



# Philips Lighting Analyst Meet & Greet session 2017

September 20, 2017

**PHILIPS** Lighting

# Agenda

**Welcome by Robin Jansen**

Business overview by Eric Rondolat

Financial outlook by Stéphane Rougeot

Wrap-up and key takeaways by Eric Rondolat

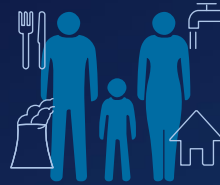
Q&A



# Our world is changing: Global trends shaping our business



**Population growth & urbanization** → more light



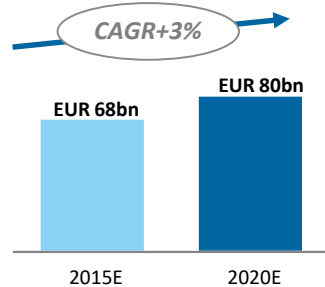
**Resource challenges** → more energy-efficient light



**Digitization** → new applications beyond illumination

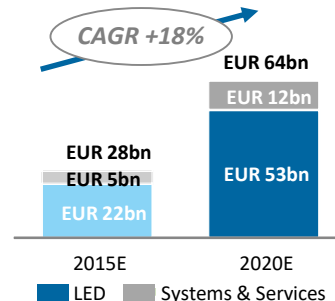
## Market Sales 2015-20E (EUR billions)

### Total General Lighting Market



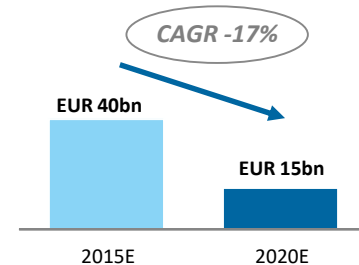
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### LED<sup>1</sup>, Systems<sup>2</sup> & Services<sup>3</sup>

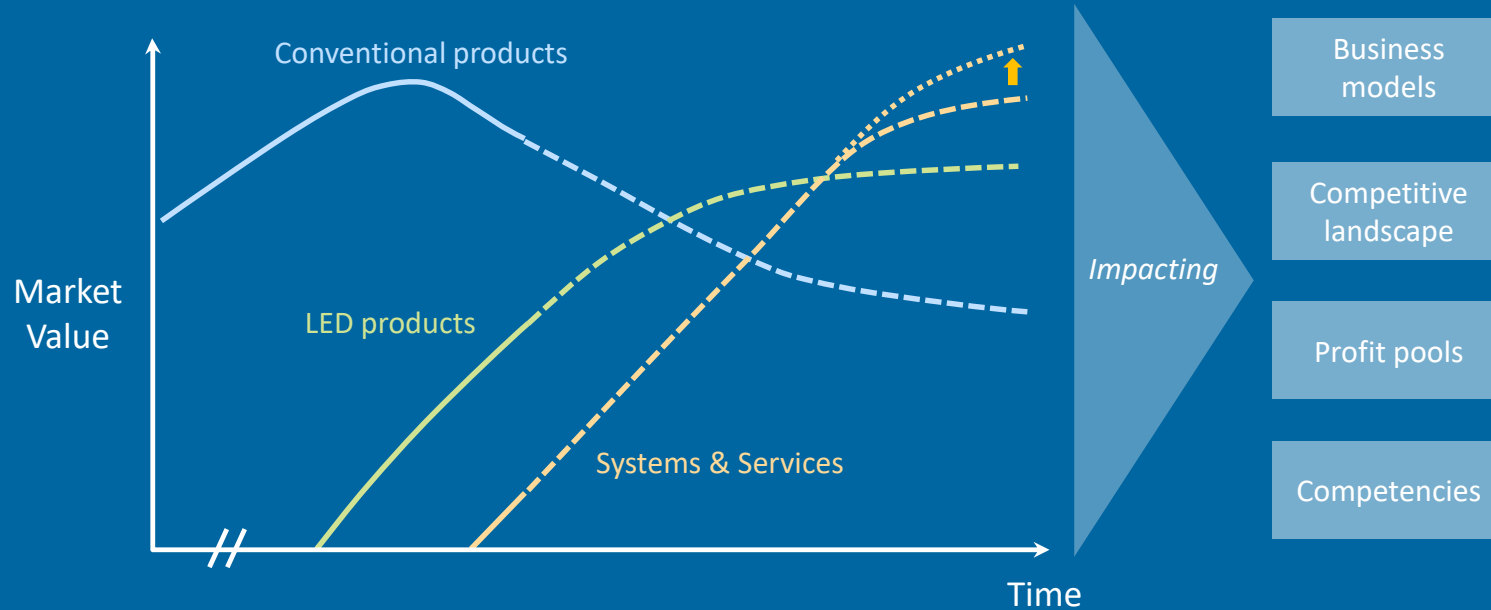


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### Conventional<sup>1</sup>



