PHILIPS

Second quarter 2023 results

July 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**Non-IFRS financial measure. Refer to the Reconciliation of non-IFRS information, 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; 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 process; global inflation. 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 2022. Reference is also made to section Risk management in the Philips semiannual report 2023.

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.

Presentation
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. Prior-period amounts have been reclassified to conform to the current-period presentation; this includes immaterial organizational changes.

Philips has realigned the composition of its reporting segments effective from April 1, 2023. The most notable change is the shift of the previous Enterprise Diagnostic Informatics business from the Diagnosis & Treatment segment to the Connected Care segment. This business, together with other informatics solutions in the Connected Care segment, now forms the Enterprise Informatics business. Accordingly, the comparative figures for the affected segments have been restated. The restatement has been published on the Philips Investor Relations website and can be accessed here.

Per share calculations have been adjusted retrospectively for all periods presented to reflect the issuance of shares for the share dividend in respect of 2022.

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

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Key takeaways

- Delivered improved operational performance, with better sales, profitability and cash flow

- Making progress on our three priorities:
  - Enhance patient safety & quality
  - Strengthen supply chain reliability
  - Establish a simplified, agile operating model

- Resolving the Respironics recall for patients remains highest priority

- Confident in the execution of our plan and raised outlook for FY 2023, while uncertainties remain

Improved operational performance driven by sales growth and focus on execution, order book supporting growth for next quarters

Financial performance

in millions of EUR unless otherwise stated	Q2 2022	Q2 2023
Sales	4,177	4,470
Comparable Sales Growth[1]	(7)%	9%
Comparable Order Intake[1]	1%	(8)%
Adj. EBITA[2]	216	453
Adj. EBITA margin[2]	5.2%	10.1%
Adj. EBITDA margin[2]	11.0%	15.2%
Income from operations	11	221
Operating Cash Flow	(306)	135

Highlights

- Strong CSG with contribution from all business segments and geographies
- Order book +3% higher year-on-year, including a good order-book-to-sales conversion in the last three quarters
- Comparable OIT declined 8% (-4% excl. Russia) following high comps in last two years, strong Diagnosis & Treatment in Q1, and normalization of demand in Connected Care
- Productivity initiatives delivered EUR 237 million in the quarter
- Adj. EBITA driven by sales growth, royalties and productivity, partly offset by inflation
- Operating Cash flow driven by earnings and lower working capital outflows

1. Comparable sales growth (CSG); comparable order intake growth (OIT)
2. Excluding restructuring costs, acquisition-related charges and other one-time charges and gains

Enterprise Monitoring as a Service agreement with University of California Irvine Health

Provides a predictable, interoperable, scalable monitoring and clinical insights capability

- 10 years collaboration that combines Enterprise Monitoring as a Services model and the Clinical Integration and Insights (CI&I) platform[1]
- >1,000 monitors integrated to capture data from any device and deliver it where needed
- Flexibility to scale based on patient demand
- Help reduce the technology costs by moving to a predictable, volume-based monitoring capability

1. Formerly known as Philips Capsule, an Enterprise Informatics solution

Highlights by business segment in Q2 2023

Diagnosis and Treatment +12% CSG

- Sales growth across all businesses and regions
- OIT declined 8% following high comps in last two-years; -2% excl. Russia
- Expanded Image-Guided Therapy portfolio with Zenition 10 mobile C-arm with Flat Detector
- Five top hospitals in Shanghai with more than 10K beds installed the Spectral CT 7500

Connected Care +6% CSG

- Sales growth driven by double-digit in Monitoring
- OIT declined 7% due to normalization of demand after strong growth in 2020-2022
- 10 years agreement with UCIH[1] to standardize and integrate monitoring
- Cloud-based PACS[2] now available on AWS

Personal Health +3% CSG

- Returned to sales growth
- Subdued consumer demand as expected; gradually improving sell-out trends
- Launched premium 7 Series shaver in China in partnership with JD.com
- Diamond Clean 9000 best-selling high-end oral healthcare product on Alibaba

1. University of California Irvine Health
2. Picture Archiving and Communication System, an Enterprise Informatics solution

