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LIGHT.AS - Q2 2025 Signify NV Earnings Call

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PRESENTATION

Operator

Welcome to the Signify second quarter and half year 2025 results conference call, hosted by Zeljko Kosanovic, CFO and Interim CEO; and Thelke Gerdes, Head of Investor Relations. (Operator Instructions)

I would now like to give the floor to Thelke Gerdes. Ms. Gerdes, please go ahead.

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

Good morning, everyone, and welcome to Signify's earnings call for the second quarter 2025. With me today is Zeljko Kosanovic, Signify's CFO and interim CEO. During this call, Zeljko will take you through the second quarter highlights. After that, he will present the company's financial performance. And finally, we will discuss the outlook for the remainder of the year.

And after that, we will be happy to take your questions. Our press release and presentation were published at 7 this morning. Both documents are available for download from our Investor Relations website. The transcript of this earnings call will be made available as soon as possible.

And with that, I will now hand over to Zeljko.

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

Thank you, Thelke. Good morning, everyone, and thank you for joining us today. Let's start with some of the highlights for the second quarter of 2025 on slide 4. We increased the installed base of connected lighting points to EUR156 million at the end of Q2 2025 from EUR136 million last year. Nominal sales decreased by 4.4% to EUR1.480 million, largely driven by a negative FX impact of 3%.

The comparable sales decline of 1.4% reflects a top line growth of 0.8%, excluding the Conventional business. The momentum in our business continued through the second quarter with comparable sales growth in both the Professional and the Consumer business. Connected and specialty lighting now represent over one-third of our total sales. Connected and specialty lighting grew in all the regions in all businesses showing the importance and the impact of our strategy.

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Adjusted EBITA decreased by EUR8 million to EUR110 million. The adjusted EBITA margin decreased by 10 basis points to 7.8%. As the gross margin expansion was offset by a higher proportion of indirect costs. The net income decreased to EUR57 million, primarily due to lower operating income and higher adjusted items. Finally, the free cash flow generation was EUR36 million this quarter.

I will now move to our four businesses. Starting with the Professional business on slide 5. The business returned to growth in the second quarter, led by a strong performance of our US business. The weakness we have seen in Europe over the past quarters is starting to weigh a lot less on our overall performance, while the trade channel remains weak, the repositioning of our business to capture opportunities in faster-growing areas has allowed us to grow in connected and specialty lighting in all geographies and all segments across Europe.

The nominal sales decreased by 2.9% to EUR931 million, including a negative currency effect of 3.1%. Adjusted EBITA decreased by EUR9 million to EUR69 million. The gross margin remained robust as a result of effect of price and cost management. The adjusted EBITA margin decreased by 70 basis points to 7.4% as the fixed cost reductions were partly reinvested into mainly marketing and selling expenses to fuel our growth momentum.

Moving on to the Consumer business on slide 6. Nominal sales decreased by 0.5% to EUR296 million including a negative currency effect of 3.1%. Comparable sales growth grew by 2.6%, reflecting the continued momentum in the Consumer business in most markets. Signify continued to see strong performance of its connected home products. The adjusted EBITA margin improved by 30 basis points to 7.4%, largely driven by volume growth.

Continuing now with the OEM business on slide 7. Nominal sales decreased by 14.5% to EUR90 million including a negative currency effect of 2.9%. Comparable sales declined by 11.6% as we expected, as we continue to face intense price pressure for the nonconnected components. In addition, the effect of lower orders from two major customers, as highlighted in the previous quarter, continued to weigh on the business top line. Connected components on the other hand, continue to grow in line with our strategy.

The adjusted EBITA margin decreased by 240 basis points to 8.5% as the gross margin was impacted by negative pricing, however, sequentially improving versus the last quarter. Given the pressure on the top line, the margin remained resilient, supported by action we had put in place to protect the bottom line.

For the second half of the year, we expect the OEM business to perform similarly to the first half with ongoing price pressure and the continued impact from the two key customers as already observed in Q1 and in Q2. Due to a shift in the timing of order fulfillment compared to last year, with deliveries moving from September to October, we anticipate a softer Q3, followed by a stronger comparable sales growth in Q4. This shift will alter the typical seasonality pattern and influence the profitability split between the two quarters. For the full year, we are continuing to expect an adjusted EBITA margin of mid- to high single digits.

