

Royal Philips Second quarter 2018 results

July 23, 2018

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 EBITA and future developments in our organic business. 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; developments within the euro zone; 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; changes in currency exchange rates and interest rates; future changes in tax rates and regulations, including tax reform in the US; pension costs and actuarial assumptions; changes in raw materials prices; changes in employee costs; the ability to identify and complete successful acquisitions, and to integrate those acquisitions into the business, including Spectranetics; 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; industry consolidation and competition; and the state of international capital markets as they may affect the timing and nature of the disposal by Philips of its remaining interests in Philips Lighting. 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 2017.

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 specialized 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-GAAP 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 measures 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 2017. As the Philips Group is applying IFRS as its Generally Accepted Accounting Principles (GAAP) we have changed the term non-GAAP information into non-IFRS information.

Use of fair-value measurements

In presenting the Philips Group 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 2017. Independent valuations may have been 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 2017, unless otherwise stated. The presentation of certain prior-year information has been reclassified to confirm to the current-year presentation.

Market Abuse Regulation

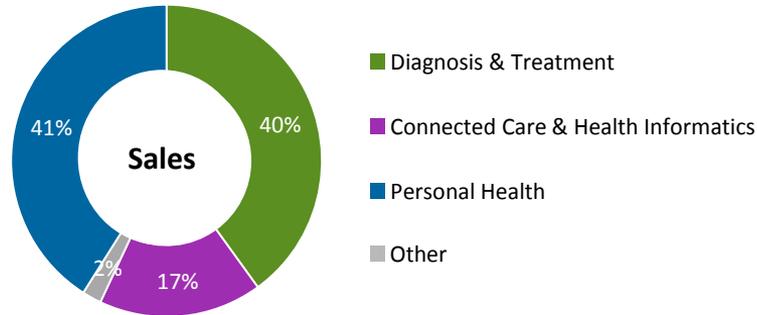
This presentation contains inside information within the meaning of Article 7(1) of the EU Market Abuse Regulation.

Content

1. Company overview and strategy	4
2. Financial outlook	20
3. Financial performance in the quarter	25
Appendix	31

Company overview

EUR 17.7 billion sales and Adjusted EBITA of 12.7% ¹



Diagnosis & Treatment

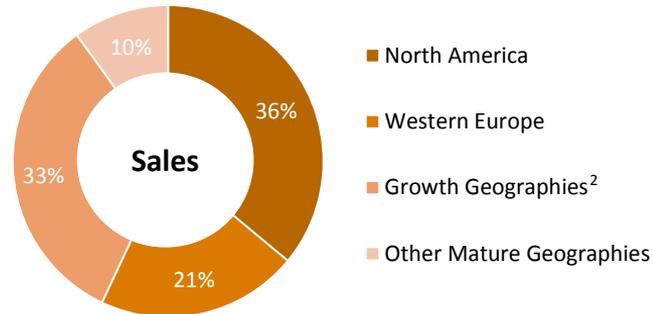
Enabling efficient, first-time-right diagnosis and precision therapies through digital imaging and clinical informatics solutions

Connected Care & Health Informatics

Empowering consumers and care professionals with predictive patient analytics and clinical informatics solutions

Personal Health

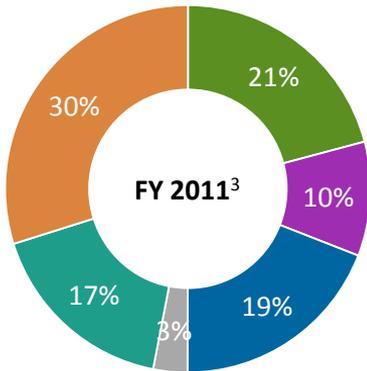
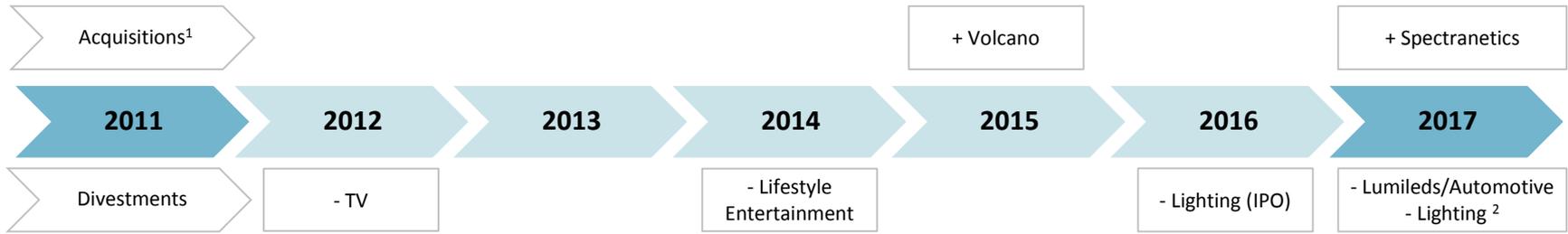
Enabling people to take care of their health by delivering connected products and services



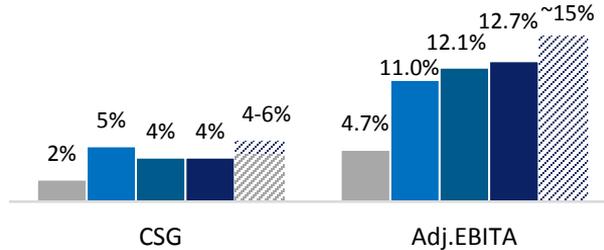
- EUR 1.8 billion for R&D, ~62,000 patents rights, ~38,000 trademarks ³
- More than 1/4th of sales from solutions
- ~75,000 employees in over 100 countries
- Philips retains a 18% stake in Signify (formerly Philips Lighting), reported as an asset held for sale

¹ All figures based on the last twelve months (LTM) Q2 2018 unless stated otherwise; ² Growth geographies consist of all geographies excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel; ³ Based on the full year 2017

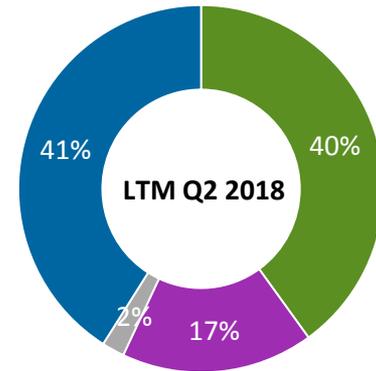
A focused HealthTech leader with higher growth and profitability



