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CORPORATE PARTICIPANTS

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

René Van Schooten *Signify N.V. - CFO & Member of the Board of Management*

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

CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

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

Martin Wilkie *Citigroup Inc, Research Division - Director*

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

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

PRESENTATION

Operator

Ladies and gentlemen, welcome to the Signify Earnings Call Q1 2020. (Operator Instructions)

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

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

Thank you, Sara. And good morning, everyone, and welcome to the Signify Earnings Call for the First Quarter Results 2020. With me are Eric Rondolat, CEO of Signify; and René Van Schooten, CFO. Rogier Dierckx, who will take over responsibilities for IR from today onwards, is also joining us today.

In a moment, Eric will take you through the first quarter business and operational performance. René will then tell you more about the financial performance in the first quarter, and Eric will end today's presentation with our financial outlook and conclusion. After that, we will be happy to answer your questions.

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

With that, I will now hand over to Eric.

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

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

Let's go immediately to Slide 4 with the main elements of our performance in the first quarter. So the installed base of connected light points kept on increasing from 56 million in Q4 2019 to 60 million in the first quarter of 2020. Our comparable sales declined by 15.3%. But we continue to make good progress in reducing our cost base. Excluding the impact of currency movements and changes in scope, our adjusted indirect cost decreased by EUR 56 million, a reduction of 11.1%. Our adjusted EBITA margin improved by 10 basis points to 7.9% with a neutral effect from currencies. Net income was EUR 27 million, and we delivered a free cash flow of EUR 112 million, which was EUR 57 million higher than last year. And last but not least, we completed the acquisition of Cooper Lighting on March 2nd. The work done by the teams between signing and closing allowed the integration to immediately start on day 1. I am very pleased with the progress made to date.

Let's move to Slide 5 to give you an update on the COVID-19 pandemic and the actions that we have taken. So from the start of the outbreak, we have taken a very agile and thorough approach in dealing with the challenges through global and local crisis response teams. From the beginning, the health and safety of our employees, customers, partners and people around us have been our #1 priority. We have implemented a variety of policies, including a strict ban on domestic and international travel, access restrictions to our site, home working and very stringent hygiene and health measures across our plants, logistic hubs and R&D centers. We have provided protective equipment such as hand sanitizers, masks and temperature measurement tools. We supplied lights in the new hospitals in Wuhan and increased production of UV-C and lamps used for sterilization and disinfection. Wherever we can, we are helping.

Our global manufacturing capacity has also been impacted but restored above 80% in the course of Q1. We have also implemented a broad range of mitigating actions to preserve our profitability and cash flow. So these measures include savings in, amongst others, selling expenses, travel costs and procurement costs. We have also taken a range of measures to protect our cash flow, including rigorous working capital management, a curtailment of uncommitted and nonessential capital expenditures and the withdrawal of the dividend proposal.

As we expect demand to be further impacted in Q2, we are actually accelerating and extending mitigating actions. For instance, our supervisory Board and leadership team took a 20% salary reduction for Q2, and I am proud to see that more than 85% of our employees voluntarily supported a 20% working time reduction and pro rata pay adjustment for a period of 3 months in the second quarter. In addition, we're also exploring new opportunities arising from the situation, on the one hand, through new business opportunities such as the production of UV-C lamps I've mentioned earlier; but also through the acceleration of our digital transformation. I believe that all these measures I just talked about will help us to increase our market position. At the same time, our liquidity remains strong with a cash position of EUR 924 million at the end of the first quarter of 2020.

Let's now move to Slide 6 where you can see a snapshot of the financial performance of our growing profit engines: LED, Professional and Home. Despite the decline in top line, the growing profit engines have improved the adjusted EBITA margin by 100 basis points to 7.7%, driven by Professional and also by Home.

Let me now provide you with more details for each of the 3 growing profit engines, starting on Slide 7 with LED. So the comparable sales declined by 16.2%. Both LED lamps and LED electronics were impacted by the COVID-19 pandemic. Initially, the impact was mainly on the supply side, which then evolved into a decline in demand as a result of the measures taken by governments and customers across the world. The adjusted EBITA margin declined by 100 basis points to 10.9% mainly due to lower sales volumes.

On the next slide, Slide 8, you can see some of the business highlights for this quarter for LED. Let me zoom in on the launch of the Fortimo cyan-enhanced LED boards for human-centric lighting in offices. So after extensive study of biological effects on lighting, Signify launched these LED boards that stimulate the biorhythm just like day like does. This enables productive days at the office and good sleep at night.

Let's move now to Professional on Slide 9. Nominal sales increased by 6.7%, which reflects the consolidation of Cooper Lighting for March 2020. Comparable sales declined by 14.2%, which largely reflects the COVID-19 outbreak. The adjusted EBITA margin improved by 140 basis points to 6.7%, driven by an improvement in the gross margin as well as savings in the indirect cost base.

