

PHILIPS

First quarter 2023 results

April 24, 2023

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 our strategy, estimates of sales growth, future Adjusted EBITA^{*}, future restructuring and acquisition-related charges and other costs, future developments in Philips' organic business and the completion of acquisitions and divestments. Forward-looking statements can be identified generally as those containing words such as "anticipates", "assumes", "believes", "estimates", "expects", "should", "will", "will likely result", "forecast", "outlook", "projects", "may" or similar expressions. 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: Philips' ability to gain leadership in health informatics in response to developments in the health technology industry; Philips' ability to transform its business model to health technology solutions and services; macroeconomic and geopolitical changes; integration of acquisitions and their delivery on business plans and value creation expectations; securing and maintaining Philips' intellectual property rights, and unauthorized use of third-party intellectual property rights; Philips' ability to meet expectations with respect to ESG-related matters; failure of products and services to meet quality or security standards, adversely affecting patient safety and customer operations; breaches of cybersecurity; challenges in connection with Philips' strategy to improve execution and other business performance initiatives; the resilience of our supply chain; attracting and retaining personnel; COVID-19 and other pandemics; challenges to drive operational excellence and speed in bringing innovations to market; compliance with regulations and standards including quality, product safety and (cyber) security; compliance with business conduct rules and regulations including privacy and upcoming ESG disclosure and due diligence requirements; treasury and financing risks; tax risks; reliability of internal controls, financial reporting and management efficacy; global inflation. 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 2022.

Philips has recognized a provision related to the voluntary recall notification in the US/field safety notice outside the US for certain sleep and respiratory care products, based on Philips' best estimate for the expected field actions. Future developments are subject to significant uncertainties, which require management to make estimates and assumptions, about items such as quantities and the portion to be replaced or repaired. Actual outcomes in future periods may differ from these estimates and affect the company's results of operations, financial position and cash flows. Furthermore, Philips is a defendant in several class-action lawsuits and individual personal injury claims and is in ongoing discussions with the FDA regarding a proposed consent decree. Given the uncertain nature of the relevant events, and of their potential financial and operational impact and associated obligations, if any, the company has not made any provisions in the accounts for these matters, except for the following. In the first quarter of 2023, Philips Respironics recorded a provision in connection with an anticipated resolution of the economic loss class action pending in the US. The provision is subject to final resolution and court approval of the negotiated settlement agreement and is based on Philips' best estimate for the expected settlement amounts, which is, in part, based on the expected number of claims ultimately filed pursuant to the settlement once it is approved. Actual outcomes in future periods of the above matters may differ from these estimates and affect the company's results of operations, financial positions and cash flows.

Third-party market share data

Statements regarding market share, contained in this document, including those regarding Philips' competitive position, are based on outside sources such as specialized research institutes, industry and dealer panels in combination with management estimates. Where information is not yet available to Philips, market share statements may also be based on estimates and projections prepared by management and/or based on outside sources of information. Management's estimates of rankings are based on order intake or sales, depending on the business.

Market Abuse Regulation

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

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 2022.

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 2022. 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 2022 except for the adoption of new standards and amendments to standards which are also expected to be reflected in the company's consolidated IFRS financial statements as at and for the year ending December 31, 2023.

* Non-IFRS financial measure. Refer to reconciliation of non-IFRS information



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Key takeaways

- We delivered a solid start to the year, with 6% comparable sales growth, improved margins and operating cash flow
 - supply chain continued to improve and our actions to strengthen execution started to take effect
- We are making good progress on our three priorities
 - Enhance patient safety & quality
 - Strengthen supply chain reliability
 - Establish a simplified, more agile operating model
- Resolving the Respironics recall for patients remains our highest priority
 - Recorded EUR 575 million provision in anticipation of a resolution of the economic loss class action in the US
- Confident in our financial plan for 2023, acknowledging that uncertainties remain



Solid operational performance as supply chain improves and actions to enhance execution start to take effect

