


PHILIPS

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Royal Philips Third quarter 2020 results

October 19, 2020

innovation  you



RESPIRONICS

V60 Plus



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; market and supply chain disruptions due to the COVID-19 outbreak; Philips' increasing focus on health technology; the realization of Philips' growth ambitions and results in growth geographies; successful completion of divestments such as the divestment of our Domestic Appliances businesses; 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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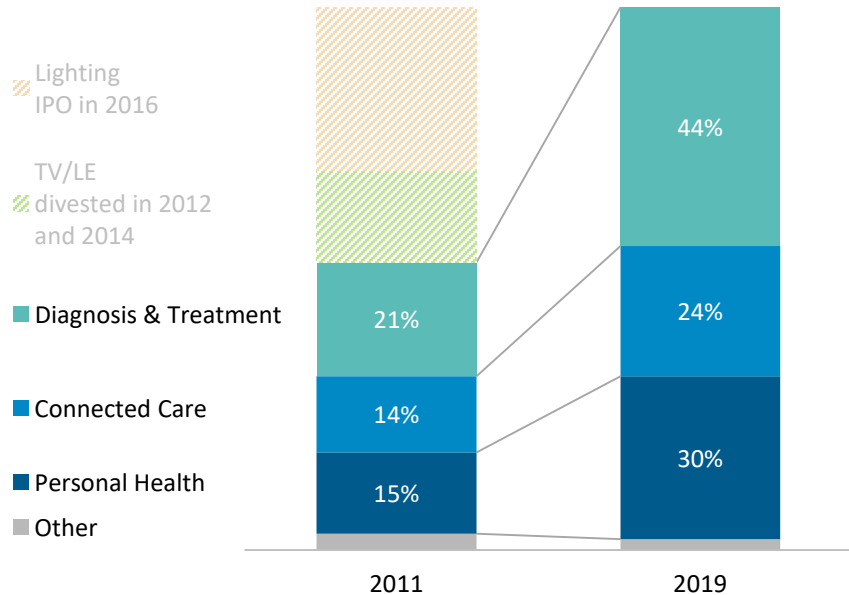
At Philips, we strive to make the world healthier
and more sustainable through innovation.



We have transformed into a focused global HealthTech leader

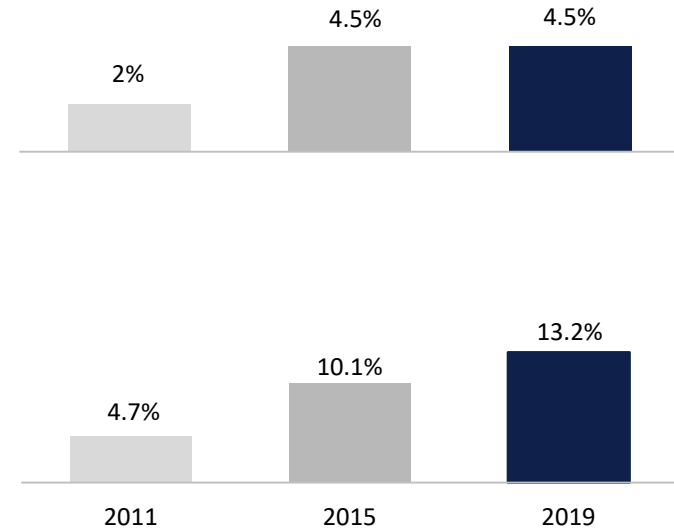
Transforming the company...

