

# Inspiration Innovation Intelligence



Bringing Technology Home



# Pace Micro Technology plc



Neil Gaydon  
Chief Executive Officer

Stuart Hall  
Chief Financial Officer

1 April 2008



# Transaction information



- Agreement to acquire Philips STB & CS Division, valuing the business at up to €88m (£63m)
- Revised consideration based on matters arising since 19 December 2007
- Consideration of up to 64.5m Pace shares, making Philips a 21.6% shareholder, and up to €5m in cash over three years
  - Philips is locked into a 17% shareholding in Pace for one year
- Outstanding conditions
  - Approval of transaction by Pace shareholders at General Meeting on 16 April 2008
  - Admission of new Pace shares to the Official List
- Conditions relating to Philips Works Council and competition authorities have been satisfied

# Philips Set-top Box and Connectivity Solutions



- Established in 1982 and based in Suresnes, Paris
  - 335 employees
  - Turnover of €415.7m for the year ended 31 December 2007
- One of the leading global developers of digital set-top box products
  - Supplies major payTV operators in Europe, the Americas and Asia
  - Key operator customers include Canal+, UPC, DirecTV, Sky Latin America, Telefonica and BT
  - A growing business in European retail markets
  - Product range covers satellite, cable, DTT and IPTV products with an increasing focus on higher end products including high definition and PVR
  - Industry recognised research and development and product quality
- Connectivity Solutions targets broadband distribution in the home with operator and retail customers

**PHILIPS**

# Strategic rationale



- The combination brings together two of the world's leading set top box companies with an unmatched global customer portfolio
  - Share a 20 year STB heritage and engineering focus
  - Strong complementary fit from product, customer and geographic perspectives with very limited overlap
  - Will apply Pace's proven operating model, developed over last 18 months
  - Use of Philips' established retail brand for up to three years
  
- There is significant potential for improved efficiencies and opportunities for growth
  - Pace's proven operating model and business structure can be applied with substantial potential benefits
  - The increased scale of an enlarged group and broader reach will lead to a better balance of activities and improved visibility

# Strategic rationale



- Combines world leading engineering expertise in digital TV technology & enhances Pace's technological position
  - Both companies have strong positions in satellite and cable
  - Philips STB & CS adds IPTV, DTT and connectivity solutions, all current growth sectors
  - Widening of software and applications knowledge, importantly in conditional access and DRM systems, which will increase the number of payTV operators that can be targeted
  - Pace and Philips STB and CS are each developing new products based on advanced networking and broadcast broadband convergence technologies

