



**PHILIPS**

www.philips.com

# Royal Philips Third quarter 2019 results

October 28, 2019

innovation  you



# Important information

## *Forward-looking statements and other important information*

This document and the related oral presentation, including responses to questions following the presentation, contain certain forward-looking statements with respect to the financial condition, results of operations and business of Philips and certain of the plans and objectives of Philips with respect to these items. Examples of forward-looking statements include: statements made about the strategy; estimates of sales growth; future Adjusted EBITA; future restructuring, acquisition-related and other costs; future developments in Philips' organic business; and the completion of acquisitions and divestments. By their nature, these statements involve risk and uncertainty because they relate to future events and circumstances and there are many factors that could cause actual results and developments to differ materially from those expressed or implied by these statements.

These factors include but are not limited to: global economic and business conditions; political instability, including developments within the European Union such as Brexit, with adverse impact on financial markets; the successful implementation of Philips' strategy and the ability to realize the benefits of this strategy; the ability to develop and market new products; changes in legislation; legal claims; increased healthcare regulation; changes in currency exchange rates and interest rates; changes in foreign currency import or export controls; future changes in tax rates and regulations, including trade tariffs; pension costs and actuarial assumptions; changes in raw materials prices; changes in employee costs; the ability to identify and successfully complete acquisitions, and to integrate those acquisitions into the business, the ability to successfully exit certain businesses or restructure the operations; the rate of technological changes; cyber-attacks, breaches of cybersecurity; political, economic and other developments in countries where Philips operates and industry consolidation and competition. As a result, Philips' actual future results may differ materially from the plans, goals and expectations set forth in such forward-looking statements. For a discussion of factors that could cause future results to differ from such forward-looking statements, see the Risk management chapter included in the Annual Report 2018.

## *Third-party market share data*

Statements regarding market share, including those regarding Philips' competitive position, contained in this document are based on outside sources such as research institutes, industry and dealer panels in combination with management estimates. Where information is not yet available to Philips, those statements may also be based on estimates and projections prepared by outside sources or management. Rankings are based on sales unless otherwise stated.

## *Use of non-IFRS Information*

In presenting and discussing the Philips Group's financial position, operating results and cash flows, management uses certain non-IFRS financial measures. These non-IFRS financial measures should not be viewed in isolation as alternatives to the equivalent IFRS measure and should be used in conjunction with the most directly comparable IFRS measures. Non-IFRS financial measures do not have standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other issuers. A reconciliation of these non-IFRS measures to the most directly comparable IFRS measures is contained in this document. Further information on non-IFRS measures can be found in the Annual Report 2018.

## *Use of fair-value measurements*

In presenting the Philips Group's financial position, fair values are used for the measurement of various items in accordance with the applicable accounting standards. These fair values are based on market prices, where available, and are obtained from sources that are deemed to be reliable. Readers are cautioned that these values are subject to changes over time and are only valid at the balance sheet date. When quoted prices or observable market data are not readily available, fair values are estimated using appropriate valuation models and unobservable inputs. Such fair value estimates require management to make significant assumptions with respect to future developments, which are inherently uncertain and may therefore deviate from actual developments. Critical assumptions used are disclosed in the Annual Report 2018. In certain cases independent valuations are obtained to support management's determination of fair values.

All amounts are in millions of euros unless otherwise stated. Due to rounding, amounts may not add up precisely to totals provided. All reported data is unaudited. Financial reporting is in accordance with the accounting policies as stated in the Annual Report 2018, except for IFRS 16 lease accounting, which is implemented per January 1, 2019. As announced on January 10, 2019, Philips has realigned the composition of its reporting segments effective as of January 1, 2019. The most notable changes are the shifts of the Sleep & Respiratory Care business from the Personal Health segment to the renamed Connected Care segment and most of the Healthcare Informatics business from the renamed Connected Care segment to the Diagnosis & Treatment segment. Accordingly, the comparative figures have been restated. The restatement has been published on the Philips Investor Relations website and can be accessed [here](#).

## *Market Abuse Regulation*

This presentation contains inside information within the meaning of Article 7(1) of the EU Market Abuse Regulation.

# Content



1. Company overview and strategy	4
2. Financial outlook	19
3. Financial performance in the quarter	25
Appendix	28



At Philips, we strive to make the world healthier  
and more sustainable through innovation.  
Addressing the Quadruple Aim.



