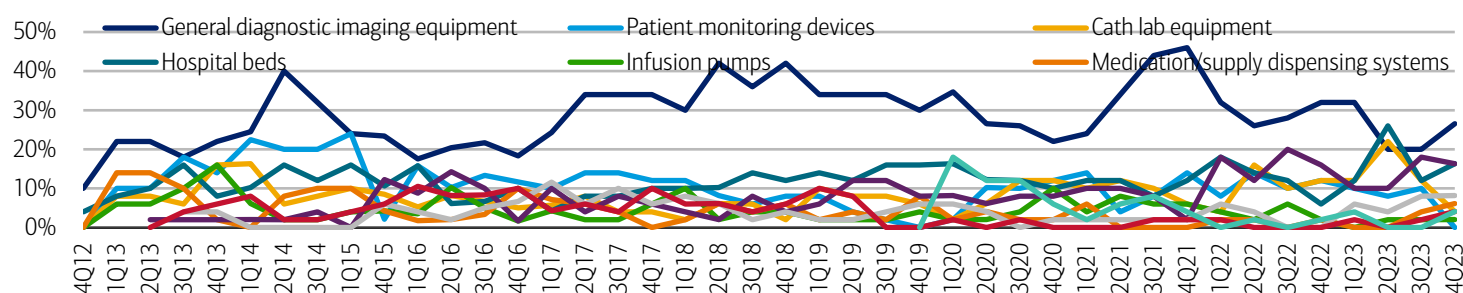


Source: BofA Global Research estimates

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### Exhibit 11: Imaging continues to be the main focus for hospital spend

Capital spending priorities over time – BofA Hospital Capex survey



Source: BofA Global Research estimates

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### Interest rate cuts could support demand in 2024E as well

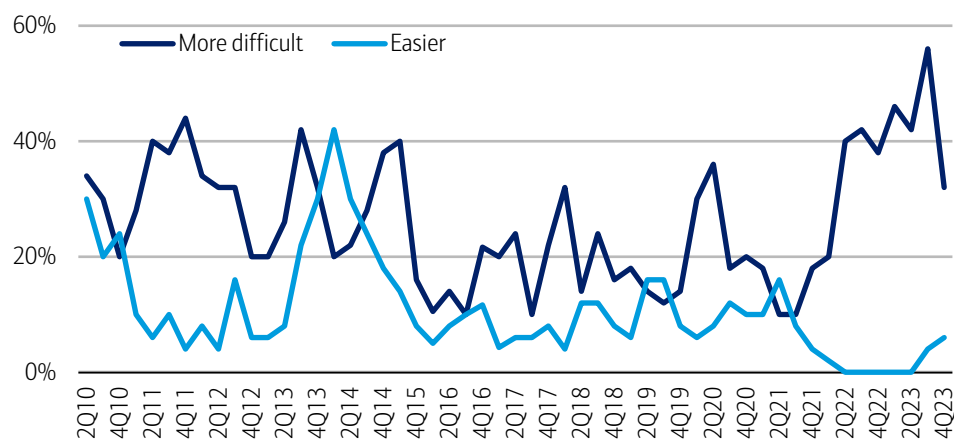
Equipment for imaging systems generally has a 6/12-month lead time between order and installation. With general expectations for the first rate cuts by June 2024 (if not earlier), it would make sense for hospitals that delayed some investments in 2023, due to high financing costs, to consider them again this year, as the overall cost would have decreased by the time they receive the machine.

In addition, hospitals that delayed investment in 2023 due to financing costs now have an older installed base, which can lead to patient loss to competitors. In general, we think it's important to remember that radiology is not optional for hospitals, as most departments have patients flow through imaging and many surgeries cannot proceed without diagnostic imaging being online.

This is reflected in our US quarterly hospital survey, where the peak of tough financing seems to have passed for US hospitals.

#### Exhibit 12: Peak of challenging financing seems behind for US hospital CFOs

Access to financing over time – BofA Hospital Capex survey



Source: BofA Global Research estimates

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### China's anti-corruption campaign: ST headwind, followed by pent-up demand

The Chinese government has been actively looking into the procurement policy for various hospitals to make the system more compliant, in what is referred to as the anti-corruption campaign. The campaign started during summer 2023 and was supposed to run for a year. The situation has created uncertainty, with some hospitals preferring to delay large equipment orders.

We understand the government's intention is to cut out the "middle man", while the underlying aspiration of improving the population's access to healthcare has not changed. But of course, equipment manufacturers, such as PHIA, see a short-term headwind.

However, once the campaign is over, pent-up demand is expected to return, as these orders are delayed and not cancelled. We think this will create a period of higher growth in China, starting from end-Q1 or Q2 2024 (post Chinese New Year on February 10).

## We expect good demand, but comps get harder in FY24E

### Hospital demand and China recovery to drive revenue growth in FY24E

As explained earlier in this section, we turn more positive on the hospital capex environment, and we believe the negative impact on revenues due to uncertainty surrounding China's anti-corruption policy will reverse in H2 2024, with pent-up demand. With a large D&T backlog for Philips still, all ingredients are there to see some top-line growth in 2024E.

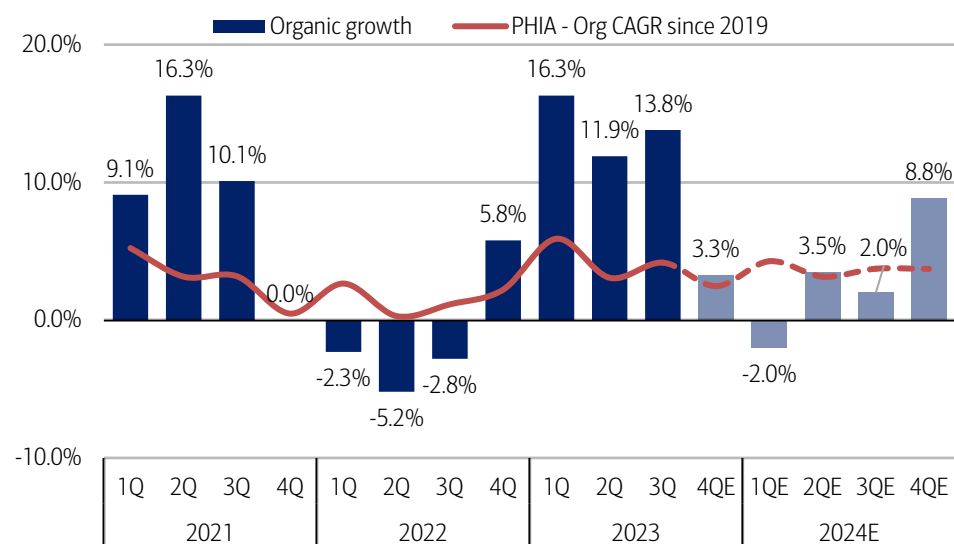
### But harder comps should limit absolute organic growth number in FY24E

However, investors must keep in mind that the comparison basis for FY24 is strong in D&T (BofAe +10.6% organic growth in FY23), which means organic sales growth could slow down year-over-year. We stress that the comparison basis has been distorted for the past few years by: 1) strong growth after the COVID lockdown in 2021, 2) supply chain challenges in 2021-22, and 3) the catch-up effect of strong growth again in 2023.

Therefore, we believe it is more relevant to look at the organic growth CAGR since 2019 for the D&T business (CAGR always uses 2019 as the base year).

#### Exhibit 13: We forecast a model growth for D&T, and prefer to look at 2019 CAGR given the bumpy comparison basis in previous years

D&T business organic sales growth % and organic CAGR since 2019



Source: BofA Global Research estimates

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### Our forecasts assume PHIA continues to lose share to SHL in Imaging

Based on our conversations with investors over the past years, we believe it is well understood by the financial community that PHIA has been losing ground to SHL in Imaging for some time. And we don't think this is likely to change in 2024.

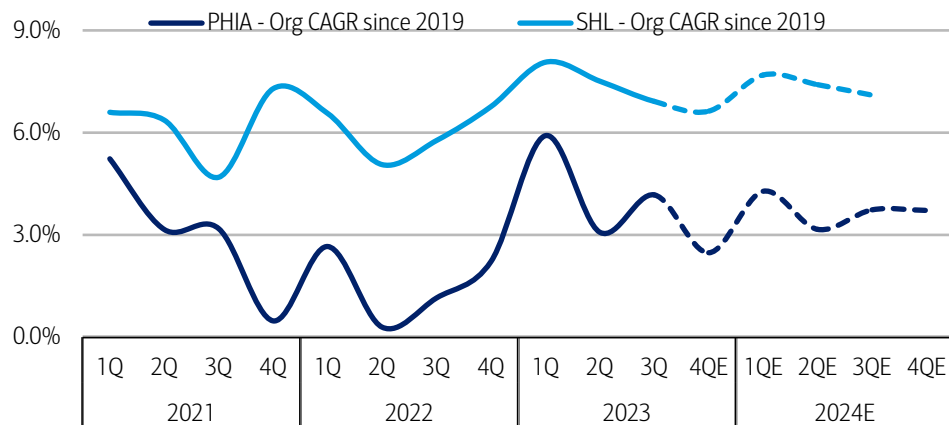
Looking at our organic CAGR using 2019 as the base year, we compare PHIA's D&T and SHL's Imaging. The conclusion is obvious: PHIA has lost share over the period (+3.1% on average vs +6.7% at SHL). Adding the Advanced Therapies business to SHL doesn't change the picture.

Unfortunately, we don't have enough data to add the recently spun-off GE Healthcare to this analysis.



