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PRESENTATION

Operator

Hello, and welcome to the Signify Fourth Quarter and Full Year Results 2023. (Operator Instructions)

Today I am pleased to present Eric Rondolat, CEO; Javier van Engelen, CFO; and Thelke Gerdes, Head of IR. Please go ahead with your meeting.

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

Good morning, everyone, and welcome to Signify's Earnings Call for the Fourth Quarter and Full Year 2023.

During this call, we will start with Javier's review of the company's financial performance in the fourth quarter. And after that, Eric will discuss the full year 2023 performance outlook and provide an update on our recently announced restructuring program. After that, we will be happy to take your questions.

Our press release and presentation were published at 7:00 this morning. Both documents are available for download from our Investor Relations website. The transcript of this conference call will be made available as soon as possible.

And with that, I will hand over to Javier.

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

Thank you, Thelke. Good morning, everyone, and thank you for joining us today. Let me start by diving straight into our quarter 4 results, starting on Page 4. We increased the installed base of connected light points from 121 million in Q3 to 124 million at the end of Q4. LED-based sales represented 87% of total sales. Nominal sales in Q4 were EUR 1.7 billion, translating into a nominal decline of 12.3% and a comparable sales decline of 7.7%. The Q4 sales performance was impacted by continued weakness in the consumer, OEM and indoor professional lighting businesses.

Adjusted EBITA margin came in at 12.1%, an increase of 190 basis points versus 10.2% in Q4 last year. The main driver behind this improvement continues to be gross margin expansion, thanks to effective cost of goods sales management and a positive sales mix.

Net income came in at EUR 59 million compared to EUR 86 million in Q4 last year. The year-on-year decrease is mainly due to the increase in restructuring provisions, which was partially compensated by lower financial expenses and lower income tax.

With regards to the restructuring costs, these amounted to EUR 83 million in this quarter reflecting the provisions related to the recently announced restructuring cost reduction program.

Finally, we delivered EUR 295 million of free cash flow in the quarter.

Now let's move to our divisions, starting with Digital Solutions on Slide 5. Nominal sales in Q4 were EUR 1 billion with comparable sales at minus 2.9% as continued strength in professional systems and services was more than offset by softness in indoor professional and horticulture lighting.

The adjusted EBITA margin did increase to 12.4%, an increase of 270 basis points, mainly driven by continued gross margin recovery.

On the next slide, Slide 6, I would like to discuss a couple of business highlights of our Digital Solutions division. We won the prototype phase of the U.S. Department of Energy's prestigious L-Prize Competition. Our winning prototypes were the Generation Flex modular luminaire and the Interact Next Gen scalable connected lighting system. The Generation Flex modular luminaire prototype combines cutting-edge materials and adaptable 3D printing concepts with energy efficiency and optics that deliver flexibility, reduce energy consumption and still deliver an exceptional quality of light.

The Interact Next Gen connected lighting is a simple, scalable, wireless solution that provides businesses with all the tools and intelligence they need to go beyond basic energy savings tactics that interface with existing building systems that reduce operational expenses and that improve occupant experience all within a single platform.

The second highlight is the creation of a new version of the classic Copenhagen street lamp made out of bio-polyethylene. The material does not compromise on either durability, appearance nor functionality yet it reduces the carbon footprint by more than half compared to the old aluminum fitting.

Let's now move on to Digital Products on Slide 7. In the fourth quarter, the Digital Products division saw a comparable sales decline of 9.4% as we continued to see weakness in the consumer and OEM segments. Consumer connected improved sequentially.

The adjusted EBITA margin decreased by 80 basis points to 13.3% mainly as a result of under-absorption of fixed costs, partially offset by a positive sales mix effect.

Moving on to Slide 8 for the business highlights of Digital Products. We introduced the WiZ A60 filament ultra-efficient smart bulb, the most efficient -- the most energy-efficient smart bulb. It consumes 40% less energy than standard LED and connected LED light bulbs and can act as a motion sensor through its embedded SpaceSense technology.

We launched the new Philips Radii auto-linkable ultra-efficient solar lights. These lights are automatically linked together and light up simultaneously when triggered by motion. These solar lights can light up your outdoor space for up to 6 nights on 1 single charge.

Then moving on to Slide 9 and Conventional Products. Comparable sales declined by 29.6% in the fourth quarter, in line with expectations as a structural decline of the business was exacerbated by the fluorescent bans in Europe.

The adjusted EBITA margin increased by 440 basis points to 17.3%, driven by gross margin recovery. Excluding one-offs related to higher provisions, the underlying adjusted EBITA performance would be close to 19%, which is in line with the underlying adjusted EBITA performance in previous quarters.

