



PHILIPS

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Royal Philips Second quarter and semi-annual 2019 results

July 22, 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 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; 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 Signify. 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 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-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 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 the underlying quarterly report. 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, unless otherwise stated.

Market Abuse Regulation

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

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



Improved
health
outcomes



Improved
patient
experience



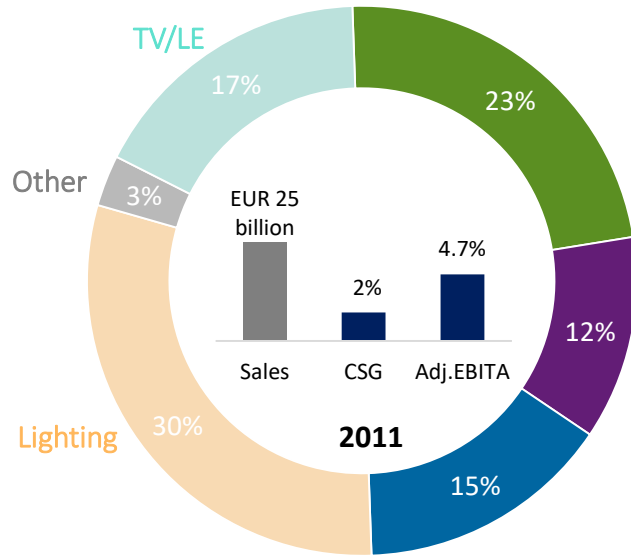
Improved
staff
satisfaction



Lower
cost
of care



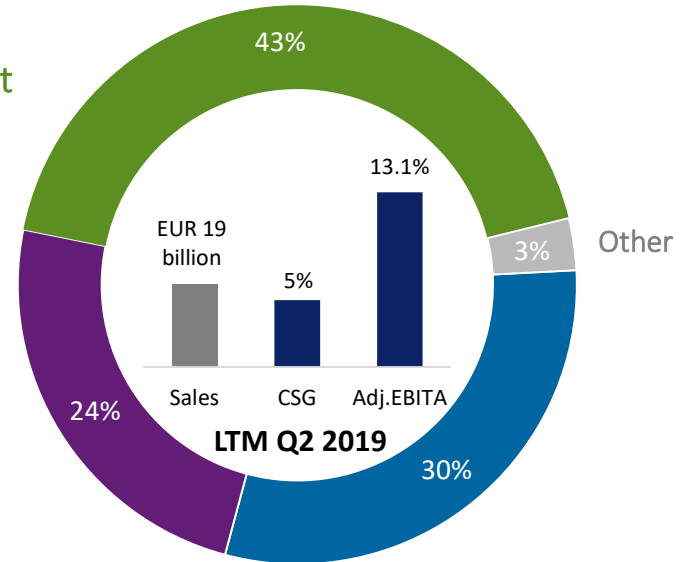
We have transformed into a focused global HealthTech leader



Diagnosis & Treatment

Connected Care

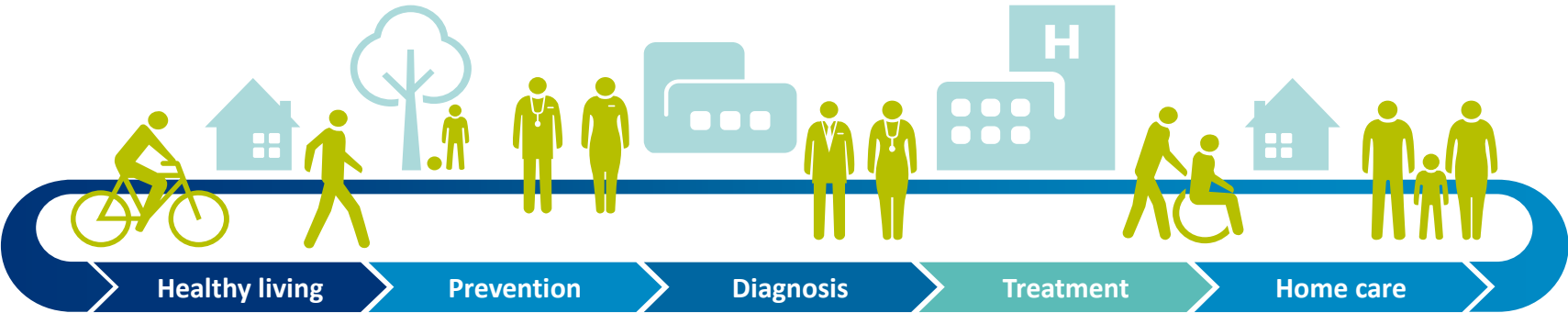
Personal Health





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
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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