**Exhibit 14: PHIA's D&T organic growth CAGR of +3.1% on average since 2019 vs +6.7% for SHL**

Philips' D&amp;T and Siemens Healthineers' Imaging organic growth CAGR with 2019 as base year



Source: BofA Global Research estimates

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Our assumptions for PHIA's D&T organic growth in FY24E include a similar underperformance to SHL's Imaging business in the previous year.

**But consensus is already there: we are only 1% below for D&T in FY24E**

Even if we stand 1% below consensus for D&T organic sales growth in FY24E (BofAe at +3.5% vs +4.6% for consensus), we find the downside relatively limited.

**Exhibit 15: We only sit 1% below consensus for FY24, limited downside risk in our view**

BofA estimates versus Philips consensus post Q3 2023

	BofA estimates				Consensus				Difference			
	4Q23	FY23	FY24	FY25	4Q23	FY23	FY24	FY25	4Q23	FY23	FY24	FY25
D&T revenues (EURmn)	2,641	8,961	9,272	9,689	2,595	8,915	9,338	9,805	2%	1%	-1%	-1%
% organic growth	3.3%	10.6%	3.5%	4.5%	5.4%	11.2%	4.6%	5.0%	-2.1ppt	-0.6ppt	-1.1ppt	-0.5ppt
D&T adj. EBITA (EURmn)	349	1,115	1,182	1,299	360	1,127	1,190	1,329	-3%	-1%	-1%	-2%
% margin	13.2%	12.4%	12.7%	13.4%	13.9%	12.6%	12.7%	13.6%	-0.7ppt	-0.2ppt	0.0ppt	-0.1ppt

Source: Philips consensus

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# Sleep & Respiratory Care downside appears limited for FY24-25E

We do not take into account the consent decree outcome or personal injury settlement, as these are difficult (or impossible) to accurately forecast right now. Instead, we judge what level of market share the S&RC business needs to reach the targeted +10% sales CAGR in 23-25E. Our analysis suggests that PHIA needs to regain only c.3% share in the global Sleep Apnea market to achieve at least a 10% CAGR. We believe the S&RC mid-term guidance of a +10% sales CAGR in FY23-25 is less ambitious than what many investors believe and, regardless of the consent decree outcome in the US, the guide may still be valid thanks to other markets.

## +10% sales CAGR in 23-25E for S&RC looks achievable

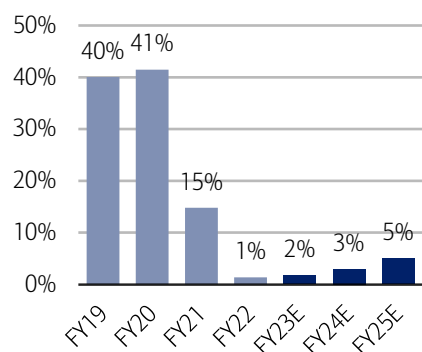
### To start with the conclusion: +10% sales CAGR requires LSD share gains only

We focus on the likelihood that PHIA delivers on its guidance for Sleep & Respiratory Care (S&RC) under previous assumptions for the proposed consent decree (issued at 4Q22 results): +10% sales CAGR for FY23-25.

Our analysis suggests that PHIA only needs to regain a reasonable c.3% share in the global Sleep Apnea market to achieve at least a 10% CAGR: C/BiPAP Systems (+3% global share) and Masks & Accessories (+2%). While a negative outcome from the proposed consent decree (e.g., a definitive US ban for Respiration CPAP and/or masks) would reduce PHIA's total addressable market considerably in the mid-/long-term (60% sales from the US before the recall), it shouldn't prevent double-digit sales growth in the next couple of years.

#### Exhibit 16: Only small regain for systems is needed to reach the MT target

C/BiPAP systems Philips' market share

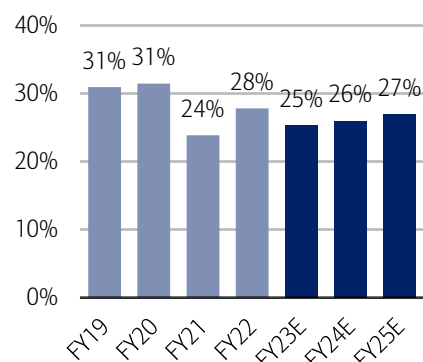


Source: BofA Global Research estimates

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#### Exhibit 17: Masks also doesn't need to recover to pre recall level

Masks & Accessories Philips' market share

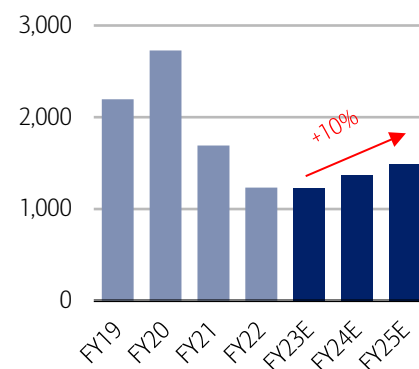


Source: BofA Global Research estimates

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#### Exhibit 18: Getting back to overall mid-teens market share (vs 36%) is enough for PHIA

Sleep & Respiratory Care revenues, in EURmn



Source: BofA Global Research estimates

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## Personal injury settlement remains a high risk for the name

We believe the real focus for investors and shareholders remains evaluating the potential settlement amount that PHIA would need to pay for personal injury claims. Regardless of the timing of the consent decree (where the Department of Justice will state on what Philips needs to change in its quality and control processes and if Respiration can operate in the US), the personal injury settlement is not expected to happen soon. Indeed, even if the potential amount of the global settlement is expected by investors to be in the billions of dollars, it remains hard to gauge until the bellwether trials start (at the end of 2024 at the earliest). Therefore, we focus on what we have better visibility on for the moment: PHIA's ability to regain share in the CPAP market.

## A quick overview of the S&RC business

### S&RC: from a €2.2bn business to just €1.2bn today

The S&RC business sits within Philip's Connected Care division. Prior to COVID (2019), it accounted for c.50% of divisional revenue, and just over 10% of the group's top line.

In 2007, Philips acquired Respiroics Inc, a US-listed company specialising in sleep therapy products, for \$5.1bn. Respiroics was focused on medical equipment used at home, particularly those used to diagnose and treat sleep and respiratory disorders, and this became the precursor of Philip's S&RC business.

Sleep (i.e. machines to help with sleep apnea) and respiratory (i.e. ventilators for patients who cannot physically breathe sufficiently) each account for about half of this subdivision. Within sleep, 60% of sales is from devices, and 40% from masks. Users normally replace their machines every 5-7 years, but their masks much more frequently (3-6 months). Respiratory covers ventilation in both home and hospital settings.

Before the recall, the sleep market was a duopoly between Philips (40% share), and ResMed (50% share). Neither bundles their masks to their machines (can be used interchangeably), though, according to ResMed, masks of the same brand have a slightly higher attach rate.

#### Exhibit 19: Sleep (Respiroics) took the hit from the recall, Respiratory impacted by COVID wind-down recently

S&RC revenue breakdown by segments (BofA estimates), EURmn

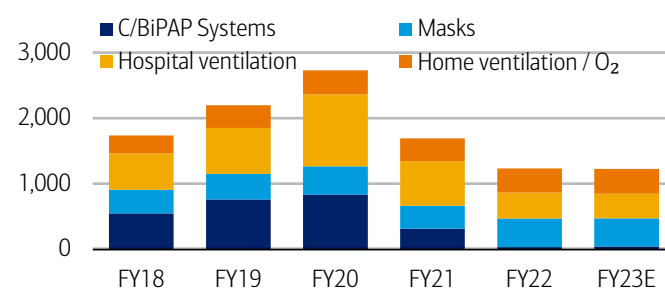
	FY18	FY19	FY20	FY21	FY22	FY23E
<b>Connected Care</b>	<b>4,341</b>	<b>4,674</b>	<b>5,568</b>	<b>5,371</b>	<b>5,268</b>	<b>5,345</b>
Sleep & Respiratory Care	1,735	2,197	2,728	1,692	1,233	1,225
<b>o/w Sleep</b>	<b>908</b>	<b>1,150</b>	<b>1,263</b>	<b>662</b>	<b>468</b>	<b>470</b>
C/BiPAP Systems	545	759	833	312	30	40
Masks	363	391	429	350	438	430
<b>o/w Respiratory</b>	<b>827</b>	<b>1,047</b>	<b>1,465</b>	<b>1,030</b>	<b>764</b>	<b>756</b>
Hospital ventilation	553	700	1,099	680	397	377
Home ventilation / O <sub>2</sub>	274	347	366	350	368	379

Source: BofA Global Research estimates

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#### Exhibit 20: No revenues from CPAP or BiPAP systems since the recall in July 2021, until end of Q3 2023 for countries outside US

Sleep & Respiratory Care – revenues breakdown by segment, EURmn



Source: BofA Global Research estimates

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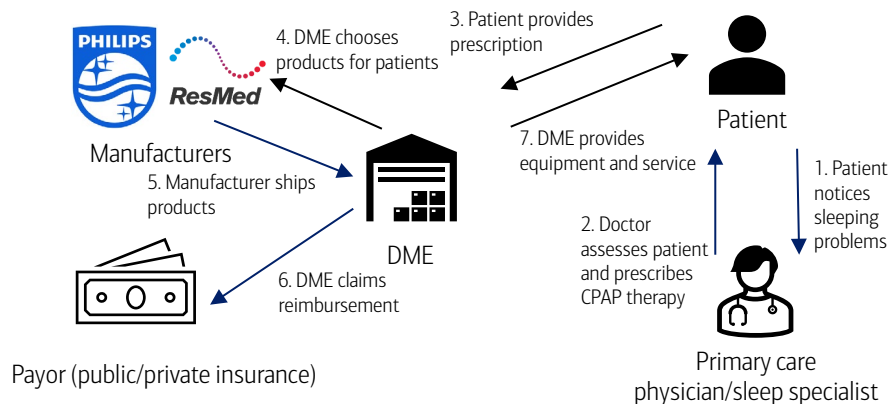
### Sleep apnea industry in an nutshell

While online stores and large retailers also sell sleep apnea equipment, the most important channel is still through durable medical equipment (DME) distributors, due to the large variety of stock, and services offered, such as fitting and the initial set-up.

