Signify Annual General Meeting of Shareholders 2024

Presentation by Chair of the Remuneration Committee Gerard van de Aast

May 14, 2024 | Eindhoven, the Netherlands

Agenda Item 2: Remuneration Report

Title Slide

Ladies and Gentlemen, our current Remuneration Policy for the Board of Management was introduced in 2020. We are proposing changes to the Remuneration Policy for the Board of Management, which will be addressed under a separate agenda item (agenda item #10).

For now, I would like to focus on our current Board of Management Policy and the Remuneration Report for 2023, and the execution of our policy during the year as detailed in the Remuneration Report 2023 (Chapter 10 of the Annual Report 2023).

Over the course of the year, we engaged with multiple stakeholders for discussions on remuneration in general, to solicit feedback on our proposed policies as well as to solicit feedback on our report for consideration for 2023. This group of stakeholders included shareholders representing a large portion of our shareholder base as well as shareholder representative groups and the Dutch Central Works Council. Altogether we invited investors representing a total of 37% of our shareholder base to meet with Signify on these topics and ultimately meetings were held with shareholders representing 18% of the shareholder base, excluding passive investors.

We had very valuable conversations with all stakeholders, on executive compensation in general, and specifically on concerns raised on our remuneration report 2022.

We have taken the feedback into consideration for the 2023 report, most specifically the increasing of transparency for the team and individual metrics in the annual short-term incentive plan which you would have seen in the report. We trust that you will experience the enhancements positively and appreciate the spirit of transparency and continuous improvement that drives them.

Personally, I would like to thank those with whom we met for the overall very constructive discussions. These meetings are a very important part of our governance process.

Remuneration Board of Management – Structure

In line with our Remuneration Policy, this slide illustrates the remuneration of the Board of Management in 2023: salaries as well as targets for annual and long-term incentives. For 2023, base salaries were increased with 4%, which is in line with the collective and merit increase budgets allocated for employees under the collective labour agreement in the Netherlands.

As I described earlier, there were no changes to the structure of the Remuneration of the Board of Management. These targets levels for the annual incentive and long-term incentive have remained the same for the duration of the current policy.

I would like to have a look now at the structures of the incentive plans.

Incentive Structures – Annual Incentive

To refresh our understanding, this slide details the structure of the annual incentive according to our current policy.

For the 2023 annual incentive plan, we selected as financial performance measures Comparable Sales Growth, Adjusted EBITA, and Free Cash Flow in line with prior years.

In addition, 20% of the annual incentive for the Board of Management reflects team and individual measures.

For 2023, these measures included people engagement & culture change, customer satisfaction, US business performance, the recently executed organization redesign, cash optimization, inventory management, progress on our strategic frontiers and finally progress relative to the Brighter Lives, Better World targets for current year and trajectory to 2025 plan.

Incentive Structures – Long term incentive

With respect to the structure of the long-term incentive plan, four metrics are applicable. Sustainability, Relative TSR, Free Cash Flow, and Return on Capital Employed. These metrics are all weighted equally at 25%.

This slide details the linkage between the overall Signify strategy, the ESG metrics included in the Brighter Lives, Better World 5-year program and the long-term incentive structure and metrics for the Board of Management.

Now that we have refreshed on the structures themselves, I will turn our attention to the realization for the annual incentive and the long-term incentive.

Annual Incentive (STI) Realization

Shifting to actual outcomes of the incentive plans, you can now see the details with respect to the actual realization for the annual incentive plan.

Targets for the annual incentive plan were set at the beginning of 2023, were applicable for the full year, and were not adjusted during the year despite the ongoing volatility and unpredictability in the global environment.

The Company was of course impacted by this volatile and unpredictable external environment. Although the company adapted, performance on the financial metrics were very mixed for the year.

This slide details the actual pay-out for each Board of Management member, which was driven by the performance results as detailed on the right-hand side of the slide.

The top right table shows the performance on the financial metrics included in the plan, which are weighted as we just discussed at 80% of the total outcome. Performance on Comparable Sales Growth and on Adjusted EBITA were both below threshold levels of performance. As a result, the outcome on these two financial metrics was 0% realization.

The performance on the third financial metric, Free Cash Flow, on the other hand was very positive. Signify delivered a healthy Free Cash Flow, well above the threshold level of performance expected. As a result, the achievement on that metric was 136%.

Overall, it was a mixed financial performance for the year, and given the results on the three metrics, the final realization on the financial metrics was 40.8%.

For the realization of the financial metrics of the annual incentive for 2023, the Supervisory Board considered whether any adjustments or discretion should be applied. The Supervisory Board concluded not to make any discretionary adjustments to the performance outcomes of any of the metrics, and the 40.8% reflects the final outcome of the financial components of the plan.