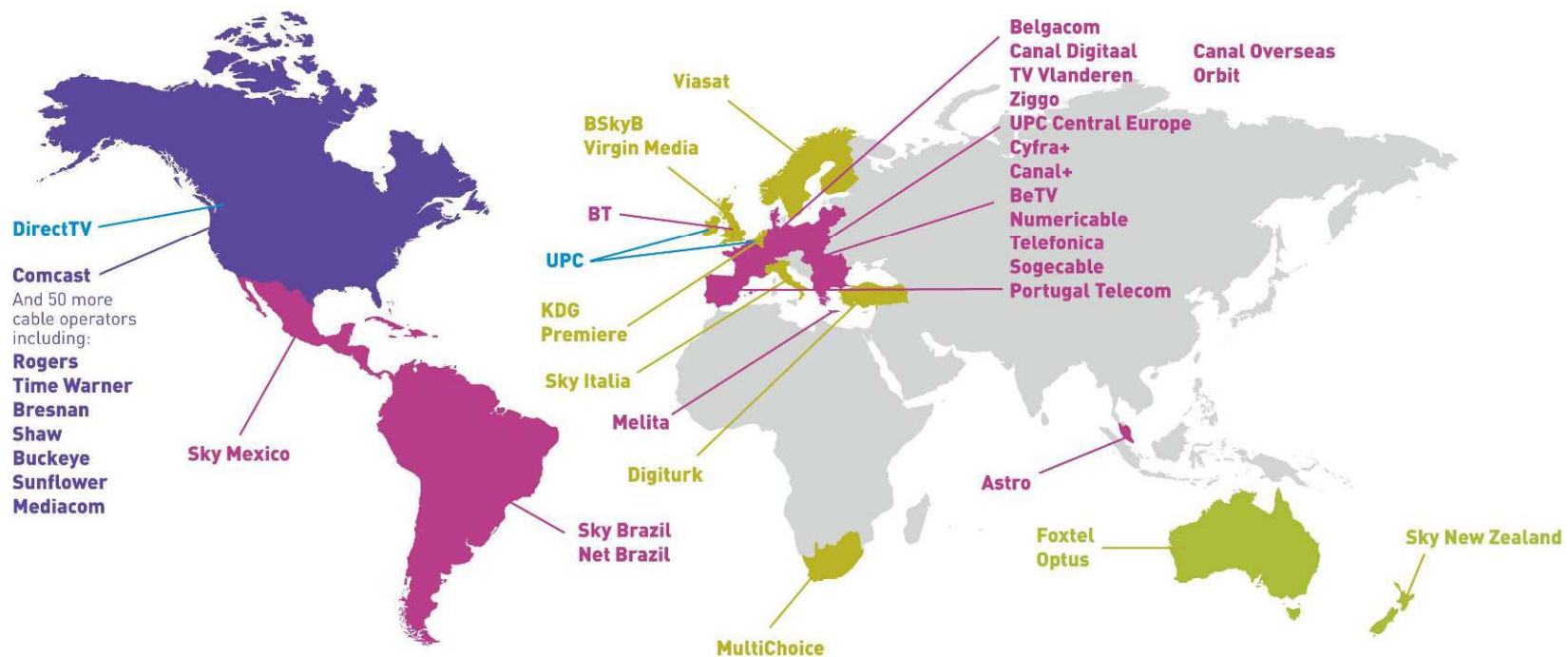
# Global scale



Rank	Company Name	Estimated 2006 Market Share
1	Thomson	11.6%
2	Motorola	8.4%
3	Tongda	5.2%
4	SA/Cisco	4.3%
5	<b>Philips</b>	<b>4.2%</b>
6	PBI (China)	3.4%
7	Humax	3.4%
8	<b>Pace Micro</b>	<b>3.3%</b>
9	ZhuoYi	2.8%
10	Echostar	2.6%

Source: IMS Research on 2006 shipments (2007 figures not yet available)

# Geographic fit with Pace



Creating a leading global STB business