Sales EUR 25.3 billion



■ 2011 ■ 2016 ■ 2017 ■ LTM Q2 2018 ▨ 2020



Sales EUR 17.7 billion

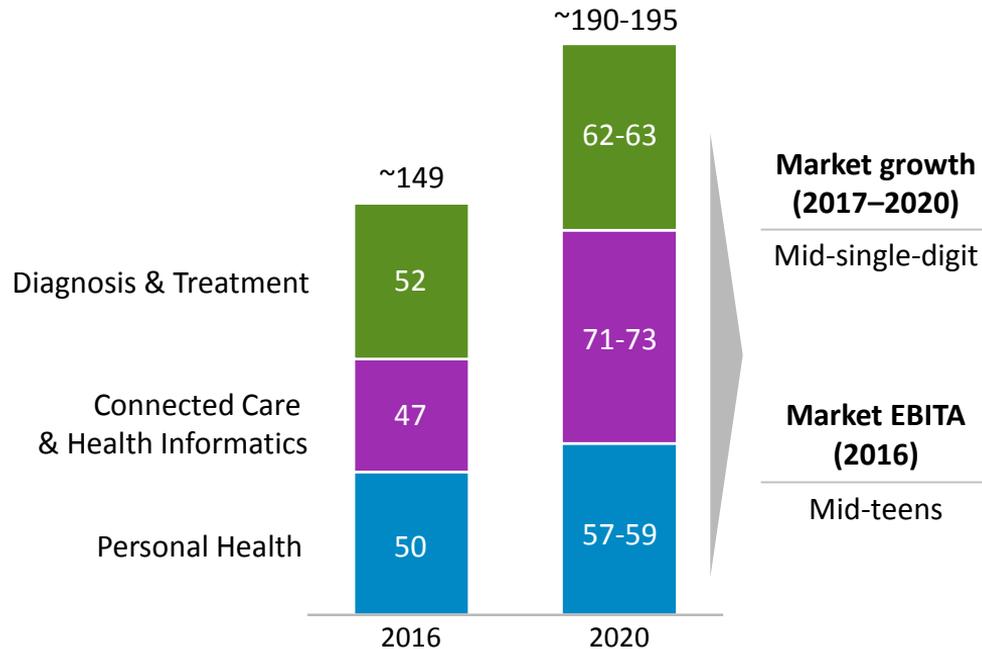
■ Diagnosis & Treatment ■ Connected Care & Health Informatics ■ Personal Health ■ Other ■ Lighting ■ TV/LE

¹ Do not represent all acquisitions made; ² Philips retains a 18% stake in Signify (formerly Philips Lighting), reported as an asset held for sale; ³ Lighting includes combined business of Lumileds and Automotive in 2011, Personal Health in 2011 includes Sleep & Respiratory Care portfolio

Our markets have sustained growth and attractive profit pools

Markets increasing across segments¹

EUR billion

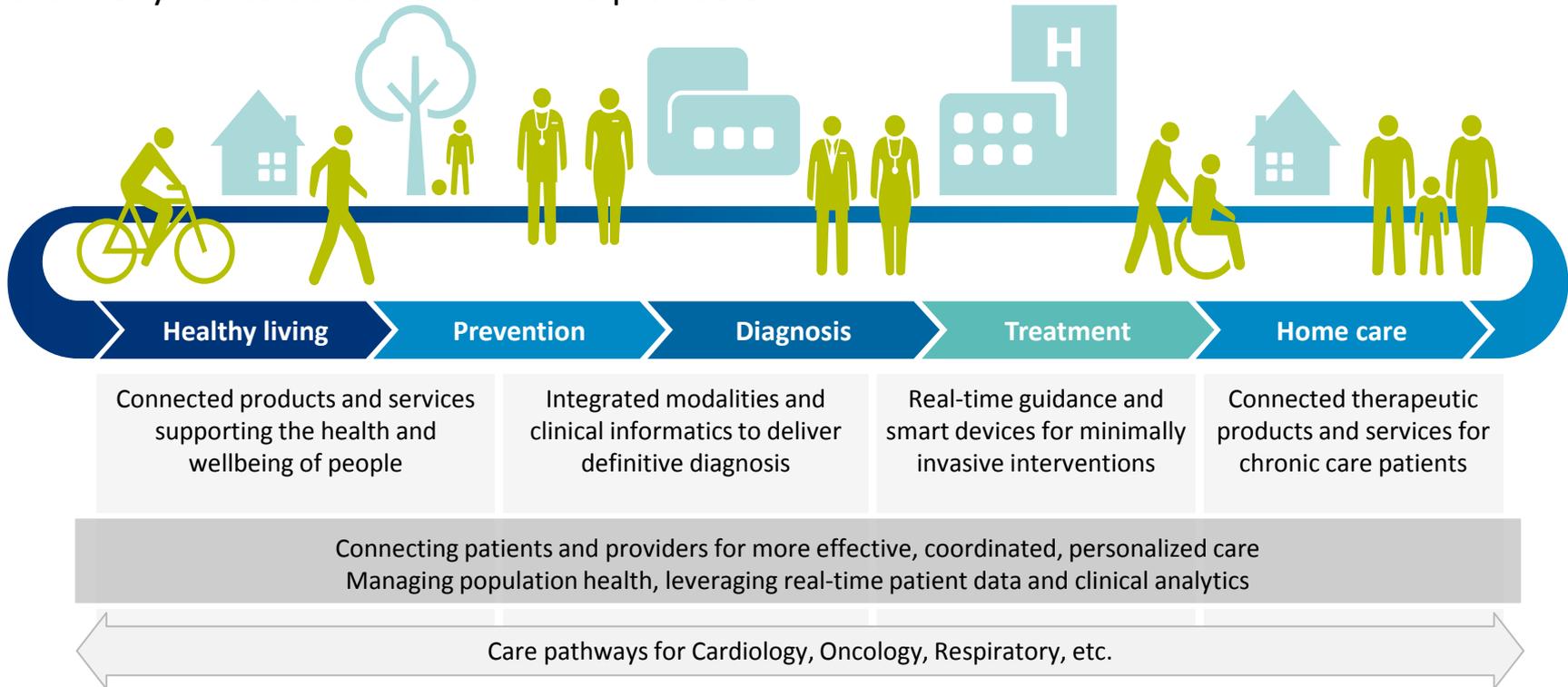


Market trends

- Population growth, ageing and rise in chronic diseases
- Consumerization and digitalization of healthcare
- Shift to outcome focused, value-based healthcare
- Care shifting to ambulatory and home care settings with consumers increasingly engaged in their health
- Data enabled healthcare delivery with higher productivity
- Consolidation of hospitals into large health system delivery networks
- Convergence of professional healthcare and consumer health

Health continuum drives our strategy

With global reach, deep insights and leading innovations, we are uniquely positioned in the “last yard” to consumers and care providers



Operating through three segments across the health continuum

Segments and businesses¹ (share of revenues)

Diagnosis & Treatment



40%

- Diagnostic Imaging
- Ultrasound
- Image-Guided Therapy

Connected Care & Health Informatics



17%

- Monitoring & Analytics
- Therapeutic Care
- Healthcare Informatics
- Population Health Management

Personal Health



41%

- Health & Wellness
- Sleep & Respiratory Care
- Personal Care
- Domestic Appliances

Key products

- Computed tomography, magnetic resonance, digital X-ray
- Ultrasound
- Interventional X-ray, smart devices for diagnosis and therapy