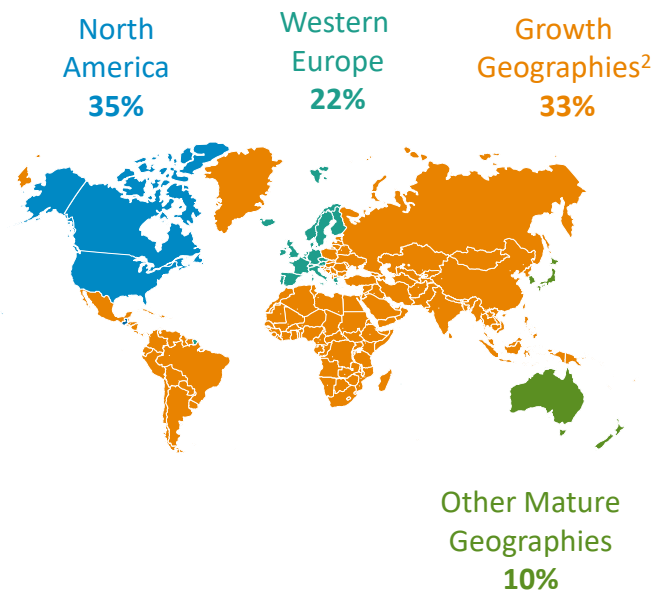
Post Acute Care

Shifting to lower-cost settings and the home

Royal Philips

EUR 18.7 billion sales and Adjusted EBITA of 13.1%¹

Global footprint



Committed to innovation

- EUR 1.8 billion for R&D, ~65,000 patents rights, ~39,000 trademarks³
- ~1/2 R&D personnel in software and data science
- More than 50% of sales from new products⁴
- More than 30% of sales from solutions³
- ~78,000 employees in over 100 countries

¹ All figures are based on LTM Q2 2019 unless stated otherwise; ² Growth geographies consist of all geographies excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel; ³ FY 2018; ⁴ New product sales over three years based on FY 2018.

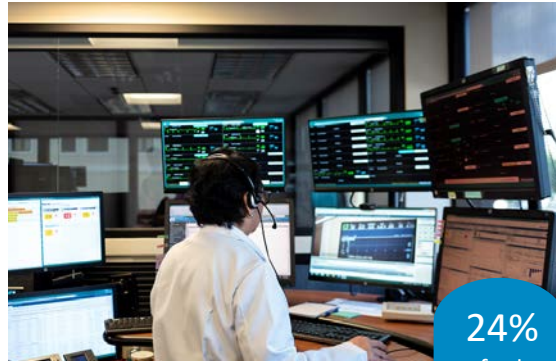
Operating across the health continuum



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
16-18% margin

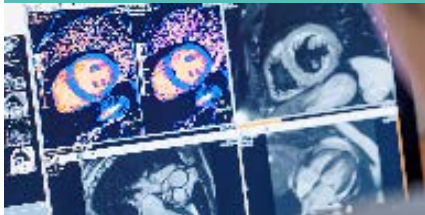
4-6% sales growth
16-18% margin

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







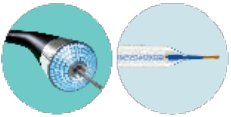









- **Healthy living and prevention**
- **Personal care**
- **Digital consumer engagement**

- 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^{1, 2}

Diagnosis & Treatment CSG: 5% Adj. EBITA: 12.0%		Connected Care CSG: 2% Adj. EBITA: 13.7%		Personal Health CSG: 4% Adj. EBITA: 15.4%	
	Ultrasound <i>Global Leader</i>		Patient Monitoring <i>Global Leader</i>		Male Grooming <i>Global Leader</i>
	Image-Guided Therapy Systems <i>Global Leader</i>		ICU Telemedicine <i>#1 in North America</i>		Oral Care <i>Global Leader</i>
	Image-Guided Therapy Devices <i>Global Leader</i>		Personal Emergency Response <i>#1 in North America</i>		Mother & Child Care <i>Global Leader</i>
	Diagnostic Imaging <i>Global Top 3</i>		Respiratory Care <i>Global Leader³</i>		Home Appliances <i>#1 in Air, China</i>
	High-end Radiology and Cardiology Informatics <i>#1 in North America</i>		Sleep Care <i>Global Leader</i>		