DMEs purchase devices and masks from manufacturers in bulk, and work with medical professionals and insurance providers to decide what is the best choice for individual patients. The doctor's prescription is for the right pressure setting and doesn't normally refer to specific brands.

**Exhibit 21: DMEs play a central role in patient's purchasing of sleep apnea equipment**

Typical patient's journey of getting a CPAP machine



Source: BofA Global Research Estimates

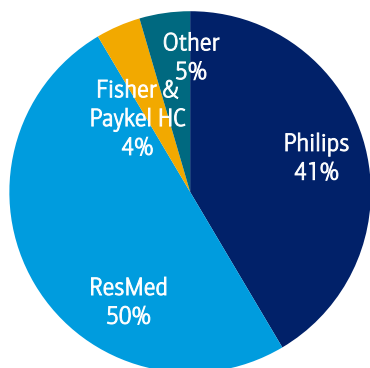
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**A duopoly market between Philips and ResMed**

The market duopoly between ResMed and Philips is hard to break because the existing players hold the DME relationship. The two companies are continually on each other's heels in terms of pricing and software innovation.

**Exhibit 22: PHIA had 40% share in systems pre Respironics product recall**

Market share for C/BiPAP systems (FY20)

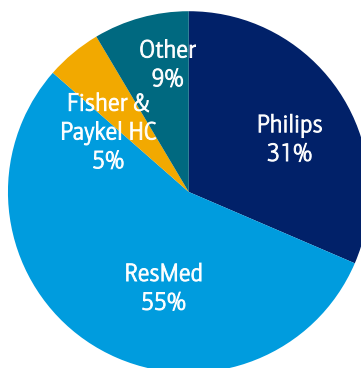


Source: BofA Global Research estimates

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**Exhibit 23: PHIA had 30% share in masks & accessories pre Respironics product recall**

Market share for masks &amp; accessories (FY20)

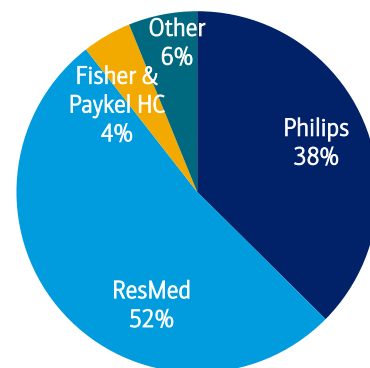


Source: BofA Global Research estimates

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**Exhibit 24: Overall, PHIA controlled ~40% of the sleep apnea market pre recall**

Overall market share for sleep apnea (FY20)




Source: BofA Global Research estimates

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Both Philips and ResMed offer CPAP, BiPAP and portable devices. ResMed machines are normally slightly more expensive, and are better tuned with a smartphone. However, the essential features are very similar. Below we compare the flagship CPAP products. Philips' DreamStation 2 was launched in April 2021, and ResMed's AirSense 11 followed in August that year.

**Exhibit 25: DreamStation 2 has more settings for pressure ramp and relief, whilst AirSense 11 is less noisy and has a bigger humidifier tank**

Philips' DreamStations 2 vs ResMed's AirSense 11

		
Product	DreamStation 2	AirSense 11
Pressure range	4 to 20cm H2O	4 to 20cm H2O
Sound abating foam	Silicone based	Silicone/polyether-urethane based
Heated tube	Y	Y
Humidifier	Y	Y
Autoadjust to breath	Y	Y
Ramp	Y - can select starting pressure	Y
Relief during exhale	Y - can adjust level	Y
Features	Touchscreen on top, slightly louder	Touchscreen on the side, slightly heavier, holds more water
		

Source: BofA Global Research Estimates

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In terms of masks, it appears that ResMed has more variety in its offerings. Both manufacturers have their mask cushions in nasal, pillow and full face formats; however, ResMed provides a choice of silicone or memory foam material. Its masks also come in three lines of design, using either plastic or soft silicone frames.

Due to the different replacement rates, the underlying market for masks grows slightly faster (high single digits) than the underlying market for devices (mid-single digits).

Since the product recall, Philips has not been able to sell new devices, losing significant shares in that market. However, the masks business has not been much affected.

**Exhibit 26: Philips has been mostly hit in its system segment where market share went from ~40% to 2-3% post product recall in our view**

Our market model for the Sleep Apnea segment

**Sleep Apnea market analysis**
**Sleep Apnea market (EURmn)**

% growth

o/w Philips

o/w ResMed

o/w Fisher &amp; Paykel HC

o/w Other

**o/w C/BiPAP Systems market**

% growth

o/w Philips

o/w ResMed

o/w Fisher &amp; Paykel HC

o/w Other

**o/w Masks & Accessories market**

% growth

o/w Philips

o/w ResMed

o/w Fisher &amp; Paykel HC

	FY19	FY20	FY21	FY22	FY23E
	3,159	3,374	3,577	3,793	4,022
		6.8%	6.0%	6.0%	6.0%
	36%	37%	19%	12%	12%
	52%	52%	70%	76%	76%
	5%	4%	5%	5%	5%
	7%	6%	6%	7%	7%
	1,896	2,009	2,110	2,215	2,326
		6.0%	5.0%	5.0%	5.0%
	40%	41%	15%	1%	2%
	50%	50%	75%	88%	88%
	5%	4%	5%	5%	5%
	5%	5%	5%	6%	6%
	1,264	1,365	1,467	1,577	1,696
		8.0%	7.5%	7.5%	7.5%
	31%	31%	24%	28%	25%
	55%	55%	62%	58%	61%
	5%	5%	6%	5%	6%

Source: BofA Global Research estimates, company reports

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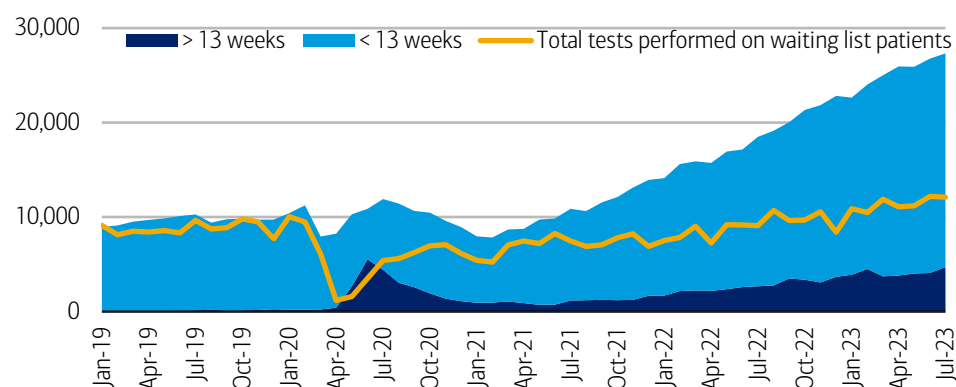
## Market bottleneck sits within diagnostic

According to a study sponsored by ResMed in 2019, an estimated 936m adults aged 30-69 years worldwide suffer from obstructive sleep apnea, of which 425m can be classified as moderate or severe (with an AHI of 15 or more events per hour). This is normally the cut-off value for which CPAP therapy is recommended, and the criteria for Medicare reimbursement.

The key obstacle is that a lot of these patients are undiagnosed. According to the American Sleep Apnea Association, while as many as c.40% of adults in the US might have it, only around 5% of adults have been diagnosed. Normally, a patient needs to take a diagnostic test in a sleep clinic. COVID lockdowns have meant there is a growing backlog of patients waiting for a test, and the subsequent prescription for CPAP therapy. NHS England testing data (presented below) suggests there could be some existing pent-up demand.

### Exhibit 27: Significantly more people are being referred to sleep tests since 2H 21, however test activity has not increased accordingly

Monthly waiting list and test activity of sleep studies in England and Wales



Source: NHS England

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## Philips will get back in the market sooner or later

### Quick refresher of the Respireonics legal situation

At the root of the issue is the polyester-based polyurethane (PE-PUR) foam built into Philips' CPAP systems to help reduce sound and vibrations. Over time the foam can potentially break down, sending specks of black debris and dangerous chemicals into the air pathway.

Philips initiated a large product recall campaign in June 2021 for a total of 5.5m devices (20 different models). All of them needed to have the original PE-PUR foam replaced with silicone-based foam, or be replaced with a different model. In addition, Philips had to stop taking new orders as this took up all the manufacturing capacity of the Respireonics business. In September 2022, the company issued a recall of <2,000 devices for a separate matter and, in December 2022, the company had to recall around 20,000 reworked devices. More recently (December 2023), FDA received MDRs associated with overheating issues with DreamStation 2 CPAP machines.

By H1 2023, however, the company stated that it had produced 99% of the recall units, and should be able to ship everything to patients by the end of the year. As a result, its factories are back making new products. Starting from Q3 2023, Philips can sell its devices in geographies other than the US, including Japan (the second-biggest market), the EU, and emerging markets such as China and LATAm. However, the US accounted for c.60% of S&RC sales pre-recall, meaning a large portion can't be recovered for the time being.

The consent decree is still being negotiated between Philips and the DoJ (on behalf of the FDA) and, until the verdict, it can't sell CPAP machines in the US.

