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# EDITED TRANSCRIPT

LIGHT.AS - Q2 2024 Signify NV Earnings Call

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**Martin Wilkie** *Citigroup Inc - Analyst*

**Sven Weier** - Analyst

**Tim Ehlers** *Kepler Cheuvreux - Analyst*

**Marc Hesselink** *ING Groep NV - Analyst*

## PRESENTATION

### Operator

(Audio in progress) Signify's second quarter and half year results 2024.

(Operator instructions)

I am pleased to present Eric Rondolat, CEO; Zelko Kosonovic, CFO; Thelke Gerdes, Head of IR. Please go ahead with your meeting.

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### Thelke Gerdes - Signify NV - Head of Investor Relations

Good morning, everyone, and welcome to Signify's earnings call for the second quarter 2024. With me today are Eric Rondolat, CEO of Signify; and Zeljko Kosanovic, CFO. During this call, Eric will first take you through the second quarter highlights, after which Zeljko will present the company's second quarter financial performance and highlights for the first half of the year. Eric will then come back to discuss the outlook for the remainder of the year. After that, we will be happy to take your questions.

Our press release and presentation were published at 7 o'clock this morning. Both documents are available for download from our Investor Relations website. The transcript of this conference call will be made available as soon as possible.

With that, I will hand over to Eric.

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### Eric Rondolat - Signify NV - Chief Executive Officer, Chairman of the Board of Management

Thank you, Thelke. Good morning to everyone, and thank you for joining us today. So let's start immediately with some of the highlights for the second quarter of 2024 on Slide 4. So as you can see, we increased the installed base of connected light points to 136 million. At the end of the quarter, LED-based sales were 86% of total sales compared to 84%, one year ago.

Comparable sales declined by 8.4% impacted by the accelerated sales decline of conventional, which is weighing around 2 percentage points and the continued soft market conditions in the European professional business and in China.

At the same time, we saw a return to growth in the consumer business outside of China and our OEM business. The adjusted EBITA margin decreased by 40 basis points to 7.9%, as gross margin expansion was offset by absorption of fixed costs.

Net income came at EUR63 million compared to EUR45 million in Q2 last year. The year-on-year improvement is mainly driven by lower adjustment items lower noncash losses on virtual power purchase agreements and higher financial income.

Finally, free cash flow was EUR51 million as higher income from operations was offset by a higher restructuring payout and a higher cash outflow from working capital.

Now let's move to Slide 5, starting with the professional business. And nominal sales in Q2 were EUR959 million with comparable sales showing a decline of 8.3%, mainly due to the continued softness in Europe and China, while agricultural lighting showed sequential improvements and the Americas remain strong.

In Europe, the weakness was mainly driven by indoor professional lighting as the public segment rebounding after a temporary weakness in Q1. As you can see, the adjusted EBITA margin declined by 30 basis points to 8.1%, mainly due to an absorption of fixed costs, as negative pricing was compensated by bump savings and positive sales mix.

Let's move now to the consumer business on Slide 6. Nominal sales in Q2 were at EUR297 million, with comparable sales showing a decline of 2.4%, mainly due to lower sales in China, while connected offers were back to growth.

EBITA margin increased by 160 basis points to 7.1%, driven by both cost of console savings, positive sales mix and a positive currency effect. Continuing with the OEM business on Slide 7. Nominal sales in Q2 were at EUR106 million, which comparable sales showing a slight increase of 0.1%, a continued sequential improvement following normalization of inventory levels at our OEMs.

The adjusted EBITA margin increased by 370 basis points to 13.9%, mainly driven by cost of goods sold savings. And finally, the conventional business on Slide 8. Nominal sales in Q2 were at EUR114 million, with comparable sales showing a decline of 27.6%, impacted by ban in Europe last year. The adjusted EBITA margin declined by 420 basis points to 15.7%, mainly due to an under absorption of fixed costs following the accelerated sales decline and a one-off charge related to environmental provisions.

Now if we do exclude the effect of one-off charges, the adjusted EBITA margin would be around the historical 18% to 19% level.

