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CREDIT OPINION
31 August 2022

Update

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RATINGS

Royal Philips N.V.

Domicile	Amsterdam, Netherlands
Long Term Rating	Baa1
Type	LT Issuer Rating
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Royal Philips N.V.

Update to credit analysis

Summary

On 19 August 2022, we changed Royal Philips N.V.'s (Philips) outlook to negative from stable. The negative outlook reflects the current weak positioning of the rating and the risk of downgrade in case the company is not able to sustainably improve its operating performance over the next quarters or if additional material financial payouts resulting from the current ongoing Respironics recall program (e.g. additional provisions linked to the field action, consequences of the consent decree and potential legal liabilities) lead to further weakening of credit metrics.

Philips' Baa1 rating remains supported by its large scale and market-leading positions in most of the health spaces in which it operates; its well-balanced geographic footprint, its diversified product portfolio and positive fundamental drivers supporting volume growth and stability of the demand.

The rating also takes into account the company's mixed quality track record including past manufacturing issues in some of its facilities in the US and the recent quality issues in some of its sleep and respiratory devices which prompted a recall program; its lower profit margin than its industry peers; the competitive market environment, which led to industry-wide price pressure historically and need for innovation; the company's appetite for acquisitions historically which represents an event risk even if M&A activity has not translated in recent years into material releveraging; and the capital allocation to dividends and share buybacks, which constrain credit metrics.

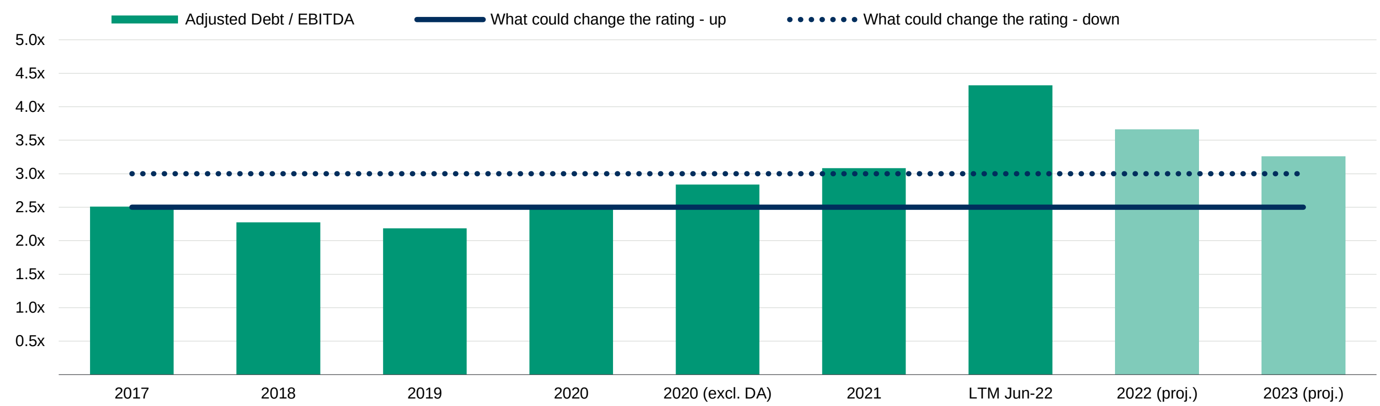
Over the last 18 months, Philips' rating transitioned from well to weakly positioned. Since the first half of 2021, quality issues in some of the company's respiratory devices triggered costly remediation measures (costs to repair and replace the faulty devices as part of the recall program amounting to around €1 billion to date), loss of revenue usually generated by these products (around €600 million annually) and impacted the company's image in terms of quality. Despite a growing order intake, Philips recorded four consecutive quarters of sales decline due to supply chain challenges resulting in a sharp margin drop. As a result, Moody's adjusted metrics as of June 2022 are very weak for the rating category as illustrated by a Moody's adjusted debt / EBITDA of 4.3x and Moody's adjusted free cash flow in negative territory. For the Moody's adjusted EBITDA, we adjusted as unusual (i.e. added back) the costs linked to the Respironics field action. The Baa1 rating factors in our expectation of a visible recovery of credit metrics over the next quarters, particularly a turnaround of current negative free cash flow generation.

Key challenges for Philips over the next quarters are managing the supply chain disruptions to be able to convert its order backlog into sales and completing the Respironics field action.

More structurally, a key challenge ahead for Philips is to sustainably improve its track record in terms of quality and patient safety capability.

Exhibit 1

We project the leverage to improve thanks to EBITDA growth as supply chain challenges gradually ease and the company executes its order book



2021 metrics onwards exclude Domestic Appliance (DA) business. Projections (Proj.) are Moody's projections, not the view of the issuer. The metrics incorporate Moody's standard adjustments.
Source: Moody's Investors Service

Credit strengths

» Large scale and market-leading positions in most of the health spaces in which it operates

» Well-balanced geographic footprint and diversified product portfolio

» Positive fundamental drivers supporting volume growth and stability of demand

Credit challenges

» Mixed quality track record as illustrated by manufacturing issues in some of the company's facilities in the US in the past and the recent product recall

» Lower profit margins than industry peers

» Competitive market environment, which led to industry-wide price pressure historically and need for innovation

» Appetite for acquisitions historically which represents an event risk

» Capital allocation for dividends and share buybacks, which constrain credit metrics

Rating outlook

The negative outlook reflects the current weak positioning of the rating and the risk of downgrade in case the company is not able to sustainably improve its operating performance over the next quarters or if additional material financial payouts resulting from the current ongoing Respironics recall program (e.g. additional provisions linked to the field action, consequences of the consent decree and potential legal liabilities) lead to further weakening of credit metrics.

