

# Q4 and full-year 2022 results & Creating value with sustainable impact

January 30, 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; 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-19 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.

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.

## 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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# Q4 and FY 2022 results

# Q4 2022 performance summary

	Sales EUR billion	Comparable sales growth	Adj. EBITA margin <sup>2</sup>	Adj. EBITDA margin <sup>2</sup>
Diagnosis & Treatment	2.8	5.3%	11.3%	14.1%
Connected Care	1.4	5.2%	12.6%	15.9%
Personal Health	1.1	-4.4%	17.0%	19.7%
<b>Philips<sup>1</sup></b>	<b>5.4</b>	<b>3.4%</b>	<b>12.0%</b>	<b>16.4%</b>

- Health Systems growth +5% driven by gradually improving component supplies in an uncertain environment
- Adjusted EBITA of EUR 651 million, or 12.0% of sales
- Free cash inflow of EUR 301 million

# Business highlights Q4 2022

## Philips highlights

Signed 35 new long-term strategic partnerships in Q4, reaching ~100 in 2022  
'A' score for climate action leadership by CDP (Carbon Disclosure Project)

### Diagnosis & Treatment

CSG<sup>1</sup> +5% driven by Ultrasound and Image-Guided-Therapy

OIT<sup>2</sup> -7% due to cancellation of some orders by Philips to improve margin profile

Featured (helium-free) MR 5300 and vendor-neutral ROCC<sup>3</sup> at RSNA

### Connected Care

CSG +5% driven by Monitoring

OIT -10% due to lower demand for COVID-19 products

~90% of recall units produced

Encouraging test results for DS1

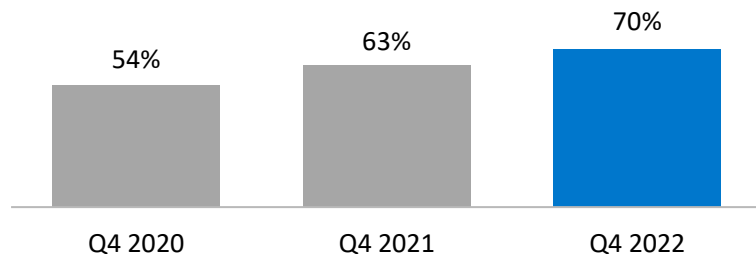
### Personal Health

CSG -4% with double digit growth in North America more than offset by China and Russia

#1 brand during 'Double 11' festival in China for Male Grooming and Oral Healthcare

# Orderbook<sup>1,2</sup> and orderbook coverage improving

## Orderbook coverage of the next 12 months' equip. sales



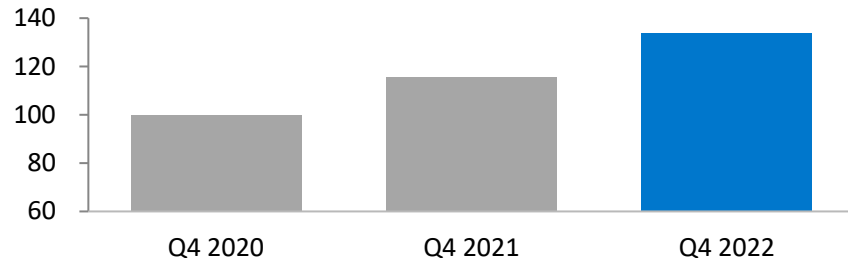
**Orderbook coverage significantly higher than 2020 and 2021, mainly driven by:**

~30% higher in Magnetic Resonance Imaging

~20% higher in:

- Image-Guided-Therapy
- Monitoring

## Indexed orderbook development



**Q4'22 order book is >30% higher than Q4'20**

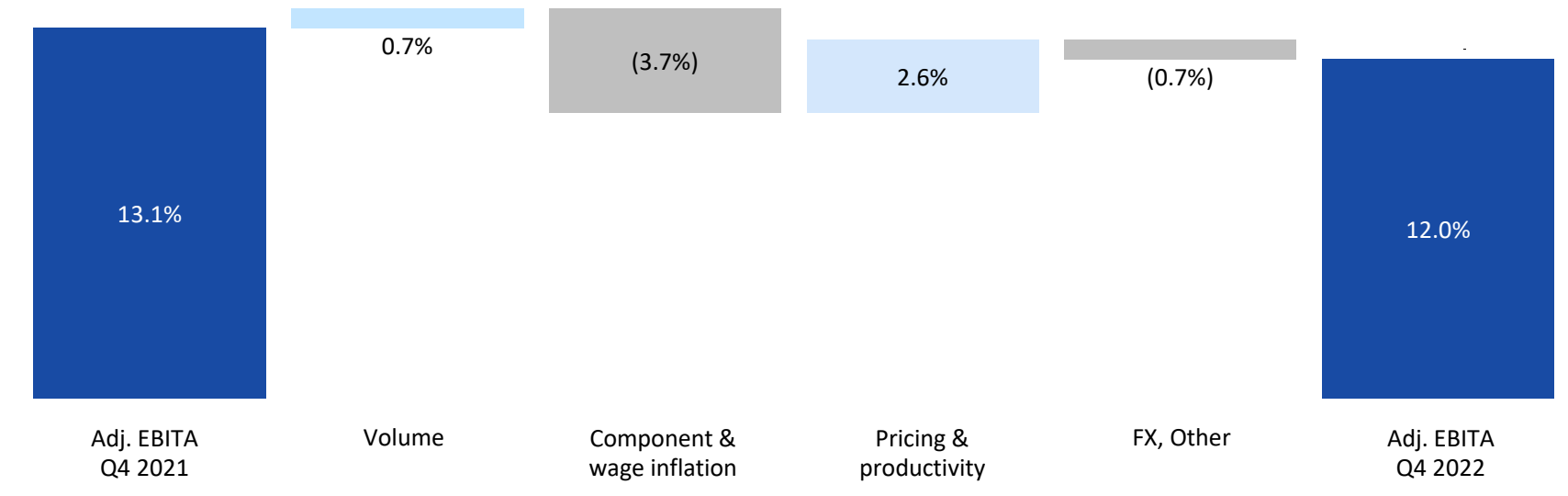
Improved margin profile of order book due to cancellations of low margin orders by Philips

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 in the US

# Q4 2022 Adj. EBITA margin impacted by cost headwinds, partly offset by pricing and productivity

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





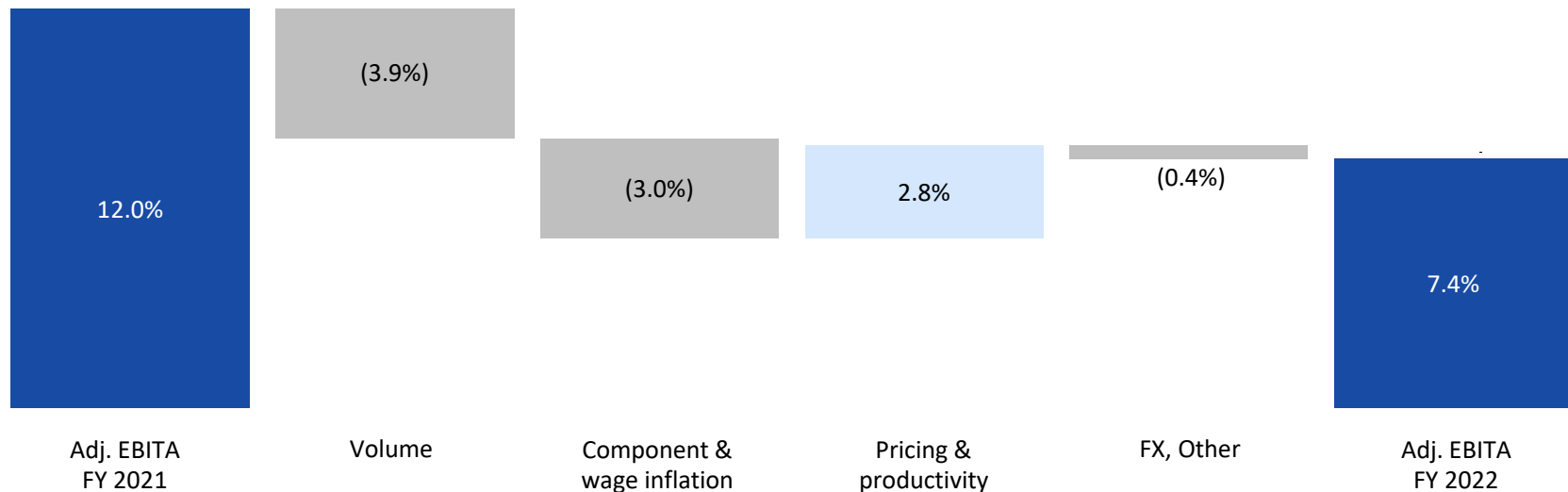
# FY 2022 performance summary

	Sales EUR billion	Comparable sales growth	Adj. EBITA margin <sup>2</sup>	Adj. EBITDA margin <sup>2</sup>
Diagnosis & Treatment	9.2	-0.7%	8.4%	11.5%
Connected Care	4.4	-10.8%	2.2%	7.4%
Personal Health	3.6	0.1%	14.8%	18.0%
<b>Philips<sup>1</sup></b>	<b>17.8</b>	<b>-2.8%</b>	<b>7.4%</b>	<b>12.9%</b>

- Results impacted by operational & supply challenges, inflation, the COVID situation in China & the Russia-Ukraine war
- Income from operations loss of EUR 1.5 billion due to previously disclosed non-cash goodwill and R&D impairment
- Free cash outflow of EUR 961 million due to lower earnings, higher inventories and cash costs related to the recall
- Proposed dividend maintained at EUR 0.85 per share, to be distributed in shares

