



PHILIPS

Royal Philips Third quarter 2021 results

October 18, 2021

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; 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; 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 postretirement 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 2020.

Since the completion of the sale of the Domestic Appliances business, it is no longer consolidated by Philips as from September 1, 2021. The results of this transaction are presented under discontinued operations.

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. Estimates of rankings are based on order intake or sales, depending on the business.

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 2020.

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 2020. 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 2020.

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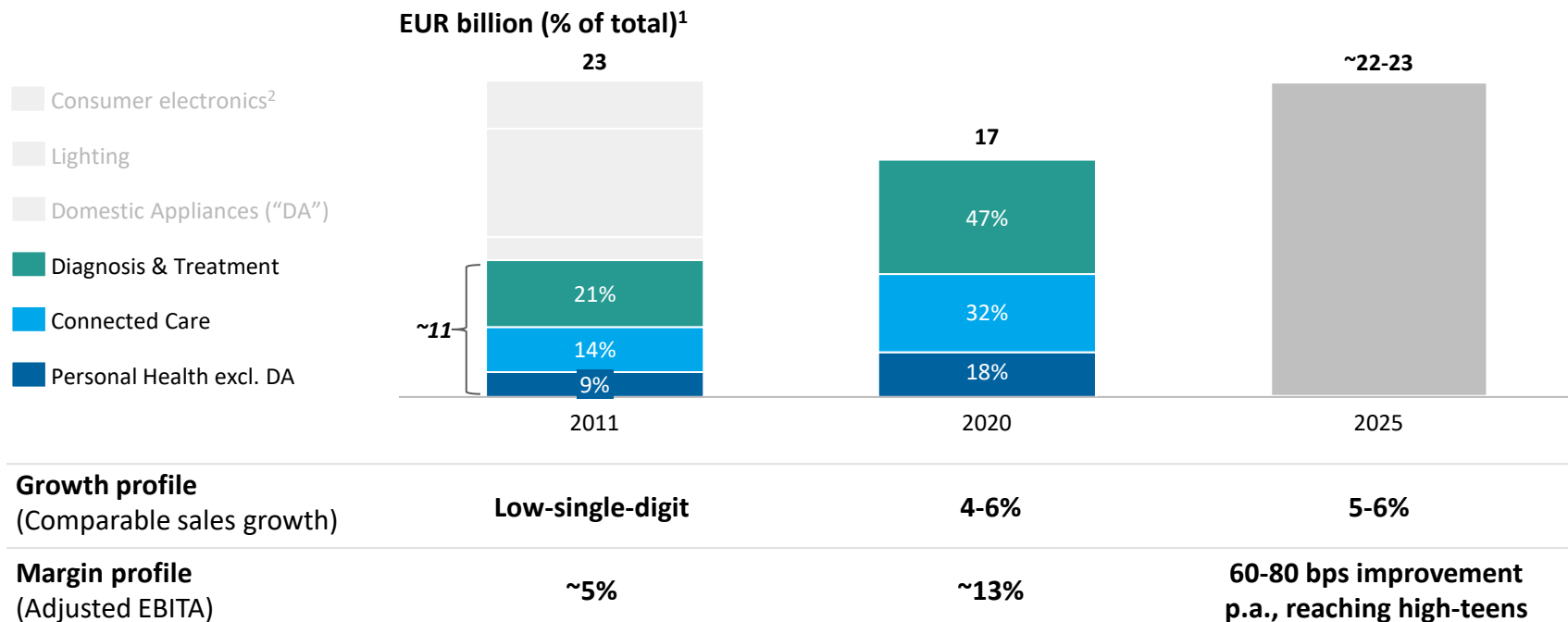
1. Company overview and strategy

A photograph of two surgeons in a sterile operating room. They are wearing blue surgical gowns, masks, and hairnets. They are focused on a patient lying on the table. A large Philips ultrasound monitor is on the left, displaying a B-mode image of tissue. A smaller monitor is mounted on a stand in the center. Surgical lights are visible overhead. A dark blue semi-transparent banner is overlaid at the bottom of the image, containing white text.

Our purpose is to improve people's health and well-being through meaningful innovation, positively impacting 2 billion lives per year by 2025

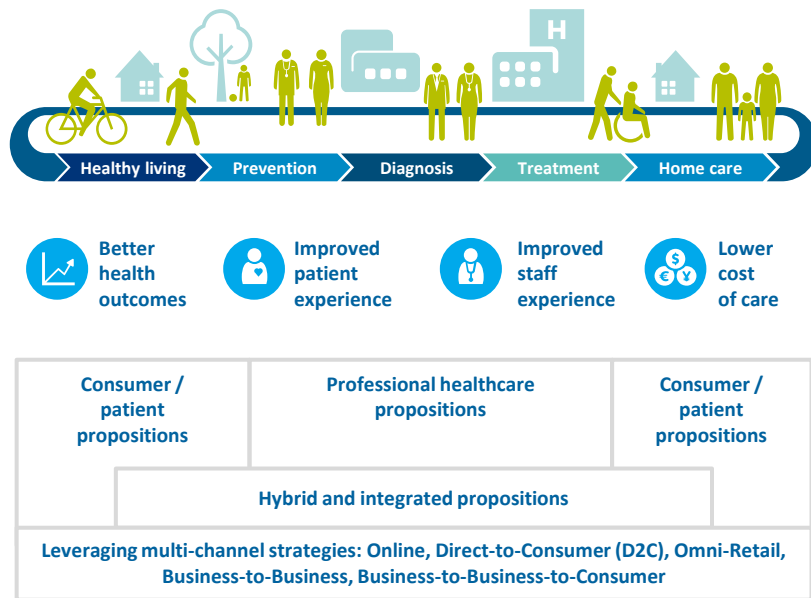


Philips continues on its journey to HealthTech leadership, accelerating growth and delivering margin improvement



