


PHILIPS

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Royal Philips Second quarter and semi-annual 2020 results

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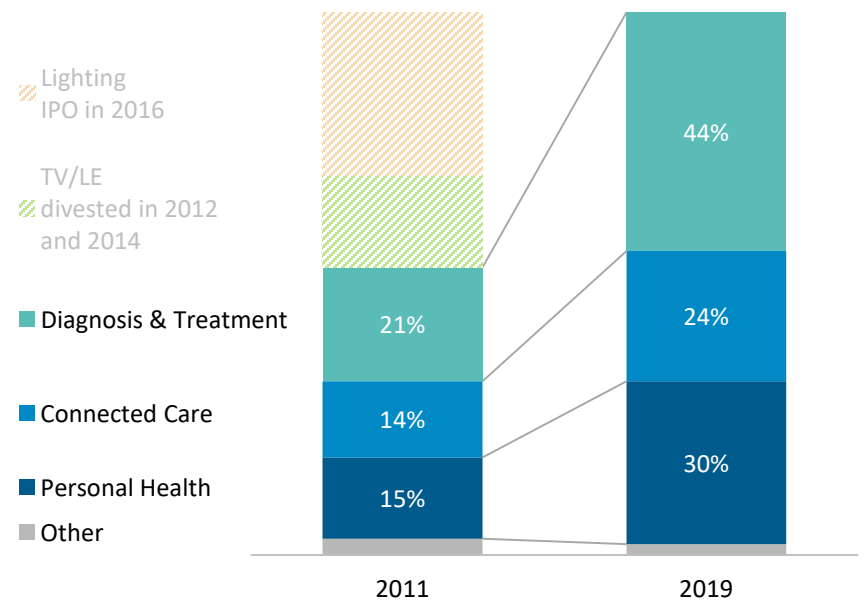
At Philips, we strive to make the world healthier
and more sustainable through innovation.



We have transformed into a focused global HealthTech leader

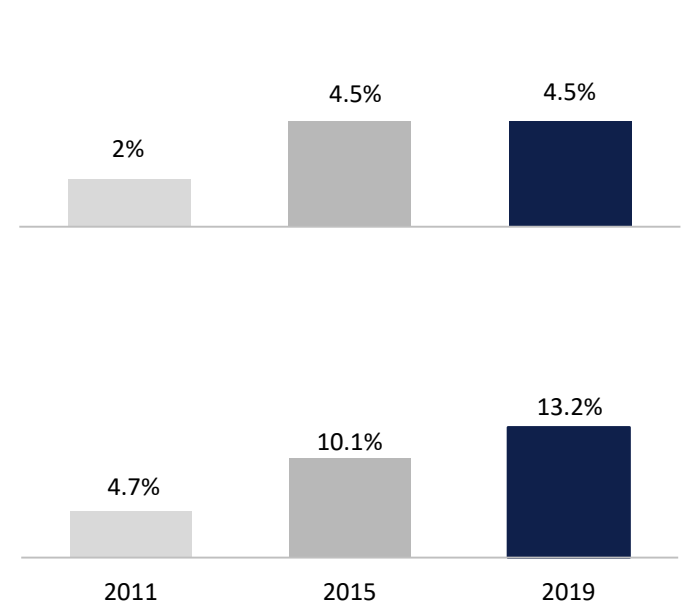
Transforming the company...