# Customer Account Teams



## Executive Team

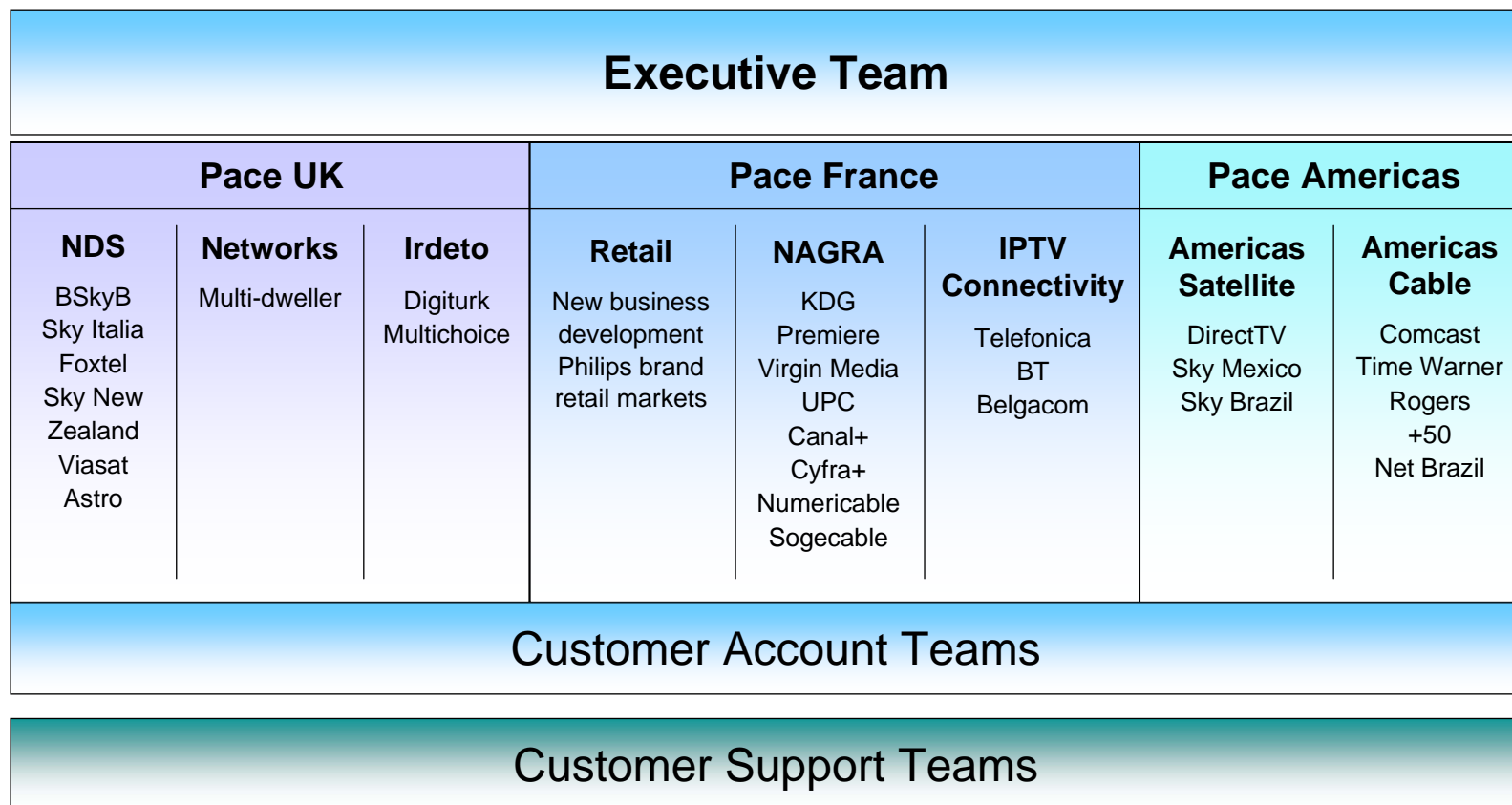
<b>NDS*</b>	<b>NAGRA*</b>	<b>Irdeto*</b>	<b>Retail</b>	<b>Networks</b>	<b>US Satellite</b>	<b>US Cable</b>
BSkyB Sky Italia Foxtel Sky New Zealand Viasat	KDG Premiere Virgin Media UPC	Digiturk Multichoice	New Business Development	Multi-dweller	DirecTV	Comcast Time Warner Rogers Videotron +50

