

Company update and performance roadmap

Frans van Houten

CEO Royal Philips

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CFO Royal Philips



Key takeaways

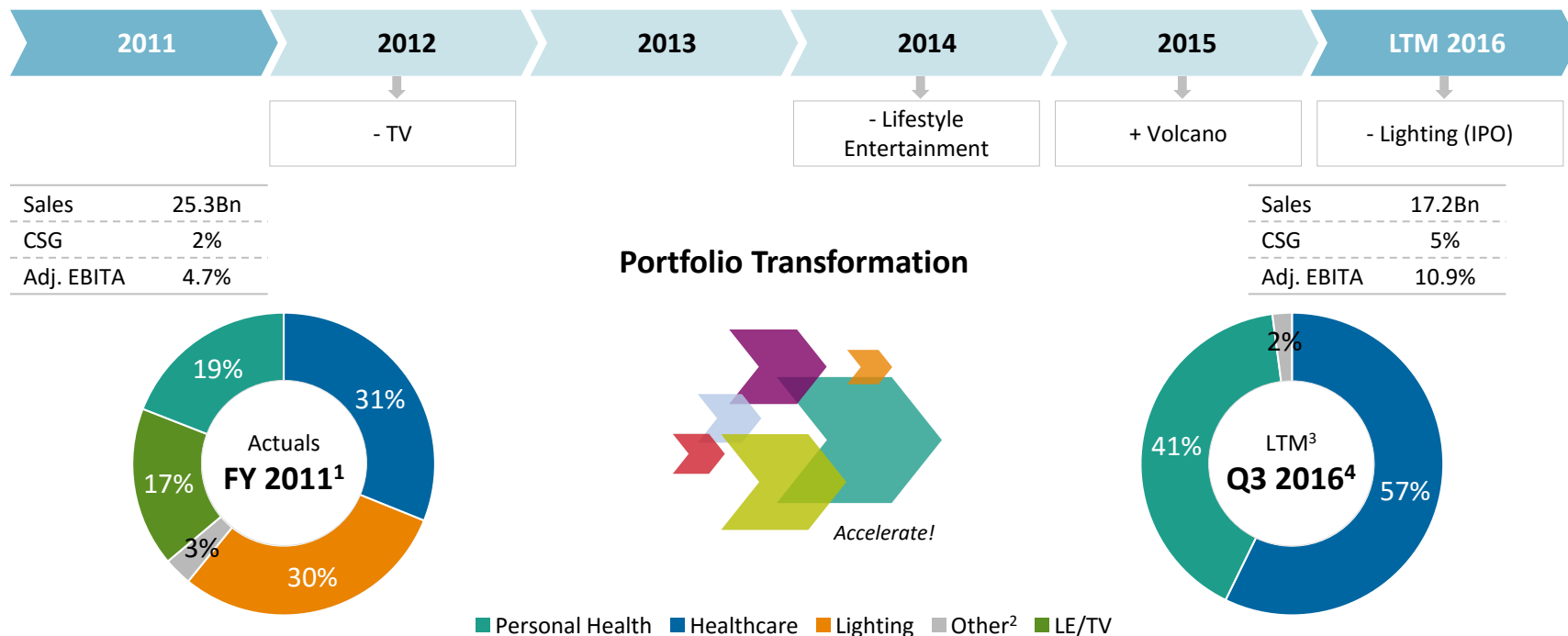
- Philips has transformed into a differentiated global **HealthTech** leader delivering innovative **healthcare technology** at the **point of care**, leveraging deep **clinical** and **consumer insights**
- We lead in attractive **growth markets and profit pools**
- We create value for customers and shareholders by:
 - Improving margins through **better serving customers and operational efficiency**
 - **Boosting growth** through deep customer partnerships and global geographic coverage
 - **Building innovative solutions:** suites of systems, smart devices, software and services, improving **outcomes** and **productivity**
- Our strategy significantly improves returns driven by **mid-single-digit growth (4-6%)** and **margin step-up of ~100 bps per annum**¹

¹ Expected over the medium-term (3-4 years)

Philips: a focused leader in HealthTech

Philips has transformed into a focused HealthTech leader

A platform for profitable growth



¹ Lighting includes combined business of Lumileds and Automotive in 2011, Personal Health in 2011 includes Sleep & Respiratory Care portfolio which was part of Healthcare sector;

² Other includes HT Other and Legacy Items; ³ Last Twelve Months; ⁴ Combined Lumileds and Automotive businesses classified as discontinued operations; excl. Legacy Items

Our ~EUR 17 billion HealthTech portfolio addresses global markets

More than 1/4th of sales from recurring revenue streams

Segments (share of revenues)¹

Diagnosis & Treatment



39%

Enabling efficient, first time right diagnosis and precision therapies through digital imaging and clinical informatics solutions

Connected Care & Health Informatics



18%

Empowering consumers and care professionals with predictive patient analytics and clinical informatics solutions

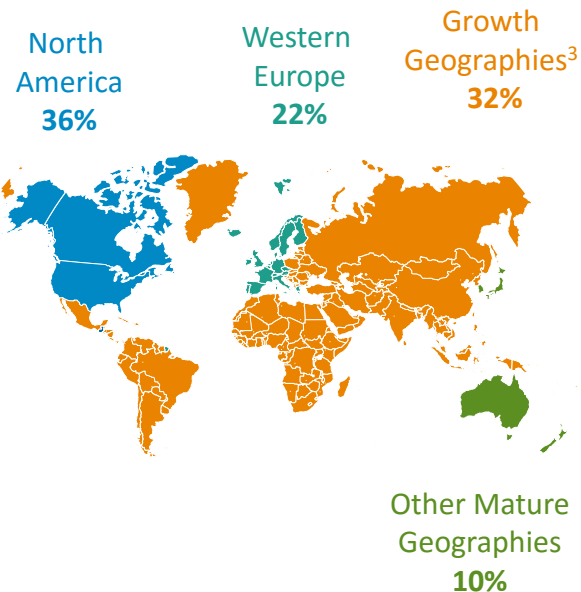
Personal Health



41%

Enabling people to take care of their health by delivering connected products and services

