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Q2 2019 results

July 26, 2019

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 2018 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 2018. 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 2018.

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 2018 and the semi-annual report 2019.

Market Abuse Regulation

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

Content

Business and operational performance by Eric Rondolat

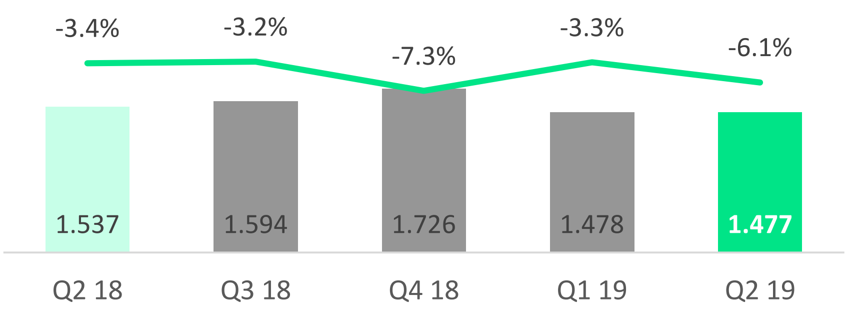
Financial performance by Stéphane Rougeot

H1 19 highlights and 2019 outlook by Eric Rondolat

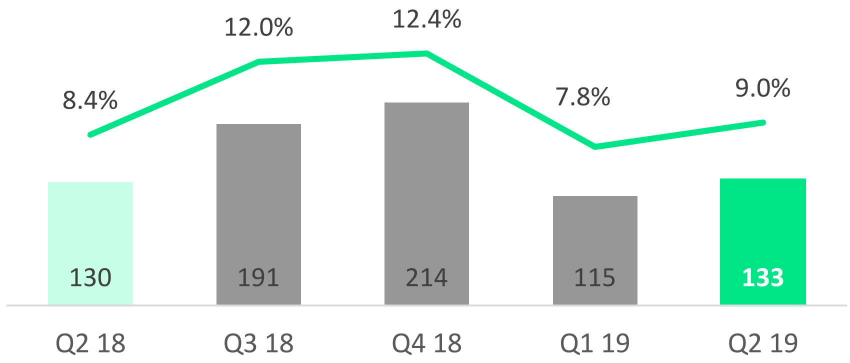
Q&A

Second quarter sales of EUR 1.5bn and operational profitability of 9.0%

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



Adjusted EBITA (in EURm & as % of sales)



Key observations for Q2 19

- CSG decreased by 6.1% due to:
  - Lower level of market activity, most notably in Europe
  - Non-recurring country-specific developments in Saudi Arabia and India in Professional
- LED-based sales grew by 0.2%, accounting for 77% of sales
- Installed base of connected light points increased from 47m in Q1 19 to 50m in Q2 19
- Currency comparable adjusted indirect costs down EUR 37m, or 60 bps as % of sales
- Adjusted EBITA margin improved by 60 bps to 9.0% including a currency impact of +20 bps
- Net income improved by 73% to EUR 50m
- Free cash flow amounted to EUR 121m, incl. EUR 17m positive impact from IFRS 16, mainly driven by higher income and phasing of payables and receivables

Growing profit engines: CSG of -2.3% and Adjusted EBITA margin improvement of 200 bps

Q2 19	CSG %	Adjusted EBITA (EURm)	vs LY (EURm)	Adjusted EBITA %	vs LY (bps)
LED	-1.8%	53	+6	12.0%	+140
Professional	-5.6%	55	+1	8.8%	+40
Home	19.0%	-8	+17	-7.8%	+2,010
Total	**-2.3%**	**100**	**+24**	**8.5%**	**+200**

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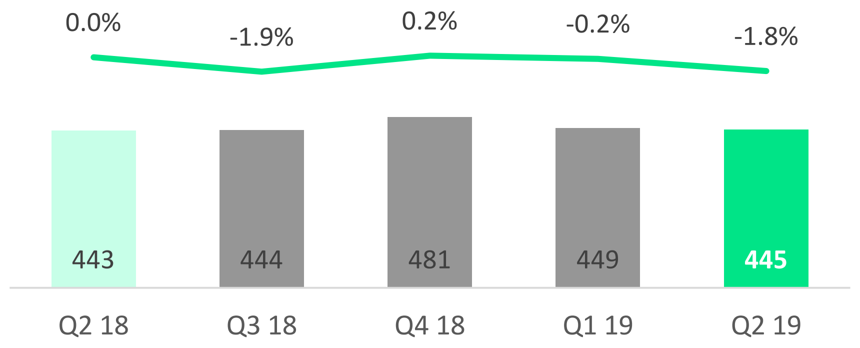
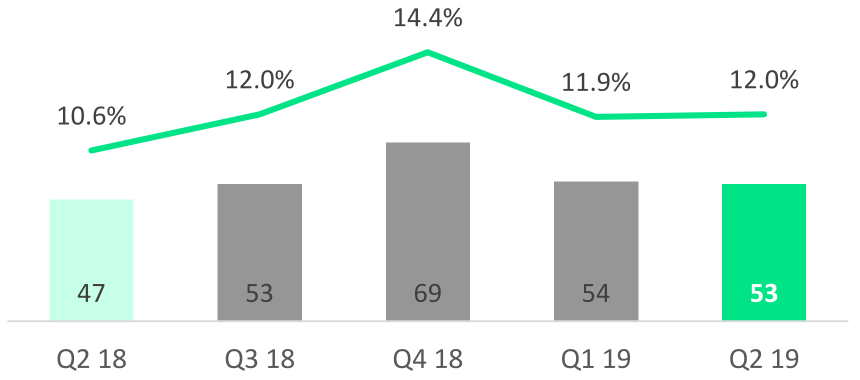
LED Adjusted EBITA margin improved by 140 bps, driven by ongoing procurement savings and lower indirect costs

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



Adjusted EBITA (in EURm & as % of sales)



