Client Id: 77

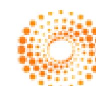
THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

LIGHT.AS - Q2 2018 Signify NV Earnings Call

EVENT DATE/TIME: JULY 27, 2018 / 7:00AM GMT

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

CORPORATE PARTICIPANTS

Eric Rondolat *Signify N.V. - CEO & Chairman of the Board of Management*

Robin Jansen *Signify N.V. - Head of Investor Relations*

Stephane Rougeot *Signify N.V. - CFO & Member of the Board of Management*

CONFERENCE CALL PARTICIPANTS

Alexander Stuart Virgo *BofA Merrill Lynch, Research Division - Director*

Andreas P. Willi *JP Morgan Chase & Co, Research Division - Head of the European Capital Goods*

Daniela C. R. de Carvalho e Costa *Goldman Sachs Group Inc., Research Division - MD & Head of the European Capital Goods Equity Research Team*

Lucie Anne Lise Carrier *Morgan Stanley, Research Division - VP*

Martin Wilkie *Citigroup Inc, Research Division - Director*

Nigel Van Putten *Kempen & Co. N.V., Research Division - Analyst*

Peter Reilly *Jefferies LLC, Research Division - Head of Capital Goods of Equity Research*

Sven Weier *UBS Investment Bank, Research Division - Executive Director and Analyst*

Marc Hesselink *ING - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, welcome to the Signify earnings call Q2 and H1 2018. (Operator Instructions) I would now like to give the floor to Robin Jansen, Head of Investor Relations. Mr. Jansen, please go ahead.

Robin Jansen - *Signify N.V. - Head of Investor Relations*

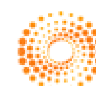
Good morning everyone and welcome to the Signify earnings call for the second quarter results 2018. With me are Eric Rondolat, CEO of Signify and Stephane Rougeot, CFO. In a moment Eric will take you through the second quarter and first half year business and operational performance. Stephane will then tell you more about the financial performance in the second quarter and Eric will end today's presentation with the financial outlook and conclusion. After that we will be happy to answer your questions.

Our press release and the related slide deck were published at 7:00 a.m. CET this morning. Both documents are available for download from our Investor Relations website. The full transcript of this conference call will be made available as soon as possible on our Investor Relations website. With that I will now hand over the call to Eric.

Eric Rondolat - *Signify N.V. - CEO & Chairman of the Board of Management*

Thank you Robin, good morning everyone, and thank you for joining us today. I propose that we go straight to Slide 4 with the main elements of our performance in the second quarter. Our comparable sales declined by 3.4% due to a weak performance in Home, challenging market and competitive conditions in some geographies, as well as a global scarcity in certain electronic components. Total LED based sales increased by 4.7% now representing 70% of our sales. We made good progress in reducing our cost base. Adjusted currency comparable indirect costs decreased by EUR 46 million or 150 basis points as percentage of sales. As a result, all business groups except Home were able to improve their margin in the quarter. Overall our margin of 8.4% was 100 basis points lower than last year, which was mainly due to a negative currency effect of 80 basis points. Our cash flow situation was better than last year when excluding EUR 17 million of incidental real estate proceeds back in Q2 2017.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Now let's move to Slide 5, where you can see a snapshot of the financial performance by business group. In a nutshell, solid sales growth in Professional was offset by a decline in Lamps and Home, while LED delivered stable comparable sales in the quarter. In the last column you can see that Lamps, LED and Professional improved their margins despite currency headwinds.

But let me now walk you through each of our business groups starting on Slide 6 with Lamps. Comparable sales declined by 16.4%. We estimate that the conventional Lamps market continued to decline faster than our Lamps business in Q2, which has resulted in continued market share gains. As you can see, Lamps delivered a very strong margin at 21.2% this is 50 points higher than last year and driven by lower indirect costs, ongoing procurement saving, and increased productivity more than offsetting adverse currency effects.

Let's now move to LED, on Slide 7. Comparable sales in LED were flat year-on-year on the back of a high comparison base and more challenging market conditions in certain geographies like Spain, Canada, and the U.K. In LED Lamps we see that volumes are gradually converging to market growth, while price erosion continues to slow down. In LED electronics, the comparable sales trend improved in the quarter following several quarters of lower demand from our OEM customers. The adjusted EBITA margin improved by 10 basis points to 10.6% as a result of continued improvement in procurement savings and lower indirect costs, which was partly offset by price erosion and currency effects.

On the next slide, Slide 8, you can see some of the business highlights for this quarter, for LED. So, let me zoom in on the launch of the Philips MyCare LED bulbs in Asia. Parts of the design of these bulbs are inspired by sunflowers. The bulbs use our patented interlaced optics technology that reduce glare by 35%. It results in uniform light that is more comfortable on the eye. Furthermore, we launched a new innovative product in India, which is -- as you can see the funny T-Bulb. Indian consumers indicated that they prefer a linear form factor because of a better light spread and the decorative look, which is perceived to be more premium.

Let's now move to Professional on Slide 9. We are pleased with the overall performance of Professional. Comparable sales increased by 3.6% despite more challenging market conditions in some geographies and scarcity in certain electronic components globally. Europe and the rest of the world remained robust. In Europe, the U.K. market remains very difficult and in countries like Italy and Spain market activity slowed down due to political uncertainties. In the rest of the world, India delivered a strong performance and Saudi Arabia showed signs of improvements, limiting the impact on CSG to 60 basis points for the quarter.

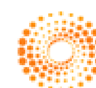
In the U.S., we saw an improvement in the comparable sales trend compared to preceding quarters, while Canada faced challenging market conditions. The adjusted EBITA margin increased by 70 basis points to 8.4%, which was mainly driven by lower indirect cost partly offset by a more challenging pricing environment.

Now let's move to Slide 10, and there are a couple of business highlights that we would like to bring to your attention for the Professional business. For example, this quarter we won the next phase of the world's largest horticulture LED lighting project at Agro-invest in Russia. Agro-invest is doubling the size of its greenhouse to the equivalent of 100 soccer pitches. The quick payoff of the first phase that we started to install last year together with a clearly visible improvements in the crop yields of these tomato grower resulted in the expansion of their investment in Philips GreenPower LED toplighting and interlighting.