Diagnosis & Treatment

Financial performance

in millions of EUR unless otherwise stated	Q2 2022	Q2 2023
Sales	1,940	2,112
Comparable Sales Growth	(5)%	12%
Adj. EBITA margin	6.8%	10.6%
Adj. EBITDA margin	9.4%	13.3%
Income from operations	115	163

Q2 2023 highlights

- Double-digit CSG in Ultrasound and Image-Guided Therapy; Mid-single-digit in Diagnostic Imaging
- High-single-digit CSG in mature geographies, strong North America and Western Europe; Double-digit CSG in China
- Adj. EBITA margin increase driven by sales, favorable mix and productivity, partly offset by cost inflation

Connected Care

Financial performance

in millions of EUR unless otherwise stated	**Q2 2022**	**Q2 2023**
Sales	1,273	1,327
Comparable Sales Growth	(11)%	6%
Adj. EBITA margin	1.8%	7.5%
Adj. EBITDA margin	7.7%	12.1%
Income from operations	(144)	(39)

Q2 2023 highlights

- Double-digit CSG in Monitoring, partly offset by decline in Sleep & Respiratory Care
- Double-digit CSG in growth geographies, including in China; Mid-single-digit CSG in mature geographies, High-single-digit in North America
- Adj. EBITA margin increased driven by productivity measures and improved profitability in Monitoring

Personal Health

Financial performance

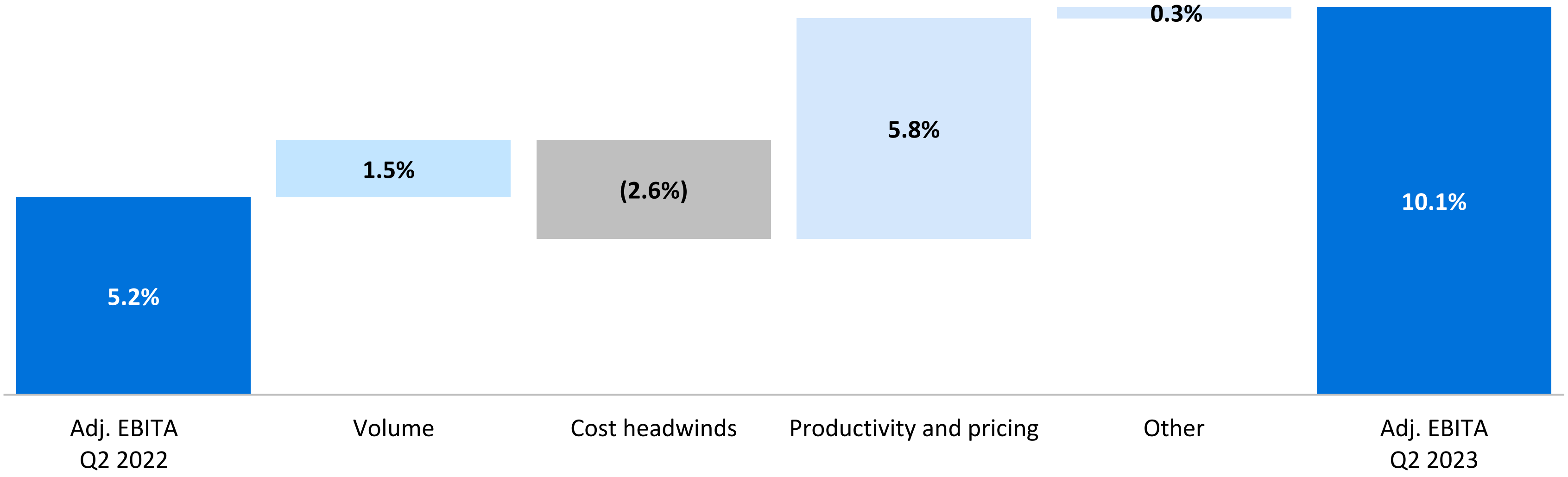
in millions of EUR unless otherwise stated	Q2 2022	Q2 2023
Sales	831	836
Comparable Sales Growth	(5)%	3%
Adj. EBITA margin	12.4%	13.4%
Adj. EBITDA margin	15.6%	16.1%
Income from operations	98	107