### Production step-up is finally there as competitors increase capacity

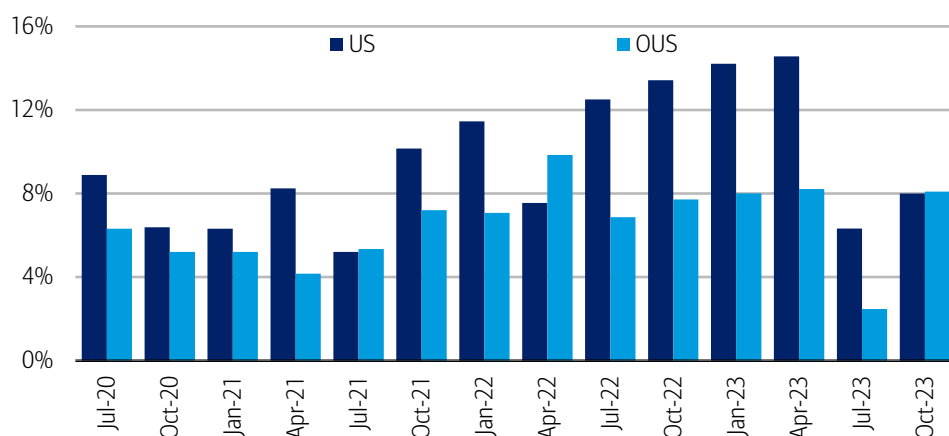
When the recall first happened in 2021, ResMed commented that it expected a significant backlog of patients in the next 12-18 months. However, since then it has successfully ramped up its own production volume.

Smaller players such as React Health have also stepped up.

Our quarterly survey of c700 DMEs suggests that the customer waiting list has improved substantially from its peak, both in and out of the US. This coincides with the FDA removing CPAP machines from its device shortage list in July 2023. Our discussion with investors over the past months have led to a scenario where PHIA can now be fully excluded from the US market as patients' need for sleep apnea machines can be addressed by competitors.

#### Exhibit 28: Customer waiting time appears to have improved significantly since H2 23

% of surveyed DMEs waiting for CPAP orders to be fulfilled, July 20 - Oct 23



Source: BofA Global Research estimates

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### Injunctions' scope remains largely uncertain

Philips has been discussing the terms of its consent decree with the FDA for some time and, whilst the company initially stated this would be finalised by the first half of 2023, it appears to be delayed. The company has stopped guiding the market on the timeline, and said it would be dictated by the FDA from this point. While all aspects of the consent decree outcome remain unknown (if PHIA will be able to re-enter the US market, when and at which cost), the scope question is also uncertain.

The manufacturing site in question (Murrysville, Pennsylvania) is one of the largest production facilities for Respirationics. The consent decree could include an export ban from this site, meaning the company wouldn't be able to sell goods produced there outside the US either. As far as we are aware, Philips has other production facilities in the Netherlands, Germany and China, so an export ban for Murrysville would not be a complete disaster. However, if the company tried to relocate the surplus Murrysville capacity to another US factory, the end products would likely need to be re-authorised by the relevant regulators, possibly a lengthy process.

Another point of concern is that Philips has issued multiple product recalls since June 2021, on matters other than foam. Examples include a September 2022 recall, concerning toxic materials used in the motor, and an October 2022 recall relating to magnets used in masks. These separate incidents could potentially widen the scope of restriction by the FDA to other product categories and ultimately to the entire Respirationics business (CPAP systems, masks and ventilators).

### **The recall has already cost a lot of money, even before personal settlement**

Since the recall was initiated, the company has booked a cumulative provision of c.€970m, related to the estimated labour, materials, and communications costs that it expects to incur for the repair and replace programme. Up to H1 2023, it has actually spent c.€840m of cash. In addition, there was a cumulative provision of €200m for quality-related measures in the wider Connected Care division.

Due to the huge uncertainty on the potential outcome, Philips has not made a provision for the personal injury class action lawsuit in the US, which is entering the fact-finding phase. It has set aside €575m to provide for the economic loss class action, a completely separate matter. Payments should begin in 2024.

The impact on Philips went beyond just one division, as executive management saw it as a wake-up call to overhaul the quality assurance process. A new quality and regulatory leader was hired, who then replaced 75% of his leadership team, and added c.1,000 people to the function. Some of the implemented actions included consolidation of the group's quality management systems, a retrospective review of complaints data, and inclusion of patient safety as a hard metric in the performance appraisal of every employee.

On the other hand, the group also took the decision to reduce its global workforce by 10,000 by 2025. This should be concentrated in corporate functions to protect manufacturing and sales departments, and part of this was to downsize the S&RC business. As a result, the company incurred severance costs of €80m in 2022, and a further €190m in H1 23.

Remediation costs, which represent all the additional safety and quality checks Philips has implemented in response to the FDA 483 form, added up to €410m to date (c€40m per quarter). However, this will increase with the finalised consent decree. Philips will have to pay for periodic quality audits performed by independent third parties, and reimburse FDA staff for any site visits at a set hourly rate. For each day it is deemed not to comply with provisions set out in the consent decree, it also needs to pay daily damages.

### **We believe PHIA needs to regain c3% global sleep share to meet FY25 guide**

Based on our estimates, we think the S&RC business needs €265m of extra revenues in FY24-25 to meet its +10% sales CAGR guidance, assuming the Respiratory Care business alone grows at 5% per year. This would mean €190m of additional revenues would be needed for the Sleep Apnea business over the period.

Based on our market model, the €190m in Sleep Apnea would equate to a c.3% global share gain for the combined Sleep Apnea market (Systems + Masks). To put this in perspective, PHIA has lost >25% market share since the recall and, if the company regains 3% over two years, this would make up only c.12% of its lost shares.

We believe S&RC mid-term guidance of a +10% sales CAGR over FY23-25E is less ambitious than what many investors believe and, regardless of the consent decree outcome in the US, the guide may still be valid thanks to other markets.



Market model for the Sleep Apnea segment and implication for the mid-term guidance target (~10% organic sales growth FY23-25 for S&RC), in EURmn

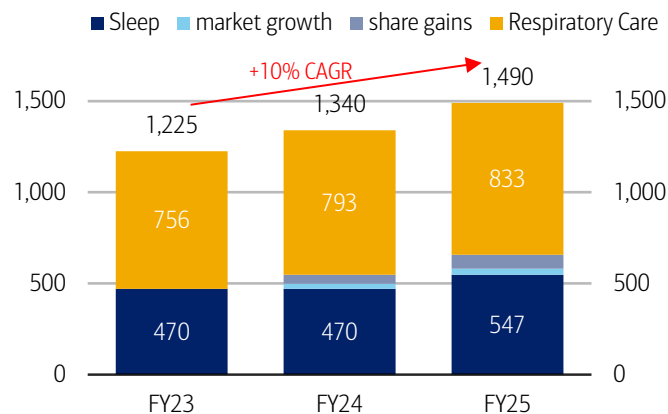
Sleep Apnea market analysis		FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	
Sleep Apnea market (EURmn)		3,159	3,374	3,577	3,793	4,022	4,265	4,524	
% growth			6.8%	6.0%	6.0%	6.0%	6.1%	6.1%	
o/w Philips		36%	37%	19%	12%	12%	13%	15%	
o/w ResMed		52%	52%	70%	76%	76%			
o/w Fisher & Paykel HC		5%	4%	5%	5%	5%			
o/w Other		7%	6%	6%	7%	7%			
o/w C/BiPAP Systems market		1,896	2,009	2,110	2,215	2,326	2,442	2,564	
% growth			6.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
o/w Philips		40%	41%	15%	1%	2%	3%	5%	
o/w ResMed		50%	50%	75%	88%	88%			
o/w Fisher & Paykel HC		5%	4%	5%	5%	5%			
o/w Other		5%	5%	5%	6%	6%			
o/w Masks & Accessories market		1,264	1,365	1,467	1,577	1,696	1,823	1,959	
% growth			8.0%	7.5%	7.5%	7.5%	7.5%	7.5%	
o/w Philips		31%	31%	24%	28%	25%	26%	27%	
o/w ResMed		55%	55%	62%	58%	61%			
o/w Fisher & Paykel HC		5%	5%	6%	5%	6%			
o/w Other		9%	9%	9%	9%	9%			
Mid-term guidance for S&RC		FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	23-25 CAGR
Sleep & Respiratory Care		2,197	2,728	1,692	1,233	1,225	1,340	1,490	10.3%
% growth			24.2%	-38.0%	-27.1%	-0.6%	9.4%	11.2%	
Sleep		1,150	1,263	662	468	470	547	657	18.3%
Respiratory Care		1,047	1,465	1,030	764	756	793	833	5.0%

**Source:** BofA Global Research estimates, company presentation

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**Exhibit 30: +10% sales CAGR in S&RC achievable in our view**

S&RC sales breakdown by business to achieve +10% CAGR FY23-25



**Source:** BofA Global Research estimates

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### Exhibit 31: Share gains required for Sleep are not excessive

Sensitivity table for Sleep required market share gains

		Respiratory Care CAGR 23-25				
		2%	3%	5%	6%	7%
SARC CAGR 23-25	6%	1%	1%	0%	0%	0%
	8%	3%	2%	1%	1%	1%
	10%	4%	3%	3%	2%	2%
	12%	5%	5%	4%	4%	3%
	14%	6%	6%	5%	5%	4%

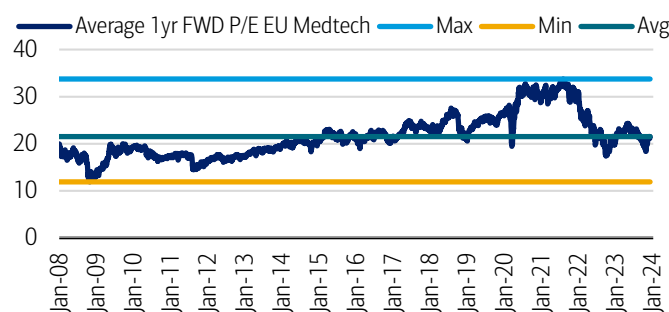
**Source:** BofA Global Research estimates

## EU MedTech: Year Ahead 2024

We are constructive on EU MedTech into 2024 as the sector's well-known fundamental growth drivers appear intact (ageing population, access to health, etc.), despite the GLP-1 overhang. We expect 2024 to be a more 'normal' year after COVID and supply chain challenges, while payor health looks strong. Sector margins should also improve to 19% (BofAe +1.4ppt above cons.), despite ongoing labour cost inflation and FX headwinds, which should be offset by operating leverage and cost control. Debt refinancing may impact sector EPS by 1-2% as we expect 10% of outstanding debt to be refinanced at a higher rate in 2024. Overall, we remain positive on the structurally growing and quality names in our coverage (Amplifon, Straumann and Coloplast), but also see upside for value names with turnaround potential (Fresenius SE and S&N).

