

**PHILIPS**

# Third quarter 2023 results

October 23, 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 \*, 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 semi-annual report 2023.

The risk factors discussed in Philips' 2022 Annual Report (section 6.3) include the strategic risk that the company's global operations are exposed to geopolitical and macroeconomic changes. The current situation in Israel further increases economic and political uncertainty and may affect the company's results of operations, financial position and cash flows. Philips is present in Israel with several subsidiaries, mainly in Diagnosis & Treatment and Connected Care, that are primarily involved in manufacturing and research and development (R&D) activities. Please refer to our 2022 Country Activity and Tax Report (p. 37) for further information on our activities in Israel.

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. Furthermore, Philips is a defendant in several class-action lawsuits and individual personal injury claims, and is in ongoing discussions with the FDA regarding a proposed consent decree. Given the uncertain nature of the relevant events, and of their potential financial and operational impact and associated obligations, if any, the company has not made any provisions in the accounts for these matters, except for the following. In the first quarter of 2023, Philips Respironics recorded a provision in connection with an anticipated resolution of the economic loss class action pending in the US. The provision is subject to final court approval of the negotiated settlement agreement and is based on Philips' best estimate for the expected settlement amounts, which is, in part, based on the expected number of claims ultimately filed pursuant the settlement once it is approved. Actual outcomes in future periods of the above matters may differ from these estimates and affect the company's results of operations, financial positions and cash flows.

## 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.

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



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# Key takeaways

- Delivered strong sales growth, profitability and cash flow; improvements across all Business Segments and regions
- Making progress on our three priorities:
  - Enhance patient safety & quality
  - Strengthen supply chain reliability
  - Establish a simplified, agile operating model
- Completing the Respironics recall remains highest priority
- Raised full year outlook; progress reinforces confidence in delivery of three-year plan





# Delivered strong sales growth, profitability and cash flow; Order book remains strong, and we are taking actions to improve OIT

## Financial performance

<i>in millions of EUR unless otherwise stated</i>	Q3 2022	Q3 2023
Sales	4,310	4,471
Comparable Sales Growth <sup>1</sup>	(5)%	11%
Comparable Order Intake <sup>1</sup>	(6)%	(9)%
Adj. EBITA <sup>2</sup>	209	457
Adj. EBITA margin <sup>2</sup>	4.8%	10.2%
Adj. EBITDA margin <sup>2</sup>	10.8%	15.5%
Income from operations	(1,529)	224
Operating Cash Flow	(180)	489

## Highlights

- Strong CSG with contribution from all business segments and geographies
- Lower OIT due to high comparison base, substantially lower China, and long lead times
- Order book will continue to support revenue growth; actions in place to improve OIT by reducing lead times and leveraging innovations
- Productivity initiatives delivered EUR 258 million savings
- Adj. EBITA driven by increased sales, pricing and productivity measures
- Strong Operating Cash flow driven by earnings and working capital

1. Comparable sales growth (CSG); comparable order intake growth (OIT)

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

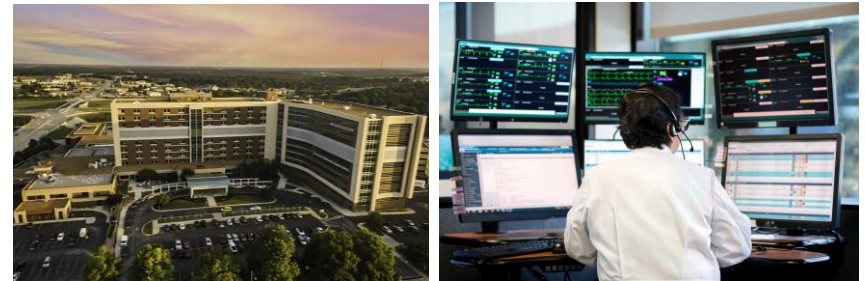
# Preferred strategic and innovation partner for customers