Key observations for Q2 19

- Comparable sales declined by 1.8%
  - LED lamps delivered a solid performance
  - LED electronics continued to be impacted by lower customer demand, most notably in Europe

- Adjusted EBITA margin improved by 140 bps, driven by:
  - Ongoing procurement savings
  - Lower indirect costs

LED business highlights

Launched UniversalFit TLED in the Americas

- Leverages best compatibility technology with electronic and magnetic ballasts
- Simplifies installation
- Available in the US and Canada since April

Launched flagship dual zone Ceiling in China

- Showcases distinctive patented industrial design and dual zone technology
- Helps consumers to create the perfect ambiance at home
- Available in China since April

Launched FlexTune system for tunable white

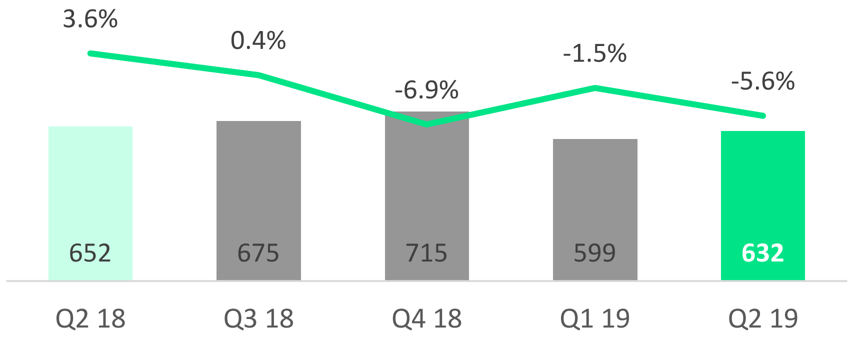
- Provides design flexibility, control precision, and simplicity for tunable white lighting
- Includes an all-new digital LED driver with Sensor Ready (SR) interface, a portfolio of matching modules and a fixture-mounted sensor

Launched best-in-class drivers for linear applications in Europe

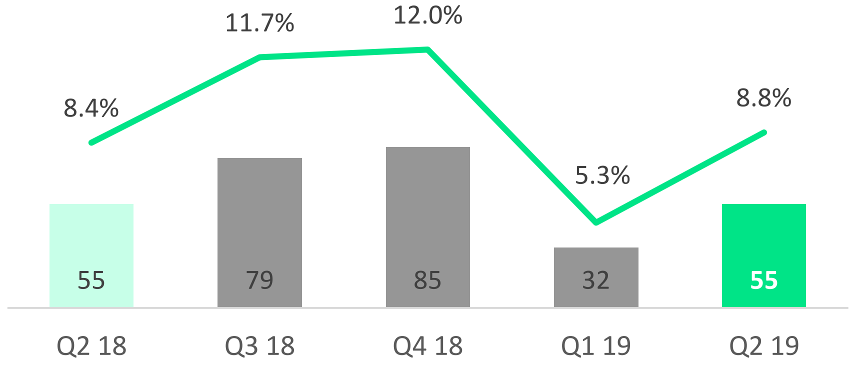
- Combines latest digital controls with high energy efficiency and flexibility
- Addresses increasing demand for sustainable lighting with low standby power consumption, built-in energy metering and diagnostics

Professional Adjusted EBITA margin improved by 40 bps, mainly driven by procurement and indirect cost savings

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



Adjusted EBITA (in EURm & as % of sales)



Key observations for Q2 19

- CSG of -5.6%, due to a lower level of market activity in Europe, and the impact of non-recurring developments
- Robust performance in the Americas and China
- Softening demand for public & outdoor projects, most notably in Europe
- Solid order backlog and project pipeline for H2 19, most notably in the Middle East and in façade lighting in China

- Adjusted EBITA margin increased by 40 bps to 8.8%, as procurement and indirect cost savings more than offset the negative impact of price and mix

Professional business highlights

Launched Trulifi: the world's fastest commercial LiFi systems

- Provides highly reliable and secure high-speed wireless communication through existing and future lighting infrastructure
- Added new customers, including Globalworth and Claerhout
- Operating >60 pilots worldwide

Launched BrightSites: enabling the smart city infrastructure

- Offers a ready platform for lighting and city-wide 4G/5G and WiFi infrastructure
- Accommodates wide variety of IoT sensors
- Already installed in several cities, including in Los Angeles and San Jose in California

Added new Philips GreenPower LEDs to horticulture portfolio

- **LED toplighting compact** makes it easy to switch from high-pressure sodium to LEDs, re-using existing infrastructure
- **LED production module 3.0** helps growers optimize multilayer crop growth and adapt color spectra and light levels

Installed Philips SunStay solar street lights in park in Seville

- Helps Seville, a city committed to sustainability and ecology, reduce energy costs and improve its carbon footprint
- Enhances safety of visitors of Infanta Elena Park

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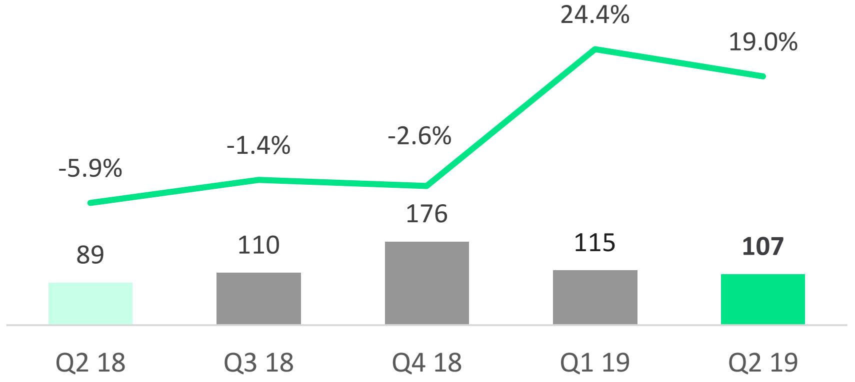
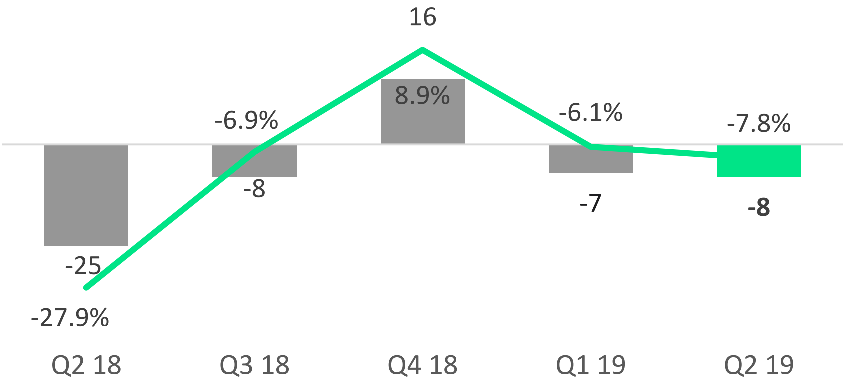
Home – continued strong growth and improvement in profitability versus last year

