




**PHILIPS**

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Royal Philips  
First quarter 2020 results

April 20, 2020

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: changes in industry or market circumstances; economic and political developments; the impact of the coronavirus disease (COVID-19) outbreak; Philips' increasing focus on health technology; the realization of Philips' growth ambitions and results in growth geographies; lack of control over certain joint ventures; integration of acquisitions; securing and maintaining Philips' intellectual property rights and unauthorized use of third-party intellectual property rights; compliance with quality standards, product safety laws and good manufacturing practices; exposure to IT security breaches, IT disruptions, system changes or failures; supply chain management; ability to create new products and solutions; attracting and retaining personnel; financial impacts from Brexit; compliance with regulatory regimes, including data privacy requirements; governmental investigations and legal proceedings with regard to possible anticompetitive market practices and other matters; business conduct rules and regulations; treasury risks and other financial risks; tax risks; costs of defined-benefit pension plans and other post-retirement plans; reliability of internal controls, financial reporting and management process. 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 also the Risk management chapter included in the Annual Report 2019.

## *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 2019.

## *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 2019. 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 2019.

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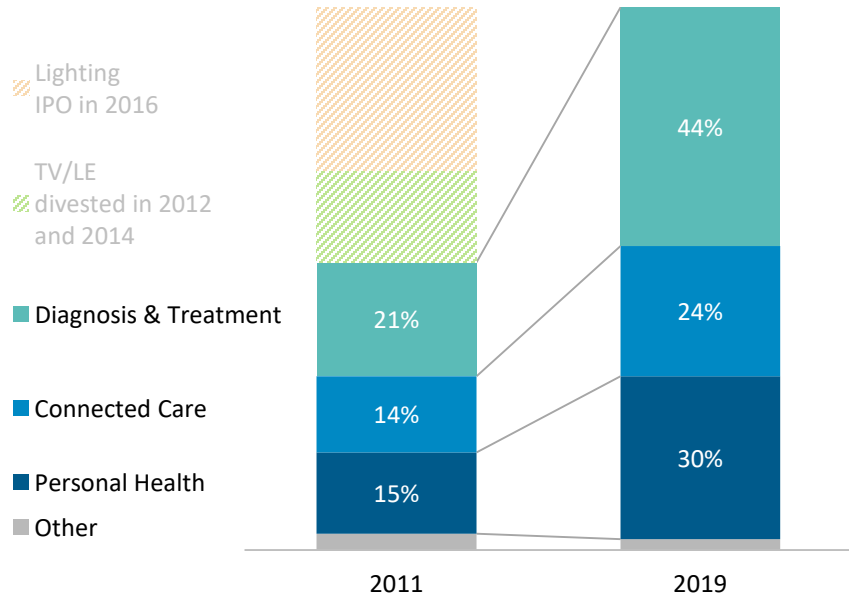
At Philips, we strive to make the world healthier and more sustainable through innovation.



# We have transformed into a focused global HealthTech leader

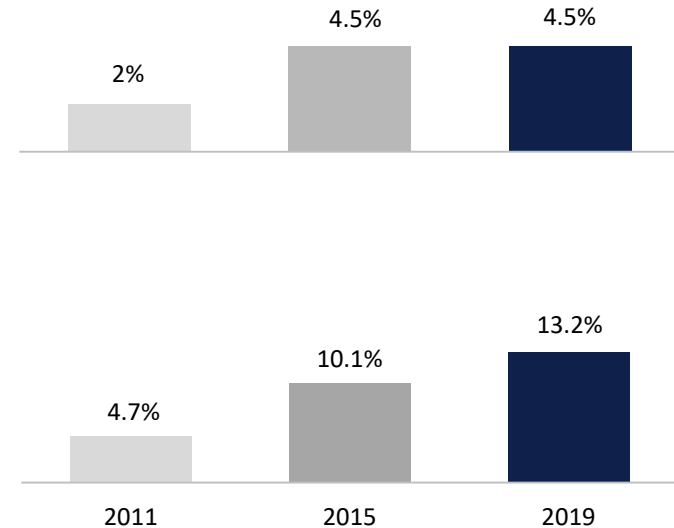
## Transforming the company...

100% of sales split



## ...while creating value

Organic sales growth % and adjusted EBITA as % of sales





Our strategy resonates with customers, addresses their needs  
Seamlessly connecting care across the health continuum, we will improve outcomes