And finally, the Conventional business on slide 8. Nominal sales decreased by 28.9% to EUR81 million, including a negative currency effect of 2.1%. Comparable sales were down 26.8% in line with our expectations, reflecting the structural decline of the business. The adjusted EBITA margin improved by 290 basis points to 18.6%, mainly driven by gross margin expansion on the back of discipline and price and cost management.

On the next slide, slide 9, I would like to discuss a couple of business highlights from Q2. Starting off with the latest Corporate Knights ranking. We ranked six overall and first in the Netherlands in Corporate Knights Europe's 50 most sustainable corporations ranking. Our high placement reflects our strong performance across a number of sustainability indicators such as sustainable revenue and investments, resource management and responsible innovation. Our Professional business has helped the city of Gothenburg in Sweden to become safer, smarter and more sustainable.

In total, we installed 27,000 connected light points since 2018 that provides smart functionalities such as dynamic control, fall detection and enhanced safety through sensor-based lighting. The replacement of all lighting infrastructure has also led to energy savings of 80%, reduced light pollution and lower operating cost, which supports further rollout of connected lighting across the city.

The Professional business also equipped the Tan Son Nhat Airport in Ho Chi Minh City in Vietnam, with Smart Lighting. The equipment of the new T3 domestic terminal, Ho Chi Minh City Airport is part of a number of projects we are delivering for the city. The smart lighting system enhance

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safety, comfort and architectural aesthetics for up to 20 million passengers annually. The lighting system features motion sensors and glare for illumination. And this is in alignment with Vietnam's Net Zero ambition and Signify's sustainability commitment.

Moving on to the Consumer business. We expanded the Philips Hue ecosystem with a Hue Play wall washer, which uses our exclusive color cast technology to deliver vibrant wide angle gradients and lighting effects. When being seen to games, movies or music, the play wall washer react in real time with rich full-color gradients and immersive effects. While not thinking it also provides premium ambient light.

Next, I would like to discuss our sustainability performance on slide 10. During the second quarter, we continued to track ahead of schedule to achieve our 2025 target to reduce greenhouse gas emissions across our entire value chain by 40% against the 2019 baseline to double the pace required by the Paris Agreement. Circular revenues increased to 37%, up another percentage points since Q1 and surpassing the 2025 target of 32%. The main contribution was from serviceable luminaires in the Professional business in all regions.

Brighter Lives revenues remained at 33% and beyond the 2025 target of 32%. This includes strong contribution from tunable professional products and special lighting that supports health and well-being. The percentage of women in leadership positions remained at 27% this quarter, which is clearly not aligned with our 2025 ambitions. We continue our actions to increase our presentation through focused hiring practices for diversity across all levels and through retention and engagement actions to reduce attrition.

Let me now dive into the financial highlights on slide 12, where we are showing the adjusted EBITA bridge for total Signify. The adjusted EBITA margin decreased by 10 basis points to 7.8% due to the following developments. The negative volume effect was 30 basis points largely attributable to the decline of our Conventional business as we saw positive volume growth in the Professional and Consumer businesses. The combined effect of price and mix was a negative 180 basis points. The effect of price erosion continued to stabilize or improve in most of our businesses.

This effect is partially compensated by the decrease in our bill of material and other cost savings, which had a positive effect of 140 basis points.

I would like to highlight that the gross margin this quarter stood at a solid [40.4%] (corrected by company after the call), up 10 basis points from the high base of last year, reflecting our team's disciplined price and cost management. Indirect costs improved by 50 basis points on adjusted EBITA margin level, reflecting the capture of savings from our cost reduction program. As mentioned earlier, we have chosen to step up our investments, particularly into selling and marketing expenses to support the growth momentum. Finally, currency had a negative effect of only 10 basis points as we limited the effect of -- we limited the effect of FX movements on our bottom line.

On slide 13, I'd like to zoom in our working capital performance during the quarter compared to the end of June 2024, working capital reduced by EUR47 million or by 40 basis points from 7.9% to 7.5% of sales. Inventories decreased by EUR77 million, receivables reduced by EUR67 million. Payables were EUR108 million, our refinery other working capital items reduced by EUR12 million.