Improved  
health  
outcomes



Improved  
patient  
experience



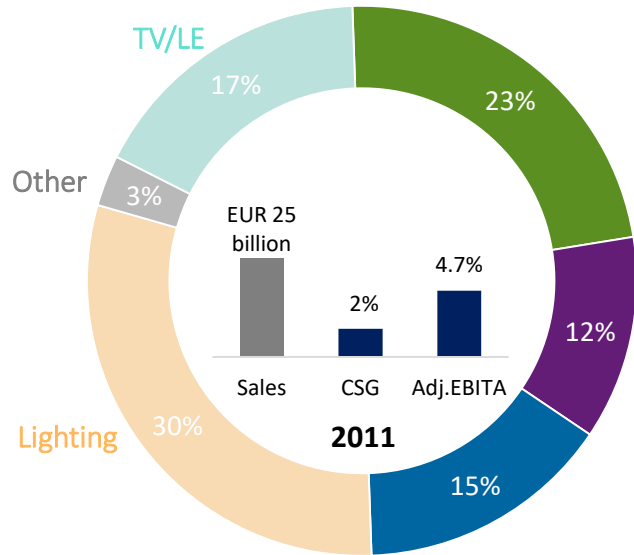
Improved  
staff  
satisfaction



Lower  
cost  
of care



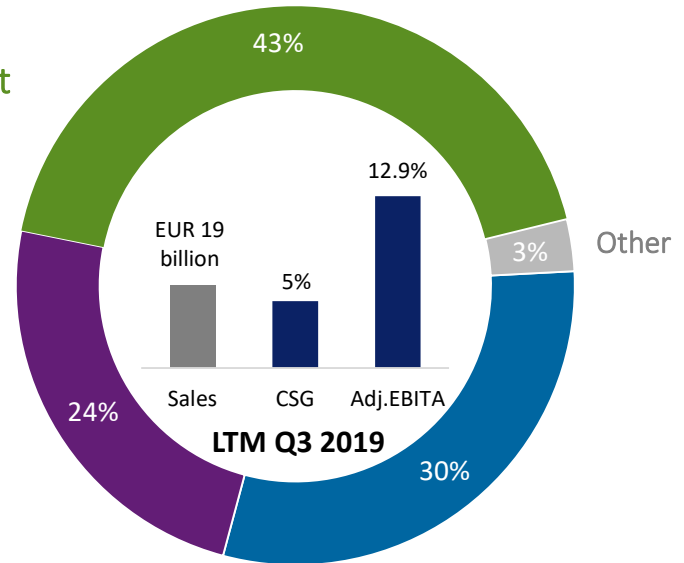
# We have transformed into a focused global HealthTech leader



## Diagnosis & Treatment

## Connected Care

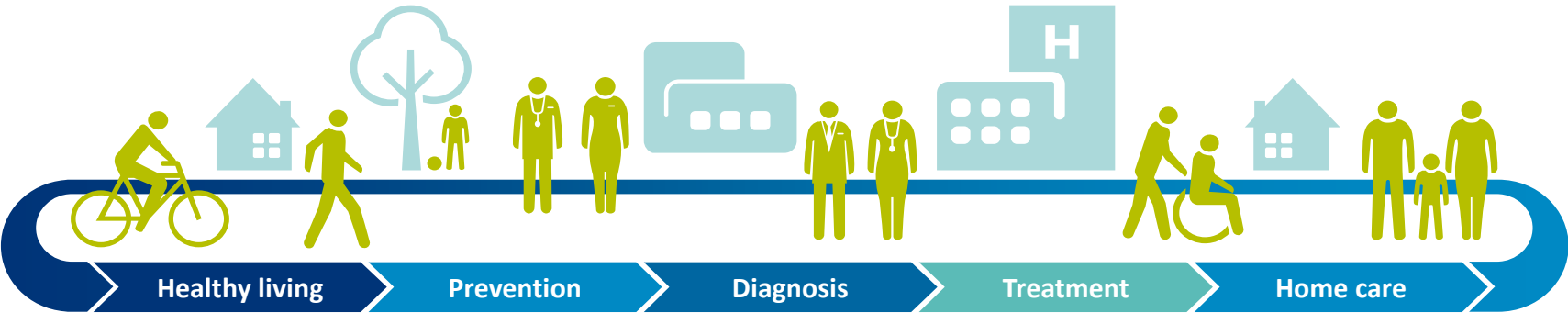
## Personal Health





# Our strategy resonates with customers, addresses their needs

Uniquely positioned in the “last yard” to consumers and providers



Connected products and services supporting the health and well-being of people	Integrated modalities and clinical informatics to deliver precision diagnosis	Real-time guidance, smart devices for minimally invasive interventions	Connected products and services for chronic care
--	---	--	--

Connecting patients and healthcare providers for more effective, coordinated, personalized care  
Managing population health, leveraging real-time patient data and clinical analytics

# We operate in growing, evolving markets

## Strong growth fundamentals

Growing population

Aging population

Rising burden of chronic diseases

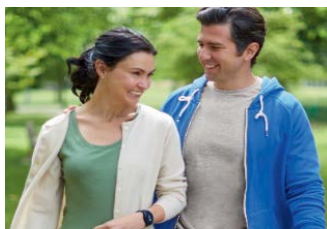
Increasing spend in developing markets

## Market evolution



### Digital

Connecting consumers, patients and care providers



### Consumer centric

Increasing consumer engagement in their own health



### Precision

Importance of AI, informatics and personalization



### Consolidation

Increasing horizontal and vertical consolidation



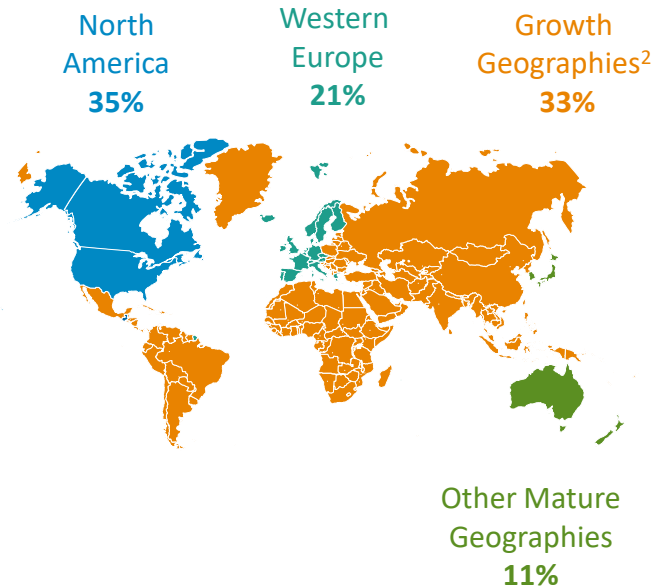
### Post Acute Care

Shifting to lower-cost settings and the home

# Royal Philips

EUR 19.1 billion sales and Adjusted EBITA of 12.9%<sup>1</sup>

## Global footprint



## Committed to innovation

- EUR 1.8 billion for R&D, ~65,000 patents rights, ~39,000 trademarks<sup>3</sup>
- ~1/2 R&D personnel in software and data science<sup>3</sup>
- More than 50% of sales from new products<sup>4</sup>
- ~35% of sales from solutions
- ~80,000 employees in over 100 countries

<sup>1</sup> All figures are based on LTM Q3 2019 unless stated otherwise; <sup>2</sup> Growth geographies consist of all geographies excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel; <sup>3</sup> FY 2018; <sup>4</sup> New product sales over three years based on FY 2018.





