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PRESENTATION

Operator

Hello, and welcome to the Signify Third Quarter Results 2023. (Operator Instructions) Today, I am pleased to present Eric Rondolat, CEO; Javier van Engelen, CFO; Thelke Gerdes, Head of IR. Please go ahead with your meeting.

Thelke Gerdes - *Signify N.V. - Head of IR*

Good morning, ladies and gentlemen, and welcome to Signify's third quarter 2023 earnings call. With me today are Eric Rondolat, CEO of Signify, and Javier van Engelen, CFO. During this call, Eric will first take you through the highlights of the third quarter, after which, Javier will present Signify's financial performance. Eric will then come back for the outlook and closing remarks. After that, we will be happy to take your questions. Our press release and presentation were published at 7:00 this morning. Both documents are available for download on our Investor Relations website. The transcript of this conference call will be made available as soon as possible.

And with that, I will now hand over to Eric.

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

Thank you, Thelke. Good morning, and welcome everyone. Thank you for joining us today.

Let's start with some of the highlights for the third quarter of 2023 on Slide 4. So we have progressed on 3 of our 4 Brighter Lives, Better World 2025 commitments, already reaching our Circular revenues target of 32% this quarter. Our top line was impacted by continued softness in our markets, particularly consumer connected, OEM, and China. Despite pressure on the top line, we were able to expand our adjusted EBITA margin by 30 basis points year-on-year. This expansion was driven by continued gross margin recovery and cost discipline. Lastly, further improvements in working capital supported our solid free cash flow generation.

On the next slide, Slide 5, we see Signify's overall Q3 performance in more detail. Our installed base of connected light points increased from 119 million in Q2 to 121 million at the end of Q3. LED-based sales now represent 85% of our total revenues. Nominal sales in Q3 were EUR 1.6 billion, translating into a nominal decline of 13.8%, which includes a strong negative ForEx impact of 6.2%. Comparable sales declined by 7.8%. The adjusted

EBITA margin improved by 30 basis points to 10.7%. This was driven by the continued improvement of our gross margin, which benefited from effective measures to reduce the cost of goods sold and indirect costs. Net income came at EUR 83 million compared to EUR 112 million in Q3 last year, mainly coming from lower operating income. Finally, free cash flow was EUR 152 million compared to EUR 135 million last year, mainly due to a cash inflow from working capital.

Moving now on to our divisions, starting with Digital Solutions on Slide 6. Nominal sales in Q3 were EUR 990 million, with comparable sales showing a decline of 4.3% against a high comparison base of plus 12% in Q3 of 2022. During the quarter, we saw strength in professional systems and services, which was more than offset by weakness in indoor professional lighting and particularly horticultural lighting. As mentioned in the previous quarter, we are currently seeing some weakness in this segment as we cycle a high comparison base and as we see a lower order intake this year due to high energy costs. And the adjusted EBITA margin grew by 50 basis points to 11.7%, which is mainly attributable to gross margin recovery from lower cost of goods sold as well as cost discipline.

On the next slide, Slide 7, I would like to discuss a couple of business highlights of our Digital Solutions divisions. We launched Interact Space Analysis together with 2 new sensors. The Environmental sensor monitors environmental conditions, including temperature, humidity, carbon dioxide levels, levels of volatile organic compounds and atmospheric pressure. The People sensor tracks occupancy patterns. Interact Space Analysis is a data-driven solution that gives building owners the vital information they need to optimize working conditions with tenants and their employees. We are currently the only lighting company in the world to offer this type of solution.

We installed new lighting in the Meny supermarket in Ronne, Denmark. The new solution includes NatureConnect, Philips StoreFlow and various 3D-printed spots. We believe it can enhance revenues as the new lighting design highlights the natural colors of the product and improves the overall experience. We have also installed Philips CoreLine Highbay and Philips CoreLine Tempo LED lighting fixtures at Algam Eko facilities in Italy, reducing the energy consumption by around 50%. Lastly, we have partnered with Brahmaputra Volleyball League to install 120 floodlights in 20 community volleyball courts in Assam, India, to allow players to practice their sport at night.

