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LIGHT.AS - Signify NV Virtual Capital Markets Day

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PRESENTATION

Rogier Dierckx - *Signify N.V. - Head of IR*

Good morning, and good afternoon, and good evening, ladies and gentlemen. Welcome to the Signify Capital Markets Day 2020, our First Capital Markets Day since our IPO in 2016. My name is Rogier Dierckx, and I'm heading Investor Relations for Signify. And happy to be here with you today. We have an exciting program but before we go to the details of the program, I'd like to point your attention to some important information. This information is also included in the presentation or the hard copy of the presentation that we have made available for you right now on our Investor Relations corporate webpage.

Let me introduce you to the team today who are with me in the studio, first of all, we have Eric Rondolat, CEO of Signify; Nicola Kimm, our Head of Sustainability; Javier van Engelen, our CFO; Maria Letizia Mariani, the leader of our division Conventional Products and also member of the Board of Management. Per video connection from Hong Kong, we have Rowena Lee, who is leading our division Digital Products. And also in the studio with us is Harsh Chitale, the leader of division Digital Solutions.

Now let me take you through the agenda of today. We have split the agenda in 2 sessions. The first session will be kicked off by Eric Rondolat, who will talk about our strategy and our vision for the future. This will be followed by Nicola Kimm, who will talk to you about our corporate sustainability program. And finally, Javier van Engelen will talk to our performance management and shareholder value creation at Signify.

After these presentations, we'll have a Q&A session, and Eric, Javier and Nicola would be most happy to answer your questions. After a short break, we will reconvene for the afternoon session or the second session, where our division leads will give a presentation on the strategy of our 3 divisions. Also this session will be followed by Q&A where Eric and the division leads will take your questions.

Now when we were preparing the Capital Markets Day in the last couple of weeks, we started with an investor perception study. And many of you have provided your candid and constructive feedback on our equity story, which we greatly appreciated. So let me give you a few examples of the topics that you pointed out to us. When will Signify return to growth? You've shared with us some interesting growth platforms, but can you tell us a little bit more? How is the market evolving and how do you see yourself?

You've made a recent acquisition of Cooper. How are you progressing with that integration? You've showed resilience in managing your profitability, but can we expect more? And how do you consider and look at M&A opportunities?

So we've listened to you, and we've made sure that the program we have for you today is really tailored around your needs. We will go through that program in a minute, where Eric will kick off the strategy. But before we go there, I'd like to show you a video and to also show you my passion and our passions. And those passions really are all about a passion for innovation, a passion for technology and a passion for sustainability. But most of all are passion for lights and our purpose of unlocking its extremely interesting potential for brighter lives and a better world.

(presentation)

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

I'm very happy to welcome all of you with the team here to our Capital Market Day. As Rogier has said, the video that you have just seen is a true expression of where we are heading as a company. For my part, I'm going to talk a lot about the future. I'm going to talk a lot about the potential growth of the company. But I will also briefly start talking about the past because I believe that what has happened in the past is a good indication of what can potentially happen in the future and what has been achieved in the past gives also credibility to what can be achieved in the future.

We're going today to talk a lot about the markets. And we have, in Signify, our teams that are doing market modeling, and this is where the numbers are coming from. Let's look at the past, and I will start on the upper left part of the slide, talking about the market. So we see that the transition to LED has happened in the period 2013 to 2019, strong decline of conventional, strong growth of LED, while at the same time, we start to have the revelation of the connected market, growing at 21% over the period. If we go just down, we realize also that -- well, I would say, only 50% of the socket base are LED equipped at this point in time, leaving still a big potential to further penetrate and LED-ify the future.

If we go on the right-hand side, let me start to talk about LED lamp. So we've seen a market that was very fast-growing at the beginning of the period and then growing a bit less in the second part. And when we look at the price erosion just below, still high price plus erosion in the second part of the period at 15%, but divided by 2 across the period.

If we go to LED luminaires, we see kind of a different pattern. The growth has declined over the period from 29% to 13%, but still a healthy double digit, with also a declining price erosion, which is operating at a much lower level than for LED lamps and at 5% CAGR for the second part of the period.

But if we look at the 2 businesses, lamps and luminaires, we realized the fabulous penetration of connected in the market from 1% to 6% for LED lamps 12% to 22% for LED luminaires. And this fabulous transformation in terms of technology had also consequences when it comes to the actors and the players on the market. We have recorded that only 3 of the top 6 players in 2013 are still in the top 6 in 2019. And at the same time, more than 40% of the global lighting corporate assets have changed hands in the past 5 years.

How did we face this fabulous transformation of the industry? And I would say that Signify had to undergo many transformation. And we've counted them and they're about 7. So I'm going to run through all of them very, very quickly. First, we had to move from a conventional company to an LED company. 74% of conventional sales in 2013 and 78% of LED sales in 2019. Well, it's like having lost EUR 3.8 billion of business coming from conventional. On the other hand, we created a business of LED growing EUR 3 billion during the same period. We had to decline our conventional factory in the numbers of our conventional factories by more than half. And as we are operating on a different industrial model, which is more about assembly, we diminished the CapEx intensity of the company by factor 2.

The second transformation that I want to talk about is the move to connectivity. If we were weighing close to 0 in 2011, it's now 15% of our turnover at the end of 2019, close to EUR 1 billion. We like to talk about connected points because this is a very interesting metric. And we're talking here about we say 56 million connected points, and we've increased by more than 6x the number over the period. And if we look at the consumer sales and the professional sales, they respectively account for 26% and 30% in terms of connected businesses. On the consumer side, you know Hue, you know VEB. And on the professional side, you know that we have launched the Interact brand, which is not only software suites, dedicated by application, but also our IoT platform.

The next transformation is not always well known. We used to be much more a light source company, and we are becoming a luminaire company. From 37% of the turnover to 45% at the end of the period. But if I would add Cooper, this number would go above 50%. And we've done the same thing when it comes to the profit split by more than doubling the contribution of the luminaires to our profit over that period.

Now managing a company which is doing luminaires is slightly different because the approach is much more regional than when we talked about light source and what we commonly call lamps. And we had also to acquire and gain market share in the geographies where we wanted to have a better footprint, namely in China and in the U.S.

We had also to move the company from complex to simplify. We inherited a strong cost base. And when I look at the fixed cost, I look at the fixed cost in 2 different areas. The first one is what we call the manufacturing based cost. This is basically the fixed part of our cost of goods sold. And we reduced them quite drastically by EUR 275 million over the period. It's not only achieved by closing factories, but also by making our plants, our manufacturing plants, much more efficient. On the side of the nonmanufacturing cost, we reduced by EUR 544 million with a lot of different alternatives, having a very strong belief that we need to manage cost as a percentage of sales. So we reduced our costs substantially also to be able to achieve a percentage of cost, which is in the interval that is our target, 25 to 29, as we have always said, we achieved the upper band of that -- the upper level of that band at the end of 2019. But in the meantime, we also invested, and we invested strategically in LED and connected for above EUR 1 billion.

We opted to do another transformation, which is to make sure that our financial profile was based on the future growth and profit pool. And if we look at our growing profit engine, they were both impacting negatively our profit and our cash in 2013. But in 2019, they account for 81% of our profit and 72% of our cash generated.

The next transformation is a fundamental one for the company. Back 8 years ago, we understood that we could contribute like few companies to making the world a more sustainable one. And we, at the time, set to ourselves very ambitious objectives. And they were objectives and commitments at the time, and we're happy to say that after all these efforts, we are now a recognized leader. We've achieved very ambitious objective when it comes to the way we operate the company with carbon neutrality, but also with what we sell to our customers and how we contribute to the society at large, and this has been externally recognized. But Nicola will give many more information about what we've achieved in the past and the new ambitious objective we have for the future.

Last but not least, in the meantime, we had also to move from [the 6] subsegments in a conglomerate to a stand-alone company. We underwent if you remember, to track, it was a dual track, private and public. We ended up becoming a public company, and we changed the name in the meantime. So all these required a lot of effort from the team. At the end of the day, we are today the #1 in lighting, we have kept our leadership in conventional. We have become a leader in LED and we have become a leader in connected lighting. Today, if we add Cooper, we are 2.5x bigger than our next competitor. We're very proud of the achievement of carbon neutrality, which has been a very, very important objective acquired over many, many years. We have been able to light the world with 56 million connected light points. And we have a permanent commitment to sustainability, but also to innovation, which is, at this point in time, showing probably the biggest portfolio of patents with close to 20,000 patents, and we're investing 2x more in R&D than our nearest competitor.

At the time of the IPO in 2016, we redefined the purpose of the company which is to unlock the extraordinary potential of light, for better lives and a better world, and we will also illustrate this in the coming hours.

But enough about the past, let me now talk to you about the future. Here, I'm going to talk about how we see the market moving forward. And this is what we call our base case. Javier will talk to you later, and he will show to you that we have studied different scenario, but I'm going to take the scenario, which is, for us, the base case. So you see effectively in 2020, the market dropped due to the pandemic from EUR 70 billion to EUR 61 billion. And subsequently, the growth of the market, which is a combination of a market rebound, after the crisis and also a market growth driven by some growth pools. And the connected part of the market is certainly one, growing at 14% CAGR over the period. And we see that in our divisions, we're still going to expect a decline on the conventional part, but a growth on digital products and digital solutions.

If I look on the right hand part, and I do the same exercise as the one we did previously for the market with the past view. If we take a future view at the market, we see that the LED lamps market will start to decline over the period by a CAGR of minus 8%, which is the consequence of longer burning hours and a replacement market that comes a bit later. While also, we experienced the move from LED bulbs to integrated LED luminaire, what we have said for a very long time. We also expect the price erosion has been quite steep in the previous period to soften to minus 2% CAGR over that same period. It's a different story on the LED luminaires, where we see still growth and also a diminution of the price erosion, which was much less important than in the case of LED lamps, but moving from minus 5% CAGR in the previous period to minus 2% in the upcoming one. Once again, in both cases, we see a further penetration of connected offers from 7% to 12% for lamps and 22% to 27% for luminaires.

Now let's move to Signify. And what I wanted to show here are a few things. So first of all, it's true that we operate on the full value chain, I would say, the downstream value chain in the lighting industry. We present in LED electronics or lamp electronics, light sources, luminaire systems and services. But there are some segments of the market where we are not present and with that we are not focusing on. Specifically in the luminaire segment of the market, we are not focusing on conventional professional luminaires. This is a low profit market declining. We are not focusing on consumer decorative LED luminaires. In that case, it's a growing market, and it's a profitable market but it doesn't play to our strength. We're talking here about high-mix, low-volume offers, very local. This is not what we know how to do well. This is not where we can win.

So all in all, when you look at the market that we are really accessing with our offers, it's 70% of the lighting market. The results that we've done on the right-hand part was to try to understand how the growth profile of the company is mechanically or mathematically evolving. So let me guide you first through the gray bar, the one in the middle, which is basically the difference between the market growth, the overall general lighting market growth and the weighted market growth of Signify.

Let me take an example. If we go back to 2017, if the general lighting market was globally flat, our Signify weighted market average would be declining at 6.7%. So we see that over the years, that gap is reducing, potentially becoming positive at one stage. So that is an indication that the growth profile of the company mechanically as we lose conventional or as conventional becomes a minor proportion in our old turnover, our global growth profile is improving.

If we go specifically now and we zoom at the period 2020 to 2023, we've talked about the market CAGR of 5%, the impact, if we look at the weighted market average of Signify is minus 2.5%. So this means that we have a Signify weighted market average, which is growing by 2.5% over that period.

Let me now move to another part of the market, which is not contemplated in the numbers that I've given right now, which was about the general lighting market. Now we're focusing on what we have called growth platforms, and we'll call them growth platform for sustainability because they have very specific characteristics. They all contribute to sustainability. They all need technology, innovation and sometimes also an adapted go to market. All in all, we're talking here about an additional EUR 5 billion market opportunity.

Let's start with agricultural lighting. So we talk about a very, very exciting opportunity because it solves one of the fundamental issues that we're going to have on the planet, which is full availability and security. As you've seen in the video, we cannot feed 10 billion people in 2050 if we produce food in the same way as what we do today. So this is a market that we see growing by 6%, getting closer to the 2 billion at the end of the period. And we have a unique position with 150-plus light recipes when it comes to crops and also animals. So we're very well positioned in a business that we have been focusing on for many years.

Solar lighting is next. And this addresses very, very directly, what needs to be done when it comes to climate action and within climate action, clean energy. And we see this as a very important trend in the future, and we can see these requirements happening in many of the green funding initiatives that we see flourishing around the world. This is a market that we see growing at 16% CAGR over the period to reach EUR 1.7 billion at the end of it. Once again, we are here a leader in technology because when we talk about solar, it's fundamental to have technical and technological consistency between the solar panels, the battery and the light source. And the quality of the combination of those 3 elements is fundamental to be able to have solar, reliable offers and technologies.

The next one is UVC. So this is something that we have pushed a lot during the pandemic period. It directly targets another sustainable element, which is health and safety. So yes, it's needed during the pandemic, but we believe that, that pandemic will create new reflexes, and we see also a future need for disinfection in general from germs and bacteria moving forward. So this is a market which has 2 components: water with a slight growth of 2%, that's a EUR 1 billion market. And then the emergence of a new market, which is about surface, air and object disinfection that we've talked about quite substantially in the past quarters, moving from EUR 0.6 billion to EUR 1.1 billion with a CAGR of 19%. Here we have a decade long expertise and we know the applications fairly well for that market, and we have started to move there very, very swiftly, improving also our capacity, our production capacity, which was needed in that period.

Let me move now to 3D printing. So 3D printing is clearly targeting a fundamental sustainable objective, which is circularity. Here, we see a market, which is more expressed here in terms of potential that could go up to EUR 1.2 billion, growing double digits. And here, we have clearly a first-mover advantage because we started to talk about 3D printing offers 3.5 years ago. So we worked on materials. We worked on the industrial process, the type of machines that are needed. We improved greatly the performance and the yields of this machine. So we think we have a clear mover advantage there. So these are some of the very interesting growth platform that we have. You wanted numbers. We worked a lot and now we're giving to you numbers about how we sized those markets moving forward and their respective growth.

But let me talk about 2 others. That are slightly different in the sense that they are at an early stage of their development, but with very high growth potential. So I want to talk about LiFi, where we see a market potential in terms of substitution of what is existing that could go over the period up to EUR 2.5 billion. Here, we have a very strong position in terms of IP portfolio and offers that are already brought to the market. Now it is a business that is using, basically, the infrastructure of light to transmit data. We know that there is one fundamental driver for that business it's whenever they're going to be WiFi (sic) [LiFi] emitters and receivers on our phones, that will really multiply and extend greatly the potential of that market. Smartphone is also extremely important for us because we have developed technology whereby in the light pole, we are capable to put the base station and also the antenna for 5G and that's going to be essential. When the 5G networks have to be rolled out because you need basically to find spots where we can put where the antennas can be put. And we need many more antennas in a 5G network than for the previous ones. And once again, this can be done through the existing lighting infrastructure.

So we've talked about organic growth potential. And if we try to sum up what I've just said, we're talking here about markets of EUR 10 billion and EUR 15 billion of EUR 10 billion and EUR 5 billion, respectively, growing at double digit CAGR. And if we go back to our portfolio, this is 20% of our portfolio that has a potential growth above a 10% CAGR.

Let me now move to inorganic growth. So we have been, in the past, very heterogeneous in the way we target acquisitions. After the IPO, there were many years where we were not really active. And we said at the time, look, we're looking at the market, but we don't find anything which is strategically making sense. And you've seen that between 2016 and 2018, we didn't do much. But we were more active in 2019 because we saw opportunities that we thought were value-creating and totally aligned with the strategy of the company.

We always respected a very clear strategic mandate when it comes to acquisition. And we're looking for companies that were improving our reach and our market share, mainly luminaire companies. And when it comes to the reach, mainly in terms of online access. So we signed a few JV in order to help us to have a better presence online. We also targeted company that were helping us to build our technology, companies that were bringing a complementary offer to what we already had in systems and services. And we also did acquire companies that were bringing additional elements, additional weapons for us to fight on the market when it comes to the growth platform that I've just been describing.

Moving on, we keep the same focus in terms of inorganic growth. Of course, Javier will explain more about our capital allocation policy. And it's clear that our #1 priority is deleveraging after the acquisition of Cooper that was fully debt-funded. But if we were to do M&A, they would be bolt-on and they would be aligned with those 3 very clear targets. I would just like to add that Klite was probably an acquisition, and you see the -- it's not circled in green, blue or black because it was slightly different, and we will explain why we did Klite which is also answering to a fundamental strategic objective that we had to meet.

