Royal Philips
Fourth quarter and full year 2020 results

January 25, 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, political and societal changes; Philips’ increasing focus on health technology and solutions; the successful completion of divestments such as the disentanglement and divestment of our Domestic Appliances businesses; the realization of Philips’ objectives in growth geographies; business plans and integration of acquisitions; securing and maintaining Philips’ intellectual property rights and unauthorized use of third-party intellectual property rights; COVID-19 and other pandemics; breach of cybersecurity; IT system changes or failures; the effectiveness of our supply chain; challenges to drive operational excellence, productivity and speed in bringing innovations to market; attracting and retaining personnel; future trade arrangements following Brexit; compliance with regulations and standards including quality, product safety and data privacy; compliance with business conduct rules and regulations; treasury risks and other financial risks; tax risks; costs of defined-benefit pension plans and other post-retirement plans; reliability of internal controls, financial reporting and management process. As a result, Philips’ actual future results may differ materially from the plans, goals and expectations set forth in such forward-looking statements. For a discussion of factors that could cause future results to differ from such forward-looking statements, see also the Risk management chapter included in the Annual Report 2019.

Third-party market share data
Statements regarding market share, including those regarding Philips’ competitive position, contained in this document are based on outside sources such as research institutes, industry and dealer panels in combination with management estimates. Where information is not yet available to Philips, those statements may also be based on estimates and projections prepared by outside sources or management. Rankings are based on sales unless otherwise stated.

Use of non-IFRS Information
In presenting and discussing the Philips Group’s financial position, operating results and cash flows, management uses certain non-IFRS financial measures. These non-IFRS financial measures should not be viewed in isolation as alternatives to the equivalent IFRS measure and should be used in conjunction with the most directly comparable IFRS measures. Non-IFRS financial measures do not have standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other issuers. A reconciliation of these non-IFRS measures to the most directly comparable IFRS measures is contained in this document. Further information on non-IFRS measures can be found in the Annual Report 2019.

Use of fair-value measurements
In presenting the Philips Group’s financial position, fair values are used for the measurement of various items in accordance with the applicable accounting standards. These fair values are based on market prices, where available, and are obtained from sources that are deemed to be reliable. Readers are cautioned that these values are subject to changes over time and are only valid at the balance sheet date. When quoted prices or observable market data are not readily available, fair values are estimated using appropriate valuation models and unobservable inputs. Such fair value estimates require management to make significant assumptions with respect to future developments, which are inherently uncertain and may therefore deviate from actual developments. Critical assumptions used are disclosed in the Annual Report 2019. In certain cases independent valuations are obtained to support management’s determination of fair values. All amounts are in millions of euros unless otherwise stated. Due to rounding, amounts may not add up precisely to totals provided. All reported data is unaudited. Financial reporting is in accordance with the accounting policies as stated in the Annual Report 2019.
## Content

1. Company overview and strategy  
2. Financial outlook  
3. Financial performance in the quarter  
Appendix
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.

**Growth profile (Comparable sales growth)**

- **2011**: Low-single-digits
- **2020**: 4-6%
- **2025**: 5-6%

**Margin profile (Adjusted EBITA)**

- **2011**: ~5%
- **2020**: ~13%
- **2025**: 60-80 bps improvement p.a., reaching high-teens

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1. Segment Other is not shown in the chart but is included in totals; 2020 Growth profile relates to 2016-2020 medium term targets; 2. Refers to TV, LE and AVM&A

All forward-looking statements and targets exclude the Domestic Appliance business as its future ownership is being reviewed.
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