Let's now move on to Digital Products on Slide 8. In the third quarter, the Digital Products division saw a comparable sales decline of 10.3%. This was mainly driven by continued weakness in the consumer connected segment, the OEM business and top line weakness of our Chinese Klite business. The adjusted EBITA margin was 9.9%, a decrease of 60 basis points, impacted by lower fixed cost absorption due to the volume reduction.

Next on Slide 9, I would like to talk about some business highlights of Digital Products. We launched Philips Hue Secure cameras, sensors and app features, an extension to Philips Hue connected lighting products. The cameras and sensors can be used to automate our Philips Hue lights. In addition, they can deter intruders through a combination of lights and sound alarms. As an example of the commercial partnerships, we have developed branded 3D-printed pendant lamps in collaboration with the German football club, Werder Bremen. These tailor-made lamps are largely made from recycled materials and can be ordered by fans through their web shop. We also launched Ultra Efficient A-class Philips LED SON-T lamps, which replace conventional HID lamps and had energy savings of up to 55%.

Moving on to Slide 10 now on Conventional Products. In the third quarter, comparable sales declined by 21%. The adjusted EBITA margin improved by 700 basis points to 21.2% as we recovered our gross margin, driven by a benefit from lower cost of goods sold and a positive effect on price. Excluding a small number of one-offs, the underlying adjusted EBITA performance would be around 19.5%, which is in line with historical levels of the division that we have now recovered in the past 2 quarters.

Next, I would like to discuss our sustainability performance on Slide 11, where we have some very good news to report. We have made good progress on 2 of our 4 objectives this quarter, reaching 1 2 years ahead of time and being very close to our target on the other one. First of all, we remain on track to reduce emissions across the entire value chain by 40%, and this is driven by Signify's leadership in energy efficient connected lighting solutions, which significantly reduce emissions during the use phase. Circular revenues increased to 32%, which means that we hit the target we had set for 2025. The main contribution was from serviceable and upgradable luminaires with a strong performance from Cooper this quarter. We also made good progress on Brighter Lives revenues, which have increased to 31% and are, therefore, on track to reach the 2025 target of 32%. And this was driven by a strong performance of tunable products that support well-being.

And finally, as a percentage of women in leadership position decreased to 29%, slightly off track to reach the 2025 target of 34%. Actions to increase women leadership positions continue, including focused hiring practices for diversity across all levels and through retention and engagement actions to reduce attrition.

I would now like to hand over to Javier, who will discuss our financial performance in more detail.

Javier van Engelen

Thank you, Eric, and good morning to everyone on the call.

Let's move to Slide 13, where we are showing the adjusted EBITA margin bridge for total Signify. As you can see on the slide, our adjusted EBITA margin improved by 30 basis points from 10.4% in Q3 2022 to 10.7% this year, with a 2.4 percentage point structural gross margin recovery being only partly offset by the negative impact of the volume decline. In more detail, sales mix contributed with a positive 0.4 percentage points. There was still a slight positive [0.1] percentage points carryover on pricing, and the year-on-year cost decreases in raw materials and logistics had a positive effect of 1.8 percentage points. The combination of volume decline and fixed costs under absorption impacted the adjusted EBITA margin by a negative 2.1 percentage points. While indirect costs decreased overall, it did not keep pace with the top line decline. Currency effect was neutral on the adjusted EBITA margin this quarter.

On Slide 14, I'd like to discuss our working capital performance during the quarter. Compared to the end of September 2022, working capital reduced by EUR 188 million or by 160 basis points from 10.7% to 9.1% of sales. Inventories decreased by EUR 449 million from around EUR 1.7 billion in quarter 3 2022 to around EUR 1.25 billion in quarter 3 2023. This is mainly as a result of improving supply chain lead times. Receivables reduced by EUR 172 million due to both our efforts to minimize overdues and due to the lower year-on-year sales level. Payables were EUR 382 million lower, which are continuing to come down to a more normalized level, while at the same time, we are driving down inventories. Finally, other working capital increased by EUR 51 million. As lead times normalize, we do continue to see the potential to further reduce working capital to historical levels of low to mid-single-digit percentage of sales.