# Our industry is undergoing a double transition, creating new opportunities

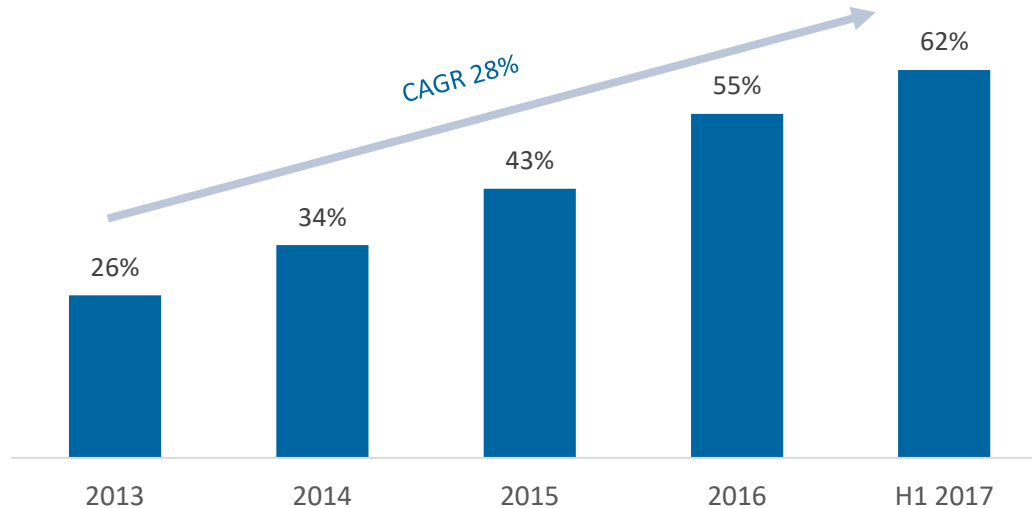


From conventional to LED, and then to connected lighting

We have rapidly built a world-leading position in LED across our lamps, electronics, and luminaires businesses for Professional and Home

### Development of total LED sales

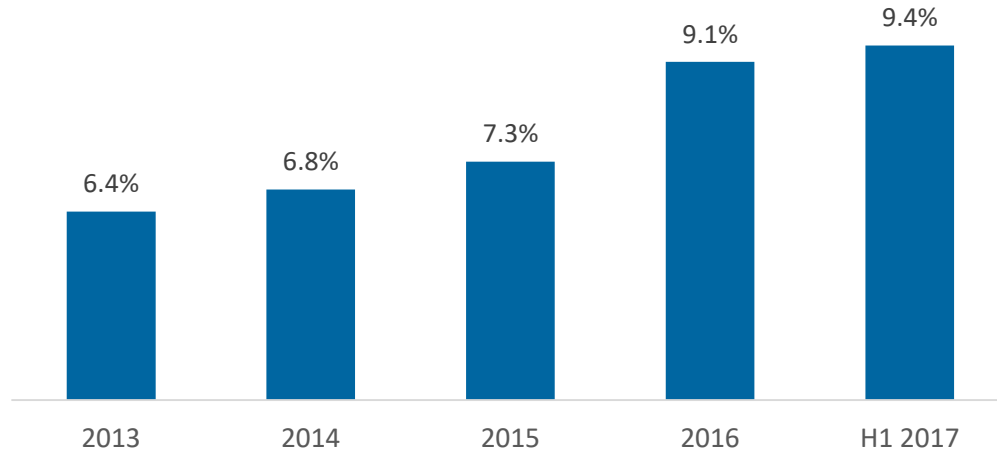
(as a % of total sales)



Profitability has been consistently improving during the transition, increasing by nearly 50% in three years

**Development of Adjusted EBITA margin**  
(as a % of total sales)

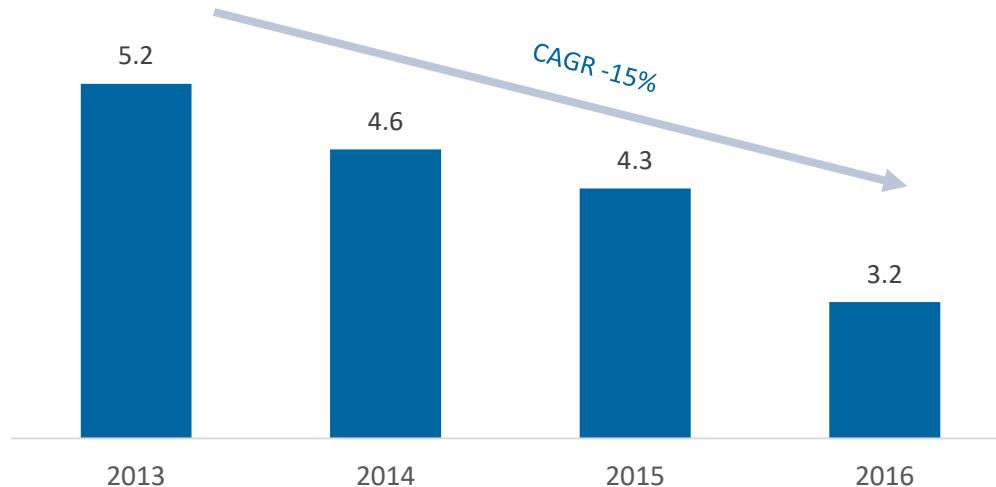
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# We have successfully managed the decline in the profitable conventional business

## Development of conventional lighting sales

(in EUR billion)



