

# Royal Philips

Royal Philips' rating was downgraded in March 2023 reflecting pressure on its profitability from recent internal inefficiencies, the recall of its Respiroics devices, and global inflation and supply-chain issues. While recent profitability has shown signs of a rebound, earnings and cash flows are likely to remain outside our expectations for a 'A-' rating.

This, along with the likelihood that the 2022 increase in gross debt will remain sustained through the medium term, will lead to leverage remaining more broadly in line with a 'BBB+' rating.

The Stable Outlook reflects Fitch Ratings' belief that Philips' earnings and cash flows are likely to stabilise and then gradually improve through the medium term to levels that are in line with the 'BBB+' rating and improve its debt repayment capacity and financial flexibility.

## Key Rating Drivers

**Weaker Profitability Likely to Persist:** Fitch believes that Philips' key profit margins, which were weak in 2021 and 2022 because of internal and external factors, will gradually increase from 2023. As exhibited in the 1Q23 results, recent restructuring measures and efficiency actions have begun to bear fruit in 2023, which, aided by an easing in supply-chain constraints and inflationary pressure, should lead to a steady rebound in operating margins. We expect the Fitch-calculated EBITDA margin to improve to around 14% in 2025, from 10% in 2023 and 6.7% in 2022.

**FCF to Turn Positive:** The lower underlying profitability, coupled with large working-capital outflows, meant that the company's Fitch-calculated free cash flow (FCF) margin in 2022 was -9%. FCF is likely to turn positive in 2023 because of working-capital reversal and a suspension of cash dividends, but the strength of the margin beyond 2023 will be highly dependent on working-capital and capex control as well as its dividend policy.

**Leverage Inconsistent with 'A' Category:** Philips' debt increase in 2022 to shore up its liquidity and decline in earnings caused both gross and net leverage to increase materially. Fitch-calculated EBITDA gross and net leverage deteriorated to 6x and 5.2x, respectively, at end-2022, from 3.6x and 2.3x at end-2021.

**Deleveraging Likely:** Fitch believes Philips will improve its deleveraging capacity over the short to medium term as its profitability improves and it reduces debt in 2023 and 2024. This is dependent on FCF generation and management's willingness to repay debt ahead of maturities. In its base case, Fitch calculates that gross and net leverage will improve to 3.5x and 3x, respectively at end-2023 and to around 2.5x and 2x at end-2024.

**Litigation Event Risk:** Fitch considers that Philip's financial profile will be little affected by the announced EUR575 million provision in anticipation of the resolution of the economic loss class action related to on the US Respiroics product recall, as insurance pay-outs are likely to cover a significant portion of the anticipated settlement payments. Any further fines or settlements related to the Repiroics product recall are treated by Fitch as event risk, and Fitch believes these unlikely to be settled in the short term.

## Ratings

### Foreign Currency

Long-Term IDR BBB+

### Outlooks

Long-Term Foreign-Currency IDR Stable

### Debt Ratings

Senior Unsecured Debt - Long-Term Rating BBB+

2035 Climate Vulnerability Score 35

[Click here for the full list of ratings](#)

## Applicable Criteria

[Corporate Rating Criteria \(October 2022\)](#)

[Sector Navigators: Addendum to the Corporate Rating Criteria \(October 2022\)](#)

## Related Research

[EMEA Diversified Industrials and Capital Goods Outlook 2023 \(December 2022\)](#)

[EMEA Industrials' Working Capital Pressures to Ease in 2023 \(February 2023\)](#)

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**Strong Business Profile:** Fitch views Philips' business profile as strong and in line with its ratings. It is based on the company's position as a top-three medical equipment manufacturer in the world, a diverse product mix and end-customer base, and a material portion of revenue being generated by higher-margin services. Philips is well positioned in the high-growth area of image-guided therapy, which benefits from hospitals investing more in ambulatory surgical centres and from growing interest in minimally invasive therapy. We believe Philips' strong position in this field will support organic growth in the medium term.

