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PRESENTATION

Operator

Ladies and gentlemen, welcome to the Signify Earnings Call Q4 and Full Year 2019. (Operator Instructions)

I would now like to give the floor to Robin Jansen, Head of Investor Relations. Mr. Jansen, please go ahead.

Robin Jansen - *Signify N.V. - Head of IR*

Thank you, and good morning, everyone. And welcome to the Signify Earnings Call for the Fourth Quarter and Full Year 2019 Results. With me are Eric Rondolat; and Stéphane Rougeot; as well as René Van Schooten, who will take over from Stéphane on March 1.

In a moment, Eric will start with a summary of the business and financial performance in 2019. After which, Stéphane will take you through the fourth quarter financial performance. Eric will then tell you more about the highlights for the full year 2019, and we'll end today's presentation with the outlook and some concluding remarks. After that, we will be happy to answer your questions.

The press release and the related slide deck were published at 7:00 a.m. CET this morning. Both documents are now available for download from our Investor Relations website. A full transcript of this conference call will be made available as soon as possible on our Investor Relations website.

With that, I will now hand over to Eric.

Eric Rondolat - *Signify N.V. - Chairman of the Board of Management & CEO*

Thank you, Robin. And good morning, and thank you all for joining us today.

I propose that we go immediately to Slide 4. So as you can see, we've made a solid progress on the transition from conventional to LED and connected lighting. In 2019, our LED-based sales grew by 1.4% on a comparable basis, and now represents 78% of total sales in 2019. For Q4, the total LED-based sales is 80%.

Our installed base of connected light points, which is a very important metric for us, increased from 44 million at the end of 2018 to 56 million at the end of 2019. We have improved our adjusted EBITA margin for the sixth consecutive year by 30 basis points in 2019 and by 400 basis points since 2013. Our efforts to simplify the organization and also reduce our indirect cost base resulted in a EUR 125 million decrease of our adjusted indirect cost in 2019, which is a reduction of 6.6% on a currency and scope comparable basis.

Our free cash flow of EUR 529 million is at the highest level since the IPO. It reflects an improvement of EUR 223 million compared with 2018, including an impact of EUR 71 million related to IFRS 16. Importantly, the cash contribution from the growing profit engines is now more than twice that of lamps.

These achievements clearly demonstrate that we have significantly strengthened the business and financial profile of the company over the years, and we now propose to pay a dividend of EUR 1.35 per share, which represents an increase of 3.8%.

While we continue to face challenging market conditions, we are confident that our focus on growth initiatives will further strengthen our market leadership and progressively improve our growth profile. We're also seeing positive traction from the acquisitions we completed in 2019 and look forward to welcoming Cooper Lighting in 2020. In total, these acquisitions add close to EUR 2 billion in sales and will further improve our business and financial profile.

Sustainability is at the heart of everything we do. And therefore, we are very pleased with the progress we have made on our sustainability targets for 2020. We are well on track to become carbon neutral this year. In 2019, we reduced our net CO_2 emissions by 58% compared to last year, and we are now carbon neutral in 15 out of our 19 markets.

But let me now hand over to Stéphane, who will tell you more about the financial performance for specifically Q4 2019.

Stéphane Rougeot - *Signify N.V. - CFO & Member of the Board of Management*

Yes. Thank you, Eric, and good morning, everyone.

Let's now move to Slide 6. And here, you can see a snapshot of the fourth quarter 2019 financial performance for our 3 growing profit engines. So here, the comparable sales growth for the growing profit engines was minus 0.7%, as you can see, and that reflects the challenging macroeconomic environment that we are seeing in Europe, in India and also in the U.S., which results in lower market activity. Our growth platforms, connected systems, IoT platform services, horticulture, solar, LiFi, 3D printing, they all showed quite a positive momentum in 2019. From a profitability standpoint, the adjusted EBITA margin of the growing profit engines improved by 180 basis points to 14.2%, with a solid increase in profitability, in professional and in home.

Let me now give you a bit more detail for each of the 4 business groups starting on Slide 7 with LED. Nominal sales increased by 12.3%, reflecting the consolidation of Klite since the beginning of the fourth quarter. Comparable sales decreased by 2.9%. LED lamps delivered a solid performance and outgrew the market in Europe and in Asia, while LED electronics continued to be impacted by lower customer demand in most regions. In LED lamps, we continue to see a slowdown of price erosion on a sequential basis.

On the profitability side, the adjusted EBITA margin remained solid in the fourth quarter at 14.3%, mainly as a result of ongoing procurement savings.

On the next slide, Slide 8, you can see some of the business highlights of this quarter for LED. Let me now zoom in on the launch of WiZMote control device with 8 settings. This control device allows for quick access to and control of the WiZ smart lighting system. The WiZMote can also be paired with the WiZ app for enriched and personalized settings.

The other development of the quarter that I would like to highlight is the launch of the first D4i driver. This is a standardized interface between the LED driver and the IoT nodes or sensors. We strongly contributed to the conception of this standard, and we have now released the first drivers that are fully compliant and D4i-certified. The use of these drivers allows for an easy exchange of different IoT nodes or sensors on outdoor fixtures, making it very attractive and easy for municipalities to make the transition to connected outdoor lighting or to install connect-ready luminaires with D4i drivers now and upgrade to connectivity later.