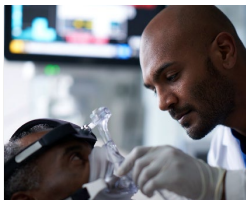
Our strategy to lead in health technology

- **Innovative solutions** that deliver on the **Quadruple Aim** for providers and consumers, along the health continuum
- Smartly combining **systems, devices, informatics, data and services**
- **Consultative customer partnerships** and recurring-revenue business models with superior customer service
- Building on organic **growth in the core**, complemented by synergistic M&A
- **Philips Business System** driving operational excellence, quality and an integrated approach to customers



Recent developments have reaffirmed our strategy

Recent developments



Providers

- COVID-related acute care needs
- Growth of ambulatory centers
- Increased focus on productivity, staff, cybersecurity and resilience



Consumers

- Uncertainty in consumer spending
- Accelerated shift to online channels



Governments

- Investments in healthcare ecosystems
- Geopolitical risk of market access and technology restrictions

We are prepared for these developments

- Increased cloud-enabled telehealth, remote patient engagement, and hub-and-spoke models
- Informatics and AI-enabled workflow optimization increasing patient throughput and reducing cost
- Partnering with our customers

- Business model innovation and ecosystems
- Increased Direct-to-Consumer and 'pull' marketing
- Partnering with online platforms

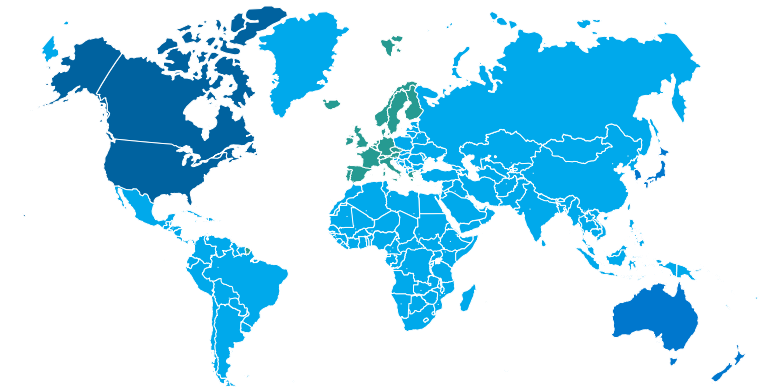
- Strengthened regional final assembly hubs
- Increased localized solutions, e.g. in China
- Regional hosting of health data

Royal Philips

EUR 17.3 billion sales and Adjusted EBITA of 13.2% in 2020

Global footprint¹

North America	Western Europe	Growth geographies ²	Other mature geographies
39%	21%	30%	10%



Committed to innovation

- EUR 1.8 billion for R&D, ~59,000 patents rights, ~31,000 trademarks
- More than half of R&D personnel in software and data science
- ~45% of sales from solutions, growing double-digit
- ~78,000 employees in over 100 countries

1. All figures based on Q3 2021 last twelve months (LTM) unless stated otherwise

2. Growth geographies consist of all geographies excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel




We have a strong and focused portfolio, driving innovative solutions that promote health and improve healthcare delivery

FY 2020

Diagnosis & Treatment 47% of sales	Connected Care 32% of sales	Personal Health 18% of sales
<p>Precision Diagnosis Provide smart, connected systems, optimized workflows, and integrated diagnostic insights, leading to clear care pathways and predictable outcomes</p>	<p>Image-Guided Therapy Innovate minimally invasive procedures in a growing number of therapeutic areas with significantly better outcomes and productivity</p>	<p>Personal Health Deliver solutions that enable healthier lifestyles, personal hygiene and living with chronic disease</p>
<p>Performance trajectory 2021-2025¹ 5-6% sales growth 15-17% Adj. EBITA margin</p>	<p>5-6% sales growth 17-19% Adj. EBITA margin</p>	<p>5-6% sales growth 19-20% Adj. EBITA margin</p>

1. Philips expects to deliver low-single-digit comparable sales growth for the Group in 2021, with a modest Adjusted EBITA margin improvement.
 Note: HealthTech Other accounts for 2% of sales

Businesses aligned with customer needs

	Focus areas	Products and solutions
 Diagnosis & Treatment	<ul style="list-style-type: none">• Precision diagnosis• Treatment selection and planning• Image-guided minimally invasive therapy	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• Patient care and workflow management• Population health management• Chronic disease management	<ul style="list-style-type: none">• Telehealth, patient monitoring and analytics• Hospital and clinical informatics platforms• Emergency care and resuscitation• Sleep, breathing and respiratory care• Managed services
 Personal Health	<ul style="list-style-type: none">• Healthy living and prevention• Personal care• Digital consumer engagement	<ul style="list-style-type: none">• Oral care• Mother and child care• Male grooming and beauty• Services (re-ordering, support, coaching, etc.)

Winning propositions

>65% of sales from leadership positions¹

Diagnosis & Treatment	Ultrasound Global leader	Image-guided therapy systems Global leader	Image-guided therapy devices² Global leader	Diagnostic imaging Global top 3	High-end radiology and cardiology informatics #1 in North America
Connected Care	Patient monitoring Global leader	ICU telehealth #1 in North America	Cardiac ambulatory home monitoring #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	

Continuing to gain market share in key areas of our portfolio

Drivers for continued growth and improved profitability

Our 3 imperatives

Key drivers

Delivering



**Better serve
customers and
improve quality**

- Deliver the best customer experience and quality
- Leverage our digital enterprise platform
- Improve productivity



**Boost growth
in core business**

- Innovate to extend category leadership
- Capture geographic growth
- Increase customer share through consultative partnerships



**Win with
solutions**

- Drive integrated solutions that deliver on the Quadruple Aim
- Adopt/drive data and AI at scale
- Add portfolio adjacencies (organic, M&A, partnerships)

