S&P Global Ratings

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Koninklijke Philips N.V.

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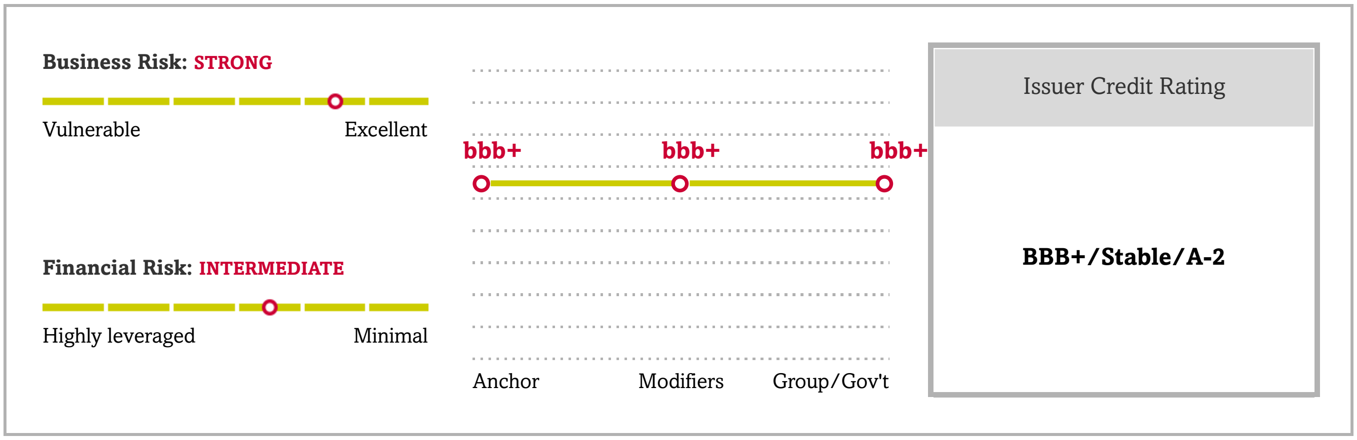


Credit Highlights

Overview

Key strengths	Key risks
Well-diversified offering with leadership positions in key categories like image guided therapy, patient monitoring, respiratory care, oral health care, and male grooming.	A highly competitive market, where scale and leading positions are key for productivity and margin growth.
Operations in a health technology market that continues to grow at 4%-5% per year, with rising underlying demand, although with some pricing pressure.	Increasingly constrained health care budgets, which will pressure pricing and drive payment for performance contracts.
Highly innovative portfolio with strong capabilities in digital, artificial intelligence (AI), and informatics supporting strong brand recognition.	Increasing prevalence of national protective policies, which could constrain free movement in goods, although the company's go-local strategy, including regional hosting of health data, should mitigate this.
Strong cash flow and disciplined capital allocation policy, which should allow for S&P Global Ratings-adjusted leverage at about 2x.	Cybersecurity risk, as data analytics become an integral part of medical equipment and associated services.
Environmental, social, and governance issues being at the core of Philips' strategy and culture, and will continue to support its growth and market leadership.	Potentially more aggressive financial policy, mainly spending on large acquisitions, with returns that would prolong restoration of leverage below 3x.