¹Leadership position refers to #1 or #2 position in Philips addressable market; ²Comparable Sales Growth (CSG) and Adjusted EBITA based on LTM Q2 2019; ³Based on non-invasive ventilators for the hospital setting

Drivers for continued growth and improved profitability

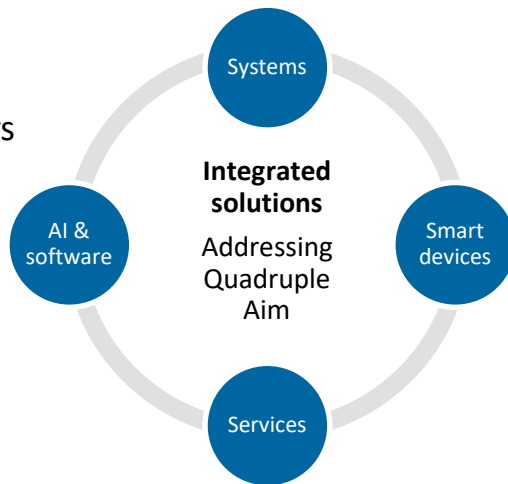


Drive innovative, value-added integrated solutions

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



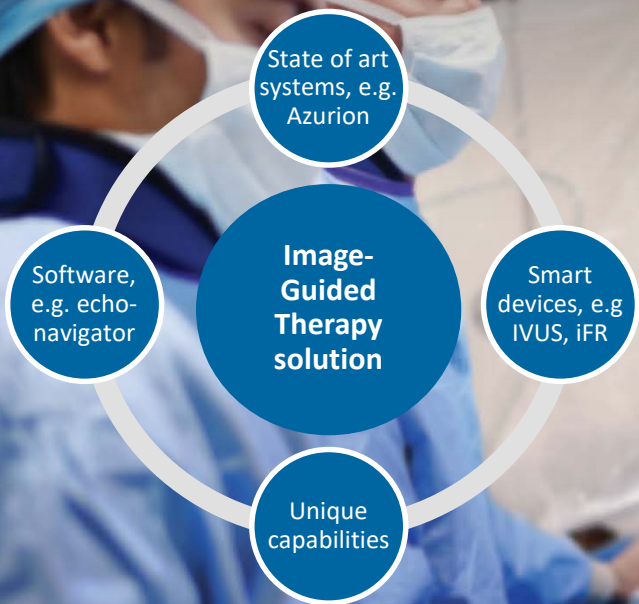
Example solution areas:

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

Solutions deliver 31% of revenues¹, growing double-digit



Azurion: Innovating the procedure through workflow improvements and radiation reduction¹



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





Our sustainability programs address pressing societal issues

Focus on United Nations Sustainable Development Goals, in particular #3, #12 and #13¹



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













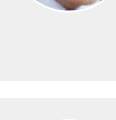


















The Compact

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> Frans van Houten</p> 	 <p><i>Diagnosis & Treatment</i> Robert Cascella</p> 	 <p><i>Global Markets¹</i> Henk de Jong</p> 	 <p><i>Innovation & Strategy</i> Jeroen Tas</p> 
 <p><i>CFO</i> Abhijit Bhattacharya</p> 	 <p>Bert van Meurs</p> 	 <p><i>North America</i> Vitor Rocha</p>  	 <p><i>Operations</i> Sophie Bechu</p>  
	 <p><i>Connected Care</i> Carla Kriwet</p> 	 <p><i>Personal Health</i> Roy Jakobs</p> 	 <p><i>Legal</i> Marnix van Ginneken</p>  
		 <p><i>Greater China</i> Andy Ho</p> 	 <p><i>Human Resources</i> Ronald de Jong</p> 

¹Excluding North America and Greater China



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Continued focus on value creation