## Financial Summary

(EURm)	2020	2021	2022	2023F	2024F	2025F
Gross revenue	19,535.0	17,156.0	17,827.0	18,666.4	19,428.7	20,261.8
EBITDA margin (%)	14.1	9.3	6.7	9.9	12.7	13.8
EBITDA leverage	2.1	3.6	6.0	3.5	2.5	2.1
EBITDA net leverage	1.0	2.3	5.2	3.0	2.1	1.6
CFO-capex/debt (%)	27.0	10.7	-13.3	9.5	13.6	18.5

F = Forecast  
Source: Fitch Ratings, Fitch Solutions

## Rating Derivation Relative to Peers

Fitch does not see Philips as a pure healthcare company, and maintains a blended comparison with healthcare and capital goods peers. Philips' geographic diversification and market leadership remain in line with that of similarly rated capital goods peers such as Siemens AG (A+/Stable) and General Electric Company (BBB/Stable). Philips has leading market shares in healthcare and consumer products, which have different product cycles, in turn reducing cash flow and income volatility. Philips' R&D capabilities match those of similarly rated peers, and provide synergies across its portfolio.

Philips' profitability lags behind its healthcare peers such as GE Health and Siemens Healthineers, and is mainly driven by its product mix. Nevertheless, Philips' profitability and funds from operations (FFO) generation are significantly stronger than its diversified manufacturing peers such as ABB Ltd.

Philips' metrics are conservative compared with pure healthcare companies', often matching that of higher-rated peers such as Siemens. Fitch expects Philips to maintain EBITDA net leverage below 2.0x to 2025, which is the mid-point for 'A' rated capital goods and healthcare peers.

## Navigator Peer Comparison

Issuer	Business profile										Financial profile		
	IDR/Outlook	Operating Environment	Management and Corporate Governance		Innovation	Market Position	Diversification	Business Stability		Profitability	Financial Structure	Financial Flexibility	
ABB Ltd	WD/	aa-	a	bbb+	a	a	a	bbb+	a-	a-	a	a	
General Electric Company	BBB/	aa-	bbb+	a	bbb+	bbb+	bbb	bbb-	bbb-	bbb-	bbb+	bbb+	
Royal Philips	A-/	aa-	a-	a	a	a-	a-	bbb+	a-	a-	a	a	
Siemens AG	A+/	aa-	a-	a+	a+	a	a-	a	a	a	aa-	aa-	

Source: Fitch Ratings.

Importance: Higher (Red), Moderate (Blue), Lower (Light Blue)

Issuer	Business profile										Financial profile		
Name	IDR/Outlook	Operating Environment	Management and Corporate Governance		Innovation	Market Position	Diversification	Business Stability		Profitability	Financial Structure	Financial Flexibility	
ABB Ltd	WD/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
General Electric Company	BBB/	5.0	1.0	3.0	1.0	1.0	1.0	0.0	-1.0	-1.0	1.0	1.0	
Royal Philips	A-/	3.0	0.0	1.0	1.0	1.0	0.0	0.0	-1.0	0.0	0.0	1.0	
Siemens AG	A+/	1.0	-2.0	0.0	0.0	0.0	-1.0	-2.0	-1.0	-1.0	-1.0	1.0	

Source: Fitch Ratings.

Legend: Red = Worse positioned than IDR, Blue = In line with IDR, Light Blue = Better positioned than IDR

## Rating Sensitivities

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- Greater stability of profit margins with increased visibility on cost pass-through
- EBITDA margin sustainably above 15%
- Gross and net debt with equity credit/operating EBITDA below 2.25x and 2x, respectively
- Cash from operations (CFO) less capex) above 20% of debt
- FCF margin above 3% on a sustained basis

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

- EBITDA margin below 13%
- Gross and net debt with equity credit/operating EBITDA above 2.75x and 3x, respectively
- CFO less capex below 15% of debt
- FCF margin below 2%

## Liquidity and Debt Structure

**Stabilizing Liquidity:** At end-1Q23, Philips had a Fitch-adjusted cash balance of EUR928 million, down from EUR971 million at end-2022. During 2022, the company repaid bonds totaling EUR1.2 billion. During the same period Philips also issued three bonds for EUR750 million, EUR650 million and EUR600 million. In addition to renewing its EUR1 billion revolver credit facility – undrawn as at end-1Q23 – to 2028, it secured a EUR1 billion credit facility of which EUR500 million has been drawn. Fitch forecasts positive FCF generation of around EUR620 million in 2023.

**Diversified Structure:** Philips has the funding characteristics of a 'A' rating, similar to peers such as Siemens and Atlas Copco, with solid access to financial markets, and to diversified and readily available unsecured funding options. Philips extended its bonds in 2022, has no sizeable refinancing needs before 2025 and has a diversified maturity profile.

## ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

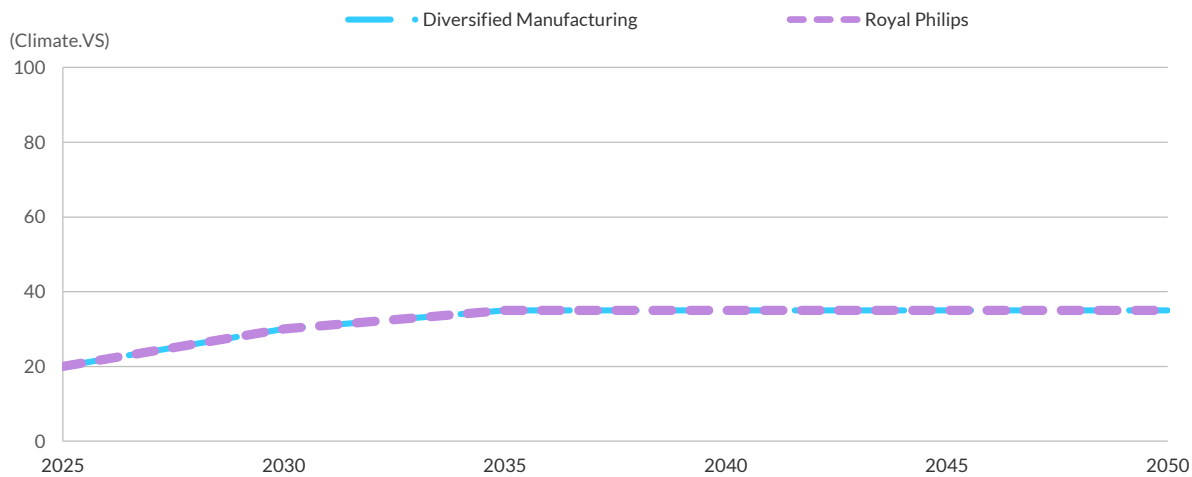
### Climate Vulnerability Considerations

We are currently in consultation with our stakeholders on a proposal to support consistency and transparency in the way Fitch Ratings identifies and addresses potentially credit-relevant climate risks in its credit rating process. This would include adding the section below to all Rating Reports. To learn more about the approach, and provide feedback, please see [‘Climate Vulnerability in Corporate Ratings - Discussion Paper’](#) or contact [climate.vsfeedback@fitchratings.com](mailto:climate.vsfeedback@fitchratings.com).

The FY22 revenue-weighted Climate Vulnerability Score (Climate.VS) for EUR17.8 billion, for 2035 is 35 out of 100, suggesting moderate exposure to climate-related risks in that year. For further information on how Fitch perceives climate-related risks in Diversified Manufacturing sector see [Industrials - Long-Term Climate Vulnerability Scores](#).

#### Climate.VS Evolution

As of 31 December 2022



Source: Fitch Ratings

## Liquidity and Debt Maturities

### Liquidity Analysis

(EURm)	2023F	2024F	2025F
<b>Available liquidity</b>			
Beginning cash balance	972	897	1,103
Rating case FCF after acquisitions and divestitures	620	458	624
<b>Total available liquidity (A)</b>	<b>1,592</b>	<b>1,355</b>	<b>1,726</b>
<b>Liquidity uses</b>			
Debt maturities	-695	-252	-682
<b>Total liquidity uses (B)</b>	<b>-695</b>	<b>-252</b>	<b>-682</b>
<b>Liquidity calculation</b>			
Ending cash balance (A+B)	897	1,103	1,044
Revolver availability	500	500	500
<b>Ending liquidity</b>	<b>1,396.8</b>	<b>1,602.5</b>	<b>1,543.9</b>
Liquidity score (x)	3.0	7.4	3.3

F – Forecast.

Source: Fitch Ratings, Fitch Solutions, Royal Philips

Scheduled debt maturities (EURm)	2022
2023	695
2024	252
2025	682
2026	876
2027	750
Thereafter	3,976
<b>Total</b>	<b>7,232</b>

Source: Fitch Ratings, Fitch Solutions, Royal Philips

### Key Assumptions

Our rating case does not assume any impact of the class actions against Philips in relation to the recalled respiratory equipment.

