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PHG.AS - Koninklijke Philips NV to Acquire BioTelemetry Inc Call

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PRESENTATION

Leandro Mazzoni - *Koninklijke Philips N.V. - Head of IR*

Thank you, and good morning, ladies and gentlemen. Welcome to today's conference call to update you on our agreement to acquire BioTelemetry, Inc. We appreciate that you could join our call on such short notice. I'm here with our CEO, François van Houten; our CFO, Abhijit Bhattacharya; and the business leader for Connected Care, Roy Jakobs. Our press release and the related information deck were published at 8:15 a.m. CET this morning. Both documents are available on our Investor Relations website. Please take a moment to download the information slide deck as we will make reference to some of the pages during the call. A full transcript of the call will be made available by end of today on our website.

On today's call, Frans will take you through some opening remarks, and after that, we will take your questions. Before we start, I would like to draw your attention to the forward-looking statements and additional legal information at the beginning of the presentation on Slide #2.

With that, I would like to hand over to Frans.

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management & CEO*

Thanks, Leandro. Good morning to all of you. I hope that you and your families are keeping safe and well. Let me say that we are all very excited to -- with this acquisition, and we would love to share some insights and explain the strategic rationale of our agreement to acquire BioTelemetry, the #1 provider of ambulatory cardiac diagnostic and monitoring services. As we explained during our recent Capital Markets Day, we have a clear strategy to be successful and transform care along the health continuum combining smart systems devices, informatics, data and services. This strategy strongly resonates with customers and has been further validated during the COVID-19 crisis. We see increased interest in solutions that can help virtual working of care professionals as well as move care into the community, also leveraging telehealth. The acquisition of BioTelemetry is a strong fit with this strategy. As depicted on Slide 3 of the PowerPoint presentation that is published on our website, the combination of Philips' leading patient monitoring in the hospital with BioTelemetry's leading cardiac diagnostics and monitoring position outside of the hospital, ambulatory and home, will result in a global leader in patient care management solutions for hospital and ambulatory care for cardiac and other patients. Leveraging our collective expertise, we will be in an optimal position to improve patient care across care settings for multiple diseases and medical conditions.

Moving to Slide 4. BioTelemetry has a market-leading cardiac diagnostics and monitoring solution, comprised of wearable connected heart monitors, AI-based data analytics and state-of-the-art monitoring and services center. These clinically validated solutions are focused on the diagnosis and monitoring of heart rhythm disorders. With over 30,000 unique referring physicians, BioTelemetry provides services for over 1 million patients per year and has built the world's largest remote cardiac monitoring services network. Additionally, BioTelemetry has a clinical research business that provides testing services for clinical trials.

On Slide 5 of the presentation, you can see that BioTelemetry serves a USD 3 billion market, which is growing high single digits. This growth is driven by an increasing prevalence of chronic disease, the adoption of home monitoring and shift to out-of-hospital and the acceleration of outcome-oriented payment models.

On Slide 6, you will find the main transaction highlights. Following the agreement, Philips will commence a tender offer to acquire all the issued and outstanding shares of BioTelemetry for USD 72 per share to be paid in cash upon completion. This represents a 16.5% premium to BioTelemetry's closing price on the 17th of December 2020. The implied enterprise value is approximately EUR 2.3 billion, inclusive of BioTelemetry's cash and debt. The Board of Directors of BioTelemetry has approved the transaction and recommends the offer to its shareholders. Upon completion of the transaction, BioTelemetry and its approximately 1,900 employees will become part of Philips Connected Care business segment. The acquisition will be accretive to sales growth and adjusted EBITDA margin in 2021. We target significant revenue synergies driven by channel cross-selling, geographical expansion and portfolio innovation synergies, such as access to the HealthSuite -- Philips HealthSuite Digital Platform. We will also drive expansion of BioTelemetry products and commercialization opportunities in new and adjacent therapeutic areas. Additionally, we will drive operational performance improvements through our proven productivity programs. The BioTelemetry business is expected to continue to grow double digits and to improve adjusted EBITDA margin to over 20% by 2025.

Ladies and gentlemen, to wrap it up, BioTelemetry is a great strategic fit with the Philips Connected Care business. With this acquisition, we strengthened our presence in the large and growing cardiac monitoring market outside the hospital with a #1 position and with potential for further expansion. Moreover, we are building on our successful track record of integrating acquisitions and rapidly improving growth and profitability thereof. We would also like to use this opportunity to welcome all the employees of BioTelemetry to Philips. Together, we will ensure the best possible future on our great journey to grow leadership in health technology.

And with that, I'm happy to take your questions along with Abhijit and Roy. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

We will now take our first question from Scott Bardo from Berenberg.

Scott Bardo - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Congratulations on the deal today. Yes, just wonder if you can help outline the competitive landscape for remote cardiac monitoring, and perhaps, give us some sense of market shares in this market. That would be helpful.