### Exhibit 32: The sector trades in line with its 15-year average, on c22x

EU Medtech (BofA coverage) 1-year forward P/E

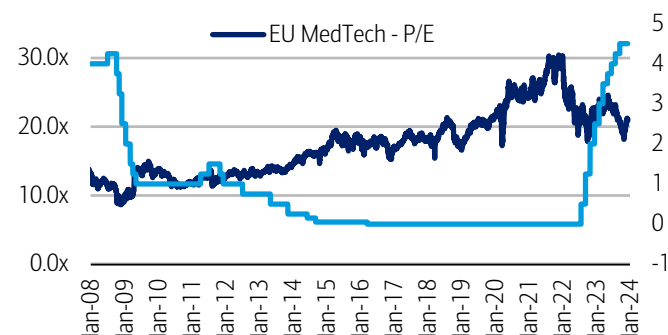


Source: Bloomberg

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### Exhibit 33: EU MedTech Valuation expands with low/declining rates

EU Medtech (BofA coverage) 1-yr fwd P/E vs Euro short-term interest rate



Source: Bloomberg

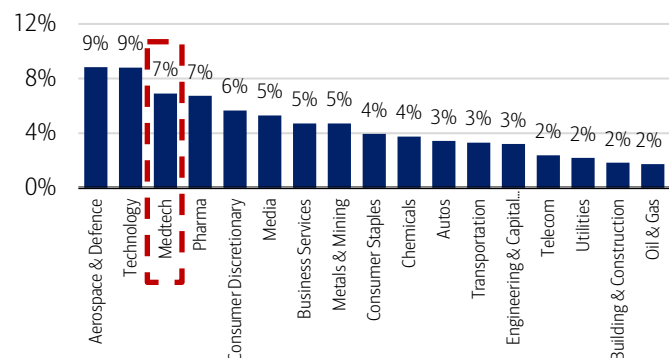
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## Valuation update: 2024 offers an attractive entry point

EU MedTech trades on c22x 1-yr fwd P/E – still 30% below 2021, and c14% below its last 5-year average. Valuation is underpinned by the sector's #3 position in Europe for sales growth and margin, and #2 for EPS growth over 23-25E. We don't expect further pressure from GLP-1 on valuation, and multiple re-rating in anticipation of lower interest rates has already started. We see further re-rating potential if the sector's excess yield (currently c2%) returns towards the average of 1% pre-Quantitative Easing policy (e.g., pre-2009). We feel now is a good time to return to MedTech as we expect a sector re-rating (c7% using our POs) and earnings upgrades in 2024, supported by quality/growth names and consistent execution. We sit on average +2-3% above EBIT/EPS consensus estimates across our coverage for FY24E.

### Exhibit 34: MedTech offers the 3rs fastest sales growth

Revenues CAGR 2023-2025E of all sectors

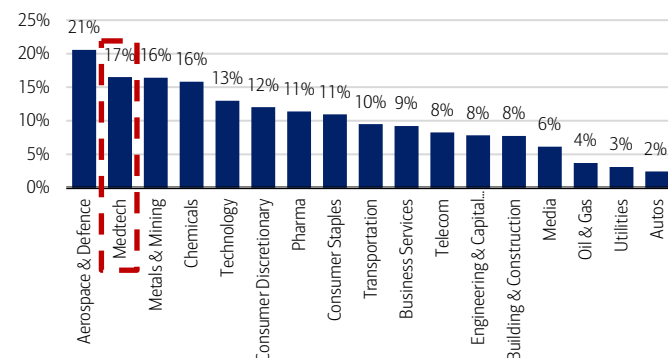


Source: BofA Global research estimates, company data

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### Exhibit 35: MedTech has the 2nd best EPS growth over 2023-25E

EPS CAGR 2023-2025E of all sectors



Source: BofA Global research estimates, company data

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# Earnings changes and financials

## Exhibit 32: Earnings changes

We are 14% above our previous estimates for FY23 (guidance raised, share buyback program) and 3% below for FY24 EPS

PHIA Changes - 2023 (€mn)				PHIA Changes - 2024 (€mn)			
	Old	New	Change		Old	New	Change
Personal Health	3,580	3,653	2.0%	Personal Health	3,797	3,779	(0.5%)
Diagnosis & Treatment	9,678	8,961	(7.4%)	Diagnosis & Treatment	10,171	9,272	(8.8%)
Connected Care	4,602	5,345	16.2%	Connected Care	4,955	5,586	12.7%
Healthtech Other	626	646	3.2%	Healthtech Other	626	653	4.4%
Philips Lighting	-	-	-	Philips Lighting	-	-	-
Legacy Items	-	-	-	Legacy Items	-	-	-
<b>Total Sales</b>	<b>18,487</b>	<b>18,605</b>	<b>0.6%</b>	<b>Total Sales</b>	<b>19,549</b>	<b>19,290</b>	<b>(1.3%)</b>
EBITA - Personal Health	580	598	3.1%	EBITA - Personal Health	658	634	(3.6%)
EBITA - Diagnosis & Treatment	1,117	1,115	(0.2%)	EBITA - Diagnosis & Treatment	1,375	1,182	(14.0%)
EBITA - Connected Care	209	279	33.5%	EBITA - Connected Care	397	444	12.0%
EBITA - Healthtech Other	(78)	(68)	(12.3%)	EBITA - Healthtech Other	(78)	(67)	(14.2%)
<b>EBITA</b>	<b>1,828</b>	<b>1,923</b>	<b>5.2%</b>	<b>EBITA</b>	<b>2,352</b>	<b>2,194</b>	<b>(6.7%)</b>
Amortization on AI	(353)	(292)	(17.3%)	Amortization on AI	(339)	(292)	(13.9%)
<b>EBIT</b>	<b>1,475</b>	<b>1,631</b>	<b>10.6%</b>	<b>EBIT</b>	<b>2,013</b>	<b>1,902</b>	<b>(5.5%)</b>
Interest Income	30	30	-	Interest Income	35	35	-
Interest Expense	(305)	(305)	0.1%	Interest Expense	(291)	(291)	(0.1%)
<b>EBT</b>	<b>1,200</b>	<b>1,356</b>	<b>13.0%</b>	<b>EBT</b>	<b>1,757</b>	<b>1,646</b>	<b>(6.3%)</b>
Tax Expense	(300)	(339)	13.0%	Tax Expense	(439)	(411)	(6.3%)
Minority Interests	(3)	(3)	-	Minority Interests	(3)	(3)	-
Discontinued Operations	-	(10)	-	Discontinued Operations	-	-	-
Associates	(2)	(10)	400.0%	Associates	(2)	(3)	50.0%
Other Results	-	-	-	Other Results	-	-	-
<b>Net Income</b>	<b>895</b>	<b>994</b>	<b>11.0%</b>	<b>Net Income</b>	<b>1,313</b>	<b>1,228</b>	<b>(6.4%)</b>
Post Tax Exceptionals	(994)	(986)	(0.9%)	Post Tax Exceptionals	(94)	(94)	(0.3%)
Net Income Post Exceptionals	(99)	8	(108.4%)	Net Income Post Exceptionals	1,219	1,135	(6.9%)
<b>Basic EPS (Pre-Exceptionals)</b>	<b>0.95</b>	<b>1.08</b>	<b>13.6%</b>	<b>Basic EPS (Pre-Exceptionals)</b>	<b>1.38</b>	<b>1.34</b>	<b>(2.8%)</b>
Diluted EPS (Pre-Exceptionals)	0.95	1.08	13.6%	Diluted EPS (Pre-Exceptionals)	1.38	1.34	(2.8%)
<b>Basic EPSA (Pre-Exceptionals)</b>	<b>1.23</b>	<b>1.32</b>	<b>7.0%</b>	<b>Basic EPSA (Pre-Exceptionals)</b>	<b>1.64</b>	<b>1.57</b>	<b>(4.1%)</b>
Basic EPS (Post-Exceptionals)	(0.11)	0.01	(108.3%)	Basic EPS (Post-Exceptionals)	1.28	1.23	(3.3%)
Diluted EPS (Post-Exceptionals)	(0.11)	0.01	(108.3%)	Diluted EPS (Post-Exceptionals)	1.28	1.23	(3.3%)
GROWTH				GROWTH			
	Old	New	Change		Old	New	Change
Sales	3.7%	4.4%	0.7%	Sales	5.7%	3.7%	(2.0%)
EBITA	38.7%	45.9%	7.2%	EBITA	28.7%	14.1%	(14.6%)
EBT	59.8%	80.5%	20.7%	EBT	46.5%	21.4%	(25.1%)
Net Income	64.4%	82.6%	18.2%	Net Income	46.7%	23.6%	(23.1%)
Diluted EPS	61.3%	83.3%	22.0%	Diluted EPS	44.4%	23.5%	(20.9%)
MARGINS				MARGINS			
	Old	New	Change		Old	New	Change
Gross Margin	40.4%	40.4%	(0.0%)	Gross Margin	40.4%	40.4%	(0.0%)
EBITDA Margin	14.6%	14.8%	0.2%	EBITDA Margin	17.0%	16.1%	(0.9%)
EBITA Margin	9.9%	10.3%	0.4%	EBITA Margin	12.0%	11.4%	(0.6%)
Personal Health	16.2%	16.4%	0.2%	Personal Health	17.3%	16.8%	(0.5%)
Diagnosis & Treatment	11.5%	12.4%	0.9%	Diagnosis & Treatment	13.5%	12.7%	(0.8%)
Connected Care	4.5%	5.2%	0.7%	Connected Care	8.0%	8.0%	(0.0%)
Healthtech Other	(12.4%)	(10.6%)	1.8%	Healthtech Other	(12.4%)	(10.2%)	2.2%
Philips Lighting	NA	NA	-	Philips Lighting	NA	NA	-
EBIT	8.0%	8.8%	0.8%	EBIT	10.3%	9.9%	(0.4%)
EBT Margin	6.5%	7.3%	0.8%	EBT Margin	9.0%	8.5%	(0.5%)
Effective Tax Rate	(25.0%)	(25.0%)	-	Effective Tax Rate	(25.0%)	(25.0%)	-
Net Margin	4.8%	5.3%	0.5%	Net Margin	6.7%	6.4%	(0.3%)
RETURNS				RETURNS			
	Old	New	Change		Old	New	Change
ROIC Including Goodwill	6.6%	6.8%	0.2%	ROIC Including Goodwill	8.6%	7.9%	(0.7%)
ROIC Excluding Goodwill	12.9%	13.1%	0.2%	ROIC Excluding Goodwill	17.2%	15.4%	(1.8%)
Return on Equity	6.9%	7.6%	0.7%	Return on Equity	10.2%	9.5%	(0.7%)