## Customer Account Teams

## Customer Support Teams

\* Common conditional access technologies used by customers in the account team group

# Proposed new Customer Account Team structure



- NDS has world's largest installed conditional access (CA) base – 29%\*
- Pace is a leader in payTV market NDS CA and largest supplier to News Corp
- A full product range, particularly strong in high definition and high definition PVR
- Philips NDS CA expertise focused on standard definition products for
  - DirecTV
  - Astro
  - Sky Latin America
- Philips STB and CS has extensive experience in NDS middleware, used by wide range of customers
- New opportunities in Eastern Europe

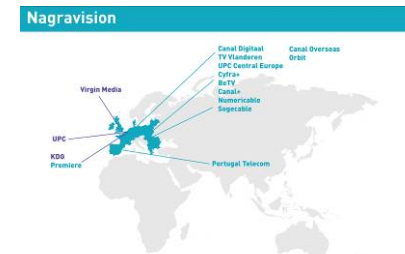


\* Source: IMS Research 2007

# Nagravision



- Nagravision conditional access is owned by the Kudelski Group (includes Mediaguard)
- Philips has a longstanding leadership position in Nagravision markets – world's 2<sup>nd</sup> largest supplier
- Customer accounts include
  - Canal+
  - UPC
  - Numericable
  - Net Brazil
- Now launching high definition PVR into these markets
- Nagravision has world's 2<sup>nd</sup> largest installed CA base – 22%\*



\* Source: IMS Research 2007

- Area of new business development for Pace over last 18 months
- Pace has won HD and SD business with
  - Digiturk – now shipping
  - Multichoice – delivering in 08
- Philips has Irdeto capability, currently providing basic set-top boxes for Ziggo in The Netherlands
- Complements existing Pace strategy with Digiturk and Multichoice
- Opportunities in Middle East, India and China
- Irdeto accounts for 7% of the global installed CA base\*



\* Source: IMS Research 2007

# IPTV & Connectivity Solutions



- A new growth opportunity for Pace
  - Number of IPTV subscribers is set to grow from 6m+ (end-2006) to between 30m and 40m by 2012\*
- Philips capability covers two key technical bases
  - BT Microsoft TV platform (MSTV MediaRoom)
  - Telefonica Alcatel/Lucent platform
- IPTV capability opens up potential opportunities with other telecom majors
- Connectivity solutions
  - Residential gateways
  - Technology solutions for specific customers



