# Philips Lighting reports comparable sales growth of 1.3% and continued improvement in operational profitability

Q3 2017 results
Analyst & Investor presentation

**October 19, 2017**

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# 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 and Risk Management” in Chapter 12 of the Annual Report 2016 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 the Company’s Annual Report 2016 and the semi-annual report for 2017.

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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 “Chapter 17 Reconciliation of non-IFRS measures” in the Annual Report 2016.

**Presentation**

All amounts are in millions of euros unless otherwise stated. Due to rounding, amounts may not add up to totals provided. All reported data are unaudited. Unless otherwise indicated, financial information has been prepared in accordance with the accounting policies as stated in the Annual Report 2016.

**Market Abuse Regulation**

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

# Agenda

**Business and operational performance by Eric Rondolat**

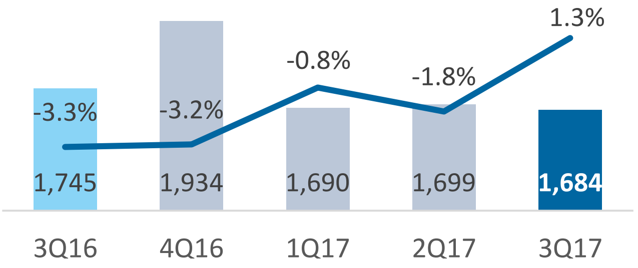
Financial performance by Stéphane Rougeot

Outlook & Conclusion by Eric Rondolat

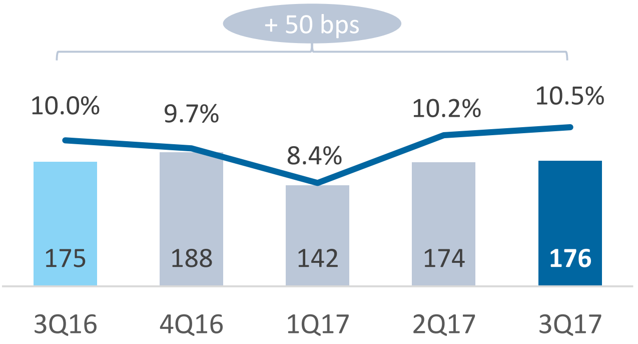
Q&A

# Positive CSG of 1.3% and 50 bps improvement in Adjusted EBITA margin

## Sales (in EURm) & comparable sales growth (in %)




## Adjusted EBITA (in EURm & as % of sales)




## Key observations for Q3 2017

- Comparable sales increased by 1.3%, driven by significant growth in LED, Professional and Home
- Total LED-based sales increased by 22%
- Growth of LED and connected lighting systems & services more than offset decline of conventional
- Europe continued to deliver robust growth
- The Americas and Saudi Arabia remain impacted by challenging market conditions
- Adjusted EBITA margin increased to 10.5%
- Net income: EUR 110m
- Free cash flow: EUR -5m, and includes:
  - Contribution to the US pension fund (EUR 42m)
  - Proceeds related to the sale of real estate (EUR 21m)
  - Working capital increased: higher inventories in Home in anticipation of Q4; inventories increased in several geographies where sales were softer than anticipated



