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EDITED TRANSCRIPT

LIGHT.AS - Q4 2024 Signify NV Earnings Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. We're awaiting the arrival of additional participants, and we will be starting shortly. We thank you for your patience, and please continue to hold. Thank you.

Hello, and welcome to the Signify fourth-quarter and full-year 2024 results. (Operator Instructions) Today, I'm pleased to present Eric Rondolat, CEO; Zeljko Kosanovic, CFO; and Thelke Gerdes, Head of Investor Relations. Please go ahead with your meeting.

Thelke Gerdes - *Signify NV - Head of Investor Relations*

Good morning, everyone, and welcome to Signify's earnings call for the fourth-quarter and full-year 2024. With me today are Eric Rondolat, CEO of Signify; and Zeljko Kosanovic, CFO.

During this call, we will start with Eric's review of Signify's 2024 operational and business performance. Zeljko will then review the company's financial performance for the quarter. And after that, Eric will return with an update on capital allocation and the outlook for 2025. After that, we will be happy to take your questions.

Our press release and presentation were published at 7:00 this morning. Both documents are available for download from our Investor Relations website. The transcript of this conference call will be made available as soon as possible. And with that, I now hand over to Eric.

Eric Rondolat - *Signify NV - Chief Executive Officer, Chairman of the Board of Management*

Thank you, Thelke. Good morning, everyone, and thank you for joining us today. Let me start with a few operational highlights on page 4. So 2024 was an important year of transition for Signify. We implemented the new organizational structure in April, consisting of four verticalized businesses with full profit and loss responsibility.

So you know that each of these four businesses is fully responsible for its end-to-end processes, including strategy, quality, offer development, manufacturing, and sales and marketing. The new structure allows us to capture growth opportunities in our markets faster and with more customer centricity.

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We also launched a EUR200 million cost reduction program, delivering EUR131 million of savings for the year. And this is totally in line with our commitments to deliver two-thirds of the cost reduction in the first year.

We also successfully managed the accelerated decline of the Conventional Business by restructuring the business ahead of time, while maintaining its profitability. We were also able to offset the declining profit contribution of the business with a strong underlying performance of our Professional, Consumer, and OEM Businesses.

In June, we launched our climate transition plan to reduce greenhouse gas emission by 90% across our entire value chain and reach a net zero by 2040. We also repaid EUR440 million of debt, which not only strengthens our balance sheet, but also reduces our interest charges for the coming years.

Maybe more on the commercial side. We entered into a partnership with Mercedes-AMG PETRONAS Formula 1 team to drive responsible innovation together and also enhance the visibility of the Signify brand. As we look ahead, we are confident that these strategic initiatives will provide us with the agility and focus needed to capitalize on the opportunities within our markets.

Let's move to the next slide. So despite headwinds in some of our markets, we delivered a robust profitability and free cash flow generation. We increased the installed base of connected light points to 144 million at year-end 2024, a strong decrease from 124 million at the end of last year -- sorry -- at the end of 2023.

LED sales represented 93% of total sales, up from 85% last year. Comparable sales growth was minus 6.6% for the year, driven by the headwinds in China and in the Professional Business in Europe, as well as a drag of 240 basis points from the Conventional Business.

Throughout the year, we saw a progressively improving top line as conditions in our markets improved, led by the Consumer Business, which returned to growth. We continue to see growth in our Connected and Specialty Lighting Businesses, driven by underlying demand for energy-efficient and innovative solutions.

All in all, our adjusted EBITA is at 9.9% for the full year and includes a drag effect of 40 basis points from the slowing contribution of the Conventional Business, highlighting our ability to navigate challenging market conditions. Our Professional, Consumer, and OEM Businesses combined achieved an adjusted EBITA margin expansion of 30 basis points.

In addition to this, we delivered EUR131 million of savings through the successful implementation of the cost reduction program. Net income increased from EUR215 million to EUR334 million, driven by lower restructuring costs and financial expenses. Finally, we achieved a strong free cash flow of 7.1% of sales, which includes a cash out related to the restructuring program and the reduction of our US pension liabilities.

Let's move now to slide 6. So looking at the free cash flow generation, as you can see on the slide, Conventional now represents only 8% at the end of 2024. As a reminder, in 2023 and still under the old structure, the cash flow generation of that business was still of EUR99 million. The sales contribution of the Professional, Consumer, and OEM Business increased from 91% in 2023 to 93% in 2024.

In terms of the EBITA, the contribution of these three businesses increased from 82% to 88%, driven by the solid performance and the sharp reduction of the Conventional Business' EBITA contribution of almost EUR50 million in 2024.

On slide 7, we illustrate further the drag effect of Conventional on Signify's top line and bottom line. The decline of Conventional had a negative impact of 240 basis points on Signify's reported comparable sales growth. Excluding Conventional, the comparable sales growth would have been of 4.2% for the full year. On adjusted EBITA margin basis, the lower contribution of Conventional, had an impact of 40 basis points, partially compensated by an expansion of 30 basis points from the other businesses.

