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CORPORATE PARTICIPANTS

Eric Rondolat *Philips Lighting N.V. - Chairman of the Board of Management and CEO*

Robin Jansen *Philips Lighting N.V. - Head of Investor Relations*

Stephane Rougeot *Philips Lighting N.V. - CFO and Member of the Board of Management*

CONFERENCE CALL PARTICIPANTS

Alexander Virgo *BofA Merrill Lynch, Research Division - Director*

Alok Katre *Societe Generale Cross Asset Research - Equity Analyst*

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

Daniela Costa *Goldman Sachs Group Inc., Research Division - MD*

David Vos *Barclays PLC, Research Division - Analyst*

Lucie Carrier *Morgan Stanley, Research Division - VP*

Marc Hesselink *ABN AMRO Bank N.V., Research Division - Analyst*

Martin Wilkie *Citigroup Inc, Research Division - Director*

Peter Olofsen *Kepler Cheuvreux, Research Division - Analyst*

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

PRESENTATION

Operator

Hello, ladies and gentlemen, and welcome to today's Philips Lighting earnings call for Q4 and full year 2017. (Operator Instructions) And at this stage, I'd now like to give the floor to Robin Jansen, Head of Investor Relations. Mr. Jansen, please go ahead.

Robin Jansen - *Philips Lighting N.V. - Head of Investor Relations*

Thank you, sir. Good morning, everyone, and welcome to the Philips Lighting earnings call for the fourth quarter and full year results 2017. With me are Eric Rondolat, CEO of Philips Lighting; and Stephane Rougeot, CFO.

In a moment, Eric will start with a welcome and introduction. After which, Stephane will take you through the fourth quarter financial performance. Eric will then tell you more about the highlights for full year 2017. And we'll end today's presentation with the 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 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 - *Philips Lighting N.V. - Chairman of the Board of Management and CEO*

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

I propose that we go straight to Slide 4.

So first, I'm very happy that we have been able to deliver on all our financial objectives in 2017.

So first, we not only returned to growth during 2017, but we achieved comparable positive sales growth for the full year. We increased our operational profitability by 90 basis points to 10%, and we also delivered a free cash flow of EUR 403 million. Each of our business groups has made a good progress during the year and delivered a strong performance. I am particularly satisfied with the performance of Professional and Home, which delivered strong growth and profit improvement, specifically in Q3 and Q4. Finally, we have also progressed on our strategic directions. Sales from Systems and Services are now above EUR 900 million and increased 51% in 2017. All in all, we are making good progress, which is in our strategic goals and our midterm financial objectives. And on this journey, we continue to invest in growth opportunities, provide a return to shareholders and optimize our balance sheet.

Let me now hand over to Stephane, who will tell you more about the highlights for Q4 2017.

Stephane Rougeot - *Philips Lighting N.V. - CFO and Member of the Board of Management*

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

So on Page 6, you can see an overview of the financial performance for the company and also by business group.

You can see our comparable sales increased by 3%, and that's been driven by the growth of LED and connected lighting systems and services, which is in line with our strategic priorities. The overall LED-based comparable sales grew by 19%, and they now represent 68% of our total sales, which is EUR 4.5 billion.

The adjusted EBITA margin improved overall for the company by 120 basis points to 10.9% in the fourth quarter. And connected lighting systems and services substantially contributed to this performance. The margin in Lamps includes a one-off impact that is noncash of 120 basis points, as we have adjusted the calculation method for our inventory valuation. And without that effect, the margin in Lamps was relatively stable compared to a year ago.

Let me now turn to the next page, Page 7, which shows the contribution of each business group to the overall profitability improvement.

As you can see, the material increase of the profit for Professional and for Home, which was driven by the CSG as well as their margin improvement, has more than offset the negative profit contribution of Lamps and LED.

On the next page, you can see the adjusted EBITA bridge.

When you look at the gross margins, the volume and the mix positively contributed to the margin, and we continued to deliver also a significant level of savings from productivity and from procurement.

Our adjusted gross margin as a percentage of sales has improved by 10 basis points compared to the fourth quarter of 2016. You can also see that the indirect costs have improved by EUR 20 million. And that is, of course, after the incremental investment that we made in order to support the growth. And we also benefited from favorable currency effect. Although in parallel, we had, last year, a positive OBI, which we didn't have this year.

Let me now quickly walk you through the performance of each of our business group, starting with Lamps on Page 9.

You can see the CSG, which declined by 18.4%. That's pretty similar to the previous quarters. We estimate that the overall market for conventional lighting continued to decline faster than our Lamps business in 2017, and therefore, we've been able again to gain market share in conventional lamps. Despite the decline in top line, Lamps has been able to sustain a high level of profitability at [17.3%] (corrected by company after the call). Again, that includes the negative impact of 120 basis points I mentioned earlier. And if you exclude that negative one-off impact, the margin was at 18.5%. And we're again able to offset lower sales with the savings we get from procurement, from productivity and from cost reductions.

We also booked a P&L restructuring charge in the fourth quarter of EUR 43 million, which relates to the announcement of the further downscaling of our facility in [turnout]. And the Lamps business is going to continue to collectively rationalize its manufacturing footprint as it has done for now several years.

Let me now turn to the LED business on Page 10.

The comparable sales in LED increased by 5.1%. And that's been driven by a continued double-digit volume growth, which was partly offset by lower selling prices and also stronger growth in more affordable products. The LED lamps business continued to show robust growth in the fourth quarter. And following the trend that we have seen in the third quarter, we saw a further slowdown of the growth in LED electronics due to lower demand by our OEM customers, in particular in the Americas. All the regions contributed to the growth, although some countries in Europe showed a more moderate sales growth as they had a higher LED penetration rate.

The adjusted EBITA margin decreased by 160 basis point to 10.4% in the fourth quarter. And this is due to the lower volume growth in LED electronics and also, overall, a lower fixed cost coverage, while the overall gross margin for LED remained solid.

Let's move now to the Professional business on the next page, Page 11.

As you can see, the comparable sales increased by 11.2%, and all the regions contributed to growth. Systems and Services, of course, was again the fastest growth driver in the fourth quarter. Our performance in Europe and in the rest of the world continued to be very solid. And the comparable sales trend in the U.S. has improved compared to previous quarter, as we are benefiting from all the initiatives that we have taken and also from the contribution from a large-scale project in the U.S. that we've talked about on numerous occasions.

The market conditions in Saudi, as you can see, they have remained challenging, and they still impacted negatively our comparable sales growth by 330 basis points in the fourth quarter.