2017-2020 targets

Revenue growth

comparable sales growth

4-6% annually

Margin expansion

Adj. EBITA improvement

**average annual 100
bps improvement**

to ~15% in 2020

Cash generation

Free Cash Flow in 2020

above EUR 1.5 billion

ROIC

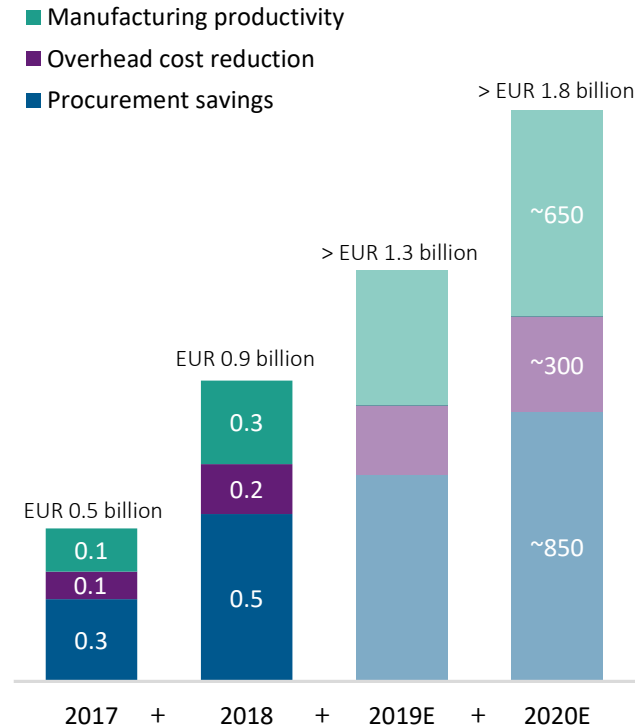
Organic ROIC in 2020

mid-to-high-teens

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 locations¹; 13 locations completed by 2018

