Philips' Second-Quarter Results 2023

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BY PHILIPS

Roy Jakobs, CEO of Royal Philips:

“We are progressing to plan on our three priorities to enhance patient safety and quality, strengthen supply chain reliability, and simplify how we work, and I am pleased with our improved operational performance across all segments and geographies in the quarter.

We delivered 9% comparable sales growth, increased profitability and improved cash flow, against a backdrop of ongoing macroeconomic and geopolitical challenges. Our order book increased year-on-year and will continue to support growth in the coming quarters.

Completing the Philips Respironics field action remains our highest priority. The vast majority of the sleep therapy devices are now with patients and home care providers, and we are fully focused on the remediation of the affected ventilators.

Looking ahead, we are confident in the execution of our plan and have raised our outlook for the full year 2023, acknowledging that uncertainties remain.

I am grateful for the dedication and commitment of all my Philips colleagues to deliver these results whilst working through the changes to create a more focused and agile organization.”

Group and segment performance

Sales for the Group increased to EUR 4.5 billion, with 9% comparable sales growth, driven by growth across all segments and geographies. Adjusted EBITA for the Group increased to EUR 453 million, or 10.1% of sales, mainly driven by increased sales, royalty income and productivity measures, partly offset by cost inflation.

Philips’ order book grew 3% compared with Q2 last year, including the good order-book-to-sales conversion in the last three quarters.

Following a high order intake in Q2 2022, comparable order intake declined 8% (-4% excluding Russia).

Diagnosis & Treatment comparable sales increased 12% in the quarter, with double-digit growth in Ultrasound and Image-Guided Therapy, and mid-single-digit growth in Diagnostic Imaging. Following a high order intake in Q2 2022, comparable order intake showed a high-single-digit decrease (low-single-digit decline excluding Russia). The Adjusted EBITA margin increased to 10.6%, mainly driven by increased sales, favorable mix, and productivity measures, partly offset by cost inflation.

Connected Care comparable sales increased 6% in the quarter, with double-digit growth in Monitoring, partly offset by a decline in Sleep & Respiratory Care. Comparable order intake showed a high-single-digit decline due to normalization of demand after the strong growth in the period between 2020 and 2022. Order intake remains significantly higher than pre-COVID. The Adjusted EBITA margin increased to 7.5%, mainly driven by productivity measures and improved profitability in Monitoring.

Personal Health returned to growth as comparable sales increased by 3%, driven by mid-single-digit growth in Personal Care. The Adjusted EBITA margin increased to 13.4%, due to pricing and productivity measures.

Supported by significant change management efforts, to date Philips has reduced the workforce by approximately 6,600 roles out of the planned reduction of 7,000 roles by 2023 and 10,000 roles in total by 2025. Operating model productivity savings amounted to EUR 112 million in the quarter. Procurement savings amounted to EUR 57 million, and other productivity programs delivered savings of EUR 68 million, resulting in total savings of EUR 237 million in the quarter.

Based on Philips' improved performance in the first half of the year, solid order book, and the ongoing actions to improve execution, the company now expects to deliver mid-single-digit comparable sales growth and an Adjusted EBITA margin at the upper end of the high-single-digit range for the full year 2023, while uncertainties remain.

The outlook excludes the impact of the ongoing discussion on a proposed consent decree beyond current assumptions, as well as ongoing litigation and the investigation by the US Department of

Justice related to the Respironics field action.

Customer, innovation and ESG highlights

Group and segment performance

Philips Respironics field action for specific sleep therapy and ventilator devices

To date, approximately 99% of the new replacement devices and repair kits required for the remediation of the registered affected devices have been produced. The vast majority of the produced sleep therapy devices have been provided to patients and home care providers, while the remediation of the affected ventilators is ongoing.

Philips Respironics completed testing and analyses for the first-generation DreamStation, System One and DreamStation Go sleep therapy devices. The analyses indicate that the volatile organic compounds and particulate matter emissions related to foam degradation are within the applicable safety limits and are unlikely to result in appreciable harm to health in patients.*) Testing and analysis related to the affected ventilators is ongoing.

The previously disclosed litigation and investigation by the US Department of Justice related to the Respironics field action are ongoing, as well as the discussions on a proposed consent decree.

*) Philips Respironics has provided a summary of the test results and analyses available to date to the FDA and other competent authorities. The FDA is still considering the data and analyses that Philips Respironics has provided and may reach a different conclusion.

Philips Respironics field action for specific sleep therapy and ventilator devices

Conference call and audio webcast

Roy Jakobs, CEO, and Abhijit Bhattacharya, CFO, will host a conference call for investors and analysts at 10:00 am CET today to discuss the results and Philips' plan to create value with sustainable impact. A live webcast of the conference call will be available on the Philips Investor Relations website and can be accessed here.

More information about Roy Jakobs and Abhijit Bhattacharya

Click here for Mr. Jakobs' CV and images Click here for Mr. Bhattacharya's CV and images

Visit our results hub for more on our financial and sustainability performance over the past quarter.

Conference call and audio webcast

Royal Philips (NYSE: PHG, AEX: PHIA) is a leading health technology company focused on improving people's health and well-being through meaningful innovation. Philips' patient- and people-centric innovation leverages advanced technology and deep clinical and consumer insights to deliver personal health solutions for consumers and professional health solutions for healthcare providers and their patients in the hospital and the home. Headquartered in the Netherlands, the company is a leader in diagnostic imaging, ultrasound, image-guided therapy, monitoring and enterprise informatics, as well as in personal health. Philips generated 2022 sales of EUR 17.8 billion and employs approximately 71,500 employees with sales and services in more than 100 countries. News about Philips can be found at www.philips.com/newscenter.