Geographic presence²



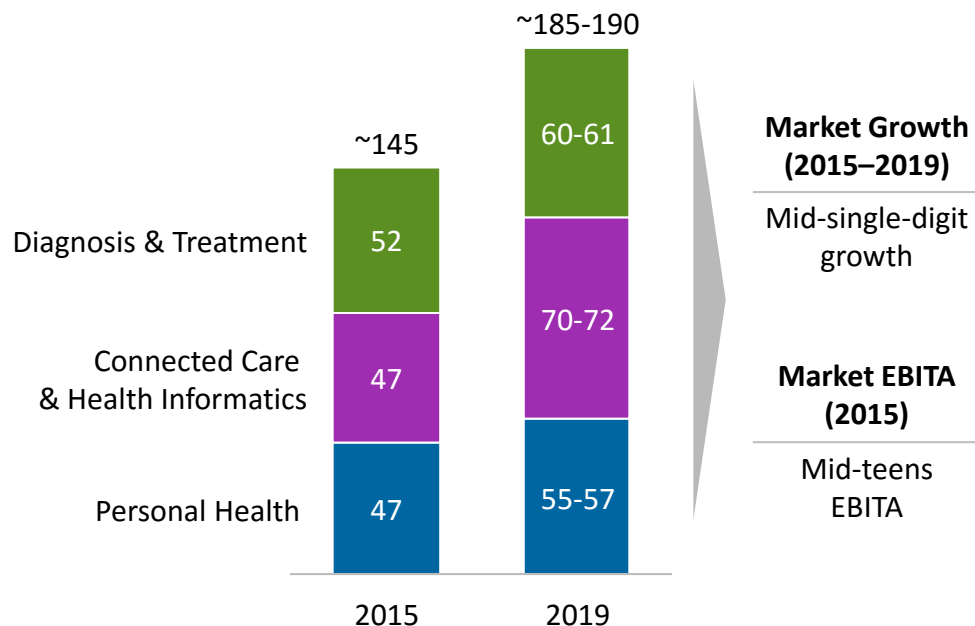
¹ Segment share of total HealthTech sales LTM September 2016, excludes HT other revenues; ² Geographies' share of total HealthTech sales LTM September 2016;

³ Growth geographies consist of all geographies excluding USA, Canada, Western Europe, Australia, New Zealand, South Korea, Japan and Israel

Our markets have sustained growth and attractive profit pools

HealthTech market size¹








EUR billion



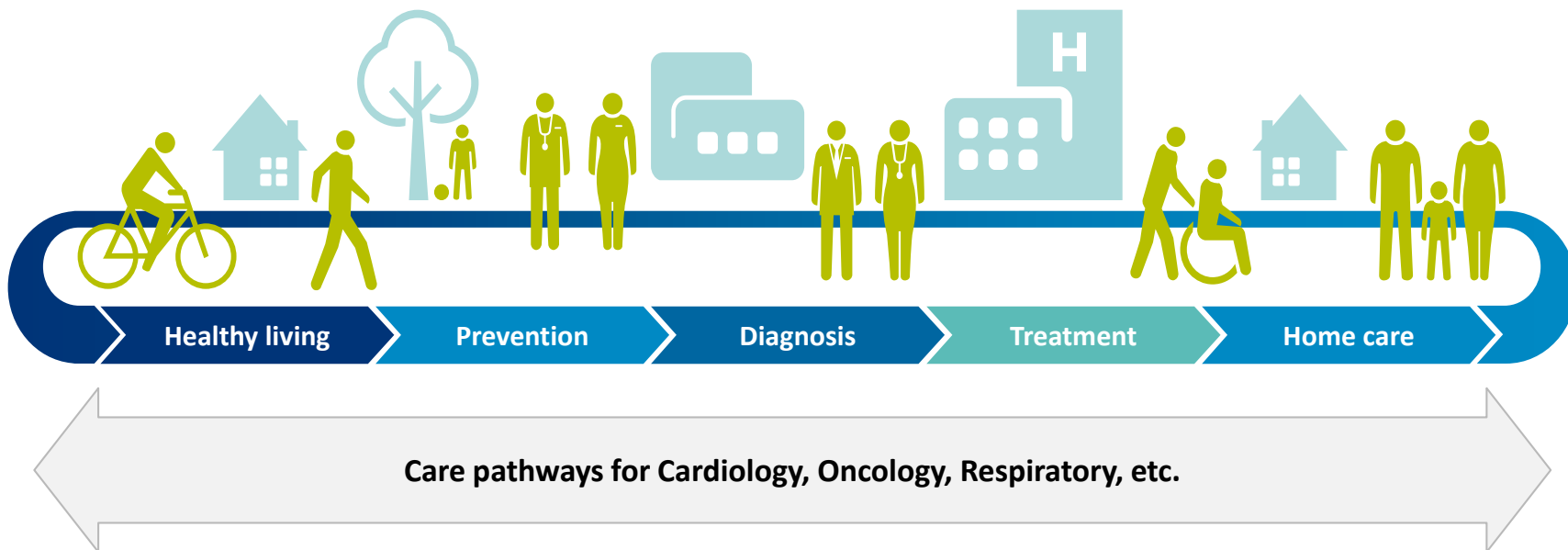
Growth drivers

- Population growth, ageing and **rise in chronic diseases**
- United Nations SDG 3 – **boosting access to care**
- Shift to **outcome based reimbursement / accountable care**
- **Data enabled** healthcare delivery with **higher productivity**
- Care shifting to **ambulatory and home care** settings with consumers **increasingly engaged in their health**
- **Convergence** of professional healthcare and consumer health

Our strong portfolio has >60% of sales from leadership positions¹

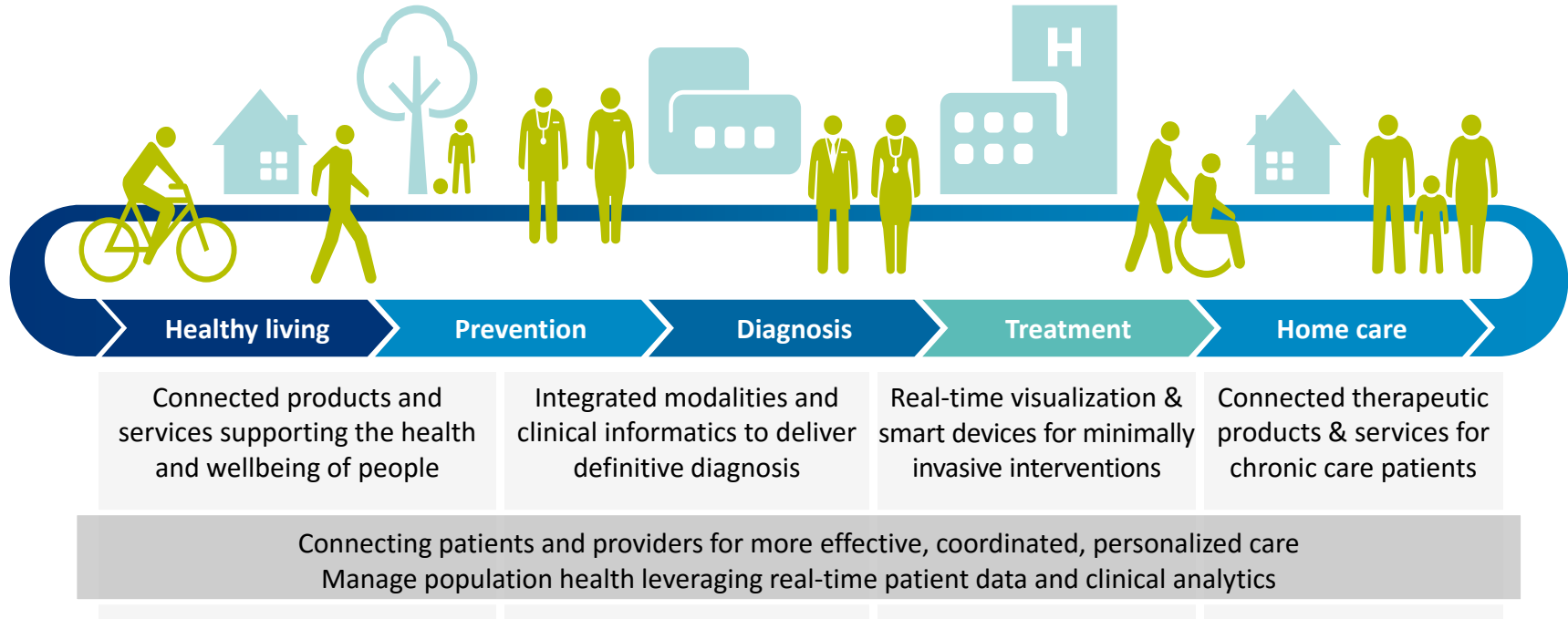
Diagnosis & Treatment	Diagnostic Imaging <i>Global Top 3</i>	Ultrasound <i>Global Leader</i>	Image-Guided Therapy <i>Global Leader</i>	Smart Catheters <i>Global Leader</i>
				