100% of sales split



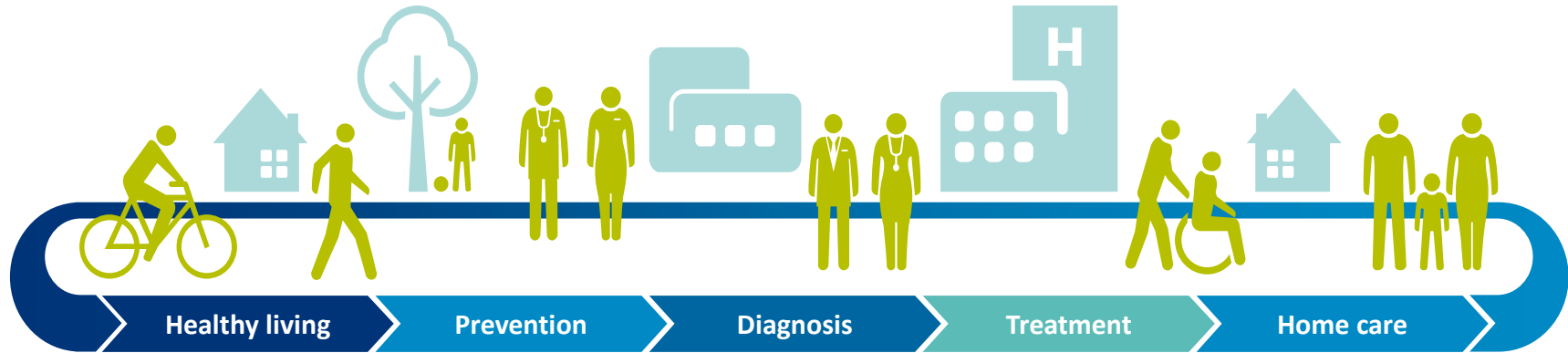
...while creating value

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

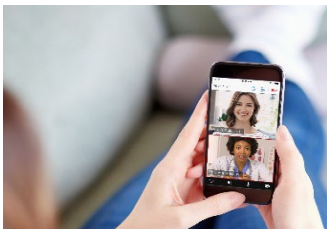
Growing population

Aging population

Rising burden of chronic diseases

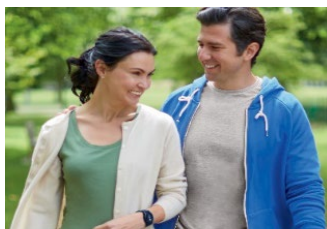
Increasing spend in developing markets

And technology will play a bigger role



Digital

Connecting consumers, patients and care providers



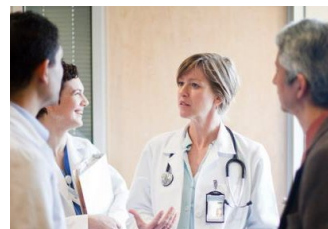
Consumer centric

Increasing consumer engagement in their own health



Precision

Importance of AI, informatics and personalization



Consolidation

Increasing horizontal and vertical consolidation



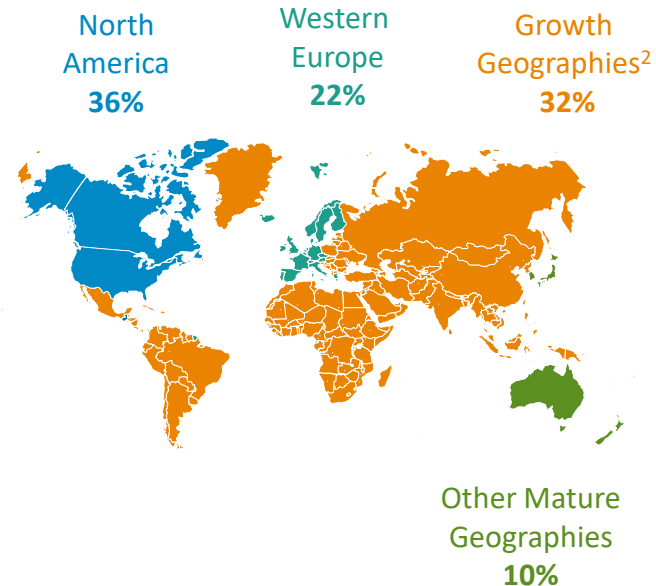
Post Acute Care

Shifting to lower-cost settings and the home

Royal Philips

EUR 19.5 billion sales and Adjusted EBITA of 13.2% in 2019

Global footprint¹



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
- ~37% of sales from solutions, growing double-digit
- ~81,000 employees in over 100 countries



Operating across the health continuum

FY 2019

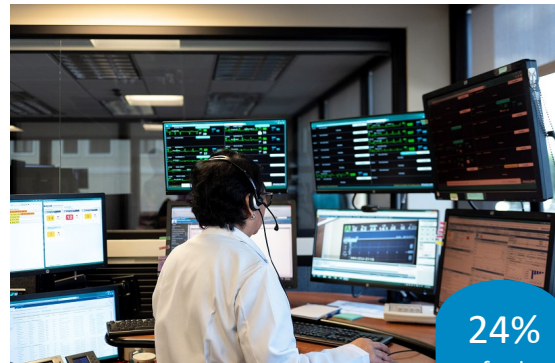


44%
of sales

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

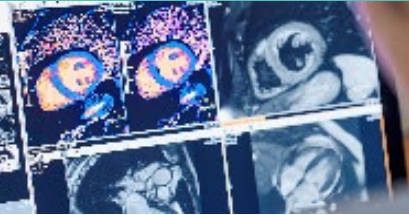
Focuses on healthy living and preventative care

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.)

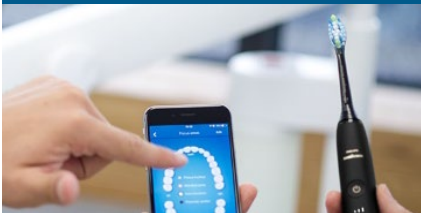
Connected Care



- **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







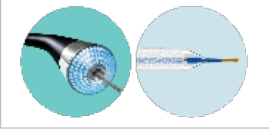







Personal Health



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

- Oral care
- Mother and child care
- Male grooming and beauty
- Domestic appliances¹
- Services (re-ordering, support, coaching, etc.)

