

2021 AGM speech by Philips CEO Frans van Houten – May 6, 2021

Spoken word prevails

Ladies and gentlemen, welcome to the 2021 Annual General Meeting of Royal Philips. As the pandemic continues to disrupt our lives, I am again unable to address you in person.

Sadly, some countries – such as India and Brazil – are in a heightened state of crisis, with COVID cases surging. We will continue to support these countries with our critical care solutions. While this news is devastating, it is encouraging to see that global vaccination efforts have accelerated in the last few months.

Today, I will outline how Philips stepped up in 2020 to help fight the pandemic. I will talk about our strategy and elaborate on our continued transformation into a solutions company, to help our customers deliver on the Quadruple Aim of better health outcomes, improved patient and staff experience, and lower cost of care.

I will also walk through our 2020 financial performance, as well as our enhanced commitment to doing business responsibly and sustainably.

I will conclude with how we will further create superior value and improve the growth and profitability profile of Philips.

When the pandemic struck in early 2020, our immediate response was to step up to meet the critical needs of healthcare providers, while safeguarding the health and safety of our employees, and ensuring business continuity. We call this our triple duty of care and it has worked out well.

Wherever possible, we facilitated our employees to work from home. We took every effort to ensure our production facilities and other business-critical activities remained operational. In some cases, we massively stepped up production volumes. Our field service engineers continued to support customers throughout the crisis.

We were able to step up in these ways because of the passion, dedication and resilience of everyone at Philips, for which I am deeply grateful.

These extraordinary efforts enabled us to meet the unprecedented demand for our critical care products and solutions. Health systems around the world urgently needed equipment such as CT systems and mobile ultrasound to help diagnose COVID-19 patients, as well as hospital ventilators, patient monitors, and informatics, to treat, monitor and manage COVID patients.

In parallel, we continued to support health systems with the delivery of regular care, entering into more than 50 long-term strategic partnerships in 2020, to help transform healthcare by enhancing patient care and improving productivity. We also found new ways to serve consumers seeking to live a healthier life, prevent disease and proactively manage their own health.

Overall, our products, services and solutions improved the lives of 1.75 billion people in 2020, including 207 million people in underserved communities.

The developments of the past year validate our strategy to innovate the provision of care along the health continuum. Our customers have confirmed this, telling us that they want innovative solutions – combinations of systems, smart devices, AI & software and services – that can help them deliver on the Quadruple Aim.

They are increasingly focusing on productivity and outcome-based models, as well as new care models.

COVID-19 has accelerated the digitalization of care and the adoption of telehealth. This shift is being reinforced by global trends such as aging populations, the rise of chronic diseases, and resource constraints. Likewise, consumers are much more concerned about their own health.

In recent years, we have invested significantly in data science, informatics and cloud technology to enable the delivery of integrated solutions across the health continuum, and across care settings. These investments are now helping us to improve more lives.

All of this requires a seamless integration of data, which is enabled by our secure, vendor-neutral HealthSuite digital platform. To further unlock the full benefits of data-enabled care, we continue to expand our capabilities in informatics and data science, with around half of our Research & Development professionals working in these areas.

We did not pause or delay our Research & Development spend and innovation roadmaps, despite the challenges posed by COVID-19.

As a result, and by way of example, in our Precision Diagnosis businesses, we launched a vendor-neutral Radiology Operations Command Center, which enables our customers to virtualize imaging by setting up a unique model of operations to seamlessly extend their expert talent across all sites.

We received FDA clearance for the use of our ultrasound portfolio to manage COVID-19-related lung and cardiac complications. This includes our Lumify handheld ultrasound with Collaboration Live, the first truly integrated tele-ultrasound solution providing users with remote access to clinical staff in real-time.

In our Image-Guided Therapy businesses, we launched the next generation of our leading-edge Azurion image-guided therapy platform. This makes existing cardiovascular procedures more efficient and supports the development of new minimally invasive techniques to perform complex interventional therapies to treat, for example, stroke, lung cancer and spine disorders.

In Connected Care, we introduced new ventilators, such as the EV300 portable life support ventilator, and we launched new data interoperability propositions such as a COVID data portal. We also launched our new Tempus ALS remote monitoring and defibrillator solution for emergency medical responders, to help accelerate the delivery of care in emergency settings outside the hospital.

In Personal Health, we introduced a series of shavers featuring SkinIQ technology, which senses, guides and adapts to skin and facial hair for a close and comfortable shave. We also launched the Philips One by Sonicare, a battery-operated power toothbrush, to expand into new consumer segments.

As we continue our transformation into a customer-first solutions company, we are guided by our strategic roadmap, with its three imperatives:

- Further improving the customer experience and operational excellence,
- Boosting growth in the core by innovating to extend category leadership, geographic expansion, and deeper customer partnerships, and finally,

- Winning with solutions to help professional healthcare customers achieve the Quadruple Aim and support consumers in their health needs.

We aim to further drive customer preference by getting even closer to our customers and consumers, making Philips easier to do business with, and further improving our quality, operational excellence and productivity. To do this, we are driving the digital transformation in every area of our business – from the way we connect and engage with our customers and consumers to seamlessly connect our solutions in the field.