And with that, I hand it back over to Eric.

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

Thanks, Javier. Let's conclude with the outlook on Slide 16. As stated in our press release this morning, we are confirming our outlook for the year. We are continuing to expect an adjusted EBITA margin in the range of 9.5% to 10.5%. This is based on the visibility we have into the fourth quarter and the progress we have made with cost measures that have been implemented earlier this year. And finally, we are well positioned in terms of free cash flow generation and continue to expect free cash flow generation to be at the higher end of the 6% to 8% range.

This concludes our presentation for today. Javier and I are now happy to answer your questions.

QUESTIONS AND ANSWERS

Operator

Thank you, sir. (Operator Instructions) Our first question comes from Daniela Costa of Goldman Sachs.

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

So I'll stick to the 2 suggested. So maybe, I guess, sort of looks like pricing is flat this quarter. Can you comment on how you see this evolving going forward, given the underlying demand situation and stocks at your distributors and competitors? And the follow-up will be in the actions you mentioned for the first quarter of '24, if you could give us a little bit more color about what are those, how are those different from the past ones, and what sort of impact do you expect in terms of margin tailwinds next year from that?

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

Yes. Daniela, so pricing for Q3, as you see, there's still a little bit of pricing up in the performance. I would say that it's mostly on the Conventional Products division that we see that. Now if I take some distance on pricing, we only see some contraction and some tension on pricing in China. Otherwise, nothing abnormal in the other geographies. Moving forward, we are basically managing the gross margin. And if you remember, at the beginning of this year, we indicated that there was an absolute strategic priority for us to increase the gross margin. I think this is something that we have been able to do until now and we will continue because we are 200 basis points year-to-date above where we were year-to-date last year.

So we will see. We don't -- since the demand is quite slow in many of the geographies, we don't expect a big pressure on price moving forward. But we really monitor the gross margin, and this is a fundamental element for us. Stocks in the channel, we have seen on the consumer side, I would say, except maybe one actor on the online retailing business, we think that the inventories are 30% to 40% below the normal levels. And as you know that the markets on the consumer segment specifically have been weak, it means that absolute value, it's substantially reduced. What we see in the professional channel is that the inventories are pretty much in days at a historical good levels, but we see also a contraction of the business.

So in absolute value, it's slightly lower. What would be different from the past in the first quarter in terms of measures that we have indicated. Well, if you remember, we have been progressing along 2 lines in the past years. One was to reduce the headquarter, the central part of the organization. So this is something that we still want to keep doing. So we're pretty much in line with what we have done in the past. The second thing that we did was reinforcing, well, a simplified organization through customer centricity. And this is probably another angle that we still are going to emphasize in the coming weeks and something we're trying to implement in the first quarter of 2024.

Operator

We will now move to our next question from Jacqueline Li from Bank of America.

Ga Yi Li - *BofA Securities, Research Division - Research Analyst*

So you delivered a really strong performance in cost of goods sold. You've emphasized this focus on the gross margin, but we've not seen the same positive impact in direct costs, even though you said they were down on an absolute level. Is there any savings potential there? And what would that involve operationally? If so, could you describe how that works? And then the follow-up would be, which divisions would that benefit? Would that be Conventional or could you find some savings in Digital Solutions or Products?

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

Jacqueline, look, at the end of the day, when I look at the performance in terms of non-manufacturing cost, there's two ways to look at it. As a percentage, of course, we're not where we want to be. That's the reason why we want to drive specific actions on costs. Now we are below the EUR 500 million level, which is something that we wanted to be at before the end of the year, I think that's achieved in Q3. And when we look at like-for-like, when we take out all the elements that would be a bit specific on nonrecurring at the level of our cost, we have a reduction of about EUR 42 million quarter-to-quarter, meaning Q3 this year versus Q3 last year. So in terms of cost, we have done a lot of things, but there were more tactical adjustments.