Let me now go to the -- a very important element for us because it's guiding the whole company. And we bring you here more inside the company and how is being managed and along which fundamental strategic guidelines. So part of our strategic process every year we review the execution of the strategy at the end of the first semester. And then in the second semester, we look at what has changed in the world to see if it needs -- if the strategy needs adaptation. And normally, at the end of Q3, we come not with a new strategy, but with an adapted strategy to the reality that we're facing at this very moment in time.

So what you see here is what we call our 5 Frontiers Strategy. It came out of the process that I've just been describing, and it was launched in Q3 2019. So this is a strategy which is not new. This is a strategy which is already in execution for a bit less than a year. And it comprises of 5 frontiers, and let me run through them, each of them very quickly.

So the first one I want to talk to is our absolute focus on being customer-centric. So we have been implementing customer Net Promoter Scores survey that I conducted every quarters, meaning that every quarter worldwide, a set of our customers is receiving a survey, that they fill in, and then we consolidate the results. So you've seen that over the years, we've been improving that Net Promoter Score. And for us, it is a fundamental objective in the whole company. Now if we take a bit of distance and we try to listen to what our customers are telling us, they tell us the following: they love our brand. They love the width (sic) [breadth] of our offers, the quality that we bring, the innovation that we bring and also tell us that we can improve on ordering and delivery, which is a very strong focus that we have for now a few quarters, and we're going to have -- continue to have moving forward.

On the other end of the spectrum, we also listen to our employees. And here, we're also conducting a quarterly survey. And we basically survey all the employees that have a computer in the company. And you see that our participation rates are extremely high. We're talking about 80%, 84% in the course of 2020. And this has been the case for many years because we run that process for, I would say, about 7 years. Every quarter, we survey our people. Then the survey comes back. And by managerial entity, the managers decide on one action to conduct with their teams per quarter on the basis of the results. But we're focusing on many different elements that we can improve, diversity and inclusion. We are very specific on identifying talent to be able to build strong succession path. And we also are very eager to provide a platform where people can develop themselves, can learn. It's not only for the future, reskilling that we need with digitalization, but it's more broadly improving the knowledge of our people. We want to be a learning platform. And you can see that the Net Promoter Score of our employees has also evolved quite a bit over the years, if I remember well, in 2016, it was 13, and it's 29 now at the end of 2020.

The 2 other frontiers I want to talk about are more business-oriented. So the first one is about delivering differentiated lighting offers in, I would say, the most traditional market. And we've seen over the past years, and we've commented that many times with many of you and that they were a risk of commoditization or there were actors coming to the market with a very aggressive price with the objective to take market share even when these actors were making no cash and a little to no profitability. And we had to fight against that. Also the disruption of the actors on the market meaning that 3 of the top 6 were not anymore in the top 6 change quite substantially the actors around the table, and it changed the market conditions. What we realized at that point in time is that we didn't want our A brand, which is backed up by a lot of investment and a lot of innovation to go down in price. So we brought to the market alternative brands, we call them B brands to fight in the more aggressive part of the market. At the same time, we need also to be equipped to be able to -- especially with LED to supply private labels. And our model was not allowing us to do so because the big private label companies were going directly to our suppliers. That's one of the reasons why we decide to do the Klite move to make sure that we could access that market of private level, but that we would also control much better our supply chain.

On these elements, there will be further deep dives in the division deck. So you will hear Rowena, Harsh, talking about these elements in more details.

The other frontier is about driving growth for sustainability. And this is a fundamental belief and something that is driving us very strongly within the company. We can grow Signify to the benefit of the planet. And this is an equation which is extremely appealing to us. You can imagine that the company can grow, generate growth, and that growth will serve the planet, and we'll try to tackle some of the key issues that the planet is going to have moving forward. We talk here about climate action, circular economy, food availability, safety and security handset will be in. And connectivities for us a means to that end because we're going to see that connectivity is a fabulous enabler.

So where do we see that strategy playing? Well, in systems and services, on the professional side with the Interact brand and the Interact IoT platform that Harsh will describe at length or on the consumer side with the complementarity platform that we have with Philips Hue and WiZ, which Rowena is going to talk about. And when it comes to the growth platform, well, we go back to what I've just been talking to a few minutes ago, which is agricultural lighting, solar lighting, 3D printing and UVC. And here, you will hear Leti, you will hear Javier, and you will hear Rowena talking to it.

Let me now move to the last of our frontier and not the least, which is the digitalization of the company with a big fee. And it has 3 fundamental pillars. The first one is about digitalizing our customer interface. The second one is about our processes and the third one is about our offers. So when it comes to digitalizing customer interfaces, we want to have more contact with our customers through digital. Rather than talking at length about it, we wanted just to give you an example of something that we have been releasing to the U.S. market very recently, which is an app that has the following objectives.

It's for consumers because we realize that consumers, when they have to make the choice of a lightbulb today, they face a lot of choice and very little help. So the objective of that app was to help consumers to make the choice based on the form factor of the bulb. So imagine you at home, you want to change a bulb. It has a form factor, then you can take a picture with the app, and it will tell you it will recognize through AI, what form factor are we talking about.

Subsequently, it will help you also to select the intensity and the color temperature that you need because we know and we have made surveys that indicate that consumers, when they buy a bulb, very often they're disappointed and 30% of the time they go back to change it. But let's have a small video, which is illustrating this.

(presentation)

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

Available and launched already in the U.S. just in the past weeks.

Now let me move to the second part of digitalization, which is about our internal processes. So there's a lot of work that is being happening at this point in time. Wanted just to bring you in our kitchen and give you some information about how we do some things. So we're reviewing performance in the company on a regular basis. At the global level of the group, we do that with Javier and the team on a quarterly basis. And you need to know that the documents to do performance reviews are completely centrally and digitally created. And these are formats that are completely fixed and closed. So our people don't spend time looking for the numbers, but they spend time analyzing them and trying to understand where are the points of improvement and coming to performance reviews with one objective, which is to try to discuss all together and to help them to improve on what needs to be improved.

And it has a very exhaustive sets of data. So we first -- and we always start to talk about the customers. And we talk about the customers specifically. We talk about the consumers. We talk about the professional customers, and we talk also about the OEMs.

So we have 3 slides for every customer type. Then we're going to talk about people, and we have a lot of metrics about our people. Then we talk about sales, margin. Normally, we talk about costs, P&L and we finish with working capital. But that gives you an indication of what happens in Signify at this point in time. It's clearly not exhausting because we're doing much more, but we wanted to make that explanation more vivid and base it on an example.

When it comes to our offers, here, I'm not going to surprise you because I've been talking about that, and we have been talking about that for a long time. It's about selling products, systems and services. At the end of 2020, all the products of Signify that have the potential to be -- have a connectable version. And this is an objective that we wanted to achieve, and we have achieved it at the end of 2020.

When we move to systems, we are, on the consumer side as well as on the professional side, very well equipped. Because we took the past period where we could still improve profitability, leaving aside some money to develop some platforms and some architectures that we believe are today only called on the market when it comes to what we're capable to sell in terms of system to the consumer, but also to the professional customer.

Last but not least, we move 1 level higher, which is all the data that are generated by our systems can now be moved to a motorway of information, which is our IoT platform to be able to deliver services. So [Alf] will talk to that. If it's a business which is developing and growing quite a lot, it's still small, and we believe that the market will be revealed probably in the coming years. So this is what I wanted to talk to you about when it comes to digitalization.

So let me finish my introduction by telling you that this growth-oriented technology and innovation-oriented strategy will lead us to a higher level of performance when it comes first to our sustainability promise. And here, we want to double our impact on society and on the environment moving forward, and Nicola will talk about that quite extensively. On the other hand, we are now giving financial targets for the midterm, which is 0% to 5% growth on a yearly basis over the period and adjusted EBITA between 11% to 13% at the end of 2023. And the free cash flow and the return on capital employed of, respectively, above 8% and above 11% over the period. But for this -- for you to get more details, I will have Nicola talking about sustainability and Javier talking about how we're going to achieve those financial targets.

Well, thank you for your attention. And now I leave the floor to Nicola.

Nicola Kimm

Thank you, Eric. I'm going to talk about our sustainability transformation. I'm going to talk about our achievements as we close our current program, and I'm going to introduce you to our new 5-year program and our doubling targets.

Now more than any other time in history, we're feeling the effects of global challenges, like climate change, resource scarcity, demographic change and urbanization. The last 5 years have been the hottest ever recorded. Waste is reaching epidemic proportions. The global population will reach 10 billion by 2050 with most people living in cities. But we also see changes in how the world is responding. We see the rise of ESG-focused investments and reporting. We see companies aligning their strategies with United Nations Sustainable Development Goals. We see increased interest in low-carbon technologies, and we see new legislation, like the EU Green deal.

Well, for us, this transformation started already a decade ago, when we actively drove the ban of incandescent lighting and led the shift to LED. With our IPO, we seized the opportunity to put sustainability at the heart of our purpose. And every year, that purpose is coming more and more to life, both in what we sell, where we're driving the technology transformation and in what we do with sustainability integral in our actions.

We're now completing our 5-year sustainability program. We've overachieved on all of our targets. 83% of our revenues are sustainable. We've delivered 2.5 billion LED, more than any other company. We're especially proud of being carbon neutral. This makes us 1 of the few manufacturing companies in the world who have achieved this. Over the last decade, we reduced our carbon footprint by more than 70% in Scopes 1, 2 and parts of Scope 3. We've made our factories and offices more energy efficient. We've optimized our logistics; we've transformed our business travel. We invested in 2 power purchase agreements, 1 in the U.S. and 1 in Poland. And we invest in meaningful offsetting projects like reforestation and solar energy in off-grid areas.

Our manufacturing sites are 0 waste to landfill, we've created a strong safety culture and reduced injuries by 50%, and 99% of our risk suppliers meet our highest supplier sustainability requirements through our audit and training program. And we're really proud of all the external recognition in ratings and rankings. Yesterday, it was announced that we again reached an A rating for the Carbon Disclosure Project. All 4 years since our IPO, we've been in the world index for the Dow Jones Sustainability index and 3 of those years in the #1 position. And we're ranked in the #1 position for the electronics industry in both Sustainalytics and [ecobodies].

Sustainability is part of our company strategy. Our 5 Frontier strategy sets our direction in a changing world. With growth for sustainability, we've defined areas where we address global challenges and create value for our customers and for society. And we'll deliver on our strategic frontier, great place to work by investing in our people and providing a more diverse and inclusive workplace.

The United Nations Sustainable Development Goals act as our strategic compass to direct our efforts where we can make the biggest difference. We've aligned our business strategy and our commitments with the Sustainable Development Goals, and we strengthened our focus on societal topics like SCG-3 on health and well-being and SCG-8 on decent work and economic growth.

Eric spoke about our transition in the last years from ESG commitments to recognized leader. Well, now, with this new program, it's about shifting from reducing our negative impact to creating positive impact. It's about creating more stakeholder value. We'll grow the company by improving the ESG performance of our customers, while at the same time solving some of the world's challenges.

This September, we launched our new Brighter Lives, Better World 2025 program with even more ambitious commitments. We're committing to double our positive impact on the environment and society. With this, we fulfill our purpose and deploy our strategy. We'll double the pace we achieve the 1.5-degree scenario of the Paris Agreement and over our value chain, we'll double our circular revenues from 16% to 32%, we'll double our brighter lives revenues, which benefit society related to food availability, safety and security or health and well-being to 32% and we'll double our percentage of women in leadership to 32%. We'll also continue and strengthen our ongoing programs. So we'll continue to be carbon neutral. We'll continue to have 0 waste to landfill. We'll continue to light lives in off-grid areas. But we're also going to strengthen programs on safety and on supplier sustainability with stricter targets and more comprehensive programs.

Our sustainability initiatives not only drive long-term growth, but they also contribute to our financial performance. We're optimizing processes and supply chain. We're reducing energy use. We're eliminating waste. Our 0 plastics packaging program is an excellent example of our sustainability and cost savings go hand-in-hand by reducing the material costs and decreasing logistics costs. And our PPAs reduce financial risks related to procuring electricity and offsets. So in this way, we're creating value for Signify and making the world more sustainable.

Now I'd like to introduce you to our doubling targets related to the environment. Climate action is central to our company strategy. With this, we're addressing a serious challenge the world is facing. We'll double the pace of the Paris Agreement to achieve the 1.5-degree target of the Paris Agreement over our value chain 6 years early. So we'll achieve with the Paris Agreement sets for 2031 already in 2025. We'll continue to be carbon neutral, but more importantly, we're going to make our customers more sustainable. We're going to reduce the carbon footprint of our customers. We'll fuel increased demand for low-carbon products. Our innovation and technology capabilities allow us to shift our product portfolio to make it more energy efficient.

With Interact systems, we can reduce energy use by up to 80%. We're leading in solar technology, which, as Eric mentioned, is growing faster than the market. Circular economy is second of our growth strategy areas. We're going to double our circular revenues from 16% to 32%. Again, here, we have the technology because we invested in innovation. And I want to show 2 examples of our leadership. The first is on 3D printing, where we were the first to develop 3D printed luminaires at scale, and our customers are really enthusiastic about the 75% lower carbon footprint related to materials, manufacturing, transport and end of life. We were also the first to develop circular street lights with reusable components and recycled parts. Our circular components extend product lifetime, and our intelligent systems enable luminaire monitoring and preventative maintenance. Our circular services provide customers peace of mind and upgradability.

We're also doubling our positive impact on society. We're going to double our Brighter Lives revenues from 16% to 32%. In food availability, we have a unique IP position with 150 recipes we can increase crop yield and quality. We increase nutritional value with an increased growth predictability. With vertical farming, we can reduce water use by 90%, and we don't need pesticides. For aquaculture, we increase feed conversion and we increased fish health. With animal farming, we also increase animal health. We even have performance-based contracts linked to farmers' yields. We make cities smarter, safer and more secure. Our lighting can reduce street crime by 21% and nighttime traffic accidents by 30%. We can increase security at home and at work with connected lighting that connects to alarms and cameras. And with Trulifi, we have industry leadership through innovation and technology, and we increase cybersecurity for customers who need an alternative to Wi-Fi.

On health and well-being. Our UV-C lighting successfully inactivates viruses, including the COVID virus in a matter of seconds. We have a deep knowledge about how light affects people. Our human centric lighting adapts to our circadian rhythms. It optimizes our energy levels, and it helps us see, feel and function better.

We're also committed to create a great place to work and improve our diversity and inclusion. We already have good diversity in terms of generations and nationalities. We want to increase our gender diversity, and we're committing to double our percentage of women in leadership to 34%. Our workforce needs to better mirror our stakeholders and markets. And we believe this will improve our business performance, and we're already driving a variety of measures, like succession plans, sponsorship, leadership development and trainings.

We're proud of where the sustainability journey has brought us. Our doubling targets for 2025 are bold and ambitious. And together with our achievements, we're securing our position as the most sustainable lighting company. We're making our company more resilient. Our leading technology and innovation drives our growth for sustainability strategy. We're in a unique position to enable our customers to deliver on their sustainability ambitious (sic) [ambitions]. And we're helping to solve some of the world's most critical challenges. We're really at the frontier to meet these new demands. In these ways, our Brighter Lives, Better World program delivers financial, environmental and social value for our stakeholders and society.

And now I'd like to hand it over to Javier.

Francisco Javier Van Engelen Sousa - *Signify N.V. - CFO & Member of Board of Management*

Thank you, Nicola, and thank you, Eric. Welcome to all of you on the call, Virtual Capital Markets Day. I would have preferred to see you live, and I hope this is going to be possible in the near future as is going to be again a bit more safe to travel and to meet. And interestingly, we have a small role to play in making the planet a bit safer again to meet. So it's interesting that we are also in that field. In the meantime, I'll talk for the next 30 minutes, I'm going to zoom in -- I'm going to go back to the targets that Eric has talked about. I'm going to zoom into why I personally believe that these targets are achievable. And I'm also going to come back to sustainability and value creation. And throughout the presentation, you'll see a bit of a red line through the presentation, which comes back to something that I've been impressed about since I joined Signify. It is the potential of the company to strengthen its financial profile in very different market conditions in the past, in the current -- and we won't stop there, also going further into the future.

Eric already mentioned something interesting. And I believe also that the past is always perhaps the best indicator to understand how we can look towards the future. And therefore, to kick off the presentation, I decided to -- it might be interesting to look quickly at the past performance and cement that reputation and the potential we have to grow in the future.

So on this slide, the question was, what is the value we have created as a company since the IPO by being innovation and transformation driven. So we've listed the key focus areas post the IPO. And we've made our assessment based on the achievements on what we have delivered, yes or no. And some of those have already been touched upon by Eric and then also by Nicola, but let's quickly go through them.

The shift from LED and connected lighting -- the shift to LED and connected lighting to the percentages you see I think clearly demonstrate that the company has been able to innovate, has been able to reinvent itself in and also by leading the transformation in the industry. On the comparable sales growth, should be said, we put a red cross behind that because the overall company sales growth was minus 2.7%. But there's a bit of a silver lining to that, as Eric explained. If you look at since '16 to '19, the LED business has grown by about 10.7% on an annual growth rate.

