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CREDIT OPINION
23 March 2023

Update

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RATINGS

Signify N.V.

Domicile	Amsterdam, Netherlands
Long Term Rating	Baa3
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Signify N.V.

Update to credit analysis

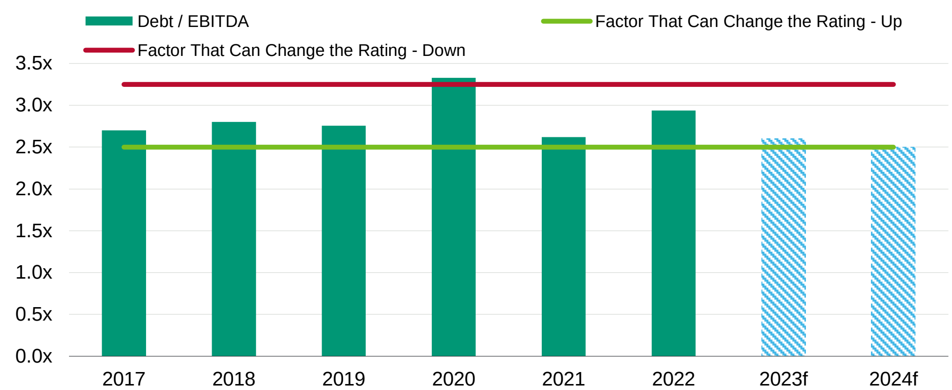
Summary

Signify's Baa3 rating with a stable outlook reflects (1) the company's leading market positions in LED and conventional lighting across the value chain; (2) its strong brand recognition and the group's diversification across different geographies; (3) its proven track record in transforming the business from conventional lighting to LED; (4) the reduction in its cost base and the shift in its operating model to asset-light manufacturing, while keeping free cash flow (FCF)/debt generally above 10%; (5) good growth prospects for the LED based business, driven by positive underlying market fundamentals (digitalization, lower energy consumption targets and a global trend toward sustainability); and (6) the group's strong liquidity.

Signify's Baa3 rating is primarily constrained by (1) its lower profitability compared with that of its manufacturing peers that we rate; (2) its organic growth being constrained by the downscaling of its more profitable conventional lighting business; (3) the ongoing high competition in the market, with persistent pricing pressure, despite early signs of consolidation; (4) the risks associated with technological changes in the LED and connected lighting market, which could result in a loss of market share; (5) some tolerance for leverage to perform debt-funded acquisitions but a track record of deleveraging thereafter.

Exhibit 1

Signify's leverage is well within the guidance of the Baa3-rating category



Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

Credit strengths

- Leading company in the conventional and LED lighting business across the value chain
- Strong brand portfolio with international recognition
- Track record of successfully transforming the business from conventional to LED lighting
- Good underlying market fundamentals, driven by digitalization, increasing connectivity, lower energy consumption targets stipulated by regulatory requirements and a global trend toward sustainability
- Ability to generate FCF — the asset-light strategy will reduce capital spending requirements and increase FCF in the medium term

Credit challenges

- Tolerance for leverage to fund acquisitions and considerable debt maturities in 2024
- Lower profitability compared with investment-grade rated manufacturing peers
- Risk of technological changes in the LED and connected lighting market, which could result in a loss of market share
- Intense competition, which results in price erosion, especially in the LED business

Rating outlook

The stable outlook reflects our expectation that even in the case of a temporary macroeconomic downturn, Signify's commitment to its investment-grade rating, illustrated by its prudent financial policy and supported by solid operating performance, will be maintained within the leverage guidance despite ongoing bolt-on acquisitions while FCF/debt is expected to return above 10% in the next 12-18 months.

Factors that could lead to an upgrade

Signify's rating could be upgraded to Baa2 if its (1) Moody's-adjusted EBITA margin rises toward 10%; (2) debt/EBITDA remains below 2.5x on a sustained basis; and (3) retained cash flow (RCF)/net debt improves above 30%, supported by sustained positive FCF.

Factors that could lead to a downgrade

Conversely, the company's rating could be downgraded to Ba1 if its (1) Moody's-adjusted EBITA margin falls to the mid-single digits in percentage terms, (2) debt/EBITDA remains above 3.25x on a sustained basis; and (3) RCF/net debt falls below 20% on a sustained basis or in case liquidity erodes, driven by negative FCF or inability to refinance upcoming debt maturities.