From a margin standpoint, the adjusted EBITA improved by 530 basis points and reached 12.2%, and this is due to a higher level of sales, and therefore, operational leverage; the rationalization of the manufacturing footprint that we have implemented compared to last year; and also continued cost savings.

We booked, in the fourth quarter, a restructuring charge of EUR 8 million as we continued to rationalize the manufacturing footprint of our Prof business and also take actions to reduce indirect cost.

Let me now turn to the Home business on Slide 12.

A very strong growth in the fourth quarter at 37% compared to the fourth quarter of 2016. And Home was profitable for the full year, so a very strong achievement.

The growth in the fourth quarter was driven by a very strong growth in the Home Systems business and also a solid growth in Home Luminaires. We saw the demand for Philips Hue continued to increase significantly. And that's largely the result of the continued focus on innovation that we have, also, the partnership that we have, especially with makers of voice-activated smart home devices. And the performance was also enabled by the additional investment that we have made throughout the year in order to scale-up this business and support its growth.

The overall adjusted EBITA margin for the Home business improved by 680 basis points and reached 8.5% in the fourth quarter, as we had much higher sales and continued to generate procurement savings.

Let me now talk to you about our cost-reduction actions.

On Slide 13, you can show the year-on-year evolution of our adjusted indirect cost base, which was 29.1% of our sales in the fourth quarter. This is 160 basis points reduction compared to the fourth quarter of 2016. As we talk to you on a regular basis, we continued to implement all the cost-reduction initiatives that we have launched, and that has allowed us to achieve EUR 20 million savings in indirect costs. Of course, that amount is after the incremental investment that we are making to support our growth, in particular, in Home Systems.

Forex also favorably impacted our indirect cost base by EUR 22 million. And as you know, we are implementing a large-scale and multiyear number of transformation initiatives in order to simplify the organization and improve not only customer service quality, but also be more efficient, capture -- make sure we can capture the benefits from larger scale, and overall, reduce costs so that we can still invest in order to support the growth.

On the next page, you can see a bit more details about those cost-reduction initiatives.

As we've talked to you many times, the benchmark suggests that the indirect cost in the industry should range in the range of 25% to 29% of sales, and this is the goal that we have. For that, as you know, we are implementing and managing a lot of cost-reduction initiatives, and at the same time, making sure we can continue to invest.

And you can see on the right-hand side a number of those initiatives. They relate to the process optimization, footprint reduction, both in terms of industrial, but also in terms of real estate, simplification of our organizational structure, simplification of the product portfolio, continuing to optimize our sourcing strategy. There are many initiatives happening across the company, and this is what is driving the cost reduction that you saw in 2017, and there is more to come in 2018. Overall, we expect that the benefits of these initiatives will be even more visible in the second part of 2018 and in 2019.

Finally, let's spend a minute on the working capital performance in the fourth quarter of 2017.

As you can see, on a quarter-to-quarter basis, the working capital has decreased by EUR 280 million. And at the end of 2017, it amounts to EUR 557 million. This is 8% of our sales. This improvement was mainly driven by the significant reduction in our inventories and also a very good level of collection of our receivable in the fourth quarter. This high level of working capital reductions in the fourth quarter also reflects the seasonality of our business, as we have a high level of sales from September to December and a much lower level of activity in the first quarter.

On a year-on-year basis, our working capital decreased by EUR 105 million, which was mainly driven by a significantly lower level of receivable and also the benefit of favorable FX rates. Despite the sharp reduction in inventories that we had in the fourth quarter, we ended the year 2017 with inventories as a percentage of sales, which were 80 basis point above the end of 2016.

Finally, let's take a look at the net debt position on Slide #16.

You can see, compared to the end of September, our net debt level decreased by EUR 342 million, next to the profit that we generated during the quarter and also the decrease in working cap that I just mentioned. There are also a number of other elements that impacted our cash, and therefore, our debt.

Our CapEx was EUR 22 million in the quarter. We also made a positive change in our provisions of EUR 21 million because we added more provisions to our restructuring. We paid EUR 23 million for tax and interest, and there were also a number of other free cash flow items.

Finally, as you remember, we repurchased shares from our main shareholder for an amount of EUR 90 million as part of the selldown executed in November. That gives us a net debt position of EUR 367 million at the end of 2017 and a net leverage at 0.5x, which is similar to the level of the end of 2016.

Before I hand back the call to Eric, let me take the opportunity to update you on our tax situation.

The tax reform in the United States had a slight positive impact on our tax charge, as we have in the U.S. a position of net deferred tax liabilities. This was compensated by a negative impact of the tax reform in Belgium, which has lowered the tax rate and where we have a net position of direct tax assets. The net of those 2 tax reforms is quite limited overall for the company.

At the -- in 2017, our effective tax rate was 29%, and this is a significant reduction versus 2016. And in 2018, we expect the impact of the changes on the ETR to be relatively neutral. And therefore, we continue to expect the ETR to be in the high 20s, excluding the impact of any potential nonrecurring items that could happen in the year.

So that closes the review for the fourth quarter. And let me now turn to Eric for the full year.

Eric Rondolat - *Philips Lighting N.V. - Chairman of the Board of Management and CEO*

Thank you, Stephane.

I propose that we flip to Slide 18.

So overall, we achieved substantial progress and a solid performance in 2017.

Comparable sales increased by 0.5%, which is a significant improvement versus the comparable sales decline of 2.4% in full year 2016.

Total comparable LED-based sales grew by 19%, and they now represent 65% of total sales compared to 55% last year.

Our adjusted EBITA margin increased by 90 basis points to 10%, driven by significant margin improvements in LED, Professional and Home. Excluding our real estate gain in the second quarter, our adjusted EBITA margin improved by 70 basis points to 9.8%, which is in the middle of our guidance range of 50 to 100 basis points for the full year.

Our solid free cash flow was the results of lower receivables, separation costs, net CapEx and interests paid, partly offset by higher inventory.

Free cash flow reached EUR 403 million or 5.8% of sales. This included a EUR 42 million contribution to Philips Lighting pension fund in the United States and real estate proceeds of EUR 60 million that we have already talked to you about.

Let me now move to Slide 19, where we show the comparable sales growth and adjusted EBITA margin per business groups for 2016 and 2017.

So the adjusted EBITA margin in Lamps benefited from proactive rationalization of the manufacturing footprint, our productivity and procurement savings. In LED, we achieved comparable sales growth of 13.8%. Our volumes were higher due to lower selling prices and stronger growth in affordable products. The adjusted EBITA margin increased by 80 basis points to 10.2%, driven by continued operational leverage, procurement savings and innovation. And we are now already in the margin guidance range that we gave for the midterm, that we gave for 2019.

