A nighttime photograph of a city skyline, featuring the Empire State Building prominently on the right side, illuminated against a dark blue sky. Other skyscrapers are visible in the background, some with lit windows and signs.

Philips Lighting reports continued improvement in operational profitability and cash flow in second quarter

Q2 2016 Presentation

July 22, 2016

**PHILIPS** Lighting

# Today's presenters



**Eric Rondolat**  
CEO

- Joined Philips Lighting in 2012
- 25+ years of international management experience in lighting and energy management at Philips and Schneider Electric



**Rene van Schooten**  
CFO & Head  
of BG Lamps

- Joined Philips Lighting in 1999
- 30+ years of international management experience in lighting and finance at Philips, Unilever and Exxon

# Agenda

**Business and operational performance by Eric Rondolat**

Financial performance by Rene van Schooten

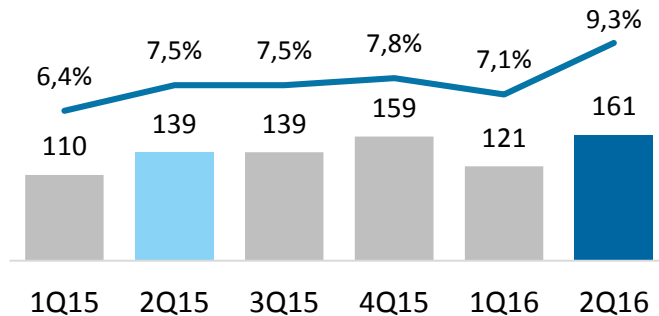
Q&A

# Philips Lighting reports continued improvement in operational profitability and cash flow in second quarter

## Second quarter 2016 highlights

- Total LED based sales grew 25% in the quarter and now represent 53% of total sales
- Seventh consecutive quarter of year-on-year improvement in operational profitability
- Net income of €57 million, includes separation costs and brand license fee not applicable in 2015

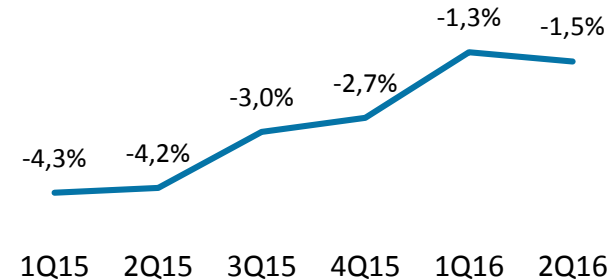
## Adjusted EBITA (€m and as % of sales)



## Half year 2016 highlights

- Continued improvement in operational profitability
  - adjusted EBITA up by 13.3% to €282 million
  - adjusted EBITA margin increased to 8.2%
- Net income of €71 million, includes separation costs and brand license fee not applicable in 2015

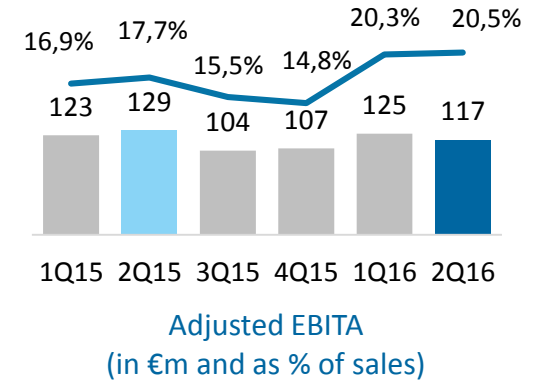
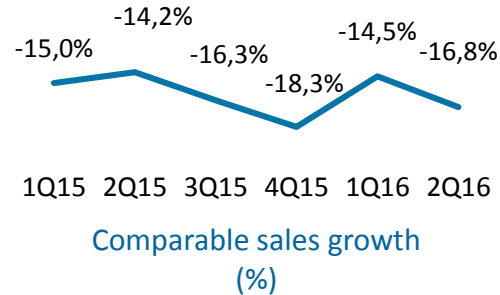
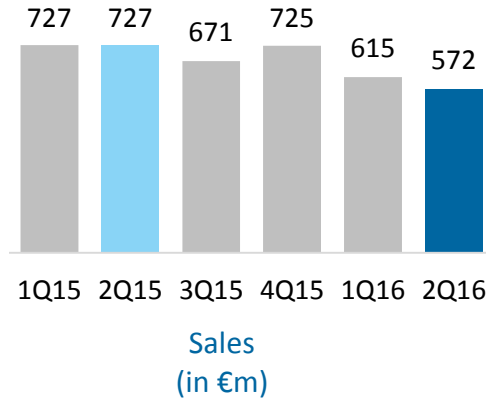
## Comparable Sales Growth (%)