Financial performance

| <i>in millions of EUR unless otherwise stated</i> | Q1 2022 | Q1 2023 |
|---|---------|---------|
| Sales | 3,918 | 4,167 |
| Comparable Sales Growth ¹ | (4)% | 6% |
| Comparable Order Intake ¹ | 5% | 0% |
| Adj. EBITA ² | 243 | 359 |
| Adj. EBITA margin ² | 6.2% | 8.6% |
| Adj. EBITDA margin ² | 12.5% | 13.8% |
| Operating Cash Flow | (227) | 202 |

Q1 2023 highlights

- Sales growth driven by Diagnosis & Treatment and Hospital Patient Monitoring
- OIT grew DD in Diagnosis & Treatment offset by a decline in Connected Care
- Good momentum for health systems in China in sales and orders
- Adj. EBITA margin driven by sales and productivity, partly offset by cost inflation
- Operating Cash inflow step up of EUR 429 million year-on-year
- EUR 575 million provision in anticipation of a resolution of the economic loss class action in the US

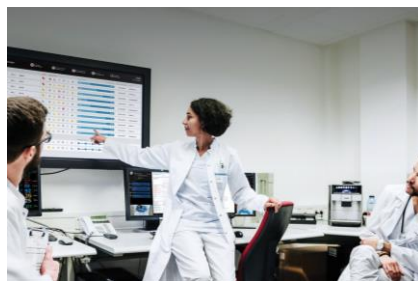
1. Comparable sales growth (CSG); comparable order intake growth (OIT): LSD = low-single digit, MSD = mid-single digit, HSD = high-single digit, DD = double digit |

2. Excluding restructuring costs, acquisition-related charges and other one-time charges and gains

Demonstrating the confidence hospital leaders have in our innovation

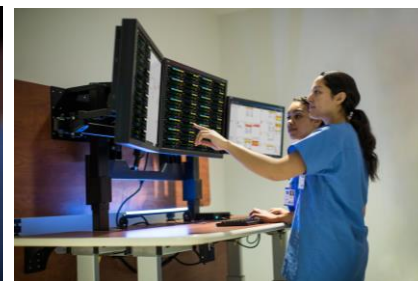
Signed multiple new partnerships

Prisma Health (South Carolina, USA)



- 6-year multi-vendor services agreement
- To increase operational efficiency and improve patient & staff satisfaction
- Philips will become sole source vendor for biomedical and clinical engineering services
- Drive innovation in remote patient monitoring

Northwell Health (New York, USA)



- 7-year agreement to standardize and centralize monitoring across the hospital
- Enterprise-wide platform will allow to see what is happening at each bedside
- Enhance patient care, improve patient outcomes and drive interoperability and data innovation

Highlights by business segment in Q1 2023

Supply chain improvements enabled growth in Diagnosis & Treatment and Hospital Patient Monitoring

Diagnosis and Treatment +15% CSG



- DD OIT growth; DD Image-Guided Therapy and MSD Diagnostic Imaging
- Partnership with Champalimaud Foundation (Portugal) to drive ESG impact
- Agreement with Grupo Angeles (Mexico) to provide diagnostic imaging and IGT solutions
- New Ultrasound Compact 5500 CV

Connected Care +3% CSG



- DD CSG in Hospital Patient Monitoring, largely offset by a decline in Sleep & Respiratory Care
- OIT declined DD after strong growth in '20-'22
- Enterprise Informatics solutions resonated strongly with customers at VIVE and HIMSS
- Partnership with Northwell Health to standardize & centralize patient monitoring

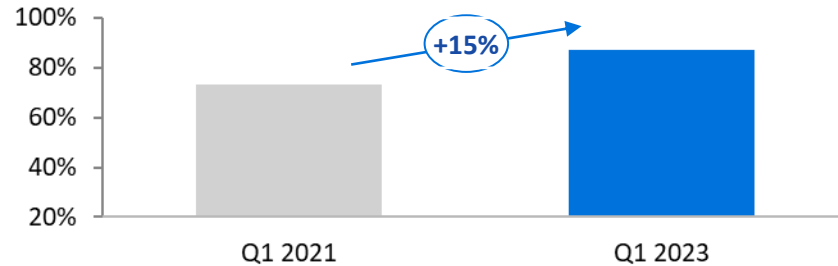
Personal Health (6)% CSG



- Anticipated lower consumer demand vs strong Q1 2022 and impact from portfolio decisions related to Russia in 2022
- New Sonicare for Kids "Design a Pet Edition" - improve adoption of good oral care habits
- Strong market share and improving sell-out trends