Factors that could lead to an upgrade

The outlook could be stabilized in case Philips' demonstrates its ability to improve its operating performance including sales growth on a sustainable basis, delivers margin improvements and returns to positive free cash flow and in case the potential negative financial impact from the consent decree and the legal liability associated with the ongoing Respironics field action do not result in a material deterioration of credit metrics. The company indicated that it should have more clarity on the legal liability during the course of 2023 and we estimate that there should be more clarity on the financial impact of the consent decree by year end 2022 or beginning of 2023.

The rating is currently weakly positioned and an upgrade is currently unlikely in the short term. Upward rating pressure could develop in the medium term in case the Moody's adjusted debt/EBITDA decreases below 2.5x on a sustained basis; the Moody's adjusted free cash flow/debt approaches 20%; the company sustainably improves its operating margin.

Factors that could lead to a downgrade

Downward rating pressure could develop in case the Moody's adjusted debt/EBITDA remains above 3.0x for a prolonged period or the Moody's adjusted free cash flow/debt stays below 10% on a sustained basis.

Key indicators

Exhibit 2
Royal Philips N.V.

	2018	2019	2020	2021	LTM Jun-22	2022 (proj.)	2023 (proj.)
Revenue (EUR million)	18.1	19.5	17.3	17.2	17.2	17.7	18.4
Return on Sales (NPATBUI / Sales)	7.3%	7.3%	7.2%	7.1%	4.8%	4.6%	5.9%
Debt / EBITDA	2.3x	2.2x	2.8x	3.1x	4.3x	3.7x	3.3x
CFO / Debt	28.2%	26.7%	30.4%	19.2%	3.1%	5.1%	18.6%
FCF / Debt	10.4%	6.4%	19.8%	3.0%	-10.8%	-9.1%	2.7%
EBITA / Interest	9.5x	11.4x	11.2x	11.0x	6.6x	7.1x	8.3x

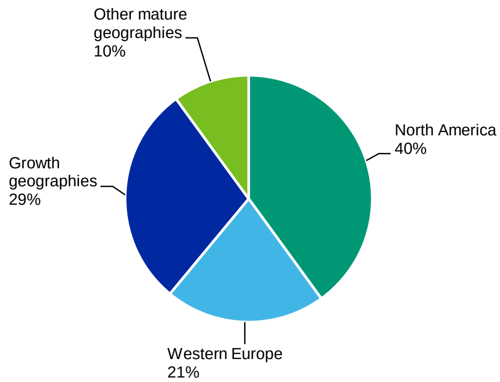
All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months. Moody's projections (proj.) are Moody's opinion and do not represent the views of the issuer. We treated the provisions and remediation costs linked to the Respironics field action as exceptional (i.e. added back to EBITDA).
Source: Moody's Investors Service

Profile

Over the last years and following a series of divestments and acquisitions, Royal Philips N.V. (Philips) has refocused its activities toward health technologies. Currently, the group operates under three main segments: **Diagnosis & Treatment** (50% of FY 2021 sales excluding Domestic Appliances (DA)), including diagnostic imaging such as Magnetic Resonance Imaging (MRI) and Computed Tomography (CT), ultrasound, image guided therapy systems and devices, enterprise informatics); **Connected Care** (27%), including hospital patient monitoring, emergency care, sleep & respiratory care, connected care informatics,) and **Personal Health** (20%), including grooming and beauty, oral care, mother and child care). In 2021, the company sold its Domestic Appliances (DA) division (€2.2 billion sales in 2020) previously belonging to the Personal Health segment.

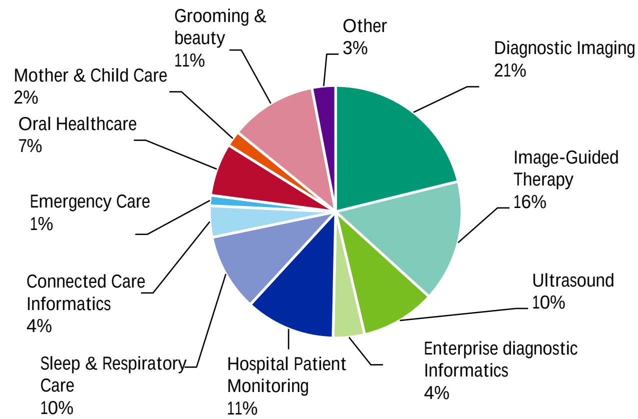
Headquartered in the Netherlands (Aaa stable), the group employs around 79,000 people, and its sales and services operations cover more than 100 countries worldwide.

