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PRESENTATION

Operator

Hello. Welcome to the Signify third quarter 2025 results conference call hosted by As Tempelman, CEO; –eljko Kosanovic, CFO; 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 third quarter of 2025. With me today are As Tempelman, Signify's CEO; and –eljko Kosanovic, Signify's CFO. I would, first of all, like to welcome As to his first earnings call as Signify's new CEO.

During this call, As will take you through the first -- the third quarter and business highlights. After that, he will hand over to –eljko, who will present the company's financial and sustainability performance.

Finally, As will return to discuss the outlook for the remainder of the year and share some first reflections and priorities. After that, we will be happy to take your questions.

Our press release and presentation were published at 7:00 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.

And with that, I will hand over to As.

As Tempelman - *Signify NV - Chief Executive Officer, Member of the Management Board*

Thank you, Thelke, and good morning, everyone, and thank you for joining us today. As Thelke said, this is my first earnings call in this role, and I look forward to this engagement with you this morning.

Now I joined the company six weeks ago at a time when the markets are indeed very challenging. So let's begin with some of the key market developments I have observed in my -- over the third quarter.

Firstly, we see the ripple effects of tariffs as Chinese overcapacity is redirected from the US to Europe and other regions. And this is creating additional price pressure, especially in the professional trade channels in Europe and Asia, where competition has intensified.

Secondly, in our Professional business, we also see continued softness in important European countries, such as France, the Netherlands and the United Kingdom. And increasingly also in the US, where demand is slower or has been slower than expected in the third quarter. And this is especially the case for the public sector projects with government funding.

And thirdly, in our OEM business, we see further compression of demand and continued price pressure, particularly in Europe as well. And this has been, again, intensified by the increased imports of Chinese components putting pressure on the market for nonconnected.

However, I'm glad to say the market also presents opportunities that fit our strategy well. Our growth in connected and specialty lighting and particularly in consumer is very encouraging. The consumer business grew in all major markets and was particularly strong in India. And this strong performance of consumer was boosted by the expansion of our Hue portfolio, and I'll cover that in a bit more detail a little later.

Now overall, connected and specialty lightings grew by high single digits across both the professional and consumer businesses. And worth mentioning is also our agricultural lighting business that delivered a strong seasonal performance, helping to offset some of the weaker areas of the portfolio.

So overall, if I would have to summarize, this quarter underlines the resilience and growth potential of our connected and specialty lighting and the price pressure on the more commoditized products in the traditional trade channel.

Now let me move to an example that illustrates how our connected solutions are creating value for our customers and wider communities. I mean despite the challenges in the European public sector, there are still great projects. And one of them is presented here. We just completed the street lighting project for the municipality of Montbartier in France. And the local municipality set out to modernize its public lighting with the goals of improving safety, enabling remote maintenance in a sustainable, cost-efficient way.

And by implementing our SunStay Pro solar luminaires that are fully integrated with our connected lighting management and the Signify Interact platform. And this all-in-one solar powered solution allows the municipality to optimize luminaire run time, control the systems remotely and significantly reduce energy costs, while addressing environmental impacts.

So it's a great example of how solar and connected technologies come together to support energy transition goals, while delivering meaningful benefits for customers and communities. And we hope to see a lot more of that going forward.

Let me move to the second example, second highlight. I talked about it earlier, the exciting new portfolio expansion that supported the strong third quarter performance of our consumer business. And I just installed the Philips Hue system myself, and I have to say, I've been super impressed by it. It's a really cool product. And Hue is truly the leading connected lighting system for the home, with a very strong brand and a loyal growing customer base.

And the launch in September exceeded our expectations, creating strong demand with excellent execution, including well-managed availability on our e-commerce sites. And among the new innovations was a new feature that transformed existing Hue lights into intelligent motion sensors that respond to movements. So really, this way, we continue to extend the role of Hue beyond illumination in our customers' home to integrating

security, entertainment and intelligent lighting. And also worth mentioning, we introduced the new Essential range that introduces you to customers at a more accessible price point.

So these are some highlights. And with that, I'll hand it over to –eljko, who will continue to cover the financial performance of the quarter. –eljko?

Zeljko Kosanovic - Signify NV - Chief Financial Officer

Thank you, , and good morning, everyone. So let's start with some of the highlights of the third quarter of 2025 on slide 8. We increased the installed base of connected light points to EUR160 million at the end of Q3 2025 from EUR136 million last year. Nominal sales decreased by 8.4% to EUR1,407 million, including a negative currency effect of 4.5%, which was mainly related to the depreciation of the US dollar.