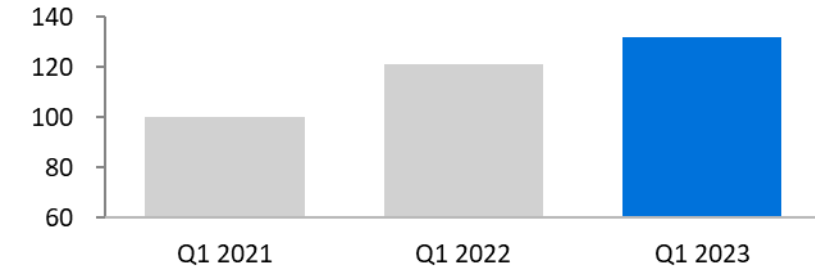
Order book^{1,2} and order book coverage remain strong

Orderbook coverage of the next 12 months' equipment sales



- Order book coverage is ~15% higher vs Q1 2021, driven by Magnetic Resonance Imaging, Enterprise Diagnostic Informatics and Hospital Patient Monitoring

Indexed orderbook development



- Strong order book, despite flat OIT and strong conversion:
 - >10% higher year-on-year
 - >30% higher compared to Q1 2021
- Improved margin profile of the order book

1. Includes equipment and software orders in Diagnosis & Treatment, Connected Care and Innovation businesses adjusted for acquisitions and divestments, and currency |

2. Excludes the impact from the partial termination of the April 2020 contract with the HHS in the US

Diagnosis & Treatment

Financial performance

| <i>in millions of EUR unless otherwise stated</i> | Q1 2022 | Q1 2023 |
|---|---------|---------|
| Sales | 1,911 | 2,204 |
| Comparable Sales Growth | (2)% | 15% |
| Adj. EBITA margin | 5.9% | 11.3% |
| Adj. EBITDA margin | 9.5% | 14.0% |

Q1 2023 highlights

- DD CSG in Ultrasound and Image-Guided Therapy; MSD growth in Diagnostic Imaging
- DD CSG in mature & growth geographies; strong North America, Western Europe & China
- Adj. EBITA margin +540 bps; driven by sales and productivity, partly offset by cost inflation



Connected Care

Financial performance

| <i>in millions of EUR unless otherwise stated</i> | Q1 2022 | Q1 2023 |
|---|---------|---------|
| Sales | 933 | 1,033 |
| Comparable Sales Growth | (21)% | 3% |
| Adj. EBITA margin | 0.4% | 2.4% |
| Adj. EBITDA margin | 6.0% | 7.0% |

Q1 2023 highlights

- DD CSG in Hospital Patient Monitoring, largely offset by a decline in Sleep & Respiratory Care
- Growth geographies recorded DD CSG (DD in China) and mature geographies declined LSD (flat North America, decline in Western Europe)
- Adj. EBITA margin +200 bps driven by improved Connected Care excl. Sleep & Respiratory Care



Personal Health



Financial performance

| <i>in millions of EUR unless otherwise stated</i> | Q1 2022 | Q1 2023 |
|---|---------|---------|
| Sales | 838 | 798 |
| Comparable Sales Growth | 8% | (6)% |
| Adj. EBITA margin | 15.3% | 13.2% |
| Adj. EBITDA margin | 19.0% | 16.0% |