Q2 2023 highlights

- CSG driven by Mid-single-digit growth in Personal Care
- High-single-digit CSG in growth geographies driven by Double-digit in China; Low-single-digit CSG in Mature geographies
- Adj. EBITA margin improvement driven by price and productivity measures, partly offset by cost inflation

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

Group Adj. EBITA margin[1]



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

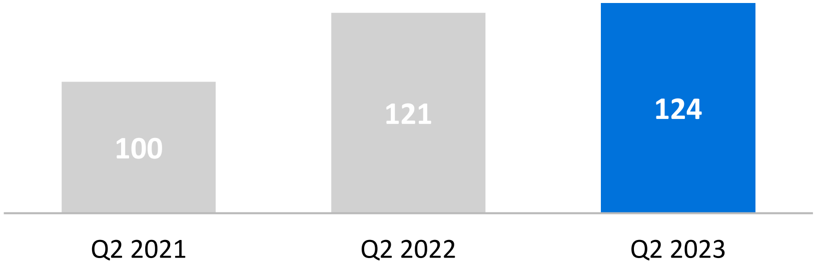
Productivity initiatives delivered EUR 237 million in the quarter and EUR 427 million year to date

Productivity initiatives[1] *(in millions of EUR unless otherwise stated)*		2023 -2025 target	Q2 2023 actuals
Operating Model	• Simplified organization with reduction of 6.6K roles to date, out of 7K by end of 2023, as part of 10K reduction by 2025 • R&D prioritization, reduction of Corporate Research • End-to-end supply chain, simplifying planning, eliminating duplications	950-1,050	112
Procurement	• Bill-of-material savings via redesign, value analysis, engineering • Reductions in warehousing, transportation and consulting	550 - 600	57
Other productivity	• S&RC rightsizing • Manufacturing footprint optimization and service productivity • R&D platform simplification and footprint optimization • GBS and hyper-automation	400 - 450	68
		EUR 2.0 billion	**EUR 237 million**

1. Gross productivity initiatives and re-investments, before inflation; cumulative in the period

Strength of our orderbook to fuel growth in next quarters

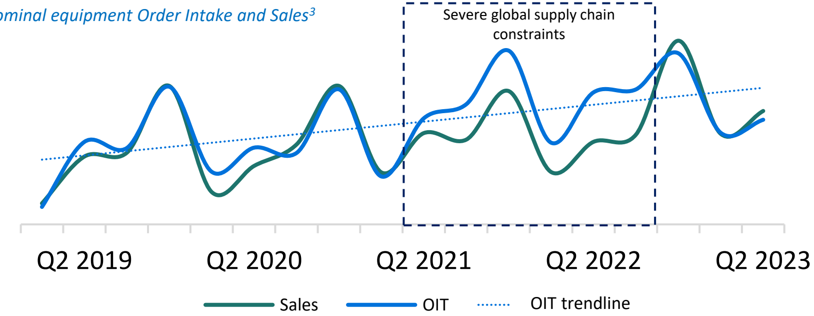
Indexed order book[1,2] development



- Order book grew 3% year-on-year including a good order-book-to-sales conversion in the last three quarters
- Order book is a leading indicator of ~40% of Group revenue

OIT vs Sales development

Nominal equipment Order Intake and Sales[3]



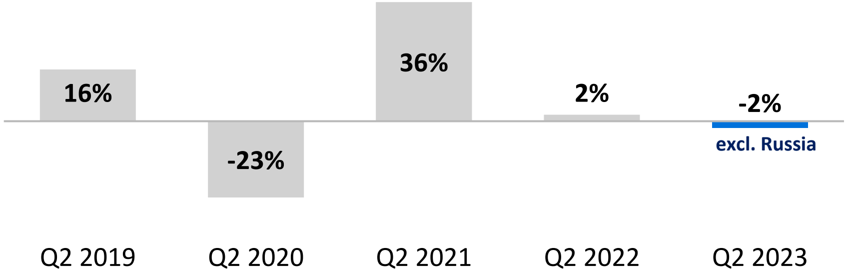
- Recent normalization of orders / sales ratio driven by strong sales conversion following severe supply chain constraints in 2021-2022

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
3. Excludes Sleep & Respiratory Care which was heavily impacted by positive demand following Covid-19 and Respironics Field Action

Order intake decline on the back of high comparison base and Russia; strong effort in place to reverse the trend in second half of the year