Comparable sales declined by 3.9%. Excluding the conventional business, the comparable sales decline was 2.7%. This is reflecting the continued weakness in Europe's professional business and a softer demand in the US. In addition, the OEM business saw further demand compression and continued price pressure.

The adjusted EBITA margin decreased by 80 basis points to 9.7%. We sustained a robust gross margin, particularly in the professional and in the consumer businesses. But we, at the same time, saw headwinds in the OEM business and conventional, which I will address later in the presentation.

Net income decreased to EUR76 million, reflecting a lower income from operation as well as a higher income tax expense as the previous year included one-off tax benefits. Finally, free cash flow was EUR71 million.

I will now move on -- move to our four businesses. Starting with the Professional business on slide 9. Nominal sales decreased by 6.8% to EUR928 million, reflecting lower volumes and a negative FX impact of 4.6%, mainly related to the depreciation of the US dollar.

Comparable sales declined by 2.1%, driven by different dynamics. First of all, we saw a softer-than-anticipated US market. Europe remained weak, especially in the trade channel, and these developments were partly compensated by the continued growth of connected sales in most geographies and also a strong performance in agricultural lighting during the peak season for this segment.

The adjusted EBITA decreased to EUR97 million with an EBITA margin sustained at a robust level of 10.4%, however, contracting by 40 basis points compared to last year mainly due to the lower sales. The business maintained a solid gross margin, which expanded sequentially, but contracted slightly against the high comparison base in the previous year, and we also retained strong cost discipline.

Moving on to the Consumer business on slide 10. The positive momentum we saw in the first half of the year continued and strengthened in the third quarter, supported by sustained demand across all key markets. Nominal sales decreased by 1.1% to EUR301 million, reflecting a negative currency impact of 4.8%, partly offset by the underlying growth.

Comparable sales growth was 3.7%, driven by the continued success of our connected portfolio, particularly Philips Hue, and the recent new product launches as was highlighted by As a few minutes ago. We also saw a further acceleration of online sales, particularly through our own e-commerce website.

Our Consumer business in India also continued to deliver strong performance, particularly in luminaires, further contributing to the segment's overall growth and profitability. Adjusted EBITA increased to EUR27 million, while the margin expanding by 150 basis points to 9.1%, supported by a robust gross margin and operating leverage.

Continuing now with the OEM business on slide 11. As anticipated, performance deteriorated in the third quarter. Nominal sales decreased by 26.1% to EUR93 million, while comparable sales declined by 23%, driven by lower volumes and the persistent price pressure in nonconnected components.

The impact of lower orders from two major customers highlighted in previous quarters continued to materially affect the top line. Price pressure continued to be intense in this market as in the previous quarters. And overall, we are also seeing a further weakening of the market demand, especially in Europe.

Adjusted EBITA decreased to EUR4 million, with the margin contracting to 4.7%, mainly reflecting the gross margin decline due to the volume reduction and price pressure. Looking ahead, we expect market conditions to remain challenging, with limited recovery in demand in the near term.

And finally, turning to the Conventional business on slide 12. Performance in the third quarter was broadly in line with expectations, reflecting the ongoing structural decline in this part of the portfolio. Nominal sales decreased by 25.3% to EUR76 million impacted by lower volume and a negative currency effect.

Comparable sales declined by 21.5%, consistent with the gradual phaseout of conventional technologies across most regions. The adjusted EBITA margin decreased by 230 basis points to 17%. This was mainly driven by a lower gross margin, which was impacted by temporarily higher manufacturing costs as we are rationalizing our manufacturing sites.

Let me now dive into the financial highlights on slide 13, where we are showing the adjusted EBITA bridge for total Signify. The adjusted EBITA margin decreased by 80 basis points to 9.7% due to the following developments.

The negative volume effect was 70 basis points, reflecting the decline of our OEM and Conventional businesses. The combined effect of price and mix was a negative 170 basis points, reflecting the further stabilization of price erosion trends across our business. As mentioned, we see higher the effect of price erosion in some parts of the business, such as OEM and Professional Europe, but also a positive pricing in the US.

Cost of goods sold overall had a usual contribution year-over-year this quarter, with four main elements within that. First, we continue to deliver strong bill of material savings across all businesses, in line and even slightly higher than in previous quarters, which was including an accelerated price negotiation savings.

Second, the overall manufacturing productivity was impacted specifically in the OEM business by significant volume decline, and in the Conventional business by temporarily higher manufacturing costs as a result of the site rationalization mentioned earlier. There were also one-off elements that impacted cost of goods sold positively last year, but did not repeat this year.

And finally, the cost of goods sold in the third quarter included the effect of incremental tariffs, which were mitigated through pricing action, and are therefore neutral on the total gross margin level.