<table>
<thead>
<tr>
<th>Recent developments</th>
<th>We are prepared for these developments</th>
</tr>
</thead>
<tbody>
<tr>
<td>• COVID-related acute care needs</td>
<td>• Increased cloud-enabled telehealth, remote patient engagement, and hub-and-spoke models</td>
</tr>
<tr>
<td>• Growth of ambulatory centers</td>
<td>• Informatics and AI-enabled workflow optimization increasing patient throughput and reducing cost</td>
</tr>
<tr>
<td>• Increased focus on productivity, staff, cybersecurity and resilience</td>
<td>• Partnering with our customers</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Providers</strong></td>
<td></td>
</tr>
<tr>
<td>• Uncertainty in consumer spending</td>
<td>• Business model innovation and ecosystems</td>
</tr>
<tr>
<td>• Accelerated shift to online channels</td>
<td>• Increased Direct-to-Consumer and 'pull' marketing</td>
</tr>
<tr>
<td></td>
<td>• Partnering with online platforms</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Consumers</strong></td>
<td></td>
</tr>
<tr>
<td>• Investments in healthcare ecosystems</td>
<td>• Strengthened regional final assembly hubs</td>
</tr>
<tr>
<td>• Geopolitical risk of market access and technology restrictions</td>
<td>• Increased localized solutions, e.g., in China</td>
</tr>
<tr>
<td></td>
<td>• Regional hosting of health data</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Governments</strong></td>
<td></td>
</tr>
</tbody>
</table>
Royal Philips
EUR 19.5 billion sales and Adjusted EBITA of 13.2% in 2020

Global footprint

- North America 36%
- Western Europe 24%
- Growth Geographies 31%
- Other Mature Geographies 9%

Committed to innovation

- EUR 1.9 billion for R&D, ~62,000 patents rights, ~37,000 trademarks
- More than half of R&D personnel in software and data science
- ~37% of sales from solutions, growing double-digit
- ~81,000 employees in over 100 countries

1. All figures based on Q4 2020 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

**Diagnosis & Treatment**
42% of sales

- **Precision Diagnosis**
  
  Provide smart, connected systems, optimized workflows, and integrated diagnostic insights, leading to clear care pathways and predictable outcomes

- **Image-Guided Therapy**
  
  Innovate minimally invasive procedures in a growing number of therapeutic areas with significantly better outcomes and productivity

**Connected Care**
28% of sales

- **Drive better care management by seamlessly connecting patients and caregivers from the hospital to the home**

**Personal Health**
28% of sales

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

- **Performance trajectory 2021-2025**
  
  - **Diagnosis & Treatment**: 5-6% sales growth, 15-17% Adj. EBITA margin
  - **Connected Care**: 5-6% sales growth, 17-19% Adj. EBITA margin
  - **Personal Health**: 5-6% sales growth, 19-20% Adj. EBITA margin

1. For full year 2021, our current view is that Group comparable sales will deliver low-single-digit growth, driven by solid growth in Diagnosis & Treatment and Personal Health, offset by lower Connected Care sales; Adjusted EBITA margin is expected to improve 60-80 bps; Note: HealthTech Other accounts for 2% of sales
## Businesses aligned with customer needs

<table>
<thead>
<tr>
<th>Focus areas</th>
<th>Products and solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Precision diagnosis&lt;br&gt;• Treatment selection and planning&lt;br&gt;• Image-guided minimally invasive therapy</td>
<td>• Diagnostic imaging and ultrasound&lt;br&gt;• Digital and computational pathology&lt;br&gt;• Informatics for Radiology, Oncology, Cardiology&lt;br&gt;• Intervventional imaging, navigation and devices&lt;br&gt;• Services (managed services, consultancy, etc.)</td>
</tr>
<tr>
<td><strong>Diagnosis &amp; Treatment</strong></td>
<td></td>
</tr>
<tr>
<td>• Patient care and workflow management&lt;br&gt;• Population health management&lt;br&gt;• Chronic disease management</td>
<td>• Telehealth, patient monitoring and analytics&lt;br&gt;• Hospital and clinical informatics platforms&lt;br&gt;• Emergency care and resuscitation&lt;br&gt;• Sleep, breathing and respiratory care&lt;br&gt;• Managed services</td>
</tr>
<tr>
<td><strong>Connected Care</strong></td>
<td></td>
</tr>
<tr>
<td>• Healthy living and prevention&lt;br&gt;• Personal care&lt;br&gt;• Digital consumer engagement</td>
<td>• Oral care&lt;br&gt;• Mother and child care&lt;br&gt;• Male grooming and beauty&lt;br&gt;• Domestic appliances&lt;br&gt;• Services (re-ordering, support, coaching, etc.)</td>
</tr>
<tr>
<td><strong>Personal Health</strong></td>
<td></td>
</tr>
</tbody>
</table>