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



Adjusted EBITA (in EURm & as % of sales)



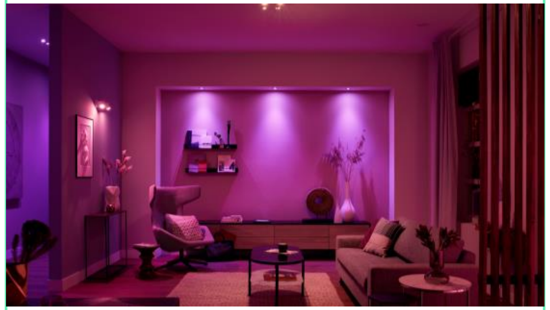
Key observations for Q2 19

- CSG of 19%, on the back of strong performance in Europe driven by robust demand for connected offers

- Adjusted EBITA of EUR -8m showed a significant improvement compared with Q2 18
- The margin development in the quarter reflects low fixed cost absorption and was impacted by relatively higher costs to prepare for the high season in H2

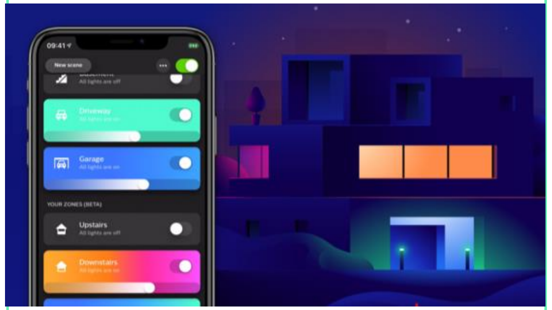
Home business highlights

Launched Philips Hue Bluetooth, making smart lighting more accessible



- Enables direct light control from a smart device
- Provides consumers with an easy entry into smart home lighting market
- More products to be Bluetooth-enabled later this year and in 2020

Released 'Zones' as part of the updated Philips Hue app



- Allows consumers to group lights into a zone, in addition to already existing rooms
- Gives consumers even more flexibility and control over their smart home lighting through the Philips Hue app

Added Lutron to the Friends of Hue program

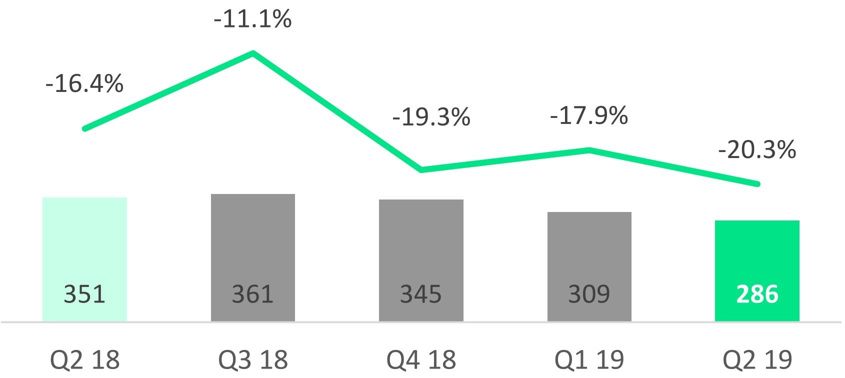
- Introduces Smart dimmer that fits over legacy wall switches
- Is designed for Philips Hue systems, and can be set up in Hue app
- Allows consumers to control Hue lights directly from the wall

Added Feller's Smart Light Control to the Friends of Hue program

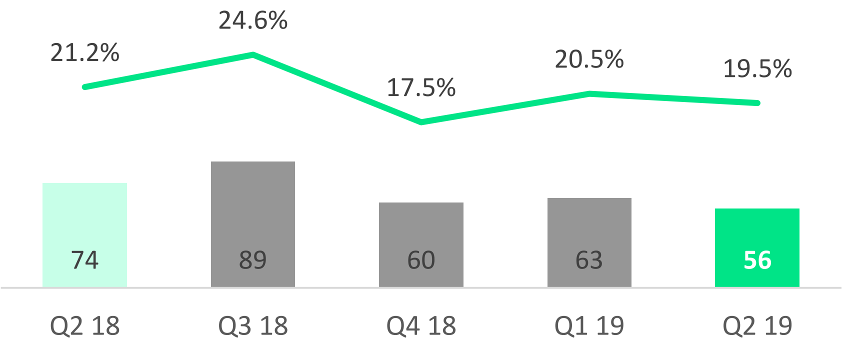
- Works with the Hue bridge and app
- Is equipped with battery-free, energy harvesting technology
- Blends into the interior design as it comes in the classic Feller EDIZIOdue design

Cash engine – Lamps Adjusted EBITA margin remained solid at 19.5%

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



Adjusted EBITA (in EURm & as % of sales)



Key observations for Q2 19

- Comparable sales decreased by 20.3%
- Continued market share gains

- Adjusted EBITA margin remained solid at 19.5% as a result of ongoing indirect cost reductions