## Successful execution of our strategy

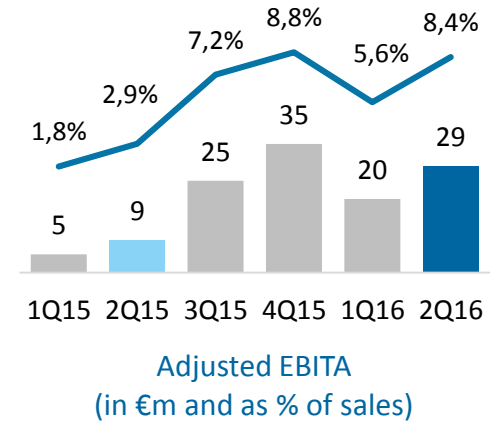
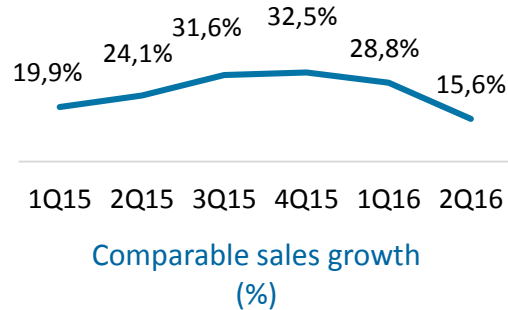
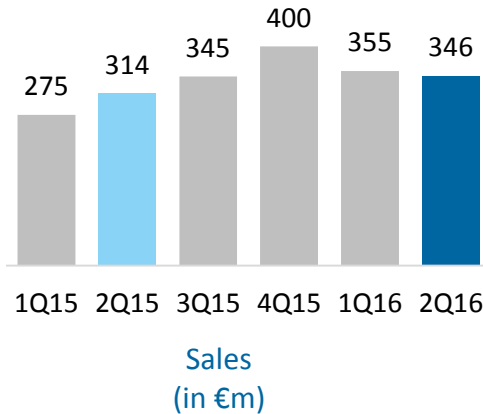
Q2 2016	CSG%	Adjusted EBITA (€m)	vs LY (€m)	Adjusted EBITA %	vs LY (bps)
Lamps	-16.8%	117	-12	20.5%	+270
LED	15.6%	29	20	8.4%	+550
Professional	3.8%	46	7	6.7%	+110
Home	14.3%	-10	8	-7.9%	+850
<b>Philips Lighting</b>	<b>-1.5%</b>	<b>161</b>	<b>22</b>	<b>9.3%</b>	<b>+180</b>

## Lamps continued to deliver solid margins



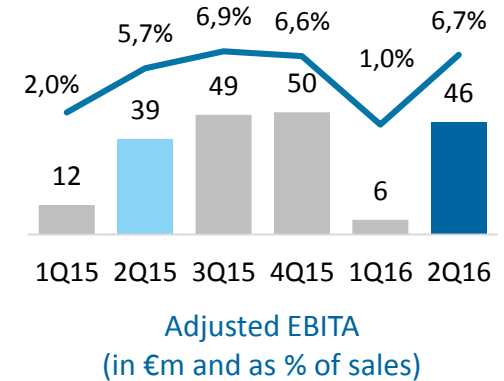
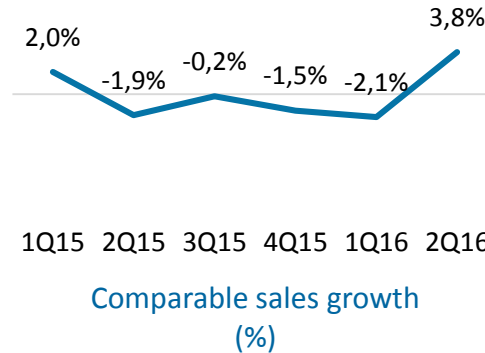
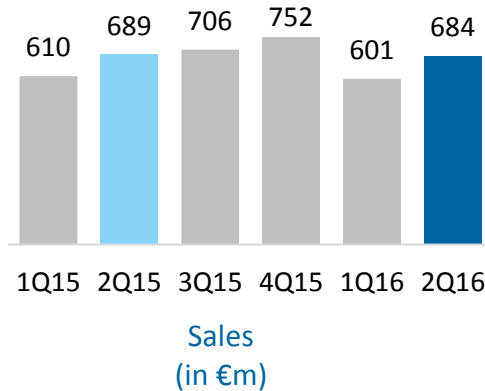
- Anticipated sales decline of 16.8%, due to transition from conventional to LED lighting
- Adjusted EBITA decreased to €117 million, while the adjusted EBITA margin improved to 20.5% - mainly driven by manufacturing footprint rationalization, mix, procurement and productivity savings
- Ceramic operation in the Netherlands successfully divested