More lives improved

Higher customer NPS

Market share expansion

Revenue growth

Margin growth¹

Free cash flow generation

Organic ROIC

ESG leader

Value
creation

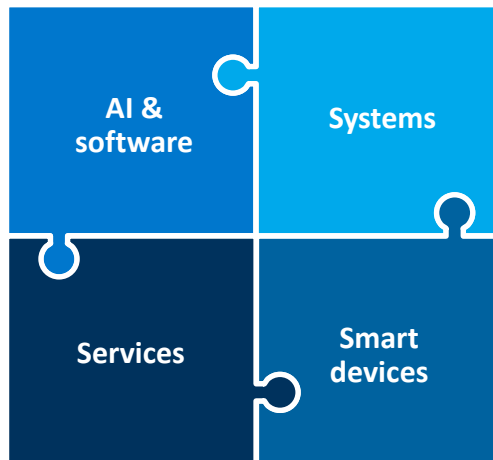
Our behaviors: Customers first | Patient safety, quality, and integrity always | Team up to win | Take ownership to deliver fast | Eager to improve and inspire

Our integrated solutions deliver on the Quadruple Aim

~45% of sales from solutions & recurring revenues

We bring together:

- Deep consumers insights
- Leading clinical and operational expertise
- Open platform approach with system & device integration
- New business models
- End-to-end patient pathways



Example solution areas:

- Oral Healthcare ecosystems
- First-time-right diagnosis with Radiology workflow productivity
- Integrated IGT suites with new business models
- Connected monitoring, Sleep & Respiratory Care and informatics anywhere

Addressing the Quadruple Aim:



Better health outcomes



Improved patient experience



Improved staff experience



Lower cost of care

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 towards 2025



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

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



Our experienced and passionate executive team



CEO
Frans van Houten
Dutch



Diagnosis & Treatment
Bert van Meurs
Dutch



Kees Wesdorp
Dutch



North America
Vitor Rocha
Brazilian/American



Innovation & Strategy
Shez Partovi
Canadian



Operations
Sophie Bechu
French/American



Greater China
Andy Ho
Chinese/Canadian



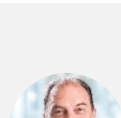
Legal
Marnix van Ginneken
Dutch/American