So let's look at the next slide, Slide 9, where I would like to discuss a couple of business highlights, starting off with a highlight on the recent partnerships. So we announced a partnership with Mercedes-AMG Petronas Formula 1 Team driven by a shared passion for responsible innovation. Our innovation in lighting can support the team ambition to become one of the world's most sustainable in sports, advancing sustainability, enhancing performance and elevating experience for fun, track side and also at home.

In our Professional business, we expanded the ultra-efficient range with new panels, luminaries and downlights and expanded the Philips light creation range of 3D-printed products.

In the consumer business, we launched the Philips Hue Twilight sleep and wake applied design to support the and launched the new WiZ Music in fixture, allowing users to change the brightness and color of the WiZ lights with the reason of music.

Next, I would like to discuss our sustainability performance on Slide 10. So in the second quarter of the year, we continued to advance on our Brighter Lives, Better World 2025 sustainability program commitments. We are ahead of schedule to achieve our 2025 target to reduce greenhouse gas emissions.

At the same time, secular revenues increased to 35%, up 1% on last quarter and ahead of our '25 targets up 32%. The main contribution came from LED serviceable luminaries. Brighter Light revenues remained at 31%, on track to reach the 2025 target of 32%. This includes a strong contribution

from consumer products that support health and well-being, mainly eye comfort and professional luminaires that are compliant, reducing the impact on biodiversity.

The percentage of women leadership position increased to 29%, a 1% improvement over the last quarter, slightly behind our 2025 target of 34%. We continue our efforts to increase representation through focused hiring practices, for diversity at all levels and through retention and engagement activities to reduce attrition.

So additionally, we launched our climate transition plan, which sets our climate strategy in line with our SBTi validated 2040 net zero targets. With that, we are part of a very limited number of companies that have a detailed plan linked to science-based targets.

We are targeting net zero greenhouse gas emission across our entire value chain by 2040 and aim for an absolute reduction of Scope 1, 2, and 3 greenhouse gas emissions of 50% by 2030 and 90% by 2040 against the 2019 baseline.

Let me now hand over to Zeljko, who will take you through our Q2 financial performance and highlights for the first half of the year.

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**Zeljko Kosanovic** - Signify NV - CFO

Thank you, Eric, and good morning to everyone on the call. It is my pleasure to present our second quarter 2024 results this morning.

Let me dive straight into the financial highlights on Slide 12, where we are showing the adjusted EBITA bridge for total Signify. The adjusted EBITA margin decreased by 40 basis points from 8.3% in Q2 2023 to 7.9% in Q2 of this year as a strong 140 basis point gross margin improvement was more than offset by the negative impact from volume decline.

Looking at the bridge in more detail. The negative volume effect was 220 basis points. The combined effect of price and mix was a negative 150 basis points, as negative pricing in parts of our business was partially offset and compensated by positive sales mix.

Cost of goods sold improvements contributed with 190 basis points, as we continue to benefit from bill of material savings and also lower transportation costs. Adjusted indirect cost savings had a positive effect of 80 basis points, but weren't able to keep pace with the volume decline. Currency had a positive effect of 60 basis points, mainly helped by the Chinese yuan. Finally, other effects were -- had a negative impact of 10 basis points.

On Slide 13, I'd like to discuss our working capital performance during the quarter. Compared to the end of June 2023, working capital reduced by EUR138 million or by 100 basis points from 8.9% to 7.9% of sales. Inventories decreased by EUR214 million, mainly from the improving supply chain lead times. Receivables reduced by EUR43 million due to both our efforts to minimize overdues and due to the lower year-on-year sales level.

Payables were EUR108 million lower, being a logical consequence of driving down our inventories, while structural payment terms remained largely unchanged.

Next, on Slide 14, I will take you through our performance for the first half of 2024. Our comparable sales declined by 9.2%, driven by lower professional sales in Europe, continued softness in China and an accelerated decline of conventional. At the same time, we saw sequential improvements in the consumer and OEM businesses throughout the first half.

The adjusted EBITA margin declined to 8.1%, as gross margin improvement was offset by an under-absorption of fixed costs. Free cash flow continued to be strong as the lower cash outflow from working capital was partly offset by the anticipated cash outflow related to the announced restructuring program.

And with that, I would like to hand back to Eric to wrap up with the outlook and closing remarks.