In addition, we are pleased to tell you that we launched the Interact Pro offer, which is bringing IoT connected lighting to small and medium enterprises through leveraging our Hue architecture, which we're using on the consumer side. Another highlight this quarter is the acquisition of LiteMagic Technologies in China, a small side acquisition, which is strengthening our position in the very attractive Chinese facade lighting market.

I propose that we now turn to Slide 11. Home reported a decline in comparable sales of 5.9%. To remind you of the situation, inventory levels at our main U.S. trade partners were too high at the end of 2017 and we indicated back in April that we would need most of Q2 to further wind down the inventories to more normalized levels. In the course of Q2 inventory levels have indeed returned to more normalized levels in the USA. As a result, sales growth in Home systems in the U.S. improved as to the preceding quarter especially towards the end of Q2. Sell-out continued to show strong double-digit growth. The lack of top line performance impacted profitability due to under-absorption of fixed cost and investments in growth since Q2 of last year.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Also for Home, we have a couple of business highlights that we would like to share with you on the following slide, which is Slide 12. One that I would like to call out is that we strengthened the position of Philips Hue as the world's leading system for the home by launching the Hue Outdoor range in the U.S. and Europe, extending the Hue features and functionality to any outside area. All the products are designed for outdoor use and easy to install through the plug and play system. The products include both Hue white and Hue white and color ambiance ranges. The products have a color temperature range of 2200 to 6500 Kelvin and feature, as usual, the famous 16 million colors. In addition, we updated the Philips Hue App with 3.0 version and we also introduced our Philips Hue range to our customers in Indonesia, Malaysia and also Thailand.

This is what I wanted to cover regarding the business and operational performance. I will now hand over to Stephane, who will tell us more about the financial performance for the second quarter 2018.

Stephane Rougeot - *Signify N.V. - CFO & Member of the Board of Management*

Thank you, Eric. Let me now turn to Page 14 and take you through the adjusted EBITA bridge. So first, when you look at the adjusted gross margin as a percentage of sales, it decreased by 200 basis points in the second quarter of 2018 compared to a year ago. This is mainly due to a high comparison base, the second quarter of last year was one of the highest in terms of gross margin and that is particularly true in Lamps and we had a weak performance in Home particularly due also to the low leverage and low level of revenues.

We continue to generate procurement savings and also improve our productivity and this was offset, of course, by continued price erosion and also by currency effects. Overall, ForEx negatively impacted the adjusted EBITA margin by 80 basis points and that was due to adverse swings in currencies such as the Indonesian rupiah, the Argentinian peso, Indian rupee, the U.S. dollar as well and that was offset, but only partially, by the favorable impact of the Chinese renminbi. You can see also that we have significantly reduced our indirect cost base in the second quarter with savings of EUR 46 million excluding the impact of ForEx.

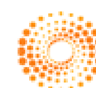
On the next page, Page 15 let's take a look at the indirect cost base evolution. You can see a very sharp reduction compared to a year ago in percentage of sales because there is, of course, a little bit of a ForEx impact. We came down from 31.1% compared to 32.3%, so that is a material reduction, 120 basis points. It's also a material reduction when you look at the indirect cost savings in absolute value without ForEx, minus EUR 46 million, this is minus 8% of our cost base without ForEx and this is the result of the multi-year transformation program that we have engaged in order to simplify our organization and to be more cost competitive. All these initiatives allowed us to generate those EUR 46 million savings compared to last year. And we are continuing on the very good trajectory that we had in the first quarter, where we reduced our indirect costs by EUR 38 million on a currency comparable basis. Of course, ForEx also contributed to the lower cost base by an amount of EUR 25 million, pretty close to the one we had also in the first quarter.

On the next page you can see more details on how we are driving our cost down and how we are simplifying our organization, both what we have done in the first half but also what we are working on and what we have engaged in order to deliver further cost reduction in the second half. For example, when you look at the first half in terms of organization improvement, we are delayering the organization in many areas, we are also reducing headcount especially in transversal and support functions. And we are taking actions such as reducing the number of contingent workers, which has been reduced by 80%.

With respect to processes, we are improving the way we do shipments in order to reduce costs. We have optimized also our online portals, that we have touchless ordering which have increased by more than 50% in the first half in many markets. So a lot of improvements from a process standpoint which allow us to be simpler, leaner and operate at a lower cost. We are also working on the footprint especially in terms of real estate, manufacturing footprint, warehousing footprint, but also office footprint. Office space is being reduced, we are consolidating, we are doing subleases, if you look at the whole year we expect to reduce 14% of our office space at the end of the year compared to a year before. And we are also offshoring certain activities in a number of functions like finance, HR and IT .

Indirect materials is also an area where we are spending a lot of time to control both demand but also price through supplier negotiations. And in the first half we have reduced our indirect material spend by more than 10% year-on-year compared to 2017. And finally, we are working also a lot on everything that relates to our product portfolio, how we can use platforming in order to improve the competitiveness of our products. Also, our speed to market in terms of innovation, simplify the portfolio, look at the health of our portfolio in the various business groups. This is leading

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

to a lot of SKU reductions that have started also in the first half and will continue in the second half. So many actions that have supported the reduction of EUR 46 million in the first half and will contribute to a further improvement in the second half. As some of the cost savings that we have had has come earlier than we had previously expected, we now expect the absolute savings to be more evenly spread between the first half and the second half. However, when we look at it as a percentage of sales, we expect that the magnitude of the savings is going to be bigger than in the first half.

Let's now look at working capital in the second quarter of 2018. So compared to the same period last year, our working capital has decreased by EUR 95 million, and it now represents 10.5% of sales. This is an improvement compared to the 11.2% of sales that we had at the end of the second quarter of 2017. And that's mainly driven by lower receivables. And also by a reduction in the absolute value of our inventories by EUR 73 million.