Moving on to our adjusted EBITA bridge for the fourth quarter on Slide 10. Overall, our adjusted EBITA margin improved by 190 basis points from 10.2% in quarter 4 2022 to 12.1% this year with a 340 basis point structural gross margin recovery only partly offset by the negative impact of volume decline.

In more detail, sales mix contributed with a positive 130 basis points. Pricing impact was a negative 80 basis points. The year-on-year cost decreases in raw materials and logistics had a positive effect of 290 basis points. The volume decline impacted adjusted EBITA margin by a negative 200 basis points. Indirect costs were neutral on the adjusted EBITA margin. And finally, the currency effect was slightly positive with 30 basis points and other had an impact of 20 basis points.

On Slide 11, I'd like to zoom in on our working capital performance during the quarter. Compared to the end of December 2022, working capital reduced by EUR 103 million or by 50 basis points from 7.4% to 6.9% of sales.

Inventories decreased by EUR 311 million from around EUR 1.4 billion at year-end 2022 to below EUR 1.1 billion at year-end 2023 mainly as a result of improving supply chain lead times.

Long lead times had led to an inventory buildup, which peaked at EUR 1.7 billion in quarter 3 2022. Throughout 2023, we have gradually been reducing this position, and we see potential for further reductions in 2024.

Receivables reduced by EUR 90 million due to both our efforts to minimize overdues and due to the lower year-on-year sales level.

Payables were EUR 320 million lower, being the logical consequence of driving down our inventories while structural payment terms remained largely unchanged.

Finally, other working capital reduced by EUR 21 million.

As lead times continue to normalize, we continue to see further potential to reduce our working capital back to historical levels of low to single mid-digit -- low- to mid-digit percentage of sales.

I would now like to hand over to Eric for the full year 2023 performance update.

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

Thanks, Javier, and good morning, everyone. So let's go to Slide 13. In 2023, our connected lighting and growth platforms contributed 30% to total sales, driven by a strong performance in the professional connected segment offsetting weaker consumer connected sales. Nominal sales declined by 10.8% to EUR 6.7 billion, including a ForEx impact of minus 3.3%, mainly due to the depreciation of the U.S. dollar and the Chinese yuan. Comparable sales declined by 8.3% for the full year, mainly due to weakness in consumer OEM and indoor professional while outdoor professional lighting remained resilient throughout the year.

Adjusted EBITA came at a EUR 670 million. The adjusted EBITA margin of 10% was broadly in line with 2022 as the gross margin improvement of 240 basis points was offset by an under-absorption of fixed costs due to the lower volume.

Net income decreased to EUR 215 million, mainly due to lower adjusted EBITA, higher adjusted items and financial expenses partly offset by lower income tax expenses. Please note that net income in 2022 included a onetime gain on the disposal of nonstrategic real estate assets of EUR 184 million.

And finally, free cash flow increased to EUR 586 million or 8.7% of sales, mainly driven by a lower working capital.

Moving on to Slide 14. Digital Solutions and Digital Products contributed 91% to sales, 83% to adjusted EBITA and 88% to free cash flow in 2023 thereby showing a linear progression versus 2021.

At the same time, the strong operational improvements we achieved for the Conventional business this year, in 2023, led to an increase in its adjusted EBITA and cash flow contribution compared to a challenging 2022.

Looking at our 3 divisions in more detail on Slide 15. Digital Solutions had a comparable sales decline of 5.4% against a high base of comparison of 7.8% growth in 2022. While we continue to see strong demand and market share gains for connected professional systems, we were facing some headwinds for indoor professional and agricultural lighting.

The adjusted EBITA margin improved by 70 basis points, reaching 10.7%, mainly driven by gross margin recovery.

Digital Products had a comparable sales decline of 10.5% due to the continued weakness in the consumer and OEM businesses.

The adjusted EBITA margin declined by 230 basis points to 9.7%, mainly due to a negative impact from lower volumes.

Conventional Products saw a comparable sales decline of 18.4%.

The adjusted EBITA margin improved by 600 basis points to 20.6% for the year as we recovered gross margin, thanks to price increases and cost management. These actions helped us to bring the margin back to historical levels following the pressure of higher energy and transportation costs in 2022.

Next, I would like to discuss our sustainability performance on Slide 16 and we completed the third year of our Brighter Lives, Better World 2025 sustainability program and made continued progress towards achieving our goals of doubling our positive impact on the environment and society by the end of 2025.