Key indicators

Exhibit 2

Key Indicators for Signify N.V.[1][2][3]

in EUR billions	FYE Dec-2016	FYE Dec-2017	FYE Dec-2018	FYE Dec-2019	FYE Dec-2020	FYE Dec-2021	FYE Dec-2022	Next 12-18 months
Revenue	7.1	7.0	6.4	6.2	6.5	6.9	7.5	7.8 - 7.9
EBITA Margin %	7.8%	8.4%	8.5%	8.6%	9.5%	10.7%	8.5%	9.7% - 9.8%
Debt / EBITDA	3.0x	2.7x	2.8x	2.8x	3.3x	2.6x	2.9x	2.5x - 2.6x
RCF / Net Debt	46.1%	33.4%	27.6%	34.0%	33.6%	20.4%	26.5%	33% - 39.9%
FCF / Debt	18.7%	10.5%	7.4%	15.3%	25.8%	6.8%	-0.5%	11.3% - 11.4%
EBITA / Interest Expense	7.9x	9.9x	8.7x	11.3x	10.1x	14.7x	9.0x	8.6x - 9.4x

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments.
[2]Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
[3] Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer.
Source: Moody's Investors Service

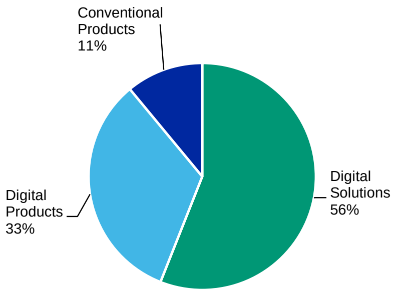
Profile

Signify N.V. (previously Philips Lighting N.V.) is a leading provider of conventional and LED lamps, luminaires as well as lighting systems and services. In line with the overall industry trend towards energy-efficient and connected light sources, the company has shifted its product range significantly and LED-products generated 83% of sales in 2022. The company segments are split into Digital Solutions for commercial customers, Digital Products for private customers as well as Conventional Products.

The company, listed on Euronext Amsterdam, was spun off of Royal Philips N.V. (Philips, Baa1 negative). In 2022, the company generated consolidated sales of €7.5 billion and employed 34,619 people globally.

Exhibit 3

Revenue by segment (2022)

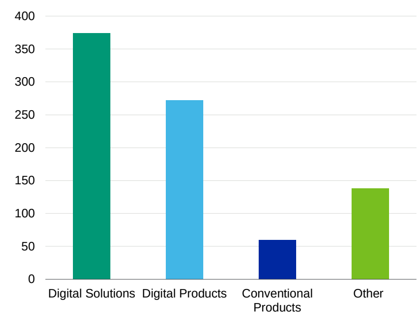


Excluding "Other"
Source: Signify annual 2022 report

Exhibit 4

EBITA by segment (2022)

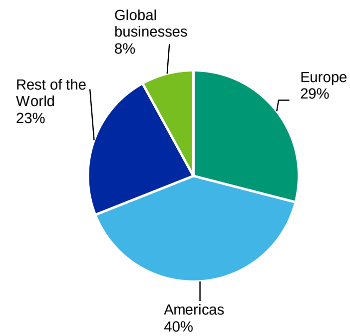
€ million



Source: Signify annual 2022 report

Exhibit 5

Revenue by geography (2022)



Source: Signify annual 2022 report

Detailed credit considerations

Global leader in conventional and LED lighting across the value chain

With total annual sales of €7.5 billion in 2022, Signify is the leading company in the lighting market across the globe in terms of scale and product offering. The company operates through three business divisions:

» Conventional Products includes Signify's conventional lamps and lamp electronics business. This market is dominated by three large companies: Signify, Ledvance (MLS; not rated) and General Electric Company (GE, Baa1 negative). As a result of regulatory requirements and the increasing demand for more energy-efficient lighting sources, the industry is undergoing a transformation, which has resulted in a sharp decline of market volumes during the last few years.

» The Digital Products unit produces LED lamps (LED bulbs, candles or spots) and LED electronics. Unlike the company's Conventional Lamps business, the LED operations are characterized by growth, driven by the ongoing transformation in the lighting market. The segment includes connected premium home luminaires and lighting systems (that is, Philips Hue bulbs, luminaires and accessories).