Diagnosis & Treatment

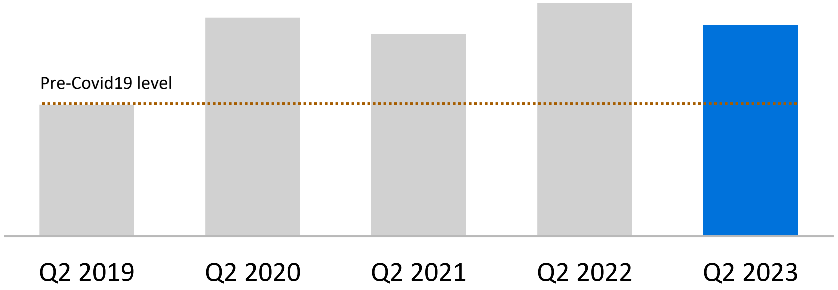
Comparable Order Intake growth



- Comparable OIT declined 8% in the quarter (-2% excl. Russia) following high comps in last 2-years
- Double-digit growth in Q1 2023
- Flat comparable OIT growth in H1 2023 (mid-single-digit excl. Russia), following a mid-single-digit growth in H1 2022

Connected Care excluding Sleep & Respiratory Care[1]

Nominal Order Intake



- Comparable OIT declined 7% (excl. S&RC -6%) on the back of strong growth in Monitoring during 2020 – 2022; continue to gain share
- OIT continues to run above pre-covid levels, driven by adoption of our solutions

1. Sleep & Respiratory Care was heavily impacted by positive demand following Covid-19 and Respironics Field Action

Raised outlook for FY 2023 driven by confidence in the execution of our plan, while uncertainties remain

	Provided on January 30, 2023	Revised on July 24, 2023
Comparable Sales Growth	**Low-single-digit** • Diagnosis & Treatment: Mid-single-digit • Connected Care: Mid-single-digit • Personal Health: Low-single-digit	**Mid-single-digit** • Diagnosis & Treatment: High-single-digit • Connected Care: Mid-single-digit • Personal Health: Low-single-digit
Adjusted EBITA margin	**High-single-digit**	**Upper end of the high-single-digit range**
Free Cash Flow	**EUR 0.7-0.9 billion**	**EUR 0.7-0.9 billion**
Segment Other	Adjusted EBITA loss of EUR 70 million and EBITA loss EUR 200 million Q3 2023: Adjusted EBITA loss of EUR 40 million	

Note: Guidance at Group level reflects uncertainties in external environment

Guidance excludes the impact of the ongoing discussion on the proposed consent decree beyond current assumptions 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 ~200 bps	• Simplified organization with reduction of 6.6K roles to date, out of 7K by end of 2023, as part of 10K reduction by 2025 • S&RC rightsizing
Acquisition-related charges ~50 bps	• Post-merger integration costs related to recent acquisitions in Connected Care and Image-Guided-Therapy Devices
Other items* ~150-170 bps	• Respironics field action running costs, other quality action-related charges in Connected Care
Total* 400-420 bps	• of which in Q3 2023: D&T EUR 15 million, CC EUR 80 million, segment Other EUR 25 million

** Excluding EUR 575 million provision booked in Q1 2023 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 as well as ongoing litigation and the investigation by the US DoJ related to the Respironics field action

Resolving the recall for patients remains our highest priority

2023	H1 2023	2023-2025
Finalize recall and testing	~99% of recall units produced; >4.5M units[1] w/ patients and care providers Completed all testing and analysis for DS1, DS Go and System One devices	Manage impact of proposed Consent Decree
Manage litigation, DoJ investigation	Provision related to anticipated 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. 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	Reliable end-to-end supply chain	Simplified operating model
Culture, accountability, Competencies	End-to-end value chain by business	End-to-end, P&L-accountable business
Patient safety and quality at heart of innovation	Leadership and competencies	Simplification, de-layering, less KPIs
Expanded patient safety and quality program	Product pruning and (re)design	Reduction of 10k roles
Finalize Respironics recall	Strategic supplier management	Leadership and talent

Patient safety and quality as highest priority

Examples of our progress in Q2 2023

Patient safety and quality as highest priority

Patient Safety Advisory Board fully operational, drives deeper engagement with patient organizations, healthcare professionals and industry experts