We are on track to reduce emissions across the entire value chain by 40% against the 2019 baseline. This is driven by our leadership in energy-efficient and connected LED lighting solutions, which significantly reduced emissions during the use phase.

Our circular revenues increased by 1 percentage point to 33%, surpassing already the 2025 target. The main contribution was from serviceable luminaires with a strong performance from both consumer and professional.

Brighter Lives revenues remained at 31%, on track to reach the 2025 target.

The percentage of women in leadership positions remained at 29%, slightly off track. We are continuing our actions to increase representation through focused hiring practices for diversity across all levels and through retention and engagement action to reduce attrition.

In the fourth quarter, we also received several external recognitions for our leadership in sustainability. We were including in the Dow Jones Sustainability World Index for the seventh consecutive year, and we achieved the EcoVadis Platinum rating for the fourth consecutive year.

Let's now move to Slide 17 to discuss our intended capital allocation for the year. So for 2023, we will propose to increase the cash dividend to EUR 1.55 from EUR 1.50 in 2022. This is subject to shareholder approval at our AGM that will take place on May 14. It represents a total cash dividend of EUR 196 million and a yield of 5.1% over the year-end share price of EUR 30.32.

I would like to remind you of our capital allocation policy. We aim to pay an increasing annual cash dividend per share year-on-year. We remain committed to maintaining a robust capital structure and investment-grade rating, great credit rating.

In line with these commitments, Signify expects to further deleverage its gross debt and reduce its U.S. pension liabilities in 2024. We will also continue to invest in organic and inorganic growth opportunities in line with our strategic priorities. After these priorities have been met, we will look at other ways of returning excess cash to shareholders.

Let's continue with the outlook on Slide 19. So for 2022, we expect an adjusted EBITA margin improvement of up to 50 basis points, including the first benefits from the announced restructuring program.

A free cash flow generation of 6% to 7% of sales, including an incremental and nonrecurring negative impact of around EUR 150 million related to the restructuring program and the reduction of our U.S. pension liabilities.

Let me now provide you with further details on the new customer-centric organization, structural cost reduction plans that we announced on December 1. So this is on Slide 20, you can see the new organizational structure.

So after the major transformation we achieved in the past and over the past decade, we announced that we are taking the next step by organizing our company around 4 vertically integrated businesses.

Three of these will focus on customers: the professional business which will offer LED lamps, luminaires, connected lighting systems and services to customers in the professional segment; the consumer business will offer LED lamps, luminaires and connected products to customers in the consumer segment; the OEM business will offer lighting components to the industry.

The fourth, the Conventional business, will be dedicated to conventional lighting.

In the past 10 years, we have been organized with a clear focus on processes and also on improving processes. This structure served us well as we transitioned from 74% conventional lighting in 2013 to 85% of LED lighting today. The new model will increase accountability by giving the new businesses end-to-end P&L responsibility from offer development to manufacturing and sales and marketing, enabling simple process, alignment and execution. In addition, by reallocating resources and reducing centralization, we are simplifying our structure and reducing our nonmanufacturing cost by over of EUR 200 million.

These changes to our organization and the cost restructuring program will be implemented through 2024 with the majority being achieved by Q2. The implementation itself is subject to proceeding with the Signify's social partners.

Overall, around 1,000 people will be impacted, representing 7% of our nonmanufacturing cost population. The plan will affect people in 37 countries with still ongoing negotiations for 28 social plans. We will only be able to implement the new structure fully after having concluded negotiations with our social partners. At that point in time, we will report under the new structure and provide comparable financials.

But for Q1 financial results, we will report the financials at group level as we normally do. We'll report the sales level and comparable sales growth for the 4 new businesses.

And if the discussion with our social partners are finalized before the end of March, we will start reporting fully under the new structure, including adjusted EBITA for each of the businesses. If not, the profitability by business will be disclosed as of Q2.

Now with regards to the EUR 200 million of cost savings, approximately 2/3 of the savings are expected to come through in full year 2024 and the remainder in 2025. This means that the nonmanufacturing cost level for the full year 2025 is expected to show a EUR 200 million reduction against full year 2023.

Now let me go to the restructuring costs. So the restructuring costs related to the new organizational setup and cost measures are split across 2023 and 2024, of which, the majority was already taken at the back end of 2023. Most of the cash outflow, however, will occur in 2024. And as stated in the press release, we are expecting an incremental cash outflow of approximately EUR 150 million, which breaks down into EUR 100 million due to the incremental impact of restructuring in 2024 and EUR 50 million reduction of our U.S. pension liabilities.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from Akash Gupta from JPMorgan.