## LED grew double-digit with good margin progression



- Sales grew double-digit but slower versus last year, mainly Americas related. Robust growth in other regions
- 550 basis point adjusted EBITA margin progression, benefiting from procurement savings and operational leverage offset by price erosion
- Introduction Philips CorePro LED PLC, the first LED retrofit range for compact fluorescent lamps

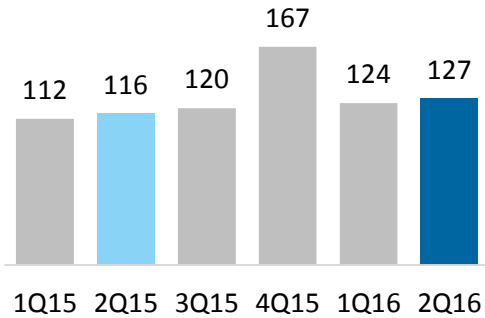
# Professional delivered growth and margin improvement



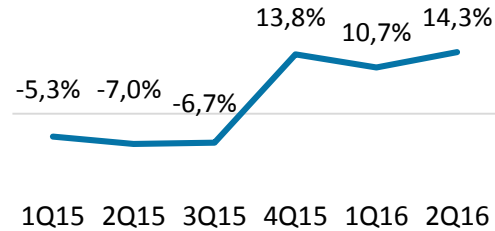
- Comparable sales growth mainly driven by continued growth in the Americas, partly offsetting decline in Middle East & Turkey due to difficult market conditions
- Adjusted EBITA margin improvement driven by operational leverage and procurement savings
- The Dubai Smartworld HQ chose Philips Lighting Power over Ethernet (PoE) connected office lighting system in combination with the Cisco Digital Ceiling framework



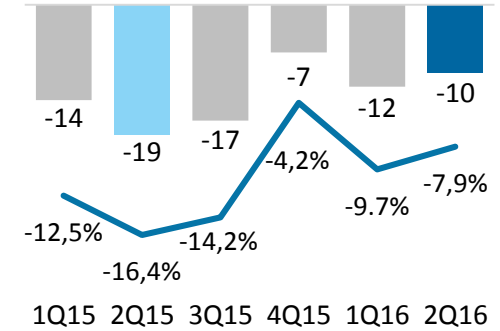
# Home showed solid growth and reduced adjusted EBITA loss



Sales  
(in €m)



Comparable sales growth  
(%)



Adjusted EBITA  
(in €m and as % of sales)

- Double-digit comparable sales growth supported by both the consumer luminaires and home systems businesses with all markets contributing to the growth
- Reduction adjusted EBITA loss primarily from operational leverage and procurement savings
- Steps taken to rationalize footprint in Belgium and China