CFO
Abhijit Bhattacharya
Indian



Connected Care
Roy Jakobs
Dutch/German



International Markets¹
Edwin Paalvast
Dutch



Human Resources
Daniela Seabrook
Swiss



Personal Health
Deeptha Khanna
Singaporean

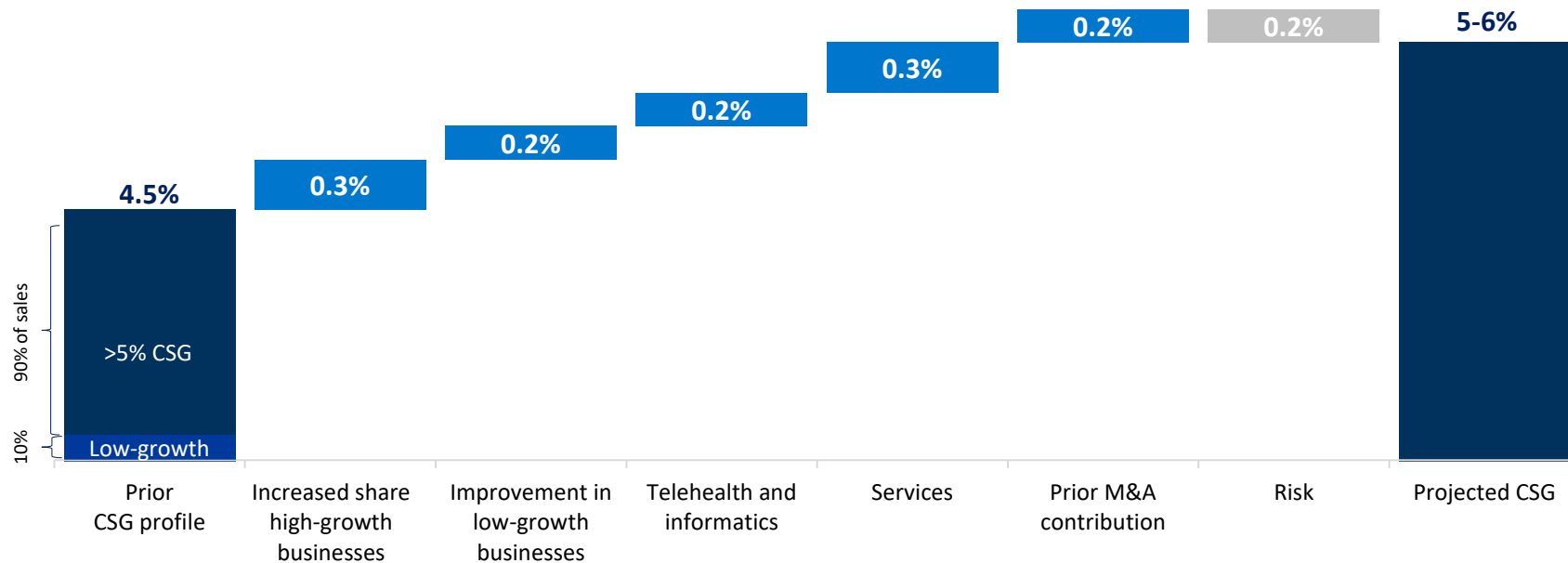
2. Financial outlook 2021-2025

Continued focus on value creation

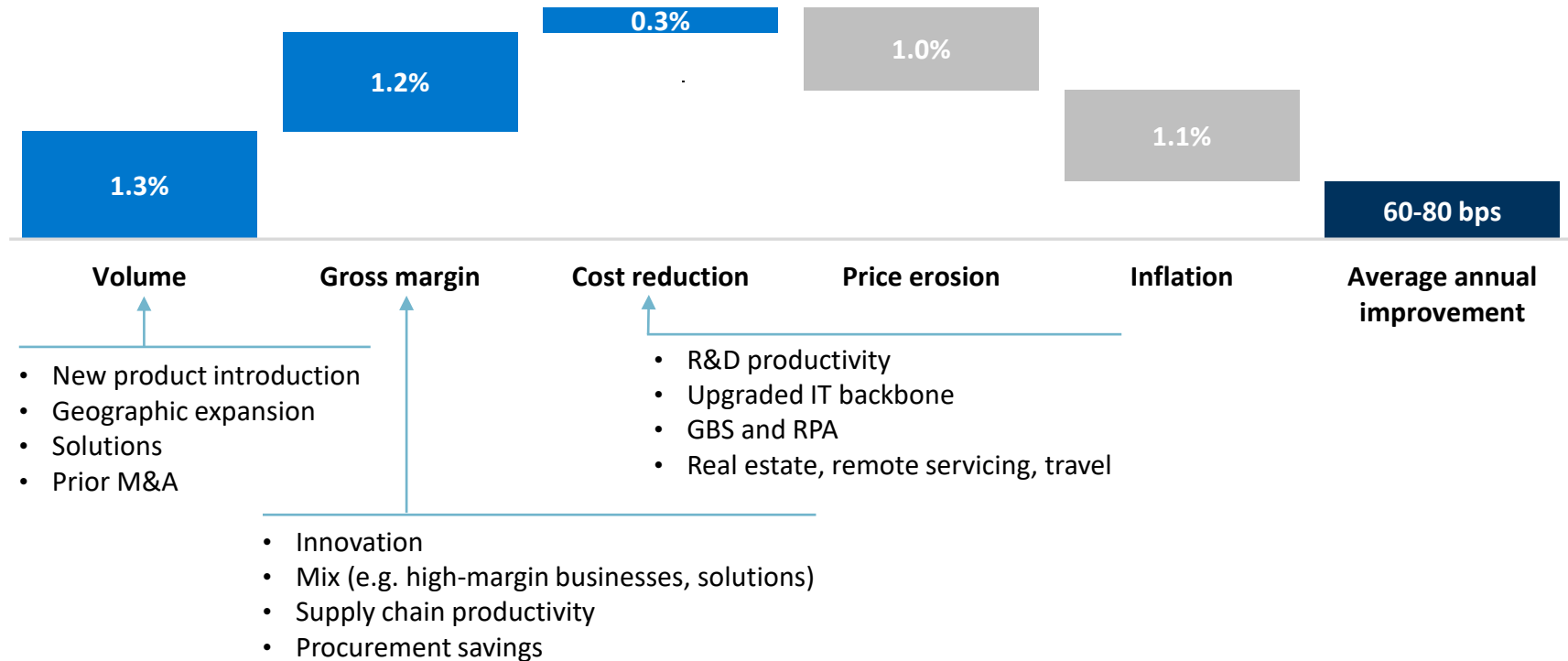
2021-2025 financial framework¹

Revenue growth Comparable sales growth	Margin expansion Adj. EBITA improvement	Cash generation Free Cash Flow by 2025	ROIC Organic ROIC by 2025
5-6% annually	average annual 60-80 bps improvement	above EUR 2 billion	mid-to-high teens

Indicative growth acceleration drivers



Indicative annual Adjusted EBITA improvement drivers



Driving EUR 2 billion productivity through 2025

Procurement savings

EUR 900 - 1100 million

- Center of excellence for value analysis and engineering to drive low-cost country sourcing, life cycle management, and DfX¹
- Indirect spend management driving demand and price optimization

Supply chain productivity

EUR 500 - 700 million

- 60% reduction in warehouse sites, consolidation of logistics and warehouse providers
- Ramp-down of manufacturing rationalization project costs
- Operational excellence and lower cost of non-quality

Overhead cost reduction

EUR 400 - 500 million

- Simplification of R&D platforms and footprint
- Future of work: real estate optimization, remote servicing, travel reduction
- Continued expansion of GBS and RPA²
- Single billing entity via upgraded IT backbone (e.g. Europe)