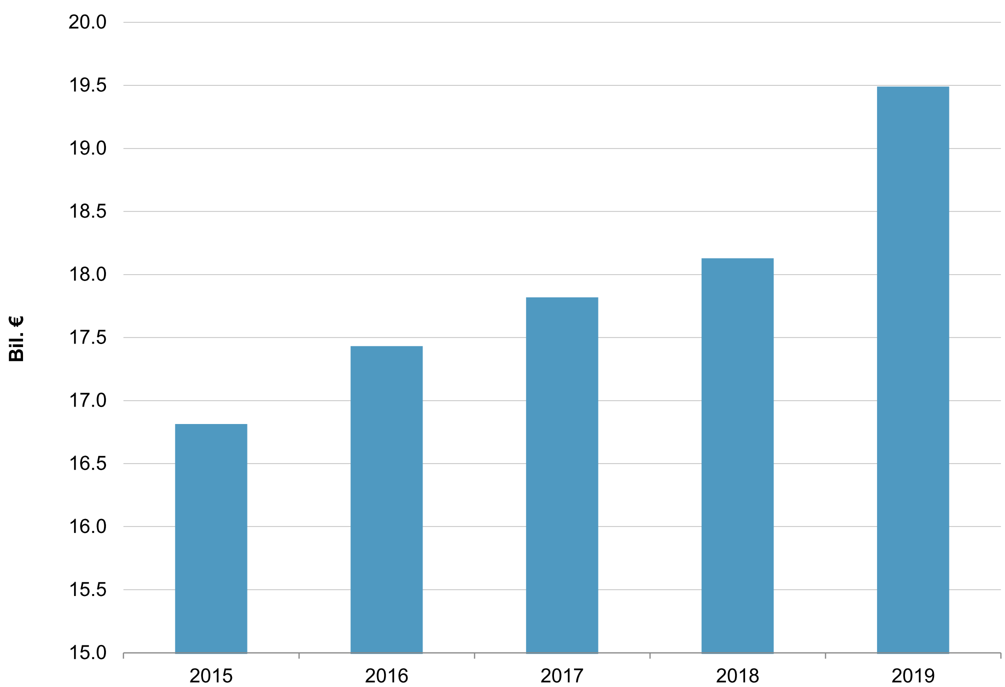
Thanks to its broad portfolio, Koninklijke Philips N.V. has mitigated the impact of COVID-19 on its 2020 operating performance. Philips' connected care business, especially high demand for patient monitoring devices and hospital ventilators, mitigated lower sales from diagnostics devices like MRI scanners and personal health care products. During the pandemic, the company used its capabilities in digital technologies, promoting connectivity and interoperability of its products, while moving sales online (we understand that more than 80% of sales in China and above 60% in Europe are online, while the U.S. still remains below 40%). We assume Philips will generate revenue of about €19.4 billion, broadly unchanged from 2019. A pick-up in volume growth in second-half 2020, coupled with undergoing efficiency measures, will help to mitigate the impact from COVID-19, restructuring costs, and tariffs, and leading to S&P Global Ratings-adjusted EBITDA of about €2.4 billion, down from last year's €2.8 billion. We deduct restructuring and capitalized costs when calculating S&P Global Ratings-adjusted EBITDA.

Focused cash management policy helps preserve cash and to keep S&P Global Ratings-adjusted leverage close to 2x in 2020. The company has managed well its working capital, especially collection of receivables, and, combined with dividends paid in shares and forward share-repurchases contracts, will preserve cash and support liquidity. Under our base-case scenario, we assume free operating cash flow of about €600 million after deducting €800 million for working capital outflow and about €1 billion for capital investments. We assume no dividends, limited share-repurchases and acquisitions this year, leading to S&P Global Ratings-adjusted leverage of 2x for 2020.

While actual 2021 results will reflect the disposal of the domestic appliances business, we assume that from 2022, Philips could achieve its target revenue growth of about 5% per year. The company is positioning its offering away from a pure seller of medical equipment to a provider of solutions, bundling equipment, technology, and services (for instance, data analytics), establishing long-term affiliations that should result in recurring revenue. In five years, Philips aims to increase sales from solutions to above 45% from the current 37%. Revenue uplift will also come from expansion in countries like China, India, and other emerging economies. Innovation is at the forefront of Philips' strategy, with digital and AI-enabled technology, interoperable and scalable platforms, connectivity, and cloud services at the center. Volume growth should drive operational leverage and innovation improve product mix and gross margin, so we assume gradual improvement in operating margin, supported by ongoing cost saving program (the company targets above €2 billion by 2025).

Chart 1

Koninklijke Philips N.V.--Historical Sales Development



Source: S&P Global Ratings.

We expect continued strong cash flow, but also for Philips to increase in discretionary spending from 2021. In response to COVID-19 the company paid its 2020 dividends in shares and decided to complete its share-buyback program by forward contracts that will settle in 2021. We assume it will catch up in 2021 with shareholder remunerations, returning to normal levels beyond then. Philips distributes 40%-50% of its adjusted income from continuing operations attributable to shareholders through dividends and about €1 billion per year in share buybacks. We also assume that the disposal of the domestic appliances business should be complete in 2021, with proceeds benefiting the balance sheet and increasing headroom for increased acquisitions, which the company does not exclude in the coming years. However, absent any large acquisition, we project that S&P Global Ratings-adjusted leverage will remain at or below 2x, leaving headroom within the 3x threshold for the rating.

Outlook: Stable

The stable outlook reflects our expectation that, despite some near-term challenges from the pandemic, Philips' diversified and resilient business model should support recovery prospects. We project S&P Global Ratings-adjusted EBITDA of €2.5 billion-€2.9 billion in 2020 and 2021, while improving to over €3 billion in 2022. Continued strong cash conversion and disciplined capital allocation should allow for S&P Global Ratings-adjusted leverage to remain at about 2x over the next 24 months, which is well below 3x threshold for the current rating.