# FY 2022 Adj. EBITA margin impacted by cost headwinds, partly offset by pricing and productivity

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



# Gradual improvement trajectory in 2023

## **Comparable Sales Growth** Low-single-digit

- Mid-single-digit growth in Diagnosis & Treatment and Connected Care
- Low-single-digit growth in Personal Health
- Guidance at Group level reflects uncertainties in external environment

## **Adj. EBITA margin** High-single-digit

- Productivity and pricing actions to improve margins across businesses
- Inflation impact ~ 3%
- Investments in patient safety and quality and supply chain improvements included

## **Free Cash Flow** EUR 0.7-0.9 billion

- Improvement driven by earnings recovery and working capital management
- Partly offset by restructuring, acquisition-related charges and other items

Guidance excludes the impact of the ongoing discussion on the proposed consent decree beyond current assumptions (S&RC CSGR 2023-2025 of 10%) as well as ongoing litigation and the investigation by the US DoJ related to the Respironics field action

# Restructuring, acquisition-related charges and other items in 2023

## **Restructuring costs** ~300 bps

- Driven by 10k<sup>1</sup> roles reduction program resulting from operating model simplification, of which ~70% implemented by end of 2023
- S&RC rightsizing

## **Acquisition-related charges** ~50 bps

- Post-merger integration costs related to recent acquisitions in Connected Care and Image-Guided-Therapy Devices

## **Other items** ~50-70 bps

- Respiroics field action running remediation costs

Guidance excludes the impact of the ongoing discussion on the proposed consent decree beyond current assumptions (S&RC CSGR 2023-2025 of 10%) as well as ongoing litigation and the investigation by the US DoJ related to the Respiroics field action



Creating value with  
sustainable impact

# Creating value with sustainable impact

## Markets

Philips operates in attractive HealthTech segments with 3-6% growth and mid-to-high teens margins

## Strength and challenges

Key strengths: leading market positions, customer intimacy, hardware & software innovations, purpose, brand, ESG

Key challenges: strategy execution, innovation model, quality, supply chain, complex organization

## Strategy and execution

Creating value with sustainable impact through:

- Strategy of focused organic growth
- Patient, people-centric and scalable innovation
- Execution priorities: 1) Patient Safety & Quality 2) Supply chain 3) Simplification

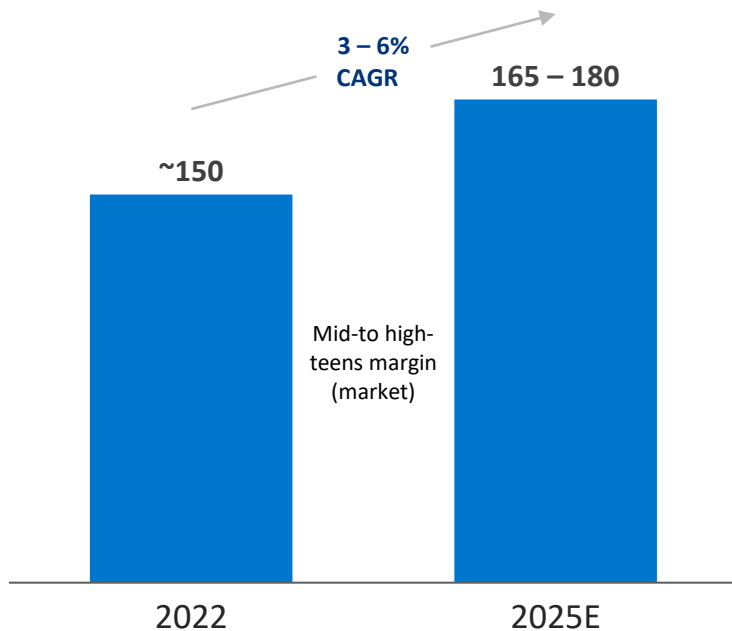
Enabled by culture of accountability and strong HealthTech talent and capabilities

## Value creation

Progressive improvement: mid-single-digit comparable sales growth and low-teens Adj. EBITA margin in 2025, with mid-to-high teens margin goal beyond 2025; supported by balanced capital allocation

# We operate in attractive HealthTech segments

## Addressable market, EUR billion



Aging population, growing demand for care

Increasing healthcare costs driving productivity needs

Increasing need for insights from growing health data

Shift to ambulatory monitoring, imaging and treatment

Increasing spend on personal health and care



# Our 4 key strengths to build on

## 1 Leading positions

- >70% of sales from #1 or #2 positions
- Leading innovation; hardware, software and services
- Strong professional and personal health (home) positions

## 2 High customer intimacy

- Preferred strategic and innovation partner
- 300+ partnerships, ~EUR 1.5 Bn orders/year
- ~40% recurring revenue

## 3 Innovation aligned to customer needs

- Solutions across imaging, therapy and monitoring
- Enhanced clinical and operational productivity
- Largest Enterprise Informatics – multi-vendor

## 4 Strong purpose, brand and ESG

- Improved 1.8Bn lives '22 and 12Bn brand value
- Carbon neutral, circularity, sustainable innovation
- 85% of products Ratings & Reviews >4.3 (out of 5)





# Clear need to address recent performance challenges

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## Strategy

Strategy implementation | Innovation model

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## Execution

Quality | Supply Chain reliability | Complex operating model

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# Focused organic growth

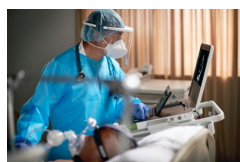
# Strong position across our portfolio of businesses

## Diagnosis and Treatment



Diagnostic Imaging

Top 3 Player



Ultrasound

#1 Cardiac



Image Guided Therapy

#1 Systems & Devices

## Connected Care



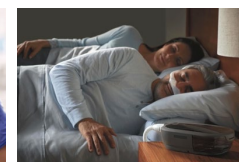
Enterprise Informatics

#1 Imaging Leader in PACS and inter-operability



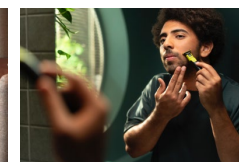
Monitoring

#1 in Hospital  
#1 in Ambulatory



Sleep and Respiratory Care

#2 Globally



Personal Health

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

Market leading capabilities integrating platforms, informatics, and services



# Focused organic growth

Accelerate growth in attractive leadership segments

Image-Guided-Therapy

Ultrasound

Monitoring

Personal health

Scale to unlock insights

Enterprise Informatics

Improve operational excellence & services

Diagnostic Imaging

Address recall and restore business position

Sleep and Respiratory Care



# Focused organic growth: changing how we deliver

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## Resource allocation

- Clear and differentiated mandates on growth and margin by segment
- Focus on priority segments (not everything everywhere)

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## Product, business and country pruning

- Accelerated pruning of products/SKUs
- Choiceful where to play in businesses and countries

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## End-to-end optimization

- Holistic and clear accountability of business leaders
  - Fully integrated approach to manage equipment and services
  - Tailored approach to key geographies
-

# Leveraging attractive leadership positions to drive growth



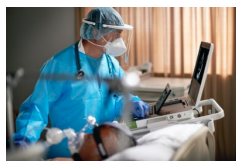
## Image Guided Therapy

#1 in systems and devices



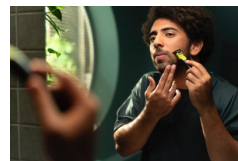
## Monitoring

#1 in hospital  
#1 in ambulatory



## Ultrasound

#1 in cardiac



## Personal health

#1 male grooming  
#2 oral health care  
#2 infant feeding

~70% of Philips revenue

## Drivers

Leading Cardiac workflow support

Software, Hardware  
and Services pull-through

Leading growth platforms  
(Azurion, IntelliVue, etc.)

Unique informatics capabilities

Integrated acquisitions



# Scale enterprise informatics, unlocking access and insights from combined data pools of imaging and monitoring

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Integrates with systems & devices

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Vendor-agnostic

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Unlocks data to generate AI-insights

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Supports hospital & remote workflows

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Improves staff productivity

## Scale informatics

3k+

Sites with Philips Radiology PACS

20M+

Patients with device to EMR connectivity per year

15k+

ICU beds with remote population health management

# Driving operational excellence and services in Diagnostic Imaging



Smart diagnostic systems



Optimized workflows



Integrated diagnostics

Supported by Enterprise Informatics image management platform

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Impactful, sustainable innovation

+

Supply chain improvement

+

Services pull through

+

Conversion of strong order book

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**Higher margins**

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# Tailored approach to address customer needs and win in the different regions and countries

## North America (43% of sales)

Strong structural growth drivers,  
cautious view on short-term

Operational and clinical workflow solutions  
to address productivity need

Leadership in clinical innovation partnerships

Strengthen government  
and regulatory relationships

## International Markets (44% of sales)

Country-specific growth and margin  
opportunities

Increasing Services and informatics  
penetration (digitization of healthcare)

Leadership in strategic customer partnerships

Strong consumer franchise tapping  
consumer health spend increase

## Greater China (13% of sales)

Attractive growth but below historical  
rate

90% Local-4-local manufacturing in  
2024, 3 innovation centres

Informatics as a differentiator

Strong consumer franchise tapping  
consumer health spend increase

# Responsible and sustainable business for Philips and customers

## ESG focus

- Carbon-neutral
- Partnering with customers/suppliers on 1.5 °C target
- Leading in sustainable innovation (Helium-free MR, etc.)
- Circular revenues from 16% to 25% of sales by 2025
- 2 billion lives improved by 2025<sup>1</sup>

