



**PHILIPS**

Capital Markets Day



# Our transformation journey to HealthTech leadership continues

**Frans van Houten**  
Chief Executive Officer  
November 6, 2020

innovation  you

# Key takeaways

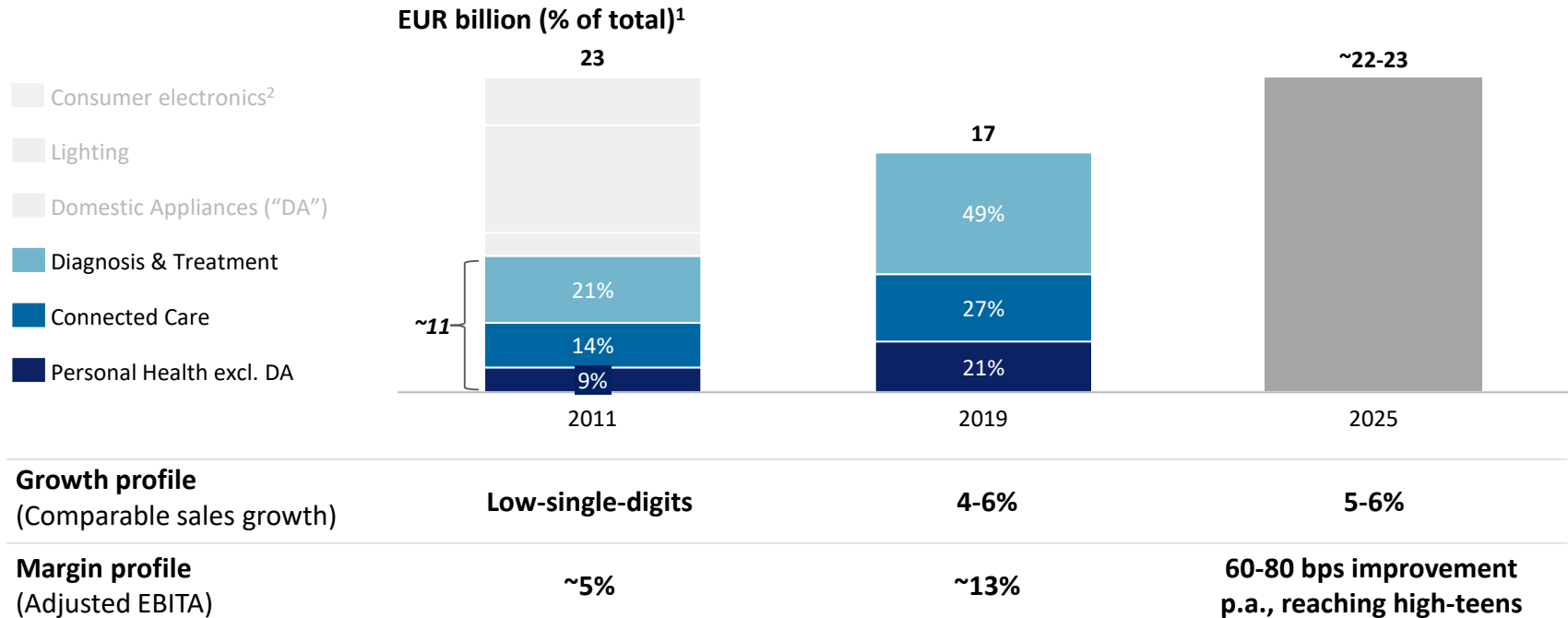
- Our transformation journey to **HealthTech leadership** continues
- We innovate to **improve 2 billion people's health and well-being** per year by 2025
- Our **three strategic imperatives**:
  - Further improving customer experience and operational excellence
  - Boosting growth in the core by innovating to extend category leadership, geographic expansion, deeper customer partnerships
  - Winning with solutions to help customers achieve the Quadruple Aim
- **Driving further value creation**
  - Acceleration of comparable average annual sales growth to 5-6%<sup>1</sup>
  - Average Adjusted EBITA margin improvement of 60-80 basis points<sup>2</sup>
  - Free cash flow of above EUR 2 bn and organic ROIC of mid-to-high teens by 2025

All forward-looking statements and targets exclude the Domestic Appliance business as its future ownership is being reviewed. 1. Current 2021 view for Group: low-single-digit growth. 2. Annually, starting in 2021