Restructuring cost run-rate expected to be 40-50 bps starting in 2022



Robust financial framework geared to value creation

Free cash flow
conversion
>90%

Adjusted EPS growth
~10%¹

Organic ROIC of
mid-to-high
teens

Disciplined
capital
allocation

Maintain current
investment grade
credit rating

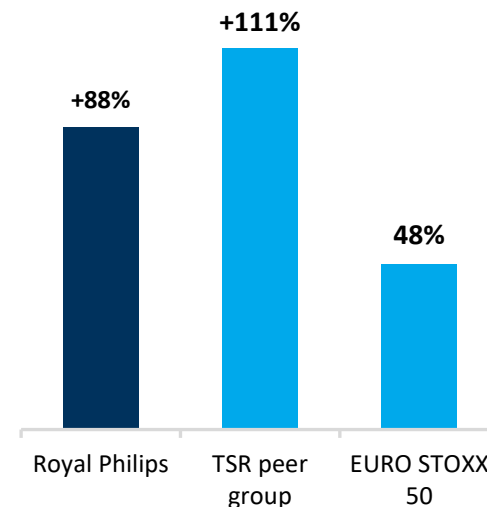
Effective tax rate
24-26%²

Our capital allocation supports our strategy and our commitments to shareholders

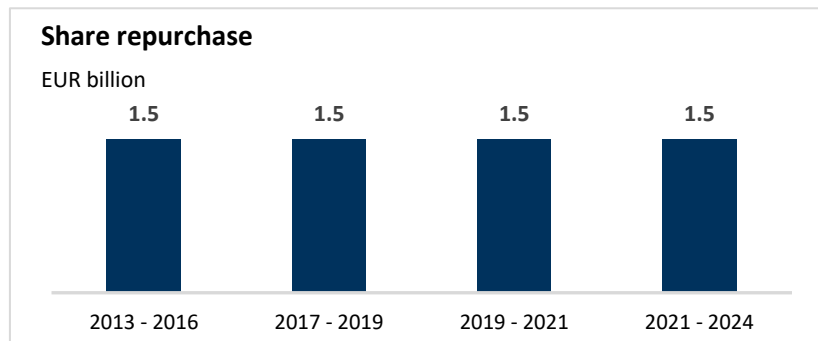
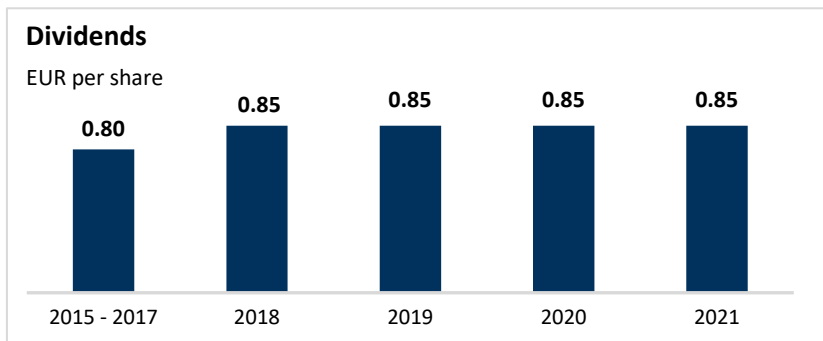
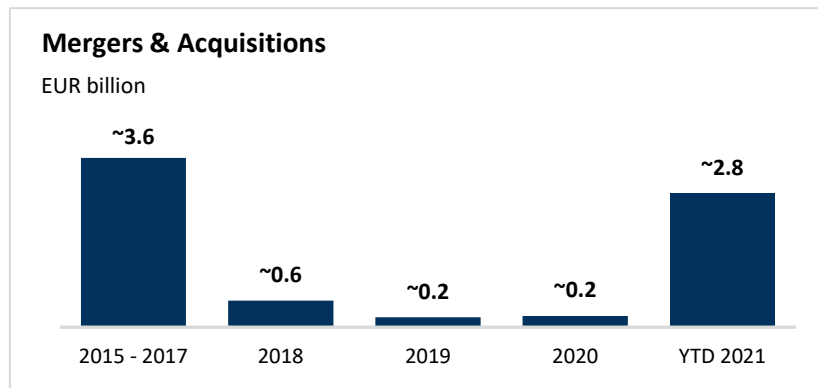
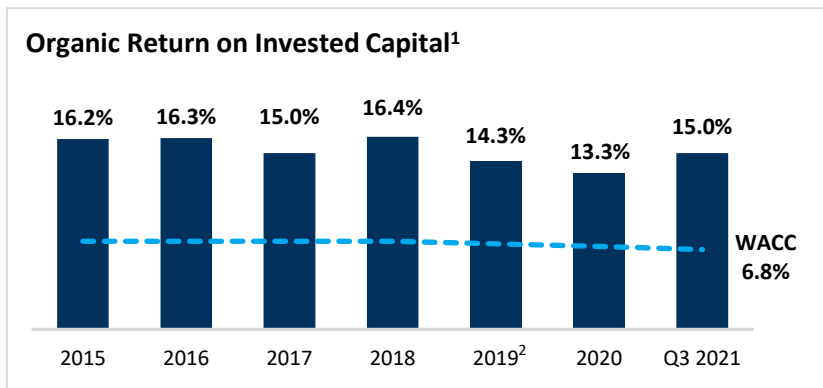
Our approach

Reinvest in growth	<ul style="list-style-type: none"> • Organic growth as the main premise of our value creation • Similar level of innovation investment and increased advertising spend
M&A / portfolio management	<ul style="list-style-type: none"> • EUR 7.4 billion invested in M&A since 2015 • Disciplined but more active approach
Dividend stability	<ul style="list-style-type: none"> • Pay-out of 40-50% of net recurring income • Continued, stable dividend policy
Share buy-backs	<ul style="list-style-type: none"> • Over EUR 4.5 billion since 2015 • Continuing to evaluate periodically

Total shareholder return since 2016^{1,2}



Balanced capital allocation policy



1. Organic ROIC excludes acquisitions over a five years period and other items defined as material and of the same nature as the items excluded from Adjusted EBITA such as pension settlements, significant tax charges and benefits, and one-time legal and other provisions; 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.