Note: As announced in January 2020, the Domestic Appliances business is being separated from Philips, a process that is expected to be completed in Q3 2021.
Winning propositions

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

 Diagnosis &
Treatment

<table>
<thead>
<tr>
<th>Ultrasound</th>
<th>Image-guided</th>
<th>Image-guided</th>
<th>Diagnostic imaging</th>
<th>High-end radiology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global leader</td>
<td>therapy systems</td>
<td>therapy devices\textsuperscript{3}</td>
<td>Global top 3</td>
<td>and cardiology</td>
</tr>
<tr>
<td></td>
<td>Global leader</td>
<td>Global leader</td>
<td></td>
<td>informatics</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>#1 in North America</td>
</tr>
</tbody>
</table>

Connected Care

<table>
<thead>
<tr>
<th>Patient monitoring</th>
<th>ICU telehealth</th>
<th>Personal emergency response</th>
<th>Respiratory care</th>
<th>Sleep care</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global leader</td>
<td>#1 in North America</td>
<td>#1 in North America</td>
<td>Global leader</td>
<td>Global leader</td>
</tr>
</tbody>
</table>

Personal Health

<table>
<thead>
<tr>
<th>Male grooming</th>
<th>Oral healthcare</th>
<th>Mother and child care</th>
<th>Hair removal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global leader</td>
<td>Global leader</td>
<td>Global leader</td>
<td>Global leader</td>
</tr>
</tbody>
</table>

Continuing to gain market share in key areas of our portfolio

\textsuperscript{1. Leadership position refers to #1 or #2 position in Philips addressable market; 2. Excluding Domestic Appliances; As announced in January 2020, the separation process is expected to be completed in Q3 2021; 3. In Image-Guided Therapy Devices markets where Philips plays}
BioTelemetry acquisition: combination of leading positions in hospital and home monitoring will result in #1 patient care management ecosystem
Attractive return on investment driven by combination of Philips and BioTelemetry's positions and capabilities; accretive to growth and margin

Transaction overview

Company profile:
- #1 provider of ambulatory cardiac diagnostic and monitoring solutions
- 2019 revenue of USD 439 million, mostly in the US
- ~1,900 employees; headquartered in Malvern, PA

Transaction terms:
- USD 72.00 per share, a 16.5% premium to the closing price on December 17, 2020
- Valuation of approx. USD 2.8 billion (EUR 2.3 billion)
- All-cash transaction; expected to close in Q1 2021, subject to customary conditions

Strong return profile

Accretive to growth
- Double-digit sales growth

Accretive to Adjusted EBITA margin
- Mid-teens, increasing to >20%

Revenue synergies
- Channel, geographic expansion, innovation and AI synergies

Productivity
- BoM, G&A, Procurement

ROIC exceeds WACC in Year 5
Expanding our leadership in patient care management solutions for the hospital with the acquisition of Capsule Technologies

Company profile

• 2020 revenue over USD 100 million, mostly in the US
• ~300 employees; headquartered in Andover, MA

Transaction overview

Accretable to growth in 2021
- Double-digit sales growth

Accretable to Adjusted EBITA margin in 2021

Software-as-a-Service model
- driving recurring and license revenue

USD 635m cash consideration
- ~EUR 530m

Expected to close in Q1 2021
- subject to customary conditions
Committed to doing business responsibly and sustainably
We have raised our ESG commitments towards 2025