Let's now move to professional on Slide 8. Comparable sales declined in the quarter by 1.5% compared to last year, mainly due to continued challenging market conditions, most notably in India and in China as well as a lower level of market activity in the U.S. While sales were lower, we were able to increase the adjusted EBITA margin by 70 basis points to 12.7%, mainly as a result of indirect cost reductions.

There are a couple of business highlights that we would like to bring to your attention on the next page, Slide 10. In the fourth quarter, we launched a tailor-made 3D printing service for luminaires, servicing the circular economy. Luminaires manufactured with 3D printing technology have a 47% lower carbon footprint compared to metal luminaires. It offers customers a level of flexibility that traditional manufacturers cannot offer. And customers, so far, include Marks & Spencer, Albert Heijn, SAS and Praxis.

Another highlight this quarter in the Prof business was the launch of Interact Industry in collaboration with Pilkington. This is a cloud-based wireless connected lighting system that is specifically designed for warehouses and manufacturing facilities. This new offer provides industrial businesses with significant energy savings and also established a safer working environment in warehouses and factory environment. Through smart sensors embedded in the lighting system, Interact Industry also provides insights into space usage in order to boost efficiency.

Let's now move to Page 11 and take a look at the Home business. Home reported an increase in comparable sales of 9.5% in Q4. This was mainly driven by a strong performance in Europe and also the successful introduction of innovative offerings. The adjusted EBITA more than doubled to EUR 38 million, improving the adjusted EBITA margin from 8.9% in Q4 2018 to 19.8% in Q4 2019. This was mainly driven by the higher top line, but also the gross margin improvement and the cost optimization that has been done along the year.

Also for Home, we would like to share a couple of business highlights with you that you can see on Slide 12. We launched a voice control for our Philips Hue Play HDMI Sync box. This means that people can now control the Sync box via voice commands on Amazon Alexa, Apple Siri and also Google Assistant. In addition to that, the Sync box is now equipped with an infrared receiver feature, which enables the user to control the Sync box with a standard remote control or with a universal remote control.

We also further expanded our Philips Hue outdoor offering, introducing new wall and pathway lights, providing even more effortless personalization of lighting in people's outdoor spaces.

Next to that, we introduced low-voltage lighting options so that people can simply plug and play their outdoor lighting and no longer need an electrician. And we also introduced new 40- and 100-watt power supply units, allowing consumers to connect twice the number of outdoor lights.

Moving to Lamps, our cash engine on Slide 13. Comparable sales decreased by 18.3% in Q4. We believe this decline is lower than the market decline as we continue to gain market share. And the adjusted EBITA margin remained solid at 7 point -- 17.3%.

On Slide 14, you can see the adjusted EBITA bridge for Signify globally. In the fourth quarter, the adjusted gross margin as a percentage of sales increased by 30 basis points compared to last year and included a positive currency effect of 30 basis points. The impact of price on the gross margin was lower than in Q4 last year and has been, again, largely offset by ongoing savings in the cost of goods sold. Our indirect cost base decreased by EUR 25 million compared to the fourth quarter of 2018 when you exclude the impact of ForEx and change in scope.

Let's now take a look at the development in working capital in the fourth quarter on the next slide, Slide 15. Compared to the same period in 2018, working capital decreased by EUR 140 million to EUR 388 million at the end of 2019. As a percentage of sales, working capital represented 6.2% of sales, which is a reduction of 220 basis point compared to the end of 2018. This includes the effect of the Klite consolidation in the fourth quarter of 2019, which brought a high level of payables and an overall negative working capital. Without this impact, our work capital reduction is around minus 160 basis points.

This is the result of initiatives that we have implemented during the year, focused on optimizing our receivables and also our payables policies, which led to improvements in DPOs and DSOs across the company.

With respect to the increase in payables, in addition to the Klite consolidation impact, we're assuming that around EUR 20 million of the increase in payables has been due to phasing of payments at the end of the year, which will reverse in the first quarter of 2020. Going forward, we continue to see room for further working capital improvements through reduction of inventories, also receivable overdues, improvement in Incoterms and of the whole digitalization of our supply chain.

When you look at inventories on the right side, they increased by 20 basis points year-on-year to 14% of sales at the end of the fourth quarter. This is also largely the impact of the Klite consolidation in the fourth quarter and to some extent, higher inventories in Europe and growth markets. This was offset by lower level of inventories in the Americas.

Finally, let's now take a look at our net debt position in Slide 16. Our net debt decreased by EUR 239 million compared with the level at the end of the third quarter 2019. And this was mainly driven by our strong free cash flow in the fourth quarter, in addition to the profit that we generated in the quarter and the decrease in working cap that I have just mentioned, you can also see the other items in the bridge that impacted cash and, therefore, our debt position.

Our net CapEx was EUR 26 million in the quarter, and the net change in provisions was EUR 4 million. Next to that, we paid EUR 30 million for taxes and interest.

The other bucket of EUR 69 million includes the cash that we used for acquisition of businesses, partly offset by cash that we received for sales of businesses, also the impact of the new lease liabilities following the application of IFRS 16.

All in all, our net debt position amounted to EUR 618 million at the end of 2019. This gives us a leverage ratio of 0.9x at the end of December, and on average for the year, 1.2x. This includes the impact of IFRS 16, which has increased by 20 basis points our leverage ratio.