**Eric Rondolat** - Signify NV - Chief Executive Officer, Chairman of the Board of Management

Thanks, Zeljko. So let's conclude with the outlook on Slide 16. Given the dynamics we are seeing in our markets, we remain cautious on professional Europe and on China for the second quarter. Now at the same time, we are encouraged by the positive trend in connected lighting, with growing demand in most markets. We also expect to see a positive traction for Professional in the Americas, our agriculture business as well as our OEM and consumer businesses.

As a result, we are maintaining our guidance with an adjusted EBITA margin at the lower range of the 10% to 10.5% range and the free cash flow generation of 6.6% to 7% of sales, including an incremental and nonrecurring negative impact of around EUR150 million related to the restructuring program and the reduction of our US pension liabilities.

And with that, I will hand back to the operator for the q-and-a.

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## QUESTIONS AND ANSWERS

### Operator

(Operator instructions)

Akash Gupta. JPMorgan.

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**Akash Gupta** - JPMorgan Chase & Co - Analyst

Yes. The first one I have is on organic growth. Clearly, Q2 organic growth was a bit weaker, and we have seen Q1 results came in somewhat weaker than expectation. When we look ahead in the second half, can you give some indication on how shall we see the growth rate or growth decline improving in Q3-Q4? Shall we assume a similar level of improvement in basis points that we have seen in Q2 versus Q1?

Or could it be more -- like the pace of improvement in organic decline could be more than what we have seen in Q2 versus Q1? So first one to start with on organic growth.

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**Eric Rondolat** - Signify NV - Chief Executive Officer, Chairman of the Board of Management

Thanks for the question. So basically, what we see in Q2 is an improvement on the organic growth profile in line with what we had said in Q1. We see also that the tension on the top line brought by conventional is slightly diminishing. It was, if I remember well, around 280 basis points in Q1. It's now 210 basis points, but it's still there.

What we see coming up is another sequential improvement. Now the magnitude of which could be in our forecast, at this point in time, slightly superior than what we've seen between Q1 to Q2. And that will come from the following different businesses: so first of all, we have seen, as we commented, an improvement in our OEM business, which is growing in Q2. We expect that business to continue to rebound in the second half.

We have seen the consumer business also progressing in the right direction. And as we mentioned, if you exclude China, that business would be posting a positive growth. Also, in the consumer business, we see after two years of decline, the connected offers also rebounding, which is a very good sign.

We have, entering Q3, an order intake, which has grown for the OEM business and also for the professional business, which is a translation of the positive traction that we see coming from the agriculture business. So that is something that we had already commented, and this is a reality. It is happening.

Now given what we have experienced in Q1 and at the back end of Q1 in Europe, we stay very cautious on Europe Professional and also in China. But yes, we see a sequential improvement of magnitude that can be a bit more important than what we've seen between Q1 to Q2 in the upcoming quarters. And what I've just described are the underlying business that can drive this.

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**Akash Gupta** - *JPMorgan Chase & Co - Analyst*

And my follow-up is on second half margins. If I look at Q2, your margins are slightly over 100 basis points below consensus. But when we look at what is implied in your guidance on the second half, I mean, you are more or less guiding in line with what is there in consensus numbers.

So maybe if you can talk about how do you see the improvement in the second half? Is it -- I mean, obviously, the mix will help like horticulture, but then can you talk a bit more about the phasing of savings? Because you implemented the program early in the year and I think you've been saying that in the first quarter, the benefit would be limited, but when it comes to the second half, can you please elaborate on what sort of savings we shall expect from this EUR200 million cost out plan?

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**Eric Rondolat** - *Signify NV - Chief Executive Officer, Chairman of the Board of Management*

Let me ask to answer to that question. But before that, let me tell you something that we see regularly in every year, our H2 performance in profitability is much better than H1. If you look at where we H1 compared to last year, we are maybe 50 basis points below. So we expect to recover that ground in H2. But maybe Zeljko, you can give us a bit more details.

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**Zeljko Kosanovic** - *Signify NV - CFO*

Yes, Akash, to summarize the key -- the three drivers that would lead to that sequential improvement into the second half. First, the effect -- the direct effect with improvements in the top line linked to what Eric was commenting earlier, which will, of course, have less of a drag on the bottom line.