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

I have 2 and I'll ask one at a time. The first one is on revenues. Once again, you are not giving us a guidance, which I understand is because of the environment out there. But I'm wondering if you can help us with some of the building blocks to see what could be the moving parts behind volumes and mix? And how do you see particularly pricing developing in 2024, given the deflation we are seeing in COGS side? So that's number one.

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

Yes. Akash, well, effectively, we are in a situation, which is not exactly the same but similar to where we were in 2022 at the same moment in time. For us, we're looking at some of the critical dimensions of the business. On one hand, the Chinese market and the consumer business, the indoor professional business, we have a lot of different trends that we see. And we see also a market with a high level of volatility. So you've understood that's the reason why we're not specifically guiding on sales at the beginning of the year.

Nevertheless, I can tell you a few things in line with your question. We are cautious for 2024 for the following reason: there are a lot of geopolitical tensions and conflicts that are not being solved at this point in time, and we don't know if they will eventually be solved in 2024. The 2024 is also a year of elections, important elections in Asia, in some countries of Europe, in the Americas, which generates in general, market slowdown.

Now from a pricing perspective, we do not expect to be able to price up and that's not part of our plan. We will not price up. But we don't see a very high level of deflation neither as we experience before COVID. So there will be probably a slight deflation that should be more than compensated by the improvement on the bill of material. We have, again, in 2024, a very robust plan for the reduction of the bill of material.

So these are the elements that we can give you at this point in time. No specific element on the mix. The mix is depending on so many different factors that impact our revenue that it's difficult to make any type of forecast at this point in time.

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

And the follow-up I have is for Javier and that is on the free cash flow guidance of 6% to 7%. And if I may ask for a bridge in terms of high-level moving parts between adjusted EBITA margin guidance of around 10.1% to 10.6% and free cash flow guidance of 6% to 7%. Obviously, there is EUR 150 million outflow in restructuring and pension, which is quite large. But when we look at the other moving parts in terms of the other part of working capital, CapEx, depreciation and provisions, is there anything that we need to be aware of versus 2023?

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

Thanks, Akash. It could be a bit long question, lots of numbers, but let me try to keep it high level and then we'll follow up later on.

On the -- let's start from the free cash flow. And as you correctly already said, so our guidance 6% to 7% includes the negative impact of the EUR 150 million of restructuring and pension. So a differential of EUR 100 million on restructuring and the EUR 50 million of U.S. pension derisking. So if you look more at comparable number or base operating what's in the machine, we're talking here more about 8% to 9% as what we have from a cash flow generation.

If you look at where the cash flow is coming from, as I also mentioned in the presentation, we are, from an operating profit, of course, we want to slightly go forward as the guidance also says. But then what we see in working capital is we still see some opportunity. As we've seen in the last years, our receivables and payables have been structurally pretty robust all through the period. So even if there has been some more economical difficult situations, our receivables have stayed well and our payables, also what I said, structural payment terms haven't really changed and that's still a strong underlying base.

So the building block for continuing a free cash flow operating improvement before restructuring is to continue to look at inventories. As I mentioned before, we came from a situation with a supply chain disruption where our inventories were up to EUR 1.7 billion. We are now back to below EUR 1.1 billion, and we think there is more to be done. So we ended up with inventories closer to, I think, 15.7% of sales and we think there's further opportunity to take it down. Historically, we've been at levels of 14% or below 15%. So I think that's where, from an operating point of view, there's clearly still opportunity for us to work on as supply chain stabilizes as basically we also have lower lead times and we can basically get that cash further then.

From the adjustment items, you've mentioned the biggest ones. Of course, from a 2023 point of view, we have, as we have announced, the restructuring plan. We have, accounting-wise, obviously taken provisions for the restructuring plans already in 2023 although the cash outflow will come basically in 2024. It means that our restructuring cost is about 2.5 percentage point -- 2.5 percentage points in 2023 and that will go down closer to 1.5 in 2024. That's what we see mainly there.

From the other adjusted items, I know we've made your life perhaps a bit difficult. 2022 had some significant benefits of the sale of nonstrategic real estate assets. This year, we see restructuring, but we then think that in 2024 we should be going back to normal level of restructuring.

And in the other items of income and expense, there, basically, there's nothing too exciting. Our income tax and our interest expenses, they remain roughly stable in Q4. We got some benefits even on that, but we expect income tax to remain around that 21%. Interest cost will short term slightly increase, but I don't think that's going to be a major distract-or.

So I think 2024 will be slightly easier read than 2023 with the adjustments we've taken.

Operator

We will take our next question from Martin Wilkie from Citibank.