When you look at the inventories they stayed flat year-on-year on at 15.3% at the end of the second quarter, same level as the end of last year. However, currencies had a negative impact. And when you look on the currency comparable basis, the inventories decreased by 40 basis points. Also, we managed our inventories in a much more efficient way than in the second quarter of last year in order to avoid the spike that happened last year in the second quarter and also to some extent in the third quarter.

As you may remember, last year we had an increase of 210 basis points of our inventories between the end of March and the end of June on a same currency basis. This year, the increase between the end of March and the end of June is limited to 70 basis points. And that has contributed to a significant improvement in our free cash flow from working capital compared to the second quarter of 2017 as we will see in a minute.

Turning to next page, Slide 18. You can see our net debt level increased by EUR 253 million compared to the end of the first quarter. This is mainly due to our dividend distribution that happened in the month of May for EUR 171 million. Next to the profit that we have generated during the quarter the change of working capital that I have just mentioned you can see also these items in the bridge that impacted cash and therefore our debt position.

We limited CapEx to an outflow of EUR 22 million in the quarter. Next to that, we had about EUR 28 million that we paid for tax and for interest. And finally, we also repurchased shares for our long-term incentive plan. This all-in-all led to an increase in our net debt position to EUR 688 million at the end of the second quarter, a level that is pretty close to the level we had at the same period last year.

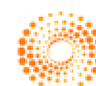
Let me turn now to Page 19 and our capital allocation policy. We continue to expect to generate a solid free cash flow in 2018, which will enable us to maintain a financing structure that is compatible with an investment grade profile. In terms of cash use since the beginning of the year, as I have mentioned, we paid the dividend of EUR 171 million on the 29th of May. We've repurchased shares for EUR 71 million in February by participating in the share disposal of our main shareholder. We've used EUR 33 million to repurchase shares to cover performance share plans and that was completed in the second quarter.

We intend, moving forward, to contribute to the reduction of our U.S. pension and deficit by an amount of $50 million in the third quarter, which is the same amount as we did last year at the same period and that will reduce our liabilities and also future interest expenses with respect to pensions.

We announced the acquisition of LiteMagic Technologies, the closing is expected in the third quarter. It's a small size acquisition as mentioned by Eric. And finally, when we take into account our expected cash flow generation, also our financing structure and the belief in our long-term prospect of our business, we've decided to increase the amount allocated for share repurchase in 2018 from EUR 150 million to EUR 300 million. As a consequence, we will repurchase additional shares for up to EUR 229 million in the remainder of 2018, either in the open market or potentially by participating in the share disposal by our main shareholder, should it happen.

To conclude and you can see this on the right-hand side, when you look at 2017, with a free cash flow generation of EUR 403 million, we have allocated EUR 464 million of capital mostly towards our shareholders. With this additional share buyback program that we have just announced, we will allocate in 2018 an even higher amount capital to our shareholders to a magnitude of over EUR 500 million. And this is despite a free cash flow that will be somewhat lower than in 2017. This will likely take our average leverage ratio slightly above 1x at the end of the year. And that

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

reflects our confidence in our free cash flow generation in 2018 but also beyond, and our objective to maintain a sound financial structure while keeping the flexibility to seize non-organic opportunities which may arise.

Let me now hand back to Eric for the final part of the presentation.

Eric Rondolat - *Signify N.V. - CEO & Chairman of the Board of Management*

Thank you, Stephane. Before I move to the outlook, let me briefly zoom in on the performance of H1, as we normally do. So on Slide 21, we provide a snapshot of our LED-based sales, which grew by 5.3% to EUR 2.1 billion in the first half of this year. In the left chart, you can see that our LED-based sales grew at a CAGR of 24% since 2013. As a result, nearly 70% of our total sales is now LED based compared to 26% back in 2013. In the pie chart it is also interesting to see that Professional represents half of total LED-based sales and is growing by 10%.

Let's now move to Slide 22. So despite a declining top line we have been able to keep our margin stable in the first half of 2018, if we exclude the negative ForEx effect of 60 basis points. This was mainly driven by the strong progress we made in cost reductions that we have talked about before. And excluding the real estate proceeds in H1 2017, we also improved our free cash flow in the first half of 2018 as better cash management enabled us to offset lower profit contribution.

Let's move now to the outlook on Slide 23. Given the slow start of the year in Home, more challenging market and competitive dynamics in some geographies, as well as global scarcity in certain electronics components, we have decided to revise our sales outlook for 2018. We expect our sales growth performance to improve in the second half of the year, but this will not be enough to deliver positive comparable sales growth for the full year.

Taking into account the anticipated cost saving in the second half of the year, we maintain our early outlook to improve the adjusted EBITA margin from 9.6% in 2017 to 10% to 10.5% in 2018 albeit at the lower end of the range. Based on the prevailing spot rates at the end of June 2018, the currency impact on the adjusted EBITA margin would be in the range of minus 30 to minus 50 basis points for full year 2018 and minus 50 to minus 70 basis points specifically for Q3.

On the cash side, we expect to generate solid free cash flow in 2018, which is expected to be somewhat lower than the level in 2017 due to higher restructuring payments as indicated at the start of the year. P&L restructuring cost for the year are expected to be around EUR 155 million, when also taking into account the costs related to the company name change. And for Q3, we expect P&L restructuring cost to be around EUR 30 million.

With that, I would like to open the call for questions, which Stephane and myself are happy to answer.

QUESTIONS AND ANSWERS

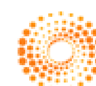
Operator

(Operator Instructions) And we have a question from Andreas Willi from JP Morgan.

Andreas P. Willi - *JP Morgan Chase & Co, Research Division - Head of the European Capital Goods*

I have -- the main question on the outlook in terms of, maybe you can help us a bit to better understand there the margin improvement in the second half comes from maybe also on a divisional basis if you compare to last year's margin. You already said cost savings should be similar, it doesn't seem to be a big improvement in FX so it probably has to be operational or top line driven, maybe you could help us a little bit to better understand that? And then the second question on Home, if I understand you correctly, inventories are now relatively in line. So assuming inventory changes in the market again, the business should grow similar to the sell-out in the second half of the year, but we still have to compare against

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

H2 last year, where you probably grew about 20 points above the sell-out. Is that the right way to look at it that we basically -- whatever we assume the sellout is, we then just have to adjust for the fact that the base was inflated by around 20%?