Second, the continued gross margin discipline that we will see -- we expect to stabilize as we anticipated into the second half of the year. And third, the effect of the cost savings, which are being executed and on track with our plan.

And we do expect to have the biggest impact into Q4 of the effect of all the restructuring programs that have been implemented. So with those three elements, that is what leads us to see the gradual improvement of our EBITA margin into the second half of the year.

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**Akash Gupta** - *JPMorgan Chase & Co - Analyst*

And maybe just a quick follow-up to that. When we look at the profitability between Q3, Q4, is it more back-end loaded, so the entire improvement is coming in Q4? Or shall we also expect some year-on-year improvement in Q3 as well?

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**Zeljko Kosanovic** - *Signify NV - CFO*

Look, for the three elements that I mentioned, of course, we do have, and this is the normal seasonality element on our top line that is in general, in particular in businesses like consumer where we typically have a higher last quarter. And as I mentioned also, the effect of our cost restructuring savings will be mostly captured into the fourth quarter. So yes, in short, it indicates so that it will have more of a back-end loading effect into the second half

**Operator**

Daniela Costa, Goldman Sachs.

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**Daniela Costa** - *Goldman Sachs Group Inc - Analyst*

I will ask the one plus a follow-up, but one at a time. Maybe can you comment a little bit in terms of like the pricing situation? And what you see now in the backlogging. In the P&L, we're still seeing sort of like that impact slightly accelerating, not compensated by COGS, but can you talk about how you see this going forward given some of the signs of turn that you're seeing in the end markets?

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**Eric Rondolat** - *Signify NV - Chief Executive Officer, Chairman of the Board of Management*

Yes. Good morning, Daniela. The price situation has been slightly – has degraded slightly, I would say, between Q1 to Q2. Where we see the strongest price erosion are in basically India and in China. In China, the market has become very competitive.

But let me take another angle. So when you look at our businesses, and let's look at conventional to start with. Here, we are declining in CSG, and we're also declining in volume, even if price is slightly positive. So when we look at our professional business, we are declining in top line. We are declining in volume, and we have an impact of price, which is pretty similar or slightly more than in Q1.

When we look at our consumer business, we are declining overall, but we are growing in volume. And when we look at our OEM business, we are growing in terms of CSG and we are also growing in terms of volume. So the price is there. As Zeljko has commented, we see happening some increase of price of commodities, metals and transportation and that will have a tendency, we believe, in the second half, which was not the plan originally, but it will have probably a positive impact on trial that prices are going to be reevaluated in some cases in order to limit the erosion that we have seen in the first half.

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**Daniela Costa** - *Goldman Sachs Group Inc - Analyst*

My question was going to also follow up related somewhat to that. But if we think about also potentially in the second half, depending on the US election outcome, if we go to a situation where we get sort of further tariffs on stuff that comes from China and stuff that comes from all the world into the US, can you talk about how you're positioning now versus how you were last time around?

Obviously, with the Cooper deal, the positioning is slightly different. But how much are you bringing in from China into the US and from other places, how much you're domestically located, and how you will deal with that in a deflationary industry?

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**Eric Rondolat** - *Signify NV - Chief Executive Officer, Chairman of the Board of Management*

Yes. So it will depend, Daniela, if the tariffs are maintained or if the tariffs are increased. But we are taking options to be able to manufacture from other countries than China. So at this point in time, we are using our Indian base to mitigate the impact if it was coming to reality. And we think that India has a big market in itself, a market where we are very well positioned and strong, is a market where we have historically been manufacturing, and it can become a substitute to China to import in the US.

We are also looking at other alternatives in a country like Indonesia, where we are also very well positioned. It's a big market. That's the fourth population in the world where we could also potentially serve more than Indonesia and potentially at one stage United States. So at the end of the day, yes, we are putting in place mitigation plans. So we are much better bigger than we used to be at the time.

I'm noting also the fact that we have been relocating already some of the productions to Mexico, the ones that were valuable given the level of the tariffs that we experienced in the first wave. So yes, we are much better prepared than we were at the time when the tariffs were first imposed.

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**Operator**

Martin Wilkie, Citi.