## ESG ratings and recognition



First HealthTech to have value-chain CO<sub>2</sub> targets approved by SBTi

**S&P Global**  
Ratings

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

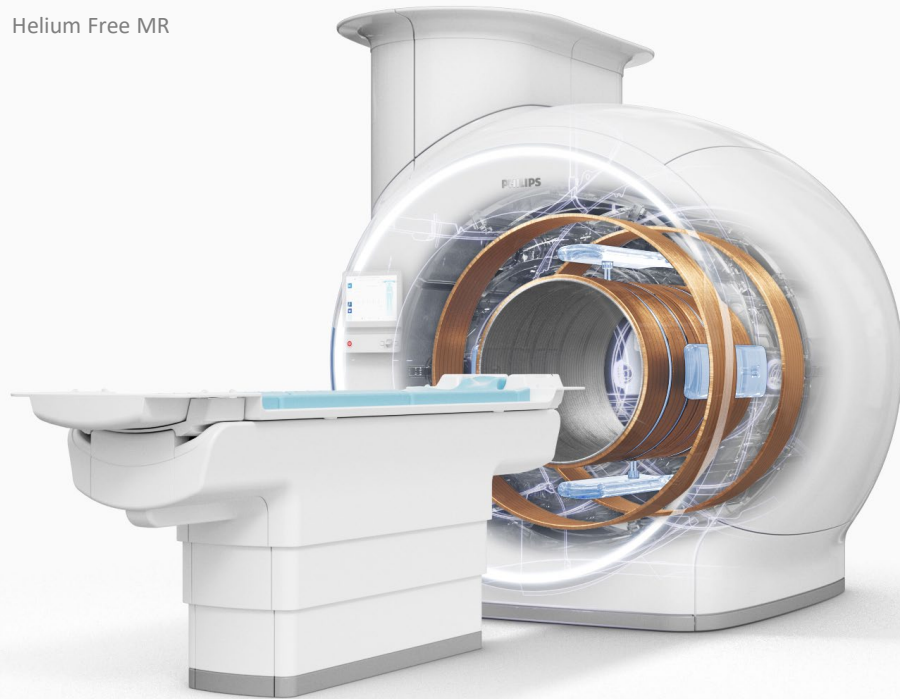


First Dutch company among world's 15 best reputation companies



CDP's 'A List' for the 10th year

Helium Free MR





# Patient and people-centric, scalable innovation

## Shifting our innovation model to drive R&D impact and efficiency

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Design with Patient Safety, Quality and Customer needs at heart – hardware and software

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Focus on scale and margin; “fewer, better, bigger” projects

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Sustainable innovation as differentiator

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Shift R&D resources to businesses, reduce corporate research

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## Innovation capability

>EUR1.7Bn<sup>1</sup>

~9% R&D of sales

from 10.5%, industry leading  
(vs. ~7.5% industry average)

>50%

Of R&D personnel in software  
and data science

90% in business

From 70%

# Execution with decisive action as key value driver

Enabled by culture of accountability and strong HealthTech capabilities



## Patient safety and quality as highest priority

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

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

End-to-end, P&L accountable  
business

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Simplification, de-layering,  
less KPIs

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Reduction of 10k<sup>1</sup> roles

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Leadership and talent

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# The Respironics recall remains highest priority

## 2022

~90% production and 80% shipment of recall units

Encouraging test results for DS1 platform (within safety norms)

483 remediation in progress

## 2023

Finalize recall and testing

Manage litigation, DoJ investigation

483 remediation and clarity on proposed Consent Decree

## 2023-2025

Manage impact of proposed Consent Decree

Manage litigation, DoJ investigation

Gradually restore position

Taking the learnings of Respironics recall  
to raise Patient Safety and Quality to the highest standards across Philips



# Encouraging test results for DreamStation1 devices

## VOC testing

Emissions within ISO limits (devices not exposed to ozone)

## Visual inspection and assessment of the foam in used devices

- Low prevalence of significant visible foam degradation
- Even when significant visible particulates are formed, likely to accumulate inside the device

## Particulate Matter testing

Foam degradation does not contribute to appreciable elevated levels of respirable particles; within ISO limits

## Bioassay evaluation, chemical characterization and toxicological risk assessment

Exposure to particulates is unlikely to result in an appreciable harm to health in patients, even based on a worst-case assumption that the patient is exposed to 100% of the foam

Thorough consideration and mitigation of testing limitations that are inherent to any test standard and/or scientific research; very conservative assumptions taken

DreamStation1 represents ~68% of the total # of devices registered as part of the Respironics recall

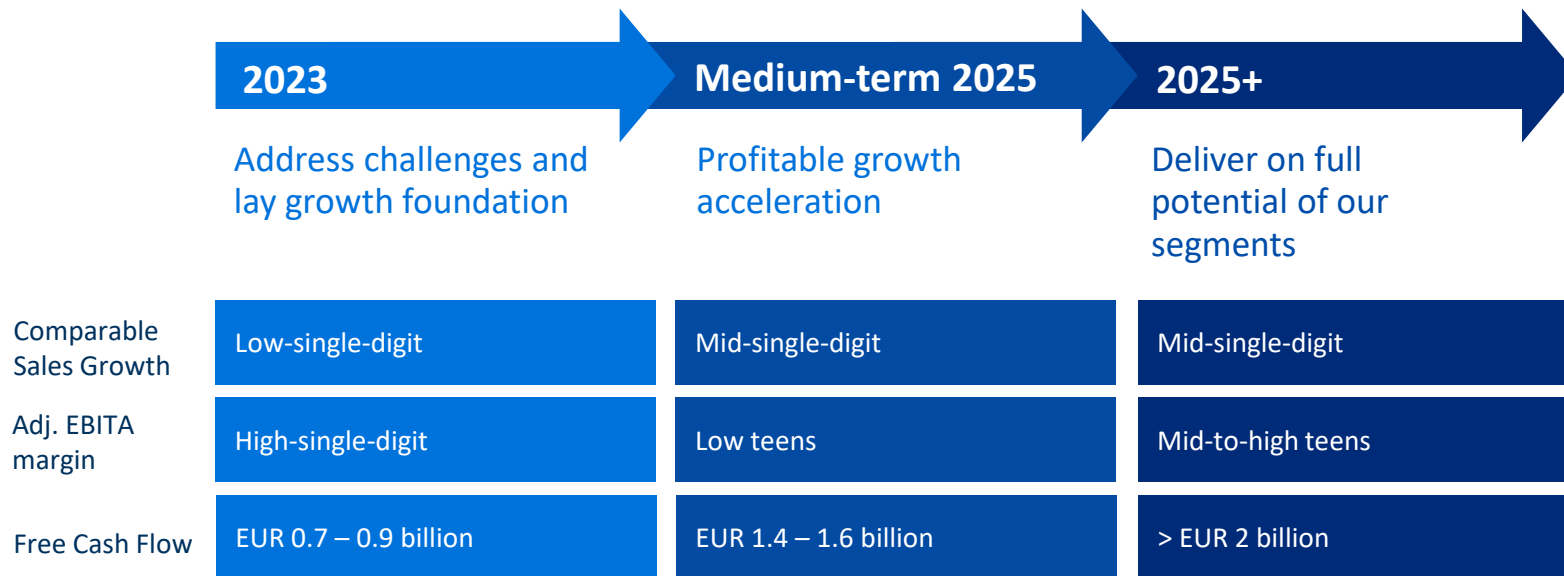
## Test & research program - next steps

- ▶ Finalize toxicological risk assessment of the VOC emissions resulting from ozone-induced foam degradation in DreamStation1 devices  
Expected in Q2 2023
- ▶ Complete testing for SystemOne (~26% of registered devices) and DreamStation Go (~1%), which contain the exact same foam as the DreamStation1 devices  
Expected in Q2 2023
- ▶ Complete VOC and PM testing, as well as chemical evaluation and toxicological assessments for Trilogy 100/200 (~3%) and OmniLab (~2%), where a different PE-PUR foam is used  
Expected in Q3 2023
- ▶ Ongoing engagement with FDA and other competent authorities



# Progressive value creation

Supported by balanced capital allocation



Guidance excludes the impact of the ongoing discussion on the proposed consent decree beyond current assumptions (S&RC CSGR 2023-2025 of 10%) as well as ongoing litigation and the investigation by the US DoJ related to the Respireonics field action

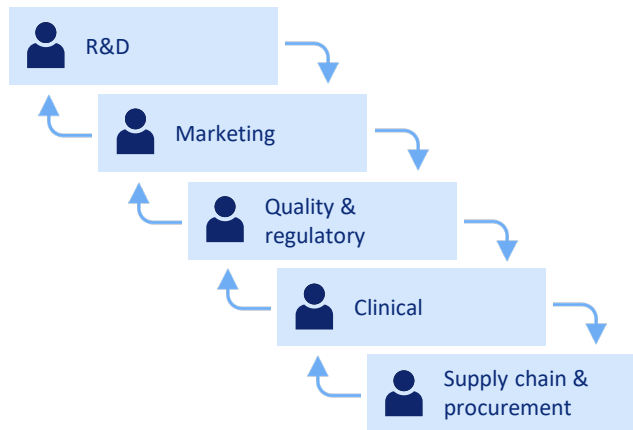




# Focused scalable innovation

# Delivering high impact innovations to customers

From  
**Technology-centric, corporate research**



To  
**Patient and people-centric, business-led**



# Innovation model for focused scalable innovation

“Fewer, better, bigger”

## Focus on segments with right to win

- Significant R&D investments
- Re-target and resource to scale high impact innovations

>EUR1.7 billion<sup>1</sup>,  
~9% R&D of sales  
from 10.5%, industry leading  
(vs. ~7.5% industry average)

## Empower business execution

- Tailor innovation to segment we serve
- Focused, fewer projects, scaling innovation faster

90% business-led  
10% corporate in 2023  
From 70% and 30% in 2022

Flagship innovations across our portfolio will drive our growth

# Philips BioTelemetry

**4.6x** more patients

with atrial fibrillation detected by MCOT compared to ILR alone<sup>1</sup>

**8x** lower costs achieved

with improved detection rates and reduction of secondary stroke risk due to new anticoagulant use in subjects with MCOT-patch-detected atrial fibrillation<sup>1</sup>

1. Medic G, Kotsopoulos N, Connolly MP, et al. Mobile cardiac outpatient telemetry patch vs implantable loop recorder in cryptogenic stroke patients in the US – cost-minimization model. Med Devices (Auckl). 2021;14:445-458. doi:10.2147/MDER.S337142



Flagship innovations across our portfolio will drive our growth

# Sonicare 9900 Prestige

Power toothbrush

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4.7 star rating globally

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20x more plaque removal  
vs. manual toothbrush

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Flagship innovations across our portfolio will drive our growth

# IntelliVue

Dynamic care solution

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Alarm fatigue:  
40% total alarm reduction<sup>1</sup>

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Workflows:  
Reduced time to process from  
5 minutes to 3.9 seconds<sup>2</sup>

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1. Team-Based Interventions to Reduce the Impact of Nonactionable Alarms in an Adult Intensive Care Unit. Justin Yeh 1, Ruth Wilson, Lufei Young, Lisa Pahl, Steven Whitney, Kevin C Dellsperger, Pascha E Schafer
2. Results from baseline and post time & motion studies conducted by Philips and Jackson Health internal teams in the high acuity units (ED, TICU, CCU) | 2.