Let's now continue with the outlook on slide 15. Based on our performance in the first half of the year and the growing momentum in our business, we are on track to achieve our guidance of low single-digit comparable sales growth, excluding the Conventional business for the full year. We are adding a range of 9.6% to 9.9% to our EBITA guidance underpinned by continued top line momentum and the disciplined execution of our cost plants. This reflects a somewhat different seasonality pattern this year compared to last year, as this year will be more back-end loaded with a heavier Q4.

And finally, we are continuing to expect the free cash flow generation in the range of 7% to 8% of sales driven by strong cash conversion, particularly in the fourth quarter. Our share buyback program began in February, and we already completed the share repurchase of EUR65 million of shares until the end of June.

And with that, I will now hand back to the operator for the Q&A.

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Daniela Costa, Goldman Sachs.

Daniela Costa - *Goldman Sachs Group Inc - Analyst*

Hope you can hear me well. I have one question and then and then I'll use the follow-up opportunities possible. But first, I guess, to follow up on your commentary that this year is going to be more towards Q4 and more back-end loaded. I know you normally have the seasonality towards that. But given your comments also regarding Q3, can you elaborate on like what gives you the confidence on that more stronger Q4? Is it sort of what volume assumptions do you have? What do you still have on carryover from the December 2023 savings, perhaps just by business why you're confident on that Q4 uptick?

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

Daniela. So again, to clarify on the -- first of all, on the full year, if we talk about the top line, so we confirm the guidance. That we confirm the plan. On the EBITA, we also confirm our guidance of stable EBITA for the full year. Now the one element that has changed compared to the usual seasonality. I mean, first of all, we always have a stronger H2 than H1. That's always the case. And we always have a stronger Q4 in general.

Now this year, we expect a stronger pattern of seasonality in Q4. This is driven by different factors. First of all, on the top line, the momentum that we see building up will be stronger for consumers. So this means that we expect a strong Q4 and a stronger weight of the Consumer business overall for Signify in Q4.

We see the building of the momentum to continue in the Professional business. And then the reason for introducing or adding a range or guidance in EBITA is fundamentally because of the positioning of sales and the conversion, let's say of projects, execution that is stronger in the fourth quarter, but this is all underpin in our plan today to be delivered, albeit with a stronger seasonality in the last quarter.

Daniela Costa - *Goldman Sachs Group Inc - Analyst*

And just to follow up on that, how much do you still left of savings from the EUR200 million? And what are the tariff impacts that you factor into the guidance?

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

So first, on the cost savings, specifically, so we have -- to keep it simple, we have now realized the full savings, the gross savings of EUR200 million that were intended as a result of our restructuring program that was implemented. So we see that full growth savings has come through. So it's fully realized to your question, and it's fully in for the full year.

At the same time, we have of all the effect, part of those cost savings are offset by the effect of inflation, mainly salary inflation, and we have kept and consciously reinvested and redeployed resources, especially on selling and marketing expenses or R&D expenses general and administration expenses have reduced. So we see there the, let's say, more impact of the savings. But on the selling and marketing, we are already deploying resources to ensure and to feed the momentum our growth, in particular, in the execution of our strategy and specifically to support our growth momentum in the Connected and Specialty business, where we've seen a very strong improvement in the last quarter.

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So the full savings are in, and we have some reinvestments that are being done, and of course, we will continue to adjust our costs where we have more headwinds in some parts of our business.

Daniela Costa - *Goldman Sachs Group Inc - Analyst*

And the tariff part?

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

Tariffs, Look, we had a very clear plan, as we indicated in the previous quarter to deliver Q2 and to be prepared for H2. So the brands we are very pleased with the execution of the plan, the impact overall of our Q2 financial performance has been broadly neutral on top line and bottom line, so in line with what we expected, and we have the plan laid out to be able to continue to adapt for the second half of the year as we were expecting. So there we are very much on track for the parts we can control in the scenario of tariffs that are known today, so well in line with what we had planned and expected, which is well embedded and confirmed within our guidance.