**Improved health outcomes**



**Improved patient experience**



**Improved staff satisfaction**



**Lower cost of care**

# We operate in growing, evolving markets

## The demand for healthcare is growing

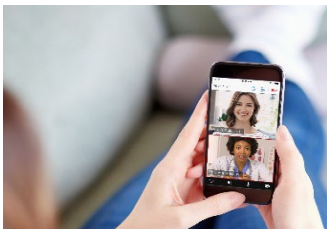
Growing population

Aging population

Rising burden of chronic diseases

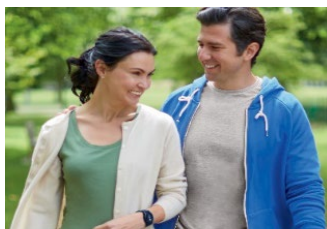
Increasing spend in developing markets

## And technology will play a bigger role



### Digital

Connecting consumers, patients and care providers



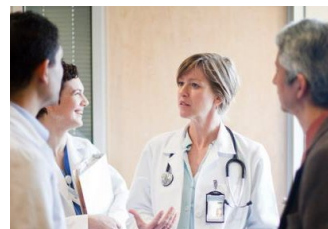
### Consumer centric

Increasing consumer engagement in their own health



### Precision

Importance of AI, informatics and personalization



### Consolidation

Increasing horizontal and vertical consolidation



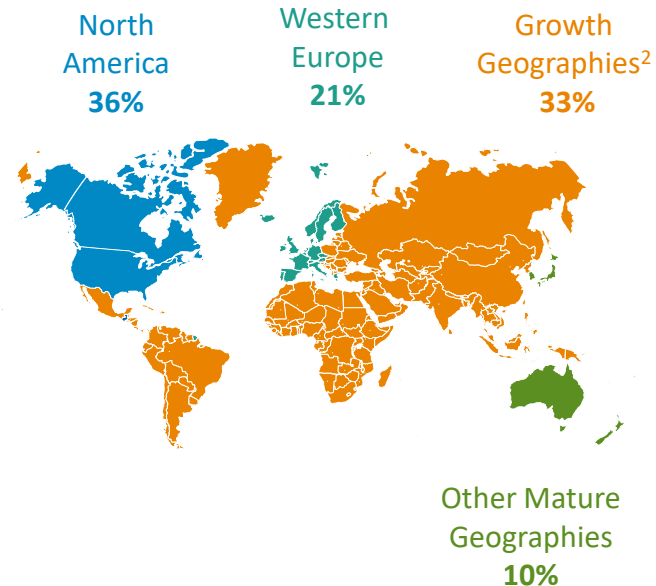
### Post Acute Care

Shifting to lower-cost settings and the home

# Royal Philips

EUR 19.5 billion sales and Adjusted EBITA of 13.2%<sup>1</sup>

## Global footprint



## Committed to innovation

- EUR 1.9 billion for R&D, ~64,500 patents rights, ~39,000 trademarks
- More than half of R&D personnel in software and data science
- ~36% of sales from solutions, growing double-digit
- ~81,000 employees in over 100 countries





# Operating across the health continuum

FY 2019

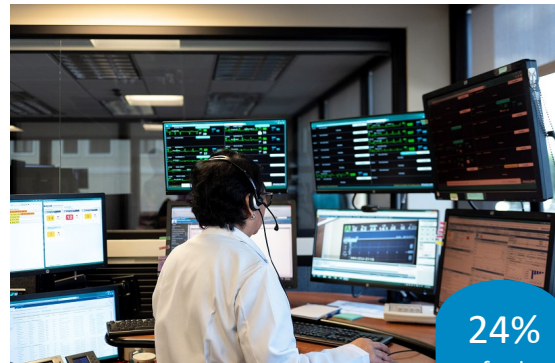


44%  
of sales

## Diagnosis & Treatment

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

5% sales growth  
12.7% margin



24%  
of sales

## Connected Care

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

3% sales growth  
13.2% margin



30%  
of sales

## Personal Health

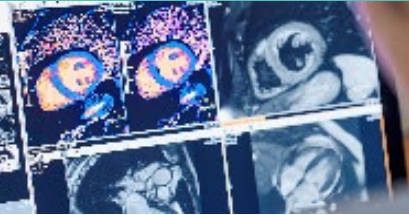
Focuses on healthy living and preventative care

5% sales growth  
16.1% margin

# Businesses aligned with customer needs

## Diagnosis & Treatment

### Focus areas



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

### Products & solutions

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

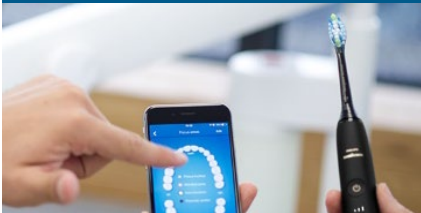
## Connected Care



- **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
- Managed services

## Personal Health







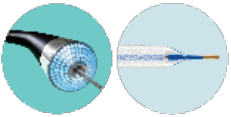









- **Healthy living and prevention**
- **Personal care**
- **Digital consumer engagement**

- Oral care
- Mother and child care
- Male grooming and beauty
- Domestic appliances<sup>1</sup>
- Services (re-ordering, support, coaching, etc.)



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

Diagnosis & Treatment		Connected Care		Personal Health	
	<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>2</sup></i>		<b>Garment Care</b> <i>Global Leader</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> Based on non-invasive ventilators for the hospital setting

# COVID-19: delivering against our triple duty of care

## Central and regional task force teams

### Safeguarding health & safety of our employees

- Personal hygiene measures and safety protocols
- Working from home protocol
- Safe environment for production, supply, field service and certain R&D activities
- Personal Protective Equipment (PPE)

### Meeting critical customer needs

- Production volumes ramp-up
- Delivery and installation of critical equipment
- Fair and ethical allocation of scarce equipment and supplies
- Customer services
- Updated clinical guidance

### Ensuring business continuity

- Business Continuity Management System
- Functional operations and supply chain
- Commercial processes