# Agenda

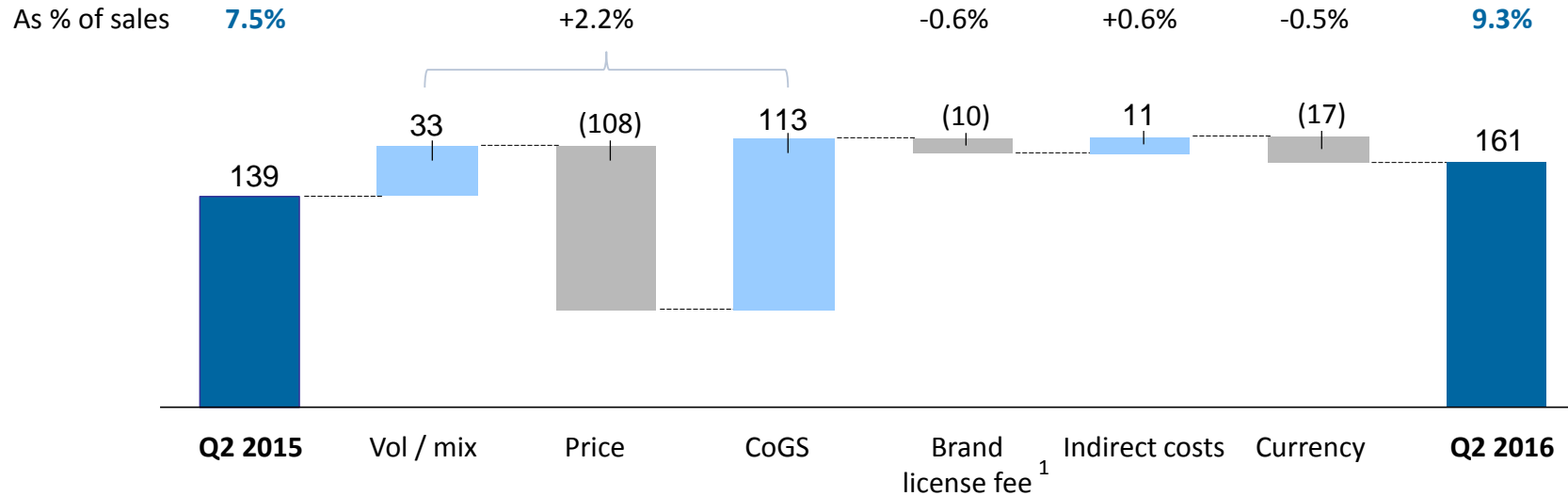
Business and operational performance by Eric Rondolat

**Financial performance by Rene van Schooten**

Q&A

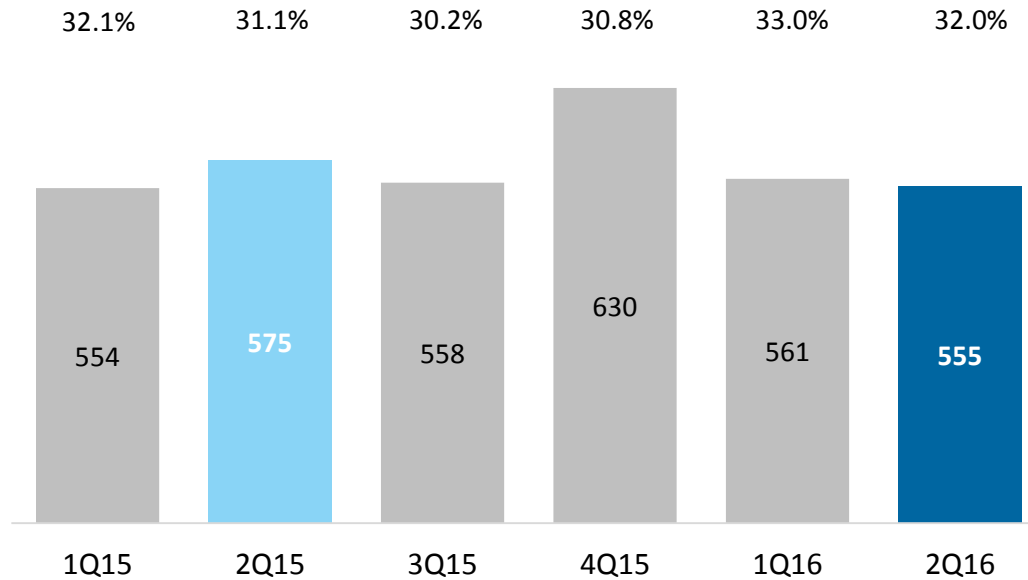
# Improved adjusted EBITA from gross margin improvements, offsetting currency effects

