

# PHILIPS

sense and simplicity

## Consumer Lifestyle today

Andrea Ragnetti  
CEO Philips Consumer Lifestyle

# Agenda of today

**11:00 – 12:00**

**Consumer Lifestyle Today**

Andrea Ragnetti

*CEO Philips Consumer Lifestyle*

**12:00 – 12:45**

**Financial Strategy**

Paul Verhagen

*CFO Philips Consumer Lifestyle*

**14:00 – 15:00**

**Marketing Strategy**

Egbert van Acht

*CMO Philips Consumer Lifestyle*

**15:00 – 15:45**

**Consumer Lifestyle Tomorrow**

Andrea Ragnetti

*CEO Philips Consumer Lifestyle*

**16:00 – 16:30**

**Panel Q&A**

*Andrea Ragnetti, CEO Philips Consumer Lifestyle*

*Paul Verhagen, CFO Philips Consumer Lifestyle*

*Egbert van Acht, CMO Philips Consumer Lifestyle*

## Philips has become a simpler company

*Three sectors focus on Health & Well-being*

### Mission & Vision

*“Improve the quality of people’s lives through timely introduction of meaningful innovations”*

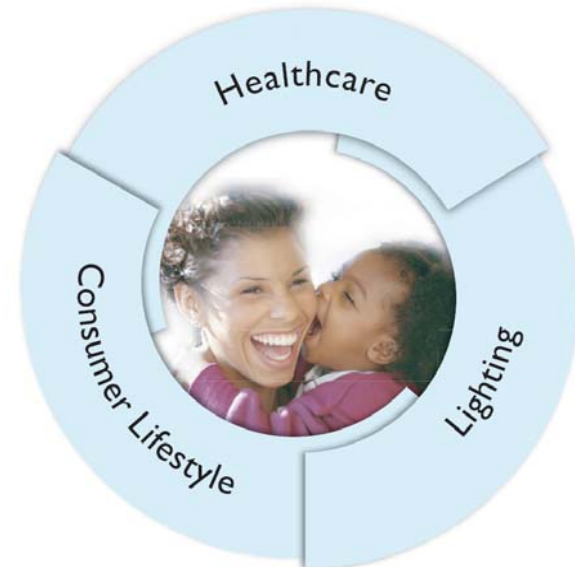


*“In a world where complexity increasingly touches every aspect of our daily lives, we will lead in bringing sense and simplicity to people”*

### Focused

#### **Brand**

*“sense and simplicity”*



#### **Innovation**




*Open innovation*

# Our strong brand is a platform for growth

**43** **PHILIPS** 8,325 \$m ▲

## Best Global Brands 2008

**PHILIPS.** Philips has always been well-regarded in the electronics field and is leading the way when it comes to sustainability. It was awarded the Stars of Energy prize in 2008 in recognition of its work in energy preservation. The brand's products are becoming increasingly diversified and, after recognizing healthcare as a key growth area, it has an innovative range of health diagnostic products at various stages of development.

2008 Rank	2007 Rank	Brand	Country of Origin	Sector	2008 Brand Value (\$m)	Change in Brand Value
41	39	 UBS	Switzerland	Financial Services	8,740	-11%
42	37	Morgan Stanley	US	Financial Services	8,696	-16%
43	42	 PHILIPS	Netherlands	Diversified	8,325	8%
44	-	 THOMSON REUTERS	Canada	Media	8,313	NEW

**Interbrand**

*“Philips’ brand value has once again showed an impressive growth rate, outperforming the key competitors. The 8% growth in brand value reveals the continued resonance of the Philips brand promise with its customers. Philips not only talks about simplicity by reinforcing the brand message at every touch point; it lives simplicity - through its focus on core activities and efficient operations. Philips managed to simplify the organization and reduce costs, and through its focus on customers and their needs the brand signals that it makes a true effort to stay attractive for customers. We at Interbrand are confident that the brand is well positioned to reap the benefits of future opportunities.”*

# Consumer Lifestyle built on strength

Healthcare



**Consumer Lifestyle**

**2007**

<b>Consumer Lifestyle</b>	
Sales (EUR B)	13.3
Comp. growth	4%
EBITA (EUR M)	848
as % of sales	6.4%
Headcount	23.397
R&D (%)	3.7
NOC (EUR B)	0.9