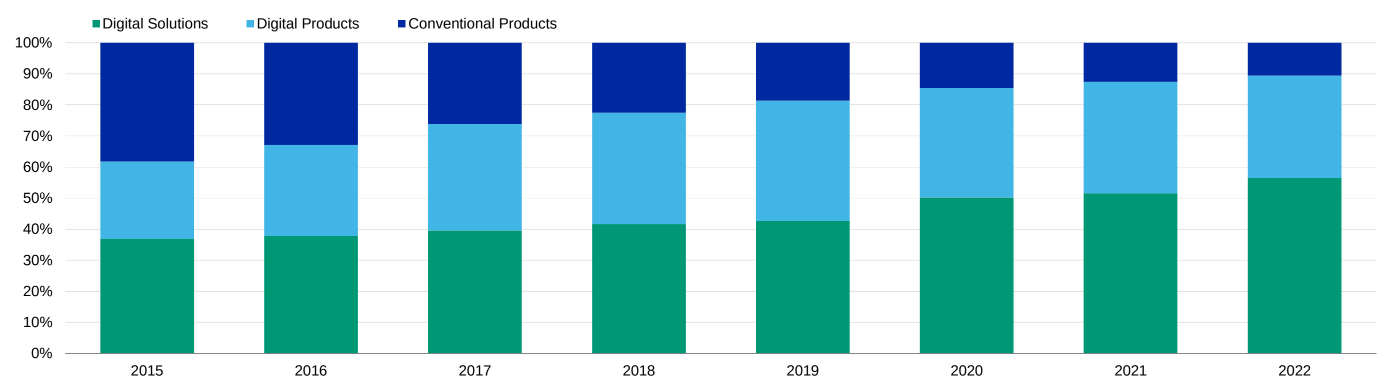
» Digital Solutions operates in the lighting market for cities and commercial buildings, such as hotels/hospitality and offices. Apart from offering conventional lamps and LEDs, the company offers complete systems and services to its professional customers (that is, businesses and governments). Signify's key peers in this segment are Acuity Brands Lighting, Inc. (Acuity Brands Lighting, Baa1 stable) and Hubbell Incorporated (Hubbell, Baa1 stable).

Track record of successful transition from conventional to LED lighting

Over the past decade, the lighting market has been undergoing a structural change from conventional lighting to LED technology. This transformation is being driven by (1) the increasing demand for more energy-efficient light sources (mainly stipulated by regulation); and (2) the increasing need for illumination. As one of the biggest companies in the traditional lighting business, Signify has been able to successfully respond to this structural change in the industry. Over the past decade, the company closed a number of plants for conventional lamps and expects to optimize its production facilities further. This is associated with significant restructuring expenses in the coming years, which will weigh on the group's profitability by one to two percentage points in terms of total sales per year. The conventional lighting business is the most profitable business segment for Signify, with a reported EBITA margin in 2022 of 14.6% versus 11.6% at a group level (before overhead costs). With a low capital spending of around 1% of Lamps sales, the company can generate significant FCF to fund growth beyond the traditional lighting business.

Exhibit 6

Signify has successfully transformed its business with digital solutions and digital products segments dominating the top line



Signify has changed its organizational structure in Q2 2020. Digital Solutions segment includes the former “Professional” segment, including Cooper Lighting. Digital Products division combines former “Home” and “LED” segments. Conventional Products segment corresponds to a former “Lamps” segment.
Source: Signify annual reports

Signify has been successful in transforming its business from conventional lighting to LED. The Lamps sales declined by around 12.6% at a comparable basis in 2022 versus 2021 and the share of LED-based sales represented 83% of the company's total sales in 2022 (83% in 2021). The conventional lighting market was dominated by three big companies (Signify, Ledvance (MLS) and GE), while the LED lighting market is more fragmented and characterized by higher competition from low-cost Asian competitors, leading to significant price erosion. As a result of declining prices, we expect a consolidation of the LED market as smaller, less cost-efficient companies will exit the market, helping the market stabilize. Signify, as one of the biggest and best positioned companies, is likely to benefit from the changing market environment.

Continuous bolt-on M&A will strain deleveraging

With the acquisition of Cooper Lighting, Signify had strengthened its presence in North America. Cooper's activities are focused on professional lighting, lighting controls and connected lighting and are driving higher profitability going forward.

