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LIGHT.AS - Q4 2025 Signify NV Earnings Call

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PRESENTATION

Operator

Hello. Welcome to the Signify fourth quarter and full year 2025 results conference call hosted by As Templeman, CEO; Zeljko 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 fourth quarter and full year 2025 earnings call. With me today are our CEO, As Tempelman; and our CFO, Zeljko Kosanovic. During this call, As will discuss our full year 2025 results and business highlights. Zeljko will then walk you through the financial performance in more detail. As will come back to discuss our fiscal year 2026 outlook and closing remarks.

After the prepared remarks, we will be happy to take your questions.

Our press release and presentation were published at 7:00 this morning on the Investor Relations website. A transcript of this call will be made available shortly after.

And with that, I would like to hand over to As.

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

Thank you, Thelke, and good morning, everyone, and thanks for joining us today.

It's actually great to connect with all of you again in my second earnings call at Signify. Now five months in a row, I've learned a lot. And I feel that I've got a solid handle on the business, of course, really supported by great collaboration with the management team here at Signify. I gained much more clarity about the business, the market dynamics we face and also the actions we need to take. And I'm going to express that I'm confident about the future and the strategy we're putting in place, and I'll come back to that a bit later in the call.

But let me first comment on the full year results and the full year performance of 2025. We delivered what I qualify as a mixed performance as we are navigating a very challenging market environment. It's marked by reduced demand, price pressures in select markets, weakness in trade channels and, of course, the ripple effect of trade tariffs. And despite all these headwinds, I mean, if you look through it, obviously, it has shown good resilience.

In Professional, we delivered growth in the US in the fourth quarter while Europe remains under pressure, and that's particularly true in the trade channel. And we see in countries where we have large positions like Germany, France, and the Netherlands that demand is sluggish.

Our Consumer business grew in 2025 with momentum remaining strong across all the regions with the exception of China.

We saw continuous growth, strong growth in connected and specialty lightings, and that part now represents about 36% of our sales. And this strength of that connected and specialty lighting was really visible across both the Consumer and the Professional businesses. The OEM manufacturing business, on the other hand, continued to experience reduced demand and persistent price pressures.

And I'm pleased that we hold a solid growth margin above 40%, and that was really supported by discipline on the cost side as well as price management across both the Professional and the Consumer business. For the full year, we delivered adjusted EBITA margin of 8.9% and strong free cash flow of 7.6% of sales. And this strong free cash flow is really driven by working capital discipline, and that really underscores our resilience when it comes to cash generation.

Now diving a bit into the respective businesses. Let me start with the Professional business. Comparable sales decreased by 1.4% as growth in the US was offset by the weakness in Europe and then, like I mentioned, particularly in the trade channel. The adjusted EBITA margin was decreased by 40 bps to 8.9%, mainly reflecting price and volume pressure in the European business.

Our teams did a great job at mitigating the direct effects of tariffs, which resulted into a neutral impact on sales and profitability. And it's something we should be really proud of. That was achieved through effective supply chain and price management. While the direct effect of tariffs was contained, of course, we clearly felt the ripple effect in other parts of the world, particularly through production overcapacities in China and the resulting price pressure in parts of our business.

Now moving on to Consumer. Comparable sales increased by 1.4%, and this was driven by strong connected sales throughout the year. The adjusted margin decreased by 50 bps to 10.6%, mainly due to higher commercial investments, which we will discuss in more detail later on.

Moving to the OEM business. Comparable sales were down 16.5%, and we mentioned that before as a result of weak demand and intense price pressure, and we also there felt the structural overcapacity in the markets. Throughout the year, the business was also impacted by lower orders and we mentioned that before of two specific major customers of the OEM business. Adjusted EBITA decreased to 4.8%, reflecting the impact of lower volumes and continued gross margin pressure.

And then finally, wrapping up with the Conventional business, Comparable sales decreased by 23.1%, reflecting the structural decline of this business. And the adjusted EBITA margin decreased with 180 bps to 16.1%. So all in all, mixed results, a difficult quarter but where we showed strong cash generation and good resilience.

Now let me move to showing you a few of the examples of how actually our business then works out in real life. With the Professional business in Europe, while that business remained under pressure, our connected business in the region continued to grow. And we had a

recent project we completed in Madrid. And this is a great example of this momentum, showcasing how connected outdoor lighting can completely transform what is a truly iconic landmark.

And we carried out a full architectural lighting renewal of Teatro Real, some of you might know it, reworking both the exterior as well as the ornamental lighting. And the goal was to enhance the theater's presence in the city at night while fully respecting and preserving, of course, its nice historic character. And beyond aesthetics, the impact on energy efficient is significant. We achieved over 40% savings, and that is kind of equaling 2 tonnes of CO2 avoidance every year.

And this installation is fully connected through our Interact platform, and this allowed cloud-based control monitoring and enables dynamic lighting scenes that can be adapted to different cultural events. So really great project that supports Teatro Real's net zero ambitions while combining sustainability, digital innovation, and a richer visitor experience. So really cool example.

And then on the Consumer side, I wanted to highlight the Hue business. We'll focus on Philips Hue on this slide. Following a very successful new product launches in September, we delivered a very strong commercial execution in the fourth quarter, building on the momentum we have seen throughout the year. Great momentum on Hue. During Black Friday and Cyber Monday, we exceeded expectations in both North America and Europe, and that also underscores the strength of the brand and our execution during these key commercial moments.