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

It's Martin from Citi. The question I had was around the sort of revenue building blocks for next year. I mean, obviously, you haven't guided, but investors are reading into what your expectations could be given the combination of your cost savings and your margin guide. And obviously, there's a lot of moving parts on gross margin and so forth. But if you are going to say you 2/3 of the cost savings in 2024 and your margin is going to be around 10.5%, there could be an expectation that revenues are down sort of low to mid-single digit.

And just to check, is that the wrong math or are there other things happening on gross margin and so forth or perhaps you've been sort of prudent on the margin guide. But just to sort of understand how you thought about coming with that margin guide of 10.5% relative to the cost savings and what it could mean to revenue expectations.

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

At this point in time, we're effectively cautious because we see volatility in the markets, but expecting a mid-single-digit decline for next year. As you mentioned, it is not impossible. It will really depend on the market traction over the year.

What we see, we see probably a better second half than the first half, and we're quite cautious for H1 and quite pessimistic for Q1. At this point in time, we see Q1 being in -- following the trend that we've seen at the back end of Q4. So it would be more challenged H1 and a better H2. That's the way we see 2024 at this point in time.

But when we look at what has happened in the past years and the new events that have been also impacting the market, it's always a difficult forecast to make. So that's how we're looking at it.

Now one thing, which is sure, if the market traction is positive and help us to improve on our top line, certainly, we're going to be clearly at the higher end of that guidance, which is a clear possibility for us.

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

That's really helpful. And a related question is obviously some of this drag is coming from your OEM business, and you have decided to separate that into another division. Should we read anything into that in terms of what you think about the portfolio? I mean, how core is that OEM components business for the rest of the company in terms of synergies and technology and so forth? Or is this more just around cost savings from having that simplified structure?

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

It's not an organization, which is made in view of the portfolio specifically, though it so happened that it's also a specific part of our technology. But I would say what we sell in the consumer we don't sell in the professional. And what we sell in OEM we don't sell in consumer or professional. So we've been able to organize ourselves with fully integrated P&Ls that are looking at [profitability] and also embedding specific technology.

Now the OEM business, let me give you some figures that are quite interesting because we're reviewing the position of the inventory of our customers. So if the inventory should be around 6 weeks, in the past quarters, the inventory of our customers went up to 21 weeks, which is explaining the delay that we have in resuming a decent level of sales. And those inventories were brought up at the time when components were not available and there was a panic movement from these customers to buy as many products as they could because they were fearing to be in a shortage situation.

Now when I look at specific situation, where are we compared to these 21 weeks, we're back to 8 weeks, but we're not still at the level which would be more -- closer to 5 to 6 weeks. So at the end of the day, there's still some destocking to make.

Now when you look at the OEM business, the OEM business is very interesting for us because this is one essential element to provide quality of light, also one essential piece of technology in the whole chain to be able to manage connectivity. And it is a domain in which we have strategic competitive advantage. And we sell outside of Signify, but also within Signify we use these products for all our professional business. So that's the way you should read the new organization, Martin.

Operator

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

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

One question that popped up by reading through your press release is that in the capital allocation part, you mentioned that M&A or the investments in organic and inorganic growth is still part of your strategy. How should I read that? Does it mean that you still -- that you changed your view on M&A a bit? Or is that only meant to mean small-sized M&A that you usually would mention when asked about your capital allocation strategy?

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

Well, the -- let me start with the organic part. The organic part is more linked to some of the investment that we have made in digitization and especially on customer interfaces. So that will continue.

As far as M&A are concerned, we have not changed our position. We do only M&A if we are ready from a company standpoint to do a proper integration and if we have strategic targets that would come on the market. But at this point in time, in the market in which we are evolving, M&A are not a priority unless there is a fundamentally and key strategic target because the volatility of the market also touching a potential target that you would buy and creating value in those conditions when there's a lot of things to do also on the main ship is a difficult exercise.

So if there is something that comes, bolt-on or not, we'll look into it, but it needs really to be absolutely and fundamentally strategic because acquiring in a period of crisis is never an easy game to play.

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

Okay. Clear. And then one question with regards to your restructuring efforts. We can already see that you decreased your numbers of employees by roughly 10% already. Is that a majority of your efforts already? Or do we see more in the second year?

And then maybe in addition to that, in your press release towards the end of last year when you mentioned the restructuring efforts and gave a number to it, you said that you expect the main chunk to be done in 2024 and now you said that 2/3 will be done in 2024 and roughly 1/3 will be -- or the rest will be finished in 2025. So did the timing change a bit since then? Or how should we view that?