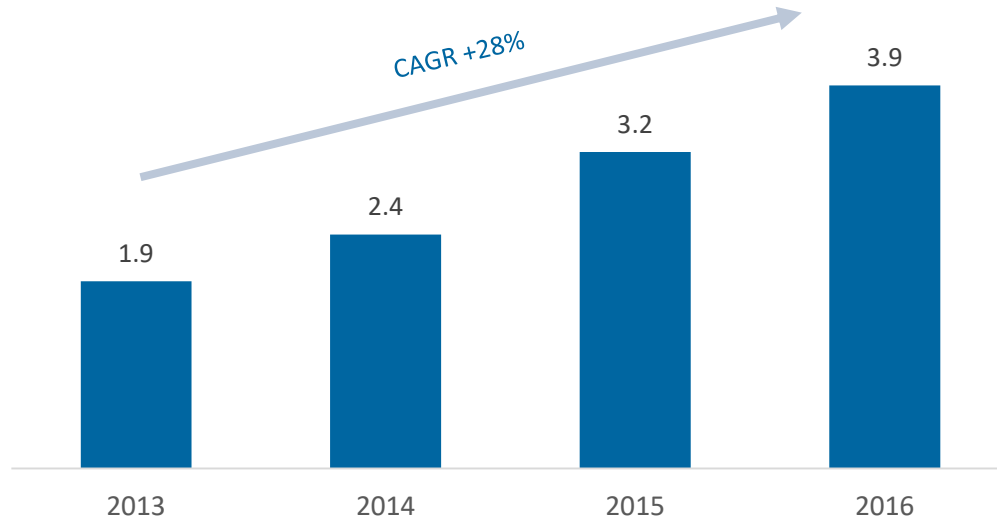
## Highlights

- EUR 2bn sales decline due to the transition from conventional to LED lighting
- Continued Adjusted EBITA margin improvements driven by:
  - Efficient manufacturing footprint rationalization
  - Productivity and procurement savings
- Optimize cash from conventional products to fund our growth
  - FCF as % of sales for Lamps improved by 12% in 2016

# Rapid increase of our LED sales driven by innovation and market reach

## Development of LED lighting sales

(in EUR billion)

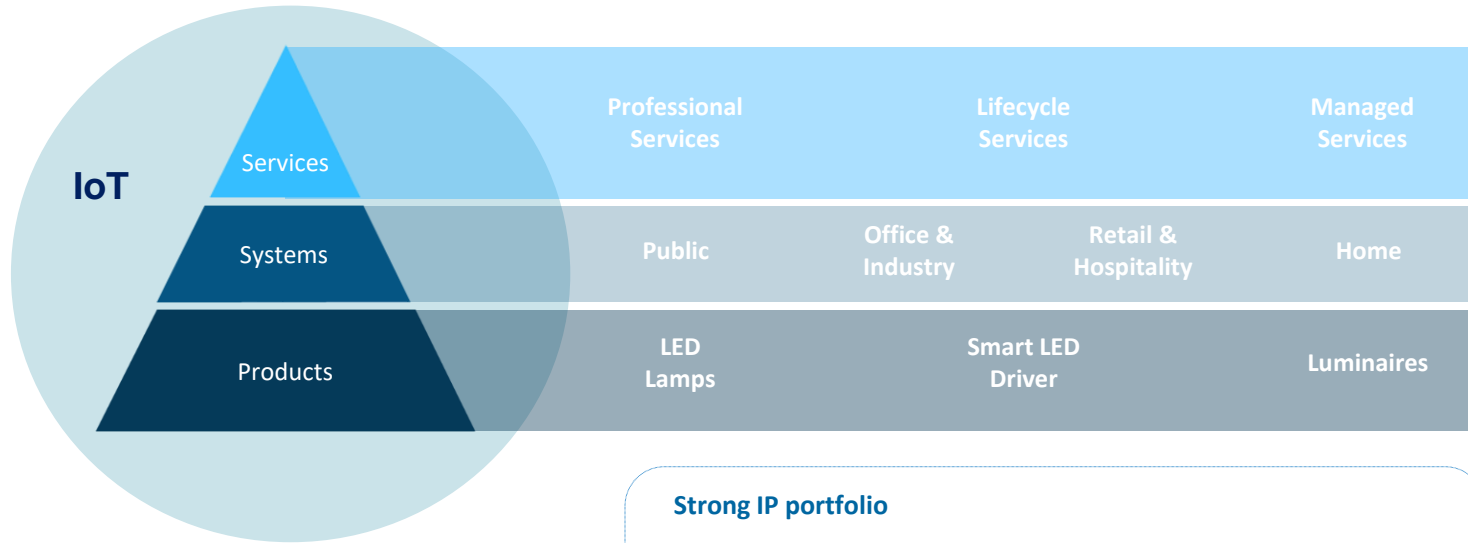


## Highlights

- LED sales increased by EUR 2bn
- Innovate in LED lamps and drivers commercially and technologically to outgrow the market
- Lead the shift to connected Systems, building the largest connected installed base
- Capture adjacent value through new Services business models