	Patient Monitoring <i>Global Leader</i>	ICU Remote Monitoring <i>#1 in North America</i>	Non-invasive Ventilation² <i>Global Leader</i>	Personal Emergency Response <i>#1 in North America</i>
				
Connected Care & Health Informatics	High-end Radiology and Cardiology Informatics <i>#1 in North America</i>	Male Grooming <i>Global Leader</i>	Oral Healthcare <i>Global Leader</i>	Sleep & Respiratory Care <i>Global Leader</i>
				
	Mother & Childcare <i>Global Leader</i>	Air Purifiers <i>#1 in China</i>		
				
Personal Health				

Health continuum guides our strategy



Trends such as digital, population health, accountable care support our vision
Our innovation strength in professional healthcare and personal health enables the vision

We deliver differentiated solutions to drive better outcomes for people and higher productivity for care providers

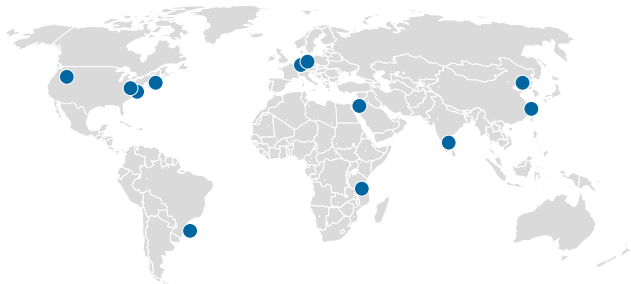


We are uniquely positioned in the “last yard” to the consumers and care providers

Our innovations are a result of deep clinical collaborations with universities & hospitals and advanced R&D programs

Commitment towards innovation

- **Annual spend of ~EUR 1.7 billion** for research & development
 - ~20% breakthrough innovation
 - ~50% new product development
 - ~30% sustaining engineering
- **Strong IP portfolio** consisting of 76,000 patents, 47,000 trademarks and 91,000 design rights
- 60%+ R&D professionals in software
- Global R&D footprint



Examples of collaborative clinical co-creation



Our innovations and brand are internationally acclaimed



Largest patent applicant with ~2,400 European patent applications (2015)



China Business Network (CBN) **China Innovation Best Practice Award** (2016)



Design Excellence

- 37 Red Dot Design awards (2016)
- 48 iF design awards, with Gold for **Lumify Ultra**, **DreamWear** and **IconiQ Shaver** (2016)



Thomson Reuters top 100 innovators (2015)

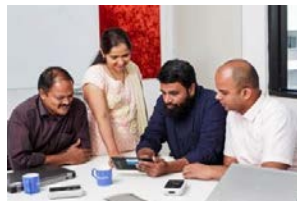


Best in KLAS awards for **IntelliSpace Portal** and **Patient Administration Systems** (2015/16)



Philips brand ranking climbed to #41 from #47 with estimated brand value of USD 11.3 billion

We have a rich talent base, strong company values and a deep commitment to innovate



LinkedIn – Global
Top **1%**
Talent Attractors



~35,000
people certified in
LEAN courses

1.1 million
hours of people
development

120+
nationalities

~10,000
engineers,
~800 PhDs with
deep healthcare
expertise



39% in growth
geographies



1,000+
consumer marketers

Our mission

*Improving lives
through meaningful
innovation*

Our values
























Eager to win

Take ownership

Team up to excel

Always act with integrity

Experienced management team driving growth, operational excellence and value creation

CEO / CFO	Segment Leaders	Market Leaders	Function Leaders
 CEO Frans van Houten 	 Personal Health Pieter Nota 	 Global Markets¹ Ronald de Jong 	 Innovation & Strategy Jean Botti 
	 Diagnosis & Treatment Robert Cascella 	 North America Brent Shafer 	 Operations Sophie Bechu  
 CFO Abhijit Bhattacharya 	 Connected Care & Health Informatics Jeroen Tas 	 Greater China Andy Ho 	 Legal Marnix van Ginneken  
			 Human Resources Denise Haylor  

Sustainability is an integral part of how we do business

Success of EcoVision 2015 program

- 54% of sales from Green Products in 2015
- 41% reduction in carbon footprint in 10 years
- 2 billion lives improved



New 2020 program “Healthy people, sustainable planet”

- Carbon neutral operations
- 70% turnover from green products; 15% will be circular
- Zero waste to landfill
- Supplier sustainability program with all our suppliers
- 2.5 billion lives improved by 2020

Recent accomplishments

Industry Group Leader in 2016



**3rd consecutive year of leadership
in the Carbon Disclosure Project**



“Champion for Change” award from
Practice GreenHealth, third
consecutive year



**Responsible Supply Chain
Management Award** by VBDO for 7th
consecutive year



Strategic drivers for continued
growth and improved profitability

Key drivers for our value creation





Continue 'self help' journey to improve quality, operational excellence and productivity

Excellence

- Operational excellence by applying the Philips Business System
- Continuous improvement, leveraging Philips Excellence practices
- 'Design for Quality' methodology in product design and Supplier Selection
- One Philips Quality Management System

Productivity programs¹

Productivity driven by operating leverage and a EUR 1.2 billion program over the next three years comprising of:

- Manufacturing footprint optimization
- Procurement savings, led by proven DfX program
- Overhead cost reduction



Philips Business System

2



Better serve
customers and
improve
productivity

Continue to lead the digital transformation

Connected
customers

...unlocking
superior value
for customers
(examples)

Connected
solutions and
services

... through **real
time** digital
software and
services...