Turning to slide 8, I would like to focus on the performance of our three so-called LED businesses, Professional, Consumer, and OEM. Let's start with the Professional Business. We have experienced a challenging market condition or challenging market conditions, I would say, in Europe and China, resulting in a decrease of comparable sales growth for the full year of 5.8%.

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However, we are pleased that our connected sales have continued to progress. As a result of the top-line decline, our adjusted EBITA margin has been impacted by lower operating leverage, offsetting the benefits from the restructuring program.

Moving on to the Consumer Business, we have experienced a decrease in comparable sales growth of 1.2% for the full year, mainly attributable to a sharp sales decline in China, excluding which, our business would have grown by 1.9%. On a positive note, we achieved an adjusted EBITA margin expansion of 220 basis points, driven by recovery in most markets and benefits from our cost reduction program.

Lastly, in the OEM Business, we saw a stabilization of our comparable sales growth following the normalization of inventory levels, leading to a decline of 2% for the year. The benefits from our cost reduction program contributed to the adjusted EBITA margin expansion of 170 basis points to 11.1%.

Let's move to slide 9. I would like now to discuss the cost reduction program, which was fully rolled out in 2024. Our adjusted indirect costs reduced nominally from EUR2.075 billion to EUR1.965 billion, a net reduction of EUR110 million.

With that, we generated EUR131 million of savings, mostly related to our restructuring program, which was aimed at a reduction of our workforce in head office and central functions. This was partly offset by cost inflation, such as labor inflation and higher transportation costs, investments in some of our markets, and currency effects, representing a cost increase of EUR21 million.

I would like to highlight that the incremental cash out related to the restructuring program and pension de-risking was of EUR105 million, which is substantially lower than the previously communicated amount of EUR150 million. This was achieved by managing the cash impact in a very disciplined way.

Next, I would like to discuss our sustainability performance on slide 10. So we completed the fourth year of our Brighter Lives, Better World 2025 sustainability program and made continued progress towards achieving our goal of doubling our positive impact on the environment and society by the end of 2025.

So Signify is on track to achieve the target of reducing emissions across the entire value chain at the double of the pace required by the Paris Agreement. This is driven by Signify's leadership in energy-efficient and connected LED lighting solutions, which significantly reduce emission and very specifically during the use phase.

Our circular revenues were at 35%, well ahead of the 2025 target of 32%. Brighter Lights revenue increased to 33%, also ahead of track of the 2025 target. This includes a strong contribution from Professional luminaires that support the well-being of wildlife. The percentage of women in leadership position dropped to 28%, offtrack versus our 2025 target.

I would now like to hand over to Zeljko to discuss our Q4 financial performance.

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

Thank you, Eric, and good morning, everyone. So let's zoom in our Q4 performance on slide 12. In Q4, we delivered further sequential sales improvements, adjusted EBITA margin expansion, and solid free cash flow generation.

Nominal sales in Q4 were EUR1.655 billion, translating into a nominal sales decline of 4.6% and a comparable sales decline of 2.8%, as the challenging market environment in China and the Professional Business in Europe continued to weigh on our performance.

Excluding the continued drag effect of Conventional and China, our CSG would have slightly increased to plus [1%] in the fourth quarter. The adjusted EBITA margin came in at 12.4%, an increase of 30 basis points compared to Q4 last year.

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The main driver behind this improvement was the increased benefit of the cost reduction program, which led to margin improvements in three of our businesses. Our net income increased to EUR119 million, also mainly resulting from lower restructuring costs compared to last year. Finally, we delivered EUR188 million of free cash flow in the quarter.

Now let's move on to our businesses, starting with the Professional Business on slide 13. Comparable sales declined minus 3.4%. Overall, we saw a sequential sales improvement with strong agricultural lighting and also strong connected system sales. However, the weakness in China and Europe continued to weigh on the top line.

The adjusted EBITA margin decreased by 90 basis points to 10.8%, which is largely explained by the weakness of our highly profitable Europe business, causing an adverse segment mix effect for the Professional Business overall. All other businesses within Professional continued to improve their margin, in line with our expectation and also reflecting the positive effects of the cost reduction program.

Let's now move on to our Consumer Business on slide 14. In the fourth quarter, the Consumer Business saw a comparable sales growth of 4% with growth in all regions, except China. We had a particularly strong connected home performance during the main selling season. And this was also driven by strong online sales. The adjusted EBITA margin increased by 320 basis points to 17.4%, driven by operating leverage and also benefits from the cost reduction program.

Moving on to the OEM Business on slide 15. In the fourth quarter, comparable sales showed a small decline of minus 1.2%, mainly due to the softness in the APAC region, in particular, China, which was compensated by a stable performance in most of the markets.

At the same time, in the US, the business is -- or was also impacted by the in-sourcing of one large customer. The adjusted EBITA margin increased by 40 basis points to 8.5%, also showing the benefit from our cost reduction program and bringing the margin for the OEM business in line with our expectations.