Lighting



**DAP strengths:**

- Marketing excellence
- Competence in specialized categories
- Margin expansion through insight-led innovation
- Range optimization
- Intimacy with consumers



**CE strengths:**

- Speed in competitive markets
- Cost discipline
- Rapid range renewal
- Optimized supply chain
- Intimacy with customers

# A thorough transformation program to simplify and refocus on value creation

Organizational Structure

- Elimination of duplication in functions – *increased span of control from 6 to 9, targeting best in class 10 to 12*
- Delayed organization - *from 8 layers to 5/6, targeting best in class 4/5*
- Optimization of sales structure - *from 4 regions to 3 clusters*
- Separate value creation (in BUs) from value delivery in functions

Geographic Footprint

- Plan to optimize Supply and R&D footprint
- Increased location efficiency – *rationalization of offices/real estate*

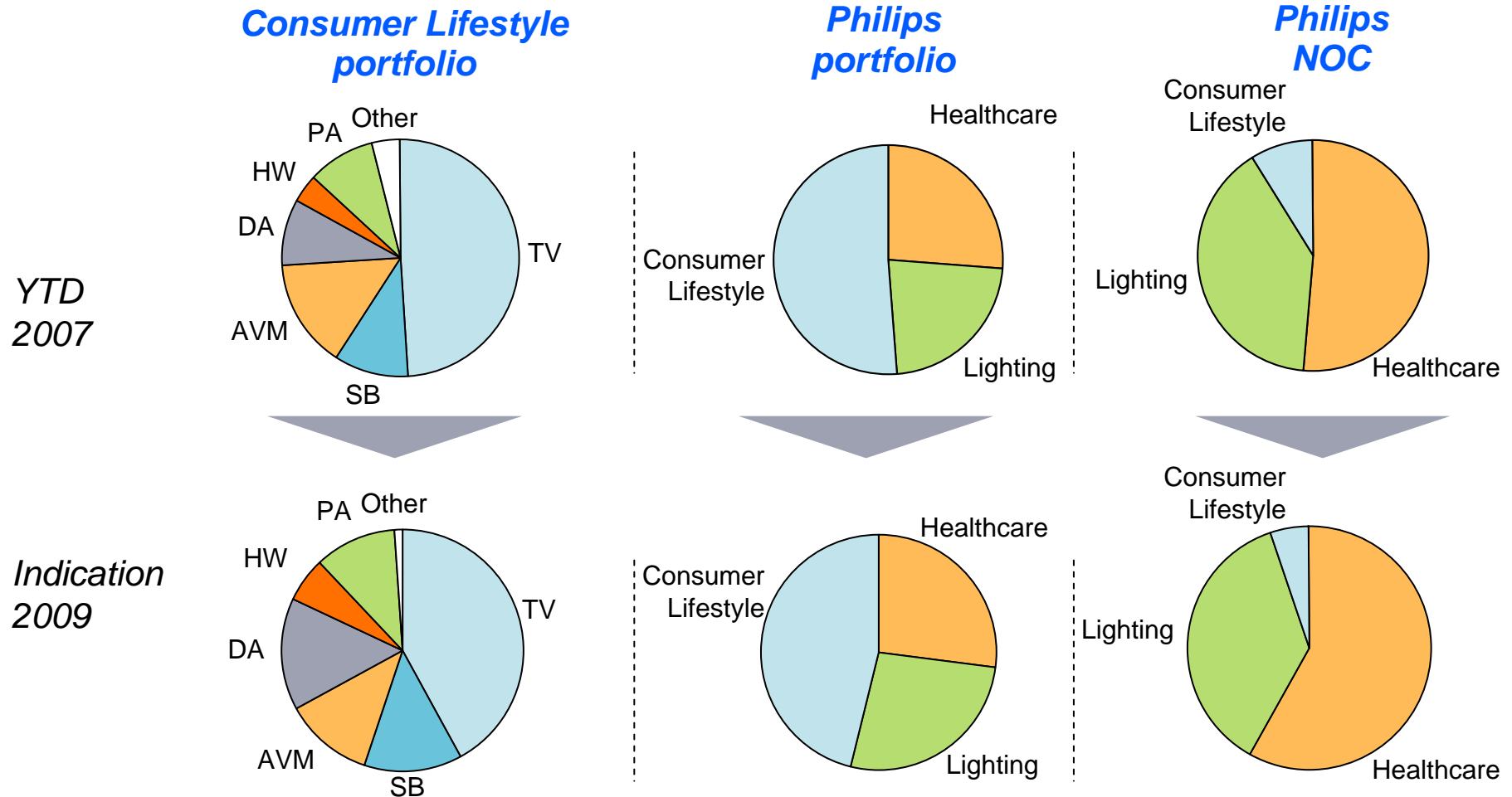
Process optimization

- Targeting a single IT system, integrated supply chain management and finance plan
- Increased coordination of consumer touch points (marketing, consumer care, quality) to improve Net Promoter Score

# A more balanced portfolio

## **Mid-term Consumer Lifestyle:**

Improve EBITA from 6.4% in 2007 to 8-10%



A growing number of leadership positions drive the majority of our EBITA...



Global leader in  
Mother &  
Child Care



Global leader in  
Male Shaving



Global leader  
in Power  
Toothbrush



Regional leader  
in Coffee  
Preparation



Regional leader  
in Food  
Preparation

# ...and the potential for significant upside

## *The lifestyle industry landscape*

Traditional CE

Traditional DAP

Lifestyle space

Sony
Samsung
LG
Panasonic
Sharp
HP
Apple
Logitech

P&G
Spectrum
Energizer
Whirlpool
Medea
SEB
DeLonghi
Electrolux

Johnson & Johnson
Reckitt
Unilever
P&G
Nestlé



Historic performance of peers  
2005-2007

<i>EBITA (%)</i>	
• Traditional CE	3 – 5%
• Traditional DAP	10 – 20%
• Lifestyle space	15 – 25%