There are a couple of business highlights that we would like to bring to your attention on Slide 10. So in the first quarter, we launched Interact Retail multisite management together with Marks & Spencer. So this allows retailers to centralize the lighting management for multiple stores from a single dashboard and provide insights into energy savings and light failures. We have also expanded our collaboration with Planet Farms to provide horticulture LED, which enables Planet Farms to boost the quality and yield of crops at Europe's largest vertical farm all year round. And we'll also provide horticulture LEDs to an additional 5 vertical farms Planet Farm, which they are planning to build in Europe. Next to that, we have also expanded our solar lighting potential to Northern countries through the Philips Combo Charge, which enables streetlight to use solar-powered electricity when there is sunshine and switches back to the main power grid to keep roads and streets safe at the darker times of the year. This is expected to open-up new markets for solar-powered lighting. Finally, we also helped Cologne to become a smart city with Interact City by connecting 85,000 light points, which will help to improve safety and quality of life in the city.

Let's now turn to Slide 11 and talk about Home. So Home reported a decrease in comparable sales of 8%. The business group started with a solid performance at the beginning of Q1, but demand started to deteriorate in March due to a weaker market activity in Europe and in the U.S. The adjusted EBITA margin improved by 700 basis points to 0.9%, supported by gross margin improvements and cost measures already taken in 2019.

Also for Home, we would like to share a couple of business highlights with you on Slide 12. Philips Hue received recognition for being ranked 21st out of Fortune Magazine's 100 Greatest Designs of Modern Times and received 5 Red Dot Design Awards for Philips Hue products. We also further expanded the functionality of zones in the Philips Hue app. This allows users to control the zone they create in the Hue app with our accessories, including motion sensor or dimmer switch. It also enables easy check of battery levels of accessories directly in the app.

Let's now move on to our cash engine, Lamps, on Slide 13. Comparable declined by 17.8%. We believe this decline is lower than the market decline, resulting in continued market share gains. The adjusted EBITA margin remained solid at 17.6%.

Let's now turn to Slide 14 to talk about the acquisition of Cooper Lighting Solutions. On March 2, 2020, Signify completed the acquisition. Key business systems have been successfully segregated from Eaton. Cooper Lighting is now operating as a business unit within Signify. The agents on both sides are committed to the go-to-market approach and associated benefits of the acquisition. The integration teams are also well on track to achieve the anticipated cost savings in procurement, supply chain and sourcing optimization. The procurement synergies are ahead of plans, and we are on track to reduce transportation and storage costs. We also realized significant cost avoidance by leveraging existing shared services centers in HR, finance and IT. In addition, we have identified additional revenue synergies in multiple product/market combinations.

Well, this is what I wanted to cover regarding the business and operational performance and highlights. I will now hand over to René, who will tell us more about the financial performance for the first quarter of 2020.

René Van Schooten - *Signify N.V. - CFO & Member of the Board of Management*

Thank you, Eric. Before delving into the Q2 financial performance, I would like to take this opportunity to thank Robin, who has decided to leave Signify as our primary point of contact with the investment community. As Robin mentioned in his opening remarks, Rogier Dierckx will take over Robin's responsibility from today onwards. During Rogier's 17 years' tenure at Royal Philips and Signify, Rogier has held multiple finance positions, most recently as Head of Finance for the business group Lamps and the business group Home. Please join me in welcoming Rogier in the IR function. I know he looks forward to engaging with all of you going forward.

Let me now provide you with more granular information on our Q2 results on Slide 16 where you see the adjusted EBITDA bridge. The adjusted gross margin as a percentage of sales increased by 50 basis points in Q1 2020, including a negative currency effect of 10 basis points. The impact of price on the gross margin was lower than in preceding quarters and is offset by ongoing savings in the cost of goods sold. Our indirect cost base decreased by EUR 56 million compared with Q1 of 2019 when excluding the impact of ForEx and changes in scope as a result of the acquisitions of Cooper Lighting and Klite. The overall ForEx impact on the adjusted EBITA margin was neutral.

Let's now go to Slide 17. You can see the quarterly development of our indirect cost base. We have made good progress on further reducing our indirect costs. This is the result of carry-over effect from many initiatives we implemented last year. And on top of that, very early in Q1, we have started to implement mitigating measures to preserve profitability and cash flow. As said, this has resulted in EUR 56 million in Q1, excluding the effects of currencies and changes in scope. We continue to work on initiatives that will further decrease the indirect cost base. We're on top of what's happening around us and adapt our cost base as soon as we see things happening.

Let's now take a look at working capital in the first quarter of 2020 in the next slide, Slide 18. When we include sales of Cooper Lighting and Klite on a 12-month pro forma basis, working capital decreased by 320 basis points to 6.1% of sales in Q1 2020. The improvement was mainly driven by solid inventory management and lower receivables and higher payables.

Let's now take a closer look at our debt position on the following slide, Slide #19. Since the end of Q4, Signify's cash position has increased by EUR 77 million to EUR 924 million at the end of Q1 2020. You all realize that net debt increased by EUR 1.2 billion, which reflects the USD 1.4 billion bridge loan facility we used to finance the acquisition of Cooper Lighting. Next to the profit we generated in the quarter and the changes in working capital I just mentioned, you can see the other items in the bridge that impacted the cash, and as a consequence, our debt position. Net CapEx was EUR 17 million in the quarter, and the net changes in provision was EUR 19 million. Next to that, we've paid EUR 38 million for tax and interest. All in all, our net debt position amounted to EUR 1.8 billion at the end of Q1.