Moving on to slide 16, the Conventional Business. Comparable sales declined by 24.5%, as a strong decline of general lighting sales in most geographies was partially compensated by Specialty Lighting. The adjusted EBITA margin was in line with expectations, improving by 220 basis points to 19.3%, as we continue to implement cost reduction in line with the business decline.

I would like now to illustrate a few of the exciting achievements and projects we have worked on, as shown on slide 17. First, we are very proud to have earned the platinum medal from EcoVadis for the fifth consecutive year. The top rating reflects our strong performance in sustainability areas, such as environmental impact, labor and human rights, ethics, and procurement practices.

This achievement highlights our ongoing commitment to sustainability and positive impact on the planet and society. EcoVadis is a trusted independent provider of sustainability ratings for 73,000 companies worldwide. Signify has achieved the highest possible EcoVadis rating score since its IPO in May 2016 with a score of 84 points out of a possible 100. We are in the top 1% of all companies assessed.

In addition, we have optimized the PSV stadium pitch maintenance with innovative lighting. We installed a combination of energy-efficient LED and infrared lamps controlled by sensors, that continuously measure environmental factors. The data collected is processed to determine the precise light and heat needed to optimize the growth and condition of the grass, while achieving energy savings of 50%.

At Sightour Ophthalmic Hospital in China, we delivered a customized connected lighting solution that eliminates various areas of the hospital, while preserving the historic building's charm. We installed flicker-free low-glare luminaries, reducing visual fatigue and discomfort for the patients, while at the same time, providing our customer with 20% savings on energy consumption.

Lastly, we continue to leverage the Mercedes-AMG PETRONAS Formula 1 sponsorship at the Las Vegas Club. By integrating Philips Hue products and Color Kinetics luminous panels, we transformed the three floors of the hospitality space. Our teams delivered interactive and immersive lighting from Philips Hue, Signify myCreation, PrentaLux, and Color Kinetic to elevate the trackside experience for the team's guests.

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Moving on now to the -- to our adjusted EBITA bridge for the fourth quarter on slide 18. Our adjusted EBITA margin improved by 30 basis points from 12.1% in Q4 '23 to 12.4% in Q4 '24, as we saw a return to adjusted EBITA margin expansion, driven mainly by indirect cost savings.

Looking at the EBITA bridge in more detail. The volume decline impacted the adjusted EBITA margin by a negative 50 basis points. Price and mix had a combined effect of minus 270 basis points. Within this, the effect of price erosion remained stable compared to Q3.

However, we have seen a negative sales mix impact on our total business, driven by the decline of our highly profitable Professional Europe business, as was mentioned earlier. This effect is to a large part compensated by bill-of-material savings and other COGS savings, which had a positive effect of 220 basis points.

Indirect costs improved by 130 basis points on adjusted EBITA margin level, reflecting the increased capture of savings from our cost reduction program. And finally, currency and other effects had an effect of 10 basis points.

On slide 19, I'd like to zoom in our working capital performance during the quarter. Compared to the end of December 2023, working capital reduced by EUR39 million, remained stable at 6.9% of sales. Inventories decreased by EUR15 million. Payables increased by EUR6 million; payables were EUR49 million lower. And finally, other working capital reduced by EUR19 million.

On the slide 20, I'd like to present how our net debt position and leverage ratio have reduced over the last quarter. At the end of 2024, our net debt position was EUR920 million, a reduction of EUR176 million versus the end of Q3 2024. As a result of the lower net debt, our net debt-to-EBITDA multiple reduced from 1.7 to 1.3 times.

And with this, I would like to hand back to Eric, who will now provide the capital allocation update and share the outlook.

Eric Rondolat - *Signify NV - Chief Executive Officer, Chairman of the Board of Management*

Thanks, Zeljko. Let's now move to slide 22. So following the successful deleveraging, we have adapted our capital allocation policy.

Our priorities will be to maintain a robust capital structure and maintain an investment-grade credit rating; to pay an increasing annual cash dividend per share year on year; to continue to invest in organic and inorganic growth opportunities in line with our strategic priorities; and finally, to provide additional capital return to shareholders with a residual available cash.

Let me highlight a few developments. As mentioned, we successfully repaid EUR440 million of gross debt. The debt repayment avoids higher annual interest charges of around EUR80 million on an annual basis for the coming years. We also reduced our US pension liability by USD48 million by settling the main defined benefit plan.

For 2024, Signify proposes a cash dividend of EUR1.56 per share, in line with our policy to pay an increasing annual cash dividend per share year on year. The dividend proposal is, of course, subject to approval at the Annual General Meeting of Shareholders to be held on April 25, 2025.

And we have also announced a share buyback program for a total of EUR350 million to EUR450 million of shares until the end of 2027. So this will include share repurchases to cover share-based remuneration obligations and the remainder being for cancellation. This initiative underscores our commitment to create value to shareholders while maintaining financial flexibility to support growth opportunities.