<table>
<thead>
<tr>
<th>Health and well-being for all</th>
<th>Circular economy</th>
<th>Climate action</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Improve health &amp; well-being of 2 billion people through innovation</td>
<td>• 25% of revenue from circular offerings</td>
<td>• Reduce CO₂ emissions in line with 1.5 °C global warming scenario</td>
</tr>
<tr>
<td>• Enable access to care for 300 million people in underserved communities</td>
<td>• Trade-in all professional-medical equipment</td>
<td>• 100% of electricity &amp; &gt;75% of total energy consumption from renewable sources</td>
</tr>
<tr>
<td></td>
<td>• Zero waste to landfill</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Partnerships</th>
<th>Enablers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Partner to deliver sustainable value and drive global change</td>
<td>• 100% of product offerings in line with EcoDesign requirements; ‘Eco-Heroes’ reaching 25% of revenues</td>
</tr>
<tr>
<td>• Improve lives of 1 million workers in supply chain and reduce environmental footprint</td>
<td>• Practices defined by the Philips Business System</td>
</tr>
</tbody>
</table>
## COVID-19: delivering against our triple duty of care

### Central and regional task force teams

<table>
<thead>
<tr>
<th>Safeguarding health &amp; safety of our employees</th>
<th>Meeting critical customer needs</th>
<th>Ensuring business continuity</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Personal hygiene measures and safety protocols</td>
<td>• Production volumes ramp-up</td>
<td>• Business Continuity Management System</td>
</tr>
<tr>
<td>• Working from home protocol</td>
<td>• Delivery and installation of critical equipment</td>
<td>• Functional operations and supply chain</td>
</tr>
<tr>
<td>• Safe environment for production, supply, field service, and certain R&amp;D activities</td>
<td>• Fair and ethical allocation of scarce equipment and supplies</td>
<td>• Commercial processes</td>
</tr>
<tr>
<td>• Personal Protective Equipment (PPE)</td>
<td>• Customer services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Updated clinical guidance</td>
<td></td>
</tr>
</tbody>
</table>
Our products, services and solutions can support healthcare providers in the fight against COVID-19

- Vital signs patient monitors
- Invasive and non-invasive hospital ventilators

- Computed tomography (CT)
- Mobile diagnostic X-ray
- Point-of-care ultrasound
- Advanced informatics

- Central monitoring of ICU patients (Tele-ICU)
- Telehealth programs for remote screening and monitoring
- Tele-pathology
- Interoperability applications
Drivers for continued growth and improved profitability

Our 3 imperatives:

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)

Key drivers:

- Deliver the best customer experience and quality
- Leverage our digital enterprise platform
- Improve productivity
- Innovate to extend category leadership
- Capture geographic growth
- Increase customer share through consultative partnerships
- Drive integrated solutions that deliver on the quadruple aim
- Adopt/drive data and AI at scale
- Add portfolio adjacencies (organic, M&A, partnerships)

Delivering:

- More lives improved
- Higher customer NPS
- Market share expansion
- Revenue growth
- Margin growth
- Free cash flow generation
- Organic ROIC
- ESG leader
- Value creation

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

1. Adjusted EBITA
Our integrated solutions deliver on the quadruple aim
~37%¹ of sales from solutions & recurring revenues; growing to >45% by 2025