Acquisition of 51% stake in Klite further strengthens our strategic position in LED market

Signify announced the acquisition of Klite:

- We agreed to acquire a 51% stake in leading provider of high-quality and cost-efficient LED lamps and luminaires
- Manufactures a wide range of LED lamps and luminaires, for a large, global customer base
- Based in Zhejiang, China, generated around EUR 250m in sales to thirds in 2018

This acquisition will bring additional scale and innovation power to Klite and:

- Allows Klite to generate further cost efficiencies and enhance its product development, including connected lighting offerings
- Strengthens Klite's position to serve branded and private label customers with innovative and cost-efficient products

Through this acquisition, Signify will be able to:

- Deliver cost-efficient innovations to customers faster, incl. connected lighting
- Strategically strengthen our position in the supply chain of LED lamps and luminaires
- Capture value from the growing private label segment

Acquisition of ONCE & iLOX to capture attractive growth potential in animal-centric lighting

Signify announced the acquisition of ONCE and iLOX:

- Market leaders in design & manufacturing of animal-centric lighting systems
- Animal-centric lighting reduces stress and improves feed conversion, resulting in better quality and enhanced production for the farmer
- The companies have solid relationships with key customers and a well-established sales organization in US and Europe

Through this acquisition, we will be able to:

- Accelerate our business development cycle compared to organic growth
- Generate growth in nascent and growing market for animal-centric lighting, in particular in the US and Europe
- Add strong IP and installed base

Successful integration of LiteMagic

Signify acquired LiteMagic on August 1, 2018

- Offers a broad portfolio of cost competitive façade luminaires and controls in China
- Combines Signify's global brand power, technology-driven product portfolio and global network with LiteMagic's flexible product customization, cost focus and fast time-to-market capabilities

Acquisition criteria	Achievements
Sales & portfolio synergies	• Developed façade lighting offering for ~25 countries outside China • Generated double-digit sales growth in H1 19
Cost synergies	• Bill of material reduced in line with objective • Identified opportunities to improve productivity
Working capital reduction	• Working capital reduction 8% ahead of plan
Successful post-merger integration	• People integration completed within 100 days • Completed IT & reporting readiness within 1 month • PMI costs 25% less than budgeted

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Content

Signify Adj. EBITA margin: improvement driven by ongoing cost reductions

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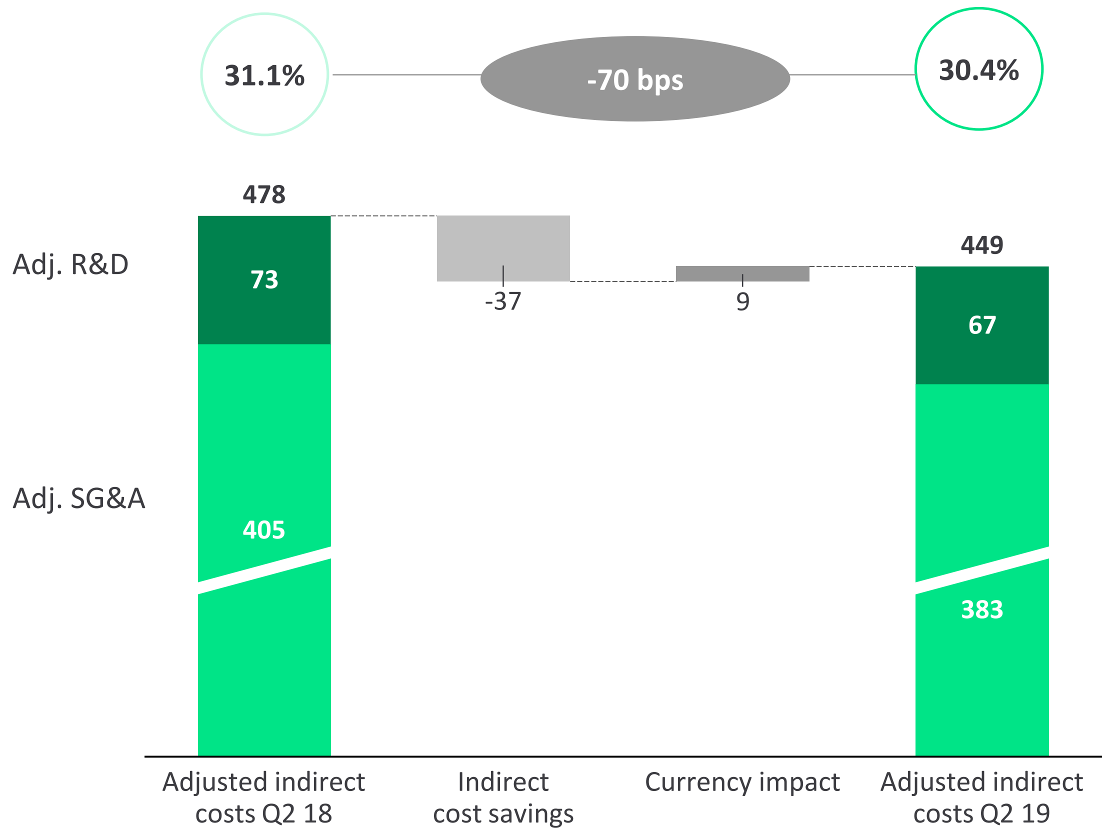
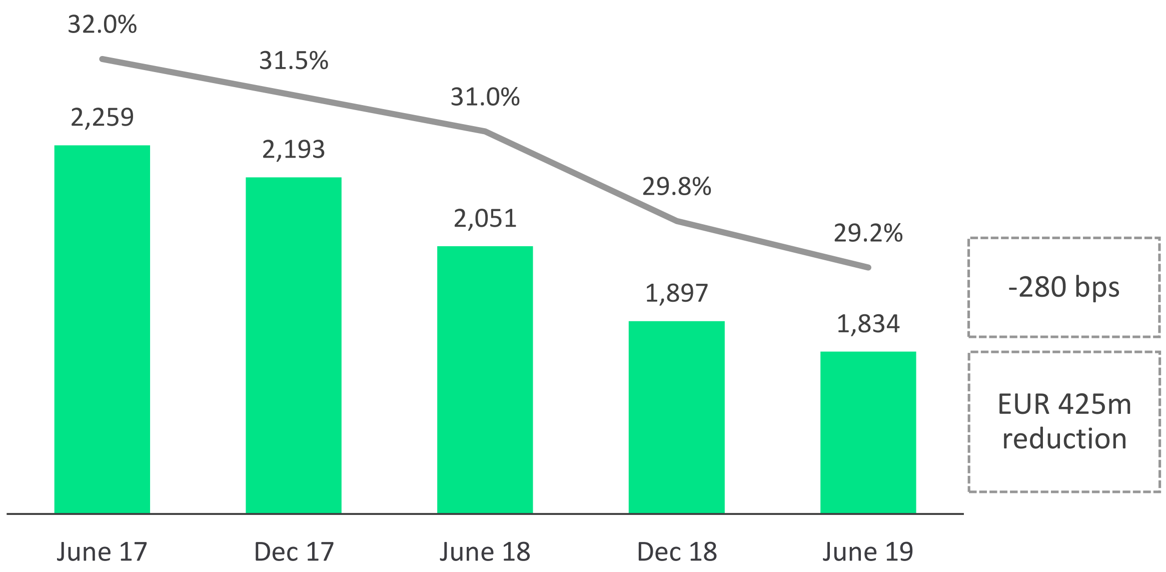
Adjusted currency comparable indirect costs decreased by 8%