Operator

Martin Wilkie, Citi.

Martin Wilkie - *Citibank Cameroon SA - Analyst*

It's Martin from Citi. The question was, again, just coming back to tariffs. And obviously, the tariff rates have been bought out so far in the quarter, we probably don't quite know what they're going to be for the full year. But when you look at your pricing developments, and obviously, it's still negative in the quarter, the ability or the assumption that you have for the second half on pricing, how should we think about that? And obviously, your gross margin was quite strong in the quarter, and you've been able to offset some negative price of productivity. But as you move into the second half, is that gross margin still protectable? How are you seeing the ability to pass on any required price increase? And what's the reaction to that from your customers?

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

So indeed, I mean, when we look at -- first of all, we have -- as we have indicated, different levers that we are activating to adapt to the tariffs and, of course, looking overall how we manage the equation of price of cost and price and cost and gross margin. And we've been able to do so in general, globally, in Q2, but also specifically in the US. So we have implemented price that we intended that we needed to implement as part of those levels of mitigation and the price realization that we've achieved in Q2 was totally in line with our expectation as we see for the remainder of the year, we also expect to be able to drive the price realization. But again, more in general, the gross margin management and to be in control for the second half of the year as we expected.

So look, as you said, we cannot speculate on any evolution of the tariffs, at least what we are very much in control and driving with the right agility and anticipation is the deployment of all the plans and actions that we have originally defined, which includes price realization. So again, on price, on track with what we had planned for and expected, and we expect to be able to do so for the second half of year.

Martin Wilkie - *Citibank Cameroon SA - Analyst*

And just to follow up on that. In terms of any volume reaction, obviously, one of the fears is that higher pricing that lead to lower demand. And I guess that's probably more likely or fewer about in consumer products than it might be in your Professional business. But has there been any

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negative volume reaction to putting up pricing to offset tariffs? Or is it just too early to tell how the reaction might be from customers to these higher prices?

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

What I can say for our US business in general, overall, minimal. What we have seen is that our momentum on demand, especially on projects has remained very strong, especially the project in the Professional business. If anything, we've seen on the stock and flow part a bit more of destocking than restocking. So that was probably not so much of prebuy patterns, maybe more on the contrary, but not very material. So overall, let's say, the demand for us in the US across all segments has been very strong intrinsic.

So not really impact of course we had on top of that, a bit of contribution from price. But on the demand side, I think that's been very, very strong and not really impacted when you look at Q2. Of course, the level of uncertainty remains high, but from what we can see, and of course, supported by the pipeline of our project. I think we have -- yes, we are confident on the momentum for the business to continue for the second half.

Operator

Akash Gupta, JPMorgan.

Akash Gupta - *JPMorgan Chase & Co - Analyst*

I have two as well. The first one is a follow-up on your comment earlier on Daniela's question you were kind of indicating that Q4, you will have a bit stronger top line because of recovery in consumer and also the momentum that is building up in professional and I suppose that you may have some visibility on professional given the nature of the business. But can you comment on visibility you have in consumer because we have seen over time that you have been a bit optimistic in your assessment. So I just wanted to gauge what could be the risk that we may not see a strong Q4 that you are anticipating?

And on the same topic, is there -- will there be any difference in cost allocation in Q4 compared to let's say, Q4 of last year and also first three quarterly run rate. So the high margin in Q4, is this all a function of top line? Or will there be any change in costs, maybe some of these marketing costs that you mentioned might go away in Q4? So that's the first one.

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

A few elements to try to address your question. First of all, on the Consumer business, I think the momentum that we see, in particular, on the connected part of our business is giving us, I would say, across the different geographies because this is really consistent across all our geographies, quite a good level of visibility. And of course, when we look at the different specific initiatives that we've been focusing on, I think from that point of view, we have, I think, a rather solid visibility on the momentum on what we expect, of course, for that business, Q4 is always and has already been the case. A very strong quarter. It was the case last year where we were able to deliver quite in line with our expectations.