- EBITDA margin around 10% in 2023, hit by around EUR600 million restructuring and integration charges
- EBITDA margin to gradually recover above 15% in 2026 as current operating pressures ease and restructuring measures take effect
- Mid-single-digit organic revenue growth to 2025, supported by all divisions
- No bolt-on acquisitions in the short to medium term
- Capex broadly around 4% of revenue to 2025
- Cash dividend payments to resume in 2024 broadly at the level of 2022 and rise in line with profitability growth to 2025
- Debt maturing in 2023 and 2024 to be repaid

## Financial Data

### Royal Philips

(EURm)	Historical			Forecast		
	2020	2021	2022	2023	2024	2025
<b>Summary income statement</b>						
Gross revenue	19,535.0	17,156.0	17,827.0	18,666.4	19,428.7	20,261.8
Revenue growth (%)	0.3	-0.9	3.9	4.7	4.1	4.3
EBITDA (before income from associates)	2,745.0	1,599.0	1,192.0	1,850.0	2,475.0	2,805.0
EBITDA margin (%)	14.1	9.3	6.7	9.9	12.7	13.8
EBITDAR	2,815.0	1,599.0	1,192.0	1,850.0	2,475.0	2,805.0
EBITDAR margin (%)	14.4	9.3	6.7	9.9	12.7	13.8
EBIT	1,514.0	528.0	-196.0	605.0	1,205.0	1,440.0
EBIT margin (%)	7.8	3.1	-1.1	3.2	6.2	7.1
Gross interest expense	-148.0	-135.0	-233.0	-201.5	-199.0	-161.2
Pre-tax income (including associate income/loss)	1,489.0	509.0	-1,730.0	403.5	1,006.0	1,278.8
<b>Summary balance sheet</b>						
Readily available cash and equivalents	3,026.0	2,103.0	972.0	896.8	1,102.5	1,243.2
Debt	5,719.0	5,759.0	7,232.0	6,537.0	6,285.0	5,802.0
Lease-adjusted debt	6,279.0	5,759.0	7,232.0	6,537.0	6,285.0	5,802.0
Net debt	2,693.0	3,656.0	6,260.0	5,640.2	5,182.5	4,558.8
<b>Summary cash flow statement</b>						
EBITDA	2,745.0	1,599.0	1,192.0	1,850.0	2,475.0	2,805.0
Cash interest paid	-123.0	-126.0	-180.0	-201.5	-199.0	-161.2
Cash tax	-394.0	-249.0	-333.0	-121.1	-301.8	-383.6
Dividends received less dividends paid to minorities (inflow/(out)flow)	2.0	12.0	6.0	0.0	0.0	0.0
Other items before FFO	287.0	538.0	8.0	-300.0	-100.0	-100.0
Funds flow from operations	2,532.0	1,791.0	708.0	1,227.5	1,874.2	2,160.1
FFO margin (%)	13.0	10.4	4.0	6.6	9.6	10.7
Change in working capital	-46.0	-414.0	-862.0	62.4	-276.5	-301.5
Cash flow from operations (Fitch defined)	2,486.0	1,377.0	-154.0	1,289.8	1,597.7	1,858.7
Total non-operating/nonrecurring cash flow	-88.0	85.0	-	-	-	-
Capex	-942.0	-763.0	-806.0	-	-	-
Capital intensity (capex/revenue) (%)	4.8	4.4	4.5	-	-	-
Common dividends	-1.0	-482.0	-412.0	-	-	-
Free cash flow	1,455.0	217.0	-1,372.0	-	-	-
Net acquisitions and divestitures	-295.0	361.0	-712.0	-	-	-
Other investing and financing cash flow items	155.0	363.0	37.0	-	-	-
Net debt proceeds	783.0	-251.0	1,091.0	-695.0	-252.0	-483.0
Net equity proceeds	-297.0	-1,613.0	-175.0	0.0	0.0	0.0
Total change in cash	1,801.0	-923.0	-1,131.0	-75.2	205.7	140.7
<b>Leverage ratios (x)</b>						
EBITDA leverage	2.1	3.6	6.0	3.5	2.5	2.1
EBITDA net leverage	1.0	2.3	5.2	3.0	2.1	1.6
EBITDAR leverage	2.2	3.6	6.0	3.5	2.5	2.1
EBITDAR net leverage	1.2	2.3	5.2	3.0	2.1	1.6
EBITDAR net fixed-charge coverage	15.8	14.8	7.3	9.2	12.4	17.4
FFO adjusted leverage	2.3	3.0	8.3	4.6	3.0	2.5
FFO adjusted net leverage	1.2	1.9	7.2	3.9	2.5	2.0
FFO leverage	2.2	3.0	8.3	4.6	3.0	2.5
FFO net leverage	1.0	1.9	7.2	3.9	2.5	2.0
<b>Calculations for forecast publication</b>						
Capex, dividends, acquisitions and other items before FCF	-1,326.0	-799.0	-1,930.0	-670.0	-1,140.0	-1,235.0
Free cash flow after acquisitions and divestitures	1,160.0	578.0	-2,084.0	619.8	457.7	623.7
Free cash flow margin (after net acquisitions) (%)	5.9	3.4	-11.7	3.3	2.4	3.1