Following the rather transformational acquisition of Cooper Lighting, Signify continues to pursue bolt-on acquisitions such as Telensa in July 2021, Fluence in December 2021 and Pierlite in February 2022. The targets either enhance the product range of Signify or expand its geographical presence. While Telensa and Pierlite were rather small targets with moderate cash considerations, the purchase price of Fluence, which was acquired from ams-Osram AG (B1 stable), was reported at $272 million, and strained cash flow generation available for debt reduction. However, the company rationalized its real estate portfolio which partially compensate the cash outflow. We nevertheless expect Signify to continue with debt-funded acquisitions but remain disciplined in terms of acquisition multiples and profitability.

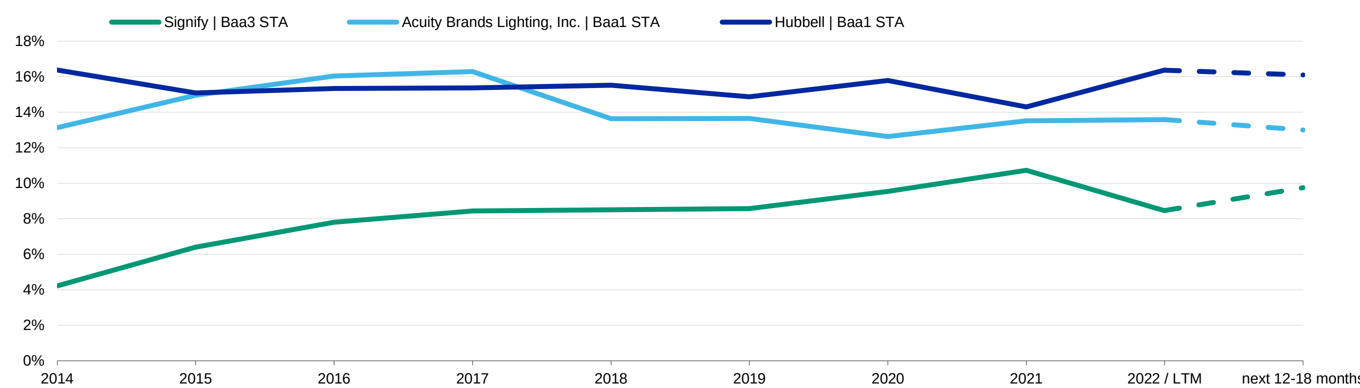
Profitability is improving and catching up with main investment-grade rated peers

After a solid increase in 2021 following a long period of weaker profitability, Signify's EBITA-margin has dipped again towards previous levels and lags to the profitability of rated peers. Higher logistics, raw material and energy costs and the industry-inherent price erosion could not have been offset with a better product mix and price increases. Despite ongoing efforts to increase profitability from tight cost control and a favorable shift in product mix, Signify is again behind industry peers such as Acuity Brands and Hubbell. This difference can be explained by the varied geographic footprint and business mix of the peers. For example, Acuity Brands generates around 98% of its sales in North America and is one of the key companies in the commercial, industrial and outdoor lighting markets for luminaires, control components, solutions and services. Signify has initiated several performance improvement measures over the last few years, which could help close the remaining profitability gap. Following the increase in 2021 which was also driven by synergies of the Cooper acquisitions we expect the gap to tighten driven by cost control and normalization of supply chains. Sustainable profitability improvements are one of the factors for potential positive rating pressure over the medium term.