Overhead costs

- 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

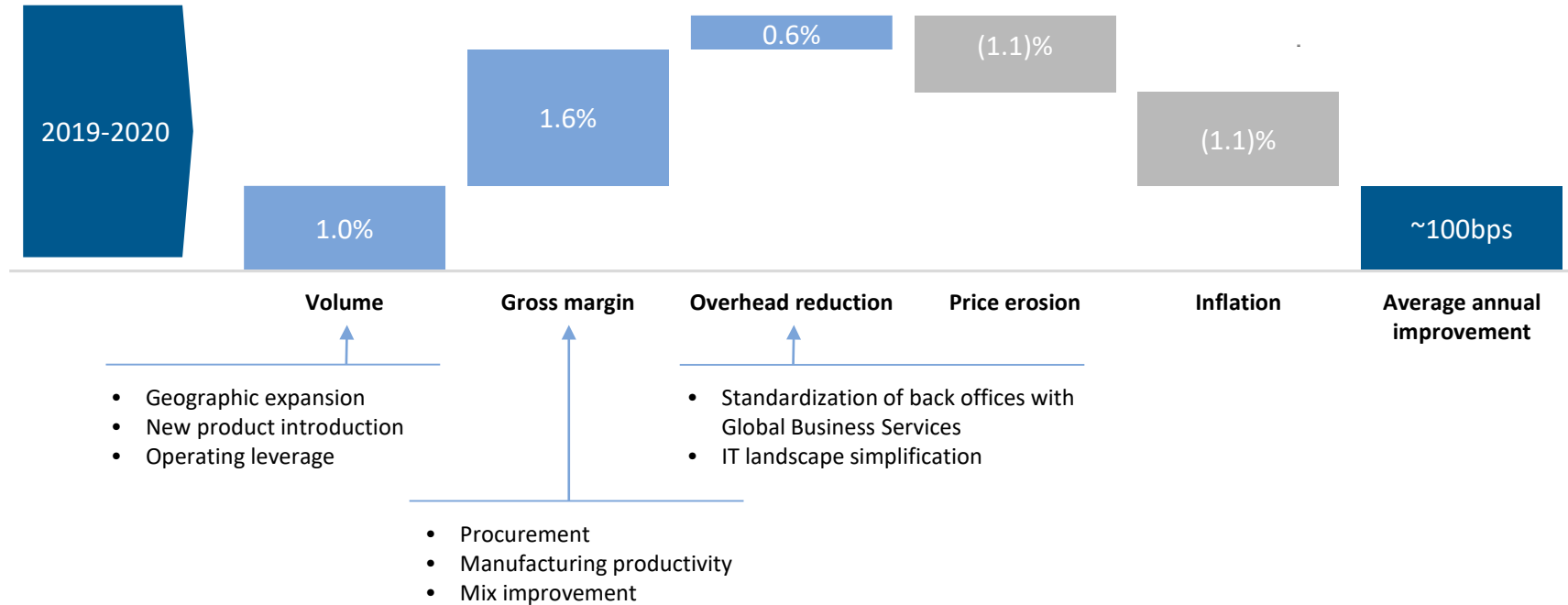
Procurement

- 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

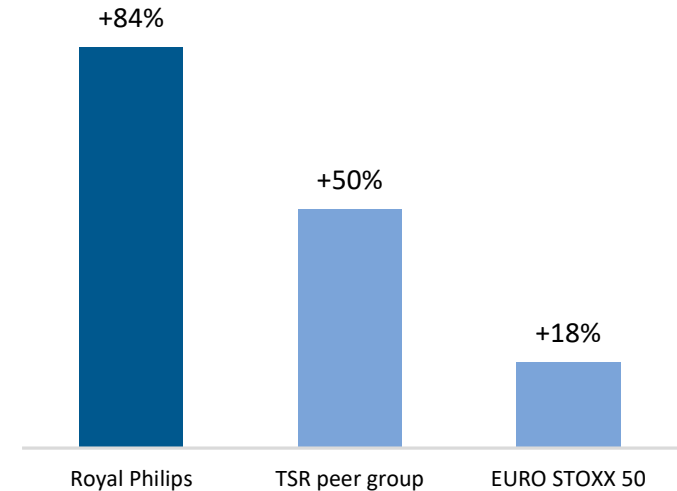
Indicative Adjusted EBITA margin step-up bridge 2019-2020



Balanced capital allocation policy



Total shareholder return since 2016^{1,2}



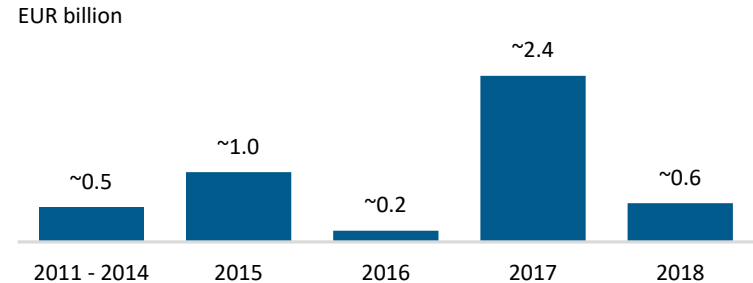


Balanced capital allocation policy

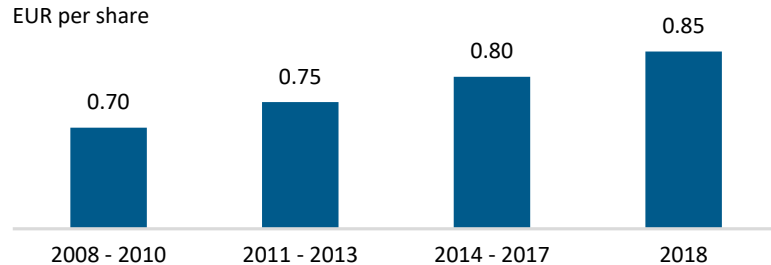
Organic Return on Invested Capital¹



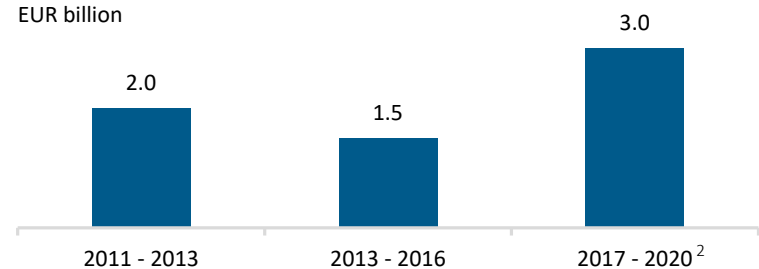
Mergers & Acquisitions



Dividends



Share repurchase



¹ 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; 2015-2018 data has been restated in Q2 2019 to reflect a correction in adjusting items; the implementation of IFRS 16 lease accounting as of January 1, 2019 resulted in an increase in NOC as of 2019; ² 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.