On the profit side, things are back to clear green. We have improved our profitability by 310 basis points through the period 2016-19. And we broke through the barrier of double digit, which I understand at time of the IPO, there were quite some people being skeptical that we could ever achieve that. On free cash flow, we generated EUR 1.7 billion in free cash flow representing about 6.2% of sales. And we, therefore, delivered an average return on capital employed of about 10%. Our balance sheet has been strong throughout the period. We've had a consistent investment-grade rating, and we are managing our leverage lower than 1x reported EBITDA multiple by the end of 2019.

Nicola just explained that we overachieved on our ambitious Brighter Lives, Better World 2020 program. And if you therefore sum all of this up, I think the story on value creation is quite positive as the share price appreciated since the IPO by about 78%, dividend payout since the IPO was a total of EUR 492 million, and we did share buybacks to the amount of EUR 669 million. So that's the past.

Before talking about the future and anticipating that we're going to get some questions on that, we decided to also give you a perspective on how we think we're going to end up the year 2020. And back to the red theme about my presentation. It's again a year where despite being in unprecedented market conditions, the company has been able to strengthen its financial profile. If you look at the dynamics on growth and comparable sales growth, yes, we will basically end the year at minus 13.5% to minus 13%, which obviously is severely impacted by the COVID-19 pandemic.

If you look at it by division, on digital solutions, we see a slow recovery of the professional side of the business, and this is obviously due to continued impact of the COVID-19 restrictions. On digital products and on conventional products, they're obviously also impacted by the pandemic. But on both those divisions, we have a positive element which partially offsets that. On digital products, we have a strong demand for connected home lighting. And on conventional products, the impact of the pandemic is partially offset by a strong demand for UV-C and horticultural lighting.

On adjusted EBITDA, we will end the year between a 10.2%, 10.6% adjusted EBITDA, which is roughly in line with last year, which shows clear margin resilience despite the top line decline. On free cash flow, we continue performing very strong and will end up the year above 11% of sales, which is mainly due to a very strong structural and sustainable improvement in working capital. And mind you, this during very difficult market conditions, which I think is a stellar performance of a company.

So that's enough about the past and the present. And let's now then go into talk about our value creation framework, and let's talk about sales first. Eric already mentioned it; the guidance is clear. We will return -- we will deliver sales growth for the total company. This will be based on the rebound from COVID-19 that offers us growth and market share again opportunities. We believe our sustainability-driven businesses will target attractive new market opportunities and the continuous innovation in connected lighting and new growth platforms will improve the overall Signify growth profile.

Having said that, we have done quite some modeling, and we've spent a lot of time trying to understand the dynamics on what could happen in a post-pandemic business recovery. And with the variability that we have, we end up with 3 scenarios. And we wanted just to talk through them that you understand how we got to our total sales guidance for the period going forward.

We've condensed the market dynamics in 3 main drivers: 1 is online development. Number 2 is the severity of the lockdowns we'll see. And the third one is how fast government stimuli will hit the market. And there we have 3 scenarios. The more optimistic scenario is that we continue having a very strong pull on the online side of the business. There will be a moderate impact of lockdowns and the stimuli will come early in 2021. Our base scenario, which is the middle one, still counts on a strong pull from online, a slightly more impactful effect of lockdowns, and still stimuli coming to the market in the second half of 2021. And then we have a more pessimistic scenario, which is that there will still be growth on the online side, impact of lockdowns will be more severe, and the stimuli will be more oriented towards the 2022 time frame.

We've also looked at it by vertical pillar because we understand and through the modeling, we look at different money of the consumer market versus the professional market. We believe the consumer market will be more resilient because it drives on the first 2 pillars, which is, on the 1 hand, an online that will grow a bit slower or faster. And that will be partially offset by the impact of lockdowns. We believe the professional market will be softer because we know from experience now that the lockdowns have a more significant impact but that should be offset by the stimuli coming to the market.

All in all, it gives us 3 scenarios: a more optimistic scenario where we expect the market to recover to 2019 levels by 2022. Our base scenario is a recovery by 2023, and a more pessimistic scenario would be a recovery only by 2025.

In the next slide, we then translate that to our sales guidance. As Eric already said, we translate market growth to Signify weighted compounded annual growth rate. And our base scenario is that at 5% average market growth will translate to a Signify weighted market growth of 2.5%. On the optimistic side, we think it might go to 4%. On the more pessimistic side, it will be roughly about 1% for the Signify weighted market growth. We also looked at time frame because we do believe that the growth rates will be slightly different early in the period versus back end of the period. Because early in the period, we obviously have the benefit of the rebound of 2020 crisis. We see an acceleration of the connected lighting and the growth platforms, but that will be partially compensated by still a higher mix of conventional and the erosion of convention.

In the second half of the period, we still expect growth. We will not have the rebound effect. We will continue to grow to connected lighting in the growth platforms, perhaps not at such an accelerated pace, but also the impact of conventional and the erosion of conventional will be lower. In total, with the uncertainty that we still have around this, our guidance is that we will deliver nearly positive comparable sales growth between 0% and 5% over the period, every year. We recognize it's a bit of a wider range. And therefore, with more visibility as we go along, we commit to give you a yearly guidance at the time of the quarter 4 earnings releases. And here again, the key message is growth platforms will offset conventional decline, and we expect digital products and digital solutions to account for more than 90% of total sales by the end of the period. That's on the sales driver.

As we move forward, we go into the profit drivers. On the profitability of the company, we build on a successful track record. And here, what we are kind of anticipating is we're expecting gross margin to remain broadly stable. We'll get indirect costs to decrease due to cost dilution, but also due to continued cost efficiency efforts. And obviously, our dependency on the division conventional products will diminish over time.

On the next slide, you see that a bit more visual. And it's explaining the dynamics change between the past and the future and how we continue to strengthen our profile that way. Between the end of 2015 and 2019, we delivered those 310 basis points margin improvement to get us beyond the 10% threshold. In the 2 first years of that period, it was mainly gross margin cost improvement, which contributed about 100 basis points. In the second period, 2 years of that period, it was cost reductions, representing about 200 basis points to get us across the 10% barrier.

As we look forward, the profit improvement plan changes. First of all, based on the numbers we just showed you for the range of 2020 between 10.2% and 10.6%, we expect solidarity measures that have impact of about 50 basis points to be compensated. Then we have cost dilution that we get through sales, but we will still work on cost optimization. That cost optimization will basically be in 3 areas. First of all, we want to build a leaner headquarters. This is not just about cost savings. This is also being closer to the market, closer to the customer and being more agile as a company. The second one is digitalization. Eric already talked about it. We've got work to do on digitalization, not only our internal processes to generate cost savings, but also to make sure that the interfaces, both with suppliers and consumer customers, are more seamless and that we had, therefore, again, have a much better experience with our stakeholders. Last but not least, we will -- in our inorganic growth, make sure that we drive synergies to the bottom line, and we'll talk about that in a second. With all of that, our adjusted EBITDA margin target for the period is to end up between 11% and 13%. This will be based on, as I said, a stable gross margin and dilution and optimization of the cost base, and we'll reinvest in innovation and digital to fuel the momentum.

Digital products and digital solutions will disproportionately contribute to that margin improvement, and they will account to 85% of EBITDA. Obviously, also, as we do customization, it will have an impact on restructuring cost that will incur early in the period, but I'll talk to that in 1 of the next slides that we get to.

The third driver of shareholder value creation is then our cash flow. And here, it goes back again to the past of our capability to drive free cash flow generation. Here, we will further anchor digital products and digital solutions as key drivers for cash flow as their maturity profile is getting much better in terms of their free cash flow generation. There will be a continued discipline on working capital, where we've made some structural improvements that we think are sustainable going forward. We'll keep on being very strict on CapEx investment and investment returns, and we will see a gradual decrease of post-merger integration and restructuring costs.

Again, more visual, and here, I'll go straight to the guidance. On free cash flow generation, it will be driven by digital solutions and digital products. Throughout the period '21-'23, we commit to a minimum of 8% of sales. And if you remember, in the past, we delivered 6.2%. This will basically be driven by maintaining structural improvements in working capital, and we'll see a gradual decrease of restructuring and post-merger integration costs. You see the components on the left-hand side of the slide, where you see on working capital, we have made that structural improvement from being at 9.3% of working capital as a percent of sales to 6.2% over the '19/'20 period and we believe this is a level sustainable towards the future, might even be slightly better if we manage to get digitization on inventories and a further focus on receivables and reducing overdues.

On the asset-light side of the company, we went down from 1.5% gross CapEx to 1.3%. And again, we believe we can structurally hold it at that level. And the third component you see there is the restructuring costs between 2019 -- '19/'20, 2020, you see that the restructuring costs were about 2.2%. In the period 2021-23, we expect to go between 1.5% and 2%. The 2% in the initial year is more linked to the integration of Cooper and also because we want to accelerate our savings program to deliver those results to the bottom line. And with all of that together, as I said, we commit to a free cash flow above 8% of sale as an average throughout the period.

With those 3 drivers explained, we'll come to investor return and there, we're going to guide on return on capital employed. The simple equation here is you've heard about steady profit increase. You heard about maintaining the asset-light profile. And therefore, our guidance for the '21, '23 period is to gradually increase Signify return on capital employed, in line with the company's strategy and to reach above 11%. Compared to our internal calculated weighted average cost of capital, we are convinced we will anchor Signify at the upper end of our peer companies. And we expect, as we said, a gradual improvement over the period. The importance of Rocky for us and adding that is that we don't just talk to you about the value we create, but also making sure that we deliver you a safe investment, a reliable investment and that we know that the funds we employ that they are properly used and efficiently improved, obviously. That was a part more about what we generate as value and then we switch into the capital allocation, which is how we're going to use the value that we create. And here, it's all about delivering on the promises we make.

The first priority is to return dividends to our shareholders. Once we've done that, we talk about the priority, which is, as we said before, honoring our deleveraging commitments to cement our investment-grade rating, looking at inorganic growth on the condition that it will build shareholder value. And if after that, we have cash left that we are not investing in growth, then we'll consider other things like share buybacks or extraordinary dividends back to the shareholders.

Running through those, on dividend policy, this is about an annual increase that we are committing to for the future. If you look at the past, we had a policy of 40% to 50% of continued net income to be paid out as dividend. We have applied that. We have delivered on that promise. We paid EUR 492 million on dividends since the IPO. We had between 44% and 49% of continuing net income paid per year in the range that we have committed to. And we had a year-on-year increase in dividend per share, at the exception, obviously, of the 2019 dividend that we suspended due to the COVID uncertainty.

Going forward, and as also communicated at the acquisition of Cooper, we basically go forward with a commitment to pay out an increased dividend per share to be paid annually and making sure, therefore, that our dividend yields remain attractive.

The second component of our capital allocation is that we will honor the deleveraging commitment we have to go below 1x reported EBITDA by the end of 2020. Importantly, though, before getting to that one, we also portrayed at the right-hand -- or the left-hand side that we have had some significant intervention to balance the maturity of our debt profile. We had an important repayment of that originally planned for 2021. After the acquisition of Cooper, we were able to refinance our term loan with now maturity between 3 and 5 years. And as you know, we've accessed the Eurobond market to repay the bridge filings for Cooper with maturities between 2024 and 2027. That, combined with the deleveraging promise that we're making to go back from a 2.7 multiple at the time of the Cooper acquisition, going back to 1 multiple, below 1 multiple by 2022, makes us confident that we will maintain a strong investment-grade rating.

The last part of the capital allocation policy, I just wanted to briefly touch upon inorganic growth as we see it as a key driver for shareholder value. And this is more about talking the robust disciplined financial framework we use to evaluate inorganic growth. What you see on the left-hand side is that we use 7 metrics across 3 buckets to look at proceeding or not proceeding with inorganic growth opportunities that we are presented. On the right-hand side, you see that not only do we look at it pre-acquisition, but for a minimum of 3 years after the acquisition, we keep on tracking that those acquisitions do deliver on the promised value. As you see from the color coding on the most recent acquisitions, Cooper Klite with all traffic lights are on green. The iLOX ones is basically the one that is slightly off track, and that is due to a slight deviation in profitability in the first year, where we had to air freight products in order to deliver on our promises to our customers as we faced a very low inventory at the time of acquisition.

In the second year, with the COVID, we see a bit of the lagging demand from farmers, but we do still expect that we can recover on that investment. This is not just MAT numbers. This is also about the discipline of pre- and post-acquisition to be very close to the ball because what it really drives is the potential for us to integrate fast and to drive savings to the bottom line as soon as possible. And the best proof point of this is Cooper, where as some of you have anticipated, we are indeed today capable, and we are able to commit to higher synergy targets than what we communicated at the time of the acquisition. We'll be raising the synergy target to be delivered over the next 3 years from USD 60 million to USD 100 million. Why is that? Very frankly, at the time of committing the $60 million was at the time of the acquisition with little visibility on the P&L and the business of

Cooper. Therefore, those cost synergies were identified on bill of material savings and on procurement savings. As we now have full transparency on the Cooper business model and its economics, and as we have a very close collaboration, obviously, with Cooper, we've been able to identify not only a slight increase in cost synergies, but at the same time, we have detailed the initiatives that allow us to get back office synergies and closely working together between the 2 companies, we have also identified revenue synergies, and that totals up to USD 100 million to be delivered over the next 3 years.

Again, the importance here is the collaboration and the speed at which we are able to deliver those synergies. And the second is we have a very clear underpinning of those savings. We had it for the EUR 60 million, and we've talked to you about that we were accelerating those, and we'll deliver those. We have the action underpinned for the EUR 100 million. And again, we will also deliver on that promise.

That's the 3 key components I want to talk about dividend allocation. And then I wanted to get back to the point of sustainability. On sustainability, I still wanted to touch upon that because it is really at the heart of value creation. And in the last couple of months, many people have asked me, said, "You've recently joined Signify and what has struck you the most? What are the most -- the best prices you've seen?" And I tell you what I tell most people. Number 1, I think the amazing commitment of the people and the values that the company carries are, I think, amazing and is testimony of that is a contribution of the people in difficult times in quarter 2.

Number 2 is what I said before, the ability of the company to focus on improving the financial profile, while at the same time, driving innovation and going through its transformation. The word and in between is the important one because often they're portrayed as it's either/or and in Signify, we combine both. The same goes to sustainability. Sustainability here is sustainability and value creation, and it's not put at different sides. It's going hand-in-hand. It's at the heart of everything we do. If I put on my human hat, the way I express it is we grow to the benefit of the planet, not at the expense of the planet. If I put my CFO hat on, I change it slightly. It's sustainability in favor of value creation and not at the expense of value creation. And I'm going to give you 1 example.

And this slide gives you many examples on how we can slot the initiatives we have into sales growth, profit improvement, even options for future cash, but I want to single out one, which is food availability. As some of you might know, I was working before in a food retail chain. A food retail chain that was focused on fresh food. And the negative surprise, I got working in that industry is how difficult it was to get fresh products to our tables, whether that was fish where we're depleting the oceans, where it was meat where the CO2 footprint of the industry is extremely bad or even fresh fruit and vegetables, where the distance to be traveled and the amount of water being used to produce fresh food to our tables is extremely damaging to the environment.

When I came to Signify and looking at lighting, and I see how we can help food availability, how it helps the overall company to grow but how we are able to reduce food -- sorry, to increase food yield to decrease CO2 emissions and to decrease the amount of water being used while doing that, I think it's something that really speaks to my heart.

So with that, I will basically say, let's go and wrap up this session. And let me just recap on the value creation framework, where you see that I've put value creation and sustainability now in the center. Our path to drive shareholder value creation has been clearly set. One, we'll have positive comparable sales growth between 0% and 5% in the next 3 years, driven by technological innovation and sustainability. Adjusted EBITDA margin will improve to 11% to 13% by 2023, we'll generate solid free cash flow with a minimum of 8% as an average across the period and we'll see a steady increase of ROCE, but at least hitting 11% for the period. As Nicola said, we'll double the impact on society with our Brighter Lives and Better World program, 2025 program. All of this will be achieved while on the 1 hand, we raise Cooper synergies to 100 million to the bottom line in the next 3 years, by increasing dividends to our shareholders on a year-on-year basis and by honoring the commitment we have to deleverage to below 1x reported EBITDA by 2022.

And with that, I'd like to conclude my part of the presentation, and that concludes the first part, and I hand it back over to Rogier for the Q&A session.

Rogier Dierckx - *Signify N.V. - Head of IR*

Thank you, Javier. So thanks for closing the first session. We will now prepare for the Q&A session. Many of you have already provided questions through the chat. Soon, you will find the instructions to look into the telephone communication. We will first go through a break, and then I will use the time to set up the technical components on this side. And then we will welcome you back for Q&A. Thank you.