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

**Exhibit 33: PHIA's Income Statement**

FY17A-FY27E, in €mn

<b>PHIA Income Statement (€mn)</b>	<b>2017A</b>	<b>2018A</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
Personal Health	5,685	5,524	5,854	3,173	3,429	3,626	3,653	3,779	3,931	4,089	4,254
Diagnosis & Treatment	7,365	7,726	8,485	8,175	7,825	8,290	8,961	9,272	9,689	10,122	10,575
Connected Care	4,331	4,341	4,674	5,568	5,371	5,268	5,345	5,586	5,948	6,314	6,646
Healthtech Other	400	530	469	396	530	643	646	653	660	666	673
Philips Lighting	-	-	-	-	-	-	-	-	-	-	-
Legacy Items	-	-	-	-	-	-	-	-	-	-	-
<b>Total Sales</b>	<b>17,781</b>	<b>18,121</b>	<b>19,482</b>	<b>17,312</b>	<b>17,155</b>	<b>17,827</b>	<b>18,605</b>	<b>19,290</b>	<b>20,228</b>	<b>21,192</b>	<b>22,149</b>
EBITA - Personal Health	879	860	943	704	590	538	598	634	674	716	759
EBITA - Diagnosis & Treatment	747	872	1,078	816	1,028	788	1,115	1,182	1,299	1,390	1,486
EBITA - Connected Care	684	662	618	1,195	553	111	279	444	596	686	760
EBITA - Healthtech Other	(157)	(28)	(76)	(145)	(117)	(119)	(68)	(67)	(66)	(64)	(63)
EBITA - Philips Lighting	-	-	-	-	-	-	-	-	-	-	-
EBITA - Legacy Items	-	-	-	-	-	-	-	-	-	-	-
<b>EBITA</b>	<b>2,153</b>	<b>2,366</b>	<b>2,563</b>	<b>2,570</b>	<b>2,054</b>	<b>1,318</b>	<b>1,923</b>	<b>2,194</b>	<b>2,504</b>	<b>2,727</b>	<b>2,941</b>
Amortization on AI	(259)	(347)	(448)	(381)	(314)	(363)	(292)	(292)	(292)	(292)	(292)
<b>EBIT</b>	<b>1,894</b>	<b>2,019</b>	<b>2,115</b>	<b>2,189</b>	<b>1,740</b>	<b>955</b>	<b>1,631</b>	<b>1,902</b>	<b>2,212</b>	<b>2,435</b>	<b>2,649</b>
Interest Income	126	51	117	160	149	58	30	35	35	45	60
Interest Expense	(263)	(264)	(219)	(329)	(188)	(262)	(305)	(291)	(276)	(254)	(254)
<b>EBT</b>	<b>1,757</b>	<b>1,806</b>	<b>2,013</b>	<b>2,020</b>	<b>1,701</b>	<b>751</b>	<b>1,356</b>	<b>1,646</b>	<b>1,970</b>	<b>2,226</b>	<b>2,455</b>
Tax Expense	(447)	(271)	(463)	(415)	(200)	(215)	(339)	(411)	(493)	(556)	(614)
Minority Interests	(214)	(7)	(5)	(8)	(4)	(3)	(3)	(3)	(3)	(3)	(3)
Discontinued Operations	843	(213)	(19)	(10)	2,711	13	(10)	-	-	-	-
Associates	(4)	(2)	1	(9)	(4)	(2)	(10)	(3)	(3)	(3)	(3)
Other Results	-	-	-	-	-	-	-	-	-	-	-
<b>Net Income</b>	<b>1,935</b>	<b>1,313</b>	<b>1,527</b>	<b>1,578</b>	<b>4,204</b>	<b>544</b>	<b>994</b>	<b>1,228</b>	<b>1,472</b>	<b>1,663</b>	<b>1,835</b>
Post Tax Exceptionals	(278)	(222)	(359)	(372)	(861)	(2,151)	(986)	(94)	(71)	(53)	(38)
Net Income Post Exceptionals	1,657	1,091	1,168	1,206	3,343	(1,607)	8	1,135	1,401	1,611	1,798
<b>Basic EPS (Pre-Exceptionals)</b>	<b>2.08</b>	<b>1.42</b>	<b>1.69</b>	<b>1.74</b>	<b>4.65</b>	<b>0.59</b>	<b>1.08</b>	<b>1.34</b>	<b>1.59</b>	<b>1.81</b>	<b>1.99</b>
Basic EPSA (Pre-Exceptionals)	2.29	1.74	2.07	2.07	4.96	0.93	1.32	1.57	1.83	2.05	2.23
Basic EPS (Post-Exceptionals)	1.78	1.18	1.29	1.33	3.70	(1.74)	0.01	1.23	1.52	1.75	1.95
<b>GROWTH</b>	<b>2017A</b>	<b>2018A</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
Sales	-27.5%	1.9%	7.5%	-11.1%	-0.9%	3.9%	4.4%	3.7%	4.9%	4.8%	4.5%
EBITA	-16.2%	9.9%	8.3%	0.3%	-20.1%	-35.8%	45.9%	14.1%	14.1%	8.9%	7.9%
EBT	1.7%	2.8%	11.5%	0.3%	-15.8%	-55.8%	80.5%	21.4%	19.7%	13.0%	10.3%
Net Income	13.9%	-32.2%	16.3%	3.4%	166.4%	-87.1%	82.6%	23.6%	19.8%	13.0%	10.3%
Diluted EPS	12.5%	-31.7%	18.9%	2.8%	167.4%	-87.3%	83.3%	23.5%	19.3%	13.4%	10.3%
<b>MARGINS</b>	<b>2017A</b>	<b>2018A</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
EBITDA Margin	16.2%	16.4%	17.0%	19.8%	17.0%	12.5%	14.8%	16.1%	17.2%	17.7%	18.1%
EBITA Margin	12.1%	13.1%	13.2%	14.8%	12.0%	7.4%	10.3%	11.4%	12.4%	12.9%	13.3%
Personal Health	15.5%	15.6%	16.1%	22.2%	17.2%	14.8%	16.4%	16.8%	17.2%	17.5%	17.8%
Diagnosis & Treatment	10.1%	11.3%	12.7%	10.0%	13.1%	9.5%	12.4%	12.7%	13.4%	13.7%	14.0%
Connected Care	15.8%	15.2%	13.2%	21.5%	10.3%	2.1%	5.2%	8.0%	10.0%	10.9%	11.4%
EBIT	10.7%	11.1%	10.9%	12.6%	10.1%	5.4%	8.8%	9.9%	10.9%	11.5%	12.0%
EBT Margin	9.9%	10.0%	10.3%	11.7%	9.9%	4.2%	7.3%	8.5%	9.7%	10.5%	11.1%
Effective Tax Rate	-25.4%	-15.0%	-23.0%	-20.5%	-11.7%	-28.6%	-25.0%	-25.0%	-25.0%	-25.0%	-25.0%
Net Margin	10.9%	7.2%	7.8%	9.1%	24.5%	3.1%	5.3%	6.4%	7.3%	7.8%	8.3%
<b>RETURNS</b>	<b>2017A</b>	<b>2018A</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
Asset Turn	0.62x	0.71x	0.73x	0.63x	0.58x	0.58x	0.61x	0.64x	0.66x	0.67x	0.68x
EBIT Margin	12.1%	13.1%	13.2%	14.8%	12.0%	7.4%	10.3%	11.4%	12.4%	12.9%	13.3%
Tax Rate	-25.4%	-15.0%	-23.0%	-20.5%	-11.7%	-28.6%	-25.0%	-25.0%	-25.0%	-25.0%	-25.0%
ROIC Including Goodwill	8.9%	12.0%	11.2%	11.6%	9.7%	4.5%	6.8%	7.9%	9.1%	9.9%	10.7%
ROIC Excluding Goodwill	16.4%	23.3%	21.8%	21.9%	19.2%	9.0%	13.1%	15.4%	17.9%	19.6%	21.1%
Return on Equity	15.2%	10.9%	12.3%	12.9%	31.9%	3.9%	7.6%	9.5%	11.0%	11.8%	12.2%