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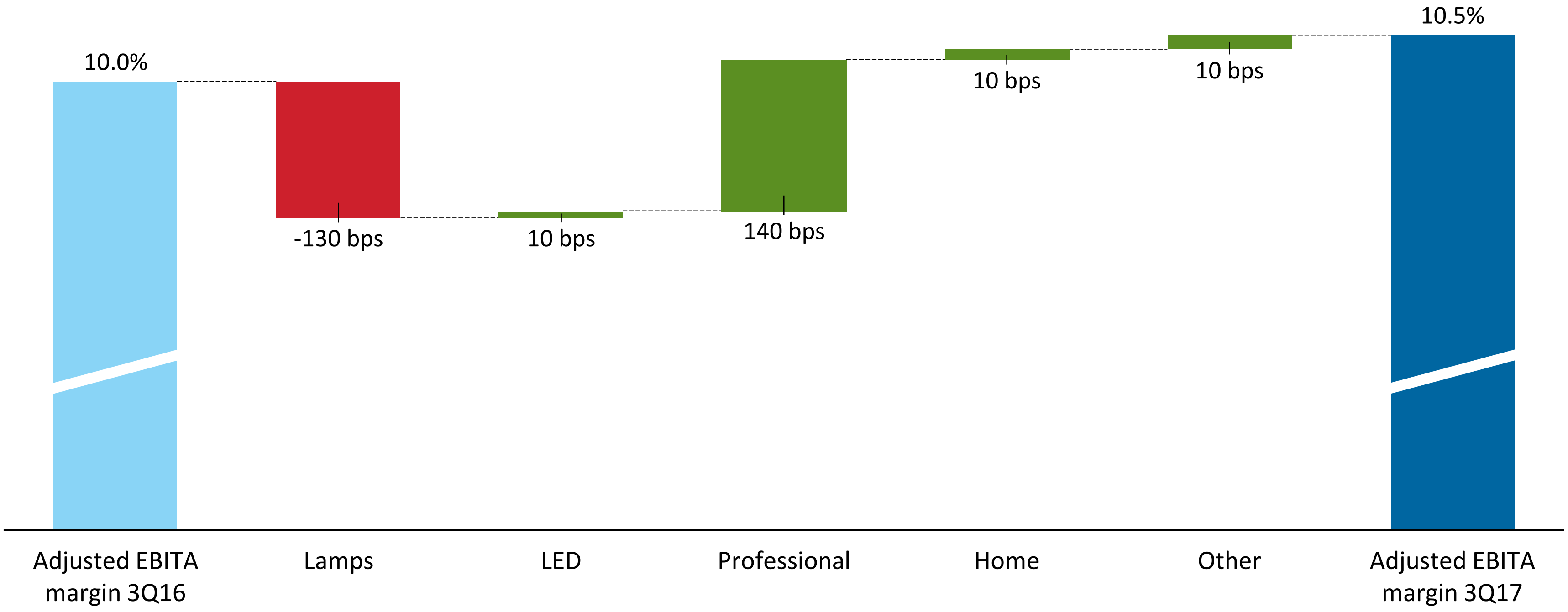
# Growth and margin improvement driven by LED, Professional & Home

| Q3 2017 | CSG % | Adjusted EBITA (EURm) | vs LY (EURm) | Adjusted EBITA % | vs LY (bps) |
|---|---|---|---|---|---|
| Lamps | -20.2% | 85 | -35 | 20.0% | -110 |
| LED | 14.3% | 45 | +5 | 10.7% | +10 |
| Professional | 7.0% | 69 | +27 | 10.1% | +380 |
| Home | 28.1% | 2 | +3 | 1.4% | +220 |
| **Philips Lighting** | **1.3%** | **176** | **+1** | **10.5%** | **+50** |

# Growth and higher profitability at LED, Professional and Home more than offset decreasing profit contribution of Lamps



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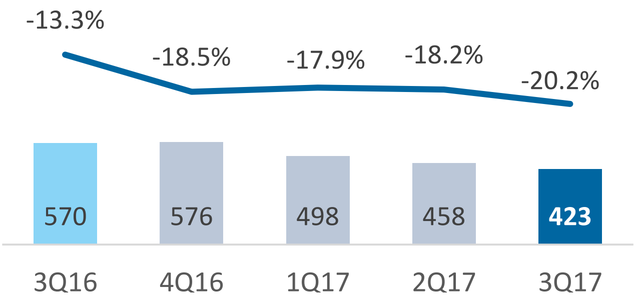
# Lamps comparable sales decline partly reflects high base of comparison in Q3 2016

## Sales (in EURm) & comparable sales growth (in %)

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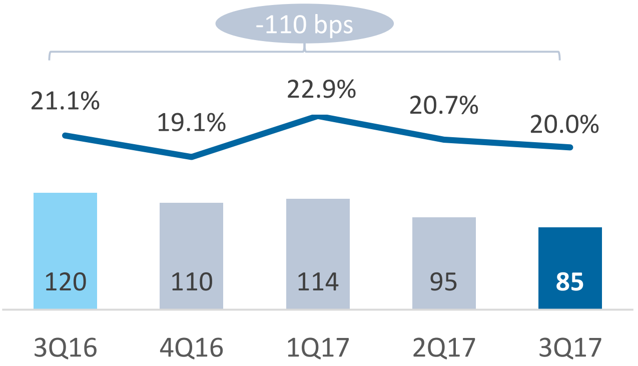


## Key observations for Q3 2017

- Comparable sales declined by 20.2%, partly reflecting a high base of comparison in Q3 2016
- We estimate that the conventional lighting market declined at a faster pace than our Lamps business, resulting in continued market share gains

- Adjusted EBITA margin remained robust at 20.0% as a result of:
  - Procurement & productivity savings largely offsetting the sales decline
- Additional restructuring costs expected in Q4 2017 to continue optimizing our industrial footprint in 2018 and beyond



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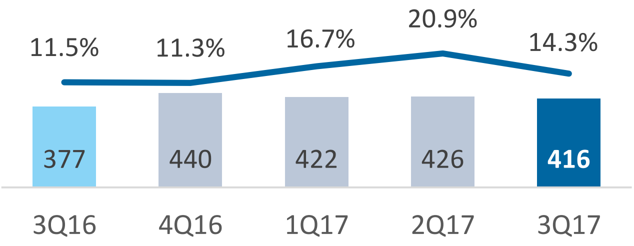
# LED shows continued volume growth, driven by LED lamps

## Sales (in EURm) & comparable sales growth (in %)

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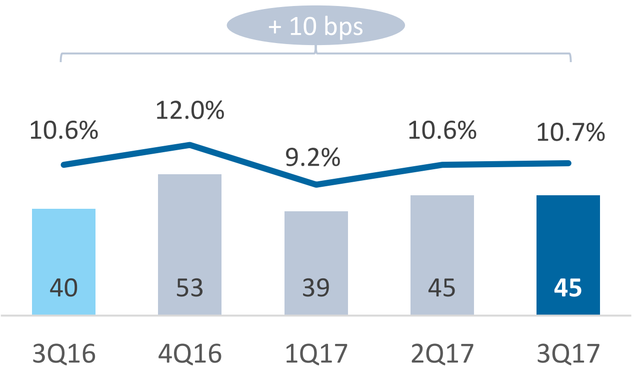


## Key observations for Q3 2017

- CSG of 14.3% driven by significant volume growth, partly offset by lower selling prices and stronger growth in more affordable products
- Growth was primarily driven by LED lamps; growth in LED electronics slowed down
- All regions contributed to growth; countries with high LED penetration rates showed lower growth

- Adjusted EBITA margin improved by 10 bps, driven by:
  - Operational leverage
  - Procurement savings

  Offsetting price reductions and mix impact



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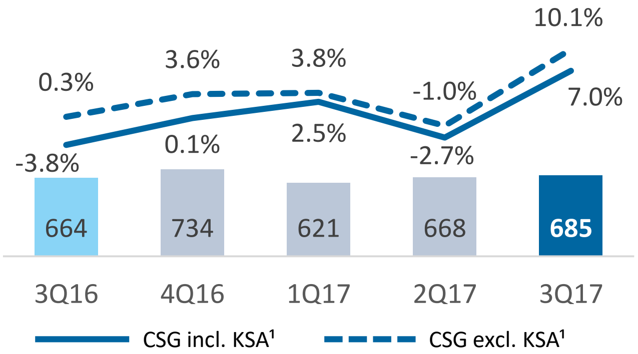
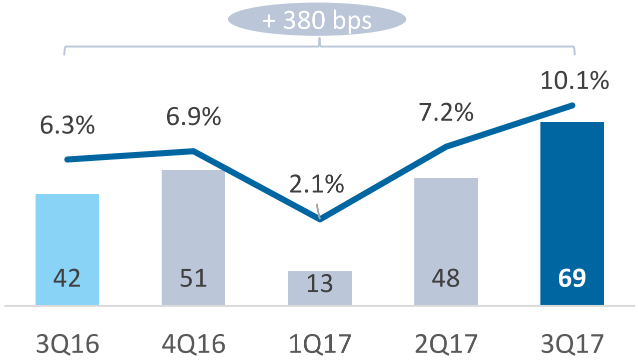
# Professional significantly improved CSG and profitability

## Sales (in EURm) & comparable sales growth (in %)




## Adjusted EBITA (in EURm & as % of sales)




## Key observations for Q3 2017

- CSG of 7.0%; Europe and the Rest of the World remained strong
- Market conditions in the US continued to be soft, particularly for small- to medium-sized projects
- Market conditions in Saudi Arabia remained challenging, negatively impacting CSG by 300 bps
- Performance does not reflect any contribution from a larger project in the US

- Adjusted EBITA margin increased by 380 bps to 10.1%, driven by:
  - Operational leverage
  - Mix improvements
  - Cost reductions

[1]KSA: Kingdom of Saudi Arabia



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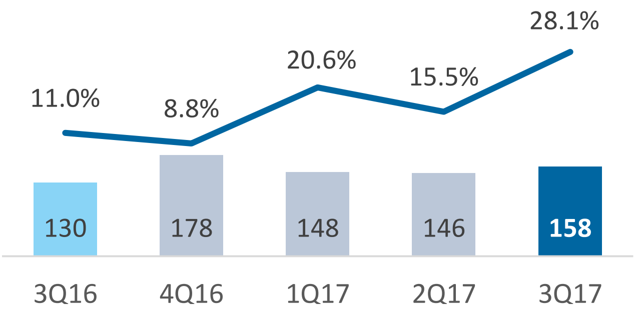
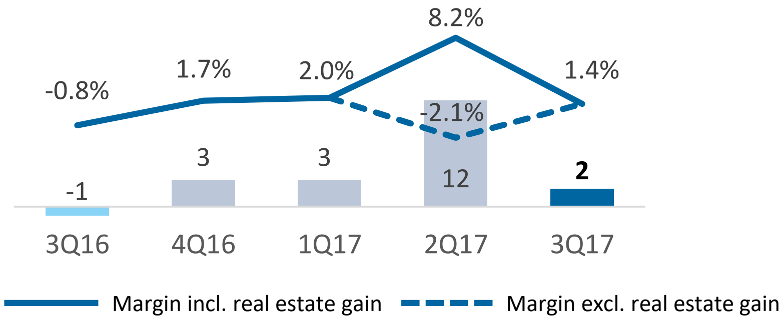
# Growth acceleration in Home, profitability improved; continued investments in growth

## Sales (in EURm) & comparable sales growth (in %)




## Adjusted EBITA (in EURm & as % of sales)




## Key observations for Q3 2017

- Acceleration of CSG at 28.1%:
  - Significant growth in Home Systems
  - Solid growth in all regions
- Home systems continued to invest to support future growth:
  - Innovation
  - Marketing
  - Supply chain
- The Adjusted EBITA margin improved by 220 bps to 1.4%, driven by:
  - Operational leverage
  - Continued focus on product cost innovation



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# Agenda

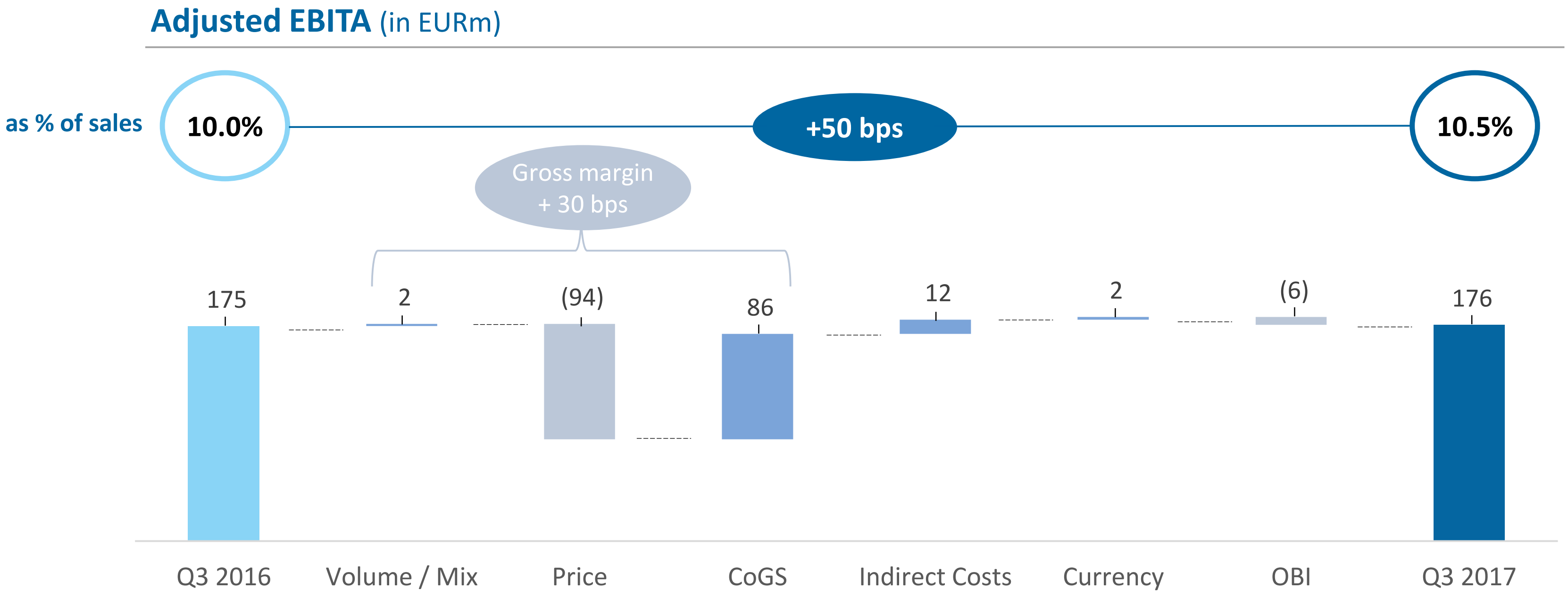
Business and operational performance by Eric Rondolat

**Financial performance by Stéphane Rougeot**

Outlook & Conclusion by Eric Rondolat

Q&A

# Adjusted EBITA margin improvement primarily driven by procurement & productivity savings and indirect cost reductions




**) Other business income includes the sale of real estate last year and an increase in withholding tax this year*



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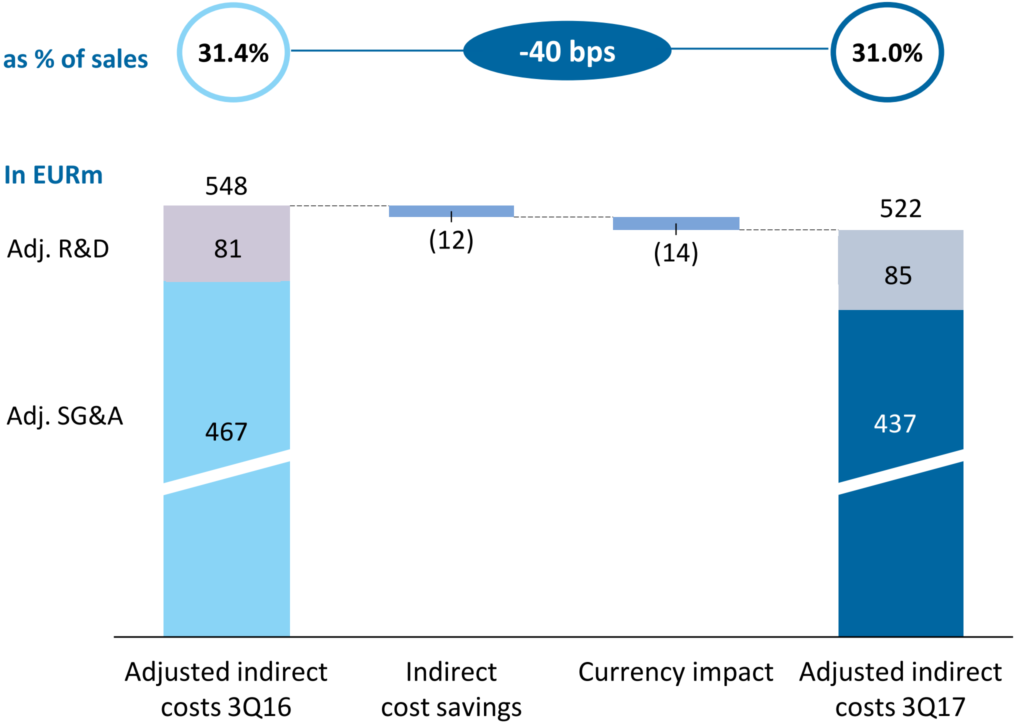
# Developments in adjusted indirect costs in Q3 2017




## Key observations for Q3 2017

- Indirect cost reduction of EUR 12m, including additional investments to support growth
- Positive currency impact of EUR 14m
- Executing a detailed plan to realize cost savings:
  - Selling expenses
  - IT
  - Real Estate
  - Finance
  - HR



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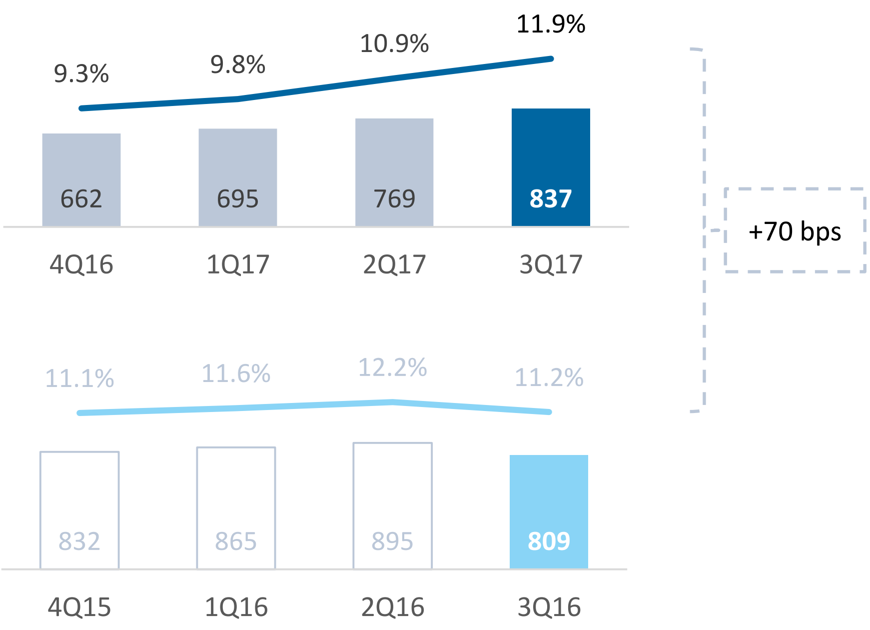
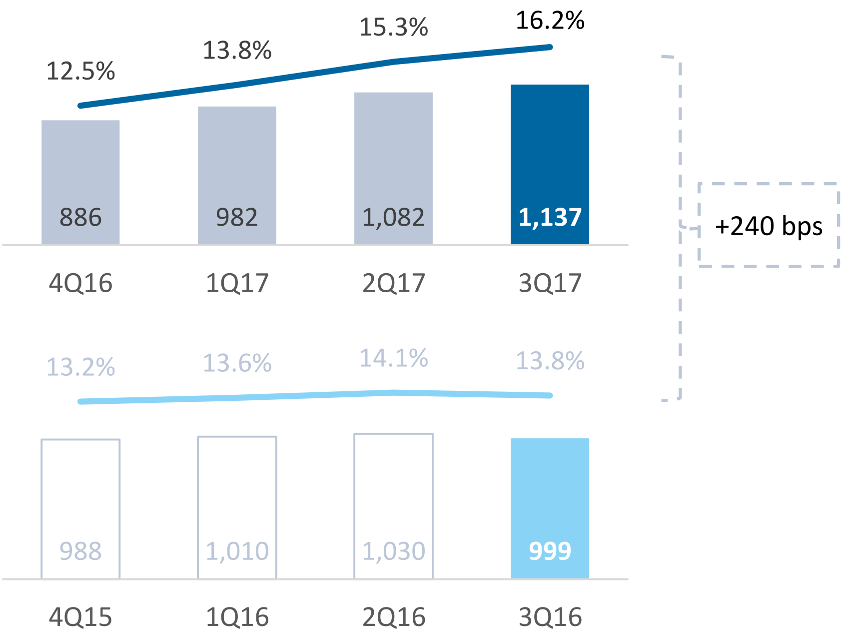
# Working capital as % of sales increased by 70 basis points y-o-y to 11.9% mainly due to higher inventories

**Working capital**[1] (in EURm & as % of sales)




**Inventories** (in EURm & as % of sales)




[1] Working capital includes inventories, receivables, accounts and notes payable, other current assets & liabilities, derivative financial assets & liabilities, income tax receivable & payable, and accrued liabilities



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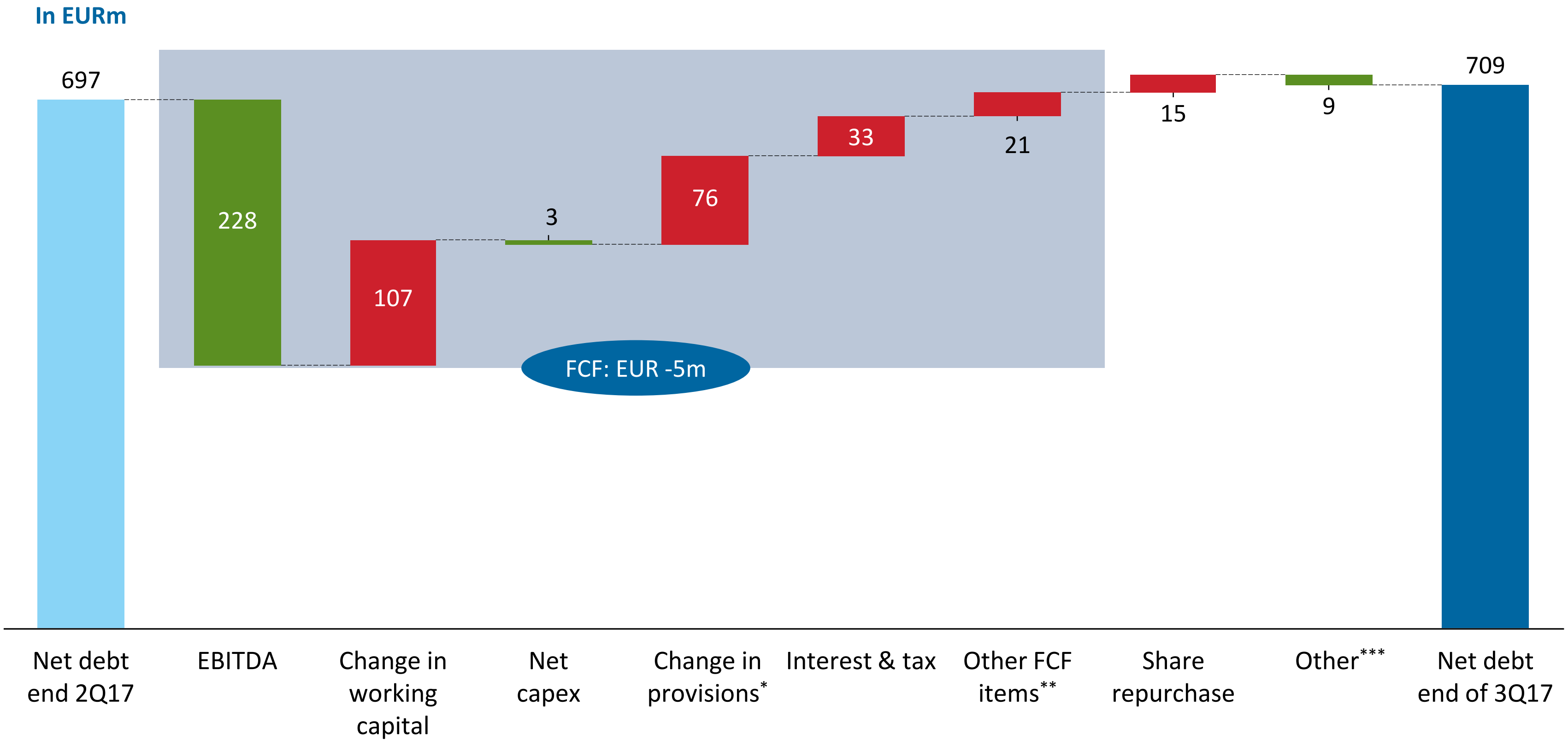
# Net debt increase of EUR 12m




*) Includes a contribution of EUR 42m to the company's pension fund in the US

**) This is mainly related to the real estate gain of EUR 21m

***) Mainly related to foreign exchange impact on debt and cash, and proceeds from derivatives



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Q&A

# Achieved positive CSG, on track to improve our Adjusted EBITA margin and expect strong FCF in Q4 based on a substantial reduction in inventories

- Achieving positive **comparable sales growth** in Q3 2017 is an important step in the improvement of our growth profile

- On track to improve the **Adjusted EBITA margin**: approximately 50-100 basis points in 2017, excluding a real estate gain of EUR 15m in Q2 2017

- Expect a strong **free cash flow** in Q4 2017 based on a substantial reduction in inventories

# Q&A

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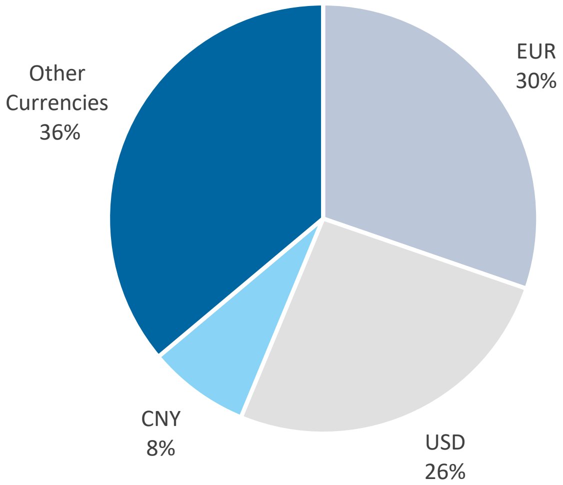
# Currency movements had a negative impact on sales and positive impact on Adjusted EBITA

## Q3 2017 Sales FX Footprint (% of total)




## Key observations

- Currency movements had a negative impact on sales and a positive impact on Adjusted EBITA in Q3 2017
  - Sales impact from currencies of EUR -55m, mainly from the US dollar and CNY
  - Adjusted EBITA impact of EUR +2m, mainly driven by positive effect of CNY depreciation on COGS
- Philips Lighting policy is to hedge 100% of committed FX transactions and anticipated transactions up to 80% in layers over the next 15 months

# Net income of EUR 110m driven by higher operating profit and EUR 21m real estate gain

## From Adjusted EBITA to net income (in EURm)

| | 3Q16 | 3Q17 |
|---|---|---|
| **Adjusted EBITA** | **175** | **176** |
| - Restructuring | -49 | -9 |
| - Acquisition related charges | 0 | 0 |
| 1 - Other incidental items | -6 | 23 |
| **EBITA** | **120** | **191** |
| Amortization | -27 | -30 |
| **EBIT** | **93** | **161** |
| Net financial income / expenses | -12 | -10 |
| 2 Income tax expense | -30 | -42 |
| Results relating to investments in associates | 0 | 0 |
| **Net income** | **51** | **110** |

## Key observations

1. Real estate gain of EUR 21m in Q3 2017
2. Income tax expense increased by EUR 12m mainly due to higher taxable earnings in Q3 2017



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# Free Cash Flow of EUR -5m

## Free cash flow (in EURm)

| | 3Q16 | 3Q17 |
|---|---|---|
| Income from operations | 93 | 161 |
| Depreciation and amortization | 72 | 67 |
| Change in working capital | 87 | -107 |
| Net capex | -21 | 3 |
| Change in provisions | 7 | -76 |
| Interest paid | -14 | -4 |
| Income taxes paid | -36 | -29 |
| Other | -24 | -21 |
| **Free cash flow** | **164** | **-5** |
| *As % of sales* | 9.4% | -0.3% |

## Key observations

- Free cash flow decreased to EUR -5m:
  - Working capital increased as an improvement in the growth profile and a build-up in Home ahead of the high season in Q4 led to higher inventories
  - Inventories increased in several geographies where sales were softer than anticipated
  - FCF includes a contribution of EUR 42m to the US pension fund, partly offset by the proceeds of the sale of real estate of EUR 21m
- Cash outflow restructuring EUR 22m and separation EUR 8m



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