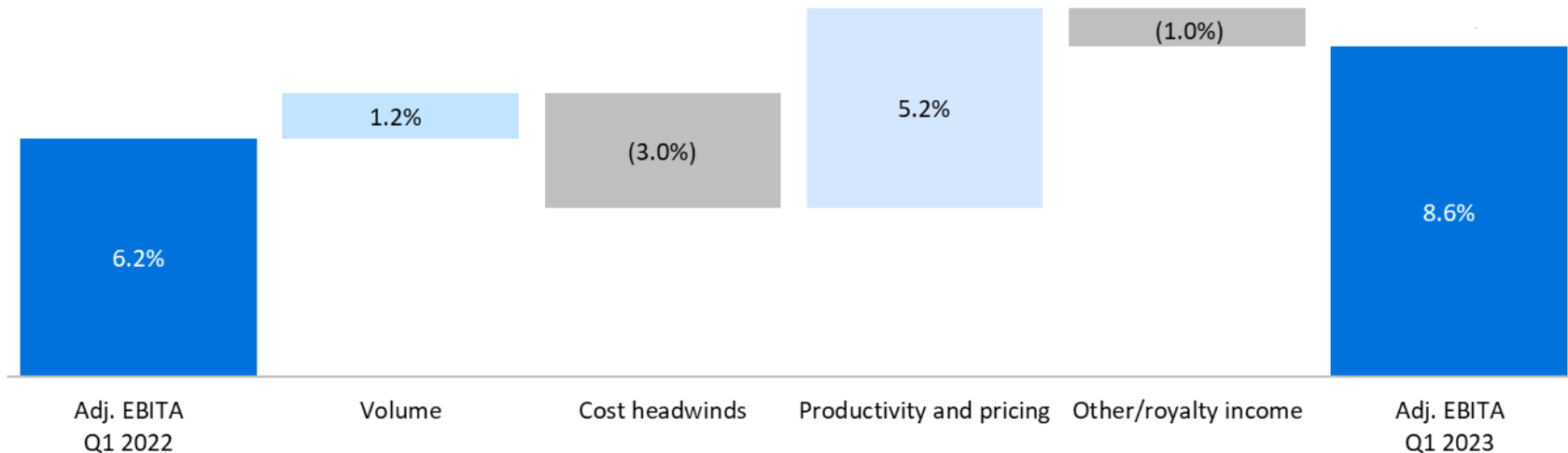
Q1 2023 highlights

- Sales and Adj. EBITA impacted by the anticipated lower consumer demand and portfolio decisions related to Russia in 2022
- MSD CSG decline in mature geographies, mainly due to North America; HSD decline in growth geographies
- Strong market share and improving sell-out trends



Adj. EBITA margin improvement driven by increased sales and productivity measures, partly offset by cost inflation

Group Adj. EBITA margin¹



Productivity initiatives delivered EUR 190 million in the quarter; EUR 2.0 billion expected in the 2023-2025 period

Productivity initiatives¹ (in millions of EUR unless otherwise stated)

| | | 2023 -2025 target | Q1 2023 actuals |
|--------------------|--|------------------------|------------------------|
| Operating Model | <ul style="list-style-type: none"> • Simplified operating model with reduction of 10k roles • R&D prioritization, reduction of Corporate Research • End-to-end supply chain, simplifying planning, and eliminating duplications | 950-1,050 | 94 |
| Procurement | <ul style="list-style-type: none"> • Bill-of-material savings via redesign, value analysis, engineering • Reductions in warehousing, transportation and consulting | 550 - 600 | 32 |
| Other productivity | <ul style="list-style-type: none"> • S&RC rightsizing • Manufacturing footprint optimization and service productivity • R&D platform simplification and footprint optimization • GBS and hyper-automation | 400 - 450 | 64 |
| | | EUR 2.0 billion | EUR 190 million |



Resolving the recall for patients remains our highest priority

2023

Q1 2023

2023-2025

Finalize recall and testing

>95% production of recall units¹; vast majority have been sent to patients and home care providers

Manage impact of proposed Consent Decree

Manage litigation, DOJ investigation

Recorded a EUR 575 million provision in anticipation of a resolution of the economic loss class action in the US

Manage litigation, DOJ investigation

483 remediation and clarity on proposed Consent Decree

483 remediation in progress

Gradually restore position

**Taking the learnings of Respironics recall
to raise Patient Safety and Quality to the highest standards across Philips**

