



**PHILIPS**

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Royal Philips  
Fourth quarter and full year 2019 results

January 28, 2020

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; 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 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 2018.

## *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 2018.

## *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 2018. 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 2018, except for IFRS 16 lease accounting, which is implemented per January 1, 2019. As announced on January 10, 2019, Philips has realigned the composition of its reporting segments effective as of January 1, 2019. The most notable changes are the shifts of the Sleep & Respiratory Care business from the Personal Health segment to the renamed Connected Care segment and most of the Healthcare Informatics business from the renamed Connected Care segment to the Diagnosis & Treatment segment. Accordingly, the comparative figures have been restated. The restatement has been published on the Philips Investor Relations website and can be accessed [here](#).

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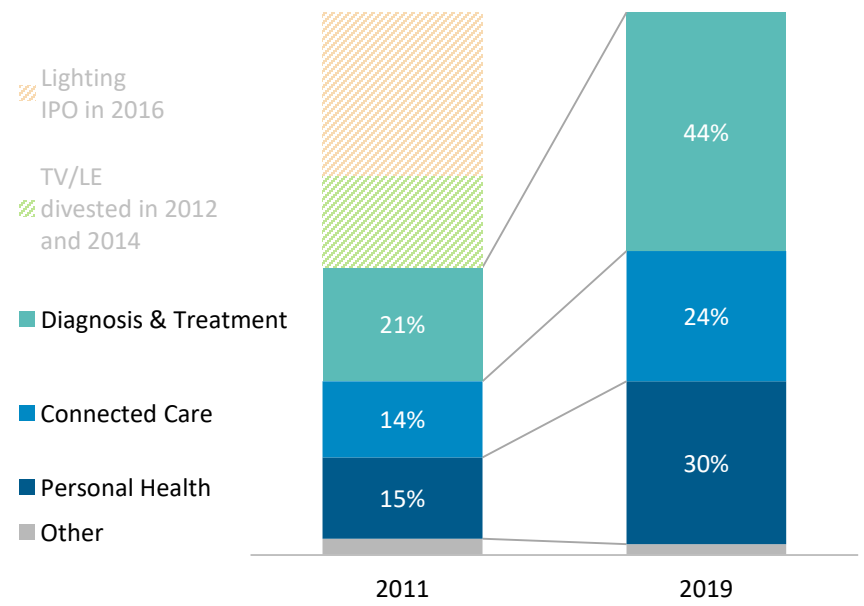
At Philips, we strive to make the world healthier  
and more sustainable through innovation.



# We have transformed into a focused global HealthTech leader

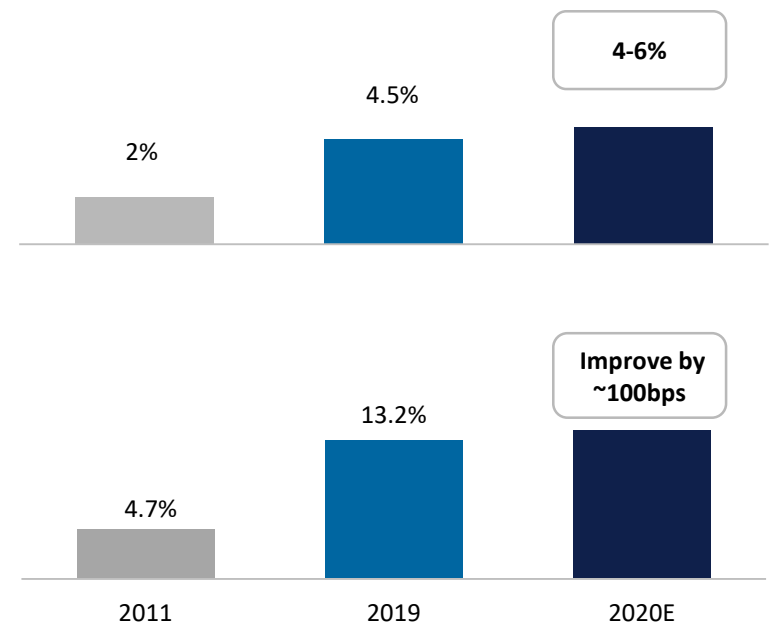
## Transforming the company...