Let me now hand back to Eric for the highlight of full year 2019 and the outlook.

Eric Rondolat - *Signify N.V. - Chairman of the Board of Management & CEO*

Thank you, Stéphane. So let's turn to Slide 18. As you can see, our growing profit engines, profitability and free cash flow significantly improved in 2019. The profitability of our growing profit engines increased by 180 basis points in 2019 to 10.4%, with each business group supporting the improvement. They represented 70% of our adjusted EBITA in 2019, excluding Other, compared to 58% a year ago. The free cash flow of the growing profit engines increased to EUR 559 million, an improvement of EUR 189 million compared with last year, including a EUR 53 million positive impact from IFRS 16. As a result, the free cash flow of the growing profit engines is now more than twice that of our cash engine lamps, which stands at EUR 222 million.

So let's move to Slide 19. Here, we show the comparable sales growth and adjusted EBITA margin for our growing profit engines and also for our cash engine. In LED, we had a comparable sales decline of 1.1% in 2019. LED lamps delivered a solid performance, while sales in LED electronics were impacted by lower customer demand in most regions. The adjusted EBITA margin improved by 100 basis points to 12.7%. This was mainly driven by procurement savings and lower indirect costs.

In Professional, sales declined by 1.7% on a comparable basis. This was mainly due to weaker market conditions in various regions, mainly Europe and India. The adjusted EBITA margin in professional improved by 50 basis points as procurement and indirect cost savings more than offset the negative impact of price and mix.

In Home, comparable sales grew by 11.3% on the back of a particularly strong performance in Europe. The adjusted EBITA margin significantly improved to 3.8%, driven by higher top line, gross margin improvement and also cost optimization. Our cash engine lamps continues to deliver on its last company standing strategy, which resulted in further market share gains and free cash flow of EUR 222 million or 19.2% of sales.

Let's go to Page 20, where you can see the evolution of our indirect cost savings. So we are executing on a multiyear transformation program to simplify the organization, as you know. In 2019, we lowered our direct cost base by EUR 125 million, adjusted for FX and scope, which is a reduction of 6.6% or 70 basis points of sales. This significant reduction was mainly the result of all the transformation initiatives that we implement related to rightsizing and productivity improvement across the company as well as specific optimization initiatives in the support functions and also the supply chain.

Let's take now a step back and have a look at how we substantially strengthened Signify business and financial profile over the last 6 years, and you see that on Slide 21. The transition of our company is progressing successfully, our total LED-based sales now represents 78% of total sales in 2019 while this was only 26% in 2013. At the same time, we have significantly improved our profitability. Our adjusted EBITA margin has improved by 400 basis points since 2013. As we are transitioning to an asset-light business model, our gross CapEx requirement decreased to 1.4% of sales. So all this has contributed to a very solid free cash flow profile, which delivered EUR 529 million in cash in 2019, 8.5% of sales, which is our highest level since the IPO.

Let's now take a closer look at our main achievements in sustainability on the next slide, Slide 22. So as you know, sustainability is absolutely key for us, and we have 6 defined targets. Sustainable revenues. So 82%, or 82.5%, to be pretty precise, of our revenues were sustainable in 2019, already exceeding our 2020 target of 80%. We sold 2.3 billion LED products cumulative from 2015, well ahead of our target to deliver more than 2 billion LED products by 2020. We're also well on track to become carbon neutral this year. We reduced our CO2 net emissions by 58% to 61 kilotons compared to last year and by more than 90% since 2015. In 2019, we reduced our waste to landfill by 70%, bringing us close to our target to achieve 0 waste to landfill at 100% of our sites.

We also want to assure a safe and healthy workplace for our employees. We are 9% ahead of our target on recordable cases. We have built a sustainable supply chain, 99% of our risk suppliers have been audited well ahead of our 2020 target of 90%. Our teams are very proud for having been named industry leader in the Dow Jones Sustainability Index for the third consecutive year and for being included in CDP's prestigious A-List for climate change since the IPO time.

Let's now go to slide -- the next slide, Slide 23, to talk about our intended capital allocation in 2020. So we propose to pay a cash dividend of EUR 1.35 to be paid in 2020. This represents an increase of 3.8% compared with 2018, the payout ratio of 47%. Following the announced acquisition of Cooper Lighting, we will prioritize deleveraging with strong free cash flow expected to drive down our net leverage ratio from around 2x at closing to below 1x net debt over EBITDA within the next 3 years. So we intend to use EUR 350 million to reduce debt in 2020.

In light of the announced Cooper Lighting acquisition, let me update you on our capital allocation policy going forward. Our aim is to continue to pay stable to increased dividend per share. We will also continue to invest in R&D and other organic growth opportunities. And as we will focus on integrating Cooper Lighting Solutions, M&A will have a lower priority.

Let me now move to Slide 24 to remind you of our capital allocation since the IPO. Since the IPO, we have been able to generate solid free cash flow every year. This enabled us to maintain a financing structure that is compatible with an investment-grade profile. We have, and we will have paid cash dividends of EUR 662 million since the IPO, including the proposed dividend over 2019. We made EUR 132 million of additional contributions to the U.S. pension fund since our IPO, which reduced our liabilities and future interest expenses. In addition, we used EUR 563 million since the IPO to repurchase shares for cancellation and EUR 74 million to repurchase shares to cover our performance share plans.