Connected
infrastructure

...deployed over
patient-centric
“HealthSuite” IoT
cloud and
process
automation

Emergency response



Connecting
elderly care

Patient outcomes



4 million sleep
patients connected

Digital workflows



#1 Cardio
Informatics

Predictive analytics



1 billion+ patients
monitored in last 5 years



Connected digital propositions (examples)



Integrated clinical applications (examples)



Philips Integrated
IT Landscape



End-to-end
business processes

Capture geographic growth opportunities

Leadership in key geographies

North America

- Scale Diagnostic Imaging
- Expand patient care beyond acute care settings
- Win IDN consultative solutions partnerships
- Grow Health Informatics and integrate all our Population Health activities
- Widen Personal Health portfolio
- Drive productivity and enhance capabilities

*Low to mid-single-digit
revenue growth*

Greater China

- Capture growth in private hospitals
- Gain share in mid-tier hospitals
- Grow Health Informatics and population health with local partners
- Leverage capabilities of global acquisitions
- Increase Personal Health share
- Drive productivity and enhance capabilities

*Mid to high-single-digit
revenue growth*

Global Markets¹

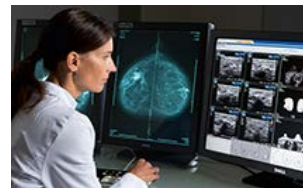
- Grow integrated solutions partnerships with leading hospitals
- Grow Health Informatics and Population Health with local partners
- Locally relevant solutions for emerging markets
- Increase Personal Health share
- Drive productivity and enhance capabilities

*Mid-single-digit
revenue growth*

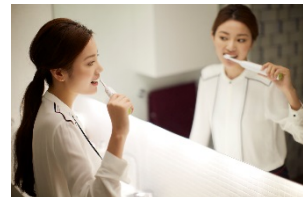
Examples of geographic expansion plays



Leverage Volcano globally (e.g. APAC)



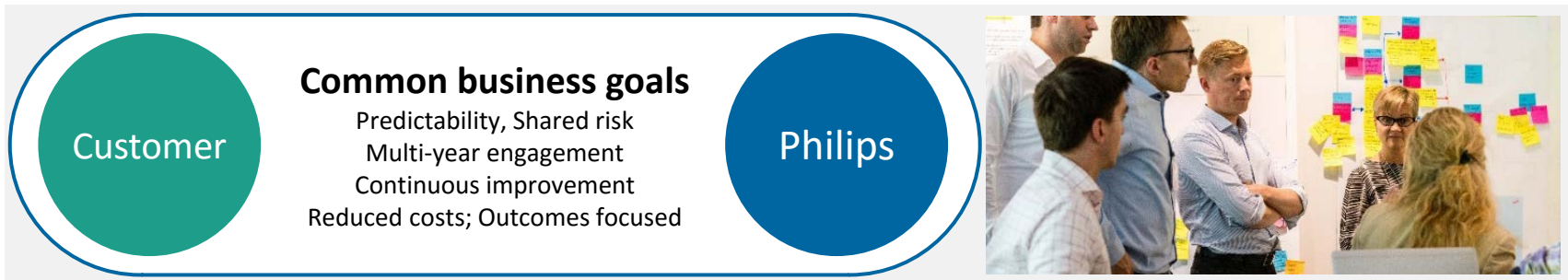
Extend North America Health Informatics globally



Expand Philips Sonicare in Greater China

Pivot to consultative customer partnerships and business models

From transactional to continuous engagement model



- Leading medical research in Sweden
- 14-year contract
- E.g. redesigning the stroke pathway



- 1st Managed Services Alliance in the US
- 15-year partnership
- E.g. significant cost savings from workflow optimization



- Specialized cardiac care provider
- 14-year partnership
- E.g. transforming Cardiothoracic surgery and ICUs

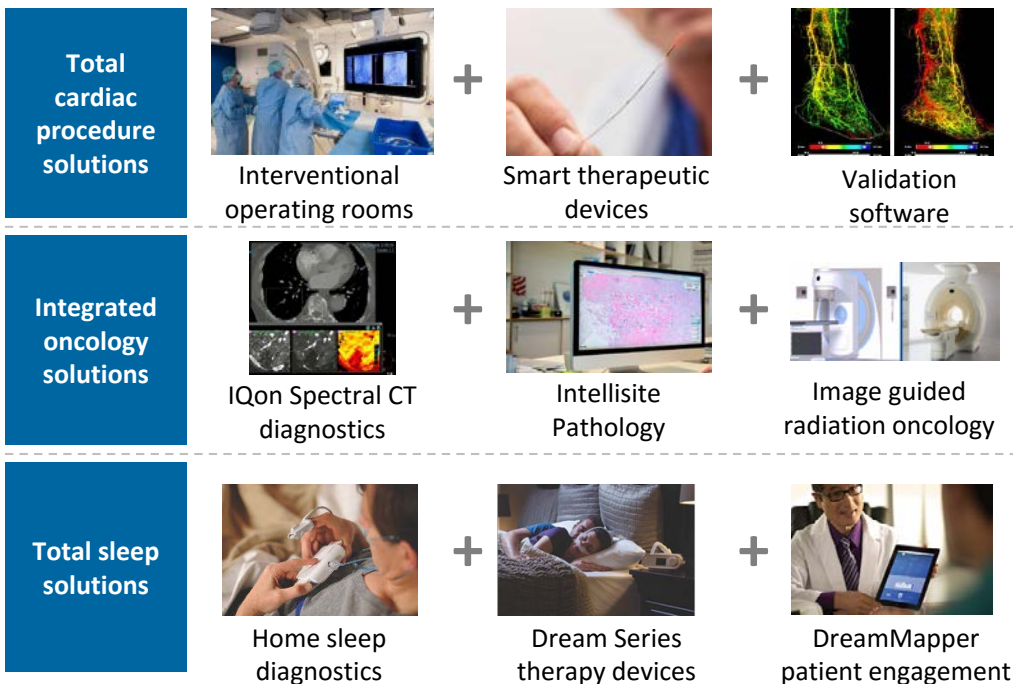
Committed revenue flows and margin accretive



Drive innovative value-added, integrated solutions

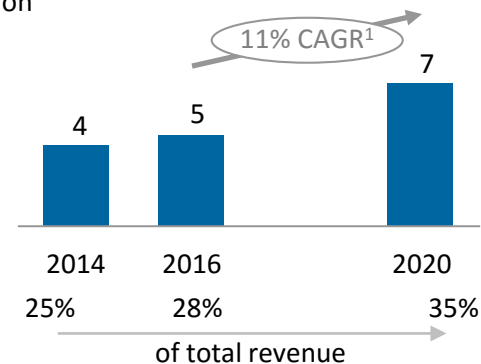
Better value for customers, higher margins, recurring revenue models

Examples



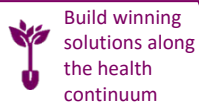
Solutions revenues and growth

EUR billion



Solutions business characteristics:

- Suites of systems, smart devices, software and services
- Revenue accelerates to double-digit growth
- Higher margins than stand-alone products
- Sticky customer relationships with committed future revenue



Portfolio extensions through organic investments, partnerships and M&A

Growth investments in new business

- Leadership in **Digital Pathology**; strengthened with acquisition of Path XL
- **Population Health programs**: Successful Hospital-to-Home program strengthened with acquisition of Wellcentive
- Leading healthcare focused digital ecosystem with **HealthSuite Digital Platform**
- Patient monitoring extension into ambulatory care settings with **medical wearables**

Partnering for integrated solutions



Radiation Oncology



Cloud-based healthcare collaboration



Partnerships with pharma companies

Successfully delivering on M&A



- Integration ahead of plan
 - Growth acceleration from flat growth in 2014 to **double-digit growth in 2016**
 - **Costs down by USD 40M** compared to pre-acquisition
- Synergies result in high-teens EBITA for Image-Guided Therapy in 2017

Building Philips to EUR 20 billion¹ sales with significantly improved returns...