## Adjusted EBITA (€m)



# Year-on-year reduction of indirect cost

## Adjusted indirect costs (€m and as % of sales)

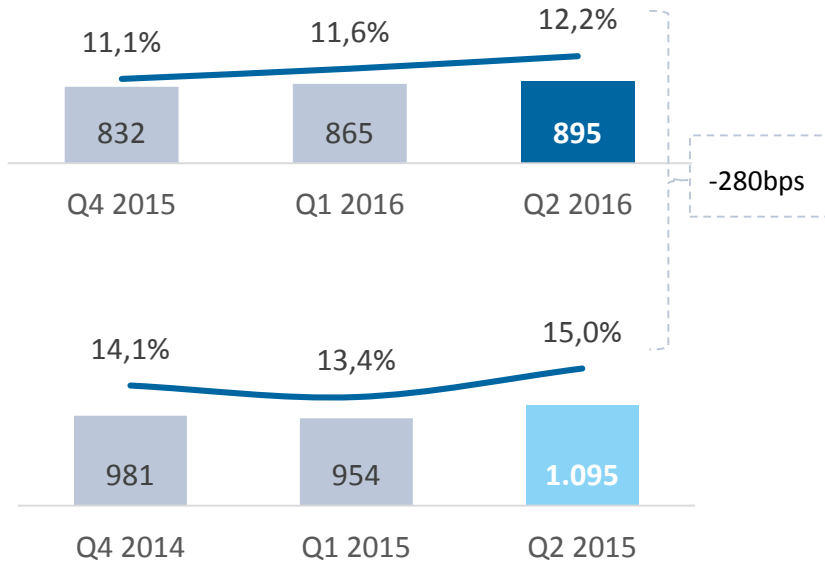


## Key observations

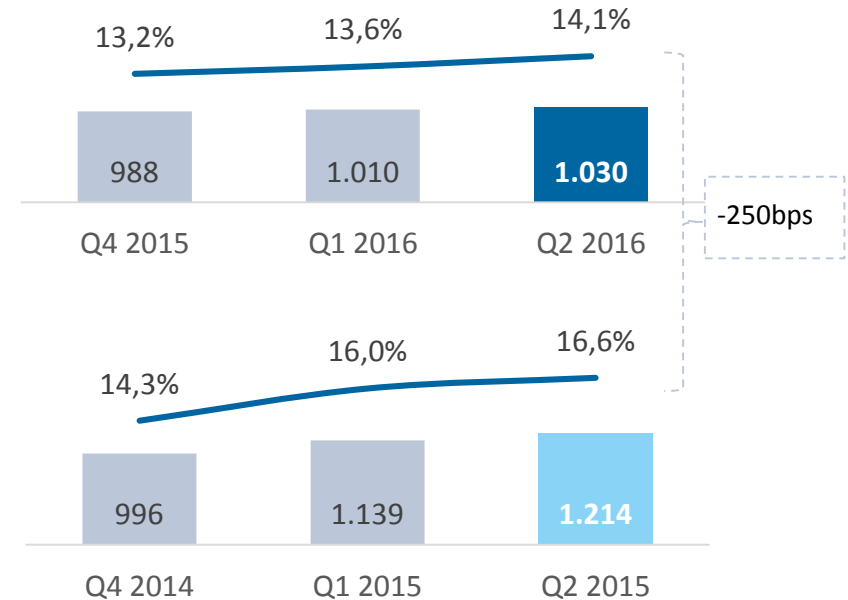
- Year-on-year cost reduction offsetting negative impact from brand license fee:
  - Q1 2016: €6 million
  - Q2 2016: €10 million
- As % of sales, negative impact from currency as majority of costs are euro based