In our core business we aim to drive growth through innovation by capturing geographic growth opportunities and by continuing the pivot to consultative customer partnerships and business models, which offer a deeper relationship, with recurring revenue streams.

We will continue the shift towards integrated solutions with demonstrable clinical evidence and health economic benefits. In doing so, we will leverage data science and AI at scale.

Where appropriate, we will continue to make acquisitions to support our organic growth.

For example, to expand our Connected Care solutions, we acquired BioTelemetry and Capsule Technologies, further broadening our patient care management solutions for the hospital and the home. We also acquired Intact Vascular to add an industry-first implantable device to our image-guided therapy portfolio, optimizing the treatment of patients with Peripheral Artery Disease.

These are important steps in our strategy to become a leading solutions provider.

Note that our health technology innovations continue to generate a growing proportion of solutions-based sales and recurring revenues, which now stand at more than 40% of total revenue.

Finally, as part of our transformation, we have signed an agreement to sell our Domestic Appliances business to global investment firm Hillhouse Capital. We are pleased that we have found a good home for this business in line with our plans. With this transaction we conclude our major divestments.

As ever, doing business responsibly and sustainably remains central to all we do.

2020 was the final year of our 5-year 'Healthy people, Sustainable planet' program. I am pleased that we delivered on all of the targets, making Philips one of the first health technology companies in the world that has become carbon neutral in its own operations, and delivering on our commitment to close the loop for Large Medical Equipment.

We now source 100% of our electricity needs from renewable sources and generate over 70% of sales from Green Products and Services, with 15% of sales coming from circular revenues. In addition, we recycle 90% of our operational waste, and send zero waste to landfill.

And, of course, we continue to set the bar higher. In 2020, we renewed our purpose to improve people's health and well-being through meaningful innovation, with the aim of improving 2.5 billion lives per year by 2030, including 400 million people in underserved communities.

This is part of our enhanced, fully integrated approach to doing business responsibly and sustainably, which includes a comprehensive set of commitments across the Environmental, Social and Governance – or ESG – dimensions that guide us.

I am convinced this is the best way for Philips to create superior, long-term value for our many stakeholders.

Let me now move on to our 2020 financial results.

Overall, our company performance proved resilient in 2020. While some of our businesses were affected by lower demand, we were able to step up in others to significantly increase deliveries.

It is clear that we had a challenging first half of the year. In the first quarter our performance was predominantly impacted in China and Asia, while in the second quarter – when COVID-19 had spread across the world – our performance was impacted across all our markets.

I am pleased that within a few months we were able to steeply ramp up the production of critical care products – and return to growth in the third quarter. And we kept the momentum going in the fourth quarter.

For the full year, this resulted in a 3% comparable sales growth, and an Adjusted EBITA margin of 13.2%. We also achieved a strong free cash flow of almost 1.9 billion euros.

Moreover, driven by 9% comparable order intake growth, we continued to gain market share in our healthcare businesses, and ended the year with a strong order book.

Philips' transformation has led to a structurally improved growth and profitability profile of the company. Philips' total shareholder return amounts to 120% since 2016, compared to 87% for the Total Shareholder Return peer group and 25% for the Euro STOXX Index.

Given our performance and reflecting our confidence in the future course of the company, as well as the importance we attach to dividend stability, we propose to maintain the dividend at 85 euro cents per share, in cash or shares at the option of the shareholder.

Looking ahead, we are eager to create further value.

We have a clear strategy to grow, gain market share and be successful. The execution of our strategic imperatives will help us accelerate our growth profile from around 4.5% in the past few years to 5% to 6% comparable sales growth. As we have indicated previously, 2021 is going to be a transition year with low-to-mid-single-digit sales growth, given the comparison to 2020, where we had peaks in Connected Care demand as consequence of COVID.

We will continue to improve our profitability by 60 to 80 basis points on average per year, resulting in a high-teens Adjusted EBITA margin by 2025.

At the same time, we will improve our free cash flow to above 2 billion euros and deliver an organic Return on Invested Capital of mid-to-high-teens by 2025.

I would like to remind you that our new targets are excluding the Domestic Appliances business, which is now accounted for as a business held for sale.

In closing, COVID-19 has confirmed the direction in which we deliver innovative solutions to enhance end-to-end patient-centric care along the health continuum, driving better health outcomes, higher productivity and improved patient and staff experience.

Our strategy resonates with our customers and is setting Philips on a higher growth trajectory, further unlocking value for our shareholders. As we pursue our purpose, we will create greater value for society by providing meaningful innovations to enable people to live healthy lives and help build more resilient, sustainable health systems in all corners of the world.

I have already thanked our employees, and I would also like to thank our customers, suppliers and partners for working together with Philips in the fight against coronavirus. And I wish to thank our shareholders for the confidence they continue to show in Philips.

I look forward to continuing our commitment to improving lives and growing Philips together.

Energized by our purpose and buoyed by the resilience and agility I have seen over the past year, I am confident we will maintain our transformation momentum, truly impact global health challenges through innovation, and continue to deliver growing value for our many stakeholders.

Thank you.