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

No. The problem is that there are different timings, so 3 different dimensions on the same subject, Tim. So the first element is on the restructuring. And the restructuring, which is linked to this effort of cost reduction has been mostly done at the back end of 2023.

The employees leaving the company and the job losses have started to happen a bit at the end of '23, but will be done in 2024 and it will be done by the end of Q2.

When it comes to the cost savings and the EUR 200 million, as we do not have ready-made organization in the 1st of January, we will not get the full year saving in 2024, but we expect to get 2/3 already in 2024 of those EUR 200 million savings. And in 2025, as the organization will be fully implemented from the 1st of Jan, then we will get the full year savings of EUR 200 million.

So I know there's a lot of different elements, but we need to distinguish restructuring, the employees and the job losses and the costs.

Operator

Our next question comes from Jacqueline Li from Bank of America.

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

My first one is a follow-up on capital allocation. So you've been clear that your near-term focus is on deleveraging. You've mentioned the other options: investing in inorganic and organic growth, perhaps returning capital to shareholders as well. What's the likelihood of you investing in growth versus returning cash to shareholders, say, by the end of this year given that you're potentially expecting further sales decline in 2024?

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

I think the priorities on top of the dividend will be the restructuring of our debt and the deleveraging. When you look at our situation we have ongoing terms, bonds and loans for -- if you make the sum of what is normally due in 2024 Q1, 2024 Q3 and I think January 2025, we're talking about EUR 1.1 billion debt that will come to refinancing. So we will do that, and we expect to do -- to refinance with less than EUR 1.1 billion. So that's how we expect to reduce our net debt and improve our leverage.

And these 2 elements, the improvement of our balance sheet and the dividend are our first priorities. So that's the way we put it. So we will see how the year goes, but we expect that this is where the vast majority of our cash will be allocated in 2024.

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

Okay. My follow-up question is on -- you mentioned agriculture lighting. It's been weak in 2023, it's normalized after a very strong growth previously. If I remember correctly, you start to get an early feel kind of this time of year for what the full year outlook would be. So what are you seeing now for agricultural lighting demand in 2024? And what factors are influencing that outlook?

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

So yes, you remember exactly what we have said, and what we see so far is very positive on agricultural lighting. Of course, starting from a low base because, last year in Q1, the price of energy was still high and it sees in Q1 that the decisions are made for investments that are then done at the back end of Q2 and Q3.

So this year, we start from a totally different picture and we see a very good traction on agricultural lighting, and we are very well positioned because during the crisis even if our revenues have gone down, we have continued to be present in front of the customers and we have developed new offers that bring also a competitive advantage on the agricultural side of things. So we believe that we are very well positioned to capture the benefits that will be available this year, has started very strongly in January and we expect this to continue for the full year.

Operator

We will take our next question from Daniela Costa from Goldman Sachs.

Ilaria Buricelli - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

It's Ilaria on behalf of Daniela. So on Conventional, we have this fluorescent ban in Europe. I was wondering, could you comment on the underlying side of the business you expect going forward as well as what you expect from margins?

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

Look, on the Conventional business. So first of all, we made a lot of efforts to be able to come back to historical levels. So that needs to be noted because the performance in 2022 was very challenged because of inflation, price of energy and transportation costs. So when you look at the margin, about 20.6% of the business for the full year. So we think that we have repositioned the P&L the way it should be. So we should still be expecting strong profitability for that business in the future.

Now when we look at the market of Conventional and after the ban, it's probably a decline of the market of 35% or more and we will be declining less than that because our objective, to take market share, has been achieved over the past years and we will continue to do so. But we will also not be any more at the minus 15% level where we used to be. We expect more a rate of decline between 20% to 30% for that business, but still operating at good levels in terms of operating margins.

Operator

We will take our next question from Marc Hesselink from ING.

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

Yes. Also 2 questions on the underlying trends in the segments. First, on the professional. What are you seeing between -- the differences between the public and the private markets and maybe also between connected and nonconnected?

And the other question is on the consumer segment. What are you seeing there in the connected segment? I think there's some increasing competition. You're also addressing that. What do you see on market growth and your market share going forward there?

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

We've seen a stronger traction in the public part of the market on the professional side. As we said in the previous quarters, and I think it's still valid today, infrastructure, industry markets were the ones that were the strongest. Also helped by some of the incentives that we have seen in the U.S. with the IIJA, in Europe with the European Green deal.

We are seeing in many countries outside of U.S. and outside of Europe similar schemes being put in place. And when that happens, we're very well positioned because in street lights we can provide technologies that have a very fast return on investment and reduced substantially the energy consumption. But we are also venturing now in projects for government -- for government's building and it's sometimes flabbergasting to see that they're still using conventional technologies. So there's a lot to do also there indoors.