100% of sales split



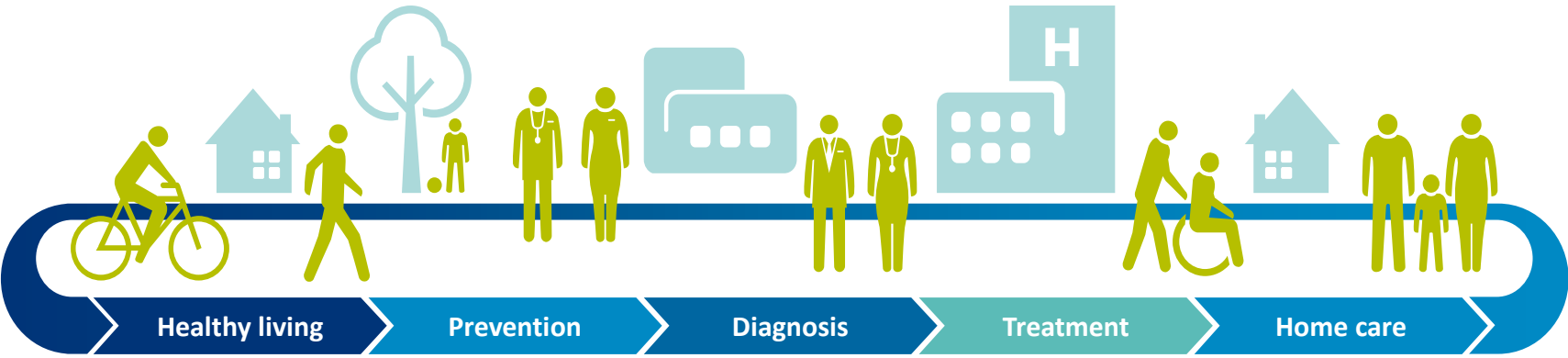
## ...while creating value

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



**Improved health outcomes**



**Improved patient experience**



**Improved staff satisfaction**



**Lower cost of care**

# We operate in growing, evolving markets

## The demand for healthcare is growing

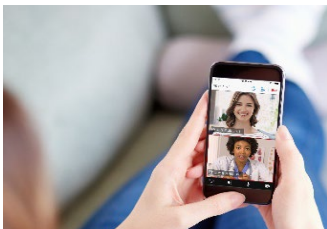
Growing population

Aging population

Rising burden of chronic diseases

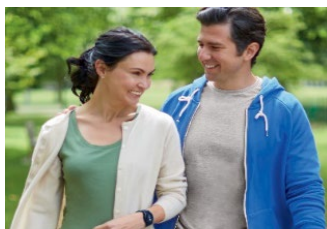
Increasing spend in developing markets

## 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



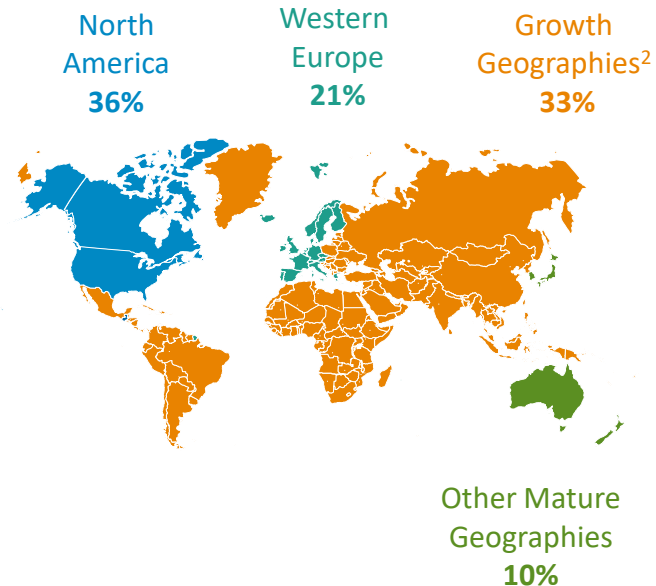
### Post Acute Care

Shifting to lower-cost settings and the home

# Royal Philips

EUR 19.5 billion sales and Adjusted EBITA of 13.2% <sup>1</sup>

## Global footprint

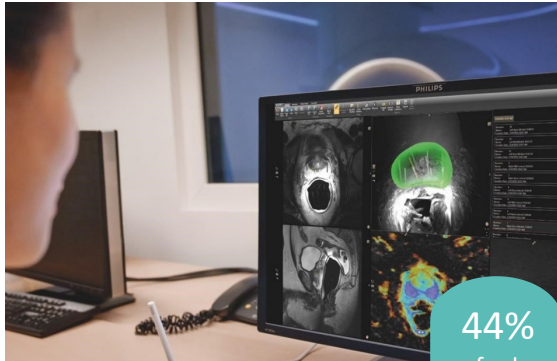


## Committed to innovation

- 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
- ~35% of sales from solutions, growing double-digit
- ~80,000 employees in over 100 countries



# Operating across the health continuum



44%  
of sales

## Diagnosis & Treatment

Focuses on solutions for precision diagnosis, disease pathway selection, and image-guided, minimally invasive treatments



24%  
of sales

## Connected Care

Focuses on patient care solutions, advanced analytics and patient and workflow optimization inside and outside the hospital



30%  
of sales

## Personal Health

Focuses on healthy living and preventative care

Performance trajectory 2019-2020

5-7% sales growth  
14-16% margin

4-6% sales growth  
13-15% margin

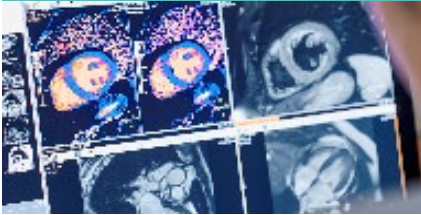
4-6% sales growth  
16-18% margin

# Businesses aligned with customer needs

## Diagnosis & Treatment

### Focus areas

### Products & solutions



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

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

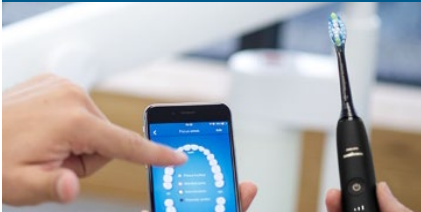
## Connected Care



- **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
- Services (managed services, consultancy, etc.)







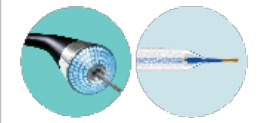







## Personal Health



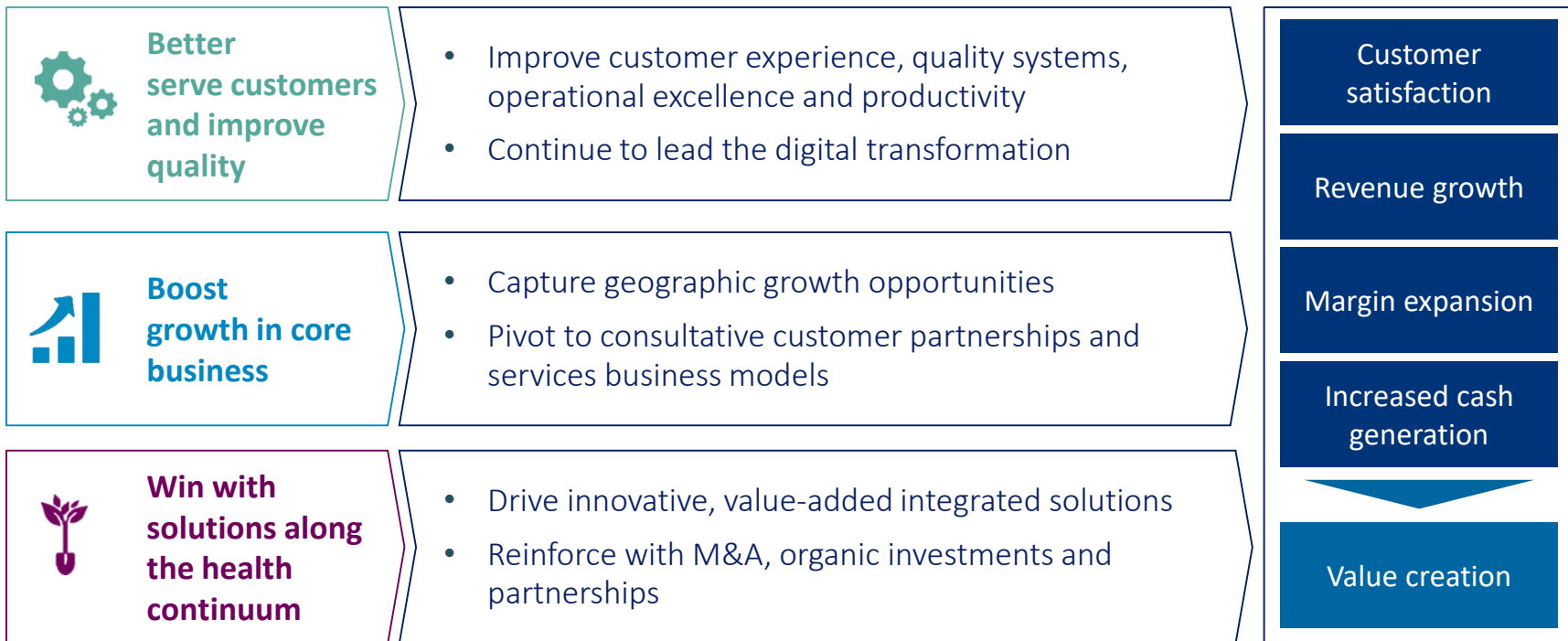
- **Healthy living and prevention**
- **Personal care**
- **Digital consumer engagement**

