

Royal Philips

The rating affirmation reflects Royal Philips' strong business profile, with strong diversification and leading positions in the majority of its addressable markets, as well as a solid financial risk profile with a conservative financial policy and an improving capital structure and earnings profile.

The Stable Outlook reflects Fitch Ratings' expectation that Philips' profitability and financial profile will continue to improve in the near term, building headroom to ensure that key ratios remain consistent with a 'BBB+' rating over the forecast horizon to 2027.

Key Rating Drivers

Litigation Agreement Reduces Risk: The agreement reached on 29 April 2024 to resolve the personal injury litigation and medical-monitoring class action lawsuit in the US related to Philips' Respironics respiratory devices reduces uncertainty and litigation risk for the company, lowering the risk to its existing Issuer Default Rating (IDR).

Fitch's updated rating case assumes that the agreement will be implemented as outlined by the company, with up to USD1.1 billion paid in 2025 under the settlement. We believe this can be comfortably absorbed within the existing 'BBB+' IDR, especially net of the expected EUR540 million in insurance payouts to be received in 2024.

Margin, Financial Policy to Drive Rating: The trajectory of the rating will be determined by the magnitude of the sustained improvement in margins and by capital allocation decisions, including M&A and cash-based shareholder remuneration. We believe Philips' Stable Outlook remains appropriate despite our expectation of improving leverage headroom under the 'BBB+' IDR, as we do not expect the group to reach our positive EBITDA margin and free cash flow (FCF) sensitivities in the next two years.

Profitability to Continue Recovering: Fitch-defined EBITDA margins (excluding non-recurring expenses related to the Respironics field action) improved to 11.2% in 2023 from 9.2% in 2022, as supply-chain issues abated.

Fitch expects margins to continue to rise gradually towards 14.5% by 2027, a level in line with 2021, prior to the decline in 2022 caused by the temporary impact of the recall of its Respironics devices, internal inefficiencies, global inflation spike and supply-chain issues. This expectation assumes that core end-markets remain favourable, continuing benefit from recent restructuring measures, and that cost discipline is maintained.

Stronger Cash Flow: Philips achieved a material improvement in its underlying operating cash flow generation, with funds from operations (FFO) margin up at 6.5% in 2023, from 2.6% in 2022. We expect this to continue in the short-to-medium term with FFO margins close to 10% over 2024-2027 on the back of operational improvements and better capacity utilisation FCF was strong in 2023 at around EUR1.3 billion (7% of revenue), helped by an exceptionally high working-capital inflow above EUR900 million.

We expect underlying FCF to remain in the low-to-mid single digits over 2024-2027, excluding one-off cash flow related to the litigation (EUR430 million paid in 2024, EUR540 million insurance payout received in 2024 and USD1.1 billion paid in 2025). This assumes a modest impact from working-capital changes, although this hinges on Philips' capex and dividend policy.

Leverage: We expect deleveraging to be driven by a gradual recovery of margins towards pre-Covid-19 levels, with leverage potentially reaching Fitch's positive leverage sensitivity of 2.25x gross debt/EBITDA (Fitch-defined) in 2025. We expect gross and net leverage to continue to gradually improve in the next four years, to levels that will be strong for the present rating. We

Ratings

Royal Philips

Long-Term IDR	BBB+
Senior Unsecured Debt - Long-Term Rating	BBB+

Outlooks

Long-Term Foreign-Currency IDR	Stable
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[Click here for the full list of ratings](#)

2035 Climate Vulnerability Signal: 35

Applicable Criteria

Corporates Recovery Ratings and Instrument Ratings Criteria (October 2023)
Corporate Rating Criteria (November 2023)
Sector Navigators – Addendum to the Corporate Rating Criteria (November 2023)

Related Research

EMEA Diversified Industrials Outlook 2024 (December 2023)
Global Medical Devices, Diagnostics and Products—Relative Credit Analysis (November 2023)
Global Corporates Macro and Sector Forecasts

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expect gross and net leverage to improve to 2.5x and 1.5x, respectively, at end-2024 from 3.3x and 2.4x at end-2023, as a result of rising EBITDA but also some debt reduction.

Strong Business Profile: Fitch views Philips' business profile as strong and in line with its ratings. It is based on the company's position as a top-three medical equipment manufacturer in the world, a diverse product mix and end-customer base, and a material portion of revenue being generated by higher-margin services.