Next to the uses of cash I just talked about, we also pursued a number of acquisitions in 2019, as you can see on the next slide, this is Slide 25. So through the acquisition of WiZ Connected, which we completed in the second quarter of 2019, we have extended our leadership in connected lighting by stepping into the WiFi-based smart home lighting market. We have also acquired the animal-centric lighting experts of Once and iLOX to capture attractive growth in agricultural lighting. This acquisition was also closed in the second quarter of 2019.

In addition, we acquired a 51% stake in the Chinese provider Klite to further strengthen our strategic position in the LED market. It will bring an additional scale and innovation power to Klite, resulting in cost dilution and hence, margin consolidation.

Last but not least, we also announced the acquisition of Cooper Lighting, which will strengthen our market position in North America with increased innovation power and more competitive offerings. The acquisition will also improve our overall business mix with professional revenues increasing from 42% to 53% of our total sales. On top of that, Cooper Lighting offers substantial value creation opportunities through very precisely identified cost synergies of more than EUR 60 million -- or $60 million in that specific case.

Let me now turn to our outlook and conclusion, and this is on Slide 27, where you can find our outlook for 2020. So for 2020, we aim to achieve a further improvement in the adjusted EBITA margin and to deliver free cash flow of at least 6% of sales. This outlook excludes the announced acquisition of Cooper Lighting. We intend to provide an update on the outlook after the closing of the Cooper Lighting acquisition, which is still expected to take place in Q1 2020 as we previously indicated.

Based on the prevailing spot rates at the end of December 2019, the currency impact on the adjusted EBITA margin will be around 20 basis points positive for full year 2020 and around 60 basis points positive for Q1 2020. And as we continue to see a lot of opportunities to further optimize the organization, we expect restructuring costs for 2020 to be in the range of 1.5% to 2% of sales.

Finally, let's go to the last slide, Slide 28, to talk about our recent announcements that we are adapting the business structure to enable stronger customer focus and enhance specialization to further increase our speed of execution. So with this new structure, we will focus on business around our customers and create one global operations team to drive customer and business excellence. We will serve our customers better, faster and simpler, driving sustainable innovation. We intend to move from the current 4 business groups to 3 divisions: Digital solutions, formerly known as BG Professional; Digital Products, which combines BG LED and BG home; and finally, Conventional Products, which is the current business group Lamps. Once we've received the required works council approval, we intend to adapt our external segment reporting accordingly.

With that, I would like to open the call for questions, which Stéphane and I are happy to answer.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Lucie Carrier from Morgan Stanley.

Lucie Anne Lise Carrier - *Morgan Stanley, Research Division - Executive Director*

I guess my first question would be on the Home business. I mean the performance was quite remarkable actually in the fourth quarter. And I was hoping that even though you're not providing a formal outlook yet for 2020 on the back of Cooper, Home is not going to be affected by Cooper in 2020. So can you maybe help us understand how the profitability has rebounded so strongly in the fourth quarter. And as we look at the coming year, 2020 and beyond, how should we think about the profitability in this business now that it seems that you've reached some sort of a stronger momentum?

Eric Rondolat - *Signify N.V. - Chairman of the Board of Management & CEO*

If you remember, when we presented the Q3 results, our message was that the P&L of Home was very well positioned, and that we had managed to achieve what we wanted in terms of reaching the market with a proper commercial policies towards our different distributors and wholesalers. Basically, what happens is when you have a strong P&L structure and you go into Q4, which is known to be the biggest quarter in terms of volume for the Home business, you get these results, which is basically a very strong transfer of the increased top line to the bottom line with a result of 19.8% in operating margin, and also cash delivery that was very, very much in line with what we expected for Home in Q4. So that's what has happened punctually during the year, which is moving Home at 3.8% in terms of operating margin for the full year. A bit below our original expectations, but we had, I would say, a weaker H1 for Home, which fully impacted the performance for the whole year.

Now if we look at what we have said directionally and speaking about 2020 and beyond, we always believed in that business where I think we bring a clear differentiation with our nonconnected, but also with our connected offers, where we have created a very specific ecosystem that is not being echoed at this point in time. Of course, it needs education of the consumer. It needs permanent innovation. And you remember that in Q4, we brought to the market very, very substantial innovations that has paid off in Q4, and we believe that these innovations are still going to drive interesting performances in the quarters to come. So we are not specifically more bullish about Home that we have been before, but we're very optimistic. This is a business where we have a legitimacy, where we have a very high market share worldwide, where we have substantial innovation that are already brought to the market and some more are coming, and we see that, that business has an interesting future.

Now we're not giving at this point in time, a specific outlook for that business. We're waiting, even if Cooper, as you say, is not directly impacting that business, although there is an equivalent offer in the Cooper portfolio, and we need to see how we decide to report moving forward. So when it comes to more specific guidance and outlook, that will come at a later stage.

