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# Q3 2018 results

October 26, 2018

# 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 Signify 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 2017 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 2017. 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 "Chapter 18 Reconciliation of non-IFRS measures" in the Annual Report 2017.

**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 2017 and the semi-annual report 2018.

**Market Abuse Regulation**

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

**Changes to financial reporting following organizational changes to further align the organizational structure with the strategy**

As of the first quarter of 2018, Signify reports and discusses its financial performance based on the recently announced portfolio changes. In March 2018, the company provided an update to show the effect of changes to the business portfolio as well as changes to the allocation methods of centrally-managed costs and expenses and threshold for identifying other incidental items as adjusting items when presenting certain non-IFRS measures such as Adjusted EBITA.



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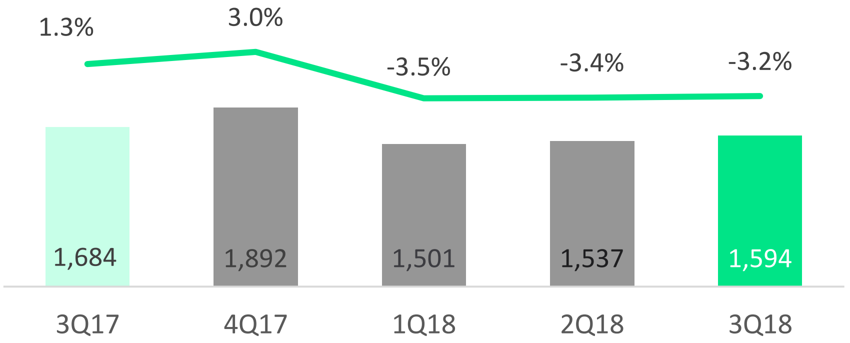
# Content

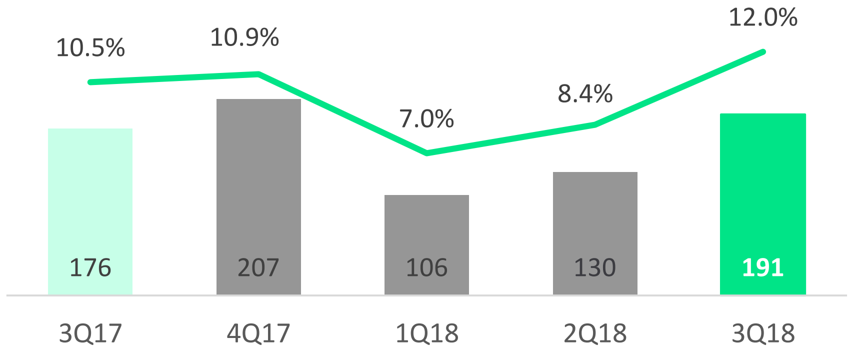


# Third quarter sales of EUR 1.6bn and operational profitability of 12.0%

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




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




## Key observations for 3Q18

- CSG decreased by 3.2% due to:
  - High comparison base
  - Challenging market dynamics in several geographies
- Total comparable LED-based sales now represent 70% of sales
- Currency comparable adjusted indirect costs down EUR 58m, or 260 bps as % of sales
- Adjusted EBITA margin improved by 150bps to 12.0% despite -60 bps impact of FX
- Free cash flow of EUR 64m versus EUR -5m in Q3 17 (incl. EUR 21m real estate proceeds), mainly driven by an improvement in working capital
- Sustainability highlights:
  - Ranked Industry Leader in the Dow Jones Sustainability Index and by Sustainalytics
  - Achieved carbon neutrality for our business in the US and Canada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# Improved Adjusted EBITA margin in Lamps, LED and Professional

| 3Q18 | CSG % | Adjusted EBITA (EURm) | vs LY (EURm) | Adjusted EBITA % | vs LY (bps) |
|---|---|---|---|---|---|
| Lamps | -11.1% | 89 | +7 | 24.6% | +490 |
| LED | -1.9% | 53 | +3 | 12.0% | +130 |
| Professional | 0.4% | 79 | +8 | 11.7% | +130 |
| Home | -1.4% | -8 | -8 | -6.9% | -650 |
| **Signify** | **-3.2%** | **191** | **+15***| **12.0%** | **+150*** |

*Adjusted EBITA was negatively impacted by currency effects of EUR 14m, and 60 bps on the Adjusted EBITA margin