# Philips transformation

# Philips continues on its journey to HealthTech leadership, accelerating growth and delivering margin improvement

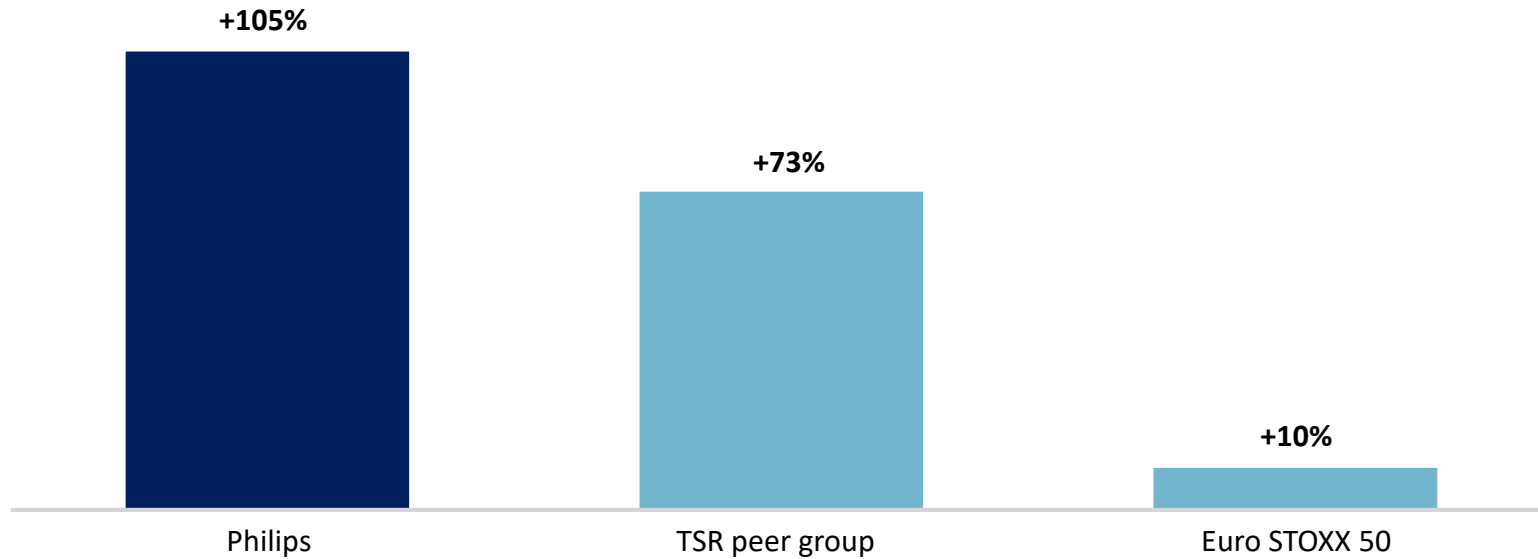


1. Segment Other is not shown in the chart but is included in totals 2. Refers to TV, LE and AVM&A

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

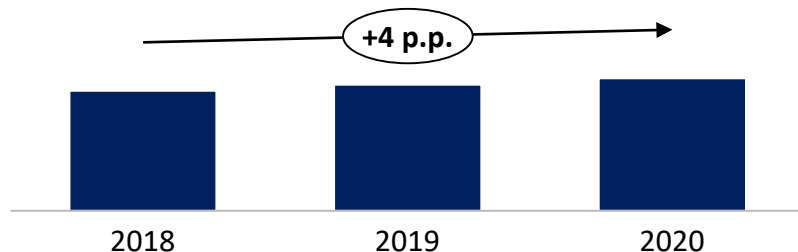
# Delivering strong shareholder returns

Superior total shareholder return since 2016

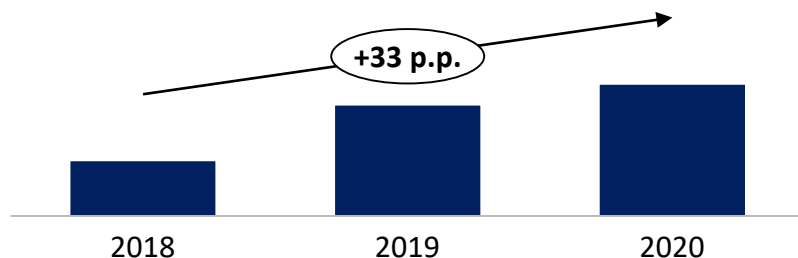


# Gaining customer preference and international acclaim

## Steady improvement in customer feedback<sup>1</sup>



## Steep growth in Ratings & Reviews (R&R)<sup>2</sup>



## Our brand is internationally acclaimed



World's most innovative MedTech (2020)



Derwent **Top 100 Global Innovator** for the 7th consecutive year (2020)



**Best of Health / Medical** award for the period 2016-2020



**Best Health IT** award for IntelliVue GuardianSoftware at HIMSS APAC 2019



2020 Best in KLAS for **Cardiology** with Philips IntelliSpace Cardiovascular



2020 Category Leader for **Universal Viewer** (Imaging) solutions with Philips Vue Motion

# Winning propositions

>65% of sales from leadership positions<sup>1,2</sup>

Diagnosis & Treatment	Ultrasound Global leader	Image-guided therapy systems Global leader	Image-guided therapy devices <sup>3</sup> Global leader	Diagnostic imaging Global top 3	High-end radiology and cardiology informatics #1 in North America
	Patient monitoring Global leader	ICU telehealth #1 in North America	Personal emergency response #1 in North America	Respiratory care Global leader	Sleep care Global leader
Personal Health	Male grooming Global leader	Oral healthcare Global leader	Mother and child care Global leader	Hair removal Global leader	

**Continuing to gain market share in key areas of our portfolio**

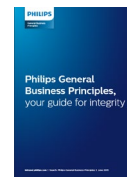
1. Leadership position refers to #1 or #2 position in Philips addressable market. 2. Excluding Domestic Appliances; As announced in January 2020, the separation process is expected to be completed in Q3 2021. 3. In Image-Guided Therapy Devices markets where Philips plays



# Committed to doing business responsibly and sustainably

Environment	Social	Governance
We act responsibly towards our planet in line with UN SDGs 12 and 13	Our purpose is to improve people's health and well-being through meaningful innovation, in line with UN SDG 3  We act responsibly towards society and partner with our stakeholders	We aim to deliver superior long-term value for our customers and shareholders, and we live up to the highest standards of ethics and governance in our culture and practices

## Frameworks/references



For more information on our raised ESG commitments, go to our website at

<https://www.philips.com/a-w/about/sustainability.html>

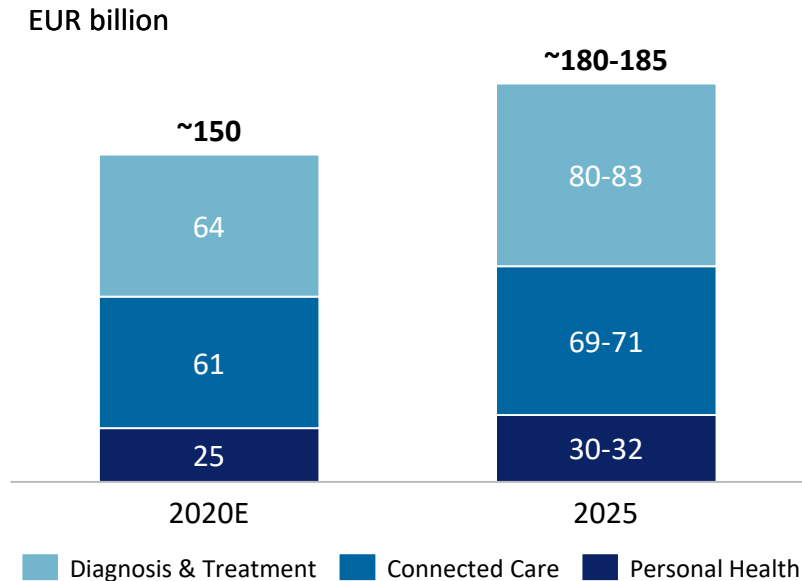




Our strategy to win in a  
changing healthcare world

We target a EUR 150 bn health technology market, growing ~4% annually on the back of attractive, long-term trends