Exhibit 3
Philips' well balanced geographic footprint
Revenue split by geography (FY 2021 excluding DA)



Growth geographies consist of all geographies excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel.
Sources: Company

Exhibit 4
Philips' well-diversified portfolio of products
Revenue split by product category (FY 2021 excluding DA)



Green area represents Diagnosis & Treatment, blue area represents Connected Care and red/orange area represents Personal Health.
Sources: Company

Recent developments

Respironics product recall

In June 2021, Philips issued a recall notification to mitigate potential health risks related to the sound abatement foam component in certain sleep and respiratory care devices. The product recall program (field action) aims at replacing or repairing 5.5 million of devices (specific CPAP, BiPAP and mechanical ventilator devices) globally, of which approximately half are in the US.. As of June 2022, the cost of the field action is estimated at around €1 billion, out of which around €500 million still remain to be cashed out post June 2022 (€400 million in H2 2022 and €90 million in 2023). As of July 2022, Philips Respironics has produced a total of approximately 3 million repair kits and replacement devices and expects to complete around 90% of the production and shipments (of the 5.5 million total affected devices) to customers in 2022. The time to complete the program is impacted by the dependency on supply of materials, including from China, and global logistics capacity. Because of the prioritization of the repair and replace program, Philips is currently not taking new orders for sleep therapy systems (usually generating around €600 million of revenue annually), while masks and other consumables continue to be sold. Philips guided that it expects to resume the sale of sleep therapy systems during the course of 2023 and to gradually ramp-up production to reach the amount of sales generated in 2019 by 2025.

In the first half of 2022, Philips Respironics continued to engage with the US Food and Drug Administration (FDA) on the progress it has made on the planned actions it committed to in response to FDA's form 483 observations. In July 2022, the US Department of Justice, acting on behalf of the FDA, began discussions with Philips regarding the terms of a proposed consent decree to resolve the identified issues. The company indicated that the financial consequences of the consent decree cannot be estimated at this stage. We estimate that there should be more clarity on the financial impact of the consent decree by year end 2022 or beginning of 2023 but it is subject to the FDA. Potential negative financial impact from the consent decree, for example delay in planned resumption of sales or additional costs linked to FDA inspections are not included in our model at this stage.

While class actions and lawsuits have been filed in the US, Australia, Canada and Israel, no provisions for potential legal litigation has been recorded as of June 2022. The company indicated that it should have more clarity on the legal liability during the course of 2023. At this stage, we have not included any financial payout linked to potential legal litigation in our model.

Recent operating performance and forecast

Global credit conditions have turned more negative and credit stress is increasing. The key risk to manage for the industry in general and Philips in particular is supply chain disruptions. Philips is exposed to the global chip shortage, through, for example, its patient monitoring, ultrasound and image-guided therapy portfolio. The company cited a shortage of specific electronic components, exacerbated by shipping delays and supplier lock-downs, for causing delays in fulfilling customer demand. As a result, Philips has struggled to convert its order backlog into sales. Despite an order intake growing every quarter during the Q3-2021 to Q2-2022 period, Philips recorded a sales decline every quarter during the same period. While we expect the global chip shortage to gradually abate going forward, the duration of the supply chain disruption remains unclear. Philips said that it expects its order book and improving component supplies to deliver growth from the second half of 2022 onwards.

While slowing economic growth is a risk, we think that its impact will be relatively minimal for large, globally diversified medical device companies like Philips that offer products that are needed to treat life-threatening illnesses. However, we believe that Philips' Personal Health division which represented 20% of the revenue in 2021 is more exposed to a weakening in consumer sentiment than the rest of the business. Costs inflation is another risk to manage for the industry but we expect that medical devices companies will be able to manage it thanks to pricing power or cost-saving measures. Because Philips has a large backlog of orders priced at old costs assumptions, it will take time to pass on the current costs inflation. For its medical devices segments (Diagnosis & Treatment and Connected Care), Philips expects mid-single digit price increases with 1% impact for FY 2022 and full impact in 2023. For its Personal Health segment, it is quicker to pass on price increases since there is not order book, Philips guided for mid-single price increases with 4% impact for FY 2022, this will be one of the drivers of the expected margin recovery in the second half of the current year.

In our model we assumed revenue to grow by 3% and 4% and a company adjusted EBITA margin of 9.5% and 11% for FY 2022 and FY 2023 respectively. We project below EBITA items (restructuring, acquisition-related charges and other) to reach €770 million in 2022 and €530 million in 2023 out of which €345 million in 2022 are adjusted as unusual because they are linked to the Respironics recall. Our model includes €600 million of cash spent on bolt-on acquisitions annually.

Sale of Domestic Appliances division and recent acquisitions

In 2021, the company sold its Domestic Appliances (DA) division for which it received cash proceeds after tax and transaction-related costs of around €3 billion. This transaction concludes a series of major disposals — after the sale of the TV, LEDs and lighting business — as part of Philips' strategic refocus toward health technologies initiated a decade ago.

After 2018-20, when Philips reduced its M&A spending, the company closed two large acquisitions with BioTelemetry, Inc. closed in February 2021 for an enterprise value of €2.3 billion and of Capsule Technologies announced in January 2021 for a cash consideration of around €0.5 billion, both reinforcing its Connected Care division. Since then, Philips closed only bolt-on acquisitions.

Detailed credit considerations

Large scale and market-leading positions in most of the therapeutic areas in which it operates

Philips' activities are well diversified across healthcare (Diagnosis & Treatment and Connected Care) and consumer products (Personal Health). In addition, around 70% of its sales have leadership (number one or two position) in their addressable markets such as image guided therapy (in systems and smart devices), ultrasound, patient monitoring, respiratory care and automated external defibrillator, cardiology informatics and radiology (US business).

These positions are underpinned by Philips' strong R&D spending of around €1.8 billion per year (10% of sales) on average over the past four years. In addition, the Philips brand is globally well recognized, which is reflected in the company's market-leading positions in the male grooming, oral healthcare, sleep and respiratory care, and mother and child care segments.

