Sustaining Profitable Growth in MultiMarket Semiconductors

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Philips Semiconductors
Financial Analysts Day 2004
Agenda

• Multimarket semiconductors
  – Standard products with global reach
  – Aligned with the market

• Key Success Factors
  – The right portfolio
  – Operational excellence & cost competitiveness
  – Service leadership

• Conclusions
The world of multimarket semiconductors

Original Equipment Manufacturers (OEMs)

Electronic Manufacturing Systems Integrators (EMSI)

Original Design Manufacturers (ODM)

Distributors (global and regional)

A dynamic network that requires global visibility, insights and relationships
Multimarket now means multiple lines of interaction

One-stop-shop of the past
Linear, simple supply chains

Today’s multimarket component supply chain
Multi-tiered, multi-directional, multi-dimensional

Supply chain flow for one component
Major trends influencing the supply chain

- Move toward design activity at distributor level
- OEM push to outsource assembly and manufacturing to EMS and design to ODM/EMS
- Supply chain management as an important differentiator
- Different geographies demand different distributor dynamics
- China is a major player

Suppliers who understand the decision points and have the right products, costs and service levels will succeed
Making our mark in the industry: Facts and figures (1H 2004)

- Standard products account for 21% of total semiconductor market
- MultiMarket Semiconductors (MMS) is 27% of total Philips SC sales
- MMS Sales in 2003: $1.2 billion
All systems need multimarket products

- System-on-Chip (SoC) solutions rarely provide total solutions; they are usually the core system among many other sub-systems.
- To provide a complete solution, multimarket products are needed:
  - Power management (Battery management, power control)
  - Interface products (I²C, clock, UARTs)
  - Standard ICs (Microcontrollers, logic, RF analog)
  - General Application Discretes (Transistors and diodes)
- Major MMS product trends
  - Smaller, faster, lighter, cheaper
Meeting the challenges

Key success factors for a broadline multimarket supplier

- The right product portfolio
- Cost competitiveness and operational excellence
- Service leadership
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Key success factors: Broad portfolio
Creating value for our customers

Partner for growth – innovation in design-in products
• Business Lines: Power Management, Interface Products, Automotive
• System/application orientation
  – Complete power management capabilities
  – Customer-specific interface solutions
  – In-vehicle network automotive solutions

Partner for share – cost leadership
• Business Lines: Standard ICs, General Application Discretes
• General purpose product orientation
  – Continued development of our broad portfolio of microcontrollers, transistors, diodes and standard logic
Investing in the portfolio…

Innovative power management solutions
GreenChip Power IC, MicroTrenchMOS(FETs)

• 1 in 5 desktops & 1 in 10 laptops use Philips MOSFETs
• 50% of all laptops produced annually use a Philips GreenChip power supply controller
Investing in the portfolio …

Industry leading microcontrollers

- Industry first ARM-based 32-bit Microcontroller with 0.18 micron embedded flash memory
- October launch of world’s smallest 8-bit microcontroller for space-constrained applications
Investing in the portfolio…

Packaging innovations

- Transition to 100% lead-free portfolio
- Loss free packaging for maximum power management
- Miniaturization by chip scale technology
Investing in the portfolio …

Application-specific products
Motor controller for DVD recorders, Sensors for automotive

- #1 in consumer application specific standard products
- In 2003, every 3rd car produced worldwide had at least one Philips sensor on board
...and innovating mature technologies

New features & functionality for mature technologies

- I²C product development with IBM, Sun
- Electro Static Discharge diodes for surge protection in consumer applications
- #1 supplier of 5V CMOS logic products to the automotive industry
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Key success factors: operational excellence
Best-in-class manufacturing

- Philips Guangdong
  - Ramp-up from 0 to 10 billion pieces in 10 months
  - 50% manufacturing cost reduction within 2 years via economies of scale, low costs, proprietary BIM-line technology

- Philips Jilin Semiconductor Co. Ltd.
  - Joint venture formed in Nov. 03
  - Construction began 1/04, first wafers 2/05
  - Cost savings of over 30% through transferred production to Jilin

- Capital efficient manufacturing
  - Transfer of production from Philippines to subcontractors in China
Commitment to China – Market & Manufacturing

- Investment in regional MMS business and application team, transfer of knowledge:
  - More than 65 dedicated people (management, sales and engineers)
- Philips Jilin Semiconductor Co. Ltd. Joint Venture:
  - Front-end production of bipolar power products 60% owned by Philips
- Philips Semiconductors Guangdong
  - US$40 Million investment in Assembly sites
  - 4 Billion unit annual capacity in 2003 – increase to 23 Billion by end of 2005
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Service leadership:
Collaborating throughout the supply chain

- Close partnerships with top distributors
- Global key account managers
- Increasing focus on design-in activities
- Innovative products for a large customer base
- Value-added programs
Value-added program: global design win program

- Fair compensation to reward for distributor design effort
- Worldwide tracking and visibility for global partners
- Focus products: Audio/video, connectivity, identification, power management, control
- Goal: By July 2005, double conversion rate of design registrations into sales (introduced July 2004)

"With this system, Philips proactively addresses the need for distributors and suppliers to collaborate on designs across geographic boundaries." (Jan Salsgiver, VP Global Strategy & Operations, Arrow Electronics)

"Avnet is pleased to participate with Philips in the launch of its new Global Design-Win program. We believe the program will serve as a key element for Avnet's continued success with Philips." (Lalit Wadhwa, Avnet, Director, Worldwide Business Migration)
Value-added program to strengthen relationships with top distributors

Executive Partnership Program:
• Launched to address feedback from distributors for enhanced executive-level communications
• Quarterly meetings to share strategies, tactics and increase business partnerships
• Involvement from executives on joint promotional activities
Differentiation through outstanding ‘Supply Network’ management

Information transparency:
- Electronic data sheet capabilities
- Multi-level, integrated communications
- Global design win tracker with RosettaNet as backbone
- Collaborative planning and sophisticated supply chain solutions with EMS

Strong position in distribution channel with #2 global ranking.
Building strong relationships with EMS and ODM

- By 2007, almost 40% of all semiconductor purchases will be by EMS*
- Focused participation in EMS & ODM business results in better market position
- Direct key account management of top tier EMS companies
- Strengthening ODM relationships in line with PD strategy
- Key Account “breakthrough” service program with Flextronics to improve preferred supplier position

* Source: iSupply
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• MultiMarket Semiconductors is an intrinsic part of Philips Semiconductors

• We serve the entire electronics industry

• Strong EMS and distributor strategy provides the flexibility the industry needs

• Focus and investments in China will pay off in worldwide market position

• Service, cost and the right portfolio are important; understanding the decision points is essential