# Our products, services and solutions can support healthcare providers in the fight against COVID-19

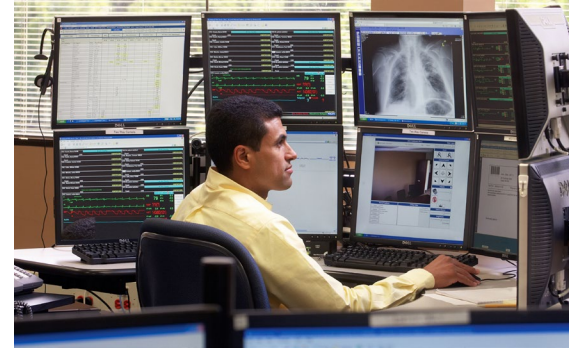


- Vital signs patient monitors
- Invasive and non-invasive hospital ventilators

**New Philips  
Respironics E30**

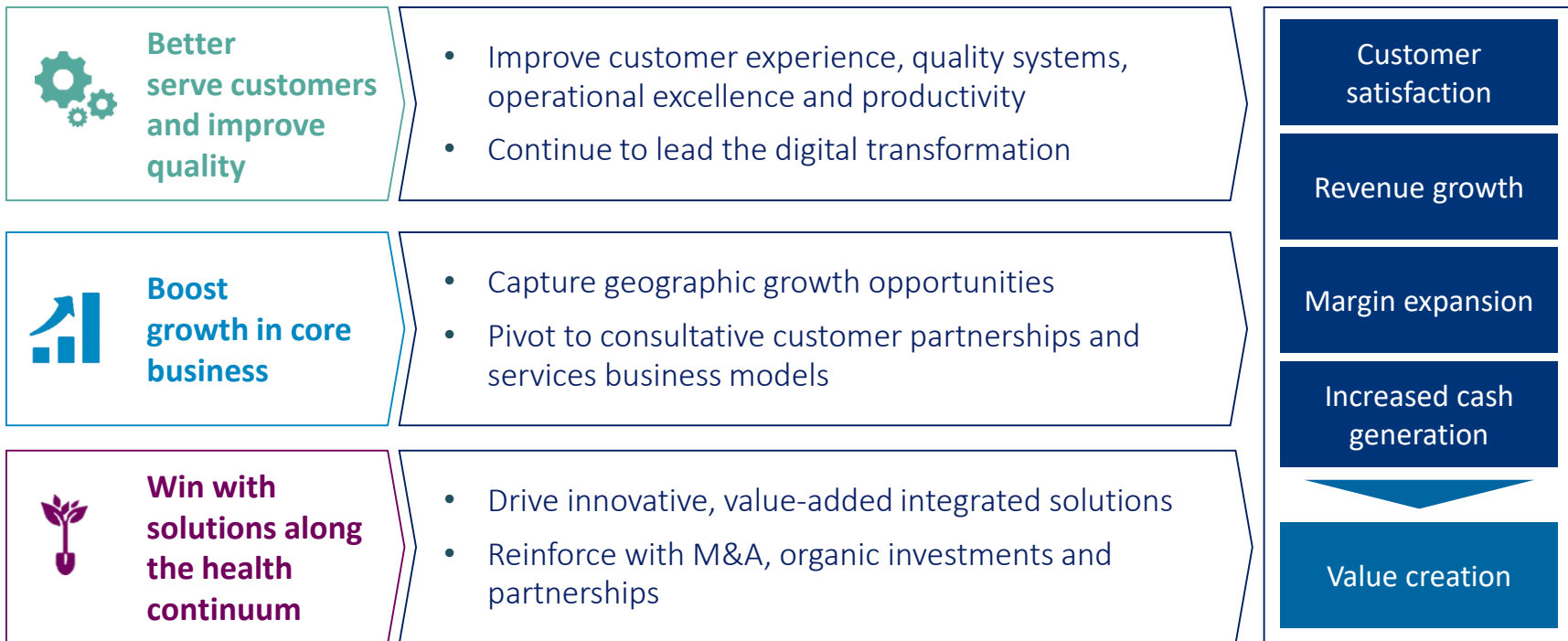


- Computed tomography (CT)
- Mobile diagnostic X-ray
- Point-of-care ultrasound
- Advanced informatics



- Central monitoring of ICU patients (eICU)
- Telehealth programs for remote screening and monitoring
- Tele-pathology
- Interoperability applications

# Drivers for continued growth and improved profitability

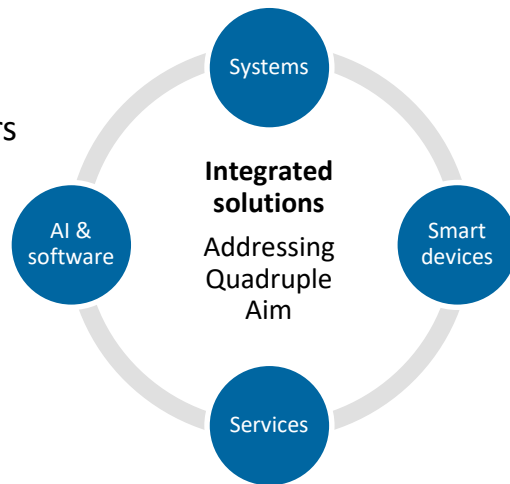


# Drive innovative, value-added integrated solutions

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. 36% of revenues, growing double-digit



# Extracting actionable insights from streaming vital signs data and medical records for better patient outcomes

## Philips eICU program

Empowering acute care teams by linking remote patient monitoring technology with evidence-based care transformation