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

1. FY 2020
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

franciscus
Gasthuis & Vletriand

Regional Medical Center

Mandaya Royal Hospital
PURI

Klinikum Stuttgart

PARACELUS KLINIKEN

Marienhospital Stuttgart

Flevoziekenhuis
Our experienced and passionate executive team

<table>
<thead>
<tr>
<th>Position</th>
<th>Name</th>
<th>Nationality</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>Frans van Houten</td>
<td>Dutch</td>
</tr>
<tr>
<td>CFO</td>
<td>Abhijit Bhattacharya</td>
<td>Indian</td>
</tr>
<tr>
<td>Diagnosis &amp; Treatment</td>
<td>Bert van Meurs</td>
<td>Dutch</td>
</tr>
<tr>
<td></td>
<td>Kees Wesdorp</td>
<td>Dutch</td>
</tr>
<tr>
<td>North America</td>
<td>Vitor Rocha</td>
<td>Brazilian/American</td>
</tr>
<tr>
<td>Greater China</td>
<td>Andy Ho</td>
<td>Chinese/Canadian</td>
</tr>
<tr>
<td>Connected Care</td>
<td>Roy Jakobs</td>
<td>Dutch/German</td>
</tr>
<tr>
<td>Personal Health</td>
<td>Deeptha Khanna</td>
<td>Singaporean</td>
</tr>
<tr>
<td>Domestic Appliances</td>
<td>Henk de Jong</td>
<td>Dutch</td>
</tr>
<tr>
<td>International Markets</td>
<td>Edwin Paalvast</td>
<td>Dutch</td>
</tr>
<tr>
<td>Innovation &amp; Strategy</td>
<td>Jeroen Tas</td>
<td>Dutch</td>
</tr>
<tr>
<td>Operations</td>
<td>Sophie Bechu</td>
<td>French/American</td>
</tr>
<tr>
<td>Legal</td>
<td>Marnix van Ginneken</td>
<td>Dutch/American</td>
</tr>
<tr>
<td>Human Resources</td>
<td>Daniela Seabrook</td>
<td>Swiss</td>
</tr>
<tr>
<td>Strategic Business</td>
<td>Robert Cascella</td>
<td>American</td>
</tr>
</tbody>
</table>

1. All geographies excluding North America and Greater China
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Continued focus on value creation

2021-2025 financial framework

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

1. For full year 2021, our current view is that Group comparable sales will deliver low-single-digit growth, driven by solid growth in Diagnosis & Treatment and Personal Health, offset by lower Connected Care sales; Adjusted EBITA margin is expected to improve 60-80 bps
5% CSG

90% of sales

Low-growth

Current CSG profile
Increased share high growth businesses
Improvement in low-growth businesses
Telehealth and informatics
Services
Prior M&A contribution
Risk
Projected CSG

Indicative growth acceleration drivers

All forward-looking statements and targets exclude the Domestic Appliance business as its future ownership is being reviewed
Indicative annual Adjusted EBITA improvement drivers

Volume
- New product introduction
- Geographic expansion
- Solutions
- Prior M&A

Gross margin
- Innovation
- Mix (e.g. high-margin businesses, solutions)
- Supply chain productivity
- Procurement savings

Cost reduction
- R&D productivity
- Upgraded IT backbone
- GBS and RPA
- Real estate, remote servicing, travel

Price erosion

Inflation

Average annual improvement

- 1.3%
- 1.2%
- 0.3%
- 1.0%
- 1.1%
- 60-80 bps

All forward-looking statements and targets exclude the Domestic Appliance business as its future ownership is being reviewed
### Driving EUR 2 billion productivity through 2025

**Procurement savings**
- Center of excellence for value analysis and engineering to drive low-cost country sourcing, life cycle management, and DfX\(^1\)
- Indirect spend management driving demand and price optimization

**Supply chain productivity**
- 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**
- Simplification of R&D platforms and footprint
- Future of work: real estate optimization, remote servicing, travel reduction
- Continued expansion of GBS and RPA\(^1\)
- Single billing entity via upgraded IT backbone (e.g. Europe)

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

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1. Design for Excellence 2. Robotic Process Automation
2. All forward-looking statements and targets exclude the Domestic Appliance business as its future ownership is being reviewed
Robust financial framework geared to value creation