(EURm)	Historical			Forecast		
	2020	2021	2022	2023	2024	2025
<b>Coverage ratios (x)</b>						
FFO interest coverage	21.5	15.1	4.9	7.1	10.4	14.4
FFO fixed-charge coverage	14.0	15.1	4.9	7.1	10.4	14.4
EBITDAR fixed-charge coverage	14.6	12.8	6.7	9.2	12.4	17.4
EBITDA interest coverage	22.3	12.8	6.7	9.2	12.4	17.4
<b>Additional metrics</b>						
CFO-capex/debt (%)	27.0	10.7	-13.3	9.5	13.6	18.5
CFO-capex/net debt (%)	57.3	16.8	-15.3	11.0	16.6	23.6
CFO/capex (%)	263.9	180.5	-19.1	192.5	215.9	236.8

Source: Fitch Ratings, Fitch Solutions, Royal Philips

#### How to Interpret the Forecast Presented

The forecast presented above is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

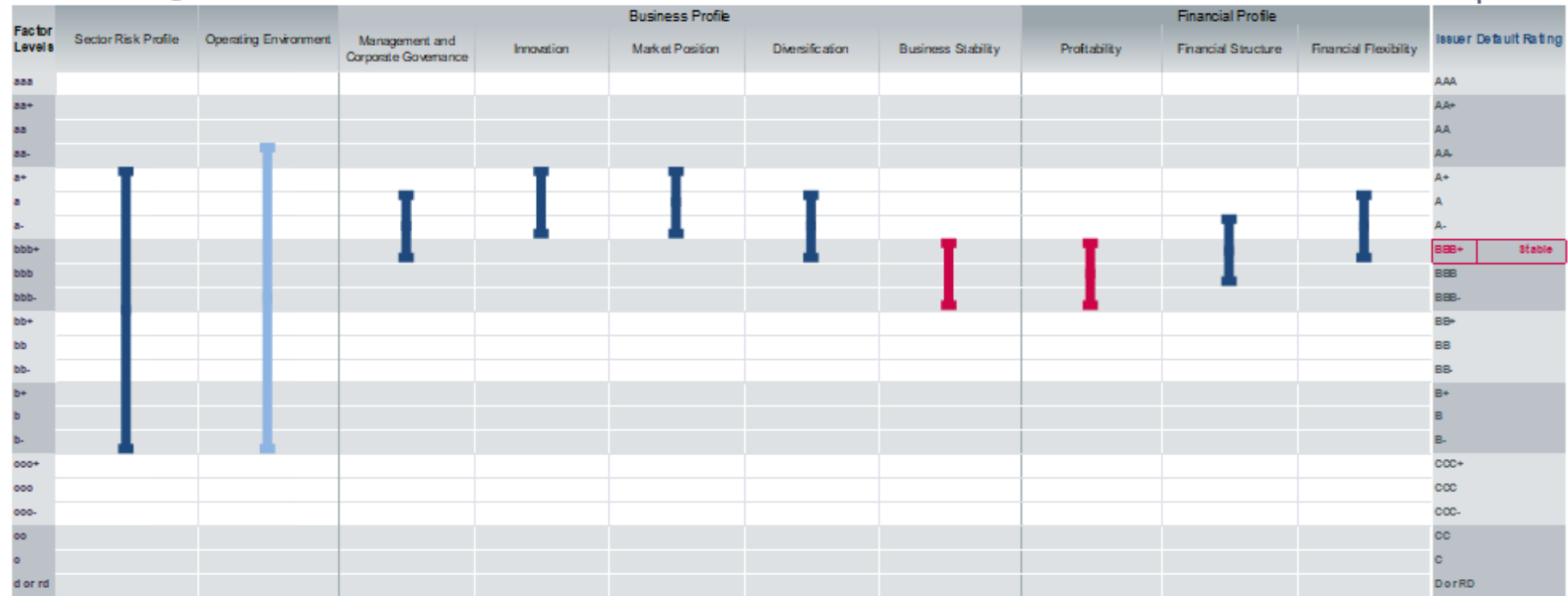
## Ratings Navigator

FitchRatings

Royal Philips

ESG Relevance:

Corporates Ratings Navigator  
Div. Industrials & Cap. Goods



**Bar Chart Legend:**

Vertical Bars = Range of Rating Factor	Bar Arrows = Rating Factor Outlook
Bar Colors = Relative Importance	<ul style="list-style-type: none"> <li>↑ Positive</li> <li>↓ Negative</li> <li>↔ Evolving</li> <li>□ Stable</li> </ul>
<ul style="list-style-type: none"> <li>Red: Higher Importance</li> <li>Dark Blue: Average Importance</li> <li>Light Blue: Lower Importance</li> </ul>	



### Operating Environment

aa	Economic Environment	a	Strong combination of countries where economic value is created and where assets are located.
aa-	Financial Access	aa	Very strong combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	aa	Systemic governance (eg rule of law, corruption, government effectiveness) of the issuer's country of incorporation consistent with best.
b-			
ccc+			

### Innovation

aa-	Technology Content	a	High technology content in products and services.
a+	Barriers to Entry	a	High entry barriers.
a	Innovation	a	High commitment to innovation (eg R&D/sales >5%). Note R&D includes externally funded R&D.
a-			
bbb+			

### Diversification

a+	Product Range	bbb	Good range of products, covering several technologies and/or end-markets.
a	Geographic Diversification	a	International procurement, manufacturing and distribution, with some concentration in certain regions.
a-	Mix of End-Markets	bbb	Limited presence in certain industries or applications.
bbb+	Customers and Suppliers	a	No reliance on any one customer or supplier.
bbb			

### Profitability

a-	EBITDA Margin	bbb	13%
bbb+	EBIT Margin	bb	above 6%
bbb	FFO Margin	bbb	above 8%
bbb-	FCF Margin	bbb	above 25%
bb+			

### Financial Flexibility

a+	Financial Discipline	a	Clear commitment to maintain a conservative policy with only modest deviations allowed.
a	Liquidity	bbb	One year liquidity ratio above 1.25x. Well-spread maturity schedule of debt but funding may be less diversified.
a-	EBITDA Interest Coverage	a	9.0x
bbb+	FFO Interest Coverage	a	9.0x
bbb	FX Exposure	a	Profitability potentially exposed to FX but efficient hedging in place. Debt and cash flows well matched.

**How to Read This Page:** The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

### Management and Corporate Governance

a+	Management Strategy	bbb	Strategy may include opportunistic elements but soundly implemented.
a	Governance Structure	a	Experienced board exercising effective check and balances. Ownership can be concentrated among several shareholders.
a-	Group Structure	a	Group structure shows some complexity but mitigated by transparent reporting.
bbb+	Financial Transparency	a	High quality and timely financial reporting.
bbb			

### Market Position

aa-	Market Position	a	Top-three player in broad range of markets.
a+	Growth	a	Good exposure to markets with long-term structural growth.
a			
a-			
bbb+			

### Business Stability

a-	Cyclicality	bbb	Moderate exposure to cyclical end-markets, but aided by diversification.
bbb+	Operating Leverage	bbb	Moderately fixed cost structure and ability to cut costs relatively quickly.
bbb	Services and Aftermarket Revenue	bbb	Services and aftermarket revenue 25%-40%.
bbb-			
bb+			

### Financial Structure

a	EBITDA Net Leverage	bbb	2.0x
a-	EBITDA Leverage	bbb	2.0x
bbb+	FFO Leverage	bbb	3.5x
bbb	(FCF-Capex)/Net Debt	bb	7.5%
bbb-	FCF Debt	bb	10%

### Credit-Relevant ESG Derivation

Royal Philips has 8 ESG potential rating drivers			Overall ESG
key driver	0	Issues	5
driver	0	Issues	4
potential driver	8	Issues	3
not a rating driver	4	Issues	2
	2	Issues	1

- Emission control standards for products
- Waste management (including asbestos liabilities)
- Product quality and safety
- Impact of labor negotiations and employee (dis)satisfaction
- Governance is minimally relevant to the rating and is not currently a driver.

For further details on Credit-Relevant ESG scoring, see page 3.

