

PHILIPS

Royal Philips Third quarter 2022 results

October 24, 2022

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*, 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; Philips' ability to execute and deliver on programs on business transformation and IT system changes and continuity; the effectiveness of our supply chain; attracting and retaining personnel; COVID and other pandemics; 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; treasury and financing risks; tax risks; reliability of internal controls, financial reporting and management process. 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 2021. Reference is also made to Risk management in the Philips semi-annual report 2022.

Philips has recognized a provision related to the voluntary recall notification in the US/field safety notice outside the US for certain sleep and respiratory care products, based on Philips' best estimate for the expected field actions. Future developments are subject to significant uncertainties, which require management to make estimates and assumptions about items such as quantities and the portion to be replaced or repaired. Actual outcomes in future periods may differ from these estimates and affect the company's results of operations, financial position and cash flows.

During the quarter, an indicator of impairment was identified for the Sleep & Respiratory Care cash-generating unit (CGU) as a consequence of revisions to the expected future cash flows of the CGU. The goodwill impairment charge recognized this quarter is due to revisions to the financial forecast of our Sleep & Respiratory Care business within the Connected Care segment. The impairment charge was calculated by comparing the carrying amount of the Sleep & Respiratory Care CGU with its recoverable amount, the basis of which is value in use. The forecast used to calculate the value in use required management to make significant estimates and assumptions about future cash flows. Actual outcomes in future periods may differ from these estimates. After this impairment charge, the estimated recoverable amount for Sleep & Respiratory Care is equal to its carrying value and consequently any adverse change in key assumptions would individually cause a material impairment loss to be recognized.

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.

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 2021.

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 2021. 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 2021 except for the adoption of new standards and amendments to standards which are also expected to be reflected in the company's consolidated IFRS financial statements as at and for the year ending December 31, 2022. Prior-period amounts have been reclassified to conform to the current-period presentation; this includes immaterial organizational changes

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



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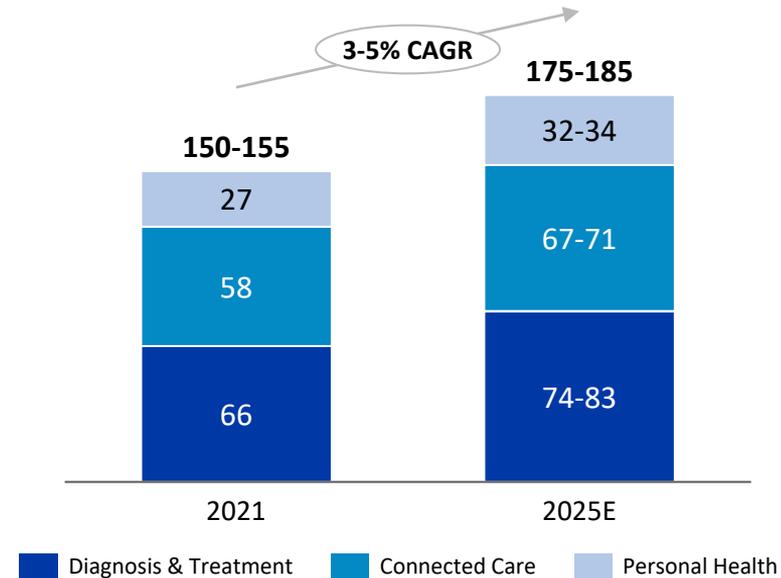
Company overview



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

We operate in a large, structurally growing and resilient HealthTech market

**Market size – as estimated in July 2022
(EUR billion, 2021-25)**



Customer needs (*selection*)

Better health outcomes

- Better screening; first-time right diagnosis
- Support care pathways; reduce care gaps
- Minimally invasive interventions

Lower costs, better value

- Care orchestration
- Workflow automation
- Better technology utilization
- Clinical decision support

Better patient experience

- Personalized care (incl. hospital to home & telehealth)
- Growing interest from payers and governments in consumer health

Better staff experience

- Optimized workflows, reduced burn-out
- Contextual on the job training
- Eliminate and automate repetitive tasks
- Enable remote work



Over the last 10 years, Philips transformed into a focused HealthTech company with 70% leadership positions



Personal Health

Personal Health

Male Grooming #1 Oral Healthcare #2 Infant feeding #2

Diagnosis and Treatment

Imaging Systems Image Guided Therapy

Diagnostic & Pathway Informatics

Ultrasound #2 IGT Systems #1 IGT Devices #1

Radiology Informatics #1 Cardiology Informatics #1

Connected Care

Patient Monitoring & Care Management

Sleep & Respiratory Care

Hospital Patient Monitoring #1 Amb. Monitoring #1

Sleep #2 Home Respiratory #1

70%
of 2021
revenue
from
leadership
positions

#x =
Global position

Growth in six solutions areas with strong customer propositions



Diagnosis and Treatment



1
Imaging Systems



2
Diagnostics & Pathway Informatics



3
Image Guided Therapy

Connected Care



4
Patient Monitoring & Care Management



5
Sleep & Respiratory Care

Personal Health



6
Personal Health

Patient & staff centered solutions that simplify workflow and deliver more precise diagnosis and clear pathways with predictable outcomes.

Uniquely integrating best-in-class imaging with specialized devices to innovate procedures and improve lives.

Patient care solutions, advanced analytics and patient and workflow optimization across all care settings.

Therapies to support patients in their chronic care needs.

Products and services to support healthier lifestyles and disease prevention

We are working consistently on three strategic imperatives to drive growth & profitability...

Imperatives

Key elements

Delivering

 <p>Better serve customers and improve quality</p>	<ul style="list-style-type: none"> • Deliver the best customer experience, patient safety and quality • Evolve digital enterprise platform to enable new business models • Improve productivity, gain speed, standardize and simplify processes 	<ul style="list-style-type: none"> Quality and Safety More lives improved Higher customer NPS Market share expansion Revenue growth Margin growth Free cash flow generation Organic ROIC ESG leader
 <p>Boost growth in core business</p>	<ul style="list-style-type: none"> • Speed up innovation roadmaps and scale locally relevant, affordable solutions • Drive geographic growth, adopt market-share best practice • Increase customer share through consultative partnerships and new business models 	<p>Value creation</p>
 <p>Win with solutions</p>	<ul style="list-style-type: none"> • Shape integrated solutions and professional services to deliver on the Quadruple Aim • Scale informatics and cloud-enabled propositions, supported by data and AI • Build out portfolio along the health continuum, through partnering and M&A 	

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

... and doing business responsibly and sustainably

- **Carbon-neutral** in our operations since 2020
- Partnering with customers and suppliers to reduce CO₂ emissions across entire chain **in line with a 1.5 °C global warming scenario**
- **Circular revenues up from 16% to 25% of sales by 2025**
- **2 billion lives improved by our products and services by 2025**, including 300 million in underserved communities

ESG ratings & recognition

**S&P Global**
Ratings

Scored 91/100 in the ESG assessment (highest score to date) ranking

**RepTrak**

First Dutch company ranked among the world's top 15 best reputation companies in 2021 and again in 2022

**CDP**
DISCLOSURE
A LIST
2021
CLIMATE

Included in CDP's 'A List' for the 9th consecutive year

**Dow Jones**
Sustainability Indexes

#2 ranking in industry group



Our experienced and passionate executive team



CEO
Roy Jakobs
Dutch/German



Diagnosis & Treatment
Bert van Meurs
Dutch



Kees Wesdorp
Dutch



Connected Care a.i.¹
Daniel Leonard
American



Personal Health
Deeptha Khanna
Singaporean



North America
Vitor Rocha
Brazilian/American



Greater China
Andy Ho
Chinese/Canadian



International Markets²
Edwin Paalvast
Dutch



Innovation & Strategy
Shez Partovi
Canadian



Operations
Wim Appelo
Dutch



Legal
Marnix van Ginneken
Dutch/American



Human Resources
Daniela Seabrook
Swiss



Financial performance in the quarter and full-year outlook

Q3 2022 performance summary

	Sales EUR million	Comparable growth	Adj. EBITA margin	Adj. EBITDA margin
Diagnosis & Treatment	2,292	(2)%	9.1%	12.1%
Connected Care	982	(15)%	(9.5)%	(2.5)%
Personal Health	902	4%	14.1%	17.2%
Other	135			
Philips	4,310	(5)%	4.8%	10.8%

- Group sales amounted to EUR 4.3 billion, with a 5% comparable sales decline, impacted by supply challenges, the covid situation in China and the Russia-Ukraine war
- Comparable order intake decreased 6% on the back of 47% growth in Q3 2021; book-to-bill 1.18
- Income from operations amounted to a loss of EUR 1.5 billion, mainly due to previously disclosed EUR 1.5 billion non-cash goodwill and R&D impairment
- Adjusted EBITA of EUR 209 million, or 4.8% of sales, compared to EUR 512 million, or 12.3% of sales, in Q3 2021
- Operating cash flow was an outflow of EUR 180 million, mainly due to lower cash earnings, temporarily higher inventories and consumption of provisions.

Business highlights Q3 2022

Group highlights

- Signed multiple new long-term strategic partnerships across the world including a 10-year agreement with a large university hospital in Japan for the expansion of its eICU program
- Signed several agreements in China to provide advanced imaging and image-guided therapy systems to advance patient care

Diagnosis & Treatment



- Sales (2)% on the back of +10% in Q3 2021, impacted by specific electronic component shortages
- Orders +3% on the back of +16% in Q3 2021; Image-guided Therapy up high-single-digit, Diagnostic Imaging up mid-single-digit
- Expanded leading ultrasound portfolio with Ultrasound 5000 Compact system which delivers cart-based premium image quality

Connected Care



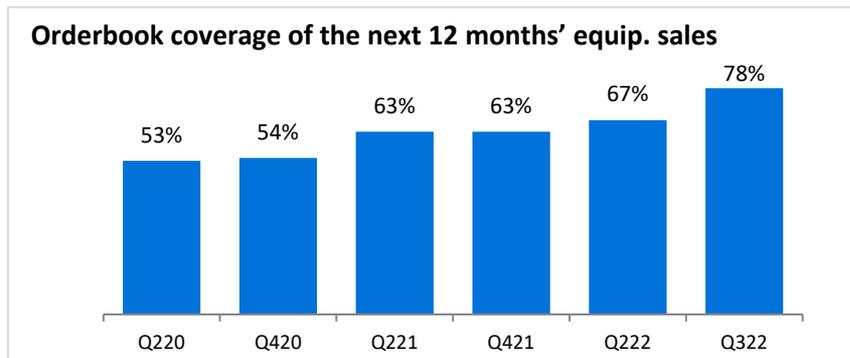
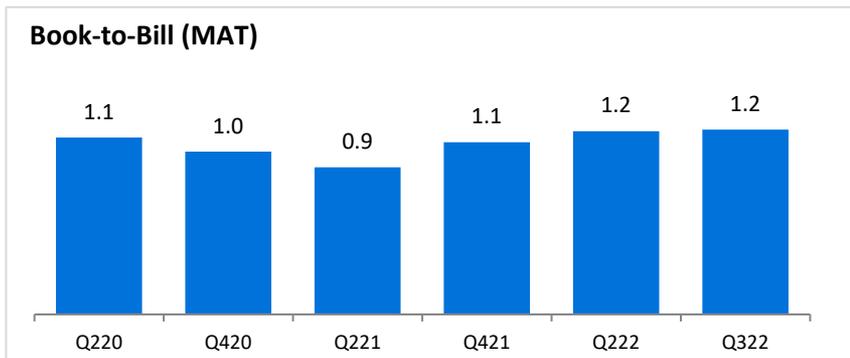
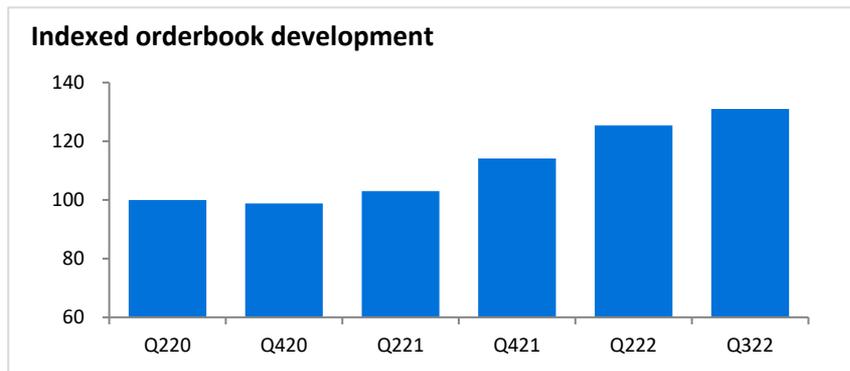
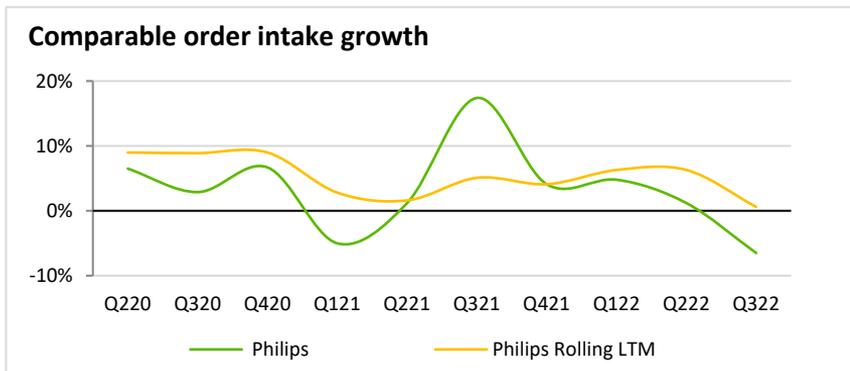
- Sales (15)%, mainly due to the Respironics recall and supply chain headwinds
- Orders (24)% on the back of >260% growth in Q3 2021
- Robust demand for Patient Monitoring and Informatics
- Philips Respironics has produced ~4 million repair kits and replacement devices to date

Personal Health



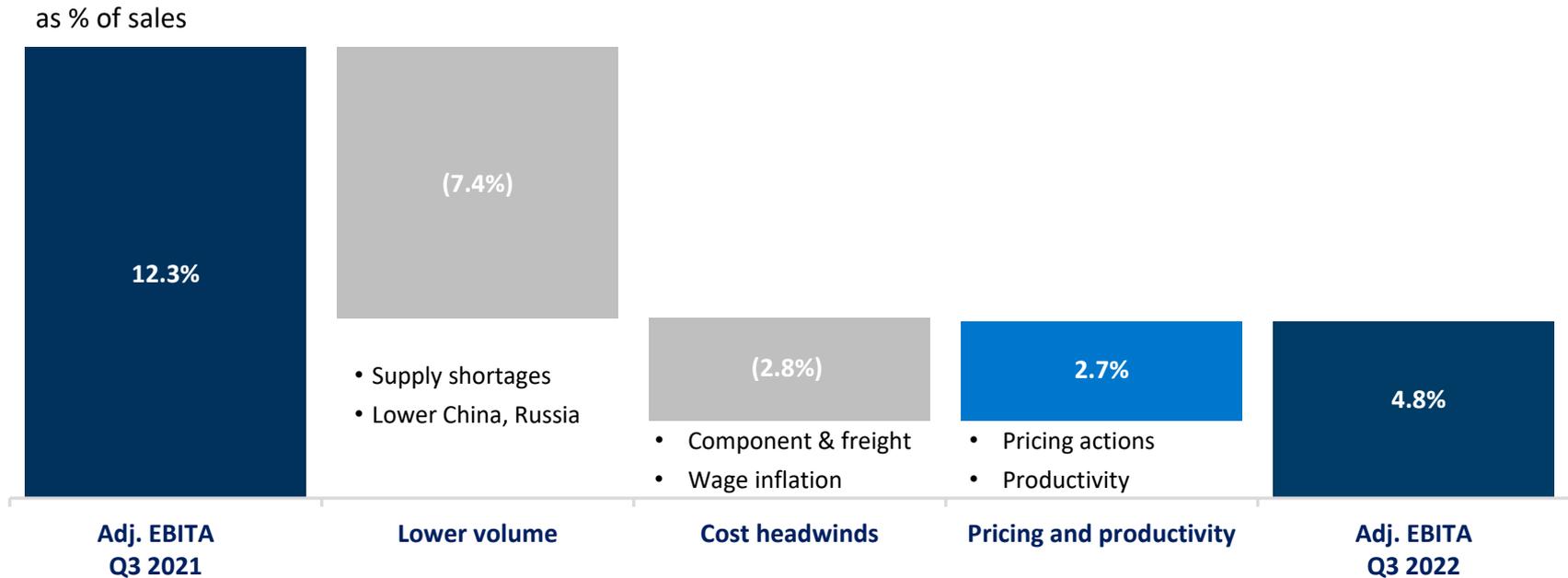
- Sales +4% with high-single-digit growth in Oral Healthcare and in Mother & Child Care
- Double-digit growth in Western Europe and high-single-digit in North America
- Launch of OneBlade 360 - new blade that adjusts to the curves of the face to enhance shaving comfort

Solid order growth and all-time high orderbook^{1,2}



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

Q3 2022 Adj. EBITA margin¹ impacted by lower volumes and cost headwinds, partly offset by pricing and productivity



Continued supply chain disruptions and worsening macro environment to impact Q4 performance

Q4 2022 outlook

Comparable sales

Mid-single-digit decline

Adj. EBITA margin

High-single-to-double-digit

- All-time-high order book; coverage of the expected equipment sales in the next 12 months continues to trend-up
- Sales impacted by prolonged operational and supply challenges, a worsening macro-economic environment and continued uncertainty related to COVID-19 measures in China
- Adj. EBITA margin impacted by lower volumes and inflation, partly offset by productivity and pricing actions



Actions to improve performance

Pricing actions to address inflation

- **Personal Health**

Mid-single digit price increase; ~4% impact over full year 2022

- **Diagnosis & Treatment and Connected Care**

Mid-single-digit price increase; due to longer orderbook cycle and annual indexation cycle for service contracts, expect ~1% impact over full year 2022

- Full impact expected in 2023

- Further measures will be taken



Stepping up productivity initiatives to EUR 0.5 billion per year to deliver EUR 2.0 billion in the 2022-2025 period

Procurement	<ul style="list-style-type: none">• Dual sourcing, low-cost locations• Supplier consolidation (75% of spend at top 15 suppliers by end of 2022)• Center of excellence for value analysis & engineering	EUR 750 – 800 million
Supply chain productivity	<ul style="list-style-type: none">• Manufacturing cost reduction through automation, yield improvement, utilization• Manufacturing footprint rationalization• 60% reduction in number of warehouses by 2025, consolidation of logistics providers• Services/Solution & Software delivery time to system up, digital tools, remote servicing	EUR 700 – 750 million
R&D productivity	<ul style="list-style-type: none">• Platforms simplification: hardware modules & software platforms re-use• Footprint simplification• Project prioritization “fewer better bigger”; R&D will trend to 9-9.5% of sales	EUR 175 – 225 million
General Productivity	<ul style="list-style-type: none">• Head count reduction across the organization, spans and layers• Real estate optimization, future of work• Expansion of GBS and Automation (e.g., single billing entity Europe)	EUR 375 – 425 million

Note: Gross productivity initiatives and re-investments, before inflation

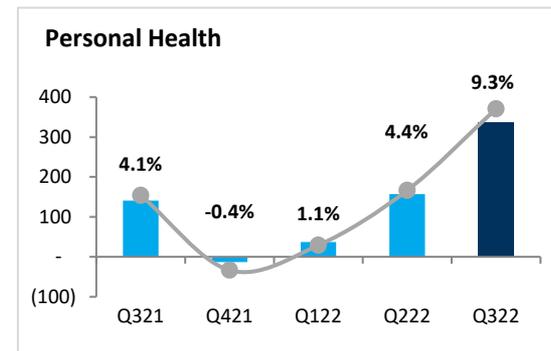
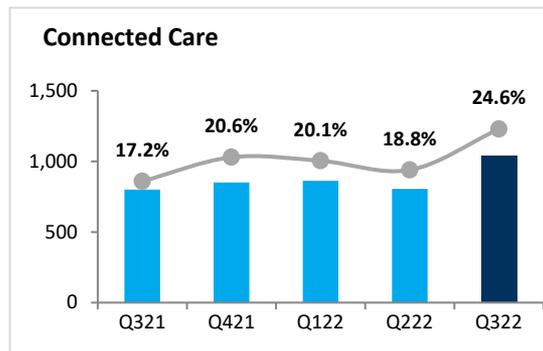
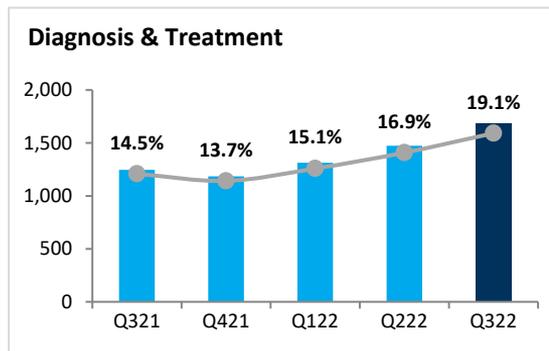
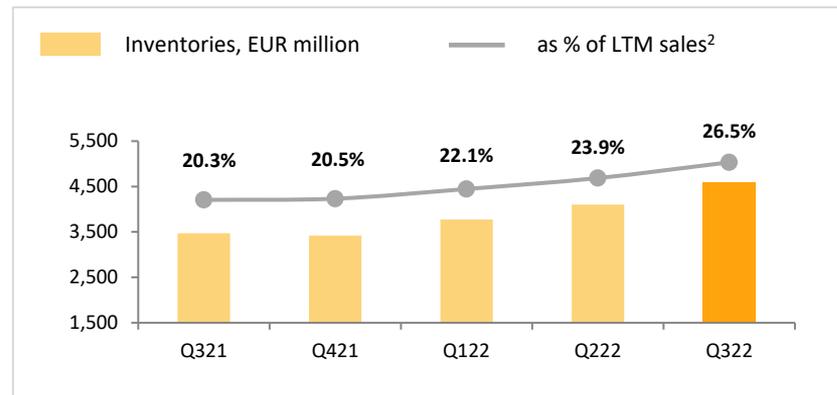
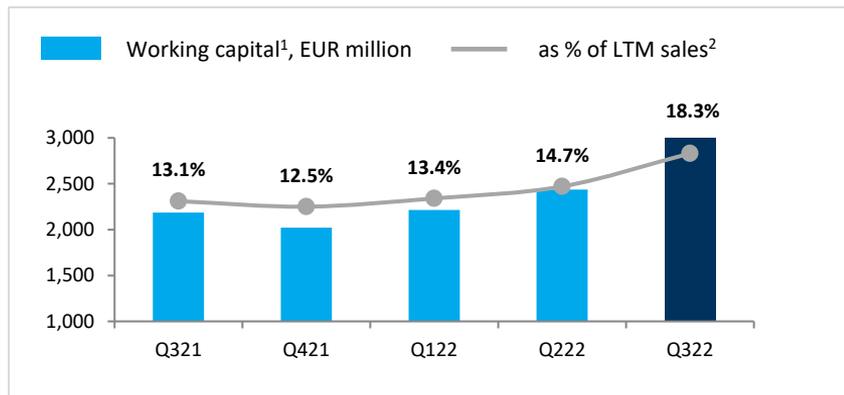
Actions to address supply chain headwinds

- Engaged with senior government officials, strategic suppliers, foundries to prioritize healthcare
- Engaged with 19 ODM¹ suppliers, working component issues across all tiers of suppliers
- Diversifying sourcing of high-risk components: close to 400 alternative components certified to-date
- Dedicated teams for re-spinning PCBs² to create alternative component options
- Low-cost location dual sourcing for Magnets, IGT/CT/DXR tubes and CT detectors
- Long term contracts with strategic suppliers including logistics
- Risk mitigation program in place covering 1,500 suppliers (70% of revenue). Actions include dual sourcing, inventory builds, mobilizing spend to preferred suppliers

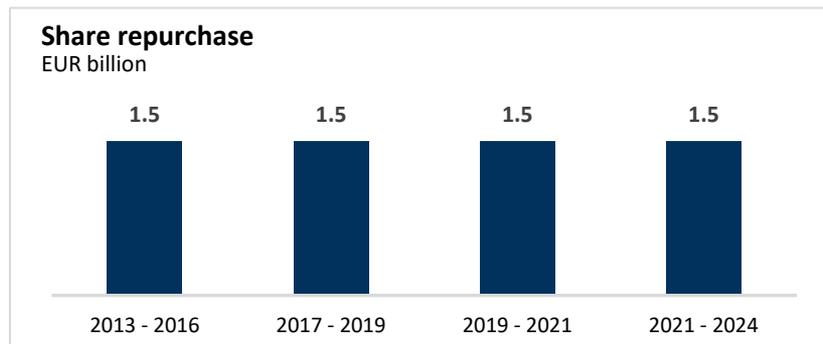
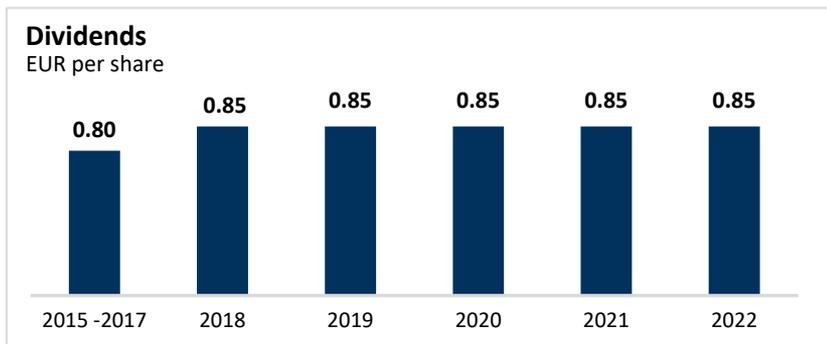
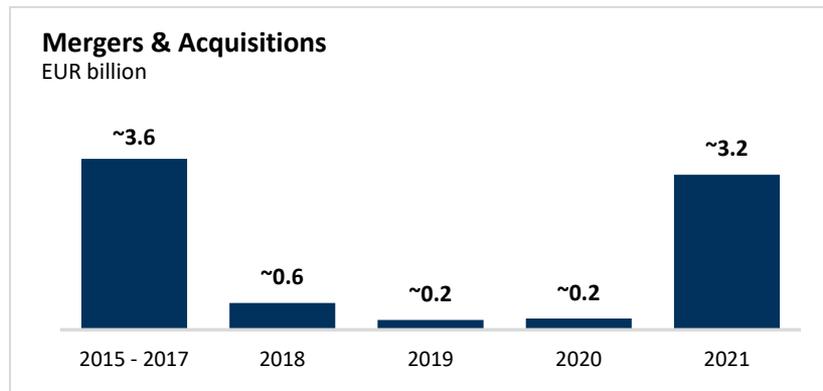
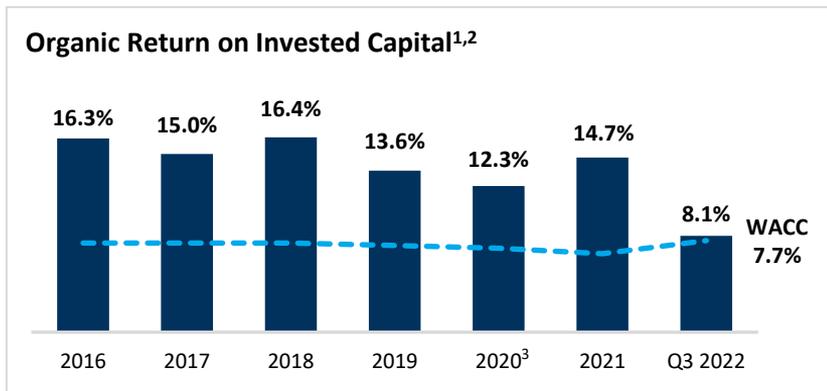


Financial appendix

Working capital and inventories



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 2019 and 2021 restated to reflect discontinued operations; 3. Organic ROIC in 2019 includes value adjustments of capitalized development costs and the impact of IFRS 16 lease accounting standard

Restructuring, acquisition-related charges, and other items

EUR million	Q1 21	Q2 21	Q3 21	Q4 21	2021	Q1 22	Q2 22	Q3 22
Diagnosis & Treatment	15	6	(12)	15	25	1	7	(124)
Restructuring & Acq.-related charges	17 ¹	(32)	(8)	15 ¹	(7)	1	7	(5)
Other items	(2)	38 ³	(4)	(0)	32	-	-	(120) ¹²
Connected Care	(282)	(293)	(62)	(420)	(1,058)	(339)	(116)	(155)
Restructuring & Acq.-related charges	(22)	(16)	(8)	(47)	(93)	(20)	(17)	(28)
Other items	(260) ^{4, 5}	(277) ^{4, 5}	(54) ^{2, 4}	(373) ^{4, 5}	(965)	(319) ^{5, 6, 10, 11}	(99) ^{5, 6, 10, 11}	(127) ^{5, 6, 11, 12, 13}
Personal Health	(1)	1	(0)	1	1	-	(1)	(3)
Restructuring & Acq.-related charges	(1)	1	-	1	1	-	(1)	-
Other items	-	-	-	-	-	-	-	(3) ¹²
Other	(33)	(73)	(12)	(13)	(131)	(12)	(14)	(20)
Restructuring & Acq.-related charges	(3)	2	2	4	5	(6)	(3)	(14)
Other items	(30) ⁷	(75) ^{7, 8, 9}	(14)	(18)	(136)	(6)	(11)	(7)
Philips	(301)	(359)	(87)	(417)	(1,163)	(350)	(124)	(302)
Restructuring costs	(19)	(21)	(10)	(29)	(80)	(31)	(23)	(28)
Acquisition related charges	11	(24)	(5)	3	(14)	6	10	(18)
Other items	(292)	(314)	(72)	(391)	(1,069)	(325)	(111)	(256)

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. Provision related to Respiroics field action; 6. Provision related to potential higher execution costs of the Respiroics field action program; 7. Includes separation costs related to Domestic Appliances business; 8. Environmental provision release/change; 9. Loss related to divestment; 10. Product portfolio realignment; 11. Running remediation costs in Respiroics; 12. Related to the discontinuation of certain R&D projects, 13. Charge related to impairment of assets

Capital expenditures, Depreciation and Amortization

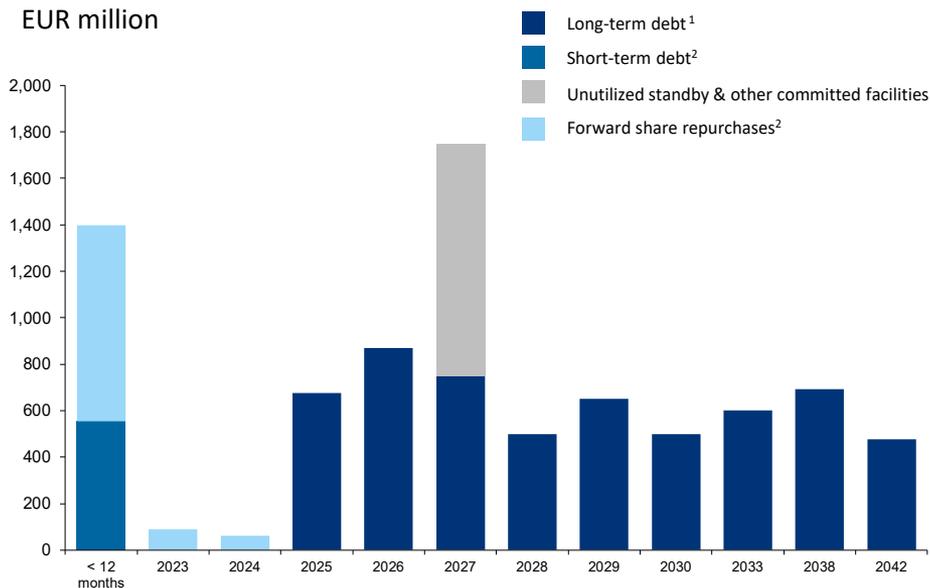
EUR million	Q3 2021	Q3 2022	FY 2020	FY 2021
Capital expenditures on property, plant and equipment	112	90	485	397
Capitalization of development costs	95	104	418	370
Depreciation	154	193	691	630
Amortization of acquired intangible assets	67	105	377	322
Amortization of software	23	27	76	88
Amortization of development costs	65	201	319	284
Depreciation and amortization¹	309	525	1,462	1,323

Philips' debt has a long maturity profile

Characteristics of long-term debt

- Total net debt position of EUR 7.5 billion
- Maturities up to 2042
- Average tenor of long-term debt is 8.1 years³
- No financial covenants
- As announced on October 24, 2022, Philips has taken the following measures
 - Secured a EUR 1 billion credit facility
 - Executing the settlement of the forward contracts – entered into as part of the share repurchase program announced on July 26, 2021 – at the original settlement dates in 2023 and 2024, instead of in 2022 as earlier [announced](#)

Debt maturity profile as per September 30, 2022



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 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.