Flagship innovations across our portfolio will drive our growth

# Azurion

Image Guided Therapy platform

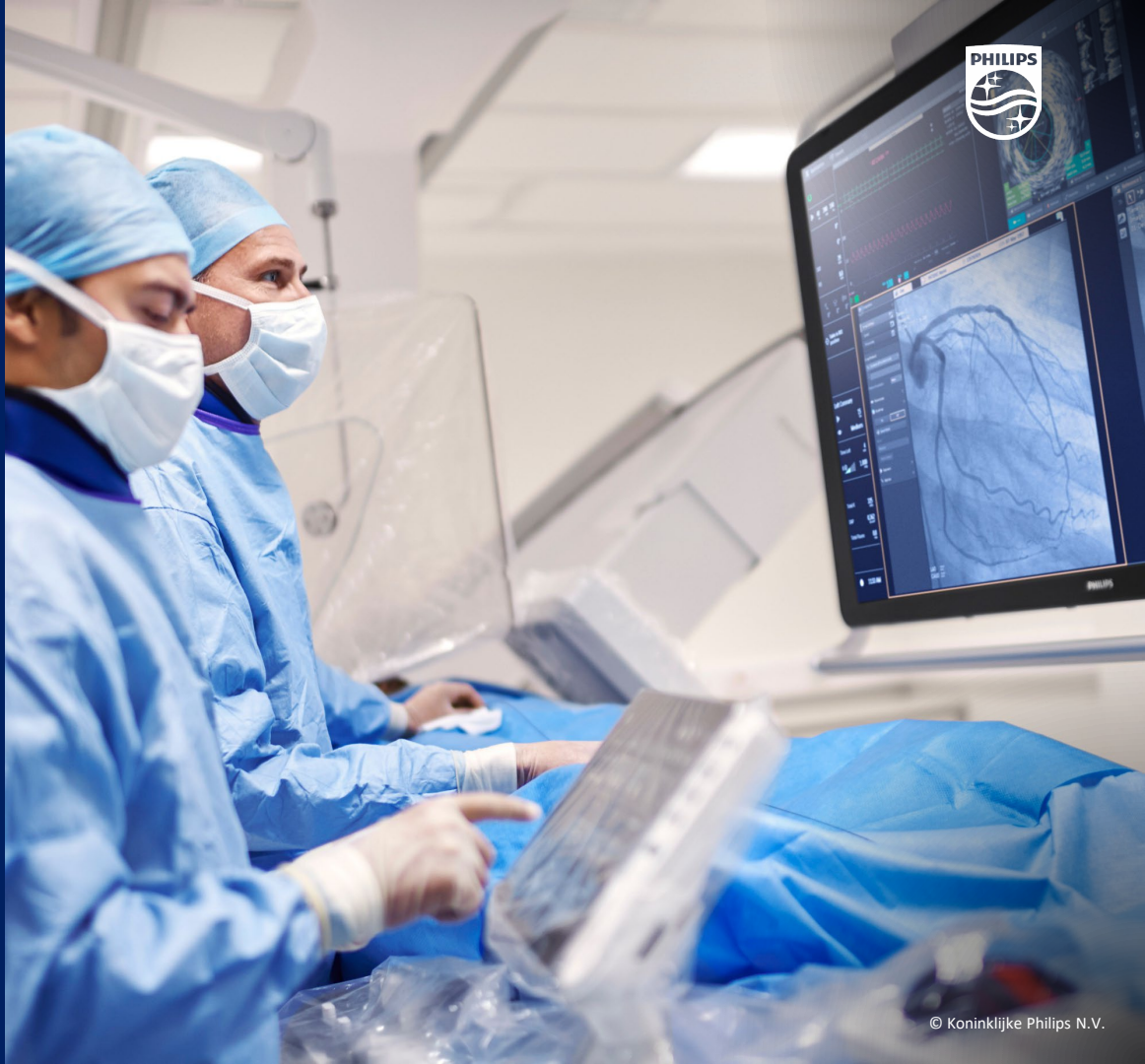
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17% time saving per procedure<sup>1</sup>

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28% post-procedure lab time reduction<sup>1</sup>

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1. Results are specific to the institution where they were obtained and may not reflect the results achievable at other institutions

Flagship innovations across our portfolio will drive our growth

# Helium Free MR

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0 helium refill over lifetime

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Up to 53% lower power consumption per patient scan (32% on average)<sup>1</sup>

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1. Philips SmartSpeed power consumption versus Philips SENSE based scanning. Based on COCIR and in-house simulated environment. Results can vary based on site conditions





Flagship innovations across our portfolio will drive our growth

# Spectral CT

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34% decrease in diagnosis time<sup>1</sup>

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26% decrease in follow-up scans<sup>2</sup>

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1. Analysis by CARTI Cancer Center, Little Rock, AR, USA.

2. Analysis by LSU, New Orleans, LA, USA. Results from case studies are not predictive of results in other cases. Results in other cases may vary.



Flagship innovations across our portfolio will drive our growth

# Ultrasound Compact 5000

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22% increase in diagnosis confidence<sup>1</sup>

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42% reduction in button pushes<sup>2</sup>

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1. Based on internal bench test with an ultrasound phantom, using the C5-1 transducer | 2. Compared to using the semi-automated a Biometry Assist versus manual operation



# Scaling largest multi-vendor Enterprise Informatics business

## Philips Image Management

**70+** AI powered clinical apps      **50%** productivity improvement<sup>1</sup>

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## Interoperability and surveillance

**1000+** unique medical device connected

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## Tele care solution

**20+** years experience in eICU remote care management

Expanding leadership in radiology, cardiology, and pathology

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End-to-end business setup to scale

Growing **~2x** faster than Philips      **EUR1.5Bn** revenues by 2025

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1. Results following implementation of a unified radiology workspace with enterprise disaster recovery back-up system at Campus Biomedico University Hospital, Rome, Lazio, Italy.

Note: "Largest Enterprise Informatics business" in Philips addressable markets



# Execution as value driver

## Patient safety & quality as priority

Reliable supply chain

Simplified operating model

# Patient safety and quality as highest priority



Enhancing patient  
safety and quality

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Patient and people-centric culture

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Elevated leadership to Executive Committee

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Business leaders directly accountable for patient safety & quality

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All employees have patient safety and quality as KPI

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Deepened quality, regulatory, clinical and medical device competencies

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# Shift to patient and people-centric product design

Multi-year effort through our expanded patient safety and quality program



Catalyzing  
innovation

Patient safety and quality driven innovation

Simplify and upgrade critical systems and data integration

Rigorous product design, development, and validation process



Improving  
compliance

Ongoing systematic regulatory and compliance review

Prioritizing compliance in higher risk areas

Targeted increase in resourcing

## Investments

Stepping-up by ~EUR 350 million over 3 years

# Progress indicators



Enhancing patient  
safety and quality

>90%

renewed team in the last two  
years

30%

reduction of # of Quality  
Management Systems



Catalyzing  
innovation

30K

employees received  
role-based training

75%

of complaint management processes  
standardized



Improving  
compliance

50%

reduction of # of major findings per  
audit (to 0.07)

36%

decrease of # of CAPA investigations  
closed within 90 days

# Execution as value driver

Patient safety & quality as priority

**Reliable supply chain**

Simplified operating model



# Context and challenges for supply chain

## Our context

### 2018-21

Shift to centralized functional organization

### 2021-22

Unprecedented pressure requiring agility and resilience

- Supply and demand disruption due to COVID
- More volatile and domain specific markets, regionalization
- Global disruptions
- Component shortages

## Resulting challenges

---



### Supply-chain set-up

- Reduced end-to-end agility
  - Functional orientation
  - Sub-optimized processes
- 



### Product

- Broad portfolio
  - Technical debt, old designs
- 



### Suppliers

- Supplier fragmentation
- Significant de-commits
- Limited visibility

# Towards a reliable end-to-end supply chain



## Supply-chain set-up

End-to-end supply chain by business per April 2023

---

Business specific supply chain leaders

---

Step up in capabilities  
(data, digitization, procurement)



## Product

Product portfolio pruning,  
modularity

---

Reducing technical debt through  
product redesign

---

Improve planning and delivery



## Suppliers

Reduction of # of suppliers

---

Material supply de-risk plan

---

Long-term supplier management

# Enable our businesses to deliver quality products on time to hospitals, patients and consumers

## Service level

Increase to industry level: >85% for systems/devices, 95% for consumer products

---

## Cost efficiency

EUR 400-450 million over 3 years (of which EUR 250 million related to operating model)

---

## Strategy and execution

Zero high risk components by end of 2023

---

## Investments

EUR 200-250 million over 3 years (OpEx)