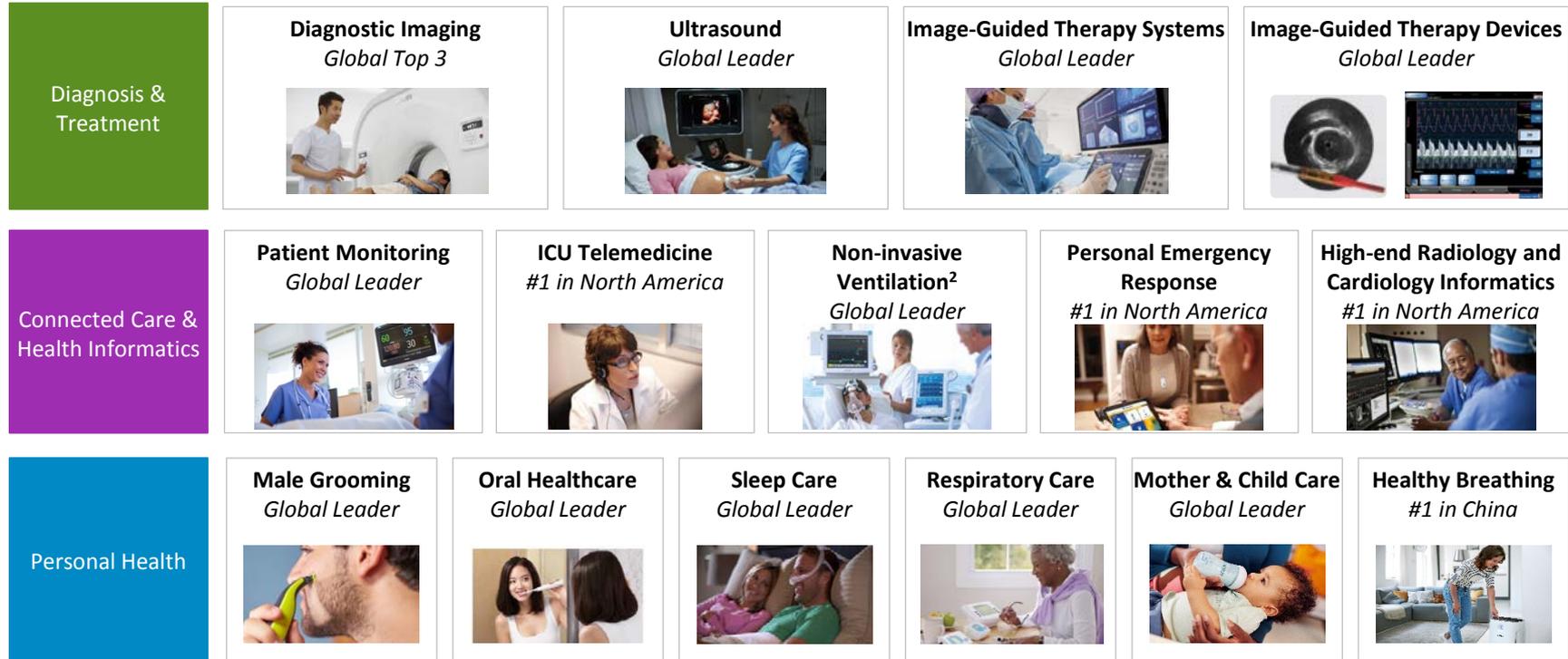
- Patient monitoring
- Hospital ventilation, defibrillators
- Healthcare IT, clinical and imaging informatics
- Home monitoring, remote cardiac monitoring

- Sonicare power toothbrushes, Avent mother & child care
- Respironics home ventilators, CPAP, respiratory masks
- Male grooming, skin care
- Air purification, small kitchen appliances