Downside scenario

We could lower our ratings on Philips if it cannot maintain S&P Global Ratings-adjusted leverage below 3x on average over the next 24 months. The most likely cause of deteriorated metrics would be:

- Large or a series of midsize debt-funded acquisitions that would keep elevated leverage levels for a prolonged period;
- Increased shareholder returns above our base-case scenario; and
- Deteriorated operating cash flow caused by deteriorated margin following lower returns on investments, or mismanaged working capital.

Upside scenario

We could raise the long-term rating on Philips if we see:

- Continued strong improvement in profitability, especially in the diagnosis and treatment and connected care segments, supported by sizable market share gains in these segments; and
- Maintained S&P Global Ratings-adjusted leverage sustainably below 2.0x, supported by a financial policy that is compatible with a higher rating, notably regarding debt-financed acquisitions.

Our Base-Case Scenario

Assumptions

- As a provider of predominantly medical equipment and services, low correlation to economic cycles and GDP growth.
- Broadly unchanged revenue in 2020 caused by lower sales in diagnosis and treatment and personal health due to COVID-19 restrictions; 2021 will see the impact of disposal of domestic appliance business. We assume growth of 5% in 2022 driven by market shares gains.
- Some contraction in the S&P Global Ratings-adjusted EBITDA margin, because margin expansion under connected care and cost savings do not fully mitigate the impact of low revenue growth and underlying restructuring costs. Nevertheless, we estimate margin expansion from 2021 with positive development under all segments along with

lower restructuring costs.

- Unchanged investments into research and development (R&D) and capital expenditure (capex).
- Unchanged long-term shareholders' return policy.
- No acquisitions above the average size of €400 million because the timing and size are difficult to predict. The company's policy is to maintain more disciplined and active approached toward M&A but with focus on fewer and midsize deals. Proceeds from disposals of domestic appliance, net of taxes of over €2 billion.

Key metrics

Koninklijke Philips N.V.--Key Metrics*

(Mil. €)	2018a	2019a	2020e	2021f	2022f
Revenue	18,121.0	19,482.0	19,451.7	18,284.9	19,223.7
EBITDA	2,745.0	2,850.0	2,460.1	2,721.7	3,120.4
Cash flow from operations	1,616.9	1,693.0	1,333.7	2,034.0	2,400.4
Capex	548.0	675.0	731.8	667.7	719.3
Free operating cash flow (FOCF)	1,068.9	1,018.0	601.8	1,366.3	1,681.1
Dividends	404.0	455.0	0	800.0	400.0
Discretionary cash flow (DCF)	(377.1)	(813)	471.8	(1,233.7)	281.1
Debt	4,401.3	5,264.0	4,890.2	4,569.8	4,974.8
Annual revenue growth (%)	1.9	7.5	(0.2)	(6.0)	5.1
EBITDA margin (%)	15.1	14.6	12.6	14.9	16.2
Debt/EBITDA (x)	1.6	1.8	2.0	1.7	1.6
FOCF/debt (%)	24.3	19.3	12.3	29.9	33.8
DCF/debt (%)	(8.6)	(15.4)	9.6	(27.0)	5.6

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. Capex--Capital expenditure.

Company Description

Founded in 1891 and headquartered in the Netherlands, Philips is a global diversified health technology and consumer products group. In 2019, the group generated revenue of €19.5 billion and S&P Global Ratings-adjusted EBITDA of €2.9 billion.