Along its leading positions in multiple growing and mature markets, Philips is well-positioned in the high-growth area of image-guided therapy, which benefits from hospitals investing more in ambulatory surgical centres and from growing interest in minimally invasive therapy. We believe Philips' strong position in this field will support solid organic growth in the medium term.

Financial Summary

(EURm)	2021	2022	2023	2024F	2025F	2026F
Gross revenue	17,156	17,827	18,169	18,482	19,284	20,277
EBITDA margin (%)	14.5	9.2	11.2	13.6	14.1	14.2
FFO margin (%)	10.4	2.6	6.5	9.6	9.7	9.8
EBITDA leverage (x)	2.3	4.4	3.3	2.5	2.3	2.4
EBITDA interest coverage (x)	19.8	9.2	9.1	12.8	15.2	18.0

F = Forecast

Source: Fitch Ratings, Fitch Solutions

Rating Derivation Relative to Peers

Fitch does not see Philips as a pure medical devices manufacturer. Fitch sees its diagnosis & treatment and connected care businesses as a combination of medical devices and capital goods companies, which is complemented by its consumer personal health business.

Philips' direct competitors of similar scale, market reach and product portfolio include Siemens Healthineers and GE HealthCare Technologies Inc. (GE Health, BBB/Stable), which together represent roughly 70% of the medical imaging and ultrasound industry. Other medical device peers with comparable business and financial profiles include Boston Scientific Corporation (BBB+/Stable), Agilent Technologies, Inc. (BBB+/Stable), Becton, Dickinson & Company (BBB/Stable), Bio-Rad Laboratories Inc (BBB/Stable), Revvity, Inc. (BBB/Stable) and Baxter International Inc. (BAX: BBB-/Stable). Most of Fitch's 'BBB' rated issuers maintain EBITDA leverage of 2.5x-3.0x.

Philips' profitability lags behind that of most medical devices peers, including GE Health and Siemens Healthineers, but it is significantly stronger than that of most diversified manufacturing peers such as ABB Ltd. Philips has a record of managing a more conservative financial policy compared with most medical devices companies, including GE Health. Fitch expects Philips to maintain EBITDA net leverage at about 2.0x to 2026.

Navigator Peer Comparison

	IDR/Outlook	Operating Environment	Management and Corporate Governance	Revenue/Value Sources	Innovation	Market Position	Diversification	Profitability	Financial Structure	Financial Flexibility
Royal Philips	BBB+/Stable	aa-	a-	a	a	a	a-	bb-	a-	bbb+
Agilent Technologies, Inc.	BBB+/Stable	aa	a+	a-	a-	bbb+	a	a-	a	a
Baxter International Inc.	BBB-/Stable	aa	aa-	a-	bbb-	a-	a	bbb-	bbb-	bbb
Bio-Rad Laboratories Inc.	BBB/Stable	aa	bbb-	bbb-	bb+	bbb	bbb	bbb	a	a-
Boston Scientific Corporation	BBB+/Stable	aa	aa-	a	a+	a	a	a	bbb+	a
Thermo Fisher Scientific Inc.	A-/Stable	aa	a	a-	a	a	a	a	a-	a-
GE Healthcare Holding LLC	BBB/Stable	aa	a+	a	a-	a	a	bb+	bbb	bbb+
Becton, Dickinson & Company	BBB/Stable	aa	aa-	a-	a-	a	a	a-	bbb	a-
Revvity, Inc.	BBB/Stable	aa	a-	bbb	bbb	bbb	bbb	bbb	bbb	bbb+

Source: Fitch Ratings.

Relative Importance of Factor Higher Moderate Lower

Name	IDR/Outlook	Operating Environment	Management and Corporate Governance	Revenue/Value Sources	Innovation	Market Position	Diversification	Profitability	Financial Structure	Financial Flexibility
Royal Philips	BBB+/Stable	+4	+1	+2	+2	+2	+1	-5	+1	0
Agilent Technologies, Inc.	BBB+/Stable	+5	+3	+1	+1	0	+2	+1	+2	+2
Baxter International Inc.	BBB-/Stable	+7	+6	+3	0	+3	+4	0	0	+1
Bio-Rad Laboratories Inc.	BBB/Stable	+6	-1	-1	-2	0	0	0	+3	+2
Boston Scientific Corporation	BBB+/Stable	+5	+4	+2	+3	+2	+2	+2	0	+2
Thermo Fisher Scientific Inc.	A-/Stable	+4	+1	0	+1	+1	+1	+1	0	0
GE Healthcare Holding LLC	BBB/Stable	+6	+4	+3	+2	+3	+3	-2	0	+1
Becton, Dickinson & Company	BBB/Stable	+6	+5	+2	+2	+3	+3	+2	0	+2
Revvity, Inc.	BBB/Stable	+6	+2	0	0	0	0	+2	0	+1

Source: Fitch Ratings.