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Forward-looking statements

This document and the related oral presentation, including responses to questions following the presentation, contain certain forward-looking statements with respect to the financial condition, results of

operations and business of Philips and certain of the plans and objectives of Philips with respect to these items. Examples of forward-looking statements include statements made about our strategy, estimates of sales growth, future Adjusted EBITA*), future restructuring and acquisition related charges and other costs, future developments in Philips' organic business and the completion of acquisitions and divestments. Forward-looking statements can be identified generally as those containing words such as "anticipates", "assumes", "believes", "estimates", "expects", "should", "will", "will likely result", "forecast", "outlook", "projects", "may" or similar expressions. By their nature, these statements involve risk and uncertainty because they relate to future events and circumstances and there are many factors that could cause actual results and developments to differ materially from those expressed or implied by these statements.

These factors include but are not limited to: Philips' ability to gain leadership in health informatics in response to developments in the health technology industry; Philips' ability to transform its business model to health technology solutions and services; macroeconomic and geopolitical changes; integration of acquisitions and their delivery on business plans and value creation expectations; securing and maintaining Philips' intellectual property rights, and unauthorized use of third-party intellectual property rights; Philips' ability to meet expectations with respect to ESG-related matters; failure of products and services to meet quality or security standards, adversely affecting patient safety and customer operations; breaches of cybersecurity; challenges in connection with Philips' strategy to improve execution and other business performance initiatives; the resilience of our supply chain; attracting and retaining personnel; challenges to drive operational excellence and speed in bringing innovations to market; compliance with regulations and standards including quality, product safety and (cyber) security; compliance with business conduct rules and regulations including privacy and upcoming ESG disclosure and due diligence requirements; treasury and financing risks; tax risks; reliability of internal controls, financial reporting and management process; global inflation. As a result, Philips' actual future results may differ materially from the plans, goals and expectations set forth in such forward-looking statements. For a discussion of factors that could cause future results to differ from such forward- looking statements, see also the Risk management chapter included in the Annual Report 2022. Reference is also made to section Risk

management in the Philips semi-annual report 2023.

Third-party market share data

Statements regarding market share, contained in this document, including those regarding Philips' competitive position, are based on outside sources such as specialized research institutes, industry and dealer panels in combination with management estimates. Where information is not yet available to Philips, market share statements may also be based on estimates and projections prepared by management and/or based on outside sources of information. Management's estimates of rankings are based on order intake or sales, depending on the business.

This press release contains inside information within the meaning of Article 7(1) of the EU Market Abuse Regulation. This press release was distributed at 07:00 am CET on July 24, 2023.

Use of non-IFRS information

In presenting and discussing the Philips Group's financial position, operating results and cash flows, management uses certain non-IFRS financial measures. These non-IFRS financial measures should not be viewed in isolation as alternatives to the equivalent IFRS measure and should be used in conjunction with the most directly comparable IFRS measures. Non-IFRS financial measures do not have standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other issuers. A reconciliation of these non-IFRS measures to the most directly comparable IFRS measures is contained in this document. Further information on non-IFRS measures can be found in the Annual Report 2022.

Use of Fair value information

In presenting the Philips Group's financial position, fair values are used for the measurement of various items in accordance with the applicable accounting standards. These fair values are based on market prices, where available, and are obtained from sources that are deemed to be reliable. Readers are cautioned that these values are subject to changes over time and are only valid at the balance sheet date. When quoted prices or observable market data are not readily available, fair values are estimated using appropriate valuation

models and unobservable inputs. Such fair value estimates require management to make significant assumptions with respect to future developments, which are inherently uncertain and may therefore deviate from actual developments. Critical assumptions used are disclosed in the Annual Report 2022. In certain cases, independent valuations are obtained to support management's determination of fair values.

All amounts are in millions of euros unless otherwise stated. Due to rounding, amounts may not add up precisely to totals provided. All reported data is unaudited. Financial reporting is in accordance with the accounting policies as stated in the Annual Report 2022. Prior-period amounts have been reclassified to conform to the current-period presentation; this includes immaterial organizational changes.

Philips has realigned the composition of its reporting segments effective from April 1, 2023. The most notable change is the shift of the previous Enterprise Diagnostic Informatics business from the Diagnosis & Treatment segment to the Connected Care segment. This business, together with other informatics solutions in the Connected Care segment, now forms the Enterprise Informatics business. Accordingly, the comparative figures for the affected segments have been restated. The restatement has been published on the Philips Investor Relations website and can be accessed here.

Per share calculations have been adjusted retrospectively for all periods presented to reflect the issuance of shares for the share dividend in respect of 2022.

*) Non-IFRS financial measure. Refer to the Reconciliation of non-IFRS information Click here to read more Click here to read less

Forward-looking statements

Supporting US care provider with advanced patient monitoring and informatics

Signed a 10-year agreement with University of California Irvine Health to provide enterprise monitoring as a service combined with informatics, enabling the health system to standardize, integrate and scale patient monitoring in order to deliver better care and reduce the technology burden on staff.

New mobile C-arm driving improved patient outcomes and staff experience

Expanded the image-guided therapy portfolio with the launch of Philips Zenition 10, which provides a cost-effective imaging solution to guide high-volume routine surgery, as well as complex orthopedic and trauma procedures.

Innovations resonating with Chinese consumers

In partnership with JD.com, launched the premium 7 Series Shaver in China, debuting as the #1 shaver on this major online shopping channel. Additionally, Philips' DiamondClean 9000 premium electric toothbrush has become the best-selling high-end oral healthcare product on Alibaba.

Press release distributed by Wire Association on behalf of Philips, on Jul 23, 2023. For more information subscribe and follow us.

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https://wireassociation.eu/newsroom/philips/releases/en/philips-second-quarter-results-2023-1288

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