100% of sales split



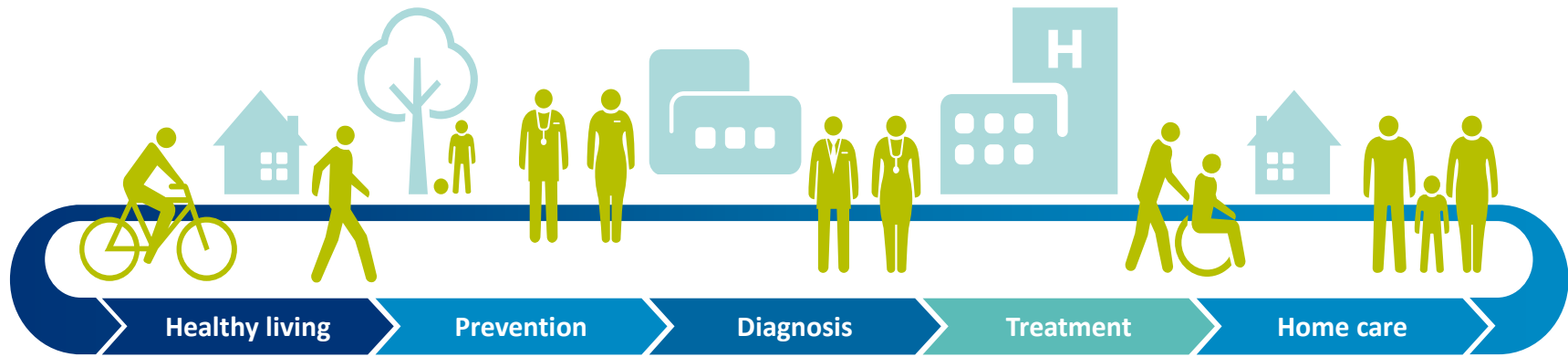
...while creating value

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



Addressing the Quadruple Aim



Improved health outcomes



Improved consumer/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

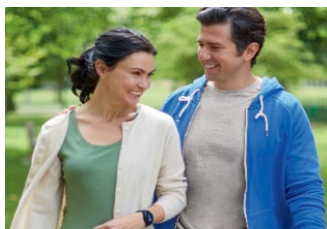
Increasing spend in developing markets

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



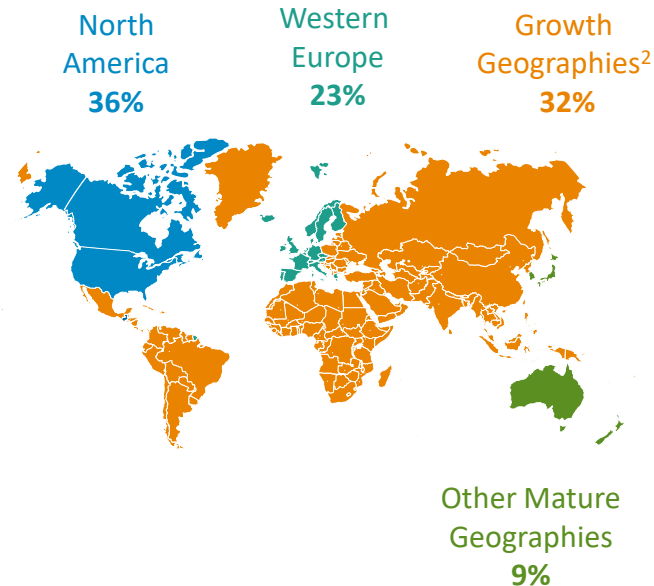
Post Acute Care

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

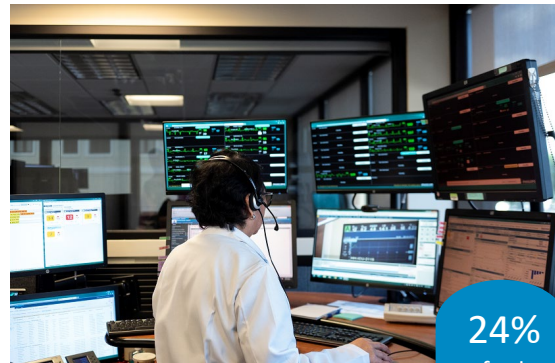


44%
of sales

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

Enabling networks of care by seamlessly connecting patients, caregivers and consumers from hospital to the home

3% sales growth
13.2% margin



30%
of sales

Personal Health

Deliver solutions that enable healthier lifestyles, personal hygiene and living with chronic disease

5% sales growth
16.1% margin

Businesses aligned with customer needs



Focus areas

- Precision diagnosis
- Treatment selection and planning
- Image-guided minimally invasive therapy

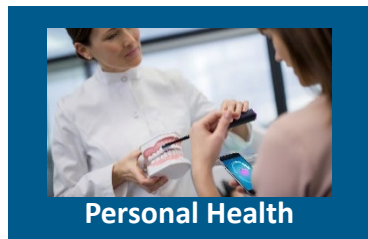
Products and solutions

- Diagnostic imaging and ultrasound
- Digital and computational pathology
- Informatics for Radiology, Oncology, Cardiology
- Interventional imaging, navigation and devices
- Services (managed services, consultancy, etc.)



- 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



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

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



Winning propositions

>65% of sales from leadership positions^{1,2}

Diagnosis & Treatment	Ultrasound Global leader	Image-guided therapy systems Global leader	Image-guided therapy devices³ Global leader	Diagnostic imaging Global top 3	High-end radiology and cardiology informatics #1 in North America
Connected Care	Patient monitoring Global leader	ICU telemedicine #1 in North America	Personal emergency response #1 in North America	Respiratory care Global leader	Sleep care Global leader
Personal Health	Male grooming Global leader	Oral healthcare Global leader	Mother and child care Global leader	Hair removal Global leader	

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

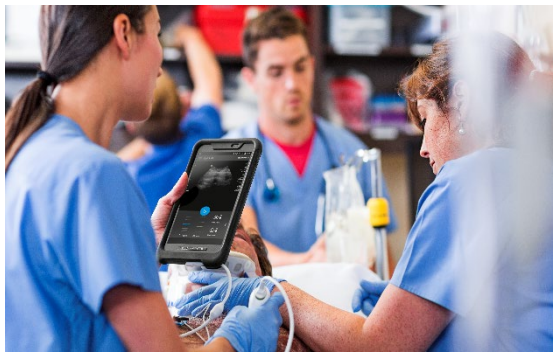
Ensuring business continuity

- Business Continuity Management System
- Functional operations and supply chain
- Commercial processes