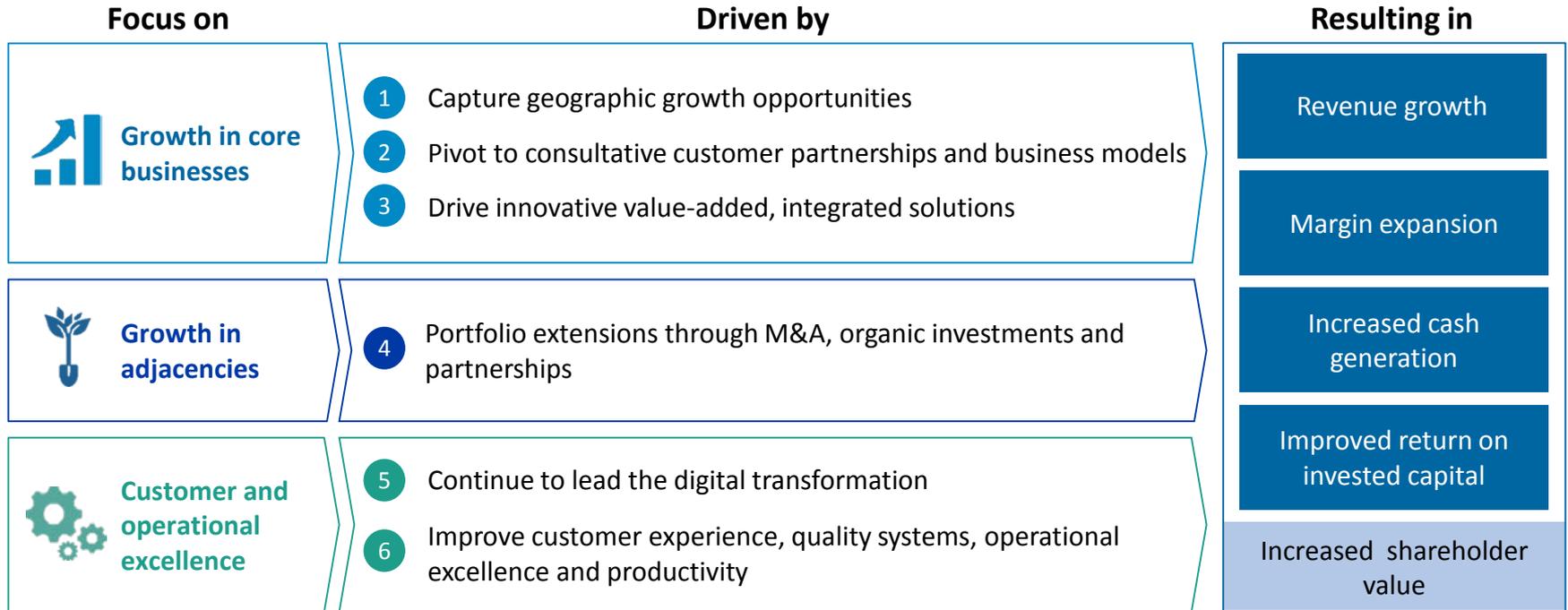
■ Sales (EUR bn) ● Adj. EBITA margin



Our strong portfolio has >60% of sales from leadership positions¹

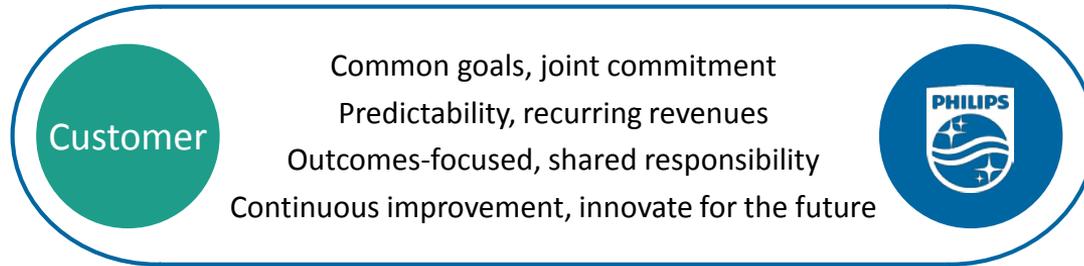


Growth and performance improvement drivers to continue delivering on our targets



Pivot to consultative customer partnerships and business models

Enabling value-based care



KAROLINSKA UNIVERSITY HOSPITAL 

Creating a leading healthcare center



- Cross-portfolio equipment
- Technology management services
- Clinical innovation

14-year enterprise agreement, 2 leading facilities
Enabled **on-time opening** of complex new facility
Augmented reality in surgical navigation innovation

  **Banner Health**

Connected, consumer-centric health and value creation



- Innovation incubator
- Solutions delivery
- Technology advisor

15-year enterprise agreement, 28 hospitals
Growth in Cardiovascular, Fluoroscopy, Population Health
Executive Governance Board with Innovation Council

Innovative value-added, integrated solutions

Developed to better meet customer needs and capture greater value

Packaged suite of systems, smart devices, software and services

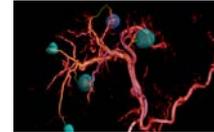
Image-Guided Therapy solutions



Image-Guided Therapy systems



Smart catheters



Disease-specific software



Cath lab management, services, consulting

Patient monitoring solutions



Monitoring



Cableless measurements, biosensors



IntelliVue Guardian software



Integration, services, consulting

Total sleep management solutions



Dream Series therapy devices



Care Orchestrator Platform



Patient services



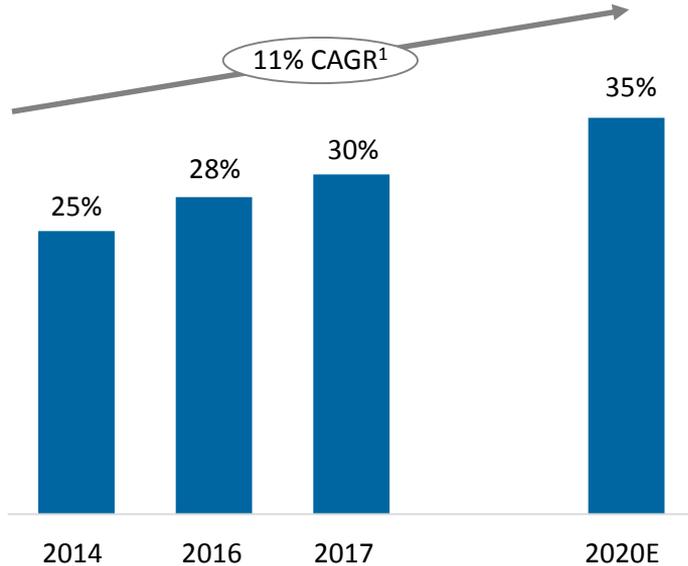
DreamMapper patient engagement

Solutions and partnership approach is working well

High growth with accretive margins, recurring revenue models

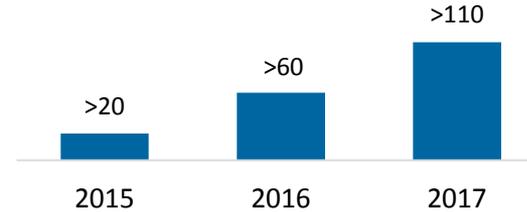
Solutions revenues: double-digit growth

% of total revenue



Expand large enterprise long-term partnership deals

Number of signed deals (cumulative)

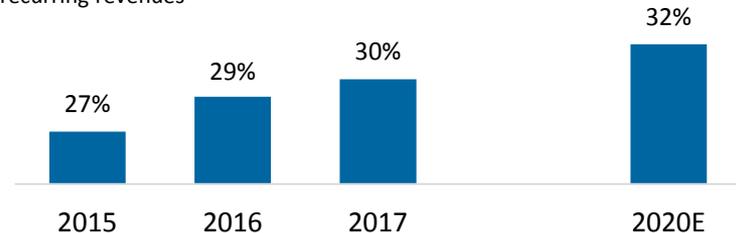


Best practice award



Increase revenue predictability

% recurring revenues



Portfolio extensions through disciplined M&A

Strategic objectives

- Expand leadership positions
- Acquire synergistic businesses, technologies, channels or expand geographic reach

Strong governance and financial discipline

- All M&A approved by Executive Investments and Alliances Committee through standard process
- Scorecard assessing opportunities based on 12 KPIs (NPV/PP, IRR, ROIC>WACC, discounted payback period, etc.)

Rapid post-merger integration to unlock value

- End-to-end process, fully integrated with the acquisition team
- Standard 'playbooks' drive quick 'plug & play' into Philips
- Leverage talent to achieve growth and margin expansion synergies

Highlights on progress to date



- ✓ Sales growth: Flat sales growth (2014) to double-digit sales growth (2016, 2017)
- ✓ Leveraged Philips global footprint to expand to new geographies (e.g., India, Canada)
- ✓ Improved gross margins by 10 percentage points since 2015



- ✓ FDA approval for Stellarex (drug-coated balloon)
- ✓ Cross-selling opportunities for >500 accounts in the US
- ✓ Stellarex sales cross-training to expand US market launch
- ✓ Significant procurement savings from Philips contracts

Improve customer experience, operational excellence and productivity

Customer experience

- Customer-centric innovations:
 - Design-driven, customer co-creation
 - Our metrics aligned to customer metrics
- Supply chain performance optimization
- Focus on continuous customer lifetime excellence



#1 USA ServiceTrak rankings
across imaging modalities (2016)



Healthcare *design award*

The Academy
The Health Management Academy

*Executive collaboration to
tackle key challenges*

Productivity initiatives

Self-help initiatives to drive **EUR 1.2 billion in savings** (2017-2019):

- Procurement savings
- Manufacturing productivity
- Overhead cost reduction

Operational excellence

- Continue to apply Philips Business System and 'Design for Excellence' methodology
- Expansion of lean techniques
- Standardized Quality Management Systems



