

Integration program and goals

Bill Curran
December 5, 2001

Let's make things better.



PHILIPS

Main points

- Original acquisitions contemplated integrating companies “one by one” in a stepwise fashion
- Current plan integrates 5 companies into 1
- More synergies available than in original acquisition plans
- Still working on process, but sufficient opportunity to support operating targets

Process

Let's make things better.



PHILIPS

Major PMI Steps

Before
process starts

- Clear goals for integration process

During
process

- Follow the money
- Speed
- Run the business

Implementation
phase

- Ensure flawless execution; great planning is not enough

Let's make things better.



PHILIPS

Post merger integration process goals

- Create one integrated company
- Align the organization to meet the customers' needs
- Position the company to expand market leadership across all product lines
- Achieve a synergy target of at least €350 Mln by 2003
- Retain over 90% of top potential talent
- Reward the organization for exceeding the synergy targets

Let's make things better.



PHILIPS

During the process

**FOLLOW
THE MONEY**

Keep focused
on the few key
issues that
drive value

SPEED

Do not search
for perfection
(speed matters)

**RUN THE
BUSINESS**

Focus most (>90%)
of the organization
on the business,
not integration

...then flawless implementation

Let's make things better.



PHILIPS

Timeline

Let's make things better.



PHILIPS

Overall integration program plan



Oct 8–Nov 8

- Organize
- Communicate program
- Set targets

Nov 8–Mar 8

- Finalize plan
- Determine organization
- Quantify synergies and set time line

- **Quick wins**

2002

- Implement rapidly without disrupting the business
- Stay on schedule
- Get the money

Ongoing

- Keep momentum going
- New opportunities
- Use BEST to get last 20%
- Get the money

Let's make things better.



PHILIPS

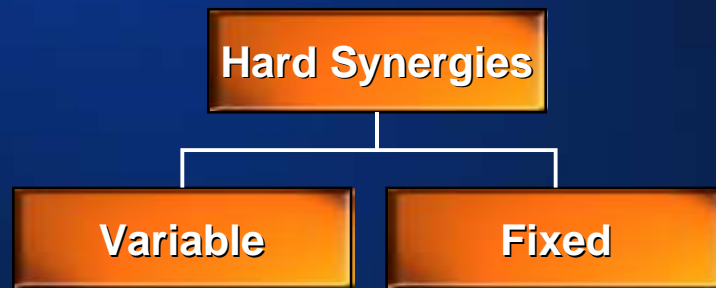
Synergies

Let's make things better.



PHILIPS

Types of synergies



Cost Reduction

- Purchasing leverage/ supplier consolidation
- Lower distribution cost

Cost Reduction

- Facility rationalization
- R&D consolidation
- Corporate O/H reductions
- Sales and Service integration

Soft Synergies

Revenue Enhancement

- Customer sharing
- Cross-selling
- Geographic expansion

Soft-Soft Synergies

Qualitative Enhancements

- Improve organization
- Improve product development process

Let's make things better.



PHILIPS

Sources of Opportunities

New
Businesses

Scale within
Business

Reducing
overlap between
businesses

Leveraging scale
across businesses

**Integration of
new businesses:**

- ATL in
Ultrasound
- ADAC in
Nuclear
Medicine
- CMS in
Patient
Monitoring

**Integration with a
similar business:**

- HSG
Ultrasound
with ATL
- Marconi with
CT/MR
- Marconi with
ADAC

**Reorganize and
streamline:**

- Backoffice
- Finance
- HR

Size matters.

Let's make things better.