### HealthTech market is growing at ~4%<sup>1</sup>

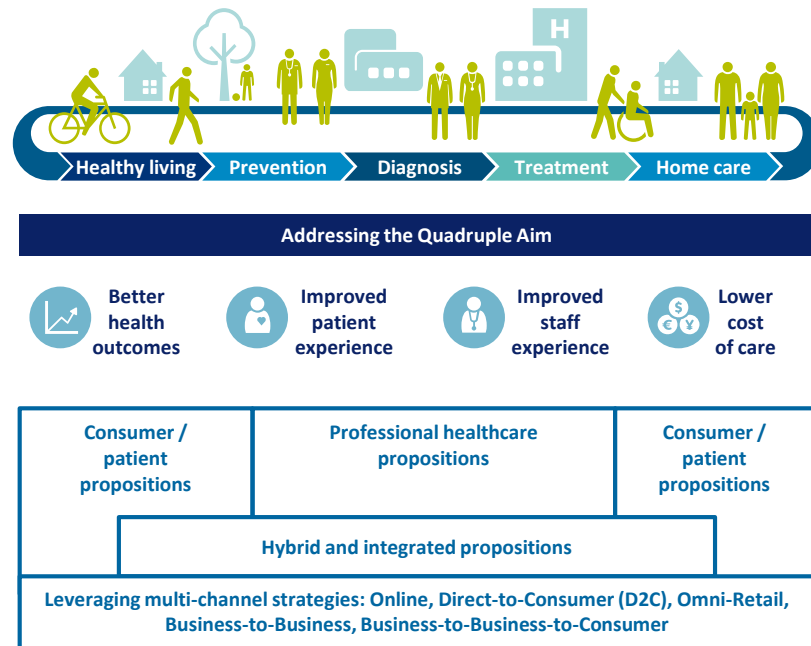


### Market trends supporting HealthTech growth

- **Volume growth** driven by population, aging, chronic diseases
- **Emerging markets** increasing healthcare spend
- **Digitalization** and **personalization** of health
- Higher precision through **AI and workflow informatics**
- Procedure innovation such as **minimally invasive interventions**
- Adoption of **telehealth** and shift to **out-of-hospital** settings
- Providers facing **consolidation, cost pressure and staff fatigue**
- Acceleration of **outcome-oriented** payment models

# Our strategy to lead in health technology

- **Innovative solutions** that deliver on the **Quadruple Aim** for providers and consumers, along the health continuum
- Smartly combining **systems, devices, informatics, data and services**
- **Consultative customer partnerships** and recurring-revenue business models with superior customer service
- Building on organic **growth in the core**, complemented by synergistic M&A
- **Philips Business System** driving operational excellence, quality and an integrated approach to customers



# We have a strong and focused portfolio, driving innovative solutions that promote health and improve healthcare delivery

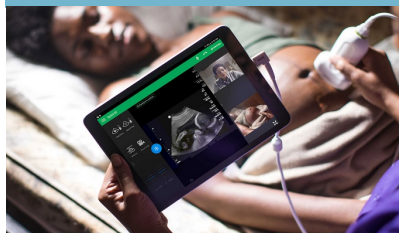
## Personal Health



### Personal Health

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

## Diagnosis & Treatment



### Precision Diagnosis

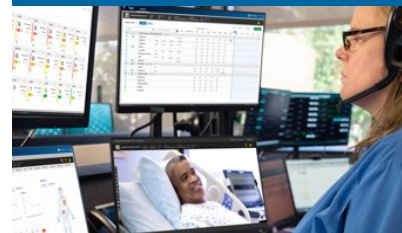
Provide smart, connected systems, optimized workflows, and integrated diagnostic insights, leading to clear care pathways and predictable outcomes



### Image-Guided Therapy

Innovate minimally invasive procedures in a growing number of therapeutic areas with significantly better outcomes and productivity

## Connected Care



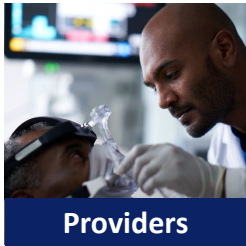
### Connected Care

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

# Recent developments have reaffirmed our strategy

## Recent developments

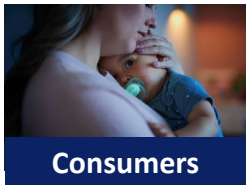
## We are prepared for these developments



- COVID-related **acute care needs**
- Growth of **ambulatory centers**
- Increased focus on **productivity**, staff, cybersecurity and resilience



- Increased **cloud-enabled telehealth**, remote patient engagement, and hub-and-spoke models
- **Informatics and AI-enabled workflow optimization** increasing patient throughput and reducing cost
- Partnering with our customers



- Uncertainty in **consumer spending**
- Accelerated **shift to online channels**



- Business model **innovation** and ecosystems
- Increased Direct-to-Consumer and '**pull**' marketing
- **Partnering** with online platforms



- **Investments in healthcare ecosystems**
- **Geopolitical risk** of market access and technology restrictions



- Strengthened **regional final assembly hubs**
- Increased **localized solutions**, e.g. in China
- **Regional hosting** of health data

# Delivering on our strategy

# Drivers for continued growth and improved profitability

## Our 3 imperatives:

## Key drivers:

## Delivering:



**Better serve  
customers and  
improve quality**

- Deliver the best customer experience and quality
- Leverage our digital enterprise platform
- Improve productivity



**Boost growth  
in core business**

- Innovate to extend category leadership
- Capture geographic growth
- Increase customer share through consultative partnerships



**Win with  
solutions**

- Drive integrated solutions that deliver on the quadruple aim
- Adopt/drive data and AI at scale
- Add portfolio adjacencies (organic, M&A, partnerships)

More lives improved

Higher customer NPS

Market share expansion

Revenue growth

Margin growth<sup>1</sup>

Free cash flow generation

Organic ROIC

ESG leader

Value  
creation

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



# We will further improve customer experience and drive productivity through step-ups in quality and automation

## Customer experience

- Continue to drive up **provider appreciation** of our services
- Further improve our consumer **Ratings & Reviews**

## Quality

- **Design for Excellence**, reduction of SKUs
- **Reduce waste**, Lean practices and continuous improvement

## Digital enterprise

- Grow **Direct-to-Consumer** marketing & sales
- Enable new business models
- Leverage robotic process **automation**

## Productivity

- Drive programs in, amongst others:
  - Supply chain
  - Innovation
  - Marketing & sales
  - Enabling functions
- Target **additional EUR 400 million savings** per year

Boost growth  
in core business

Our innovations enable us to extend category leadership



## Personal Health



**Philips One**

## Precision Diagnosis



**Helium-free MR operations**

## Image-Guided Therapy



**Azurion with IntraSight**

## Connected Care



**IntelliVue 750/850**



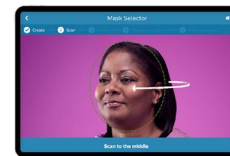
**S1000**



**Radiation therapy planning**



**OmniWire**



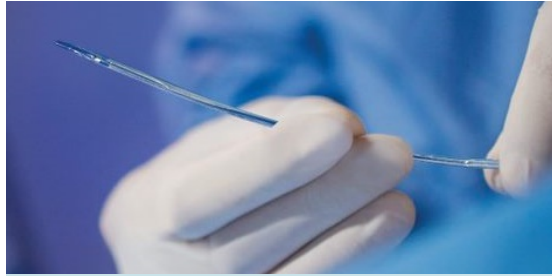
**Mask Selector**

# Geographic expansion fuels our growth



## Scale healthcare informatics

- Globalize our informatics propositions by leveraging our installed base
- Examples: PACS<sup>1</sup>, cloud-based EMR (Tasy), ICU telehealth



## Accelerate IGT-Devices global growth

- Further penetrate Devices markets by building on IGT-Systems leadership
- Grow addressable market in underdeveloped Devices geographies



## Further expand Sleep

- Strengthen existing positions in markets such as Japan and Europe
- Grow China and rest of APAC through awareness and patient engagement