Philips employs around 11,000 people in R&D (out of which more than half of R&D personnel are in software and data science) and its total intellectual property portfolio consisted of around 57,000 patent rights and 33,000 trademarks. In 2021, Philips generated about €383 million in intellectual property revenue, which is a strong and recurring source of cash flow.

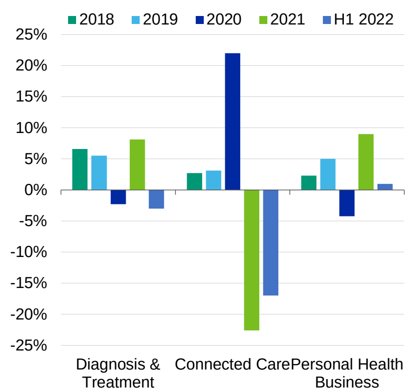
Well-balanced geographic footprint and diversified product portfolio

Philips' geographic footprint is well balanced across North America (40% of 2021 sales excluding DA), Western Europe (21%), growth geographies[1] (29%) and other mature geographies (10%). Over 2017-19, the mature geographies grew at an average 2.4% per year while developing geographies grew at an average 8.4% per year (growth rates are "comparable growth rates" as reported by company, excluding foreign-exchange effect and including the DA business).

Over the last ten years and following a period of divestments, investments and acquisitions, Philips has reoriented its business around health technologies. In particular, the company refocused on the Diagnostic & Treatment and Connected Care segments, which represented close to 80% of the sales in 2021 (excluding DA). Nonetheless, the company has maintained a significant share of activities in its Personal Health business, which provides diversification and stability and has higher operating margin than the group average (as defined by company's adjusted EBITA margin).

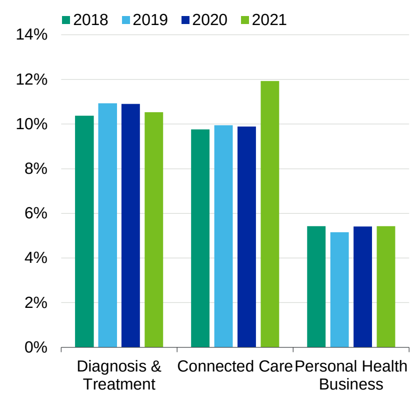
Philips is a global leader (number one or number two market positions) in oral healthcare, mother and child care, grooming, and beauty. The Personal Health business growth is underpinned by digitalization of products and the currently low (but increasing) penetration of these products, especially in emerging markets. Following the coronavirus pandemic, the share of online sales for the Personal Health business increased and reached 43% in 2021.

Exhibit 5
Group's sales grew at around 4%-5% per year during 2017-19, were broadly flat during 2020-21 as the pandemic significantly disrupted the activities and declined during H1-2022 due to supply chain disruptions
Comparable sales growth by segment



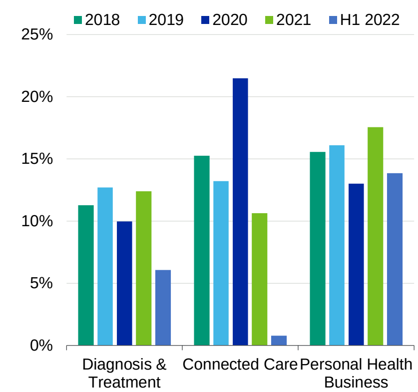
Comparable sales growth rate is cleaned for foreign-exchange effect.
Source: Company

Exhibit 6
The two health focused divisions record the highest R&D investment
Research and development expenses as a percentage of sales



Source: Company

Exhibit 7
Personal Health Division's profitability is above the group average; Connected Care performance was boosted by ventilators sales in 2020 and hurt by the Respironics recall since June 2021
Company-adjusted EBITA margin



Source: Company

Increasing competitive pressure in the medical devices industry and continuous price pressure historically

Although barriers to entry into more complex healthcare solutions are high, the degree of competition remains intense, leading to the need for constant product innovation. More innovative and competitive products exert pricing pressure on existing products and require R&D spent to innovate. Pricing pressure is a feature of the medical devices industry since the last 20 years and we expect this trend to continue in the medium-term. The price pressure requires companies operating in the medical device industry to constantly optimize their cost base to protect margins. As explained above, we expect the industry to gradually pass the current costs inflation to its customers and hence prices to increase over the next quarters. We regard this phase of expected price increase as temporary.

Philips' direct competitors are the healthcare divisions of General Electric Company (General Electric, Baa1 negative) and Siemens Aktiengesellschaft (Siemens AG, A1 stable). Philips also competes with a number of specialized medical device companies, for example, Medtronic, Inc. (A3 stable) and Stryker Corporation (Baa1 stable).

Philips is now focused on securing a larger proportion of recurring solutions revenue. It has signed long-term contracts or partnership agreements with hospitals and universities, with solutions and recurring revenue now accounting for 45% of group sales.