Innovation drives our growth and improves margins

Commitment towards innovation

- **Annual R&D spend: ~EUR 1.8 billion** (EUR ~300 million on breakthrough innovations)
- **Strong IP portfolio:** ~62,000 patent rights, ~38,000 trademarks, ~48,000 design rights
- 60%+ R&D professionals in software and data science
- Leadership in design thinking
- Clinical collaborations across major markets
- Global R&D footprint

Businesses growth

New product sales¹:

- Diagnosis & Treatment: ~40%
- Connected Care & Health Informatics: ~50%
- Personal Health: ~25%

Digital transformation

- Connected products to enable new business models
- Enable online services for consumers and customers

Productivity enhancements

- Disciplined portfolio and lifecycle management process
- Architecture, platform re-use
- Drive 40-60 bps in R&D productivity improvements by 2020

We are recognized for our commitment to sustainability

Focus on UN Sustainable Development Goals, in particular #3 and #12¹

2020 program “Healthy people, sustainable planet”

- Carbon neutral operations
- 70% turnover from green products; 15% will be circular
- Zero waste to landfill
- Supplier sustainability program with all our suppliers
- 2.5 billion lives improved by 2020



PARIS2015
UN CLIMATE CHANGE CONFERENCE
COP21-CMP11

Philips commits to become **carbon-neutral** in its operations by 2020



CDP
DRIVING SUSTAINABLE ECONOMIES

Recognized leader
– Carbon Disclosure Project
2013, 2014, 2015,
2016, 2017



GlobalCapital
SRI Awards

Award-winning
transaction –
Revolving Credit
Facility with
sustainability link



Dow Jones
Sustainability Indexes

Philips recognized **Industry Leader** in the DJSI
2015, 2016, 2017



Enabling responsible supply chains
Sedex



2016
CSR Rating
GOLD
ecoVadis

Philips holds **top scores in supplier rating platforms** (used by our customers)



WORLD
ECONOMIC
FORUM

P A C E



UNEP gef

Thought leader
on Circular
Economy

Experienced management team driving growth, operational excellence and value creation

CEO / CFO	Segment Leaders	Market Leaders	Function Leaders
 <p>CEO Frans van Houten</p> 	 <p>Personal Health Egbert van Acht</p> 	 <p>Global Markets¹ Henk de Jong</p> 	 <p>Innovation & Strategy Jeroen Tas</p> 
	 <p>Diagnosis & Treatment Robert Cascella</p> 	 <p>North America Vitor Rocha</p>  	 <p>Operations Sophie Bechu</p>  
 <p>CFO Abhijit Bhattacharya</p> 	 <p>Connected Care & Health Informatics Carla Kriwet</p> 	 <p>Greater China Andy Ho</p> 	 <p>Legal Marnix van Ginneken</p>  
			 <p>Human Resources Ronald de Jong</p> 

Content

1. Company overview and strategy	4
2. Financial outlook	20
3. Financial performance in the quarter	25
Appendix	31

Philips to reach EUR 20 billion¹ sales with significant return improvements

Focus on



2017-2020 annual targets

4-6% comparable sales growth rate

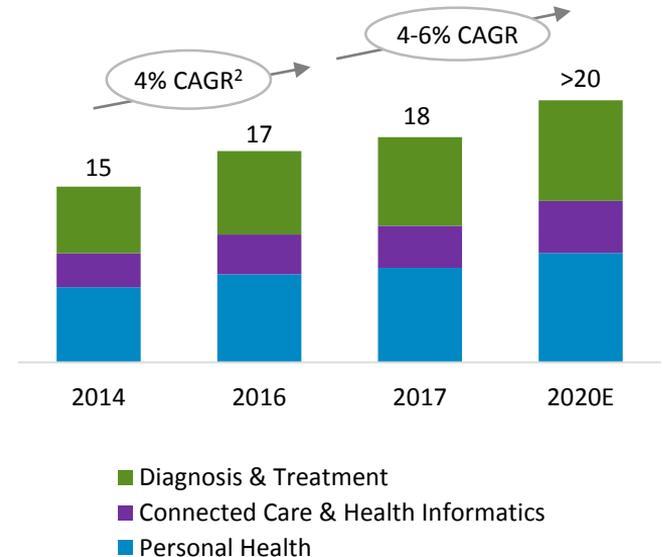
On average 100bps Adj. EBITA margin improvement annually

Free cash flow generation of ~EUR 1–1.5 billion annually

Organic plans ROIC improvement to mid-to-high-teens ROIC by 2020

Sales

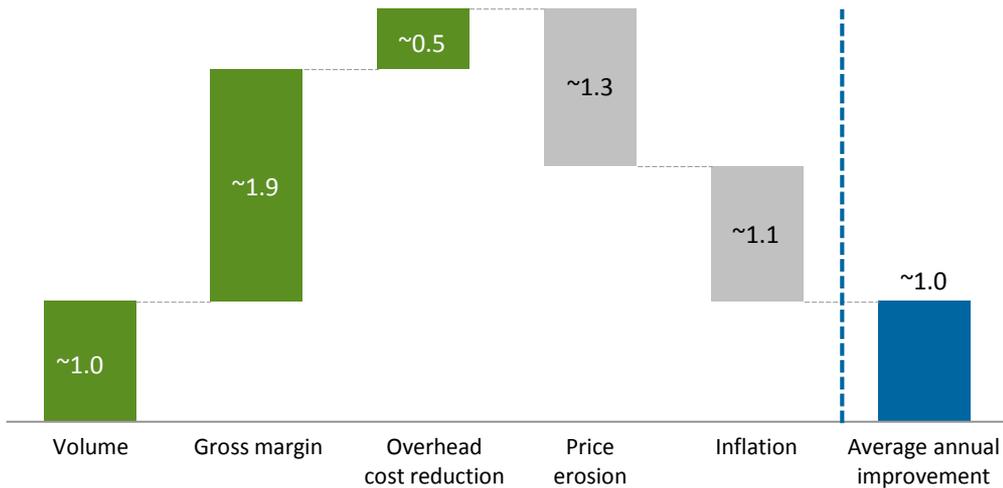
EUR billion



Productivity initiatives of EUR 1.2 billion to drive ~100 basis points annual improvement until 2020

Adj. EBITA step-up drivers

Indicative Adj. EBITA margin, %



Volume

- Geographic expansion
- New product introduction
- Strong order intake
- Operating leverage

Gross margin

- Procurement (EUR 700M savings by 2019) driven by DfX program
- Manufacturing productivity (EUR 200M savings by 2019) targeting to move from 50 to ~30 production locations
- Mix improvement

Overhead cost reduction (EUR 300M savings by 2019)

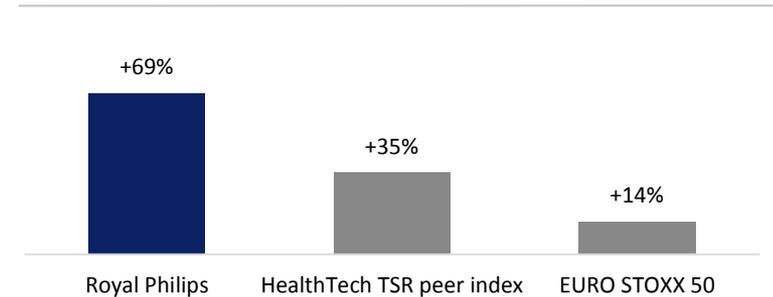
- Standardization of back offices with Global Business Services
- IT landscape simplification
- Delaying the organisation and broadening a span of control