PHILIPS

Sources of Opportunities

New Businesses

- Cross-selling
- Limited sales and service integration

Scale within Business

- Product rationalization
- Factory consolidation
- Sale and Service rationalization

Reducing overlap between businesses

- Facilities rationalization
- G&A rationalization
- Dealers and agents

Leveraging scale across businesses

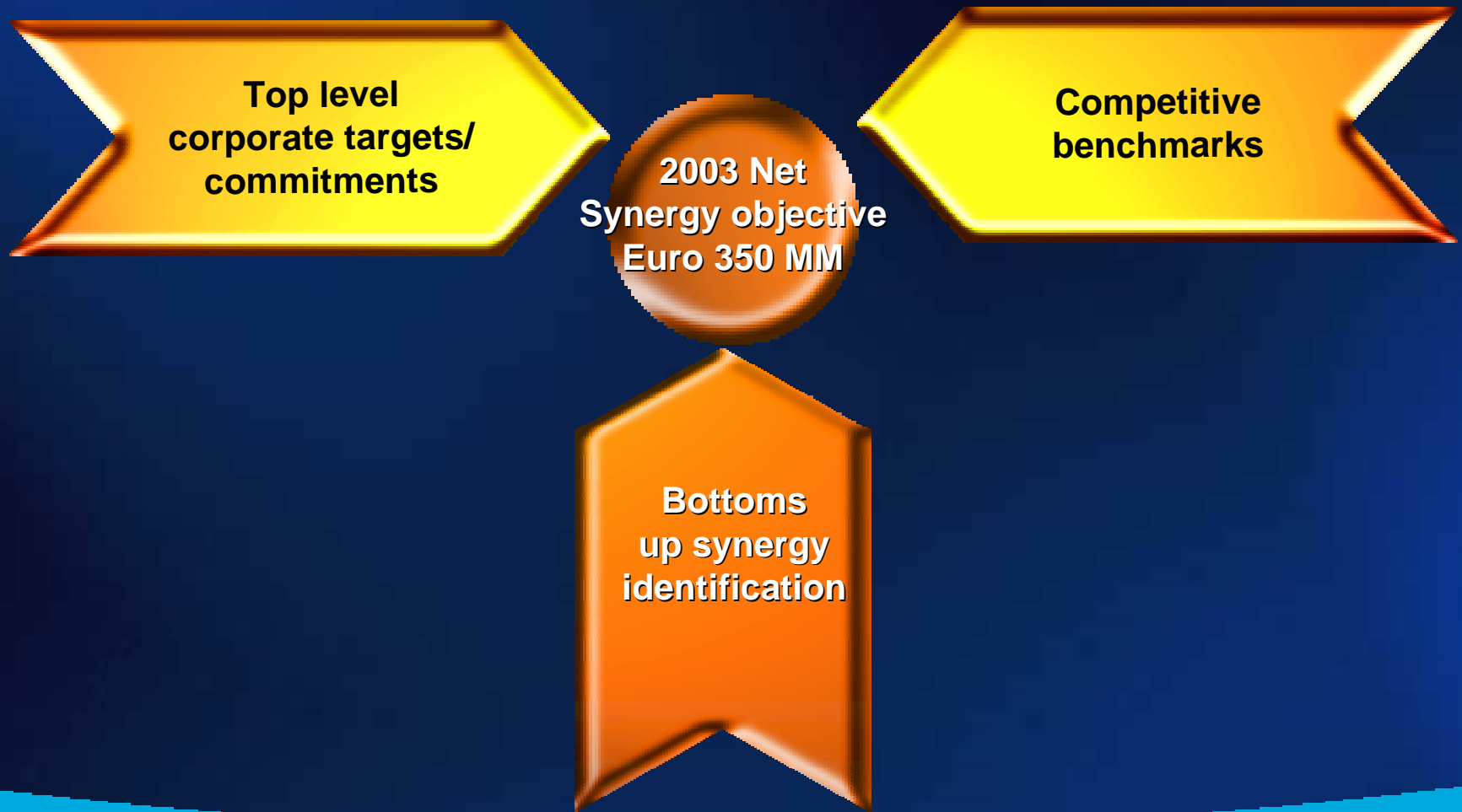
- Purchasing
- IT
- R&D
- Logistics

Let's make things better.



PHILIPS

Synergy objective



Let's make things better.



PHILIPS

What did the teams identify?



Let's make things better.



