Philips Achieves Robust FY Results; FDA Consent Decree for Respironics in US

- Delivers strong sales growth, improved profitability, and strong cash flow in 2023 through solid execution of first year of 2023-2025 plan
- Agrees with FDA on terms of consent decree focused on Philips Respironics in the US, providing clarity and a roadmap to demonstrate compliance and to restore the business
- Reiterates confidence in delivering the 2023-2025 plan; further performance improvement in 2024

FY and Q4 Group performance highlights

- Group sales amounted to EUR 18.2 billion in 2023; EUR 5.1 billion in Q4
- Comparable sales growth of 7% in 2023; 3% in Q4, excluding provisions charged to sales, mainly connected with the Respironics consent decree*
- Comparable order intake was -5% in 2023; -3% in Q4; absolute order book remains strong
- Income from operations was EUR -115 million in 2023; EUR 24 million in Q4, including charges of EUR 363 million connected with the Respironics consent decree
- Adjusted EBITA margin increased to 10.5% of sales in 2023; 12.5% in Q4, excluding provisions charged to sales, mainly connected with the Respironics consent decree*
- Free cash flow increased to EUR 1,582 million in 2023; increased to EUR 1,128 million in Q4
- Restructuring and productivity plan on track, with savings of EUR 956 million in 2023; EUR 271 million in Q4
- Proposed dividend maintained at EUR 0.85 per share, to be distributed in shares
- Philips expects to deliver 3-5% comparable sales growth and Adjusted EBITA margin of 11-11.5% in 2024

* See table below

Metrics affected by provisions charged to sales	**FY 2023**	**Q4 2023**
Sales - as reported in millions of EUR	18,169	5,062
Comparable sales growth - excluding provisions charged to sales 1)	*7%*	*3%*
Comparable sales growth	6%	(1)%
Adjusted EBITA margin - excluding provisions charged to sales 1)	*10.5%*	*12.5%*

Metrics affected by provisions charged to sales	FY 2023	Q4 2023
Adjusted EBITA margin	10.6%	12.9%

1) Excluding provisions charged to sales of EUR 174 million in Q4 2023 mainly in connection with the Respironics consent decree.

Roy Jakobs, CEO of Royal Philips:

“Our strong results in 2023 were driven by solid execution of the first year of our three-year plan to create value with sustainable impact. While there is more work to be done, the progress we achieved in a volatile world lays a solid foundation for sustained performance.

Patient safety and quality remain Philips’ highest priority across the company. Resolving the consequences of the Respironics recall for our patients and customers is a key focus area and I acknowledge and apologize for the distress and concern caused. We are fully committed to complying with the consent decree, which is an important step and provides a clear path forward.

We saw strong growth throughout the year based on the actions we have taken to improve supply chain reliability and simplify our organization. Our order book is strong, and we are focused on improving order intake. Our new operating model enabled more effective ways of working across the company, and drove significant productivity improvements.

We continue to partner with many healthcare systems around the world, supporting them to become more efficient, and addressing their resourcing and productivity challenges with our AI-powered innovations. This includes our newly launched next-generation ultrasound systems, and our unique mobile MRI system with helium-free operations.

We are confident in our plan to help consumers lead healthy lives and healthcare providers deliver efficient, high-quality care to patients in a sustainable way. Based on our ongoing actions to enhance execution, we expect further performance improvement in 2024.”

Philips Respironics consent decree

- Philips agrees on the terms of a consent decree with the US Department of Justice (DOJ), representing the US Food and Drug Administration (FDA). The consent decree primarily focuses on Philips Respironics’ business operations in the US.
- The consent decree is being finalized and will be submitted to the relevant US court for approval. The decree will provide Philips Respironics with a roadmap of defined actions, milestones, and deliverables to demonstrate compliance with regulatory requirements and to restore the business.
- In the US, Philips Respironics will continue to service sleep and respiratory care devices already with healthcare providers and patients, and supply accessories (including patient interfaces), consumables (including patient circuits), and replacement parts (including repair kits). Until the relevant requirements of the consent decree are met, Philips Respironics will not sell new CPAP or BiPAP sleep therapy devices or other respiratory care devices in the US.
- Outside the US, Philips Respironics will continue to provide new sleep and respiratory care devices, accessories (including patient interfaces), consumables (including patient circuits), replacement parts (including repair kits) and services, subject to certain requirements.
- As a consequence of addressing this consent decree, which is a multi-year plan, Philips recorded a provision of EUR 363 million in Q4 2023 that relates to remediation activities, inventory write-downs and onerous contract provisions. In 2024, Philips expects around 100 basis points of costs that relate to remediation activities and disgorgement payments for Philips Respironics sales in the US.
- Further details will become available once the consent decree has been finalized and submitted to the relevant US court for approval.