Eric Rondolat - *Signify N.V. - CEO & Chairman of the Board of Management*

Let me start with the second question, I think you have summed it up very well. So let me now tell you what happened in Q2 and the way we see the second semester. So the performance in Home was lower than expected in April and May and improving according to what we had imagined in June. So the trend that we are seeing on the sell-in is positive throughout the quarter, but not for the full quarter given a weak April and a weak May. So we should see now that the inventories are being repositioned. We are in specifically the United States with the big retailers we were talking about, the average inventories is between 8 to 10 weeks and that have continued to go down. So we expect now to sell more and that's also what we have already seen in June. But of course, we will be comparing our sales, as you have rightly said it, to a higher comparison base last year. So you've mentioned 20% and we have done specific and very precise calculation on that, but you should not be too far. On the first question about margin improvements in the second half, maybe I can take it more holistically and maybe then Stephane can go into more details by businesses. So the way we operate, we give the target for the whole organization for the year. And that target is also given by quarter. Of course, the target that we give for the full year is pretty much in line with the guidance that we are giving to the markets. If you look at where we sit at the end of H1, which is 7.7% Adjusted EBITA margin, we are in line with our plan. Despite things that were not in the plan, the slow start of Home was not integrated at all, as you can imagine in the original plan. Also, we are taking a ForEx assumption which is based on the ForEx in September of the previous year. You know this is the moment where we do the target setting, so we had to decide on the ForEx level and what we take is September of the previous year. As you see, there was a negative ForEx impact during the first semester that we also had to compensate. We always said that the name of the game for us in order to continue to expand on the profit margin would be less on the gross margin and more on the cost. And as we can see we've been able to, on the cost, to do substantially more than what we had originally planned at the end of the first semester, in line with our plan. But our plan doesn't stop at the end of H1. The plan continues in H2. And on the basis of what we have been demonstrating, that we could adjust and maintain the level of performance that we were aiming at in H1, we believe that we have the resources and we have the plan, very detailed plan, to do that in H2. But I can now ask Stephane maybe to give a bit more flavor of where and in which businesses it's going to come.

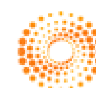
Stephane Rougeot - *Signify N.V. - CFO & Member of the Board of Management*

Yes, Andreas and of course, without giving any guidance per division because we don't do that. When you look at the first half we have improved our adjusted EBITA margin in each of the 3 divisions: Lamps, LED and Professional. And of course, only Home, as mentioned by Eric, has been low and lower than expected. On Home we don't expect that to happen, of course, in the second half. So that's going to make a significant improvement compared to the first half. When you look at the first, the order of divisions, we believe that with the improvement in the sales trend that we expect in the second half, compared to the first half, and more importantly, with the reduction of costs that we have engaged, compared to last year, we believe each of those divisions is going to be able to deliver and improve adjusted EBITA in the second half compared to the second half of last year. As you saw Lamps, taking into account the decline in sales, is trending well. And therefore, from that standpoint, we can compare to the second half of last year, we should be able to improve the adjusted EBITA margin. LED, we have been generating quite a number of efficiencies and improvements. And even in the first half on the back of limited growth, we have been improving the margin. We believe that we can continue this in the second half year-on-year. And finally, Professional is growing and we expect also in the second half to continue to improve the adjusted EBITA margin, the same way we have done it in the first half. It has improved by 190 basis point and we believe we can also improve it in the second half, the adjusted EBITA margin of course. That's what makes us confident about our capacity to improve the overall adjusted EBITA margin in the second half and to reach the guidance that we have given in terms of profit although probably more at the low end of the range.

Operator

Our next question comes from the line of Lucie Carrier from Morgan Stanley.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Lucie Anne Lise Carrier - *Morgan Stanley, Research Division - VP*

I will ask first, the first one. You have been mentioning component shortages as a more recent headwind and I was wondering if you could quantify the impact of this headwind for the second quarter, and how we should think about potentially this challenge for the rest of '18 and into 2019? And also, if you can give us some color on which components you are exactly referring to? That's question #1.

Eric Rondolat - *Signify N.V. - CEO & Chairman of the Board of Management*

So we are talking about MLCCs and MOSFETS, basically resistors, so these are the 2 critical components that we wanted to highlight. Basically, when you look at those components, we saw tension on the market at the very back-end of 2016, but it was totally manageable with our suppliers, as the leader also of the lighting industry we have an edge in big volumes. And so we had a clear visibility with our suppliers on when they would, when they would deliver. At the end of May 2018, that visibility went down drastically, and even for our key suppliers for these components, and it is a global shortage worldwide at this point in time. So we are having visibility which is now very narrow and it's week after week that we get an indication of what would be the available quantities of components for us. We are working on that with those new conditions, understanding that we are trying to change components when we can by changing the design of the products. We have also been buying components on the open market so that increases also our cost. Because when you buy components from the spot market you can buy them at a factor x of what would be the normal cost. But we are trying with an absolute priority to deliver our customers. We're not giving a specific indication of -- by how much this will impact us in 2018. But that's one of the elements that make us revise, at this point in time, our guidance for the full year, saying that we will not be growing for the full year, even if we're going to improve our growth trend in the second half. As far as 2019 is concerned, I think it's too early to tell. I've given the very short visibility that we have. But we are working on it and not only trying to get allocated a lot of these components because we have a strong buying power but we're also looking at what we can do from a design standpoint, in order to be less dependent on them. We cannot totally eradicate our dependence on those components because we don't have alternatives in some cases but whenever it's possible we try and do it.

Lucie Anne Lise Carrier - *Morgan Stanley, Research Division - VP*

Thank you very much for the color. My second question was related to your Lamps business, I know halogen is a small technology for you but, I was just wondering if you are seeing a little bit of a pre-valuation you benefited a little bit of some pre-buy in the second quarter and if you are expecting also some in the third quarter ahead of the European ban that is going to start in September, I believe?