Lower profitability than industry peers, along with a history of operational and legal issues are credit constraints

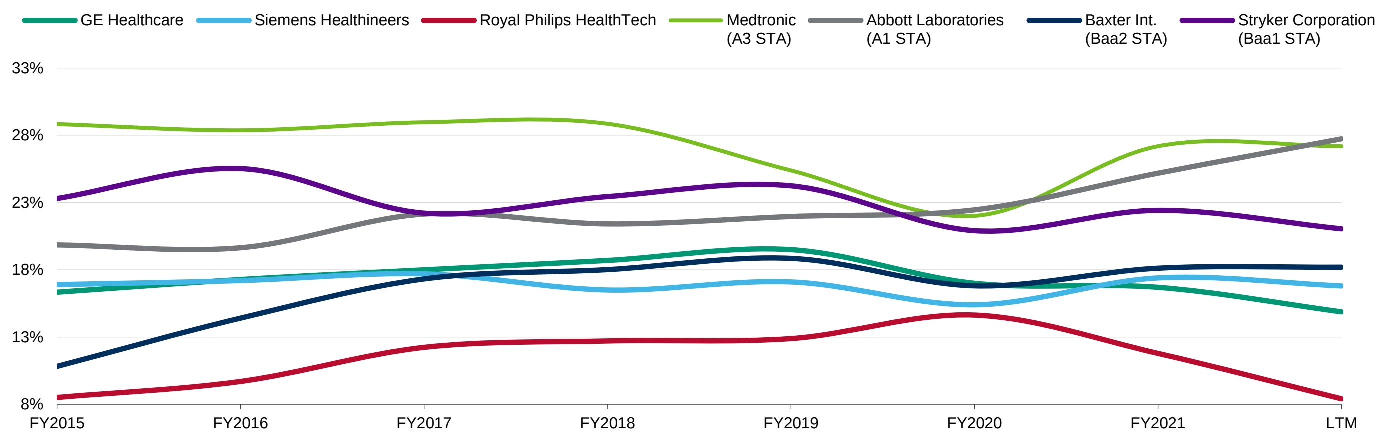
Philips' core medical device products are well positioned, with most of them being among the top two in their addressable markets. However, profitability margins have been below industry averages historically. Philips has ongoing productivity initiatives aiming at improving its margin including procurement initiatives (dual sourcing, low cost locations, supplier consolidation), supply chain productivity (manufacturing processes automation, footprint rationalization, reduction in the number of warehouses, digitalisation), R&D productivity (platform and footprint simplication, prioritization) and general productivity (head count reduction, real estate optimization).

Philips has a history of product quality related issues, which have also weighed on its margin level in the past. In 2014 following a FDA inspection, Philips voluntarily and temporarily suspended the production at its CT manufacturing facility in Cleveland, US. This resulted in costly remediation, and has hurt Philips' reputation and resulted in market share losses, predominantly in the US. The cumulative impact on EBITA over 2014-16 was over €0.5 billion. The Cleveland manufacturing facility has been closed in 2019, while the CT manufacturing has been moved to other locations. In the period between October 2017 and April 2020, Philips suspended the manufacture and distribution of its defibrillators to the US market from its facilities in Andover (Massachusetts, US) and Bothell (Washington, US) subject to certain exceptions for specific AED models while this business was operating under a consent decree with the FDA. Since April 2020 and following notification from the FDA that the injunction prohibiting those activities has been lifted, manufacturing and shipping of external defibrillators for the US has resumed[2]. In June 2021, Philips issued a recall notification to mitigate potential health risks related to the sound abatement foam component in certain sleep and respiratory care devices (see details above).

Exhibit 8

Philips HealthTech's profitability has lagged behind industry peers historically

Adjusted EBITA margin as of latest LTM



For rated issuers, profitability refers to the Moody's-adjusted EBITA margin; profitability refers to the company-adjusted EBIT margin for Siemens Healthineers — a division of Siemens AG; and segment profit margin for GE Healthcare — a division of General Electric; Royal Philips HealthTech only includes adjusted margins of Diagnosis & Treatment and Connected Care.
Source: Moody's Investors Service

High leverage currently due to strained operating performance; M&A is an event risk

Over the 2017-20 period, Philips reported a low leverage for the rating category. Since 2021, the leverage increased due to lower EBITDA following the disposal of the DA business but also because of volume and margin decline driven by supply chain disruptions and shortages of specific components.

Acquisition multiples in the medical device market tend to be higher than those in the manufacturing or capital goods sectors, which makes inorganic expansion costly for Philips. In 2017, the company spent a total of €2.3 billion on acquisitions, including the large acquisition of Spectranetics, a US-based company active in Image Guided Therapy devices, for €1.9 billion. During the 2018-20 period, the company completed more bolt-on acquisitions, spending €0.6 billion in 2018, €0.2 billion in 2019 and €0.2 billion in 2020. In 2021, Philips closed the acquisition of BioTelemetry for an enterprise value of €2.3 billion and the acquisition of Capsule Technologies for a cash consideration of around €0.5 billion that both reinforced its Connected Care segment. These two acquisitions have been mainly financed by the solid €3.2 billion of cash on balance available as of year-end 2020. In our forecast we assumed that the company will spend €600 million annually on bolt-on acquisitions in 2022 and 2023.

The company does not have an official guidance on how much funds it wishes to allocate per year for acquisitions. If the company is contemplating a transformative acquisition, the effect on the rating would need to be determined on a case-by-case basis depending on strategic fit, price and financing.