Over 60% of sales from leadership positions¹

Diagnosis & Treatment		Connected Care		Personal Health	
	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 Leader²</i>		Garment Care <i>Global Leader</i>
	High-end Radiology and Cardiology Informatics <i>#1 in North America</i>		Sleep Care <i>Global Leader</i>		

¹ Leadership position refers to #1 or #2 position in Philips addressable market; ² 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

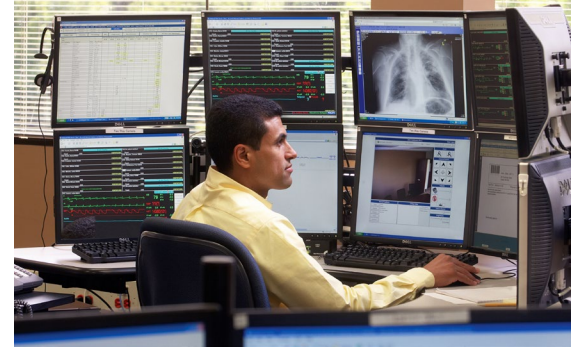
Our products, services and solutions can support healthcare providers in the fight against COVID-19



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

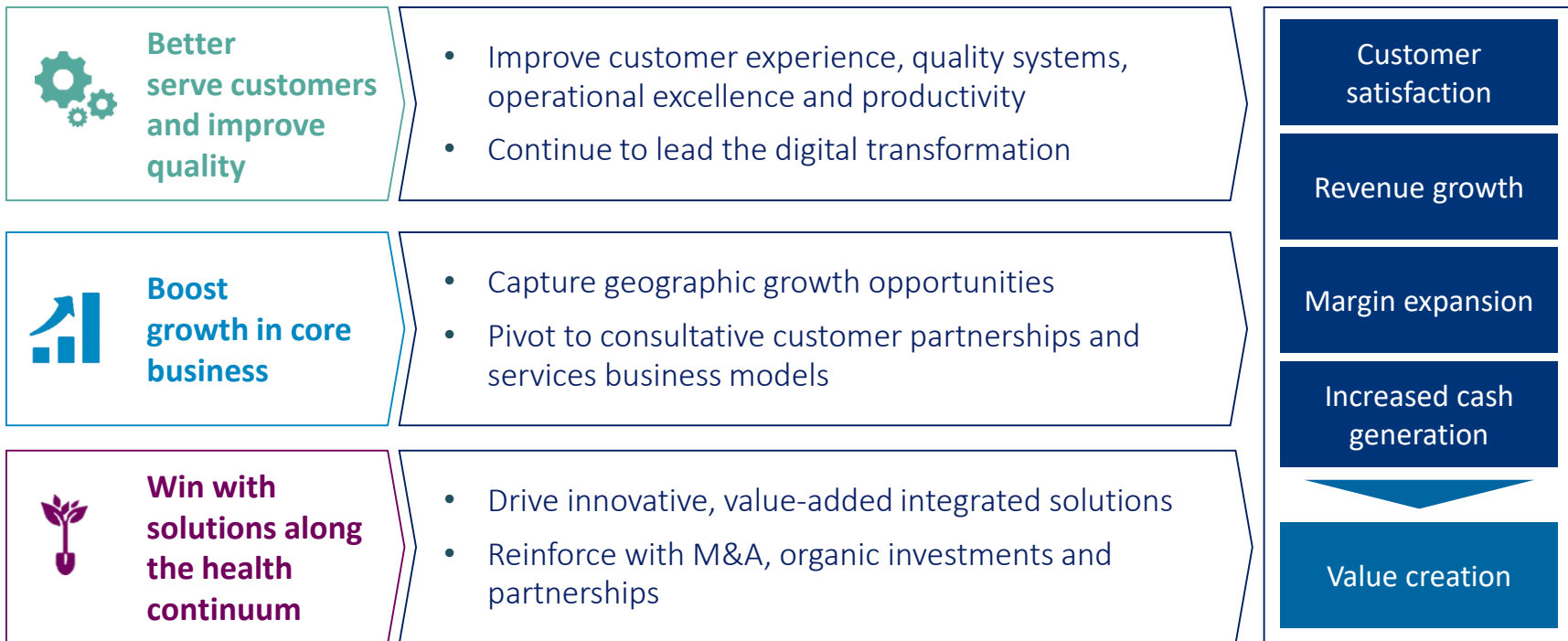


- Computed tomography (CT)
- Mobile diagnostic X-ray
- Point-of-care ultrasound
- Advanced informatics



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

Drivers for continued growth and improved profitability

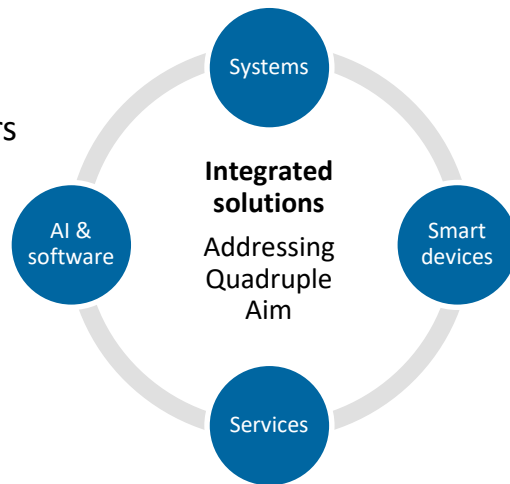


Drive innovative, value-added integrated solutions

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. 37% of revenues, growing double-digit