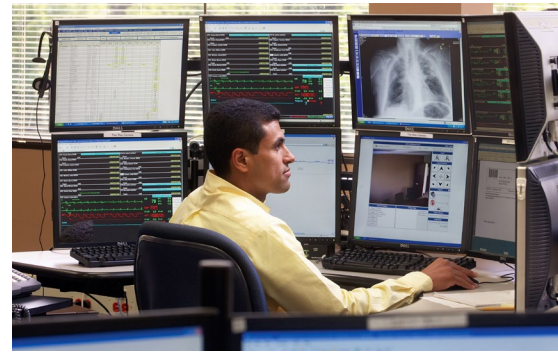
Our products, services and solutions can support healthcare providers in the fight against COVID-19



- 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

Our 3 imperatives:

Key drivers to deliver:

Delivering:



Better serve customers and improve quality

- Improve customer experience, quality systems, operational excellence and productivity
- Continue to lead the digital transformation



Boost growth in core business

- Capture geographic growth opportunities
- Pivot to consultative customer partnerships and services business models



Win with solutions

- Drive innovative, value-added integrated solutions
- Reinforce with M&A, organic investments and partnerships

Customer satisfaction

Revenue growth

Margin expansion

Increased cash generation

Value creation

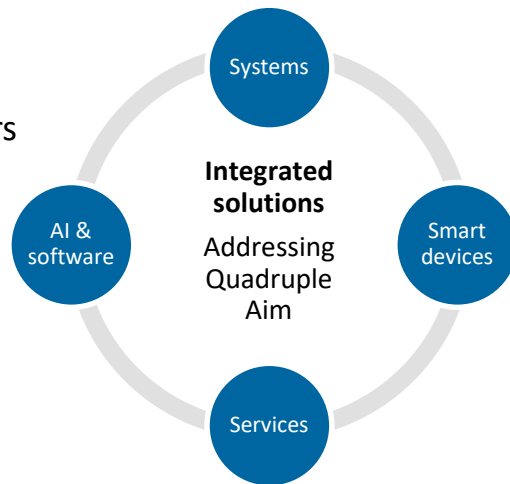
Our culture: Customers first | Quality and integrity always | Team up to win | Take ownership to deliver fast | Eager to improve and inspire

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



Committed to doing business responsibly and sustainably

We have raised our ESG commitments



Health and well-being for all

- Improve health & well-being of 2 billion people through innovation
- Enable access to care for 300 million people in underserved communities



Circular economy

- 25% of revenue from circular offerings
- Trade-in all professional-medical equipment
- Zero waste to landfill



Climate action

- Reduce CO₂ emissions in line with 1.5 °C global warming scenario
- 100% of electricity & >75% of total energy consumption from renewable sources



Partnerships

- Partner to deliver sustainable value and drive global change
- Improve lives of 1 million workers in supply chain and reduce environmental footprint

ENABLERS

Enablers

- 100% of product offerings in line with EcoDesign requirements; 'Eco-Heroes' reaching 25% of revenues
- Practices defined by the Philips Business System

An experienced and passionate executive leadership team



CEO
Frans van Houten
Dutch



Diagnosis & Treatment
Bert van Meurs
Dutch



Kees Wesdorp
Dutch



Connected Care
Roy Jakobs
Dutch/German



Personal Health
Deeptha Khanna
Singaporean



Domestic Appliances
Henk de Jong
Dutch



North America
Vitor Rocha
Brazilian/American



Greater China
Andy Ho
Chinese/Canadian



International Markets¹
Edwin Paalvast
Dutch



Innovation & Strategy
Jeroen Tas
Dutch



Operations
Sophie Bechu
French/American



Legal
Marnix van Ginneken
Dutch/American



Human Resources
Daniela Seabrook
Swiss



Strategic Business Development
Robert Cascella
American



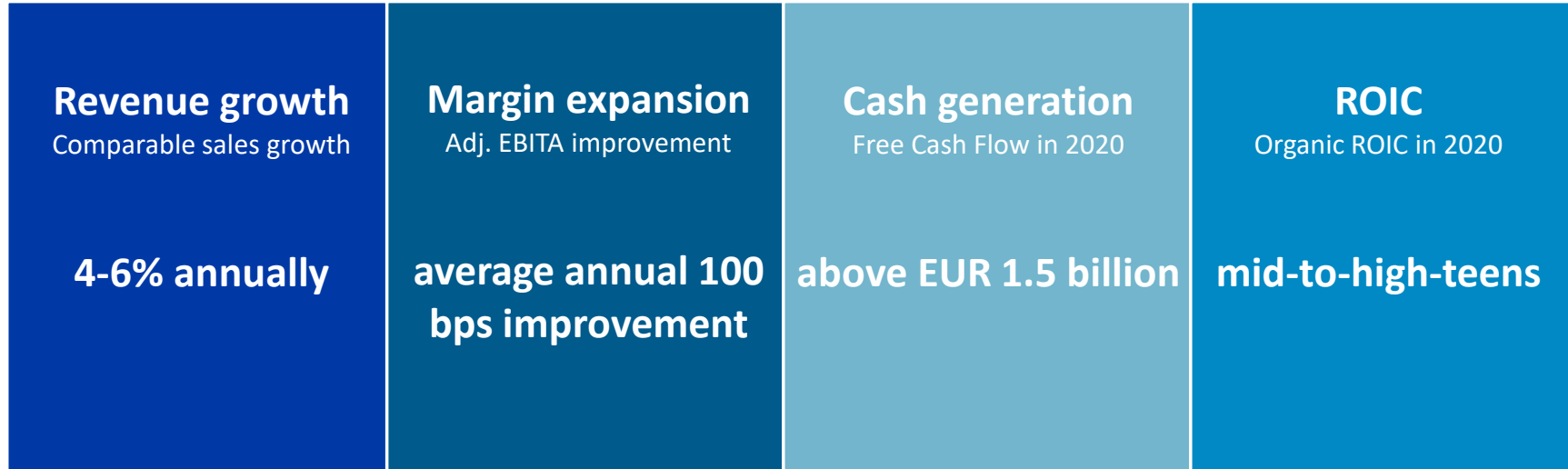
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Continued focus on value creation