In Professional, our comparable sales increased by 4.6%, driven by robust growth in Europe and the rest of the world. Market conditions in Saudi Arabia remained challenging, impacting full year comparable sales growth by 240 basis points. The performance in the United States was impacted by soft market conditions, particularly for small- to medium-sized projects. The adjusted EBITA margin improved by 280 basis points to 8.2%, driven by operational leverage, procurement savings, cost reductions and a positive mix impact.

Let's move to Home.

Home had comparable sales growth of 26.5%, driven by sustained growth in both Home Systems and Home Luminaires, as a result of the continued focus on innovation and the investment made to scale up this business. Adjusted EBITA was positive in 2017 and amounted to 5.2% of sales, driven by operational leverage and procurement savings. Excluding the impact of a real estate gain in the second quarter, the adjusted EBITA margin was 3.1%, exceeding our objective to become breakeven for the full year.

On the next slide, Slide 20, you can find the build up of our adjusted EBITA.

What you can see on this slide is that the adjusted EBITA continued to increase, while the profit drivers are shifting. The graph shows that Lamps contribution to the adjusted EBITA is reducing and is more than compensated by the profit increase from other business groups.

In the fourth quarter of 2017, Lamps contributed 32% of the overall adjusted EBITA that was generated by the 4 business groups, while in 2016, it still accounted for 64% of adjusted EBITA.

Finally, looking at Q4 2017, it is worth noting that for the first time, Professional is our largest profit contributor.

Let me now walk you through our strategic priorities and proof points in 2017 on our next slide.

Our priority to optimize cash from conventional products to fund growth was supported by an increase of our free cash flow as a percentage of sales of Lamps of 400 basis points.

Our LED lighting share increased from 55% of total sales in 2016 to 65% in 2017. This clearly underlines our priority to innovate in LED products commercially and technologically to outgrow the market. We also continued to lead the shift to Systems and to capture adjacent value through Services business models. As a result, sales related to connected Systems and Services for consumers and also for Professional grew by 51% and represented more than EUR 900 million sales in 2017.

Sales in Professional Systems & Services amounted to around EUR 650 million, and Home Systems represented close to EUR 300 million in sales.

So we are pleased with our global leading position in connected lighting. And by the end of 2017, we had already installed 29 million connected light points.

An improvement of our customer net promoter score by 14% supports us in our ambition to be our customers' best business partner locally, leveraging our innovation capabilities, our diverse product and services offering, our strong market position and global reach.

We continue on our operational excellence improvement journey. The increase of 90 basis points of our adjusted EBITA margin is testimony to that strategic priority. We successfully managed to reduce our indirect costs base by EUR 66 million, while investing to support our growth.

Let's now take a closer look at our achievement in sustainability on the next slide.

So you may remember that we have 6 targets in sustainability. So let's review them briefly.

Sustainable revenues. 77% of our revenue was sustainable in 2017, which is a reduction of 0.6% due to a stricter 2017 definition, heading to our 2020 target of 80%. We sold 1.2 billion LED lamps cumulative from 2015, which is an improvement of 53% compared to last year, in line with our objective to deliver more than 2 billion LED lamps by 2020. We also target to be carbon neutral by 2020. We reduced our CO_2 emission by 20% in 2017. 100% of our sites should be 0 waste to landfill by 2020. In 2017, we reduced our waste to landfill by 26%. So we want to assure a safe and healthy workplace for our employees. This is extremely important for us. Our total recordable cases declined by 18% in 2017. Finally, we have achieved also a sustainable supply chain as 95% of our recent supplies had been audited, already achieving our 2020 target.

Now I propose that we move to Slide 23 to remind you of our capital allocation policy and what we have done on this front in 2017.

So as said, we delivered a solid free cash flow of EUR 403 million in 2017. This enabled us to maintain a financing structure that is compatible with an investment grade profile, reflected in a stable net leverage ratio of 0.05x.

In terms of cash uses, we paid a cash dividend of EUR 157 million in 2017. In addition, we repurchased shares for an amount of EUR 307 million by participating in share disposals by our main shareholder and to cover obligations arising from our long-term incentive performance share plan and other employee share plans. Next to this, we contributed EUR 42 million to the U.S. pension fund, which reduced our liabilities and future interest expenses. And we considered various small- to medium-sized acquisition opportunities that resulted in the acquisition of small technology bricks that complement our organic innovation.

Let's now move to the next slide to talk about our intended capital allocation in 2018.

So we are proposing to pay a cash dividend of EUR 1.25 to be paid in 2018. This represents an increase of 14% compared to 2016 and a payout ratio of 45%. We intend to repurchase shares for an amount of up to EUR 150 million in 2018 by still participating in share disposals by our main shareholder. Next to that, we intend to repurchase shares to cover obligations arising from our long-term incentive performance share plan and other employee share plans. This will leave us a capacity to continue to make acquisitions in professional luminaires, technologies for systems and service capabilities.

Let me now turn to our outlook and conclusion. So on Slide 26, you can find our outlook for 2018.

So we aim to deliver positive comparable sales growth for the full year with a soft start of the year. Next to that, we expect a further improvement of our adjusted EBITA margin to 10 to 10.5%. We continue to focus on our cost-reduction initiatives and expect to benefit from higher savings as of the second half of 2018. And in line with previous guidance, we expect a restructuring P&L charge of between 1.5% to 2% of annual sales.

Finally, we expect to generate solid free cash flow in 2018, but we know that the level will be somewhat lower than what we delivered in 2017 because we expect higher restructuring payments in 2018. These higher restructuring payments relate to initiatives to improve our cost base on the manufacturing side as well as on the indirect cost base. So the free cash flow will be lower, but we do not expect a material decrease compared to 2017.

And the last point that I think is also important to share with you regarding 2018 is that, following the deconsolidation from Royal Philips, we intend to announce our new corporate name in the first half of 2018. Needless to say that we will continue to use the Philips brand for our products as we have our brand license agreements for the coming decades.

Let's now turn to Slide 27, where we show our progress made on achieving our 2019 adjusted EBITA margin targets of 11% to 13%.

In the period 2013 to 2017, we have improved our adjusted EBITA margin by 360 basis points to 10%, which means that we are on track to achieve our midterm margin target.

Professional continues to implement its strategy focused on the development of LED luminaires sales, fast growth of Systems and Services, and the continued rationalization of its cost structure. This supports our continued ambition to increase the adjusted EBITA margin to 11% to 14% by 2019.