# We increase share of wallet through increased customer intimacy



## Health systems



- Scaling Long-term Strategic Partnerships into adjacent clinical areas
- Leverage Healthcare Transformation Services (HTS) consulting

## Consumer channels



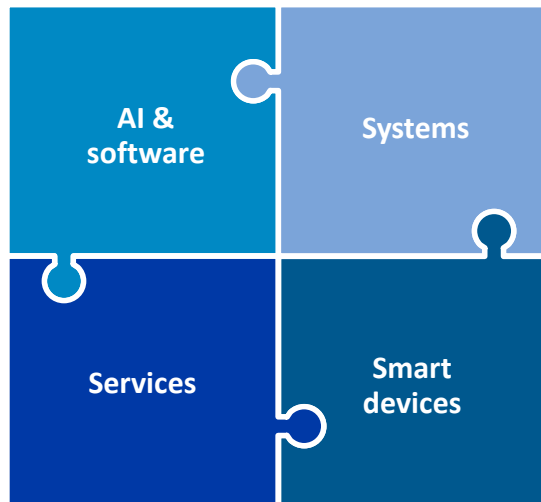
- Deepen partnerships with dedicated account teams, e-commerce analytics and co-creation
- Increase consumer intimacy with Direct-to-Consumer play

# Our integrated solutions deliver on the quadruple aim

~37%<sup>1</sup> of sales from solutions growing to >45% by 2025

## We bring together:

- Deep consumers insights
- Leading clinical and operational expertise
- Open platform approach with system & device integration
- New business models
- End-to-end patient pathways



## Example solution areas:

- Oral Healthcare ecosystems
- First-time-right diagnosis with Radiology workflow productivity
- Integrated IGT suites with new business models
- Connected monitoring, Sleep & Respiratory Care and informatics anywhere

## Addressing the Quadruple Aim



Better health  
outcomes



Improved patient  
experience



Improved staff  
experience



Lower cost  
of care

Win with  
solutions along  
the health  
continuum



# We engage consumers in their personal health routines with smart devices, coaching and novel business models

## Oral Healthcare example

<b>Payer / provider partnerships</b>	<b>Connected products</b>	<b>In-app behavioral coaching</b>	<b>Sonicare Teledentistry</b>	<b>Rewards and incentives</b>	<b>Payer analytics platform</b>

**#1 recommended brand**  
by dental professionals<sup>1</sup>

**4.7 stars R&R for**  
Sonicare apps<sup>2</sup>

**>90% compliance with**  
2x2m brushing per day<sup>3,4</sup>

**>85% of members reduce**  
out-of-pocket expenses<sup>4</sup>

1. In the US 2. Ratings & Reviews for Kids and Adult Sonicare apps, on iOS, as of September 13. 3. According to ADA recommendation of brushing twice for two minutes per day

4. Based on data from several pilots

Win with  
solutions along  
the health  
continuum



# Our Precision Diagnosis solutions enable improved patient diagnoses and increased provider productivity

## Smart diagnostic systems



**Ingenia Elition | VitalEye |  
Compressed SENSE**

**1 minute total  
patient set-up<sup>1</sup>**

## Optimized workflows



**Patient engagement |  
Radiology workflow suite**

**-45% reduction in  
patient no-show rate<sup>2</sup>**

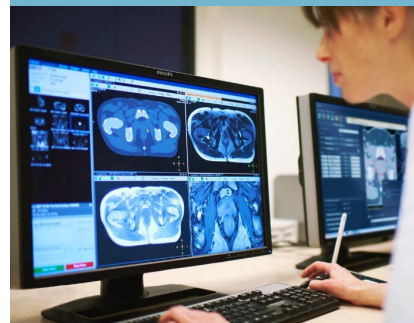
## Integrated diagnostics



**IS Precision Medicine<sup>4</sup> |  
Next-gen enterprise imaging**

**-41% lower  
reporting time<sup>3</sup>**

## Care pathways



**IS Radiation Oncology<sup>4</sup> |  
Dana Farber Pathways**

**-55% expected faster  
referral-to-treatment<sup>5</sup>**

1. With VitalEye and VitalScreen 2. Results achieved by Medumo. 3. Interactive Multimedia Reporting evaluation study compared to classic text-only reporting performed at SwissGroup, Argentina, 2017. 4. IntelliSpace 5. Projected improvement in Referral to first treatment times at South West Wales Cancer Centre using IS Radiation Oncology and Practice Management



With IGT solutions, we innovate interventional procedures to handle more patients in less time, with better outcomes

### Integrated systems, devices, informatics & services



**Azurion | IVUS | iFR | IntraSight**

### Business model innovation



**In-hospital care | Out-of-hospital care**

**-17% time saving per  
procedure with Azurion<sup>1</sup>**

**-10% cost reduction per  
physiologic assessment<sup>2</sup>**

**-25% fewer readmissions  
with iFR vs. FFR<sup>3</sup>**

**-20% reduction in patient  
wait time with ICS<sup>4</sup>**

Notes: Results specific to institution where obtained and may not reflect results achievable at other institutions. 1. Results obtained by Interventional Vascular Department at St. Antonius Hospital, NL from Azurion workflow study 2. Davies JE, et al., Use of the Instantaneous Wave-free Ratio or Fractional Flow Reserve in PCI. N Engl J Med. May 11, 2017. 3. Patel M. "Cost-effectiveness of instantaneous wave-free Ratio (iFR) compared with Fractional Flow Reserve (FFR) to guide coronary revascularization decision making." Late-breaking Clinical Trial presentation at ACC on March 10, 2018. 4. Results obtained by Westchester Medical Center Health Network (WMCHealth) New York, USA from Integrated Cardiovascular Solutions.

Win with  
solutions along  
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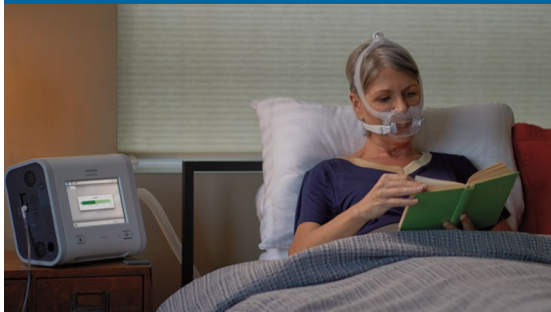
# Our Connected Care solutions help orchestrate and seamlessly deliver care from the hospital to the home

## Emergency and hospital care



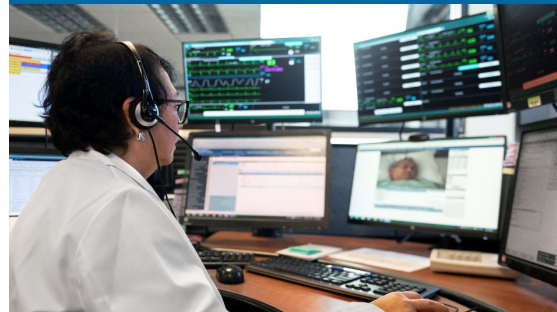
**Continuous patient monitoring |  
Ventilation | Emergency response**