Lucie Anne Lise Carrier - *Morgan Stanley, Research Division - Executive Director*

My second question is maybe a bit more conceptual, but we are -- despite the performance of Home and the fact that the lamps business is now less than 20% of sales, if we are looking kind of the growth engine, it still seems not to be able to really turn the corner and actually print, what I would call, a sustainable growth. And that has been the case for several years now. I understand when you speak about challenging market conditions, and we've seen some of your competitors in lighting also reporting as of late, relatively soft numbers. But when we think about this market, generally speaking, and compare with the construction market, the construction market hasn't been declining over the last 2 years, not nearly by the amount of what we've seen in the growth engine. So how do we reconcile that? I mean when does the lighting industry, generally speaking, turn the corner and actually -- and again, excluding the lamps business, and post actually proper growth? When does that become a growing business?

Eric Rondolat - *Signify N.V. - Chairman of the Board of Management & CEO*

I think that's a very good question, Lucie, and this is, of course, in our mind. So let's try to look at it in different ways. So let's exclude, effectively, lamps because if we need to post a neutral growth at the level of the company and we have our conventional business, not only lamps, all the conventional businesses, the decline at about 20%, then we'd have the rest. We need to grow at 6% in order to be growth neutral.

But let's exclude the conventional part of the business, and let's focus as you have done it on the growing profit engines. If you look at the past 4 years, they have grown 10%, 5%, I think minus 0.7% last year and minus 0.3% this year. So we would say that after a period of growth, they have been quite stable. And now we attribute that stability to 2 things. First of all, a clear market degradation that we are not the only ones to see, and you have also mentioned it. But also, when you look at these numbers and you compare it with what you hear from other competitors, they compare extremely well because we have, at the same time, developed some growth platforms. I'm not only talking about systems in the professional space, but also in the consumer space. I'm talking about what we've done with agricultural lighting, what we're doing with solar or what we're doing with 3D printing, all the efforts that we're doing on developing LiFi technology. So when you talk about growth for the future, you need to have the different platforms that are paying now and also for the future. So I think that when you look at the performance, the performance is translating that these growth platforms are growing. But at this point in time, we are facing challenging and volatile market conditions.

Operator

Our next question comes from the line of Joseph Zhou from Redburn.

Joseph Zhou - *Redburn (Europe) Limited, Research Division - Research Analyst*

And my first question is about your indirect cost savings. So you have achieved a 29% of sales this year. I wondered -- and what more can you do next year and beyond in terms of this part?

And also, you ended moving the divisions from 4-division structure to a 3-divisional structure. And is there sort of an organizational structure initiative that you are doing in a moment to make a flatter structure? And is that the thinking?

My second question -- well, I'll come on to the second question after this.

Stéphane Rougeot - *Signify N.V. - CFO & Member of the Board of Management*

Sure. Joseph, so on the -- on indirect cost, yes, you remember for several years now, we've said that we believe the indirect cost range should be between 25% to 29%. And we've indicated that depending on the growth that we can have, it's going to be either bottom end or the upper end of the range. Of course, when you look at the top line evolution, we've been able to reach only the upper end of the range. However, that's also the consequence of a lot of actions that we've done. And you saw the performance, in particular in 2018, with north of EUR 200 million of cost reductions in our NMC. And again, in 2019, when you remove ForEx and acquisitions, EUR 125 million. Of course, behind that, there are a lot of very specific and granular initiatives taken across the organization, whether the markets, the businesses, the functions. And to your point around what's left, yes, there is more to come. 29% is not particularly low. Actually, if you compare and look at the benchmark, look at some other companies, it's probably still on the high end. And we see very concretely a number of areas where we can still bring down our cost, and that's what we've been doing and will continue to do. So there is more that we can do. We are also moving much more into digital that will help also streamline our processes and streamline our organization. And to your point around the organizational change, the objective is not about streamlining and flattening the organization, as explained by Eric in the presentation. It's about being more customer-centric, being quicker on the execution. Of course, if there are benefits and ways for us to further streamline, we do the cost. We'll do that, but that's not the intention.

Joseph Zhou - *Redburn (Europe) Limited, Research Division - Research Analyst*

Okay. And just a question on the very topical, unfortunate, coronavirus that we're having in China at the moment. I know China is only 7% of your sales, but it is 15% of your employee base. And also, you have a lot of suppliers based in China. So I wonder whether you could share your thoughts on the potential impact, which most -- I guess, you would expect that to be fairly temporary on Q1. But then, I think I'm quite interested in knowing the supply chain impact, whether you have sufficient stock level as a buffer and whether you expect the production to return fairly soon, that the impact may be fairly minimal. Basically, your thoughts on that, if possible.

Eric Rondolat - *Signify N.V. - Chairman of the Board of Management & CEO*

Sure. Joseph, let me talk to this. But let me talk to it in 2 different parts. And the first one is our employee base, and that's the #1 absolute priority for us. We were very, very fast in reacting whenever this started a few weeks ago. And effectively, as you say, we have an important population in China, above 7,800 people, and it's also our market #2. But we've reacted extremely quickly when it comes to our people. We know exactly where all our people are located. Most of them are still at home. They are being reached individually on a daily basis. They were sent some protective equipments, masks, with very -- with different grades of filtering. They were also sent some soap and gel for their hands, for them and their families. And we are very happy to report at this point in time that we have not recorded any case of infection. We're also present in Hubei province. We have 2 different locations, 35 people. So we're monitoring this on a daily basis, and the team is doing a fantastic job. So that's one, and I would say that's our priority #1.