1. New replacement devices and repair kits required for the remediation of the total currently registered affected devices. The remaining ~5% of the affected devices is primarily comprised of ventilators, for which Philips Respironics is fully focused on working towards a solution | Note: More information on the Respironics recall can be found [here](#)

Execution with decisive action as key value driver

Enabled by culture of accountability and strong HealthTech capabilities



Patient safety and quality as highest priority

Culture, accountability, Competencies

Patient safety and quality at heart of innovation

Expanded patient safety and quality program

Finalize Respironics recall



Reliable end-to-end supply chain

End-to-end value chain by business

Leadership and competencies

Product pruning and (re)design

Strategic supplier management



Simplified operating model

End-to-end, P&L-accountable business

Simplification, de-layering, less KPIs

Reduction of 10k roles

Leadership and talent

Patient safety and quality as highest priority

Examples of our progress in Q1 2023



Patient safety
and quality as
highest priority

Established a new Patient Safety Advisory Board to strengthen the voice of the patient

Added Design Controls capabilities and talent in Systems Engineering and Software Design teams

On track to deliver a total of 45% reduction in # of Quality Management Systems by year-end

Expanded the Internal Quality Audit Program

Towards a reliable end-to-end supply chain

Examples of our progress in Q1 2023



Reliable end-to-end supply chain

Moved to customer centric end-to-end supply chain teams aligned to the businesses

Majority of new leadership roles appointed¹

126 PCBAs redesigns completed vs 56 year-end 2022

800+ reduced risk for high-risk components vs 700+ year-end 2022

On track to zero high risk components by end of 2023

Simplified, more agile operating model

Reinvigorating patient and people-centric culture

Examples of our progress in Q1 2023



Simplified
operating model

Established the new operating model with businesses with clear end-to-end accountability

Established an end-to-end Enterprise Informatics organization

Reduced workforce by ~5.4K roles out of the 10k planned reduction

Moved from 30 to 12 more focused KPIs at enterprise level

Continued to add seasoned leaders with deep domain expertise;
Julia Strandberg appointed as Chief Business Leader for Connected Care businesses

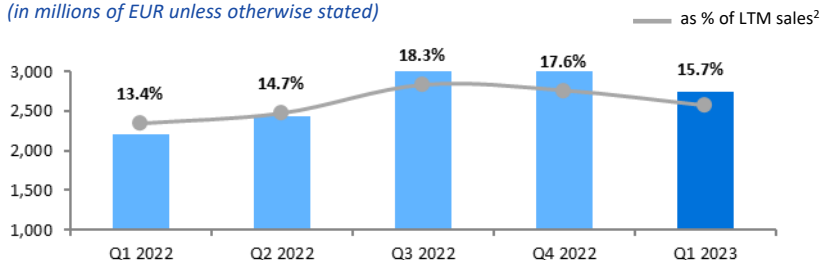


Financial appendix

Working capital and inventories

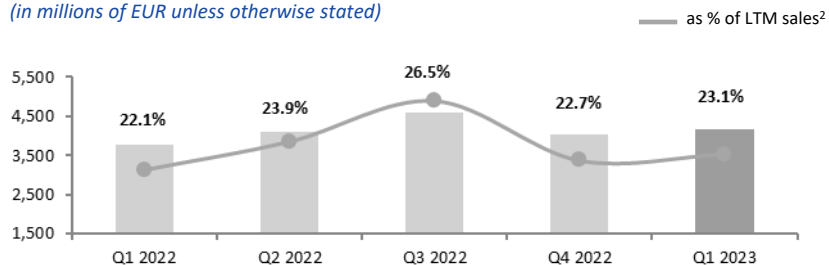
Group working capital¹

(in millions of EUR unless otherwise stated)

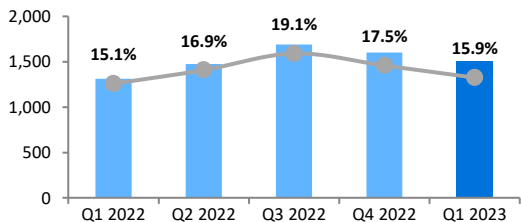


Group inventories

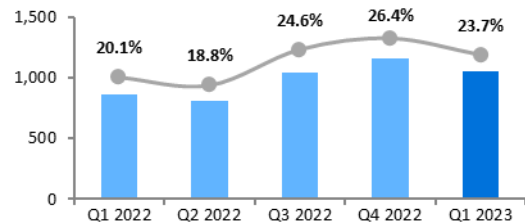
(in millions of EUR unless otherwise stated)