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**Martin Wilkie - Citigroup Inc - Analyst**

Thank you, good morning. It's Martin from Citi. The question I had first was on professional inside Europe. I wonder if you could talk a little bit about the different trends you're seeing there? I think your comments are probably a little bit more negative than we've seen from some of the other lighting players.

But obviously, I appreciate it's very different by end market and by country. So just some color on what's happening inside European Professional?

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**Eric Rondolat - Signify NV - Chief Executive Officer, Chairman of the Board of Management**

Yes, Martin. So this is correct. So let's try to look at our business in Europe, which we investigated deeply. And we see basically four different avenues, and then I will compare against some of the peers. Basically, when you look at that business, in H1 in Europe last year, the business was performing far better than the average, and it was a growing business. So we are starting on a higher base of comparison compared to other businesses. So that's one.

Second, there is an impact in H1 of a project that we took last year to support Ukraine LEDification. In Ukraine, there was a need to go very quickly to LED to save basically on energy generation and we participated to a big project. At the time, it was under the previous organization, and that was a business that was managed by DDP. But it falls into the Professional business. So that's also a big compare of a one-off because that project that happened last year is not happening this year and it's impacting the growth of Professional.

At the higher -- at the other end of the spectrum, we commented on the public business and the public business is rebounded in Q2. We had seen some slowness in Q1, and we said we think it may rebound and it has rebounded. So what are we left with? We are left with, first, distribution. And compared to our peers, we are very distributed. Meaning, that a big part of our business in the Professional segment goes to distributors. And that's a market that we've seen contracting substantially in March. It has continued in Q2 with a repositioning of the inventories of our distributors.

And that's linked, when you look at the end markets of the slowness on the distributed end segments, which is office and industry, retail and hospitality. So these segments, which is construction non-res have gone down. At the same time, we are more -- and we're impacted by big economies in which we are strong like Germany, for instance. And so we have also a geographical pattern which is a bit different than some of the peers that is one of them that has published results, where we believe we have been counter-performing in Europe on the professional side is on the project business.

In some segments, like office and industry, but retail, we had a very strong business last year in retail and especially food retail, where we have historical customers that went very quickly to LEDification because of the increase of the price of energy. So they had an accelerated LEDification, which generated a lot of business last year, but much less business this year.

And we were making the reflection within the team that we should have probably directed our sales force to new customers, which I believe we haven't done fast enough in Q2, which is explaining one part of the decline. But as you see, it's a global equation. So a business that was performing last year, a one-off that we're suffering from in H1.

The public business going back to more normalcy, and then an impact on distribution, which is very specific to our footprint, and probably a direction to other customer that we should have initiated a bit earlier than what we have done. So that explains globally the performance of the channels, the difference versus competition and also the actions that we have been putting in place in order to rebound in the next semester.



Nevertheless, when we look at the traction in Europe in general and the construction non-res, we are cautious. And in the forecast that we have made internally for the second half, it's a forecast of cautiousness, which is leading us to the guidance that we have maintained, but also given more details about where we think we're going to end up.

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**Martin Wilkie** - *Citigroup Inc - Analyst*

Yes. That's really helpful. Just on that outlook, one other thing that's happened over the past couple of months is that in Europe, the performance of buildings directive looks to have been completed and finalized. And I know that's not going to generate too much in the very short run. But there are hopes that mandatory building automation systems and lighting control systems could drive growth perhaps over the next couple of years. Do you need to make any tilt for that or are you well exposed to those markets if we begin to see some mandatory renovation driving lighting automation systems?

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**Eric Rondolat** - *Signify NV - Chief Executive Officer, Chairman of the Board of Management*

Very well exposed. I think this is a very good directive for us because it plays to our strength because it's about connectivity. When we talk about BMS, it's also the possibility to connect the lighting to a BMS, and we have different offers from the very simple ones with Interact Pro which is basically the equivalent of Philips Hue, but for the professional market up to Interact enterprise.

And we've been working with a lot of the BMS suppliers in order to connect our system to theirs, so that's a very positive trend. And now, Martin, from the moment when the directive is being voted and the implementation, there's a bit of a lag, but we see that, that directive that's very, very positive for us, absolutely.