Eric Rondolat - *Signify N.V. - CEO & Chairman of the Board of Management*

Yes, we see some, already in Q2, some of the pre-orders for the final orders and that will continue in Q3 and potentially also in Q4. The ban is related to production, so we are stopping our plants in the middle of September as per the requirements but we could continue to sell some of the end inventories that we have been building up for customers also until Q4. We don't think it's going to go beyond that, but a little bit in Q2, and the major part will be in Q3 and in Q4. The way this works, we know the customers, we know the quantity that they want. So it's really a planned sequence in order to make sure that they can buy the very late and final production.

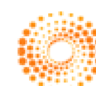
Operator

Our next question comes from the line of Alexander Virgo from Bank of America Merrill Lynch.

Alexander Stuart Virgo - *BofA Merrill Lynch, Research Division - Director*

I wonder if you could talk a little bit about developments in the U.S. business, in Professional in particular. You've talked about sequential improvement, I think, there in the quarter. One of your peers has talked about improving conditions. So I wondered if maybe, you could talk a little bit about the -- a little bit more detail about the developments there. That's my first question.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Stephane Rougeot - *Signify N.V. - CFO & Member of the Board of Management*

So that's effectively what we have said our U.S. business for Professional has been on an improving trend in Q2. So we see also some of the positive market improvements that you're talking about. Especially, when it comes to, I would say the middle part of the business in terms of stock & flow and projects. We see an improvement there. We also see at the lower end of the scale still a very aggressive competition landscape on the low-end products for the commoditized offers in the luminaire space. This is not where we are, in the majority of that business we are not there, but we see that in the market. But yes, improvement trend, where we are a bit disappointed in Q2 is on the performance of the systems part in the U.S. that has been somehow quite below our expectations. But overall, market condition are improving in 1 part of the business but we should not forget the fact that it still stays very competitive in the low-end part of the luminaires commoditized offers.

Alexander Stuart Virgo - *BofA Merrill Lynch, Research Division - Director*

And then I suppose in follow-up to that, just your comments around pricing, you talked about more challenging pricing conditions and I think that was in particular a reference to the U.S. and Prof. Perhaps you could talk a little bit about breaking out that EUR 94 million headwind you shared in the bridge, I presume it's all LED and Prof, or mostly LED and Prof but just wondered if you could give us a little bit more color as to the trends in Q2 and then as you look forward in the second half?

Stephane Rougeot - *Signify N.V. - CFO & Member of the Board of Management*

Sure. Let me take that one. When you look at the price impact every quarter, you are right, overall the order of magnitude we have seen since a year ago is in the range of EUR 80 million to EUR 100 million and it can vary a little bit from 1 quarter to the other. And of course, the contribution of each division is -- becomes a bit different. As we have mentioned LED, we're seeing the price pressure lowering and when you look at the impact in absolute value of last year, this quarter, it's lower. And that reflects the slowdown of the price decreases that we are seeing in particular in LED lamps, and it continues. Now yes, in Prof, as a reflection of the comment made on the competitive market landscape and in the U.S., but not only, we are seeing more price reduction on Prof. And finally on Home, especially in the second quarter and to some extent in the first quarter, some of the implications of the U.S. inventory situation at the end of 2017 led to some price elements. They are not recurrent, but they also contribute to the overall pricing impact of the second quarter. I'm not going to comment about the second half of the year, I mean it's always a little bit difficult to predict what's going to happen on those areas. But for the trends that we have seen, our confirmation of what we have mentioned about the last few quarters in the various divisions.

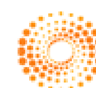
Alexander Stuart Virgo - *BofA Merrill Lynch, Research Division - Director*

That's very helpful. Thanks very much.

Eric Rondolat - *Signify N.V. - CEO & Chairman of the Board of Management*

Alexandre, maybe just to complement on what we're doing. Because you were right, certainly on Prof, it's on Prof and it's also on LED. And I would say most specifically on LED lamps. And it's not only in Northern America, it's also in Europe. So we see overall price pressure on the low-end offers. What is important is, what we do against that? So we don't only reduce prices, we are really segmenting our offers at this point in time, and this is valid in LED and also in Prof, in the following sequence. And once again, when I talk about that I'm probably more simplistic than what the reality is, but I would explain it like that. You can imagine that you have 3 different level of offers. You have a high-end, which is got to be the offer that focuses on connectivity. You have the mid-end, which is probably most of the time not connected, but very complete offers, very well adapted to end user segments, both in the LED Lamps and also in Professional luminaires. And then you have also the low-end, which are more simpler offers. We are clearly segmenting our offers at this point in time, along these guidelines where we have 3 different levels. And as a company, as Signify, we are present in different segments with different connection policies, different types of support that we give to our customers in those 3 different segments. So that's very important to understand that there's a trend that has been coming to the market for a few months now. We are facing it and we are answering it with dedicated offers, very specifically positioned in the 3 different areas that I have been mentioning. So that is -- that

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

has been starting now for 2 months. So we are expecting to see also the fruits of that strategy, but it's being implemented and we have been quite fast to answer to these new markets requirements.

Alexander Stuart Virgo - *BofA Merrill Lynch, Research Division - Director*

That's very helpful. Thanks very much, Eric.

Operator

And our next question comes from the line of Martin Wilkie from Citi.

Martin Wilkie - *Citigroup Inc, Research Division - Director*

So, the first question is just again on pricing, we saw during the quarter some of your U.S. competitors, I think at least 3 of them including the largest announced list price increases during the quarter. Now, I know that list price increases don't always translate into actual price increases, but is that something that you're seeing gaining traction? And I know some of those announced increases were due to inflation and potential tariff pressure as well. But just if you could talk a little bit about, is the industry in general looking to raise pricing in the U.S. in the fixture business?