Source: Company Reports, BofA Global Research Estimates

BofA GLOBAL RESEARCH

**Exhibit 34: PHIA Balance Sheet**

FY17A-FY27E, in €mn

<b>PHIA Balance Sheet (€mn)</b>	<b>2017A</b>	<b>2018A</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
Cash & Cash Equivalents	1,939	1,688	1,425	3,226	2,304	1,172	905	1,178	1,853	2,531	3,404
Inventories	2,353	2,674	2,773	2,993	3,450	4,049	3,823	3,752	3,713	3,890	4,066
Financial Instruments	2	436	1	-	2	11	11	11	11	11	11
Current Derivative Financial Assets	57	36	38	105	61	123	123	123	123	123	123
Other Current Assets	392	469	476	424	493	490	511	530	556	582	609
Income Tax Receivable	109	147	177	150	180	222	222	222	222	222	222
Receivables	3,609	4,035	4,554	4,156	3,787	4,115	4,123	4,275	4,483	4,697	4,909
Receivables from Related Parties	22	-	-	-	-	-	-	-	-	-	-
Other Receivables	278	-	-	-	-	-	-	-	-	-	-
Assets Classified as Held for Sale	1,356	87	15	173	71	77	77	77	77	77	77
<b>Current Assets</b>	<b>10,117</b>	<b>9,572</b>	<b>9,459</b>	<b>11,227</b>	<b>10,348</b>	<b>10,259</b>	<b>9,796</b>	<b>10,169</b>	<b>11,038</b>	<b>12,133</b>	<b>13,420</b>
Property, Plant, & Equipment	1,590	1,712	2,866	2,683	2,699	2,638	2,609	2,549	2,479	2,409	2,339
Intangible Assets	3,322	3,589	3,466	2,997	3,650	3,526	3,419	3,306	3,192	3,076	2,958
Goodwill	7,731	8,503	8,654	8,014	10,637	10,238	10,238	10,238	10,238	10,238	10,238
Non-Current Receivables	130	162	178	230	224	279	279	279	279	279	279
Investments in Associates	142	244	233	240	426	537	537	537	537	537	537
Other Financial Assets	609	360	248	436	632	664	664	664	664	664	664
Deferred Tax Assets	1,598	1,828	1,865	1,820	2,216	2,449	2,449	2,449	2,449	2,449	2,449
Other Non-Current Assets	75	48	47	66	129	98	98	98	98	98	98
<b>Non-Current Assets</b>	<b>15,197</b>	<b>16,447</b>	<b>17,557</b>	<b>16,486</b>	<b>20,613</b>	<b>20,429</b>	<b>20,293</b>	<b>20,120</b>	<b>19,937</b>	<b>19,750</b>	<b>19,561</b>
Accrued Liabilities	2,319	1,537	1,632	1,678	1,784	1,626	1,626	1,626	1,626	1,626	1,626
Short Term Provisions	400	363	556	522	998	1,018	1,062	1,102	1,155	1,210	1,265
Short-Term Debt	672	1,394	508	1,229	506	931	931	931	931	931	931
Liabilities from Assets for Sale	8	12	-	30	1	-	-	-	-	-	-
Accounts Payable	2,090	2,303	2,089	2,119	1,872	1,968	1,940	1,988	2,061	2,147	2,234
Income Tax Payable	83	118	67	57	128	40	40	40	40	40	40
Derivative Financial Liabilities	167	176	-	77	83	207	207	207	207	207	207
Other Liabilities	1,126	2,040	2,126	2,024	2,078	2,144	2,144	2,144	2,144	2,144	2,144
<b>Current Liabilities</b>	<b>6,865</b>	<b>7,943</b>	<b>6,978</b>	<b>7,736</b>	<b>7,450</b>	<b>7,934</b>	<b>7,950</b>	<b>8,038</b>	<b>8,164</b>	<b>8,306</b>	<b>8,447</b>
Long-Term Debt	4,044	3,427	4,939	5,705	6,473	7,270	7,270	7,270	7,270	7,270	7,270
Derivative Financial Liabilities	216	114	124	86	119	4	4	4	4	4	4
Long-Term Provisions	1,659	1,788	1,603	1,458	1,315	1,097	947	797	647	497	347
Deferred Taxes	33	152	143	59	83	91	91	91	91	91	91
Other Liabilities	474	479	604	768	1,046	1,009	1,053	1,092	1,145	1,199	1,254
<b>Non-Current Liabilities</b>	<b>6,426</b>	<b>5,959</b>	<b>7,413</b>	<b>8,076</b>	<b>9,036</b>	<b>9,471</b>	<b>9,365</b>	<b>9,254</b>	<b>9,157</b>	<b>9,061</b>	<b>8,966</b>
Share Capital	188	185	179	182	177	178	178	178	178	178	178
Capital in Excess of Par Value	3,311	3,487	3,671	4,400	4,646	5,025	5,025	5,025	5,025	5,025	5,025
Retained Earnings	8,596	8,266	8,422	7,828	9,344	6,832	6,319	6,541	7,194	8,054	9,103
Revaluation Reserve	-	-	-	(305)	(344)	(376)	(376)	(376)	(376)	(376)	(376)
Currency Translation Differences	392	739	652	(59)	1,117	1,866	1,866	1,866	1,866	1,866	1,866
AFS Financial Assets	(30)	(181)	-	-	-	-	-	-	-	-	-
Cash Flow Hedges	23	(10)	-	23	(25)	(2)	(2)	(2)	(2)	(2)	(2)
Treasury Shares at Cost	(481)	(399)	(327)	(199)	(476)	(275)	(275)	(275)	(275)	(275)	(275)
Minorities	24	30	28	31	36	35	38	41	44	47	50
<b>Total Equity</b>	<b>12,023</b>	<b>12,117</b>	<b>12,625</b>	<b>11,901</b>	<b>14,475</b>	<b>13,283</b>	<b>12,773</b>	<b>12,998</b>	<b>13,654</b>	<b>14,517</b>	<b>15,569</b>
<b>ANALYTICS</b>	<b>2017A</b>	<b>2018A</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
Working Capital (Simple)	1,313	(59)	1,056	265	594	1,153	940	953	1,021	1,297	1,570
Working Capital / Sales	7%	0%	5%	2%	3%	6%	5%	5%	5%	6%	7%
Days Inventory Outstanding	59.0	50.6	51.0	60.8	68.5	76.8	75.0	71.0	67.0	67.0	67.0
Days Sales Outstanding	88.3	77.0	80.5	91.8	84.5	80.9	80.9	80.9	80.9	80.9	80.9
Days Payables Outstanding	57.7	50.9	47.4	52.1	48.2	42.4	42.4	42.4	42.4	42.4	42.4
Cash Conversion Cycle	89.6	76.7	84.1	100.5	104.8	115.2	113.4	109.4	105.4	105.4	105.4
Net Debt	(4,436)	(4,921)	(5,625)	(5,166)	(5,990)	(8,126)	(8,243)	(7,820)	(6,995)	(6,167)	(5,144)
Net Debt / EBITDA	1.5x	1.7x	1.7x	1.5x	2.1x	3.6x	3.0x	2.5x	2.0x	1.6x	1.3x
Interest Coverage	15.7x	11.1x	25.1x	15.2x	52.7x	6.5x	7.0x	8.6x	10.4x	13.0x	15.1x

Source: Company Reports, BofA Global Research Estimates

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**Exhibit 35: PHIA Cash Flow Statement**