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<i>Average growth (CAGR %)</i>	
• Traditional CE	<3%
• Traditional DAP	>5%
• Lifestyle space	5 – 10%

# Our strategic focus

## Objective

## Key Principles

<p>① Aggressively optimize our business portfolio</p>	<ul style="list-style-type: none"> <li>• Divest or revitalize sub-performing units</li> <li>• Introduce high growth, high margin new product categories</li> </ul>
<p>② Pursue strategic acquisitions</p>	<ul style="list-style-type: none"> <li>• Strengthen our leadership positions/enter new spaces</li> <li>• Increase our presence in emerging markets</li> </ul>
<p>③ Focus on the geographical areas with the highest return on the marketing investment</p>	<ul style="list-style-type: none"> <li>• Accelerate competence build up and move advertising/R&amp;D investments to emerging markets</li> <li>• Empower local teams</li> </ul>
<p>④ Continue to invest competitively in Advertising and R&amp;D</p>	<ul style="list-style-type: none"> <li>• Increase effectiveness of Advertising, Promotion and R&amp;D</li> <li>• Use rigorous cost discipline to justify investments</li> </ul>
<p>⑤ Maintain rigorous cost and organizational discipline</p>	<ul style="list-style-type: none"> <li>• Drive cost discipline and organizational renewal</li> <li>• Continuous external and internal benchmarking</li> </ul>

# 1 Aggressively optimize our business portfolio

*Decisive actions taken in TV to address strategic challenges*

Strategic challenge

Actions taken to date

Too much focus on scale

- Shift focus from volume to profitability and differentiation

Geographically dispersed team

- Upgraded and restructured team
- Unified senior team in Amsterdam

Fundamentally unprofitable in North America

- Licensed Philips and Magnavox TVs to Funai

IT Displays structurally unattractive

- Move to brand licensee

Optimization of industrial base

- Sale of Juarez and restructuring of Dreux

Presence in unprofitable product/market combinations

- Rapidly exiting segments/geographies/retailers that cannot deliver targeted profitability