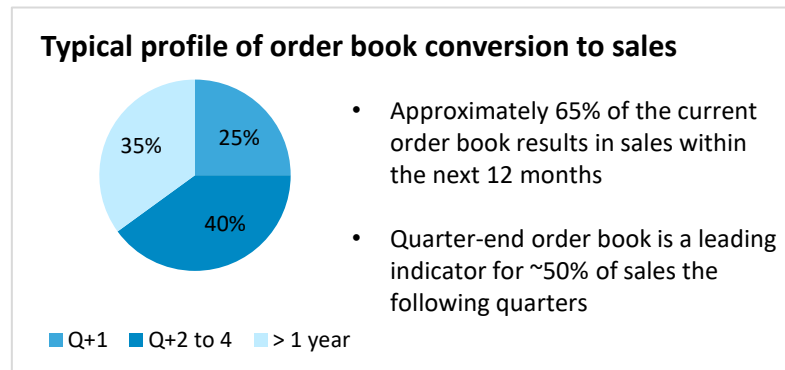
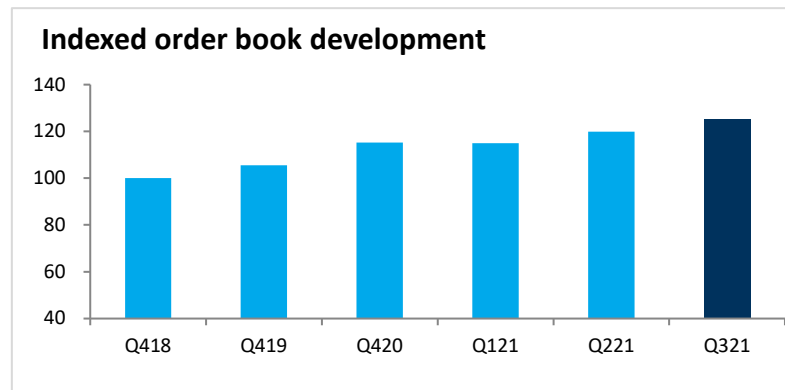
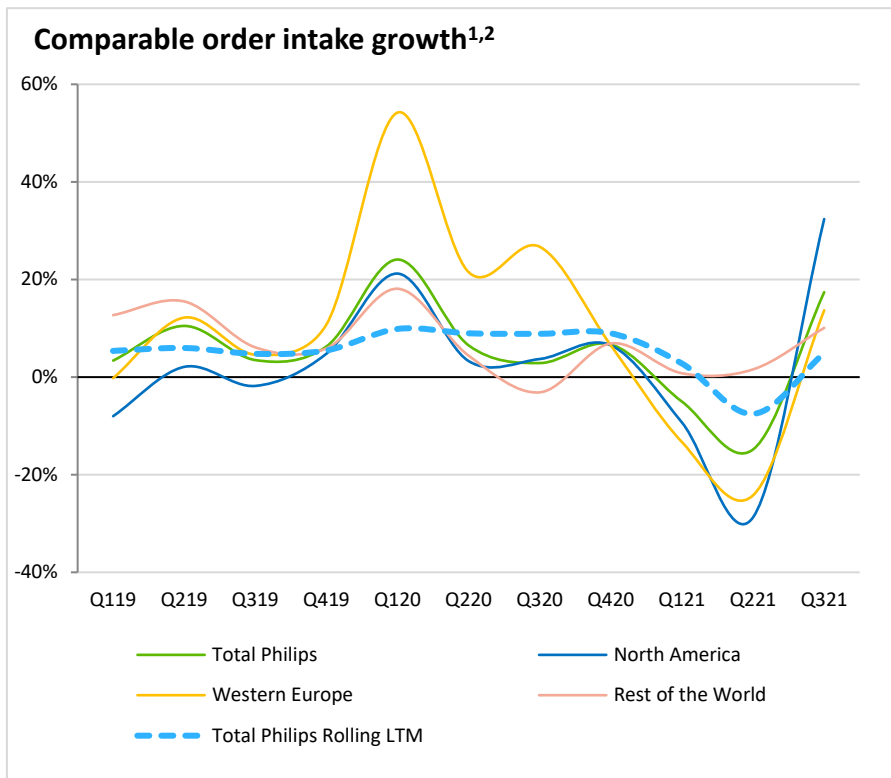
3. Financial performance in the quarter

Q3 2021 financial performance highlights

	Sales EUR million	Comparable sales growth	Adj. EBITA margin	Adj. EBITDA margin
Diagnosis & Treatment	2,154	10%	14.2%	17.3%
Connected Care	1,044	(39)%	6.2%	10.7%
Personal Health	803	0%	15.9%	19.4%
Other	153			
Philips	4,156	(8)%	12.3%	17.8%

- Comparable order intake increased 47%; order intake increased 17% excluding the impact of a partial ventilator order cancellation in Q3 2020
- Income from continuing operations increased to EUR 442 million, compared to EUR 279 million in Q3 2020
- Operating cash flow of EUR 256 million, compared to EUR 575 million in Q3 2020
- Domestic Appliances divestment was completed as planned, resulting in a EUR 2.5 billion gain after tax and transaction-related costs; reported in Discontinued Operations

Order intake and book

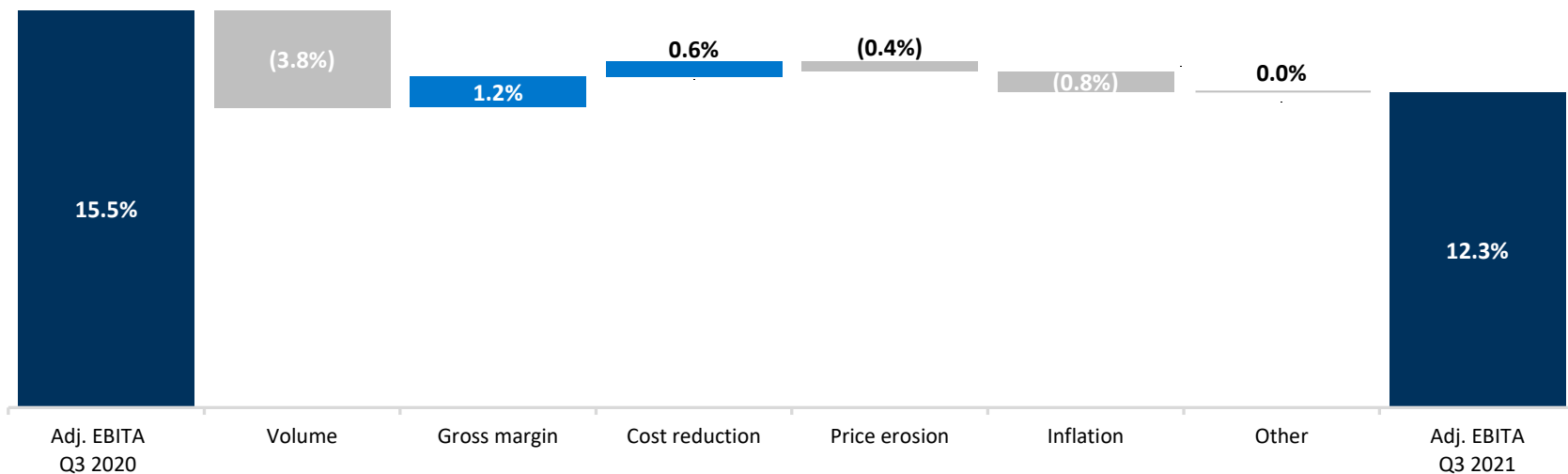


1. Includes equipment and software orders in Diagnosis & Treatment, Connected Care and Innovation businesses adjusted for acquisitions and divestments, and currency