- Oral care
- Mother and child care
- Male grooming and beauty
- Domestic appliances<sup>1</sup>
- Services (re-ordering, support, coaching, etc.)

# Over 60% of sales from leadership positions<sup>1, 2</sup>

Diagnosis & Treatment CSG: 5%   Adj. EBITA: 12.7%		Connected Care CSG: 3%   Adj. EBITA: 13.2%		Personal Health CSG: 5%   Adj. EBITA: 16.1%	
	<b>Ultrasound</b> <i>Global Leader</i>		<b>Patient Monitoring</b> <i>Global Leader</i>		<b>Male Grooming</b> <i>Global Leader</i>
	<b>Image-Guided Therapy Systems</b> <i>Global Leader</i>		<b>ICU Telemedicine</b> <i>#1 in North America</i>		<b>Oral Care</b> <i>Global Leader</i>
	<b>Image-Guided Therapy Devices</b> <i>Global Leader</i>		<b>Personal Emergency Response</b> <i>#1 in North America</i>		<b>Mother &amp; Child Care</b> <i>Global Leader</i>
	<b>Diagnostic Imaging</b> <i>Global Top 3</i>		<b>Respiratory Care</b> <i>Global Leader<sup>3</sup></i>		<b>Garment Care</b> <i>Global Leader</i>
	<b>High-end Radiology and Cardiology Informatics</b> <i>#1 in North America</i>		<b>Sleep Care</b> <i>Global Leader</i>		

# Drivers for continued growth and improved profitability

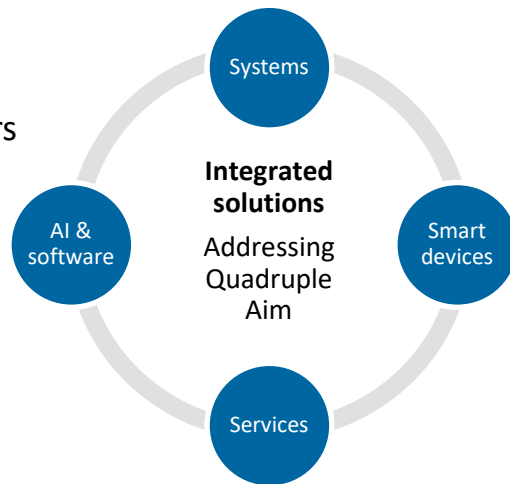


# Drive innovative, value-added integrated solutions

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. 35% of revenues<sup>1</sup>, growing double-digit



# Extracting actionable insights from streaming vital signs data and medical records for better patient outcomes

## Philips eICU program

Empowering acute care teams by linking remote patient monitoring technology with evidence-based care transformation



### Health outcomes

**26%** Reduction in mortality<sup>1</sup>



### Cost of care

**USD 5,000**

Saved per ICU patient<sup>2</sup>



### Staff satisfaction

**15%** Discharged to home faster<sup>3</sup>



### Patient experience

**30%** Reduction in length of stay<sup>3</sup>

1 in 8 adult ICU patients in the US are monitored by eICU 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



# Our sustainability programs address pressing societal issues

Focus on United Nations Sustainable Development Goals, in particular #3, #12 and #13<sup>1</sup>



## Climate change

Carbon-neutral in our operations, 100% renewable electricity (2020)



## Circular economy

15% circular revenues, zero waste to landfill (2020)  
100% closed loops for all medical systems (2025)



## Access to care

3 billion lives improved per year by 2030, including 400 million in underserved healthcare communities








## The Compact

Committed to the WEF Compact for Responsive and Responsible Leadership



# An experienced leadership team

CEO / CFO	Business Leaders	Market Leaders	Function Leaders
 <p><i>CEO</i> <b>Frans van Houten</b></p> 	 <p><i>Diagnosis &amp; Treatment</i> <b>Robert Cascella</b></p>   <p><b>Bert van Meurs</b></p> 	 <p><i>International Markets<sup>1</sup></i> <b>Henk de Jong</b></p>   <p><i>North America</i> <b>Vitor Rocha</b></p>  	 <p><i>Innovation &amp; Strategy</i> <b>Jeroen Tas</b></p>   <p><i>Operations</i> <b>Sophie Bechu</b></p>  
 <p><i>CFO</i> <b>Abhijit Bhattacharya</b></p> 	 <p><i>Connected Care</i> <b>Roy Jakobs</b></p>   <p><i>Personal Health</i> <b>Frans van Houten</b> <i>(ad interim)</i></p> 	 <p><i>Greater China</i> <b>Andy Ho</b></p> 	 <p><i>Legal</i> <b>Marnix van Ginneken</b></p>    <p><i>Human Resources</i> <b>Daniela Seabrook</b></p> 



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# Continued focus on value creation