### Health outcomes

**26%** Reduction in mortality<sup>1</sup>



### Cost of care

**USD 5,000**  
Saved per ICU patient<sup>2</sup>



### Staff satisfaction

**15%** Discharged to home faster<sup>3</sup>



### Patient experience

**30%** Reduction in length of stay<sup>3</sup>

1 in 8 adult ICU patients in the US are monitored by eICU program



# 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



# 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 Casella<sup>2</sup></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><i>CFO</i> <b>Abhijit Bhattacharya</b></p> 	 <p><b>Bert van Meurs</b></p> 	 <p><i>North America</i> <b>Vitor Rocha</b></p>  	 <p><i>Operations</i> <b>Sophie Bechu</b></p>  
	 <p><i>Personal Health</i> <b>Frans van Houten</b> <i>(ad interim)</i></p> 	 <p><i>Greater China</i> <b>Andy Ho</b></p> 	 <p><i>Human Resources</i> <b>Daniela Seabrook</b></p> 



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# Continued focus on value creation

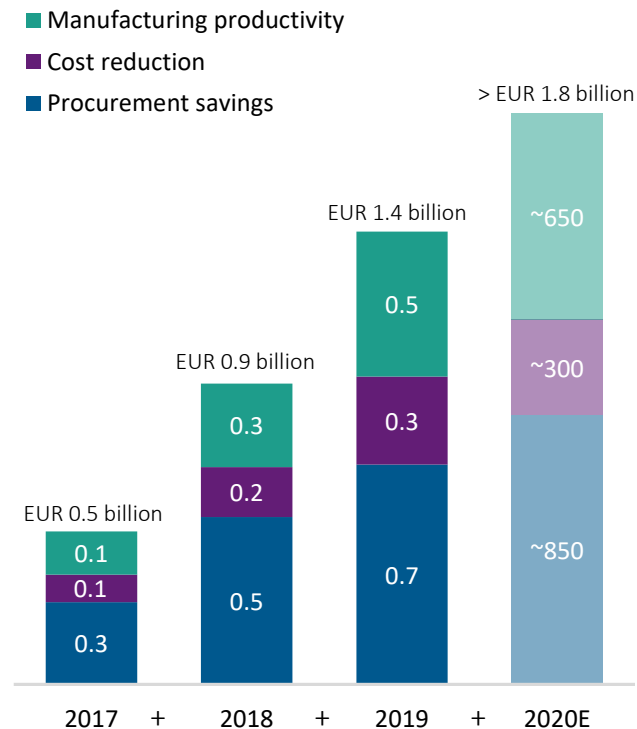
2017-2020 targets<sup>1</sup>

<b>Revenue growth</b> Comparable sales growth  <b>4-6% annually</b>	<b>Margin expansion</b> Adj. EBITA improvement  <b>average annual 100 bps improvement</b>	<b>Cash generation</b> Free Cash Flow in 2020  <b>above EUR 1.5 billion</b>	<b>ROIC</b> Organic ROIC in 2020  <b>mid-to-high-teens</b>
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After 2020 we will drive further improvement