We have been very successful in solar lighting with a very high level of quality of solar LED lighting systems with motion sensors. So a lot of the technology that we have been developing indoors, outdoors is really working for us, but more on the public side than on the private side.

On the private side, the office market is still okay-ish, but we see a decline on the retail market, for instance. So the retail market has been very slow and is continuing to be slow.

Connected is growing and has been growing during the crisis for us. So that's a substantial success because when we sell connected, we sell basically a promise beyond energy efficiency. When you sell a connected system, you increase energy efficiency or energy consumption reduction by a factor of 20% to 30%, but you also bring other benefits to customers. It can be productivity at work, it can be less accidents, it can be enhancing revenue. And this is more and more recognized by our professional customers.

When it comes to the consumer market and specifically the question you asked about consumer connected, yes, competition but also a market that was having a lower level of traction worldwide. That was seen in all the geographies. What we have seen at the back end of 2023, that this is stabilizing. So we see a sequential improvement in the past 2 quarters in that business. And we are optimistic for 2024, of course, starting from a lower base.

Operator

We will take our next question from Amith Shah from Societe Generale.

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

So I have 2, I'll go one each. So the first is you kind of indicated on the OEM business the destocking levels are probably -- I'm sorry, the inventory levels are at 8 weeks. So I just wanted to understand how do we see through the inventory levels normalizing? Would it be by the first quarter or probably by the second quarter?

And then just added to that, you kind of mentioned that there's generally depressed levels or there's more volatility. Now is that reflective of the underlying market per se right now?

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

Could you repeat your second question, Amith, because I think we didn't get it correctly.

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

Okay. So what I meant was you kind of spoke about the volatility in the environment, generally in the market environment. So just wanted to understand if that's more to do with the underlying demand remaining weak as well?

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

Thanks, Amith. Look, on the first question on the OEM side, so we have seen a strong reduction of the inventory levels. We're still not there yet, but we talk about moving from 8 to 6, so from 6 to 4 depending on the geography. So we are not that far.

Of course, it will depend on the market traction. If the market traction is strong where this inventory is going to go down faster and then selling will also resume faster. At this point in time, let's say, that if the market situation doesn't dramatically change, probably we're talking about Q2 to Q3 lead time to have a situation going back to normal. So I would say Q2 to Q3, if the markets stay at a dynamic that is today dynamic.

On the environment, the volatility is linked to many different factors. A lot of them are, of course, macro factors. The confidence of the consumers worldwide in all the geographies is something that we are following closely. And the picture has been quite weak in the past years with uncertainty in 2024 because, as I've said previously, some of the still geopolitical tensions are continuing. At the same time, it's a year of elections in key countries in Asia, in Europe and also in Americas that also induces demand weakness.

So there are a lot of different elements today from a macro perspective that will have a negative impact on demand. That's why are staying cautious.

On the other hand, if we see some important macro improvement of some of the conflicts and geopolitical tensions that are taking place at this point in time, it could be a tension release and that having a positive impact on the demand. But that's the volatility that we're talking about. It can go either way. But at this point in time, we are rather cautious.

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

Maybe my second question and that would be on if you can provide us a breakup between connected lighting and growth platforms. I think you mentioned that totally they're about 30% of the revenues now. So if you can provide us a breakup on that?

And just a follow-up on that. The fact that we've seen revenue per unit on connected lighting come down over the last 3 or 4 years. So can you explain specifically why that trend? So that will be helpful.

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

Look, it's 30% for both. I would say that the vast majority is connected lighting. We don't give the split. But you can imagine that the vast majority of this is connected lighting.

Why connected lighting is showing a higher level of interest from our customers at this point in time? Because it delivers above and beyond quality of light, energy efficiency, and with time, our customers are more and more understanding these benefits. It's very easy for us now compared to what it was only 3 years ago to go and visit.

And I take that example because it's always a very illustrative one. And to go to the owner of the warehouse and explain that with connected lighting, it will be probably 20% to 30% more energy savings and connected to light, of course, but also an improvement of the safety conditions in the warehouse, reducing the level of accidents, improving the productivity of the people at work, but also optimizing the way the surfaces are used because we can give a permanent view on the way the platform and the workshop and the workflow is being used in a warehouse.

So at the end of the day, these additional elements beyond lighting and beyond energy efficiency are now more and more known, more and more accepted. And that's the reason why we see a continued improvement on connected lighting even if the unit price has come down.

Operator

We will take our next question from Wim Gille from ABN AMRO.