Adjusted indirect costs
(in EURm and as % of sales)

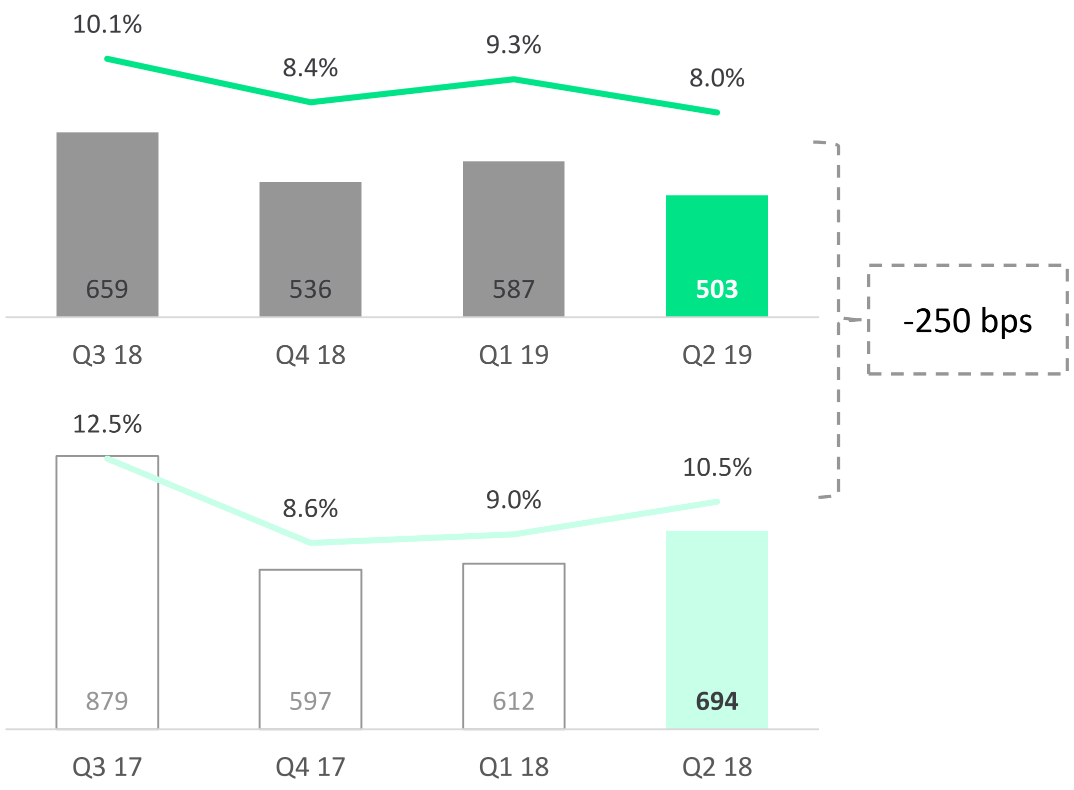


Last twelve months adjusted indirect costs
(in EURm and as % of sales)