---

# Examples of our progress in Q4 2022

## Backlog reduced & growth supported (CSG%)



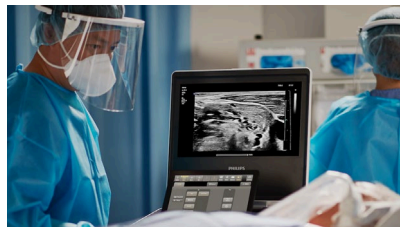
Monitoring

**+22%**



IGT Systems

**+7%**



Ultrasound

**+8%**



Personal Health

No supply  
issues

## Material supply de-risk to date

**56**

PCBAs redesigns completed

Reduced risk for  
high-risk components

**700+**

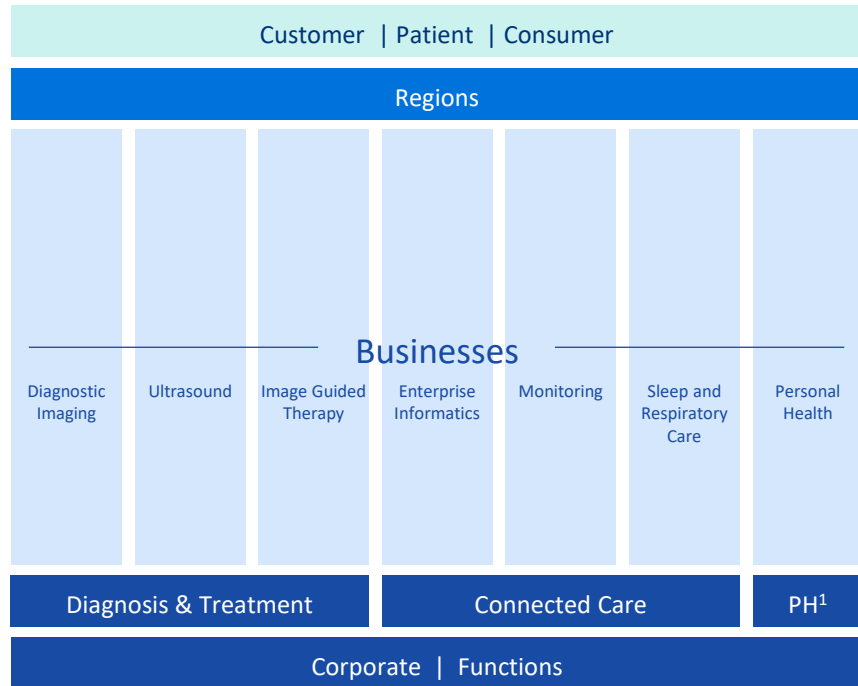
# Execution as value driver

Patient safety & quality as priority

Reliable supply chain

Simplified operating model

# Simplified operating model: accountable, lean, and agile



Businesses with single accountability, proximity to customers

---

End-to-end business enabled by strong regions and lean functions, setup to win in their segments

---

Delayed organization, less KPIs and simpler processes

---

~10k<sup>2</sup> roles reduction over 2022-25, focused on Corporate and Functions optimization

---

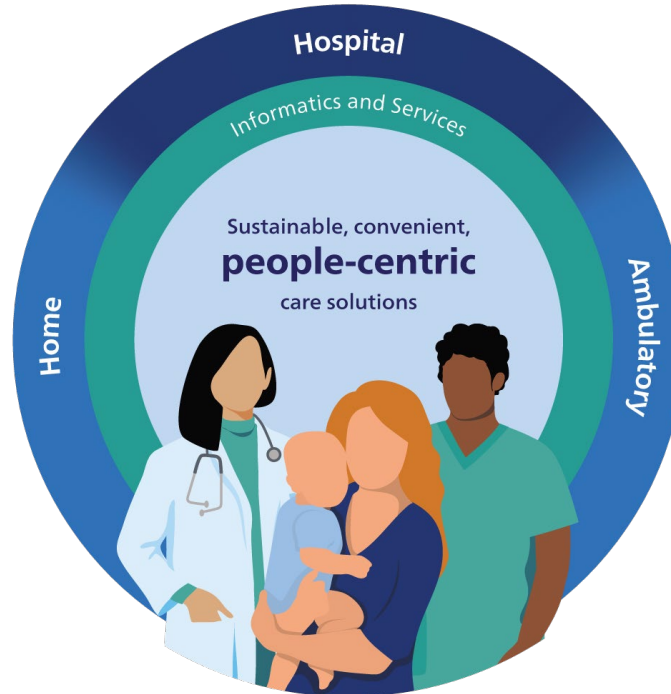
# Reinvigorating patient and people-centric culture

**Accountability & empowerment**

**Patients and people at the heart of everything we do**

**Execution focus and simplicity**

**Transparency, growth mindset**



**Injecting HealthTech expertise**

**75%**

Executive hires with Health Tech and healthcare background

**>50%**

of non-executive hires in 2022 came from Health Tech

**25%**

Renewal of Executive Committee in early 2023

## Executive committee new members



**Market leader  
North America**

**Jeff DiLullo**  
American

*More than 20 years of strong sales, services and solutions delivery background*



**Patient Safety & Quality  
Officer**

**Steve C. De Baca**  
American

*More than 30 years of Quality and Regulatory experience in the medical device industry*

**Expected to be announced in early 2023:  
New Chief Business Leaders for Precision Diagnosis<sup>1</sup> and for Connected Care**