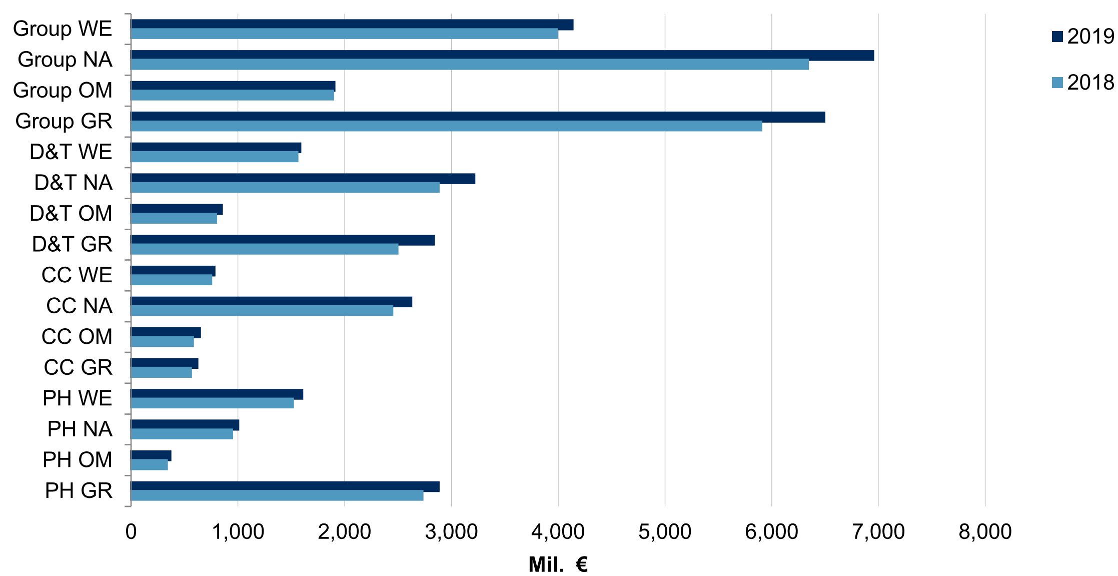
Philips operates in three major segments:

- Personal health (30% of revenue; 48% of income from operations in 2019), which includes product for oral health care, mother and child care , personal care (including male grooming products), and domestic appliances (Philips announced Jan. 28, 2020, that it started the process to dispose of its domestic appliances segment);
- Diagnosis and treatment (44% of revenue; 37% of income from operations). Products include diagnostic imaging, ultrasound scanners, image-guided therapy and enterprise diagnosis informatics; and
- Connected care and informatics (24% of revenue; 15% of income from operations). Products include monitoring and analytics, sleep and respiratory care, therapeutic care, population health management, and connected care informatics.

The group has a wide geographical reach, with about 33% of revenue in 2019 from high growth countries like China (14% of revenues); about 36% revenue from North America including 34% in the U.S.; 21% from Western Europe; and 10% from mature geographies, including Japan (6%).

Chart 2

Koninklijke Philips N.V.--Revenue By Division And Region



WE--Western Europe. NA--North America. OM--Other mature. GR--Growth regions. D&T--Diagnostics and treatment. CC--Connected care. PH--Personal health. Source: S&P Global Ratings.

Peer Comparison

Table 1

Koninklijke Philips N.V.--Peer Comparison

Industry sector: Health care equipment

	Koninklijke Philips N.V.	Colgate-Palmolive Co.	Medtronic plc	Procter & Gamble Co.	Hologic Inc.
Ratings as of Dec. 7, 2020	BBB+/Stable/A-2	AA-/Stable/A-1+	A/Stable/A-1	AA-/Stable/A-1+	BB+/Stable/--
	--Fiscal year ended--				
	Dec. 31, 2019	**Dec. 31, 2019**	**April 24, 2020**	**June 30, 2019**	**Sept. 28, 2019**
(Mil. €)					
Revenue	19,482.0	15,693.0	28,913.0	67,684.0	3,367.3
EBITDA	2,850.0	4,333.0	8,025.0	17,493.8	1,120.8
Funds from operations (FFO)	2,315.0	3,317.9	6,475.7	13,862.0	803.0

Table 1

Koninklijke Philips N.V.--Peer Comparison (cont.)					
Interest expense	195.0	247.1	1,120.4	579.7	145.7
Cash interest paid	172.0	212.1	671.4	567.7	137.2
Cash flow from operations	1,693.0	3,274.9	7,428.7	15,436.3	665.6
Capital expenditure	675.0	334.0	1,213.0	3,347.0	109.1
Free operating cash flow (FOCF)	1,018.0	2,940.9	6,215.7	12,089.3	556.5
Discretionary cash flow (DCF)	(813)	124.9	1,995.7	(411.7)	343.6
Cash and short-term investments	1,426.0	906.0	10,951.0	10,287.0	601.8
Debt	5,264.0	9,246.3	16,941.9	27,339.3	2,586.9
Equity	12,625.0	558.0	50,872.0	47,579.0	2,115.7
Adjusted ratios					
EBITDA margin (%)	14.6	27.6	27.8	25.8	33.3
Return on capital (%)	9.0	40.6	7.6	19.2	11.8
EBITDA interest coverage (x)	14.6	17.5	7.2	30.2	7.7
FFO cash interest coverage (x)	14.5	16.6	10.6	25.4	6.9
Debt/EBITDA (x)	1.8	2.1	2.1	1.6	2.3
FFO/debt (%)	44.0	35.9	38.2	50.7	31.0
Cash flow from operations/debt (%)	32.2	35.4	43.8	56.5	25.7
FOCF/debt (%)	19.3	31.8	36.7	44.2	21.5
DCF/debt (%)	(15.4)	1.4	11.8	(1.5)	13.3