Before I hand back the call to Eric, I would like to update you on some financial elements now that we have closed the acquisition of Cooper Lighting. First, we expect the adjustment items, including restructuring costs, PMI-related costs and other incidental items to be around 2.5% of sales, which is similar to the level we experienced in 2019. Our net CapEx is expected to be around 1% to 1.5% of sales for the full year 2020. We expect our effective tax rate in 2020 to be in the mid-20s, excluding the impact of nonrecurring items. We anticipate that the acquisition of Cooper Lighting will slightly lower our effective tax rate in the medium term. And the net interest cost for 2020, including Cooper Lighting, are currently expected to be around EUR 60 million. More detail related to the purchase price allocation will be provided in the semiannual report.

And let me now hand back to Eric for the final part of this presentation.

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

Thanks a lot, René. Let's move to Slide 21 to discuss the outlook. Considering the uncertainty about the future course of the pandemic and the length and depth of the impact on the global economy, we do not provide financial guidance at this point in time.

I would like to conclude this presentation by saying that I am satisfied with the measures we have taken to protect the health and safety of our employees and the people around us while preserving profitability and cash flow in the first quarter. We are building on these achievements and are taking extra measures to manage our performance in the second quarter as we expect demand to be further impacted. We have also started to explore new business opportunities arising from the situation whilst remaining very close to our customers. I believe that all these measures will help us to strengthen our market positions and come out of this crisis stronger.

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

QUESTIONS AND ANSWERS

Operator

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

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

The first one I have would be on Professional. And I was hoping you could maybe comment on the top line trajectory during the quarter and how also the current trading is looking like because we've seen already a couple of companies in the sector, construction-exposed companies already reporting. And the decline of 14% in Professional seems quite extreme also versus those other companies. So I was also wondering if you had done some portfolio pruning during the quarter on top of what I would call the market decline?

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

Yes. Lucie, well, it really depends on the geographical exposure that the businesses have. The way we have mobilized the crisis is through 3 different waves of countries that are going one after the other one into the crisis: so in wave 1, you will have mostly countries from Asia; in wave 2, countries from Europe; and in wave 3, more countries of the Americas. And wave 1 is taking place between the beginning of Q1 and probably until the middle of Q2; wave 2, middle of Q1, middle of Q2; and wave 3, Q2 to middle of Q3. So that's the way we've modelized this.

So when you look at Q1, we were very impacted from a top line perspective in countries like China, in countries like India, in countries like ASEAN, and I would say at the back end of the quarter, also in countries of Europe, like Spain, Italy and France. And this happens also to be countries, and especially the first one I've mentioned, which are quite strong in the Professional part of the business, and we see -- and we have seen strong declines there. There was no portfolio pruning at all in the first quarter.

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

Are you able to comment on current trading or not at all?

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

Sorry, Lucie, the line was breaking. Could you repeat your question, please?

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

Sure, sure. As part of my question, I was asking whether you are able to comment on current trading in Professional?

René Van Schooten - *Signify N.V. - CFO & Member of the Board of Management*

We have given the indication that we don't provide an outlook going forward, so we cannot comment on this question at this moment in time.

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

Understood. And my second question was around the cost savings. Very strong number in the quarter, about EUR 56 million. Can you maybe help us kind of understand whether this is something we should extrapolate for the rest of the year based on the initiatives you've put in place? And also, you haven't given us much indication in terms of how you were seeing Cooper synergies kind of contributing to this overall potential savings number for the year?

René Van Schooten - *Signify N.V. - CFO & Member of the Board of Management*

Of course, you have noticed that we made the savings, although that's not the first time. So we have already embarked on the road to reduce our indirect costs and other kinds of savings for a long period of time. And in that context, we also benefited of the carry-over effect of the previous period. On top of that, we have taken extra steps to -- as soon as we saw how the economic environment was changing, and of course, also going forward, we will benefit from those as well. And the key word I want to use in this context is agility. We adapt our cost quickly on the situation we confront. Of course, let me then expand immediately a little bit. We consider, in principle, all the cost flexible. And therefore, we also are very acute and fast in either taking the cost out or rephase them depending on what the market needs.

Cooper, maybe Eric wants to give a further comment about that.

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

Yes. Thanks, René. On Cooper, basically, we are moving according to plan, and in some aspect, also ahead of plan. Of course, the top line will be impacted versus the original plan. But we have very quickly, with the team of Cooper, accelerated the plans we had. If you remember, in terms of synergy, we had 3 different levels of synergies: on procurement, that's going extremely fast and ahead of plan; on the drivers and conversion of drivers, that's also moving on very swiftly; and also on footprint, and we have already started to look at some of the footprint optimization that Cooper already had in the plans, and that's also moving ahead. So I'm very pleased with what I've seen so far and how the teams are working together, combining efforts to make that happen.