The second component of the annual incentive plan relates to team and individual measures, as detailed on the bottom right-hand table. From an individual and team performance measure perspective, the Supervisory Board conducts an assessment at the end of the year relative to the objectives set for the year.

On the team objectives as set at the beginning of 2023 and not adjusted, the results were also mixed. The highlight has been the progress relative to the customer net promoter score which increased by 6 points to 53 versus a target of 47, which represents a 9-point improvement over 2022. Additionally, the Company made significant improvements in a key customer pain point of order and delivery, which improved by 13 points.

From a culture and people perspective, the Company's gender diversity continued to improve, and in 2023 there was a significant increase in campus hires supporting the objective of increasing our generational mix. The US business is showing improvement, particularly with very strong cash metrics, but performance remains below expectations. Finally, the needed restructuring was defined, structure and communicated, which negatively impacted the employee net promoter score, resulting in a decline of 10 points from end of year 2022.

For the individual goals, the outcomes were varied. Cash optimization and inventory significantly improved while quality and service levels were protected as evidenced in the improvement in Order and Delivery and the customer new promoter score. Growth was not as expected, although there were bright spots in our strategic frontiers, such as connected systems, solar lighting and LIFI, while pricing discipline improved. Finally, the opportunities realized related to the Green Deal in terms of the number and value of projects won was very strong.

The outcomes of the overall assessment by Supervisory Board on the team and individual objectives are summarized on this slide. The assessment was that it was a good performance and a realization of 80% was determined for the team component of the annual incentive and 70% to 90% for the individual objectives.

When the team and individual elements are combined, the weighted outcome across all the metrics for the annual incentive for the Board of Management members was between 15% and 17% bonus realization.

2021 LTI Performance Achievement & Vesting

With respect to the long-term incentive grant made in 2021, it has a performance period of 3 years that runs from the beginning of 2021 to the end of 2023. The grant vested end of last month (April 29).

As such, at the end of the performance period, an assessment is made relative to the targets set at the beginning of 2021.

As with the Annual Incentive, it is important to note that no changes were made to the targets during the three-year performance period. These were targets set mid-COVID-19 pandemic, and before some of the impacts of the supply chain challenges had run their course, as well as prior to the global conflicts that have erupted since then.

Additionally, the Supervisory Board did not apply any discretion to the achieved outcomes, nor to the corresponding realizations on these metrics.

This then is the result of performance over that three-year period.

Relative TSR

- TSR achieved by Signify over the period was -10%
- Positioned Signify as 14th out of 15 companies in our peer group.
- As Signify was not at a position of 8th or higher relative to the peer group, the resulting final achievement on this metric was 0%

Free Cash Flow

- Over the 3-year performance period, an amount of EUR 1,644 million free cash was generated.
- Represents 7.8% of sales versus a target of 9.8% and a threshold of 9.2%.
- Resulting final achievement was 0%

ROCE

- For 2023, ROCE was based on the outcomes in the last year of the plan period (2023), excluding pension liabilities.
- The ROCE for 2023 was 7%
- Target was 14% and threshold was 11%
- Resulting final achievement was 0%

Sustainability

- The Sustainability objectives for 2023 were based on the intent to double our impact in the areas of climate action, circular economy, brighter lives revenues and women in leadership positions by 2025.
- In all areas significant progress has been made relative to the trajectory to deliver on the ambitions by 2025.
- Carbon footprint reduction actions are reflecting a steady decrease of emissions (scope 1, 2, 3) on track with our 2025 ambitions with 334 million tonnes of cumulative carbon reduction.
- Circular revenues increased, surpassing the 2025 targets two years earlier than projected.
- Brighter Lives revenues have exceeded the ambitions set for 2023 with an increase in contributions from circular products, systems or services and an increase in revenues coming from lighting innovations that increase food availability, safety and security, or health and well-being.
- Women in leadership positions has increased by 12% from 2019 to be 29% in 2023; although this falls behind the trajectory needed to double the percentage of women in leadership positions by 2025.
- Over the period of the LTI plan, Signify remained a leader in sustainability and continues to be recognized as such externally.

- Featured in Euronext's AEX ESG index, placing top 1% of our industry.
    - Secured inclusion in the Dow Jones Sustainability index and the CDP Climate A-list for the 7th year running.
- Resulting final achievement was 141.7% for the sustainability outcome.

The final total performance across the 4 measures is 35.5% for the 2021 long-term incentive grant.

In 2021 the LTI grants were awarded at a share price of 43.16 Euro. The share price has declined in the 3-year plan period. However, during this 3-year period, the company has paid dividends of 715 million Euro. In line with Dutch best practices of corporate governance, the members of our Board of Management hold all after-tax shares received for at least five years from the date of grant, and until the internal ownership guidelines are met.

Supervisory Board Fees

This slide details the fees paid to our Supervisory Board members. There are no changes to years prior.