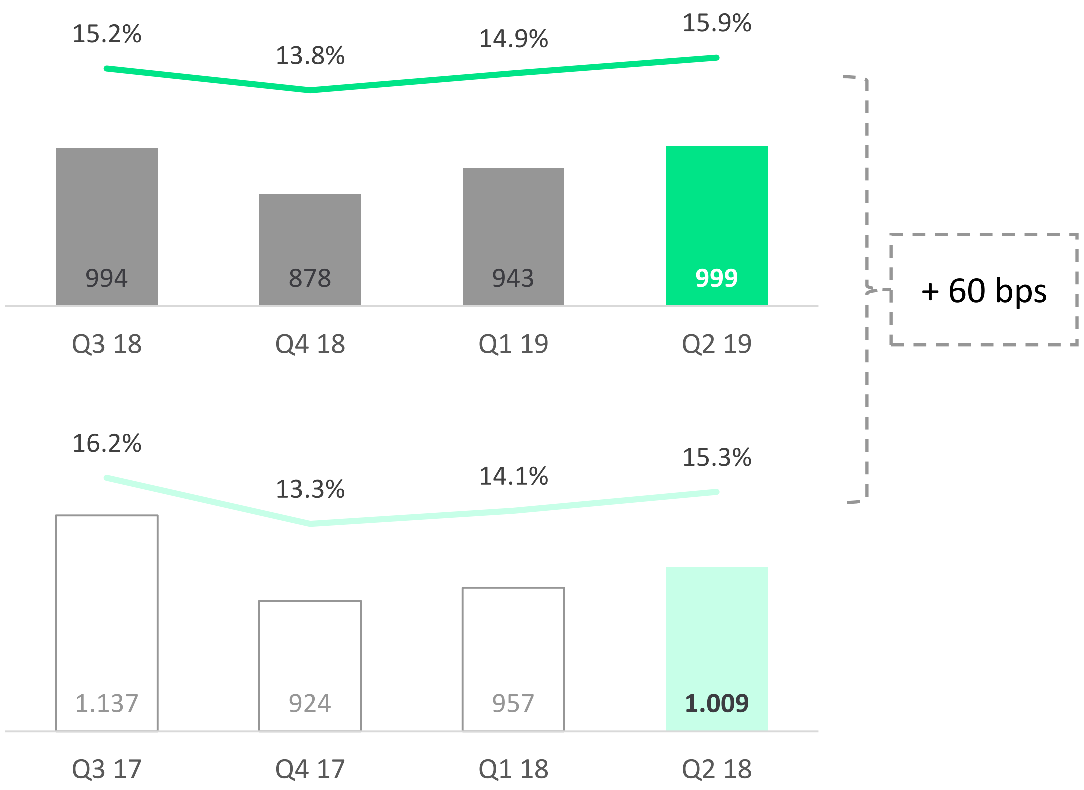


WoCa decreased by 250bps as % of sales, reflecting continued focus on improving WoCa and includes phasing of payables & receivables

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



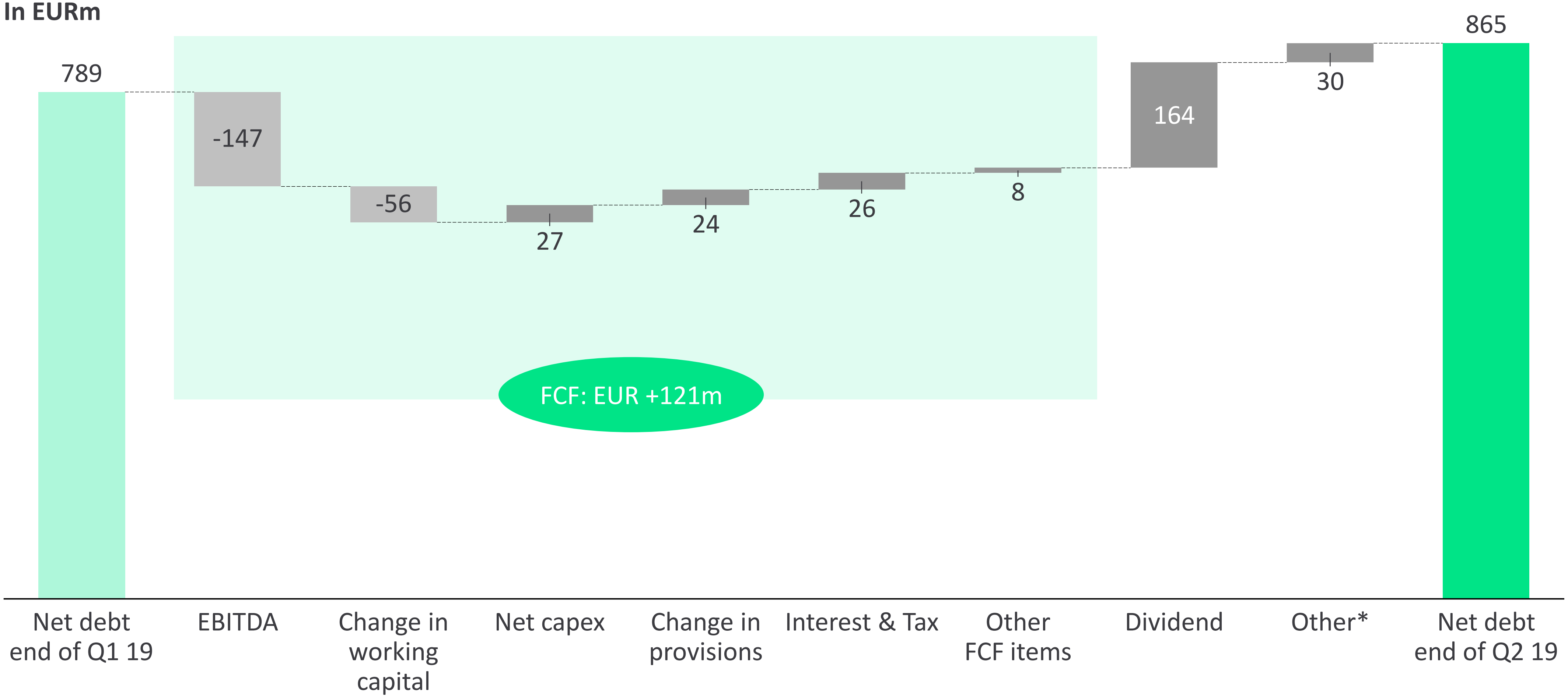
Inventories (in EURm & as % of sales)



[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 76m, mainly due to dividend distribution, partly offset by strong free cash flow generation

In EURm



*Other includes cash paid for acquisition of businesses, new lease liabilities (following the application of IFRS 16 for new lease contracts signed in 2019), and FX effect on cash, cash equivalents and debt

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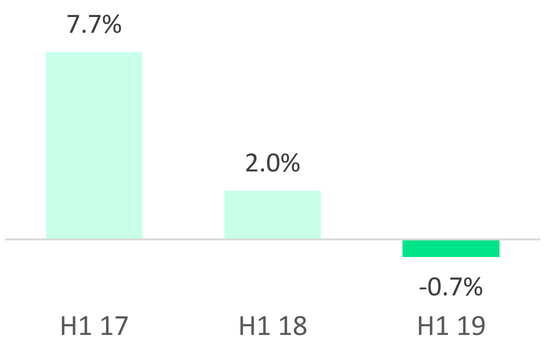
Q&A