And given our focused investments in Hue's social media presence, we saw a significant increase in the brand engagement in the fourth quarter as well with the social views -- media views rising more than a hundredfold on a year-on-year basis. So we're really stepping up online. And we further invested in the Hue app. As a result, in-app sales also grew by more than 50%, reinforcing the strength of that connected system. And it also is a clear signal of its long-term value potential.

And then finally on Hue, we launched the Hue Essentials range. That was a key step in making Hue more accessible to new customers by offering them a lower price entry point into the ecosystem. And this also successfully drove new customer addition. So once customers enter the Hue ecosystem, they typically continue to add products. So it's a strong platform play.

Moving on to our Brighter Lives and Better World program. That is now completed. The program ran until the end of '25, and we will be introducing an updated sustainability program later in this quarter. And that is really designed to further align our sustainability ambitions with our strategic business objectives and long-term value creation, so actually good for sustainability and good for business.

In the final quarter of the 2025 program, we delivered following results. First, on the climate actions. We surpassed our targets, reducing greenhouse gas emissions across the entire value chain with 40% versus the 2019 baseline, and this is all SBTi-driven targets. Minus 40% was actually a target that was set by the Paris Agreement by 2031. So we got there much, much faster, and it's something we are very proud of.

Secondly, on circularity. Circular revenues reached 37% of sales, well ahead of the target of 32%. And then thirdly, we have our Brighter Lives revenue, so that relates our product portfolio that benefits beyond lighting society, and you have to think about food availability, safety, security, health and well-being. And the Brighter Life revenues reached 34% of sales, again exceeding our targets.

We have one red on the slide, that is on diversity and inclusion. The percentage of women in leadership stood at 27%, which means we did not meet the target of 34%. And this is an area where progress has been slower. I want to highlight that we remain fully committed to improving the representation through focused diversity hiring, retention but also attrition. We try to reduce attrition on the diversity side.

With that, let me hand it to Zeljko.

Zeljko Kosanovic - Signify NV - Chief Financial Officer

Thank you, As, and good morning, everyone. Let me begin with an overview of our fourth quarter performance on slide 10. Starting with our connected install base. This continues to grow strongly, reaching 167 million connected light points at year-end.

Turning to sales. Nominal sales declined by 9.9% to EUR1.49 billion, mainly due to a negative currency impact of 4.7% largely driven by the weaker US dollar. On a comparable basis, sales declined by 5.2%, reflecting continued weakness in OEM, Professional Europe and the China Consumer business. And this was partially offset by ongoing growth in the other markets such as the US and India.

Excluding the Conventional business, the comparable sales decline was 4.2%. The gross margin was impacted by temporarily higher manufacturing costs in Conventional and OEM, while indirect costs increased as a percentage of sales due to lower volumes.

On profitability, the adjusted EBITA margin declined to 10%. This was mainly driven by a lower contribution from the Consumer business as well as OEM and Conventional businesses as well as lower results in other. Overall, the dynamics and the drivers of our EBITA margin are well understood. Beyond the structural pressures we are targeting through our cost reduction program, the margin also reflects targeted commercial investments and other short-term factors.

Finally, we delivered a strong cash flow generation of EUR291 million, underscoring the resilience of our cash conversion and the effectiveness of our working capital management actions.

Moving now on to the fourth quarter performance of the Professional business on slide 11. Comparable sales in Q4 declined by 1.9%. This reflects a mixed regional performance as growth in the US was more than offset by weakness in Europe and emerging markets, particularly in the trade channels where demand remains under pressure. From a margin perspective, we maintained a solid gross margin as we successfully compensated the effect of price erosion and tariffs with price increases and the raw materials savings.

The adjusted EBITA margin declined by 40 basis points to 10.4%, mainly due to lower fixed cost absorption.

Moving on to the Consumer business on slide 12. Comparable sales declined by 2.7%, driven primarily by a significant weaker performance in China where the consumer environment remains subdued and also Klite, our export business. At the same time, our connected home portfolio delivered a strong finish to the year. The adjusted EBITA margin declined by 330 basis points to 14.1% against a high base of 17.4% last year.

This development reflects the higher investments and commercial activation behind our connected home products during the peak events. While this targeted action temporary weight on the margin, they help us drive momentum in a strategic growth category and are expected to support long-term customer acquisition. Importantly, the connected portfolio remains margin accretive to both the Consumer business and Signify overall in Q4 and also for the full year.

Moving on now to the OEM performance on slide 13. Comparable sales declined by 19.2%, reflecting very challenging market conditions in the components business. Demand remained weak and the business continued to face intense price competition. As a result, the decline in the adjusted EBITA margin to 1.5% primarily reflects a gross margin reduction caused by lower volumes and ongoing price pressure. The impact of lower orders from two customers was no longer material in Q4 compared to prior quarters and will roll off going forward.

However, the market remains very challenging due to low demand and oversupplies leading to price pressure in the market.