# Our experienced and passionate executive team



**CEO**  
**Roy Jakobs**  
Dutch/German



**Personal Health**  
**Deeptha Khanna**  
Singaporean



**North America**  
**Jeff DiLullo**  
American



**Innovation & Strategy**  
**Shez Partovi**  
Canadian



**CFO**  
**Abhijit Bhattacharya**  
Indian



## Diagnosis & Treatment

*Image-Guided-Therapy*  
**Bert van Meurs**  
Dutch



*Precision Diagnosis a.i.<sup>1,2</sup>*  
**Bert van Meurs**  
Dutch



**Greater China**  
**Andy Ho**  
Chinese/Canadian



**Patient Safety & Quality**  
**Steve C. De Baca**  
American



**ESG & CLO**  
**Marnix van Ginneken**  
Dutch



**Connected Care a.i.<sup>1</sup>**  
**Daniel Leonard**  
American



**International Markets<sup>3</sup>**  
**Edwin Paalvast**  
Dutch



**Human Resources**  
**Daniela Seabrook**  
Swiss

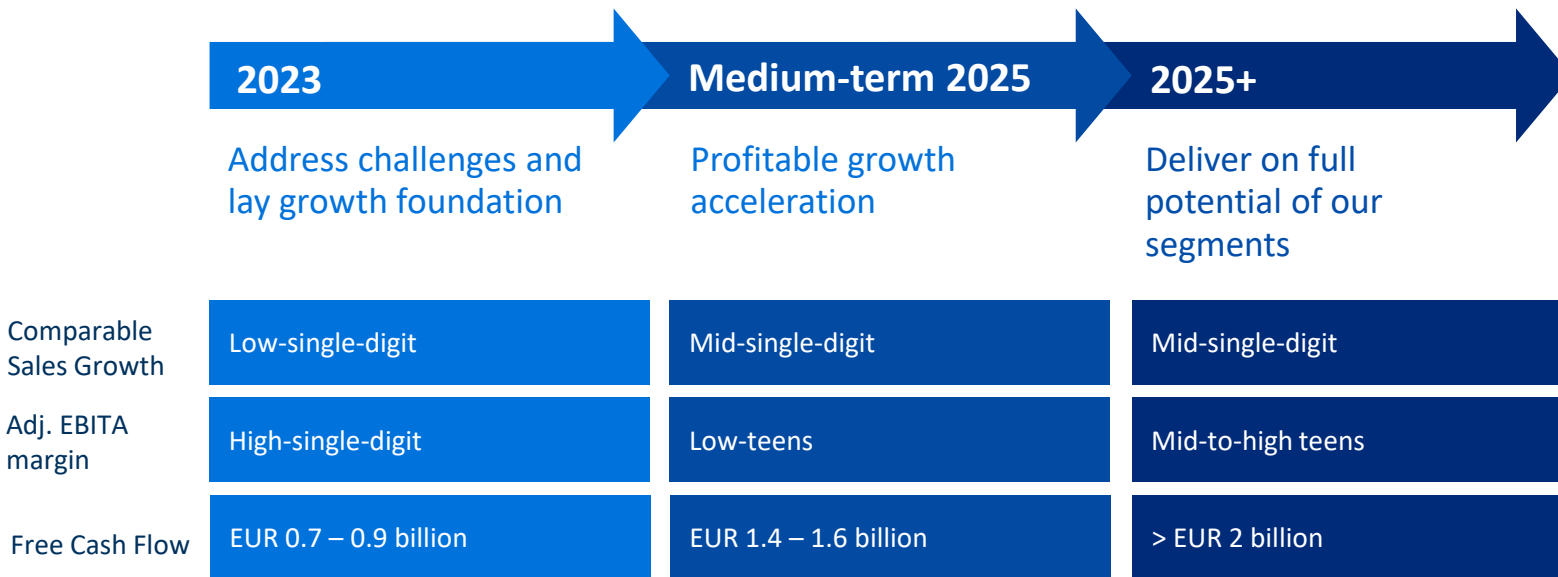


**Operations**  
**Wim Appelo**  
Dutch

# Path to value creation

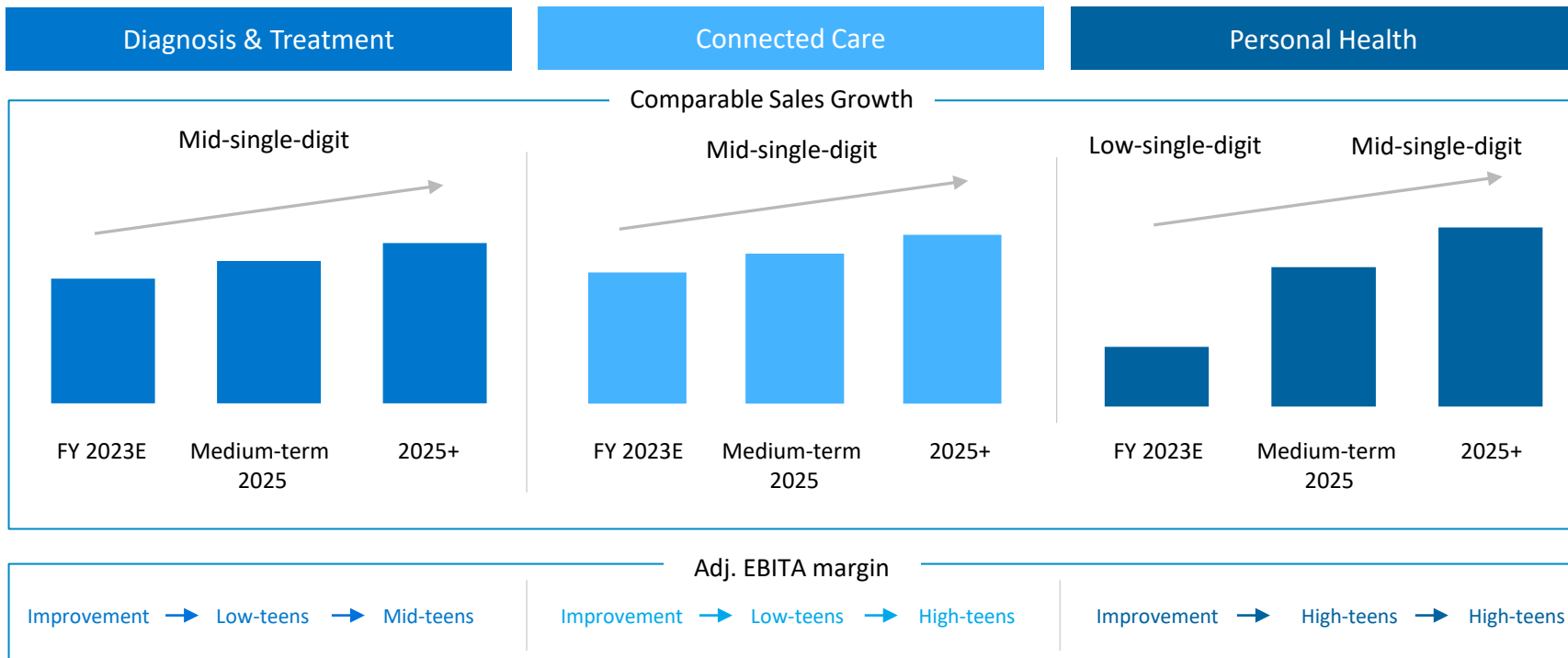
# Progressive value creation

Supported by balanced capital allocation



Guidance excludes the impact of the ongoing discussion on the proposed consent decree beyond current assumptions (S&RC CSGR 2023-2025 of 10%) as well as ongoing litigation and the investigation by the US DoJ related to the Respiroics field action

# Driving organic growth and margin improvement



Guidance excludes the impact of the ongoing discussion on the proposed consent decree beyond current assumptions (S&RC CSGR 2023-2025 of 10%) as well as ongoing litigation and the investigation by the US DoJ related to the Respireonics field action

# Productivity initiatives<sup>1</sup> to deliver EUR 2.0 billion in the 2023-2025 period

## Operating Model

- Simplified operating model with reduction of 10k<sup>2</sup> roles
- R&D prioritization, reduction of Corporate Research
- End-to-end supply chain, simplifying planning, and eliminating duplications

**EUR 950-1,050 million**

## Procurement

- Bill-of-material savings via redesign, value analysis, engineering
- Reductions in warehousing, transportation and consulting

**EUR 550 - 600 million**

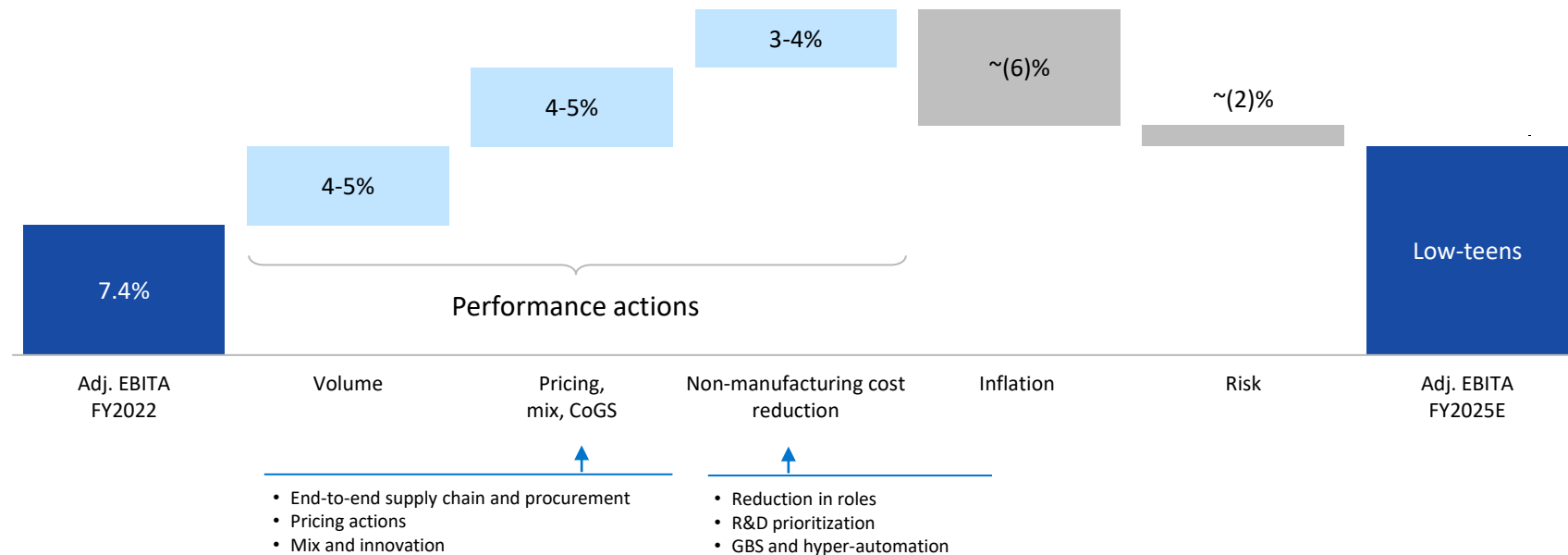
## Other productivity

- S&RC rightsizing
- Manufacturing footprint optimization and service productivity
- R&D platform simplification and footprint optimization
- GBS and hyper-automation

**EUR 400 - 450 million**

# Margin increase from productivity, pricing & supply chain improvements – cumulative drivers 2023-2025

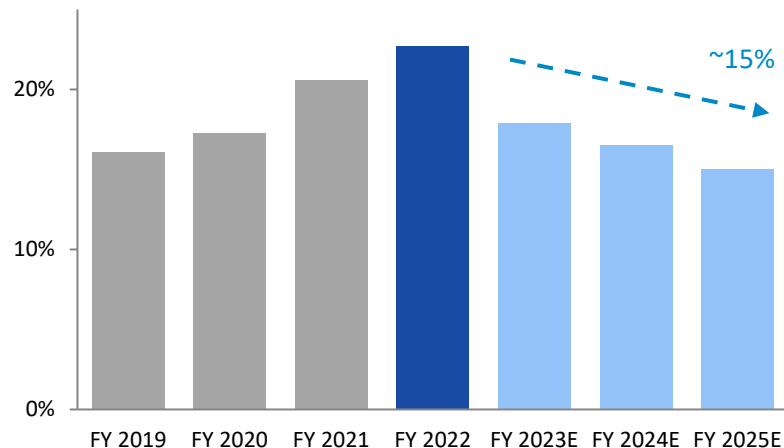
Adj. EBITA margin<sup>1,2</sup>



1. Guidance excludes the impact of the ongoing discussion on the proposed consent decree beyond current assumptions (S&RC CSGR 2023-2025 of 10%) as well as ongoing litigation and the investigation by the US DoJ related to the Respiroics field action | 2. Investments in patient safety and quality and supply chain improvements included

# Inventories improvement plan to drive normalization to historical levels

## Inventory<sup>1</sup> as a % of sales



## Inventory improvement drivers

### 2023

- Reduction of incomplete inventory caused by component shortages
- Reduction of Account Receivables (AR) caused by high December 2022 sales
- Completion of Respiroics recall