And also, our position on the U.S. market, as you know, we have taken the decision to go with 2 different front offices. That seems to be very well accepted by the market and our respective agents in that territory. So all these are positive points.

Now when I was there, we also discussed that additional opportunities, especially in terms of top line synergy that we had not looked at very specifically in the acquisition process because for an acquisition, I prefer to look at back-office synergies, but there are also some front-office opportunities that we are looking at, at this point in time. So all in all, moving in the right direction since we closed on March 2.

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

I'm sorry to press here, but you had, I think, never really provided the exact savings we're expecting for Cooper synergies over the next couple of years. So what are you precisely expecting in terms of synergies for this year?

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

Well, we gave a number of EUR 60 million over 3 years. And the synergies I've given to you are going to be in order of first achievements. So we think that we're going to achieve the procurement synergy the fastest, then will come the synergies on driver procurement and then the footprint synergies take a bit longer. And they probably are going to be revealed in year second and year 3.

Operator

Our next question comes from the line of Daniela Costa from Goldman Sachs.

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

I hope everyone is all right. I wanted to ask about the working capital reduction, especially when you have in the report saying it's 6.1% of sales ex Cooper, which is a big move versus last year. How sustainable is that going forward? Were there any one-offs there? I'll start with this one and then I'll follow-up.

René Van Schooten - *Signify N.V. - CFO & Member of the Board of Management*

Yes. Thank you. We wanted to reflect also the MAT sales of Cooper, so the 6.1% represent a pro forma number. And yes, there are no exceptional items in it. We, of course, have also here a track record of looking at this working capital, but in particular, also, at inventory very intensely. And we -- because of the volatile and the uncertainty, we have tightened up our loops, our feedback loops. So we are going through the whole S&LP much faster than before and adjust what we make and what we sell, and that is one of the major factors behind this result. But no incidental -- large incidental items in this area.

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 keep this type of level? Or as you go into sort of lockdown in Q2, we might see some, I don't know, you can't -- maybe you can not unwind the inventories the same way? How should we think about it on the near term?

René Van Schooten - *Signify N.V. - CFO & Member of the Board of Management*

Maybe I can look at individual elements. Inventory, we keep that tight control over ordering and gate-looking what is necessary. So we are normally very good at that. If I look at payables, I can only say that we do that also in close cooperation and in contact and communication with our suppliers. So also, they work on the same basis a faster loop in all the good flows. In payables, I also hasten to add that last time, we indicated that we had a little bit of a slip of EUR 20 million payables going from Q1 -- Q4 to Q1. That's not in this press release, but that was communicated earlier. And then I come back to the receivables. Receivables are, of course, affected by how many sales did you do in the past. And of course, if our sales go down, our receivables should normally also come down. But in this day and age, it also depends on whether everybody is paying on time. And so far, that has gone actually quite well. We are in close contact with our customers. And we are also very confident that we can maintain appropriate behavior also from their side in paying relatively on time. Our overdues hardly increased in Q1.

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

Very clear. And just a quick follow-up on the refinancing of the bridge for Cooper. Maybe I missed it, but I didn't see -- didn't catch it. What's the latest update there?

René Van Schooten - *Signify N.V. - CFO & Member of the Board of Management*

We have a bridge financing in place. Of course, this is a bridge financing which has also the opportunity to extend it 2x. But the fact that it's a bridge financing reflects also a temporary nature. And we continue to monitor the market developments in order to find a suitable time to take next steps in the debt market -- capital market.

Operator

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

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

Eric, René, I hope everyone at Signify is keeping well. Two questions from me. I will go one at a time. First question is I know you can't talk about or don't want to talk about the current trading. But can you tell us a bit about your March exit rate? Obviously, the lockdown situation means the start of -- first part of March and the second part of March are quite different for the western countries. So can you tell us about the exit rate in the second part of March compared to the first part by division, if possible?

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

Yes. Joseph, look, at the end of the day, it doesn't make such a big difference by division in terms of how the pattern look like. I mean you see the divisions decline. Now let's look at the pattern effectively. When we started Q1, we had mostly the country -- wave 1. And I have indicated the ones that were the main detractors in the performance. And yes, in March, were added some countries of Europe and mainly Italy, Spain and France. In the northern part of Europe, the performance was much better. So the exit and the March performance in top line was a bit lower than what it was in the first months of the quarter.

But I would caution you that the exit rate is not giving any clear indication about Q3 because each country is changing. The lockdowns are really different depending on the countries. What we look at, at this point in time -- there are 3 different levels of lockdown. If it's a mild lockdown, which only concerns the recreational activities, we can be touched by minus 10% in terms of comparable sales growth. If the lockdown extends also in retail activities, it can go to minus 20%, minus 30%. And then if we add construction, it can go to minus 50%. And if on top of the construction being blocked, the installers cannot work, and with the activities -- whole construction activities closed, we can go up to minus 60%, minus 70%.