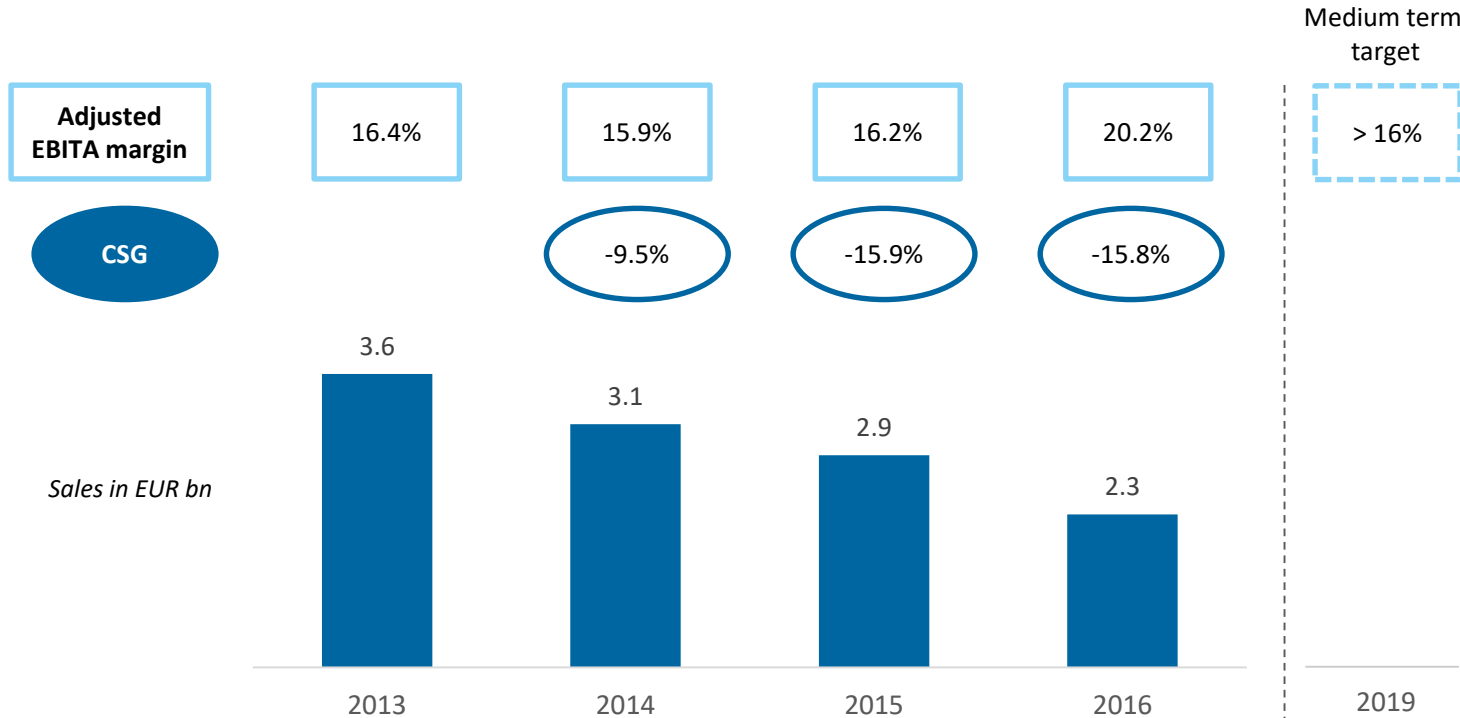
# Innovation strategy extending leadership in products, systems and services into Internet of Things