Second question, please. Obviously, we've seen some very dynamic growth for this business over the last several years. I think, in 2020, revenues were a bit more on the flattish side. It seems a little bit counterintuitive given COVID-19 accelerating remote monitoring. So I wonder if you can help explain a little bit why that dynamic comes into play?

And last question, please. Is there any potential synergies with your AED business?

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management & CEO*

Scott, thank you for great questions. I will tag team with Roy Jakobs on this, but let me first give an assessment of the growth here. Of course, COVID year is a strange year, right? And we see 2 drivers that influence the business: On the one hand, yes, there is an acceleration of telehealth, and we think that's structural. So there will be more care outside of hospitals and more ambulatory care, and that's a fundamental push for cloud-based

patient monitoring services. At the same time, this year, and especially in the first half of this year, we saw a reduction of patient referrals as patients didn't dare to go to their doctors or to the hospitals or the cardiologists, and therefore, referrals were down like most elective procedures, and that basically hampered also BioTelemetry. We expect double-digit growth in this business, and we are very excited about the opportunity to see this business being accretive for Philips already next year, both in -- with this very strong growth. By the way, BioTelemetry is outgrowing competitors at -- already at the moment. So a very strong position. And maybe that's a good segue to Roy to talk a bit more about the competitive landscape.

Roy Jakobs - Koninklijke Philips N.V. - Executive VP & Chief Business Leader of Connected Care Business

Yes. Thank you, Frans. Yes, on a competitive landscape, if you look to the cardiac ambulatory market, which is around EUR 3 billion size market. BioTelemetry has 35% value share and is -- with that, the undisputed #1. The second player in that market is iRhythm, and they have approximately 25% share. And the third player in that market is Preventice with 15% share. If you compare the company profiles, what has been driving this market leadership is that BioTelemetry has, by far, the most comprehensive portfolio. So if you zoom in on the cardiac ambulatory market, you will see that the services are being provided through different measurement Holter types. And asking they are 4 short term extended long term holter, cardiac event monitor and the mobile cardiac telemetry. BioTelemetry has a portfolio that offers all 4 of those holters, if you look at our management methods. If you look at iRhythm, the #2, they have focused on the long-term holter segment. So they take one segment in there. In that segment, they are growing fast, but it's one slice of the total market. It's also at a different reimbursement rate. And for example, the biggest segment of BioTelemetry, which is the mobile cardiac telemetry. We expect that there is growth in this market because we see the need for diagnosing undiagnosed patients going up. The reimbursement codes have been validated. And also actually, we see that the clinical evidence of the impact of doing measurement, both for preventive as well as chronic monitoring and needs are validated and reinforce the clinical value of this as well to the payers. So that will drive the growth that Frans talked to, which we expect for this market to be high single digit, and with our leadership position, we think we will grow this double digit.

François Adrianus van Houten - Koninklijke Philips N.V. - Chairman of the Board of Management & CEO

So maybe then building on that, Scott, with your third question, which is great. We actually see a lot of synergies, not just AEDs. So let's unwrap that a bit. BioTelemetry has 30,000 referring physicians. Effectively, that is a new channel for Philips. And in that channel, we want and can provide our offering for multiple therapeutic areas. We see opportunities, for example, for our sleep business to referring physicians. We see opportunities to leverage BioTelemetry platform also for other diseases, other chronic diseases. And we also think that these referring physicians like to work with a full-service company. In other words, it's convenient to work with the same platform, services platform company for multiple types of patients. I mean, basically, it reduces their contact points and their stress. And if you have a reliable service with clinical analytics, then that's where you work. So we expect the consolidation of services in that channel, and Philips is, as Roy explained, BioTelemetry is already having a wider portfolio. And then together with Philips, the portfolio becomes even bigger, right?

So across multiple product lines in Connected Care, we will gradually see that we can leverage the cross-selling, right? So cross-selling is one synergy source. And then secondly, we see geographic expansion basically taking the BioTelemetry platform and leveraging it through Philips channels globally. And then we expect innovation synergies to expand the value proposition, and we also expect to see quite a lot of synergies on the operational side, primarily also on the procurement side and on the cost of goods sold where, from the due diligence, we already know that we can see opportunities to leverage the Philips scale.

Let me stop there, Scott. I hope that answers your question and see what other people have to ask.

Operator

We will now take our next question from Ed Ridley-Day from Redburn.

Edward Nicholas Ridley-Day - Redburn (Europe) Limited, Research Division - Research Analyst

First of all, congratulations on this deal. A nice Christmas present to yourselves. Excellent expansion in Connected Care franchise. In terms of the integration, Frans, that you mentioned, first of all, how does this fit with what you're also offering with your partnership with Masimo in terms of Polfox? And those areas of remote monitoring there some synergies there you can develop? And also, can you talk a little bit more about the adjacent therapeutic areas that you would look to move this technology into?