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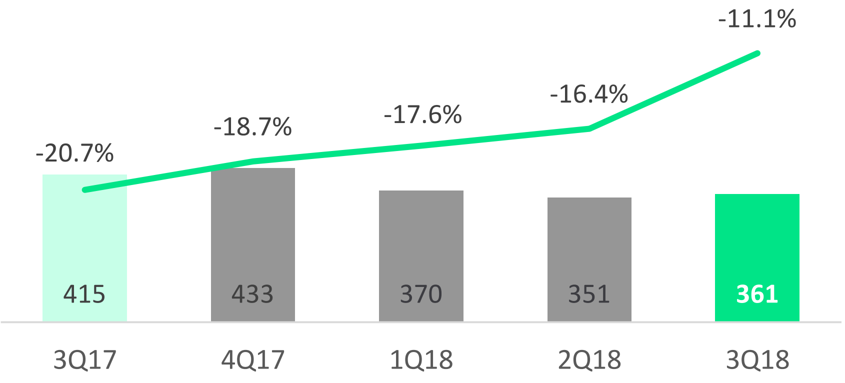
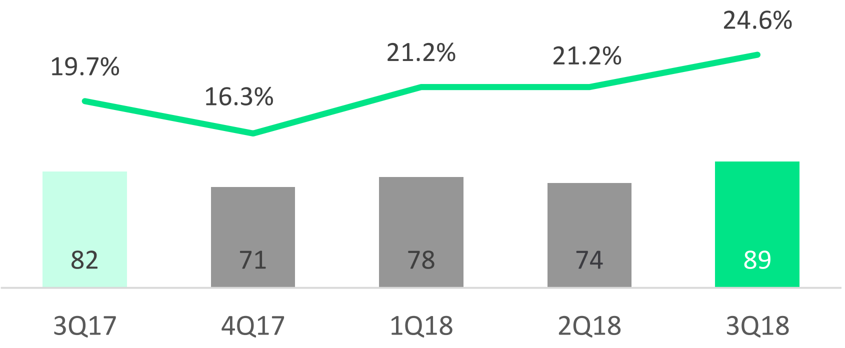
# Lamps Adjusted EBITA margin improved by 490 bps, driven by halogen ban in Europe and solid performance in consumer lamps and specialty lighting

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




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



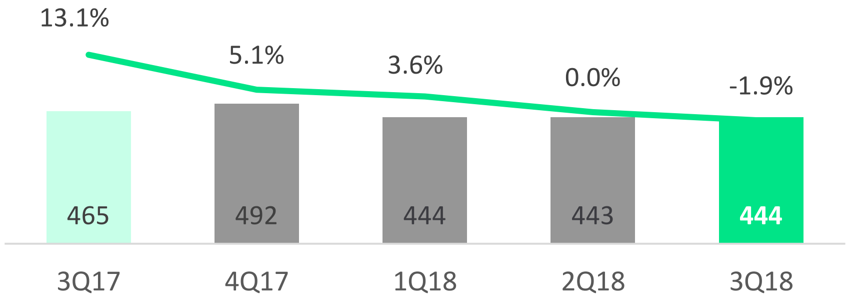

## Key observations for 3Q18

- Comparable sales decreased by 11.1%
- Benefited from:
  - the halogen bulb ban in Europe
  - solid performance in consumer lamps and certain specialty lighting categories
- Continued market share gains

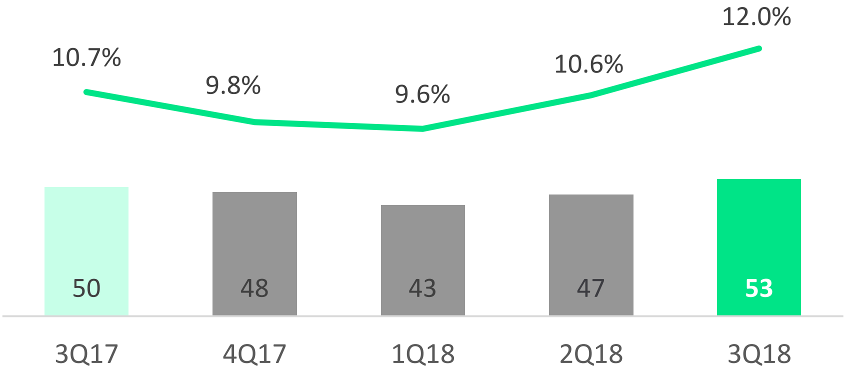
- Adjusted EBITA margin improved by 490 bps, driven by:
  - Better CSG performance
  - Reduction of indirect costs

# LED Adjusted EBITA margin improved by 130 bps, driven by procurement savings and lower indirect costs

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




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




## Key observations for 3Q18

- Comparable sales growth declined by 1.9%
  - Trend in LED electronics CSG continued to improve
  - CSG of LED lamps was impacted by a high comparison base and a soft level of activity with retailers in Europe and the US

- Adjusted EBITA margin improved by 130 bps, driven by:
  - Procurement savings
  - Lower indirect costs

  partly offset by price erosion which is slowing

# LED business highlights

## Launched Interact Ready Master Connect LEDtube

- Enables wireless integration with a variety of control devices such as sensors and switches
- Work seamlessly with Interact Pro

## Introduced the new CeilingSecure LED downlighter in India

- The modular design features a replaceable LED module that can be easily installed without any damage to the false ceiling