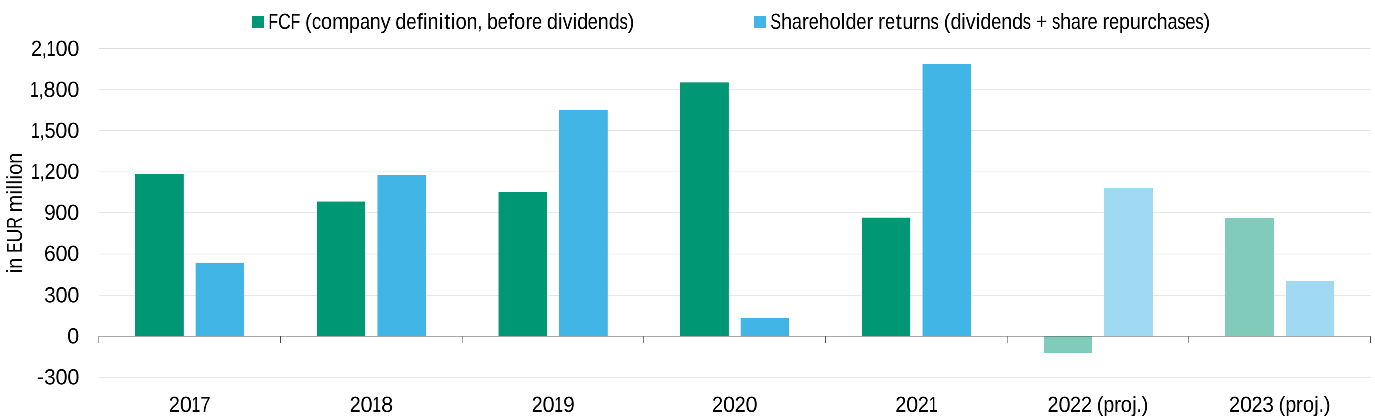
Capital allocation for dividends and share buybacks constrains the rating

Philips has a history of significant shareholder distributions, mostly through share repurchases, which are not included in our adjusted free cash flow definition but limit the company's ability to de-lever. Over the 2017-21 period, the company generated on average €1.2 billion of free cash flow (company definition, before dividends) annually in comparison with an average €1.1 billion of shareholder returns per year (including cash dividends and share buybacks) over the same period. We note that the capital allocation to shareholders was also partially financed in the past by disposal proceeds from Lumileds, Signify and DA business.

In July 2021, the company announced a new €1.5 billion share buyback program to be completed over the next three years. The new share buyback program will be executed through a combination of forward contracts that are included in Philips' reported debt and/or open market purchases. Given the relative low share price, the company accelerated the execution of the program during 2021. Our forecast includes €730 million of cash outflow in H2 2022 to settle the remaining forward contracts linked to the share repurchase program.

Exhibit 9

Capital allocation for dividends and share buybacks will continue



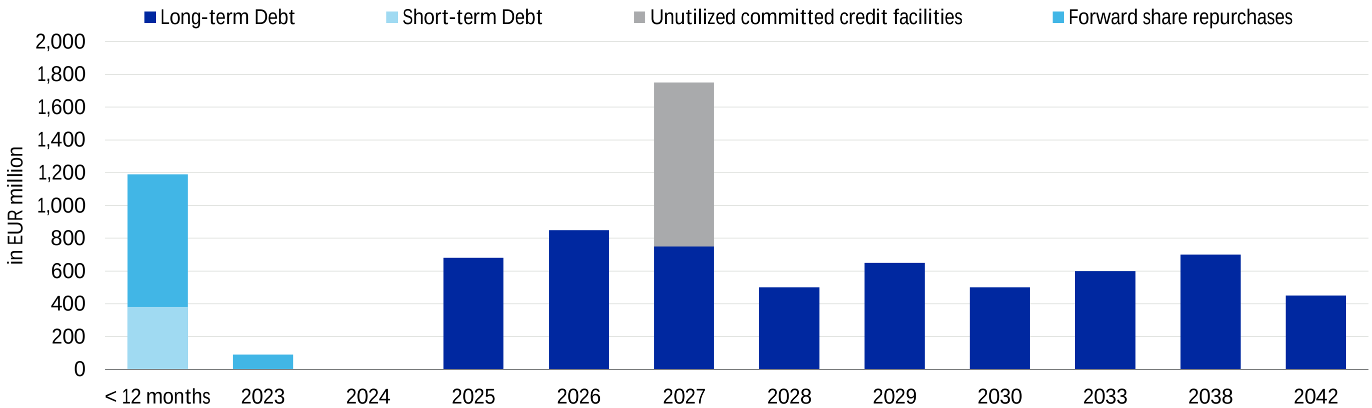
The projections represent Moody's forward view, not the view of the issuer.
Source: Moody's Investors Service

Liquidity analysis

Philips' liquidity is good, supported by €1.3 billion of cash and cash equivalents as of end-June 2022 representing 7% of LTM sales and a fully undrawn €1.0 billion revolving credit facility maturing in 2027. We forecast Philips' free cash flow (according to Moody's definition that is after dividends and leases repayment) to be negative in 2022 and return to positive territory in 2023. The Moody's free cash flow includes around €400 million and €90 million linked to the Respironics field action that remain to be cashed out during the second half of 2022 and 2023, respectively. Moody's projected cash outflow also include around €800 million and around €90 million linked to forward share repurchases (including €730 million in 2022 from the share buyback program, the rest being linked to long-term employee incentive plans) to be settled during the second half of 2022 and 2023 respectively. Philips has around €110 million of bilateral local credit facilities due in the next 12 months which are expected to be rolled over. There is no other debt maturing before 2025.