\* Source: Screen Digest 2007, SNL Kagan 2007

- Retail distribution throughout Europe
  - Satellite & Terrestrial product range
  - For 'Freeview' style markets
  - Low to medium specification products
- Top Four European markets
  - UK
  - Spain
  - France
  - Germany
- Mi:TV – Pace's new retail range
  - Higher specification product – will extend retail presence
- New opportunities through analogue switch off and high definition and in Latin America
  - In Europe number of free-to-air satellite and terrestrial homes is expected to grow to almost 80m by 2012 (from 43m in 2006)



Retail



# Americas Satellite



- Key customers cover
  - DirecTV
  - Sky Mexico
  - Sky Brazil
- Combined DirecTV capability will cover all standard and high definition requirements
- New opportunities can now be targeted in Latin America
- Americas satellite market is set to grow from 16.8m set-top boxes in 2006 to 27.5m by 2012\*
- This market is also expected to show strong demand for hybrid products (satellite/IP/DTT)



\* Source: IMS Research 2007

# Americas Cable



- Pace has a growing number of US cable customers – now at over 50
- The Philips customer base will broaden opportunities in the South American market
- Philips STB & CS sales and logistical organisation in South America will support this
- Opportunities for growth exist in both North and South America
  - Americas cable market is set to grow from 15.9m set-top boxes in 2006 to 30.4m by 2012\*
  - In 2006 42% of US cable homes were digital, expected to be 78% by 2012\*



Americas Cable



\* Source: IMS Research 2007

# Challenges



- Transaction specific
  - First time Pace has made a major acquisition
  - Managing Philips to Pace brand transition
  - General integration risks
  
- Some business risks will remain little changed, e.g.
  - Reliance on key customers
  - Technological change
  - Product delivery risk
  - Dependence on key suppliers

# Managing the transition



- Separation of the STB & CS business from Philips is almost complete
- Transitional Service Level Agreements (TSLAs) being put in place to support integration of the Philips STB & CS business into Pace during one year transition period
- TSLAs will cover, amongst others, distribution, manufacturing & development
- Commence implementation of Pace's 100 day integration plan
- Pace has experience of managing a French business
- Board (non-Exec and Exec) experienced in acquisitions
- The Pace Board will remain unchanged

# Strategic priorities of the Enlarged Group



- Implement Pace's business structure, systems and operating model into the Philips STB and CS business
- Consolidate new customer relationships and obtain revenue synergies
- Engage Philips' STB and CS employees with the vision, values and objectives of the Enlarged Group
- Capitalise on the engineering and technology capabilities to identify and create new customer and business opportunities
- Improve efficiency and secure cost-savings
- Utilise the increased scale to create efficiencies in the supply chain
- Optimise the development and manufacturing operations of the Enlarged Group

# Financial Overview



Stuart Hall  
Chief Financial Officer

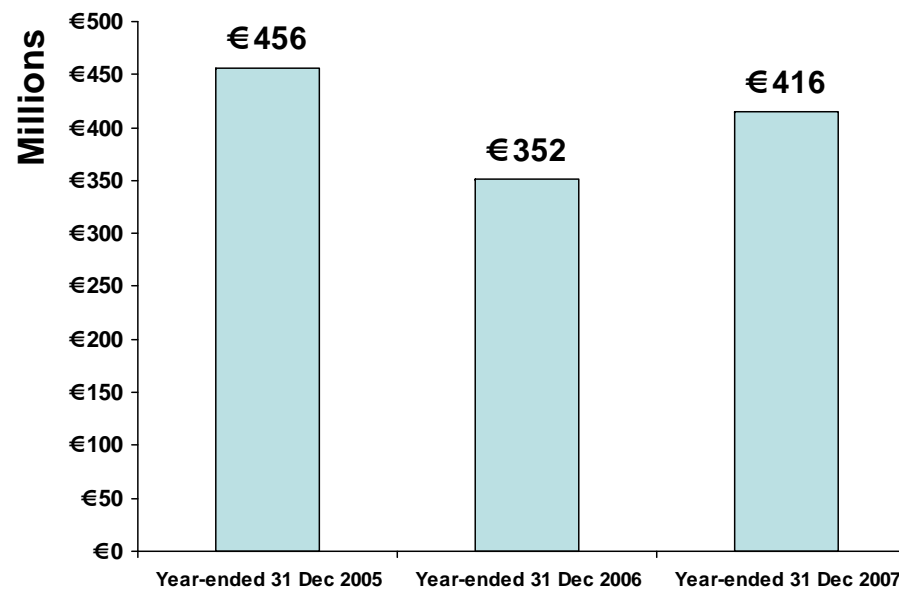


# Philips STB & CS – three year performance



## Revenues

- 2006 impacted by shipment delays due to DirecTV in particular
- Reflected an industry wide problem in MPEG-2 to MPEG-4 transition
- Increased shipments led to 18% sales increase in 2007
- High end boxes with higher ASPs began to ship Q4 2007