As part of this program, we intend to repurchase shares for an amount of up to EUR150 million by the end of 2025, starting in Q1. This will include an allocation of approximately EUR30 million to cover share-based remuneration obligations, with the remainder allocated for the cancellation of shares. The program is subject to changes in corporate activities such as M&A or material changes in our business.

Let's continue with the outlook on slide 23. So for the full-year 2025, we expect the following. So regarding our comparable sales growth, we expect sales momentum to build throughout the year, leading to low single-digit comparable sales growth, excluding the Conventional Business. For Q1,

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this means that we are expecting a similar top line compared to Q4 in terms of comparable sales growth, with a stronger drag of the Conventional Business due to seasonality.

This will be partly compensated by continued improvement of the other businesses. The drag of the Conventional Business will reduce as the year progresses. In terms of adjusted EBITA margin, we expect a stable margin compared to 2024 with the Professional, Consumer, and OEM Business combined, compensating the drag of the Conventional Business.

This includes underlying margin expansion of the three businesses and benefits from the cost reduction program in full-year 2025. And finally, we are expecting the free cash flow generation in the range of 7% to 8% of sales, driven by a strong cash conversion.

And with that, I will hand back to the operator for the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Daniela Costa, Goldman Sachs.

Daniela Costa - *Goldman Sachs International - Analyst*

Hi, good morning. I will ask one and the follow-up, but I'll pause one at a time. So first, I just wanted to check, this quarter, when we look at the gross price versus the COGS, it has turned negative. Most of the prior quarters -- I know we persistently asked about pricing and -- but the net was not negative.

Do you see this as a temporary thing that you think will change in the coming quarters? Or is there more of an industry competitive landscape change going on, if you could elaborate on that?

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

Yeah. Good morning, Daniela. So if we look at pricing specifically, if you look at the pricing development, we see -- we actually saw price stability in Q4 compared to Q2 and Q3. So we confirm what we had already mentioned -- indicated in the last quarter. So the price in itself is confirming stability, and we do expect that moving forward. At the same time, we also will continue to drive our bill of material and price together as we have always done.

Now if you look at Q4, the combined effect of price and mix is linked to mix, where we have seen more of a negative or unfavorable impact of the portfolio segment -- portfolio effect on the Professional Business due to the weakness in the Professional Europe, in particular. So that's one element that has had a significant impact on the price and mix combined.

But looking at price specifically, we do see the stabilization of the pricing dynamics compared to the previous quarter. And we do expect that to pursue in the coming quarters, as we also see some of the bond inflation happening on some commodities and transportation costs, for example, which will lead to further positive impact on the price dynamic.

Daniela Costa - *Goldman Sachs International - Analyst*

If I may just follow up on what you just said regarding the mix and Professional in Europe, do you see sort of any shifts there? Interest rates have been coming down for a while. The distributors have very low stock levels for a while. Is there any shift in there in terms of the mix when we think about early '25?

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Eric Rondolat - *Signify NV - Chief Executive Officer, Chairman of the Board of Management*

Good morning, Daniela. Look, we are remaining cautious for 2025. We haven't seen over the past three quarters great improvement in the Europe situation, with a lot of very different economic attractions across the countries.

We've seen a weak UK. We've seen a weak Germany, a very weak Eastern Europe. We've seen a very strong Nordics during the whole year. And now we have France and Spain that are showing signs of weakness.

Now what we believe is that we are close, if not at the bottom, and we should have stabilization in 2025. But we're not at the point where we can claim that we see improvements from -- if you look at the trade and the position of trade inventory, it's slightly higher than where it normally is.

We are rather around eight, nine weeks versus seven which would be the normal average. We don't see massive destocking activity at this point in time. I think Europe is stabilizing, but stabilizing from -- at a fairly low point.

Daniela Costa - *Goldman Sachs International - Analyst*

Thank you. And my -- the other follow-up was regarding fixed costs in December '23. You announced the EUR200 million savings plan, which, I guess, was mainly fixed costs and people related.

There, you had 10% margin in '23. You're also kind of guiding for 20% margin in '25. So all those benefits eroded given the situation we had on the end markets, I guess. If things don't improve, do you have further levers where you can continue to cut costs down to maintain margins?

Eric Rondolat - *Signify NV - Chief Executive Officer, Chairman of the Board of Management*

I think the good news in all this is that we're preparing the P&L for whenever the business comes back, and we're going to have a substantial leverage. That's basically something that we have already seen if you look at the performance of our Consumer Business in the last quarter of the year.

Now when we look at the operating margin, we take into account two very specific phenomena, which has played in 2024. The negative drag of Conventional offset by the other two businesses; and of course, we've been offsetting the drag of conventional with, still, the other businesses declining. Not all of them, but globally for the full year, we have also a decline of those three business combined.

If in 2025, as we see these businesses growing -- and we are cautious today. And we talk about a low single-digit growth. If the markets are better and if we can extract more growth from these three businesses, this will impact positively the bottom line and maybe better than the guidance that we have given at this point in time.