Exhibit 10

Philips' debt maturity is well balanced with an average tenor of 8.3 years



Short-term debt includes €110 million local credit facilities that are expected to be rolled over, the rest being lease liabilities
Sources: Company and Moody's Investors Service

Methodology and scorecard

Philips' scorecard-indicated outcome is based on the Medical Product and Device Industry rating methodology. The scorecard-indicated outcome points to a Baa3 for LTM metrics and Baa2 for the forward view, that is two notches and one notch below the assigned rating of Baa1 respectively. This highlights the fact that Philips is currently weakly positioned in the Baa1 category.

Exhibit 11

Rating factors

Royal Philips N.V.

Medical Product & Device Industry Scorecard [1][2]	Current LTM 6/30/2022		Moody's 12-18 Month Forward View As of 8/17/2022 [3]	
Factor 1 : Scale and Diversification (20%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$19.4	A	$18.7	A
Factor 2 : Business Profile (20%)				
a) Diversity and Market Presence	A	A	A	A
b) Product and Market Characteristics	Baa	Baa	Baa	Baa
Factor 3 : Profitability (7.5%)				
a) Return on Sales (NPATBUI / Sales)	4.8%	B	5.9%	Ba
Factor 4 : Leverage and Coverage (32.5%)				
a) Debt / EBITDA	4.3x	Ba	3.3x	Ba
b) CFO / Debt	3.1%	Caa	18.6%	Ba
c) FCF / Debt	-10.8%	Ca	2.7%	B
d) EBITA / Interest	6.6x	Baa	8.3x	Baa
Factor 5 : Financial Policy (20%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Scorecard-Indicated Outcome		Baa3		Baa2
b) Actual Rating Assigned				Baa1

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. The forward view represents Moody's view, not the view of the issuer.
Source: Moody's Financial Metrics™

ESG considerations

Royal Philips N.V.'s ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 12
ESG Credit Impact Score

CIS-3
Moderately Negative

NEGATIVE IMPACT
POSITIVE IMPACT

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

CIS-3: Philips' ESG Credit Impact Score is Moderately Negative reflecting the company's exposure to high social risks in particular its history of product quality related issues including past manufacturing issues in some of its facilities in the US that resulted in manufacture suspension and costly remediation and the recent quality issues in some of its sleep and respiratory devices which prompted a recall program.

Exhibit 13
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-4	G-2
Moderately Negative	Highly Negative	Neutral-to-Low

Source: Moody's Investors Service

Environmental

E-3: Philips' exposure to environmental risks is Moderately Negative, which mostly reflects its exposure to waste and pollution risks - mainly remediation costs relating to pollution issues such as leaks, spills, accidents and clean-up sites. These environmental provisions, amounting to around €124 million at end of 2021, are small in comparison with the company's scale and mainly relate to legacy cases from activities which have been divested. In the last few years, Philips has not incurred any new material fine or booked a provision related to this topic.

Social

S-4: Philips' Social Issuer Profile Score is Highly Negative. Philips is exposed to potential product safety litigation and product recalls when patients experience unanticipated adverse effects and risks linked to the fact that its manufacturing processes are subject to regulatory oversight. Philips has a history of product quality related issues including past manufacturing issues in some of its facilities in the US that resulted in manufacture suspension and costly remediation and the recent quality issues in some of its sleep and respiratory devices which prompted a recall program. To a lesser extent, the Issuer Profile Score also reflects ongoing legal proceedings related to anti-trust issues and government investigations.

Governance

G-2: Philips' Governance Issuer Profile Score is Neutral-to-Low, reflecting the company's financial policy including leverage and the capital allocation to dividends and share buyback. M&A constitutes an event risk but has not translated in recent years into material re-leveraging.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Appendix

Exhibit 14
Select historical Moody's-adjusted financial data
Royal Philips N.V.

EUR Millions	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21	LTM Jun-22
INCOME STATEMENT					
Revenue/Sales	18,121	19,482	19,535	17,156	17,194
EBITDA	2,751	2,878	3,044	2,455	1,989
EBITA	2,179	2,275	2,318	1,825	1,288
EBIT	1,869	2,021	2,087	1,476	985
Interest Expense	229	199	181	165	195
BALANCE SHEET					
Cash & Cash Equivalents	1,688	1,425	3,226	2,303	1,258
Total Debt	6,252	6,292	7,684	7,570	8,591
CASH FLOW					
Funds from Operations (FFO)	1,934	2,538	2,376	1,804	760
Cash Flow from Operations (CFO)	1,766	1,682	2,384	1,452	266
Capital Expenditures (CAPEX)	(712)	(827)	(860)	(740)	(765)
Dividends	404	455	3	484	425
Retained Cash Flow (RCF)	1,530	2,083	2,373	1,320	335
RCF / Debt	24.5%	33.1%	30.9%	17.4%	3.9%
Free Cash Flow (FCF)	650	400	1,521	228	(924)
FCF / Debt	10.4%	6.4%	19.8%	3.0%	-10.8%
PROFITABILITY					
% Change in Sales (YoY)	1.9%	7.5%	0.3%	-0.9%	-2.9%
EBIT Margin %	10.3%	10.4%	10.7%	8.6%	5.7%
EBITA Margin %	12.0%	11.7%	11.9%	10.6%	7.5%
EBITDA Margin %	15.2%	14.8%	15.6%	14.3%	11.6%
INTEREST COVERAGE					
EBIT / Interest Expense	8.2x	10.1x	11.6x	8.9x	5.1x
EBITA / Interest Expense	9.5x	11.4x	12.8x	11.0x	6.6x
EBITDA / Interest Expense	12.0x	14.4x	16.9x	14.8x	10.2x
LEVERAGE					
Debt / EBITDA	2.3x	2.2x	2.5x	3.1x	4.3x
Net Debt / EBITDA	1.7x	1.7x	1.5x	2.1x	3.7x