The indirect costs improved by 130 basis points on adjusted EBITA margin level, reflecting the continued cost discipline across our business. Currency had a negative effect of only 10 basis points as we limited the effect of FX movements on our bottom line. Finally, Other had a positive effect of 40 basis points and related mainly to the outcome of a legal case.

On slide 14, I'd like to zoom in our working capital performance during the quarter. Compared to the end of September 2024, working capital increased by EUR20 million or by 70 basis points, from 7.7% to 8.4% of sales.

Within working capital, we saw the following developments: inventories decreased by EUR70 million; receivables reduced by EUR52 million; payables were EUR156 million lower; and finally, other working capital items reduced by EUR13 million.

The increase of the overall working capital ratio is mainly driven by two factors: the ramping up of consumer ahead of the peak season and the impact of the top line compression on the OEM inventory churn.

Now before I hand it back, I would like to touch on our progress toward our Brighter Lives, Better World 2025 commitments. Starting with greenhouse gas emissions. We are ahead of schedule to meet our 2025 goal of reducing emissions across our entire value chain by 40% compared to 2019. That's twice the pace required by the Paris Agreement.

Next, on circular revenues, we reached 37% this quarter, well above our 2025 target of 32%. The biggest driver here continues to be serviceable luminaires within our Professional business, where we're seeing strong adoption across all regions.

When it comes to Bright Lives revenues, the part of our portfolio that directly supports health, well-being and food availability, we increased to 34% this quarter, up 1 point from last quarter and again, above our 2025 target. Both our Professional and Consumer businesses are contributing strongly here.

And finally, on diversity, the percentage of women in leadership positions remained at 27% this quarter. While that's below where we want to be, we are continuing to take concrete steps to improve representation from more inclusive hiring practices to focused retention and engagement efforts to help us reach our 2025 ambition.

So overall, we are making good progress with strong momentum in most areas and a clear focus on where we still need to accelerate.

I will now hand back to As for the outlook.

As Tempelman - Signify NV - Chief Executive Officer, Member of the Management Board

Thank you, –eljko. So moving on to the outlook. Based on the softer than previously expected outlook, particularly for the Professional business in the US, and further demand compression in the OEM business, we are updating our guidance for the full year 2025 as follows.

So we expect comparable sales growth of minus 2.5% to minus 3% for the year, which is equivalent to 1 -- minus 1 to minus 1.5 CSD, excluding Conventional. And as a result of this lower expected top line, we are also adapting our adjusted EBITA margin with a guidance to 9.1% to 9.6%. And finally, we expect our free cash flow to land at around 7% of sales. That's on the outlook.

Now I wanted to share a few reflections and talk a bit about the priorities as I see them going forward. Almost eight weeks into the role now -- let me do that. There is a lot to be proud of at Signify. I mean we have very committed, capable professionals, a really impressive world-class innovative engine and a strong culture of cost and capital discipline that continues to serve us very well. At the same time, we are also clear about the difficulties that we face as a company. The lighting market remains very challenging. Growth has been lacking and the performance has been volatile.

So coming in, I see the following immediate priorities. First, to outperform in what is a very tough market. So we must focus on commercial and supply chain execution. We need to manage price pressure, continue to win in the connected and the specialty lighting and close efficiency gaps. We also need to maintain strict control and capital disciplines to enhance our profitability and cash flow. And I will make sure that -- that discipline, we will stay with that going forward.

Secondly, we can, and we should be clearer about our strategic intent and our strategic objectives. And therefore, we are planning to review our strategy. We will organize the Capital Markets Day towards the middle of next year, where we will provide clarity on our portfolio on how we deliver durable growth and on capital allocation.

And thirdly, as key enablers, we will focus our R&D resources and continue to invest in accelerating digitalization and AI adoption. Now 18 months, the company launched a new operating model that we will not change, and we will fully leverage to its full potential.

And at the same time, we will start shifting the culture from products to a more market-led mindset and approach. And from what I've seen so far that by addressing these priorities, I'm confident that we will set up Signify for future success.

And with that, I'll hand it back to the Operator to facilitate the question-and-answer session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Daniela Costa, Goldman Sachs.

Daniela Costa - Goldman Sachs Group Inc - Analyst

I hope you can hear me well. I will ask one and then the follow-up. But I just wanted to ask on your kind of early thoughts in terms of the OEM business. So it seems to be mentioning intense pricing pressure, lost some customers. Do you see this as more structural or more cyclical when you look at it? And have -- was that anything to do with -- what prompted you to talk about reviewing the portfolio, I wonder.