Now you may -- and you see that all the countries are implementing measures at a given time. And let's give an example of Singapore. Singapore was on, I would say, a mild lockdown until 2 weeks. They went into a complete lockdown just a few days ago. If you look at other countries like India, India is in probably what we can consider at this point in time the most severe lockdown, and it has been in the past days just extended by 1 month. So at the end of the day, as René was saying, we are facing a very, very fluid situation, and we are adapting. And we are adapting. Now what we can say is the impact in Q2, as we see it, we see the convergence in Q2 of the countries of the 3 waves. And so we believe that Q2 will be further impacted and more impacted than Q1. But I would not take the exit rate of Q1 to define Q2.

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

Understood. Very clear. And my second question, on your free cash flow. I know you have withdrawn your guidance, which previously said it is more than a 6% free cash flow margin. I mean given that downturn, you typically have working capital release. That -- shall we kind of expect around 6% for the year in sort of free cash flow margin? Is that possible?

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

We have by definition, given the uncertainty and the lack of the visibility, we have suspended the outlook. But let me tell you that according to what was described by René, so we have taken measures extremely early. What is not always known is that we started to work on some of the measures that impacted Q1 in January. And then we'll further continue to improve our performance in Q2, adapting because we are expanding the measure beyond what we have already done in Q1. And we have started the expansion measures already in March. So at the end of the day, we are not going to leave any stone unturned when it comes to working capital in the situation that we're going to face in Q2. And we are doing everything, as René had said, to maintain a healthy free cash flow. But sorry, no guidance at this point. That's the decision we've made.

Operator

Our next question comes from the line of Andreas Willi from JP Morgan.

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

My first question is on your salary reduction plan. Maybe you could talk a little bit about -- more about how you went about that in terms of getting 80% of your people to accept voluntary reduction in pay and working hours. Is this a mix of government programs and your own initiatives? And I'm just surprised about, if it's voluntary, that such a large part of your organization is willing to give up the salary. Maybe you could elaborate a little bit more on that because we haven't really seen that as a big feature from other companies so far, if this is all voluntary rather than the government programs.

And the second question, maybe you could give us an updated end market breakdown for Professional now with Cooper on a pro forma basis, how it splits into maybe outdoor, industrial, office and commercial.

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

Yes. Andreas, so let me explain the salary reduction approach. So we first started to talk about this very early on at --

(technical difficulty)

the talk. So our willingness was not to lay off people, and on the contrary, take the opportunity of the crisis to strengthen the solidity and the unity of our teams but also act in a very strong solidarity move. And then how do you reduce costs if you don't lay off people in a situation like that one? Well, it was to say to our people and we communicated a lot all around. For me, I've been communicating with more than 100 different audiences in the past weeks in order to explain that. As a company, as a socially responsible company, we don't want to bring more problems to the society at this point in time. And we don't want to put our people in a situation where they are on the unemployment market and they will not find a job at this point in time. So we want to keep our community together.

But as top line will be impacted by the lockdown that are achieved by countries all around the world, we asked people to voluntarily give a day and have their salary reduced by 20%. The whole organization was then done so that this could be done also electronically by people. So they go on our internal site, and over there have the capability and the possibility to tell us, "Yes. I give 1 day out voluntarily." So all was -- all the process was very well engineered. So this is why we can come with numbers today that are quite accurate. And I tell you that above 85% of the population worldwide in all the countries where we operate have responded positively, which is a great satisfaction for us.

And let me also add, Andreas, that this is not including the government helps. The government helps would potentially come on top of that because there are government helps in some countries. And we are looking at this point in time where and if we can use them because they normally come with a lot of different criteria. So we need to see if we are eligible. So this is the whole story, how it started, how we communicated. And the result of this, more than 85% of the population contributing voluntarily, not including the government help that would come on top of that.

Let me take your second question about the market breakdown with Cooper. So Cooper for the -- has been consolidated for a month. The positive element about that is that it has also contributed positively in terms of cash, in terms of profit and also in terms of comparable sales growth, which was already very positive in March. Look, we don't give specific breakdowns. But we would say that the Cooper Lighting business is probably having a more indoor focus than outdoor, which was also one reason why we did the acquisition because at Signify, we were before Cooper, probably more outdoor than indoor. And Cooper is bringing a position which is more indoor than outdoor, which was also a great fit from an end market or portfolio perspective. But let me leave it to this.

Operator

The next question comes from the line of Martin Wilkie from Citi.

Martin Wilkie - *Citigroup Inc, Research Division - Director*

It's Martin from Citi. So my first question was on Klite. Obviously, you made that acquisition towards the back-end of last year. Given, obviously, the supply chain disruptions in China earlier in Q1, just to understand, was the integration there delayed? And can things be accelerated now that China seems to be back up and running? So that's my first question.

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

Yes. Martin, Klite was very impacted in Q1 not from a China market perspective because Klite sells very little in China. But when the crisis broke out in China, there were 2 issues. So the first one is when you need to -- when you needed at the time to reopen your plants, you needed 2 things: first, getting the authorization from the Chinese government; and second, you need to get back your employees. And during Chinese New Year, the employees are all going back home in their hometown. And after Chinese New Year, they're normally coming back. But the government had stopped the movement of people in between Chinese provinces.