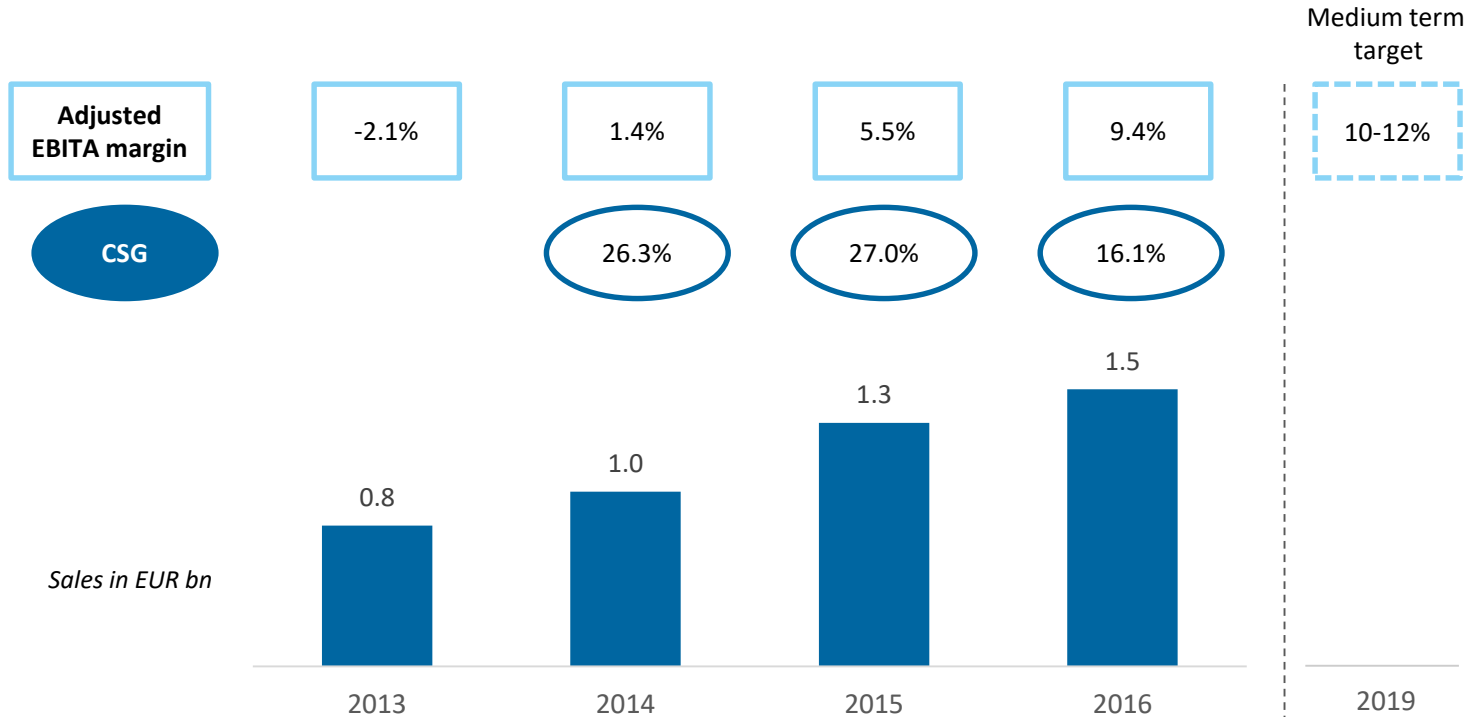
## Strong IP portfolio

- Over **16,000 patents rights**, 1,000 start-up and technical partners
- LED luminaires and Retrofit Bulbs program with over **800 licensees**
- We invest ca. **5% of sales in R&D**

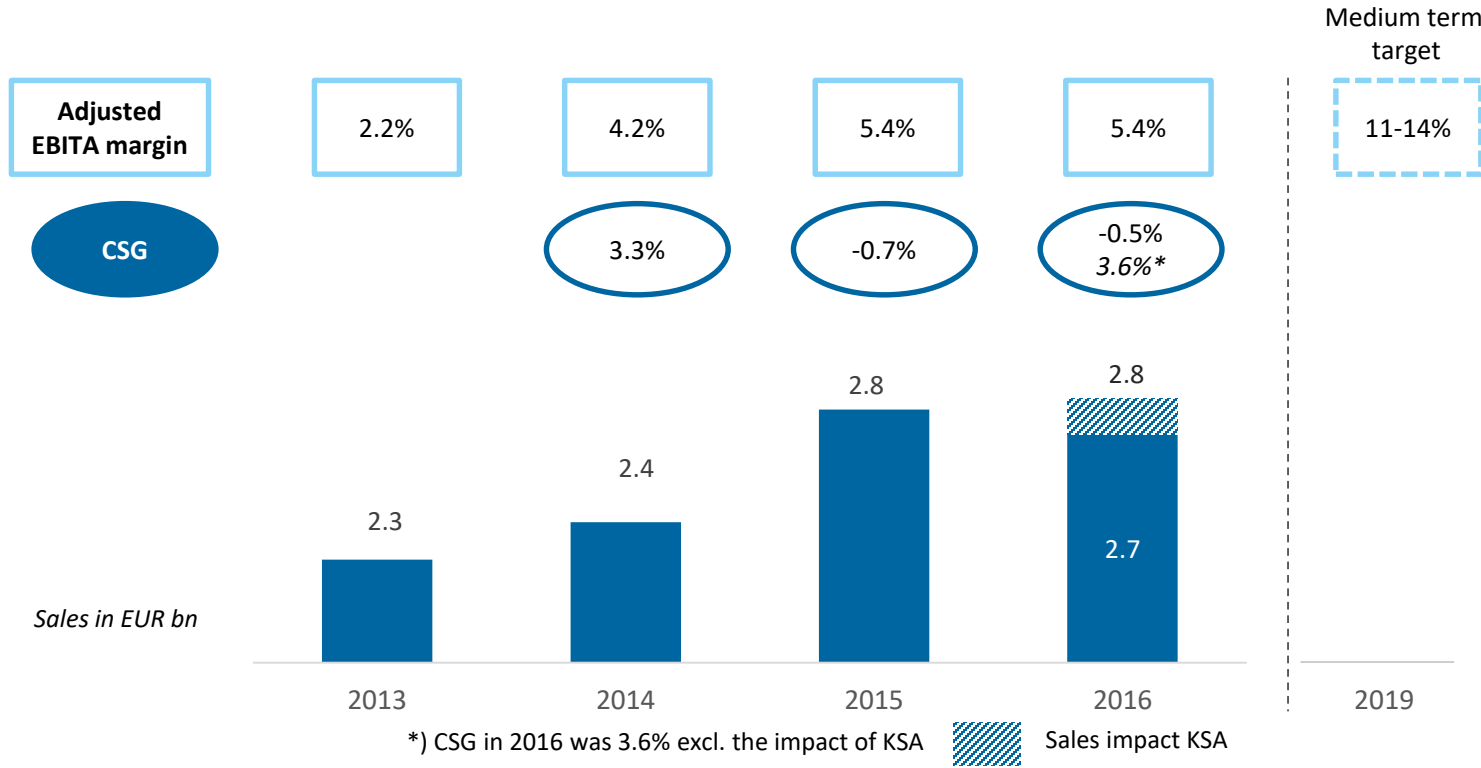
Lamps sustains a high level of profitability, reflecting the execution and benefits of our last man standing strategy



LED shows solid profitable growth, on track to achieve margin of 10-12% in the medium term