As Tempelman - Signify NV - Chief Executive Officer, Member of the Management Board

How do we see the OEM business going forward? Well, first of all, we saw the impact of the loss of two specific customers that was quite significant. That also is explaining a large part of the drop we saw. That, of course, will go away after a year. But going forward, we expect that current conditions will continue to be challenging, both in terms of demand as well as the price pressure. But it's too early to call what exactly that will look like in the next year.

Daniela Costa - Goldman Sachs Group Inc - Analyst

And then just following up on the topic of tariffs. I mean in the release, they weren't many references to it, but I was just wondering if you could give us a little bit of what is happening on the ground, given the US market was highly dependent on Chinese imports on lighting. What's sort of the inventory attitude you've seen at distributors. Has there been any restocking of Chinese product?

Could this be impacting what you are seeing in the market right now? And ultimately, as you look medium term, if the tariff stand, do you see them as positive or a negative for Signify? Is it an opportunity to gain market share and put prices through? Or also you are very dependent on Asia and it's not really -- we shouldn't see it this way? Just a little bit more color there would be very helpful.

Zeljko Kosanovic - Signify NV - Chief Financial Officer

Daniela, so maybe to give a bit of an update and a summary on what we see. So first of all, I think in general, on pricing, the scale players have generally taken price increases to the extent that was needed. Our price adjustment, on the Signify side, were generally in line with the market, and we also saw that price increase are sticking.

Now overall, we've been able, in the third quarter like we did in the previous quarter, and we expect to be able to continue to do so to successfully mitigate the tariff increase with pricing. So with a slightly positive impact on the top line for our US business and a neutral impact on the bottom line.

So overall, the strategy we have set up and of course, all the activities that we have taken on the supply chain side to adapt and to reduce the exposure or to optimize our cost base and outsourcing, I think, are really being executed really exactly in line with our plan.

So there we are basically implementing what we have (inaudible). And of course, we continue to maintain the agility to adapt moving forward, depending on how the situation will evolve. But overall, slightly positive on top line, neutral on the bottom line and implementation in line with our strategy.

Daniela Costa - *Goldman Sachs Group Inc - Analyst*

So you don't see it as a market share grabbing opportunity or something a bit more structural medium term is just a pass-through?

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

Look, the answer on that would be probably -- we should go more in detail, depending on the portfolio. Of course, what we are doing in the different portfolios is to find the balancing act between prioritizing market share gain where we do see opportunity and where we are extracting those opportunities very clearly, while protecting the margins.

So I think it's really -- at a more granular level, let's say, that this is going to be a different answer. But overall, it's to make sure that we can absolutely take advantage. And we have seen a clear example where we've been able to do so, while protecting the profitability, as I just mentioned.

So this has actually been our strategy, and we are seeing that, of course, evolving, depending on the landscape of tariffs that has also been changing quite a bit over the last few months.

Operator

Martin Wilkie, Citi.

Martin Wilkie - *Citigroup Inc. - Analyst*

It's Martin from Citi. Just coming back to the overcapacity being redirected from China that you referred to, just understand where we are in that process. And obviously, we hear a lot about China's antipollution drive to reduce overcapacity across other industries. You probably hear more about markets like solar, batteries, things like that. But is there a reduction or an anticipated reduction in Chinese overcapacity? Or is that something that you expect to remain like this for the foreseeable future?

As Tempelman - *Signify NV - Chief Executive Officer, Member of the Management Board*

Yeah. Thanks, Martin, for the question. So indeed, we look also at all the export statistics and what is happening with the trade flows. And indeed, what we see is that -- you see some of the decline in terms of trade flows from China to the US seeing kind of an equal amount of quantities landing in the rest of the world and in Europe. So -- and that does cause some additional price pressure.

To your question around, hey, do we expect that -- how sustainable is that? In China, we see that is kind of flattening out, that price erosion. And well, to whether we see a significant consolidation in the Chinese market is still to be seen. So I wouldn't want to conclude anything on that at this point.

Martin Wilkie - *Citigroup Inc. - Analyst*

And just related to that, just keen to hear about your first impression of industry dynamics and the side that we might get a lot more detail at the Capital Markets Day next year. But when you consider what's happening with Chinese competition, but also, as you pointed out, you have some great connected products and so forth at Signify, what are your first impressions of Signify's competitive position and in particular, the moat around the business to address some of these competitor challenges?

As Tempelman - Signify NV - Chief Executive Officer, Member of the Management Board

Yeah. So there you really need to -- Martin, you need to really go deeper. What I see is that on the professional side, we play in many, many segments, and each segment has kind of its own dynamics. And equally, if you look at the business by trade channel, the dynamics around projects is very different than the competitive dynamics around the more traditional and online trade channels. So we need to make very explicit in our strategy and we will do that at Capital Markets Day about where we want to focus our efforts. And what is the portfolio that we want to build going forward. So that clarity will be created there.