Our performance in LED illustrates the benefits of our strategy focused on innovation and operational leverage. This enabled us to already reach the lower end of our 2019 adjusted EBITA margin of 10% to 12%.

The strategy for Home focuses on consumer experience and innovation, leveraging our strength in connected lighting systems for the Home. This should enable Home to continue to generate double-digit sales growth and reach an adjusted EBITA margin in the range of 5% to 8% by 2019 compared to 3.1% in 2017, excluding the nonrecurring real estate gain in Q2 2017 that we have already commented to you earlier on. This also reflects the continued investments necessary to scale up our Home Systems business, where we see a very large market opportunity in the coming years.

In Lamps, finally, the performance reflects the successful implementation of our last man standing strategy to continue to extract value from the conventional business. This supports our objective to maintain an adjusted EBITA margin of at least 16% until 2019.

With that, I would like to open the call for questions. And of course, Stephane and myself are going to be happy to answer.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we have a question from Andreas Willi at JPMorgan.

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

I got 3 questions, please. The first one on the European luminaires industry and the potential consolidation opportunities. What's your view on being a driver of a potential consolidation here? The industry remains relatively fragmented. Many players are struggling. Some of them are officially for sale. Some of them maybe. So what's your view on the kind of a roll-up strategy in Professional in Europe? Second question on the LED electronics slowdown. Some of your competitors see the same. What here is just weaker demand in the lighting industry from the customers relative to commoditization, price pressure and, maybe, Asian competition, so in terms of market share in that business? If you could split that a bit. And the last question, on 2019, the 11% to 13% margin range, target range. It's a relatively large bracket. Could you maybe give some sensitivity what you assume for the economic performance and company specifics at the low end to high end of that range? Kind of what needs to happen for you to be at the 13%, which will be a material step-up in '19 over the 10% to 10.5% of '18, which looks quite ambitious?

Eric Rondolat - *Philips Lighting N.V. - Chairman of the Board of Management and CEO*

Yes. Thank you, Andreas. On the European markets, well, we've been enjoying a very strong level of performance throughout the full year of 2017. And frankly speaking, this is directly linked to the very rigorous and, in the end, successful implementation of the strategy, which is to continue to have a very granular access to the market when it comes to products with very strong established channels, while at the same time developing the capability from a quotation from a delivery and from a sales standpoint on the Systems and Services part of the business, which is growing in the vast majority of the segments that we have targeted in Europe. So as you mentioned it, we see that the market is moving with the market of Lighting, and the different competitors in our industry have been evolving in the past 4 years. We have always said that, as the market leader, we are a natural consolidator. Are we going to be actively looking at consolidating the European market? I would say, no. I don't think it's that fragmented, by the way. When you look at the 3 big geographies in the way we describe the markets in general, we can say that, probably, the Americas is the most consolidated market that we have, then would come Europe. But there where the fragmentation is more important is in Asia and the rest of the world, and this is where we have started in previous occasions to try to consolidate the market. So we are a natural consolidator. As the leader, we will not push for it, but we will see and we will study if opportunities are coming. When it comes to LED electronics, so this is something that was started a few quarters ago, but that has strongly materialized in Q4. And specifically, in Americas, and that's a big part of the business. America is a big part of the business for us in LED electronics. And we've seen from our customers there that they were planning and they were having less volume and less business, which has impacted us directly as their supplier. Now, it's very difficult to say how long this is going to last. We are not hopeful to see the trend being reversed in Q1, so we are vigilant on that part of the business and not too optimistic in the short term. And maybe I let Stephane take the third one.

Stephane Rougeot - *Philips Lighting N.V. - CFO and Member of the Board of Management*

Sure, Andreas. So on the midterm guidance, the 11% to 13%, so, well, of course, it's a little bit early to say where we think we're going to land. And it's going to depend also on a few things. So #1, you've mentioned the economic or macroeconomic conditions. Yes, for sure, they impact us. However, as you know, we have a broad presence. And therefore, when some areas are not that strong, and we've seen the case, for example, in Saudi, which impacted us quite materially for the Prof business and also overall, we are generally able to offset by better market conditions elsewhere. And for us, for example, Europe, China and also in the rest of the world, it's been pretty good. How things are going to evolve in the future? Of course, it's difficult to say, but I think this is something that is also helping us. And clearly, we are not counting on a general large positive macroeconomic environment overall. More importantly, there are things that are within our control. Our cost-reduction actions. Those one, I guess the speed at which we implement them could lead us to reach either more the bottom or more the top end of the guidance, especially taking into account the level of investments that we decide to make to support our growth. Because, of course, we save cost, and we will reduce our NMCs.

But at the same time, as you know, we invest. If we see that the potential on some areas, and I'm thinking in particular in terms of systems or in terms of Home Systems, require even more investment, we may decide to dedicate more money and that would affect also the level that we reach within the guidance, but that would be also because we see more growth opportunity. And the third element is going to be, obviously, the level of growth that we see for the company, which, of course, will help us dilute the costs. So those elements are the ones which we see will lead us towards more the bottom or the top part of the guidance.

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

So there is a sensible business case that you can have 250 bps margin improvement in '19 over '18, while doing 50 bps or 0 to 50 bps in '18 over '17. It just seems like a huge step change that you think -- that you believe is a possible outcome in '19.

Eric Rondolat - *Philips Lighting N.V. - Chairman of the Board of Management and CEO*

Yes, we do. I mean, we have a plan. We do systematically a plan over the coming 3 years. We strongly believe that a big part of the improvements of our profitability has to come from our capacity to reduce our cost base, as Stephane has mentioned. And Andreas, we have very granular plans in many different domains in order to further reduce our nonmanufacturing costs and in many, many different areas. These plans take some times, in some geographies, a bit of time to come to completion, which is why we have also stated that we would start to see the benefits of some in the second half of 2018. But this also means that they will impact full year 2019, where we expect to have quite a fair amount and a big impact of those plans. So this is why you see that step-up between the objective that we give to ourselves in 2018 versus the midterm targets in 2019.

Operator

Okay. We now go to the line of Lucie Carrier at Morgan Stanley.

Lucie Carrier - *Morgan Stanley, Research Division - VP*

I will have 3 question, I will take them one at a time. The first question I have was around the dynamics in the free cash flow, and I was wondering if you could give us a bit more granularity on the various contribution of the different businesses because your free cash flow is down in 2017 but you are mentioning that the contribution as percentage of sales for Lamps is actually significantly higher. So I'm just trying to understand how the free cash flow has evolved for the other businesses for the other division. And how should we think about that as we look into next year, considering that you may not have as well necessarily as much real estate gain than you had this year? So that was question number 1.