## Home care



**Sleep apnea care | COPD and other  
respiratory care | Chronic cardiac care**

## Health system management



**Telehealth | Clinical informatics |  
Patient flow management**

**-70% reduction in  
emergency escalations<sup>1</sup>**

**#1 choice amongst Sleep  
physicians in the US<sup>2</sup>**

**+25% improvement in  
therapy compliance<sup>3</sup>**

**-\$6,500 in savings per  
patient from eICU<sup>4</sup>**

1. With early warning score system at large hospital 2. Philips Respironics is the #1 sleep therapy brand of choice by U.S. sleep physicians 3. With Patient Adherence Management Service 4. American College of Chest Physicians study featuring UMass Memorial Medical Center, 2016

# China Xiamen Cardiac Hospital solution

Our co-creation approach promotes exceptional customer engagement

## Customer needs

- **Leading cardiovascular hospital** in China
- **Green-field hospital** of 600 beds, including Cath lab, CCU, ICU, and ED
- **World-class user and patient experience**
- New equipment fleet supported by **operational performance and efficiency**

## Solutions highlights

- End-to-end **design co-creation**, from patient journey mapping to implementation and service
- Imaging, interventional, and monitoring equipment
- **Cardiovascular data service**, including data and performance benchmarking
- Voted **China's most beautiful hospital** in 2019

# Our capital allocation supports our strategy and our commitments to shareholders

## Our approach

### Reinvest in growth

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

### M&A / portfolio management

- EUR 4.6 billion spend on M&A since 2015
- **Disciplined but more active** approach

### Dividend stability

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

### Share buy-backs

- **EUR 4 billion** since 2015
- Continuing to evaluate periodically



Our  
transformation  
is enabled by our  
**leadership  
development  
journey** and  
sustained by the  
**Philips Business  
System**



# Our experienced and passionate executive team



**CEO**  
**Frans van Houten**  
Dutch



**Diagnosis & Treatment**  
**Bert van Meurs**  
Dutch



**Kees Wesdorp**  
Dutch



**Connected Care**  
**Roy Jakobs**  
Dutch/German



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



**Domestic Appliances**  
**Henk de Jong**  
Dutch



**North America**  
**Vitor Rocha**  
Brazilian/American



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



**International Markets<sup>1</sup>**  
**Edwin Paalvast**  
Dutch



**Innovation & Strategy**  
**Jeroen Tas**  
Dutch



**Operations**  
**Sophie Bechu**  
French/American



**Legal**  
**Marnix van Ginneken**  
Dutch/American



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



**Strategic Business Development**  
**Robert Cascella**  
American

# Key takeaways

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- We innovate to **improve 2 billion people's health and well-being** per year by 2025
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# The next phase of value creation

**Abhijit Bhattacharya**  
Chief Financial Officer  
November 6, 2020

innovation  you

# Key takeaways








- **Significantly improved sales growth, Adjusted EBITA, free cash flow, and Adjusted EPS** in the period 2016-2020
- Looking ahead, we accelerate **sales growth** and improve **Adjusted EBITA margin to high-teens** by 2025
- Productivity initiatives will deliver **additional cumulative net savings of EUR 2 billion** by 2025
- Strong **cash conversion >90%** to deliver **above EUR 2 billion free cash flow** by 2025
- **Robust financial framework** geared to **value creation**

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



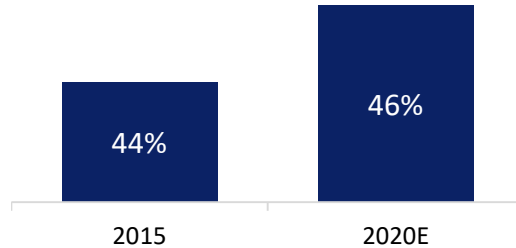
2016 - 2020

# We have structurally improved performance in the period 2016-2020

Average comparable sales growth	4-6% per year	
Average Adjusted EBITA margin expansion	~70 bps	
Free cash flow generation	~EUR 1.5 bn	
Productivity savings	EUR 1.9 bn	
Organic Return on Invested Capital <sup>1,2</sup>	Mid-teens	
Strong balance sheet	Investment grade rating and leverage	
Sustainability goals	Healthy people, Sustainable planet	

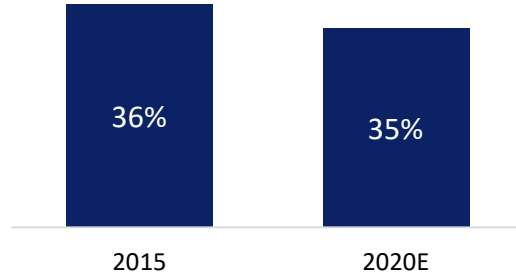
# Strongly increased gross margin and reduced cost

## Adjusted Gross Margin



- Gross margin step-up of 200 bps, despite tariff headwinds, driven by:
  - Innovation and growth of solutions
  - Solid mix improvement
  - Productivity

## Adjusted non-manufacturing costs



- Adjusted non-manufacturing costs down 100 bps through productivity while investing to drive growth and share

Resulting in double-digit Adjusted EPS growth

# Productivity program exceeded target with >EUR 1.9 bn net savings since 2017



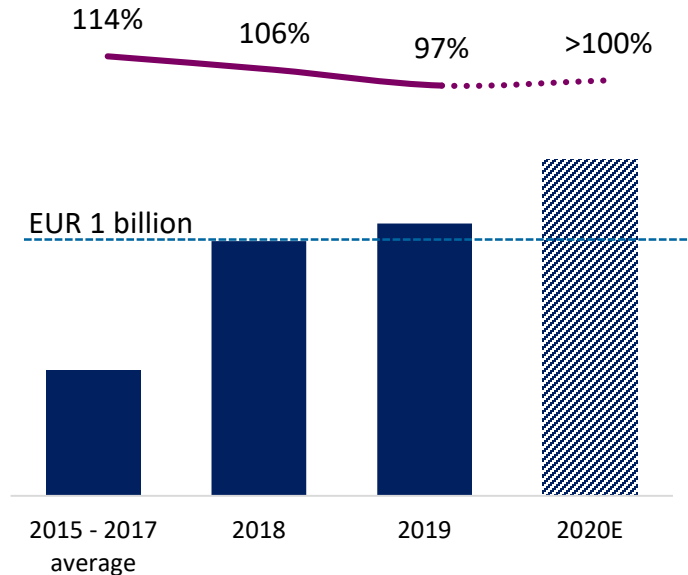
- Consolidated manufacturing footprint from 50 to 30 sites
- Center of Excellence for value analysis and engineering established
- Procurement savings driven by DfX<sup>1</sup> and other programs
- LEAN and Daily Management practices embraced by >35,000 employees