(Break)

QUESTIONS AND ANSWERS

Rogier Dierckx - *Signify N.V. - Head of IR*

Hello, everyone, and welcome back. We will go straight into Q&A with the team. And I'd like to start with the first caller on the line, which is Daniela Costa from Goldman Sachs. Daniela?

Operator

The first question does come from the line of Daniela. (Operator Instructions)

Daniela C. R. de Carvalho e Costa - *Goldman Sachs Group, Inc., Research Division - MD & Head of the European Capital Goods Equity Research Team*

Can you hear me.

Operator

We can, Daniela.

Daniela C. R. de Carvalho e Costa - *Goldman Sachs Group, Inc., Research Division - MD & Head of the European Capital Goods Equity Research Team*

Perfect. I wanted to start with 3 questions, if you allow me. But the first one was regarding the margin guidance, the 11% to 13%. You had this guidance back at IPO time. You did Cooper, which as you showed today, you -- it's going even better than you expected. You raised the synergies. It was accretive. You also have -- are more confident on growth now.

So why is the target the same? Are you just being conservative given the outlook? Or can you elaborate a little bit there on sort of what's the upside risks to that? And then on the second, I wanted to just ask you about the UVC opportunity where you have the 10% CAGR. I understand it starts on 2020. So -- but you're increasing capacity by 8x. Can you help us like map out, it's just the base effect from -- starting from 2020 and you already have a lot of that 8x in the 2020 number there? Or why is the 10% not higher?

And then the third thing is regarding the dividend policy. You removed the 40% to 50% payout on the writing. Can you -- just wanted to clarify that. And also wanted to ask regarding buybacks because you had a frequent buybacks since IPO. Is it -- you didn't mention it because M&A is more of a priority now? Yes. I'll stay here and go back on the line.

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

Thank you, Daniela. So let me take the 2 first questions and Javier, you will take the last one, yes? So on the margin guidance. So effectively, we had a margin guidance of 11% to 13% for the company after the IPO. I think we've learned, a margin of 11% to 13% was slightly below the lower part of that interval, and we realized that many things can happen. And when you look at what's going to come in the years between '21 to '23, there's still a high level of uncertainty on when the pandemic will actually finish, how the market are going to rebuild. So there's a lot of uncertainty behind that.

Now 11% to 13%, and if you look at the higher part of the range, it means that we would have to progress by 70 basis points on a yearly basis. Until 2023. We've done a bit more than 300 basis points improvement after the time -- after the IPO in a space of 4 years, and this would mean 250 basis points improvement in the space of 3 years, which at the end of the day, we don't believe is conservative, especially given the uncertainty that we have ahead.

Now can we achieve it? Yes. It's part of the strategic plan that we establish, once again, on a yearly basis. We do that for the upcoming 3 years. So we have a plan in order to achieve this. And as always, a different situation that we're going to find on the market. If everything was going extremely well, if the market and the economies were rebounding very quickly, could we have the potential to do more and better? Maybe. But at this point in time, given the uncertainty, we think that 11% to 13% is ambitious and translates the reality of what we can achieve.

For the UVC opportunity, Daniela, we didn't indicate a growth of 10% for the company. We indicated a market growth. So the numbers that I have given were for the markets. Now when it comes to the increase of capacity, yes, we have already an increase of the performance, especially when it comes to the light sources because we are improving and we are increasing the capacity of the light sources.

And we start 2021 from a much higher base because that increase of capacity has already generated a lot of growth on the components in 2020. But once again, I didn't talk about the growth of the company, we talked about the growth of the market. But we need to look at the second component of the UVC market, which is surface, air and objects. And here, the market is going to be growing at a CAGR of 19%, and this is part that we're targeting with UVC.

Maybe Javier for priorities, M&A and buybacks.

Francisco Javier Van Engelen Sousa - *Signify N.V. - CFO & Member of Board of Management*

Yes. I'll -- Daniela, let me give a shot at the answer on the dividend policy. The policy in the past was exactly the 40% to 50% range that we talked about, and that translated specifically into year-on-year dividend increase that we saw, and that was pre the Cooper acquisition. At the time of the Cooper acquisition, in terms of the additional value we create in the company, we wanted to basically hold back to providing a decent dividend yield. And therefore, we believe that the policy going forward on a steady increase dividend year-on-year is the right policy to hold.

As we said from a capital allocation policy, the first one is, we will, indeed, of course, look into providing the shareholders with the proper return. At the same time, we want to keep there the options open for, as we said, deleveraging, which has become a priority post the Cooper acquisition to honor our commitment and then basically to look into inorganic growth.

As I said in the presentation, if we look that there's less opportunities to invest in growth, inorganic or organic, we'll then basically have the flexibility to go back to either share buybacks or extraordinary dividends to then increase year-on-year decision on increasing dividend per share.

Rogier Dierckx - *Signify N.V. - Head of IR*

Thanks, Javier. The next question will be from Andreas Willi from JPMorgan.

Andreas P. Willi - *JPMorgan Chase & Co, Research Division - Head of the European Capital Goods*

Can you hear me?

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

Yes, Andreas.

Andreas P. Willi - *JPMorgan Chase & Co, Research Division - Head of the European Capital Goods*

Yes. I have a question on the Q4 guidance you provided today. It implies a bit of a reduction year-on-year on profitability. You have had a very strong delivery in the first 3 quarters this year where you improved margins despite the lower sales. What's different in Q4 that kind of changes this dynamic? And also what does this mean for the run rate into next year?

Consensus looks for margins to improve meaningfully next year over this year, but then if the run rate into Q4 is weaker, what does it mean into next year? And you haven't commented on next year's margins. I guess you will give that guidance in February with -- or January with the results, but still maybe in terms of high-level picture, so if margins slow in Q4, when would you expect to go back to year-on-year margin improvement again?

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

Yes. Thank you, Andreas. So let me take it that way. So the big difference in Q4 is a very high base of comparison in Q4 2019. So we compare to a very high compare. When it comes to the top line, what we are seeing in Q4 is a continuity of what we've seen in Q3, meaning that on the consumer side, the business is quite dynamic. And I would say, in most of the geographies, we see headwinds on the professional side of the business because of the lockdowns that are being applied not always in a very homogeneous way in the different geographies.

It's not all the countries of Europe, but we see also a slow pace in Northern America. So that is impacting the top line more than what we had originally expected in Q4. There's another element, which is the availability of containers. It seems a bit of a trivial subject, but it's a real one that we're facing on a daily basis, finding containers that we can use to ship our product from one continent to the other one, and we are not the only company to experience that at this point in time. So that has an impact on the top line in Q4. Nevertheless, when -- the performance that we are, at this point in time, forecast to achieve in Q4 is very strong. But the basis of comparison of last year is a very strong base of comparison.

So at the end of the day, if we were finishing the year with minus 13% to minus 13.5% top line impact with the profitability as a percentage, which is going to be stable, look, I think it's -- given the conditions that we had to face this year, I think it is a reasonable achievement. We don't see Q4 as having a negative trend in terms of pattern. I think it's pretty much in the continuity of what we've been doing all along, and we are quite confident in our ability to continue to drive profitability in the right direction moving on.

Rogier Dierckx - *Signify N.V. - Head of IR*

Thank you, Andreas. Next question is from George Featherstone from Bank of America.

George Featherstone - *BofA Merrill Lynch, Research Division - Research Analyst & Associate*

The first one would be, can you help us understand the base level of sales for each of the growth platforms, perhaps in 2020 or 2019 in agri, solar, UVC, 3D printing, et cetera?

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

Yes. That's an -- that's the indication that we have given for all of them, but we don't give individual indications. So all of them, it's about 4% of our sales, so it's around EUR 240 million, and that's valid for the 4 growth platforms.

George Featherstone - *BofA Merrill Lynch, Research Division - Research Analyst & Associate*

Of those 4 growth platforms, which would you say is the largest?

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

Horticulture -- agriculture.

George Featherstone - *BofA Merrill Lynch, Research Division - Research Analyst & Associate*

Okay. And then in terms of the profitability for those growth platforms relative to the group, how should we think about that?

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

So you have to look at it as -- for all of them, we talk about an accretive gross margin. And depending on the cases, which is linked to the amount of investment we have to do to grow, we can have a slightly dilutive operating margin or accretive gross margins.

For the business that are the biggest and the most deployed at this point in time, we're going to be accretive at gross margin level and at operating margin level. For the businesses that are smaller, we are, in general, accretive at gross margin level, but dilutive at operating margin level.

George Featherstone - *BofA Merrill Lynch, Research Division - Research Analyst & Associate*

Okay. And then the next question I have is around your revenue growth assumptions for next year, just a query really how the slide on -- or the chart on Slide 17 relate to the charts on Slide 41.

It would appear as though for 2021, the organic growth next year would be perhaps lower than what's also indicated by the higher growth in terms of phasing indicators of -- on Slide 41. So can you just help me understand that a little bit?

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

So basically, when you look at -- so I don't remember exactly which slide you're talking about, but let me picture it this way. The growth in the coming years will have 2 components: one of them, it's the -- I would say, the technical rebound because of the crisis. That's one. That will play more in the 2 first years in the period: another element is the growth platforms on 2 sides. The growth platforms, the 4 that we have just talked about, but also all the connected offers that we have.

So those ones will play all along the period. Now if you compare Signify at the beginning of the period and at the end of the period, we believe that the impact of conventional will be -- or the negative impact of the decline of conventional will be more important at the beginning of the period than at the end of the period. So you have a lot of different elements playing, but what we have assumed is that we would get a bit of a higher growth, as Javier was saying, in the initial part of the period than in the end.

Rogier Dierckx - *Signify N.V. - Head of IR*

Thank you, George. Let's go to the next question. And the next question will be from Martin Wilkie from Citi.

Martin Wilkie - *Citigroup Inc., Research Division - MD*

It's Martin from Citi. Just a quick clarification on that. The Slide 17, I think you referred to, shows the Signify-weighted market growth. It does seem to suggest that's a headwind in 2021. Now I know you are looking to outpace the market and take some share. That's going to be a particularly important point next year in terms of you gaining more share so that you can more meaningfully outpace the market in 2021. So that was my first question.

The second question was a question and clarification. Obviously, the dividend for 2019 had been suspended. I just wanted to clarify, is there any intention to revisit that? Or is it effectively yield for the year and then we would just look to the 2020 payout for the next dividend?

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

Thank you, Martin. I will take the first question. You take the second one, Javier?

Francisco Javier Van Engelen Sousa - *Signify N.V. - CFO & Member of Board of Management*

Yes.

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

So you're right. When we look at Signify-weighted market average in 2021, we still have quite an important gap versus the market growth but this is also the period where we believe that the technical rebound of the market, so this is the way we have simulated it, will be quite strong, especially on the consumer side.

We expect a higher rebound on the consumer side and a bit later on the professional side. So we think that this should help us with our growth businesses to offset that gap. But you're right, I mean, there's a bit of a hurdle here in the first year. Absolutely. Javier, to you, the second question.

Francisco Javier Van Engelen Sousa - *Signify N.V. - CFO & Member of Board of Management*

Yes. Martin, the answer to this one is quite simple. We have, at this point in time, not changed our guidance that the dividend is basically suspended for 2019. So that's basically the latest guidance and that doesn't change.

You refer to 2020 for what's happening in 2021. Again, we will follow our capital allocation policy, the way we explained it in terms of dividend, deleveraging M&A. And then we see what else we can do, and that's a decision that we'll then take early next year.

Rogier Dierckx - *Signify N.V. - Head of IR*

Thank you, Martin. Next one on the call is Joseph from Redburn.

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

I have a couple of them and one on margin and one on growth. And on margin and specifically on the indirect cost as a percent of sales, you had suggested an industry benchmark of 25% to 29%. And your metric here has improved in recent years, but it's still at 29% in 2019, which is at the high end of the industry. And what is your target here by 2023?

And my next question on growth is about your market share in the 4 growth markets that you talked about, agriculture, solar, UVC and 3D printing. If you could share some color on that as well, please.

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

Do you want to take the [rest]?

Francisco Javier Van Engelen Sousa - *Signify N.V. - CFO & Member of Board of Management*

Joseph, Javier here. On the indirect cost, I'll go back to what was presented. And you correctly spelled out that the guidance that we have in the benchmark that we look is indeed the 25%, 29% range. That's a benchmark that we maintain. And as we explained in the presentation, the reason why also in 2021, 2023, we look at the profit evolution. You've seen there's 2 elements that we're going to have to steer on in order to be firmly be in that range.

One is, as we talked about, we will have -- we count on having top line growth and therefore, dilution of the cost base. But in any case, on top of that, what we'll do is that efficiency drive to take further cost out of the system. The combination of those 2, also, of course, depending where sales will come out, will steer us within that range, and if stars align, towards the lower end of that range. But the range is confirmed. That's still our target because, especially after the COVID pandemic, we want to make sure we go to that range and that's also the profit improvement we show over the years.

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

Joseph, on the market share, on the 4 growth platforms, I think we have 3 of them where we have a leading market share, which is 3D printing; which is what we indicated in agriculture, and this is a business that we've been running for a long time; and also in UVC. So we believe that in those 3 growth platforms, we have a leading market share.

That is not the case in solar because it's a market which has been managed a totally different way. Before what we see coming as a new period, where low level of quality were giving difficulty to access the market because of the price points that were extremely low, but we see that changing. And we have been developing the new offers, especially on hybrid solar that Harsh is going to talk about that really make a difference and provide fantastic benefit in terms of climate action and clean energy that we believe are going to have a different type of traction on the market.

So if I look at the 4 growth platforms, on 3 of them, we have a clearly leading market share. And not the case yet on solar, but to be developed in the coming years.

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

Yes. And any chance of quantifying that a little bit? For example, I think your -- the traditional lamps business has more than 20% of the global market share. And for these specialty areas, would you say that the 3 areas have higher than 20% of market share or lower than that?

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

Yes. We're trying to refrain at this point in time to give too many information on the individual growth platforms for competitive reasons. There's no other reason behind that. So we thought we still needed to give a kind of information from a size perspective.

So we said it's about 4% of our sales. So if you put the 4 combined, it's around EUR 240 million. So that's to give an indication that it is -- it's quite sizable already. But Joe, we want to refrain at this point in time to give indication by individual growth platforms.

Rogier Dierckx - *Signify N.V. - Head of IR*

Thank you, Joseph. Next question on the call is from Lucie from Morgan Stanley.

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

I hope also you can hear me as I see you on the screen without any sound. I'm speaking on the phone right now. I have a couple of questions, if I may. The first one is around the performance of the company versus the market because I understand from your central scenario that you are expecting the market to be back to 2019 level in 2023. But if I grow your pro forma sales base of EUR 7.7 billion in 2019 by kind of about 2.5% per year, it looks like you're far from going back to this level in 2023.

And I guess this is coming to a more broader question on the fact that you've highlighted you have maybe underperformed, to some extent, the market in the past, and you still expected to underperform it over the next couple of years as per Slide 17. Why is that the case? As you are the market leader in this industry and as you are basically on pretty much every segment that there is in lighting. So just to understand that a little bit better, please.

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

Yes. Lucie, look, we need to look at the numbers in more details. But in our strategic plan, on the scenario that we have retained as the base scenario, which is effectively a market, which is going back to the 2019 level between 2023 and 2024. It was also the case for the company performance at large. So when we look at these elements, so there are a lot of different things.

We need to look at synergies, taking into account currency effect. There are a lot of different elements that we need to take into account. But we look into the details, and maybe Rogier will be able to go back to you with more information. But in our strategic plan, we were in line with that anticipation and with a company that would be having a top line higher than its top line in 2019 on the base scenario between 2023 and 2024, which was a growth that was slightly above the market growth that we have as an hypothesis in our plan.

So look, we'll see where the numbers are not squaring. But on our strategic plan, we believe that we're going to be above 2019 level during that period. Sorry...

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

My second question -- okay.

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

Sorry, there's one thing, Lucie. Our 2019 level don't integrate Cooper. So there's also change of perimeters that need to be taken into account. And as we cannot talk to you about anything else than the reported numbers, it's very difficult for us to show pro forma numbers.

So there's a lot of other things that happen behind the curtain at this point in time since we only started to consolidate Cooper in -- at the end of Q1. So the numbers are not totally comparable with what you see.

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

Understood. My second question at the risk of maybe playing a bit devil's advocate, but I remember at the time of the IPO, you were expecting the lighting market to be growing actually quite substantially between the period 2016 and 2019 and beyond. This is not what we have seen at the moment.

So what is your basis considering the data set we currently see, especially on nonresidential construction, which is about 75% to 80% of your sales to think that the lighting industry can now go from a declining one against initial expectation to a growing one at mid-single digits going forward? Why -- I mean, how is that changing? What is changed versus what hasn't happened in the past, considering the macro is maybe even under more pressure?