Stephane Rougeot - *Philips Lighting N.V. - CFO and Member of the Board of Management*

Yes, sure. So Lucie, you're right. What we've mentioned on Lamps is also partly due to real estate because we had 2 of the real estate gains, and therefore, cash impact that's related to the Lamps business, so that also explains. But it's not only due to that. Even without those impacts, still, the cash yield of the Lamp business has improved as a percentage of sales. Then the other businesses have also improved their contribution to free cash flow, and this really has been driven by the overall profit improvement, and then, more fundamentally, by the overall working capital, especially in the fourth quarter where we had a lot of actions taken. The inventories have helped to some extent. But as you saw, compared to last year, we still end up with higher inventories because now we are growing and so we need to have a higher level of inventory to support the growth. But more importantly, we've done a lot of actions to collect and reduce the receivable and reduce the overdues, and that's really impacting all the businesses because this is really driven by our markets.

Lucie Carrier - *Morgan Stanley, Research Division - VP*

Just maybe before I go to the second question for me to understand. If the contribution from Lamps has increased that significantly from real estate, but also other factors, but your free cash flow is down year-on-year, I mean, how much, really, the other businesses have improved their contribution?

Stephane Rougeot - *Philips Lighting N.V. - CFO and Member of the Board of Management*

Yes. So look, we don't provide the amounts by business. Of course, in absolute value, you -- I guess you appreciate that the Lamps' free cash flow is lower. So the comment we've made in the strategic priorities is as a percentage of sales. But the absolute value for Lamps is lower, given the magnitude of the decrease of the sales and also the profit. So yes, the other businesses, of course, have improved their free cash flow generation.

Lucie Carrier - *Morgan Stanley, Research Division - VP*

Okay, understood. The second question I had was around the Professional business in the U.S. And first of all, I remember that in the third quarter, you had delivered on that large contract but you were not able to book the sales and you had booked it in the free cash flow. So I was just wondering if in the fourth quarter, is that, that you booked 2 quarters of -- or the equivalent of 2 quarter of sales, i.e., the sales that you couldn't book in the third quarter and the sales you actually delivered on the fourth quarter. And so I was wondering how much -- if you could maybe give us a bit more information on how much that U.S. contract, large contract has been kind of contributing to the momentum? And of course, as you are looking at the trend in LED electronics, which are typically a leading indicator for the Luminaire business, how you are thinking about that generally?

Stephane Rougeot - *Philips Lighting N.V. - CFO and Member of the Board of Management*

Yes. So on the large-scale contract, it doesn't exactly work that way because we don't really generate on these type of contract, like, quarterly revenues. What has happened, as you understood, is that there's been a change of title that happened in the fourth quarter, and that was the triggering element from an accounting standpoint that allows to do the revenue recognition. And we thought it would happen earlier, but it happened only in the fourth quarter. So we were able to book all the revenues related to that project in the fourth quarter. As you know, we had already delivered most of the products towards the end of September, and we had started to collect -- to invoice and also to collect the money. On the impact of that large-scale project, I think that's something that we have mentioned in the call. When you look at the Prof CSG performance and when you look at the Prof adjusted EBITA increase compared to the fourth quarter of 2016, we've said that the vast majority of those improvements are not related to that large-scale project. So yes, it has made a contribution, but the vast majority has been done outside of that large-scale project.

Lucie Carrier - *Morgan Stanley, Research Division - VP*

And my question around the outlook for kind of North American Luminaires or more generally in light of what you indicated for LED electronics?

Eric Rondolat - *Philips Lighting N.V. - Chairman of the Board of Management and CEO*

Well, we've seen and we indicated that the market softness started at the back end of 2016, it continued in 2017. As I was saying answering to a previous question, we are not too optimistic for the beginning of 2018. Those signs of softness are remaining at this point in time. Now directionally, we are optimistic. We think that there should be -- that there are positive signs when it comes to the U.S. economy. I think we are well positioned. We believe that even if the market has been probably less dynamic in the past quarters, that we are not losing market share in U.S., so -- which is a good position to be. So the efforts that we've done all along the years are paying off, and we believe that we're going to grasp the opportunity that are arising in that region in the coming quarters.

Lucie Carrier - *Morgan Stanley, Research Division - VP*

And my last question was around the underlying kind of profitability. It seems you have about EUR 40 million of provision release this year, I was wondering how much of this provision release were kind of benefiting the adjusted EBITA this year, and whether -- maybe because the provisioning at your parent company back in the days was maybe too conservative, whether you expect a further release kind of going forward at this stage.

Stephane Rougeot - *Philips Lighting N.V. - CFO and Member of the Board of Management*

Yes. Well, that's a good point. Well, it has nothing to do with adjusted EBITA because those provision releases are related to restructuring. So as we book restructuring provision, then when we use and cash out to pay for the restructuring, then we reduce the provision. The restructuring is booked outside of the adjusted EBITA so there is no such impact, and therefore, the adjusted EBITA doesn't benefit from those releases of provision. And again, I don't know, the comment on the previous provision, I guess, is probably not relevant. We just provision what we have to do, and when it's released, it's released. But...

Lucie Carrier - *Morgan Stanley, Research Division - VP*

Okay. So none of them have benefited adjusted EBITA?

Stephane Rougeot - *Philips Lighting N.V. - CFO and Member of the Board of Management*

No, no.

Stephane Rougeot - *Philips Lighting N.V. - CFO and Member of the Board of Management*

It's discussed (inaudible) in that release. Yes.

Operator

David Vos of Barclays. (Operator Instructions)

David Vos - *Barclays PLC, Research Division - Analyst*

One question I'll ask is on free cash flow. There's clearly been a few one-offs or nonrepeating items in 2017, and I suspect there will be again some in 2018. Just so that we're all at the same level, could you just run through what was unusual in 2017? And then also help us understand what happened -- what will happen in 2018 on those unusual items alone so we can sort of construct a like-for-like bridge between 2017 and 2018.

Stephane Rougeot - *Philips Lighting N.V. - CFO and Member of the Board of Management*

Yes. Sure, David. Let me try to clarify this a little bit for you. So when you look at 2017, what we've indicated is that we benefited in 2017 from proceeds of real estate sales. The overall amount is around EUR 60 million that benefited the free cash flow. In 2018, it's a little bit difficult to predict. We probably will still have some of -- some real estate proceeds, but we don't anticipate it's going to be for the same magnitude.

Number two, U.S. pension. As you know, we contributed an additional EUR 42 million to reduce the U.S. pension deficit in 2017, and we intend to do the same in 2009 -- sorry, in 2018.