Appointed strong Regulatory Affairs & Quality leadership to newly formed Enterprise Informatics business; involved in industry shaping engagement around AI regulatory frameworks in healthcare

On track to deliver 45% reduction in # of Quality Management Systems by year-end, on top of the 30% reduction in 2022

Patient Safety & Quality reviews fully embedded in the new performance management cadence driven by businesses

Towards a reliable end-to-end supply chain

Examples of our progress in Q2 2023

Reliable end-to-end supply chain

160 PCBAs redesigns completed vs 56 year-end 2022

1500+ reduced risk for high-risk components vs 700+ year-end 2022

On track to zero high risk components by end of 2023

~15% increase in service level vs year-end 2022

Simplified, more agile operating model

Examples of our progress in Q2 2023

Simplified operating model

Simplified operating model with end-to-end accountability by businesses as well as new performance management cadence live from April 1 with dedicated financial, innovation and quality reviews

Reduced workforce by 6.6K roles to date out of 7K by end of 2023, as part of 10K reduction by 2025

Continued to inject HealthTech expertise; ~300 talents with a HealthTech background attracted YTD

Key takeaways

- Delivered improved operational performance, with better sales, profitability and cash flow

- Making progress on our three priorities:
  - Enhance patient safety & quality
  - Strengthen supply chain reliability
  - Establish a simplified, agile operating model

- Resolving the Respironics recall for patients remains highest priority

- Confident in the execution of our plan and raised outlook for FY 2023, while uncertainties remain

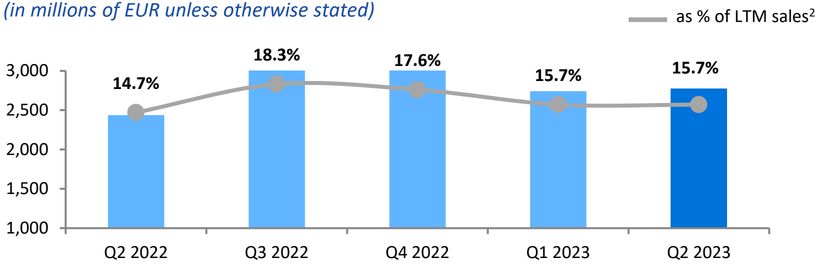
Q&A

Financial appendix

Working capital and inventories

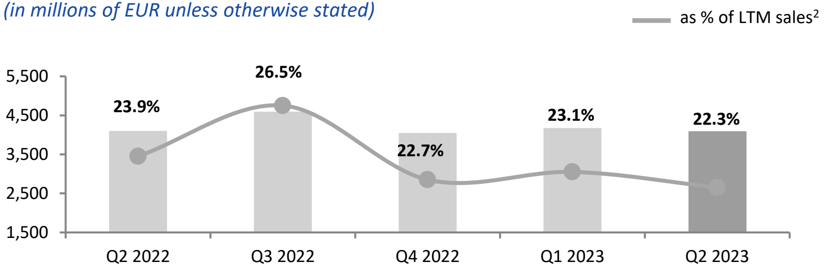
Group working capital[1]

(in millions of EUR unless otherwise stated)

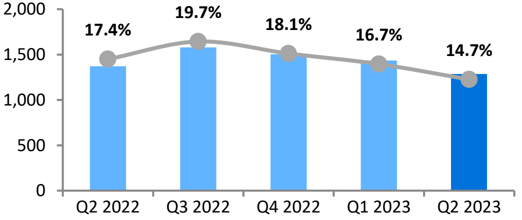


Group inventories

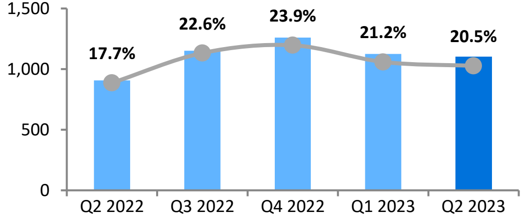
(in millions of EUR unless otherwise stated)