But, Daniela, with what we have seen in the past years and the volatility that we have on the market, some of geopolitical uncertainties, we -- this is probably a cautious guidance. But it's something that, at least, we know we can achieve whatever the market situation.

Daniela Costa - *Goldman Sachs International - Analyst*

And the point you just mentioned on the Conventional drag. Do you have a view on how large the drag is in '25, given some of the regulatory shifts that are going on still in Conventional?

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Eric Rondolat - *Signify NV - Chief Executive Officer, Chairman of the Board of Management*

Yeah. The situation, which is a little bit -- can potentially change -- the situation in the US, Daniela -- because things have changed in the US quite a lot. And we don't know if the thing that had been made at one stage regarding Conventional is still going to hold. So we have to see.

Now yeah, it's -- we expect the business to decline between 20% to 30%. And you make a calculation of what the drag is on the bottom line of the company. But it's going to be a few tens of basis points that we need to compensate with the rest. You look at the math in 2024; it's going to be probably a similar type of equation, but on the better side because we see the other businesses growing in 2025.

Daniela Costa - *Goldman Sachs International - Analyst*

Got it. Thank you very much.

Operator

Akash Gupta, JPMorgan.

Akash Gupta - *JPMorgan Cazenove Limited - Analyst*

Yes, hi. Good morning, and thanks for your time. I have one question on the guidance. Maybe if you can explain about cadence of your flattish margin or stable margin guidance for 2025.

I mean on one side, we have drag from Conventional that you already explained. But on the other side, we do get some savings. And I think if I'm not wrong, we will see incremental EUR60 million-plus savings in 2025. And then for non-Conventional Businesses, you're guiding low single-digit growth. So probably, there may be some little bit higher volumes there.

But on the other side, we have some uncertainty in the US with what happens under Trump presidency related to tariffs. So maybe if you can talk about what are the broad set of assumptions you have made behind stable margin and not improving margins in 2025. So that's the first one. Thank you.

Eric Rondolat - *Signify NV - Chief Executive Officer, Chairman of the Board of Management*

I think, Akash -- good morning -- I mean, the answer is in the guidance itself. We see a declining Conventional Business. We see a slightly growing part of the other business. When we make the equation, we believe that we're going to be able to offset the Conventional drag with the other businesses.

Why low single-digit growth at this point in time? Once again, because we are exposed to Europe, we are exposed to China, that had not shown great signs of recovery. But probably, they have shown signs that they have reached the bottom.

Now when it comes to tariffs, things are changing on a daily basis. The only thing that I can tell you is that we've already faced that situation a few years ago. And we could compensate the tariff on China imports to the US without impacting the performance of the company. So we know how to do this, and it was a mix of footprint and price increases.

Now if you look at the Chinese specific situation and when we look at our Chinese imports to our US business, it's less than 20% of what we import. And we believe that what we've been able to do in the past years in terms of compensating tariff, we'll be able to do it again. We know the drill, and we have the tools in order to do that.

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When it comes to the rest -- we talk a lot about Canada; we talk a lot about Mexico. What we prefer doing is, let's wait when things are clearer, when tariff decisions are being made effective. And then we will see better what the consequences are.

But what I can tell you is that when we look at our footprint in terms of the proportion of what we import from these countries, we're pretty much in line with the industry at large. So we believe we will find a way to compensate through footprint and price increases. So we don't see tariffs as a deterrent to performance. We just will need to act accordingly whenever we know exactly what's at stake.

Akash Gupta - *JPMorgan Cazenove Limited - Analyst*

Thank you. And my follow-up question is on capital allocation. So you announced share buyback today, not just for this year, but also for next couple of years as well. Again, this may indicate that you are not working on any large M&A deal. But maybe if you can talk about if there is any bolt-on deals in M&A pipeline that we should be looking for in 2025. Thank you.

Eric Rondolat - *Signify NV - Chief Executive Officer, Chairman of the Board of Management*

Yeah, Akash, no big M&A deal in view at this point in time. At the same time, I've always said that in the market, which is having the level of volatility that we see at this point in time and sometimes the level of uncertainty that we've been experiencing in the past years, it's complicated to do M&As. Because you need really to understand the asset that you're buying, and then you need to have the right amount of energy to do a proper integration.

So we're following, of course, on a regular basis, a list of M&A opportunities. But nothing that we see today as a major acquisition that we have to make that are -- that would be, from a strategic standpoint, very important that we do. Yeah, bolt-on are always possible. But once again, here, we're very selective.

Akash Gupta - *JPMorgan Cazenove Limited - Analyst*

Thank you.

Operator

Sven Weier, UBS.

Sven Weier - *UBS - Analyst*

Yes, good morning, and thanks for taking my questions. The first one is just coming back to the buyback. Because I think I remember when you had the previous CFO, the question was also around when do you start a buyback. And I think back at the time, you said you want to reduce leverage to 1 time net debt-to-EBITA.