#### Credit-Relevant ESG Derivation

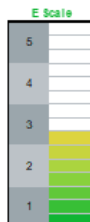
Royal Philips has 8 ESG potential rating drivers

- ➔ Royal Philips has exposure to emissions regulatory risk but this has very low impact on the rating.
- ➔ Royal Philips has exposure to waste & impact management risk but this has very low impact on the rating.
- ➔ Royal Philips has exposure to product quality & safety risk but this has very low impact on the rating.
- ➔ Royal Philips has exposure to labor relations & practices risk but this has very low impact on the rating.
- ➔ Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale	
key driver	0	iss ues	5	
driver	0	iss ues	4	
potential driver	8	iss ues	3	
not a rating driver	4	iss ues	2	
	2	iss ues	1	

#### Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	3	Emissions control standards for products	Technology Leadership; Market Position and Size; Profitability
Energy Management	2	Energy and fuel consumption in manufacturing and of product	Technology Leadership; Market Position and Size; Profitability
Water & Wastewater Management	2	Water usage in manufacturing and of product	Technology Leadership; Market Position and Size; Profitability
Waste & Hazardous Materials Management; Ecological Impacts	3	Waste management (including asbestos liabilities)	Profitability; Financial Flexibility
Exposure to Environmental Impacts	2	Impact of climate change on critical materials sourcing	Profitability; Financial Flexibility



#### How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

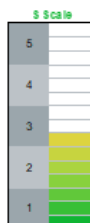
The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

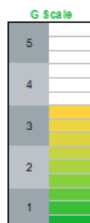
#### Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Product quality and safety	Management and Corporate Governance; Profitability; Financial Flexibility
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Management and Corporate Governance; Profitability; Financial Flexibility
Employee Wellbeing	1	n.a.	n.a.
Exposure to Social Impacts	2	Shift in consumer preferences	Management and Corporate Governance; Market Position and Size; Profitability; Financial Structure; Financial Flexibility



#### Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance
Group Structure	3	Co-plexity, transparency and related-party transactions	Management and Corporate Governance
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance



#### CREDIT-RELEVANT ESG SCALE

##### How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram

Koninklijke Philips N.V.

Royal Philips  
BBB+/Stable  
2022 EBITDA - EUR1.2 billion

Senior Unsecured Term Loan - EUR1000m - 2027 (NR)  
 Senior Unsecured Commercial Paper - EUR2500m - 2023 (NR)  
 Subordinated Bonds - EUR200m - 2025 (NR)  
 Senior Unsecured Forward - EUR606m - 2023 (NR)  
 Senior Unsecured Bonds - 1.375% - EUR500m - 2025 (NR)  
 Senior Unsecured Bonds - 7.75% - USD175m - 2025 (A-)  
 Senior Unsecured Bonds - 7.125% - USD175m - 2025 (A-)  
 Senior Unsecured Bonds - 0.5% - EUR750m - 2026 (A-)  
 Senior Unsecured Bonds - 7.2% - USD300m - 2026 (A-)  
 Senior Unsecured Bonds - 1.875% - EUR750m - 2027 (NR)  
 Senior Unsecured Bonds - 1.375% - EUR500m - 2028 (NR)  
 Senior Unsecured Bonds - 2.125% - EUR650m - 2029 (NR)  
 Senior Unsecured Bonds - 2% - EUR500m - 2030 (NR)  
 Senior Unsecured Bonds - 2.625% - EUR600m - 2033 (NR)  
 Senior Unsecured Bonds - 6.875% - USD1000m - 2038 (A-)

Diagnosis & Treatment

Connected Care

Personal Health

Source: Fitch Ratings, Fitch Solutions, Royal Philips

## Peer Financial Summary

Company	Issuer Default Rating	Financial statement date	Gross revenue (EURm)	EBITDA margin (%)	FFO margin (%)	EBITDA interest coverage (x)	EBITDAR leverage (x)
Royal Philips	BBB+						
	A-	2022	17,827	6.7	4.0	6.7	6.0
	A-	2021	17,156	9.3	10.4	12.8	3.6
	A-	2020	19,535	14.1	13.0	22.3	2.1
Becton, Dickinson & Company	BBB						
	BBB	2022	19,358	27.1	21.1	13.1	3.1
	BBB-	2021	17,487	28.6	21.5	12.2	3.0
	BBB-	2020	14,620	28.6	20.5	9.5	3.7
GE HealthCare Technologies Inc.	BBB						
		2022F	17,117	17.6	14.8	33.8	3.2
	RAS	2021	15,548	19.7	17.7	164.8	0.0
		2020	14,108	19.7	16.6	73.5	0.0
Boston Scientific Corporation	BBB+						
		2022F	11,860	30.0	18.4	13.4	2.4
	BBB	2021	10,511	28.1	18.2	9.9	2.8
	BBB	2020	8,148	23.4	14.5	6.5	4.1
ABB Ltd	A-						
	A-	2022F	27,972	17.1	11.2	37.8	1.1
	A-	2020	21,481	13.1	6.1	18.1	1.8
		2019	24,905	13.4	7.1	13.0	2.4
Thermo Fisher Scientific Inc.	BBB+						
	BBB+	2022	42,111	27.2	22.6	18.3	2.8
	BBB+	2021	34,669	33.6	27.7	23.8	2.7
	BBB	2020	26,482	32.3	27.0	22.1	2.1
General Electric Company	BBB						
	BBB	2022	69,005	8.5	5.7	3.4	5.8
	BBB	2021	62,856	8.5	2.2	2.3	6.1
	BBB	2020	60,085	5.6	-1.0	3.4	7.8
Siemens AG	A+						
	A+	2022	71,977	16.6	14.5	14.5	4.0
	A	2021	62,265	14.0	11.5	12.3	5.3
	A	2020	57,139	12.2	11.8	8.5	5.9
Agilent Technologies, Inc.	BBB+						
	BBB+	2022	6,907	30.8	26.1	24.8	1.3
	BBB+	2021	5,426	29.2	25.1	24.3	1.5
	BBB+	2020	4,564	27.4	19.9	20.6	1.6