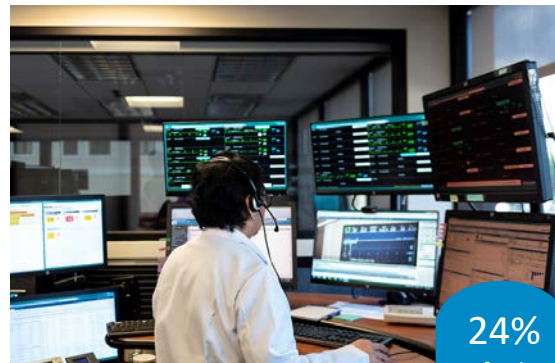
# Operating across the health continuum



43%  
of sales

## Diagnosis & Treatment

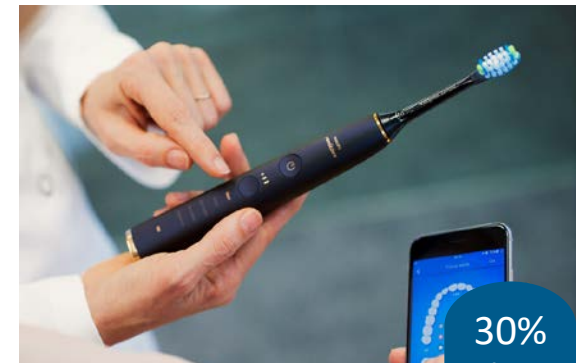
Focuses on solutions for precision diagnosis, disease pathway selection, and image-guided, minimally invasive treatments



24%  
of sales

## Connected Care

Focuses on patient care solutions, advanced analytics and patient and workflow optimization inside and outside the hospital



30%  
of sales

## Personal Health

Focuses on healthy living and preventative care

Performance trajectory 2019-2020

5-7% sales growth  
14-16% margin

4-6% sales growth  
13-15% margin

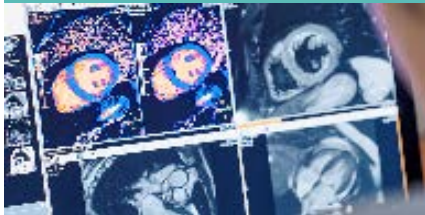
4-6% sales growth  
16-18% margin

# Businesses aligned with customer needs

## Diagnosis & Treatment

### Focus areas

### Products & solutions



- **Precision diagnosis**
- **Treatment selection and planning**
- **Image-guided minimally invasive therapy**

- Diagnostic imaging and ultrasound
- Digital and computational pathology
- Informatics for Radiology, Oncology, Cardiology
- Interventional imaging, navigation and devices
- Services (managed services, consultancy, etc.)

## Connected Care



- **Patient care and workflow management**
- **Population health management**
- **Chronic disease management**

- Telehealth, patient monitoring and analytics
- Hospital and clinical informatics platforms
- Emergency care and resuscitation
- Sleep, breathing and respiratory care
- Services (managed services, consultancy, etc.)

## Personal Health







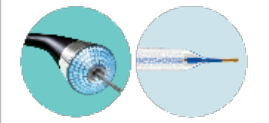









- **Healthy living and prevention**
- **Personal care**
- **Digital consumer engagement**

- Oral care
- Mother and child care
- Male grooming and beauty
- Home appliances
- Services (re-ordering, support, coaching, etc.)



# Over 60% of sales from leadership positions<sup>1, 2</sup>

Diagnosis & Treatment CSG: 5%   Adj. EBITA: 12.5%		Connected Care CSG: 3%   Adj. EBITA: 12.6%		Personal Health CSG: 5%   Adj. EBITA: 15.4%	
	<b>Ultrasound</b> <i>Global Leader</i>		<b>Patient Monitoring</b> <i>Global Leader</i>		<b>Male Grooming</b> <i>Global Leader</i>
	<b>Image-Guided Therapy Systems</b> <i>Global Leader</i>		<b>ICU Telemedicine</b> <i>#1 in North America</i>		<b>Oral Care</b> <i>Global Leader</i>
	<b>Image-Guided Therapy Devices</b> <i>Global Leader</i>		<b>Personal Emergency Response</b> <i>#1 in North America</i>		<b>Mother &amp; Child Care</b> <i>Global Leader</i>
	<b>Diagnostic Imaging</b> <i>Global Top 3</i>		<b>Respiratory Care</b> <i>Global Leader<sup>3</sup></i>		<b>Home Appliances</b> <i>#1 in Air, China</i>
	<b>High-end Radiology and Cardiology Informatics</b> <i>#1 in North America</i>		<b>Sleep Care</b> <i>Global Leader</i>		

<sup>1</sup>Leadership position refers to #1 or #2 position in Philips addressable market; <sup>2</sup>Comparable Sales Growth (CSG) and Adjusted EBITA margin based on LTM Q3 2019; <sup>3</sup>Based on non-invasive ventilators for the hospital setting

# Drivers for continued growth and improved profitability

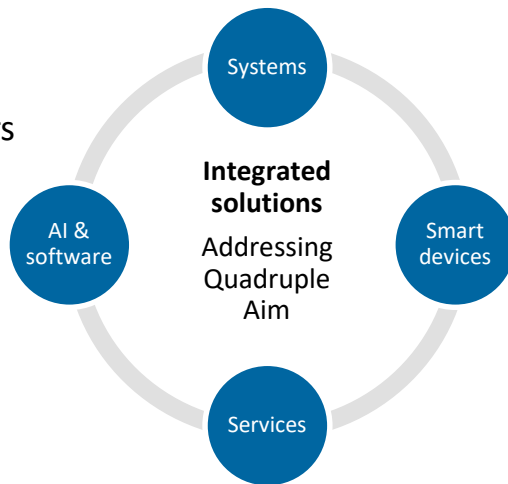


# Drive innovative, value-added integrated solutions

We are uniquely positioned to deliver integrated solutions

We bring together:

- A holistic view on the needs of consumers, patients and providers
- Deep consumers insights
- Leading clinical and operational expertise
- Broad portfolio of technologies



Example solution areas:

- Precision diagnostics
- Minimally invasive therapies
- Sleep and respiratory care
- Connected care

Solutions deliver approx. 35% of revenues<sup>1</sup>, growing double-digit



# Azurion: Innovating the procedure through workflow improvements and radiation reduction<sup>1</sup>



The following results were achieved using Azurion



**Health outcomes**

**25%** Reduction in planned cases finished late



**Staff satisfaction**

**27%** Reduction in staff movement

**29%** Reduction in staff traffic between exam and control room



**Cost of care**

**17%** Reduction in procedure time

**28%** Reduction in post-procedure time



**Patient experience**

**12%** Reduction in patient preparation time

The ability to treat 20% more patients per day

# Pivot to consultative customer partnerships and services business models

## Long-term strategic partnerships unlock value for our customers and us

Built on:

- Common goals
- Joint commitment
- Outcome-focused business models
- Continuous improvement
- Collaborative innovation

Leading to:

- ✓ Deeper C-suite relationships
- ✓ Delivering success to customers
- ✓ Increasing share of wallet
- ✓ Multi-year, recurring revenues
- ✓ Excellent references

### Recent deals



Banner Health



Health

Illawarra Shoalhaven  
Local Health District



Beste Medizin für alle.



# Our sustainability programs address pressing societal issues

Focus on United Nations Sustainable Development Goals, in particular #3, #12 and #13<sup>1</sup>



## Climate change

Carbon-neutral in our operations, 100% renewable electricity (2020)



## Circular economy

15% circular revenues, zero waste to landfill (2020)  
100% closed loops for all medical systems (2025)



## Access to care

3 billion lives improved per year by 2030, including 400 million in underserved healthcare communities
































## The Compact

Committed to the WEF Compact for Responsive and Responsible Leadership





# An experienced leadership team

CEO / CFO	Business Leaders	Market Leaders	Function Leaders
 <p><i>CEO</i> <b>Frans van Houten</b></p> 	 <p><i>Diagnosis &amp; Treatment</i> <b>Robert Cascella</b></p> 	 <p><i>International Markets<sup>1</sup></i> <b>Henk de Jong</b></p> 	 <p><i>Innovation &amp; Strategy</i> <b>Jeroen Tas</b></p> 
	 <p><b>Bert van Meurs</b></p> 		 <p><i>Operations</i> <b>Sophie Bechu</b></p>  
 <p><i>CFO</i> <b>Abhijit Bhattacharya</b></p> 	 <p><i>Connected Care</i> <b>Carla Kriwet</b></p> 	 <p><i>North America</i> <b>Vitor Rocha</b></p>  	 <p><i>Legal</i> <b>Marnix van Ginneken</b></p>  
	 <p><i>Personal Health</i> <b>Roy Jakobs</b></p> 	 <p><i>Greater China</i> <b>Andy Ho</b></p> 	 <p><i>Human Resources</i> <b>Ronald de Jong<sup>2</sup></b></p> 



# Content

1. Company overview and strategy	4
2. Financial outlook	19
3. Financial performance in the quarter	25
Appendix	28



# Continued focus on value creation

2017-2020 targets<sup>1</sup>

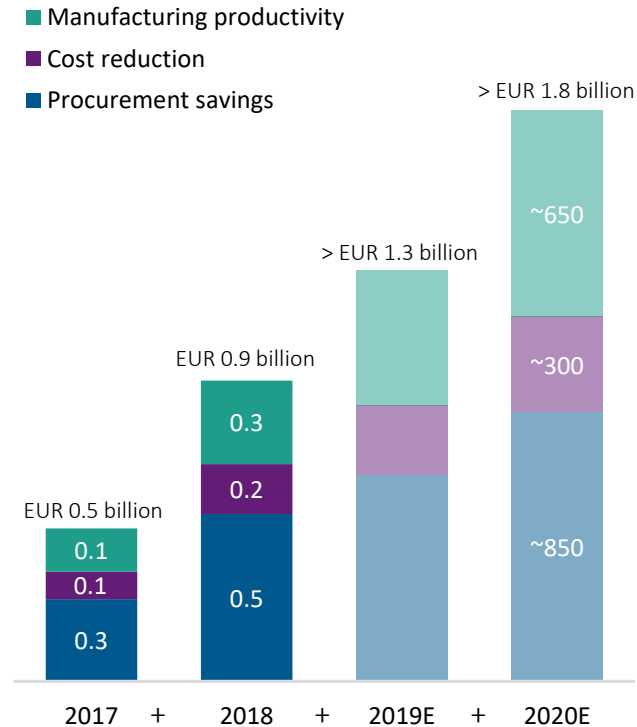


After 2020 we will drive further improvement

<sup>1</sup> As per announcement of October 10<sup>th</sup> 2019, we expect the full year 2019 Adjusted EBITA margin to improve around 10 to 20 basis points for the Group. For 2020, we target an Adjusted EBITA margin improvement of around 100 basis points for the Group.

# Productivity program of > EUR 1.8 billion by 2020

## 2017 – 2020 cumulated net productivity savings



### Manufacturing footprint

- Consolidating regional manufacturing footprint from 50 to ~30 production locations<sup>1</sup>; 13 locations completed by 2018

### Cost reduction

- Significant increase in scope and traction in Global Business Services
- Marketing transformation to fund more advertising firepower
- IT landscape simplification on track
- R&D to deliver 40-50 bps productivity by 2020

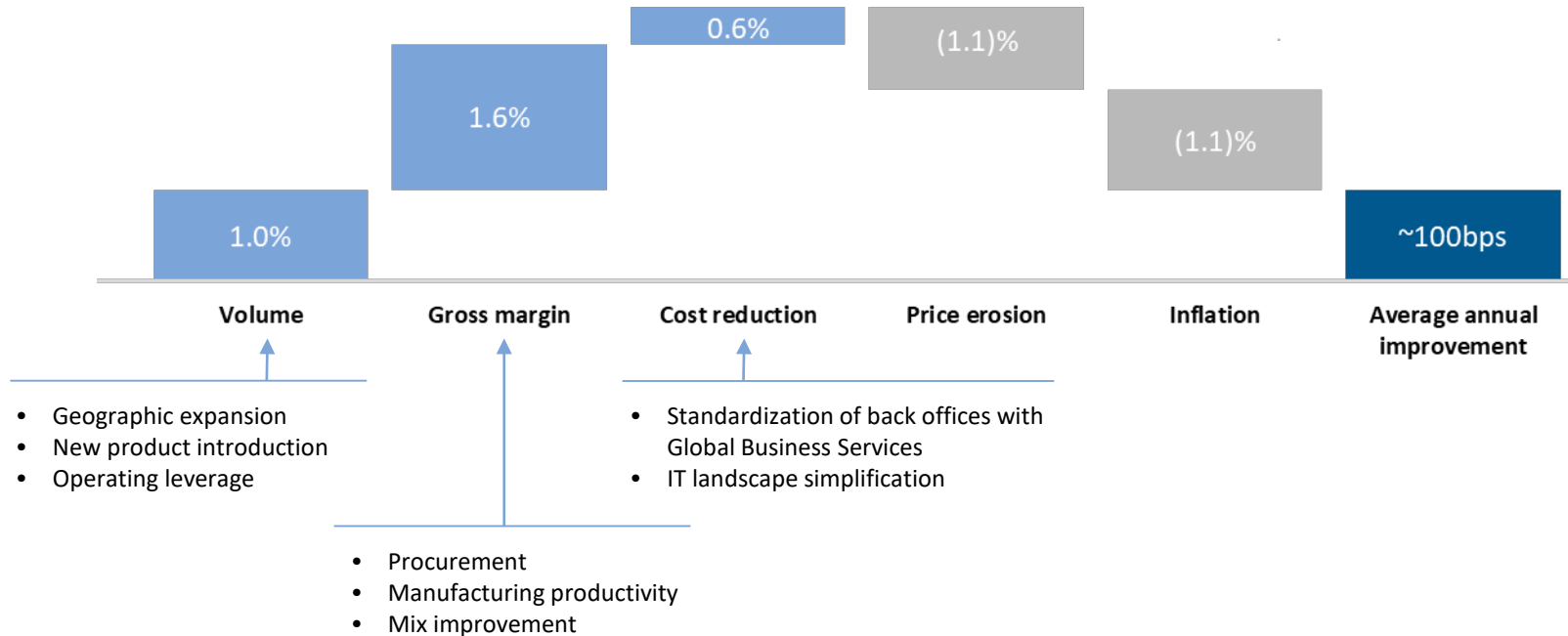
### Procurement

- Expanding proven DfX approach to the full value chain
- Tougher market conditions mainly from trade tariffs

### Restructuring

- Due to additional productivity, restructuring charges expected to be 90-100 bps till 2020, thereafter ~40 bps

# Indicative annual Adjusted EBITA margin step-up bridge<sup>1</sup>

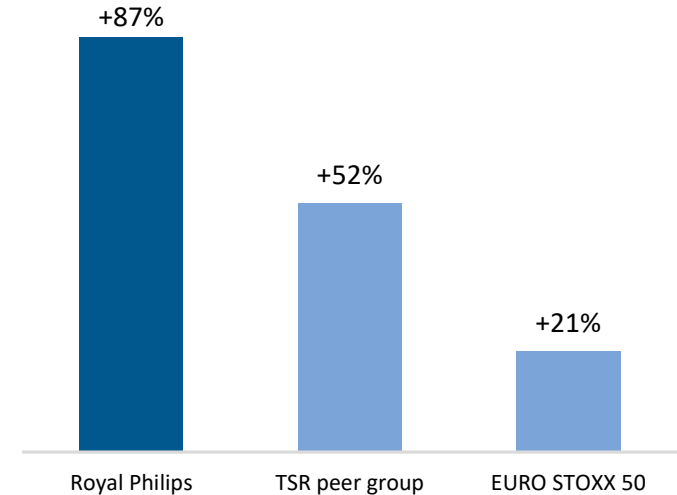


<sup>1</sup> As per announcement of October 10<sup>th</sup> 2019, we expect the full year 2019 Adjusted EBITA margin to improve around 10 to 20 basis points for the Group. For 2020, we target an Adjusted EBITA margin improvement of around 100 basis points for the Group.

# Balanced capital allocation policy



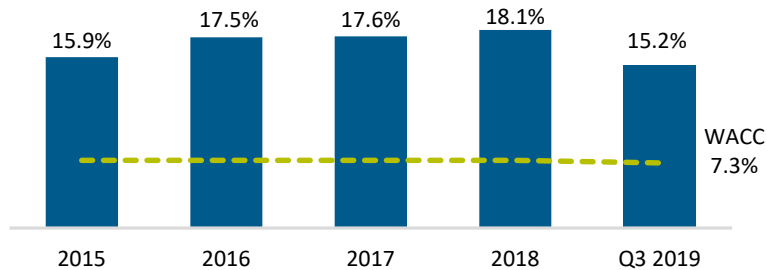
## Total shareholder return since 2016<sup>1,2</sup>



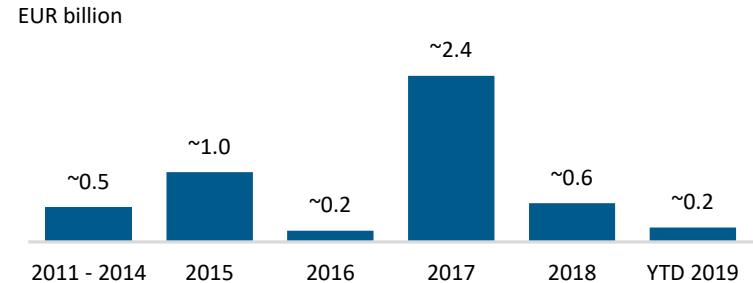


# Balanced capital allocation policy

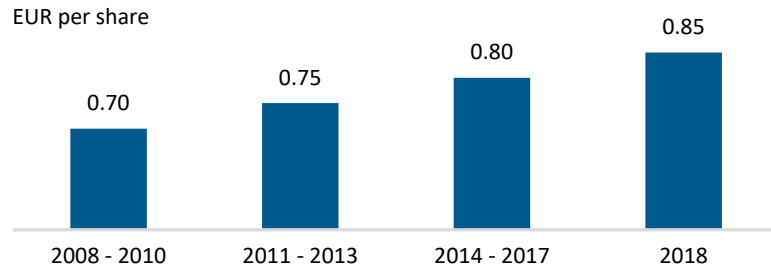
## Organic Return on Invested Capital<sup>1</sup>



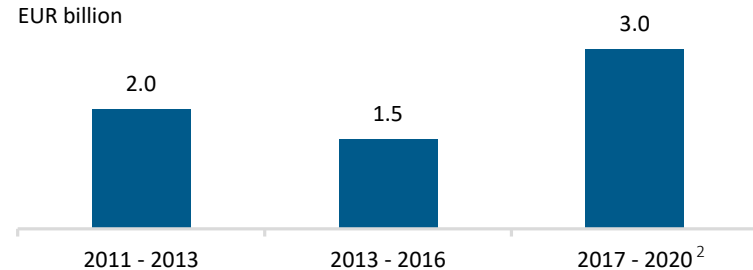
## Mergers & Acquisitions



## Dividends



## Share repurchase



<sup>1</sup> Organic ROIC excludes acquisitions over a five years period, pension settlements in Q4 2015 and significant one-time tax charges and benefits; ROIC % = LTM EBIAT/ average NOC over the last 5 quarters; the implementation of IFRS 16 lease accounting as of January 1, 2019 resulted in an increase in NOC as of 2019; <sup>2</sup> Consisting of two programs: EUR 1.5 billion for the period 2017-2019 that was completed in June 2019, and EUR 1.5 billion for the period 2019-2020.



# Content

1. Company overview and strategy	4
2. Financial outlook	19
3. Financial performance in the quarter	25
Appendix	28





# Q3 2019 financial performance highlights

- Comparable sales up 6% compared to Q3 2018
- Comparable order intake was in line with Q3 2018
- Adj. EBITA margin of 12.4%, compared to 13.2% of sales in Q3 2018
- Free cash inflow of EUR 126 million, compared to an inflow of EUR 52 million in Q3 2018
- Adjusted diluted EPS of EUR 0.46 per share, compared to EUR 0.42 in Q3 2018

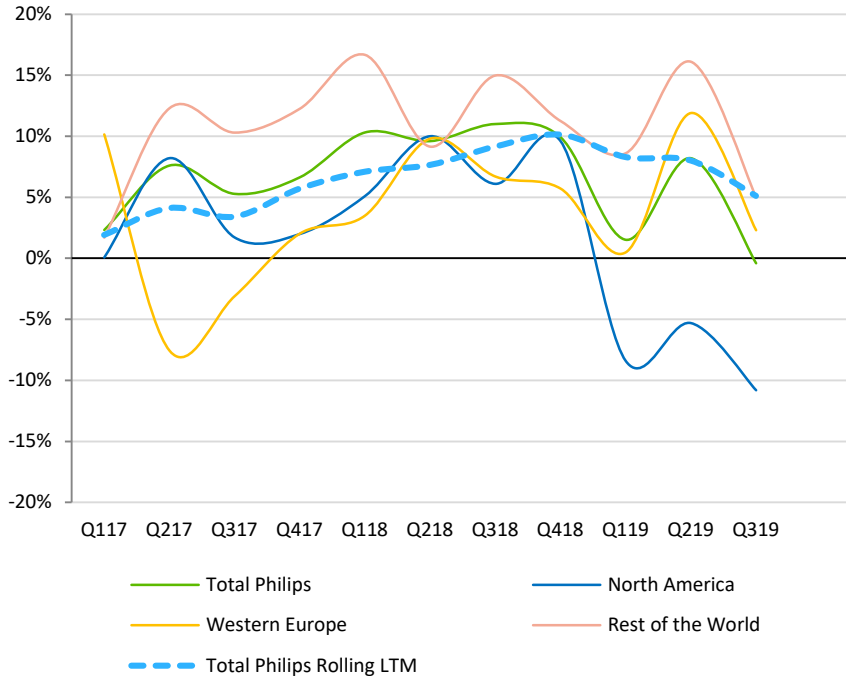
	Sales EUR million	Comparable sales growth	Adj. EBITA margin	Adj. EBITDA margin
Diagnosis & Treatment	2,117	+9%	14.0%	17.4%
Connected Care	1,145	+5%	11.3%	15.2%
Personal Health	1,358	+6%	14.7%	17.5%
Other	82			
<b>Philips</b>	<b>4,702</b>	<b>+6%</b>	<b>12.4%</b>	<b>17.4%</b>

EUR million	Q3 2018	Q3 2019	FY 2018
Capital expenditures on property, plant and equipment	106	116	422
Capitalization of development costs	96	115	385
Depreciation	110	159	438
Amortization of acquired intangible assets	61	71	347
Amortization of software	15	19	64
Amortization of development costs	57	83	240
<b>Depreciation and amortization<sup>1</sup></b>	<b>244</b>	<b>331</b>	<b>1,089</b>

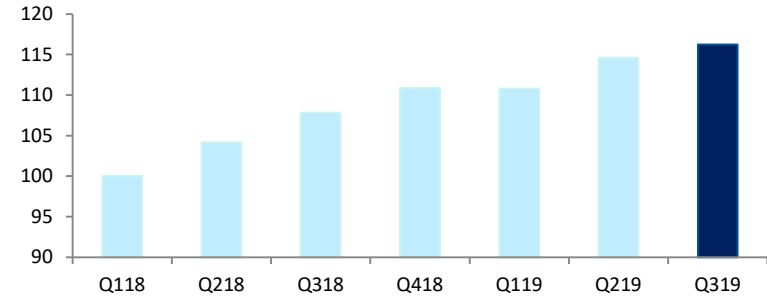


# Order intake and book<sup>1</sup>

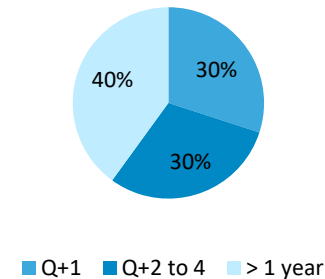
## Comparable order intake growth



## Indexed order book development



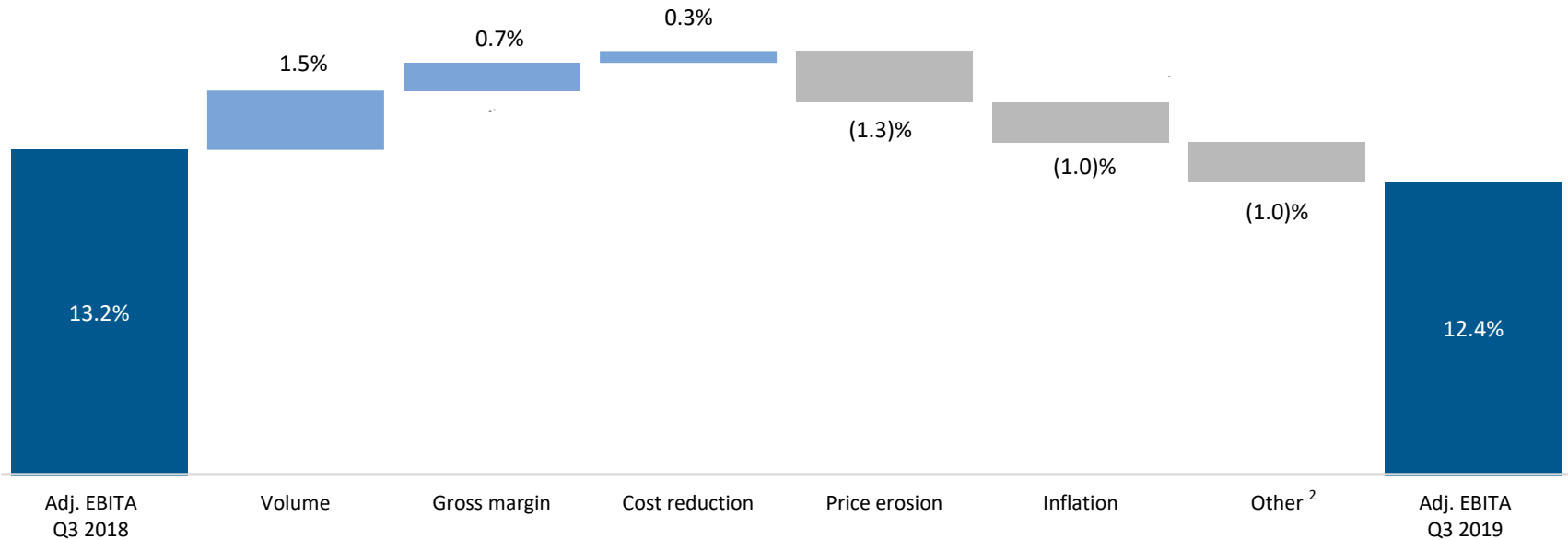
## Typical profile of order book conversion to sales



- Approximately 60% of the current order book results in sales within the next 12 months
- Quarter end order book is a leading indicator for approximately 30% of sales the following quarters