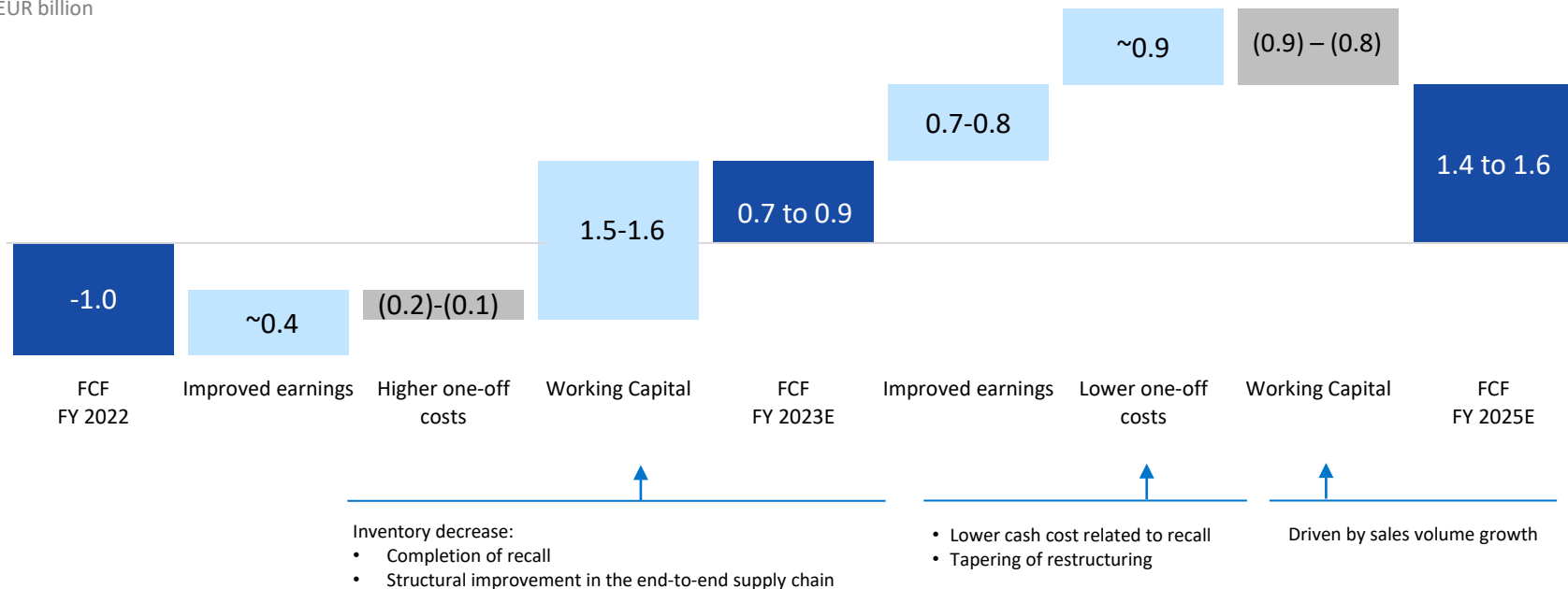
### 2024 – 2025

- Structural improvement in the end-to-end supply chain

# Higher earnings and lower cash cost related to Respiroics recall will result in higher Free Cash Flow

Indicative Free Cash Flow<sup>1</sup> improvement drivers

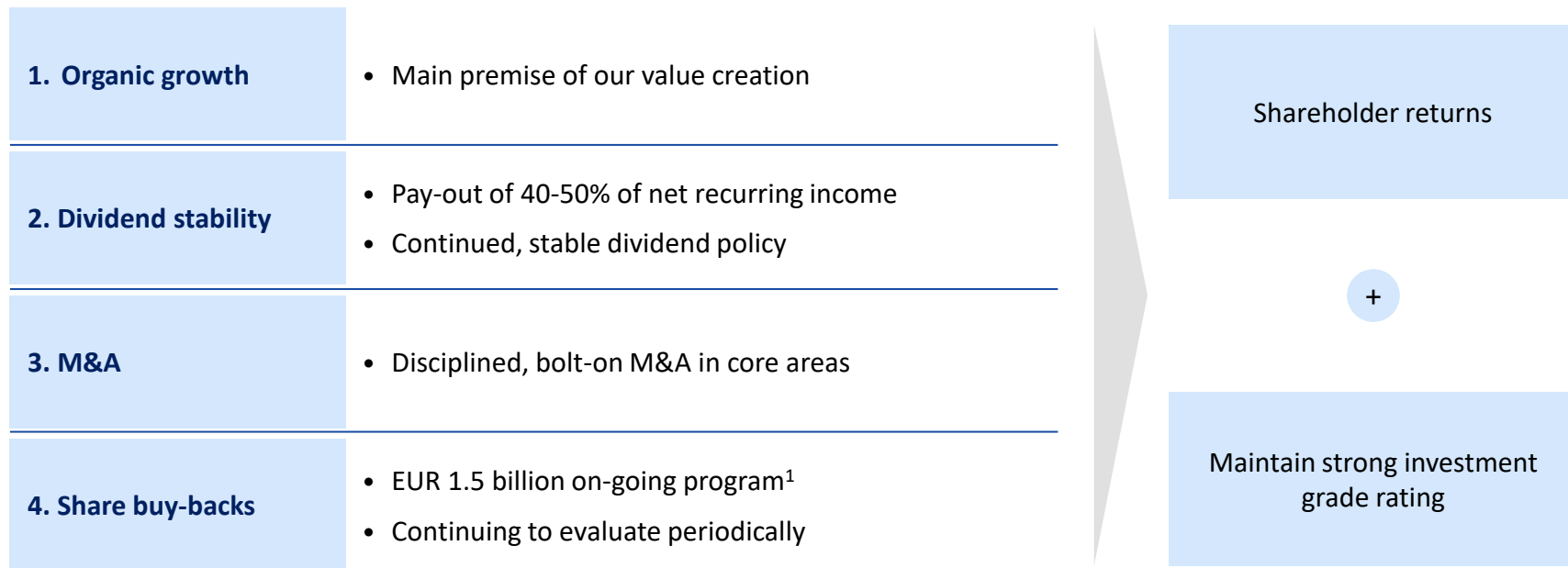
EUR billion



1. Guidance excludes the impact of the ongoing discussion on the proposed consent decree beyond current assumptions (S&RC CSGR 2023-2025 of 10%) as well as ongoing litigation and the investigation by the US DoJ related to the Respiroics field action



# Balanced capital allocation focusing on organic growth, margin improvement and cash



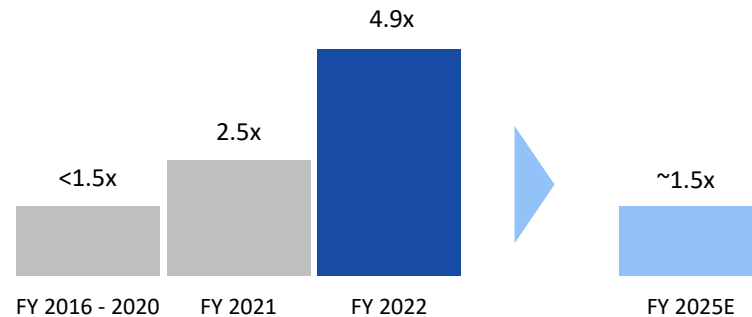
1. The program has been executed through a number of forward purchase transactions and (in the fourth quarter of 2021 and January 2022) open market purchases. The open market repurchases under the program have been concluded and the forward transactions are expected to be settled in 2023 and 2024. Further information can be found on [Investor Relations website](#)

# Target an improvement of leverage ratio towards 1.5x EBITDA

## Debt maturity profile improved through liability management

- Debt repayment profile for 2023 - 2025 reduced from 3.2 billion to 2.0 billion
- Extended average maturity on bonds by 1.3 years to 7.9 years
- Extended maturity on EUR 1 billion Standby Facility from 2024 to 2027
- Utilized EUR 500 million under the new EUR 1 billion credit facility, after repaying EUR 200 million of commercial paper
- No financial covenants
- EUR 1.5 billion of available committed credit facilities

## Net Debt to EBITDA ratio<sup>1</sup>



2022 impacted by:

- Lower earnings and higher inventory and AR in 2022
- Higher cash costs of Respiroics recall in 2022
- Higher restructuring costs for the productivity program



## Profitable growth acceleration

Medium-term 2025

CSG (%)	Mid-single-digit
Adj. EBITA (%)	Low teens
Free Cash Flow	EUR 1.4-1.6 billion
Adj EPS growth	Double-digit
Organic ROIC	Low-teens
Credit rating	Maintain strong investment grade rating
Dividend stability	Pay-out 40-50% of net recurring income
Effective tax rate	24-26%

## Deliver on full potential of our segments

2025+

Mid-single-digit
Mid-to-high teens
>EUR 2 billion
Double-digit
Mid-to-high teens
Maintain strong investment grade rating
Pay-out 40-50% of net recurring income

Note: Guidance excludes the impact of the ongoing discussion on the proposed consent decree beyond current assumptions (S&RC CSGR 2023-2025 of 10%) as well as ongoing litigation and the investigation by the US DoJ related to the Respireonics field action

# Closing remarks

# Our context...

## Attractive HealthTech Market

- 3-6% revenue CAGR
- Mid-to-high-teens margins
- Megatrends, sustainable healthcare

## Strengths

- Leading positions, innovation
- High customer intimacy
- Strong purpose, brand, ESG

## Challenges

- Strategy implementation
- Innovation model
- Quality
- Supply chain reliability
- Complex Operating model

Creating  
value with  
sustainable  
impact

# ...our future



## Focused organic growth and scalable innovation

- Expand leadership positions in Image-Guided-Therapy, Ultrasound, Monitoring, and Personal Health
  - Scale Enterprise Informatics
  - Improve Diagnostic Imaging, restore S&RC
- Patient, people-centric, scalable innovation

## Execution as main value driver

1. Patient safety & quality highest priority
  2. Reliable supply-chain
  3. Simplified operating model
- Culture of accountability and HealthTech capabilities