And finally, the Conventional business on slide 15. Comparable sales declined by 19.6%, reflecting the continued structural decline of the Conventional business. Profitability was impacted by two transitory effects rather than a change in the underlying economics of the business. First is the impact of the site rationalization and site transition, which temporarily increased costs and disrupted production efficiency. This effect is expected to normalize in the second half of 2026.

The second effect is a short-term lag in the price realization following the implementation of tariffs, meaning costs were not yet fully passed to customers.

Moving on now to our adjusted EBITA bridge for the fourth quarter on slide 15. Our adjusted EBITA margin decreased by 240 basis points from 12.4% to 10% in quarter four. The volume decline impacted the adjusted EBITA margin by a negative 100 basis points. Price and mix had a combined effect of minus 200 basis points. Within this, the effect of price erosion has remained stable or slightly improving.

As mentioned, we see higher effects of price erosion in some parts of the business such as OEM and Professional Europe, but on the other hand, positive pricing in the US. Mix was a positive contributor mainly due to higher connected sales.

Cost of goods sold had an overall negative contribution of 50 basis points this quarter driven by three main factors. First, we continue to deliver bill of material savings across all businesses. Second, the manufacturing productivity was impacted in OEM by the significant volume decline and in Conventional by temporarily higher manufacturing costs related to the site rationalization. And finally, COGS also include the effect of incremental tariffs, which were mitigated through pricing action and, therefore, neutral at the gross margin level.

Indirect costs improved by 40 basis points on adjusted EBITA margin level. Currency had a positive effect of 40 basis points. And finally, other had a small negative effect of 10 basis points.

Turning to the working capital bridge on slide 16. Compared to the end of 2024, our working capital decreased by EUR93 million or by 120 basis points from 6.9% to 5.7% of sales. Within working capital, we saw the following developments: inventory decreased by EUR106 million, receivables reduced by EUR170 million, payables were EUR225 million lower, finally, other working capital items reduced by EUR42 million. Thanks to disciplined execution, we brought working capital back into the mid-single-digit range by year-end, a solid improvement that contributed to our strong cash flow generation.

I would like to share now an update on our capital allocation plans. First of all, the priorities within our capital allocation policy remain unchanged. We aim to maintain a robust capital structure and maintain an investment-grade credit rating to pay an increase in annual cash dividend per share year-on-year; to continue to invest in organic and inorganic growth opportunities in line with our strategic priorities; and finally, to provide additional capital return to shareholders with residual available cash.

In 2025, we paid a dividend of EUR1.56 per share, representing a total cash dividend of EUR195 million and a payout of 52% of continuing net income. We also repurchased shares for a total consideration of EUR150 million and cancelled 5.8 million shares. In 2026, we are proposing a dividend of EUR1.57 per share, representing a total cash dividend of EUR188 million and a payout of 61% of continuing net income.

While our policy continues to include returning excess capital to shareholders, we will pause share buybacks for capital reduction purposes. This allows us to prioritize a robust capital structure while our portfolio and strategic review is underway. Once the review is complete, we will reassess the pace and scope of further capital returns under our existing framework. We aim to provide an update at the Capital Markets Day in June 2026.

And with that, I will now hand back to As.

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

Thank you, Zeljko. You covered a lot. You mentioned the strategy review. So let me update you a bit about the priorities as I see and what we have been doing in that space. There's two things really important, I mean, on the strategy.

Firstly, is to outperform in what is a very tough market. That's kind of the near-term part of the strategy. And then the second priority is to define a clear path to durable growth, and that includes a portfolio review. So let me comment on both.

Starting with the first priority, outperforming in a tough market. We are now taking very concrete actions. We are setting up operational excellence across sales, marketing, supply chain and IT with a clear focus on managing price pressure, improving efficiency and also

strengthening the company consistency in its performance. So it's really a performance step up. On the supply chain side, we already brought the inventory down but there's more to go after.

We will lower transportation costs and also deliver our performance to customers with reliability.

But in addition to these three items around focused marketing and sales investment, supply chain and IT, also, it is absolutely crucial that we keep our cost discipline and our cost base competitive. And therefore, we announced this morning a EUR180 million cost reduction program. And the majority of the savings will be delivered throughout 2026 with the full benefit realized in '27. So we have to make sure we get to the right cost run rate before third quarter.

Now let me briefly explain the aim of this program. First, of course, like I said, we need to ensure we maintain a competitive cost base and achieve that cost leadership while we rescale our cost structure to match today's sales steps. And we will fully leverage the operating model that we introduced 2 years ago by driving productivity and simplification across our business. So we stay with that operating model. It was the right thing to do.

My predecessors put it in place. It was the right thing to do, much more customer oriented. And we can now deliver the efficiencies and the productivity improvements within that operating model.

So we are building on the strong cost discipline already present in the company while we deliver the cost savings and increase our competitiveness. The program will unfortunately impact 900 roles worldwide and, of course, this is very painful when it affects people. And we need to manage that very carefully and with full respect for our colleagues.

The second priority I mentioned is defining a clear path to durable growth. We are making good progress on the strategy and the portfolio review. And I would like to emphasize that I'm confident about the choices we will be making to focus the company and to grow value in the future. We'll provide clarity at the Capital Markets Day in June about, hey, where do we want to invest and grow and what are the parts of the business that we see more for harvesting or for divestment.