## Agreement with one of the largest health systems in the USA



- 10-year, EUR 100 million Enterprise Monitoring as a Service agreement covering hardware, software and services
- Flexibility to scale up based on patient demand
- Up-to-date monitoring capabilities, aligned to hospitals performance goals while lowering initial investment
- Connecting 20 hospitals with >3,000 beds

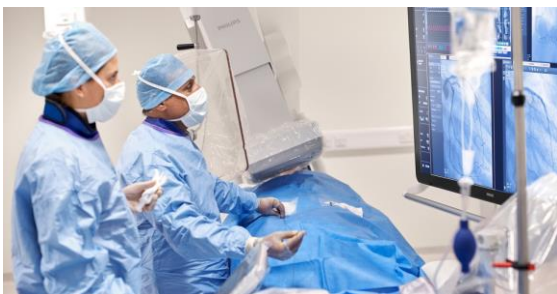
## CoxHealth (Missouri, USA)



- Co-designed first-of-its-kind virtual care solution to increase staff collaboration and bedside care
- Enterprise Informatics solution combines:
  - Enterprise telehealth software
  - Capsule Surveillance with AI and advanced algorithms to translate data into actionable insights
- Covering ~700 beds across hospitals

# Highlights by business segment in Q3 2023

## Diagnosis and Treatment +14% CSG



- Double-digit sales growth across all businesses
- OIT low double-digit below last year, due to long lead times, high comps, and lower China
- Launched new IGT Mobile C-arm System that helps alleviating staff shortages
- Partnered with Vanderbilt University Medical Center on strategy for decarbonizing radiology

## Connected Care +10% CSG



- Double-digit sales growth in Monitoring and mid-single digit growth in Enterprise Informatics
- OIT mid-single-digit lower vs Q3 2022, on the back of strong growth in Monitoring during 2020-22
- 10-year, EUR 100 million Enterprise Monitoring as a Service partnership in the USA
- Launched ambulatory monitoring in Japan

## Personal Health +7% CSG



- Sales growth driven by high-single-digit growth in Personal Care and Oral Healthcare
- Growth across all regions despite overall subdued consumer sentiment
- Sonicare DiamondClean 7900 Series debuted as the #1 high-end toothbrush on Alibaba's Tmall

# Diagnosis & Treatment

## Financial performance

<i>in millions of EUR unless otherwise stated</i>	<b>Q3 2022</b>	<b>Q3 2023</b>
Sales	2,071	2,201
Comparable Sales Growth	(3)%	14%
Adj. EBITA margin	10.4%	12.7%
Adj. EBITDA margin	13.0%	15.5%
Income from operations	125	251

## Q3 2023 highlights

- Double-digit CSG across Diagnostic Imaging, Ultrasound, and Image-Guided-Therapy.
- Double-digit CSG in Mature and Growth geographies; high-single-digit CSG in China and North America
- Adj. EBITA margin increase driven by increased sales, pricing and productivity measures





# Connected Care

## Financial performance

<i>in millions of EUR unless otherwise stated</i>	Q3 2022	Q3 2023
Sales	1,199	1,232
Comparable Sales Growth	(12)%	10%
Adj. EBITA margin	(7.5)%	3.7%
Adj. EBITDA margin	(0.8)%	8.9%
Income from operations	(1,709)	(111)

## Q3 2023 highlights

- Double-digit CSG in Monitoring and mid-single-digit in Enterprise Informatics
- Double-digit CSG in Mature geographies driven by North America; low-single-digit CSG in Growth geographies
- Adj. EBITA margin increase driven by increased sales and productivity measures
- Started to serve new sleep patients outside of the USA



# Personal Health



## Financial performance

<i>in millions of EUR unless otherwise stated</i>	Q3 2022	Q3 2023
Sales	902	898
Comparable Sales Growth	4%	7%
Adj. EBITA margin	14.1%	18.7%
Adj. EBITDA margin	17.2%	21.4%
Income from operations	120	142

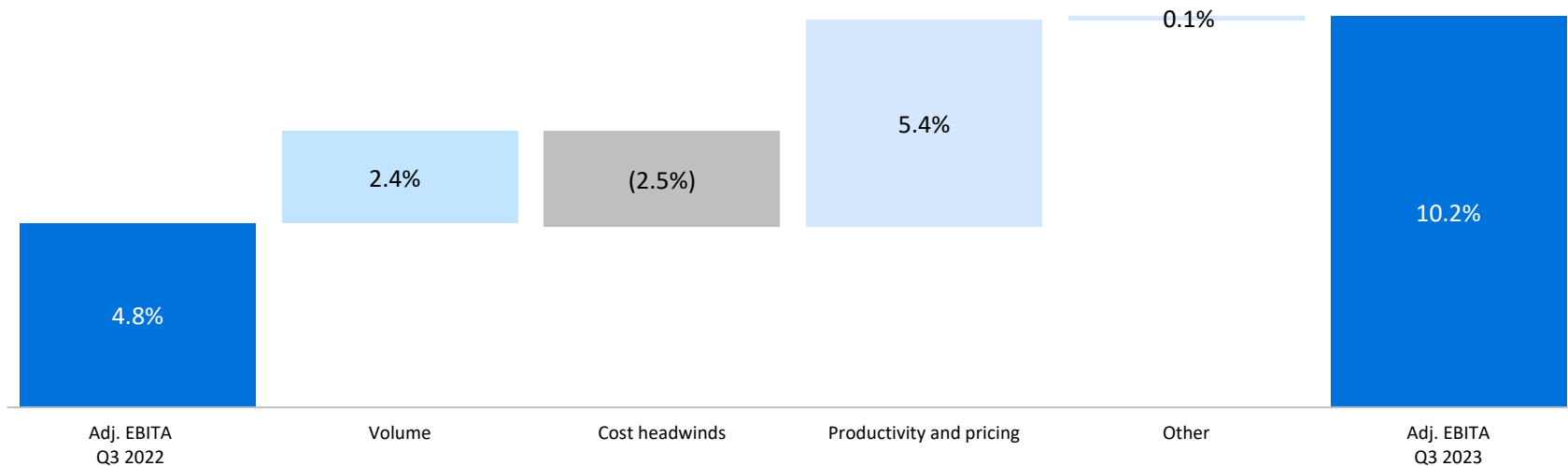
## Q3 2023 highlights

- CSG driven by high-single-digit growth in Personal Care and Oral Healthcare
- High-single-digit CSG in Growth and Mature geographies; low-single-digit growth in China
- Adj. EBITA margin increased driven by increased sales, price, and productivity measures



# Adj. EBITA margin improvement driven by increased sales, pricing and productivity measures

Group Adj. EBITA margin<sup>1</sup>





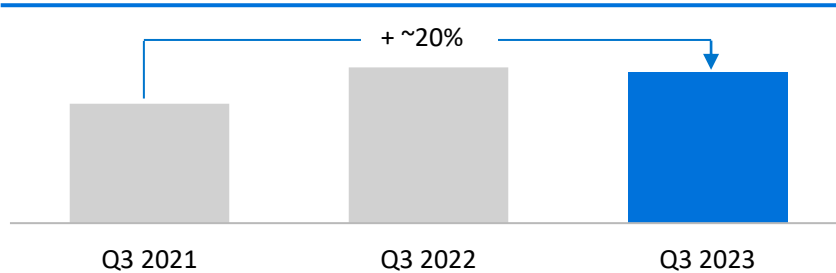
# Productivity initiatives delivered EUR 258 million in the quarter and EUR 685 million year to date

Productivity initiatives<sup>1</sup> (in millions of EUR unless otherwise stated)

		2023 -2025 target	Q3 2023 actuals
Operating Model	<ul style="list-style-type: none"> <li>Simplified organization with reduction of workforce by ~7.5k roles, out of 10k roles in total planned by 2025</li> <li>R&amp;D prioritization, reduction of Corporate Research</li> <li>End-to-end supply chain, simplifying planning, eliminating duplications</li> </ul>	950-1,050	142
Procurement	<ul style="list-style-type: none"> <li>Bill-of-material savings via redesign, value analysis, engineering</li> <li>Reductions in warehousing, transportation and consulting</li> </ul>	550 - 600	59
Other productivity	<ul style="list-style-type: none"> <li>S&amp;RC rightsizing</li> <li>Manufacturing footprint optimization and service productivity</li> <li>R&amp;D platform simplification and footprint optimization</li> <li>GBS and hyper-automation</li> </ul>	400 - 450	57
		EUR 2.0 billion	EUR 258 million

# Order book remains strong and will continue to support growth; Accounts for 40% of Group sales

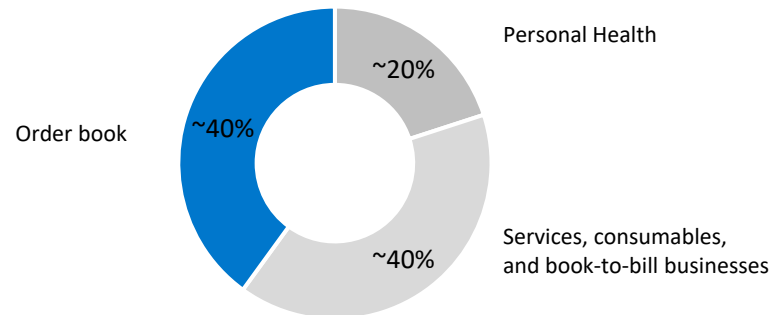
## Indexed order book<sup>1,2</sup> development



- Order book ~20% higher than Q3 2021, when global supply chain crisis started, despite very strong order-to-sales conversion in the last twelve months

## Sales split

as a % of Group sales

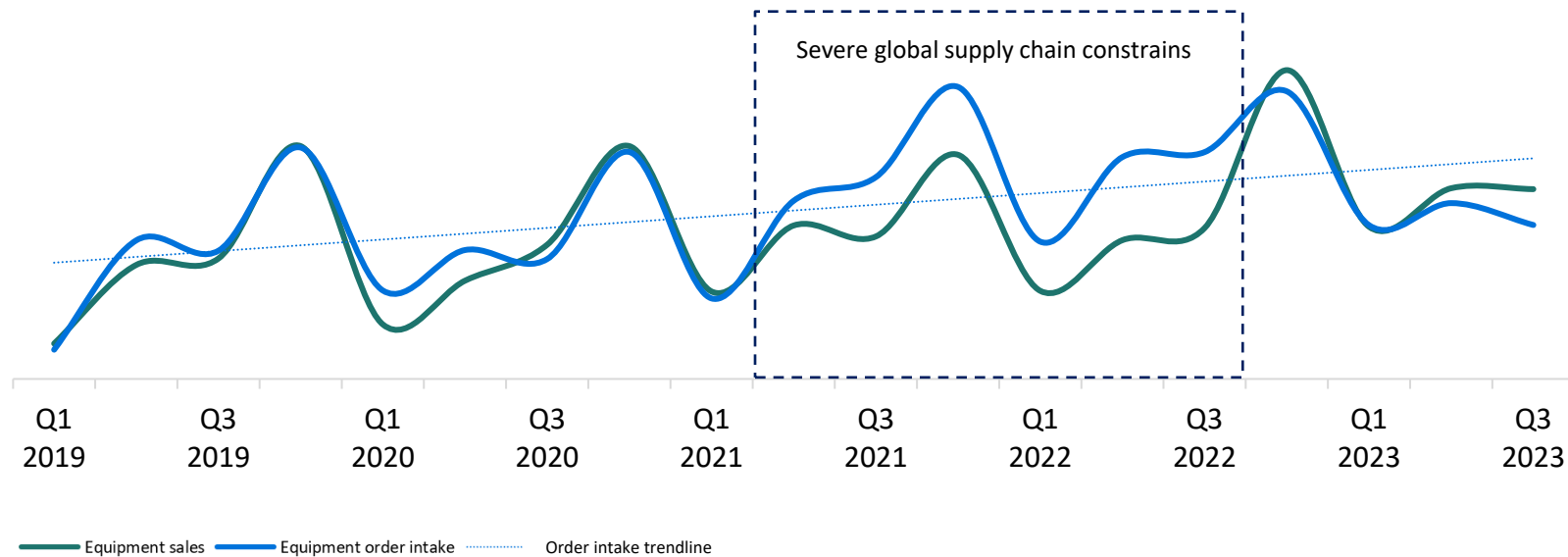


- Order book accounts for ~40% of Group sales
- Attractive recurring revenue streams from software, services and devices/consumables

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

Absolute levels of order intake remain healthy

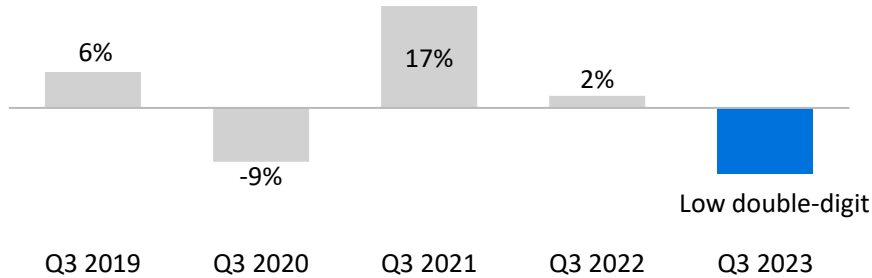
Order intake to sales ratio



# Actions to improve order intake by shortening lead times from order to delivery, and leveraging our innovations

## Diagnosis & Treatment

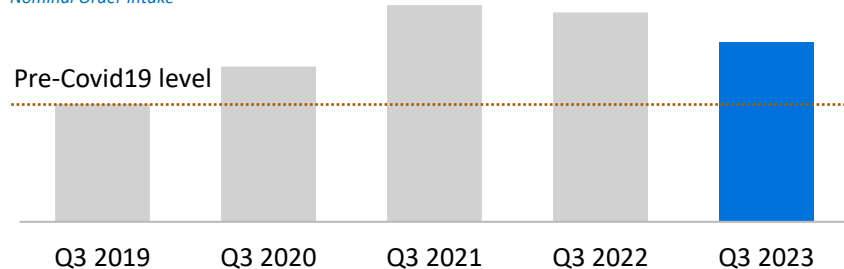
Comparable Order Intake growth



- OIT low double-digit below last year, due to long order lead times, high comps, and substantially lower orders in China
- Growth in 8 out of 11 last quarters supports order book

## Connected Care excluding Sleep & Respiratory Care<sup>1</sup>

Nominal Order Intake



- Orders mid-single-digit lower vs last year due to strong growth in Monitoring during 2020 – 2022
- Orders continue to run at levels double-digit higher than pre-covid driven by adoption of our solutions

# Further raising the outlook for 2023, although recognizing that uncertainties remain

Provided on January 30, 2023

Revised on October 23, 2023

Comparable Sales Growth	<p><b>Low-single-digit</b></p> <ul style="list-style-type: none"> <li>• Diagnosis &amp; Treatment: Mid-single-digit</li> <li>• Connected Care: Mid-single-digit</li> <li>• Personal Health: Low-single-digit</li> </ul>	<p><b>6 – 7%</b></p> <ul style="list-style-type: none"> <li>• High-single-digit to double-digit</li> <li>• Low-single-digit to mid-single-digit</li> <li>• Low-single-digit</li> </ul>
Adjusted EBITA margin	<p><b>High-single-digit</b></p>	<p><b>10 – 11%</b></p>
Free Cash Flow	<p><b>EUR 0.7-0.9 billion</b></p>	<p><b>Upper end of EUR 0.7-0.9 billion range</b></p>
Segment Other	<p>Adjusted EBITA loss of EUR 70 million and EBITA loss EUR 200 million</p>	





# Resolving the recall for patients remains our highest priority

## 2023

## YTD 2023

## 2023-2025

Finalize recall of sleep therapy devices

Remediation of >99% of sleep therapy devices complete<sup>2</sup>; ventilators ongoing

Finalize recall and testing

Agree details of further testing with FDA<sup>1</sup>

FDA feedback received on testing and analysis for sleep therapy devices<sup>1</sup>

Manage litigation, DoJ investigation

Reached agreement to resolve economic loss class action in the US

Manage litigation, DoJ investigation

483 remediation and clarity on proposed Consent Decree

483 remediation in progress

Manage impact of proposed Consent Decree

Started serving new patients with sleep therapy devices outside the US

Gradually restore position

1. Following ongoing communications with the FDA, Philips Respironics has agreed to implement additional testing to supplement current test data on PE-PUR foam. The FDA stated that current testing is extensive and conducted with independent parties and expressed no concerns with its validity or objectivity. Philips Respironics is in discussions with the FDA on the details of further testing | 2. Over 99% of the sleep therapy device registrations that are complete and actionable have been remediated

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

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Culture, accountability, Competencies

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Patient safety and quality at heart of innovation

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Expanded patient safety and quality program

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Finalize Respironics recall

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## Reliable end-to-end supply chain

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End-to-end value chain by business

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Leadership and competencies

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Product pruning and (re)design

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Strategic supplier management

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## Simplified operating model

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End-to-end, P&L-accountable business

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Simplification, de-layering, less KPIs

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Reduction of 10k roles

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Leadership and talent

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# Patient safety and quality as highest priority

## Examples of our progress in Q3 2023

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Patient safety  
and quality as  
highest priority

Kicked-off company-wide Timeout for Patient Safety and Quality, as part of strengthening our culture

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Launch of one of the largest EMC<sup>1</sup> labs in Europe specialized in testing health technology

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

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On track to deliver a total of 45% reduction in # of Quality Management Systems by year-end

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# Towards a reliable end-to-end supply chain

Examples of our progress in Q3 2023

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Reliable end-to-end  
supply chain

**~70%** of planned PCBAs redesigns completed

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**1,800+** reduced risk for high-risk components vs 700+ year-end 2022

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On track to zero high risk components by end of 2023

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**~17%** increase in service level vs year-end 2022 driven by logistics improvement program

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Continue to deliver improvement in order-to-delivery lead-times

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# Simplified, more agile operating model

Examples of our progress in Q3 2023

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Simplified  
operating model

Completed re-alignment of workforce, roles and reporting lines under new operating model

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Reduced workforce by ~7.5K roles, out of 10k roles in total planned by 2025

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Continue to inject healthtech talent across businesses, regions, and functions

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# Key takeaways

- Delivered strong sales growth, profitability and cash flow; improvements across all Business Segments and regions
- Making progress on our three priorities:
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  - Establish a simplified, agile operating model
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- Raised full year outlook; progress reinforces confidence in delivery of three-year plan



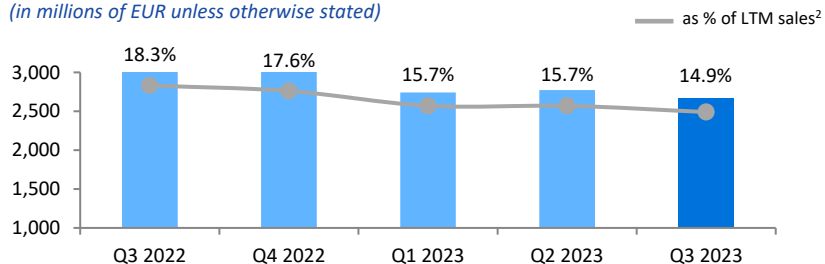


# Financial appendix

# Working capital and inventories

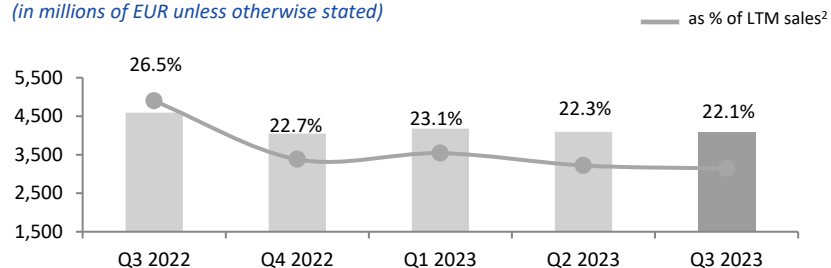
## Group working capital<sup>1</sup>

(in millions of EUR unless otherwise stated)

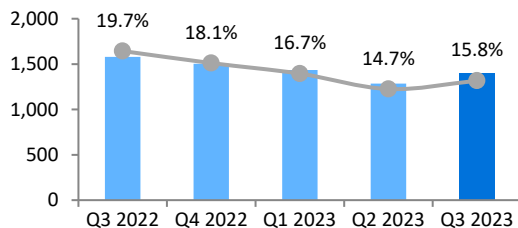


## Group inventories

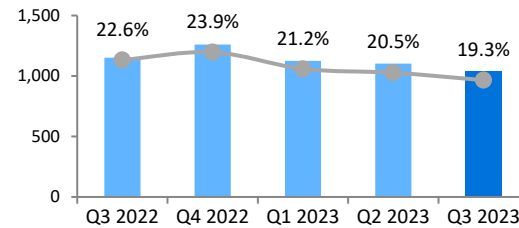
(in millions of EUR unless otherwise stated)



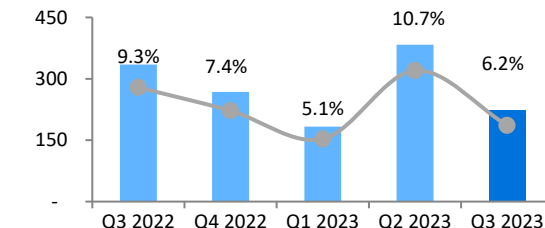
## Diagnosis & Treatment



## Connected Care



## Personal Health



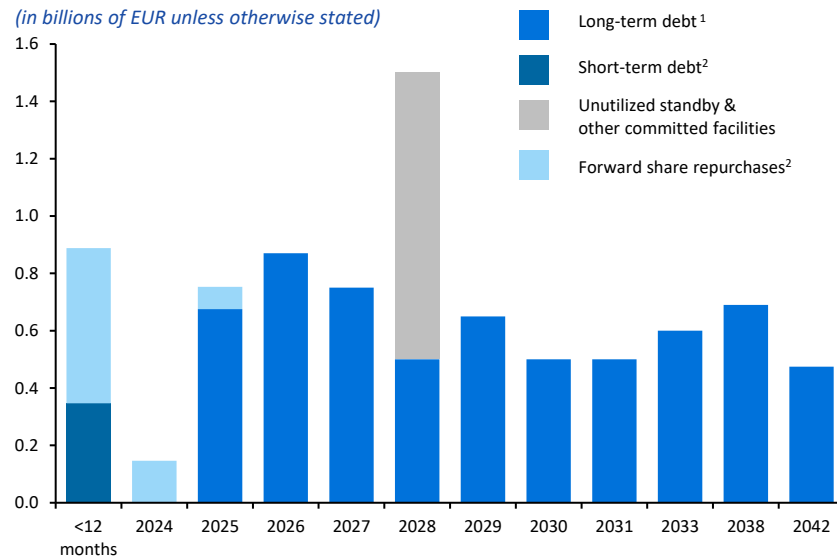


# Debt maturity profile and liability management

## Long term debt profile and liability management

- Total net debt position decreased to EUR 7.0 billion; no financial covenants
- Further strengthened debt maturity profile through [issuance](#) of EUR 500 million fixed rate notes due 2031
  - Debt-neutral effect
  - Extended average debt<sup>3</sup> tenor from 6.5 to 7.1 years
  - reduced debt maturities in 2024-25
- EUR 1 billion of available committed credit facilities
- Floating rate debt is less than 5% of total gross debt

## Debt maturity profile as per 30 September 2023



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

# Capital expenditures, Depreciation and Amortization

Capital expenditures on property, plant and equipment and capitalization of development costs in millions of EUR

	Q3	
	2022	2023
Capital expenditures on property, plant and equipment	90	79
Capitalization of development costs	104	73

Depreciation and amortization in millions of EUR

	Q3	
	2022	2023
<b>Depreciation</b>	<b>193</b>	<b>180</b>
Amortization of acquired intangible assets	105	71
Amortization of software	27	24
Amortization of development costs	201	44
<b>Amortization</b>	<b>332</b>	<b>138</b>
<b>Depreciation and amortization</b>	<b>525</b>	<b>319</b>

# Restructuring, acquisition-related charges and other items

## Restructuring, acquisition-related charges and other items in millions of EUR

	Q1 2022	Q2 2022	Q3 2022	Q4 2022	FY 2022	Q1 2023	Q2 2023	Q3 2023
<b>Restructuring &amp; acquisition-related charges</b>								
Diagnosis & Treatment	(4)	(9)	(2)	18	3	65	30	8
Connected Care	22	18	35	49	125	49	10	20
Personal Health	-	1	-	10	11	5	2	-
Other	6	3	14	39	62	105	24	15
<b>Philips</b>	<b>25</b>	<b>14</b>	<b>47</b>	<b>117</b>	<b>202</b>	<b>224</b>	<b>66</b>	<b>42</b>
<b>Other items</b>								
Diagnosis & Treatment		-	72 <sup>1)</sup>	60 <sup>2)</sup>	133	1	10	-
Connected Care	319 <sup>3)</sup> 4)5)	99 <sup>3)</sup> 4)5)	174 <sup>1)</sup> 3)4)6)	158 <sup>3)</sup>	750	644 <sup>3)</sup> 7)	85 <sup>3)</sup> 4)	92 <sup>3)</sup> 4)
Personal Health			3	(6)	(4)	(1)		23 <sup>8)</sup>
Other	6	11	7	22	46	-	-	5
<b>Philips</b>	<b>325</b>	<b>111</b>	<b>256</b>	<b>233</b>	<b>925</b>	<b>644</b>	<b>95</b>	<b>120</b>
<b>Restructuring, acquisition-related charges &amp; other items</b>								
Restructuring	31	23	28	103	185	199	46	16
Acquisition-related charges	(6)	(10)	18	14	17	25	20	26
Other items	325	111	256	233	925	644	95	120
<b>Philips</b>	<b>350</b>	<b>124</b>	<b>303</b>	<b>350</b>	<b>1,126</b>	<b>868</b>	<b>161</b>	<b>162</b>

1. Related to the discontinuation of certain R&D projects | 2. Provision for a legal matter | 3. Provision related to Respicronics field action; Running remediation costs in Respicronics | 4. Quality action-related charges |

5. Product portfolio realignment | 6. Charge related to impairment of assets | 7. Provision in connection with an anticipated resolution of the economic loss class action in the US related to the Respicronics recall |

8. Investment re-measurement loss

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