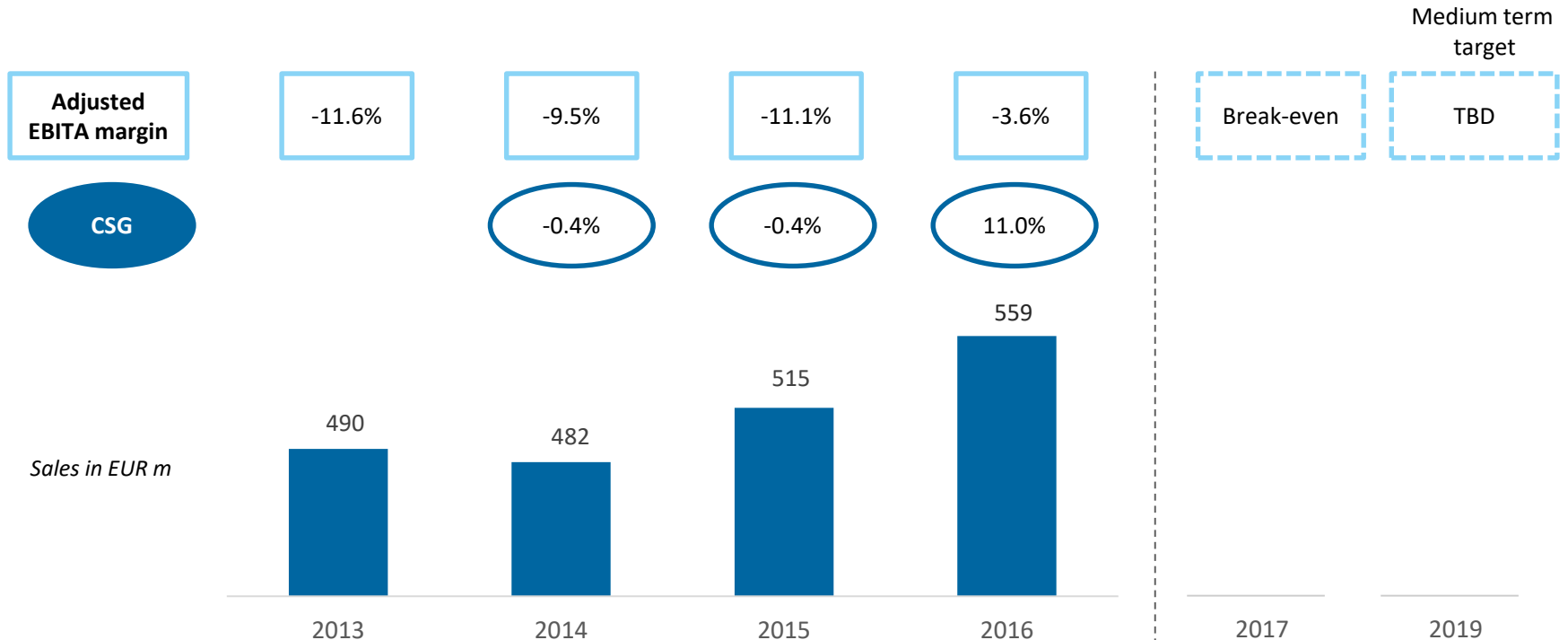


# Professional has initiatives in place to improve margin to 11-14% in medium term



**19% of Professional sales came from Systems & Services in 2016  
(51% growth)**

# Home's strategic shift to connected lighting systems is driving growth



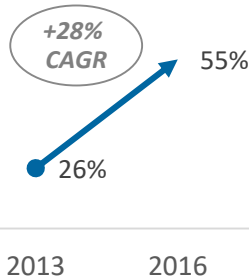
# Financial Outlook



# Our financial measures have significantly improved over the last three years

## Transition from conventional to LED

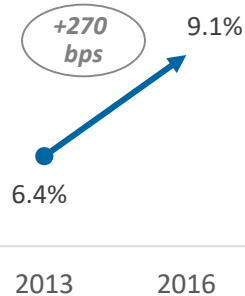
Total LED sales  
(as % of sales)