Factor Score Relative to IDR Worse positioned than IDR Within one notch of IDR Better positioned than IDR

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- EBITDA margin sustained above 15%
- Gross debt with equity credit below 2.25x operating EBITDA
- Cash from operations (CFO) less capex above 20% of gross debt
- FCF margin above 3% on a sustained basis

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- EBITDA margin sustained below 13%
- Gross debt with equity credit above 3x operating EBITDA
- CFO less capex below 15% of gross debt
- FCF margin below 2% on a sustained basis

Liquidity and Debt Structure

Liquidity Building Up: At end-2023, Philips had readily available cash of EUR1.7 billion (after Fitch restricts EUR200 million as unavailable for debt service) and full availability under its EUR1 billion revolver credit facility maturing in March 2029. In addition, Fitch forecasts positive FCF generation to 2027 of about EUR1 billion before acquisitions, which should continue to strengthen liquidity and financial flexibility ahead of any litigation payment.

Philips has funding characteristics in line with those of solid investment-grade companies, with solid access to financial markets and a well-spread senior unsecured debt maturity profile with no sizeable near-term refinancing needs.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

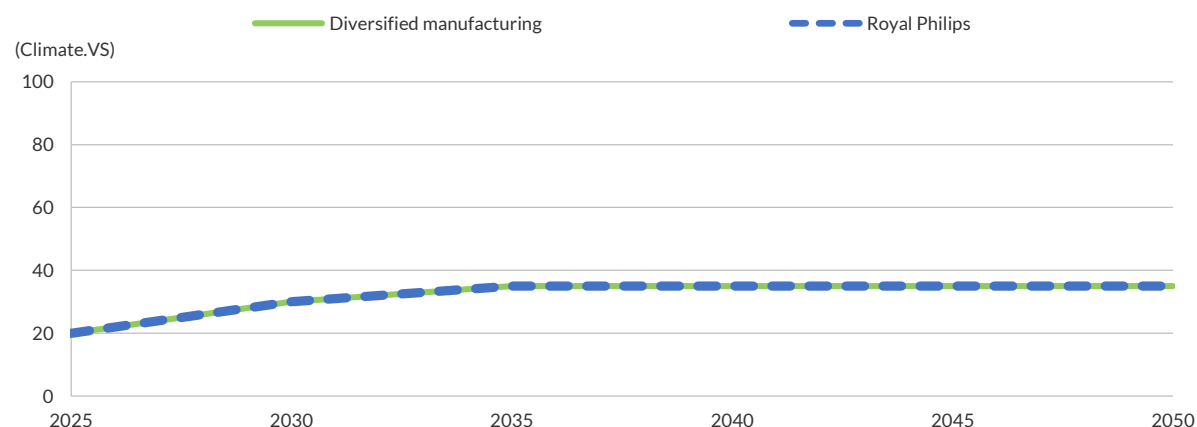
Climate Vulnerability Considerations

Fitch uses Climate Vulnerability Signals (Climate.VS) as a screening tool to identify sectors and Fitch-rated issuers that are potentially most exposed to credit-relevant climate transition risks and, therefore, require additional consideration of these risks in rating reviews. Climate.VS range from 0 (lowest risk) to 100 (highest risk). For more information on Climate.VS, see Fitch's [Corporate Rating Criteria](#).

The FY23 revenue-weighted Climate Vulnerability Score (Climate.VS) for 2035 is 35 out of 100, suggesting moderate exposure to climate-related risks in that year. For further information on how Fitch perceives climate-related risks in Diversified Manufacturing sector see [Industrials – Long-Term Climate Vulnerability Scores](#).

Climate.VS Evolution

As of Dec 31, 2023



Source: Fitch Ratings

Liquidity and Debt Maturities

Liquidity Analysis

(EURm)	2024F	2025F	2026F	2027F
Available liquidity				
Beginning cash balance	1,869	3,339	2,043	607
Rating case FCF after acquisitions and divestitures	1,343	-418	-372	-121
Debt issued since last balance sheet	700			
Share repurchases	-130	-130	-200	-200
Total available liquidity (a)	3,782	2,791	1,471	286
Liquidity uses				
Debt maturities	-444	-748	-864	-750
Total liquidity uses (b)	-444	-748	-864	-750
Liquidity calculation				
Ending cash balance (A+B)	3,339	2,043	607	-464
Revolver availability	1,000	1,000	0	0
Ending liquidity	4,339	3,043	607	-464
Liquidity score (x)	9.5	5.2	1.9	0.6

F – Forecast.