# 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>; 18 locations completed by Q1 2020

### 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

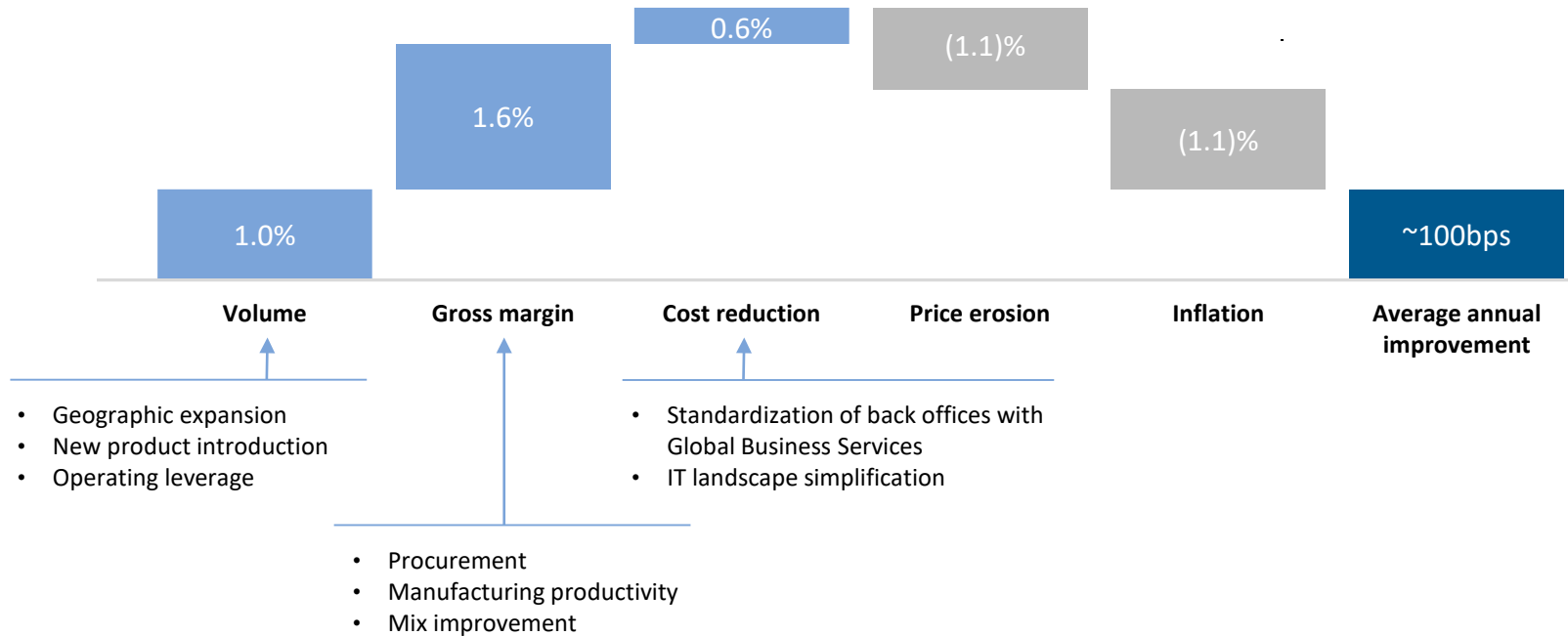
### Procurement

- Expanding proven DfX approach to the full value chain

### Restructuring

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

# Indicative annual Adjusted EBITA target bridge<sup>1</sup>

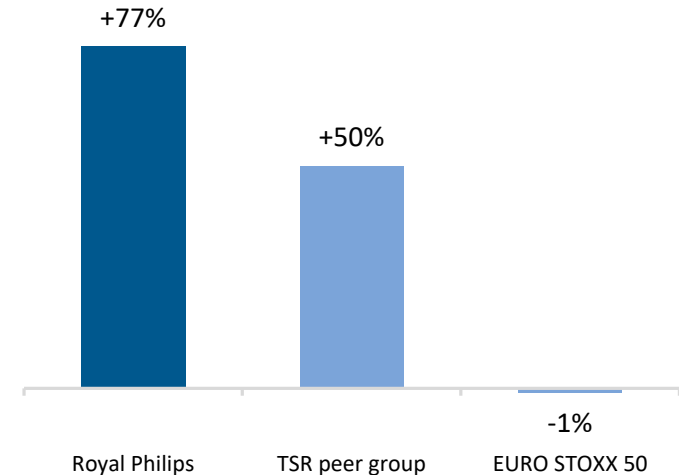


<sup>1</sup> Not valid for Full Year 2020: as per announcement of April 20th 2020, as a result of the impact of COVID-19, we currently aim to deliver modest sales growth and Adj. EBITA margin improvement in 2020

# Balanced capital allocation policy



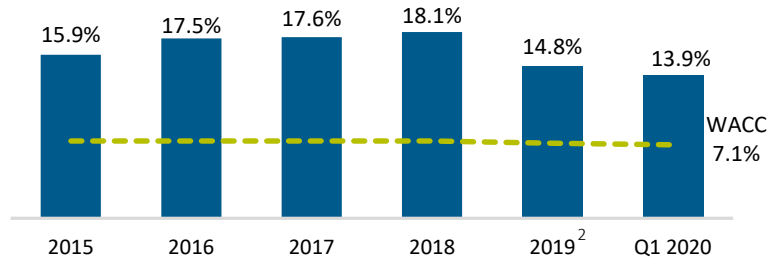
## Total shareholder return since 2016<sup>1,2</sup>



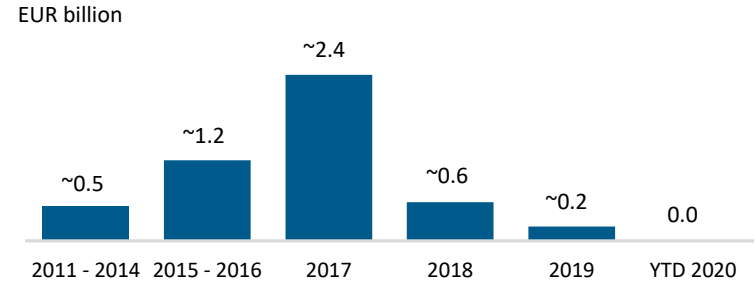


# Balanced capital allocation policy

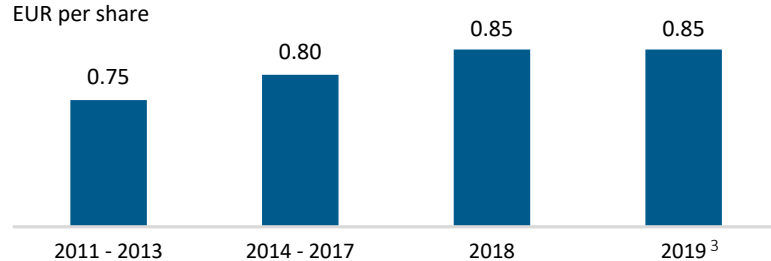
## Organic Return on Invested Capital<sup>1</sup>