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**Operator**

Sven Weier, UBS.

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**Sven Weier** - *Analyst*

Good morning. Thanks for taking my question. The first one is a follow-up regarding pricing. Just wondering, because you expect a better consumer business second half, that's then not lead by any price promotion, right? Because you said on pricing, you rather become a bit more conservative and it didn't sound like there would be any price promotion on the consumer side.

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**Eric Rondolat** - *Signify NV - Chief Executive Officer, Chairman of the Board of Management*

Sven, in Q4, there are price promotions on the consumer business. That's something that is done on a constant basis, but that doesn't deter us from being able to generate the right level of margin. And something which is also going to have dilution of the fixed cost is more volume. So basically, we don't only look at the gross margin, we look also at the operating margin. So there will be price promotion, but in line with what we do normally saw. No big difference there.

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**Sven Weier** - *Analyst*

Okay. The second question is just, again, on the consumer business. I was just wondering about the Q2 margins relative to Q1 because I guess from an absolute revenue perspective, you were on the level of Q1, but margins were 7.1 against 10.4 in Q1. I was just wondering, is that really the China impact sequentially? Because at the same time, you said connected is back to growth, which should be rather accretive, but just really the sequential margin performance on the consumer side.

**Eric Rondolat** - Signify NV - Chief Executive Officer, Chairman of the Board of Management

Yes, good remark on that one. So what you see is that there's a substantial increase versus last year, but not versus the previous quarter. So there is a slight impact of the Chinese business. There is also more investment. So when we look at that business in more detail, we will see that the cost of that business as a percentage of sales versus the previous quarter is higher because we are also preparing some [pull] actions for the higher seasons that are coming up.

So as we see that, that business is rebounding, we're also fueling the future growth with some more cost. And we wanted to do that in Q2 to prepare Q3 and Q4. Basically, the Q4 high season is played at the end of Q3, so we need to anticipate on the promotion actions.

**Operator**

(Operator Instructions)

Tim Ehlers, Kepler.

**Tim Ehlers** - Kepler Cheuvreux - Analyst

So the first one would be about connected lighting. Could you maybe elaborate what you see there in Professional, but also in consumer, and how Philips Hue and WiZ is performing?

**Eric Rondolat** - Signify NV - Chief Executive Officer, Chairman of the Board of Management

So let's start, maybe Tim, with the Professional side of the business. So if we look at Europe and let's start with Europe, we are not growing in Europe, our connected lighting business, but the performance of that business within the whole context of Europe is much better than our average CSG in Europe Professional.

Otherwise, we see that business continuing to grow in the other parts of the world. More and more customers understanding the benefits of connected lighting and beyond the energy efficiency or that you gain with the technology. So that's a very positive point, and we see that trend, which has been positive all throughout the past four years, continuing everywhere, but except at this point in time in Europe.

When it comes to Hue and WiZ, so we see a rebuilding of the Hue performance. Now it has been the case over the past quarters, we see the business slowly but surely, we're building itself. It's been positive in Q2. We have big plans, I mean, commercially, but also from a product standpoint in order to support that growth in the second half.

But the way we entered the second half is very positive at this point in time from a Hue brand standpoint. When it comes to WiZ, the situation is a bit more mitigated. On one hand, you see the growth of that business in some geographies, but we've been losing in a big geography, which is impacting the overall numbers.

Now when we talk about the proportion and Hue is far bigger than WiZ. And once again, here, the plans are established for Wiz for the second half, but we see already Hue growing and not WiZ so far.

**Tim Ehlers** - Kepler Cheuvreux - Analyst

Okay. Great. Then follow-up also related to that topic. So the cooperation with Mercedes, with the Formula One Team, is that also part of your marketing strategy for Consumer? I remember that you said that you want to focus on that a bit more and make Hue a more known brand for premium lighting?

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**Eric Rondolat** - Signify NV - Chief Executive Officer, Chairman of the Board of Management

Yes, absolutely. I mean there are different objectives that we're pursuing with that association. But let me start with your direct question. We want to reinforce Signify as a company name.