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

- 4,500 team members in Global Business Services (GBS)
- Marketing transformation funds advertising firepower
- 40 bps R&D productivity improvement
- Enabling functions at benchmark cost level

# Strong cash conversion and balance sheet efficiency drive cash flow generation

## Cash conversion<sup>1</sup> and free cash flow (FCF)

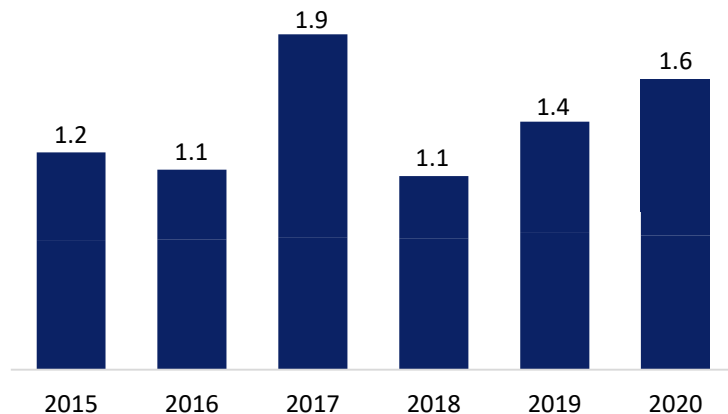


- On track for ~EUR 1.5 billion FCF in 2020
- Continuous focus on working capital:
  - Leaning-out supply chain
  - Overdue accounts receivable reduction
  - Supplier partnership on payment terms
- >50% reduction in interest costs and bank charges<sup>2</sup>
- Reduced pension liabilities from EUR 27 bn to EUR 2 bn

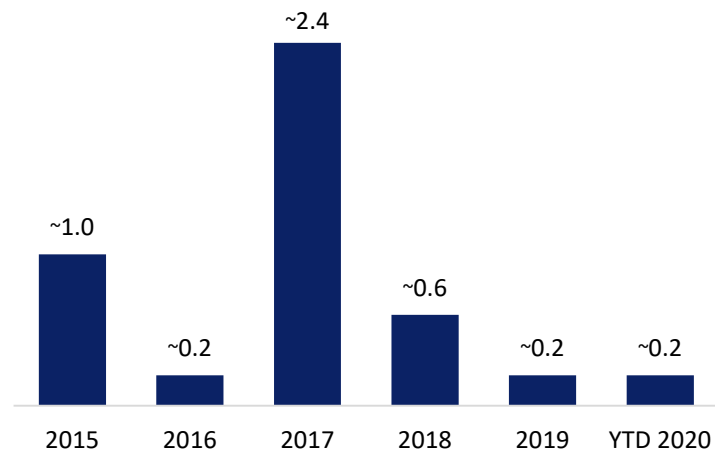


Over EUR 8 billion in dividends and share repurchases, with EUR 5 billion reinvested in M&A, since 2015