Outlook

Philips reiterates confidence in delivering the plan for 2023-2025, acknowledging that uncertainties remain. For full-year 2024, Philips expects to deliver 3-5% comparable sales growth and an Adjusted EBITA margin of 11-11.5%. The free cash flow from Philips' businesses is expected to amount to EUR 0.8-1 billion. This only excludes the remaining cash-out related to the previously announced resolution of the economic loss class action in the US.

The previously stated 2023-2025 Group financial outlook of mid-single-digit comparable sales growth, low-teens Adjusted EBITA margin, and EUR 1.4-1.6 billion free cash flow now takes the consent decree into account and remains unchanged. It excludes the investigation by the US DOJ related to the Respironics field action and the impact of the ongoing litigation.

Segment performance

Diagnosis & Treatment comparable sales increased by 11% in 2023, with double-digit growth in Image Guided Therapy and Precision Diagnosis. The Adjusted EBITA margin improved to 11.6%, compared to 9.5% in 2022, driven by increased sales and pricing & productivity measures, partly offset by cost inflation. In Q4, Diagnosis & Treatment segment comparable sales increased 5%, with high-single-digit growth in

Image Guided Therapy. The Adjusted EBITA margin was 10.4%, compared to 12.2% in Q4 2022, due to an unfavorable mix and phasing of production and costs.

Connected Care comparable sales increased by 5%*) in 2023, driven by double-digit growth in Monitoring. The Adjusted EBITA margin increased to 6.9%*), compared to 2.1% in 2022, driven by increased sales and productivity measures, partly offset by cost inflation. In Q4, comparable sales were flat*), with high-single-digit growth in Enterprise Informatics. The Adjusted EBITA margin was 13.3%*), compared to 11.6% in 2022, mainly driven by pricing & productivity measures, partly offset by cost inflation.

Personal Health comparable sales growth was 3% in 2023, strongly driven by Personal Care. The Adjusted EBITA margin improved to 16.6%, compared to 14.8% in 2022, as a result of increased sales and pricing & productivity measures. In Q4, comparable sales increased by 7%, mainly driven by Personal Care. The Adjusted EBITA margin increased to 19.9%, compared to 17.0% in Q4 2022, mainly driven by increased sales and pricing & productivity measures.

*) Excluding provisions charged to sales of EUR 174 million in Q4 2023 mainly in connection with the Respironics consent decree.

Productivity

Supported by significant change management efforts, to date Philips has reduced the workforce by around 8,000 roles, out of 10,000 roles in total planned by 2025. For the full year, total savings amounted to EUR 956 million. In Q4, operating model productivity savings amounted to EUR 149 million. Procurement savings amounted to EUR 64 million, and other productivity programs delivered savings of EUR 58 million, resulting in total savings of EUR 271 million.

Customer, innovation and ESG highlights

- In 2023, Philips' products and solutions improved the lives of 1.9 billion people, including 222 million people in underserved communities. In addition, Philips was again recognized with a prestigious 'A' score for its climate action leadership by global environmental non-profit CDP (formerly Carbon Disclosure Project).
- Philips was recognized as one of the top health technology companies for its sustainability performance in the global 2023 Dow Jones Sustainability Indices (DJSI) list.
- As part of its program to expand access to maternal health, Philips is developing an AI-powered ultrasound solution that aims to address the shortage of healthcare workers by putting a diagnostic tool previously reserved for expert technicians in the hands of midwives. The program received total funding of USD 60 million from the Bill & Melinda Gates Foundation.

- Philips' 8-year, USD 115 million partnership with NYU Langone Health in the US is aimed at advancing patient safety, quality and outcomes through innovation. Philips will provide AI-enabled solutions, including its latest hospital patient monitoring, diagnostic imaging, digital pathology and enterprise informatics solutions.
- Philips and Norwegian Vestre Viken Health Trust deployed AI-enabled clinical care providing access to an AI-based bone fracture radiology application that will help radiologists serve the needs of around half a million people across 22 Norwegian municipalities.
- Philips introduced Philips HealthSuite Imaging, a cloud-based next generation of Philips Vue PACS that offers AI-enabled workflow orchestration, high-speed remote access for diagnostic reading, and integrated reporting to enable healthcare facilities across the world to improve operational efficiency and enhance patient care.
- Philips launched the premium S9000 shavers with close-shave blade technology. These shavers are available in the US, Western Europe, and China, where they have earned the JD S+ Brand award.

Roy Jakobs, CEO, and Abhijit Bhattacharya, CFO, on January 29 during the announcement of Philips' Fourth-Quarter and Annual Results 2023.

Capital allocation

Philips intends to submit to the 2024 Annual General Meeting of Shareholders a proposal to declare a dividend of EUR 0.85 per common share and to distribute such dividend in shares.

In the fourth quarter, Philips completed the cancellation of 15,134,054 of its shares, resulting in 906,403,156 outstanding shares as of December 31, 2023. The cancelled shares were acquired as part of the EUR 1.5 billion share repurchase program for capital reduction purposes that was announced on July 26, 2021. Philips will complete the share repurchase program in April 2024, which is expected to result in a further cancellation of 4.4 million shares in Q2 2024.

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