Finally, restructuring, which we called out in the outlook. We spend every year a relatively meaningful amount of -- we take a charge, and then we spend in terms of cash a meaningful amount with respect to restructuring. And we indicated at the time of the IPO that the restructuring P&L

charge until 2019 would be in the range of 1.5% to 2% of sales because this is the period of time where we have a significant downscaling of our Lamps manufacturing footprint. And then after that, it would go down between 0.5% to 1% of sales. This is the P&L impact. Of course, the cash-out is never happening exactly at the same time as the time where we book the restructuring. And for example, here in 2018, we expect, and we don't know yet exactly what's going to be the amount, but we expect the amount to be higher than what we have spent in our free cash flow in 2017. And that's why we've called that out to explain why the free cash flow for the year 2018 will be somewhat lower than what we had in 2017. Again, we don't expect a material decrease, but we expect it's going to be a little bit lower.

David Vos - *Barclays PLC, Research Division - Analyst*

Okay. That's quite helpful already. I was just wondering if we could scale some of your more qualitative comments there. What does not materially lower exactly mean? And what is restructuring that is somewhat higher? Are we talking about EUR 10 million to EUR 15 million? Or is it more in the EUR 50 million to EUR 100 million range? And also perhaps as the follow-up that I might ask straight off, by how much would you say is your working capital at the end of 2017 still elevated versus where you would expect it on a normalized basis?

Stephane Rougeot - *Philips Lighting N.V. - CFO and Member of the Board of Management*

Yes. So we're not going to give a quantitative and specific guidance on the free cash flow, so we've tried to give a sense of how we see the free cash flow evolving in 2018. And of course then, we will see how things go during the year. When it comes to working cap, 8% at the end of the year is lower than at the end of 2016 overall. Of course, there was also a benefit from the FX evolution in the fourth quarter, which helped the working cap, and to some extent the sales, but the sales were on the full year. So that's relatively low. We think that we can further improve the inventory, which have gone up during the year. And although, we've reduced them in the fourth quarter, it's still a bit on the high side, so we think we have opportunities there. Then on the collection side, we've done a lot of work and quite an improvement there, especially on the overdues. We believe there are still opportunities. So we believe, overall, working cap is still something where we can extract and do better now as we grow, and I think we've indicated that several times. The working cap, which was releasing a lot of cash until 2016, is not an area where we're going to be able to release cash because, again, we are growing and that consumed some cash, and that's going to happen especially as we continue to grow. Now again, we are working on each and every item to see how we can limit that and still find ways to optimize.

Operator

We are now over to the line of Martin Wilkie at Citi.

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

It's Martin at Citi. Just coming back to the differing fortunes of electronics versus the Professional business. Obviously, you flagged the slowdown in OEM sales in Electronics, but if I listened to you correctly, in Professional, it doesn't sound like you think you're gaining share in the Professional business. And again, it doesn't sound like your strong revenue growth in Professional is exclusively driven by these large projects. So I'm wondering why your Professional growth is seemingly so much better than other OEMs and what your electronics business might point to. Just so we can understand, is that a product mix? Is that a regional mix? Just a little bit as to why you seem to be different than some of your peers if you don't think you're taking share.

Eric Rondolat - *Philips Lighting N.V. - Chairman of the Board of Management and CEO*

I don't remember having said that we're not taking share. I think we believe that we do take share in that business. So what are the different ingredients? I think that on one part of the business, which is the product side, we have extensively reviewed our portfolio, and not only moving to LED but also moving to products that have a connect-ready feature in themselves. And this is a trend that we have stepped on a few quarters ago and that we're going to continue to pursue in the future. So that's on the product side. There, where we -- I think I'm making a difference at this point in time is on the connected systems and services which require, first, a strong innovation capability, and we are doing that organically.

We didn't acquire major technological bricks. We acquire small technological bricks for systems that complement what we are doing. So we were quite fast and very focused on developing not only the light source, not only the fixture, not only the control elements and the software that are building our architecture, but we did all that seamlessly. So if you look at the portfolio of Philips Lighting today, yes, you will find products, you will find, also, connected products, but you will find full architectures from the light source up to the software by customer segments that are very dedicated and plug-and-play installable, and that's a very clear differentiation. So we very often talk about CityTouch, but CityTouch is not only a software. It's software, it is a control device, connector nodes and very specific outdoor lighting fixtures that are completely and seamlessly integrated in the architecture. And I could tell you that we do the same in retail. We do the same in hospitality. We do the same in industry. We do the same in offices. So we have been, over the years, building up these capabilities and these technologies. But that's not all. You need to have salesforce that can sell it. And we have created enduser sales forces in all the countries where we operate, while at the same time, you need also to have entities that can quote and then deliver, and these are the same systems centers that we've talked about. We have 8 of those all over the world. So that investment was done ahead of the development of the business, which had also materially impacted the cost of that business in the past years. But I think that we are now reaping on what we have sown. That's to answer the part of the question linked to the Professional business. Now when it comes to LED electronics, which is basically the drivers and the LED modules, yes, we're seeing, and that's also a reflection of the performance of other manufacturers in the industry, a slowdown, and it has impacted our business as a supplier while that business is also growing internally when we consume for our own use drivers and electronics.

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

That's helpful. And just to clarify one point there, it sounds like from an R&D perspective or an investment perspective in terms of these connected lightings, you've already had the step-up in spending there and you're now benefiting from it. Is that the right conclusion? That we shouldn't see a big incremental step-up in terms of R&D or things like that for these features because you're already investing in them? Just to understand sort of the R&D profile.

Eric Rondolat - *Philips Lighting N.V. - Chairman of the Board of Management and CEO*

Yes, you're absolutely right. We will not see a step-up. We'll continue to invest, but we will not see a step-up because we've done that already.

Operator

We now go to the line of Peter Olofsen at Kepler Cheuvreux.

Peter Olofsen - *Kepler Cheuvreux, Research Division - Analyst*

First question on Home, and then a follow up on free cash flow.

Operator

Sorry, could you please speak a little louder please, sir? We can hardly hear you.

Peter Olofsen - *Kepler Cheuvreux, Research Division - Analyst*

Yes. I had a question first on the Home. You're looking for 5% to 8% margin by 2019. Looking out a little bit longer-term, how would you look at margins in this segment relative to the LED segment, given that, well, there's probably a higher level of differentiation than in standard LED bulbs? So would you expect margins in Home to eventually meet or even exceed LED segment margins? And then on the free cash flow, specifically on the seasonality, in 2017, we saw a meaningful increase in working capital in Q2 and Q3 and then a reversal in Q4. Will you see a similar pattern in 2018?