Exhibit 7

Despite improving, Signify's profitability remains below rated peers

EBITA margin, Moody's adjusted



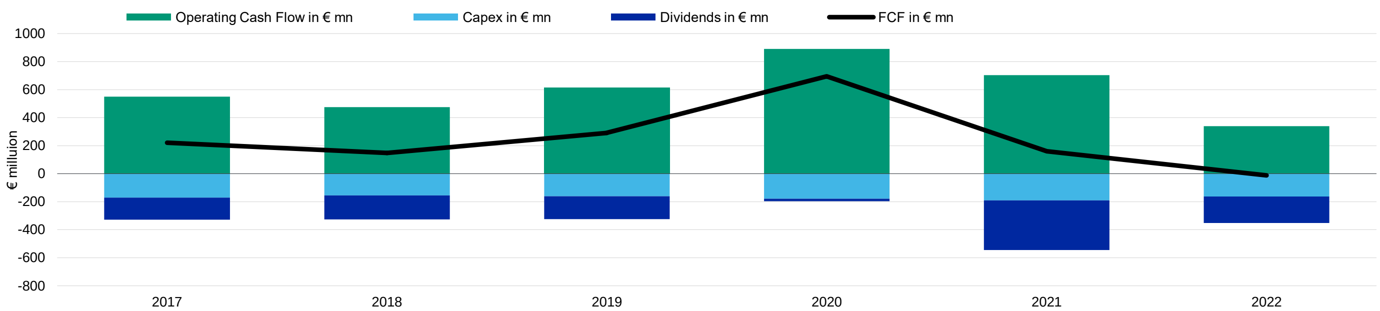
*For Acuity Brands Lighting Inc. latest information as of November 2022; for Hubbell and Signify, the latest data is as of the year ended December 2022.

Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

Good growth prospects in systems and services will increase the predictability of cash flow

Underpinned by an increasing trend of digitalization and growth of connected systems across many industries, demand for digital lighting could increase. However, it will be a challenge to defend the pricing in this segment, considering the intense competition. Connected lighting systems for professional and consumer end-users offer a wide range of multiple options and efficiency improvements — for example, integration into building management solutions and automated control and use of light to reduce overall costs by cutting power consumption and emissions or more efficient management of public street lighting. Such value-added solutions help Signify establish long-term relationships with its customers and enable the company to generate recurring and predictable cash flow. Following the strong year 2020, Signify's free cash flow generation was weakened in 2021 as the company decided to pay the skipped 2020 dividend in 2021 and reverse some cost reduction programs which lead to higher costs but are not expected to be recurring. In 2022, free cash flow further weakened caused by working capital which we expect to normalize in 2023.

Exhibit 8
Positive FCF is supported by the shift to a more asset-light operating model



All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics™

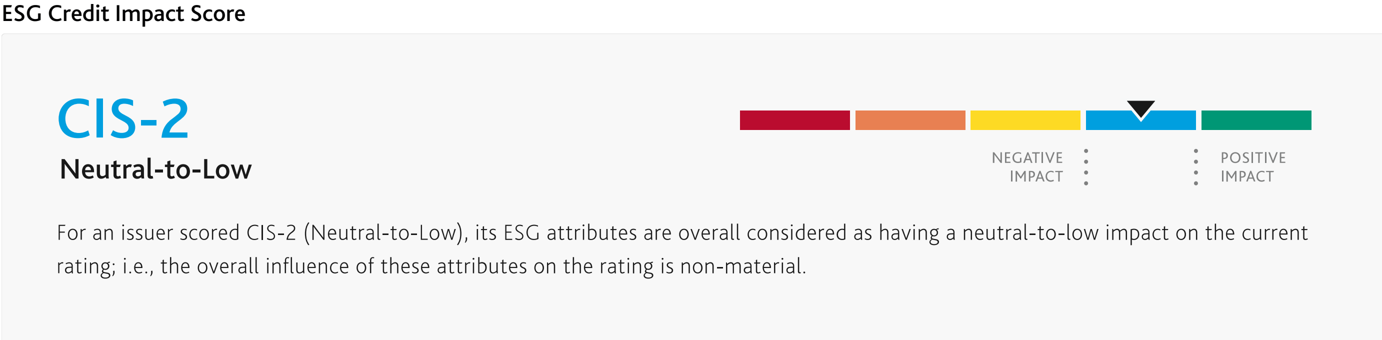
R&D investments in technology are an important driver for further growth

Historically, Signify has spent around 4% of its annual sales on R&D, which is above average in the manufacturing industry. We expect the group to invest further into new technologies and innovative systems to compete with existing and new franchises in the sector. Given the attractiveness and growth trajectory of the lighting systems and service business segment, competition is likely to become more intense. Given the group's strong branding and its established footprint in the lighting market, Signify is solidly positioned among its competitors. For example, it introduced a cloud-based communication system between its connected home lighting systems (HUE) and voice-activated platforms, such as Amazon Echo, Apple HomePod and Google Home. This will strengthen its position in the market for home lighting systems in the future. Given the pace of innovation, we expect R&D spending to be around 4%-5% of sales per year over the medium term.