So look, I would say that the level of visibility there is quite good and quite solid for the Consumer business from the top line perspective. Now to your question on the parameters of cost, of course, this is a quarter, again, which is very similar to what we see in general, which is helping a quite significant or an improvement on the cost absorption mechanically, but we have also the additional effect of further cost adjustment that we are taking in some parts of our business, what we are seeing parts of the business that are facing more headwinds there we are making sure that we adapt and redeploy resources and at the same time, keep investing for areas where we have a quite stronger or more predictable. Let's say, return on investment equation, which is particularly in the case of the Consumer business. So linked to all those two phenomenas, we would expect in Q4, a better contribution of the cost, indirect cost absorption on the overall P&L of significant for Q4.

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Akash Gupta - *JPMorgan Chase & Co - Analyst*

And my follow-up question is on corporate or elimination line, where I think in this quarter, you had minus EUR4 million, which was half -- sorry, not half, but less than half of roughly EUR10 million you had in second quarter last year. So maybe if you can explain what is driving that? And what shall we expect going forward on that corporate or elimination line?

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

Yeah. So I think you're referring to the others, right, which is where we also -- so in the other -- so one important element here, as we have mentioned, highlighted. So this is where we see some of our ventures. So early-stage growth platforms and pilot projects that are not yet integrated in our -- in one of our four businesses. So when those ventures become mature and more scalable than they are transferred into one of our global businesses.

So it was, for example, the case several years ago with the agricultural lighting. So we have a venture jointly invested with an industry leader in China to develop consumer connected solution, and it is more on the connected space in, let's say, the Chinese IoT ecosystem and has been quite successful in the first half of the year in particular, in Q2, and this is what led to different factors.

So look, there, we have a very good momentum, which is probably a bit more on the positioning and the successful execution of our strategy in that specific venture, which has been helping and which is reported under this order. So that's the main factor and the main explanation, let's say, to what you see translated also in the profit because beyond those ventures, you have some of our central costs that are reported early stage research global cost. But the main parameter to your question is fundamentally the performance and the contribution of the growth of this specific venture.

Operator

Marc Hesselink, ING.

Marc Hesselink - *ING Groep NV - Equity Analyst*

Can we -- could you discuss the measures that you're taking on marketing and sales, which have accelerated growth a bit? And what kind of things did you do? And is this a temporary effect? Is this is a sort of lever that you can pull to increase the growth a bit, but at a higher cost? Just explaining a bit what happened there, please?

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

Yeah. So I think maybe the way to look at it is how it's, of course, supporting the execution of our strategy. As I have mentioned earlier, what is very important for us because this is really where we see strategy working, especially on connected and specialty, where we've seen growth in all our businesses, in all our segments and in all our geographies, even in the context of, let's say, overall market demand that has not been necessarily significantly improving, but there, the way we've been also been able to do that.

So to give you an example, of course, in the Consumer business, there is a very key element of how we are driving the ROI of demand activation. So there, we've been making sure for several quarters that we do that, and we are seeing the returns coming through. On the Professional business, there are also our ability, in particular, in Europe. So if we talk about the Professional Europe business, there we have engaged for a few quarters, redeployment of our resources to be able to capture growth opportunities in segments where we saw opportunity, and this has a bear fruit.

So I think there, it's really about repositioning ourselves in parts of the business that are more that have a better growth momentum and fully in line with our strategy. So this is really why we've been specifically and selectively redeploying our resources. So this is something which, of course, we will continue to do it will, in the end, contribute from, let's say, the cost absorption improvement as soon as the growth comes back.

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At the same time, we are also clearly readjusting and adapting in parts of the business which are facing more headwinds. So for example, we've seen in the first quarter, stronger headwinds in the OEM business. We have taken steps there to adjust the cost, which is also what explains the improvement of our profitability from Q1 to Q2 in that business. And in other parts, we see more challenges. We are going to continue to optimize and redeploy.

But fundamentally, it's really about relooking at the sales and marketing investment that we can continue to feed to support the continuum of our growth momentum, which we have seen confirmed and strengthening in the last quarter. And with that, we expect to see to continue to strengthen in the second half of the year.

Marc Hesselink - *ING Groep NV - Equity Analyst*

Great. Great. That's clear. And my second question is on China. Also in the first quarter, China already improving a bit better than expected, but especially, I think from the second quarter onwards, you have a much easier comparable base. Can you maybe talk a bit about the dynamics that you're seeing there?