Growing profit engines improved profitability by 200 bps in H1 2019, with each Business Group contributing

CSG (%)

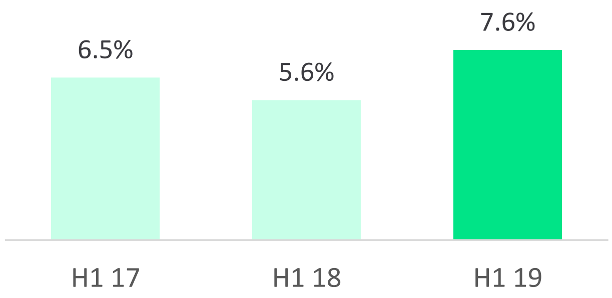
LED, Professional & Home



- CSG of -0.7% for H1 19 reflects lower level of market activity, most notably in Europe, which impacted Professional and LED electronics

Adj. EBITA margin (%)

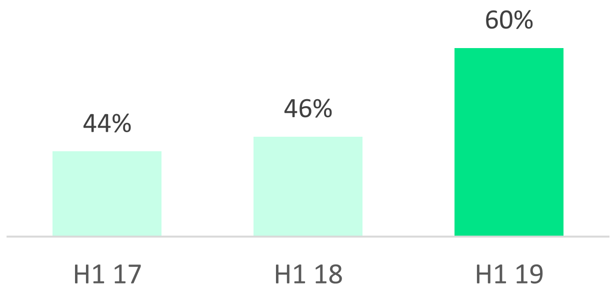
LED, Professional & Home



- Profitability of our growing profit engines increased by 200 bps in H1 19, with each BG contributing to the improvement

Adj. EBITA contribution (%)

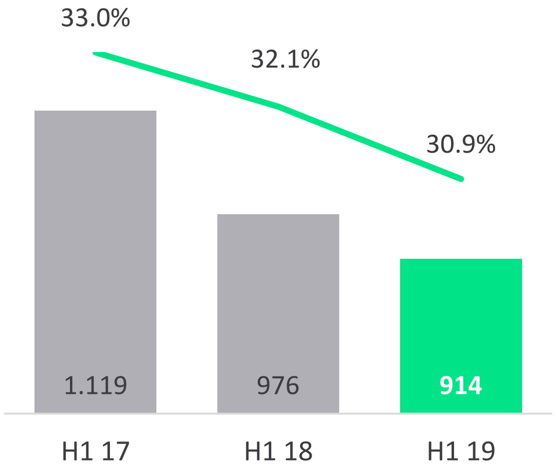
LED, Professional & Home



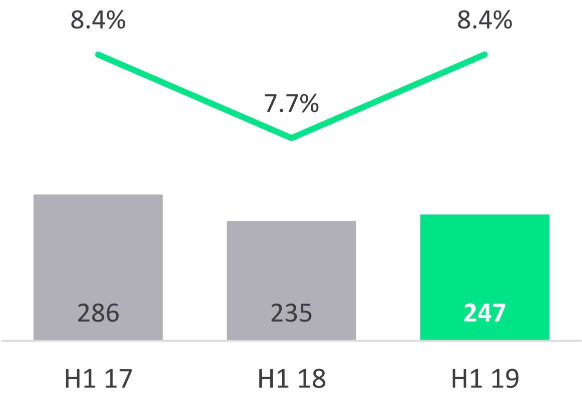
- The growing profit engines contributed 60% to Adjusted EBITA in H1 19, a significant step-up from previous years

Solid progress made in H1 19 on improving profitability and FCF generation

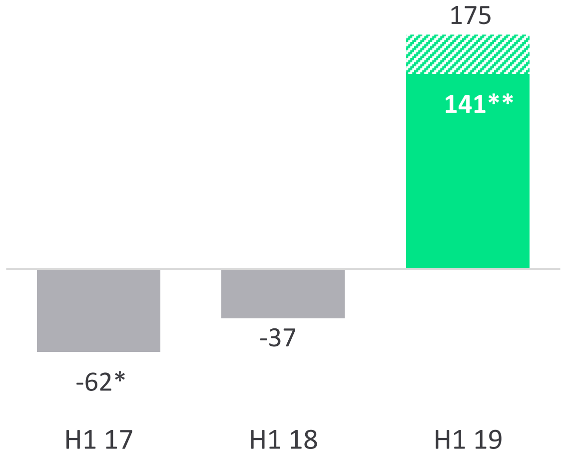
Adjusted indirect costs
(in EURm and % of sales)



Adjusted EBITA
(in EURm and % of sales)



Free Cash Flow
(in EURm)



*excluding EUR 36m real estate proceeds in H1 2017
**excluding EUR 34m of positive impact from IFRS 16

H1 19 performance

Solid progress made on cost reductions
Adjusted currency comparable indirect costs decreased by EUR 77m, or 120 bps as % of sales

Adjusted EBITA margin improved by 70 bps, despite currency impact of -60 bps

Strong cash management
Significant underlying[1] improvement of FCF in H1 2019

[1]excl. positive impact from IFRS 16 and phasing of payables and receivables

Project Horizon is the next phase on our Road to Excellence, aimed at driving growth, profitability, cash and execution capabilities

Key drivers	Examples of Initiatives	Expected impact
Growth	• Address potential market white spaces and drive sales in key growth areas • Improve sales performance management • Leverage in- & external insights to optimize pricing, and reduce complexity of product portfolio	• Higher revenues • Better sales productivity • Improved portfolio profitability
Profitability	• Standardize, automate and digitalize internal processes • Increase manufacturing and supply chain productivity	• Lower costs • Improved productivity
Cash	• Optimize receivables and payables policies while using local and global best practices • Optimize supply chain operating model	• Improved DSO/DPO • Lower inventories • Better delivery reliability
Execution capabilities and Organizational Health	• Pursue engagement culture centered around speed, collaboration and accountability • Increase focus on continuous and sustainable lean improvements	• Higher employee engagement • Increased effectiveness and efficiency in execution

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2019 Outlook confirmed

- Our growing profit engines (LED, Professional and Home combined), are expected to deliver a CSG in the range of 2 to 5%
- Our cash engine, Lamps, is expected to decline at a slower pace than the market in the range of -21 to -24% on a comparable basis.