## Launch of controller for sensor-ready outdoor luminaires

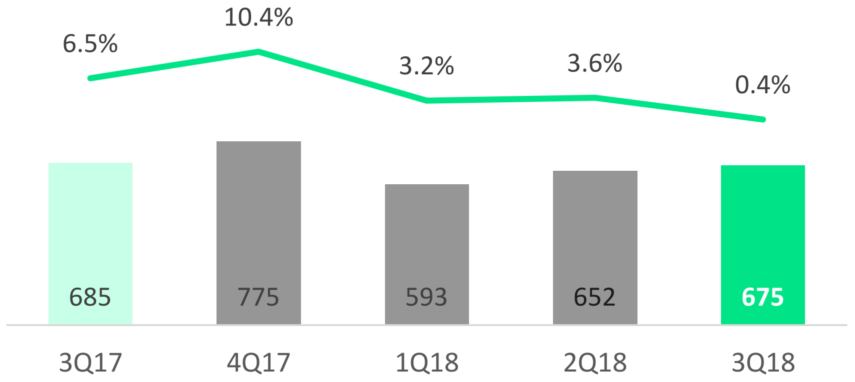
- Adds connectivity and sensing to outdoor luminaires
- Allows customers to remotely install an on/off switching and dimming scheme

## Private label wins

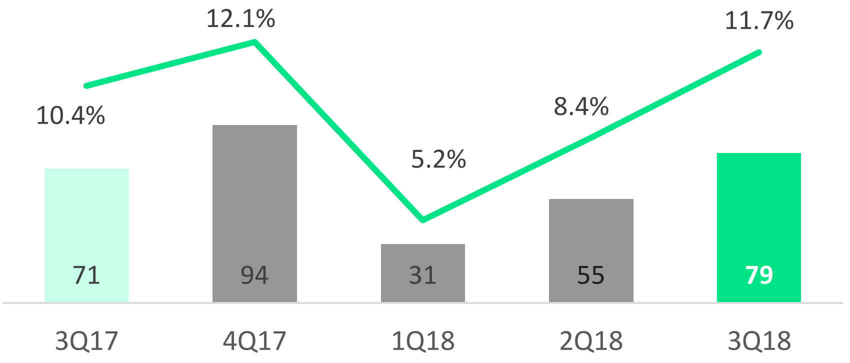
- 18 tenders won year to date
- Ongoing focus on cost optimization to remain competitive

# Professional Adjusted EBITA margin continued to improve with an increase of 130 bps, mainly driven by lower indirect costs

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




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




## Key observations for 3Q18

- CSG of 0.4%, on the back of a high comparison base in Q3 2017
- Lower level of market activity, most notably in Europe and China, and a slowdown in medium- to large-sized projects in the US

- Adjusted EBITA margin increased by 130 bps to 11.7%, mainly driven by lower indirect costs



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# Professional business highlights

## New Philips Greenpower LED for crops that need more light

- Will help greenhouse growers to improve growth of vegetables, fruit and flowers
- The high output modules will have a lifetime of 35,000 hours

## Philips Color Kinetics illuminates Huê

- The imperial city has been revitalized with the latest lighting technology
- New lighting preserves and honors the historical value of the monument and creates a special attraction at night

## Interact Hospitality installed at Swissotel The Stamford Singapore

- Enables guests to personalize lighting, temperature and make room service requests
- Allows managers to reduce electricity bills while ensuring rooms match guest preferences

## Navigant ranks us as world leader in smart street lighting

- Signify ranked top scoring leader in new report
- Navigant Research estimates annual smart street lighting revenue to grow to nearly USD 8.3bn globally by 2027 (versus USD 837m in 2018)



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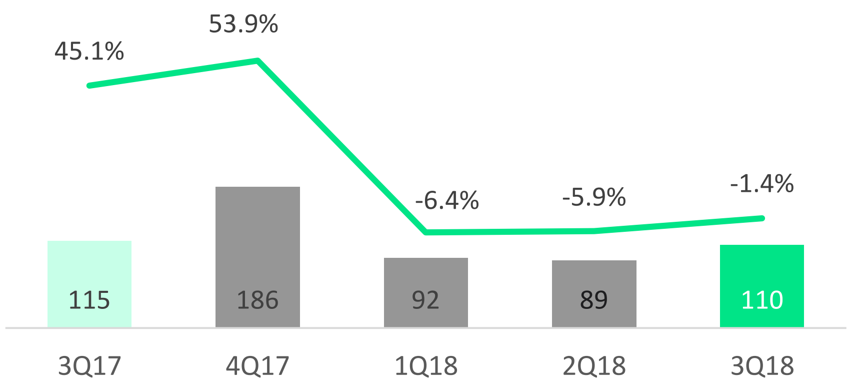
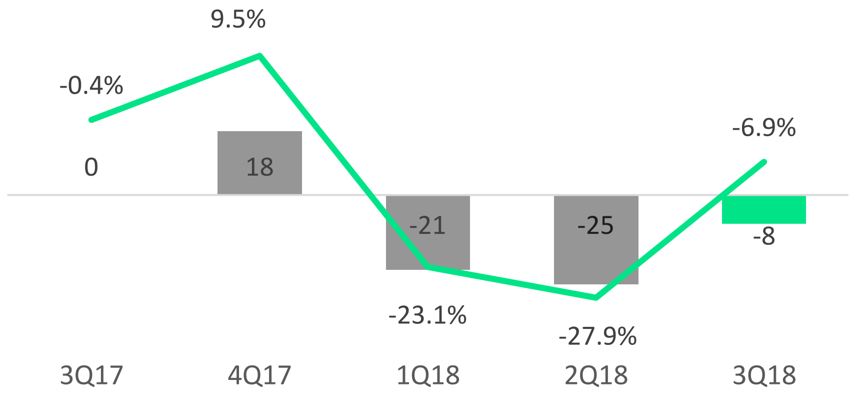
# Sales performance in Home reflects a high comparison base; gross margin and costs are back to normalized levels