<table>
<thead>
<tr>
<th>Free cash flow conversion &gt;90%</th>
<th>Adjusted EPS growth ~10%&lt;sup&gt;1&lt;/sup&gt;</th>
<th>Organic ROIC of mid-to-high teens</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disciplined capital allocation</td>
<td>Maintain current investment grade credit rating</td>
<td>Effective tax rate 24-26%</td>
</tr>
</tbody>
</table>


All forward-looking statements and targets exclude the Domestic Appliance business as its future ownership is being reviewed.
Our capital allocation supports our strategy and our commitments to shareholders

Our approach

**Reinvest in growth**
- Organic growth as the main premise of our value creation
- Similar level of innovation investment and increased advertising spend

**M&A / portfolio management**
- EUR 4.6 billion\(^1\) invested in M&A since 2015
- Disciplined but more active approach

**Dividend stability**
- Pay-out of 40-50% of net recurring income
- Continued, stable dividend policy

**Share buy-backs**
- EUR 4 billion since 2015
- Continuing to evaluate periodically

Total shareholder return since 2016\(^2,3\)

- Royal Philips: +120%
- TSR peer group: +87%
- EURO STOXX 50: 25%

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1. Does not include BioTelemetry Inc. and Capsule Technologies as these transactions are expected to close in Q1 2021; 2. As of market close January 22, 2021; 3. TSR peer index includes companies as described in the Philips Annual Report 2019
Balanced capital allocation policy

**Organic Return on Invested Capital**

<table>
<thead>
<tr>
<th>Year</th>
<th>ROIC (%)</th>
<th>WACC (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>15.9%</td>
<td>7.1%</td>
</tr>
<tr>
<td>2016</td>
<td>17.5%</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>17.6%</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>18.1%</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>14.8%</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>13.7%</td>
<td></td>
</tr>
</tbody>
</table>

**Mergers & Acquisitions (EUR billion)**

<table>
<thead>
<tr>
<th>Year</th>
<th>M&amp;A (EUR billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-2016</td>
<td>~1.2</td>
</tr>
<tr>
<td>2017</td>
<td>~2.4</td>
</tr>
<tr>
<td>2018</td>
<td>~0.6</td>
</tr>
<tr>
<td>2019</td>
<td>~0.2</td>
</tr>
<tr>
<td>2020</td>
<td>~0.2</td>
</tr>
</tbody>
</table>

**Dividends (EUR per share)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Dividends (EUR per share)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-2017</td>
<td>0.80</td>
</tr>
<tr>
<td>2018</td>
<td>0.85</td>
</tr>
<tr>
<td>2019</td>
<td>0.85</td>
</tr>
<tr>
<td>2020</td>
<td>0.85</td>
</tr>
</tbody>
</table>

**Share repurchase (EUR billion)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Share repurchase (EUR billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013-2016</td>
<td>1.5</td>
</tr>
<tr>
<td>2017-2021</td>
<td>3.0</td>
</tr>
</tbody>
</table>

1. Organic ROIC excludes acquisitions over a five years period, pension settlements in Q4 2015, significant one-time legal and tax charges and benefits; ROIC % = LTM EBITA/ 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. Consisting of two programs: EUR 1.5 billion announced in June 2017 and completed in June 2019, and EUR 1.5 billion announced in January 2019 and to be completed in 2021.
<table>
<thead>
<tr>
<th>Content</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Company overview and strategy</td>
<td>3</td>
</tr>
<tr>
<td>2. Financial outlook</td>
<td>20</td>
</tr>
<tr>
<td>3. Financial performance in the quarter</td>
<td>30</td>
</tr>
<tr>
<td>Appendix</td>
<td>38</td>
</tr>
</tbody>
</table>
Q4 2020 financial performance highlights

• Comparable order intake increased 7%

• Adjusted EBITA margin 19.0% of sales, compared to 17.9% of sales in Q4 2019

• Income from operations improved to EUR 795 million, compared to EUR 730 million in Q4 2019