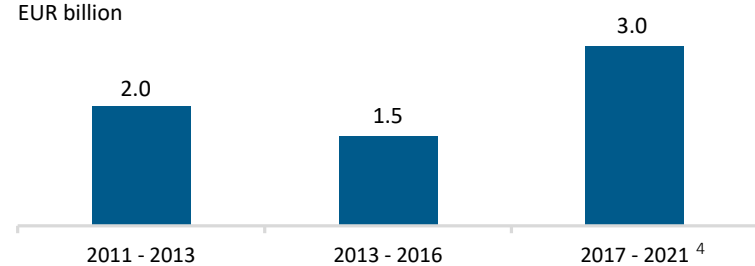
## Mergers & Acquisitions



## 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; <sup>2</sup> Organic ROIC in 2019 includes value adjustments of capitalized development costs and the impact of IFRS 16 lease accounting standard; <sup>3</sup> Proposed share dividend, subject to adoption by our shareholders at an EGM expected to be held in June 2020; <sup>4</sup> Consisting of two programs: EUR 1.5 billion announced in June 2017 and completed in June 2019, and EUR 1.5 billion announced in January 2019 and to be completed in 2021



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# Q1 2020 financial performance highlights

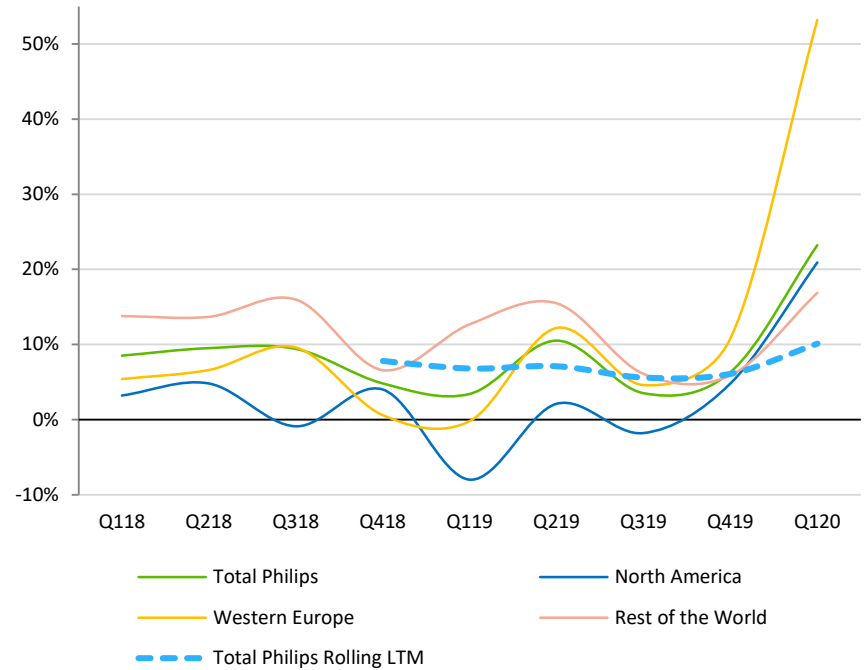
	Sales EUR million	Comparable sales growth	Adj. EBITA margin	Adj. EBITDA margin
Diagnosis & Treatment	1,827	+2%	6.3%	10.3%
Connected Care	1,105	+7%	9.8%	13.8%
Personal Health	1,138	-13%	7.1%	10.6%
Other	89			
<b>Philips</b>	<b>4,159</b>	<b>-2%</b>	<b>5.9%</b>	<b>11.9%</b>

- Comparable sales declined 2% versus Q1 2019
- Comparable order intake up 23% versus Q1 2019
- Adj. EBITA margin decreased to 5.9% of sales versus 8.8% of sales in Q1 2019
- Free cash outflow of EUR 57 million versus an outflow of EUR 206 million in Q1 2019
- Adj. diluted EPS of EUR 0.18 per share versus EUR 0.29 in Q1 2019