Now we are following the directive that the Chinese government has given, which is that the holidays have been extended, meaning that our people will be going back to work, whether it is in office spaces or in factories a bit later than what we had originally forecast. So we're looking at the supply chain in many different ways at this point in time. So first of all, we have inventories that we build up for the purpose of Chinese New Year, and we are now trying to see how much we have in these inventories. We're looking also at inventories across regions, not only in one specific region, to see how much of these inventories can be used in order to service the needs of our customers. We're looking also at the possibility not to supply exactly the product, which is needed, but an equivalent that we would have in our inventory. So there's a lot of activities that are done as far as this is concerned, very specifically on the inventory.

Now what we're looking at doing at this point in time, we're looking at the critical supplies that may be affected by a prolonged situation in China. And I have to tell you that at this point in time, it's very difficult to very precisely indicate any type of impact because, as you can imagine, it's going to be very different if people resume work on the 14th of February as it is forecast at this point in time, or if this lasts much longer, weeks or months longer. So it's very difficult to evaluate at this point in time, but we're looking at all the possibilities to find alternative sourcing if ever we were not able to get the products coming from our own factories or our suppliers factories in China.

Now I have also to tell you that some of the issues are easier to solve than others. So on the mechanical parts, we already put things in place, and we believe it's doable, it's already activated. We've done the same thing on transportation. We're looking at what we can do on electronics. But then this is what becomes a bit more complicated, it's electronics and LED specifically where a big part of the supply chain is in China at this point in time. But I tell you, we are active every minute at this point in time to try to evaluate what we do with existing inventories, what we do with suppliers in order to get at least as possible affected. But we'll know better in the coming weeks, and if needed, we'll inform accordingly.

Operator

Our next question comes from the line of Ji Cheong from Citi.

Ji Cheong - *Citigroup Inc, Research Division - Senior Associate*

I just have one question on the Home business, more of a follow-up. But -- so just wondering if you're seeing any notable competition landscape changes. So are you still dominant player? And are you expecting to remain as the dominant player for some time?

And also, in terms of geography, so you've mentioned the strong performance in Europe. So are you looking towards any other markets outside of Europe for this particular segment?

Eric Rondolat - *Signify N.V. - Chairman of the Board of Management & CEO*

No major competition landscape change in the Home business. I would not choose the word of dominant there. I think we have, especially in the connected space, a very high market share, but it's a business that we need to drive on a daily basis. If you remember, we have also indicated previously that we sensed that there was another market developing itself in the smart home business, which is the WiFi-based type of offers, which is not what we had originally because, originally, we had Zigbee-based offer now also with Bluetooth-direct-control. But we know that the market is also moving towards WiFi, and we made the acquisition of WiZ, which helps us to cover the market better. And we are very satisfied with the performance of WiZ after the acquisition, so already in the back-end of 2019. And we are very hopeful and positive for that business moving forward in 2020. So no notable competitive landscape change, but we have moved by acquiring a company that helps us to access to another part of that market.

From a geographical standpoint, we mentioned Europe, because Europe has been particularly strong. But we've seen a positive traction on that business worldwide, and we are opening as we -- we will be opening in 2020 also new markets with very interesting launches that have been well prepared on important geographies, and that's both on the Hue offer, but also our WiZ offer.

Operator

Our next question comes from the line of Marc Hesselink from ING.

Marc Hesselink - *ING Groep N.V., Research Division - Research Analyst*

Yes. I would like to discuss the comment you made in your press release on India, China and the U.S., and you see the difficult challenging markets in India and China and also in the U.S. and a little slowdown. Could you explain it a bit more and how you see that going into the full year of 2020?

Eric Rondolat - *Signify N.V. - Chairman of the Board of Management & CEO*

So on China, specifically, it was for -- I think we mentioned it for Professional. So what has happened is that at the back end of the year, in China, the government asked the different provinces and cities to slow down on their investments in architectural lighting. And you know that this is a business in which we are very invested, so -- especially, normally the end of the year is quite a big quarter for us. So that impacted us in Q4 in the Professional business.

As far as the -- as U.S. is concerned, we had seen a fairly dynamic environment in the U.S. for professional in the past quarters. And as you have seen some other companies indicating slowness in U.S. in Q4 and for some of them already in Q3, we felt also a lower level of activity in Q4 in the U.S. This is why we mentioned it.

Now moving forward in 2020, it's always a gamble, and we're not gambling. There's so many things happening at this point in time, as you can see, in an economy and in a global environment, which is quite volatile. And I say that I hear the challenges, but also I want to see the opportunities. We're continuing to be applying and executing very rigorously our strategy, which is to move to the growth platforms I was mentioning before. And we see on a daily basis that we have more opportunities when we focus on those. They can be 3D printing, which we believe has a fantastic potential. We're opening new factories. We've started in 2019 and will expand further in 2020 in countries like India, in countries like Indonesia, in countries like U.S., where we see interesting market perspectives. So there is the main business and everything that we have developed around that should drive growth, and we think that, that's going to be the case also in 2020.

Marc Hesselink - *ING Groep N.V., Research Division - Research Analyst*

Okay. And maybe I should follow up with this. I understand that you don't give the precise guidance at this stage, given the Cooper acquisition. But please, correct me if I'm wrong, but it seems that at the start of the year, the upcoming year seems to be a bit more challenging than last year. And then also last year, there was some headwind. Is that correct. Does it seem to be off for a more challenging start, especially also taking into account the year of the coronavirus?