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

Look, yeah, indeed, in China, we would I think a similar view that we indicated previously. I think Q2 was again growing in both the Consumer and the Professional business. We do not see fundamental changes or improvement, let's say, in the structural market dynamics. So this is, I would say, much more the outcome of actions and refocused. Refocusing our strategy that has again been delivering results in line with our expectation, and we will remain, I would say, cautiously optimistic for the remainder of the year for the mid, longer term, I think the -- we know that there are great opportunities that will continue to be there. We have a small market share. We have a very clear model and a clear strategy to capture opportunities. But in the shorter term, I would say, is to continue to focus on the actions that we have selected.

But overall, we do not foresee a significant improvement of the market environment. So I would say the indication there would be very similar to what we said, but on the back of Q2 that is giving us a stronger confidence on our execution capability. Again, reminding that this is with a very strong profitability and cash generation model, which gives us a lot of agility also to redeploy resources with the right agility to gain momentum where there are opportunities. So it's -- look, it's a better, more optimistic, let's say, compared to a quarter ago, but on the market itself. Similar and cautious still on the market demand side.

Operator

(Operator Instructions)

Sven Weier, USB.

Sven Weier - *UBS AG - Analyst*

I mean, my first question is also a little bit alluding to what you already said in terms of your cost agility and I mean, of course, as we can all see the market is not going to get any better anytime soon. Also into next year, I think the leading indicators are not super promising and the effects of your big cost saving program are all in the back. So my question really is, what is the scope for you that you can do another big program like this. I mean is there still potential to make significant further cuts or would the next step also we have to think about maybe also discontinuing business in some regions where margins are just not sufficient enough? That's the first question.

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Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

Yeah. So look, I mean, first of all, the big or large enterprise level kind of cost resizing program we implemented was very much needed to adapt, let's say, to the reality of the demand but also was done at a time where we were redesigning our operating model with a much more customer centric and by design, much more agile model to run on the specific businesses. So I would say, to your question, I think two parts.

First, making sure that we have that agility, and this is really what we've been focusing on. The agility on the allocation of resources to support successful execution of our strategy and the successful execution of our strategy whether the market demand is more favorable or not. I think clearly, that's what we've been able to do in the last quarter.

Connected and specialty now represent over one-third of our business. We've been growing across the board in connected and in some places with a strong double digit despite of the market environment, that is not necessarily, significantly improved. And we've seen also our analysis indicates that we, most of the parts gain market share.

So I think the one part, which is very important is making sure that we apply the right agility and anticipation to invest and fuel the growth momentum and the execution of our strategy. On the other hand, we will continue to keep doing probably a bit more specifically in each of the businesses to adjust and to optimize our cost base, which could include indeed, in some cases where we do not have the right return of value creation line of sights to readjust and to redeploy two parts where we do have a better output.

So I think the big difference is spent to the way we had kind of engage our cost resizing is I think we've done a lot on the central part of the organization. And now it's probably much more agile and much more adaptive to each and every specific businesses and of course, then at the level of each and every specific region. So yeah, we will continue to do optimization of costs, but probably not in a major and certainly not in a major cost sizing program like the one that we have successfully deployed in the last 18 months.

Sven Weier - *UBS AG - Analyst*

Second question I had was just -- and maybe it's a bit early to ask, but the expectation on the new CEO. I was just wondering in terms of his mandate from the Board. I mean is it to keep the status quo in terms of the company, the structure? Or will he have kind of full flexibility to do whatever you think is the right thing to do?

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

Look, I mean, a just as will be on Board, effective first of September. So very, very shortly, I think you will have the opportunity to have a firsthand view on the outlook. Look, I think we are preparing, of course, and making sure that it's a very smooth transitional onboarding. But I would say it's going to be all about leading and continue driving the success of the company with strategy and all the adjustments that will be needed that you will be able to do. So look, I think you will probably be in a better position to give you first-hand answer to your question, but I think it's -- so stay tuned, very, very soon, you will be able to hear for some for us.

Operator

Chase Coughlan, Lanschot Kempen.