- Total LED sales more than doubled in the period 2013-2016

## Significantly improved profitability

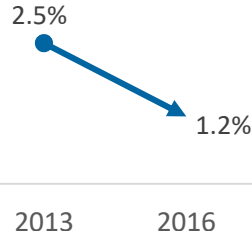
Adjusted EBITA  
margin



- Significant improvement in Adjusted EBITA margin

## Transition to an asset-light business model

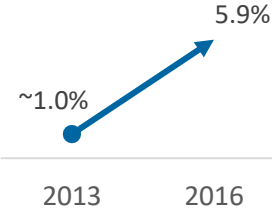
Net capex as % of  
sales



- Net capex as % of sales has been significantly reduced

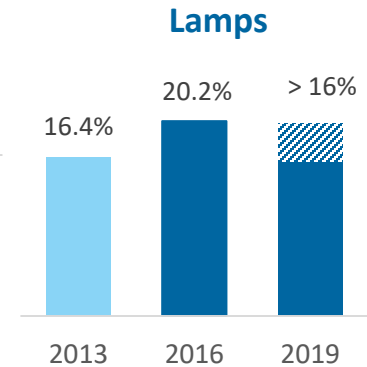
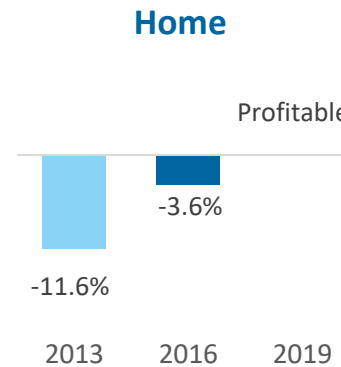
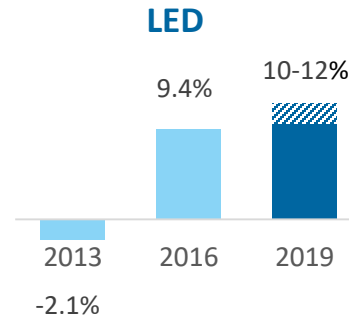
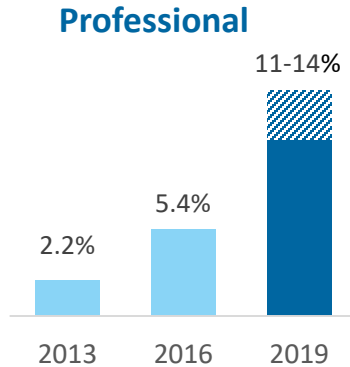
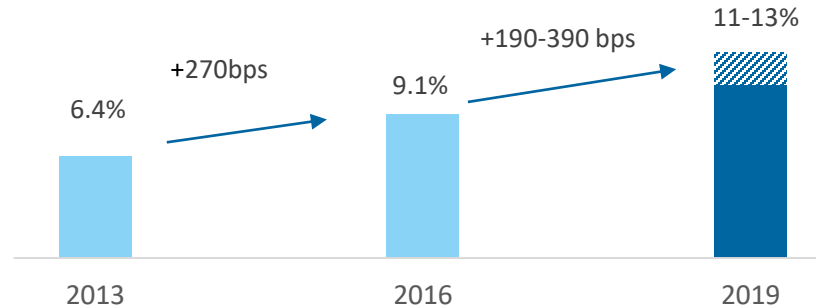
## Strong FCF generation

FCF as % of sales



- Strong FCF generation: EUR 418m of FCF in 2016

# Philips Lighting Path to value – Targeting Adj. EBITA margin of 11-13% by 2019



Expected margin improvement

+560 to 860 bps

+60 to 260 bps

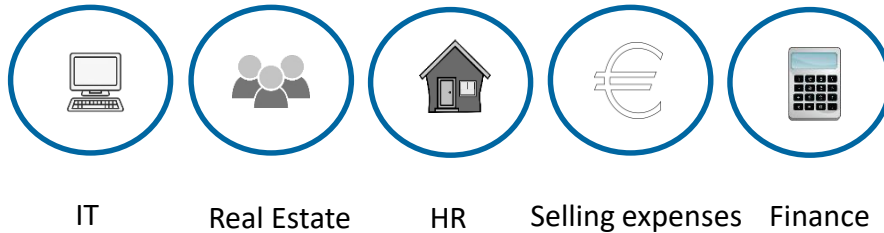
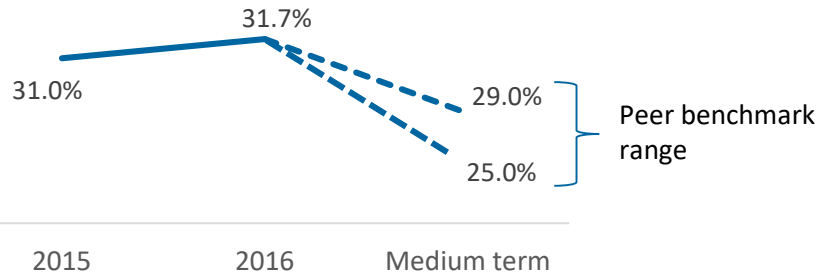
> 360 bps

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# Profitability improvement will also come from indirect cost reductions

## Adjusted indirect costs (as % of sales)



## Medium term cost savings

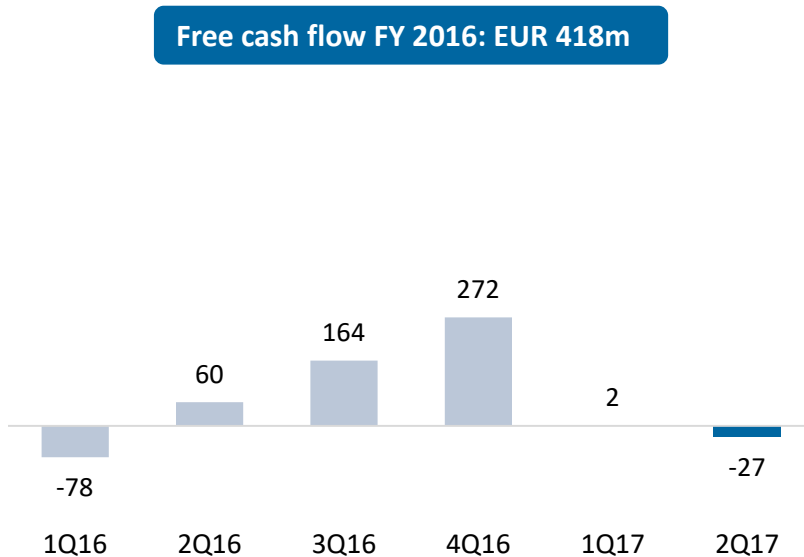
- Benchmark analysis suggests that our peers have indirect costs ranging between 25-29% of sales
- Initial aim is to reach the upper end of this range in the medium term