Disciplined capital allocation policy

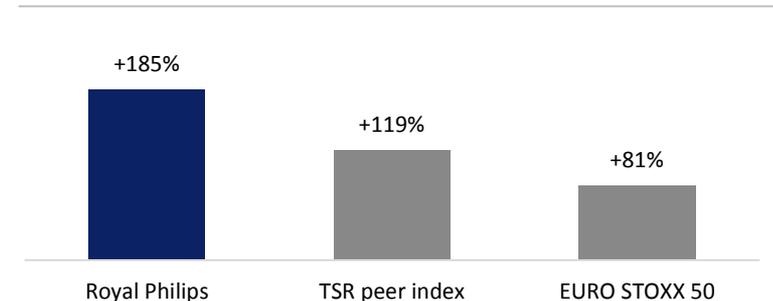
Attractive shareholder returns balanced with investments for growth

- Dividend policy aimed at dividend stability
- EUR 1.5 billion share buyback program for two years started in Q3 2017
- Disciplined but more active approach to M&A, while continuing to adhere to strict return hurdles
- Continue to invest in high ROIC organic growth opportunities
- Continued focus on driving balance sheet efficiency
- Committed to a strong investment grade rating

Total shareholder returns since 2016 ^{1,2}



Total shareholder returns since 2012 ^{1,3}

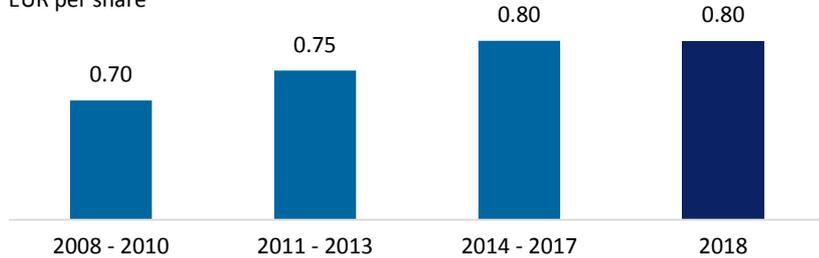


Disciplined capital allocation policy

Proven track record

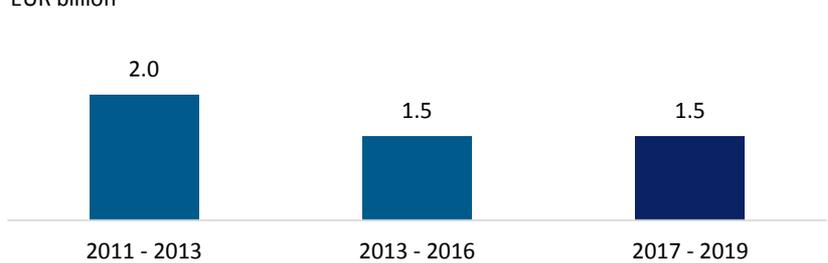
Dividends

EUR per share



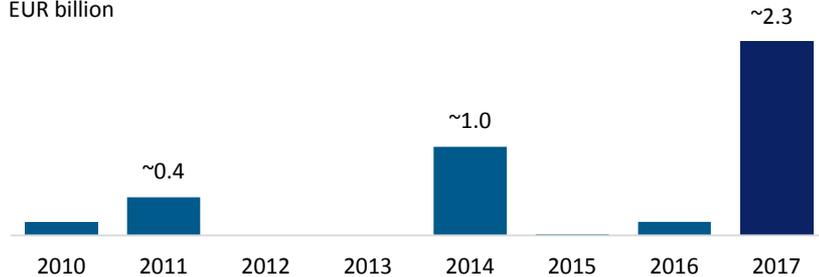
Share buyback

EUR billion

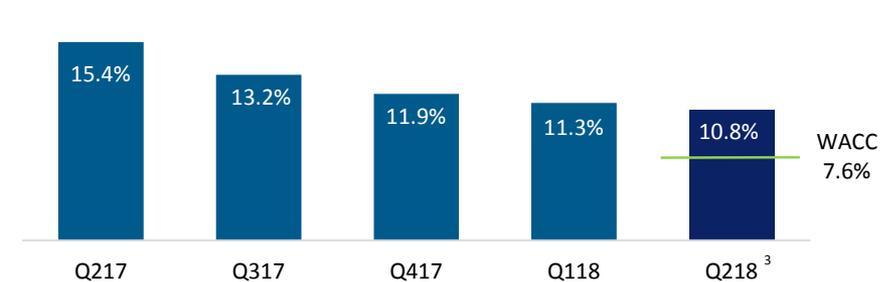


Merger & Acquisitions ¹

EUR billion



Return on Invested Capital ²



Content

1. Company overview and strategy	4
2. Financial outlook	20
3. Financial performance in the quarter	25
Appendix	31

Q2 2018 performance highlights

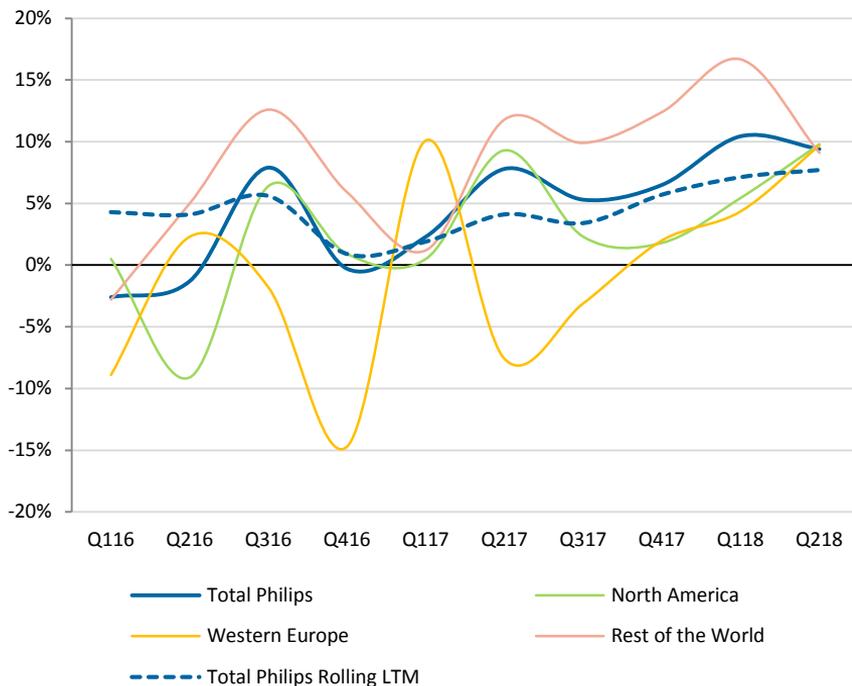
- Comparable sales up 4% compared to Q2 2017
- Comparable order intake up 9% compared to Q2 2017
- Adj. EBITA margin of 11.2%, up 100 bps compared to Q2 2017
- Free cash outflow of EUR 41 million, compared to an outflow of EUR 89 million in Q2 2017