I think that was the goal. Now you're restarting it at 1.3 times. So has anything changed in the way you think about leverage? And do you think the business can afford a higher leverage? Yeah, what you stand on this one? Thank you.

Eric Rondolat - *Signify NV - Chief Executive Officer, Chairman of the Board of Management*

Sven, the 1.3 of today is the old one of yesterday. There were some changes in IFRS, especially on how we account for leases. So if you were going back to how it was calculated before, the 1.3 of today would be equivalent to the 1 of back then.

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So I think we're fairly stable. When it comes to the leverage, we always said 1 time leverage at the time, which becomes 1.2 to 1.3 at this point in time. It is the exact equivalent.

Sven Weier - *UBS - Analyst*

Okay. Understood. Fair enough. Thank you. And just a second question is on your decision to step down, and sorry to see you leaving. I was just wondering if you could comment, is your contract normally ending at the time?

Is it you're going earlier? And was there maybe any difference in opinion between you and the Supervisory Board on the further strategic development of the company?

Eric Rondolat - *Signify NV - Chief Executive Officer, Chairman of the Board of Management*

No, not at all, Sven. I'm extremely close to the Board, and this is a decision that we have taken with the Board. And I would tell you, there are two elements in the decision. One is time, and the other one is timing.

So I've been -- depending on how you look at the situation, at the end of April, I would have been in that role for 13 years, nine years of which in a listed environment. So that's a long time. And I think it was very important for me to make sure that I was still able to bring what the company needs for the future.

And if you look at where we are today, we've built a very strong company that transformed with the industry, still being the leader in Conventional, Connected, and LED. We've built a EUR2 billion business of Connected and Specialty, and that business is also the future of the company in terms of value creation. And it needs a leadership that is going to stay for many, many years in order to reveal that potential. And this is beyond what would have been a reasonable time horizon for me.

Then the second element is timing. So when do we do this? So -- no, my contract was not coming to an end. But it was very important for me and it was very important for the Board that I would stay in 2024 because we had a major restructuring program.

And it's not only about the EUR200 million cost reduction that we wanted to achieve, but it's also about a change, a fundamental change on how the organization functions, repositioning the right people in the right job. So I thought it was very important for me to be there at that point in time.

And we exit the year 2024 with a company which is stronger than when we entered. And it's the right time to do it. We would not like and I would not want to be there for the last year. That would be the too many ones, if I can call it like that.

So it was a joint and conscious decision. If you look at what I think -- and I'm not going to say that because I have to. I would let you interpret it the way you want. But I have a lot of confidence for where we are. I think our teams are strong. They know what they're doing. They're experienced, and there's a fantastic potential to reveal ahead. And the team, with a new leader, will be capable to do that in the future.

So that's the context, but there are two elements. One is time; it's been a long time. And the other one is the timing; I think it's a good moment to do it.

Sven Weier - *UBS - Analyst*

Understood. Thank you, Eric.

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Operator

(Operator Instructions) Martin Wilkie, Citi.

Martin Wilkie - *Citi - Analyst*

Thank you. Yes, good morning. It's Martin from Citi. My question was on the Consumer Business. So we saw a good pickup in margin there. I just want to ask about the products and competitive dynamic in Consumer.

Obviously, the breadth of products available to customers now that are Connected Lighting has expanded. And you yourself have expanded what you offer. Has that been negative mix to margins, and you've offset that with cost reductions? Or how should we think about what drove that pickup in profitability in Consumer? Thank you.

Eric Rondolat - *Signify NV - Chief Executive Officer, Chairman of the Board of Management*

It's volume and margin and cost. It's the three, Martin. We know -- and you know because you follow us for a very long time that Q4 is a quarter where our Consumer Business performs in terms of top line higher than the other quarters. We have also a lot of promotional events during Q4 that are boosting that business, and that has been the case historically. So first element, it's a good level of top line. We are reporting 4% growth.

Now if you take out the negative impact of China, the growth would have been around 7.4%, which means that if you exclude China, we had growth in all the other geographies on that business. So number one is, effectively, the top-line increase.

Second, the margin, because in Q4 -- and that has been the case in 2024 -- we are selling a lot of connected products. And our connected offers have performed extremely well in Q4, which is creating a positive mix impact on the gross margin.

So if you look at the gross margin of that business compared -- in Q4 compared to the other quarters, there's a gross margin expansion. And of course, that business is also benefiting from the cost reduction program that everybody -- that all the businesses have also seen. So that's what explains the expansion of our operating margin for that business above 17% in Q4, Martin.

Martin Wilkie - *Citi - Analyst*

Great. Thank you. And if I could just ask further on China, both for Consumer and for the company overall. obviously, still a drag. Today, we track many, many things to try and see what China is inflecting. A lot of hope that that happens.

But obviously, the start of the year is often difficult to interpret because of Lunar New Year and things like that. But on the ground, what sort of signs are you seeing in China in terms of potential improvement in that region?