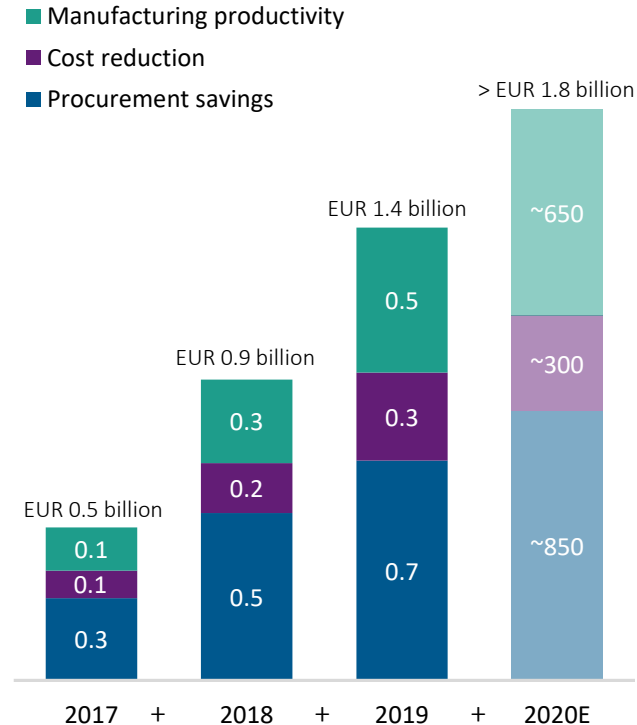
2017-2020 targets

<p><b>Revenue growth</b> Comparable sales growth</p> <p><b>4-6% annually</b></p>	<p><b>Margin expansion</b> Adj. EBITA improvement</p> <p><b>average annual 100 bps improvement</b></p>	<p><b>Cash generation</b> Free Cash Flow in 2020</p> <p><b>above EUR 1.5 billion</b></p>	<p><b>ROIC</b> Organic ROIC in 2020</p> <p><b>mid-to-high-teens</b></p>
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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 locations<sup>1</sup>; 18 locations completed by 2019

### 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

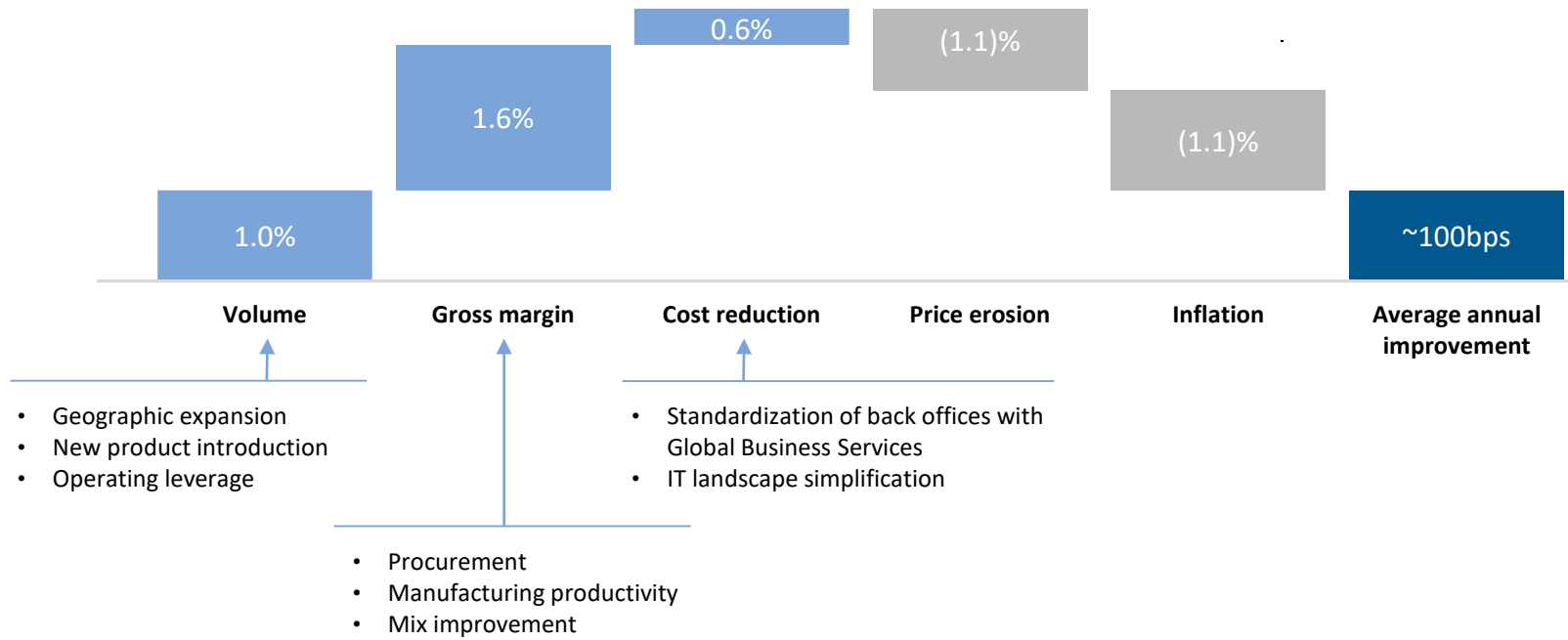
### Procurement

- 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

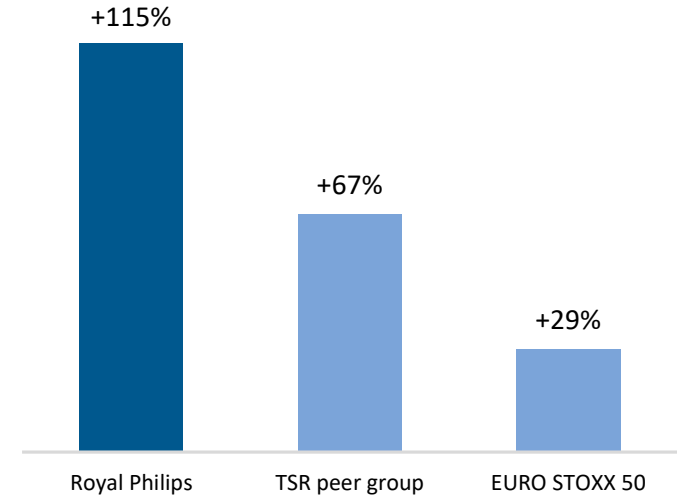
# Indicative annual Adjusted EBITA margin step-up bridge