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

Philips Tele-ICU program

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



Health outcomes

26% Reduction in mortality¹



Cost of care

USD 5,000
Saved per ICU patient²



Staff satisfaction

15% Discharged to home faster³



Patient experience

30% Reduction in length of stay³

1 in 8 adult ICU patients in the US are monitored by Tele-ICU 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 #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






























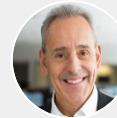

3 billion lives improved per year by 2030, including 400 million in underserved healthcare communities



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> Bert van Meurs</p>  <p>Kees Wesdorp</p> 	 <p><i>International Markets^{1,2}</i> Edwin Paalvast</p> 	 <p><i>Innovation & Strategy</i> Jeroen Tas</p> 
 <p><i>CFO</i> Abhijit Bhattacharya</p> 	 <p><i>Connected Care</i> Roy Jakobs</p> 	 <p><i>North America</i> Vitor Rocha</p>  	 <p><i>Operations</i> Sophie Bechu</p>  
	 <p><i>Personal Health</i> Deeptha Khanna</p> 	 <p><i>Greater China</i> Andy Ho</p> 	 <p><i>Legal</i> Marnix van Ginneken</p>  
	 <p><i>Domestic Appliances²</i> Henk de Jong</p> 		 <p><i>Human Resources</i> Daniela Seabrook</p> 
			 <p><i>Strategic Business Development</i> Robert Cascella</p> 



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Continued focus on value creation

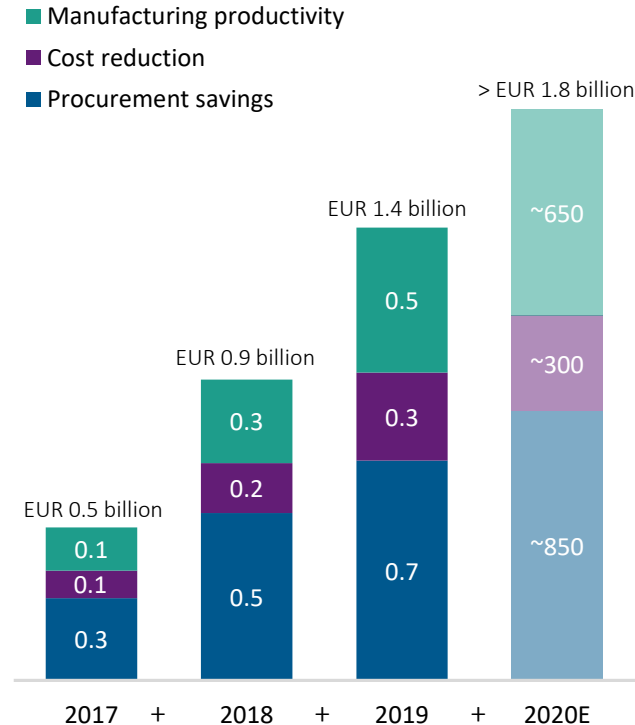
2017-2020 targets¹



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; 18 locations completed to date