Operator

Akash Gupta, JPMorgan.

Akash Gupta - JPMorgan Chase & Co - Analyst

My first one is on North America. So maybe if we can zoom in on US business a bit. One of your US competitors, they reported kind of flattish revenues in US lighting -- professional lighting, while you are talking about softness in the quarter, which was weaker than what you expected.

Maybe if you can provide some color on what do you see in various Professional channel? And I think you did talk about some weakness in public side. So maybe if you can talk about where do you see growth where you don't see growth in North America Professional. And is there any loss of market share that we should be aware of?

So that's the first one.

As Tempelman - Signify NV - Chief Executive Officer, Member of the Management Board

Yeah. Sure. Good question. And indeed, the US market, I mean year-to-date, we are growing in the US. We had expected more of the US market in the third quarter, but that was not as high as expected. So we saw more flattish pattern.

Now the two key messages on the US market, I think, and you mentioned them yourself, one is that we see project activity is softening, and that is particularly driven by public sector projects. Will that change in the fourth quarter, that is to be seen. It's not that we lost projects, to your question around market share, but we see more of delays, right? So there's clearly a delay there.

And then there's the trade channel where - there, we see quite tough competition, particularly on the lower end of the product portfolio. So to your question about how are we performing in that context. So I think it's fair to say that we are on par with markets when it comes to professional projects. We are outperforming when it comes to connected and agricultural lighting, and we are probably a bit below par when it comes to the trade and do-it-yourself channels.

Akash Gupta - JPMorgan Chase & Co - Analyst

And my follow-up is on organic growth guidance. So for this year, you are now guiding minus 1 to minus 1.5, excluding Conventional. And year-to-date, we are at minus 1.0. So that would imply that for Q4, you have -- the best expectation is flat organic growth. I think you already said consumer -- not consumer, sorry, OEM is going to be a bit weak in Q4.

But maybe if you can tell us about the moving parts for both professional and consumer in Q4 that we should be aware of? And also on the growth, how much of this is also driven by price/mix compared to, let's say, simply lower than previously expected volumes?

Zeljko Kosanovic - Signify NV - Chief Financial Officer

Yeah. Akash, maybe to give a bit of color on the -- as you said, the building bricks on the dynamic of the top line in the fourth quarter. So first of all, if you look at consumer there, we see, as we mentioned, a strengthening momentum and we expect this to continue, and we have confidence on the momentum to continue with a strong Q4. Of course, this is the highest and the strongest quarter for that business. The conventional business also is more predictable.

Now to your question, I think the two areas where we see the most challenges and where we've looked, of course, at the different scenarios, Professional business. So this is trade, as mentioned, in both US and Europe and also the public sector in general as well as OEM business.

So look, in the -- what is reflected in the guidance is the translation of what we see out of those scenarios of what could evolve in the fourth quarter in the continuity of our third quarter trends. So as we said, for the US, it's softer than what we had previously anticipated, but it's basically a softening of the momentum that we remain resilient in many parts of that business.

Now on the price, maybe looking back, what we've observed across all our businesses is a stability in the pricing trends over the last quarters. However, with more price intensity, clearly, in the nonconnected part for the OEM business and also definitely in the trade part in Europe and also to some extent, in the US.

So look, in terms of the price dynamics, it's not for price and mix dynamic. Of course, the mix will be impacted by our portfolio mix. But overall, no major change. And I think the softer or the update of the guidance is fundamentally driven by volumes. And as we said, mostly linked to profession in US and OEM.

Operator

Chase Coughlan, Van Lanschot Kempen.

Chase Coughlan - Kempen & Co - Analyst

My first one regarding the conventional business, you, of course, talked about rationalizing the footprint a little bit more, which might have a several quarter (technical difficulty) and some profitability. Can you just elaborate a little bit on the exact plan there? How much more can you rationalize, for example, just around the operating at the moment? And what will that be in a few quarters?

Zeljko Kosanovic - Signify NV - Chief Financial Officer

Okay. Look, yes, the line was not totally right. But if I understood, and please correct me -- the question, it's about the further rationalization of our manufacturing in convention. So look, yeah, we've been, I mean, consistently, over the last few years, in driving, I think we used to have over 30 factories, now down to 3. So we've been doing proactively adjusting the manufacturing base, and we have a clear line of sight and a clear road map to do so.

Of course, as I indicated earlier, in the process of doing so, then you do have adjustments that you need to really manage in the manufacturing process. So this is where we see temporarily, some headwinds or higher manufacturing costs in the process and the transition of doing so, but I think we have a very clearly established road map to drive that further to the extent that is required to recalibrate the supply chain of that business, which we have been doing consistently over the last few years and for which we had, again, a clear road map for the coming years.