This will be completed in the coming months. And like I said, the June 23, Capital Markets Day is planned. On that day, we also intend to provide a clear update on our capital allocation strategy, linking our portfolios directly to value creation. So that's on the strategy.

Now finally, I would like to discuss the elements of our guidance for 2026. That is here on the slide now. You might have read that we are not providing guidance on comparable sales growth, and let me explain why we don't do that. We had a really good look and we continue to see a huge divergence in across our markets globally and actually across the different parts of our portfolio and combined with this is, of course, the ongoing uncertainty in the macro environment. And in this context, providing a very wide guidance range would, in our view, not be meaningful.

So we be better then not provide guidance. That said, of course, I can comment on what our expectations are. We expect continued resilience in the US. We expect our OEM and Professional business to remain challenging, so more of the same. At the same time, our Consumer business is expected to maintain its momentum, supported by the strength of our connected portfolio.

Regarding the profitability, we expect an adjusted EBITA margin in the range of 7.5% to 8.5%. We are anticipating a soft start of the year and near-term view with headwinds that we experienced in Q4 to persist in the first half of this year. And of course, this will continue to weigh on the margins in the first half and the challenges we have then on the cost under absorption.

For the second half of the year and onwards, the actions we are taking on cost are expected to start providing upside. And finally, the free cash flow generation is expected to be in the range of 6.5% to 7.5%, so supported by that strong cash conversion that we have and the continued capital discipline.

So with this, I would like to hand it back to the operator and start the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Question comes from Goldman Sachs.

Daniela Costa - Goldman Sachs Group Inc - Analyst

Daniela from Golden Sachs here. I just wanted to ask, how have the market shares by division trended recently?

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

Thank you for the question. Market share is always a bit lagging because you asked about it recently, so typically we have actuals for the quarter. The market data follows a quarter so there's a bit of a lag effect. What we mentioned before on the results in Europe, the market has been a bit sluggish. But a lot of the revenue decline also is driven by lower prices.

So when it comes to volumes, we feel that we are keeping or maybe even growing market share in many of the segments when it comes to projects. And then probably the trade channel is where we see the steeper decline, and we probably lose some market share there. In the US, it's pretty stable. Yeah, I think it will be a short answer, what we may know.

That said, I mean maybe just to highlight on the Consumer and the connected side, I think that's where we are actually -- we spoke about the momentum and the comments I just shared on the Professional business. On the Consumer, we are building momentum. And in the connected space, we're clearly gaining market share. So that's positive.

Operator

Max Yates, Morgan Stanley.

Max Yates - Morgan Stanley & Co Ltd - Analyst

I maybe had just sort of three quick questions. Just firstly, on the Chinese competition. Could you maybe give us a feel for kind of what pricing you're seeing from those Chinese competitors? And I don't know whether you have any good feel on the level of imports that are coming into Europe now as a result of obviously tariffs in the US. So maybe any feel of how the level of pricing is versus those competitors and the level of imports, if you have any kind of knowledge of that.

Thanks, and good morning. I maybe had just sort of three quick questions. Just firstly on the Chinese competition, could you maybe give us a feel for kind of what kind of pricing you're seeing from those Chinese competitors, and I don't know whether you have any kind of good feel on, the level of imports that are coming into Europe now, as a result of obviously tariffs in the US, so maybe any feel of, yeah, how. You know how the level of pricing is versus those competitors, and the level of imports if you have any kind of knowledge of that thank you.

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

Yeah. Let me say a few things and maybe, Zeljko, you to add to it. I mean there's China in China and then there's China for the world. So within China, I think we saw growth in our Professional business, where I think we have really outperformed markets. So that's positive.

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On the Consumer market in China, we saw quite a steep decline in the fourth quarter. And you see that the consumer demand in China is very dependent also on the subsidies provided. So absent subsidy, we saw quite a bit of decline. That weakness is not just in lighting. That is beyond in the broader consumer space.

When it comes to exports, basically, the dynamic in China is such that there's overcapacity in the market and, of course, a lot of the LED is produced in China. Also to deal with some of the challenges around tariffs, we see Chinese suppliers building additional capacity in the East but outside of China. So therefore, the overcapacity is only increasing and that, of course, results into price pressure. But we see that in ASEAN. We also see that in Europe, particularly in the trade channels, the more commoditized part of the portfolio.

On the positive side, on the profit side and the project side and the connected lighting, that is a lot less impactful. And there, of course, we also retain our strong margins. Quarter-to-quarter, we don't see it worsening a lot. So it's pretty stable now. Has it bottomed out?

Well, too early to tell, I guess. But we don't see a rapid further decline in that sense. Zeljko, you want to add anything?

Zeljko Kosanovic - Signify NV - Chief Financial Officer

No, I was confirming indeed if you look at the sequential, the drivers of price pressure that were there, especially in the nonconnected and in the over-the-counter parts of our business, have been amplified indeed by the repo effect of the tariffs. Having said that, the price pressure remains very, very strong in OEM and Professional Europe. But at the same time, we've seen a positive dynamic in price in US and also in the Conventional businesses. So I think overall, from a gross margin management perspective, that's very important because we do manage as a whole and we've been able to extract and continue to extract strong bill of material savings to match the reality of those price pressures.