Eric Rondolat - *Signify N.V. - Chairman of the Board of Management & CEO*

It's always difficult to say. Every year has got its fair level of challenges, especially in an environment, which has been in between countries, quite conflictive in some aspects, the situation of the tariffs and so on. So we had, in 2019, especially India, very, very complicated situation to manage. Also, in Middle East with the change of standard, it was very, very complicated to adapt to that, but we did it. So it's very difficult to compare yours.

Now it depends what happens with the corona virus moving forward. Is that a matter of weeks and days or is that a matter of months? If it's a matter of months, that will certainly be more disruptive than if it stays in line with what is forecast so far that everything will be going back to normal on the 14th of February. Look, it's very difficult to compare 1 year to another one. The only thing that I can tell you is I think we are more prepared at the beginning of 2020 in the way our business is organized when we look at the performance of our individual business groups, when we look at the investment that we've done in growth platforms. So we are certainly better positioned now than what we were at the end of 2019.

Now it's our job, it's our duty to try and transform these assets that we have developed and these capabilities that we have strengthened into business results, but that's what we're going to do in 2020.

Operator

Our next question comes from the line of Wim Gille from ABN.

Wim Gille - *ABN AMRO Bank N.V., Research Division - Head of Research & Equity Research Analyst*

This is Wim Gille from ABN. I've got 2 questions. First of all, during your prepared remarks, you mentioned that part of the free cash flow that you generated in the fourth quarter would reverse in the first quarter, but I didn't quite catch exactly which part. So can you reiterate at least?

The second part is on the Home division, which obviously did very well in terms of profitability. During your previous answer, you mentioned it is -- that you went into the fourth quarter from a position of strength and that you also have the right commercial policy. To summarize that, is it just plain and simple that you spent less or had to spent less on advertisement and promotion as you decided not to participate as aggressively as in the past in the holiday selling season in the U.S.?

Stéphane Rougeot - *Signify N.V. - CFO & Member of the Board of Management*

Wim, let me take the first question on what happened at the end of the year. I think I've mentioned that a couple of quarters ago as part of the optimization of our working capital, one of the things that we've done is to change the way we pay our suppliers. We used to pay our suppliers every day. And now like many companies do, we've changed to 3 payment runs per month. And the last payment run is on the last day of the month. So this is why, in June, we had an issue because it was a weekend. And then in December, it was a Tuesday. But what happened is that we were faced in Europe with several hundreds of payments to be executed on that last day. And that's something which we had to deal with, and it took us more time than what we thought to prepare together with the bank that's executing our payment, all those payments. The amount of those payments on that last day for Europe was around EUR 20 million. It was exactly EUR 23 million. And that batch of payments, unfortunately, could not be done on that day, on Tuesday, the 31st. So this is the issue that happened. That's why it's been paid on the 2nd of January. It's very unfortunate, but it's not hugely material, but we wanted to flag that in order to appreciate the overall performance of the fourth quarter.

Wim Gille - *ABN AMRO Bank N.V., Research Division - Head of Research & Equity Research Analyst*

Very clear. And on the advertisement and promotion -- yes.

Eric Rondolat - *Signify N.V. - Chairman of the Board of Management & CEO*

Wim, on Home -- Wim, on Home, let me answer to that question. Very clear answer, we are spending more in advertising because we believe that, that business is a pull business. Meaning that if you want that business to perform, consumers need to understand, when we advertise, very specific use cases, what there is in it for them. So we knew that, that business absolutely needs consumer education, and we need to create a pool, and we created a pull by putting money in advertising. And I would say this is not something that we're restricting, on the contrary.

On the other hand, we do less promotions, you're right, which is less discounting the products, but more explaining to the consumers why these products are the ones that they should invest in. So yes, more advertising and less on promotions.

Wim Gille - *ABN AMRO Bank N.V., Research Division - Head of Research & Equity Research Analyst*

And if you add it all up, is A&P in aggregate up or down for the fourth quarter compared to last year?

Eric Rondolat - *Signify N.V. - Chairman of the Board of Management & CEO*

Well, we don't give that level of detail. I would say it's not materially different, but it's not always the same. You can have the same number, but it can be spent extremely differently. I think that the way we focused on what we do with that money has been better and improving all along 2019.

Operator

Our next question comes from the line of Rajesh Singla from Societe Generale.

Rajesh Kumar Singla - *Societe Generale Cross Asset Research - Equity Analyst*

Given that you have a very significant exposure to the U.S. market, will there be any significant impact of U.S. elections on the U.S. business in 2020?

And my second question is with respect to the Home segment, so the performance in Europe was quite strong in this quarter. Can we assume that this would be sustainable in the future and this was not driven by any specific one particular contract?

Eric Rondolat - *Signify N.V. - Chairman of the Board of Management & CEO*

So you're speaking about Home for your second question?

Rajesh Kumar Singla - *Societe Generale Cross Asset Research - Equity Analyst*

Yes, yes.