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

Okay, so let -- sure. Let me first make a correction, if I may, Lucie. We are exposed to the construction nonres at 50%, 30% will be investment in infrastructure, and then, let's say, a bit more than 20% is linked to the consumer market. So our exposure to construction nonres is about 50%, and in those 50%, 15% is on new and 35% is on renovation.

And if we were going and zooming a bit more in the different segments that we are serving, the biggest segment is industry. Then would come offices and then retail and others. So our exposure is a bit reduced compared to what you're actually saying. I think that the situation between now and the time of the IPO is different. The company between the time of the IPO and now is also very different. I think at the time of the IPO, we had still a market that had 2 very different trend. A declining big market and a growing LED market that was not its -- in its infancy at the time, but still had big potential to grow.

That was also the case of Signify. If you remember well, at that point in time, we were 55% conventional based. Now if I look at what has happened in the market and what we have not been able to anticipate is probably the extra competitivity and the aggression on the LED front, which at one stage, generated a high level of price erosions. That didn't allow the market to grow according to the initial perspective. But we did that at the end of 2015, having a clear vision on how the market with that huge transformation would exactly be was also something difficult to do and difficult to anticipate.

We reacted at that point in time with Klite, and I think that's the right response to what we have been able to face. I would just tell you, I would have liked to do it maybe 1 or 2 years earlier. I very often blame myself for not having been able to do that in anticipation. Now moving forward, the market is different. I think we have a market which is stabilized when it comes to the LED transformation. And we strongly believe we are moving to a new era. That new era is the continuous penetration of LED, but also the development of connected.

Nobody was talking about connected at the time. It's 50 -- 15% of our sales. You've seen the penetration in our business. It is a reality. It has a potential to differentiate further, and it has a higher potential in terms of growth. The people in the division will explain that because the unit price point of connected is much higher than for nonconnected and with a higher level of differentiation.

So at the end of the day, the market is not the same. The new phase is not the same, and we are not the same as a company. I mean we have done the transformation to LED, which still needed to be done at that point in time and was taking a lot of energy. And we have developed all the weapons to be able to fight in the connected part of the market.

On top, we have the growth platform that we have talked about. So I think we're talking about 2 very different period. Now the uncertainty is less on the market, but more on the economy at large. But at the end of the day, these are 2 very different situations, Lucie.

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

And if I can have a follow-up question on the growth platform, which is also following on some of the other questions. It's about 20% of sales. You're talking about a CAGR of at least about 10%. So if we kind of look at the -- your guidance, it kind of implies probably at the midpoint that the rest of the 80% of the business is not expected to be growing that much. So first of all, is that the right way to think about it in terms of the dynamics?

And secondly, when we think about that 10% CAGR, you mention 2020 to 2023. Obviously, in 2021, as you were mentioning, we expect a strong technical rebound from COVID. So if we think more of a normalized growth rate for these businesses, i.e., 2021 to 2023, how does that compare versus the 10% you're kind of mentioning for the whole of the period, please?

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

So let me try to give a general answer to this. What we expect is continuous decline in the conventional part. We see a growth potential in digital products and digital solution. And we see a higher impact of the technical rebound, positive at the beginning of the period. But that's basically what we have already said, and I will finish here.

Rogier Dierckx - *Signify N.V. - Head of IR*

Thank you, Lucie. This will conclude the first part of our Q&A session. So thank you, Javier, Eric and Nicola.

And we'll now start a short video, and then straight away, continue with the second part of our session, where we will give you more insight into the strategies of our divisions. And we will start the part with conventional products.(presentation)

PRESENTATION

Rogier Dierckx - *Signify N.V. - Head of IR*

Hello, again, it's my pleasure to introduce you, Maria Letizia, who will provide an update on our division Conventional Products.

Maria Letizia Mariani - *Signify N.V. - CMO and Head of Strategy & Member of the Board of Management*

Hello, everybody. Good afternoon. Good morning. It's my pleasure to open the second part of this session talking about the division Conventional Products, where we serve a broad range of segment and customers with our conventional light sources and electronics.

Then first channel is the professional. This is the largest one, and this is also the one where we have the highest market share. Here, just to give you an idea, the largest category is represented by the fluorescent tubes, weighting close to 50% of the market. Then we serve OEM customers, specifically in 3 application areas: horticulture, purification and projectors. Those 3 application area, they have very different dynamics.

While projector is declining in line with the conventional general lighting, horticulture is a business that is growing, and now will enter into a phase where the conventional part of the business will have a slow decline, but still with a significant market opportunity also for the hybrid solution. Amplification that has been, for a long time, a very stable market that is now experiencing a very strong growth.

And then of course, we also serve the consumer channel, where the biggest category is the compact fluorescent that represent around 40% of the market. We are in the market with our Philips brand, but also we use in specific geography and specific -- for specific technology, B brands and second brands. An example is Pila that we use in Central Europe for fluorescent with a very strong penetration.

Now when we look at the performance of the market in the past, obviously, no need to say that conventional is a declining market and it's a market that is declining double digit. As you can see, in the second part of the period that we are analyzing, the decline has even accelerated. In the period between 2013 and 2019, the market divided by more than 4 and the market lost close to EUR 10 billion.

The main factors that are driving the decline are, first of all, the LEDification. LEDification is driven by energy efficiency objectives and also by the improved price point for LED alternatives. The second big driver is legislation, where we have observed in the period specifically 2 major events. One is the ban for halogen in Europe that has been completed in September 2018. And the second one is the ban for [incandescent] in U.S. and in China.

When you move to the right part of the slide, you can see that in the period, of course, the business declined, our performance went down, but the relative size that we have versus our competitor increased significantly. So we started in 2016 being 1.8x bigger than our next competitor. And in 2019, we reached the level of being 2.2x bigger than our nearest competitor. Competition is, of course, also facing the kind of the market. Many regional players are divesting, are consolidating. And we observe in the market a long tail of Chinese manufacturers, where the biggest one is 10x smaller than us in the same perimeter.

And there is a lot of changes happening also in that part of the market. In 2019, we listed 27 companies, 27 Chinese manufacturer. And already this year, we have seen 11 of them stopping their activity in conventional. This is showing that the market has a very strong dynamic and that being capable to operate in this market is an exercise that requires scale. And we are fully leveraging our scale advantage in gaining share space in this market.

But let's have a look at our performance over the same period. You can see that while we have seen in the previous slide that the market divided by 4, our performance, our sales divided in the same period by 3 and the footprint divided by 2. So we are in a market that is declining, declining less than the market and gaining market share. So as you can see in the central part of the slide, top, our market share gain has been even accelerated, while the market was declining and squeezing. So our strategy that is to represent the last company standing and be successful.

We are declining less than the market. We are gaining market share in a profitable way, and we are delivering solid cash flow. This brings us to be global leader in the lighting industry, and we keep our focus in line with the 5 frontiers strategy that Eric presented at the beginning on customer as the center of our strategy where the customer NPS is, for us, a strong element. Our customer appreciates specifically the brand, the quality of our product, the availability that is linked to our ability to continue to serve properly and the connection with our sales and process organization. Those are the winning factor that drives the customer preference.

And we also take care specifically of our employee, measuring the employee NPS that stays constantly very high because we, in line with the Great Place to Work strategy frontier, we drive with our employee a continuous effort to bring them to next level of development and to offer them career opportunity in the company.

When you look either (inaudible) and starting on the last part of the slide, we see that the market will continue to decline double digit, even if in the second part, we see the decline a little bit slower than before. Our performance will continue to be better than the market. So our strategy is to continue to gain profitable market share in a declining market by declining less than the market and performing better than our competitors.

Of course, in a business that is declining, one key success factor is the ability and the agility to restructure when and ahead of time. Now here, you see on the right, the comparison with our restructuring plan that we shared at the -- at IPO time and the actual for the first part of the period and what we have as our updated latest view. So at the time of IPO, we said that between 2016 and 2019, we talk about the EUR 300 million for restructuring.

Reality is that we invested less -- around half of that amount for a series of reasons. The first one is that we closed less factories than what was initially planned because the business actually performed even better than what was in our plan. Then it's also clear that when you have factories that are efficient, the later you close the factory, the less cash it cost. By moving the closure later on time, we have also a lower cash impact. We have learned and we continue to learn how to do that in a very efficient way.

And we take care of our people with a very accurate talent flow objectives that we continuously pursue. For what is left, we said that EUR 200 million should have been needed. You see already that in our plan, we see 20% less. EUR 22 million has been already invested in 2020. So you can easily do the math to see what is left in front of us for the restructuring charges.

And the 5 frontier strategies is driving our daily behavior. So we have talked about -- already about the customers, and we have talked already about employees. Now we talk about what we drive in terms of business implication. So deliver differentiating lighting offer is at the core of what we are doing. Winning profitable market share, using our brands, using our leadership in terms of scale, leveraging our customer reach and our intimacy with customer is what drives our daily activities in general lighting.

Then our growth opportunity is also connected to sustainability and is strongly linked to food availability, where we have a historical leadership in horticulture where we continue to leverage our customer connection, the strength of the brand, our IP connection with a light recipe that help us differentiate. And while we continue to also drive the evolution of the market with hybrid solution, together with division digital solution.

On the last part, we have a strong connection with the health and well-being with the UVC opportunity that I will describe a little bit more in the next slide, even if you have already seen the video in the opening. So you know a lot already. I just want to remark a few point. Even the slide is a bit intense and dense, I will guide you through the slide.

So first of all, UVC is not a new technology. We are a leader in UVC for 35 years now. So we know the technology is proven. It's safe. We master the technology. We use a -- traditionally use the technology with our OEM partner in different applications, but mainly in water disinfection and water purification for industrial scope. Now we knew that the technology is capable to deactivate viruses and bacteria.

At the moment of the pandemic, we immediately partnered with the Boston University to also specifically validate the efficacy against the virus that causes COVID-19. So we had the results of the test, and we have the proof point that UVC is also capable to deactivate the virus that causes COVID-19. At the same time, we have immediately accelerated our investment to increase our capacity with plan to increase by a factor of 8. We continue to partner with our OEM partners to more than 300 in more than 50 countries. And of course, we have started partnering with our colleagues in division conventional also in division digital solution and digital products to also serve end user with a specific application.

Now when you look at the market, we have seen already the market increased by 50% in a few months, and we see this market continue to grow. The component, the part of the market that we address specifically with lamps is a subset, that is also growing, both because the demand is growing, but also because there is a replacement market that is creating a higher base of recurring revenues.

A quick example on what our OEM customers are doing. The first one is Finsen Technologies. This is a company that is active since many years in the UVC disinfection for health care. They address specifically the health care in the care infection that are caused in the hospital, that you take in the hospital. This is a big cost for health care system.

There are only -- you carry more than 300,000 people that take infection in the hospital, and it costs more than GBP 1 billion to the sanitary system to address that infection. So there, you will see knowledge applied to create a robot that prevent those kind of infection. And now with the pandemic, they are exporting their knowledge and applying the robot in many different environment: school, gym, industries, offices. So their knowledge is exported and is expanded.

In summary, when we look to our performance in the past and what is in front of us, we are convinced that our last company standing strategy will continue to bring us in a declining market to win profitable market share, deliver solid cash flow and deliver our profitability in line with a stable performance over time.

And to conclude, our strategy is built around 2 main elements: one is to continue to gain share in the traditional general lighting market; the other one is to invest in innovation and capacity to grow the UVC business, leveraging our knowledge and our expertise and our ability to expand the capacity in line with demand.

We will continue to deliver solid operating margin and free cash flow. And we will continue to apply flexibility to optimize the industrial footprint in line with the requirement and the needs in the market.

And with that, I thank you for your attention, and I leave the floor to Rowena.

Rowena Lee

Thank you, Letizia. Hello, everyone. As with pandemic, I will be presenting from Hong Kong.

Let me start first by introducing digital products. Can we move to next slide? Digital products, we serve multiple customer segments, ranging from consumer, professional and OEM; with a wide range of technology-leading light sources, luminaires, components and connector systems. Our products and systems serve different applications, ranging from residential to office and industry, hospitality, retail and also outdoor.

Our components business mainly serve professional luminaires manufacturers. Consumer and professional are roughly equal in size for our division. We offer multiple brands, obviously with Philips brand and also with B brands and ranging from mass to premium in order to address different customer tiers.

Next slide, please. The market went through a big transformation, shifting from conventional to LED in the past years. Market value grew by EUR 10 billion from '13 to '19, a CAGR of 6%. Very steep growth in the first 3 years of 9% CAGR. And in the second half, a bit more stable at 3% CAGR. Digital products, we focus on LED lamps, LED functional luminaires, LED electronics and also consumer connected. These are the categories that are largely developed based on global product platform and also scale. We do not focus on decorative luminaires and also conventional luminaires because these are largely either high mix, low volume, local-for-local or declined heavily.

Our focus segments represents about half of the market size at EUR 16 billion, and that business in that period grew very fast. Let me take an example in Philips lamps, in the first 3 years, from '13 to '16, we grew over 30% CAGR. And in the second half, a bit more stable at 3% CAGR in the market. What has drive -- driven the growth in the market? The government regulation with the sustainability agenda certainly is one.

For example, in Europe, the halogen ban and also the utility rebate push in the United States have stimulated conversion from conventional to LED. LED innovation has also driven a lot in the energy efficiency improvement in a big way. And that has also bring a lot to the cost breakthrough as well, allowing the technology to be much more affordable to the mass market.

Significant cost, as I said, and have led to also average price erosion. If you see from the table on the right, from '13 to '16, there's a very, very heavy price erosion of total, about 29% in the period, and this is largely because of the technology and cost breakthrough. In the second part of it, we see a bit more tempered price erosion, which is mid-teens, and that is driven mainly because of the intense competition.

Connect Technologies in the period have emerged and grew at a very, very high rate. And by 2019, there are roughly EUR 900 million in size. LED electronics generally follow the growth of the professional luminaires as they become more LED-ified. Competitive landscape for the 2 products, I will call it very, very intense competition. With a low Asian competitor. I'm sure you all -- all you know a lot as well that there are a lot of Chinese companies, that more than 30,000 of them that's participating in the business. In the industry transformation, not all the traditional global actors are equally successful. Quite some of them have actually changed hands, only 3 out of 6 stay. And they're not very active in developing consumer connected in that category.

Next slide, please. While the market is characterized as intense competition and also the technology should demanding very frequent product launches for every 6 to 9 months, which is very different from the conventional dates. Digital products -- and we're proud to say that we have mastered the innovation strength and build our profitable market leadership. We are #1 in most of the categories, as you can see on the slide that we focus, and with widest distribution across the world. Our sales grew by 10% CAGR in the period. And for the focus segments, we grew 16%. Particularly for connected, we built the entire category from scratch through our technological innovation and also demand generation activity. We made a remarkable progress also on our profit. You can see in 2019, we made a double-digit adjusted EBITDA. This progress was much ahead of our competition, not being complacent, and this was achieved by: One, margin improvement through portfolio innovation, of course, pricing and also mix management; and second, cost innovation through global scale. We improved our cash 1.6x in the period. I want to call out specifically also our brand. We are very, very strong in our brand preference across all the segments. If you see from B2B, B2C and the rightest bar you can see on the chart there, are connected. Our brand presence are even stronger. Our customer Net Promoter Score have improved over the year, and you see that our improvement across consumer, professional and OEM. In short, we built a sustainable profitable growth engine and a brand, our innovation and also together with our distribution laid the foundation of future growth.

Next slide, please. We've talked a lot in the past. Let's take a look in the future. The market is forecasted to have a stable, healthy growth of 3% CAGR in the next 3 years, and the focus segments of ours are also growing or projected to grow at a 3% CAGR as well. And it is driven from a very high-growth of LED connected with a 26% CAGR and there is a continued shift from LD lamps towards LED integrated luminaries, which is growing at 9% CAGR. LED lamps market is projected to start a decline of 9% in next 3 years. While that lamp's market started to decline, there still exist 50% of the conventional socket remain to be LED-ified and continually to be driven by the sustainability agenda. For example, government regulation, in Europe, the 1 single lighting regulation of the fluorescent tube manufacturing ban in Europe in end 2023 will be another catalyst for LED conversion. We still see a tailwind for the conversion incoming dates. The component business LED electronics, as I've mentioned, generally are following the growth in professional luminaires. So it will forecast -- if it's forecast to grow at 4.5% in the coming 3 years. And among that, we see the outdoor application will grow faster than indoor, a bit, and also the connected LED components, including the sensor, including wireless and also the sensor-ready drivers, these will grow at a very high speed. As we see, also the connection system, the connect luminaires are growing in the professional space. LED market price erosion, if you see on the right-hand side, is anticipated to be much lower than the early days. Because of technological breakthrough has already flattened out in the period. We see competition generally are also less aggressive in throwing prices. And during COVID, we don't see them anymore throwing away prices, and we anticipate this trend will stay. Consumer connected will be driven by the smartphone adoption and grow in the very high speed, as I said. And if you see the market price erosion for the consumer connected, we do not anticipate it will be (inaudible) as (inaudible) because consumer-connected business are generally driven from use case innovation, its experience in software and therefore stickiness to the system is much higher than just a hardware specification differences. And therefore, we see Connect system generally are holding prices better. And this differs from LED lamps, which is much more a push model and therefore much higher price erosion in the early years when they're of high growth, but they're also being expected in the coming days to be much more flattened out. In short, the market is projected to grow healthily at 3% CAGR towards 32 billion. Our focus segment would similarly grow at 3% CAGR and at 16 billion. Among that, very high-growth in connected, whether it is in consumer or in professional. And here, we have a leading strength.