We are delivering a lot of those different measures as we speak and during Q3. So they will, little by little, have an effect on our overall cost base. Which of the division would be more impacted by these measures, I think they will all be impacted by the fact that we are going to reduce further the central part of the costs, the central organization costs. So everybody will benefit from that. And there are specific measures that are going to be also driven by division. So I think we should expect to see an improvement in all of them. I would say in the given situation, probably a bit more on Digital Products, then Digital Solutions and then Conventional Products from higher to lower.

Operator

We will now move to our next question from Akash Gupta from JPMorgan.

Akash Gupta - *JPMorgan Chase & Co, Research Division - Research Analyst*

Yes. My first question is on organic growth. I mean, this year, you have not been giving organic growth since the start, but now we have 3 quarters out of the way, and you may be having some favorable comps in Q4. So my first question is if you can talk about some -- what you see on top line growth side? And how shall we expect this impact of favorable comps to benefit Q4 organic growth? And then the second one I have is on capital allocation priorities. You had a very good free cash flow in Q3 and probably more inflow in Q4. Would you recommend a buyback to Supervisory Board?

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

Yes. Akash, look, on organic growth, yes, we haven't given a guidance. And in hindsight, I think that was the right thing to do given the volatility of the markets and the new events that happened during 2023. Now let's look at Q4 very specifically. So what happens in Q4 is that we are going to have quite a negative impact of the Conventional Products due to the ban of the fluorescent technology. So this is something that we slightly benefited from in the previous quarters because customers are doing last buys, but it will start to impact that business and quite substantially in Q4, where we would expect that business to be probably worse than the minus 30% in terms of negative performance.

Now, Akash, we have done something else because the problem of the comparison base, and I know that, that we have been commencing last quarter are very complex to manage. Let me give you a hint. We were at minus [8.8%] in Q4 2022. But if you look at Q4 2021, it was a very strong quarter because if we do a little bit of history, in Q3 2021, we could not sell because of the shortage of components. So some of the remaining orders that we could not deliver in Q3, we delivered that in Q4 2021. So finally, Q4 2021 was a high quarter, maybe explaining why Q4 2022 was a negative performance. So what we have decided to do is to take a fixed reference, which is 2019.

And basically, when you look at 2019 in terms of reference and you look at where you are compared to 2019, we are very -- we have a similar performance in Q1, in Q2 and Q3. And if we expect a similar performance in Q4, I think we have to anticipate a decline, which is going to be pretty much similar to what we have experienced in Q3. So the compare is complicated because comparing against 2022, in that case, is not valid, but we did the compare against 2019 and that works for us. Capital allocation priorities, look, this is a subject that we've been talking quite extensively about. So, of course, we stay committed to the -- to the dividend policy that we had until now. Now we're looking at the situation in terms of restructuring our debt. We look at the situation in terms of balance sheet. And probably that at this point in time, we will not favor any type of inorganic growth and acquisitions unless there is really a target that has a fundamental strategic meaning to us. And we would look at optimizing the balance sheet. But maybe, Javier, if you want to give a bit more detail on [just that].

Javier van Engelen

Yes, Akash. So look, yes, you're right, and thanks for bringing it up. Cash flow turned back to what we know how to do. And yes, as we said, our guidance is maintained that we will deliver to the upper range of the 6% to 8%, which is getting back to where I think we have a historical strength and where we've proven capability to do that. Now in the current environment, as already said, let's remind us back to go to standard principles.

It was always, number one, ensuring that we pay year-on-year increasing cash dividend. There was kind of deleveraging, M&A and then other ways of returning capital to the shareholder.

So looking today at the current external environment and taking into account also what Eric said that we have a refinancing coming up in 2024, we believe at this point in time, clearly, that the priority is, as always, the dividend, number two, deleveraging and then we look at what else we do. Further elaborate on what Eric said is, number one, the refinancing, why -- well, there's a clear deleveraging, why, because there's a clear volatility out there. We think at this point in time that making sure that we decrease the debt in an environment of high volatility and high interest rates is still the right thing to do, combined with the effect, as Eric said, that this is not an environment where M&A is very conducive, right? At this point in time, buying something or going on inorganic growth probably carries far more risk than it did before because the whole economy is also still suffering from all the aftermath and everything which has happened.