Business Risk: Strong

Connected, integrated, and AI-enabled medical equipment delivering rapid and predictive diagnosis will fuel market growth. Philips' business standing is supported by its leading positions and strong profitability in personal health, ultrasound, image-guided therapy, and patient monitoring, which we expect will continue to support stable revenue. We view the group's strong pricing power--thanks to innovation capability, a large intellectual property portfolio, and a strong brand among consumers and health professionals--as supporting the ratings. Earnings visibility and stability are supported by Philips' expanding order book, and its increasing level of recurring revenue and sales from integrated solutions between systems, devices, and services.

Business weaknesses in our view include the likely low revenue growth prospects and pricing pressure coming from mature markets (two-thirds of revenue). This relates mostly to budget constraints on public spending for new health care equipment. Nevertheless, The group is well positioned in out-of-hospital-care products. Also, Philips remains a distant no. 3 in diagnostic imaging in the very profitable North American market, behind GE Healthcare and Siemens Healthineers. We view some product segments as relatively more cyclical or discretionary like oral care or male grooming.

Philips competes in the broad health technology market that is valued at €150 billion and displays positive underlying trends. It benefits from an aging population, increasing prevalence of chronic diseases, and the need for better and faster diagnostics and treatment, while constrained health care budgets increase pricing pressure. The industry is fast-evolving, with outcome-oriented payment models taken up by health care providers; and accelerating adoption of digital technology focused on telehealth, connectivity, AI, and work flow data analytics.

The global diagnostic imaging market, a subsegment of the health technology market, is valued at about $34 billon, and Philips is among the leading players. The market consists of systems like ultrasound, nuclear imaging, CT scanners, MRI equipment, and X-rays. The latter accounts for the largest share, benefiting from increasing use of interventional X-ray systems including C-arms for image guided surgeries, especially as cardiovascular diseases continue to be the leading cause of death worldwide. Ultrasound equipment is also increasing fast, with high resolution mobile and portable and devices gaining market traction in both developed and developing countries.

The global medical imaging market should continue to expand about 5% per year, with Asia-Pacific driving the growth, although North America will remain the largest market. Like the wider medical equipment industry, risk of product recalls is prominent. With increasing focus on digital and data use, cybersecurity breaches and software failure are the key areas that could damage reputations and cause financial loss.

COVID-19 had a mixed impact on the industry in 2020, with products like MRI experiencing sales declines as elective procedures and non-urgent examinations were postponed; while digital X-ray, CT, ventilators, and vital signs monitoring devices were in high demand, helping with diagnosis and monitoring chest infections. Other impacts of the pandemic stem from the accelerated adoption of digital technologies, especially connectivity features.

Innovation-driven diverse portfolios, leadership positions, manufacturing, and distribution networks are among the key attributes for growth and margin improvement. Constrained health care budgets and shortages of medical professionals are among the factors propelling demand for integrated solutions rather than a stand-alone equipment. Philips aims to increase revenue from solutions and related services to above 45% of sales by 2025 from the current 37%. We view this strategy positively because it increases stability and predictability for revenue due to their recurring nature, especially as in our view there are minimal technological differences among competing products.

Via its diagnosis diagnostics and treatment, division Philips' focus is on integrated diagnostics, minimally invasive procedures to optimize productivity and outcomes. It benefits from leadership position in ultrasound and image guided therapy, while in the diagnostics imaging it ranks behind GE and Siemens Healthineers. Philips' ultrasound devices EPIQ and Lumify are examples of products that fulfil requirements around mobility and portability to suit work flow, while delivering on accuracy and connectivity.

The Ingenia Ambition MRI scan uses only 7 liters of helium compared with 1,400 for a conventional MRI scan, thanks to its sealed magnet technology, allowing for easier installation in inconvenient locations (it is about 900 kg lighter than conventional MRIs), while AI-enabled technology allows for precision and efficiency. We think than competition in the segment will come more from portable devices, rather than increased magnet strength.

Philips' Azurion platform is a good example of integrated procedural solution. To enhance clinician focus and control during procedures, the company created a system that allows clinicians to control all compatible applications from a single touch screen while performing procedures. This can eliminate the need for clinicians to leave the sterile field and step into an adjacent control room, as well as support faster and better-informed decision-making.