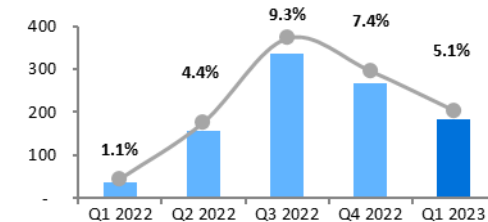
Diagnosis & Treatment



Connected Care



Personal Health

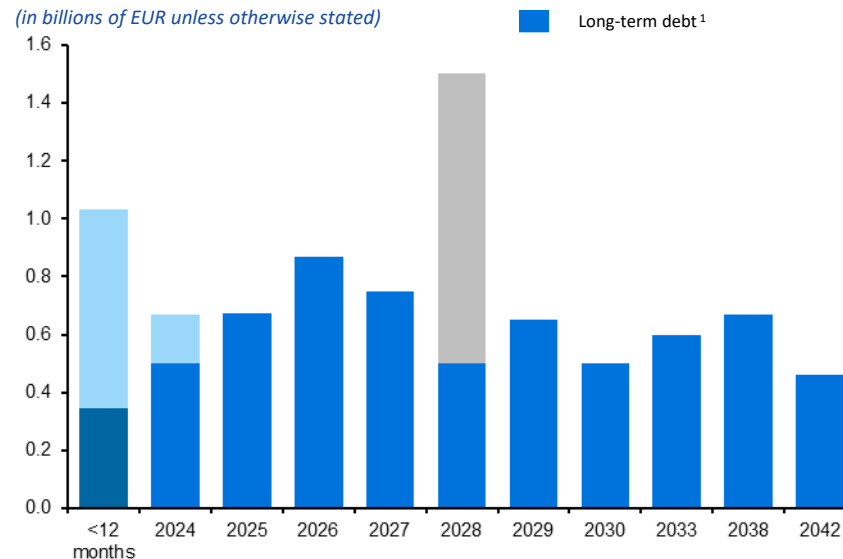


Debt maturity profile and liability management

Long term debt profile and liability management

- Total net debt position of EUR 7.0 billion, flat quarter on quarter
- Average tenor of long-term debt is 7.0 years³
- No financial covenants
- EUR 1.5 billion of available committed credit facilities, including EUR 1.0 billion Stand By Facility with an extended maturity from 2027 to 2028

Debt maturity profile as per 31 March 2023



1. Excluding long-term operating leases | 2. Short-term debt includes local credit facilities that are being rolled forward on a continuous basis as well as Commercial Paper; Debt includes forward transactions entered as part of share repurchase programs for share cancellation and LTI purposes | 3. Based on long-term debt only, excludes short-term debt and forward share repurchases for share cancellation and LTI purposes

Capital expenditures, Depreciation and Amortization

in millions of EUR unless otherwise stated

| | Q1 2022 | Q1 2023 | FY 2021 | FY 2022 |
|---|------------|------------|--------------|--------------|
| Capital expenditures on property, plant and equipment | 92 | 72 | 397 | 444 |
| Capitalization of development costs | 89 | 69 | 370 | 363 |
| Depreciation | 170 | 172 | 630 | 711 |
| Amortization of acquired intangible assets | 74 | 74 | 322 | 363 |
| Amortization of software | 24 | 25 | 88 | 117 |
| Amortization of development costs | 86 | 41 | 284 | 411 |
| Depreciation and amortization¹ | 355 | 311 | 1,323 | 1,602 |