EUR million	Q2 2017	Q2 2018	FY 2017
Capital expenditures on property, plant and equipment	99	70	420
Capitalization of development costs	107	108	405
Depreciation	104	109	437
Amortization of acquired intangible assets	67	133	260
Amortization of software	12	16	50
Amortization of development costs	60	58	277

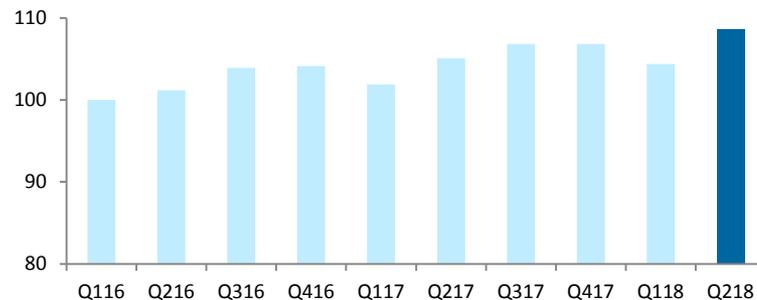
	Sales EUR million	Comparable sales growth	Adj. EBITA margin	vs. LY (bps)	Adj. EBITDA margin	vs. LY (bps)
Diagnosis & Treatment	1,761	+8%	10.8%	+180	13.5%	+200
Connected Care & Health Informatics	743	+2%	8.9%	+40	12.8%	-10
Personal Health	1,694	+2%	16.1%	+80	19.5%	+90
Other	88					
Philips	4,288	+4%	11.2%	+100	15.4%	+120

Order intake and book¹

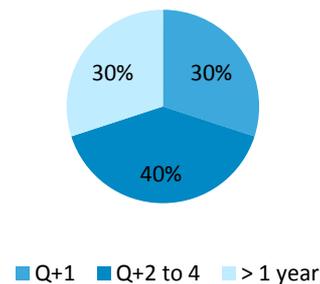
Comparable order intake growth



Indexed order book development



Typical profile of order book conversion to sales

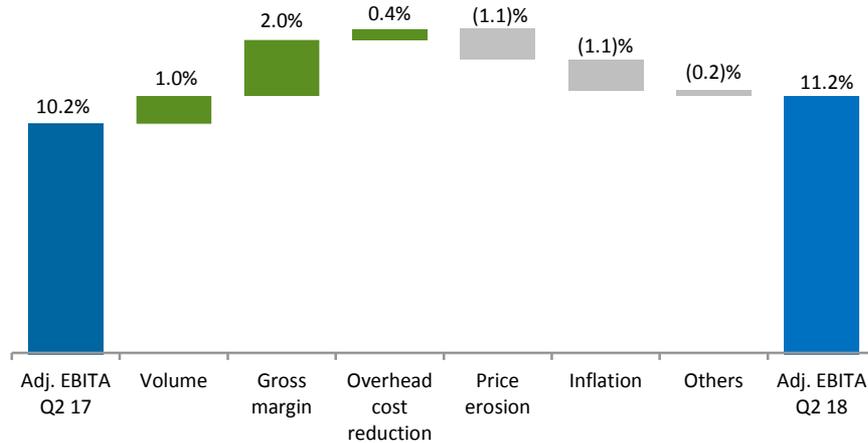


- Approximately 70% of the current order book results in sales within the next 12 months
- Quarter end order book is a leading indicator for ~30% of sales the following quarters

Underlying improvements in profitability

Adjusted EBITA bridge for Q2 2018

as a % of sales



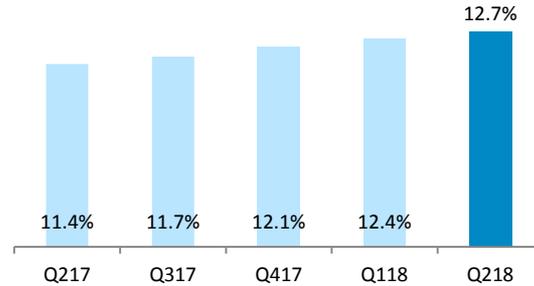
Productivity initiatives contributing to medium-term targets

EUR million	2017-2019 plan	Q2 2018	2017-2018 actuals
Procurement	700	67	377
Other productivity (net) ¹	500	38	312
Total (net)	1,200	105	689