Eric Rondolat - *Signify NV - Chief Executive Officer, Chairman of the Board of Management*

Yeah, you're right, Martin. I mean, you cannot look at January individually. You cannot look at February individually. You need to look at January and February combined because of the Chinese New Year.

Look, China for us has been very clearly a negative drag on the top line. We explained, with more impact on the Consumer Business as the proportion of our Consumer Business done in China is higher than the same proportion when you look at our Professional Business.

But from a bottom-line perspective, we've been very resilient. The team locally has taken the right decision at the right time. And we have been able to maintain a decent level of profitability. When you're on the ground today in China -- and with Zeljko, we talk to China -- Zeljko maybe twice a month -- now just to try to understand how things are going.

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I believe that we've reached the bottom at this point in time. Now it's a very fragmented market where market share are smaller. So it's easier to navigate in a market which is having headwinds when the market share is a bit lower and the market is very fragmented. So we have hope that if the market situation is not worsening, we should be able to stabilize our performance in China.

The team in place is very energized despite complicated conditions, and we have plans in order to do so. So once again, we're cautious. So we're not expecting to see a huge rebound, but we expect to see a stabilization after a very complicated 2024, as we have commented.

Martin Wilkie - *Citi - Analyst*

Great. Thank you. And good luck in whatever role you may have after Signify as well.

Eric Rondolat - *Signify NV - Chief Executive Officer, Chairman of the Board of Management*

Many thanks, Martin.

Operator

Marc Hesselink, ING.

Marc Hesselink - *ING FM - Analyst*

Yes, thank you. I also want to come back on China. How do you think that structurally that market will develop? In many industries, there's now quite some overcapacity given sort of structurally lower growth rates from China.

So initially, I see a lot of Chinese companies reacting with being very aggressive on the pricing side. Do you think that there needs to be some structural market repair for you to make that structurally a better dynamic?

Eric Rondolat - *Signify NV - Chief Executive Officer, Chairman of the Board of Management*

Good morning, Marc. I think what you're saying is what we see also in the lighting industry. Now our position in China is also special because we are probably one of the only or very few non-Chinese brand, I would say. So we're also playing on that very specific competitive advantage.

Our brand is strong. China is a market that takes innovation. So very clearly in China, fighting on price, for us, would be the road to the bottom. So that's not what we're doing. On the contrary, we try to innovate. We try to bring a new product that also are easily integrated in Chinese connected ecosystems. And there are many different in that country. So these are the tools that we use now.

China, you can look at it with a short-term view, or you can look at China on the longer-term view. And short term, yes, it's complicated; yes, the market need to have structural adjustments. For us, it's about being focused on our business and differentiating with innovation, and focus on the market, on accessible market that can be ours.

But longer term, the potential of China is still fabulous in terms of economy. And we've been there for so many years. So we believe that whenever things are stabilizing after that period of transition that that economy goes through, we'll be able to reap what we have sown.

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Marc Hesselink - *ING FM - Analyst*

Okay, clear. And my second question is on Connected Lighting. As we always report, it's connected light points. And if you trended a little bit over the years, you're still adding to the connected light points.

But it is not -- the additions are not really growing anymore. I know, probably, the -- just the connected light points is not the same as revenue. But is it true that your Connected business is stable, or is it growing?

Eric Rondolat - *Signify NV - Chief Executive Officer, Chairman of the Board of Management*

Well, Marc, it's 20 million additional light points in only a year. I think that's quite massive. So basically, it's more than one million a month. So it's more than 250,000 per week. And I can continue on. So no, no, look, -- if you look at --

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Marc Hesselink - *ING FM - Analyst*

Sorry. I know it's growing year over year. But what I meant is, I mean, last year, it was also growing and the year before. So it's sort of a similar number. Like, whatever you're adding, that's -- there's no acceleration in that number anymore, right?

Eric Rondolat - *Signify NV - Chief Executive Officer, Chairman of the Board of Management*

Yeah, but it's still -- yeah, of course, it grows less than probably at the very beginning, but it's still grows. When you look at the past four years, we still had a Connected Lighting Business that has been growing, except maybe for the past, well, '23 and '22 in the Consumer Business because we had a huge growth in '20 and '21.

But at the end of the day, this is a business that has been very resilient and growing above our average in terms of comparable sales growth. So it's our future, as I was saying. Because strategically, this is where we are capable to leverage our highest level of differentiation.

And we are clearly the leader. It's about EUR2 billion [of intake] the Specialty and Connected Lighting Business. So it is an increased proportion in our overall turnover. So no, it's increasing, Marc, maybe a bit less than at the beginning in terms of lighting points. But 20 million in a year is still substantial.

Marc Hesselink - *ING FM - Analyst*

Okay, thanks.

Operator

Tim Ehlers, Kepler Cheuvreux.

Tim Ehlers - *Kepler Cheuvreux SA - Analyst*

Yes, hi, good morning. Thanks for taking my question. The first one is also a bit about geographies. So I think my colleague already took away my China question.