So the issue of Klite was that, first, we needed to have the authorization. And when we got the authorization, we didn't have our people because they could not move from their province back to Klite and back to Haining and Ningbo. So at one stage, we could even organize transportation ourselves to get our people from the provinces where they were back to the factory. But I would say that during 2/3 of the first quarter, Klite was heavily impacted because of the lack of capacity to produce. And I would say that at the back end and in the end of the quarter, we had resumed our production capacity to 75% to 80%. So now everything is okay, and our suppliers are also back up and running. But yes, you're right, Martin. Klite was impacted quite severely in Q1.

Martin Wilkie - *Citigroup Inc, Research Division - Director*

And do you think that -- because obviously, you didn't give huge amounts of details on your intention with Klite, but there obviously was a cost saving to come with that. So effectively, the benefit of that Klite integration can start from now. Is that the way we should look at it?

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

Yes, because Klite has different assets. One of them was to give us the capability to be very competitive in some parts of the business. And that's a reality. And we see that with Klite, we're also starting to take some businesses that we could not take previously, and we have already seen that happening. And the second element was to bring some of the volume we have at other suppliers to Klite in order to integrate and to consolidate the margin of those suppliers and further increase our gross margin. And by doing that, we increase the volume of Klite, we dilute the costs. So that's the model.

Now the model works. What happens is with the crisis, probably we will integrate some of the business we have at other suppliers a bit faster, while, at the same time, increasing the capacity of Klite for when the crisis stops. So we had a late start in Q1, but the team over there reacted extremely well and they were extremely agile to adapt the costs. And we are probably accelerating a bit more the plan that we had originally to bring back some of the volume we had at suppliers to Klite in order to keep the volumes as high as possible. The situation once again is very fluid. But here, the teams are working extremely well and extremely quickly to adapt and to accelerate some parts of the plan.

Martin Wilkie - *Citigroup Inc, Research Division - Director*

And if I can ask a separate follow-up question. On your distribution channels, we've heard different messages as to what distributor destocking has happened or not on Q1. I guess it may be difficult to tell given how quickly things have changed, but do you get the sense that there's still a lot of destocking to happen at the company that distribute your products? Or did a lot of that happen already during Q1?

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

The situations, Martin, are very, very diverse, depending on countries and how they were touched by the measures linked to the virus. In the countries where the activity has stopped, meaning that the construction activity has stopped, the installers are staying at home, there was no real destocking. Clearly, also, there is less selling-in given the lower activity. But we have not seen a brutal destocking on the Professional distribution channels. I think that today, the distributors are trying to keep the point-of-sales open as much as they can, but in some instances, they can't. And they maintain an inventory which is balanced according to the new needs.

What we have seen is the mixes of their customer and the mixes of their offers changing dramatically, meaning that a product which was a high runner previously becomes a mid-runner, and a product that was mid- to slow mover previously becomes high-rotating items. So what we have done, especially with our key and top Professional distributors, we're getting very close to them in order to understand what is happening at the level of their selling-out. So we're not really looking at what's selling-in, but their selling-out, and we're building plans with them in order to make sure that we support with their inventory and ours to cater with the demand which is changing and with the demand which is fluctuating. So this is the way we work together.

We work together also very closely to take on another issue that René has been mentioning, which is receivables, making sure also that they do a business with customers that are paying them. If they're getting paid, we are getting paid. So there's a lot of activity at this point in time of getting closer to our customers where there is still some activity. Where our customers are not working, we're training them. So we took also the opportunity of the crisis to develop a lot of training. And we're training our customers when they have also times to be trained. In the consumer distribution, especially all those customers have online capabilities, we haven't seen any brutal destocking. We -- maybe the selling-out and selling-in have reduced a little bit, but we still have a flow of business moving now.

Operator

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

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

My first question is on operational leverage. So I think pretty impressive there with the top line decline that you can completely repair that lower in the P&L. But if you're looking to the coming quarter, you said the impact can be even larger. Is that something that you can continue, right? Is there more to squeeze out to keep the negative operational leverage out?

And second question is on your comment that you -- in the press release for new business opportunities. Could you elaborate a bit more on that? What do you see as a longer-term impact for your industry and Signify on the end markets when the worst of this is over?

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

So Marc, the -- there's a fundamental factor in operational leverage, which is you need to do it very early on and need to be very fast. So the -- it's not only a structural element in the company. It's more a matter of philosophy and speed. So the earlier, the better. And what we're trying to do systematically when it comes to cost adjustment is to try to anticipate and make sure that costs are out whenever the volume comes down. And we've done that in many different fields of operation. So yes, we could do that in Q1. So Q2 will be the continuation of what we've done in Q1, plus some additional measures that we have talked about. But once again, Marc, we are also learning by working as the situation is very fluid. And we consider as a philosophy that no cost is fixed in the company, but we need to come with the plans that help us very quickly with the best possible anticipation in order to reduce them. That's the philosophy. That's what we're doing. We're going to continue to do that in Q2.