Insufficient resources to support the breadth of the portfolio

- Simplified range plus plan for higher support in fewer markets

Supplier complexity

- Simplified supply base, concentrated strategic suppliers

# 1 Aggressively optimize our business portfolio

*We have cut out almost a quarter of business sales that did not meet targets*

## Portfolio pruning\*

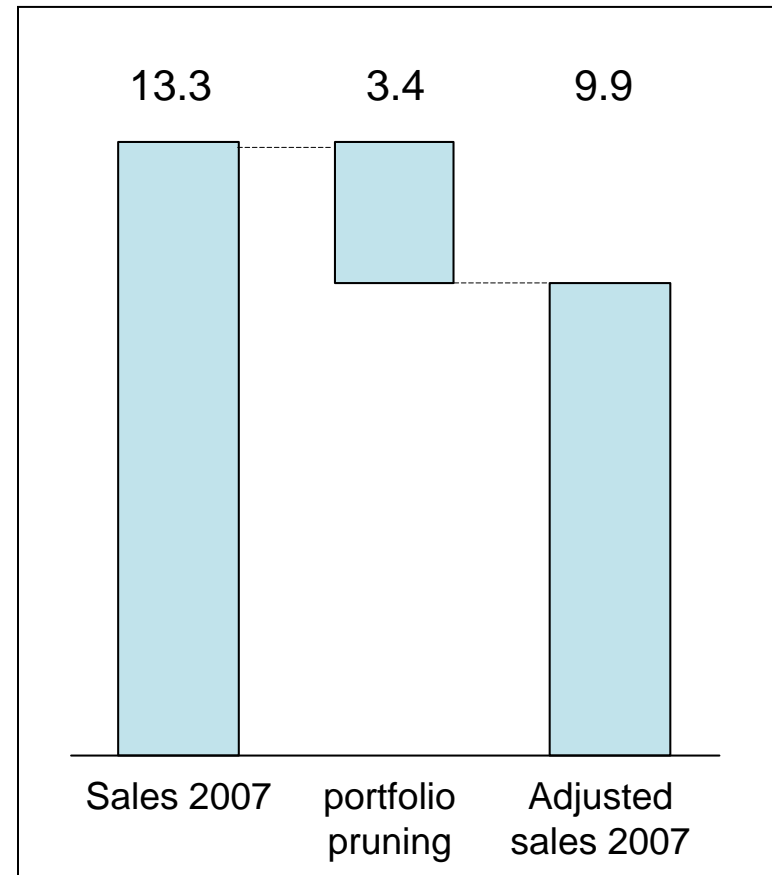
- TV** *Brand license in North America*  
*Exit Australia, New Zealand, South Africa,*  
*Taiwan, Indonesia and The Philippines*  
*Optimize portfolio – e.g. UK, Spain*  
*Optimize distribution – e.g. UK*

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- AVM** *Brand license in United States*  
*Exit in various countries - e.g. Australia, NZ*  
*Discontinued businesses – e.g. DVD Rec.*

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- P&A** *Discontinued business – add-on hard drives*

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- Other** *Divest Set-top Boxes and*  
*Connectivity Solutions*  
*Transfer Hospitality to Lighting*

EUR billions



\*Estimated full year impact 2007

## ② Pursue strategic acquisitions

*Focus on strategic alignment and in-depth market scanning*

- Ongoing review of existing opportunities
- Focus on our Consumer Lifestyle growth platforms
- Focus on emerging markets
- Economic downturn gives new opportunities