Eric Rondolat - *Philips Lighting N.V. - Chairman of the Board of Management and CEO*

Okay. Peter, I will take the first question and Stephane will take the second one. On Home, so when we look at the performance of the business, netting the impact of real estate, it's 3.1% at the end of 2017. 5% to 8% is a substantial improvement in the midterm, which is 2019, taking into account that we believe, as Stephane has said it, that, that business has a fabulous potential ahead and that we are going to continue to invest, as we have done in the past years. We strongly believe that, that business needs an investment from a marketing standpoint internally, but also externally to pull the market. Now are we going to stay there? We're not going to stay there. And we believe that there is a potential forward, and we will give clear indication when time comes.

Stephane Rougeot - *Philips Lighting N.V. - CFO and Member of the Board of Management*

Yes. And Peter, on your question on seasonality, this is something which we are working on because we are trying, and we would like to smoothen the variation of working cap. 2017 was a little bit particular because, as I mentioned I think in the third quarter call, it was a year where we shifted from decline to growth. And of course, the management of inventory when you go through those changes is a bit more complicated, and that has led us at the end of Q2 and at the end of Q3, especially on LED and also on Home Systems, to have higher inventories than what we believe we should have had. So we've worked on it. We've told you at the -- in October, during the call, that in Q4, we would take action. We've done that, and we are fine now. For 2018, yes, for sure, we would like to avoid or limit those variations. There's still going to be seasonality because as you see from the numbers, Q3 and especially Q4 in absolute value are the highest quarters in terms of sales. So by definition, the level inventory at the end of June and also at the end of September is higher. Now yes, we're going to manage this in a way where the magnitude of the changes at the end of Q2 and at the end of Q3 are going to be more limited than what we had in 2017.

Operator

Right. We're now over to the line of Daniela Costa at Goldman Sachs.

Daniela Costa - *Goldman Sachs Group Inc., Research Division - MD*

I actually have only one question left now. But you've mentioned at the IPO time that you were short a dollar and short a renminbi, and that especially the shorter dollar would get more significant as LED penetration progressed. Can you help us sort of quantify what we should see from that in 2018, given the movement we have seen in those currencies, which has been pretty significant?

Stephane Rougeot - *Philips Lighting N.V. - CFO and Member of the Board of Management*

Yes. Daniela, so yes, you're right, we are short in dollar and especially short in renminbi. Actually, the shift to LED leads to an increase of short to renminbi, not to dollar because we source in China. And as we go more towards LED and Home System, there is more outsource rather than internally produced. So it's really more renminbi than dollar. For 2018, well, for sure, it's extremely difficult to anticipate. The rates, given what they are today, yes, if the rates stay exactly where they are today, clearly, the impact on sales is negative, and that would affect our nominal sales. But we know that from the cost of goods sold, and also, to some extent, the rest of our cost structure would benefit from those rates. Now we have no idea how things will evolve during -- up to 2018, especially for the dollar and for the renminbi. So it's frankly way too early to give any indication here.

Daniela Costa - *Goldman Sachs Group Inc., Research Division - MD*

But just to clarify on your comment that you are short those currencies. So on an EBIT bridge impact, we should see a positive amount if currencies stay where they are. Is that fair to say?

Stephane Rougeot - *Philips Lighting N.V. - CFO and Member of the Board of Management*

Well, probably, yes, with a small positive impact.

Operator

We are now over to the line of Sven Weier at UBS.

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

The first question is just on the one-off effect you mentioned for the Lamps business, which I think haven't really fully understood yet. Does it mean that the Q1 to Q3 performance was overstated on the margin? And what was the -- was there any group margin impact from that?

Stephane Rougeot - *Philips Lighting N.V. - CFO and Member of the Board of Management*

Yes. So let me clarify that one. So UICP is the way we value, internally, the inventories when they are transferred from factories to the market, and so we need to eliminate the profit inside these inventories. That has always been done. But in the fourth quarter, we reviewed the methodology and the estimate in order to harmonize it with the same way between the various business groups so that it will simplify the way it's done, and that has led to a small impact. So if you look at group level, the impact is overall EUR 5 million, so it's extremely limited. And when you look at the contribution to each business group, it's pretty minimal. The only one for which there is a little bit of an impact is the Lamp business, as we highlighted, which is negative by about EUR 5 million. And then the other ones are positive by EUR 1 million or EUR 2 million, so it's pretty minimal. On the Lamp business, to your question around Q1 to Q3, this is really a one-off reevaluation of the provision on inventory. It happened to take place in Q4. It could have taken place in Q3 or in Q2. It doesn't change the profitability of the business, it's just the impact of that provision on inventory and the way it was valued. So it happened in Q4, has a one-off impact in Q4, doesn't change the profitability for the past, of course, and doesn't change the profitability moving forward.

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

Understood. And then maybe a follow-up question. When you said you expect a soft start to the year, does that refer to the usual seasonal slowness? Or do you also expect a softer year-on-year start in Q1?

Eric Rondolat - *Philips Lighting N.V. - Chairman of the Board of Management and CEO*

Well, when we look at year-on-year, we have a strong base in Q1 2016, so let me explain business by business. When you look at Lamps, Q1 was the lowest decline rate in 2016 for the full year. LED was the strongest growth quarter in 2016. While we still expect in 2017 for LED to -- at least in Q1, still a soft market when it comes to LED electronics. We haven't talked too much about it, but on the LED lamps side of the business, we have seen a very solid double-digit growth, which was expected all throughout the year, and we see that also continuing in the first part of 2018. Now we expect Professional to continue to perform. And when it comes to Home, we have to remember also that Home in Q1 last year, this is when we realized that the year could be better than what we had planned for. We had a lot of demand from customers. This is when we decided to invest to increase our production capacity. But in Q1, we had basically to empty our inventories and had a fairly strong Q1 in Home. At the same time, Home growing, but with a lower proportion, as participation to the overall portfolio has less impact on the overall growth of the company. So in our projections and in the forecast that we have done in the whole company that were done in January, yes, we see a soft Q1 for all business.

Operator

We'll now go to the line of Alexander Virgo at Bank of America Merrill Lynch.

Alexander Virgo - *BofA Merrill Lynch, Research Division - Director*

I guess one just to finish off then. The growth in Professional ex Saudi looks like it was 14%. And I guess the question is really just how sustainable or sort of normalized level we should expect that to be in light of the comments you just made, notwithstanding your comparatives, et cetera, as you move through the year. 14 is a very good number, I wonder if you can shed a little bit more light on how that should progress through the year.