Again, in that business, as a reminder, we are three parts. The general lighting or the conventional general lighting part of conventional, which is, of course, the part that is declining at a faster pace. We have the digital projection piece, which has a line of sight, let's say, another few years with very specific customers being served, and we have the specialty lighting, which has within that growth opportunities. And that, of course, has a

different road map of evolution in the future. And that will, of course, as we go along, see those pieces being bigger in the overscale of the conventional business.

As Tempelman - Signify NV - Chief Executive Officer, Member of the Management Board

Yeah. Maybe just to add to that, I was -- I spent some time with the conventional team, and I was very actually very impressed with that multiyear road map, that is really nicely phased with clear milestones and sign posts to bring that business -- harvest that business to the best extent possible. So I think the team is doing an extremely solid job on that. And to the question, is there more to go after? Yeah. So we are now single-digit plants, but we also know how the trajectory will -- what it will look like going forward.

Chase Coughlan - Kempen & Co - Analyst

Okay. That's very helpful. I hope the line is a bit more clear. Now just on my second question, my follow-up. As you spoke about, capital discipline is one of the priorities going forward. And I'm curious on -- we're seeing net debt year-over-year increase. Earnings are, of course, coming down at the moment. Can I get your thoughts on the ongoing share buyback scheme? Is that something that you think should be continued going forward? Or do you have any, let's say, preferences for capital allocation elsewhere?

As Tempelman - Signify NV - Chief Executive Officer, Member of the Management Board

Well, it's not that we don't have a capital allocation now, and I'll leave it to --eljko to comment on that. But my promise was more around, I -- coming into this role, you talk to customers, partners, colleagues, but of course, also to investors. And I think what many investors rightly so ask for is, hey, what is your road map to sustainable growth? What about your footprint and your portfolio? But also, what about your capital allocation going forward? And I think we owe you that clarity, and we will include that in the Capital Markets Day mid next year, likely June, yeah.

Operator

Wim Gille, ABN AMRO ODDO BHF.

Wim Gille - ABN AMRO - ODDO BHF - Analyst

My first question is around Nexperia. Obviously, there's a lot of turmoil around this company at this point in time in terms of supply. And given that both Nexperia as well as you guys are ex-Philips. Are there any connections left there in terms of supply chain? And should we be looking into this in relation to your business?

And the second question is, can you be a bit more specific around, let's say, the market share that you are looking at in the United States in terms of volumes? In particular, when I compare the performance of acuity versus you guys and if I then take into account that a large part of the market used to be Chinese, which are no longer welcome there, I would have expected a bit more clarity on kind of your ability to win market share in terms of volumes in the US.

Zeljko Kosanovic - Signify NV - Chief Financial Officer

Yeah. Maybe first on the -- your question on Nexperia. So the Nexperia components are used in some Signify products. However, we do not anticipate a material impact to our supply in the near term. It's a very limited impact and mostly in the OEM business.

And also at the same time, we do have an active and proactive supply chain risk management, right? So we continue to monitor the situation. And we always consists -- constantly review all the alternative sources. So that has allowed us to, in this specific case, also to apply with a lot of agility,

the required mitigation. And yeah, I think overall, I think we are seeing limited impact and we do have -- and the teams have been able to, of course, very, very fast, adapt and mitigate. And that's part of the strategy we have of proactive supply chain risk management and multiple sourcing to be prepared for those kinds. So limited impact for us in the near term.

As Tempelman - Signify NV - Chief Executive Officer, Member of the Management Board

And then on your US question, are we keen to grow market share in the US? Of course, we are. The -- but we need to make sure it's on strategy, right? So on the project side, clearly, we are doing well, and we are aiming to continue to grow.

As I mentioned that we are probably a bit below par in the trade channel, and that is also where you see that dynamic indeed of the Chinese products. We are adding products into our portfolio that better fit that trade channel. So indeed, we see opportunities, right, in the US to continue to grow our market share.

Wim Gille - ABN AMRO - ODDO BHF - Analyst

And then lastly, in terms of your priorities at the last slide, you also mentioned that you're looking to rationalize your portfolio. Are we then talking about significant chunks in terms of sales that you might exit or divest or whatever? Or is this more fine-tuning around the edges and it should not have a major impact on sales?

As Tempelman - Signify NV - Chief Executive Officer, Member of the Management Board

Let me just emphasize, Wim, that at this point, I say we are reviewing our portfolio. Don't read that as rationalizing because it's too early for me to say, hey, we're going to cut this or add that. It's too early. Now that said, I mean, I think, ultimately, the portfolio choices should follow your strategy. So what we'll do is we will create clarity about where -- what is the narrative for the company, where do we want to go on a three, five-year horizon. If this is the company we want to build, then these are logical steps to take in terms of portfolio.