What we have realized in the course of Q1 is that an activity that we had historically in our business, which is about UV lamps, is something that we needed to develop further. So let me explain. Basically, a UV lamp is not anything visible light. So that's the curious notion of UV lamps. But it will emit molecules and particles that are going to disrupt the DNA chain of viruses. And we can do that for water, we can do that for surfaces or we can do that to disinfect the air. And we realized that with the crisis coming on -- and I would say not only during the crisis because I think this will survive after the crisis, that we had a fantastic opportunity to grow that business. Today, we do the light sources and we sell them to OEM customers. And we are at this point in time developing very, very fast and ramping up on our capacity because we see a demand for those UV lamps all over the world at this point in time. So we have taken measures. And we've spent money. Sometimes we are saving money, and in that case, we are investing money in developing our capacity to produce light source for UV lamps, while at the same time, developing also a full catalog of applicative fixtures in -- for UV lamps. And we do that in the U.S., also for Cooper Lighting and in all the different countries where we operate. So we believe that this is a very interesting opportunity, first of all, because it's totally in line with our strategy and with our purpose, which is also to provide light which is taking care of the health of people on the planet. So that's a very important aspect for us. And at the same time, we believe it's an interesting growth opportunity for now and the future.

Operator

Our next question comes from the line of Wim Gille of AMRO Bank.

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

Can you hear me?

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

Yes, we can.

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

Very good. I actually got 2 questions. So first of all, if we look at the cost savings for this quarter, it was extremely impressive, both on the gross margin where you had a 50 bps gross margin improvement as well as on the cost savings with EUR 56 million in the quarter, if I'm not mistaken. But can you give us much more practical examples on what these are actually are all about? So the gross margin improvement, is that procurement? Is that pricing? Is that mix? So how do you improve the gross margin so quickly in this quarter? And same with the cost savings, can you give us more practical examples? Are you closing down factories, reducing footprint? Or what are you exactly doing in this particular quarter so that we can assess what the stickiness is of these measures?

And specifically within Professional, I think it's almost defying gravity what you're doing with the comparable sales decline of 14%, yet your margin goes up by 140 basis points. That's a very solid achievement. And we need more practical examples on how you achieved that.

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

Yes. Wim, let me take the gross margin, and then I will let René give more practical examples and detailed examples about cost savings. So at the beginning of Q1 and probably in the second half of January, we gathered with the leadership team and we Said to ourselves an objective to very closely look at the gross margin and find ways to expand it on the basis of the same idea that we had that we're seeing the company being impacted from a top-line perspective and we needed to find ways to protect the bottom-line and the cash. So basically, you need to do 2 things, it's extremely simple and basic: you need to increase the gross margin and reduce costs.

So let me talk to the gross margin. In the gross margin improvement, there are many different elements, first, an accelerated speed on everything which is related to bom savings. And we are clearly ahead of our plan when it comes to bill of material savings. Now you need also to understand that by integrating Cooper within Signify, it gives us also an additional buying power. And we've used this in order to negotiate with our suppliers, giving them a view on the long-term business but with improved conditions as we were increasing also our volume. And we did that, once again, extremely quickly in order to be able to achieve this type of performance. We have brought a lot of our capabilities in R&D, on concept savings in order to further decrease our bill of material costs. Because sometimes, to improve the cost of the product, you need to work on technical matters. And that has paid off.

At the same time, we had also dedicated actions in some given countries to some given line of products and to increase the -- to increase prices. 50 basis points of improvement of gross margin is okay. Our objective was to do more than that. But we had also to cater for under-coverage in the factories because when a factory is producing less than what was originally forecast, you cannot always adapt the cost. And you have a little bit of under-coverage, which is being managed, but it's not an easy thing to do. So once again, on the gross margin, it's price, it's bill of materials, it's also managing well the under-coverage, but it's also doing that very fast and very quickly in Q1.

Now I can let, maybe, René give some more element about cost savings more precisely. René?

René Van Schooten - *Signify N.V. - CFO & Member of the Board of Management*

Yes. Thank you, Eric. Of course, I always start with -- my first remark is always, yes, this is not new to us. We already are -- already on long-term period busy with reducing our indirect costs. And if you are then confronted with a situation like this, there are a few bonuses as well. A crisis like this also allows you to focus the mind. And we, of course, do the usual thing. It's, of course, reducing travel. We have a hiring freeze. But we go beyond. And basically, everything which is indirect material spend, we ask, do we need it or do we need it now? So also rephasing is a major element in reducing the cost. And that's basically affecting everything.

You also could, of course, if you want to give an example, we have a launch plan. We want to do certain things, but maybe the market is not ready for a few launches. So we will postpone those launches to a more appropriate period. But the associated costs, we can then also either stop or postpone. And we do that, of course, on the marketing side, with A&P, but also in some of the R&D costs. So everything is being challenged and either stopped or pushed out.

I hasten to add that there are also still opportunities. And we still continue to invest in those things which are relevant for now or once the recovery is very clear to us. So we keep on investing in our online capabilities. And Eric already mentioned a few times UV lamps, so we do that as well.