François Adrianus van Houten - Koninklijke Philips N.V. - Chairman of the Board of Management & CEO

Yes. Sure. Well, the partnership with Masimo is very much focused on the intensive care monitoring, where Philips, of course, is market leader. We have between 40%, 50% market share, depending on the geography. And our monitors, as an open platform, connect to sensors of multiple brands, among which Masimo. And the partnership with Masimo is that we basically help each other in the hospital with that platform. The out of hospital segment is still quite a broad based market fragmented, if you look at the various disease types. In cardiac, as Roy just explained, BioTelemetry is, with a distance, the market leader. And as I explained in relation to the question of Scott, we expect to be able to leverage the services platform of BioTelemetry and also the access to the 30,000 referring physicians to add clinical services also in adjacent areas. That can also lead to adding more sensor types like Tosok or others. At the moment, BioTelemetry has cardiac rhythm monitors, but we see lots of opportunities to also broaden the scope of wearables. And Philips itself, of course, we have also a portfolio of wearables already that will benefit from the services platform that BioTelemetry has.

The types of diseases, well, we will look at the Sleep & Respiratory Care. And in the post-COVID area where you can already expect to see more chronic patients with respiratory conditions, yes, their pollox would also be a natural opportunity to focus on. You see also providers trying to push COVID patients earlier back into their home, right? So the -- in fact, we can't wait until this deal is closed and that we can start realizing all these opportunities. So it's also attractive through the tender offer that the close will already be in Q1 so that we don't need to wait too long to get going on building out the services platform, both in geographies, but also in depth and width of the service offering.

Operator

(Operator Instructions)

We will now take our next question from Patrick Wood from Bank of America.

Patrick Andrew Robert Wood - BofA Merrill Lynch, Research Division - Director in Equity Research and Head of the EMEA MedTech & Services Team

Perfect. So 2 questions for me, please. The first would be, you guys have obviously done quite a few cardiac-related acquisitions now. And if we take a step back, how close are you to building out now the full sort of patient flow within cardiac in order to really understand the patient right from the start of the process all the way through to the therapeutic side? Are there still pieces that you're missing? How far does this acquisition go to really pulling that whole value chain for you guys together? And is there a lot of value in having all those aspects sort of line up in a row? I guess that's the first sort of broad top-down question.

Second question maybe a little bit more specific. I'm curious if you could give a little bit more on the synergy side, on the cost side. Are there any manufacturing synergies here? Or is this a setup where a bit like with Spectranetix, they're already very efficiently done and such that it's not about the manufacturing side, and it's much more on the procurement side? That would be helpful to understand.

François Adrianus van Houten - Koninklijke Philips N.V. - Chairman of the Board of Management & CEO

Yes, Patrick. Philips has indeed an ambition to look end-to-end at the cardiovascular pathways for the various heart-related disease types and vascular disease type. With BioTelemetry, we are adding the out-of-hospital services platform. It's an important piece as we see more and more

providers wanting to keep a tab on how the patients are doing. This large base of chronic patients that have recurring visits to hospitals and also from a preventative point to tackle the issues early and avoid escalation of cost. In the last few years, we have seen the more advanced providers looking beyond the hospital walls to wanting to put in place care programs, both preventative and secondary prevention and so dealing with chronic conditions. So we are quite excited that we -- with this services platform, we make a huge step to reach and touch the patient at home and also have the call point with all these referring positions. So it's quite important.

Now on your question, how complete is it then? Well, you can always deepen it, broaden it. We had the earlier question about adjacencies on related disease types. If you think about other cardiac conditions, then it's often that patients have multiple comorbidities, right? And we believe that in the end, the broader and deeper your portfolio is the better. So I think this is a big step, and organically, now between BioTelemetry and Phillips, we can expand a lot. I wouldn't exclude that further down the road, there are further additions to be done. And if you think in the hospital because some of our cardiac acquisitions were, of course, in IGT. There, we can also still deepen the portfolio further, but it's undeniable that Philips is quickly becoming an expert in the end-to-end cardiovascular pathway from diagnosis to treatment and to chronic disease management. And we think that in a couple of years from now, as the world moves more and more towards value-based care or outcome-based care, having the end-to-end platform and being able to mine the data and optimize cost versus outcomes is going to be a big asset, and we definitely have an interest to leverage also the data around these cohorts of patients.

In terms of value creation, as we explained, we see a lot of synergies, both from the revenue side as well as from the cost side. And I would say, that doesn't even include yet, let's say, what I've just explained around the end-to-end pathway management. That's a more strategic orientation. The near-term synergies are all quite practical, cross-selling to referring physicians, geographical expansion, being able to add value propositions together, think about our respiratory care patients and the BioTelemetry services platform. So all, let's say, feet on the ground, near-term opportunities that Roy and his team and, of course, also Vitor Rocha in North America and the other regional leaders are going to achieve relatively quickly, right?