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Q2 2019 financial performance highlights

- Comparable sales up 6% compared to Q2 2018
- Comparable order intake up 8% compared to Q2 2018
- Adj. EBITA margin of 11.8%, up 60 bps compared to Q2 2018
- Free cash inflow of EUR 174 million, compared to an outflow of EUR 41 million in Q2 2018
- Adjusted diluted EPS of EUR 0.43 per share, compared to EUR 0.35 in Q2 2018

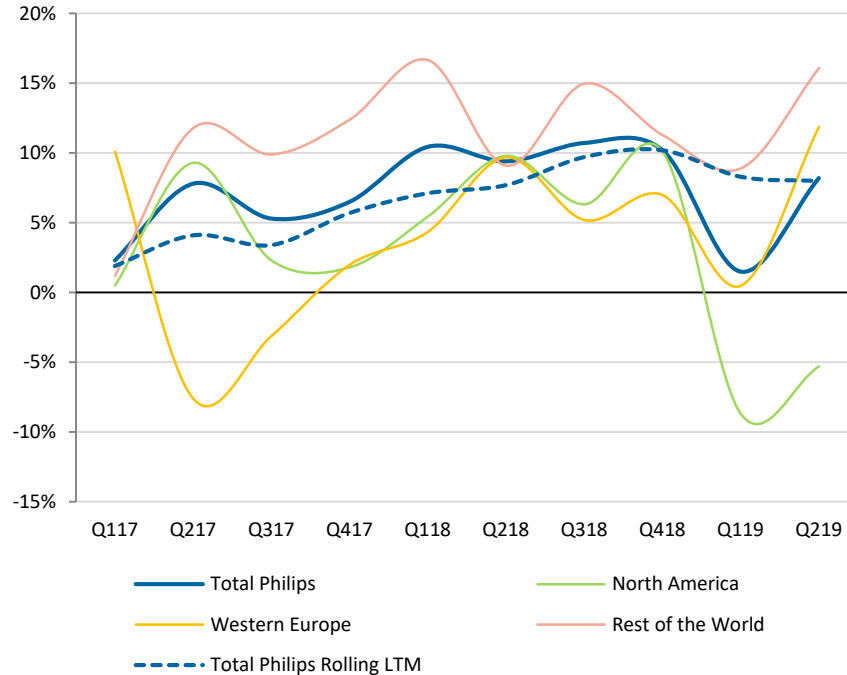
	Sales EUR million	Comparable sales growth	Adj. EBITA margin	Adj. EBITDA margin
Diagnosis & Treatment	2,063	+6%	12.3%	15.7%
Connected Care	1,161	+6%	12.1%	16.0%
Personal Health	1,351	+5%	13.4%	16.0%
Other	96			
Philips	4,671	+6%	11.8%	16.6%

EUR million	Q2 2018	Q2 2019	FY 2018
Capital expenditures on property, plant and equipment	70	116	422
Capitalization of development costs	108	123	385
Depreciation	109	151	438
Amortization of acquired intangible assets	133	91	347
Amortization of software	16	18	64
Amortization of development costs	58	59	240
Depreciation and amortization¹	316	319	1,089