Next slide, please. Now why don't we talk about the market growth. So how are we going to take opportunities? And what is our strategy towards it? So building on the 5 frontier strategies of the company, digital products will focus on differentiated offer and growth for sustainability and differentiated light and offer for LED lamps, we will focus on converting 50% conventional socket and also drive market share, grow via our multi-brand strategy. Of course, we continue to innovate and differentiate with Philips brand. At the same time, we will also offer B brands and private label to capable different customer tiers. And this will leverage on a global scale of manufacturing and also the distribution strength of our conventional colleagues. With the transition from LED lamps towards the LED-integrated luminaires, we will innovate to expand our portfolio. I'll talk a bit more details later.

For the component business, we will focus on innovating in a professional connected and also with a particular focus to drive growth share in China, a big OEM market. Of course, another priority is to increase in-sourcing to (inaudible) light, which will strengthen our supply chain control. Going for growth and sustainability, we will accelerate our growth in the consumer connected over the complementary 2 system offer, Philips Hue and WiZ. And this is riding also on the market growth in the connector market. Last but not least, consumers will adapt to the new norm with the pandemic. They wanting to keep safe and clean living. And we are entering into the UBC consumer application to address this health concern. We've just launched a UBC consumer desk light, which was this [in fact] service and also the UBC box, which will impact objects like in a mobile phone or wallets. We've just launched in Asia in the early period, and we are ready to launch now in Europe. Our know-how of how to make safe application based on 35 years of experience in UBC Lamp knowledge and should we take the consumer safety very close to our heart. And will enable them to have a clean and hygienic living space.

Next slide, please. Now let's take a deeper look into the key growth area, capturing the growth from transition towards the integrated [LED] Luminaires. If you see from the market size, it is projected at a 9% CAGR growth towards a 5.8 billion. The growth are mainly driven from a macro trend of population growth and urbanization. Of course, sustainability agenda still drive the conversion. As I said, that 50% of the conventional socket base remain to be converted. And as [MB] quality improve, consumers are much more comfortable with the integrated LED luminaires, and therefore, we see a higher adoption. You can see our multiple offerings in the center in the different living spaces, including the spotlights in the -- your home, the ceiling in the China living room, the [dash] light and also the outdoor application. Lastly, these are the product ranges that could leverage on a similar platform as LED lamps. Front platform are transferable. For example, spotlight and downlights are pretty much the same in the LED design. And therefore, we can fully leverage on the strong R&D innovation capabilities of LED lamps and being transferred that on leverage back to the integrated luminaries. We also leverage our proposition across categories. For example, eye comfort proposition. This is designed with a light recipe with no flickering and low glare, which are expandable across LED lamps and luminaires. This is an important proposition because according to World Health Organization, WHO, by 2050, out of 1 every -- 1 out of every 2 people, they will have myopia. Because of the increased usage of smart devices and also the increased time they spend indoor. And therefore, our light recipe, which we create light that create less stress on the eyes are unique and important. Of course, luminaires -- we have to talk about the design as well. As you can see from a customer testimonial that our design are what good points. We will fully capitalize also on the in-store presence and demand generation activities across the categories. You can see from the picture there that indicating our full range offer from non-connected to connected from lamps to luminaires, with our category management know-how, we know how to position, integrate our offer on the upgrade continuum. And equally important, of course, is that online presence as the consumers are also moving much more towards the online purchase. You can see from a Tmall store rating on a slide there with very strong rating. And Tmall, as you know, is a Chinese online platform. And together with LED lamps, we also offer multi-brand so that we can address the different customer tiers from premium to affordable. This will allow us to stay competitive and at the same time, have an improved price/mix management.

Now I would like to show you a video that shows how eye comfort light recipe work. Video, please.

(presentation)

Rowena Lee

You just watched also Philips Hue after the eye comfort video, the leader in the connector system. We have just shown you different use case. And now let me walk you through -- deeper into consumer connected lighting. Very high growth, as I said, 26% CAGR, and the market will become 1.8 billion by 2023. The key growth drivers for the high-growth is consumers are increasingly looking for personalized lighting experience. They're no longer just looking for on, off and dimming. But instead, they're increasingly looking for how light is being used and blend in a different occasion. As shown in the video, you see that a relax moment in evening, a gradual wake up in the morning or a party mode with your friends. Technology enhancement also allow or enable ease of installation, customization and also automation. Very, very easy to make it for the consumers to sell the personalized lighter experience as they prefer, increasing consumer awareness and the adoption of smart home ecosystem, like the smart speakers, accelerate. And one of the easiest entrants into the smart home system is lighting because of a DIY nature, consumers, they do not require installers to make it work. Even I can make it within minutes and synchronize and sell up the light experience, which I like. We see markets are growing on 2 technology platforms, Zigbee and WiFi. We expect these 2 technologies will stay side-by-side with one another. Signify has a unique leading complementary system with these 2 technology. Philips Hue and Zigbee and Bluetooth and WiFi, we are presenting [WiZ]. The consumer decision journey in the consumer connected lighting is very different, a much higher involvement in the decision-making than traditional LED lamps replacement, which is largely a push model, consumers were connected. They really spent time to understand and compare, and they're not buying lamps. They're buying system. And they're looking for use cases, and how light is being used. So both systems, Hue and WiZ, with well featured use case, and we are by far leading the market. For example, both systems of ambiance creation with the best-in-class light quality, not only embedded in software, but also in the hardware design. On Hue, we've uniquely offered the enhanced entertainment use case with our TV sandbox and pixelated radiant live strips, and we are the only one in the world that offer this use case in our hardware. Both Hue and WiZ, they work with third-party brand and also [offers]. For example, our friends of Hue switches, which will complement the lighting solution and the more than 100 amps are working with Hue light. And for WiZ, it is an open platform, which will enable third-party brand, which is going compatible with WiZ apps, including private label. [Take an] analogy, it is similar to the Intel insight approach. And you can see from a picture where brands from Russia and brands from U.K. already been WiZ-ified with very strong customer testimonial. You see that Fortune has named Hue the greatest design of modern time and see that recently have rated WiZ as the best overall WiFi platform, and they were pleasantly surprised with a full feature offer. So our competitive strength in a nutshell, our innovation leadership in use case and also hardware design are by far lead in the market are very strong. And this is important as high brand preference will drive high conversion. And with millions of households that has been constantly engaged and can drive the expansion with a very unique direct to consumers interface with Hue, for example, with hue.com or Hue apps, we can send direct notification to the user when we have new product launch and therefore, able to drive expansion of life further within home. And as we are the leader in connected lighting, we work very close with our ecosystem partner in cross-industry alliances to shape the future technologies and protocol. In short, we are well positioned to lead the growth.

I've shown you how Hue works. Let me now show you another video on how WiZ looks like. Video please.

(presentation)

Rowena Lee

So you've seen how these 2 systems work. They're complementary to one another. And in go to market, we're presenting these 2 systems simultaneously so that we can reach to more consumers and also cater for 2 different set of markets.

Now let's move to another important priority for digital products, Klite, an acquisition that we made in 2019. We are on track for the synergies with Klite, leading to higher sales, high profitability and working capital improvement. The strategic rationale of this acquisition is because we would like to gain control on the supply chain for every lamps, luminaires and connected. We need to keep the IP, the manufacturing know-how and also the testing know-how within the company. But it's so important as we go towards more connected space. Private label is still an important customer segment. In Europe and North America, particularly for non-connected. This represents 40% of the consumer market. And the big ones, they usually source direct from China. And now with Klite, we can improve our reach to these private label customers. And in direct cost, we are able to dilute further with the increased top line and also achieve cost synergy in different areas, like R&D, et cetera. And we will consolidate our supply margin, and we have consolidated supply margin as we go for vertical integration. Cash are being optimized as we go for more in-sourcing, and also driving working capital improvement. If you look from the table on the right-hand side, which shows our synergy progress, I will call out a few points to make it easy for you. Our COGS synergy, we are ahead of our plan, and we are leveraging on the component supply base and are able to drive high procurement savings. Of course, we continue working to improve further on the competitors there. So including trying to drive our high manufacturing savings through automation that's a (inaudible) manufacturing. On in-sourcing, we are slightly behind plan. We supposed to be at 16%, and we're now at 15%. The marginal difference is because of the COVID that we had to close down the factories for 2 months in quarter 1. And now we are on track to catch up for the in-sourcing in subsequent quarters, and we are working very close with Klite also to expand the capacity. On NMC, we are spot on, on a cost synergy there. We're reusing the R&D competence between the teams to develop products, and we've identified opportunities further in supply chain, for example, running VMI in order to have much better supply chain performance. On private label, we have 1 new customer in Europe and also in North America. The revenue will start for these new accounts from 2021. And to be much more customer-centric and competitive, Klite will further look into new modelings, for example, offering (inaudible) as a service like utility rebate handling for the U.S. customers. So Klite contributed positively to the division results with increased in-sourcing. We will increase 3x more in the coming 3 years. And because of the margin consolidation with the increased top line coming from third-party brands and also private label, our indirect costs are being diluted. Klite contribution to the division adjusted EBITDA will increase over time. And working capital improvement are also being achieved as we in-source more, high payloads and also with optimized inventory management, and that will help support the improvement of the working capital.

So in summary, Klite already is delivering positive result. And through the first half of integration in the first year, Klite is creating value, and we expect that we continue to improve the contribution to the division.

Next slide, please. Now in line with the company focus on growth, sustainability and cash improvement, digital products will strengthen our financial profile through growth, innovation and Klite integration. Our top line will grow through consumer connected and LED luminaires. While the LED lamps market is declining, we would drive share gain, just like what we have done in conventional. We will use multi-brand strategy and also private label reach by Klite. Our electronics will grow through innovation in (inaudible) connected and also share gain in China. Our adjusted EBITDA Klite will consolidate margin. And we'll address it with different brands, so that we can have a better price/mix and our indirect costs were diluted with our increased top line. And therefore, we will improve further on our profit.

Finally, on the free cash flow. Of course, with the increased improvement in working capital contributed by the inventory optimization and Klite synergies plus the EBITDA improvement, we will further grow our cash. And will become a strong cash contributor for the group.

Next slide, please. I would like to close my presentation with the following key takeaway. We transform successfully to a market and innovation leader in the categories that we focused. Our strategy is focused around capturing growth from a transition to the LED luminaires, riding on sustainability, socket-based conversion. IoT technology for consumer connected, lighting, we see the growth, we continue to innovate in our user case. And also, we are by far leading the market. We will strengthen our financial profile driven by growth, innovation and Klite integration. In short, we are very well positioned for future profitable growth for the division.

And thank you, and I'll now hand over to Harsh for digital solution.

Harshavardhan Madhav Chitale

Thank you, Rowena. We'll now spend next 30 minutes to deep dive into division digital solutions. What do we do in digital solutions? We sell luminaires, connected lighting systems and then services that use data and offerings to enhance our systems that we sell. So that's the world of digital solutions. And we go to market through multiple channels. Indirect channels such as our trade wholesale partners, various system integrators, but we have also built a strong end-user sales force that goes to market, especially for large global accounts, large marquee customers, who want to engage directly with the solution provider and the technology provider. And then we have different segments to which our customers belong. We have office owners, industry, manufacturing as well as warehouse and logistics companies, retail and hospitality, public and infrastructure, the government is a customer and then different types of farmers in agriculture. So range of offerings, multiple channels and different segment of customers.

How has the world of digital solutions evolved over the last few years? Just like what we heard from Eric earlier for overall Signify. Digital solutions, the professional lighting space also transformed substantially. Back in 2013, 2/3 of the entire market was conventional. And now just about 15% is conventional. So market changed rapidly from conventional to LED. Transformation also from unconnected to connected lighting started happening over the years. But if you look at the bottom left part of the chart, you'll realize that any penetration in the sockets in the installed base is still just at about 34% when we look at professional space. Eric spoke about 50% as the overall penetration as overall lighting. But in the professional space, it's just about 34% because a lot of the change to LED gets also associated with the renovation cycle, which happens for public infrastructure over 20, 25 years. Cities change their light points once in 20, 25 years. And in office or retail space, once in 7 to 10 years. Hence, while a lot of LEDification has happened, still, there is a lot more headroom left. And the transformation to connect it is just about beginning. Only 2% of the live points, 2% of the sockets that are out there are connected today. While this entire transformation was happening, one other interesting dimension emerged. What we saw is when a light point gets connected, its value increases by almost 40% to 50%. So every connected light points is far more valuable than unconnected because the value that it delivers to customers is far more. It's not just illumination. Hence, as more and more connected penetrates into the industry, into the sockets, there is a scope for value increase for the increase in the pipe. What we also saw over the last few years was emergence of many Asian players who expanded into Europe and Americas. And with their entry-level simpler cost-competitive offerings, they were very aggressive on the price, and we experienced close to 5% price erosion that Eric had referred to. We also saw significant M&A activity happening in the industry. So while this entire transformation was happening in the industry, in the professional lighting industry, how did we transform ourselves? Over that period, we emerged to become a clear leader, a clear innovation leader and a market leader. We transformed ourselves on the strength of investments that we had done on -- in innovation. From 61% of our business being conventional fixtures business back in 2013, now just about 8% is conventional fixtures. And what's even more interesting is from business that had hardly any connected lighting in 2013, now almost 1/4 of our business is connected lighting. To get -- to drive this transformation, we invested ahead of the curve. And while we were doing this technology and portfolio transformation, we also had to change our manufacturing footprint. Over this period, we shut down close to 12 factories, and we had to make some investments, some cash outflow associated with that change. While managing both of these transformations, operational footprint as well as technology, we were also able to increase our customer NPS score from 29 to 52. 52 is what customers told us just a few months back in our last quarterly NPS survey. We also transformed our profitability profile, and we doubled our profitability from 5% to 10%. While we grew our portfolio organically, we also did many bolt-on acquisitions. And Eric spoke about 3 different types of acquisitions that as a company we have focused on. Acquisitions that give us access to special application, high-growth applications, like GLE, that's a small little acquisition that we did to expand into air disinfection solutions. And just in 5, 6 months of having acquired that company, now our order book on that is 6x more than the annual sale of that small little company when it was stand-alone. We also then acquired to get into animal lighting space. Agricultural lighting is another attractive space that was spoken about earlier. Then we added technology building blocks to make our connected lighting space even more powerful. And then we expanded into attractive geographies and got more reach and share through acquisitions such as Cooper Lighting, and we'll speak more about that.