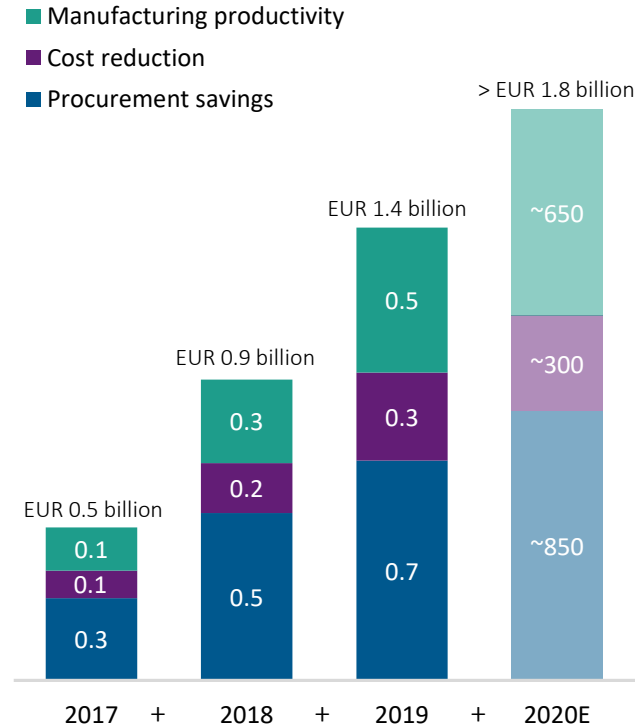
2017-2020 financial framework



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; 19 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