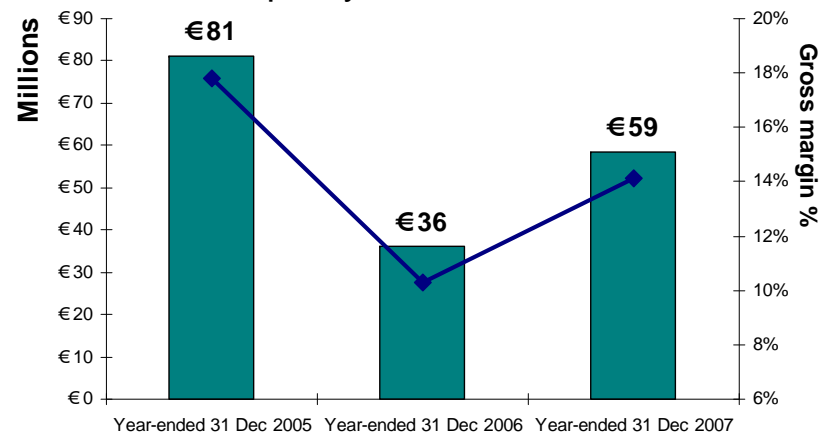


# Philips STB & CS – three year performance



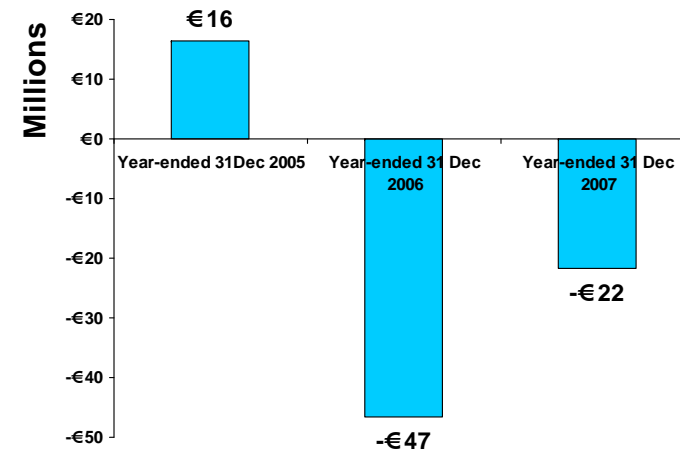
## Gross profit

- Gross Margin began to improve in 2007 vs 2006 due to
  - new product ranges and platform designs
  - better product mix
  - enhanced focus on product quality



## Profit/(loss) before tax

- Reported a much reduced loss in 2007
- 2007 was a turnaround year for the business with second half improved over first half

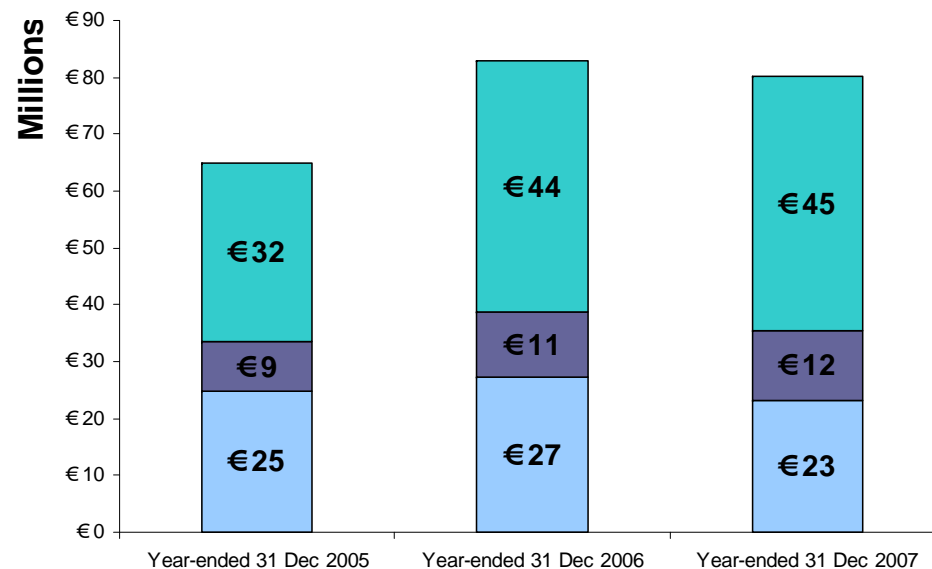
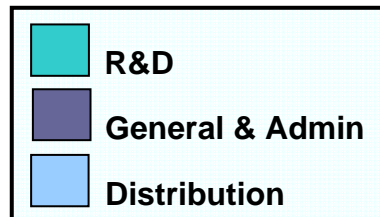