Philips' connected care centers around telehealth, with leading positions in patient monitoring, respiratory, and sleep care. The company's monitoring solutions range from continuous to central patient monitoring, with data integration and connectivity around the IntelliVue platform. Respiratory and sleep care leadership position is supported by a broad portfolio of ventilators for both hospital and domestic setting, with interoperability and connectivity features.

Personal health focuses around oral health, male grooming, beauty, and mother and child care, segments where Philips can leverage its health care expertise. The company is using digital technology to engage with customers, broadening its portfolio to encompass products from a low end to high price and value. Philips maintains No. 1 market share in male grooming (electric) and reusable baby bottles (Philips Avent) in North America. The decision to completely divest the domestic appliance segment further strengths company's focus in health equipment and personal care business.

Topline growth has remained strong with 4%-6% comparable growth annually since 2016. Growth in the overall order book provides some clarity, with more than 30% being recurring business. Topline is supported by both innovation (€1.9 billion for R&D) and through focused acquisitions to gain new markets. Profitability has also gradually improved supported by topline gains and productivity programs. Much of the savings have been in manufacturing and procurement.

Financial Risk: Intermediate

Philips' financial position remains primarily supported by its relatively large and stable free cash flow base, which we forecast at €1.4 billion-€1.6 billion annually for 2021 and 2022. We believe cash flow growth should mostly come from growth and improvements in profitability across segments. Philips should continue reducing working capital and maintain stable capex spending at about 5% of revenue.

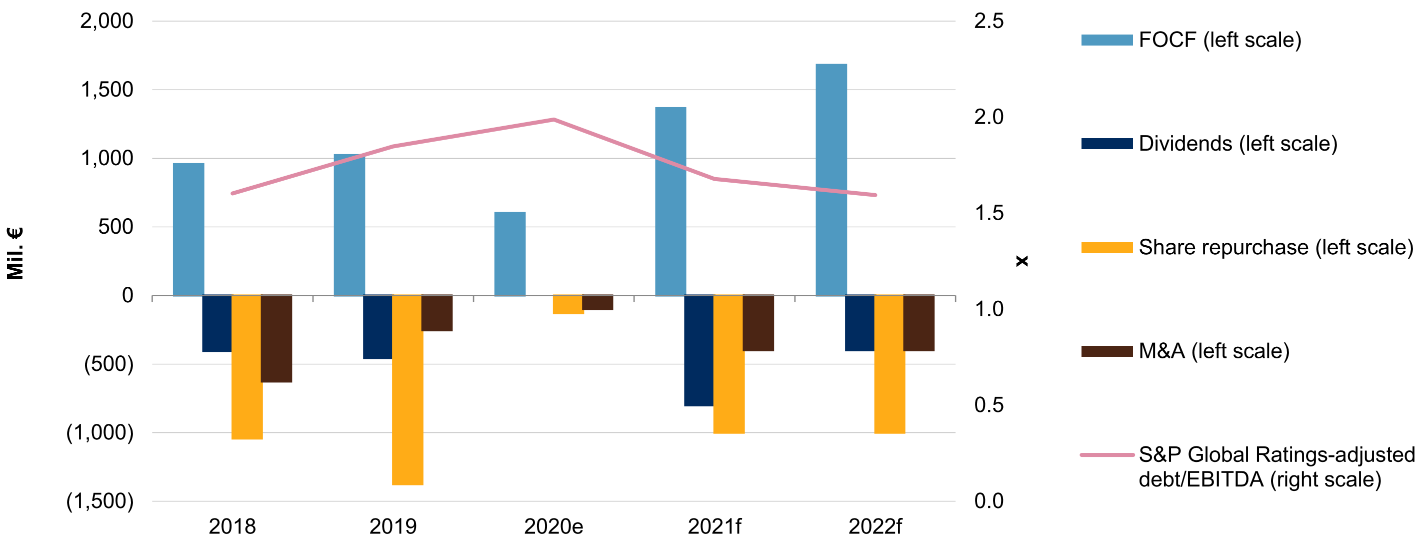
We believe management will continue to pursue a consistent approach toward debt-financed acquisitions and shareholder remuneration. We forecast adjusted debt leverage to remain near 2x over the next two years.

We see Philips remaining acquisitive as it seeks to increase its presence in the fast-growing segments of diagnosis and treatment, and connected care. The company's policy is to maintain more disciplined and active approached toward M&A but with focus on fewer and medium size deals.