ESG considerations

Signify N.V.'s ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 9
ESG Credit Impact Score



Source: Moody's Investors Service

Signify's ESG Credit Impact Score is Neutral-to-Low (**CIS-2**), reflecting moderate environmental and social risks which are in line with the wider manufacturing sector. The CIS score also factors in strong governance characteristics and conservative financial policies

Exhibit 10
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-3	G-2
Moderately Negative	Moderately Negative	Neutral-to-Low

Source: Moody's Investors Service

Environmental

Signify faces moderate environmental risks, including exposure to physical climate risks as a manufacturer with waste as a by-product and rising environmental regulation along its value chain. These risks are partially mitigated by the company's measures to increase the share of renewable energy in its energy supply, intensify the recycling of resources and a focus on limiting the creation of waste. Additionally, Signify's product portfolio benefits from a trend towards lower energy usage and the related reduction in carbon footprint. The exposure to risks from water management is low, considering low usage of water in their manufacturing processes, with a high share of water recycling in the production process.

Social

Social risks are considered to be moderately negative, primarily related to human capital risks considering potential disruptions linked to the availability of highly skilled labour, labour standards, wage or benefits demands, and legal issues associated with its workforce. The company faces supply chain complexities that can disrupt production and risks associated with product recalls or redesigns. These risks are partially offset by the company's focus on responsible production. The company has neutral to low exposure to customer relations risks. In addition, Signify benefits from societal trends or policies focused on reducing carbon emissions. At the same time, Signify also benefits from these trends on the demand side, because it helps its customers to meet their sustainability goals by providing products and services that save energy.

Governance

Signify has good corporate governance practices, good quality of financial reporting, and a strong track record of delivering guidance. The company has balanced financial policies with a commitment to maintaining a strong investment-grade rating, whilst returning surplus cash to shareholders, and debt-financed acquisitions have been followed by a period of deleveraging.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

We consider Signify's liquidity as good. As of 31 December 2022, the company reported €677 million of cash and cash equivalents, further underpinned by an undrawn €500 million committed multicurrency revolving credit facility that matures in 2027. As of year-end 2022 Signify had outstanding term loans of €280 million maturing in November 2024 and $225 million maturing in January 2025. Following the acquisition of Cooper, Signify had refinanced a bridge loan facility of $1,400 million with two fixed-rate eurobond issuances of €675 million note maturing in May 2024 and €600 million note maturing in May 2027.

We expect Signify to generate operating cash flow of above €650 million over the next 12 months. This expected cash flow, along with its cash holdings, will be sufficient to cover (1) estimated gross capital spending of around €136 million, (2) estimated regular dividend payout of around €188 million, and (3) small bolt-on acquisitions.

Rating methodology and scorecard factors

The following table shows Signify N.V.'s scorecard-indicated outcome using Manufacturing Methodology, with data as of September 10, 2021, and on a forward-looking basis.

The assigned rating is in line with the scorecard-indicated outcome in our forward view and one notch below as of year-end 2022 driven by weak free cash flow generation.

Exhibit 11
Rating factors
Signify N.V.

Manufacturing Industry Scorecard [1][2]	Current FY 12/31/2022		Moody's 12-18 Month Forward View As of 3/15/2023 [3]	
Factor 1 : Scale (20%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$7.9	Baa	$8.3 - $8.5	Baa
Factor 2 : Business Profile (25%)				
a) Business Profile	Ba	Ba	Ba	Ba
Factor 3 : Profitability and Efficiency (5%)				
a) EBITA Margin	8.5%	Ba	9.7% - 9.8%	Ba
Factor 4 : Leverage and Coverage (35%)				
a) Debt / EBITDA	2.9x	Baa	2.5x - 2.6x	Baa
b) Retained Cash Flow / Net Debt	26.5%	Baa	33% - 33.9%	Baa
c) Free Cash Flow / Debt	-0.5%	Caa	11.3% - 11.4%	Baa
d) EBITA / Interest Expense	9.0x	Baa	8.6x - 9.4x	Baa
Factor 5 : Financial Policy (15%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Scorecard-Indicated Outcome		Ba1		Baa3
b) Actual Rating Assigned				Baa3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 12/31/2022; Source: Moody's Financial Metrics™
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures
Source: Moody's Financial Metrics™