# Philips STB & CS – three year performance

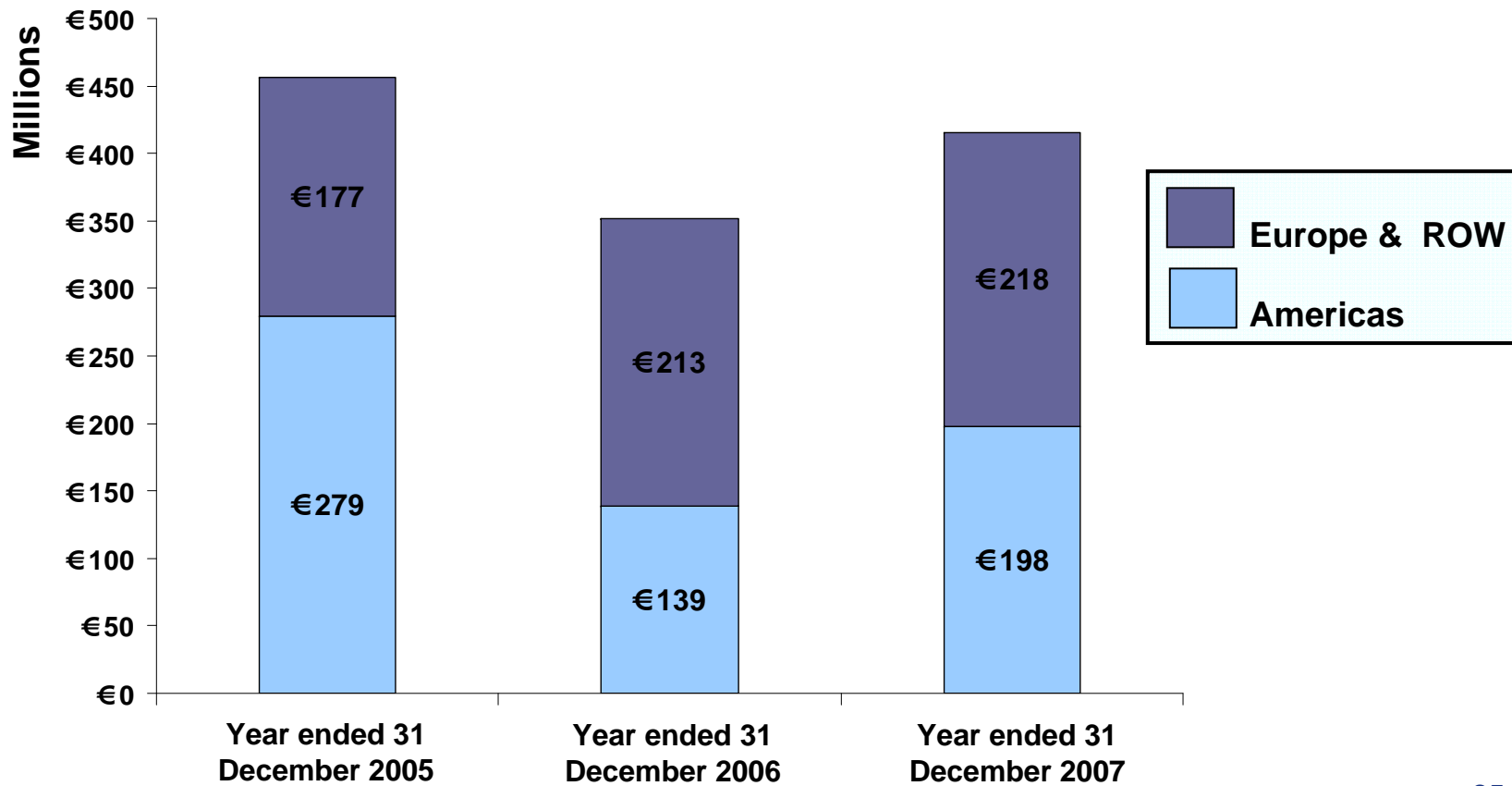


## Overheads

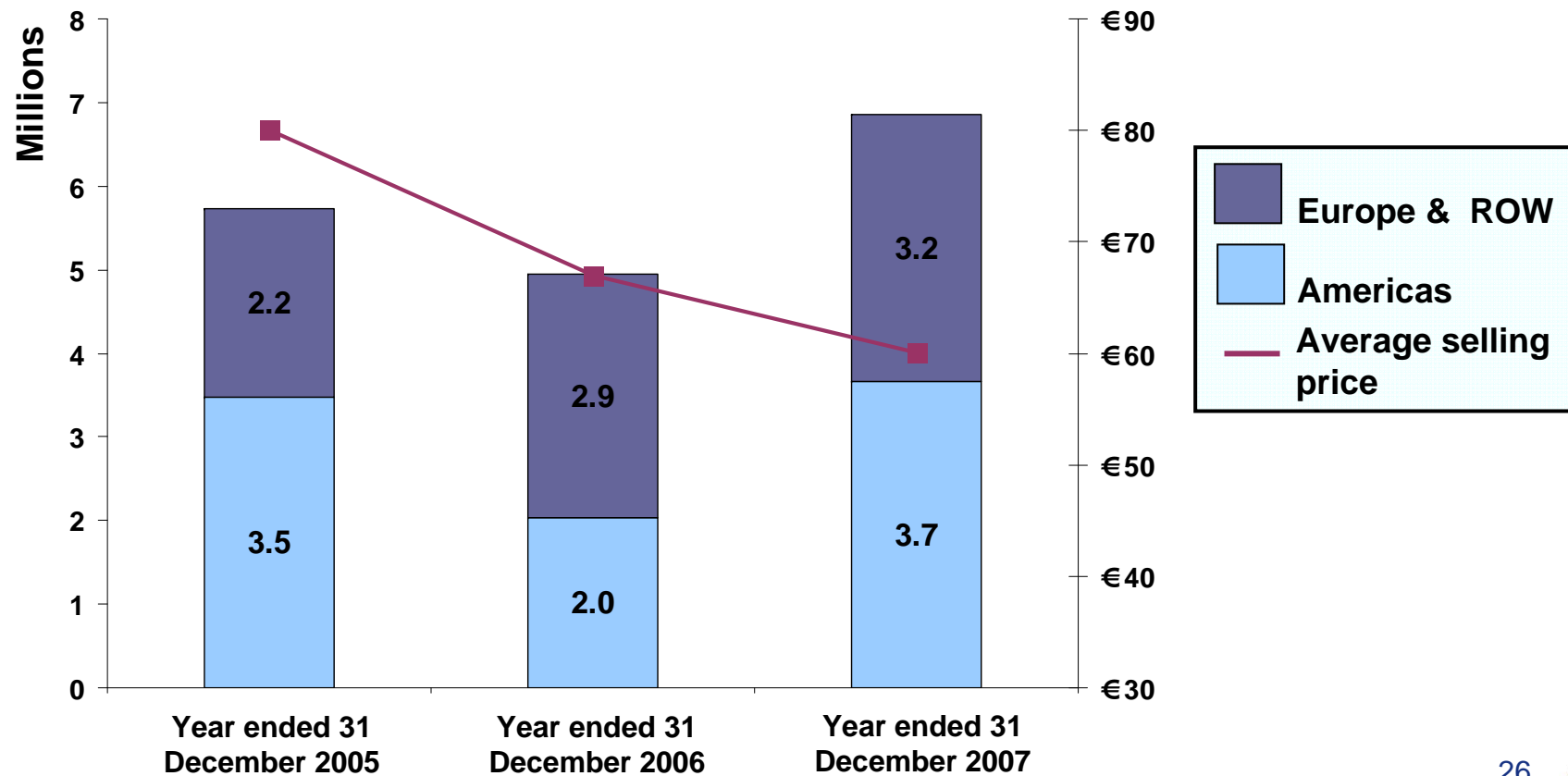
- Increase in R&D reflects move towards high end products
- Distribution includes direct and indirect Philips selling costs
- G&A expenses includes Philips group recharges, some of which not expected to recur



