Philips loss shrinks in Q4; sheds division

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Royal Philips Electronics NV Tuesday said it will sell the entertainment division which contains many of the consumer products for which it is best known, such as audio and video equipment, to Funai Electric Co., Ltd., of Japan for €150 million ($202 million) plus licensing fees.

Funai will assume responsibility for the manufacturing of the Philips products but license and sell them under the Philips brand for five years. It has an option to renew.

The disposal is the latest in a series of moves by Philips as it gradually shifts its corporate focus away from consumer electronics manufacturing — while continuing to draw some benefit from the historical strength of its brand.

Philips still makes some popular household products such as coffee machines, electric toothbrushes and electric shavers. But its cutting-edge technologies are now mostly concentrated in the lighting sector, where it is the world's largest manufacturer; and in health care equipment, where it competes with General Electric and Siemens in making medical imaging equipment.

In addition to the Funai deal, Philips also reported fourth quarter earnings Tuesday that were hammered by a €509 million cartel-forming fine — the largest ever levied by European regulators.

Philips said its underlying business improved on an operational basis, with its lighting arm, which accounts for a quarter of the company's total business, seeing sales rise 43 percent.

Excluding restructuring charges and the fine, earnings were up 50 percent to €875 million, the company said.

"Our operational results improved across all sectors, as a result of increased sales, overhead cost reductions, and gross margin expansion," said Chief Executive Frans van Houten.

The fine, levied in December against Philips, LG Electronics, Panasonic and others, came after regulators concluded that the companies engaged in price fixing in the television market over two decades. Philips, which is fighting the fine, disposed of its television division to China's TPV Technology last year in a deal similar to the one announced Tuesday with Funai.

Overall, the company's fourth quarter net loss widened to €358 million from €162 million from the same period in 2011, with both years affected by big charges: in 2011 Philips wrote down the value of its lighting inventory and booked big losses on the now-disposed television arm. Despite its fourth quarter loss, the company made a net profit over 2012 of €226 million, a marked improvement on 2011's €1.3 billion.

In the 2012 period, sales grew 6.7 percent to €7.16 billion, but Philips said that would have been only 3 percent if recent acquisitions and currency effects were stripped out.

Since taking the top job at Philips in 2011, Van Houten has vowed to cut 6,700 jobs, or 5 percent of the company's workforce, by 2014, as part of a cost reduction drive.

He said "challenging" conditions in Europe and the U.S. in 2012 hit orders and as a result he expects 2013 sales to start slowly before picking up in the second half of the year.

Shares were down 0.2 percent in early trading to € 21.90.

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