We want to strengthen Signify also as a brand name, already some activities that we have are weighing the Signify brand and we think it's very important for a company like ours also to own our brand. We have a very specific part of the objective of this partnership, which is called elevating experiences, which is what we do on the trial because we are lighting also some Formula One tracks like Las Vegas and Singapore, but it's so elevating experiences of fans at home.

And this is where we will use that platform, which is a very, very powerful one, to access consumers to promote the Hue brand, to promote the Wiz brand and to make these offers known by more consumers. At the same time, when you have a viewing experience of motor sports with the life changing with the color you have on the screen or when you have a simulator or gaming, which is also bringing a different and immersed experience when you add lighting. I mean these are the things that we will be advertising, and we will use that partnership to do that, absolutely.

There may be also potentially co-designs on some products that we can look through the merchandising of that business, which could be also very positive for us. So it is a clear step that we're taking and a clear strategy to build on our brands and to build strongly on our brands to generate, of course, our future top line.

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**Operator**

Marc Hesselink, ING.

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**Marc Hesselink** - ING Groep NV - Analyst

Yes, thank you. Maybe first a follow-up on a previous question. You want to strengthen the Signify brand name, is that also linked to potentially dropping the Philips brand name in the future, or we shouldn't look at that way, from that perspective?

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**Eric Rondolat** - Signify NV - Chief Executive Officer, Chairman of the Board of Management

No, I think we're not talking about dropping the Philips brand name. This is our historical brand. And now we need also to be conscious that we are having a brand license fee that we need to pay for the Philips brand. So that will continue for the future.

But maybe with less volume, more in line with the minimum that we have to pay in the future and keeping Philips where it really adds value is fundamental for us, and that will continue. But we can also imagine that for some activities in some countries and some new activities, more linked to connectivity and things that we do with new technology, that the Signify brand would be also very well positioned in order to do so.

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**Marc Hesselink** - ING Groep NV - Analyst

Okay. And the second question is on China. Quite a difficult competitive dynamic you're highlighting, maybe both consumer and professional. Can you maybe talk a bit more like what kind of -- is it competition from your Chinese competitors? Is it price? Is it general volumes in the market being very weak, maybe a combination? Just a bit more background would be helpful.

**Eric Rondolat** - Signify NV - Chief Executive Officer, Chairman of the Board of Management

Yes, Marc, it's basically a continuity of what we have seen in Q1. So let me take it at a global level on the market first. So most of the competitors, if not all the competitors, we have in China are Chinese companies. There is, at this point in time, excess capacity in China.

There's also more limited export because of tariffs. So the Chinese market has seen a lot of Chinese actors that were previously exporting bringing their product to the Chinese market. And we have seen, at the back end of Q1 and very strongly in H2, a strong price erosion, very high level of competition on the market, which has an impact on one hand on the market size on the growth.

We've been able to manage well the profitability equation. But of course, we are touched by that situation of lower prices. And this is valid both for the consumer business and the professional business. Now when we look at them individually and the consumer business is also in line in terms of traction with what we see in the confidence of the Chinese consumer. At this point in time, I think Chinese people have never had as much money in the bank in their savings account than today. So it's not that the money is not available, it's that the money is not being spent.

And on the side of Professional, we are hit in general by a market in construction nonresidential, which has been slowing down for many different reasons. One that you know now the real estate situation in China. But specifically for us, we've seen a slowdown in the facade lighting market and also street.

What we see when we had projects that we were lining up to take on top of the pressure on price, we see projects that are being delayed, sometimes projects are being canceled, or projects where we are asked to comply with long payment terms. And when I say long payment terms, it's very long payment terms, and we're not going there because that's not the way we do business. So yes, it's a market which is still, for us, very challenging at this point in time.

Now if I look at the horizon and try to picture what can happen in the midterm, I think this is a good market to be in, and we have a strong position. But at this point in time, the situation is extremely challenging.

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**Operator**

And this does draw to an end to our q-and-a session for today. I would like to hand back over to Thelke for closing remarks.

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**Thelke Gerdes** - Signify NV - Head of Investor Relations

Ladies and gentlemen, thank you very much for joining our call today. If you have any additional questions, please do not hesitate to contact Philip or myself. Again, thank you very much, and enjoy the rest of your day.

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**Operator**

This concludes today's conference call. Thank you for joining us. You may now disconnect.

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