We assume a stable dividend payout ratio (40%-50% adjusted net income) and the continuation of the share repurchase program (see chart 3) to offset dilution from the proposed scrip dividends.

Chart 3

Koninklijke Philips N.V.--FOCF, Discretionary Spending, And Leverage Trend



e--Estimate. f--Forecast. FOCF--Free operating cash flow. M&A--Mergers and acquisitions. Source: S&P Global Ratings.

Despite emerging market volatility, we see limited currency mismatch for Philips given that it generates more than half of its earnings in North America and Europe, which helps service its euro- and U.S. dollar-denominated debt. Overall, we do not see near-term refinancing risks, because maturities are well spread. Meanwhile, pension liabilities have reduced greatly limiting the risk of a widening net pension deficit in next years.

Financial summary

Table 2

Koninklijke Philips N.V.--Financial Summary

Industry sector: Health care equipment

	--Fiscal year ended Dec. 31--				
	2019	**2018**	**2017**	**2016**	**2015***
(Mil. €)					
Revenue	19,482.0	18,121.0	17,780.0	17,422.0	25,863.0
EBITDA	2,850.0	2,745.0	2,525.5	2,424.0	3,079.5
Funds from operations (FFO)	2,315.0	2,231.9	1,979.8	1,781.6	2,428.6
Interest expense	195.0	230.1	276.7	405.4	409.9
Cash interest paid	172.0	212.1	261.7	347.4	317.9
Cash flow from operations	1,693.0	1,616.9	1,684.8	1,035.6	1,252.6
Capital expenditure	675.0	548.0	521.0	438.0	775.0
Free operating cash flow (FOCF)	1,018.0	1,068.9	1,163.8	597.6	477.6

Table 2

Koninklijke Philips N.V.--Financial Summary (cont.)

Industry sector: Health care equipment

	--Fiscal year ended Dec. 31--				
	2019	**2018**	**2017**	**2016**	**2015***
Discretionary cash flow (DCF)	(813)	(377.1)	135.8	(340.4)	(245.4)
Cash and short-term investments	1,426.0	1,688.0	1,939.0	2,334.0	1,766.0
Gross available cash	1,426.0	1,688.0	1,988.0	2,370.0	1,899.0
Debt	5,264.0	4,401.3	4,351.5	5,743.9	6,444.9
Equity	12,625.0	12,117.0	12,023.0	13,453.0	11,780.0
Adjusted ratios					
EBITDA margin (%)	14.6	15.1	14.2	13.9	11.9
Return on capital (%)	9.0	10.0	8.1	7.6	10.0
EBITDA interest coverage (x)	14.6	11.9	9.1	6.0	7.5
FFO cash interest coverage (x)	14.5	11.5	8.6	6.1	8.6
Debt/EBITDA (x)	1.8	1.6	1.7	2.4	2.1
FFO/debt (%)	44.0	50.7	45.5	31.0	37.7
Cash flow from operations/debt (%)	32.2	36.7	38.7	18.0	19.4
FOCF/debt (%)	19.3	24.3	26.7	10.4	7.4
DCF/debt (%)	(15.4)	(8.6)	3.1	(5.9)	(3.8)

*Includes Philips Lighting (Signify).

Reconciliation

Table 3

Koninklijke Philips N.V.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €)

	--Fiscal year ended Dec. 31, 2019--							
Koninklijke Philips N.V. reported amounts								
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
Reported	3,878.0	12,597.0	3,143.0	1,644.0	173.0	2,850.0	2,031.0	1,013.0
S&P Global Ratings' adjustments								
Cash taxes paid	--	--	--	--	--	(363.0)	--	--
Cash interest paid	--	--	--	--	--	(172.0)	--	--
Reported lease liabilities	1,381.0	--	--	--	--	--	--	--
Postretirement benefit obligations/deferred compensation	637.0	--	--	--	22.0	--	--	--
Accessible cash and liquid investments	(1,426.0)	--	--	--	--	--	--	--
Capitalized development costs	--	--	(338.0)	(109.0)	--	--	(338.0)	(338.0)
Share-based compensation expense	--	--	98.0	--	--	--	--	--