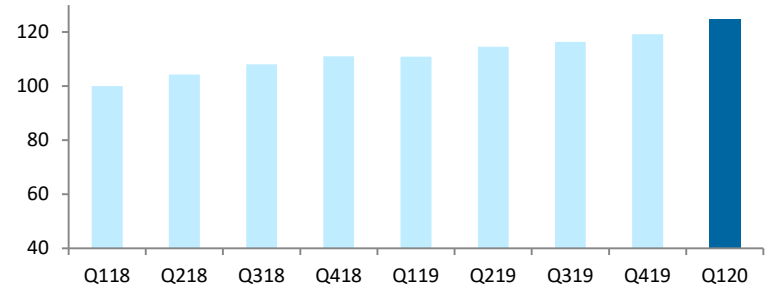


# Order intake and book<sup>1,2</sup>

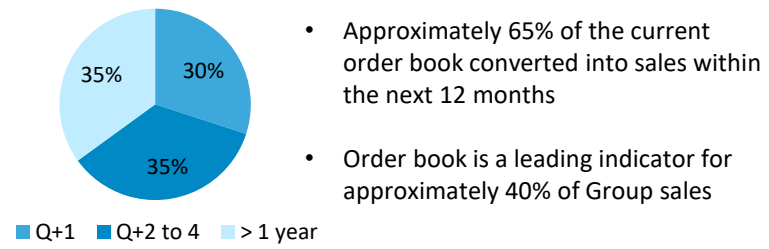
## Comparable order intake growth



## Indexed order book development



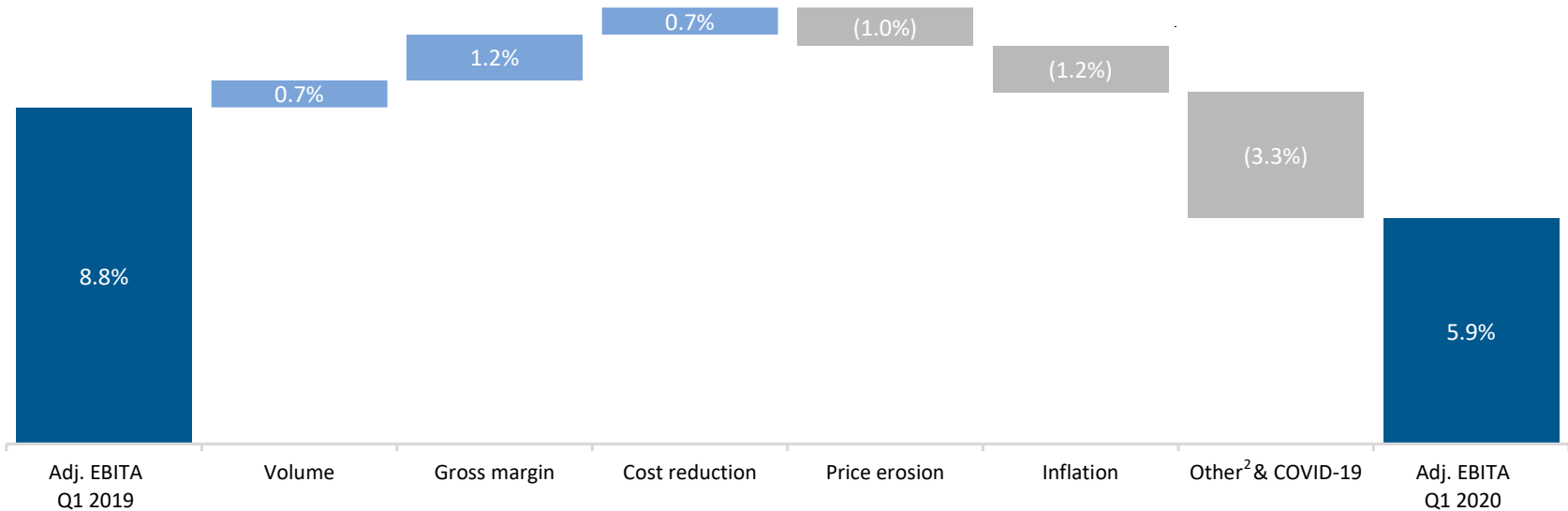
## Typical profile of order book conversion to sales



<sup>1</sup> Includes equipment and software orders in Diagnosis & Treatment, Connected Care and Innovation businesses adjusted for acquisitions and divestments, and currency; <sup>2</sup> The comparative figures have been restated: effective Q1 2020 Philips has simplified its order intake policy by aligning the order booking criteria for all equipment modalities to an 18 month-time horizon from order to revenue. Concurrently, Philips has aligned its order booking criteria for software contracts to the same 18 month-horizon, compared to the full contract value that was recognized under the previous policy

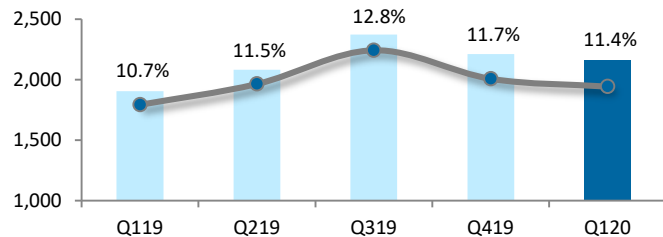
# Adjusted EBITA margin<sup>1</sup> bridge Q1 2020

as a % of sales

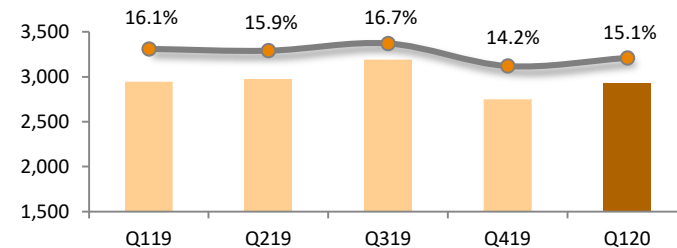


# Working capital and inventories

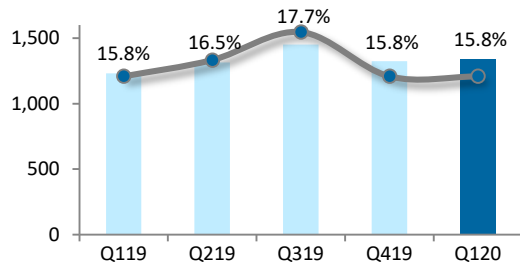
Working capital<sup>1</sup>, EUR million    as % of LTM sales<sup>2</sup>



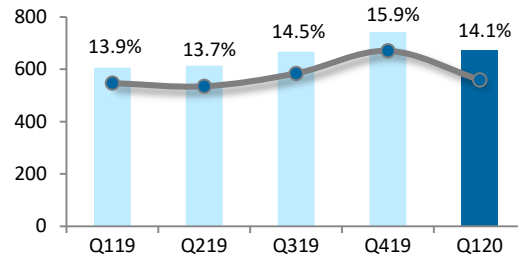
Inventories, EUR million    as % of LTM sales<sup>2</sup>



