

Annual Report 2021

Financial Performance

Financial performance

“2021 was a mixed year for Philips, with the Diagnosis & Treatment and Personal Health businesses performing well above plan, while the Connected Care segment was impacted by the Respironics recall. The first half of the year started strongly, with the second half being impacted by supply chain headwinds. Demand for our products and solutions remained strong as we ended the year with our highest-ever order book, 18% above 2020. Looking ahead, I am positive about our ability to drive growth and margin improvement.”

Abhijit Bhattacharya CFO Royal Philips

The year 2021

- 2021 saw strong growth in orders and sales in the Diagnosis & Treatment and Personal Health segments, with a decline in Connected Care following the extraordinary growth in 2020 and the impact of the Philips Respironics voluntary recall notification. Increases in component and transportation costs, along with shortages of key components due to capacity constraints and delays in transport routes, impacted Philips' sales and profitability.
- Sales amounted to EUR 17.2 billion, a decline of 1% on a nominal and comparable basis. Comparable sales growth*) in the Diagnosis & Treatment businesses was 8% and in the Personal Health businesses 9% on a comparable basis. However, this was more than offset by a 23% decline in the Connected Care businesses. This was largely due to the Respironics recall but also the high comparable base in 2020. Nevertheless, we ended the year with our highest-ever order book, 18% above 2020.
- In Q3 2021, Philips completed the divestment of Domestic Appliances as planned, resulting in a EUR 2.5 billion gain after tax and transaction-related costs; reported in Discontinued Operations.
- Net income amounted to EUR 3.3 billion, an increase of EUR 2.1 billion compared to 2020, mainly driven by the gain on the sale of the Domestic Appliances business. Net income is not allocated to segments, as certain income and expense line items are recorded on a centralized basis.
- Adjusted EBITA*) amounted to EUR 2.1 billion, or 12.0% of sales. Productivity programs delivered annual savings of approximately EUR 279 million. This included approximately EUR 140 million procurement savings, led by the Design for Excellence (DfX) program, and approximately EUR 139 million savings from other productivity programs. While the Diagnosis & Treatment and Personal Health businesses delivered improved profit expansion, the Connected Care businesses showed a decline in Adjusted EBITA*) margin, primarily due to the decline in sales and the impact of the Philips Respironics voluntary recall notification in the Sleep & Respiratory Care business.
- Operating cash flow amounted to EUR 1.6 billion, and Free cash flow*) amounted to EUR 0.9 billion.
- In 2021, Philips completed the acquisitions of BioTelemetry and Capsule Technologies, which we believe will further drive our transformation into a solutions company and, in particular, further strengthen our position to improve patient care across care settings for multiple diseases and medical conditions.
- In June 2021, our subsidiary, Philips Respironics, initiated a voluntary recall notification in the United States and field safety notice outside the United States for certain sleep and respiratory care products related to the polyester-based polyurethane (PE-PUR) sound abatement foam in these devices. Following the substantial ramp-up of its production, service and repair capacity in 2021, the repair and replacement program in the United States and several other markets is under way. We recognized a field action provision of EUR 0.7 billion to cover the costs of the recall.
- We expect to resume our growth and margin expansion trajectory in the course of 2022, however, we continue to see volatility and headwinds related to COVID and the supply chain shortages, especially in the first half of the year, despite our ongoing mitigation actions.
- On January 29, 2019, Philips announced a EUR 1.5 billion share buyback program for capital reduction purposes. Approximately half of the program was executed through open market purchases during 2019 and the first quarter of 2020. The other half was executed through individual forward contracts. The last settlement under such contracts took place in December 2021 and the program was completed.
- On July 26, 2021, Philips announced a new EUR 1.5 billion share buyback program for capital reduction purposes. Philips entered into a number of forward transactions in the third quarter, covering approximately half of the program, with settlement dates in 2022, 2023 and 2024. The remainder of the program was executed through open market purchases taking place in Q4 2021 and Q1 2022.