# Philips STB & CS – three year revenues by market



# Philips STB & CS – three year volumes by market



# Financial opportunity



- Focus on improving gross margin
  - A key success area for Pace, moving from 15.3% in H1 06/07 to 20.3% in seven months to 31/12/07
  - Philips STB and CS' margins are improving, moving from 10.3% in FY 06 to 14.1% in FY 07, with opportunity for further improvements as new products are launched
- Expected to be EPS dilutive in 2008 and to enhance full year 2009\*
- Areas of opportunity
  - Optimise purchasing across the Enlarged Group
  - Manufacturing and supply chain efficiencies
  - Elimination of Philip's head office recharge
- Will work to identify other efficiencies

\*The statement that this Acquisition is expected to be earnings dilutive for Pace in the year ending 31 December 2008 and earnings enhancing in the year ending 31 December 2009 relate to future actions and circumstances, which, by their nature, involve risks, uncertainties and other factors. These statements do not constitute a profit forecast and should not be interpreted to mean that earnings for any future financial period would necessarily match or be greater or less than those for any preceding financial period. Earnings in this context represent net after tax earnings on an IFRS basis, excluding the amortisation of intangible assets and any exceptional items.

# Timetable



- Acquisition timetable
  - Pace shares recommenced trading this morning
  - General Meeting of shareholders 10am 16 April 2008
  - Deal expected to close 21 April 2008
  - New Pace shares to be issued to Philips expected to begin trading 21 April 2008
  
- Financial calendar
  - FTSE sector change has now taken effect
  - AGM & IMS 23<sup>rd</sup> April 2008
  - Interim results expected July 2008

# Summary



Neil Gaydon  
Chief Executive Officer



# Current trading/outlook



## Pace

- The Board is pleased with progress and is confident that Pace is investing in the right products and technologies for its growing customer base
- Exceptional sales performance and improvements were achieved in 2007
- The Board is confident that Pace is on track to meet its expectations for 2008

## Philips

- The Philips STB and CS business is continuing to trade in line with Philips' management expectations

# Summary



- Revised transaction value of up to €88m (£63m), including the issue of up to 64.5m shares to Philips
- The Enlarged Group combines two of the world's leading set top box companies with an unmatched global customer portfolio
  - A global customer portfolio, broad product range, high quality R&D capabilities and customer focus on deep and wide relationships providing a full range of products and services
- Expected to be EPS dilutive in 2008 and to enhance full year 2009\*
- Current trading at Pace & Philips STB and CS continues in line with expectations

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# Appendices



# Philips STB and CS – three year income statements €



€000's	Year ended 31 December 2005	Year ended 31 December 2006	Year ended 31 December 2007
Revenues	456,109	351,546	415,735
Cost of sales	(374,902)	(315,293)	(357,219)
<b>Gross profit</b>	<b>81,207</b>	<b>36,253</b>	<b>58,516</b>
<b>Gross margin</b>	17.8%	10.3%	14.1%
Distribution expenses	(24,686)	(27,302)	(23,274)
General & Admin expenses	(8,757)	(11,388)	(12,220)
Research & Development expenses	(31,582)	(44,088)	(44,755)
<b>Total operating expenses</b>	<b>(65,025)</b>	<b>(82,778)</b>	<b>(80,249)</b>
<b>Profit/(Loss) before Tax</b>	<b>16,182</b>	<b>(46,525)</b>	<b>(21,733)</b>
Income Tax Expense	(14,857)	(28)	(7,421)
<b>Profit/(Loss) after Tax</b>	<b>1,325</b>	<b>(46,553)</b>	<b>(29,154)</b>

# Philips STB and CS – three year revenues by market



<b>€000's</b>	<i>Year ended 31 December 2005</i>	<i>Year ended 31 December 2006</i>	<i>Year ended 31 December 2007</i>
<b>North America</b>	273,883	133,564	160,468
<b>Latin America</b>	5,119	5,508	37,016
<b>Europe</b>	147,814	189,591	197,869
<b>Asia</b>	29,293	22,883	20,382
<b>Total</b>	<b>456,109</b>	<b>351,546</b>	<b>415,735</b>

# Philips STB and CS– Headcount\*



	Year ended 31 December 2005	Year ended 31 December 2006	Year ended 31 December 2007
<b>Distribution</b>	108	116	113
<b>General &amp; Admin</b>	44	41	51
<b>Research &amp; Development</b>	169	143	156
<b>Total</b>	<b>321</b>	<b>297</b>	<b>320</b>

\* Average number of employees during the year

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