The Silver Word

Koninklijke Philips Electronics N.V.

After significant corporate restructuring in 1999, Royal Philips Electronics is well positioned to be a market leader in digital technology.

Established in 1891 in the Netherlands, Royal Philips Electronics (Philips) is one of the world's largest electronics companies. The company has more than 200 production sites, and has sales and service outlets in 150 countries. Its products and services are in lighting, consumer electronics, communications, household appliances, semiconductors, medical systems, business electronics, and information technology. Koninklijke Philips Electronics N.V. is the parent company. Phillips established PolyGram in 1972 and acquired Magnavox in 1974. In the 1980's, Philips acquired GTE's Sylvania television business and the lamp division of Westinghouse.

1999 was a year of major restructurings and acquisitions for Philips. Revenues were up only 3% from 1998, to EUR 31.5 billion (USD 33.3 billion), and net income plummeted by 70%, to EUR 1.8 billion (USD 1.9 billion). Earnings per share followed a similar pattern, declining to USD 5.53 in 1999 from USD 18.66 in 1998. Despite a hefty acquisition-shopping spree and share repurchases, Philips debt level remained stable.

Early in 1999, Philips acquired semiconductor manufacturer VLSI Technology, in order to expand into mobile communications and digital consumer electronics. Later in the year, the company bought a 50% stake in the LCD business of LG Electronics Korea in order to further the development of LCD monitors, televisions, and hand-held devices. In addition, Philips acquired US-based Voice Control Systems for its wide spectrum of speech technologies, and entered into a research and development partnership with IBM to develop speech–recognition projects.

This year, the company is launching TriMedia Technologies, Inc., an independent, Silicon Valley-based company that will create and license embedded processor core designs that help companies develop digital consumer products. TriMedia is being formed from a unit within Philips' Semiconductors. Sony Corporation and Philips have reached a basic agreement to be the first investors in TriMedia; other consumer electronics companies are expected to invest in the new company soon.

In April, Philips and Liberate Technologies, a provider of software for the delivery of enhanced television content, announced a collaborative MPEG-4-based solution that delivers audio and video services from the Internet to the living room via the television.

In May Philips made a tender offer for approximately 60% of MedQuist's common stock for a cash price of $51 per share. MedQuist is a US-based provider of outsourced, medical-record, transaction services. Philips plans to accelerate MedQuist's expansion into Europe, where Philips Medical Systems already has strong existing hospital relationships. Philips investment should help transform MedQuist into a multinational provider of technology-based, medical document services using broadband networks. MedQuist and Philips have also entered into an agreement for the joint development and implementation of speech recognition technology. Commercial product is expected to be ready between 2001 and 2005.

First quarter 2000 results were impressive: year-over-year, revenues were up 22% to EUR 8.3 billion, while net income from continuing operations more than doubled, to EUR 1.1 billion. Stronger operating performance lifted cash flow from operations to EUR 405 million, versus EUR 71 in the year-ago quarter, and the debt to equity ratio held steady at around 21-22%.

At an analyst meeting in April, Philips' management outlined the company's two-year strategy for achieving positive cash flows and double-digit earnings growth while reducing overhead. Clearly, Wall Street believes Philips will succeed: year to date, the shares are up 48%.