### Total dividend distributions and share repurchases<sup>1</sup>

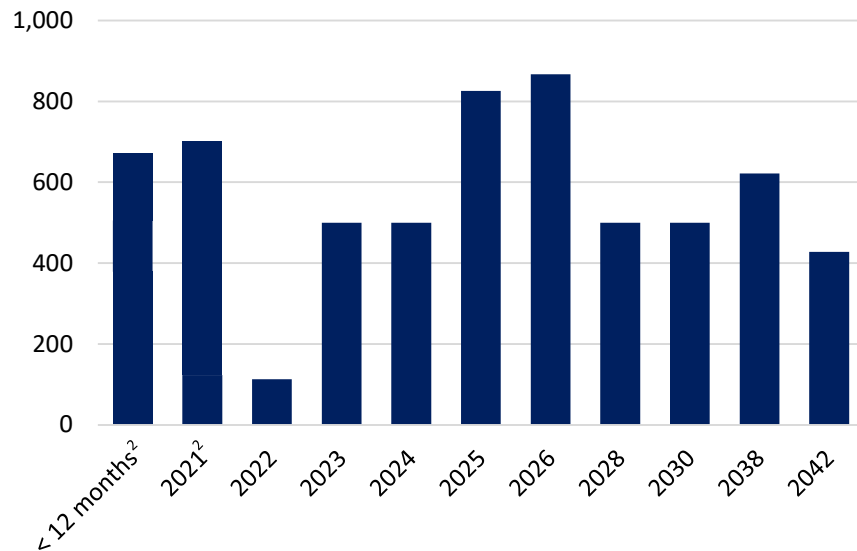


### Mergers & Acquisitions spend

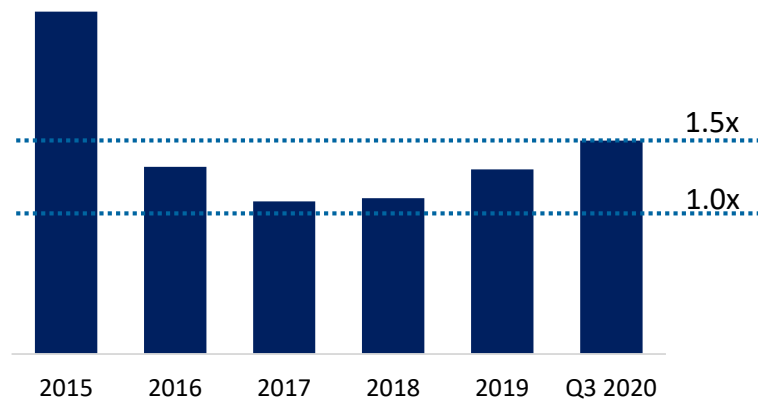


# Long debt maturity profile and leverage ratio consistently between 1x to 1.5x EBITDA

## Debt maturity profile<sup>1</sup>



## Net debt to EBITDA



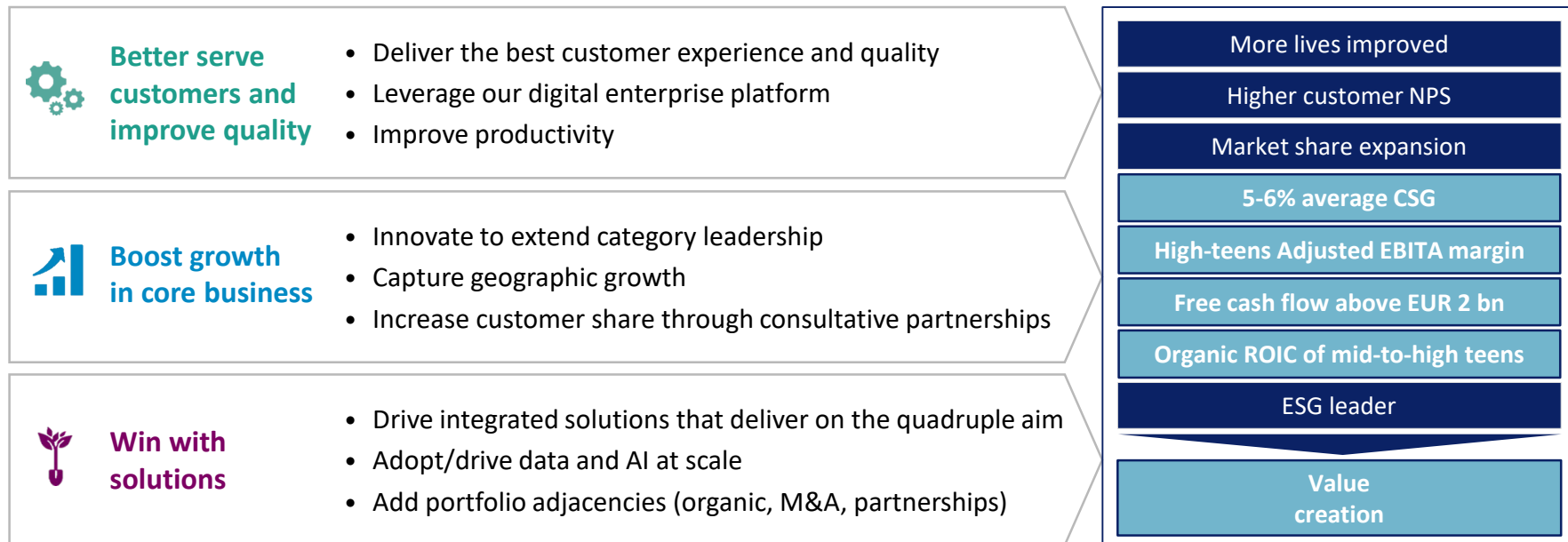
2021 - 2025

# Significant value to be further realized through execution of our strategic imperatives

Our 3 imperatives:

Key drivers:

Delivering:

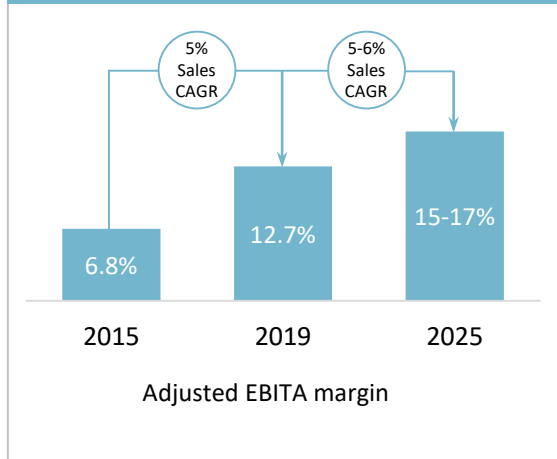


Our behaviors: Customers first | Quality and integrity always | Team up to win | Take ownership to deliver fast | Eager to improve and inspire

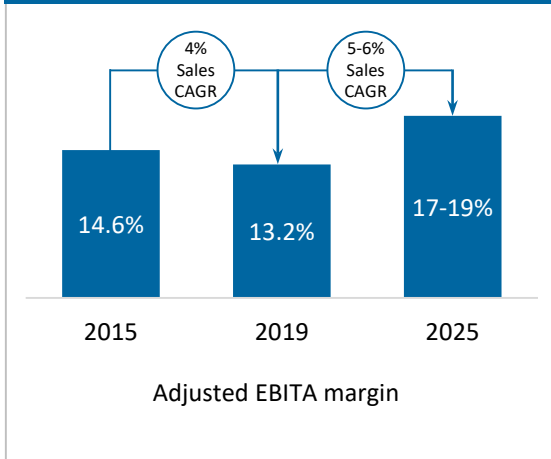
# Growth and margin improvement across all of our segments



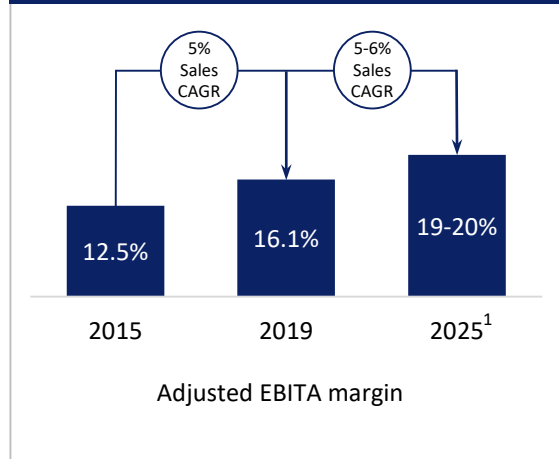
## Diagnosis & Treatment



## Connected Care



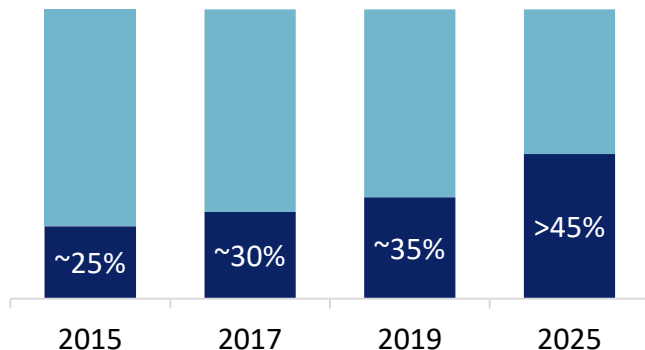
## Personal Health



1. The Domestic Appliances business is currently reported as part of the Personal Health segment. All forward-looking statements and targets exclude the Domestic Appliance business as its future ownership is being reviewed