Eric Rondolat - *Signify N.V. - Chairman of the Board of Management & CEO*

When it comes to the U.S. elections, elections are always creating some disruptions on the market, but you never know exactly in which direction, which is extremely important for us at this point in time. So first of all, we are closing, and we expect to close the acquisition of Cooper Lighting in Q1. So we're confirming that we're on track to do that. So we have to work in the meantime on how we strategically position these businesses and how we move the market together. And I tell you, the more we are working on that subject at a different level of details because now we're coming closer to the date and the more opportunities we see to have the combined business to deliver an accelerated value to our customers. So that's first one very positive thing that I can tell you. And of course, we're going to be more depending on the Americas because they're going to weigh something like 40% of our turnover after the acquisition. But I'm confident. I think there are fundamental pillars in the U.S. economy that should, if it's not in the short term, it will be in the midterm, drive positive market dynamics. And we'll benefit from it because our footprint is going to be increased. So on the election, it's very difficult to say. But on our confidence on the deal and our confidence on the U.S. market foundations in the short to mid-term, yes, we're very confident.

As far as Home is concerned, I think we are in a good place. As I was saying previously, we had to do a few things to put back that business in a situation that is the one that we wanted. A lot of innovations, very good positioning. At the same time, we have strengthened our footprint not only in the Zigbee space, but also in the WiFi space. Now if I go more into details, also when you look at our Hue offer, you can use it with a bridge, but you can use it bridgeless because the product have a dual chip, meaning that they have a chip, which enables them to be Zigbee-enabled but also Bluetooth-enabled. So we really haven't reached the offer. So we're very comfortable about the offer. We're very comfortable about how the business is positioned and the innovations for the business moving forward.

Operator

We are now approaching the end of the call. We will now take our last question from the line of Akash Gupta from JPMorgan.

Akash Gupta - *JP Morgan Chase & Co, Research Division - Research Analyst*

I have a couple of questions. My first question is on Professional business. Can you give us some more information regarding how did you see growth in connected offering within Professional against nonconnection -- nonconnected offering, and whether this lower growth against previous years would have any impact on investments that you are making there? And then I have a small follow-up.

Eric Rondolat - *Signify N.V. - Chairman of the Board of Management & CEO*

So we have seen still a substantial traction in connected in Professional. We just highlighted for -- but it's an interesting example. In Q4, what we did in Germany for Pilkington, that's the automotive industry -- automotive company, where we sold what we call Interact Industry, which is our full system for manufacturing plants and warehouses. And let me explain why we think that this is the future and we've seen traction in 2019. And I think we'll continue to see traction and an increased traction in the years to come. So now when we sell these systems, customers realize that it's not only about energy efficiency. Of course, it's about energy efficiency. They are saving 50% of the energy cost, and at the same time, they improve the carbon footprint by 290 tonnes on a yearly basis. So that's one.

But second, they realized that with these connected lighting systems, they were capable to improve the safety on the shop floor. They're also capable to improve the productivity of the people at work. And last but not least, since the system is giving them an indication of how the floor space is being used, they have a better understanding of how the operations, the manufacturing and warehouse operations need to be driven in order to drive additional benefits and additional productivity. Now the issue is that when we started that business, we were talking to the fast adapters, and it was kind of easier to start with. Now we have to convince customers, we have to educate customers that it's not only about energy efficiency, but also other collateral benefits. But all in all, we have been able to close very interesting projects that we won not only on the basis of energy efficiency, but also the collateral benefits that we advertised, that we explained to our customers. So this is why the growth has been there in 2019, and we see future interesting prospects.

Now when it comes to our investments, what we did, we invested far ahead of the curve. So if you remember, we were talking about connected lighting systems back 6 years ago and we started to invest, and we have today an unequaled set of systems. And we know it because we talk to other companies. Also, the companies that we acquire, we look at what they have, and we really realized that we are far ahead. I remind you that we have a set of software called Interact, so Interact Industry, Interact city, Interact office and so on. Those software are connected to lights in the site that they are serving. And all the data that are stored in these softwares are then sent back to our motorway of information, that's the way we call it, our IoT platform, which is called Interact, where we can further analyze data. So that structure, which goes from segment-based systems back up to an IoT platform is something that we have already built, the investment has already been done. We're continuing to invest, but a big part of the investment has been done. So if you tell me, I think we have a lot more in technology than our sales are showing at this point in time. So with the technology that we have already developed, we can grow our sales substantially.

Akash Gupta - *JP Morgan Chase & Co, Research Division - Research Analyst*

And my follow-up question is on Cooper Lighting. Can you give an indication on 2019 margin level compared to your Professional business?

Eric Rondolat - *Signify N.V. - Chairman of the Board of Management & CEO*

No. We have, for obvious reasons, not really commented on that. Let us close the acquisition first, then we will consolidate it, and we will come in during the Capital Market Day that we intend to have organized sometime in Q2, Q3 this year. Let us come back with a more precise information as far as this is concerned.

Operator

Thank you very much. I would now like to return the conference call to the speakers.

Robin Jansen - *Signify N.V. - Head of IR*

Thank you, ladies and gentlemen. Thank you very much for attending the call for taking part in the discussion about our results. If you have any additional questions, please do not hesitate to contact Investor Relations. We are happy to answer your questions. And again, thank you very much, and enjoy the rest of your day.

Operator

This now concludes the conference. Thank you all for attending. You may now disconnect.