Ratings

Exhibit 12

Category	Moody's Rating
SIGNIFY N.V.	
Outlook	Stable
Issuer Rating -Dom Curr	Baa3
Senior Unsecured -Dom Curr	Baa3

Source: Moody's Investors Service

Appendix

Exhibit 13
Peer comparison

(in USD million)	Signify N.V. Baa3 Stable FYE Dec-20	FYE Dec-21	FYE Dec-22	Eaton Corporation Baa1 Stable FYE Dec-20	FYE Dec-21	FYE Dec-22	Corning Incorporated Baa1 Stable FYE Dec-20	FYE Dec-21	FYE Dec-22	Hubbell Incorporated Baa1 Stable FYE Dec-20	FYE Dec-21	FYE Dec-22	Acuity Brands Lighting, Inc. Baa1 Stable FYE Aug-21	FYE Aug-22	LTM Nov-22	Royal Philips N.V. Baa1 Negative FYE Dec-20	FYE Dec-21	FYE Dec-22
Revenue	7,421	8,116	7,919	17,858	19,628	20,752	11,303	14,082	14,189	3,683	4,194	4,948	3,461	4,006	4,078	19,760	20,298	18,788
EBITDA	924	1,066	846	3,213	3,814	4,325	2,368	3,857	3,318	676	693	905	544	634	623	3,087	2,911	1,551
Total Debt	3,300	2,695	2,519	10,152	9,952	9,939	9,608	8,558	8,510	1,898	1,728	1,720	622	642	620	9,402	8,687	9,334
Cash & Cash Equivalents	1,264	968	723	438	297	294	2,672	2,148	1,671	259	286	441	491	223	284	3,947	2,619	1,251
EBITA margin %	9.5%	10.7%	8.5%	14.5%	16.2%	17.9%	7.6%	17.0%	13.3%	15.8%	14.3%	16.4%	13.5%	14.1%	13.6%	11.6%	10.7%	4.3%
EBITA / Interest Expense	10.1x	14.7x	9.0x	12.6x	16.9x	18.1x	2.2x	6.2x	4.6x	8.4x	9.7x	13.0x	17.1x	18.0x	16.6x	11.2x	10.7x	2.9x
Debt / EBITDA	3.3x	2.6x	2.9x	3.2x	2.6x	2.3x	4.1x	2.2x	2.6x	2.8x	2.5x	1.9x	1.1x	1.0x	1.0x	2.8x	3.1x	5.9x
RCF / Net Debt	33.6%	20.4%	26.5%	11.4%	16.7%	21.5%	14.4%	37.2%	27.2%	21.2%	26.5%	37.7%	335.7%	123.0%	155.8%	54.5%	24.8%	2.8%
FCF / Debt	25.8%	6.8%	-0.5%	13.5%	5.9%	6.6%	1.4%	10.4%	0.9%	18.3%	12.4%	17.2%	58.9%	38.6%	55.2%	19.8%	3.0%	-19.3%

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics™

Exhibit 14
Moody's-Adjusted Debt Reconciliation for Signify N.V.[1][2]

(in EUR million)	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-22
As Reported Total Debt	1,310	1,265	1,465	2,307	2,007	2,033
Non-Standard Adjustments	8	11	0	0	0	0
Pensions	497	475	437	390	363	327
Leases	293	258	0	0	0	0
Moody's Adjusted Total Debt	2,108	2,009	1,902	2,697	2,370	2,360

[1] All figures are calculated using Moody's estimates and standard adjustments.
[2] Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
Source: Moody's Financial Metrics TM

Exhibit 15
Moody's-Adjusted EBITDA Reconciliation for Signify N.V.[1][2]

(in EUR million)	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-22
As Reported EBITDA	728	642	691	746	848	1,055
Non-Standard Adjustments	0	2	(1)	0	0	0
Unusual Items - Income Stmt	(30)	(2)	(1)	63	50	(209)
Interest Expense - Discounting	(4)	(5)	0	0	0	0
Pensions	(1)	(5)	1	1	3	(6)
Leases	86	86	0	0	0	0
Capitalized Development Costs	0	0	0	0	0	(37)
Moody's Adjusted EBITDA	779	718	690	810	901	803

[1] All figures are calculated using Moody's estimates and standard adjustments.
[2] Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
Source: Moody's Financial Metrics TM

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