# Balanced capital allocation policy



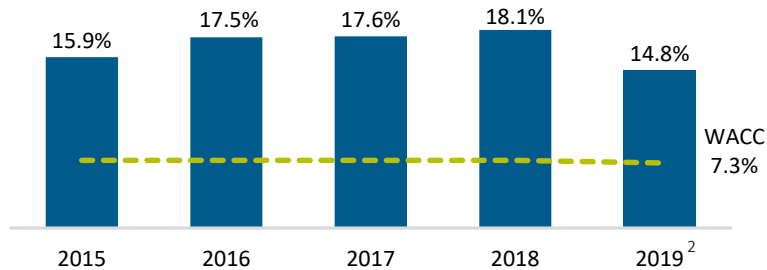
## Total shareholder return since 2016<sup>1,2</sup>



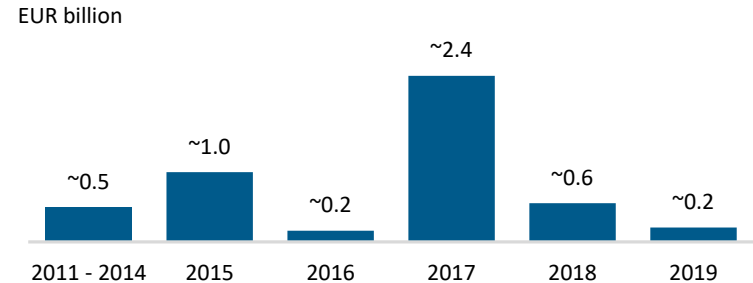


# Balanced capital allocation policy

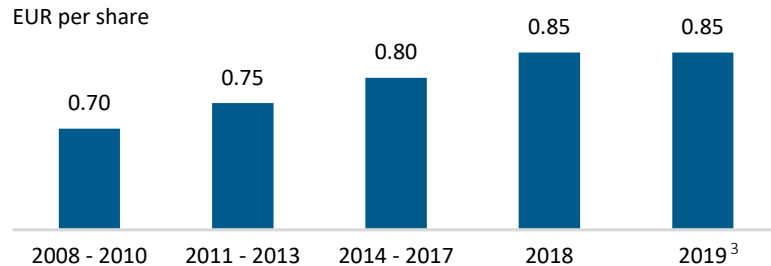
## Organic Return on Invested Capital<sup>1</sup>



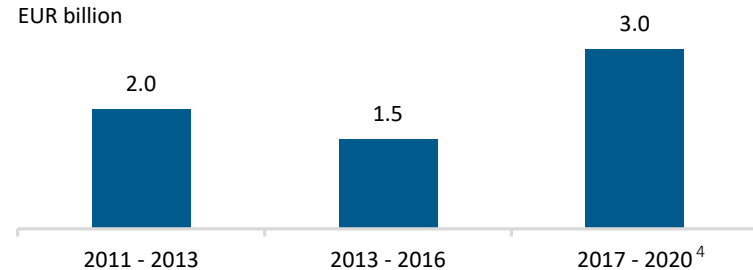
## Mergers & Acquisitions



## Dividends



## Share repurchase



<sup>1</sup> Organic ROIC excludes acquisitions over a five years period, pension settlements in Q4 2015 and significant one-time tax charges and benefits; ROIC % = LTM EBIAT/ average NOC over the last 5 quarters; <sup>2</sup> Organic ROIC in 2019 includes value adjustments of capitalized development costs and the impact of IFRS 16 lease accounting standard; <sup>3</sup> Elective dividend, proposal subject to approval in the General Shareholders Meeting on April 30, 2020; <sup>4</sup> Consisting of two programs: EUR 1.5 billion for the period 2017-2019 that was completed in June 2019, and EUR 1.5 billion for the period 2019-2020.



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# Q4 2019 financial performance highlights

	Sales EUR million	Comparable sales growth	Adj. EBITA margin	Adj. EBITDA margin
Diagnosis & Treatment	2,582	+5%	16.3%	19.2%
Connected Care	1,354	+2%	19.4%	23.0%
Personal Health	1,850	+4%	20.1%	23.0%
Other	172			
<b>Philips</b>	<b>5,958</b>	<b>+3%</b>	<b>17.9%</b>	<b>22.4%</b>

- Comparable sales up 3% compared to Q4 2018, business segments comparable sales up 4%
- Comparable order intake up 3% compared to Q4 2018
- Adj. EBITA margin improved 50 basis points to 17.9% of sales, compared to 17.4% of sales in Q4 2018. Business segments Adj. EBITA margin improved 120 basis points
- Free cash inflow of EUR 959 million, compared to an inflow of EUR 1,019 million in Q4 2018
- Adjusted diluted EPS of EUR 0.83 per share, compared to EUR 0.76 in Q4 2018

# Full year 2019 financial performance highlights

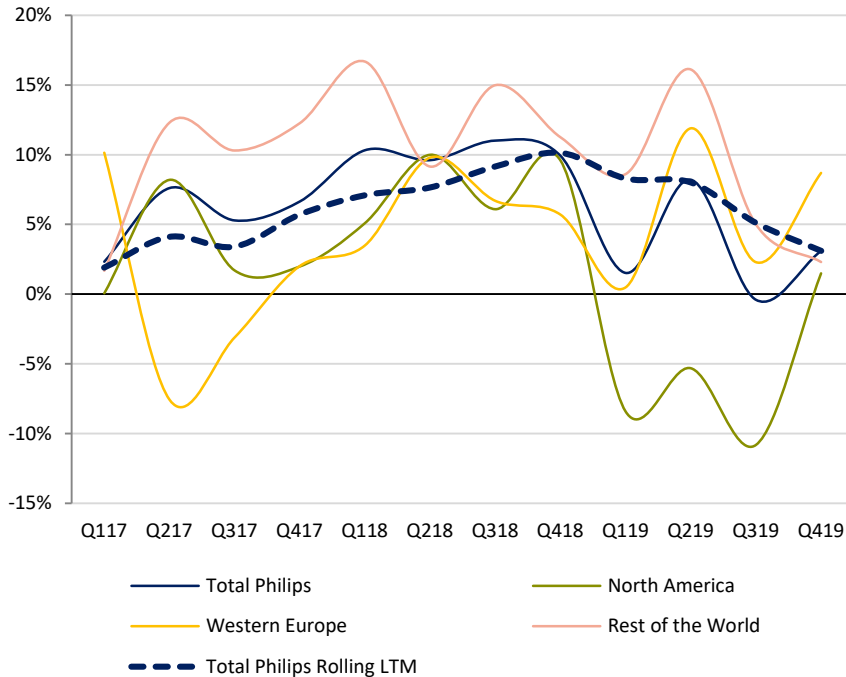
	Sales EUR million	Comparable sales growth	Adj. EBITA margin	Adj. EBITDA margin
Diagnosis & Treatment	8,485	+5%	12.7%	16.0%
Connected Care	4,674	+3%	13.2%	17.2%
Personal Health	5,854	+5%	16.1%	18.9%
Other	469			
<b>Philips</b>	<b>19,482</b>	<b>+4.5%</b>	<b>13.2%</b>	<b>18.0%</b>