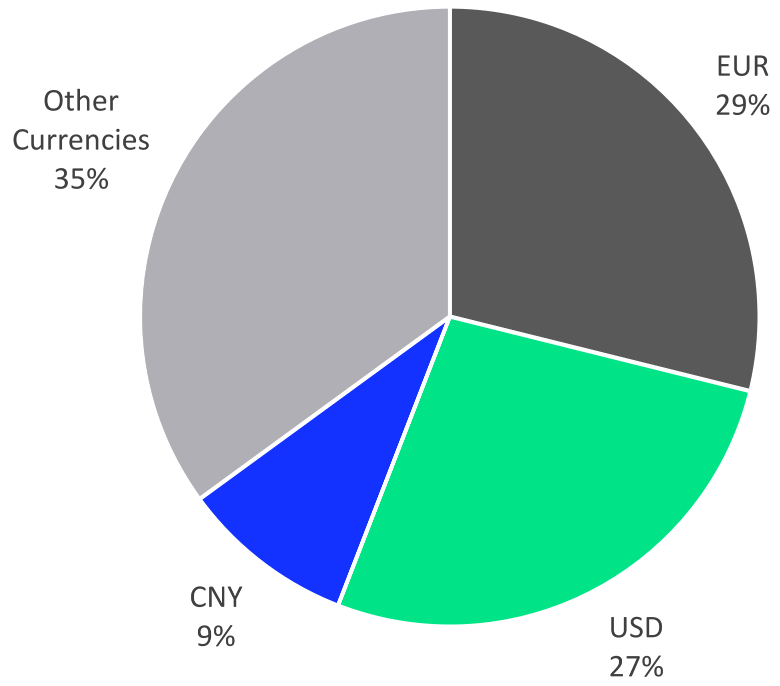
- For total Signify, we aim to reach an Adjusted EBITA margin within the range of 11 to 13% (as set at the time of the IPO in May 2016)

- We expect free cash flow, excluding the positive impact from IFRS 16, to be above 5% of sales

Q&A

Currency movements positively impacted sales and Adjusted EBITA

Q2 19 Sales FX Footprint (% of total)



Key observations

- Positive FX effect on sales of +1.7%, largely driven by US dollar appreciation
- Positive FX effect on Adjusted EBITA of EUR 6m, and +20 bps on the Adjusted EBITA margin, mainly due to YoY FX result differential and positive impact from emerging market currencies
- Our policy is to hedge 100% of committed FX transactions and anticipated transactions up to 80% in layers over the next 15 months

Net income improved by EUR 21m to EUR 50m

From Adjusted EBITA to net income (in EURm)

		Q2 18	Q2 19
	Adjusted EBITA	**130**	**133**
	- Restructuring	-35	-14
	- Acquisition related charges	0	-1
	- Other incidental items	-17	-13
	EBITA	**77**	**104**
	Amortization	-23	-24
	EBIT	**54**	**80**
	Net financial income / expenses	-13	-12
1	Income tax expense	-12	-19
	Results from investments in associates	0	1
	Net income	**29**	**50**

Key observations

1. Income tax expense increased by EUR 7m mainly due to higher taxable earnings in Q2 19

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Free Cash Flow of EUR 121m

Free cash flow (in EURm)

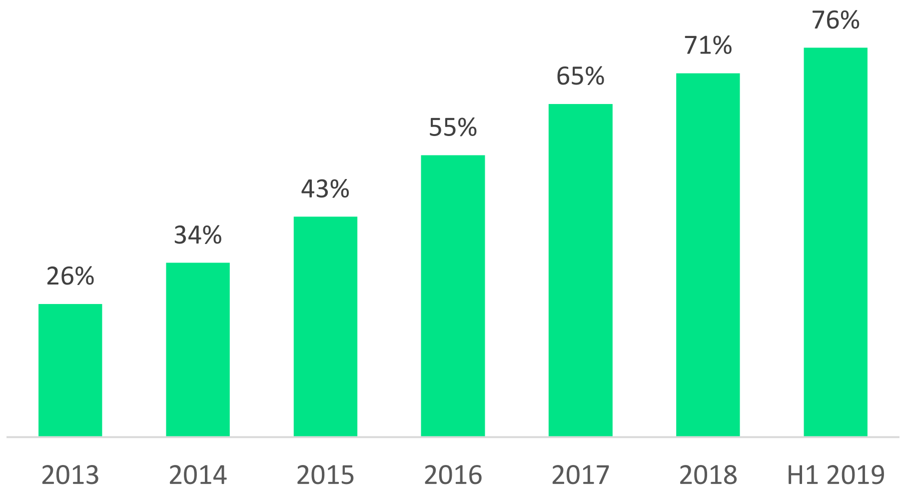
	Q2 18	Q2 19
Income from operations	54	80
Depreciation and amortization	58	67
Additions to (releases of) provisions	53	29
Utilizations of provisions	-62	-53
Change in working capital	-84	56
Interest paid	-6	-6
Income taxes paid	-22	-20
Net capex	-22	-27
Other	-1	-8
Free cash flow	**-31**	**121**
As % of sales	-2.0%	8.2%

Key observations

- Free cash flow of EUR 121m versus EUR -31m last year, mainly driven by reduction in working capital which included the impact of phasing of payables and receivables
- The net effect of phasing is estimated to represent around half of the free cash flow in the quarter
- Free cash flow in Q2 19 included a positive impact of EUR 17m related to IFRS 16 and restructuring cash-out of EUR 27m (Q2 18: EUR 33m)

More than 75% of total sales is LED-based

LED-based sales accounted for 76% of total sales in H1 19
(in % of total sales)



LED-based sales of EUR 2.2bn in H1 19, CSG of +1.9%