Max Yates - Morgan Stanley & Co Ltd - Analyst

Okay. And maybe just the second question, maybe just on the strategy. I know you're going through the strategy update. But obviously, the results show kind of quite a difficult environment. So I guess some of the shareholders were very keen to understand any initial takes.

I hear you talk quite a lot about getting growth back in the business. Any initial views on kind of how you do that? Will that require investment? Is that new product momentum? I realize we'll get a full picture later this year, but maybe just any initial takes on what direction you may take and how you plan to tackle the growth challenges which the business is having.

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

Yeah. No. I mean, like I said, I feel increasingly confident that we'll make the right choices and focus the company and, of course, focusing on where the growth is. So that is with -- we are really going quite granular on how do we expose our portfolio to growth and how do we then challenge our marketing and sales investments to those areas where we do see the growth. And so we look at where we can win in terms of geographies, in terms of value chain but within the Consumer business; also very much at a segment level and product market combinations where we see the growth.

So that's what we're working through. And that will then ultimately result into, hey, these are the areas where we want to focus less, this is where we want to focus more. This is where we want to invest and grow and this is what we want to harvest consider for divestments. And I'm confident that in June, we can give you that full picture of what that results into. And I'm quite excited about the plan that we are piecing together.

Max Yates - Morgan Stanley & Co Ltd - Analyst

Okay. And maybe just a final one, and it kind of comes back to that growth. Obviously, you didn't do another share repurchase while you're doing the strategy review. But you did keep the dividend at last year's level and, obviously, that's quite a high level relative to your cash conversion. Do you think that's appropriate?

And is that sort of consistent with what you need to do in terms of getting kind of growth back into the business and the investments that you'll have to make?

Zeljko Kosanovic - Signify NV - Chief Financial Officer

Maybe just thank you for your question. I think, first, what's important is that our capital allocation policy remains unchanged, and it's all about balancing growth, shareholder returns and financial strength. So maintaining our robust capital structure, of course, is very important. Now while the returning excess capital remains part and that's still a part of our capital allocation framework, we will pause beyond the first tranche that we have successfully implemented in 2025. And this is really to allow to sustain and maintain financial strength, balance sheet strength while keeping the flexibility.

So it's really keeping the strategic flexibility as we are going through the strategic review and portfolio review that As was commenting on. So we will reassess the timing, and that's one of the key elements that we will give full clarity upon during our Capital Markets Day in June.

Operator

Sven Weier, UBS.

Sven Weier - UBS AG - Analyst

The first one is on the cost savings program, a few follow-ups there. I was just wondering because you said you have to approximately lay off 900 employees, but in total you are seeing EUR180 million of cost savings. So that sounds quite high relative to the number of headcount. So I was just wondering, what else is in the cost savings here? And you just had a EUR200 million program two years ago.

But I was also wondering, you are now cutting quite a lot here again does that not automatically enforce also getting out of certain businesses because your bases becomes quite a bit lower. That's the first one.

Zeljko Kosanovic - Signify NV - Chief Financial Officer

Yeah. Thank you, Sven. Thanks for your question. So just as a clarification, I think as you rightly pointed, we did go through a substantial cost resizing program a few years ago. But this is different.

And the main important difference is that we are implementing that, as mentioned earlier, leveraging and fully leveraging our operating model. So the cost reduction program has different elements, and this is really going into all the layers of, in particular, our SG&A, R&D and on the business per business level.

So there's a lot of granularity in the way we drive that. Of course, a big portion of that is relating to headcount, but not only. So there are different levels of optimization that we are also implementing which are behind. And that is being, of course, underpinned at a very, very detailed level. So I can't give you all the detailed breakdown of that.

But to your point, I think there are different elements including headcount resources redeployment, but also many other efficiency measures that we are implementing.

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

Yes. And Sven, to add to what Zeljko is saying is that I see cost discipline and cost management in our industry is absolutely critical to stay competitive, and therefore, it should be a continuous effort, right? And it's business as usual to drive productivity up, right? And of course, also with automation and applications of AI, I think in the future, we can continue doing that. This is, however, a reset that is now required.

With the new operating model in place, we can make this step change without harming the business. And then from there on, it should be much more of a continuous effort.

Sven Weier - *UBS AG - Analyst*

And does that already preclude kind of what you do in June? Or could there be another round of major cost savings announced then after June?

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

Sven, the current program, as a basis of the current program, is the current portfolio. So of course, if we take decisive action on the portfolio, we will then again assess what is the appropriate cost base.

Sven Weier - *UBS AG - Analyst*

And then maybe finally, I just wonder because if I take the guidance and you don't give a top line guidance, obviously, but let's, for the sake of the calculation, assume flat revenues and you take the midpoint of the margin target. That kind of implies already mid-double-digit EBIT decline. But on the other hand, you say the majority of the cost savings are going to be in 2026 already. So I mean, what's really happening on underlying business then? Because that sounds quite extreme in terms of what you're losing in terms of earnings.

Are you assuming such steep revenue declines, price pressure or -- because as you can see, when you do the bridge, it sounds pretty drastical.