So we're refocusing a little bit back to going to the fundamentals that we have, dividend, balance sheet management, deleveraging to be in a stronger position when the economy comes back up again. If after all of that, after we have deleverage, there would be and then probably more end of '24, there's the strong cash flow, we'll see what we do with that. But short-term priorities are really now back to the basics of dividend and deleveraging.

Operator

We will now move to our next question from Martin Wilkie from Citi.

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

Yes. It's Martin from Citi. The first question I had was just going back to the inventory question. You pointed out some markets, but obviously, you have highlighted the LED Electronics business inside Digital Products. Just to clarify, on that particular one, some other players have been talking about significant destocking continuing. And just to understand what's happening inside that area. And also on Digital Products, you had flagged Klite, just to understand a little bit more about what's happening inside Klite?

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

Yes, Martin. We have already commented on LED Electronics in the previous quarter. So LED Electronics, let's make it a bit simplistic, that's the business of the driver. The driver is the piece of electronics that includes a lot of components. So when the component crisis broke, there was a rush to try and find components. Those type of devices use passive components as well as many active components. And you know that those ones were quite scarce at that point in time. So the customers and the OEMs, the luminaire manufacturers try to buy these products that were not very easy to obtain at that point in time, and they contracted contracts with many, many different suppliers. So the stocks have increased quite substantially. And they did that in order to deliver their own customers.

But when the market became softer, the problem is that they were left with quite a high level of stock, unprecedentedly high. And those inventories now need to be depleted with a business that has reduced. So we said last quarter that had quite substantially slowed down our business. We believe that we need 1 to 2 more quarters for this inventory to go back to normal levels, given also the market traction that we see at this point in time. You're right, Martin, when you look at what other companies that are listed have been reporting, they have been reporting the same thing. So this is where it's coming from. I would add another element for our business very specifically the situation in U.S., where the customer is in-sourcing more than previously. So we're losing here a part of the established business we have over the years.

Now when you look at the performance of that business and you compare this business versus our competition, we believe that even in a situation where we are losing top line, we are not losing, but regaining share. Klite is pretty much involved as sales to third-party, to different retailers for their private labels and mostly on the consumer market. And as the consumer market has been soft in the past quarters and continues to be soft, Klite is experiencing also the slowing down of that volume towards their direct customers.

Operator

And our next question comes from Marc Hesselink from ING.

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

Yes. First, maybe a quick clarification on the organic growth. I fully understand, and I understand your story about the comparable base. But was it then the conclusion that the organic growth in the fourth quarter will be very similar to what we've seen in the third quarter?

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

Yes, Marc.

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

Okay. Okay, clear. And second thing is on the footprint. I think over the quarter, you opened the new factory of Klite and -- but you closed some other factories. Can you talk maybe a little bit what you expect there on the footprint, whether you still expect [Paris] footprint to move in the coming years and close more -- the more expensive footprint that you have in other areas? Maybe your general thoughts on how that will move in the coming years?

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

Yes, Marc, the footprint is an evolving situation. What we have also and you've seen it, we had the closure of some factories in the conventional part of the business, which is something that we do on a regular basis, smaller factories doing components, and we try to move these productions to other established factories. So that's an ongoing adjustment. Klite, the objective was to concentrate the lamps production business in one big factory because for that business, volume really matters, especially now that we see also the volume of LED lamps in terms of quantity of products being sold on the market slightly reducing, so it's very important to be able to create an effective scale.

Otherwise, yes, we look at our footprint, and we believe that in the midterm, the evolution of our footprint should continue to improve, and quite substantially gross margin expansion, especially in Northern America, but we believe that we have probably also some points to gain from moving some of the very few remaining factories or remaining industrial setups that would be in higher-cost countries to lower-cost countries. So we're looking at that as we speak. There are short-term actions. You know them because we disclose them whenever we make the decision. There are going to be more mid-term actions that will continue to help us to improve our gross margin and our operating margin.

Operator

And our next question comes from Tim Ehlers from Kepler Cheuvreux.