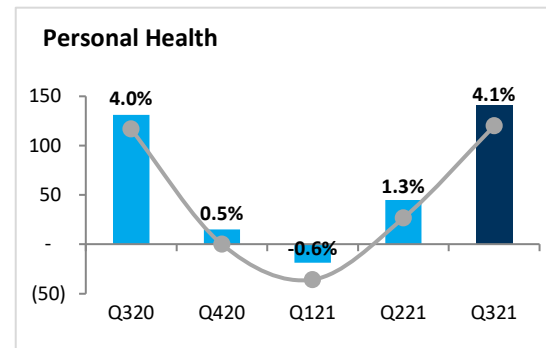
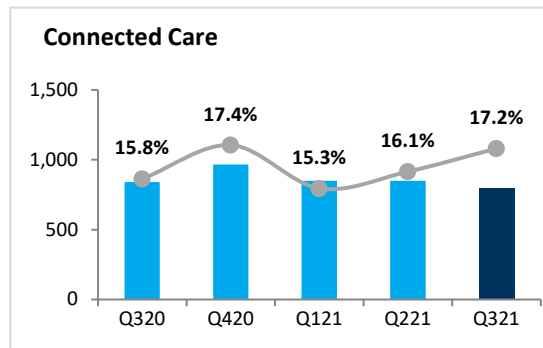
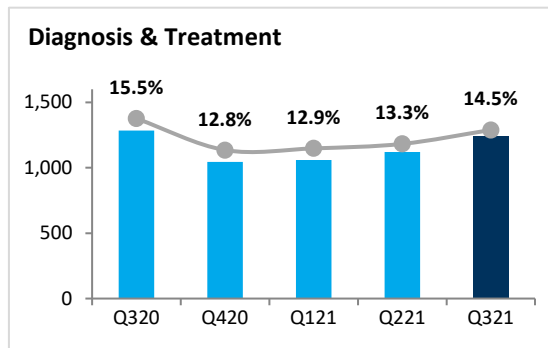
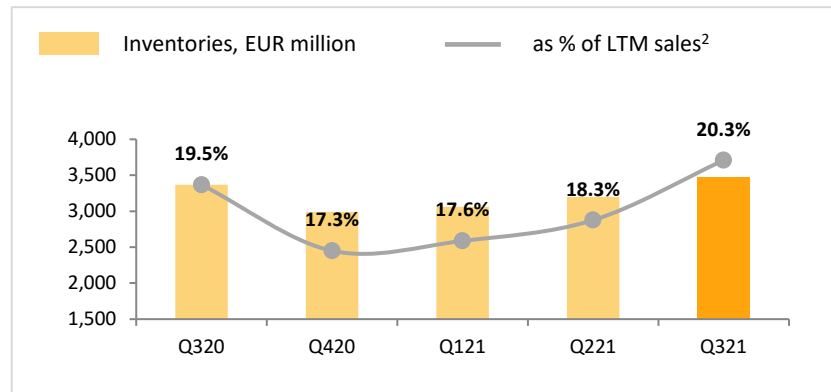
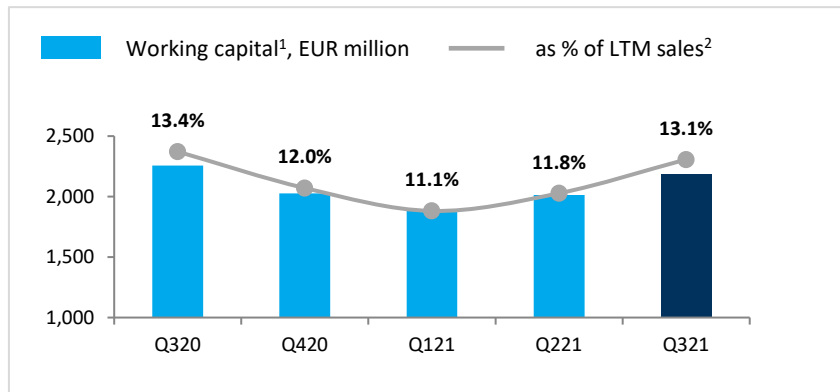
2. Excludes the impact from the partial termination of the April 2020 contract with the HHS

Adjusted EBITA margin¹ bridge Q3 2021

as a % of sales



Working capital and inventories





Sleep and respiratory care field action update

Taking the necessary steps to address component issue - status per October 15, 2021

	Complete	Ongoing	Next steps
Regulatory	<ul style="list-style-type: none">Received FDA authorization for rework of affected DS1 devices in the USRepair and replacement actions underway in the US and several other marketsDS2 authorized in the US, Canada, Europe and Greater China	<ul style="list-style-type: none">Remain in dialogue with the FDA with respect to other aspects of the recall notification and mitigation planDS2 authorization in additional countriesConducting further research and tests to better scope the possible patient risk	<ul style="list-style-type: none">Working with FDA on other submitted rework filingsUpdate information for physicians and patients, as appropriate
Field action	<ul style="list-style-type: none">Set up a dedicated customer support and device registration processPublished clinical information package addressing physician questionsProduction capacity reached 55K units/week (2x original capacity)750K units produced, of which 250K reached customers	<ul style="list-style-type: none">Ongoing shipment of replacements and repair kitsContinued monitoring of device registrations and outreach efforts	<ul style="list-style-type: none">Ramp up capacity to 80k units a week in Q4 2021 (3-4x original capacity)Complete repair and replacement program (12 months after regulatory authorization received)