Focus on



Better serve customers and improve productivity

Resulting in

- Productivity: lower cost of goods and non-manufacturing costs
- Growth enablers in place



Boost growth in core business

- Mid-single-digit revenue growth
- Operating leverage
- Customer loyalty

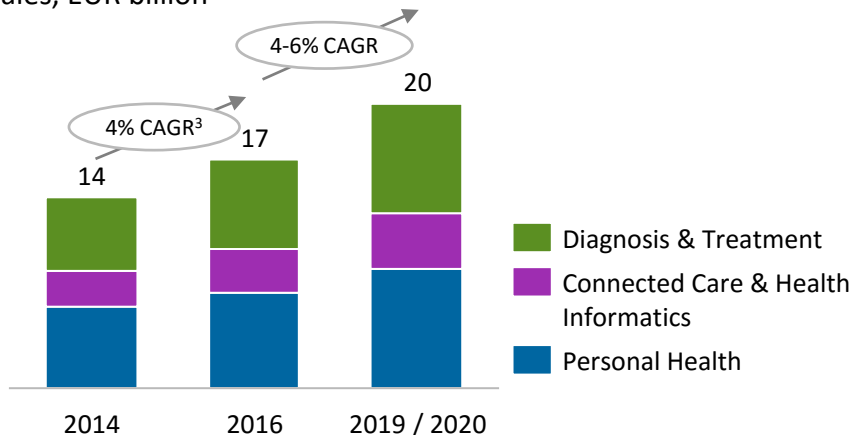


Build winning solutions along the health continuum

- Gross margin expansion
- Future growth

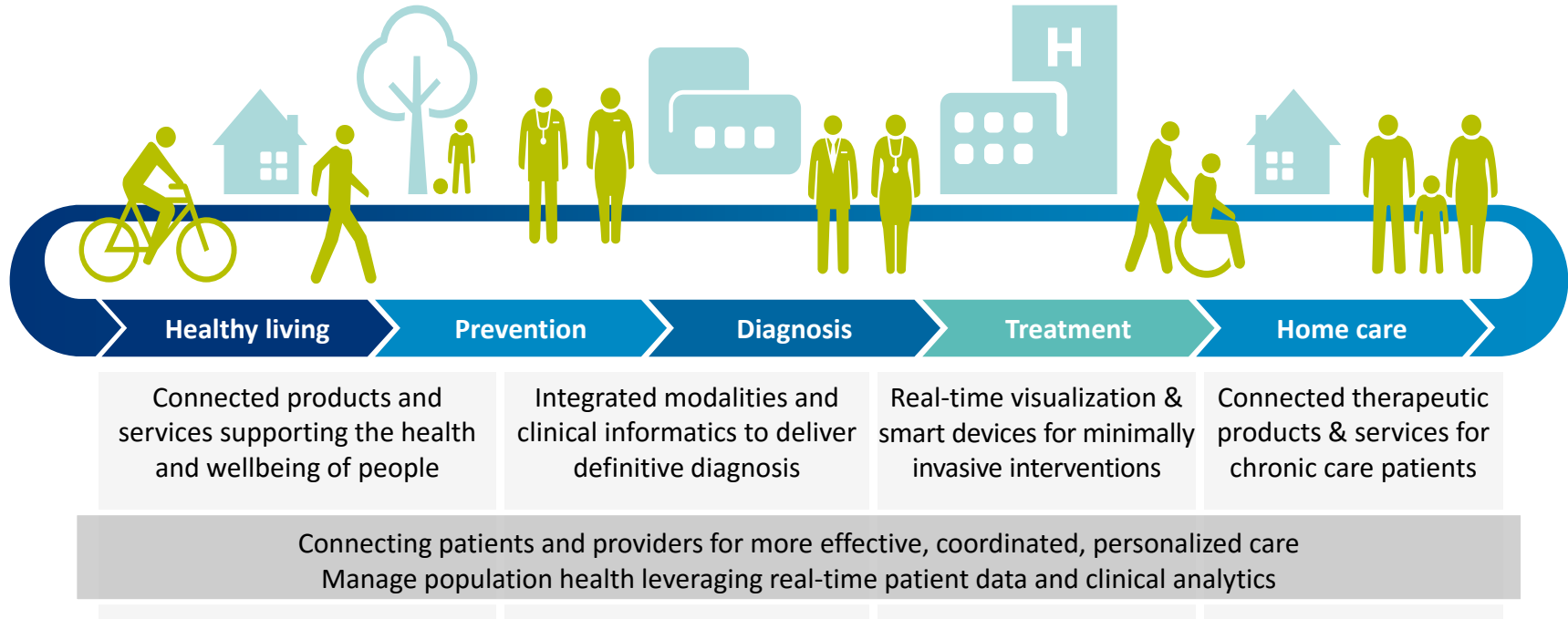
Medium-term² financial outlook

Sales, EUR billion



- Mid-single-digit growth rate (4-6%)
- On average 100bps Adj. EBITA margin improvement annually
- Organic plan ROIC improves to mid-to-high teens
- Cash generation of ~EUR 1–1.5 billion annually

... and building Philips' leadership in solutions, driving better outcomes for people and higher productivity for care providers



We are uniquely positioned in the “last yard” to the consumers and care providers

Driving performance improvement



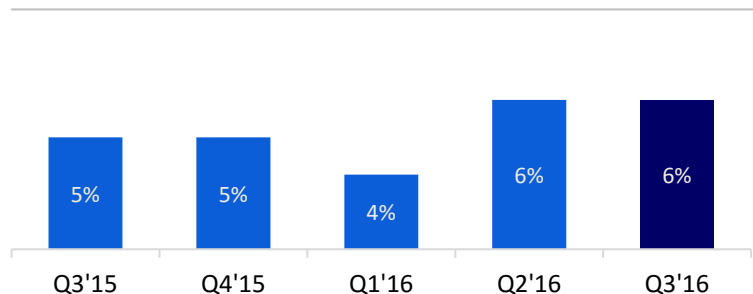
Key takeaways

- We are now a focused HealthTech company **delivering growth** and **improving profitability**
- We are **delivering** on our **DfX** program and **introducing new products** to improve gross margins
- Our **cost reduction** program is resulting in tangible benefits **visible in the P&L**
- Strong Balance Sheet management is contributing both to **improving the cash flow** and the **profitability**
- We are taking steps to further **retire** our **high cost debt** and **de-risking liabilities**
- Our **operational improvements** and strategic **initiatives** aim to realize **mid-single-digit organic growth** and an average of **100bps Adj. EBITA margin** improvement annually