# Adjusted EBITA margin bridge Q3 2019

as a % of sales



# Appendix

# Restructuring, acquisition-related charges and other items

EUR million	Q1 18	Q2 18	Q3 18	Q4 18	2018	Q1 19	Q2 19	Q3 19
<b>Diagnosis &amp; Treatment</b>	<b>(43)</b>	<b>(24)</b>	<b>(20)</b>	<b>(59)</b>	<b>(146)</b>	<b>(30)</b>	<b>(41)</b>	<b>(47)</b>
Restructuring & Acq.-related charges	(43)	(24)	(20)	(59)	(146)	(27)	(37)	(20)
Other items	-	-	-	-	-	(3)	(4)	(27) <sup>5</sup>
<b>Connected Care</b>	<b>(24)</b>	<b>(35)</b>	<b>(28)</b>	<b>(36)</b>	<b>(123)</b>	<b>(29)</b>	<b>(32)</b>	<b>(27)</b>
Restructuring & Acq.-related charges	(7)	(20)	(15)	(25)	(67)	(19)	(15)	(12)
Other items	(17) <sup>1</sup>	(15) <sup>1</sup>	(13) <sup>1</sup>	(11) <sup>1</sup>	(56)	(10) <sup>1</sup>	(16) <sup>1</sup>	(15) <sup>1</sup>
<b>Personal Health</b>	<b>(2)</b>	<b>(20)</b>	<b>(6)</b>	<b>(5)</b>	<b>(33)</b>	<b>(16)</b>	<b>(8)</b>	<b>(23)</b>
Restructuring & Acq.-related charges	(2)	(2)	(6)	(5)	(15)	(16)	(7)	(3)
Other items	-	(18) <sup>2</sup>	-	-	(18)	-	-	(20) <sup>6</sup>
<b>Other</b>	<b>(13)</b>	<b>27</b>	<b>(3)</b>	<b>(11)</b>	<b>1</b>	<b>26</b>	<b>(29)</b>	<b>(17)</b>
Restructuring & Acq.-related charges	(12)	(7)	(3)	(10)	(32)	(9)	(22)	(12)
Other items	(1)	34 <sup>3</sup>	-	(1)	33	35 <sup>3,4</sup>	(7) <sup>3,4</sup>	(5)
<b>Philips</b>	<b>(82)</b>	<b>(52)</b>	<b>(56)</b>	<b>(111)</b>	<b>(300)</b>	<b>(50)</b>	<b>(109)</b>	<b>(114)</b>
Restructuring costs	(41)	(31)	(22)	(66)	(159)	(39)	(66)	(35)
Acquisition related charges	(23)	(21)	(22)	(34)	(99)	(32)	(16)	(12)
Other items	(18)	-	(13)	(11)	(41)	21	(28)	(67)

Due to rounding, amounts may not add up precisely to totals provided.

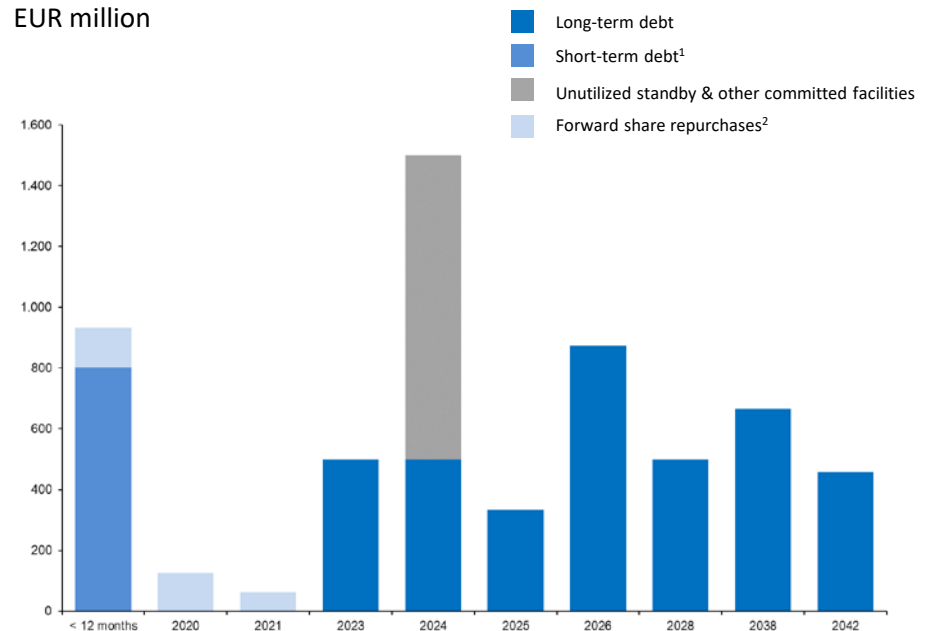
1. Mainly related to the consent decree focused on the defibrillator manufacturing in the US. 2. Provision related to the anticipated conclusion of the European Commission investigation into online price setting. 3. Gains related to divestments and asset disposals. 4. Charges related to litigation provisions. 5. Includes a value adjustment of capitalized development costs. 6. Provision related to legal matters.

# Philips' debt has a long maturity profile

## Characteristics of long-term debt

- Total net debt position of EUR 4.7 billion
- Maturities up to 2042
- Average tenor of long-term debt is 10.1 years<sup>3</sup>
- No financial covenants
- Operating leases (approximately EUR 800 million) have been reclassified as debt per 1 January 2019 under IFRS 16.

## Debt maturity profile as per September 2019



<sup>1</sup>Short-term debt includes local credit facilities that are being rolled forward on a continuous basis; <sup>2</sup> Debt includes forward transactions entered into as part of share repurchase programs for LTI purposes; <sup>3</sup> Based on long-term debt only (including short-term portion of long-term debt), excludes short-term debt and forward share repurchases for LTI purposes



# Calendar for the upcoming quarter

November 11	HSBC European Healthcare Day, Frankfurt
November 14	Societe Generale The European ESG/SRI Conference, Paris
November 21	Jefferies Global Healthcare Conference, London
November 25	Goldman Sachs Healthcare ESG Day, London
December 5	Berenberg European Conference, Surrey
December 5	Evercore ISI 2nd Annual HealthCONx Conference, Boston
December 13	Kepler Cheuvreux One-Stop-Shop, Brussels
January 13	JP Morgan Healthcare Conference, San Francisco
January 28	Fourth quarter and full year 2019 results

contact us	Royal Philips, Investor Relations
phone	+31 20 5977222
email	<a href="mailto:investor.relations@philips.com">investor.relations@philips.com</a>
website	<a href="http://www.philips.com/a-w/about/investor.html">www.philips.com/a-w/about/investor.html</a>