Table 3

Koninklijke Philips N.V.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €) (cont.)								
Dividends received from equity investments	--	--	12.0	--	--	--	--	--
Nonoperating income (expense)	--	--	--	82.0	--	--	--	--
Noncontrolling interest/minority interest	--	28.0	--	--	--	--	--	--
Debt: Derivatives	152.0	--	--	--	--	--	--	--
Debt: Contingent considerations	354.0	--	--	--	--	--	--	--
Debt: Other	288.0	--	--	--	--	--	--	--
EBITDA: Gain (loss) on disposals of PP&E	--	--	(5.0)	(5.0)	--	--	--	--
EBITDA: Business divestments	--	--	(67.0)	(67.0)	--	--	--	--
EBITDA: Other	--	--	7.0	7.0	--	--	--	--
Total adjustments	1,386.0	28.0	(293.0)	(92.0)	22.0	(535.0)	(338.0)	(338.0)
S&P Global Ratings' adjusted amounts								
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditure**
Adjusted	5,264.0	12,625.0	2,850.0	1,552.0	195.0	2,315.0	1,693.0	675.0

PP&E--Plant, property, and equipment.

Liquidity: Strong

We view Philips' liquidity as strong and project that its liquidity sources are enough to cover uses by more than 1.5x over the next 12 months from June 30, 2020. There are no financial covenants on the debt. The group has a $2.5 billion undrawn commercial paper program and €1 billion of long-term undrawn committed credit lines due 2024. We believe that Philips retains access to a diversified pool of lenders and to international capital markets

Principal liquidity sources	Principal liquidity uses
• Cash and cash equivalents of €2.3 billion as of June 30, 2019 • Forecast cash FFO of €2.2 billion-€2.6 billion in the next 12 months • Undrawn committed credit lines of €1 billion maturing in 2024	• €600 million of debt due in 12 months from end of June 30, 2020 • Working capital outflow of €450 million for next 12 months • Our forecast of total capex of about €1.0 billion for the next 12 months • Our forecast of cash dividends of €400 million-€600 million annually. • Forecast share repurchases of about €1 billion

	annually

Debt maturities

As of Sept. 30, 2020, the company reported short-term debt of €673 million and long-term debt of €6.5 billion, including leases and forward contract purchasing.

The long-term financial debt (bonds, notes and loans) is well spread and has maturities up to 2042 and an average tenor of 8.5 years.

- 2023: €500 million
- 2024: €500 million
- 2025: €826 million
- 2026 and after: €2.9 billion

Environmental, Social, And Governance

Philips has one of the highest environmental standards across its value chain in the medical equipment industry. The company distinguishes itself in the management of its indirect environmental impact, which we view as more material. While many industry peers have general commitments to improve the environmental footprint of their products, Philips regularly tracks, reports, and sets quantitative targets. The group may face challenges to maintain high environmental standards as it expands to regions with lower environmental regulations such as China.

Philips is well positioned to provide access to medical care to customers and communities because of its diversified regional footprint and portfolio of products and services. Its business model based on providing integrated and customized solutions to hospitals--from manufacturing equipment, to providing software and services such as data analytics--will continue to support customer retention and satisfaction, in our view. The connected nature of Philips' products and services has also supported its penetration in markets with limited health care infrastructure and growing middle-class such as India and Indonesia. Cybersecurity is increasingly material given the company's reliance on sophisticated information technology, sensitive data on patients' health, and connection to the IT infrastructure of customers such as hospitals.

Issue Ratings - Subordination Risk Analysis

Capital structure

Most of the debt is senior unsecured and issued directly by Philips, the group's top holding company.

Analytical conclusions

We rate all the long-term senior unsecured notes 'BBB+', in line with our issuer credit ratings on Philips.

Ratings Score Snapshot

Issuer Credit Rating

BBB+/Stable/A-2

Business risk: Strong

- **Country risk:** Low
- **Industry risk:** Low
- **Competitive position:** Strong

Financial risk: Intermediate

- **Cash flow/leverage:** Intermediate

Anchor: bbb+

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria - Corporates - Industrials: Key Credit Factors For The Branded Nondurables Industry, May 7, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Consumer Durables Industry, Dec. 12, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Health Care Equipment Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	**a-/bbb+**	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of December 16, 2020)*

Koninklijke Philips N.V.		
Issuer Credit Rating		BBB+/Stable/A-2
Senior Unsecured		BBB+
Issuer Credit Ratings History		
28-Jul-2015	*Foreign Currency*	BBB+/Stable/A-2
02-Oct-2014		A-/Negative/A-2
24-Jul-2013		A-/Stable/A-2
28-Jul-2015	*Local Currency*	BBB+/Stable/A-2
02-Oct-2014		A-/Negative/A-2
24-Jul-2013		A-/Stable/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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