Source: Fitch Ratings, Fitch Solutions, company filings

## Fitch Adjusted Financials

(EURm)	Notes and formulas	Reported values	Sum of adjustments	CORP- lease treatment	Adjusted values
31 December 2022					
<b>Income statement summary</b>					
Revenue		17,827			17,827
EBITDAR		1,431	-239	-239	1,192
EBITDAR after associates and minorities	(a)	1,437	-239	-239	1,198
Lease expense	(b)	0			0
EBITDA	(c)	1,431	-239	-239	1,192
EBITDA after associates and minorities	(d) = (a-b)	1,437	-239	-239	1,198
EBIT	(e)	-171	-25	-25	-196
<b>Debt and cash summary</b>					
Other off-balance-sheet debt	(f)	0			0
Debt <sup>b</sup>	(g)	8,314	-1,082	-1,082	7,232
Lease-equivalent debt	(h)	0			0
Lease-adjusted debt	(i) = (g+h)	8,314	-1,082	-1,082	7,232
Readily available cash and equivalents	(j)	1,172	-200		972
Not readily available cash and equivalents		0	200		200
<b>Cash flow summary</b>					
EBITDA after associates and minorities	(d) = (a-b)	1,437	-239	-239	1,198
Preferred dividends (paid)	(k)	0			0
Interest received	(l)	15			15
Interest (paid)	(m)	-205			-205
Cash tax (paid)		-333			-333
Other Items before FFO		-231	25	25	-206
Funds from operations (FFO)	(n)	683	-214	-214	469
Change in working capital (Fitch-defined)		-862			-862
Cash flow from operations (CFO)	(o)	-179	-214	-214	-393
Non-operating/nonrecurring cash flow		0			0
Capital (expenditures)	(p)	-806			-806
Common dividends (paid)		-412			-412
Free cash flow (FCF)		-1,397	-214	-214	-1,611
<b>Gross leverage (x)</b>					
EBITDAR leverage <sup>a</sup>	(i/a)	5.8			6.0
FFO adjusted leverage	(i)/(n-m-l-k+b)	9.5			11.0
FFO leverage	(i-h)/(n-m-l-k)	9.5			11.0
EBITDA leverage <sup>a</sup>	(i-h)/d	5.8			6.0
(CFO-capex)/debt (%)	(o+p)/(i-h)	-11.8%			-16.6%
<b>Net leverage (x)</b>					
EBITDAR net leverage <sup>a</sup>	(i-j)/a	5.0			5.2
FFO adjusted net leverage	(i-j)/(n-m-l-k+b)	8.2			9.5
FFO net leverage	(i-h-j)/(n-m-l-k)	8.2			9.5
EBITDA net leverage <sup>a</sup>	(i-h-j)/d	5.0			5.2
(CFO-capex)/net debt (%)	(o+p)/(i-h-j)	-13.8%			-19.2%
<b>Coverage (x)</b>					
EBITDAR fixed-charge coverage <sup>a</sup>	a/(-m+b)	7.0			5.8
EBITDA interest coverage <sup>a</sup>	d/(-m)	7.0			5.8
FFO fixed-charge coverage	(n-l-m-k+b)/(-m-k+b)	4.3			3.2
FFO interest coverage	(n-l-m-k)/(-m-k)	4.3			3.2

<sup>a</sup> EBITDA/R after dividends to associates and minorities.

<sup>b</sup> Includes other off-balance-sheet debt.

Source: Fitch Ratings, Fitch Solutions, Royal Philips

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