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




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




## Key observations for 3Q18

- CSG of -1.4%, due to
  - A high comparison base as US retail partners started to build-up inventories in Q3 2017
  - Sales performance improved sequentially as activity returned to more normalized levels

- Adjusted EBITA of EUR -8m showed a significant improvement compared with Q1 and Q2, reflecting:
  - More normalized activity
  - Ongoing adaptation of our cost base

# Home business highlights

## 6 new partners added to the Friends of Hue program

- **Wall switches:** Busch-Jaeger and Illumra
- **Luminaires:** Kichler, MAKRIS by Imoon, Koizumi and John Lewis

## Expanding the Philips Hue outdoor offering with the Light Strip

- The new flexible light strip complements the existing Philips Hue outdoor portfolio and is perfect for accentuating outdoor areas

## New Philips Hue luminaires for the living room

- Philips Hue Play: versatile light bar to transform your sitting room
- Philips Hue Signe: Paint your walls with light
- Philips Hue Ensis & Flourish: new luminaires for delightful dining

## Added Philips Hue bathroom range

- The new Philips Hue Adore bathroom range gives you a luxurious home spa experience
- Seven new white ambiance luminaires are all pre-set with various light recipes



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# Content

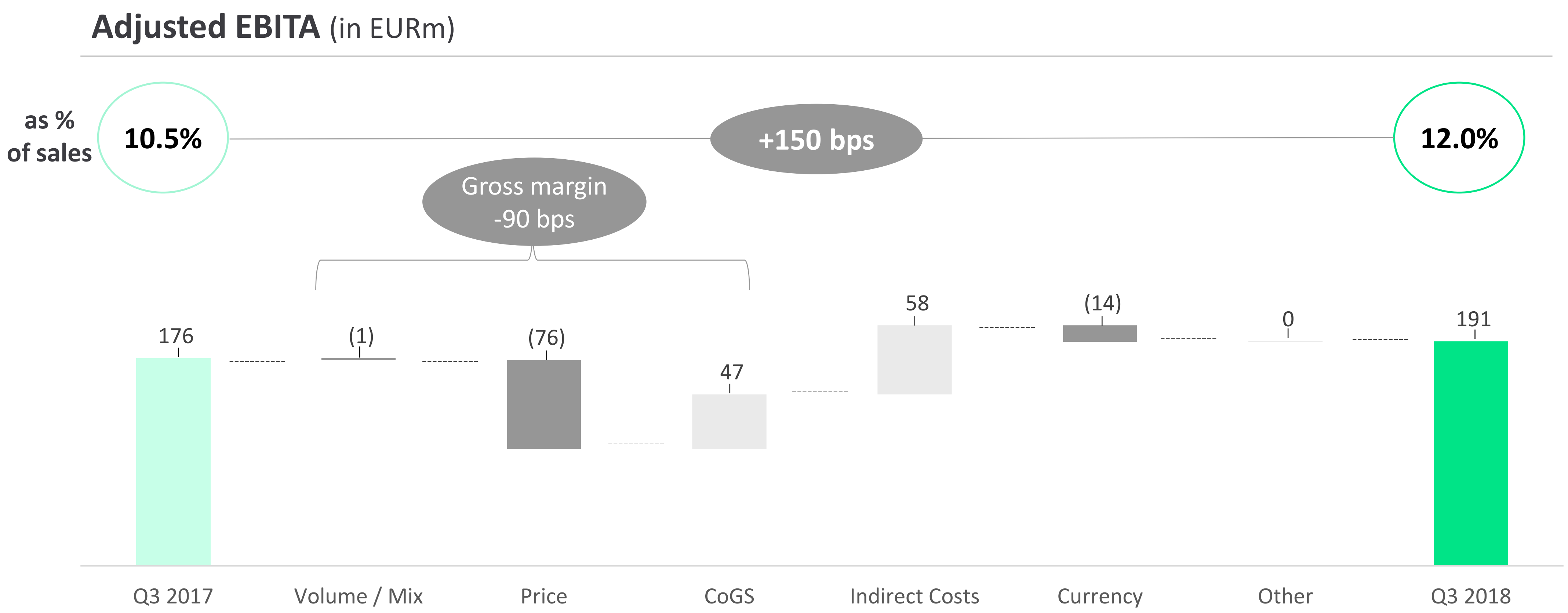
Business and operational performance by Eric Rondolat