Eric Rondolat - *Signify N.V. - CEO & Chairman of the Board of Management*

Well, what we have to -- it was 6% price increase. It's not on the full portfolio to be also totally clear, it's on some very specific offers. As an actor on that market whenever we had to price up we also did it. Now, if your question is, is it a general trend that all the prices are going up in the industry and that all the actors are pricing up? That's not something that we see at this point in time. We've seen that specifically in the U.S., on some very particular SKUs but we would say that as a general situation there is still price erosion on most of our businesses worldwide.

Martin Wilkie - *Citigroup Inc, Research Division - Director*

I just have a question on Home as well. As part of that inventory normalization at the retails in the U.S., was there any meaningful discounting needed or I mean obviously it's been a big volume disruption for you. I think the last quarter you'd said that there hadn't needn't be any sort of write downs or big discounting to clear out that inventory. Just if you could comment, was that a factor this quarter or has it been relatively clean from a price discount perspective?

Eric Rondolat - *Signify N.V. - CEO & Chairman of the Board of Management*

Relatively clean, as in Q1.

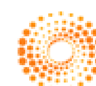
Operator

Our next question comes from the line of Daniela Costa from Goldman Sachs.

Daniela C. R. de Carvalho e Costa - *Goldman Sachs Group Inc., Research Division - MD & Head of the European Capital Goods Equity Research Team*

My question sort of relates to your 2019 targets, the 11% to 13%. And I mean given what you seem to be outlining for 2018. It sounds -- and correct me if I'm wrong -- that the second half 2018 margin improvement mainly comes from indirect costs rather than gross margin. How shall we think about the bridge now from the 10% to 10.5% of 2018 to 11% to 13% in 2019. Is the delta then in 2019, given the uncertainties of sort of around

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

the market improving about purely indirect cost base? And if so, sort of, can you talk us into details on the actions for next year, the incremental actions for next year? That's basically my question.

Eric Rondolat - *Signify N.V. - CEO & Chairman of the Board of Management*

Two important things. So we said, when we entered this year that the margin expansion will come less from the gross margin and more from cost. So that's the defined strategy. If you look at after the IPO, we had basically 2 phases. The first phase was margin expansion, and repositioning the businesses where they needed to be, which is basically for Lamps increasing its profitability, being well positioned; doing the same with LED and being close already at the end of 2017 and what was the guidance for the mid-term and that was done. And then repositioning Home and Professional in a growing trend not only from a top line perspective, but also from a bottom line perspective. The second part, the business being well positioned is clearly growing on one hand which is not going to happen this year, but also reducing costs. And most of the margin expansion has to come from cost reduction. This is what we see in H1 this year. This is what we would see in H2. And this is also what we have in the plan for 2019. Now, when we compare 2018 to 2019, we're going to have a 2018 with a Home business which is not performing in a clean way and not in line with its potential. So, 2019 will be a year where we will not have the drawback that we had at the beginning of 2018, given the situation in the U.S. Hence, we'll have also, if you compare 2018 versus 2019, a margin expansion which is also going to come from a much cleaner performance of Home versus what we're experiencing in 2018.

Daniela C. R. de Carvalho e Costa - *Goldman Sachs Group Inc., Research Division - MD & Head of the European Capital Goods Equity Research Team*

And if I may follow up on your commentary on Home and Home being cleaner and better in 2019. What have you done in terms of actions from the learning of what has happened this year to give you a better visibility in what seems to be a relatively short-cycle, slow business? What actions have you taken?

Eric Rondolat - *Signify N.V. - CEO & Chairman of the Board of Management*

So we have something that we didn't have previously. Every week, we all get -- and I'm getting myself, the information on the inventory position of our main customers, the selling out data and also the selling in data. So, we now have a much better visibility on what their inventory looks like. And to give you another hint, in the past few weeks, one of our customers, not one of the biggest one, but they had a high level of inventory, and they were ordering more and we went to that customer and we said, "We don't think that you should order more at this point in time. Your inventory is balanced. And unless you have clear plans we believe that it would be wiser not to order more." So they listened to us, so we made a plan and they effectively brought their orders down. And this is now something that we do and we have the visibility. We know how to do that and we are doing it.

Operator

Our next question comes from the line of Peter Reilly from Jefferies.

Peter Reilly - *Jefferies LLC, Research Division - Head of Capital Goods of Equity Research*

Two questions, please. Firstly, on the Lamps part of LED. LED overall obviously growth is about 0. I'm assuming judging by the commentary that the electronics grew and the Lamps business was modestly down. Can you talk about the trend in Lamps? And you also talk about growth trending towards the market growth. What particular market growth are you talking about there? Is it the overall lamps growth or LED lamps? So, maybe you could help us understand the trends there, please. And then secondly, after the first quarter performance you made a very strong statement saying you're confident on the long-term growth and margin potential absolutely unchanged. Is that a statement you are still happy to make today?

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Stephane Rougeot - *Signify N.V. - CFO & Member of the Board of Management*

Yes. So Peter, let me maybe take the first one on LED Lamps. So yes, you're right based on the comments we've made regarding the overall business group. Yes, we had growth in LED Electronics so by definition LED Lamps was declining. When you look at the second quarter of 2017 you can see that the business scope had grew pretty significantly. We're talking about 17% or 18% year-on-year. So that was -- actually 19%. So that was a high comparison base. And in that quarter actually LED Lamps had grown even more than that, because we started to see softness on the Electronics side. So that compares to a very high quarter against which it's of course much more difficult to grow now. We have also seen, especially in a number of markets, and we've commented on that previously, especially in North America, a continued movement towards private label. And that is of course impacting the overall sales that we have. Now as you saw from our presentations, we participate to that, we participate to bids in private label, we win bids in private label that has an impact of course on our overall volumes, also on the overall sales and this is positive. But of course, it's something that we have started in the course of last year. We've seen also some price competition continuing also on LED Lamps in particular in China. So those trends also contribute to what we have seen and what we have delivered in terms of revenue evolution for LED Lamps in the second quarter. When you look forward, Q3 and Q4 of 2017 were a much lower base of comparison, especially on LED Electronics, but also on LED Lamps. And so that's why we have also confidence about our capacity still to grow in terms of BG LED moving forward.