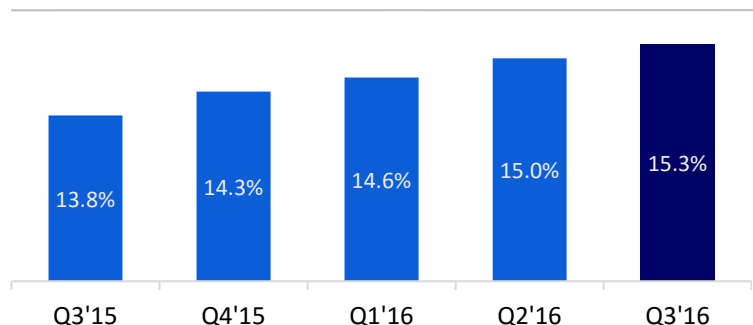
Personal Health consistently driving strong performance

Delivering above market growth and margins

CSG % (LTM¹)



Adj.² EBITA % (LTM)



- We have delivered a consistent track record of above market growth
- Growth has been driven by:
 - Geographic expansion
 - Innovation led new product introductions
 - Solid advertising and promotion support
- Improved profitability due to:
 - Highly innovative portfolio
 - DfX program
 - Growth driven operating leverage
 - Effective portfolio management

Sustain above market growth and improve margins to the high-teens

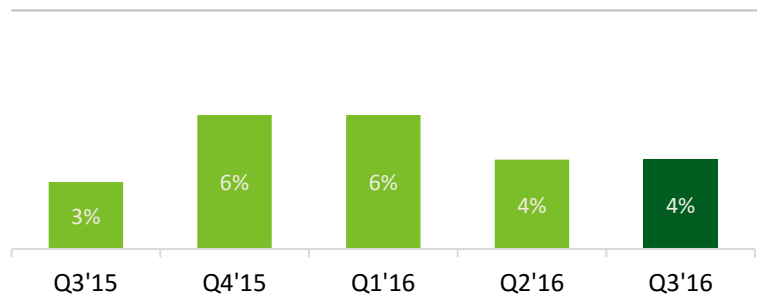
¹ LTM is last twelve months sales

² Adjusted represents EBITA excluding restructuring costs, acquisition related charges and other charges-and-gains above EUR 20 million

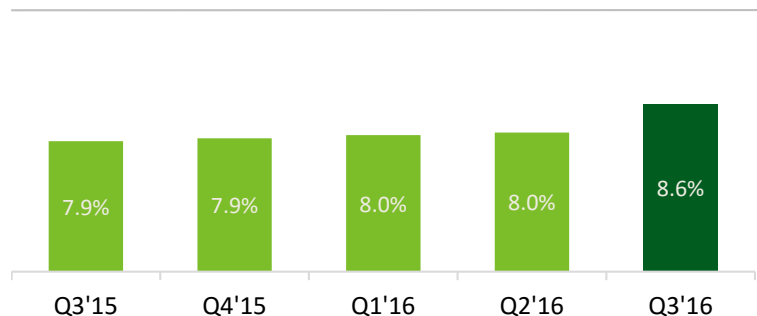
Driving operational excellence in D&T to improve profitability

Stepping up performance, Volcano integration ahead of plan

CSG % (LTM)



Adj. EBITA % (LTM)

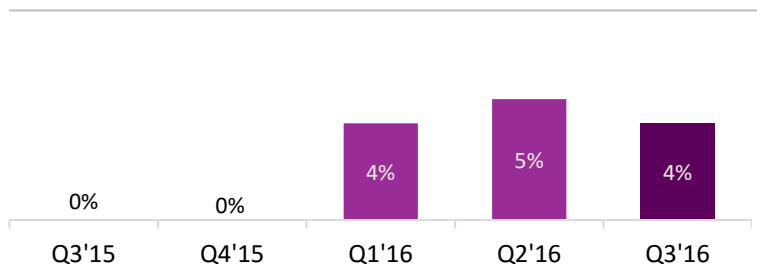


- IGT and Ultrasound on good performance track
- Overall profitability beginning to improve with improvement of the CT performance
- Excellent integration of Volcano
- Double-digit profitability in the short-term
- Investments in innovation, quality and operational excellence weigh on results
- Further performance improvement through:
 - New product and solutions introductions
 - Operational excellence
 - Manufacturing footprint optimization
 - DfX program

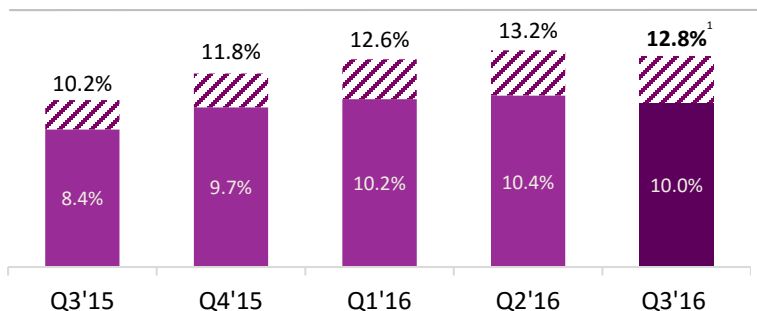
Above market growth and improve margins into the teens

Return to growth and improving profitability in CC&H

CSG % (LTM)



Adj. EBITA % (LTM)



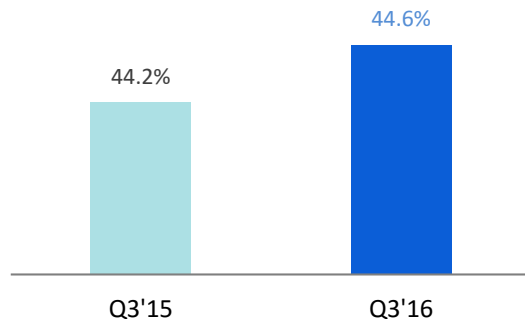
 Adj. EBITA % (LTM) excl. breakthrough innovation investments

- Expand Patient Monitoring across care settings with clinical analytics to drive high-single digit growth
- New businesses to start generating revenue growth
- Around EUR 100 million invested in innovation for continuous monitoring, Population Health Management, analytics enabled IT solutions etc.
- Further margin expansion will be driven by:
 - Geographic expansion with existing products
 - New product and solution introductions
 - Manufacturing footprint optimization
 - Operating leverage
 - DfX program