**Financial performance by Stéphane Rougeot**

Outlook and conclusion by Eric Rondolat

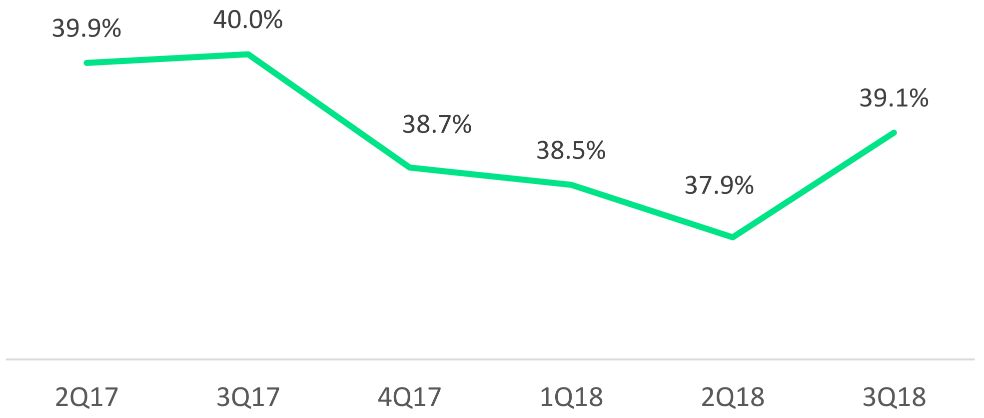
Q&A

# Adjusted EBITA margin improvement mainly driven by indirect cost savings

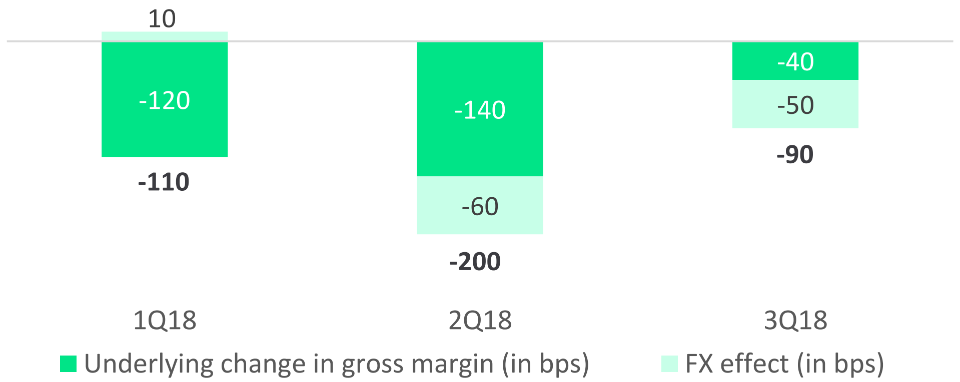


# Fluctuations in adj. gross margin mostly driven by FX and a high comparison base

## **Adj. gross margin trend over time** (as % of sales)




## **YoY change in adj. gross margin** (in basis points)

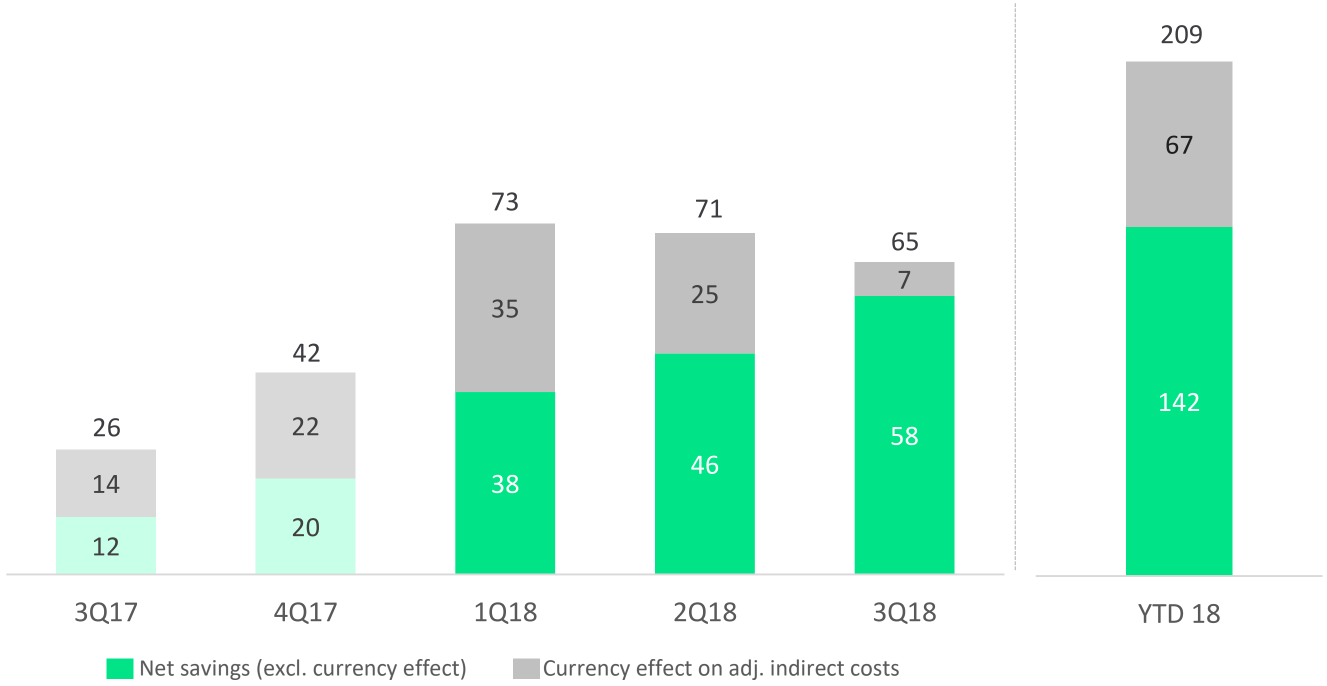



## Key highlights

- Adj. gross margin of 39.1% reduced by 90 bps mainly due to currency effects of -50 bps and a high comparison base
- Gross margin in Q1 and Q2 was mostly impacted by lower sales levels in Home