Source: Fitch Ratings, Fitch Solutions, Royal Philips

Scheduled debt maturities

(EURm)	31-Dec-2023
2024	444
2025	748
2026	864
2027	750
2028	500
Thereafter	4,059
Total	7,364

Source: Fitch Ratings, Fitch Solutions, Royal Philips

Key Assumptions

Fitch's Key Assumptions Within our Rating Case for the Issuer:

- Mid-single-digit organic revenue growth to 2027, supported by all divisions
- Fitch-defined EBITDA margin rising to 13.5% in 2024 and gradually improving towards 14.5% by 2027. One-off expenses related to the Respireonics field action excluded from Fitch-defined EBITDA
- Litigation insurance payout of EUR540 million received in 2024 and USD1.1 billion litigation payout paid in 2025
- Capex at about 4% of revenue in 2024 and about 4.5% for 2025-2027
- Modest working-capital inflow in 2024 followed by modest working capital outflows to 2027
- Cash dividend payments to resume in 2026 broadly at the level of 2022
- No material acquisitions until 2026 and EUR500 million per year thereafter
- Modest share buybacks at about EUR130 million per year in 2024 and 2025, before increasing modestly from 2026

Financial Data

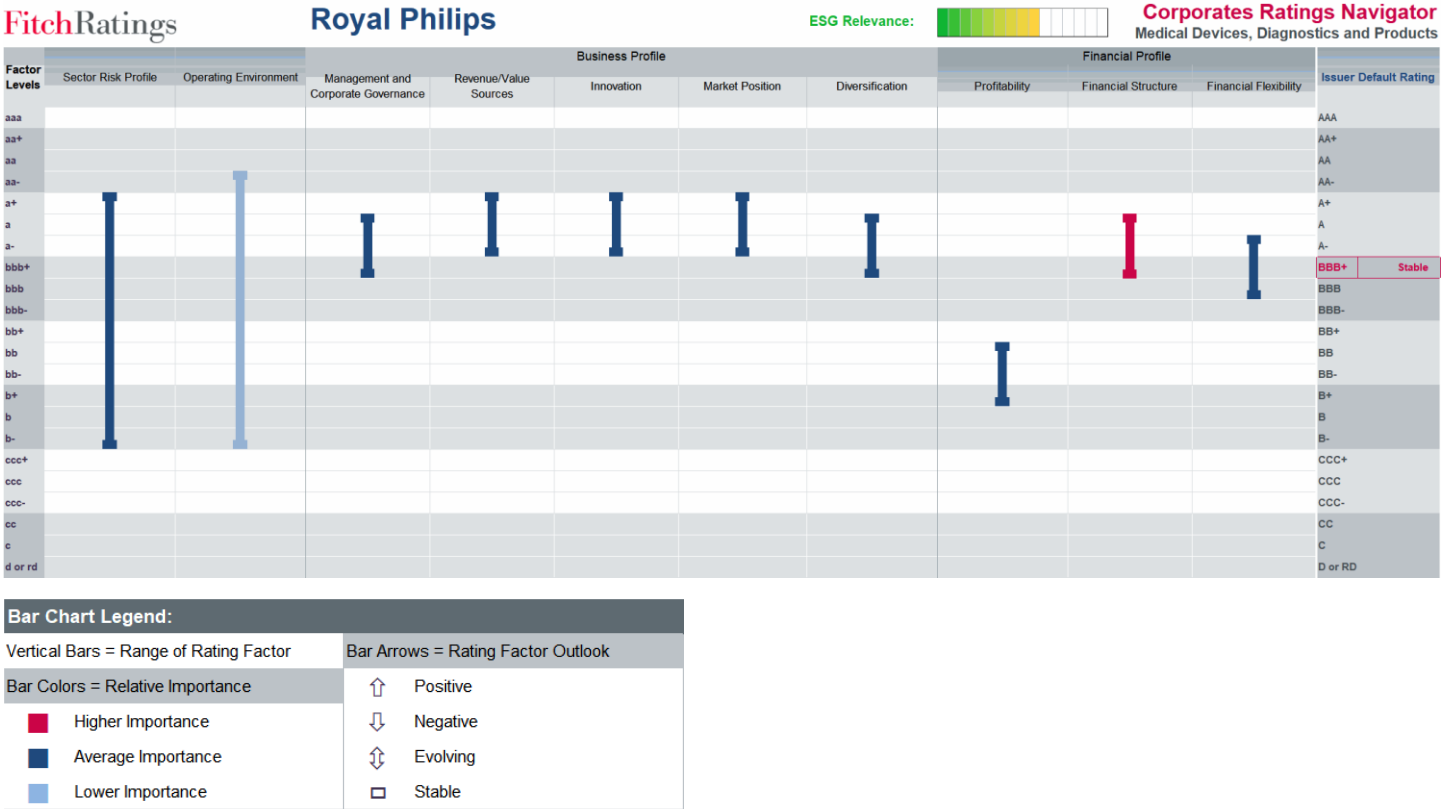
Royal Philips

(EURm)	2021	2022	2023	2024F	2025F	2026F
Summary income statement						
Gross revenue	17,156	17,827	18,169	18,482	19,284	20,277
Revenue growth (%)	-0.9	3.9	1.9	1.7	4.3	5.2
EBITDA before income from associates	2,483	1,646	2,029	2,508	2,718	2,884
EBITDA margin (%)	14.5	9.2	11.2	13.6	14.1	14.2
EBITDA after associates and minorities	2,495	1,652	2,039	2,516	2,726	2,892
EBIT	1,412	258	969	1,249	1,435	1,544
EBIT margin (%)	8.2	1.4	5.3	6.8	7.4	7.6
Gross interest expense	-135	-233	-229	-197	-180	-161
Pretax income including associate income/loss	509	-1,730	-524	441	761	972
Summary balance sheet						
Readily available cash and equivalents	2,103	972	1,669	2,439	1,843	1,907