Outlook Overview of Total Direct Compensation Board of Management

For 2024, salaries have not yet been adjusted. The Supervisory Board will review and determine any potential adjustments for the Board of Management once the collective labor agreement for the Netherlands population has been finalized. This discussion on the CLA is currently still ongoing.

Any salary increase will be effective as of January 2024.

The figures for M. van Engelen, who has stepped down as of April 1, 2024 and M.L. Mariani who will step down at the end of this meeting, represent the full year total direct compensation potential.

The incentives illustrated here on the screen relate to target levels and therefore what the total direct compensation would be for each Board of Management member if performance will be on target.

This concludes my remarks on the Remuneration Report of 2023.

Thank you.

Item 10: Remuneration Policy Proposal Board of Management

Title Slide

Ladies and Gentlemen, as described earlier our current Remuneration Policy for the Board of Management was introduced in 2020. It was therefore time for a full review of the policy in light of Signify's evolution as an independent organization, the evolution of market practices and developments in corporate governance, and importantly the expectations of shareholders.

During 2023, we undertook a detailed review of the Remuneration Policy for both the Board of Management and the Supervisory Board. This review included an external expert (Korn Ferry) to challenge us, bring the evolution of market and best practices to the discussion, and provide overall expertise.

As a component of the review process, we engaged with a large group of stakeholders of Signify. As I have previously mentioned, we invited 37% of our shareholder base to meet with Signify to discuss the proposed changes to the Remuneration Policies of the Board of Management and Supervisory Board. Ultimately, we met with shareholders representing 18% of the shareholder base, excluding passive investors. In addition, we met with several shareholder representative groups, and finally we met with the Dutch Central Works Council of Signify.

We had very valuable conversations with all stakeholders on the policy proposals, and while stakeholders have diverging viewpoints, these discussions help to ensure that the policy proposal that we will discuss is balanced to consider all these differing perspectives. I personally thank again all those whom we met for this valuable dialogue.

Let's now shift our attention to the key points of the proposed Remuneration Policy for the Board of Management of Signify.

Base salary clause

Naturally let's begin with proposed changes to the clause related to how base salary levels are reviewed by the Supervisory Board.

In the current policy, the base salary clause links very tightly to the collective labour agreement in the Netherlands for the CLA population.

As we considered a proposed policy that is reflective of our current company, this tight a link disconnects any potential salary adjustments from the non-CLA population in the Netherlands and from the rest of the employee population and general non-CLA salary practices. The CLA population in the Netherlands represents only 6% of the total employee population. In addition, there is a part of the Netherlands employee population who are not participants in the NL CLA arrangements. As we have seen in the last few years in the Netherlands, CLA agreements have included increases that have been significantly higher than in prior years given the inflationary pressure, but the magnitude of this trend does not hold true for the non-CLA population nor the global population, and increases aligned to the CLA agreements therefore seem less appropriate.

With these considerations, the proposed new clause continues to ensure that the CLA agreements are an important input into the review process. However, salary developments in the broader employee population are also an important consideration. Additionally, consideration is given to trends in broader peer group salary development and finally consideration is also given to Board member's role and performance.

The Supervisory Board considers this proposed clause to be a more balanced approach to the considerations that are part of the decision-making process pertaining to any potential base salary adjustments.

Short-term incentives

Next, I would like to look at the proposed changes to the short-term incentives for the Board of Management.

The current short-term incentive structure consists of a fixed percentage, 80%, which is determined based on financial metrics, and 20% that is determined based on team/individual performance.

The proposed policy change reflects shifting from a fixed percentage split of 80%/20% financial versus team/individual metrics to a range of between 75% to 80% on financial metrics and 20% to 25% on non-financial metrics. The purpose of this proposal is to enable the Supervisory Board to ensure a representation of the key priorities in a year in the annual incentive plan within a narrow band. As the priorities for a particular year may change, this modest flexibility would enable adaptability to those priorities. For example, including and/or increasing the weight on ESG metrics, specific operational priorities, acquisitions and/or integrations, etc.

The second item that represents a change in the proposed policy is regarding the choice of potential metrics to include in the short-term incentive in a year. The current plan has a menu of financial metrics from a predefined list that include Growth (such as comparable sales growth), Profit (such as adjusted EBITA or net income), Cash Flow (such as average working capital or free cash flow) and finally Investment Return (such as return on capital employed).

The proposed change is that this pre-defined list is adjusted in two ways. The first is that the list has been expanded to include sales and costs as potential measures while maintaining profit, cash and investment return as metric categories to ensure a good mix of potential financial measures for the plan in a year.