# Currency comparable adjusted indirect costs decreased by 11% in Q3

## Adj. indirect cost savings per quarter (in EUR m)

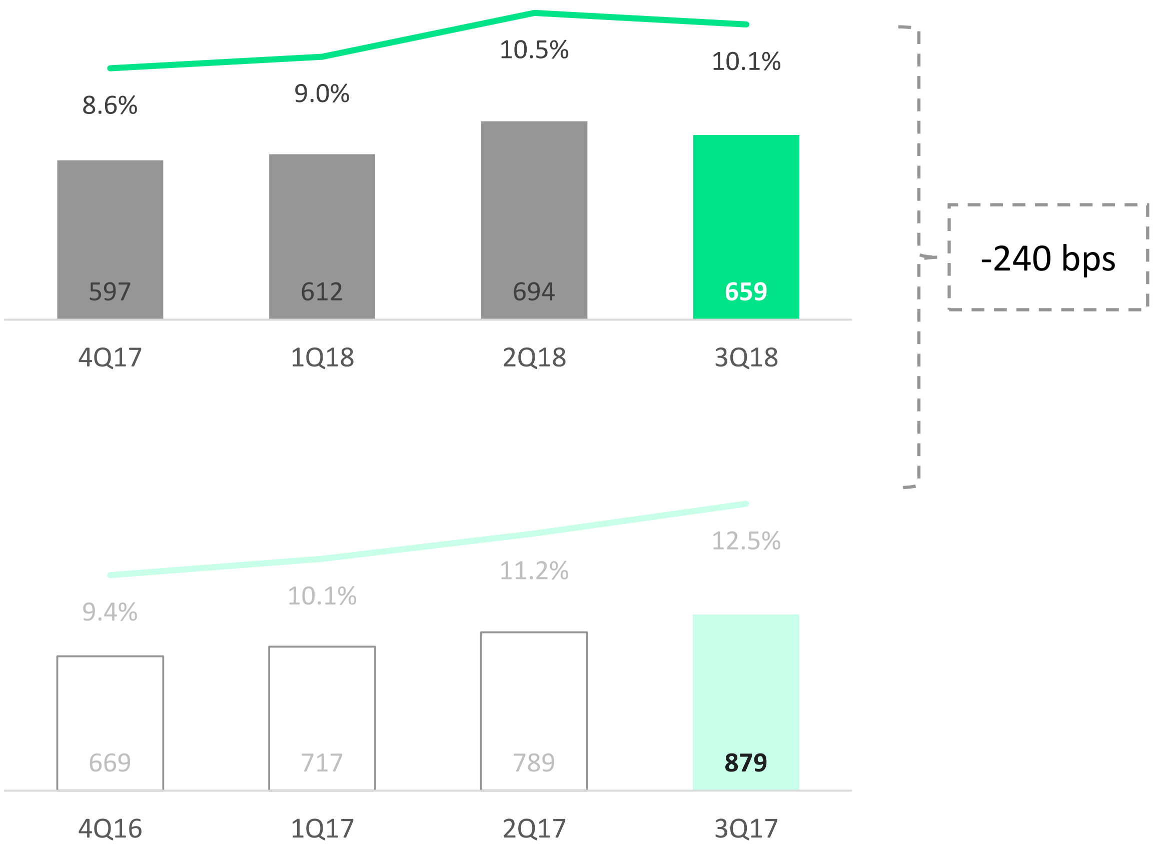



## Key observations

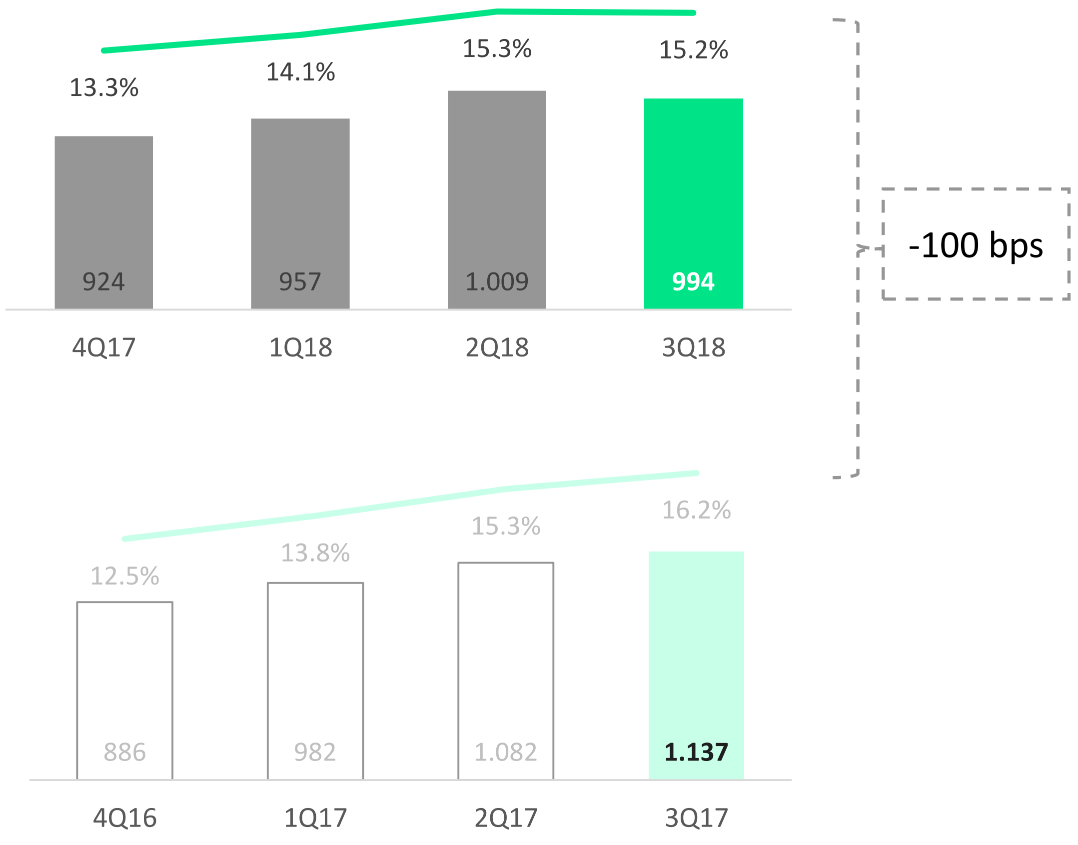
- Currency comparable adjusted indirect costs down EUR 58m
- YTD realized EUR 142m of cost savings on a currency comparable basis
- Executing multi-year transformation initiatives to simplify the organization to:
  - Improve customer service and quality
  - Become more efficient
  - Capture scale benefits
  - Save to invest