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

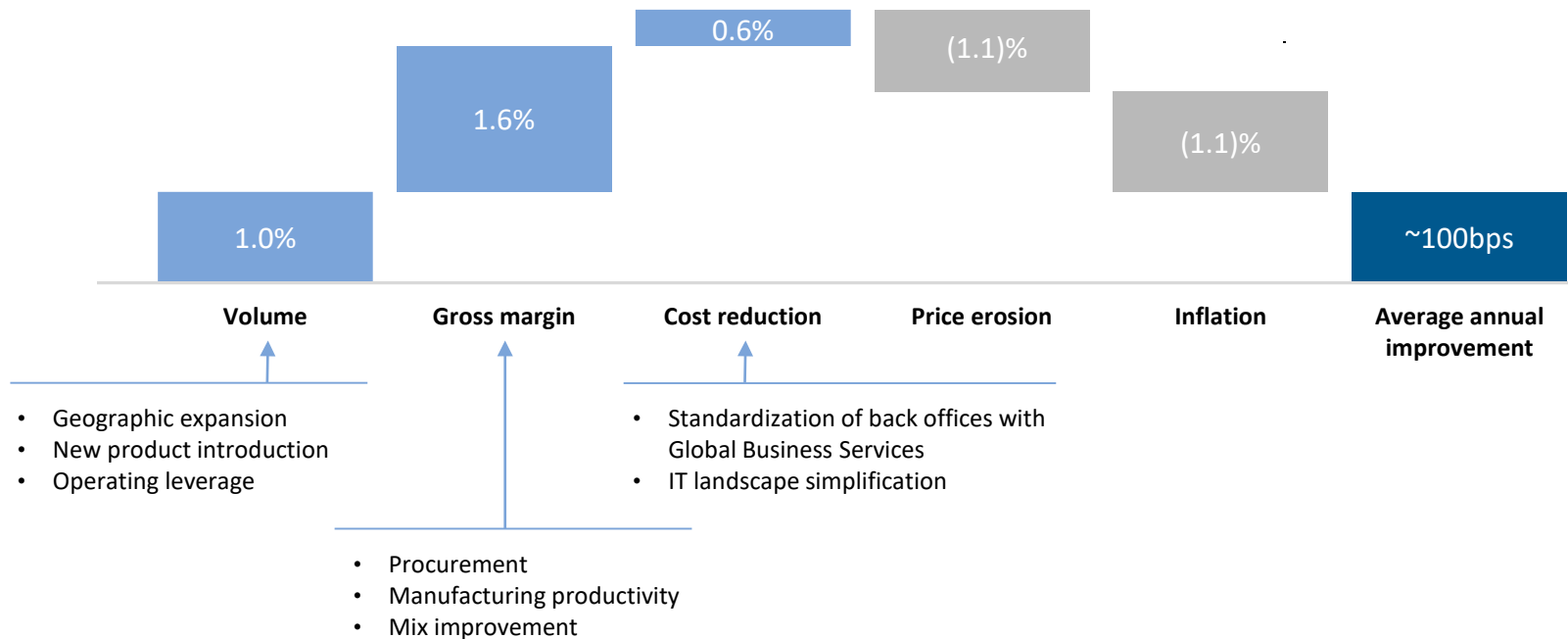
Procurement

- 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

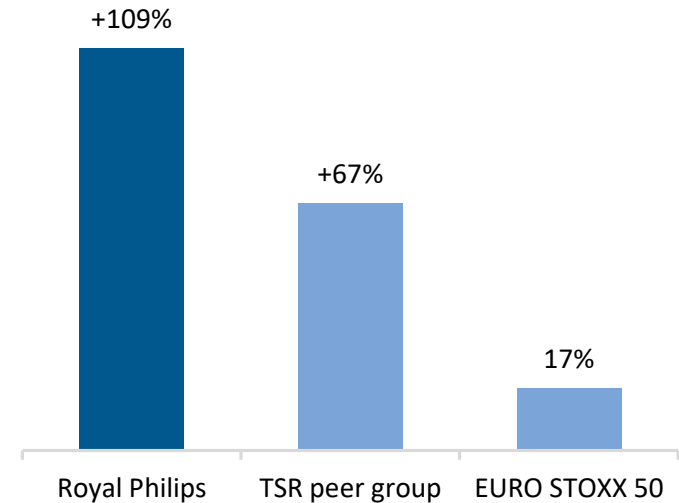
Indicative annual Adjusted EBITA target bridge¹



Balanced capital allocation policy

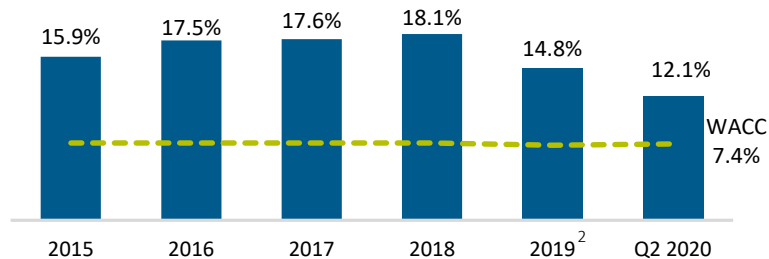


Total shareholder return since 2016^{1,2}

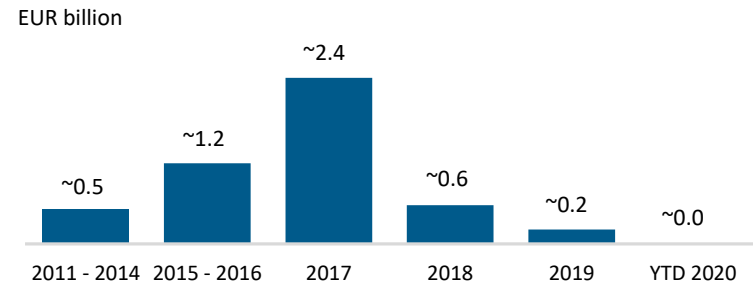


Balanced capital allocation policy

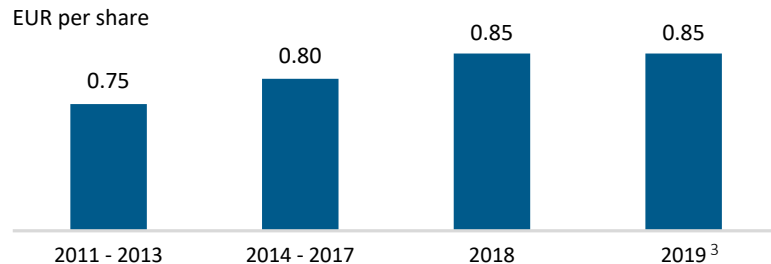
Organic Return on Invested Capital¹



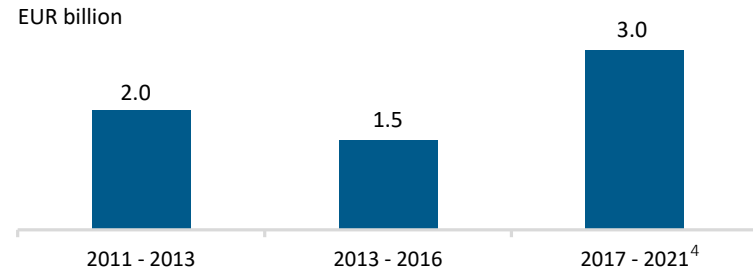
Mergers & Acquisitions



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; ² Organic ROIC in 2019 includes value adjustments of capitalized development costs and the impact of IFRS 16 lease accounting standard; ³ In June 2020, the extraordinary general meeting of shareholders approved the proposal to declare a distribution of EUR 0.85 per common share against the net income for 2019, in shares only; ⁴ 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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Q2 2020 financial performance highlights