Restructuring, acquisition-related charges and other items

in millions of EUR unless otherwise stated

| | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | 2022 | Q1 2023 |
|--------------------------------------|----------------------|---------------------|-----------------------------|-----------------------|----------------|-----------------------|
| Diagnosis & Treatment | 1 | 7 | (124) | (85) | (201) | (68) |
| Restructuring & Acq.-related charges | 1 | 7 | (5) | (25) | (22) | (67) |
| Other items | - | - | (120) ³ | (60) ⁵ | (180) | (1) |
| Connected Care | (339) | (116) | (155) | (201) | (811) | (692) |
| Restructuring & Acq.-related charges | (20) | (17) | (28) | (43) | (108) | (47) |
| Other items | (319) ^{1,2} | (99) ^{1,2} | (127) ^{1, 2, 3, 4} | (158) ^{1, 4} | (703) | (644) ^{1, 6} |
| Personal Health | - | (1) | (3) | (4) | (8) | (4) |
| Restructuring & Acq.-related charges | - | (1) | - | (10) | (11) | (5) |
| Other items | - | - | (3) | 6 | 3 | 1 |
| Other | (12) | (14) | (20) | (60) | (106) | (104) |
| Restructuring & Acq.-related charges | (6) | (3) | (14) | (38) | (61) | (104) |
| Other items | (6) | (11) | (7) | (22) | (46) | - |
| Philips | (350) | (124) | (302) | (350) | (1,126) | (868) |
| Restructuring costs | (31) | (23) | (28) | (103) | (185) | (199) |
| Acquisition related charges | 6 | 10 | (18) | (14) | (16) | (25) |
| Other items | (325) | (111) | (256) | (233) | (925) | (644) |

1. Provision related to Respiroics field action; Running remediation costs in Respiroics | 2. Product portfolio realignment | 3. Related to the discontinuation of certain R&D projects | 4. Charge related to impairment of assets | 5. Provision for a legal matter | 6. Provision in connection with an anticipated resolution of the economic loss class action in the US related to the Respiroics recall

2023 financial outlook

Provided on January 30, 2023

| | |
|--|---|
| Comparable Sales Growth Low-single-digit | <ul style="list-style-type: none">• Mid-single-digit growth in Diagnosis & Treatment and Connected Care• Low-single-digit growth in Personal Health• Guidance at Group level reflects uncertainties in external environment |
| Adj. EBITA margin High-single-digit | <ul style="list-style-type: none">• Productivity and pricing actions to improve margins across businesses• Inflation impact ~3%• Investments in patient safety and quality and supply chain improvements included |
| Free Cash Flow EUR 0.7-0.9 billion | <ul style="list-style-type: none">• Improvement driven by earnings recovery and working capital management• Partly offset by restructuring, acquisition-related charges and other items |
| Segment Other | <ul style="list-style-type: none">• Adjusted EBITA loss of ~ EUR 70 million and EBITA loss ~ EUR 200 million<ul style="list-style-type: none">– Q2 2023: Adjusted EBITA profit ~ EUR 15 million |

Guidance excludes the impact of the ongoing discussion on the proposed consent decree beyond current assumptions (S&RC CSGR 2023-2025 of 10%) as well as ongoing litigation and the investigation by the US DoJ related to the Respironics field action

Restructuring, acquisition-related charges and other items in 2023

| | |
|---|--|
| Restructuring costs ~300 bps | <ul style="list-style-type: none">• Driven by 10k roles reduction program resulting from operating model simplification, of which ~70% implemented by end of 2023• S&RC rightsizing |
| Acquisition-related charges ~50 bps | <ul style="list-style-type: none">• Post-merger integration costs related to recent acquisitions in Connected Care and Image-Guided-Therapy Devices |
| Other items* ~50-70 bps | <ul style="list-style-type: none">• Respiroics field action running remediation costs |
| Total* 400-420 bps | <ul style="list-style-type: none">• of which in Q2 2023: D&T EUR 35 million, CC EUR 75 million, segment Other EUR 40 million |

* Excluding EUR 575 million provision in anticipation of a resolution of the economic loss class action in the US

Guidance excludes the impact of the ongoing discussion on the proposed consent decree beyond current assumptions (S&RC CSGR 2023-2025 of 10%) as well as ongoing litigation and the investigation by the US DoJ related to the Respiroics field action