# Working capital as % of sales decreased by 240 basis points y-o-y to 10.1% driven by lower receivables and inventories

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



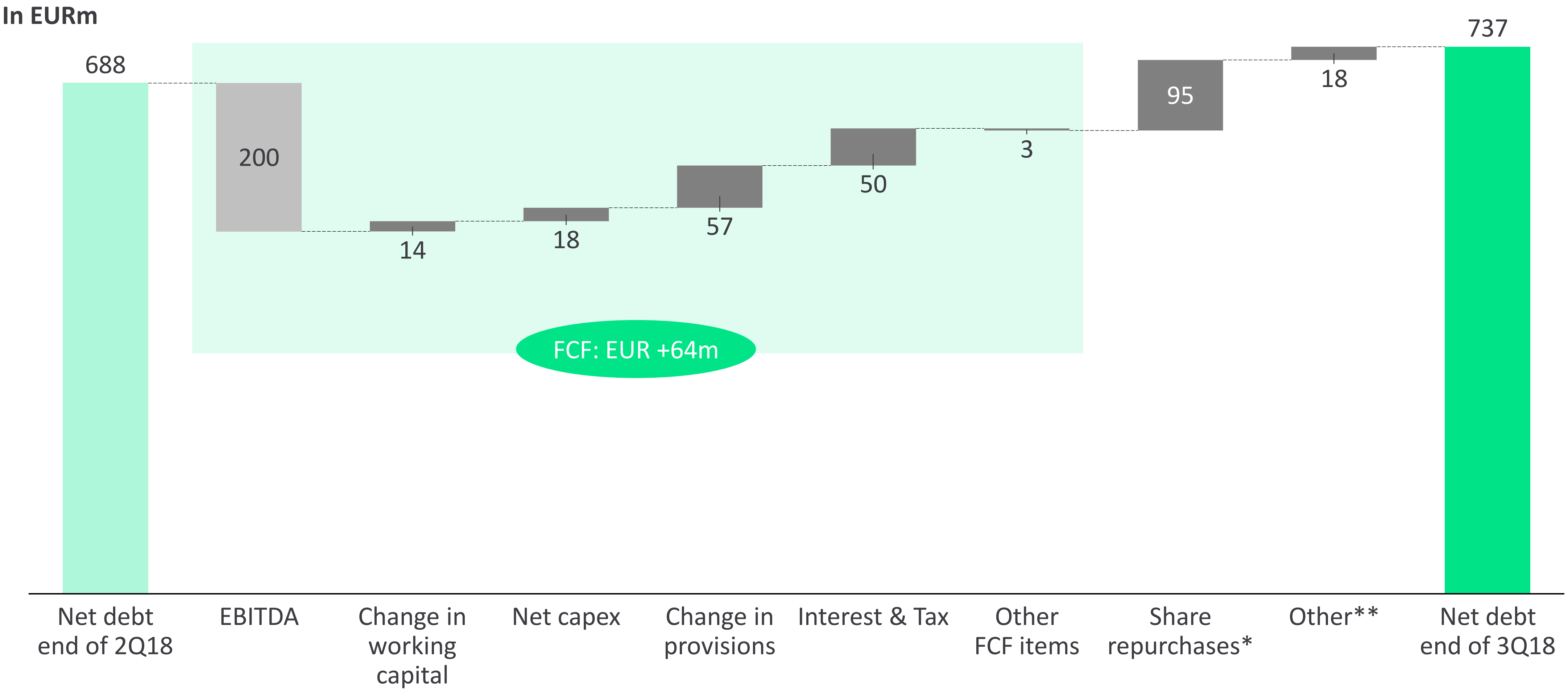

## Inventories (in EURm & as % of sales)






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

# Net debt increased by EUR 49m, mainly due to share repurchases




*Share repurchases for cancellation purposes

**Other includes cash used for acquisition, derivatives, FX effect on cash, cash equivalents and debt

# Content



# Outlook 2018

- Expect our comparable sales growth in the second half of the year **to be similar to the first half**

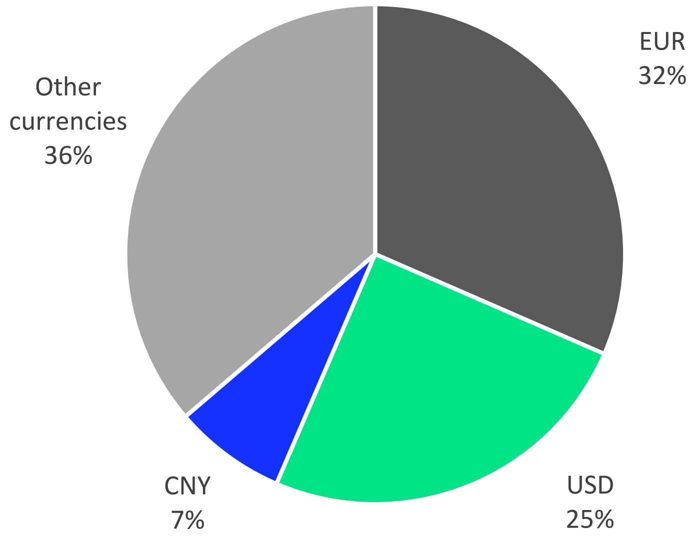
- Taking into account the **solid progress in cost savings**, we remain confident that we will be able to improve the Adjusted EBITA margin to the lower end of the 10.0-10.5% range

- Continue to expect **solid free cash flow** in 2018, which will be somewhat lower than the level in 2017 due to higher restructuring payments

# Q&A

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

## 3Q18 Sales FX Footprint (% of total)




## Key observations

- Currency movements negatively impacted sales and Adjusted EBITA
- Sales impact from currencies of EUR -35m, or -2.1%, mainly from emerging market currencies such as ARS, INR, BRL and IDR
- Adjusted EBITA impact of EUR -14m, and -60 bps on the Adjusted EBITA margin, mainly from IDR, BRL, ARS and INR
- Signify 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 93m due to higher restructuring costs and a net real estate gain of EUR 21m related to Lamps in Q3 2017