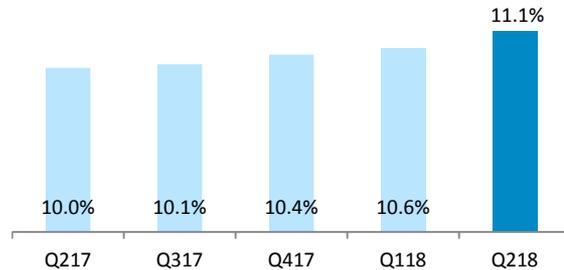
Adjusted EBITA¹ margin development

Rolling last twelve months

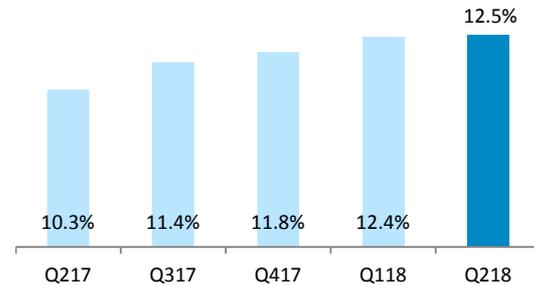
Philips



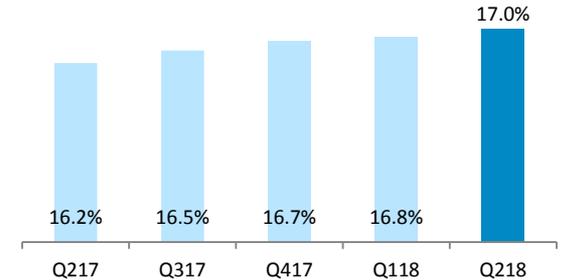
Diagnosis & Treatment



Connected Care & Health Informatics

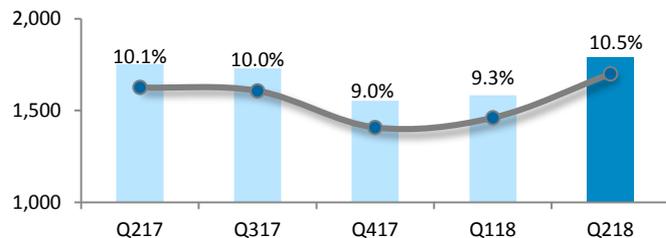


Personal Health

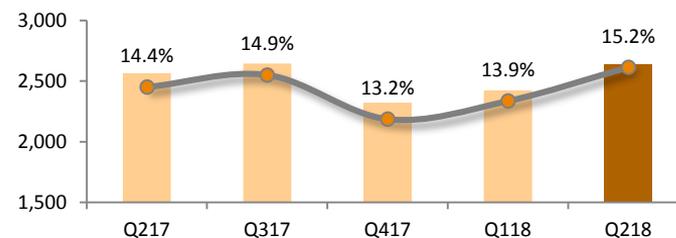


Working capital and inventories

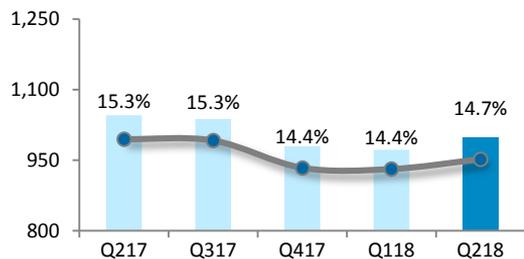
Working capital¹, EUR million — as % of LTM sales²



Inventories, EUR million — as % of LTM sales²



Diagnosis & Treatment



Connected Care & Health Informatics



Personal Health



Appendix

Restructuring, acquisition-related charges and other items

EUR million	Q1 17	Q2 17	Q3 17	Q4 17	2017	Q1 18	Q2 18
Diagnosis & Treatment	(11)	(31)	(85)	(45)	(173)	(42)	(23)
Restructuring & Acq.-related charges	(11)	(31)	(63) ⁶	(45)	(151)	(42)	(23)
Other items	-	-	(22) ⁷	-	(22)	-	-
Connected Care & Health Informatics	(25)	(37)	(43)	(17)	(122)	(23)	(34)
Restructuring & Acq.-related charges	(8)	(25)	(25)	(33)	(91)	(6)	(19)
Other items	(17) ²	(12) ²	(18) ²	16 ^{8,9}	(31)	(17) ⁸	(15) ⁸
Personal Health	(2)	(1)	-	(8)	(11)	(3)	(22)
Restructuring & Acq.-related charges	(2)	(1)	-	(8)	(11)	(3)	(4)
Other items	-	-	-	-	-	-	(18) ¹⁰
Other¹	45	(41)	(39)	(25)	(60)	(14)	28
Restructuring & Acq.-related charges	(3)	(7)	(32)	(21)	(64)	(13)	(6)
Other items	48 ^{3,4}	(34) ^{4,5}	(7) ⁴	(4) ⁴	4	(1) ⁴	34 ¹¹
Philips	6	(111)	(167)	(95)	(366)	(82)	(52)
Restructuring costs	(16)	(48)	(73)	(75)	(211)	(41)	(31)
Acquisition related charges	(9)	(17)	(47)	(32)	(105)	(23)	(21)
Other items	31	(46)	(47)	12	(50)	(18)	-

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

1. Other comprises of HealthTech Other and Legacy Items 2. Charges related to quality and regulatory actions. 3. EUR 59 million gain on the sale of real estate assets. 4. Relates to the separation of the Lighting business. 5. EUR 26 million of provisions related to the CRT litigation in the US, EUR 7 million of charges related to the separation of the Lighting business and EUR 5 million of stranded costs related to the combined Lumileds and Automotive businesses. 6. The amount includes the charges related to acquisition of Spectranetics. 7. Charges related to portfolio rationalization measures. 8. Mainly related to the consent decree focused on the defibrillator manufacturing in the U.S. 9. Includes EUR 36 million release of provision related to the Masimo litigation. 10. Provision related to the anticipated conclusion of the European Commission investigation into online price setting. 11. Includes a gain of EUR 43 million related to a divestment.

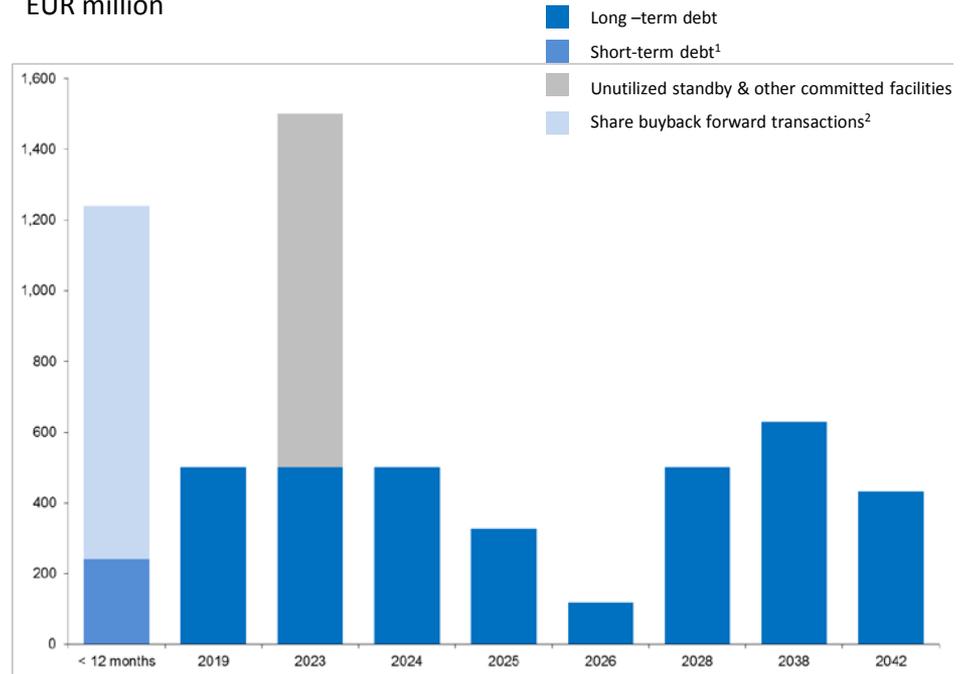
Philips' debt has a long maturity profile

Characteristics of long-term debt

- Total net debt position of EUR 3.3 billion
- Maturities up to 2042
- Average tenor of long-term debt is 10.5 years³
- No financial covenants
- On April 24, 2018, Royal Philips announced the successful pricing of its issue of EUR 500 million fixed rate notes due 2024 and EUR 500 million fixed rate notes due 2028. The net proceeds were used for general company purposes, including the redemption of the 3.750% Notes due 2022 on April 26, 2018.

Debt maturity profile as per March 2018

EUR million



Financial calendar 2018

September 6	15th Annual European Medtech and Healthcare Services Conference, London
September 12	Morgan Stanley Annual Global Healthcare Conference, New York
October 22	Third quarter results 2018
November 8	Capital Markets Day, Amsterdam
November 14	Societe Generale The European ESG/SRI Conference, Paris
January 29, 2019	Fourth quarter results 2018

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