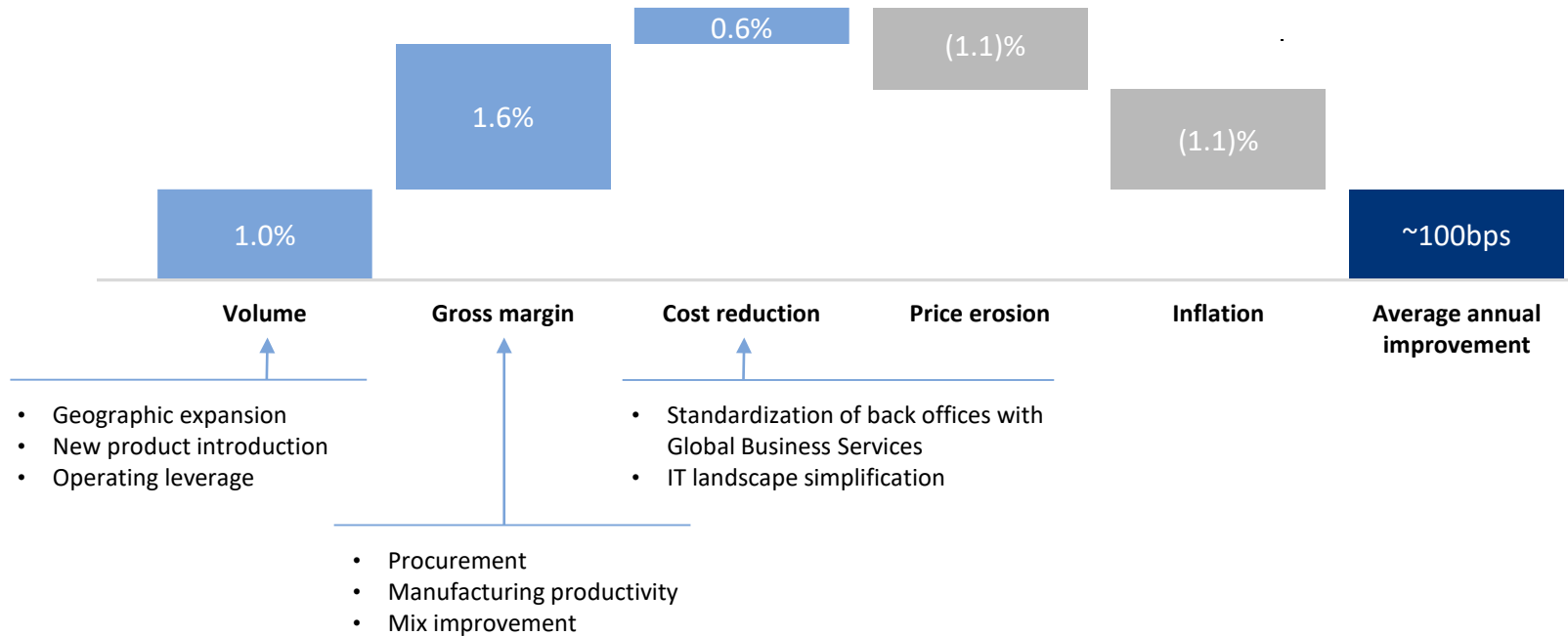
Procurement

- 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 bridge 2017-2020¹

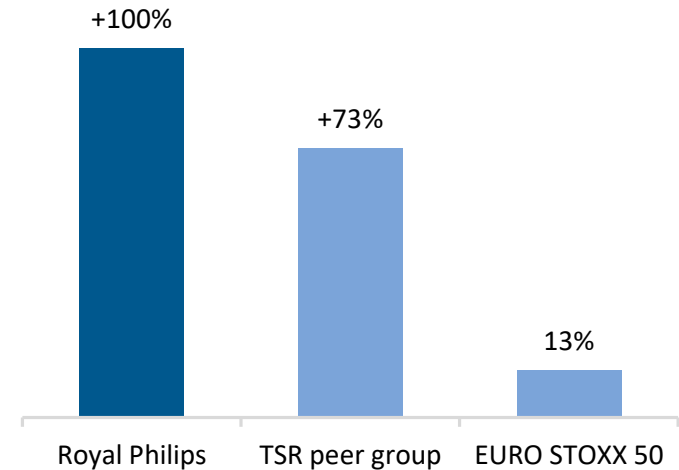


¹ Not valid for Full Year 2020: we continue to expect to deliver modest comparable sales growth with an Adjusted EBITA margin of around the level of last year in 2020

Balanced capital allocation policy

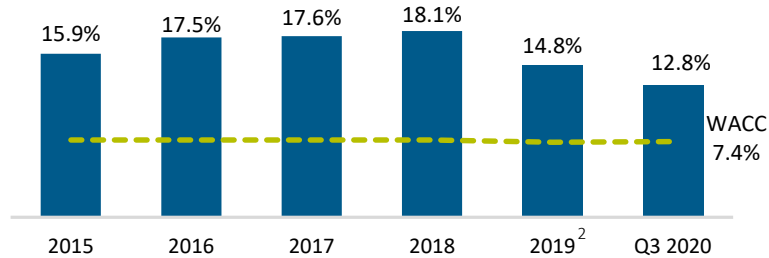


Total shareholder return since 2016^{1,2}

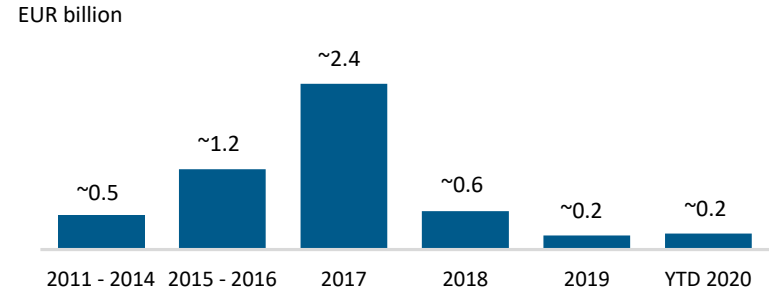


Balanced capital allocation policy

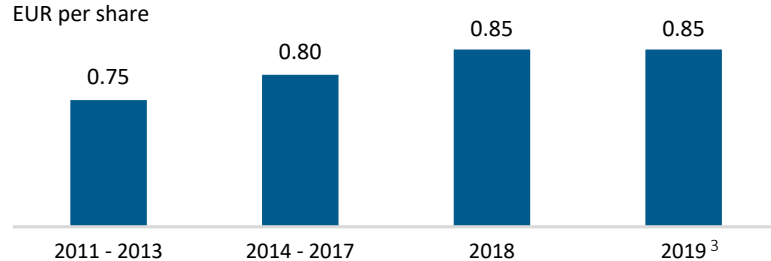
Organic Return on Invested Capital¹



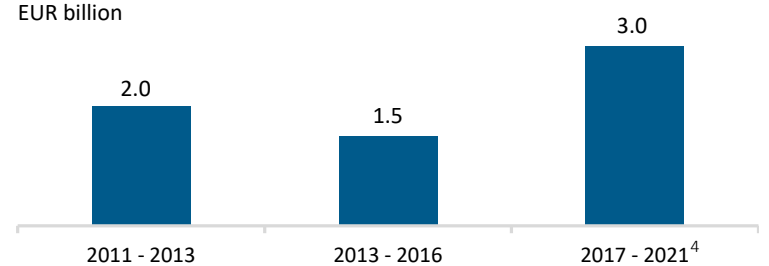
Mergers & Acquisitions



Dividends



Share repurchase



¹ Organic ROIC excludes acquisitions over a five years period, pension settlements in Q4 2015, significant one-time legal and 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



Philips provides new financial targets for 2021–2025

Further details of our strategic plan and performance trajectory will be provided at Capital Markets Day on November 6, 2020

“We are excited to continue our journey to create further value by improving growth and profitability, while recognizing that we are in very uncertain times, and under the assumption that the world economy will return to growth next year,” said Frans van Houten. “The new targets are underpinned by our strategic imperatives to further improve customer and operational excellence, boost growth in our core businesses through geographical expansion and more customer partnerships, and win with innovative solutions along the health continuum. Our strategy to transform care along the health continuum – from healthy living and prevention to diagnosis and treatment, telehealth and home care – strongly resonates with customers and has been further validated during the COVID-19 pandemic.”