Debt	5,796	7,289	6,662	6,219	6,171	6,807
Net debt	3,693	6,317	4,993	3,780	4,328	4,900
Summary cash flow statement						
EBITDA	2,483	1,646	2,029	2,508	2,718	2,884
Cash interest paid	-126	-180	-223	-197	-180	-161
Cash tax	-249	-333	-152	-233	-381	-431
Dividends received less dividends paid to minorities	12	6	10	8	8	8
Other items before FFO	-346	-684	-537	-350	-350	-350
FFO	1,791	470	1,180	1,778	1,874	1,991
FFO margin (%)	10.4	2.6	6.5	9.6	9.7	9.8
Change in working capital	-414	-862	913	200	-100	-150
CFO (Fitch-defined)	1,377	-392	2,093	1,978	1,774	1,841
Total non-operating/nonrecurring cash flow	85	—	-160	125	-1,223	-300
Capex	-763	-806	-644	—	—	—
Capital intensity (capex/revenue) (%)	4.4	4.5	3.5	—	—	—
Common dividends	-482	-412	-2	—	—	—
FCF	217	-1,610	1,287	—	—	—
FCF margin (%)	1.3	-9.0	7.1	—	—	—
Net acquisitions and divestitures	361	-588	7	—	—	—
Other investing and financing cash flow items	365	151	245	—	—	—
Net debt proceeds	-251	1,091	-181	-444	-48	636
Net equity proceeds	-1,613	-175	-662	-130	-130	-200
Total change in cash	-921	-1,131	696	770	-596	64
Calculations for forecast publication						
Capex, dividends, acquisitions and other items before FCF	-799	-1,806	-799	-635	-2,193	-2,213
FCF after acquisitions and divestitures	578	-2,198	1,294	1,343	-418	-372
FCF margin after net acquisitions (%)	3.4	-12.3	7.1	7.3	-2.2	-1.8
Gross Leverage ratios (x)						
EBITDA leverage	2.3	4.4	3.3	2.5	2.3	2.4
CFO-capex/debt	10.6	-16.4	21.8	19.6	14.7	13.6
Net Leverage ratios (x)						
EBITDA net leverage	1.5	3.8	2.4	1.5	1.6	1.7
CFO-capex/net debt	16.6	-19.0	29.0	32.3	20.9	18.9
Coverage ratios (x)						
EBITDA interest coverage	19.8	9.2	9.1	12.8	15.2	18.0
CFO – Cash flow from operations						
Source: Fitch Ratings, Fitch Solutions						

How to Interpret the Forecast Presented

The forecast presented above is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator



Operating Environment

aa	Economic Environment	a	Strong combination of countries where economic value is created and where assets are located.
aa-	Financial Access	aa	Very strong combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
b-	Systemic Governance	aa	Systemic governance (eg rule of law, corruption, government effectiveness) of the issuer's country of incorporation consistent with 'aa'.
ccc+			

Revenue/Value Sources

aa-	Product Strength	a	Large majority of revenues derived from products/technological platforms that have top-three market positions.
a+	Number of Competitors	a	Four meaningful competitors for the majority of product/technological platform sales
a	Level of Differentiation	bbb	Majority of expected revenues to be derived from highly differentiated products/technological platforms.
a-			
bbb+			

Market Position

aa-	Revenue	a	\$12 billion
a+	EBITDA	a	\$1 billion
a	Market Position	a	Strong global market positions.
a-			
bbb+			

Profitability

bb+	EBITDA Margin	b	17%
bb	EBIT Margin	b	11%
bb-	FCF Margin	bb	5%
b+	Volatility of Profitability	bb	Higher volatility of profits than industry average.
b			

Financial Flexibility

a	Financial Discipline	a	Clear commitment to maintain a conservative policy with only modest deviations allowed.
a-	Liquidity	bbb	One-year liquidity ratio above 1.25x. Well-spread maturity schedule of debt but funding may be less diversified.
bbb+	EBITDA Interest Coverage	a	9.0x
bbb	FX Exposure	bbb	Some exposure of profitability to FX movements and/or debt/cash-flow match. Effective hedging in place.
bbb-			

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Management and Corporate Governance

a+	Management Strategy	bbb	Strategy may include opportunistic elements but soundly implemented.
a	Governance Structure	a	Experienced board exercising effective check and balances. Ownership can be concentrated among several shareholders.
a-	Group Structure	a	Group structure shows some complexity but mitigated by transparent reporting.
bbb+	Financial Transparency	a	High quality and timely financial reporting.
bbb			

Innovation

aa-	Breadth and Depth	a	New product flow plus currently marketed products sufficient for roughly four years of consistent and meaningful new product/platform introductions.
a+	Sufficiency for Profitable Growth	a	Internal R&D and existing portfolio sufficient to drive growth at or above the market.
a			
a-			
bbb+			

Diversification

a+	Geographic Diversification	a	Meaningful presence in three of the following markets: U.S., Europe, Japan and emerging markets.
a	Product Diversification	bbb	Credit profile able to withstand significant and durable operational pressure in its top technological platform.
a-			
bbb+			
bbb			

Financial Structure

a+	EBITDA Leverage	a	2.5x
a	EBITDA Net Leverage	a	2.0x
a-	(CFO-Capex)/Debt	bbb	12.5%
bbb+			
bbb			

Credit-Relevant ESG Derivation

				Overall ESG	
Royal Philips has 9 ESG potential rating drivers					
key driver	0	issues	5		
driver	0	issues	4		
potential driver	9	issues	3		
not a rating driver	3	issues	2		
	2	issues	1		

For further details on Credit-Relevant ESG scoring, see page 3.

Credit-Relevant ESG Derivation

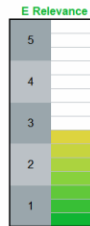
Royal Philips has 9 ESG potential rating drivers

- ➔ Royal Philips has exposure to waste & impact management risk but this has very low impact on the rating.
- ➔ Royal Philips has exposure to access/affordability risk but this has very low impact on the rating.
- ➔ Royal Philips has exposure to product safety/ethical marketing risk but this has very low impact on the rating.
- ➔ Royal Philips has exposure to labor relations & practices risk but this has very low impact on the rating.
- ➔ Royal Philips has exposure to social pressure to contain costs but this has very low impact on the rating.
- ➔ Governance is minimally relevant to the rating and is not currently a driver.