Tim Ehlers - *Kepler Cheuvreux, Research Division - Equity Research Analyst*

Yes. The first question would be about your market share and especially with regards to your geographies. After H1, you mentioned that you didn't lose market share and there was an industry trend that you saw the sales levels declined. Is that still the case? And then as a follow-up question regarding consumer business, you still don't see down-trading there. Is that still the case in Q3? And also what you expect in Q4?

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

Yes, Tim. Look, the -- when we look at the market share, and I'm going to be sometimes specific and sometimes I'm going to be a bit more macro. We looked in details at all the reports that are being made available when other companies are reporting to try to understand what is the situation today compared to where we were historically because as you have seen, the landscape has been quite disruptive. So now if we take a big part of our business, which is Digital Solutions, Americas or Northern America. So we've looked into the details, and if we look at our position before COVID and our position after COVID, we have gained share.

If you take that same business in Europe, which is another of the big territory we have, we believe that we have also been able to take share and to increase our market share. On LED Electronics, especially in the outer period, starting from COVID until now, we believe we've been also able to increase our position. On the consumer business, if we segment the non-connected, where we think we are on par with the market, we have been declining in terms of market share, our consumer connected business. And this is what we're working on at this point in time for a very specific reason. When you look at that business, it started really in 2012. We had a fantastic ride, and especially in the years 2020, at the end of 2020 and 2021 was a fabulous year for that business.

But we're entering another phase where we are also considering today many more competitors than what we had when we started. So we're looking at that business in very, very specific ways to see how we can give it a second [breath]. So that's the real point of attention today when it comes to market share. And you have seen that during this quarter, we are releasing a complement to our offer for the Philips Hue portfolio. We have done that already for the WiZ offer, which is cameras. But we're not doing cameras to do security cameras.

We're doing cameras because we are generating under our app use cases, and it's security for light and light for security, meaning that cameras can be sensors and they can sense motion. And when they sense motion, then we can activate light scenes. At the same time, if a camera is something that there is an intrusion in the home, we can displace some lighting alarm with all the light flashing red. And why is it interesting? And I've said that already last time, but I'm going to say it again, it's very interesting because a light flashing red, you see it from a very, very, very far distance, which is not the case for sound alarms. So this is basically where we are working very hard on that business to put it back on track and continue to grow share.

Otherwise, globally, we think that disruptive situations have been in the past and have been also in the recent past pretty much helping us on market share. And conventional, we have continued to grow because we are clearly declining less than the market and we start to have a very substantial market share in some geographies reaching 50%.

Tim Ehlers - *Kepler Cheuvreux, Research Division - Equity Research Analyst*

All right. And with regards to down-trading and consumer, you still don't see down-trading, but rather hold out. Is that correct?

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

That is -- it's a complicated question. You know that we have new events happening in Middle East. We don't know what could be the final outcome of the situation there and what could be the impact on the markets. If it stays the way it is, I think we are probably reaching the bottom. That's the way I would like to see it, and that's what we believe. Now if we have a further degradation of the conflict that can take a larger influence from a geographical standpoint, I don't know what can happen, but it could have a substantial impact on consumer confidence at large and a substantial impact on the consumer business. But so far, I would say we should have arrived to a bottom. I'm not too sure we're going to go back up very quickly, but I believe that we're not going to go substantially down either.

Operator

(Operator Instructions) Our next question comes from Amith Shah from Societe Generale.

Amith Shah - *Societe Generale Cross Asset Research - Equity Analyst*

So my first question is basically on the connected lighting points. I think the growth there has been quite impressive, close to 25% CAGR on our estimates. Just wanted to understand how are you looking at incrementally monetizing the revenue per point here? One. And second, what percentage could the recurring revenues come through with respect to the connected lighting points?

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

Amith, [good] questions. So when we talk about connected lighting points, and let me talk about systems and services on the professional side, we've seen weakness on the consumer side in terms of connected point. That has not been the case on the professional side, we've been growing through the crisis. We're growing again in Q3, double digits. So that's a business which is functioning fairly well. If we look at the percentage of connected offers in our overall revenue, this has substantially increased in Q3. So we see that the strategy, which is to move from conventional to LED [analysis] to connected is really working.