Accelerated growth

- Average annual comparable sales growth of 5-6%; all business segments within this range
- For 2021, our current view is that Group comparable sales will deliver low-single-digit growth, driven by solid growth in Diagnosis & Treatment and Personal Health, partly offset by lower Connected Care sales

Higher profitability

- Average Adjusted EBITA margin improvement of 60-80 basis points annually from 2021
- High-teens for the Group by 2025: Diagnosis & Treatment 15-17%, Connected Care 17-19%, Personal Health 19-20%

Improved cash flow

- Free cash flow above EUR 2 billion by 2025

Return on invested capital

- Organic Return on Invested Capital (ROIC) of mid-to-high-teens by 2025



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Q3 2020 financial performance highlights

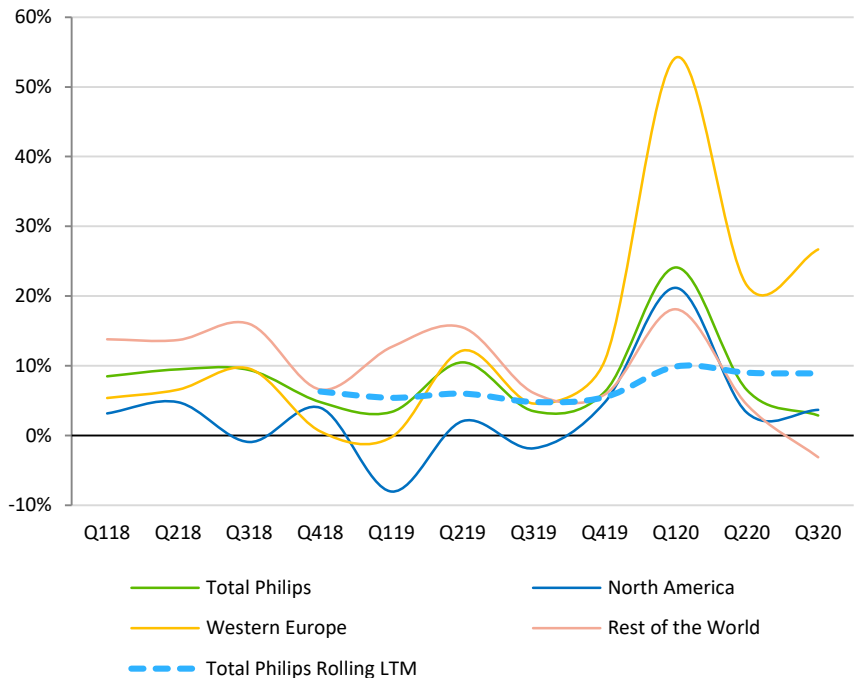
	Sales EUR million	Comparable sales growth	Adj. EBITA margin	Adj. EBITDA margin
Diagnosis & Treatment	1,971	(3%)	9.7%	13.4%
Connected Care	1,556	42%	27.1%	30.5%
Personal Health	1,376	6%	14.5%	17.3%
Other	77			
Philips	4,980	10%	15.4%	20.5%

- Comparable order intake increased 3%, excluding the partial termination of the ventilator contract with HHS
- Adjusted EBITA margin 15.4% of sales, compared to 12.4% of sales in Q3 2019
- Income from operations improved to EUR 476 million, compared to EUR 320 million in Q3 2019
- Adjusted EPS increased to EUR 0.60, compared to EUR 0.46 in Q3 2019
- Free cash flow increased to EUR 543 million, compared to EUR 126 million in Q3 2019

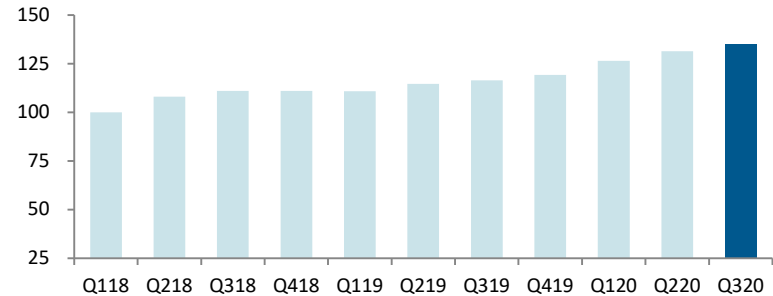


Order intake and book

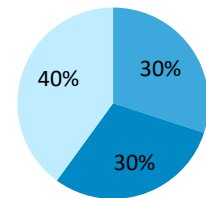
Comparable order intake growth¹ - excludes the impact from the partial termination of the April 2020 contract with the HHS