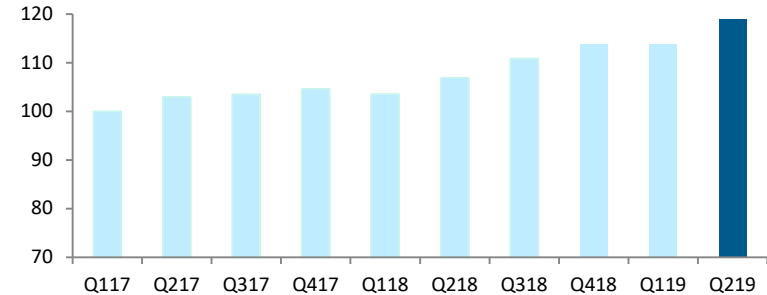


Order intake and order book¹

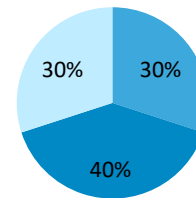
Comparable order intake growth



Indexed order book development



Typical profile of order book conversion to sales



■ Q+1 ■ Q+2 to 4 ■ > 1 year

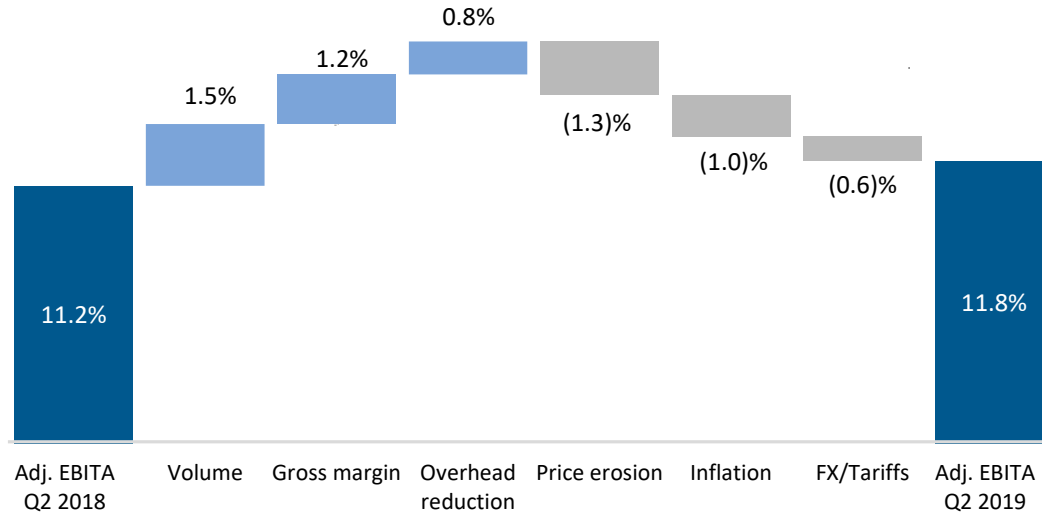
- Approximately 70% of the current order book results in sales within the next 12 months
- Quarter end order book is a leading indicator for ~30% of sales the following quarters



Driving ~100 basis points annual improvement up to 2020

Adjusted EBITA¹ bridge for Q2 2019

as a % of sales

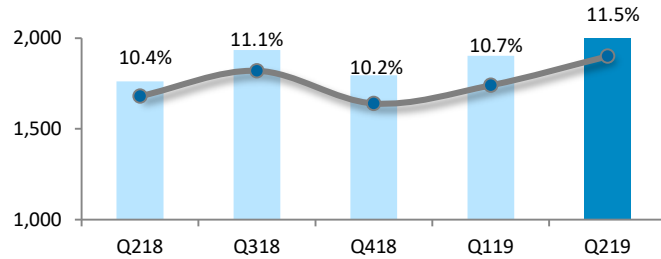


Productivity initiatives contributing to the targets

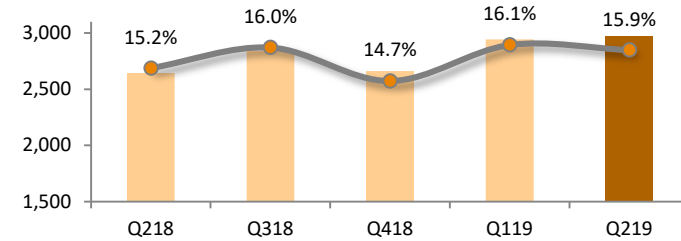
EUR million	2017-2020 plan	Q2 2019	2017-2019 actuals
Procurement	850	48	614
Other productivity (net) ¹	950	98	594
Total (net)	1,800	146	1,208

Working capital and inventories

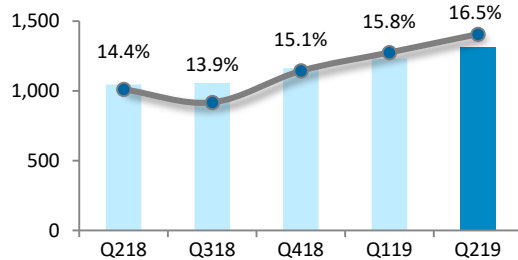
Working capital^{1,2}, EUR million — as % of LTM sales³