And you should not only think line of business level there, but also around, hey, we are currently present in over 70 countries. We play in many different segments. But indeed, we also need to create clarity around how the different lines of business hang together and how we want to take that forward. So the answer is it's a review and all is included. I don't want to exclude anything at this point, nor do I want to create false expectations given where we are today.

Operator

Marc Hesselink, ING.

Marc Hesselink - ING Groep NV - Equity Analyst

Yeah. The question is actually -- I mean 2 things related, both on -- one on gross margin and one on the OpEx. So I think given what you said before, it's likely that the lower gross margin versus the previous quarters is here to stay or maybe even increase -- the pressure will increase a bit.

In the quarter itself, in third quarter, you really offset that by significantly adjusting your -- [spearheaded] your SG&A cost. Is that also the way forward, that when the gross margin remains under pressure, that you will take more action in your short-term SG&A costs?

Zeljko Kosanovic - Signify NV - Chief Financial Officer

Yeah. Marc, thanks for the question. So I think, look, first of all, on the dynamic of the gross margin, what's very important to see in the dynamic. And as you said, comparing to -- I think we had seven consecutive quarters with a margin -- gross margin above 40%, which typically would be on the higher end of the -- what we indicated as an entitlement.

I think when we look at professional and consumer business in the last quarter and as we expect moving forward, we continue to see a very robust gross margin. So the -- let's say, the sequential decrease to 39.5% is entirely linked to the two headwinds I was mentioning earlier, first on the implications of the magnitude of the decline we see in OEM business on the manufacturing productivity. So this is really linked to the OEM business.

And second, the temporary or transitory increase or headwinds on the manufacturing cost base of the conventional business, which we do expect to normalize by mid of next year. So I think in the dynamic of the gross margin, very clearly, very strong professional, very strong consumer. When we look, of course, at the dynamic for Q4, consumer having it's strongest quarter. And that, of course, will have a positive sequential implication on the evolution of the gross margin.

So I think the dynamic on those two key pieces of the business are -- remain very strong and remain very much in line. Actually, we even saw sequential expansion of the gross margin in the Professional business quarter-over-quarter and a very limited, let's say, a decrease compared to last year, which was a very high comparison base with some one-off elements.

So look, the trajectory of our gross margin remaining very strong. The two specific elements which are impacting on the OEM business linked to the volume and on the conventional business, which is more transitory.

Now to your question on the evolution of the SG&A or the cost base indirect costs. As we indicated earlier, we are, of course, driving and further driving the optimization, making sure that we are deploying the investments needed to support the execution of our strategy, and this is what we are seeing clearly delivering on the connected parts and the specialty part of the business.

And then, of course, at the same time, continuing to optimize and to adjust where needed, where we do see the most challenges. So I think this is a combination of those two elements that you see in the dynamic of our indirect cost base and that we expect to move forward. But the most important point is really the robustness of the gross margin absolutely sustained and confirmed for consumer and professional.

Marc Hesselink - ING Groep NV - Equity Analyst

Great. Clear. Thanks. And then maybe on the CapEx because also last quarter and this quarter, the CapEx is a bit higher than last year. Is it a bit of timing? Or do you have -- is there a reason why CapEx would be increasing a bit?

Zeljko Kosanovic - Signify NV - Chief Financial Officer

So there within the CapEx, I think you have, on the tangible part of CapEx, it's a limited increase, but it's more linked to some of the intangible product development. So there, we do have some -- but again, in the magnitude, I think it remains on a relatively low base, while the business remains a very low CapEx intensity. So you're right, we've seen sequentially some increase, but this is linked mostly to capitalized developments in innovation, R&D and also in the digitalization part.

Operator

Elias New, Kepler Cheuvreux.

Elias Nicholas - *Kepler Cheuvreux - Analyst*

Just wondering on your Other segment, which has seen strong momentum over recent quarters, but in the current quarter, seen a sequential decline sales. Could you just perhaps give us some color on what is driving this? And how you would expect this to develop going forward?

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

Yeah, maybe to -- what is included in others is linked to the ventures business, and we do have one specific venture that has been developed and positioned on the connected consumer space in China. And as you mentioned, we've seen a very strong momentum. I think this venture that is continuing to perform very well. However, there were some, I think, favorable, let's say, contribution or propelling drivers coming also from the subsidies that were deployed by -- in China that were supporting an accelerated level of growth in the last quarter, which has normalized as we've seen in the third quarter.