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

| | | 3Q17 | 3Q18 |
|---|---|---|---|
| | **Adjusted EBITA** | **176** | **191** |
| | - Restructuring | -9 | -17 |
| | - Acquisition related charges | 0 | 0 |
| 1 | - Other incidental items | 23 | -7 |
| | **EBITA** | **191** | **167** |
| | Amortization | -30 | -24 |
| | **EBIT** | **161** | **143** |
| | Net financial income / expenses | -10 | -12 |
| 2 | Income tax expense | -42 | -37 |
| | Results relating to investments in associates | 0 | -1 |
| | **Net income** | **110** | **93** |

## Key observations

1. Net real estate gain of EUR 21m related to Lamps in 3Q17
2. Income tax expense decreased by EUR 5m mainly due to lower taxable earnings in 3Q18



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# Free Cash Flow of EUR 64m

## Free cash flow (in EURm)

| | 3Q17 | 3Q18 |
|---|---|---|
| Income from operations | 161 | 143 |
| Depreciation and amortization | 67 | 57 |
| Additions to (releases of) provisions | 22 | 35 |
| Utilizations of provisions | -97 | -92 |
| Change in working capital | -107 | -14 |
| Interest paid | -4 | -5 |
| Income taxes paid | -29 | -45 |
| Net capex | 3 | -18 |
| Other | -22 | 3 |
| **Free cash flow** | **-5** | **64** |
| *As % of sales* | -0.3% | 4.0% |

## Key observations

- Free cash flow of EUR 64m compared with EUR -5m, mainly driven by an improvement in working capital
- Free cash flow in Q3 2017 benefited from the proceeds related to sale of real estate of EUR 21m
- Cash outflow related to restructuring EUR 39m and EUR 4m for company name change



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