And then on the cost side, I'd like to emphasize that it is not about staff reductions. It's very much around the cost of goods sold where we see the low-hanging fruit, right, in terms of supplier consolidation, leveraging our expertise around cost engineering that we think that we can make a big step. In fact, not unlike what we did with Volcano, right, where we were able to drive a lot of cost synergies relatively quickly by leveraging the Philips scale. Patrick, does that answer your question? Good.

Patrick Andrew Robert Wood - *BofA Merrill Lynch, Research Division - Director in Equity Research and Head of the EMEA MedTech & Services Team*

It is. And maybe if I can sneak just very quickly, one in. BEAT has quite a lot of relationships with some of the other cardiac players like Boston on the therapeutic side and things like that. Would you imagine that those relationships would remain in place? Because they're also somewhat competitors in some instances. Would you generally look to keep those relationships in place?

François Adrianus van Houten - *Koninklijke Philips N.V. - Chairman of the Board of Management & CEO*

Yes. Generally, we would, right? I mean, how do you call that? It's cooptition, will always happen, right, where you collaborate in some areas, you compete in others. I'm quite comfortable with that, and we would like to keep all those relationships in place.

Operator

We will now take our next question from Julien Dormois from Exane BNP Paribas.

Julien Dormois - Exane BNP Paribas, Research Division - Research Analyst

It might be an easy one, but it's -- just on your appetite for further deals. I mean, you have indicated at your Capital Markets Day that you're -- you were planning to switch gears on acquisition, and this one is a very nice one. Does that limit your appetite going forward, both from a financial perspective, but also from an integration perspective? Would you still have room to do a couple more deals for other divisions into 2021?

François Adrianus van Houten - Koninklijke Philips N.V. - Chairman of the Board of Management & CEO

Yes. Julien, correct. We had flagged that we felt that strengthening the portfolio and looking at the nearby adjacencies would be a good thing, and this is a good example of something that fits very well with our existing portfolio, strengthens the core. Of course, it doesn't take away from our focus on growing the core business because we think there is a tremendous opportunity just to do that. So we will be selective in doing acquisitions. We will definitely take into account the ability to integrate and absorb and manage what needs to be done. And maybe a final comment, yes, we would not exclude that next year. There could be other opportunities, but we'll be very selective like this one that has great strategic and operational synergies.

Operator

We will now take our final question from Scott Bardo from Berenberg.

Scott Bardo - Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst

Is it possible to help us understand how this deal came about? And was it a competitive process? And second question, please. Is this business big enough to reshape your mid-term aspirations for Connected Care of 5% to 6% growth, 17% to 19% adjusted EBITDA margin?

François Adrianus van Houten - Koninklijke Philips N.V. - Chairman of the Board of Management & CEO

Maybe you should come and work for us, Scott, then you can have all the inside scoops. Without joking, Scott, yes, how did the deal come about? I mean, we felt strongly that we wanted to build out our out-of-hospital services capability to serve, let's say, the growing market of patients with cardiovascular issues. And therefore, already last year, we were on the lookout of what assets could we potentially acquire. You could say, we have taken our time a bit, and we were pleased that we could acquire the market leader, right? And yes, I'll leave it at that because I don't think further details would be appropriate.

Then the second question...

Unidentified Company Representative

So would it change the targets for...

François Adrianus van Houten - Koninklijke Philips N.V. - Chairman of the Board of Management & CEO

Yes, would it change the targets. Well, we've just announced our targets. And while we were working on this deal already, so you would say, we now first want to achieve those targets. And then if we have a bit of sailors, say, water under the keel and wind in the sail then next year, the post-COVID year, we'll still be quite uncertain with the economy and the hospitals. So let's see how it goes next year. And then Scott, I'll keep your question in mind for our conversations next year, and whether we ask Roy to up his performance targets or not. But for now, it stays what it is.

Operator

Thank you, Mr. van Houten That was the last question. Please continue.

François Adrianus van Houten - Koninklijke Philips N.V. - Chairman of the Board of Management & CEO

Okay. Well, then I'd like to wrap up. And I appreciate very much that everybody came into the call at such short notice. As you can tell, we are very pleased with this acquisition, and we see lots of opportunity. And well, one of you called it a Christmas gift. We bought the gift ourselves so not sure completely appropriate reference, but we are definitely pleased. And I'd like to take the opportunity to thank you very much for following Philips, for supporting us, challenging us. And I would like to wish you all a great vacation period, and hope that you will be safe and healthy and also a great 2021. Thanks. Have a great day.

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