- Sales increased to EUR 19.5 billion, with 4.5% comparable sales growth
- Comparable order intake increased 3%
- Adjusted EBITA margin increased to 13.2% of sales, compared to 13.1% of sales in 2018
- Free cash flow increased to EUR 1,053 million, compared to EUR 984 million in 2018
- Adjusted EPS from continuing operations (diluted) increased 15% compared to 2018 to EUR 2.02

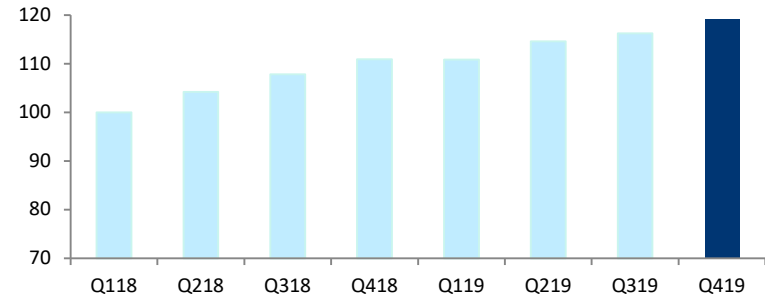


# Order intake and book<sup>1</sup>

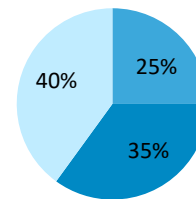
## Comparable order intake growth



## Indexed order book development



## Typical profile of order book conversion to sales

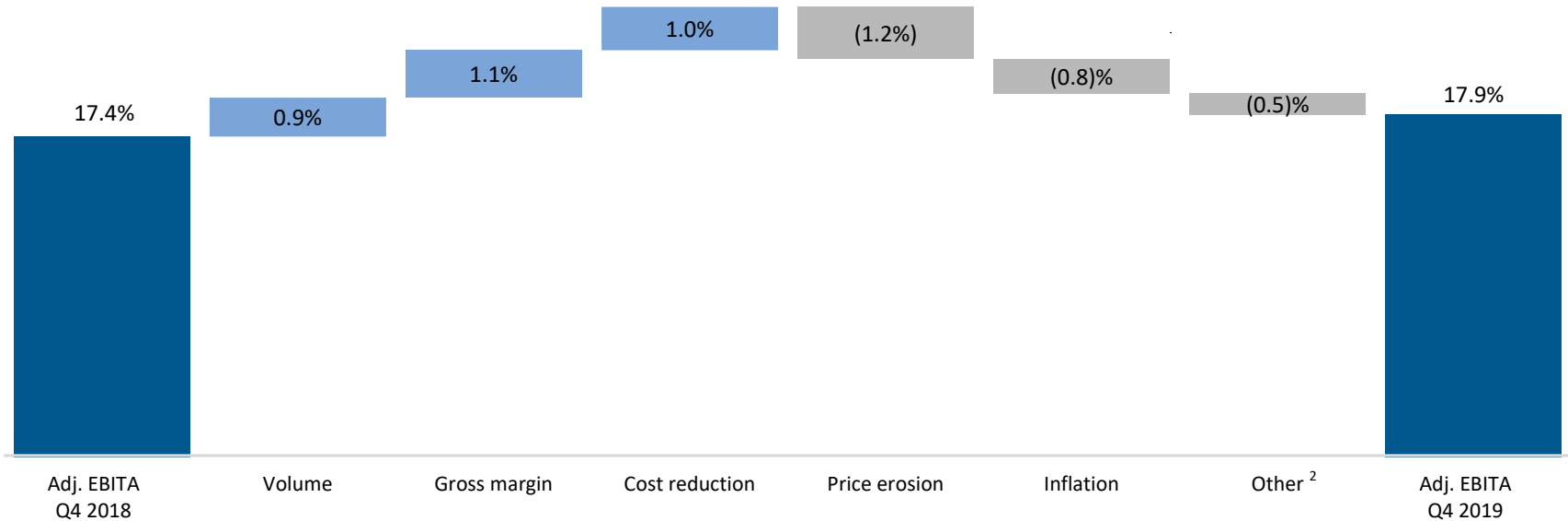


■ Q+1 ■ Q+2 to 4 ■ > 1 year

- Approximately 60% of the current order book converted into sales within the next 12 months
- Order book is a leading indicator for approximately 30% of Group sales