Appendix

Restructuring, acquisition-related charges, and other items

EUR million	Q1 20	Q2 20	Q3 20	Q4 20	2020	Q1 21	Q2 21	Q3 21
Diagnosis & Treatment	(76)	59	(67)	(29)	(112)	15	6	(12)
Restructuring & Acq.-related charges	(43)	62 ¹	(23)	(25)	(29)	17 ¹	(32)	(8)
Other items	(33) ²	(3)	(44) ³	(3)	(83)	(2)	38 ³	(4)
Connected Care	(31)	(31)	(115)	(32)	(209)	(282)	(293)	(62)
Restructuring & Acq.-related charges	(11)	(14)	(29)	(43)	(97)	(22)	(16)	(8)
Other items	(20) ⁴	(17) ⁴	(86) ^{2, 4, 5}	11 ⁴	(112)	(260) ^{4, 6}	(277) ^{4, 6}	(54) ^{2, 4}
Personal Health	(7)	(35)	(10)	(3)	(55)	(1)	1	(0)
Restructuring & Acq.-related charges	(7)	(11)	(10)	(3)	(31)	(1)	1	-
Other items	-	(24) ⁷	-	1	(24)	-	-	-
Other	(2)	(19)	(37)	(59)	(117)	(33)	(73)	(12)
Restructuring & Acq.-related charges	(1)	(5)	(19)	(12)	(37)	(3)	2	2
Other items	(1)	(14) ⁸	(19) ⁸	(47) ^{8, 9}	(81)	(30) ⁸	(75) ^{8, 10, 11}	(14)
Philips	(116)	(26)	(229)	(123)	(493)	(301)	(359)	(87)
Restructuring costs	(38)	(42)	(61)	(60)	(200)	(19)	(21)	(10)
Acquisition related charges	(23)	73	(20)	(25)	6	11	(24)	(5)
Other items	(55)	(58)	(148)	(38)	(299)	(292)	(314)	(72)

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

1. Gain related to release of a contingent consideration liability; 2. Includes a value adjustment of capitalized development costs; 3. Provision related to legal matters; 4. Related to the consent decree focused on the defibrillator manufacturing in the US; 5. Includes an onerous contract provision; 6. Provision related to field action in Sleep & Respiratory Care; 7. Inventory valuation charges resulting from deployment of new systems; 8. Includes separation costs related to Domestic Appliances business; 9. Pension liability de-risking in the US; 10. Environmental provision release/change; 11. Loss related to divestment

Capital expenditures, Depreciation and Amortization

EUR million	Q3 2020	Q3 2021	FY 2019	FY 2020
Capital expenditures on property, plant and equipment	124	112	486	485
Capitalization of development costs	99	95	451	418
Depreciation	163	154	611	691
Amortization of acquired intangible assets	59	67	344	377
Amortization of software	19	23	66	76
Amortization of development costs	97	65	323	319
Depreciation and amortization¹	339	309	1,343	1,462

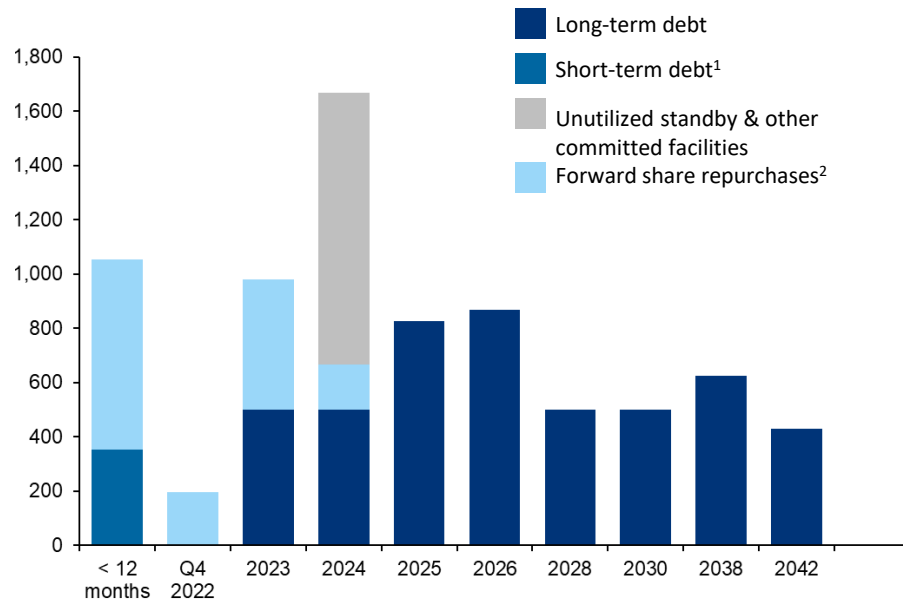
Philips' debt has a long maturity profile

Characteristics of long-term debt

- Total net debt position of EUR 3.8 billion
- Maturities up to 2042
- Average tenor of long-term debt is 7.5 years³
- No financial covenants

Debt maturity profile as per 30 September 2021

EUR million



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.



Upcoming events calendar

November 16	Banco Sabadell European Investors seminar
November 23	ING Benelux conference Brussels
December 9	Berenberg European conference Pennyhill Park
January 24	Philips fourth quarter 2021 results

Contact us

Royal Philips, Investor Relations

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www.philips.com/a-w/about/investor.html