Indexed order book development



Typical profile of order book conversion to sales



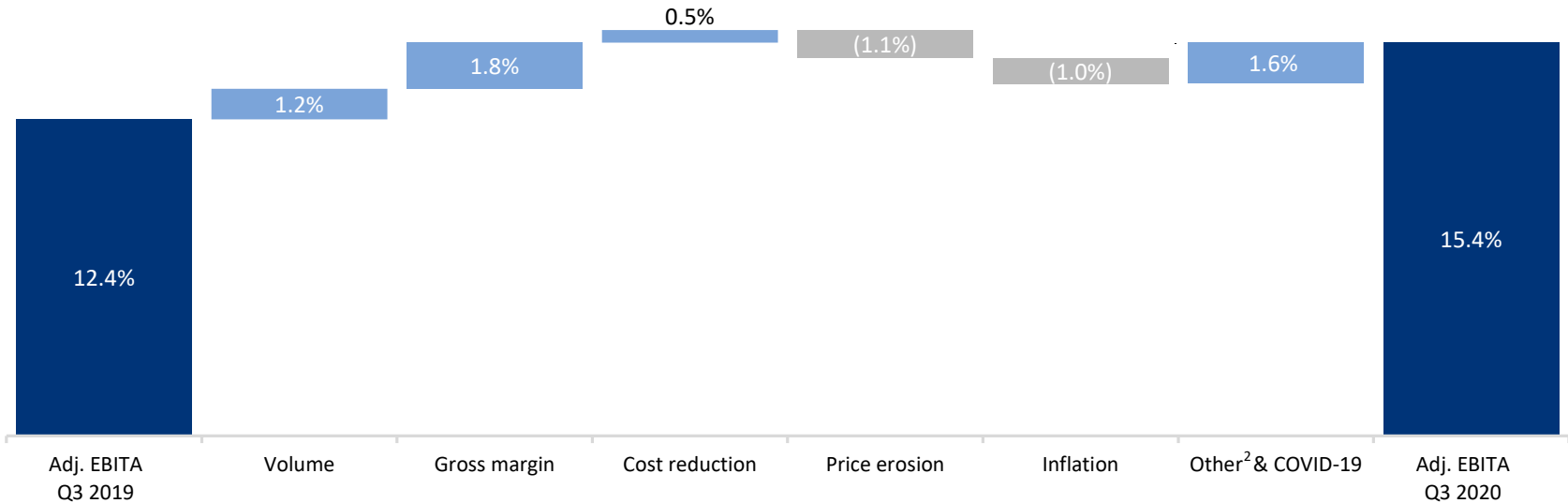
■ Q+1 ■ Q+2 to 4 ■ > 1 year

- Approximately 60% of the current order book results in sales within the next 12 months
- Quarter end order book is a leading indicator for ~40% of sales the following quarters

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

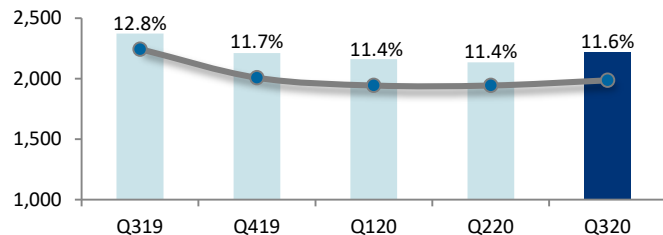
Adjusted EBITA margin¹ bridge Q3 2020

as a % of sales

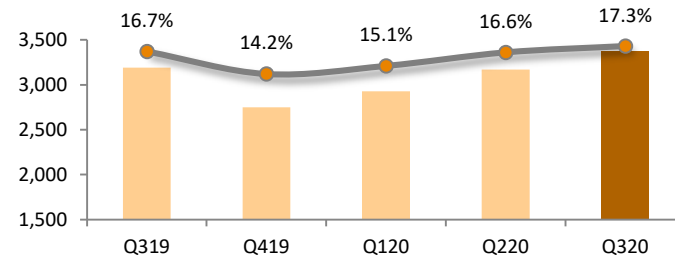


Working capital and inventories

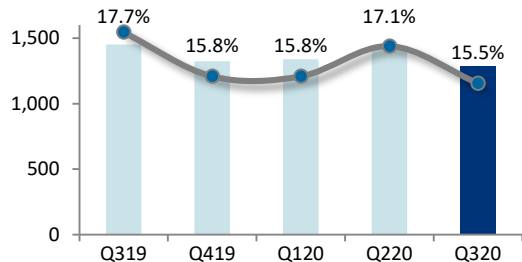
Working capital¹, EUR million — as % of LTM sales²



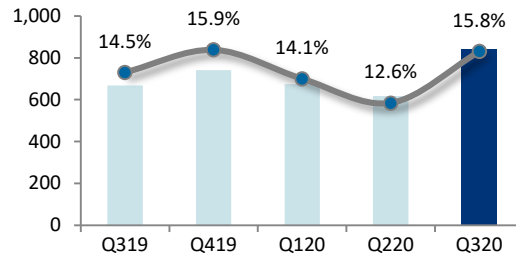
Inventories, EUR million — as % of LTM sales²