# Working capital well managed driven by reduced inventory levels

## Working capital<sup>1</sup> (in €m & as % of sales)

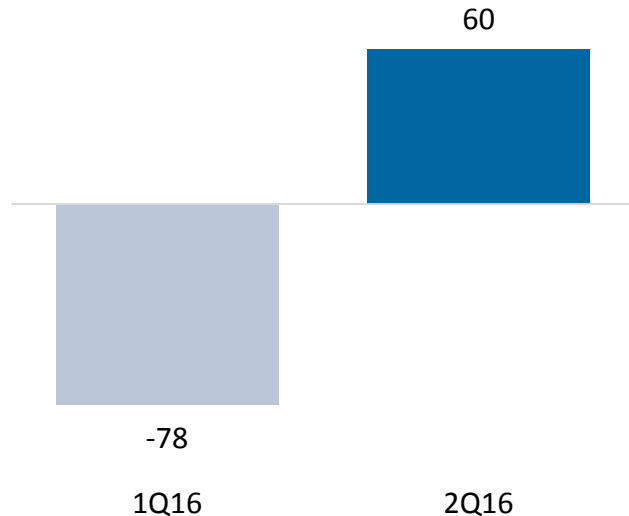


## Inventories (in €m & as % of sales)



# Improved free cash flow in second quarter

## Free cash flow (in €m)

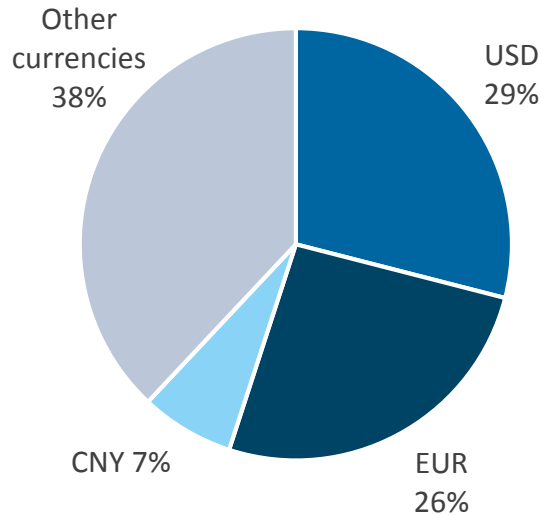


## Key observations

- Second quarter improvement by :
  - lower cash out from working capital, provisions and net capex
  - offset by increased interest payments (new financing structure) and higher taxes
- Special items Q2 2016 (€43m) of which separation costs (€15m) and restructuring pay-out (€28m)
- Special items Q1 2016 (€83m) of which US Pension de-risking (€45m) and restructuring pay-out (€38m)
- Net debt at end of Q2: €795 million

# Philips Lighting has revenues in a wide range of currencies

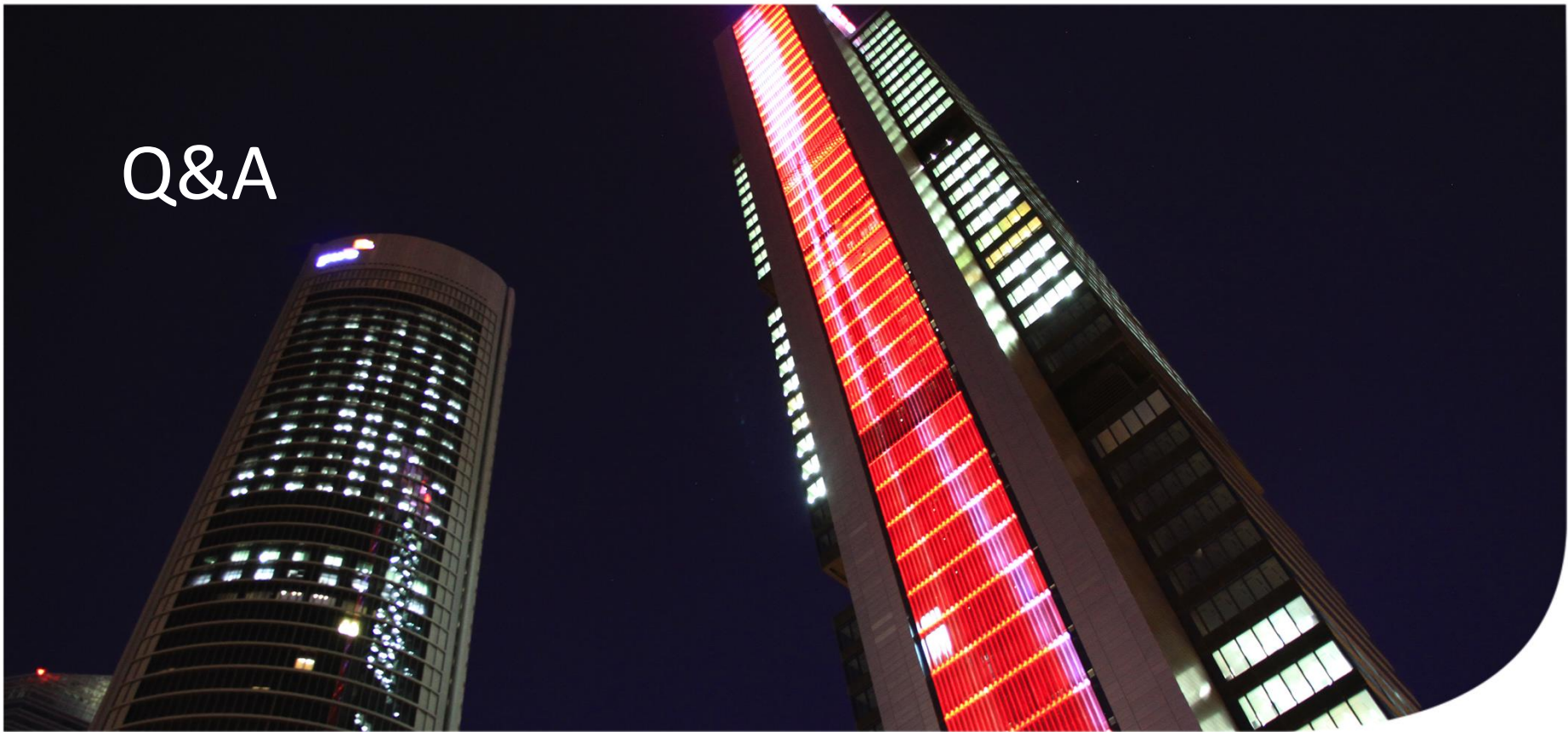
## Q2 2016 Sales FX Footprint (% of total)