Source: Moody's Financial Metrics™

Exhibit 15

Moody's-Adjusted Debt Reconciliation for Royal Philips N.V.[1][2]

EUR Millions	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21	LTM Jun-22
Total Unadjusted Debt	**4,821**	**5,447**	**6,934**	**6,980**	**8,001**
Pension Adjustments	747	824	750	590	590
Operating Lease Adjustments	644	-	-	-	-
Other Adjustments	40	21	-	-	-
Total Adjusted Debt	**6,252**	**6,292**	**7,684**	**7,570**	**8,591**

[1] All figures are calculated using Moody's estimates and standard adjustments.
[2] Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
Source: Moody's Financial Metrics TM

Exhibit 16

Moody's-Adjusted EBITDA Reconciliation for Royal Philips N.V.[1][2]

EUR Millions	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21	LTM Jun-22
As Reported EBITDA	**2,795**	**3,149**	**3,012**	**2,020**	**1,789**
Pension Adjustments	(4)	(2)	20	(8)	(8)
Operating Lease Adjustments	193	-	-	-	-
Capitalized Development Costs	(295)	(338)	(305)	(262)	(262)
Interest Expense – Discounting	(15)	(22)	(22)	(14)	(14)
Unusual	75	92	-	719	484
Other Adjustments	2	(1)	-	-	-
Moody's-Adjusted EBITDA	**2,751**	**2,878**	**2,705**	**2,455**	**1,989**

[1] All figures are calculated using Moody's estimates and standard adjustments.
[2] Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
Source: Moody's Financial Metrics TM

Exhibit 17

Peer Comparison[1][2]

	Royal Philips N.V. Baa1 Negative			Medtronic, Inc. A3 Stable			Stryker Corporation Baa1 Stable			Baxter International Inc. Baa2 Stable			Abbott Laboratories A1 Stable		
(in US millions)	FYE Dec-20	FYE Dec-21	LTM Jun-22	FYE Apr-20	FYE Apr-21	FYE Apr-22	FYE Dec-20	FYE Dec-21	LTM Jun-22	FYE Dec-20	FYE Dec-21	LTM Jun-22	FYE Dec-20	FYE Dec-21	LTM Jun-22
Revenue	$19,760	$20,298	$19,393	$28,913	$30,117	$31,686	$14,351	$17,108	$17,629	$11,673	$12,784	$14,193	$34,608	$43,075	$45,548
EBITDA	$3,087	$2,905	$2,243	$8,442	$7,742	$9,767	$3,460	$4,328	$4,202	$2,665	$3,011	$3,294	$9,260	$12,666	$14,283
Total Debt	$9,402	$8,609	$8,981	$29,077	$29,946	$27,008	$15,616	$13,925	$14,876	$7,838	$19,197	$18,223	$22,630	$21,620	$20,330
Cash & Cash Equiv.	$3,947	$2,619	$1,315	$4,140	$3,593	$3,714	$2,943	$2,944	$1,044	$3,730	$2,951	$1,852	$6,838	$9,799	$8,937
ROS (NPATBUI / Sales)	7.2%	7.1%	4.8%	18.2%	12.7%	17.8%	12.5%	14.6%	13.7%	11.2%	12.4%	10.4%	13.0%	16.4%	18.6%
EBITA / Int. Exp.	11.2x	11.0x	6.6x	9.9x	9.9x	14.6x	8.9x	10.6x	10.1x	9.6x	11.4x	8.1x	12.4x	17.9x	20.7x
Debt / EBITDA	2.8x	3.1x	4.3x	3.4x	3.9x	2.8x	4.5x	3.2x	3.5x	2.9x	6.4x	5.5x	2.4x	1.7x	1.4x
CFO / Debt	30.4%	19.2%	3.1%	27.3%	22.3%	28.5%	22.2%	24.8%	19.2%	25.0%	12.1%	10.7%	36.5%	50.4%	52.1%
FCF / Debt	19.8%	3.0%	-10.8%	12.5%	6.7%	10.3%	12.7%	13.3%	7.6%	8.7%	4.9%	3.1%	14.3%	25.3%	25.8%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments.
[2] FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade.
Source: Moody's Financial MetricsTM

Ratings

Exhibit 18

Category	Moody's Rating
ROYAL PHILIPS N.V.	
Outlook	Negative
Issuer Rating	Baa1
Senior Unsecured	Baa1
Commercial Paper	P-2

Source: Moody's Investors Service

Endnotes

1 Growth geographies consist of all geographies excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel

2 Under the terms of the consent decree, Philips was required to suspend manufacture and distribution of its defibrillators from specific Philips facilities in the U.S., pending FDA certification via inspection of the facilities' compliance with Quality System Regulation. However, in order to ensure uninterrupted availability of these life-saving devices in the US, the consent decree included exemptions for specific Philips Automated External Defibrillator (AED) models to continue to be manufactured and shipped, in addition to providing necessary device servicing, accessories and consumables.

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454