FY17A-FY27E, in €mn

<b>PHIA Cash Flow Statement (€mn)</b>	<b>2017A</b>	<b>2018A</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
Net Income	1,870	1,097	1,173	1,195	3,323	(1,605)	11	1,138	1,404	1,614	1,801
Discontinued Operations	(843)	213	19	(196)	(2,711)	(13)	10	-	-	-	-
D&A and Impairments	1,025	1,089	1,402	1,462	1,323	1,602	1,128	1,202	1,263	1,317	1,370
Other Impairments	15	1	194	256	123	1,452	-	-	-	-	-
Gain on Sale of Assets	(107)	(71)	(77)	(1)	55	(115)	-	-	-	-	-
Interest Income	(40)	(31)	(27)	(13)	(18)	(25)	(30)	(35)	(35)	(45)	(60)
Interest Expense	186	165	174	159	152	226	305	291	276	254	254
Income Taxes	349	193	337	212	(103)	(113)	10	380	469	539	601
Results from Associates	-	2	6	8	4	112	10	3	3	3	3
Change in Receivables & Other	64	(97)	(274)	92	(39)	(342)	(8)	(152)	(208)	(214)	(212)
Change in Inventories	(144)	(394)	(175)	(578)	(581)	(572)	226	71	39	(177)	(176)
Change in Payables & Other	181	311	(369)	387	219	52	(28)	48	73	86	86
Change in Non-Current Other Lines	(358)	(49)	122	41	(13)	(83)	-	-	-	-	-
Change in Provisions	(252)	(271)	27	(91)	427	(199)	44	39	54	55	55
Other Items	377	37	(5)	96	(164)	(39)	(127)	(130)	(123)	(122)	(122)
Interest Paid	(215)	(170)	(172)	(148)	(151)	(205)	(305)	(291)	(276)	(254)	(254)
Interest Received	40	35	27	13	17	15	30	35	35	45	60
Dividends from Associates	6	20	12	4	14	12	(10)	(3)	(3)	(3)	(3)
Dividends paid to Minorities	-	-	-	-	-	-	-	-	-	-	-
Income Taxes Paid	(284)	(301)	(363)	(390)	(249)	(333)	(10)	(380)	(469)	(539)	(601)
<b>Operating Cash Flow</b>	<b>1,870</b>	<b>1,779</b>	<b>2,031</b>	<b>2,511</b>	<b>1,629</b>	<b>(173)</b>	<b>1,257</b>	<b>2,215</b>	<b>2,501</b>	<b>2,559</b>	<b>2,802</b>
Purchase of Intangibles Assets	(106)	(123)	(156)	(114)	(107)	(105)	(174)	(180)	(189)	(198)	(207)
Expenditure on Development Assets	(333)	(298)	(339)	(296)	(259)	(257)	(260)	(270)	(283)	(297)	(310)
Capex	(420)	(422)	(518)	(485)	(397)	(444)	(558)	(579)	(607)	(636)	(664)
Proceeds from Sale of PP&E	175	46	35	19	33	18	-	-	-	-	-
Cash for Derivatives & Financial Assets	(198)	(175)	385	(13)	48	(72)	-	-	-	-	-
Purchase of Other Non-Curr. Fin. Assets	(42)	(34)	(63)	(131)	(124)	(116)	-	-	-	-	-
Proceeds from Other Non-Curr. Fin. Assets	6	77	162	65	124	78	-	-	-	-	-
Purchase of Businesses	(2,344)	(628)	(255)	(317)	(3,098)	(712)	-	-	-	-	-
Proceeds from Sale of Interest in Businesses	64	70	146	4	107	124	-	-	-	-	-
<b>Investing Cash Flow</b>	<b>(3,198)</b>	<b>(1,487)</b>	<b>(603)</b>	<b>(1,267)</b>	<b>(3,672)</b>	<b>(1,486)</b>	<b>(992)</b>	<b>(1,029)</b>	<b>(1,079)</b>	<b>(1,130)</b>	<b>(1,181)</b>
Proceeds from Short-Term Debt	12	34	23	16	(25)	47	-	-	-	-	-
Principal Payments on LT Debt	(1,332)	(1,161)	(761)	(298)	(302)	(1,472)	-	-	-	-	-
Proceeds from LT Debt	1,115	1,287	847	1,065	76	2,516	-	-	-	-	-
Re-Issuance of Treasury Shares	227	94	58	46	23	12	-	-	-	-	-
Purchase of Treasury Shares	(642)	(1,042)	(1,376)	(343)	(1,636)	(187)	(521)	(167)	-	-	-
Philips Lighting Proceeds	1,065	-	-	-	-	-	-	-	-	-	-
Philips Lighting Transaction Costs	(5)	-	-	-	-	-	-	-	-	-	-
Dividends Paid	(384)	(401)	(453)	(1)	(482)	(412)	-	(747)	(748)	(751)	(748)
Dividends Paid to NCI	(2)	(3)	(3)	(2)	(2)	(6)	-	-	-	-	-
<b>Financing Cash Flow</b>	<b>54</b>	<b>(1,192)</b>	<b>(1,665)</b>	<b>483</b>	<b>(2,347)</b>	<b>498</b>	<b>(521)</b>	<b>(913)</b>	<b>(748)</b>	<b>(751)</b>	<b>(748)</b>
Net Change in Cash	(1,274)	(900)	(237)	1,727	(4,390)	(1,161)	(257)	273	675	678	872
Discontinued Operations	1,063	647	(25)	129	3,403	(12)	(10)	-	-	-	-
Impact of FX	(184)	-	-	(55)	65	41	-	-	-	-	-
<b>Change in Cash</b>	<b>(395)</b>	<b>(253)</b>	<b>(262)</b>	<b>1,801</b>	<b>(922)</b>	<b>(1,132)</b>	<b>(267)</b>	<b>273</b>	<b>675</b>	<b>678</b>	<b>872</b>
<b>ANALYTICS</b>	<b>2017A</b>	<b>2018A</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
CFO	1,870	1,779	2,031	2,511	1,629	(173)	1,257	2,215	2,501	2,559	2,802
CAPEX	(859)	(843)	(1,013)	(895)	(763)	(806)	(992)	(1,029)	(1,079)	(1,130)	(1,181)
Net Interest Add Back (Post Tax)	102	181	79	134	34	146	207	192	181	157	146
Free Cash Flow to Firm	1,113	1,117	1,097	1,750	900	-833	471	1,378	1,604	1,586	1,767
Free Cash Flow to Equity	-50	(1,543)	(1,494)	1,034	(1,557)	(2,997)	(257)	273	675	678	872
FCFF / NOPAT	69%	56%	56%	86%	50%	-89%	33%	84%	85%	78%	80%

Source: Company Reports, BofA Global Research Estimates

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**Abbreviations:**

CPAP: Continuous Positive Airway Pressure

C/BiPAP: Continuous/Bilevel Positive Airway Pressure

MDR: Medical Device Reporting

DME: Durable Medical Equipment

S&N: Smith & Nephew

D&T = Diagnosis & Treatment

S&RC: Sleep & Respiratory Care

SHL = Siemens Healthineers AG

## 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
<b>BUY</b>				
	Amplifon	AMFPF	AMP IM	Julien Ouaddour
	Coloplast A/S	CLPBF	COLOB DC	Julien Ouaddour
	Coloplast A/S	CLPBY	CLPBY US	Julien Ouaddour
	Fresenius SE & Co KGaA	FSNUF	FRE GY	Marianne Bulot
	SCHOTT Pharma	XCVOF	1XP 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
<b>NEUTRAL</b>				
	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
	Straumann	SAUHY	SAUHY US	Julien Ouaddour



## EMEA - Medtech &amp; Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	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<sup>method</sup>™ 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

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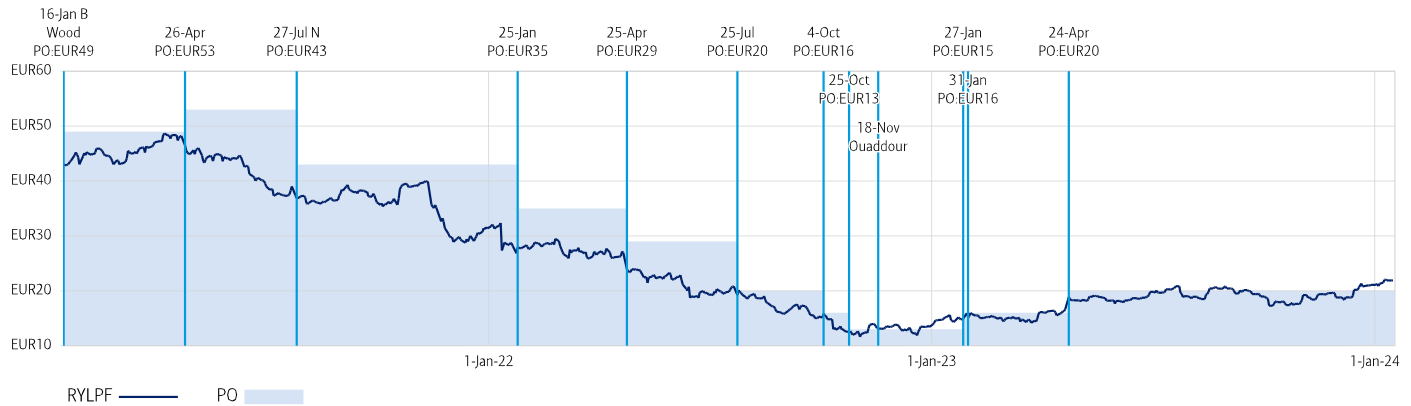
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## Important Disclosures

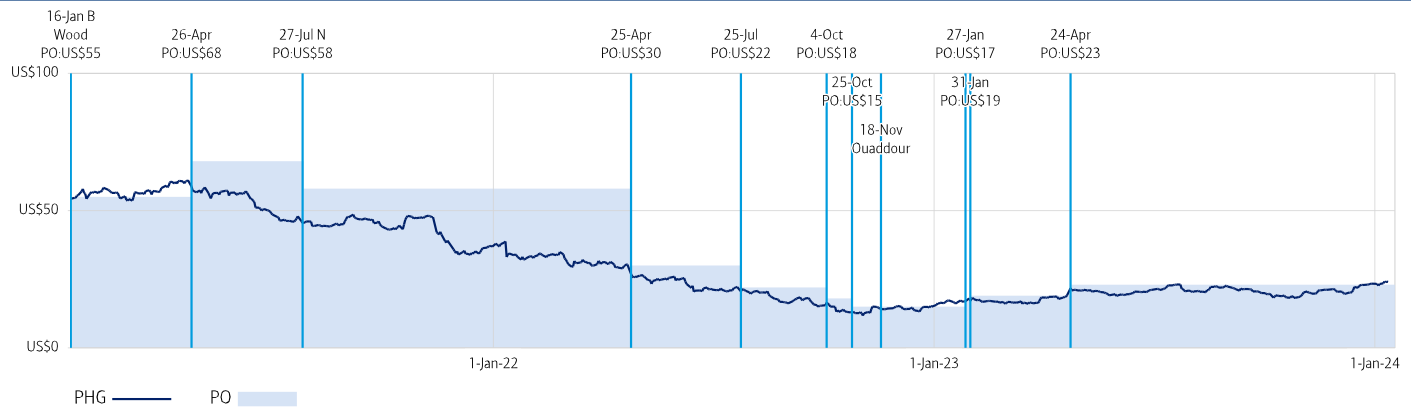
### Philips (RYLPF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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 <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup>Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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