Eric Rondolat - *Philips Lighting N.V. - Chairman of the Board of Management and CEO*

I think, effectively, it's a good number. It's a very high number. We don't see that as a normalized growth level. What we said -- we said at the end of the midterm period that we would see that business growing slightly above market rate. So if we gauge that the market growth is between 3% to 4%, 3% to 5%, we see ourselves growing slightly above that. That would be in our view, given the size of the business at this point in time, the penetration of LED already, what we see as a normalized rate. Now what is interesting and important in that business, we've given you the information, as we do at the end of every year, of how much systems and services is accounting for. So it's EUR 650 million for Professional, growing at strong double-digit rate, and that has also to be taken into account in your modelization of the business.

Alexander Virgo - *BofA Merrill Lynch, Research Division - Director*

That was very helpful. But presumably, that business is high margin as well, is it?

Eric Rondolat - *Philips Lighting N.V. - Chairman of the Board of Management and CEO*

It's high gross margin, absolutely. Yes.

Operator

The penultimate question for today is from the line of Marc Hesselink of ABN AMRO.

Marc Hesselink - *ABN AMRO Bank N.V., Research Division - Analyst*

My question is on the guidance for organic growth, positive comparable sales growth. Can you talk about the differences between the divisions? I think conventional is pretty stable over the year, but I think we saw a strong decline in the organic growth in LED Lamps. Professional, a strong increase; and also -- and Home saw increase. So how do you see those different categories adding up to the comparable sales growth for the group?

Eric Rondolat - *Philips Lighting N.V. - Chairman of the Board of Management and CEO*

So we still expect a decline of the conventional part of the business. We gave at the time of the IPO a guidance between a 15% to 20% decline. We believe that we should be, again, in 2018, in the higher part of that range for Lamps. We still see growth for LED. So if we try to disconnect from what we've seen recently happening on the LED electronics part of the business, we have been enjoying a strong double-digit growth in the LED Lamps part of that business. We believe also that when we see that in a lot of countries, we are selling already more LED lamps than conventional lamps. Gradually, the growth of the LED lamps are going to be closer to the market growth rate, which is mid-single-digit type of growth. So we still see growth for LED in 2018, but somewhat lower in aggregate than what we have seen in 2017, while at the same time, that business becomes quite big also because we're close to reaching EUR 2 billion. So we already talked about Professional in the previous question, and we still see Home growing a healthy double digit in 2018.

Marc Hesselink - *ABN AMRO Bank N.V., Research Division - Analyst*

Okay. And my follow-up question is on -- you were helped by the big contracts, is that -- what do you see in your sales funnel, your expectation there? Are there those kind of big contracts upcoming for this year? Or maybe that visibility is even longer than this year?

Eric Rondolat - *Philips Lighting N.V. - Chairman of the Board of Management and CEO*

Well, it's a very dynamic funnel that we're managing. And we are effectively, at this point in time, looking at different opportunities of pretty sizable contract now that need to come to completion. Those big contracts are always a little bit long when it comes to the commercial incubation and for the customers to make up a final decision. Then when the decision is made, we have to deliver quite quickly. So look, we will inform in due time whenever we think that there are such type of contracts that we need to flag out to you. We don't do it on a -- every time because we are gaining contracts every day, so we don't always flag it. But we do it when we believe that the size is substantial and that it needs to be taken into account by you guys.

Operator

Ultimate question for today is from the line of Alok Katre at Société Générale.

Alok Katre - *Societe Generale Cross Asset Research - Equity Analyst*

I have two follow-ups, actually. One, there's been a lot of talk about BG Professional in the U.S. Now could you just confirm, a, what the contribution from the large project was in 4Q? And is there anything remaining in first quarter? I guess not. But I mean, are we talking 3 or 4 percentage points to Professional growth? That's part 1. Second, did you see any positive growth in the U.S., given what we've heard from some of your peers? Number 3, are you following the tax reforms? Are you seeing greater visibility from customers in terms of their willingness to restart small projects, say, even in like 4 to 6 months' time? Of course, it helps your Component business as well at some point? So that's my first sort of follow-up, 3-part. Second, it's interesting to sort of see that the Component business is now already close to 1/3 -- sorry, systems and services business is now already close to 1/3 of your Professional division. I think the 29 million light point figure that you gave would suggest something like a 10 percentage point unit growth versus 2016. I just wondered how we should think about the sales side. I mean, are we seeing more complex installations? And therefore, should we be thinking about accelerating sales growth versus what we've seen so far? And is this really the differentiator for Philips Lighting's Professional business going forward across the world?

Eric Rondolat - *Philips Lighting N.V. - Chairman of the Board of Management and CEO*

Thanks a lot. So many different questions there. When it comes to BG Prof in the U.S., so we're not going to give the size of the large-scale project that we are talking about. It's impacted positively the numbers for Americas, as you can see, in Q4. But apart from that, we believe that we are performing at market. So we have been, in the past years, working a lot on our performance for BG Prof in the Americas, and we believe that this is clearly paying off. When it comes specifically about this large-scale project, there will be another invoice to come whenever the commissioning of the project is being done, but we don't know when that is going to take place. It's a much lower number than the first recognition of that project that we did in Q4. We believe that the tax cut in U.S. are going to probably provide some additional dynamics in the market, and we will do our best to capture it whenever it comes.

Systems and services, we've always said that this will be a new profit pool for Philips Lighting. Now I never discount the product side of the business, and you need to understand that we are extremely focused also on the product side of the business where we are bringing innovations to the market. We are bringing also a connect-ready products to the market. And we think that we're going to enjoy also growth on that front, so it's not only about systems and services. Now it's very true that systems and services are -- is providing a great growth opportunity, as we had said it. If you look at strategically the lighting industry, we believe that there are 4 transitions. The first one is to move to LED, this one is well engaged. The second one is to move to systems, and this one has started but there's still fabulous potential ahead. We're talking about 29 million light points that we have connected, but there are 26 billion light points on the planet at this point in time. So yes, it's growing, it's profitable, and we think that there's fabulous business ahead. The third part of the transformation is services, which is just starting at this point in time. And then moving forward, in 5 to 10 years from now, we'll talk about light as a language. So as you can see, we see a fabulous potential ahead. But it's true that at this point in time, our systems and services is at the center of the big growth that we enjoy and we still believe we're going to enjoy in the coming quarters.

Operator

Okay. As that was the ultimate question on today's call, gentlemen, can I please pass it back to you for any closing comments at this stage?

Robin Jansen - *Philips Lighting N.V. - Head of Investor Relations*

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

Operator

This now concludes the call. So thank you all very much for attending, and you may now disconnect.