But could you maybe elaborate a little bit on the market share developments you see across the geographies? And then I'm thinking more about the US, but maybe also market share comments on China would be helpful. And if you see further potential, especially in the US, taking the tariff risk aside for now.

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Eric Rondolat - *Signify NV - Chief Executive Officer, Chairman of the Board of Management*

Market share development in China and broadly. We believe that in the US, we have been taking market share, especially on the Professional side of the business. I think we've been probably growing also our market share in Europe on the Consumer Business.

It has slightly declined on the Professional part of the business. And it's the reverse in China, where we think we've been stable on the Professional side of the business, but probably declining slightly on the Consumer part.

India has been strong for us, and we believe that we have consolidated our overall position and market share in that country. So the difficulty, Tim, in this situation is that, to evaluate market share, you need to evaluate it on a few quarters with a given level of stability. But from a distance and with the information that we get one quarter after the event, that's what we see so far.

Tariffs, yes, we believe that tariffs could be an opportunity. Because when we look at our footprint, we think we have a better footprint than many competitors, that should help us to benefit from an eventual tariff that would be decided.

Once again, benefiting from the tariff is the result of two factors: our footprint and our capacity to very quickly adapt to whatever is being decided. So the teams are on the starting blocks. And whatever is going to be decided, we have plan A, plan B, and plan C ready to be implemented.

Tim Ehlers - *Kepler Cheuvreux SA - Analyst*

Okay. Sorry, just to add on to the tariffs. But don't you produce most of the products in Mexico?

Eric Rondolat - *Signify NV - Chief Executive Officer, Chairman of the Board of Management*

Well, we have an important part of what we produce in Mexico, but less probably than other competitors. So that's the way to look at it. Now when it comes to Mexico, I think we need to wait a little bit. At this point in time, the information that we get are very speculative.

So we need to wait until something is decided to know really where we go. But yes, we produce in Mexico, but we think that our footprint is better positioned than other competitors on the market.

Tim Ehlers - *Kepler Cheuvreux SA - Analyst*

Okay, clear. Thanks. And then one last follow-up, sorry for that. But you just mentioned -- well, after the question why you're leaving, et cetera -- that you now brought Signify into a position where Connected Lighting is really the core of the business. And that's also where you want to be going forward, and it should remain an innovative company, et cetera.

What does that mean for the other businesses? So I'm thinking about the basic LEDs, the conventional lighting, so stuff where you're not innovative leader. And yeah, we're not -- where you don't have the USP as you have in connected lighting. What's the game here?

Would you consider shrinking the business or selling part of it to become more profitable and really grow the focus areas? Or is it really just keeping the whole business and then focus on the growth areas in addition to that?

Eric Rondolat - *Signify NV - Chief Executive Officer, Chairman of the Board of Management*

Well, Tim, the strategy is very clear, and it has three fundamental pillars. So the first one is on the Conventional part of our business, we believe that 86% of the market is in the hands of three companies, including ours, and we are leading. So we are just following the decline of that business continuing to have it, not only profitable but also cash generative as we have done along the years.

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Now we need also to understand that there's one part of that business, which is the Specialty Business, which is declining much less than the average. And the more we go, the more that business takes an important part. So we can imagine in the future, having a business which is profitable and declining much less than it is the case at this point in time.

For the LED non-connected, this is where we need to act in a multifold approach. So the first one is, we need to fight with our main brand, Philips, but also with the B brand that would be operating at a lower level. But we need to make sure we are very cost efficient and we are a cost leader. And for this, we have plans from an industrial standpoint, for instance, to build the biggest factory producing lamps in the whole world.

We don't have to build it. It's already built. And then the third approach for that part of the business is also to develop what we have called ultra efficient, which is an LED technology which is saving 50% of the existing first generation of LED. And we think that we can convert, in the coming years, the market to that new technology, which of course, is not available to as many competitors as the original one.

And of course, the third element to our strategy is to capture more growth on Connected and Specialty. Now if you take some distance, it's about 7% is Conventional declining and 60% LED non-connected today growing at market growth. And it is 30% of Specialty and Connected growing far above market growth. And if you make a very simple equation of a market, that would be growing 2% to 3% than the company grows.

So we need the markets to go back to a situation where there's more economic traction. And then our growth profile will function and will prove that we have the capacity to grow.

Tim Ehlers - *Kepler Cheuvreux SA - Analyst*

Perfect. Thanks a lot.

Operator

Ladies and gentlemen, due to time constraints, that was our last question. I turn the call back over to Ms. Gerdes for any additional or closing remarks. Thank you.

Thelke Gerdes - *Signify NV - Head of Investor Relations*

Ladies and gentlemen, thank you very much for joining our earnings call today. If you have any follow-up questions, please do not hesitate to contact Noëlly or myself. Again, thank you very much, and enjoy the rest of your day.

Operator

Thank you. Ladies and gentlemen, that concludes today's conference. We'd like to thank you for your participation. You may now disconnect. Have a good day, and goodbye.

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