## Key observations

- Currency movements had a negative impact on sales and Adjusted EBITA in the second quarter
  - Sales impact from currencies of -4.6%, mainly from US Dollar, Chinese Renminbi and Indian Rupee.
  - Adjusted EBITA impact of €-17 million or -0.5%
- Philips Lighting policy is to hedge 100% of committed FX transactions and anticipated transactions up to 80% in layers over the next 15 months

Q&A



**PHILIPS** Lighting



# Important information

## **Forward-Looking Statements and Risks & Uncertainties**

This document and the related oral presentation contain, and responses to questions following the presentation may contain, forward-looking statements that reflect the intentions, beliefs or current expectations and projections of Philips Lighting N.V. (the “Company”, and together with its subsidiaries, the “Group”), including statements regarding strategy, estimates of sales growth and future operational results.

By their nature, these statements involve risks and uncertainties facing the Company and its Group Companies and a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement as a result of risks and uncertainties. Such risks, uncertainties and other important factors include but are not limited to: adverse economic and political developments, the impacts of rapid technological change, competition in the general lighting market, development of lighting systems and services, successful implementation of business transformation programs, impact of acquisitions and other transactions, impact of the Group’s operation as a separate publicly listed company, pension liabilities and costs, establishment of corporate and brand identity, adverse tax consequences from the separation from Royal Philips and exposure to international tax laws. Please see “Risk Factors” in the Group’s prospectus, dated 16 May 2016 (the “Prospectus”) for discussion of material risks, uncertainties and other important factors which may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group. Such risks, uncertainties and other important factors should be read in conjunction with the information included in this semi-annual report.

Looking ahead to the second half of 2016, the Group is primarily concerned about the challenging economic conditions, currency headwinds and political uncertainties in the global and domestic markets in which it operates.

Additional risks currently not known to the Group or that the Group has not considered material as of the date of this document could also prove to be important and may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group or could cause the forward-looking events discussed in this document not to occur. The Group undertakes no duty to and will not necessarily update any of the forward-looking statements in light of new information or future events, except to the extent required by applicable law.

## **Market and Industry Information**

All references to market share, market data, industry statistics and industry forecasts in this document consist of estimates compiled by industry professionals, competitors, organizations or analysts, of publicly available information or of the Group’s own assessment of its sales and markets. Rankings are based on sales unless otherwise stated.

## **Non-IFRS Financial Statements**

Certain parts of this document contain non-IFRS financial measures and ratios, such as comparable sales growth, adjusted gross margin, EBITA, adjusted EBITA, EBITDA, adjusted EBITDA and free cash flow, and other related ratios, which are not recognized measures of financial performance or liquidity under IFRS. The non-IFRS financial measures presented are measures used by management to monitor the underlying performance of the Group’s business and operations and, accordingly, they have not been audited or reviewed. Not all companies calculate non-IFRS financial measures in the same manner or on a consistent basis and these measures and ratios may not be comparable to measures used by other companies under the same or similar names. A reconciliation of these non-IFRS financial measures to the most directly comparable IFRS financial measures is contained in this document. For further information on non-IFRS financial measures, see “Operating and Financial Review—Non-IFRS Financial Measures” in the Prospectus.

## **Presentation**

All amounts are in millions of euros unless otherwise stated. All reported data is unaudited. Unless otherwise indicated, financial information has been prepared in accordance with the accounting policies as stated in the Combined Financial Statements for the year ended 31 December 2015 included in the Prospectus.

## **Market Abuse Regulation**

This presentation contains information within the meaning of Article 7(1) of the EU Market Abuse Regulation.