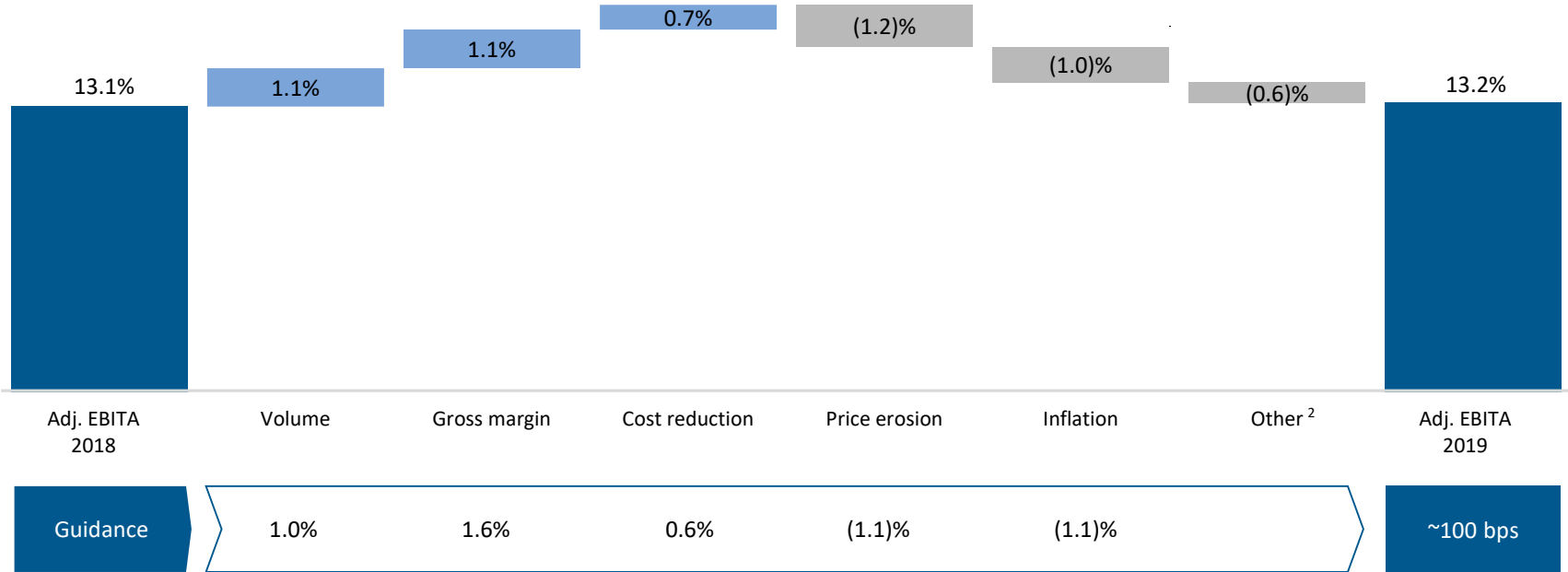
# Adjusted EBITA margin<sup>1</sup> bridge Q4 2019

as a % of sales



# Adjusted EBITA margin<sup>1</sup> bridge full year 2019

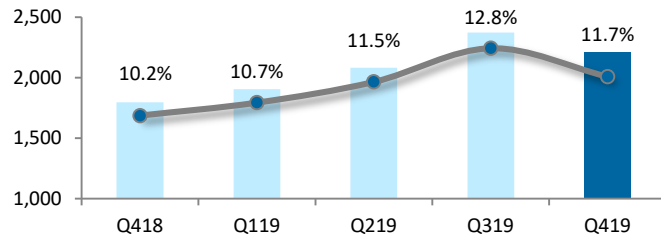
as a % of sales



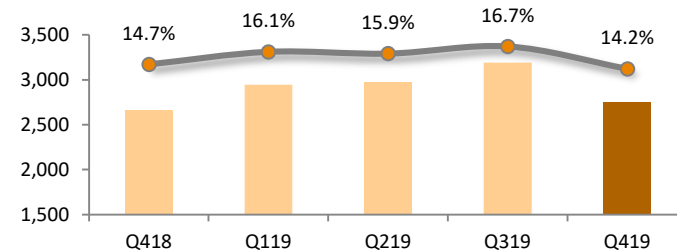


# Working capital and inventories

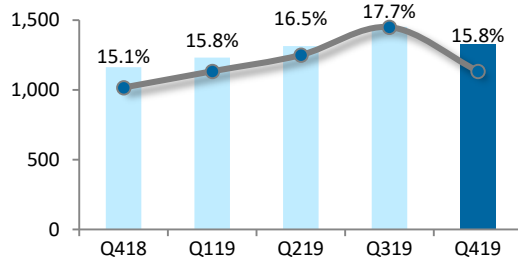
Working capital<sup>1,2</sup>, EUR million — as % of LTM sales<sup>3</sup>



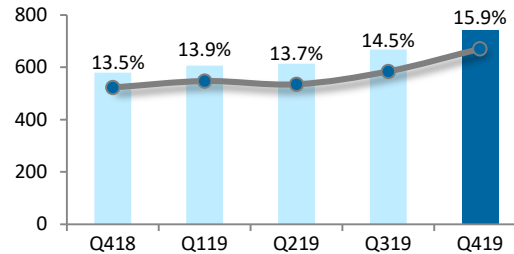
Inventories, EUR million — as % of LTM sales<sup>2</sup>



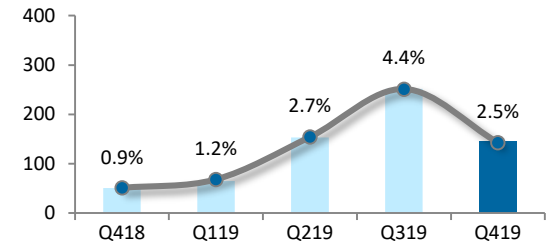
## Diagnosis & Treatment



## Connected Care



## Personal Health



<sup>1</sup> Historical working capital data was restated to reflect new segment structure as per announcement of January 10, 2019; <sup>2</sup> Working capital excluding segment Other; <sup>3</sup> Working capital as a % of LTM sales and Inventories as a % of LTM sales excluding acquisitions, divestments and discontinued operations