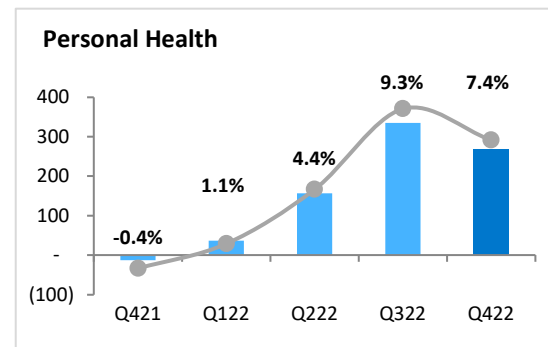
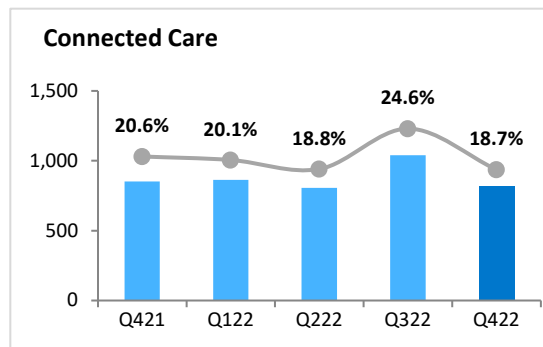
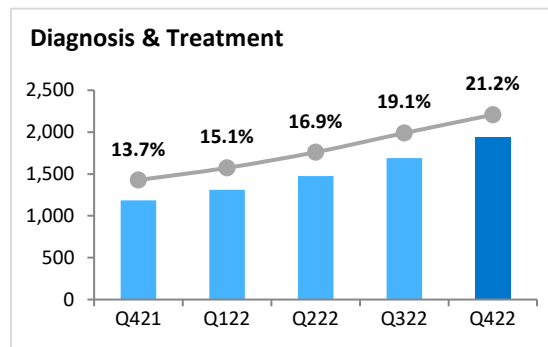
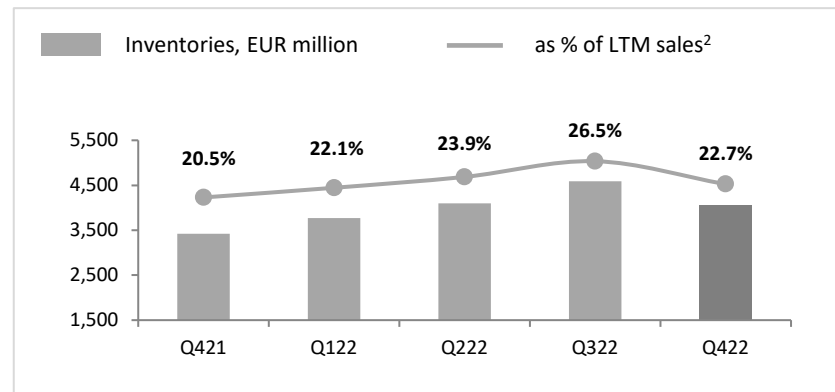
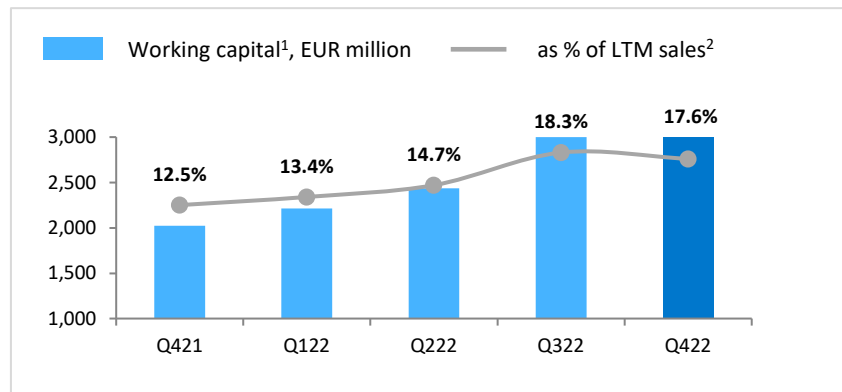
## Value creation

- Medium-term 2025: mid-single-digit growth, low teens Adj. EBITA margin, EUR 1.4-1.6 billion FCF
- 2025+: mid-single-digit growth, mid-to-high teens Adj. EBITA margin, >EUR 2 billion FCF

Note: Guidance excludes the impact of the ongoing discussion on the proposed consent decree beyond current assumptions (S&RC CSGR 2023-2025 of 10%) as well as ongoing litigation and the investigation by the US DoJ related to the Respireonics field action

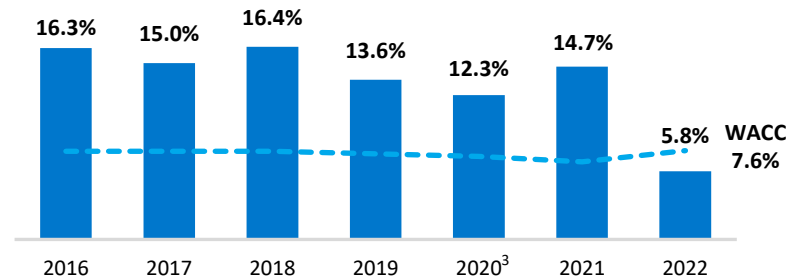
# Financial appendix

# Working capital and inventories



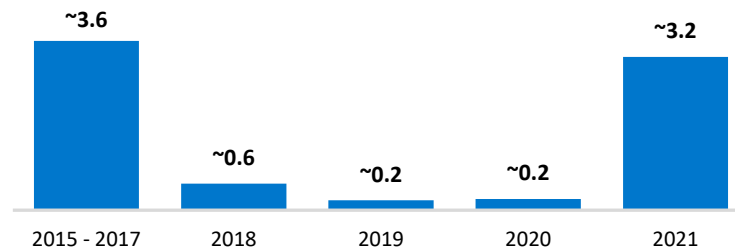
# Balanced capital allocation policy

## Organic Return on Invested Capital<sup>1,2</sup>



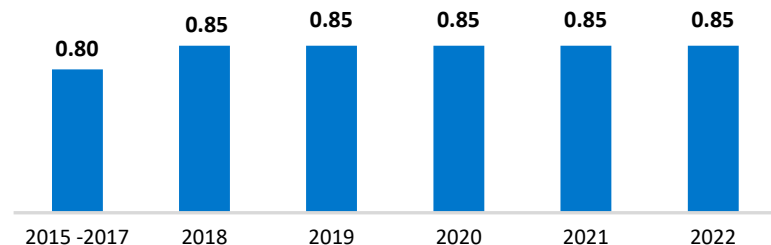
## Mergers & Acquisitions

EUR billion



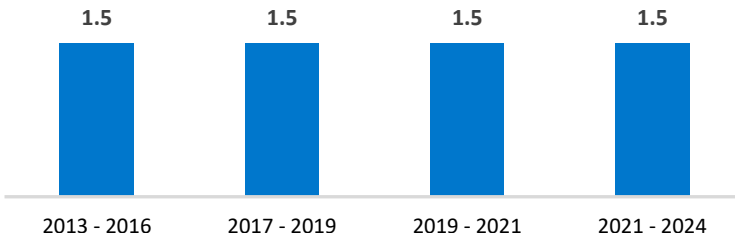
## Dividends

EUR per share



## Share repurchase

EUR billion



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 EBITA/ 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	Q4 22	2022
<b>Diagnosis &amp; Treatment</b>	<b>15</b>	<b>6</b>	<b>(12)</b>	<b>15</b>	<b>25</b>	<b>1</b>	<b>7</b>	<b>(124)</b>	<b>(85)</b>	<b>(201)</b>
Restructuring & Acq.-related charges	17 <sup>1</sup>	(32)	(8)	15 <sup>1</sup>	(7)	1	7	(5)	(25)	(22)
Other items	(2)	38 <sup>3</sup>	(4)	(0)	32	-	-	(120) <sup>12</sup>	(60) <sup>14</sup>	(180)
<b>Connected Care</b>	<b>(282)</b>	<b>(293)</b>	<b>(62)</b>	<b>(420)</b>	<b>(1,058)</b>	<b>(339)</b>	<b>(116)</b>	<b>(155)</b>	<b>(201)</b>	<b>(811)</b>
Restructuring & Acq.-related charges	(22)	(16)	(8)	(47)	(93)	(20)	(17)	(28) <sup>5,6,10,11</sup>	(43) <sup>5,6,11,10</sup>	(108)
Other items	(260) <sup>4,5</sup>	(277) <sup>4,5</sup>	(54) <sup>2,4</sup>	(373) <sup>4,5</sup>	(965)	(319) <sup>5,6,10,11</sup>	(99) <sup>5,6,10,11</sup>	(127) <sup>12,13</sup>	(158) <sup>13</sup>	(703)
<b>Personal Health</b>	<b>(1)</b>	<b>1</b>	<b>(0)</b>	<b>1</b>	<b>1</b>	<b>-</b>	<b>(1)</b>	<b>(3)</b>	<b>(4)</b>	<b>(8)</b>
Restructuring & Acq.-related charges	(1)	1	-	1	1	-	(1)	-	(10)	(11)
Other items	-	-	-	-	-	-	-	(3) <sup>12</sup>	6	3
<b>Other</b>	<b>(33)</b>	<b>(73)</b>	<b>(12)</b>	<b>(13)</b>	<b>(131)</b>	<b>(12)</b>	<b>(14)</b>	<b>(20)</b>	<b>(60)</b>	<b>(106)</b>
Restructuring & Acq.-related charges	(3)	2	2	4	5	(6)	(3)	(14)	(38)	(61)
Other items	(30) <sup>7</sup>	(75) <sup>7,8,9</sup>	(14)	(18)	(136)	(6)	(11)	(7)	(22)	(46)
<b>Philips</b>	<b>(301)</b>	<b>(359)</b>	<b>(87)</b>	<b>(417)</b>	<b>(1,163)</b>	<b>(350)</b>	<b>(124)</b>	<b>(302)</b>	<b>(350)</b>	<b>(1,126)</b>
Restructuring costs	(19)	(21)	(10)	(29)	(80)	(31)	(23)	(28)	(103)	(185)
Acquisition related charges	11	(24)	(5)	3	(14)	6	10	(18)	(14)	(16)
Other items	(292)	(314)	(72)	(391)	(1,069)	(325)	(111)	(256)	(233)	(925)

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 Respireonics field action; 6. Provision related to potential higher execution costs of the Respireonics 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 Respireonics; 12. Related to the discontinuation of certain R&D projects; 13. Charge related to impairment of assets; 14. Provision for a legal matter

# Capital expenditures, Depreciation and Amortization

EUR million	Q4 2021	Q4 2022	FY 2021	FY 2022
Capital expenditures on property, plant and equipment	129	164	397	444
Capitalization of development costs	96	77	370	363
Depreciation	183	178	630	711
Amortization of acquired intangible assets	69	104	322	363
Amortization of software	22	41	88	117
Amortization of development costs	69	58	284	411
<b>Depreciation and amortization<sup>1</sup></b>	<b>343</b>	<b>381</b>	<b>1,323</b>	<b>1,602</b>