Chase Coughlan - *Kempen & Co - Analyst*

I have two, both on the Professional business. Firstly, you've obviously commented that you saw some strong demand in the US across Q2. I'm curious, did you see any sort of pull-forward effect free tariffs or any prebuying sort of benefits, I think, appear in the US also spoke to that. So I'm curious on what you're seeing from customers there?

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Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

Yeah. So I think I briefly mentioned that earlier, but just to come back, I think in ger, what we saw in Q2, broadly speaking, no positive prebuy contribution on the demand side. If anything, we've rather seen, I mean, neutral, let's say, on the project side of the business, but on the stock and flow, we've seen probably a bit more of wait and see and a bit more destocking than stocking actually in the second quarter, but in overall, not really material. So I think it's not being, let's say, a positive accelerator of our growth performance in the second quarter linked to this pre-buy -- that's not what we've seen, by the way, both in professional and in consumer.

Chase Coughlan - *Kempen & Co - Analyst*

Okay. Very clear. And my second question I think in Q1, you spoke quite clearly about a weak European Professional business and how that weighed on the margin and I assume the situation is still the same, but I didn't see any particular commentary about it in the press release, but I'm curious on, is there still quite a margin drag there in Q2 from the weak European market?

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

So here, maybe what I can say on the professional Europe. Actually, we've seen a sequential improvement in the second quarter. Our analysis from our analysis indicates that we gained market share. What's important is that we actually saw growth in connected and specialty in all the segments. Indoor, outdoor and in all the geographies in the second quarter. So positive growth in office and industry, retail hospitality in also back to growth in public.

So I think it's been a positive momentum. Now at the same time, we've seen -- we continue to see softness on the trade part and particularly the off-line trade stock and flow part of the business in Europe across the Board. But I think it's a bit more contrasted and a better, let's say, an improved sequential dynamic specifically linked to the execution of our strategy.

And this is very important because there it's the outcome also of actions we've taken to reposition ourselves which has started to bear fruit and give us confidence. So I think it's a more contrasted and hence, the effect on the drag on profitability as you rightly pointed, was still strong in Q1 because we had a high comparison base has been less of an impact in the second quarter.

As we expected, this is going to stabilize. It has stabilized in Q2 and will stabilize for the remainder of the year. So this is, indeed, as you pointed, not as much of a drag on the profitability equation coming from the Professional Europe business as it was in previous quarters.

Operator

Adam Parr, Redburn and Co.

Adam Parr - *Redburn Partners LLP - Analyst*

Just one for me. Could you talk a little bit about pricing in connected versus nonconnected, what you're seeing there in the quarter and how you expect that to develop going forward, please?

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

So what I can say is the pricing trend, first of all, overall has continued to be stable and even improving. Of course, the execution of our strategy in connected and Specialty is supportive to that dynamic. And then we talk about, of course, price and mix combined, if you like. So there, clearly,

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there is a link in what we see on the dynamic of price in general with the execution of our strategy and the growth momentum we see in the connected and specialty part of the business.

Adam Parr - *Redburn Partners LLP - Analyst*

Perhaps just a quick follow-up, if I can, on -- particularly on connected. Do you see sort of in line with increased marketing spend going into the bigger seasonal quarters for sales, 3Q and 4Q, particularly in the Consumer business, really, I'm wondering here, do you sort of envision having to perhaps cut costs in the Connected business -- sorry, cut prices in the Connected business in addition to the typical marketing spend you see just to sort of support volumes there? Or is that not something you might see at the moment?

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

Look, I think, again, in general, I think that's what we've been able to, I think demonstrate over the last few quarters, we manage the gross margin as a whole. So I think we really look at all those parameters in combination in a way that is consistent and cohesive. So look at all those parameters, and we typically -- and in the Consumer business, I think we have a playbook and a model to be able to do that successfully.

So we expect to continue to do that. I mean, of course, it's always a bit more of a, let's say, holistic equation that the teams have to manage, but there we have the proof points, which has been the case in the high season as we saw last year, strong delivery on sales with the return on investment and the translation of that into the profitability expansion. So this is what we are expecting to replicate and enhance further this year.

Operator

Thank you. And with that, I will now turn the call back over to Thelke Gerdes for any closing remarks.

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

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

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