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

So maybe, Sven, to give a bit of perspective on what's behind the guidance more as a dynamic of the main building bricks in our profitability, I think, first, and that's important as we've been able to sustain in 2025 gross margin resilience and robustness. So this is still something that we are driving and we need to continue to drive, which is now what we see in terms of the dynamic is we do anticipate a soft part of the year from a top line perspective with the headwinds that we've commented upon, that we experienced in Q4 that are expected to persist into the first half. And that will continue to weigh on margins in H1 through just due to the fixed cost under absorption.

Now at the same time, as we are implementing and putting in place and putting in motion now in execution the cost resizing actions, that will take -- which benefits will be more captured in the second half of the year, that will help to, of course, rebuild the strength of the bottom part of the P&L. And that's what is behind, let's say, included in the guidance or in the expectation around the EBITA margin. And as mentioned earlier, this is the context of very diverse dynamics in the different businesses from a top line perspective. So these are the elements that how to be understood in the evolution of our operating margin throughout 2026.

So then the current program is, as a basis of the current program is the current portfolio. So of course, if we take decisive action on the portfolio, we will then again assess, what is the appropriate cost base.

Sven Weier - *UBS AG - Analyst*

Are you assuming again two-third of the savings this year like in the last program?

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

It's more back-end loaded. I think here, the aim is -- and of course, different impacts in different geographies and different businesses depending on the phasing. So it's mostly going to be, yes, a back-end loaded. A little bit different, as I said, from the previous program because the previous program was doing an organizational change, at the same time, as implementing cost resizing. Here, it's really the implementation within and leveraging the same operating model.

So there's a different pace of capture in the different businesses obviously, in businesses like OEM, where we are facing, I think, actions have already been put in motion. So there, we expect to have much faster implication and much faster capture. So it's going to be a diverse pace of realization of the savings across the different businesses. But mostly in general and overall for Signify, mostly back-end loaded towards the fourth quarter of the year. The key thing, that's what As mentioned, we want to reset and resize to the reality of our revenue to make sure that we enter '26 and entering into 2027 back to the right level of competitiveness of our cost base.

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

Yeah Thank you, I was very impressed actually with the ability of Signify to pull off such a program in a very short window. So I think very impressive. We know how to do this. That said, I mean, about 25% of the savings will be in countries where there is a consultation process.

So of course, with all the respect for the people and the colleagues, we will carefully also work this in consultation with our staff councils. And that takes a bit of time.

Operator

Akash Gupta, JPMorgan.

Jeremy Tonet - *JPMorgan Chase & Co - Analyst*

It's Jeremy asking on Akash's behalf. I just have one quick follow-up on the Asian competition topic. Maybe could you elaborate a bit. I'm wondering, are we talking about one or two competitors here that are showing aggressive pricing? Or are there more than a couple?

And also just wondering, how do those players compare to Signify in terms of size in their comparable businesses?

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

Maybe -- yeah, thank you for your question. I think what's important to remind is that if you look at the , let's say, the nonconnected landscape of our business, if you only look at the number, and this is public information but always important element to have in mind, is we have over 15,000 registered LED companies in China. So it's very, very scattered. So you have a lot of intensity which is very fragmented. And the level of fragmentation is particularly high in Europe, in particular in the Professional business.

So in short, the price intensity that we see is, of course, across a very, very wide and fragmented landscape.

Now having said that, as soon as we move more into the connected space, which is much more concentrated, then we have a totally different landscape of price competition dynamics. So this is a reality that has been there, by the way, for several years. That continues to be the case and which has been amplified, as mentioned earlier, with the ripple effect of the tariffs.

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

Yeah. And to your question, Jeremy, is it one or two, is it a multiple? I mean, you see a lot of these Chinese manufacturers that sits on an overcapacity, 30% to 50% of underutilization of their plants. So of course, that translates itself into lower prices. We benefit from that on our sourcing sites.

So that's the upside of it. But of course, on the lower end, in the trade channels, you see these Chinese products under different brands coming to the market.

Operator

Martin Wilkie, Citi.

Martin Wilkie - Citi Infrastructure Investments LLC - Analyst

It's Martin from Citi. Just a question in terms of what we can expect at the Capital Markets Day in terms of timing of any actions you might take. And I guess you obviously included disposals as one potential action at the CMD. But we know in the past, some of these assets are not necessarily having huge numbers of potential buyers. I don't want to obviously preempt what you might say, but if we think of the Conventional business, it's probably not obvious that there are lots and lots of buyers for that.

Will your review include sort of how quickly you could take these actions? And so can you see that sort of level of detail at CMD? Or just to understand how quickly whatever you might announce in June then be implemented. Just to understand how quickly the portfolio might change.

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

Yeah, good question. Well, we won't be sitting still until Capital Markets Day. So where we believe we have good actions to take, we will, of course, already start that. And the durability of our choice is an integrated part of the choice itself, right? So it's not that we are dreaming all sorts of desired states not executable.

So that plan should be really anchored into realism. And we are actively engaging also, hey, if there's value, if it comes to harvesting or divestments, is that value best delivered within Signify or by others or with others? So that's all in scope of what we look at. So the short answer is, no, that is already kind of in motion. And we will update you in June about where we stand.

I don't see June necessary as a starting point. So we are taking a decisive action and try to move quite swiftly.