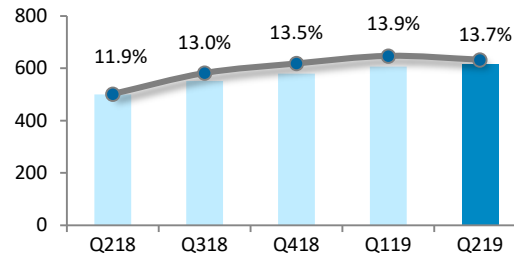
Inventories, EUR million — as % of LTM sales²



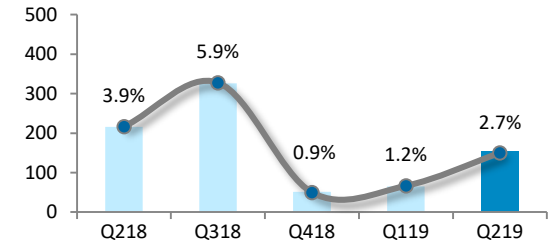
Diagnosis & Treatment



Connected Care



Personal Health



Appendix

Restructuring, acquisition-related charges and other items

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

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

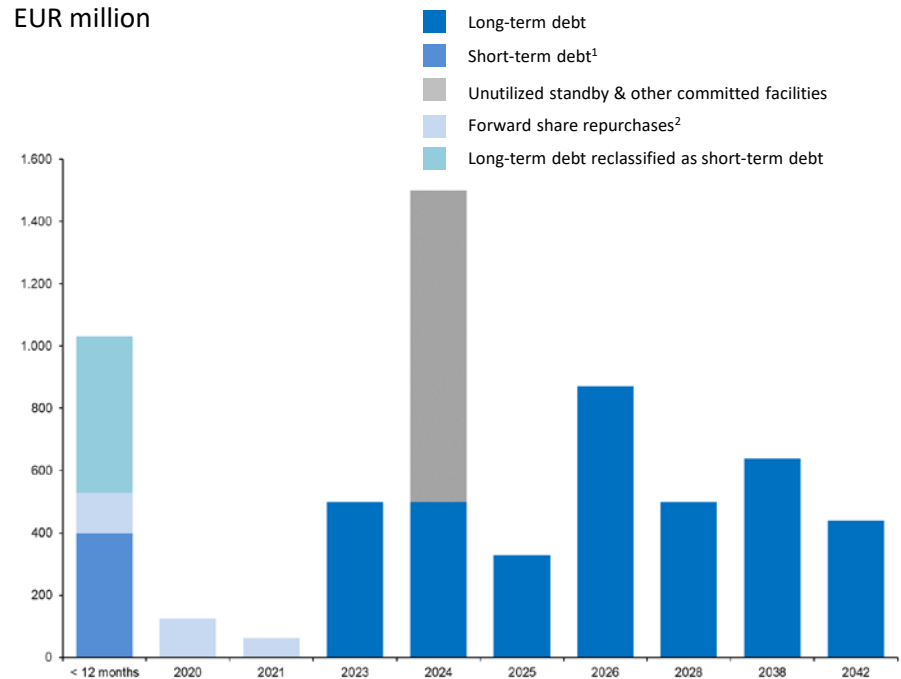
1. Mainly related to the consent decree focused on the defibrillator manufacturing in the US. 2. Provision related to the anticipated conclusion of the European Commission investigation into online price setting. 3. Gains related to divestments and asset disposals. 4. Charges related to litigation provisions.

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 9.1 years³
- No financial covenants
- Operating leases (approximately EUR 800 million) have been reclassified as debt per 1 January 2019 under IFRS 16
- On May 15, 2019 Philips announced the successful pricing of its issue of EUR 750 million 0.500% Green Innovation Bond due 2026

Debt maturity profile as per June 2019



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



Funded status for post-employment defined-benefit plans

IFRS basis

EUR million

Funded status and balance sheet position

December 2018

June 2019

Pension plans	(747)	(769)
Retiree medical plans	(87)	(87)
Philips	(834)	(856)

The funded status deteriorated in Q2 2019, mainly driven by the significant decrease of the discount rates, which was partly offset by positive returns on plan assets in the funded pension plans.



Calendar for the upcoming quarter

September 5	Goldman Sachs 16th Annual European Medtech and Healthcare Services Conference, London
September 10	Morgan Stanley Global Healthcare Conference, New York
September 18	Bank of America Merrill Lynch Global Healthcare Conference, London
September 26	Bernstein Annual Strategic Decisions Conference, London
October 28	Third quarter results 2019

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