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

And maybe as a follow-up, if I look specifically here at the gross margin, you basically said we have -- it's a mix of a lot of things. And the integration of Cooper also helped reduce the bill of materials. What would the gross margin have been if you did not have Cooper, i.e., out of the 50 basis points, what is related to basically procurement? And what is related to all the other measures that you did to protect or even improve the gross margin?

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

Look, it's very, very difficult to say. I do not have even the numbers myself in my head. I would -- but I would tell you that this improvement of the gross margin globally for the group is not linked to Cooper.

Operator

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

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

This is Rajesh Singla from Societe General. A couple of questions, please. Given your strong ESG ranking, are you considering green bonds as an option to refinance your $1.4 billion bridge loan facility? And if yes, then how much interest cost saving we could assume from that?

And the second question is, will it be possible to share the breakup of your sales in B2B and B2C categories? And which one of these categories is worst impacted so far?

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

I can take the second part of the question, and I will let René with the first one regarding the green bonds. Breakup of our sales is 25% consumer and 75% professional. The -- I mean, if I try to sum up -- let me take it a bit differently. When we look at the impact we had in Q1, I would say the impact we had in Q1 is coming from the countries we mentioned previously, China, India, ASEAN, Italy, Spain, France. And they were quite big detractors in the numbers in Q1. At the same time, if I look at the top line -- and we have made our evaluation, if we look at the absolute value of top line which has been impacted in Q1 because of COVID-19 crisis, 1/3 is linked to supply and 2/3 is linked to demand.

B2C, B2B will really depend on the lockdowns. I would say that if it's only recreational and retail, maybe -- look, sorry, I will not try to improvise. It's a bit complicated to give you strict numbers. I would say that it really depends on the situation. I will not know how to answer. But it's 25%-75% consumer versus professional.

René, maybe on green bonds?

René Van Schooten - *Signify N.V. - CFO & Member of the Board of Management*

Yes. Thank you very much. I understand the question. I also already responded to Daniela to a somewhat similar question. So we continue to monitor the market developments in order to find a suitable time to take next step in the debt market. And of course, we explore all the options which -- all the instruments which are available to us. And we know that we have a good story on ESG. So where that is applicable, we will also make that clear. But I can't comment anything further at this moment in time.

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

Okay. One more question, if I may ask. This is regarding the UV lamp which you earlier mentioned. So can you share with us like what percentage of your sales is currently from the UV lamps business? And what kind of market size you're looking at it?

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

Look, it is marginal today. So we're not really commenting on detail. It's marginal today, but it can grow multifold.

Operator

We are now approaching the end of our call. We will now take our last question from the line of George Featherstone from the Bank of America.

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

I hope all is well. Could you provide some color on what project sanctioning is like in construction markets right now across the various different regions and the implication that this has for recovering your business over the next 12 to 18 months?

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

Look, I assume it's on the professional market. Let me give you a general approach that we have seen in most of the countries that are being impacted. And once again, depending on how much or how strong the lockdown is, that impact can vary. But as a general rule, we've seen the following: On the professional market and for the Professional business, in general, we see the big project or the big projects still continuing. We see also a continued traction even if it's at a lower level of the smaller projects and the smaller sales. It's in between, and that we have seen projects not being canceled, but projects being postponed.

If I look at some end markets and end customers like food retail, in food retail, we see opportunities because these customers are active. And we see opportunities in the traditional business, but also opportunities in the new business I was describing previously. So we have today ongoing projects to provide solutions to disinfect trolleys for food retailers. And we see these opportunities happening in many different continents, mainly the Americas and Europe.

In other parts of the business, other end segments, office, warehouse, manufacturing plants, when some of the sites are not anymore open, we see customers taking the opportunity to make some refurbishment. Small projects, but we see also that happening. On the public opportunities, we see some stimuli which are being put in place by many governments. And for the outdoor part of the lighting business, we see today some opportunities coming on linked to the development of infrastructures. And here, this is a strong point because we are normally very well positioned for these opportunities. It's street and roads, some government buildings. So we are really looking at that and we see potential growth there.

Now we're also doing something which is quite interesting at this point in time. Even if customers are not going to make the decision immediately, we take the opportunity of this crisis as there is a global slowdown. So these customers have got, I would say it like that, a little bit more time to listen to us, educating them about connected lighting. So we do that a lot, going to customers, talking to them about the benefits of connected lighting and increasing our funnel of projects even if realization may come, in most of the cases, a bit later. But we're taking the advantage not only to train our own people but also train our own customers on the benefit of connected lighting. By the way, if we look at our business, when it comes to what we are calling systems and services, so the connected part of connected lighting, it has performed far better than the rest in Q1.

Operator

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

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

Thank you, Sara. Ladies and gentlemen, thank you very much for attending today's earnings call and for taking part in the discussion about our results. If you have any additional questions, please do not hesitate to contact the IR team. We're happy to answer your questions. And again, thank you very much, and enjoy the rest of your day.

Operator

This now concludes our conference. Thank you all for attending, and you may now disconnect.