				ESG Relevance to Credit Rating
key driver	0	ISSUES	5	
driver	0	ISSUES	4	
potential driver	9	ISSUES	3	
	3	ISSUES	2	
not a rating driver	2	ISSUES	1	

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	2	Energy use in manufacturing	Scale and Competitive Position; Profitability; Financial Structure; Financial Flexibility
Water & Wastewater Management	2	Water usage in manufacturing process	Scale and Competitive Position; Profitability; Financial Structure; Financial Flexibility
Waste & Hazardous Materials Management; Ecological Impacts	3	Management of product lifecycle and potential impact on food/water supply; supply chain management - product	Product Portfolio; Scale and Competitive Position; Profitability; Financial Structure; Financial Flexibility
Exposure to Environmental Impacts	2	Manufacturing facilities and inventory exposure to extreme weather events	Product Portfolio; Scale and Competitive Position; Profitability; Financial Structure; Financial Flexibility



How to Read This Page

ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

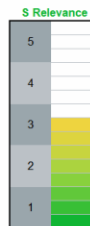
The **Environmental (E)**, **Social (S)** and **Governance (G)** tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The **Credit-Relevant ESG Derivation** table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

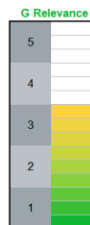
Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	3	Affordability	Product Portfolio; Scale and Competitive Position; Profitability; Financial Structure; Financial Flexibility
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Product safety, ethical marketing	Product Portfolio; Scale and Competitive Position; Profitability; Financial Structure; Financial Flexibility
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Scale and Competitive Position; Profitability; Financial Structure; Financial Flexibility
Employee Wellbeing	1	n.a.	n.a.
Exposure to Social Impacts	3	Pressure to contain healthcare spending growth; highly sensitive political environment	Scale and Competitive Position; R&D Profile; Profitability; Financial Structure; Financial Flexibility



Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance

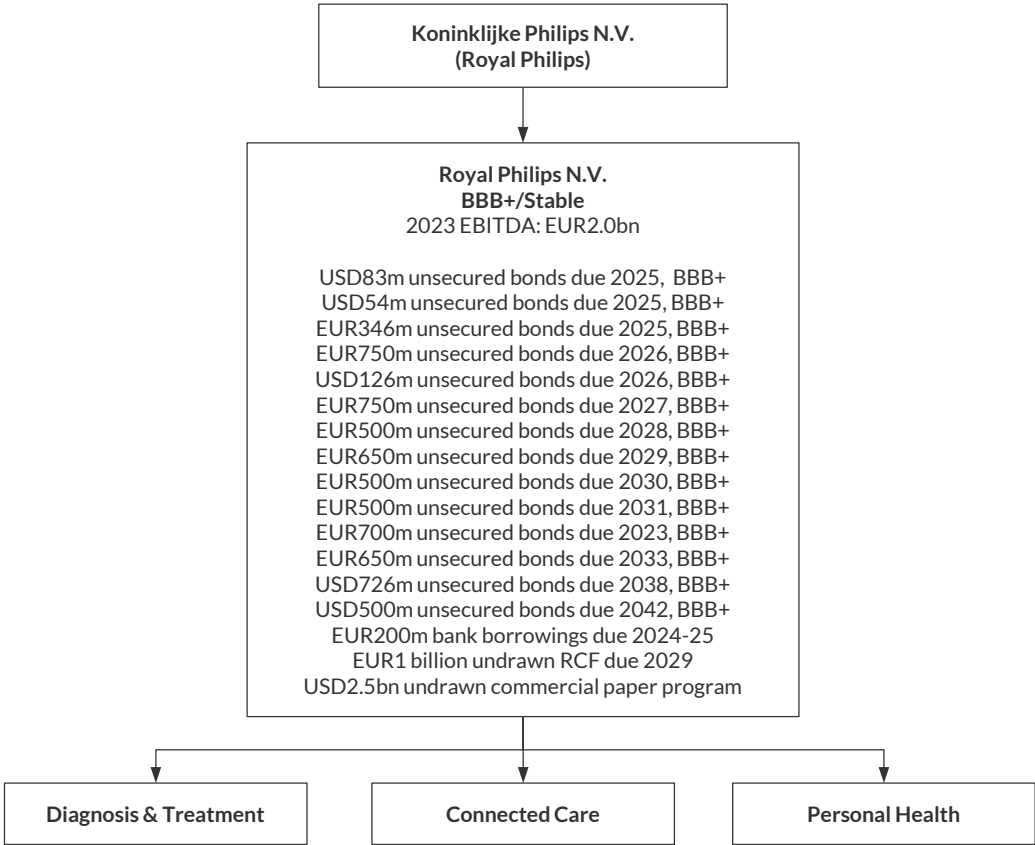


CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram



Source: Fitch Ratings, Fitch Solutions, Royal Philips as at May 2023

Peer Financial Summary

Company	Issuer Default Rating	Financial statement date	Gross revenue (EUR Millions)	EBITDAR margin (%)	FCF margin (%)	EBITDA leverage (x)	EBITDA interest coverage (x)
Royal Philips	BBB+						
	BBB+	2023	18,169	11.2	7.1	3.3	9.1
	A-	2022	17,827	9.2	-9.0	4.4	9.2
	A-	2021	17,156	14.5	1.3	2.3	19.8
GE HealthCare Technologies Inc.	BBB						
	BBB	2023	17,846	17.5	8.6	2.8	6.0
	BBB(EXP)	2022	17,196	17.6	9.8	2.6	59.9
		2021	15,548	19.7	7.7	0.0	164.8
Thermo Fisher Scientific Inc.	A-						
	A-	2023	39,117	25.8	14.9	3.2	8.0
	BBB+	2022	42,110	27.2	14.4	2.8	18.3
	BBB+	2021	34,669	33.6	16.3	2.7	23.8
Agilent Technologies, Inc.	BBB+						
	BBB+	2023	6,435	29.9	17.7	1.3	23.0
	BBB+	2022	6,907	30.8	11.3	1.3	24.8
	BBB+	2021	5,426	29.2	16.8	1.5	24.3
Boston Scientific Corporation	BBB+						
	BBB+	2023	12,997	28.3	11.9	2.4	15.6
	BBB+	2022	11,890	30.4	6.9	2.4	8.6
	BBB	2021	10,511	28.1	10.8	2.8	9.9
Becton, Dickinson & Company	BBB						
	BBB	2023	18,286	27.8	5.0	3.0	11.9
	BBB	2022	19,358	27.1	2.0	3.2	13.1
	BBB-	2021	17,487	28.6	12.3	3.1	12.2
Bio-Rad Laboratories Inc.	BBB						
	BBB	2023	2,438	20.7	9.5	2.0	12.6
	BBB	2022	2,627	24.5	3.8	1.7	30.4
	BBB	2021	2,556	25.2	19.2	—	514.1

Source: Fitch Ratings, Fitch Solutions

Fitch Adjusted Financials

(EURm as of 31 Dec 23)	Notes and formulas	Standardised values	Cash adjustment	Lease treatment	Other adjustments	Adjusted values
Income statement summary						
Revenue		18,169	—	—	—	18,169
EBITDA	(a)	1,156	—	-228	1,101	2,029
Depreciation and amortization		-1,261	—	201	—	-1,060
EBIT		-105	—	-27	1,101	969
Balance sheet summary						
Debt	(b)	7,689	—	-1,074	47	6,662
Of which other off-balance-sheet debt		—	—	—	—	—
Lease-equivalent debt		—	—	—	—	—
Lease-adjusted debt		7,689	—	-1,074	47	6,662
Readily available cash and equivalents	(c)	1,869	-200	—	—	1,669
Not readily available cash and equivalents		—	200	—	—	200
Cash flow summary						
EBITDA	(a)	1,156	—	-228	1,101	2,029
Dividends received from associates less dividends paid to minorities	(d)	10	—	—	—	10
Interest paid	(e)	-250	—	27	—	-223
Interest received	(f)	53	—	—	—	53
Preferred dividends paid	(g)	—	—	—	—	—
Cash tax paid		-152	—	—	—	-152
Other items before FFO		404	—	—	-941	-537
FFO	(h)	1,221	—	-201	160	1,180
Change in working capital		913	—	—	—	913
CFO	(i)	2,134	—	-201	160	2,093
Non-operating/nonrecurring cash flow		—	—	—	-160	-160
Capex	(j)	-644	—	—	—	-644
Common dividends paid		-2	—	—	—	-2
FCF		1,488	—	-201	—	1,287
Gross leverage (x)						
EBITDA leverage	b/(a+d)	6.6	—	—	—	3.3
(CFO-capex)/debt (%)	(i+j)/b	19.4	—	—	—	21.8
Net leverage (x)						
EBITDA net leverage	(b-c)/(a+d)	5.0	—	—	—	2.4
(CFO-capex)/net debt (%)	(i+j)/(b-c)	25.6	—	—	—	29.0
Coverage (x)						
EBITDA interest coverage	(a+d)/(-e)	4.7	—	—	—	9.1

CFO – Cash flow from operations

Note: The standardised items presented above are based on Fitch's taxonomy for the given sector and region.

Reported items may not match the Fitch taxonomy, but they are captured into corresponding lines accordingly.

Debt includes other off-balance-sheet debt.

Source: Fitch Ratings, Fitch Solutions, Royal Philips

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