Mid to high-single-digit growth and improve margins to the mid-teens

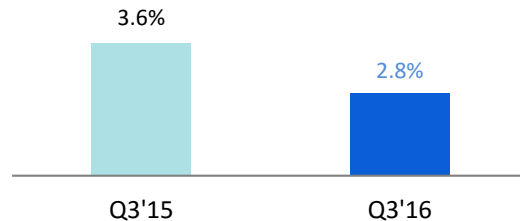
Gross margins and non-manufacturing costs driving improved profit

Adj. Gross margin¹



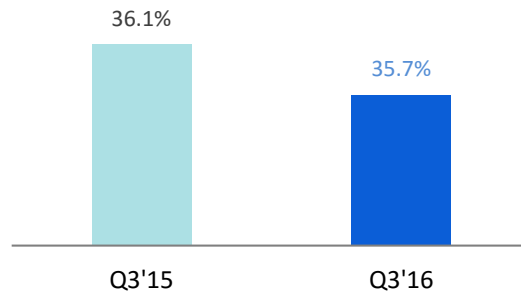
- Step up in gross margins led by:
 - New product introductions
 - Delivering on the DfX program
 - Improvement in CT performance

Adj. G&A¹



- Significant G&A reduction arising from programs:
 - Focused on overhead in businesses
 - Simplification in enabling and business functions

Adj. NMC¹

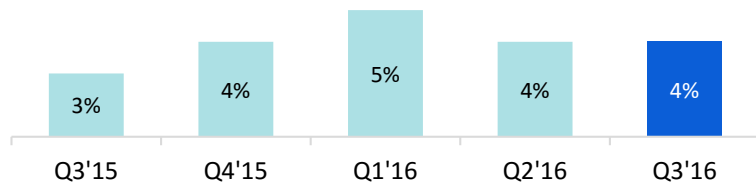


- Overall reduction of non-manufacturing costs of 40 bps
- Part of the savings in G&A were re-invested in innovation to drive growth

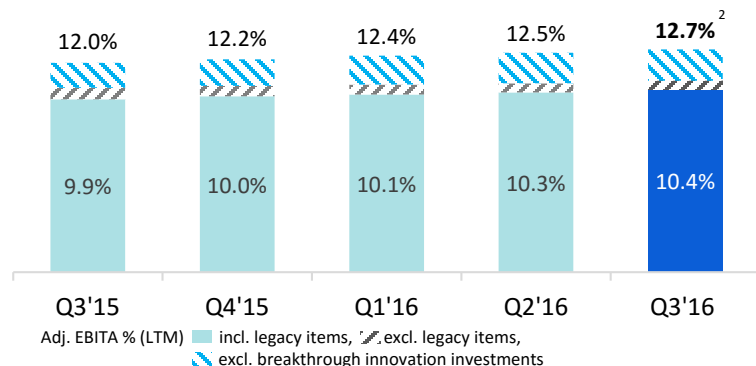
Royal Philips¹: Improving performance

Delivering mid-single-digit sales growth and improving earnings

CSG % (LTM)



Adj. EBITA % (LTM)



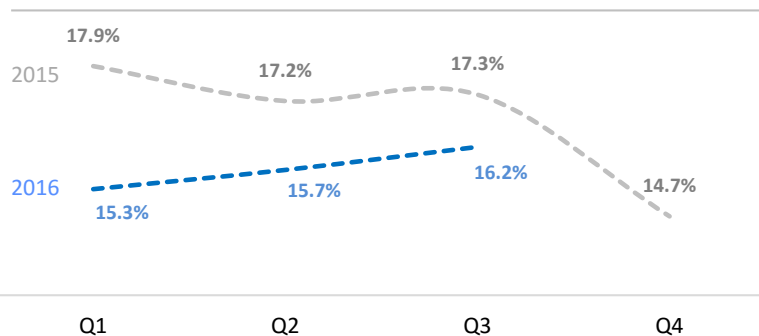
- Growth driven by:
 - Innovative new products and solutions
 - Geographic expansion
 - Growth in adjacencies
- Good potential for profit improvement through:
 - Improved cost savings in cost of goods sold
 - Overhead costs
 - Unlocking value of our patent portfolio
 - Reduction in legacy costs
- We invest around EUR 300 million in breakthrough innovation to drive future growth and profitability

Mid-single-digit growth (4-6%) and on average 100bps Adj. EBITA margin improvement annually

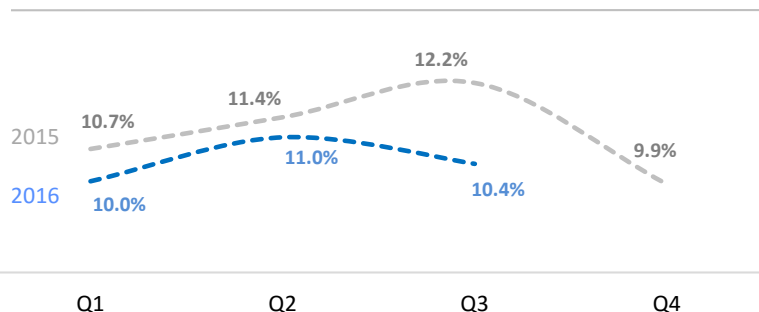
Strong actions to improve working capital

100bps or more improvement in inventories, overdues and working capital

Inventory¹



Working Capital¹



- Inventory
 - Leaning out end-to-end supply chain, improving cycle time and quality
 - Strong focus on aging and excess inventory
- Working Capital
 - Strong reduction of overdue debt
 - Partnering with suppliers on payment conditions
 - Rigorous attention to working capital reduction in the performance cycle

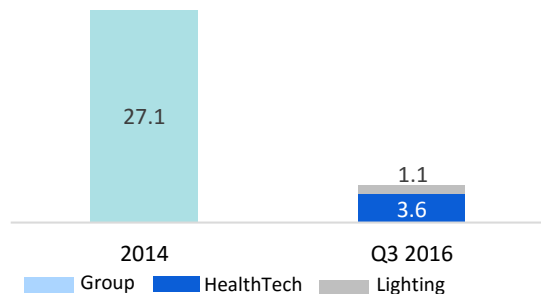
Structural improvements driven by Hoshin planning, Kaizens and Daily Management

¹ Inventory and WoCa figures exclude Legacy items and HT Other and are calculated on LTM basis as percentage of sales

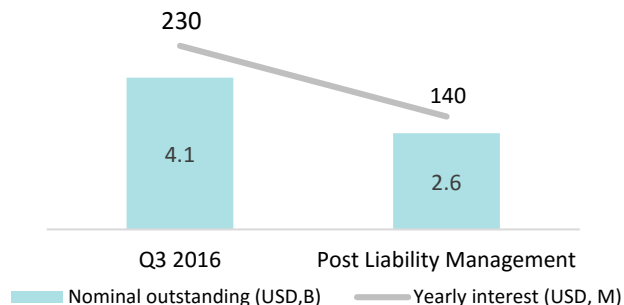
Ongoing actions to drive balance sheet efficiency