Martin Wilkie - Citi Infrastructure Investments LLC - Analyst

That's great. And if I could squeeze just an unrelated question just on how we think about the profit for next year. Am I right in thinking that the EUR180 million all falls within the OpEx line? And so any savings that you have in COGS to offset price and these kind of things to protect gross margin is distinct from that. This EUR180 million is all inside OpEx.

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

Yeah, you're right, Martin. I think the cost mostly are nonmanufacturing cost base optimization. For all the other cost of goods sold, as we've mentioned, we'll continue to do that. I think there, we are driving and exercising cost leadership and leveraging scale, of course, to the largest extent we can. But the cost reduction program that has been mentioned of EUR180 million is non-manufacturing cost related.

Operator

Chase Coughlan, Kempen.

Chase Coughlan - *Kempen & Co - Analyst*

I just have two. Maybe starting off with the US market. I think you flagged that it's, of course, still growing in the fourth quarter. You said that 2026 expectations are for a resilient market in the US. I think it's a little bit, let's say, against the grain as to what I've heard elsewhere in the market from building materials or construction players. And I'm just curious on what's giving you that confidence in a resilient US market for '26.

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

Okay. Well, we see the US, we expect flat to moderate growth, Chase. And the expected increase in a bit of public spending also supported by the recent bills. The residential market, I expect will remain soft. So I think when you say I see more [barriers], it's probably more related to the resi construction, yes.

Yeah, so flattish markets, low-digit growth potentially. On the Consumer side, however, there, we are more optimistic, and we think we can keep the momentum and keep growing the business, particularly on the connected side.

Chase Coughlan - *Kempen & Co - Analyst*

Okay. Great. That's very helpful. And then my second question, on China. So you've flagged that, of course, you're seeing some inflows there for several macroeconomic reasons and particularly in the commoditized sort of range that you offer.

I'm just curious, especially given the five-year plan in China now, it seems that they're focusing a bit more on connected lighting systems as well being manufactured domestically. Do you see, let's say, a midterm risk that over time, yes, maybe the Chinese products flowing into Europe are not just limited to this commoditized range? Or how might you protect against that?

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

Well, what I can say is what we have seen so far. And there, I think we feel quite confident that we have a very strong competitive edge in that connected market, and we see no signals of that changing. I mean, we'll see how the market responds to offerings by others. But so far, I have no reason to believe that, that is where the Chinese commoditization will go. It's very much focused on manufacturing excellence on the hardware side, yes.

Operator

Marc Hesselink, ING.

Marc Hesselink - ING Groep NV - Equity Analyst

First question is on your free cash flow guidance. If you look at, let's call it, the drop in the adjusted EBITA margin and then compare it to the free cash flow drop as a percentage of revenue, it is a bit better. I think you also ended the year with very good working capital with sort of free flow of that. Do you expect more of those working capital improvements to support the free cash flow a bit?

Zeljko Kosanovic - Signify NV - Chief Financial Officer

Yes, Marc, the short answer is yes. Definitely, as we've indicated in previous communication, I think working capital improvement, in particular, through inventory optimization, that goes hand-in-hand with the supply chain excellence focus that was commenting upon is an important driver to our structural cash generation improvements. So that's an element that indeed is taken into account on driving the continued of strong cash generation fees.

Marc Hesselink - ING Groep NV - Equity Analyst

Okay. Second question is on your Conventional business. I think historically, you did a very good job managing down that Conventional business and also protecting the margin in that process with the footprint rationalization. And now you see actually quite a big hit on your margin. Did those dynamics that you can run down that business, did that materially change? That now is different?

Zeljko Kosanovic - Signify NV - Chief Financial Officer

So on actually two elements. And so the answer is no. I think we do have -- and that's what we expect to normalize back to the entitlement of the team's level of operating margin for that business in the context of continued decline.

Two transitory elements that are indeed weigh in the EBITA margin over the last two quarters, one which is related to manufacturing process transition because as we are scaling down and adapting proactively in that business where we do a lot of site transition and manufacturing process in that context can be impacted. So this is what we've seen, a temporary increase of our manufacturing costs in the transition. And this is something we do expect to normalize by end of Q2, so back to normal.

And then the second one, which is a little bit more specific to Q4, where we had a delayed effect of tariff cost increase, which are being mitigated through price. So the price through had a bit of a lag effect compared to the cost impact in Q4, which will be normalized already in the first quarter. So two transitory elements that are impacting what you see, but no change vis-a-vis our ability to bring the profitability again to the levels of entitlement of teens profitability that we have indicated earlier. So it's a transitory impact of a few quarters.

Marc Hesselink - ING Groep NV - Equity Analyst

Okay. That's clear. Another bit smaller question is on the other division. You mentioned that you had less revenue from your ventures business. But then it's quite a big hit on your profitability, almost EUR10 million difference.

I mean, that seems a bit big for a ventures business. And if that's true, what does that mean for the coming quarter? Is this something where you will have quite significant higher cost than what you had in the previous quarters of '25?

Zeljko Kosanovic - Signify NV - Chief Financial Officer

Yes. So look, first of all, as the scope of what is reported under other, so you have indeed the profitability of our central ventures. You do have also other global rubber costs, right, which are reported there. So I think the main impact indeed, as you highlighted, is the effect of

indeed a much lower sales volume in the ventures, and that impacted directly to the bottom line, which one of them is also exposed to the dynamics of the consumer market in China in particular.