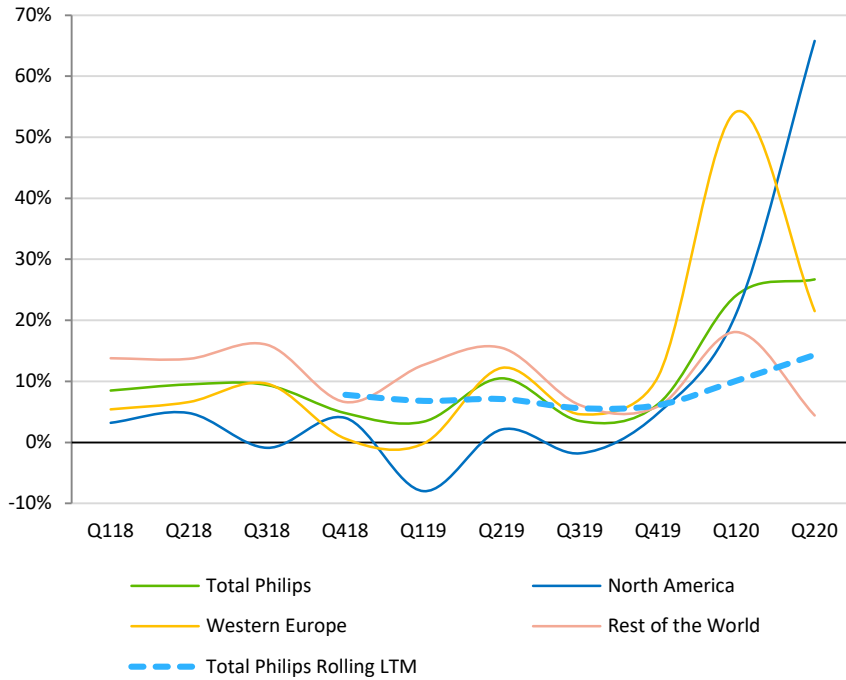
	Sales EUR million	Comparable sales growth	Adj. EBITA margin	Adj. EBITDA margin
Diagnosis & Treatment	1,919	(9)%	8.6%	12.2%
Connected Care	1,322	14%	17.8%	21.8%
Personal Health	1,069	(19)%	5.6%	9.6%
Other	84			
Philips	4,395	(6)%	9.5%	15.2%

- Comparable order intake increased 27%
- Adjusted EBITA margin was 9.5% of sales, compared to 11.8% of sales in Q2 2019
- Income from operations amounted to EUR 229 million, compared to EUR 350 million in Q2 2019
- Adjusted EPS amounted to EUR 0.35, compared to EUR 0.42 in Q2 2019
- Free cash flow increased to EUR 311 million, compared to EUR 174 million in Q2 2019