# Appendix

# Restructuring, acquisition-related charges and other items

EUR million	Q1 18	Q2 18	Q3 18	Q4 18	2018	Q1 19	Q2 19	Q3 19	Q4 19	2019
<b>Diagnosis &amp; Treatment</b>	<b>(43)</b>	<b>(24)</b>	<b>(20)</b>	<b>(59)</b>	<b>(146)</b>	<b>(30)</b>	<b>(41)</b>	<b>(47)</b>	<b>(106)</b>	<b>(222)</b>
Restructuring & Acq.-related charges	(43)	(24)	(20)	(59)	(146)	(27)	(37)	(20)	(66) <sup>5</sup>	(149)
Other items	-	-	-	-	-	(3)	(4)	(27) <sup>5</sup>	(40) <sup>5</sup>	(73)
<b>Connected Care</b>	<b>(24)</b>	<b>(35)</b>	<b>(28)</b>	<b>(36)</b>	<b>(123)</b>	<b>(29)</b>	<b>(32)</b>	<b>(27)</b>	<b>(44)</b>	<b>(131)</b>
Restructuring & Acq.-related charges	(7)	(20)	(15)	(25)	(67)	(19)	(15)	(12)	(18)	(64)
Other items	(17) <sup>1</sup>	(15) <sup>1</sup>	(13) <sup>1</sup>	(11) <sup>1</sup>	(56)	(10) <sup>1</sup>	(16) <sup>1</sup>	(15) <sup>1</sup>	(26) <sup>1</sup>	(67)
<b>Personal Health</b>	<b>(2)</b>	<b>(20)</b>	<b>(6)</b>	<b>(5)</b>	<b>(33)</b>	<b>(16)</b>	<b>(8)</b>	<b>(23)</b>	<b>(27)</b>	<b>(73)</b>
Restructuring & Acq.-related charges	(2)	(2)	(6)	(5)	(15)	(16)	(7)	(3)	(24)	(50)
Other items	-	(18) <sup>2</sup>	-	-	(18)	-	-	(20) <sup>6</sup>	(3)	(23)
<b>Other</b>	<b>(13)</b>	<b>27</b>	<b>(3)</b>	<b>(11)</b>	<b>1</b>	<b>26</b>	<b>(29)</b>	<b>(17)</b>	<b>(22)</b>	<b>(43)</b>
Restructuring & Acq.-related charges	(12)	(7)	(3)	(10)	(32)	(9)	(22)	(12)	(10)	(54)
Other items	(1)	34 <sup>3</sup>	-	(1)	33	35 <sup>3,4</sup>	(7) <sup>3,4</sup>	(5) <sup>3,4</sup>	(12) <sup>4</sup>	11
<b>Philips</b>	<b>(82)</b>	<b>(52)</b>	<b>(56)</b>	<b>(111)</b>	<b>(300)</b>	<b>(50)</b>	<b>(109)</b>	<b>(114)</b>	<b>(198)</b>	<b>(471)</b>
Restructuring costs	(41)	(31)	(22)	(66)	(159)	(39)	(66)	(35)	(109)	(249)
Acquisition related charges	(23)	(21)	(22)	(34)	(99)	(32)	(16)	(12)	(9)	(69)
Other items	(18)	-	(13)	(11)	(41)	21	(28)	(67)	(80)	(153)

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. Provision related to the anticipated conclusion of the European Commission investigation into online price setting. 3. Gains related to divestments and asset disposals. 4. Charges related to litigation provisions. 5. Includes a value adjustment of capitalized development costs. 6. Provision related to legal matters.



# Capital expenditures, Depreciation and Amortization

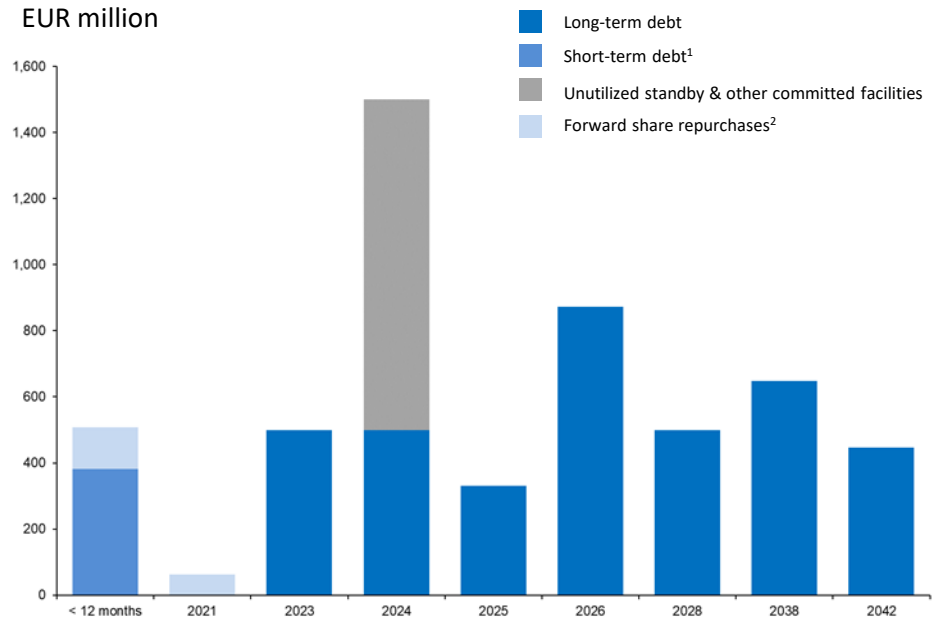
EUR million	Q4 2018	Q4 2019	2019
Capital expenditures on property, plant and equipment	164	184	518
Capitalization of development costs	105	118	460
Depreciation	119	194	645
Amortization of acquired intangible assets	92	119	350
Amortization of software	19	21	75
Amortization of development costs	69	136	332
<b>Depreciation and amortization<sup>1</sup></b>	<b>299</b>	<b>469</b>	<b>1,402</b>

# Philips' debt has a long maturity profile

## Characteristics of long-term debt

- Total net debt position of EUR 4.0 billion
- Maturities up to 2042
- Average tenor of long-term debt is 9.8 years<sup>3</sup>
- No financial covenants
- Total debt at 31 December 2019 includes additional lease liabilities of approximately EUR 1.1 billion which have been recorded following the adoption of IFRS 16.

## Debt maturity profile as per December 2019



<sup>1</sup>Short-term debt includes local credit facilities that are being rolled forward on a continuous basis; <sup>2</sup> Debt includes forward transactions entered into as part of share repurchase programs for LTI purposes; <sup>3</sup> Based on long-term debt only, excludes short-term debt and forward share repurchases for LTI purposes



# Calendar for the upcoming events

February 25	Annual report 2019
March 3	Morgan Stanley European MedTech & Services Conference, London
March 4	Credit Suisse Healthcare Conference, London
March 24	Citi MedTech Symposium, Paris
April 20	First quarter results 2020
April 30	Annual General Meeting of Shareholders
May 13	Capital Markets Day, London
July 20	Second quarter and semi-annual results 2020
October 19	Third quarter results 2020

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