

Annual Report 2021

Message from the CEO

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“Based on the strength of our innovative portfolio and the trust our customers have in our ability to support them, I am confident about our future growth.”

Frans van Houten CEO Royal Philips

Dear Stakeholder,

Amidst the ongoing impact of COVID-19 on society, 2021 was an eventful and challenging year. Our continued strategic progress and strong growth in the first half of the year were overshadowed by the unprecedented scale of the global supply chain disruptions in the second half of the year, as well as the Philips Respirionics voluntary field action to remediate the component quality issue in certain of its products.

The intensified global supply chain headwinds and postponement of customer equipment installations due to COVID-19 presented challenges to fully convert our opportunities to revenue in the second half of the year. These factors, combined with the sales consequences of the recall, resulted in full-year sales of EUR 17.2 billion, down 1% year-on-year.

As we work to overcome these headwinds and look to the future, I am very encouraged by the underlying performance of our businesses. Our Diagnosis & Treatment businesses and Personal Health businesses performed well in 2021, recording 8% and 9% comparable sales growth respectively. Following in the wake of 2020's high COVID-19-related demand for hospital ventilation and monitoring & analytics solutions, our Connected Care businesses posted a 23% decline in comparable sales in 2021, which also reflects the effect of the Philips Respirionics recall.

We have strengthened our portfolio through our R&D programs, partnerships, and acquisitions. The relevance of our innovative products and solutions and customer interest in partnering with Philips is underscored by the 4% growth in comparable order intake, resulting in an order book that is 18% higher year-on-year.

Nevertheless, I would like to emphasize that I very much regret the impact of the Philips Respirionics recall on patients, care providers and shareholders. We identified – through our post-market surveillance processes – that the sound abatement foam used since 2008 in certain of our sleep and respiratory care products may degrade under certain circumstances. Subsequently, we issued a voluntary recall notification for affected devices to address potential health risks. We have ramped up production, service and repair capacity to ensure patients receive a repaired or replacement device as fast as possible.

As of January 2022, Philips Respirionics has shipped a total of approximately 750,000 repair kits and replacement devices to customers and aims to complete the repair and replacement program in the fourth quarter of 2022. In close dialogue with regulators across the world, we are conducting a comprehensive test and research program to better characterize health risks. In parallel, we have captured and applied learnings from this recall across the entire company, as patient safety, quality and integrity are of the utmost importance to us.

Continued progress on strategic roadmap

In 2021, we saw sustained traction for our strategy to help transform the delivery of care across the health continuum, and our innovative portfolio resonates very strongly with customers.

Inspired by our purpose to improve people's health and well-being, we innovate solutions that deliver meaningful impact. In the consumer domain, for instance, our new Sonicare 9900 Prestige electric toothbrush leverages AI to optimize the user's brushing technique, ensuring full coverage of their teeth, and instills brushing habits that improve oral health.

For healthcare providers, our innovative solutions – smart combinations of systems, devices, software and services – help them deliver on the Quadruple Aim of better health outcomes, improved patient and staff experience, and lower cost of care:

- Giving clinicians smart connected imaging tools like our new Spectral CT 7500 system, which deliver high-quality spectral images for every patient on every scan, helping them make precision diagnoses without the need for multiple re-scans. Or our new MR 5300 1.5T 'helium-free for life' system, which combines operational and clinical excellence with reduced environmental impact.
- Enabling real-time, remote collaboration between technologists, radiologists and imaging operations teams across multiple sites with our vendor-neutral, multimodality Radiology Operations Command Center.

- Helping surgeons in the interventional lab perform personalized, minimally invasive procedures with solutions like our Azurion next-generation image-guided therapy platform, which was further expanded with breakthrough applications in 2021.
- Enabling healthcare professionals to orchestrate care delivery, also for patients recovering at home, with connected care solutions like our Patient Flow Capacity Suite, which helps hospitals manage the complete patient journey, and Acute Care Telehealth, which builds on our successful Tele-ICU solutions.

We signed 80 long-term strategic partnerships with hospitals and health systems around the world in 2021, underlining customers' appreciation of our holistic approach to healthcare. Solutions-based sales and recurring revenues continue to generate a growing proportion of total sales, with the figure now standing at around 45%. In order to maintain the strong flow of health technology innovations going forward, we invested EUR 1.8 billion in R&D in 2021.

Major divestment completed, acquisitions to drive future growth

In September, we completed the sale of the Domestic Appliances business to Hillhouse Investment, concluding our line of major divestments. We believe this will allow us to focus on extending our leadership in health technology solutions.

To support future growth and the delivery of data-enabled care across care settings, we again invested significantly in our data science, informatics and cloud technology capabilities in 2021. The acquisitions of BioTelemetry, Capsule Technologies and Cardiologs (the latter completed in January 2022) strengthen our position in patient care management in the hospital and the home. In January 2022, we also closed the acquisition of Vesper Medical, further expanding our image-guided therapy devices portfolio with venous stents.

Delivering on our ESG commitments

We reached 1.67 billion people with our products and services in 2021, including 167 million in underserved communities – taking us a step closer to our goal of improving 2 billion lives per year by 2025, including 300 million in underserved communities.

We continued to deliver on the other key commitments set out in our Environmental, Social & Governance (ESG) framework. We are already carbon-neutral in our operations and are now engaging with suppliers and customers to reduce emissions across our entire value chain, as well as driving the transition to a circular economy.

We again received recognition for our sustainability efforts in 2021 – achieving a CDP 'A List' rating for the ninth consecutive year for our climate action, and securing second-highest place in the global Dow Jones Sustainability Indices (DJSI) list.

Looking ahead

We continue to invest in the future, further improving operational excellence and growing our core business, while driving our transformation into a digital, customer-first solutions company. I am very confident in our ability to overcome our current challenges. Against this background, and reflecting the importance we attach to dividend stability, we propose to maintain the dividend at EUR 0.85 per share.

Based on good customer demand and our growing order book, we expect to resume our growth and margin expansion trajectory in the course of 2022. In the short term, however, we continue to see significant volatility and headwinds related to COVID-19 and supply chain challenges, despite our ongoing mitigation efforts. Due to this, the Respiroics field action and the strong growth in Q1 2021, we expect to start the year with a comparable sales decline, followed by a recovery and strong second half of the year. For the full year, we target 3-5% comparable sales growth and a 40-90 basis-points improvement in Adjusted EBITA margin.

In closing

I would like to thank our customers, suppliers and partners for their continued support over the past 12 months. And a special word of thanks to our employees for their fantastic contribution through another year of often difficult working circumstances due to the pandemic.

I would also like to express my appreciation to our shareholders for the confidence they continue to show in Philips' long-term future. This is a future founded on purpose and the robust, growing demand for health technology, which Philips will serve with a relentless focus on customer needs, its strong portfolio of innovations, and an unwavering commitment to continuous improvement.

Frans van Houten
Chief Executive Officer

