Philips CEO switches off TV in search for profit

Roberta B. Cowan, Reuters

Philips is hiving off its once leading television business, the first step by new chief executive Frans van Houten to boost flagging profit at Europe's biggest consumer electronics maker.

Philips is moving its loss-making TV business to a 30/70 joint venture with Hong-Kong based monitor maker TPV and has the option to sell out. The Dutch group has struggled to compete with lower-cost Asian rivals Samsung and LG Electronics.

Van Houten, a restructuring expert who took over as CEO this month, said he was assessing the profitability of Philips's 400 or so business areas and "taking the blanket off" its laggards, a hint that further sales could be on the cards.

"We are not yet firing on all cylinders ... There's much unlocked potential in Philips," Van Houten told Reuters Insider.

Philips shares opened lower on the news, but rebounded soon after. By 1410 GMT they were down 1 percent, while the Amsterdam market was down 1.7 percent. Trading in TPV's shares was halted at the request of the company earlier on Monday.

Van Houten said he would present a new strategic plan in the second half of the year.

Three weeks into his new job, he has scrapped his predecessor's target for an annual revenue increase of 2 percentage points above global gross domestic product growth between 2011 and 2015, citing the TV divestment and the impact of Japan's massive quake, which has disrupted the supply chain for both the health and lighting businesses.

Philips did not give a value for the TV deal, saying it would receive a deferred payment from TVP. It said all 3,600 employees at the TV business would transfer to the Hong Kong company, and job cuts could not be ruled out.

TPV, which controls about 33 percent of the global computer monitor market, posted a near 20 percent rise in 2010 profit.

"It's a major positive," ING analyst Sjoerd Ummels said of the deal. "It's clear (Van Houten) will address laggard businesses."

These could include the audiovisual and multimedia business, which Philips said would be merged into its lifestyle entertainment unit in Hong Kong.

Van Houten said even acquisitions from the past decade would be scrutinized -- including home healthcare firm Respironics and lighting fixtures group Genlyte,

which have not yet shown sufficient synergies.

Philips is the world's biggest lighting maker and a top three hospital equipment maker.

LEADER TO LAGGARD

The company showed its first television to the Dutch public in 1928 -- a bulky, box-like contraption that was a far cry from its current sleek, flatscreen models.

The TV unit, which makes up less than 10 percent of group sales, has gone from being a global leader to a thorn in the firm's side, having notched up losses of almost a billion euros since the beginning of 2007.

Van Houten said the new joint venture "will enable a return to profitability for the television business and an increased portfolio focus for Philips in health and well-being."

Philips said TPV will purchase 70 percent of the shares in the joint venture for a deferred purchase price, equating to four times the joint venture's EBIT over the years 2012 until the year Philips exercises its right to receive the purchase price. Philips also has an option to sell the remaining 30 percent stake to TPV for the same terms after six years.

The Dutch company currently licenses its TVs to TVP in China, to Funai in the United States and Videocom in India.

Philips, which competes with General Electric and Siemens in the hospital and lighting markets, also reported first-quarter earnings on Monday. Weak consumer demand pulled the figures below expectations.

First-quarter net profit fell 31 percent to 138 million euros missing the 161 million euros forecast in a Reuters poll.

(Additional reporting by Aaron Gray-Block; Editing by Sara Webb, Erica Billingham and Will Waterman)

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