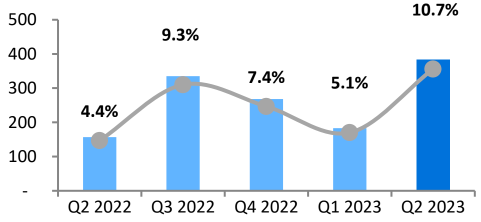
Diagnosis & Treatment



Connected Care



Personal Health



1. Working capital excluding segment Other | 2. Working capital and Inventories as a % of LTM sales are excluding acquisitions, divestments, and discontinued operations

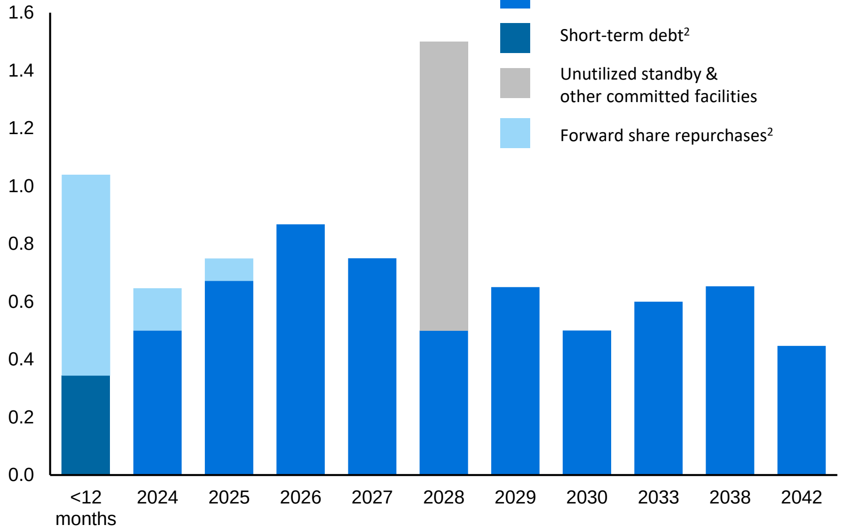
Debt maturity profile and liability management

Long term debt profile and liability management

- Total net debt position of EUR 7.3
- Average tenor of long-term debt is 6.7 years[3]
- No financial covenants
- EUR 1.5 billion of available committed credit facilities, including EUR 1.0 billion Stand By Facility with maturity in 2028
- Floating rate debt is approximately 10% of total gross debt

Debt maturity profile as per 30 June 2023

(in billions of EUR unless otherwise stated)



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	Q2 2022	Q2 2023
Capital expenditures on property, plant and equipment	98	89
Capitalization of development costs	93	71
Depreciation	170	157
Amortization of acquired intangible assets	81	72
Amortization of software	25	26
Amortization of development costs	66	49
Depreciation and amortization[1]	**342**	**303**

1. Includes impairments

Restructuring, acquisition-related charges and other items

in millions of EUR unless otherwise stated	Q1 2022	Q2 2022	2022 FY	Q1 2023	Q2 2023
Diagnosis & Treatment	**4**	**9**	**(136)**	**(66)**	**(39)**
Restructuring & Acq.-related charges	4	9	(3)	(65)	(30)
Other items	-	(0)	(133)[3,5]	(1)	(10)
Connected Care	**(341)**	**(118)**	**(875)**	**(693)**	**(95)**
Restructuring & Acq.-related charges	(22)	(18)	(125)	(49)	(10)
Other items	(319)[1,2]	(99) [1,2]	(750)[1,2,3,4]	(644)[1,6]	(85)[1,7]
Personal Health	**-**	**(1)**	**(8)**	**(4)**	**(2)**
Restructuring & Acq.-related charges	-	(1)	(11)	(5)	(2)
Other items	-	-	4	1	-
Other	**(12)**	**(15)**	**(108)**	**(105)**	**(24)**
Restructuring & Acq.-related charges	(6)	(3)	(62)	(105)	(24)
Other items	(6)	(11)	(46)	-	-
Philips	**(350)**	**(124)**	**(1,126)**	**(868)**	**(161)**
Restructuring costs	(31)	(23)	(185)	(199)	(46)
Acquisition related charges	6	10	(17)	(25)	(20)
Other items	(325)	(111)	(925)	(644)	(95)

1. Provision related to Respironics field action; Running remediation costs in Respironics | 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 Respironics recall | 7. quality action-related Charges

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

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