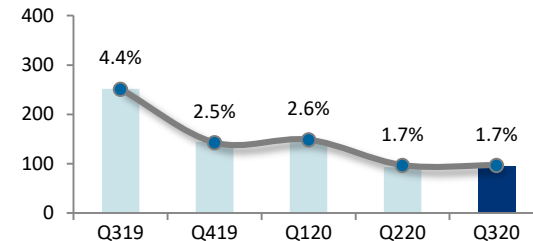
Diagnosis & Treatment



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	Q3 20
Diagnosis & Treatment	(30)	(41)	(47)	(106)	(222)	(76)	59	(67)
Restructuring & Acq.-related charges	(27)	(37)	(20)	(66) ⁴	(149)	(43)	62 ⁶	(23)
Other items	(3)	(4)	(27) ⁴	(40) ⁴	(73)	(33) ⁴	(3)	(44) ⁵
Connected Care	(29)	(32)	(27)	(44)	(131)	(31)	(31)	(115)
Restructuring & Acq.-related charges	(19)	(15)	(12)	(18)	(64)	(11)	(14)	(29)
Other items	(10) ¹	(16) ¹	(15) ¹	(26) ¹	(67)	(20) ¹	(17) ¹	(86) ^{1, 4, 9}
Personal Health	(16)	(8)	(23)	(27)	(73)	(8)	(39)	(14)
Restructuring & Acq.-related charges	(16)	(7)	(3)	(24)	(50)	(8)	(13)	(14)
Other items	-	-	(20) ⁵	(3)	(23)	-	(26) ⁷	-
Other	26	(29)	(17)	(22)	(43)	(2)	(20)	(37)
Restructuring & Acq.-related charges	(9)	(22)	(12)	(10)	(54)	(1)	(5)	(19)
Other items	35 ^{2, 3}	(7) ^{2, 3}	(5) ^{2, 3}	(12) ^{2, 3}	11	(1)	(14) ⁸	(19) ⁸
Philips	(50)	(109)	(114)	(198)	(471)	(117)	(30)	(233)
Restructuring costs	(39)	(66)	(35)	(109)	(249)	(39)	(44)	(65)
Acquisition related charges	(32)	(16)	(12)	(9)	(69)	(23)	73	(20)
Other items	21	(28)	(67)	(80)	(153)	(55)	(60)	(148)

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; 9. Includes an onerous contract provision

Capital expenditures, Depreciation and Amortization

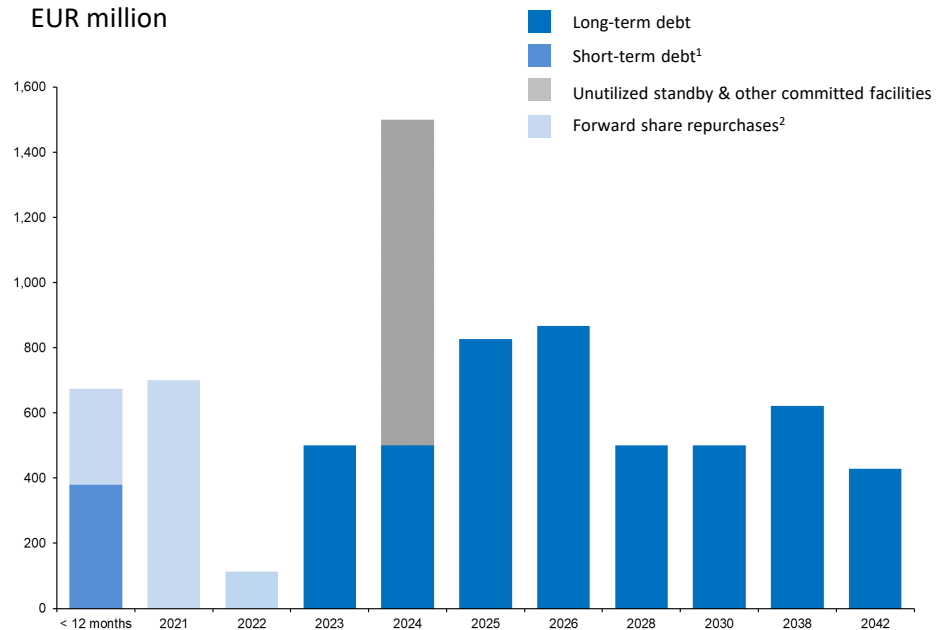
EUR million	Q3 2019	Q3 2020	FY 2019
Capital expenditures on property, plant and equipment	116	129	518
Capitalization of development costs	115	100	460
Depreciation	159	172	645
Amortization of acquired intangible assets	71	60	350
Amortization of software	19	22	75
Amortization of development costs	83	99	332
Depreciation and amortization¹	331	353	1,402

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 8.5 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

Debt maturity profile as per 30 September 2020



¹ Short-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

October 19	Third quarter results 2020
November 06	Capital Markets Day Additionally, institutional investors will have the chance to interact with our CMD presenters during fireside chats in November and December, hosted by brokers. More information on these events will be published on our Investor Relations website
November 10	Exane BNP Paribas – MedTech CEO Conference
November 18	Societe Generale European ESG-SRI Sustainable and Positive Impact Finance
December 03	Berenberg European Conference
January 11	JP Morgan Annual Healthcare Conference
January 25	Fourth quarter results 2020

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