Now the big advantage is that this is also a business which is growing more than the average, which is positioning our portfolio in terms of growth with the right profile. Now you're asking the point of monetizing the data that we create because 121 million connected points, I think we've made a survey, and we must be one of the companies in the world. I'm not going to say the company in the world because that's what my team is telling me, but I prefer to be cautious, that has the most connected points worldwide. And from these connected points, we can extract a lot of value. I would say that cracking the code in terms of monetizing systematically data, we haven't reached that level yet. There are 3 business models we're using in the professional business, and there are a lot of information that we're using on our consumer business in order to try to understand the trend of the market that are helping.

But we are not today generating a business which is big enough to have an influence on the overall performance. Recurring revenues, I would say, when we sell lighting system on the professional side, we generate a recurring revenue, which is between 0.5% and 1% of the overall top line of the project. Now our strategy is to consider that the transitions are happening in sequence. And we are building today with our IoT platform and with our connected light points, a database and I would say, sensory network that is capable to generate data that we believe is going to be useful for the future, but it's not meaningful at this point in time.

Amith Shah - *Societe Generale Cross Asset Research - Equity Analyst*

And maybe just one follow-up on the indirect costs. Good progress in 3Q down to about 30.2% of the sales. Just wanted to understand how quickly do you think you can be back in the range?

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

Good question. We're doing whatever we can to be back in the range 25% to 29%. We will not achieve this year unfortunately, but recurring actions that I believe will be implemented in the first semester next year that will help us to go back into that range. Of course, it will heavily depend on the top line in 2024. But we're going to put the measures that, at least from a run rate perspective, should be able to position us in that range in the course of 2024. So I don't know if it's Q2 or Q3, but we hope that by then, our run rate will be such that it positions us back into the desired [interval].

Operator

We will now take our next question from Tim Ehlers from Kepler Cheuvreux.

Tim Ehlers - *Kepler Cheuvreux, Research Division - Equity Research Analyst*

Thanks for taking an additional question. Just touching up on the mix effect on your EBITA level. So what you just mentioned with the increasing share of connected lighting in Q3, and then if I look at the mix effect of plus 0.4%, which is then, I guess, helpful. Is it then fair to assume that this effect will grow going forward if you manage to grow the share of connected lighting, and that, that could be an additional margin tailwinds in addition to your fixed cost management?

Javier van Engelen

Look, I think, Tim, the 0.4% mix effect, of course, that you see in the quarter, I would not attribute it to what's going to happen longer term. There's a complex [matrix] of the divisions together with the regions. So it's always a bit of a complex parameter. If you look forward, obviously, yes, we're looking at the connected business as value-adding. It's also the place where there is less commoditization. And so it's clearly a place which should be attributive or accretive to margins and to profit. And that's, of course, also one of the reasons, why, longer term, that's a key focus area. So how much it will be as we go along, difficult to quantify it right now, but is that a positive element that will propel us forward, yes, it should.

Tim Ehlers - *Kepler Cheuvreux, Research Division - Equity Research Analyst*

Okay. Clear. And as of now, the strength in the professional connected lighting is -- or in Q3, at least, at least partly offset the negative mix effects in the consumer space. Is that correct?

Javier van Engelen

I think that's a fair assumption because on the consumer side, connected consumer, if you go back historically also to 2021, you see that the consumer connected was really propelling our business, which helped our gross margin and helped also our profit margin. So yes, the drag on that business is on the negative side what we currently see as a headwind compared to the tailwind on more the professional connected side.

Operator

Thank you. And it appears there are currently no further questions at this time. With this, I'd like to hand the call back over to Thelke for any additional or closing remarks. Over to you, ma'am.

Thelke Gerdes - *Signify N.V. - Head of IR*

Ladies and gentlemen, thank you very much for joining our earnings call today. If you have any additional questions, please do not hesitate to contact Philip or myself. And again, thank you very much, and enjoy the rest of your day.

Operator

Thank you. This concludes today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.

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