• Adjusted EPS increased to EUR 0.94, compared to EUR 0.83 in Q4 2019

• Free cash flow increased to EUR 1,055 million, compared to EUR 959 million in Q4 2019

<table>
<thead>
<tr>
<th></th>
<th>Sales EUR million</th>
<th>Comparable sales growth</th>
<th>Adj. EBITA margin</th>
<th>Adj. EBITDA margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diagnosis &amp; Treatment</td>
<td>2,458</td>
<td>1%</td>
<td>14.0%</td>
<td>17.1%</td>
</tr>
<tr>
<td>Connected Care</td>
<td>1581</td>
<td>24%</td>
<td>27.2%</td>
<td>31.4%</td>
</tr>
<tr>
<td>Personal Health</td>
<td>1,824</td>
<td>5%</td>
<td>20.0%</td>
<td>22.5%</td>
</tr>
<tr>
<td>Other</td>
<td>138</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Philips</td>
<td>6,001</td>
<td>7%</td>
<td>19.0%</td>
<td>23.7%</td>
</tr>
</tbody>
</table>
Full Year 2020 financial performance highlights

- Comparable order intake increased 9%
- Adjusted EBITA margin was 13.2% of sales, in line with 2019
- Income from operations amounted to EUR 1,542 million, compared to EUR 1,644 million in 2019
- Adjusted EPS amounted to EUR 1.98, in line with 2019
- Free cash flow improved to EUR 1,852 million, compared to EUR 1,053 million in 2019
- Proposed dividend of EUR 0.85 per share, in cash or shares at the option of the shareholder
Order intake and book

Comparable order intake growth¹,²

Indexed order book development

Typical profile of order book conversion to sales

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 margin\(^1\) bridge Q4 2020 as a % of sales

- **Adj. EBITA Q4 2019:** 17.9%
- **Volume:** 1.3%
- **Gross margin:** 1.4%
- **Cost reduction:** 0.7%
- **Price erosion:** (1.2%)
- **Inflation:** (1.1%)
- **Other & COVID-19:** 0.0%
- **Adj. EBITA Q4 2020:** 19.0%

1. Excluding restructuring costs, acquisition-related charges and other one-time charges and gains
Adjusted EBITA margin\(^1\) bridge FY 2020

as a % of sales

1. Excluding restructuring costs, acquisition-related charges and other one-time charges and gains
Working capital and inventories

1. Working capital excluding segment Other; 2. Working capital and Inventories as a % of LTM sales are excluding acquisitions, divestments, and discontinued operations

---

Diagnosis & Treatment

- Q419: 15.8%
- Q120: 15.8%
- Q220: 17.1%
- Q320: 15.5%
- Q420: 12.8%

Connected Care

- Q419: 15.9%
- Q120: 14.1%
- Q220: 12.6%
- Q320: 15.8%
- Q420: 17.4%

Personal Health

- Q419: 2.5%
- Q120: 2.6%
- Q220: 1.7%
- Q320: 1.7%
- Q420: -1.6%
Productivity program exceeded target with >EUR 1.9 bn net savings since 2017

- Consolidated manufacturing footprint from 50 to 30 sites
- Center of Excellence for value analysis and engineering established
- Procurement savings driven by DfX\(^1\) and other programs
- LEAN and Daily Management practices embraced by >35,000 employees

- Philips Integrated Landscape as digital enterprise platform
- ERP instances reduced from 50 to 11
- Robotics to automate 1 million hours of manual work
- Process mining driving standard work in back office

- 4,500 team members in Global Business Services (GBS)
- Marketing transformation funds advertising firepower
- 40 bps R&D productivity improvement
- Enabling functions at benchmark cost level
### Restructuring, acquisition-related charges, and other items