So at the end of this entire transformation, where are we now? We've built a business that's unmatched in its global scale, while it also has a very, very strong local presence in every geography of interest. We are bigger than our -- bigger than every other competitor that we have. And what's interesting is that this entire scale is not concentrated in 1 geography. It's balanced across different geographies. And also, there is no concentration in 1 channel. As I had explained earlier, we go to market through different channels. And hence, it gives us more balance and robustness in terms of our business model. Where does this scale help us? Where does it create competitive advantage for us? If you go to the right side of this page, you'll see that as a signifier, as an entire company, we have a procurement spend of close to 3.5 billion. That's more than the turnover of the nearest competitor. And that kind of a procurement scale gives us advantage in offering better volumes to our suppliers and extracting better cost for a bill of material procurement. And we saw examples of that within first few months of integration of Cooper Lighting. One of the reasons why we are able to increase our guidance on synergies is such procurement savings. This kind of global scale also gives us advantage when it comes to making investments in technology-intensive areas like connected lighting or new growth areas, where with this larger scale, we can afford to make those R&D investments, which are far more than anyone else and then leverage them, spread them over a larger base. So this unmet global scale is now what's going to help us stand in good stead as we get into the next phase of our growth journey. And where is that next phase of growth journey going to be? What's the market going to look like? Next phase of the growth from 2020 to 2023 is going to be driven by connected lighting and new growth platforms. Connected lighting in professional space is already over 10 billion of a market. It's already very sizable. And we have a clear market and innovation leadership in that. Growth platforms such as agricultural lighting, solar lighting, disinfection lighting, all of them are also sizable and material in terms of contributors. And they are going to grow in double digits in professional space. So it's connected lighting driven growth and specialty applications driven growth. And this growth is actually underwritten with good tailwinds, supported by good mega trends that we see around us right now. Sustainability focus, whether it be climate change, food availability, extra focus on circular economy, health and well-being, all of those are actually mega trends that support various growth platforms in which digital solutions is very active. A lot of government recovery programs are also focusing on the same mega trends. For example, a European green deal, or even some of the new reconstruction programs that are being talked about in China or in U.S., in Germany, all of them are focusing on national recoveries of their respective economies. With focus on sustainability and making the economies greener. I think this is going to give us a very good tailwind as we get into this next phase. Connectivity is now here to stay, and ubiquitous connectivity will continue to drive penetration of connected lighting. So if we go to enter into this next phase of growth, of course, with a good base effect, where in 2020, industry had declined. And now with that lower base, it starts to recover. And on top of it, there is connected lighting and these mega trends that will support growth on various growth platforms. What's our strategy to play in this new emerging space? Our strategy of growth is technology led, again, focusing on 2 different dimensions. First dimension is about our traditional luminaire (inaudible), where we are going to focus on delivering differentiated lighting offers. This market has now matured. We now see multiple tiers have emerged in luminaire space. There is now an entry level, let's call it, good enough kind of a product category. To highly differentiated specialized performance-driven category. And in between then, there is, let's say, good and better category. So there are multiple tiers that have emerged in the luminaire market and leveraging our scale, leveraging some of the innovation that we've done in areas such as optics, innovations in 3D printing and circularity as well as access to having Klite. Rowena spoke about Klite, that gives us a back-end vertical integration. Leveraging all of that, now we are able to play in each and every tiers. And we are going to play in those different tiers by combination of different brands. A brand B, it could be Mazda or Piva kind of brands, and a good and better brands, which is Philips, and then we have specialized brands, which are very performance and high-end spec-driven brands. So multiple brands, scale and vertically integrated back end would help us offer this differentiated lighting offers. And then growth driven by sustainability. We'll deep dive into each of them. What are those growth platforms, and how those we believe are exciting growth areas for us going forward.

Let's deep dive into the first one. The growth platform of connected lighting. Here, we are clearly a leader, not just as a market leader, but also innovation leader when it comes to connected lighting. We've invested ahead of the curve over the last 5, 6 years. We've -- it would be fair to say that we pretty much pioneered connected lighting as an entire space. Now that space is as big as 10 billion annual sales. What we've done over the last few years is built out the entire architecture, starting from sensors, switches connected to different luminaires, different forms of connectivity, wireless, wired, radio frequency, all of that feeding data into a data lake on which then different data-enabled services can be offered. So the full stack of offering has been developed over the last few years. And it's not just one stack. But it's a stack, which is optimized for different subsegments of customers. Because the office customer, their needs are very different. They value space optimization. They value employee productivity. Whereas a retail customer wants to know how is the shopper moving in the shop. They want to optimize the promos that they run in different areas of the shop. So different value drivers exist for different customers. And hence, we've created this stack optimized for every different subsegment, and we have such 10 different subsegments for which we've created these stacks today. What's our competitive strength in playing in this attractive space? First and foremost, we've learned over the last 5 years that connected lighting is not just about technology.

It's a different business model. It's a different skill set. And we've built over the last 5 years, organization for that, dedicated sales teams, dedicated solution architects, different delivery organization. So all that is now built and invested in already. And it's invested in not in one part of the world, but in every market in which we play. We have built out end-to-end offering, as I said. And we've also built out an IoT platform where all of this data finally comes.

And we've heard Eric speak about millions of light points that are already connected and giving data in our IoT platform. Over a period of time, we believe that data will start getting monetized for asset tracking, for space management, for optimization of real estate footprint. All of these services will emerge, and we are already ready for it with the infrastructure that's built. All of this is not just technology and geek speak. It's actually creating quantified value for different customers.

For example, Deloitte, here in Amsterdam, is using our lighting system, our Interact system, to not just save energy efficiency, but also optimize space utilization, and they've reduced up to 40% space per employee. They've estimated that EUR 1,800 per employee has been saved by this system for them.

On the other hand, Globus, which is a retail chain in Germany, they have been able to drive 15% more traffic using our Interact retail offering through various promos that they are able to do with dynamic light settings using Interact retail. So quantified value delivered by Interact to different customers.

But you don't have to believe this just because I'm saying so. Let's hear it from one of our customers in Germany.

(presentation)

Harshavardhan Madhav Chitale

So interact industry, examples like this gets us into warehousing and distribution space. And as you know, this is something that is attracting a lot of investment even in this time. Now let's hear from a very different kind of a customer, a city, and that's also a space where we see a lot of investment happening, thanks to various reconstruction programs that governments are spending on. Let's hear from New York State.

(presentation)

Harshavardhan Madhav Chitale

From world of connected lighting, let's go to our second growth platform, equally exciting, that's agricultural lighting. This is also a space, which is now over EUR 1 billion in size and addressing the big trend, the big need of providing food security to growing population.

Here, we don't just offer light. What we offer is light recipe. What we offer is better nutrient, nutrient rich food, our ability to grow nutrient rich food to that farmer. We offer improved yield. And we've developed these light recipes for different types of crops in our horticultural lighting. And we've also developed these light recipes for animal barns, be it chicken or swine, or also for aquaculture. So we have solutions today for horticulture, aquaculture, but also, interestingly, vertical farming, where we want -- we see customers wanting crops being grown closer to where they are getting consumed. And that's a big trend -- that's a big demand that we see coming.

What are our competitive strengths in agricultural lighting? We come with the decades of know-how, we come with unique light recipes, over 150 of them. And now we are taking that strength even further. We are now utilizing AI for yield prediction. There are actually 6 sites here where we are helping the farmer predict the yield out of that entire crop season, so that they can go and talk to the grocer and do the negotiation and contract for selling that entire produce to the grocer.

We have also built partnerships with the ecosystem because it's an ecosystem play, whether it's a greenhouse builder, agricultural universities, seed providers or feed providers. So we've built this full ecosystem, and we've also made this entire offering connected so that you can remotely monitor how is that plant or animal growing and what intervention is needed? Again, just like in connected lighting, we have lots of interesting case studies and proof points.

For example, a vertical farm in Ontario, Canada, GoodLeaf Farm. They are using our entire solution, horticultural system for growing baby greens. And this has given them ability to grow baby greens throughout the year in Canada in a pesticide free environment, and all of them come with a very, very predictable looking -- predictable output. We've also been able to demonstrate success in salmon production, where, in Norway, we have a farmer who has seen 10% improvement in the yield and also better feed conversion. Let's also hear from some of these customers on what their experience has been.

(presentation)

Harshavardhan Madhav Chitale

Let's now move to our third growth platform, which is solar lighting. World of solar lighting is changing rapidly. It's no longer now a space only for off-grid. It's no longer an application only for off-grid areas, where you use this to give light to those who don't have access to electricity. That, of course, stays, and that continues to grow. However, what's now emerging is ability to offer these solutions even in New York, even in London, even in Amsterdam. And what's enabling that is advancement in energy storage technologies, advancement in charge controllers, which are now more efficient. And the cost of solar panels and batteries have come down rapidly.

As a result, you can now make every outdoor light point, be it streetlight or a floodlight, solar. And it can be a hybrid solution, which can be grid connected, but, at the start of the evening, it starts using power that's stored in the battery. And after 5, 6 hours of consuming that store, it can then start drawing from the grid, but, thereby, probably reduce the consumption by 50% to 60% of what it would otherwise have drawn from the grid.

That's a huge opportunity that's now growing, and that's driving this double-digit growth of this market. In this space, we have applications for consumer. We have application for off-grid areas, like remote villages. And now we've also introduced offerings of these hybrid solutions for the developed world. Here, what really differentiates us is our customer access because it's the same customer who's buying the streetlight, who's now going to make their light hybrid connected. Plus a lot of these projects are also supported by development funding agencies. We've built a network and a good understanding with them.

Our technology here, again, is something that differentiates us. We have a patented charge controller. We have integrated luminaire design, where the charge controller, battery, panel, luminaire, all of them are integrated into one single device. And we've also got this connected so that remotely, you can monitor the performance and see where the battery needs a replacement. A couple of use cases here again. City of Albacete. It's a municipality in Spain.

They wanted to make their parks safer, and they used our 600 luminaires in Onepark, where they were able to save over EUR 650,000. If they were to do this with a normal light, they would have had to run cable. That entire CapEx was eliminated. And Energy Efficiency Solutions Limited in India, they use these lights to power remote villages. In fact, 16,000 villages and EUR 120 million of CapEx was saved than what otherwise they would have had to incur to provide light to those remote villages.

So again, quantified benefit, impact on the society and a great opportunity.

Moving to the fourth platform, which is disinfection lighting, using our UV-C light source technology. (inaudible) spoke about how UV-C lamp technology is something that we've proven, we are leading, and we've been at it for decades. We've got this tested with Boston University, and it's proven to kill COVID-19 and deactivate COVID-19. But what we are going to do here in digital solutions with this is actually expand into the solution space and get higher share of the value capture because these lamps finally get used in a solution.

It could be a fixture, it could be a [robo], it could be a tunnel. And we are using it in 3 categories of solutions, air disinfection, surface disinfection and object disinfections. We've introduced 12 different families of products for each of these. And these are the products that are getting used now in retail environment. They're getting used in offices. They're getting used for room changeover in hotels. They're getting used for baggage scanning, which is an object disinfection, or they are getting used for disinfecting clothes that are tried in a fashion retailer, and then they will need to be put back on shelf for disinfecting such clothes. So lots of interesting use cases emerging using these solutions. And our customer base here is increasing literally day by day.

I give you an example of [GLE], a small technology acquisition that we did 6 months back. In a matter of few months, the order book is now 6x to 7x more than what it was last year for that standalone entity. But we eat our own dog food or we eat our own food. We don't just preach, we use what we make.

Here is the office that I, Eric, Javier, Letizia, all of us work in. We've installed these upper air fixtures in our offices, and you can see that these upper air fixtures, UV-C solutions, can be used even when there are people around, and they make us all feel safer. That's a great use case emerging for these solutions.

Moving to the fifth growth platform, which is 3D-printed luminaire for circular economy. This is an emerging space, emerging space driven by increased focus on circularity, where now customers value that 3D printing saves up to 75% carbon footprint. But it's not just the sustainability value that's driving the growth, but also the fact that you are able to customize and create some unique shapes at a very short lead time.

For example, if you look to the bottom right, Albert Heijn, which is part of a deli, a big retail group in Europe as well as in United States, they're using these fixtures in over 120 stores, over 6,000 luminaires, that are custom printed to accentuate their different promotions that they run for bakery or for food section. And they can reprint them depending on the promotion and different seasons for which they've created these promos. Marks & Spencer, in U.K., on the other hand, wanted a unique signature design for their stores in U.K. and they wanted 20,000 of them at a short time -- in a very short interim. Again, something that we couldn't have done without 3D printing.

So we've built up this entire capability, and that's what differentiates us. This is a capability built over the last 3.5 years. We now have 6 manufacturing lines that are completely automated, manufacturing lines in Europe, in U.S. and also parts of Asia. We've built extensive know-how on material sciences and also built software to allow customers to customize and then send that design straight into the manufacturing line. So a lot of know-how built into an emerging space, where, I think, we are a clear leader and will stay a leader.

Let's now move to a topic, I'm sure, all of you are very interested in knowing more about. And Javier spoke about this guidance of $60 million of synergy. We are paying it to $100 million, all to be realized in 3 years, bottom line synergies to be realized in 3 years.

How are we going about doing this? First, before talking numbers and before talking integration strategy, it was all about meeting hearts and minds. We spent enormous effort in building a common culture, common HR systems, common learning platforms. Then we built a common employee value proposition, and we worked towards ensuring cross mobility of talent. Already, there are over 20 leaders across the 2 organizations that have moved from one part of the organization to the other.

We then saw immediate effect of that in terms of high engagement of our Cooper Lighting colleagues. The latest employee NPS score shows that the employee engagement is at a high 39. And once the meeting of hearts and minds was done, integration strategy had to click. We had 2 tenets of the strategy, maintain separate front offices, maintain separate go-to-market, separate brands, and retain all customers and agents while we do this integration.

We've succeeded in that, all customers and agents are eating. And the second one was about capturing synergies in the back end, in the procurement, in the operations, in the SG&A. And there, as we've indicated, we are already ahead, and we are, in fact, upping the guidance there.

If you go to the right side, there are 4 buckets of savings that were identified. Procurement and In-sourcing, operational costs, SG&A and growth synergies. The horizontal bar there indicates the total opportunity that we had over 3 years. The green indicates, where are we on that. And what that tells us is that, while we've captured a lot of synergy, there is a lot more that's yet to come over the next 2 to 3 years.

And the dotted line that you see there shows where had we planned ourselves to be for 2020. And you will see on each of those 4 dimensions, we are ahead. So more synergies identified, but lot more is yet to come, and we are ahead on every dimension. For example, we've completed our driver in-sourcing from digital products.

We've now started the next phase of in-sourcing some products from Klite. That's again a synergy available within the group. New area that we've identified on the bottom row that you will see, which we didn't have access to earlier, our logistics cost optimization. Just putting together the DC network of the 2 organizations and having an integrated DC footprint creates additional synergy and a saving opportunity. And it's a saving not just in cost, but also in inventory. And hence, it also releases some cash. So lots of detailed action plans around each of these, and we are ahead on them already.

So what do we see in terms of financial results of all of this? We see now a business that has a much stronger financial profile than when this entire transformation started. We now have a better growth profile because, now, share of conventional, which is declining, is less than 8%. So we are starting this new journey with bulk of the business being the growth business. And the growth business, such as connected lighting and the growth platform that we spoke about, will power that growth.

When it comes to EBITA expansion, we already have a good track record of having doubled it in last 3 years. And we'll continue to expand our EBITA percentage on the strength of better price/mix management and also with additional Cooper Lighting synergies that we spoke about. And free cash flow conversion will also get supported by EBITA expansion as well as better working capital management. Again, here, some of the measures like DC network integration is going to help us.

So key takeaway, just to summarize. Over the last few years, now we've emerged in digital solutions as a clear market leader and innovation leader. Our strategy is built around growth for sustainability. Sustainability is at the core of our strategy that gives us very attractive growth platforms. We have invested ahead of the curve. And in all of those platforms, we are ready, and we are a leader when it comes to innovation. And we now have built a strong financial profile with this unmatched scale, and we will see it growing from strength to strength. Thank you. And we now hand it over to Roger to take us through Q&A.

QUESTIONS AND ANSWERS

Rogier Dierckx - *Signify N.V. - Head of IR*

Thank you, Harsh. So in it, we will continue with Q&A. (Operator Instructions)

(presentation)

Hello. Welcome back, and we'll go straight into Q&A. So everything works well, then the first caller is André Kukhnin from Crédit Suisse. Andre, can you hear us?

Andre Kukhnin - *Crédit Suisse AG, Research Division - Mechanical Engineering Capital Goods Analyst*

Yes, I can. Can you hear me?

Rogier Dierckx - *Signify N.V. - Head of IR*

Yes, perfectly.

Andre Kukhnin - *Crédit Suisse AG, Research Division - Mechanical Engineering Capital Goods Analyst*

Great. On I'll go one at a time firstly, on the pricing, thank you very much for sharing the detailed forecast. I just wondered if you could share a bit more detail on the drivers behind it, what do you anticipate in terms of capacity additions from your peers there? And whether that incorporates any potential impact from the potential tax revisions in the U.S.?

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

Look, Andre, let's take it by part. Eric speaking. Maybe we can talk about the pricing for the LED business because we've talked about that quite a bit. I think that's one question that we could answer. I don't know if we have Rowena on the phone.

Rogier Dierckx - *Signify N.V. - Head of IR*

Rowena, can you hear us?

Rowena Lee

Can. you hear me?

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

Yes, we can hear you.

Rowena Lee

Good. Thank you for the question. You're absolutely right. On the pricing, we have shared that we expected the cash erosion will be a bit slower compared to the early days. The main driver of the biggest technology platform has already largely flattened out. We did not see significant cost to further and the intense competition, which we have seen in the last period, partly also during the COVID that we see that competition are generally holding the prices and we don't see that irrational behavior sustained. And then we anticipate, in this case, the price erosion was a bit slower than before.

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

Thanks, Rowena. Otherwise, Andre, to your question, nothing specific in the U.S. when it comes to price erosion and not very specific for the 2 other businesses.

Rogier Dierckx - *Signify N.V. - Head of IR*

Andre, do you have a follow-up question?

Andre Kukhnin - *Crédit Suisse AG, Research Division - Mechanical Engineering Capital Goods Analyst*

Got it. Yes, please. If I could -- I've got 2 others, so I'll ask them straight away to speed it up. The second one is on profit margin bridge that you gave, and thank you for that. I see there's about 100 basis points or just over that from operational gearing or cost dilution, as you call it, my humble calculation using your kind of midpoint of 2.5% growth rate between 0 and 5% suggests about 25% drop through. So I was just wondering if you could help with putting that in historic content, context? And whether that fully incorporates kind of the mix effect that will still be some from kind of conventional versus LED dynamics.