## Transformation program

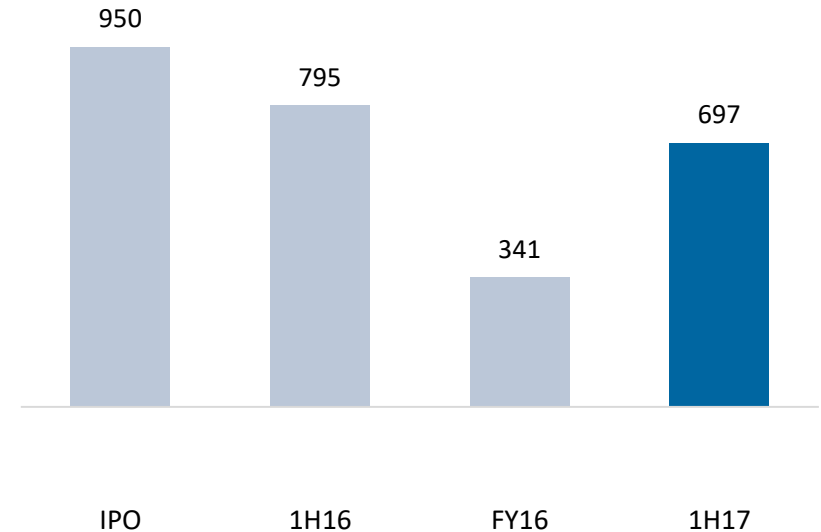
- Initial positive impact of the cost reduction programs starts to come through
- Benefits of the transformation programs should become particularly visible in the course of 2018 and 2019

FCF performance reflects seasonality, and is driven by improved profitability and working capital performance

#### Free cash flow (in EURm)



#### Net debt development since IPO (in EURm)



# Capital allocation policy

## Cash available

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- Continued free cash flow generation
- Managing our financial ratios to maintain a financing structure compatible with an investment-grade profile

## Cash uses

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- Annual regular cash dividend within 40-50% of continuing net income\*
- Returning up to EUR 300m to our shareholders in the period 2017-2018 by participating in share disposals by our main shareholder
- Seizing non-organic opportunities primarily through small- to medium-sized acquisitions that are bolt-on:
  - Luminaire companies that could come to the market for consolidation
  - Technology companies with strong knowhow in connected lighting systems and platforms for services
- Disciplined management of balance sheet liabilities, including an active pension de-risking strategy

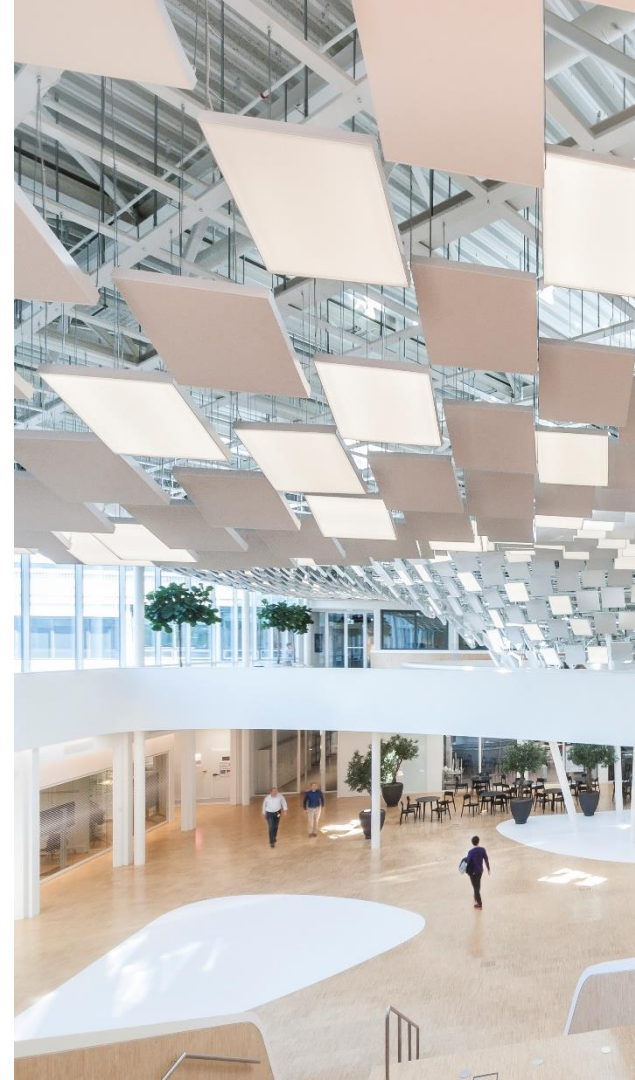
\*Continuing net income: recurring net income from continuing operations, or net income excluding discontinued operations and excluding material non-recurring items such as restructuring, acquisition-related and separation charges

# Wrap-up & key takeaways



# Areas of strategic focus on our path to value

- **Effectively manage the conventional decline**
  - Pro-actively optimize the manufacturing footprint and operational costs
  - Win market share, be “the last man standing”
  - Optimize free cash flow
- **Profitably grow LED**
  - Continued innovation
  - Pro-actively managing costs down to enable competitive pricing
  - Intensifying marketing activities
  - Diversifying distribution coverage
- **Strategic shift to connected lighting systems in Professional and Home driving growth**
  - Be the first-to-market with breakthrough applications and services
  - Build the largest connected installed base
- **Actively drive down indirect costs in HR, IT, Finance, sellex, restructuring**
- **Drive cash flows through disciplined management of working capital, real estate and restructuring costs**



# Q&A