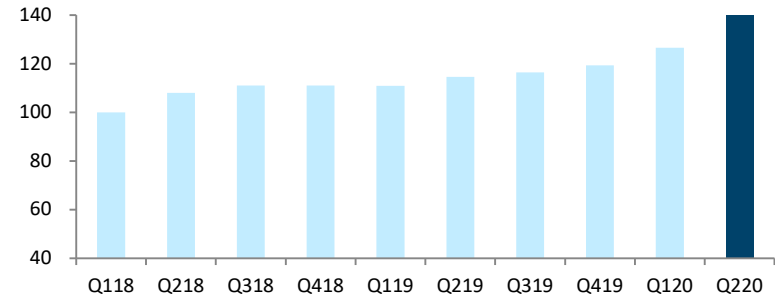


Order intake and book¹

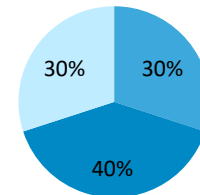
Comparable order intake growth



Indexed order book development



Typical profile of order book conversion to sales



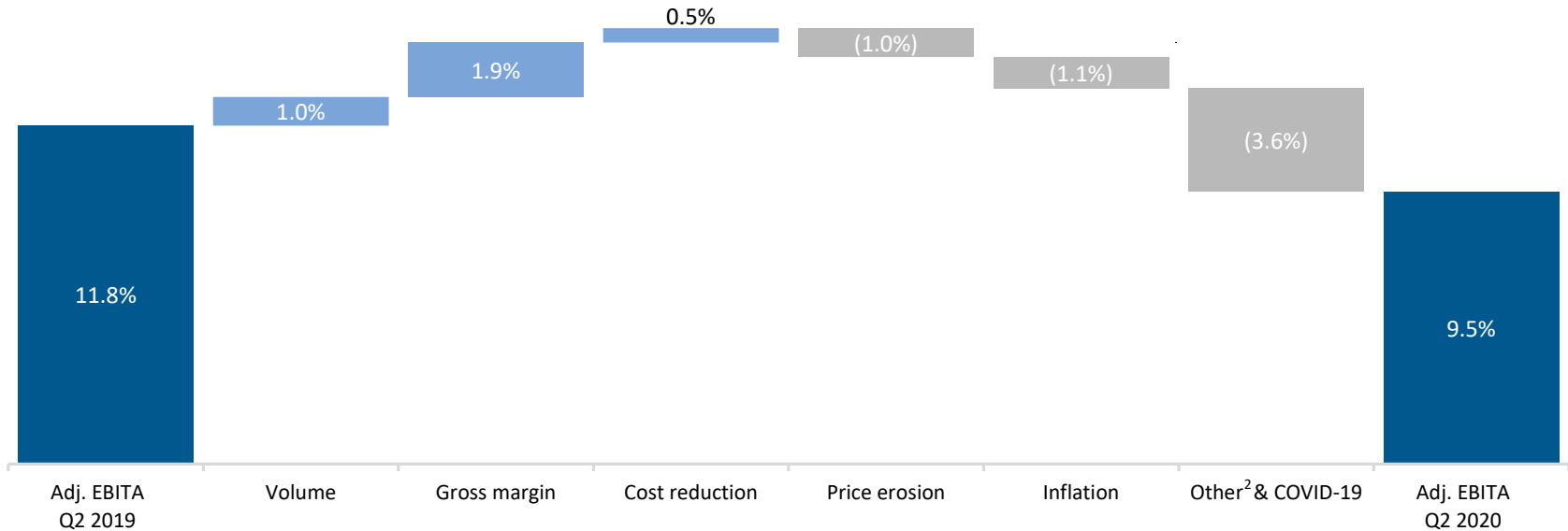
- Approximately 70% of the current order book converted into sales within the next 12 months
- Order book is a leading indicator for approximately 40% of Group sales

■ Q+1 ■ Q+2 to 4 ■ > 1 year

¹ Includes equipment and software orders in Diagnosis & Treatment, Connected Care and Innovation businesses adjusted for acquisitions and divestments, and currency; ² 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

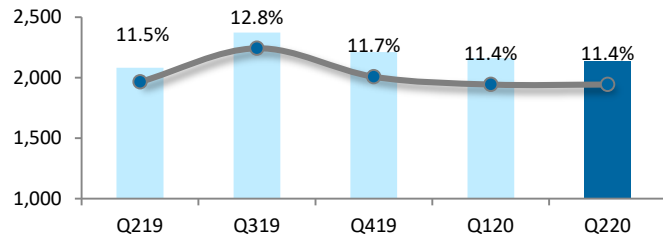
Adjusted EBITA margin¹ bridge Q2 2020

as a % of sales

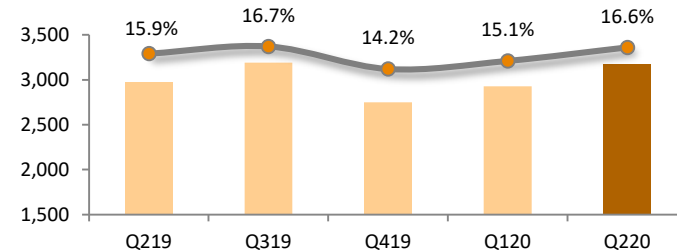


Working capital and inventories

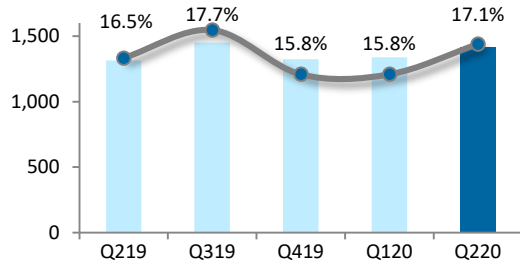
Working capital¹, EUR million — as % of LTM sales²



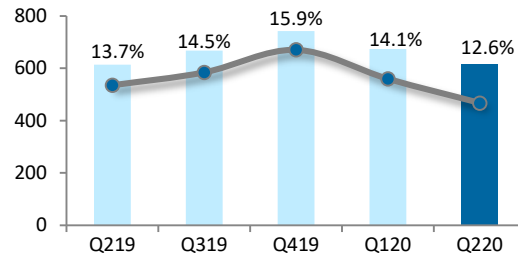
Inventories, EUR million — as % of LTM sales²



