



AGM 2020 – May 19, 2020

Presentation by CEO Eric Rondolat

Ladies and Gentlemen, I propose we start by looking back on 2019 to see the progress we made in improving our business, developing new innovations, and in making our company even more sustainable.

Overall, 2019 was a year of strengthening our industry leadership amid economic challenges. We increased our LED-based sales to 78 percent, compared to 71 percent in Q4 2018, and increased our connected light points to 56 million, compared to 44 million in Q4 2019.

While our top-line declined by 4.6 percent on a comparable basis, we increased our comparable LED-based sales by 1.4 percent.

We lowered our indirect cost base by 125 million euros as a result of continued rigorous implementation of cost reduction initiatives, thus improving our operational profitability by 30 basis points to 10.4 percent. We had a free cash flow of EUR 529 million, the highest level since our IPO.

Our acquisitions in 2019 illustrate our focus on strategic growth areas and attractive markets. The acquisitions of Cooper Lighting Solutions, Klite, WiZ, Once & iLox are strategically sound moves that contribute to differentiating us structurally, while enhancing our ability to serve our customers.

In 2019 we were ahead of our sustainability targets, keeping us on track to achieving carbon neutrality this year.

Indeed in 2019, we've made significant progress towards achieving the goals of our Brighter Lives, Better World program.

On the revenue side: we achieved 82.5 percent of sustainable revenue, ahead of our 2020 target of 80 percent.

On the operations side: we already source 94 percent of consumed electricity from renewables and are carbon neutral in 15 out of our 19 markets. Our supply chain is 99 percent sustainable – well ahead of our 2020 target of 90 percent. 90 percent of our industrial waste is recycled.

Our 2019 sustainability results have also been recognized externally. Notably as the Industry Leader in the 'Electrical Components and Equipment' category of the Dow Jones Sustainability Index for three straight years in 2017, 18 and 19..

We've also been on the A list of the Carbon Disclosure Project ever since our IPO in 2016.

We continue to execute and made substantial progress on our seven strategic priorities.

We increased the share of LED lighting in our portfolio from 71 percent to 78 percent of total sales.



We continued to drive systems growth, increasing the number of connected light points by more than 25 percent to 56 million at the end of the year.

We further enhanced our Interact Indoor Navigation and launched Interact Smart Workspaces and Interact Asset Tracking, in order to build our data-enabled services offering.

Our acquisitions in 2019 illustrate our focus on strategic growth areas and attractive markets.

By acquiring a majority stake in Klite, we secured an independent supply chain in China and strengthened our position in the fast-growing private and branded label segments.

And, with the acquisition of Cooper Lighting, completed in March 2020, we strengthened our position in the attractive North American lighting market.

We have maintained a strong free cash flow of conventional Lamps, at 19 percent of sales.

We continued to digitalize and improve our commercial and supply chain processes, improving our average Delivery Reliability to our customer by 160 basis points.

And lastly, we improved our operational excellence, with our Adjusted EBITA margin improving by 30 basis points to 10.4 percent.

Let me now describe our overall positioning at the end of 2019. We are the world leader in connected, LED and conventional lighting. By providing light sources, luminaires, systems and services we occupy a unique position on the value chain in the lighting industry. We achieved 6.2 billion euros of sales in 2019 and reinvested 4.5 percent of that in R&D.

We're continuously transforming our business while maintaining our position as the world leader in a lighting industry that is moving towards digital applications. In 2012, we generated just 22 percent of our sales through LEDs, by the end of 2019 we increased this to 78 percent, with a growing number of those being connected light points.

And while in 2012 our Adjusted EBITA margin was 4.7 percent, we've improved this by 570 basis points to 10.4 percent in 2019, showing consistent year-on-year growth.

Let me now take you through our performance in the first three months of this year: we increased the installed base of connected light points by another 4 million to 60 million.

Strong management of price and significant cost savings in order to compensate for top-line reduction, allowed us to decrease our adjusted indirect cost base by 56 million euro, a reduction of 11.1 percent.

These results are reflected in our Adjusted EBITA margin, which improved by 10 basis points to 7.9 percent, with a neutral effect from currencies and despite a 15.3 percent decline in comparable sales growth.

We generated a free cash flow of 112 million euro, which was 57 million euro higher than last year, through a rigorous management of working capital.



And on March 2 we completed the acquisition of Cooper Lighting Solutions. The integration is well underway and our teams are on track to achieving synergies.

We acquired Cooper Lighting for 1.4 billion US dollars on a cash and debt-free basis.

This acquisition strengthens our position in the attractive North American lighting market, with increased innovation power and more competitive offerings.

Cooper Lighting generated 1.4 billion euros of sales in 2019, of which 84 percent were LED-based, and an adjusted EBITA of 150 million euros.