Reduction of pension liability and high interest bonds

Pension DBO, Philips incl. Lighting (EUR B)



Gross debt and interest cost development

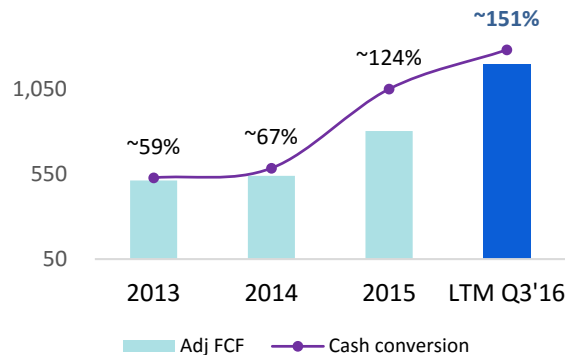


- Pro-active de-risking actions to reduce Group defined benefit obligations (DBO):
 - De-risking of the Dutch pension plan
 - Settlement of the entire U.K. plan
 - Transfer of USD 1.1B U.S. liabilities to insurers
 - Termination of Brazil pension plan in 2017
- Actions underway to redeem high interest bonds by USD 1.5B:
 - USD 0.3B redeemed in Q3 2016
 - USD 1.25B March '18 bond to be redeemed
- Full plan will reduce yearly interest expenses by around EUR 100 million

Free Cash Flow Conversion and ROIC continue to improve

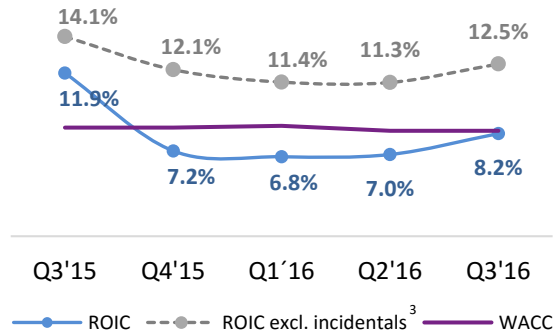
Restructuring profile for HealthTech is significantly lower than the combined Group

Free Cash Flow Conversion¹ (EUR, M)



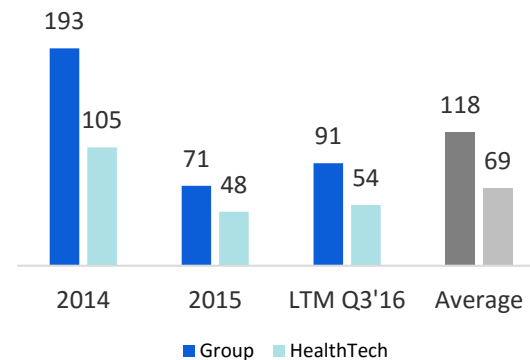
- Significant step up in Adj. Free Cash Flow/Adjusted Net Income
- Sustainable cash generation of EUR 1 to 1.5 billion annually

Return on Invested Capital² (ROIC)



- Excluding incidentals, ROIC is well above WACC
- Organic plan ROIC improves to mid-to-high teens

Restructuring costs in bps of sales



- HealthTech restructuring costs are around 70 bps compared to the Group of around 120 bps
- HealthTech restructuring levels expected to be around 65 bps and decline substantially after 2019

¹ FCF is based on total Philips excluding Lighting and is adjusted for the following items: CRT antitrust litigation, bond redemption charges, pension settlements and separation costs.

FCF conversion is the ratio of Adjusted FCF / Adjusted Net Income. The latter includes the same adjustments as FCF, in addition Masimo charges incurred in 2014 are excluded;

² ROIC is based on total Philips excluding Lighting; ³ ROIC excl. incidentals excludes CRT antitrust litigation in Q4 2014 and pension settlements in Q4 2015

Productivity initiatives of EUR 1.2 billion to drive 100 basis points annual improvement over the mid-term¹

Adj. EBITA step-up drivers

Indicative Adj. EBITA margin, %



Main drivers

- Operating leverage in selling expenses and R&D
- Gross margin improvement:
 - Manufacturing footprint optimization
 - Procurement savings, led by proven DfX program
 - Mix improvement
- Overhead reduction enabled by simplification of end-to-end businesses processes

This plan is largely a “self-help” and a continuation of our Accelerate! approach

Disciplined capital allocation policy

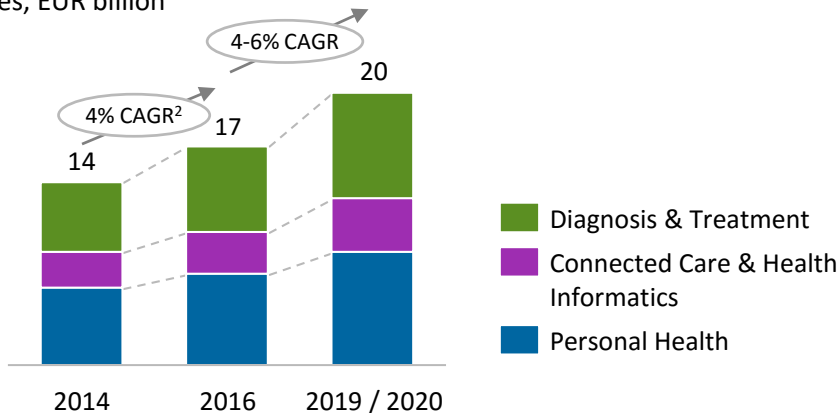
- Continue to invest in high ROIC organic growth opportunities to strengthen each business
- Disciplined but more active approach to M&A, while continuing to adhere to strict return hurdles
- Committed to a strong investment grade credit rating
- Dividend policy aimed at dividend-stability
- Completed EUR 3.5 billion of share buy backs starting from 2011
- Going forward we will further redeem high cost debt and continue de-risking liabilities

Building Philips to EUR 20 billion¹ sales with significantly improved returns

Medium-term financial outlook

- Mid-single-digit growth rate (4-6%)
- On average 100bps Adj. EBITA margin improvement annually
- Cash generation of ~EUR 1–1.5 billion annually
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Sales, EUR billion



- Performance improvement driven by:
 - Operational excellence and growth in Diagnosis & Treatment
 - Capture growth in Connected Care & Health Informatics
 - Continue momentum in Personal Health
- Continued cost productivity to improve margins
- Balance Sheet improvements will contribute to improving cash flow and earnings



Key takeaways

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Key takeaways



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- We lead in attractive **growth markets and profit pools**
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 - **Boosting growth** through deep customer partnerships and global geographic coverage
 - **Building innovative solutions:** suites of systems, smart devices, software and services, improving **outcomes** and **productivity**
- Our strategy significantly improves returns driven by **mid-single-digit growth (4-6%)** and **margin step-up of ~100 bps per annum**¹

¹ Expected over the medium-term (3-4 years)