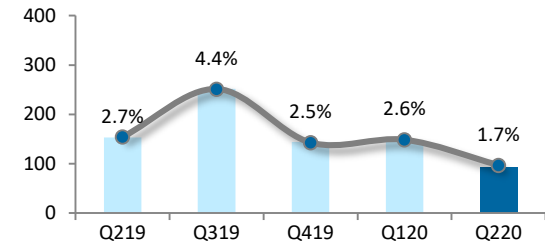
Diagnosis & Treatment



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	Q2 20
Diagnosis & Treatment	(30)	(41)	(47)	(106)	(222)	(76)	59
Restructuring & Acq.-related charges	(27)	(37)	(20)	(66) ⁴	(149)	(43)	62 ⁶
Other items	(3)	(4)	(27) ⁴	(40) ⁴	(73)	(33) ⁴	(3)
Connected Care	(29)	(32)	(27)	(44)	(131)	(31)	(31)
Restructuring & Acq.-related charges	(19)	(15)	(12)	(18)	(64)	(11)	(14)
Other items	(10) ¹	(16) ¹	(15) ¹	(26) ¹	(67)	(20) ¹	(17) ¹
Personal Health	(16)	(8)	(23)	(27)	(73)	(8)	(39)
Restructuring & Acq.-related charges	(16)	(7)	(3)	(24)	(50)	(8)	(13)
Other items	-	-	(20) ⁵	(3)	(23)	-	(26) ⁷
Other	26	(29)	(17)	(22)	(43)	(2)	(20)
Restructuring & Acq.-related charges	(9)	(22)	(12)	(10)	(54)	(1)	(5)
Other items	35 ^{2,3}	(7) ^{2,3}	(5) ^{2,3}	(12) ^{2,3}	11	(1)	(14) ⁸
Philips	(50)	(109)	(114)	(198)	(471)	(117)	(30)
Restructuring costs	(39)	(66)	(35)	(109)	(249)	(39)	(44)
Acquisition related charges	(32)	(16)	(12)	(9)	(69)	(23)	73
Other items	21	(28)	(67)	(80)	(153)	(55)	(60)

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; 6. Includes gain related to release of a contingent consideration liability; 7. Inventory valuation charges resulting from deployment of new systems; 8. Includes separation costs related to Domestic Appliances business

Capital expenditures, Depreciation and Amortization

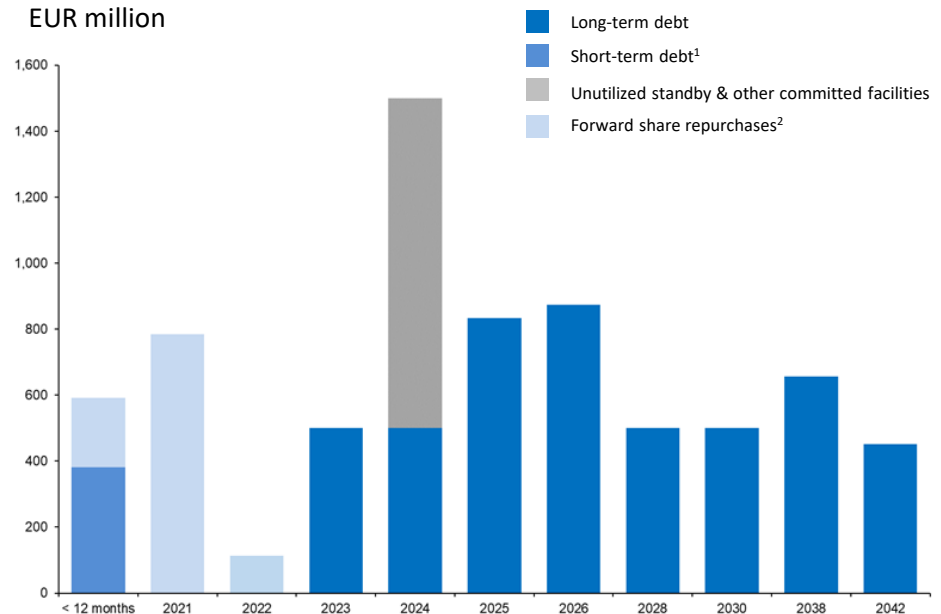
EUR million	Q2 2019	Q2 2020	FY 2019
Capital expenditures on property, plant and equipment	116	130	518
Capitalization of development costs	123	109	460
Depreciation	151	173	645
Amortization of acquired intangible assets	91	159	350
Amortization of software	18	21	75
Amortization of development costs	59	58	332
Depreciation and amortization¹	319	411	1,402

Philips' debt has a long maturity profile

Characteristics of long-term debt

- Total net debt position of EUR 5.0 billion
- Maturities up to 2042
- Average tenor of long-term debt is 8.9 years³
- No financial covenants
- In March 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
- In Q2 2020 Philips entered into EUR 493 million of forward transactions as part of the share buyback program for capital reduction purposes with settlement dates extending into the second half of 2021

Debt maturity profile as per 30 June 2020



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 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



Calendar for the upcoming events

September 9	Goldman Sachs - European Medtech and Healthcare Services Conference
September 9	Kepler Cheuvreux Autumn Conference (ESG)
September 15	Morgan Stanley - Virtual Global Healthcare Conference
September 17	Bank of America - Global Healthcare Conference
September 23-24	Alliance Bernstein - Pan European Strategic Decisions Conference
October 19	Third quarter results 2020

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