So this one -- and it's good to remind that we had actually a comparison base that was very high in Q4 last year because this was a business that really had a very strong growth and strong dynamics. So we have a bit of double whammy kind of comparison base effect. So it's transitory by nature. And this is the nature of those venture businesses, which are reported on the other. But the other segment is not only venture P&L.

Just as a reminder, it includes also other global costs.

Marc Hesselink - ING Groep NV - Equity Analyst

Okay. So what would then be like a normal level that you would have without this temporary effects?

Zeljko Kosanovic - Signify NV - Chief Financial Officer

Look, I cannot disclose a specific guidance on the other. But I think what we've seen in Q4, I think we expect in the coming quarters to go back to kind of normalized level that we saw in the previous quarter. So there's a bit of volatility, and I can't give you a precise guidance on that. But we do not expect coming quarters to be as low as what we saw in Q4 in terms of revenue for the ventures.

Operator

Adam Parr, Rothschild & Co Redburn.

Adam Parr - Redburn Partners LLP - Analyst

Just a question on CapEx, please. Could you just share a little bit more detail? It appears to have jumped to 2.7% in the fourth quarter versus the 2022 to 2024 range of about 1.7% of sales. Just wanted to ask what's been driving this increase and what do you see as a sort of more normal level in 2026 and 2027?

Zeljko Kosanovic - Signify NV - Chief Financial Officer

Yeah. Look, in the CapEx side, so you have different elements. So if you compare on the quarter-to-quarter -- year-on-year, quarter-on-quarter basis, I think you may have a different dynamic. So you have three things you have the tangible CapEx, which is in general quite stable, so no real volatility there. Then we also had the effect of real estate transactions, so that impacted differently this year compared to the previous year.

And then we have also intangible CapEx, which are more related to product development, to IT, project capitalization.

So different dynamics. But overall, I would say as a percentage of sales, I think we should not expect any significant change of the level. I think our business has a very low CapEx intensity in general, and that will remain so. So a bit more volatility when you compare it on the quarter versus quarter because of those three buckets, three building bricks that have different dynamics.

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Adam Parr - Redburn Partners LLP - Analyst

Okay. Maybe I could just follow up. And when you say capitalizing sort of cost of product development, can we assume that's mostly connected there?

Zeljko Kosanovic - Signify NV - Chief Financial Officer

It is indeed.

Operator

Wim Gille, ABN AMRO ODDO BHF.

Wim Gille - ABN Amro Bank NV - Analyst

Hope you can hear me. First question is on the, let's say, comments that you made around the Consumer business. When you were looking into 2026, you mentioned you expect to keep momentum in Consumer. However, if I look at the comparable sales growth for the fourth quarter, it was actually quite weak. So what did you actually mean with that comment?

Or should we look at the comparable sales growth in consumer for the full year? Or what exactly did you imply with keeping the momentum in the consumer space?

And in relation to that, you mentioned specifically that the consumer in China have been weak. If I read any other consumer company, the consumers in China have been absent since COVID. So they haven't done anything in the last couple of years. So do you actually see a material change here? And is it market driven?

Or is it more market share related, where you basically lose out against very desperate local producers there?

And my follow-up question would be a much more optimistic one, and it's around the growth verticals. If I hear you correct, connected lighting in growth vertical actually stands at around 36% of group sales for the year. That's up materially from 33% last year. So is my math correct that the growth verticals including connected lighting actually grew in 2025 in the low to mid-single-digit range?

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

Thanks, Wim. Let me give it a go and maybe Zeljko wants to add. But indeed, for the consumer, I think if you have a reference point, the full year would be much more indicative of how we see the Consumer business moving forward in the fourth quarter. We had great momentum. I think it's fair to say that we are confident about market, but we are also confident about gaining market share.

And that is both on the connected range but also on the luminaire side. We expect -- we see some real decline in lamps business. So if you add the whole mix of Consumer, we feel we can keep that growth momentum as we've seen for the full year last year, maybe more.

On China, like I said before, the demand in China, it has been sluggish, but it's also heavily imported by the support schemes put in place by the government. And you see that once the subsidies do come in, that you see demand popping up quite quickly as well. So it's a bit volatile and unpredictable. So we'll need to see how that plays out. But indeed, a decline the sharp decline we have seen in China consumer markets in Q4, we think that, that will continue to be challenging, at least in the first quarter of this year.

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On the growth of the verticals, you're quite right. I mean we are very excited about the growth opportunities there. And we do see that growth that you spotted is indeed happening in '25. So that is -- I don't know what you said, low single digit. I think it's more higher single-digit growth that we see around Professional and Consumer.

So like Zeljko indicated, we will continue to invest in it. We also see that clearly as an area for future growth going forward.

Wim Gille - ABN Amro Bank NV - Analyst

Can you split the, let's say, penetration. So it's 36% on group level. Can you give us a broad indication where you are in prof and where you are in consumer?

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

Well, that is the level of granularity that we typically don't provide. What I can say, Wim is that it is in both businesses. It's growing at a similar high rate, yes? So high single digit, if not double digit in some areas.

Operator

Thank you. And with that, I will now hand 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 and reach out to us. Thank you very much, and enjoy the rest of your day.

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