The second adjustment is made specifically in response to stakeholder feedback. Feedback from shareholders and other stakeholders indicated that the inclusion of Free Cash Flow in both the annual and the long-term incentive plans was not desirable. In direct response to that feedback, the proposed policy removes Free Cash Flow from the menu as an example of potential financial metrics that may be selected for the short-term incentive plan. In addition, as Return on Capital Employed is also in the long-term incentive plan, it too has been removed as an example of a potential metric that may be selected to avoid any future duplication between the long-term and short-term incentive plans.

Leaver arrangements

The next element that includes a proposed change is related to leaver arrangements.

As it pertains to this topic, there are two adjustments: one related to clarification of leaver arrangements and the other related to the treatment of LTI grants at retirement.

With respect to the severance arrangements, and as with the current policy, any severance payment is capped at a maximum of one time the annual base salary. It is clarified, however, that there is no severance due in the event of a voluntary resignation, or in the event of a serious culpable act or an act of negligence.

Our next change is one that also reflects the feedback of our stakeholders.

Signify, as you know, is a company with a very long history, and long tenured employees. In many cases employees have started and ended their careers with Signify (and Philips). As such the terms of the long-term incentive plan for treatment at retirement reflected that long-tenured employment relationship. The current plan rules for all employees allowed for retirees to remain entitled in full to granted shares in retirement. For the Board of Management, this approach also reflected the long-term nature of the decisions that they take as the key leaders of the company.

We understand from our shareholders and stakeholders that they do not consider this a best practice and find it an undesirable element of the plan. In direct response to this feedback, the proposed policy and LTI Plan for the Board of Management will adapt the vesting of the long-term incentive plan at retirement (or early retirement, as the case may be) to reflect a pro-rata vesting for all long-term incentive grants as of the introduction of this policy.

Whereas the general rule is that unvested awards granted under the LTI Plan will forfeit in case of termination of a services contract, the Supervisory Board will also retain the power to decide otherwise in specific circumstances.

Finally, it should be noted that this change of LTI treatment at retirement is a deviation from our Signify long-term incentive plan applicable to all other LTI eligible employees in the company who will remain entitled to the granted shares in full when they retire.

Claw-back provisions

The final change that is being proposed in the Remuneration Policy for Board of Management reflects the current claw-back provision.

The current clause is aligned to the Dutch legislation and makes a general reference to the possibility to recoup incentives in the circumstances set forth in the services contract with the Board of Management member.

The new policy clarifies that the claw back extends beyond Dutch legislation and includes the discretion of the Supervisory Board to recoup an incentive in case of a serious violation of the Signify Integrity code or applicable law, or in circumstances allowing the company to terminate the contract for urgent cause.

These terms are already included in the service contracts of the Board of Management members and as such, this change of provision in the policy therefore ensures alignment across both the policy and the service contract.

Additional policy updates

This slide shows the updates related to the labour market peer group and the TSR peer group. The updates have taken place due to changes of the nature of the peer companies themselves.

With respect to the labour market peer group, four companies have been replaced as of 2024. Boskalis, Siemens Gamesa and Osram Licht have all been delisted, and as such must be replaced in the peer group. ASML, on the other hand, has become an outlier overall, particularly from the perspective of market capitalization. As such, ASML is now much larger than Signify and for that reason they have been replaced.

The four new companies in our labor market peer group are:
Arcadis
Nordex
Ams OSRAM
ASMi

The principles for selecting the labour market peer group remain the same as in the 2020 policy. Therefore, despite having a large operation in the US, the peer group remains focused on EU companies only, and reflects a mix of Dutch cross-industry companies and European sector specific companies.

As with the labor market peer group, the principles for determining peer companies for the TSR peer group remain consistent with the 2020 policy. There have been two changes to the TSR peer group. During the period of the policy, Cree became a pure-play semiconductor company when they sold their LED products business unit. Cree was replaced by MLS Co Ltd who is a direct competitor of Signify in LED lighting.

Finally, at the end of 2023, Toshiba was delisted. As a result, as of 2024 Toshiba has been replaced by ams OSRAM, which operates in the lighting industry.

Item 11: Remuneration Policy Proposal Supervisory Board

With respect to the Remuneration Policy proposed for the Supervisory Board, the review process did not result in the recommendation of any changes to the policy as adopted in 2020, nor to the levels of remuneration.

The policy has been updated however to remain aligned with the policy of the Board of Management including to reflect the updated labor market peer group as previously discussed, and to reflect the fees for the Digital Committee which was established in 2021.

There are no changes proposed to the Supervisory Board fees. Therefore, the fees shown on this slide remain as is, and have not been adjusted since Signify became an independent company in 2017. This topic was raised by some stakeholders during our review process from the perspective that it would be appropriate to reconsider the fees given the length of time that has elapsed with no change. We recognize that perspective but at this time we are not proposing any changes to the current fee structure.

This concludes my remarks on agenda items 10 and 11 regarding the Remuneration Policies for the Board of Management and the Supervisory Board.

Thank you.