# Solutions and partnerships approach will continue to drive value and recurring revenue streams

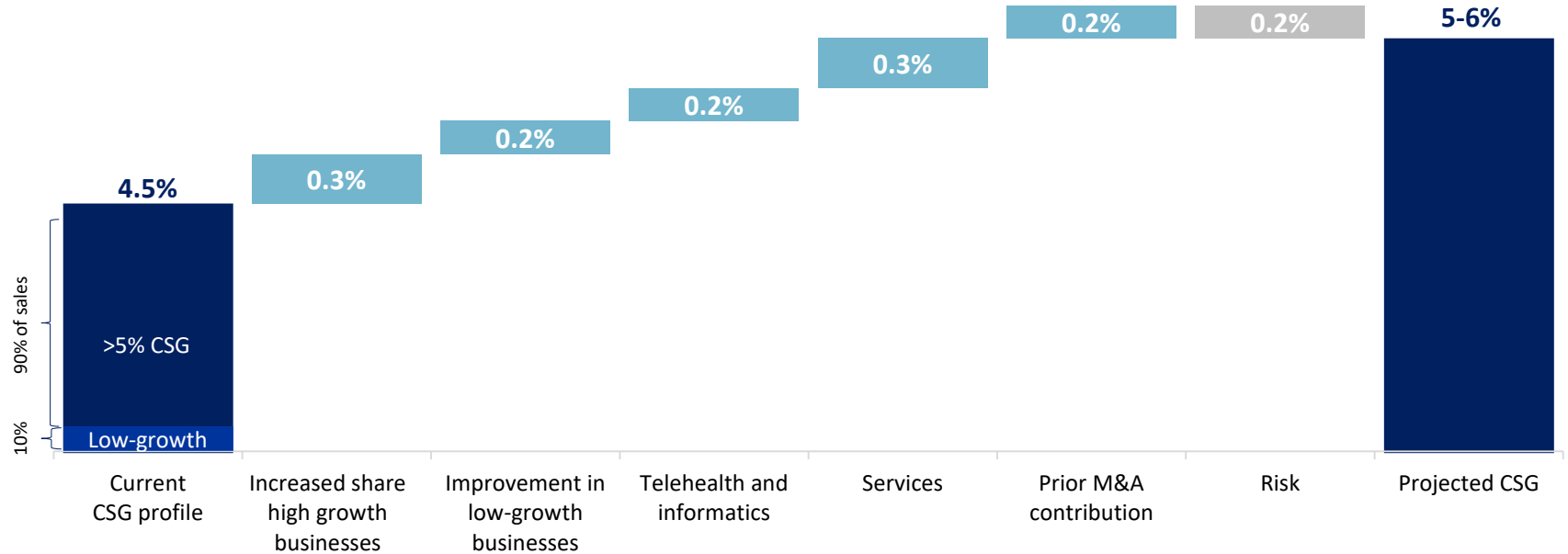
## Solutions revenue as % of total



## Growing double-digits, reaching >45% of total

- Driven by innovation
- Globalize informatics propositions
- Expanding long-term partnership deals
- Philips Capital facilitating new business models
- Increased revenue predictability with accretive margin profile

# Indicative growth acceleration drivers



# Driving EUR 2 billion productivity through 2025

## Procurement savings

EUR 900 - 1100 million

- Center of excellence for value analysis and engineering to drive low-cost country sourcing, life cycle management, and DfX<sup>1</sup>
- Indirect spend management driving demand and price optimization

## Supply chain productivity

EUR 500 - 700 million

- 60% reduction in warehouse sites, consolidation of logistics and warehouse providers
- Ramp-down of manufacturing rationalization project costs
- Operational excellence and lower cost of non-quality

## Overhead cost reduction

EUR 400 - 500 million

- Simplification of R&D platforms and footprint
- Future of work: real estate optimization, remote servicing, travel reduction
- Continued expansion of GBS and RPA<sup>1</sup>
- Single billing entity via upgraded IT backbone (e.g. Europe)

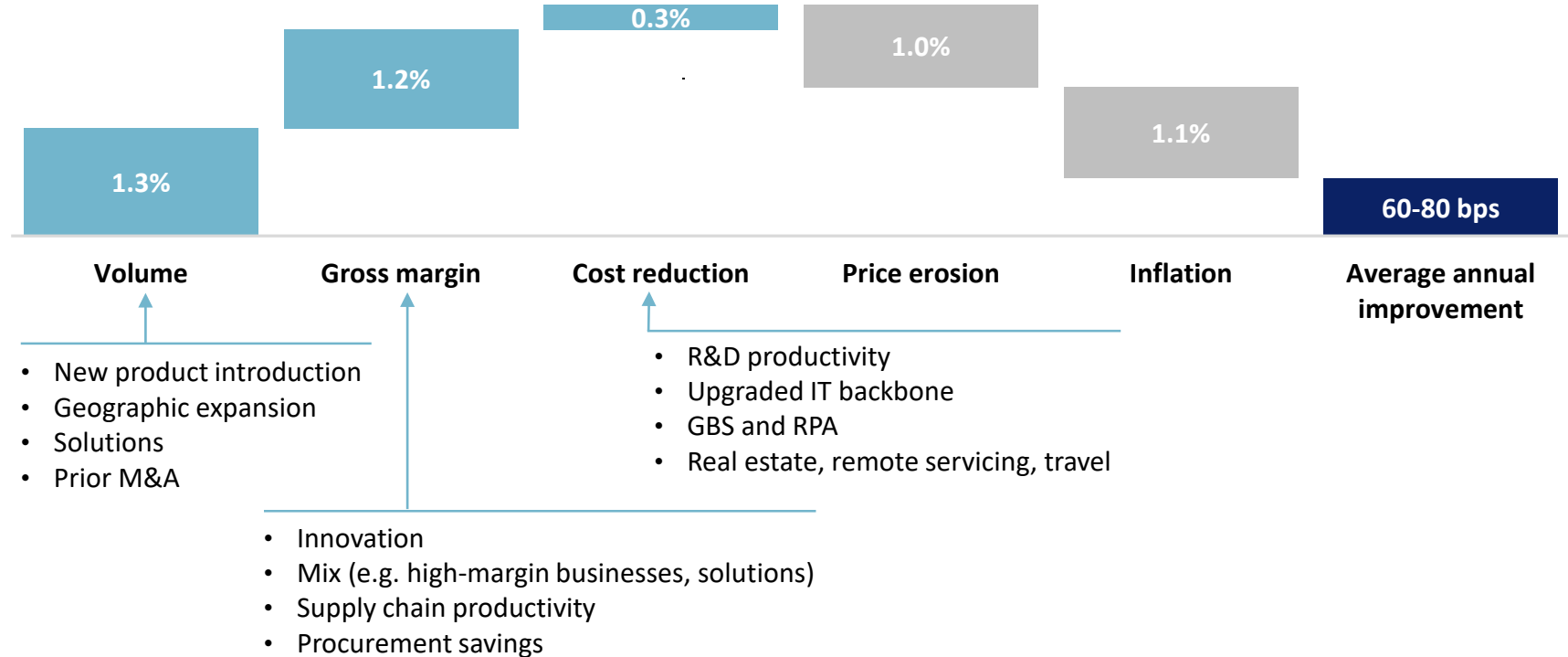
Restructuring cost run-rate expected to be 40-50 bps starting in 2022

1. Design for Excellence 2. Robotic Process Automation

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



# Indicative annual Adjusted EBITA improvement drivers



# Robust financial framework geared to value creation

Free cash flow  
conversion >90%

Adjusted EPS growth  
~10%<sup>1</sup>

Organic ROIC of  
mid-to-high teens

Disciplined  
capital allocation

Maintain current  
investment grade  
credit rating

Effective tax rate  
24-26%

1. Starting in 2022.

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

# Key takeaways

- **Significantly improved sales growth**, Adjusted **EBITA**, free **cash flow**, and Adjusted **EPS** in the period 2016-2020
- Looking ahead, we accelerate **sales growth** and improve **Adjusted EBITA margin** to **high-teens** by 2025
- Productivity initiatives will deliver **additional** cumulative **net savings of EUR 2 billion** by 2025
- Strong **cash conversion >90%** to deliver **above EUR 2 billion free cash flow** by 2025
- **Robust financial framework** geared to **value creation**



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