This major acquisition improves our business mix, with our Professional revenues increasing from 43 percent to 53 percent of total sales, based on 2019 figures.

And in April, we successfully accessed the Eurobond market to refinance the bridge loan we obtained for this acquisition.

Facing the Covid-19 pandemic, we were very early in decision-making, fast in execution and protected the physical health and economic welfare of our human capital.

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.

While our global manufacturing capacity has been impacted, our early and quick response has helped to restore our capacity to above 80% during Q1.

We have also implemented a broad range of mitigating actions to preserve our profitability and cash flow. These measures include savings in, among others, selling expenses, travel costs and procurement costs. We have also taken a range of actions to protect our cash flow, including rigorous working capital management, curtailing uncommitted and nonessential capital expenditures, and withdrawing the dividend proposal.

At the same time, our liquidity remains strong with a cash position of EUR 924 million at the end of the first quarter.

And we also support local partners and communities by providing protective equipment such as hand sanitizers, masks and temperature measurement tools, as well as supplying lights in hospitals in Wuhan and Spain. In Uganda, we provided solar lighting to 20 health centers. Wherever we can, we help.

We're also increasing production of lamps with UV-C radiation for sterilization and disinfection and exploring if and how we can accelerate the adoption of this technology.

Now moving to the 2020 outlook...



Considering the uncertainty about the future course of the pandemic, and the length and depth of the impact on the global economy, we are not providing financial guidance at this time.

In line with our strategy we are investing in six platforms for growth.

First, Professional systems. Signify's Interact platforms are designed to control and handle the data collected from a large network of light points.

As an example, Interact City remotely monitors and controls all city lights, from one single dashboard. The sensing functions, like motion/presence detection, tilt, vibration, ambient temperature and noise, can be remotely configured and the data generated transported back to the software platform. To date, Signify has completed over 2,000 road and street lighting projects in 58 countries.

The market for smart home lighting systems is expanding rapidly.

Our highlights in 2019 include the launch of Philips Hue with Bluetooth, enabling direct light control from a smart device without the need for a bridge, and providing consumers with an easy entry into the smart home lighting market.

We introduced the Philips Hue Play HDMI Sync Box, providing an easy way to synchronize all digital content with up to ten Philips Hue lights. It is compatible with movies, TV shows and games, and complements screen action in the living room.

In 2020 and beyond, we will continue to focus on retaining our market leadership position and expanding the reach, breadth and richness of the Philips Hue offering.

Agriculture lighting is another expanding business that we are very excited about as it is a concrete response to the need to help feed a growing world population.

It includes first horticulture lighting which enables plant growth all year round with better predictability, quality and yield. Growers benefit from market-leading products and more than 150 light recipes. In 2019 we signed an agreement with AppHarvest in the US to outfit their 25 hectare greenhouse in Morehead, Kentucky.

It also includes Animal Lighting, which contributes to sustainable animal farming methods leading to healthier animals and enhanced production for the farmer. We are proud of becoming the main provider for aquaculture LED lighting for Australis Seafoods, supporting them to achieve sustainable marine-based fish farming in Chile.

Now onto solar.

We introduced hybrid solar/grid systems that have huge potential for countries with seasonal sunshine.



In 2019 the Solar business expanded to new markets in Europe, Latin America and the Pacific in addition to our established markets in Asia and Africa.

We expect to see this number rise, as the market for solar is expected to grow by more than 20 percent per year until 2024.

We also launched our 3D printing business.

The material in typical 3D printed luminaires has a 47 percent lower carbon footprint and it can be reused or recycled, supporting the concept of a circular economy.

On top of that, 3D printing provides customers with unprecedented levels of flexibility, allowing them to choose and tailor existing designs, bringing their ideas to life in a matter of days rather than months.

In the last two years we have printed around a quarter of a million luminaires. We are the only company capable of doing this on an industrial scale.

And, last but not least, LiFi.

LiFi lets users make a two-way wireless connection, using light instead of radio waves. In 2019, we launched Trulifi: the world's fastest commercial LiFi systems that provide highly reliable and secure high-speed wireless communication.

There are already more than 100 pilots worldwide using Trulifi. Our partnerships include key Internet service providers and agreements to provide LiFi in airplanes in 2021. We have realized the first installs in hotels, industry and military applications.

This illustrates the large potential of this novel technology and the leadership position that we hold.

In closing, I extend my thanks, on behalf of the Board of Management and the Leadership Team, to all our employees, for their commitment and dedication, especially in these extraordinary times. And we thank our customers, for their continued trust, and for whom we do this work.

And finally, we thank our shareholders for the confidence and support they've demonstrated in our business and our strategy, especially as we navigate this unprecedented pandemic.

As we move on, we are continuing to progress on our transformation, and will continue to unlock the extraordinary potential of light for brighter lives and a better world.

Thank you.