<table>
<thead>
<tr>
<th>EUR million</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Diagnosis &amp; Treatment</strong></td>
</tr>
<tr>
<td>Restructuring &amp; Acq.-related charges</td>
</tr>
<tr>
<td>Other items</td>
</tr>
<tr>
<td><strong>Connected Care</strong></td>
</tr>
<tr>
<td>Restructuring &amp; Acq.-related charges</td>
</tr>
<tr>
<td>Other items</td>
</tr>
<tr>
<td><strong>Personal Health</strong></td>
</tr>
<tr>
<td>Restructuring &amp; Acq.-related charges</td>
</tr>
<tr>
<td>Other items</td>
</tr>
<tr>
<td><strong>Other</strong></td>
</tr>
<tr>
<td>Restructuring &amp; Acq.-related charges</td>
</tr>
<tr>
<td>Other items</td>
</tr>
<tr>
<td><strong>Philips</strong></td>
</tr>
<tr>
<td>Restructuring costs</td>
</tr>
<tr>
<td>Acquisition related charges</td>
</tr>
<tr>
<td>Other items</td>
</tr>
</tbody>
</table>

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

1. Includes a value adjustment of capitalized development costs; 2. Gain related to release of a contingent consideration liability; 3. Provision related to legal matters; 4. Mainly related to the consent decree focused on the defibrillator manufacturing in the US; 5. Includes onerous contract provision; 6. Inventory valuation charges resulting from deployment of new systems; 7. Gains related to divestments and asset disposals; 8. Charges related to litigation provisions; 9. Includes separation costs related to Domestic Appliances business; 10. Pension liability de-risking in the US.
## Capital expenditures, Depreciation and Amortization

<table>
<thead>
<tr>
<th>EUR million</th>
<th>Q4 2019</th>
<th>Q4 2020</th>
<th>FY 2019</th>
<th>FY 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital expenditures on property, plant and equipment</td>
<td>184</td>
<td>147</td>
<td>518</td>
<td>513</td>
</tr>
<tr>
<td>Capitalization of development costs</td>
<td>118</td>
<td>109</td>
<td>460</td>
<td>424</td>
</tr>
<tr>
<td>Depreciation</td>
<td>194</td>
<td>197</td>
<td>645</td>
<td>726</td>
</tr>
<tr>
<td>Amortization of acquired intangible assets</td>
<td>119</td>
<td>76</td>
<td>350</td>
<td>381</td>
</tr>
<tr>
<td>Amortization of software</td>
<td>21</td>
<td>23</td>
<td>75</td>
<td>86</td>
</tr>
<tr>
<td>Amortization of development costs</td>
<td>136</td>
<td>92</td>
<td>332</td>
<td>328</td>
</tr>
<tr>
<td><strong>Depreciation and amortization</strong></td>
<td><strong>469</strong></td>
<td><strong>388</strong></td>
<td><strong>1,402</strong></td>
<td><strong>1,520</strong></td>
</tr>
</tbody>
</table>

1. Includes impairments
Philips' debt has a long maturity profile

Characteristics of long-term debt

- Total net debt position of EUR 3.7 billion
- Maturities up to 2042
- Average tenor of long-term debt is 8.2 years
- No financial covenants

Debt maturity profile as per 31 December 2020

<table>
<thead>
<tr>
<th>EUR million</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,600</td>
</tr>
<tr>
<td>1,400</td>
</tr>
<tr>
<td>1,200</td>
</tr>
<tr>
<td>1,000</td>
</tr>
<tr>
<td>800</td>
</tr>
<tr>
<td>600</td>
</tr>
<tr>
<td>400</td>
</tr>
<tr>
<td>200</td>
</tr>
<tr>
<td>0</td>
</tr>
</tbody>
</table>

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

February 24  Goldman Sachs Access to Medicine Index Investors Launch
March 02  Morgan Stanley European MedTech & Services Conference
March 03  Credit Suisse Global Healthcare Conference
March 09  Barclays Global Healthcare Conference
April 26  Philips first quarter 2021 results

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