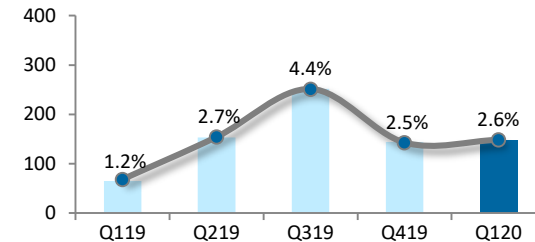
## Diagnosis & Treatment



## Connected Care



## Personal Health



# Appendix

# Restructuring, acquisition-related charges and other items

EUR million	Q1 19	Q2 19	Q3 19	Q4 19	2019	Q1 20
<b>Diagnosis &amp; Treatment</b>	<b>(30)</b>	<b>(41)</b>	<b>(47)</b>	<b>(106)</b>	<b>(222)</b>	<b>(76)</b>
Restructuring & Acq.-related charges	(27)	(37)	(20)	(66) <sup>4</sup>	(149)	(43)
Other items	(3)	(4)	(27) <sup>4</sup>	(40) <sup>4</sup>	(73)	(33) <sup>4</sup>
<b>Connected Care</b>	<b>(29)</b>	<b>(32)</b>	<b>(27)</b>	<b>(44)</b>	<b>(131)</b>	<b>(31)</b>
Restructuring & Acq.-related charges	(19)	(15)	(12)	(18)	(64)	(11)
Other items	(10) <sup>1</sup>	(16) <sup>1</sup>	(15) <sup>1</sup>	(26) <sup>1</sup>	(67)	(20) <sup>1</sup>
<b>Personal Health</b>	<b>(16)</b>	<b>(8)</b>	<b>(23)</b>	<b>(27)</b>	<b>(73)</b>	<b>(8)</b>
Restructuring & Acq.-related charges	(16)	(7)	(3)	(24)	(50)	(8)
Other items	-	-	(20) <sup>5</sup>	(3)	(23)	-
<b>Other</b>	<b>26</b>	<b>(29)</b>	<b>(17)</b>	<b>(22)</b>	<b>(43)</b>	<b>(2)</b>
Restructuring & Acq.-related charges	(9)	(22)	(12)	(10)	(54)	(1)
Other items	35 <sup>2,3</sup>	(7) <sup>2,3</sup>	(5) <sup>2,3</sup>	(12) <sup>2,3</sup>	11	(1)
<b>Philips</b>	<b>(50)</b>	<b>(109)</b>	<b>(114)</b>	<b>(198)</b>	<b>(471)</b>	<b>(117)</b>
Restructuring costs	(39)	(66)	(35)	(109)	(249)	(39)
Acquisition related charges	(32)	(16)	(12)	(9)	(69)	(23)
Other items	21	(28)	(67)	(80)	(153)	(55)

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. Gains related to divestments and asset disposals; 3. Charges related to litigation provisions; 4. Includes a value adjustment of capitalized development costs; 5. Provision related to legal matters



# Capital expenditures, Depreciation and Amortization

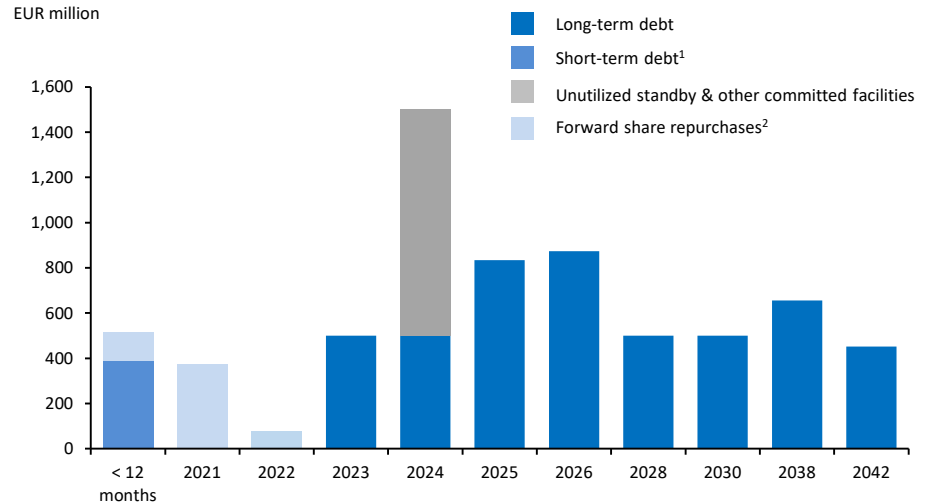
EUR million	Q1 2019	Q1 2020	FY 2019
Capital expenditures on property, plant and equipment	103	107	518
Capitalization of development costs	104	106	460
Depreciation	141	184	645
Amortization of acquired intangible assets	70	85	350
Amortization of software	17	21	75
Amortization of development costs	55	79	332
<b>Depreciation and amortization<sup>1</sup></b>	<b>283</b>	<b>368</b>	<b>1,402</b>

# 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 9.2 years<sup>3</sup>
- No financial covenants
- On March 30, 2020 Philips issued a EUR 500 million 1.375% fixed rate Sustainability Innovation bond due 2025 and a EUR 500 million 2.000% fixed rate bond due 2030

## Debt maturity profile as per 31 March 2020





# Calendar for the upcoming events

April 20	First quarter results 2020
April 30	Annual General Meeting of Shareholders
July 20	Second quarter and semi-annual results 2020
October 19	Third quarter results 2020

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