### ③ Focus on geographical areas with stronger added value

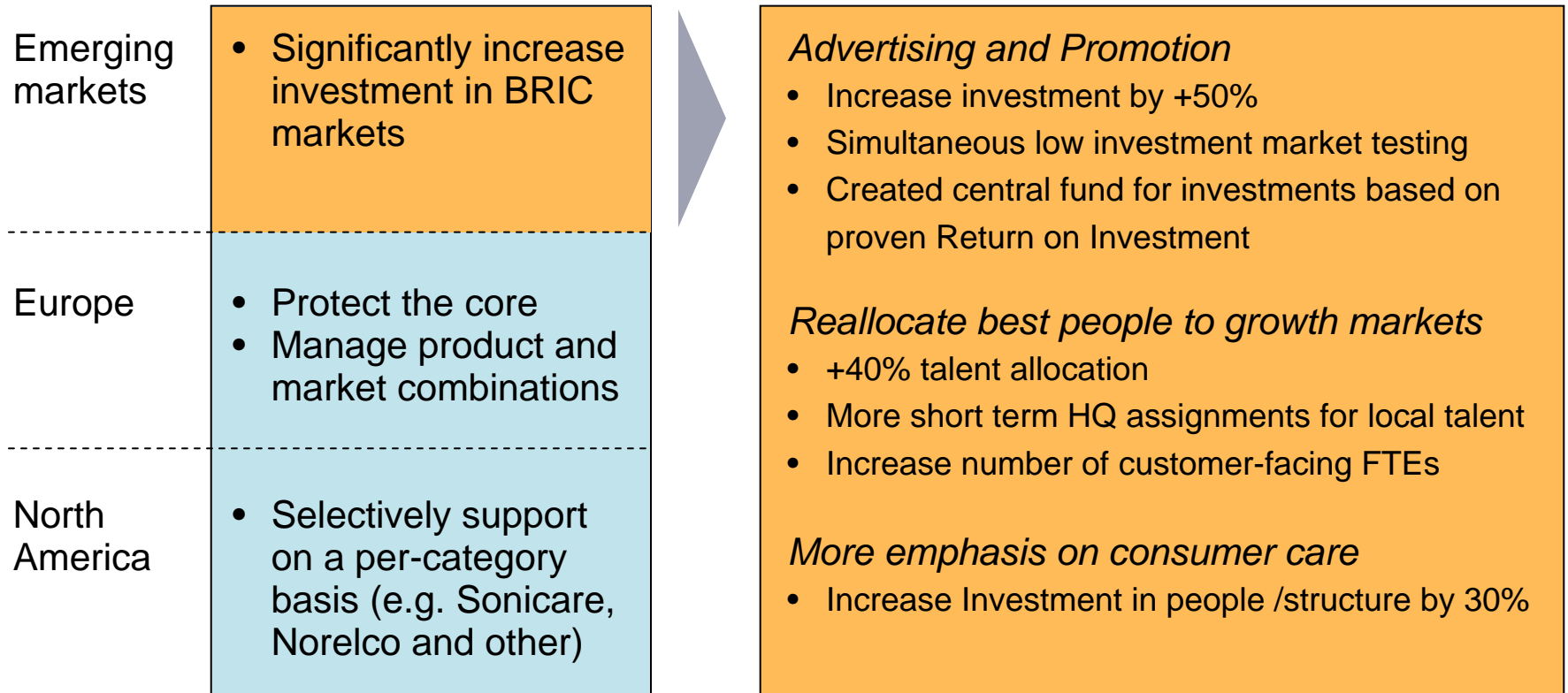
*Investing in emerging markets is a fundamental pillar of our strategy*

- Large and rapidly growing middle class (cagr from 10-40%) in mid-term compared to mature markets (cagr 0-2%)
- Strong brand awareness and equity – India and China brand strength in top 10%, comparable with the Netherlands
- Leverage partnerships with international retailers to help accelerate each other's expansion into emerging markets
- Comparable gross margin coupled to positive operational efficiencies

### 3 Focus on geographical areas with stronger added value

*Highest return on marketing investment and strongest brand equity*

More Emerging Markets and Europe, less North America



# 4 Continue to invest competitively in Advertising and R&D

Focused investment and increased effectiveness

Advertising & Promotion

- Test-to-invest approach
- Separate Advertising from Promotion
- Sector level hard gates on A&P spending
- Rigorous process to evaluate Return on Investment

Research & Development

- Sector level mapping of R&D projects based on Net Present Value approach
- Priority of investments on higher NPV and high growth
- Push open innovation

# 5 Maintain rigorous cost and organizational discipline

Process

- Create permanent program office for our cost improvement program Earn 2 Invest

Organization

- Rightsizing starting at executive level (40%)
- Delaying our organization targeting max 4/5 layers
- Elimination of regional layer
- Increase span of control, targeting best-in-class 10 to 12 people
- Ongoing manufacturing, supply and R&D footprint transformation
- Capture synergies in locations and offices

Overall we are well on track to realize the upper end of the EUR 150 – 200 million savings