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

In the press release, you mentioned that you're gaining share in professional connected systems. Is this globally or is there any region where you stand out on this one?

And in light of the strong revenue decline that we've seen in 2023, can you comment maybe on market shares also for the other segments, whether you're gaining share or whether you are losing share in any particular area.

The second question would be on Philips Hue. You launched last quarter various smart home devices, including smart lighting, cameras, sensors, what have you. What are your ambitions in the smart home segment? And what struck out for me is that in the same quarter, Versuni, which is also a former Philips division, announced a similar line of called Philips Home Safety. Is this just a coincidence? Or are both lineups related?

And then I would have a follow-up question later on.

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

Yes. The share gains on connect lighting in the professional segment have been happening, I would say, worldwide. This is a business where we have strong competitive advantages with the platform that we have developed over the past 9 years.

When it comes to the other segments. So if you exclude for OEM the Americas market where we have lost share because one of our customers had decided to in-source, I would say that globally, we are declining less than our competitors, so we are gaining shares.

Now when it comes to the consumer market, we have been losing shares on the connected part of the business, which is Philips Hue that was also standing at a very high market share. So when you're standing at a very high market share and there are competitors, you lose a bit of share. And I would say this was also true pretty much worldwide.

As far as Philips Hue monitoring offer is concerned and the parallel you made to Versuni, I think it is pure coincidence, but it's not the same product for the same usage. Clearly, the cameras that we are bringing are part of the Hue ecosystem.

So they've been commercialized very successfully, well, not only for the Philips Hue ecosystem, but also for our WiZ WiFi ecosystem. And the way they are commercialized, it is security for light and light for security.

So I take always the same examples, but they're quite speech-full. If you have an intruder, then all your lights will turn flashing red. And that's a very important proposition for consumers because we link lighting and security and flashing light -- or red flashing light can be seen from a much farther distance than can -- lamp sound be heard. At the same time, if you have camera and sensing motion and presence, then it can also activate the lights. So this is security or cameras for lights.

So this is the way we commercialize it, and in that sense, it is fairly different. We are not positioning today our camera first to go into specifically the market of security and the market of cameras. It's really an integration in our full lighting ecosystem. And we want to develop these offers because we believe that they are synergetic. They go together and they can have use cases that can be very appealing to our consumers, which is also what has been confirmed after the launch of this product.

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

And then a bit of a tricky question. I understand that you're not giving a growth outlook and I understand the visibility into 2024 with all the macroeconomic movements is extremely difficult.

Simultaneously, if I hear you well, you basically said consumer connected started off to improve sequentially. Agricultural lighting started to grow again from a very low base. Public markets remain good. And the OEM business is expected to normalize as of Q2, Q3.

When I read all of that, there's basically indoor professional, which is still a bit tough and there's obviously Conventional, which is always tough and also a small part of your business. So is this caution that you have going into 2024, is it based on real things that you are seeing in the results? Or is it just, listen up, guys, we don't have any visibility. There's a lot of moving parts, we just simply don't know?

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

It's something probably a bit in between. I think your analysis is perfect when you look at our portfolio. And I will not say it any better than what you have just described.

Now where we have today a question mark is on the evolution of the macro situation and what's going to happen in terms of geopolitical tensions, what's going to happen in terms of open conflict in the world and their impact on consumer confidence, their potential impact on routing our products from A to B. So these elements stay quite unclear and have a level of volatility today that can have a serious impact one way or another on the top line.

Now when you look also at the elements that are constituting our top line, we have a lot of different elements moving in different directions and sometimes with different dynamics. And when you take that into account plus the uncertainty on the macro situation, then small areas that you basically aggregate can lead to a bigger area at the level of the company. So at this point in time, we prefer to be cautious.

We see today if things are remaining stable or better H2 than H1, as I have said, and a slow start in the year in Q1, so that's what we see today. But we will communicate on a regular basis on how we see things moving forward. But I think that at this point in time, it's not going to be more than a quarter ahead.

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

I get it. So it's a cautious start for the year, especially into Q1. Last quarter, you were pretty explicit when you said comparable sales growth in the fourth quarter is going to be similar to the third quarter. Can you be a bit more specific on Q1 comparable sales growth, where you expect that to end up? Is it going to see a sequential improvement? Or are we more or less in the same boat as Q4 and Q3 last year?

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

Well, we don't forecast to see a major sequential improvement at this point in time.

Operator

Thank you. It appears that's the only time that we have for now. I would like to hand over back to our speakers for any additional or closing remarks. Please go ahead.

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. Again, thank you very much and enjoy the rest of your day.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.