So this is the main the main element behind, but this is one of the ventures that is seeing a very successful traction and very well positioned in one part of the Chinese market, which is overall challenging, but that's one part of the market that has a good dynamic. And indeed, the translation of that has been lower in the last quarter compared to the previous quarters, but still substantially growing year-over-year.

Operator

Sven Weier, UBS.

Sven Weier - *UBS AG - Analyst*

It's just one. And I think we've discussed a lot about relative performance of Signify against other lighting players. But I'm more curious about the relative performance of lighting within construction against (technical difficulty) underperformance here of lighting against other segments in the last couple of years.

I guess my suspicion has always been around the renovation side that you see the kind of lagging effect of a higher LED installed base and longer replacement cycles, which I think has kind of been a bit denied by the company.

I was just wondering if you're also aiming for the Capital Markets Day to provide us more color on that very point because I think it could be an important point to get a sense when does that kind of underperformance potentially start to phase out and provide us more visibility on that item. That's my question.

As Tempelman - *Signify NV - Chief Executive Officer, Member of the Management Board*

Yeah. Thanks, Sven. And it's important so that we always start with market, not ourselves. And indeed, I think we -- the market is at the final wave of ledification, if you want, but we are not at the end of it just yet. So you still see that then having an impact, I guess, on the lighting sector in comparison with other construction-related sectors.

On your question, will we create some clarity, yeah. I think we'll create some clarity about how we see the harvesting road map for conventionals, but also how we see the market when it comes to ledification. And also where we see the growth opportunities because, clearly, beyond the hardware, we see then, of course, a lot of growth in connected, and that presents us with good opportunities as well. Yeah. Short answer is yeah, Sven, we will come back to that.

Sven Weier - UBS AG - Analyst

And so you agree that this could be a factor that you especially see on the renovation side out of the longer replacement cycles? Would you agree that this could be potentially one of the drags relative?

Zeljko Kosanovic - Signify NV - Chief Financial Officer

Maybe what I can say on -- look, when we look at the dynamics of the market, how it translates because we, of course, have leading indicators that allow to understand exactly what you are pointing out, the look -- in short, I think the way the market. And of course, renovation is the most important piece of our exposure. I mean we are higher -- our indexation to the to the renovation is higher than to the new build in the professional nonresidential space.

So to your question, I think, when you look at the different dynamics market per market, I would say, the answer to your -- or at least the conclusion you are taking is not the one that we would have. So I would understand that this has to be probably better articulated on how we see it forward, and we'll take note of your comment. But that's not what our analysis would indicate at least with the data we have.

Operator

George Featherstone, Barclays.

George Featherstone - Barclays - Analyst

It's just about the capital allocation, [I've heard] some of the questions you've had already. Cash on the balance sheet is down about 35% year-over-year. Free cash flow is down 40% year-over-year on a year-to-date basis. You're obviously now guiding for lower cash generation ahead. How concerned are you about these trends? And do you plan taking any proactive actions to conserve cash given the weaker market trend that you talked about already?

Zeljko Kosanovic - Signify NV - Chief Financial Officer

Yeah. Thank you for your question. So first of all, if we look at the -- as part of our capital allocation policy and priorities, I think we've been very clear, and that's what we've been driving consistently also the past year to ensure and to sustain a strong capital structure, a strong balance sheet and a level of leverage that is supportive to an investment-grade rating sustained. So when we look at our leverage year-over-year, it has slightly decreased. So it's in line with what we expected.

We have just completed, as was communicated also, our refinancing with now a longer tenure for the EUR325 million that was at maturity in the last quarter. When we look at the dynamic of cash generation versus the implementation of our capital allocation policy defined for 2025, I think there is no change or no concern, to your point, because we look at -- we are well on track on the execution of our share buyback program.

We are able to define the priorities supporting growth as we intended to look, no, I think the dynamic and the adjustment that we have indicated are not leading to a correction on the overall equilibrium, let's say, on the cash generation versus cash utilization that we define in our policy for 2025. So no major change there.

George Featherstone - Barclays - Analyst

Okay. And just specifically on the buyback, do you intend to complete that? I think it's on the guidance you've given is an up to EUR150 million. Is your intention to go all the way to EUR150 million at this stage?

Zeljko Kosanovic - Signify NV - Chief Financial Officer

So for now, we are well on track with the plan for the year. And yeah, we are intending to complete, as what was committed again in our capital allocation policy, which still fits totally with the plan we have defined. So there, we are on track and expect to complete as was indicated. So in short, we had given a clear capital allocation policy for implementation in 2025, and we are executing to it consistently and expect to do so for the rest of the year.

Operator

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. And again, thank you very much, and enjoy the rest of your day.

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