And the last question I had was just clarification on 2021 growth from earlier set of questions. Did I get that right that your current market expectations and your mix adjustments point to kind of a slightly negative development, but you're confident you can neutralize that with market share gains and that technical rebound that you mentioned? Or can you go beyond neutralizing and grow in 2021?

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

So I guess it's for me. So to your last question, Andre, yes, that's exactly it. We believe that thanks to the rebound and what we're investing in growth, we could compensate the negative impact and be positive as we are giving a guidance of 0 to 5% every year.

On the profit margin bridge, let me take it very simply. We see conventional products being stable in terms of profit margin, and we see the 2 other divisions being on an improvement trend when it comes to the profit margin. And when you combine all of them, we see an improvement at group level.

Rogier Dierckx - *Signify N.V. - Head of IR*

Thank you, Andre. The next question on the call is from Sven Weier from UBS.

Sven Weier - *UBS Investment Bank, Research Division - Executive Director and Analyst*

Yes. Those would be 3. I ask them one at a time. The first one is also on the divisional targets. You've just mentioned those, Eric, where you go directionally. I was especially curious on DDP because there, you said you're going to see a structural decline of lamps by 9%. You see a structural increase of the functional luminaires by 9% and of connected mean, historically, we know that those growing areas were lower margin and lamps was quite good, and you still want to have a net increase in the divisional margin, and that would be the question number one, how do you see that play out given the mix impact within the division?

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

No, the -- I -- yes, you can go on, Rowena.

Rowena Lee

So I think let me address the question as such. First, of course, on the nonconnected. Yes, there is a transition to what the LED luminaire space. And here, we will be able to drive the expansion into that space because that is a growing market and because we are good to address by the multibrands, and therefore, our -- the price/mix we achieved continually on the nonconnected space. At the same time, the connector business, we have structurally already improved our profits already since 2019.

And when we grow further on that part, the differentiation will actually increase further our margin, and therefore, in totality, we're expecting, in this case, that while we have a certain part of the market decline, it has -- it will be compensated in this case of luminaires and the same time on connected and therefore able to drive further on our profits. Also, one important point, Klite with the margin being consolidated because we didn't consolidate the high margin. That will also help us to improve further on the profitability.

Sven Weier - *UBS Investment Bank, Research Division - Executive Director and Analyst*

Okay. Understood. And I know back at the IPO, you had the target for professional to become a low-teen to mid-teen business. And I guess that's the only division that's unchanged in a way with the exception of buying Cooper, of course. But is a mid-teen margin, still something we should be keeping in mind for [DDS] then?

Unidentified Company Representative

So we are not giving any guidance on individual divisional operating margin. Having said that, we definitely see opportunity for operating margin expansion. We have a track record of having doubled it. And we do have right now a number of levers. There is a cost reduction effort at a group level that Eric and Javier referred to which reduces our nonmanufacturing cost. We still see a lot more scope in our procurement saving and synergies out of Cooper Lighting. What's also interesting is, every connected light point is worth far more and its mix is now increasing rapidly. And that also becomes margin accretive. So, yes, we will definitely be doing more than our fair share in the margin guidance that Javier has given over the next 3 years.

Sven Weier - *UBS Investment Bank, Research Division - Executive Director and Analyst*

Yes. The other question I had was just on your restructuring cost guidance, which is around 1.5% to 2%. And back at the IPO, that was also the midterm guidance, but the long-term guidance was 0.5% to 1%. And I guess we are now, basically, at the long term, I would guess, from a view from the IPO. So do you still think you can get to that ratio in the long term, especially given that you mentioned that you actually spent less on restructuring and lamps that did expect?

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

Sven, first, you're very right. That's what we had said at the time, and we are expecting now to have more restructuring charges than what we said at the time of the IPO for basically 2 reasons. First, is Cooper and the generation of synergies that we are aiming at will create some restructuring cash out. Plus a new adaptation of our cost structure. When we look at our performance in 2020, we've been able to maintain, and that's what we are guiding for our profitability for the full year. But we had also to intervene on our costs with solidarity measures, a bit of help from the government. So we look at our cost base today, and it's not adapted to the top line that we're generating.

So we are undergoing, at this point in time, another wave of cost reduction with one very important principle that needs to be understood. We want to go to the next stage of evolution of the company, where we're going to have a very slim headquarter and a very, very limited cost at the central level of the company. And this is what this new restructuring is aiming at. At the same time, we believe that, given the fact that the market will recover only in a few years, we need to act now to be able to go back to the target, which is ours, between 25% to 29% in the midterm.

So at the end of the day, yes, we have to restructure more than what we had said at the time, and it's because of mainly Cooper and also because of the crisis because we feel now that, after a full year, we need to readapt our cost base. And we -- you know that we do that regularly depending on market traction, and we're doing that at this point in time. So this is the explanation for the continued level of restructuring cost. Now what we can say is that, over the period, this should go down, and we believe that the impact would be the most important in the first 2 years and much less in the third year.

Sven Weier - *UBS Investment Bank, Research Division - Executive Director and Analyst*

No. But it still sounds like it's a possibility beyond 2023 that it goes to the 0.5% to 1% because we are pulling things forward, basically?

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

Yes.

Sven Weier - *UBS Investment Bank, Research Division - Executive Director and Analyst*

And the final question, if I may, was just on Klite, given the importance of the business to you. Can you just remind us what the agreement was on the remaining 49% that you don't own? Is there an option for you to buy it, or to wish to buy it? Can you remind us of that?

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

I mean, I can take it. No, there's no -- go for it.

Rowena Lee

Yes there is an option which we can take the remaining shares. But together with the Klite management, we are committed the to continue to grow the business. So therefore, at this point in time, there is no decision or there's no intention from Klite side, the joint venture partner intend to sell it to us. We haven't [jolted them] actually to better grow the business. But we remain have an option to go for it.

Rogier Dierckx - *Signify N.V. - Head of IR*

The next question is from George Featherstone from Bank of America.

George Featherstone - *BofA Merrill Lynch, Research Division - Research Analyst & Associate*

First one on UV-C. I wondered if you've had any conversations with governments about regulations surrounding UV-C applications, particularly as they relate to our in-surface disinfection, both in terms of a framework for safety, but also in terms of governments looking to prevent against further pandemics?

Harshavardhan Madhav Chitale

Yes. So I can take this one. So first, as we have said, UV-C itself is a technology that is there since 35 years. So it's proven and main implication are existing. And strongly available and secure. Of course, there is an evolving scenario where many governments are working on additional regulation for the technology for different applications. And we have a team that is active to understand regulation. So we support that evolution where we look at what is discussed, and we provide all the scientific data and information that are available on technology to secure that every government can safely promote the technology.

George Featherstone - *BofA Merrill Lynch, Research Division - Research Analyst & Associate*

Okay. And then maybe turning to the green stimulus that's going on in various different regions. How do you expect to participate in this? Are there any particular parts of the market where you expect the investment to occur and drive sales for Signify?

Harshavardhan Madhav Chitale

Yes. Okay. So thank you for the question, George. So we see especially now talking of green stimulus in Europe. We see activity picking up and really real funding of projects beginning to happen towards second half of 2021. Again, if you see where the money is going, money is going largely in Southern European countries, and we have tracked where exactly in each of those countries it's going. Also the key principles behind where the money has to be spent. We see there are multiple areas where we have a role to play. For example, the entire green reconstruction, the renovation of building, that pace is expected to get increased by this reconstruction spending. That's a space, we clearly have an opportunity in, both in the building side, but also in the city infrastructure, reconstruction.

Second is also in the agriculture space, where we see funding getting allocated for projects such as vertical farms and land-based aquaculture. That's also an area where we see an opportunity. At this stage, we see a number of proposals, city -- proposals getting put forward, different project proposals getting put forward. And we are actively engaging with different stakeholders to see how some of these technologies get used in the reconstruction plans that are being put forward by different governments.

George Featherstone - *BofA Merrill Lynch, Research Division - Research Analyst & Associate*

Okay. And then my final one would be, how should we think about the business model for the Interact platform? Is it subscription-based or more of a one-off license fee?

And also where would you expect this product to be as a share of sales by 2023?

Harshavardhan Madhav Chitale

So very good question. So actually, the way the Interact platform works is there is an upfront CapEx that somebody puts in to install the system. On top of it, however, there is a recurring service opportunity that it creates. And that recurring service has, I would say, 3 facets. First is some of the customers want to pay for the benefit out of the entire system over a year. So it then starts becoming Light-as-a-Service. So that's one facet where there is a recurring service. Second facet that comes is recurring service out of charges for periodic monitoring and asset management. For example, many cities that have put interact city, they are paying subscription charges on a quarterly annual basis for a time to come. So that installed base keeps growing and that recurring service bank keeps growing.

The third one, which is not yet fully developed, and it's yet to mature, is the data that's all getting generated, different form of data in terms of air quality, in terms of people, movement, space utilization, that data getting used for different services. And there, I would say there are proof points emerging. There are initial subscribers emerging who are paying for it, but that space that is yet to pay out. We are extremely optimistic about that space as well because we now see 380 different developers, development partners who are accessing this data through our APIs that are there on our IoT platform.

So there is a CapEx and a recurring service, part of the recurring service is established, part of it is still to emerge and play out.

George Featherstone - *BofA Merrill Lynch, Research Division - Research Analyst & Associate*

Okay. And are you able to share with us what the portion of recurring sales is the share of professional Digital Solutions now?

Harshavardhan Madhav Chitale

Yes. So as I shared already, we are almost 1/4 of our business, which is coming out of connected lighting. And share of connected lighting will continue to grow. Already, by end of this year, every lighting fixture that we sell will have a connectable option. And that should drive further penetration of connected. Now we would not be able to give a guidance in terms of what percentage it would be in the midterm, but that share would only keep growing.

Rogier Dierckx - *Signify N.V. - Head of IR*

We'll now go to the next question, which is from Martin Wilkie from Citi.

Martin Wilkie - *Citigroup Inc., Research Division - MD*

It's Martin again from Citi. Just coming back to Cooper. And you talked about some revenue synergies there, including getting some existing signified content through the cooper channels. When we think about some of your connectors products and interact and things like that, are they relative plug-and-play when you go to a new platform? Is it as simple as you have these route to market, you have some existing products? And therefore, you can get the functionality that you brought elsewhere in the world through those channels? Or is there still a lot of work to get done to those products to make them ready for your sort of technology and software and so forth?

Harshavardhan Madhav Chitale

Yes. Thank you for the question, Martin. This is one area where we've now identified many more synergies than what we could -- before the acquisition, and this is one contributor to that EUR 60 million going to EUR 100 million. Now where are we seeing these revenue synergies coming up? One is an area where Cooper business unit now has access to some of our technologies as components in their solution, which they didn't have access to. And now they can make a full offering out of it. To give you an example, UV-C light sources.

We bring a lot of technology and leadership there. Cooper is able to integrate those light sources and take full solutions to the market just the way we saw other parts of digital solutions taking them to the market. So clear revenue synergy where those offerings were not enabled earlier, whether it's for upper air disinfection or object disinfection. Now, they have full new range created using technology that was available from Signify.

Second is, when it comes to connected lighting, what we see is actually, we have very complementary play. Cooper Lighting is very strong in North America in indoor systems, whether it's for office or retail or manufacturing. But they don't have a very strong offering when it comes for city infrastructure. Whereas Interact City is an offering that can be easily plugged in -- can become a plug-and-play offering. So these nodes that make luminaire connected can also be nodes that can make Cooper outdoor luminaire connected. And then, hence, the entire outdoor systems, like Interact City, also becomes available for Cooper Lighting customers.

So there is a complementarity in the 2 offerings. And here, the approach is going to be use of modules and components to accelerate the development of platforms as opposed to just reuse of the same system. And that way, we are also able to maintain our first tenet of integration strategy, which is maintain separate front offices, separate brands, separate go-to-market. So that doesn't get compromised, but we are able to power the launch of new offerings faster with this leveraging of common components.

Rogier Dierckx - *Signify N.V. - Head of IR*

The next caller on the line is Rajesh Singla from Societe Generale.

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

This is regarding the replacement cycle in LED. So can you please share your insights into like where are we in the replacement cycle for LED? And when we could expect a replacement cycle to kick in and start giving some growth opportunities to us in the near future?

Rowena Lee

Rajesh, it's a great question. You're absolutely right. LED comes in with a longer burning hours compared to the conventional. And yes, we would expect that it will be a replacement cycle coming from LED. But for now, we have not yet seen it happening. So we expect that it will come, but, at this point in time, we have not seen it yet.

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

Any guidance on when we can expect it to come, 5 years, 6 years? Or there is no such insight into that?

Rowena Lee

But we do not provide that guidance specifically. And to be honest, we have to look into specific segment because some segments, like hospitality, whereby the sports lights probably a little bit earlier than some others. So if you look into the lifetime generally, what we are talking about LED, we usually talk about at least a 13 to 15 years lifetime, and therefore, I think we have to count back in this case for the start, and probably you can already estimate that.

Harshavardhan Madhav Chitale

And maybe Rajesh to build out about Rowena said, in the professional space, we have now seen that typical replacement cycle in various indoor applications, is 7 to 10 years. That's when officers get renovated or retailer renovates. And hence, we would see over a 7- to 10-year cycle, this replacement is coming up. On the public infrastructure side, it's 20 to 25 years. It's a longer cycle. The good news here in professional, as I said, is still a lot of ledification is still left, we still have almost 65% of light points that are yet to be ledified.

Rogier Dierckx - *Signify N.V. - Head of IR*

We'll go for the final question, which is from the next caller, Andreas.

Andreas P. Willi - *JPMorgan Chase & Co, Research Division - Head of the European Capital Goods*

Yes. Thank you very much. Just had a couple of clarifications. You mentioned earlier in the digital products presentation, 30,000 Chinese competitors. I just wanted to make sure I have not misheard that. And I was just wondering what all of them were doing? And what's going to happen with those and whether they look at expanding globally? Are these LED lamp manufacturers that -- can you maybe give a little bit more information on this competitive situation in China?

And the second is on consumer luminaires. You showed some products here, some more interest, again, in that space, using technology to go for that market a bit more again. Is that -- are you confident that's different than in the past when consumer luminaires was always a very difficult type of business for a company like Signify, given your skills versus that type of industry that you can do that profitably this time?

Rowena Lee

Andreas, thank you for the questions. Yes I have mentioned that in the early time on the LED space, there are about 30,000 Chinese companies operating in the LED space. And as we have seen, actually, in the data just recently been published also by the Chinese authorities that we have seen now roughly, it remains only about 18,000 of them. So in fact, some of them have already been phased out, given some of the -- there is more insights. So they are not able to maintain competitiveness.

And (inaudible) has also moved towards the LED luminaire state as well. And the Chinese manufacturers are typically focused on [multiplying] driving private labels, and they will continue. And that is why it is extremely important for us to have Klite, which will allow us to have a better reach to the private label customers.

And regarding your second question on the consumer luminaires, I want to make a distinction. The areas that we focus is not a [decorated] part, which, in the (inaudible) days, probably, you will still recall, those are not about the decorative side. And here, at this time, we are concentrating where we have strong at the functional LED luminaires. And these are typically less variety in terms of a design is by itself, and therefore, that is riding on the same distribution infrastructure, the same innovation that we can leverage on the [LATAM] side, so that we are confident in this case because of the similarity on the functional luminaire space that we are concentrated, that we will be well positioned.

Rogier Dierckx - *Signify N.V. - Head of IR*

So we'll now conclude the Q&A session. Any follow-up questions, feel free to reach out to the investor relationship -- sorry, a relations team. We're happy to follow-up on your questions. Now I'd like to give the floor back to Eric for some closing remarks.

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

Thank you so much for here. And look, when we started on that journey, and we very quickly realized that we could not do the Capital Market Day with you being present or us being present with you. And we regretted it, but we wanted to make it happen because we also thought it was overdue. We wanted to do it just before buying Cooper. So we delayed, then we delayed because of COVID, and we said this time, let's go do it and let's do it remotely. So it generated a few constraints that we wanted this to be done in a very short amount of time. So I think that we've respected that. It's just 4 hours, and we didn't want to go beyond that.

So we understand that we have given to you a lot of information in a very little time. So I think you will have the possibilities to go back to our Investor Relations team and eventually us if you need to have some more details on what we have been presenting.

But I just want to thank you for your attention and being present with us. We'll find another occasion to be able to expose you to the team. I was very happy to bring the team together and probably will have other opportunities to be together. I thank the team, I thank the technical people for making that happen. And I wish you a good end of the day. Thank you so much.