Eric Rondolat - *Signify N.V. - CEO & Chairman of the Board of Management*

When it comes, Peter, to go to the midterm yes, we clearly confirm our confidence in the guidance that we gave for the following reason: what we're building structurally in the company is strong, it's sound, totally in line with the strategy that we had indicated at the time. And sometimes people look at the company and they say, well the company was born at the time of the IPO, maybe, officially but the strategy that we're implementing in the lighting business is something that we are doing for the past 6 years. Moving a company that was in majority conventional to a company which is today 70% LED-based and which has more than doubled its profitability during the transformation. So this is what we are doing and I think that structurally we're bringing the company to adapt to the market challenges. Now, if you ask me in the past 6 years a lot of things are happening. Why? Because during that disruption that the transformation brings, a lot of things are happening. So the name of the game is how we face this situation and what we implement in order to adapt to a very specific market condition. So we're talking about, at this point in time, at the low-end part of the offer, competitive pricing, and we see that in many geographies. We're facing it. So we're adapting our strategy to that trend very specifically and we know exactly what we're doing and we're implementing it as fast as we can. So, for me the name of the game is, that we are structurally building the company to win in the future, and are we adapting sufficiently quickly to what happens punctually on the market? I would answer yes, to those 2 questions. Now, nobody is perfect maybe we could do things a bit better sometimes, but directionally when you look at what we've been doing in the long-term, clearly the strategy is being implemented and it works. So yes, we confirm our confidence in the mid-term guidance.

Operator

Our next question comes from the line of Sven Weier from UBS.

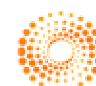
Sven Weier - *UBS Investment Bank, Research Division - Executive Director and Analyst*

The first question is a follow-up question on the U.S. and obviously we've been seeing leading indicators for U.S. construction doing quite well for some time and we always had this disconnect on the lighting side, which was a bit mysterious. So, my first question on this would be, do you have any new insight on why this disconnect and why it isn't really improving? That would be the first.

Eric Rondolat - *Signify N.V. - CEO & Chairman of the Board of Management*

Sven, I don't have any new insights than what I've said previously. I think there are different factors that have all happened, not always at the same time but sometime their effects had to be taken into account simultaneously. So we have the following things: first, I think that the first wave of LED-ification in the U.S. was a very fast one, especially on the luminaires side, so on the Professional part of the business. It came a bit later on the

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Lamps side. But on the luminaires side it came sooner, faster, and quite stronger at the time where the market was also extremely dynamic in the construction non-res. So there were a lot of versions happening. And probably, at one stage the market slowed down a little bit, I think from 4% to 5% growth to more like 2%. And we saw our business also slowing down due to the market slowdown but also due to the fact that there were a lot of anticipation done on the LED side. Then came the situation, the political situation in the U.S., at one stage a lot of uncertainties. And that's the way commented, I think it was if I remember well at the back-end of 2016, at the time and we said that we see that our customers are not making decisions as fast as they used to when they were to do an investment. And then you had the third wave, the way I would call it, which is very competitive pricing from Asian competitors on the lower-end of the market, which took us by surprise and we needed a few months to be able to find the ways to answer to this. But I would say that those 3 different elements have happened in our industry and probably created a kind of a disconnect from the top season and the real dynamic growth of the construction non-res market in the U.S. So, that's the way I explain. I'm not saying that I have all the truth but with all the elements that we've gathered those are the 3 main elements that all came at different moments sometimes overlapping but that's the way we see it.

Sven Weier - *UBS Investment Bank, Research Division - Executive Director and Analyst*

And some of the Asian competitors you're mentioning also looking to buy their way up into the industry. So, what do you think is the risk of that trend that has so far been limited on the low-end is spreading also to the other segments eventually?

Eric Rondolat - *Signify N.V. - CEO & Chairman of the Board of Management*

I see it in 2 different ways. In every risk you have an opportunity. If you buy your way through, then you do an acquisition. If you do an acquisition, you get a market share. You gain access to the market, but you also get costs. And then it's much more difficult to stay from a long distance, and then ship containers on the shore of a given continent without being involved with feet on the ground. So I think it's a very different model. So I would expect that if that happens, that when you have growth and when you have feet on the ground, you need to have a kind of a different strategy which is not only volume for totally commoditized offer, but you need also to invest in the market. On the other hand, that may happen, but also with slightly different rules when it comes to pricing and also positioning. But as we speak and as I was saying previously what is extremely important in that industry is our capacity to adapt to whatever is going to happen tomorrow because what happened yesterday, we already have adjusted. So we'll see then, but I see risks and opportunities.

Sven Weier - *UBS Investment Bank, Research Division - Executive Director and Analyst*

The other question I had, if I may, was just relating to the LED tariff situation and how much headwind you factored into the guidance and how you see yourself impacted because of those tariffs?

Eric Rondolat - *Signify N.V. - CEO & Chairman of the Board of Management*

The tariffs. I mean if you look at what would be the impact on the full-year basis, list 1 and list 2, it's about 6 million, list 3, which is not totally decided yet will be about 13 million full year. So if you bring that together it's about 19 million full year so we would compensate with pricing.

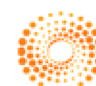
Operator

Our next question comes from the line of Marc Hesselink from ING.

Marc Hesselink - *ING - Analyst*

My first question is, you spelled out the improvements for the second half of the year in the margin improvement, could you also do that similar for the other organic growth? I think there also the big difference will be in the home segment, give directionally for the other businesses? And

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

my second one would be a follow-up on the gross margin side. You talked about the price pressure. Can you also talk about the cost cycles of the gross margin? I think in the past you could really offset a lot of the price pressure, but now also would you comment on the scarcity of components. Do you expect to be able to offset that as well?