PHILIPS

Cost Synergies - Sales and Service

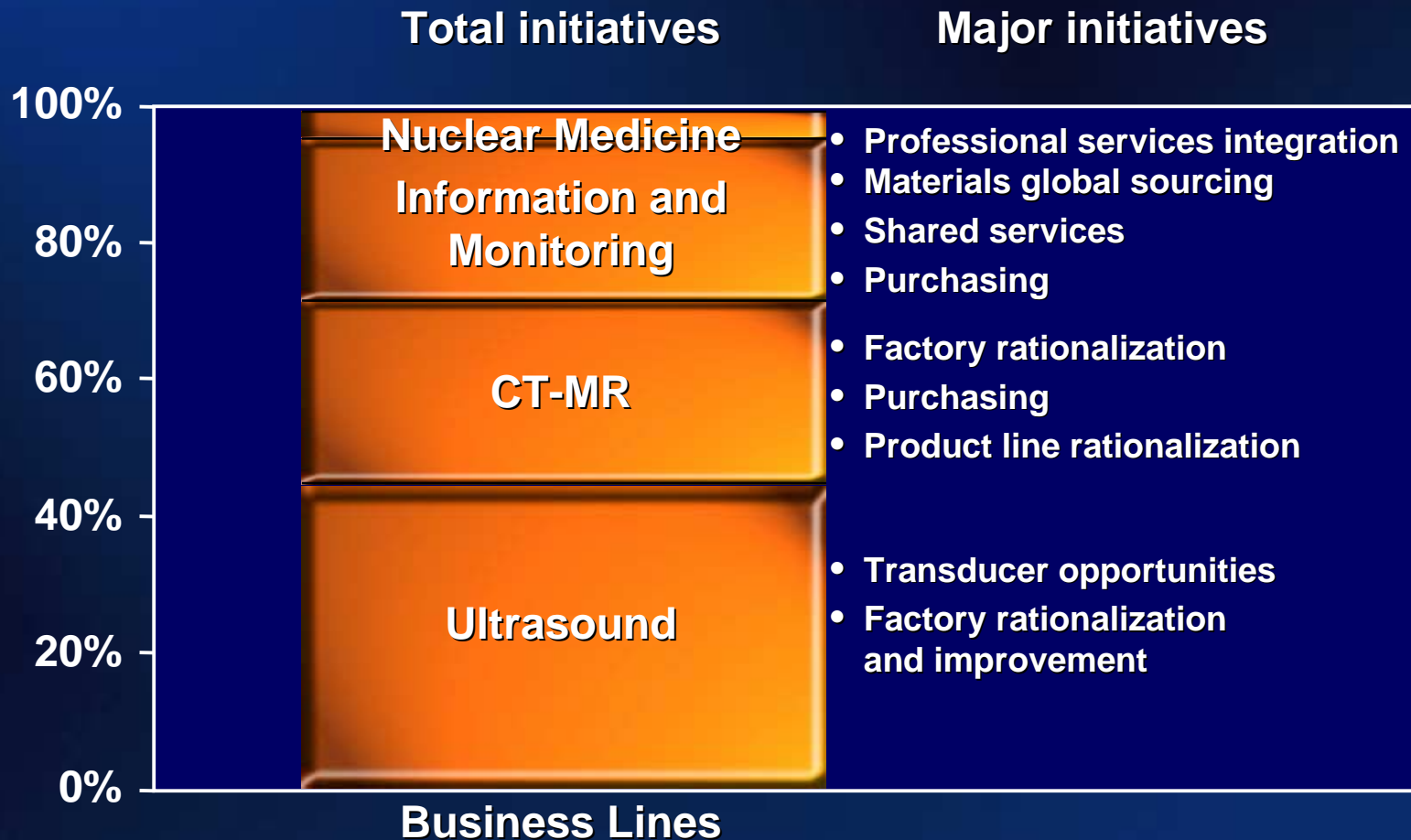


Let's make things better.



PHILIPS

Cost Synergies - Business Lines



Let's make things better.



PHILIPS

Summary

- Process organized, staffed and underway
- Synergy potential higher than originally anticipated
- Synergy already identified is sufficient to reach operating targets
- Quick wins already underway
- Still identifying projects
- Speed and implementation are key
- Get the money