Stephane Rougeot - *Signify N.V. - CFO & Member of the Board of Management*

Yes, so maybe on your first question, which is about sales outlook for the second half and we've been a little bit cautious here, what we have indicated as you know is now for the whole year, we don't expect that we will be able to grow, but however, we believe that in the second half our CSG will be better than in the first half. Now why that? Yes for sure, Home should be better although the second half of last year was so much inflated because we sold a lot to our U.S. retailers and it's not going to happen by the same order of magnitude, but still we expect that it will be better surely than the first half. On Lamps, I don't think there is much here to comment. The trends have been better than what it used to be and as per the comment made on the halogen then probably Q3 and Q4 should continue in that trend. I mentioned that on LED, the first half overall was low, but also on the back of a strong first half of last year and the whole first half of last year was 17% growth year-on-year. Now the second half is, of 2017, is lower, so I think we should be able to do better than the first half. And finally, we'll see what happens on costs. We had a high second half last year on costs including some projects. We may not be able to deliver as much, but again we will see and we believe we will continue to grow for sure in the Professional area in the second half. Now, on the margin side, yes, the price reduction continues and we're able, to some extent, to offset it with the negotiations that we're having on the bill of material and also on the productivity and efficiencies but not as much as in the past. As we have mentioned, a lot of the adjusted EBITA margin improvement is now much more coming from indirect cost reductions than from gross margin improvement. And I don't think from that standpoint that the second half should be different. Again, we expect especially as a percentage of sales, we expect year-on-year improvements on the indirect costs that's going to be higher than what we had in the first half. In the first half, we had 90 basis points improvement as a percentage of sales compared to the first half of 2017. And we clearly believe that we can do more in the second half compared to the second half of 2017.

Marc Hesselink - *ING - Analyst*

And maybe just a clarification on that comment you say okay, the second half will be better on organic growth. Does it imply that you're expecting to be positive or just better than the minus that we've seen in the first half?

Stephane Rougeot - *Signify N.V. - CFO & Member of the Board of Management*

So what we said in our revised guidance is that we expect to be better than the first half, so better than the minus 3.4%. We haven't commented whether we would be positive or not. We don't exclude that we would be positive, but it's not again the core of our guidance.

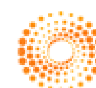
Operator

We're now approaching the end of the call. We will now take our last question from the line of Nigel Van Putten from Kempen & Co.

Nigel Van Putten - *Kempen & Co. N.V., Research Division - Analyst*

I have a follow-up on a couple of the points that have been raised before, mainly towards growth. So I mean you're doing a tremendous job on structurally improving the business, taking out a lot of costs, but of course the absolute improvement and the margins depends on the top line. So if you look towards 2019, in your internal modeling, do you assume a return to growth to reach the margin guidance?

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Eric Rondolat - *Signify N.V. - CEO & Chairman of the Board of Management*

Good morning, Nigel. Look, we haven't given any specific guidance for 2019. So we don't want to do it now. When you look at the different components of the business, we have a declining part which is becoming smaller by the day because it's declining strong double-digit so that brings the company very naturally in the growth dynamic. So we will see, whenever the time comes and it's going to be probably at the end of Q1 or when we do the results for the full year, so around February next year, we'll give the guidance for 2019.

Nigel Van Putten - *Kempen & Co. N.V., Research Division - Analyst*

Okay. Just to be clear that could differ from the medium term because I have understood that the medium term was actually 2019.

Stephane Rougeot - *Signify N.V. - CFO & Member of the Board of Management*

Yes, the midterm was 2019, what we said is that after the midterm, we would see the company growing at market rate and we established at the time that it was between 3% to 4%.

Nigel Van Putten - *Kempen & Co. N.V., Research Division - Analyst*

Right, got it. And maybe a quick follow-up on the Lamps business doing very well in terms of the margins. Is that all internal measures taking out costs or is there also maybe a more positive mix shift in some of the more professional lamps I guess as a higher margin are you seeing maybe a change in the market to your benefit when comparing back to when you issued the guidance for longer term Lamps of around 16%, we are trending north of 20%, so is that all cost or is that maybe structural shift in the mix?

Stephane Rougeot - *Signify N.V. - CFO & Member of the Board of Management*

Well, for Lamps I would say that we have said that when the business reduces, you have different technologies and the technologies that are reducing or declining less than the average are the technologies where we have the highest margin. So you have a natural positive mix impact on the margin when the business declines. Then you have another element that also needs to be taken into account, which is a plus for Lamps and a negative for Home. The way we allocate some of the central costs in the organization, some of the costs also on the commercial side, are based on the targets and that we give at the beginning of the year. So basically businesses, on the basis of the target, get allocated some cost, which means that the businesses that are doing less than what was originally in the target get, in proportion, more costs and the businesses that are doing a bit better than the targets on the top line, in proportion, are getting less cost. I would not make any secret that at this point in time, Lamps is doing slightly better than what was their original target. So that's also improving as their operating margin.

Nigel Van Putten - *Kempen & Co. N.V., Research Division - Analyst*

Right, and then maybe the last one, you said before, it's not a question, next year you're going to have a clean Home. So I guess towards that margin target. But then to make your point on that being the bridge towards '19 you would also have to assume again these Lamps margins to at least trend sort of at these levels, otherwise maybe the improvement in Home is offset by declining Lamps. So again this year obviously better than expected, is that something you're also taking into account towards next year?

Stephane Rougeot - *Signify N.V. - CFO & Member of the Board of Management*

When we give the guidance, once again, and maybe we were guilty not to change it, but we said above 16% because I could not say anything else at the time of the IPO because already when I said above 16%, nobody believed me. So we said above 16%, I think that the Lamps business is already trending well. We are not surprised by the levels they are at and we think that performance of that business will continue to make things

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

happen. So we're very comfortable and this is what leaves us also to confirm the guidance for the midterm to '19 between 11% to 13% for the company.

Operator

And I would like to return the conference call to the speakers.

Robin Jansen - *Signify N.V. - Head of Investor Relations*

Okay, thank you. Ladies and gentlemen, thank you very much for attending today's earnings call and for taking part in the discussion about the results. Any further questions, please do not hesitate to call me or Serena and we're happy to take your questions. And again, thank you very much and enjoy the rest of the day.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you very much for attending, you may now disconnect your lines.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2018, Thomson Reuters. All Rights Reserved.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS