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# EDITED TRANSCRIPT

LIGHT.AS - Q1 2026 Signify NV Earnings Call

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**Sven Weier** *UBS AG - Analyst*

**Martin Wilkie** *Citi Infrastructure Investments LLC - Analyst*

**Wim Gille** *Oddo BHF SCA - Analyst*

**Chase Coughlan** *Kempen & Co - Analyst*

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## PRESENTATION

### Operator

Hello. Welcome to the Signify Q1 2026 results conference call hosted by As Tempelman; 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.

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

Good morning, everyone, and welcome to Signify's first quarter 2026 earnings call. Before we begin, I'd like to draw your attention to the forward-looking statements, risks and uncertainties and non-IFRS financial measures disclaimer on this site. With me today is our CEO, As Tempelman; our CFO, Zeljko Kosanovic.

During this call, As will discuss the highlights of the quarter and key business developments. Zeljko will then walk you through the financial performance in more detail. As will then come back to discuss the outlook and closing remarks. Our press release and presentation were published at 7:00 AM this morning, and a transcript of this call will be made available shortly after.

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

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

Well, thank you, Thelke, and good morning, everyone. Good to have you on the call with us. Thanks for joining us today.

Like Thelke said, let me start with sharing some observations on the first quarter. It comes at no surprise that we continue to navigate a very uncertain global environment with, of course, the conflict in the Middle East, associated cost inflation, tariffs, softer demand and also the overcapacity in manufacturing. And all of these things, of course, are reflected in our sales for the quarter.

What we do is we remain very focused on what we can control. And through disciplined price and cost management, I'm pleased that we maintained a strong gross margin and delivered also a solid cash generation.

Now when we look at the B2B side, the professional business, demand remains soft in the trade channels across Europe and the US and also on the public projects, so the more the outdoor public projects. On the positive side, in Europe, we saw a good performance on the indoor projects. And also in emerging markets, we delivered growth despite the challenges of the Middle East.

Now what stands out is our Consumer business. Our Consumer business where on the positive side, our sell-out to consumers continues to grow year-on-year, but our results were impacted by inventory adjustments from major retailers, leading to what we believe temporarily lower sell-in to this channel.

We continue to focus our efforts and our actions to outperform this market. And at the same time, of course, we progress our strategic portfolio review to focus the company for the future. We stay close to our customers and our suppliers. I've been visiting many of them, and we remain confident in our ability to respond to market risks and opportunities. I think that's a short reflection on the quarter.

Now let me share with you a few highlights. One of the areas we continue to invest in is our connected consumer offering. And at the premium end, of course, that is Philips Hue. This quarter, we launched an exciting new feature of Philips Hue called SpatialAware, and that makes use of your smartphone or tablet to -- and then you can set it such that it understands the layout of your room and then you can create much more natural and immersive light scenes. And this is on top of developments such as improved Apple Home integration and also an AI assistant.

I think on the next slide, you see the image of a meeting room of Fedabo Group's new headquarters in Italy. Fedabo is an Italian energy consulting firm that chose Signify because of our energy-efficient solutions. It's a project we are very proud of. We installed 300 light points, but that includes the NatureConnect. You see it here on the ceiling, which you see here, but also 3D-printed myCreation fixtures and true line luminaires.

So all of that resulted in a very energy-efficient lighting system, great lighting quality that supports the well-being of staff and visitors of Fedabo. And that brings me actually to the third highlight. Because this quarter, we also had the launch of our new sustainability program or actually the next chapter of our sustainability program, Brighter Lights, Better World 2030. And this program is about the role of lighting beyond illumination to improve well-being, safety, and security, food production and access to solar lighting.

And it's all about lowering our emissions through energy efficiency, and it's about advancing circularity as well. It serves our customers by helping them to reduce energy and resources and lower costs and adhere to regulations, particularly in Europe.

It serves society with lighting that respects nature and reduces emissions as we maintain our commitment to reach net zero emissions by 2040 as a company. And also importantly, it serves our investors because all this sustainability product offering make good business sense. They work economically.

Now with that, I'll hand it over to Zeljko, who will take you through our financial performance of the quarter.

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**Zeljko Kosanovic** - Signify NV - Chief Financial Officer

Thank you, As. And Good morning, everyone. Yes, we will indeed now walk you through our first quarter financial performance, starting with the key developments this quarter on slide 9.

Our connected installed base increased to 171 million light points, demonstrating continued strong traction. Comparable sales declined by 5.1% in the quarter. Gross margin was robust at 40.6%, reflecting disciplined pricing and cost of goods sold management even against a high prior year base.

The adjusted EBITDA was at EUR83 million, resulting in an operational profitability of 6.5%. The margin decline versus last year was mainly driven by lower volumes and the resulting fixed cost under absorption, primarily in the Consumer business.

Net income was at EUR8 million compared to EUR67 million in Q1 last year, mainly impacted by restructuring costs related to the cost reduction program we have announced in January. Free cash flow was at EUR47 million compared to EUR40 million last year, driven by working capital improvements.

Moving on to the Professional business on slide 10. Comparable sales declined by 3.7%, driven by continued weakness in the trade channel in Europe and in the US. Public projects were softer in both markets as we saw some delays and reallocation of funding, while connected lighting continued to grow.

Emerging markets, including China and India showed growth, partly offsetting declines in the Middle East. Our direct exposure to the Middle East remains limited. Adjusted EBITDA margin increased by 20 basis points to 7.3%, reflecting gross margin traction supported by pricing actions and cost discipline.

Now let's continue with the Consumer business on slide 11. Comparable sales declined by 4.6%. What is important to highlight here is the disconnect we saw between sell-in and sell-out, as was mentioned by As earlier. While our reported sales were impacted by destocking at retail level, underlying demand from consumers remained solid with a strong sell-out to consumers and growth across digital platforms.

In addition, we saw weakness in Klite, while our India business continued to grow strongly. In terms of profitability, our adjusted EBITA margin decreased to 5.7% compared to 10.8% last year. This was mainly driven by the lower sales volume and the resulting operational deleverage. Overall, the Q1 performance primarily reflect the transitory channel dynamics, while underlying consumer demand remained solid.

Moving on to the OEM business on slide 12. Comparable sales declined by 4.8% in Q1, reflecting continued softness in the OEM market. We did see some stabilization versus prior quarters with price pressure easing compared to the levels we had experienced during the previous quarters. The adjusted EBITDA margin was 2.5%. Profitability was impacted by lower volumes and the resulting fixed cost under absorption, partly offset by cost measures in the quarter, which we continue to implement.

Moving on now to the Conventional business on slide 13. Comparable sales declined by 17.9%, in line with the structural decline of the business. Adjusted EBITDA margin was at 13%. The margin was still impacted by temporarily higher manufacturing costs related to site rationalization, while pricing actions provided some support. Overall, we are well on track to restore the profitability in the second half of the year.

Let's now look at our adjusted EBITDA bridge for the first quarter. Our adjusted EBITDA margin decreased from 8% in Q1 last year to 6.5% this year, a decline of 150 basis points. The primary driver was volume, leading to fixed cost under absorption. The combined price and mix impact was negative 40 basis points, however, improving from negative 150 basis points in Q4 as price erosion moderated and our pricing actions gained traction.

Overall, pricing dynamics became more constructive across the portfolio, particularly in Professional and OEM with additional support from price increases in conventional.

Our cost of goods sold showed sequential improvement through continued cost actions and productivity gains. Lower indirect costs provided a positive effect of 100 basis points, however, not sufficient to fully offset the volume effect. Currency had a 50 basis point negative impact on the adjusted EBITDA margin in the quarter. This was primarily driven by non-hedged currencies, including the US dollar, which was addressed and offset through pricing actions as for other cost inflation elements.

Overall, the EBITDA bridge reflects the soft start to the year in sales volume, while also showing the gross margin resilience and cost actions are helping to mitigate part of this pressure on the top line.

Moving on to slide 15. Working capital as a percentage of sales improved to 6.2% from 7.2% in the prior year period, an improvement of 100 basis points. Inventories decreased by EUR94 million. Trade and other receivables reduced by EUR124 million. Payables had an effect of EUR120 million.

Overall, these improvements reflect the continued disciplined working capital management supporting our cash flow generation.

With that, I will now hand back to As to discuss the outlook and closing remarks.

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

Thank you, Zeljko. Well, you -- the slide is up. You may recognize this slide from our last call. As you can see, our outlook for 2026 is unchanged. We expect an adjusted EBITDA margin to be in the range of 7.5% to 8.5%, and we will continue to manage inflationary pressures as we have done in the past.

And with our cost program is on track, so we expect to feel some of the benefits coming in from the cost side in the second half of the year. We anticipate free cash flow to be in the range of 6.5% to 7.5% of sales, supported by that continued discipline on the working capital side.

Now before we go to Q&A, of course, I would like to invite you all to join us here in Eindhoven on June 23, where we will be organizing our Capital Markets Day.

And with that, I would like to hand it over to the operator for questions and answers.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Ines Lefranc, Goldman Sachs.

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**Ines Lefranc** - *Goldman Sachs - Analyst*

It's Ines from Goldman Sachs speaking for Daniela here. I just wanted to ask what do you see in terms of incremental impact from Section 232 under the new calculation methodology?

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**Zeljko Kosanovic** - *Signify NV - Chief Financial Officer*

Thank you for your question. So as you mentioned, the revised framework became effective in April, early April with the move to full value methodology and a clearer rate structure, 50%, [0.5] or even 10% [0]. So we are still, at this point, assessing the impact across the portfolios, but there is quite some variation by product depending on the level of metal content. So overall, we see generally a positive impact, but any potential benefit will be managed within our overall cost of goods sold alongside other cost dynamics.

So we -- basically, we do not see that as a material implementation of those new measures or this new framework does not mean a material step change, but rather it's just one component as part of the broader cost environment that we are actively managing holistically.

**Ines Lefranc** - *Goldman Sachs - Analyst*

Makes a lot of sense. Could I possibly ask a second question? Just do you see any tensions in the supply chain due to the Middle East situation?

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**Zeljko Kosanovic** - *Signify NV - Chief Financial Officer*

So what I can say is so far, a very limited impact in particular on our Q1 performance, first of all. And most important is one of the important elements that we've been monitoring is the safety of our people, of our colleagues in the Middle East and their family. So that has been, of course, a very important and primary point of focus. In terms of exposure of our Middle East business as a whole, it's limited. So we have a limited scale of exposure of the business in the Middle East.

And then to your question on the supply chain side, I think for Q1, we've not seen a significant impact. And what we expect, of course, coming forward in terms of cost inflation is what is impacting all the commodities and input costs that are more directly linked to oil prices on mechanical components, plastics, obviously, on some other elements and of course, in part of our outsourced products. So we do expect inflationary pressure to come in the coming months.

And we're also looking at very closely and monitoring tensions on potential supply chain scarcity. So look, these are all elements that we have been preparing that we are well equipped, let's say, to mitigate in terms of sourcing optimization. We have a lot of levers of sourcing optimization that we have already planned. And of course, as needed with pricing actions as well.

So I think we have the plans in place and ready to manage with the right agility as you will see this developing. But limited impact so far, that's what we can say for Q1.

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**Operator**

Max Yates, Morgan Stanley.

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**Max Yates** - *Morgan Stanley & Co Ltd - Analyst*

I guess my first question is just on the cost inflation that you mentioned just then that you would expect to see. If we just think about some of those main areas of cost inflation, how much do you think you'll have to put up prices to offset those? And what price rises have you announced already in March and April? Do you think the competitors will follow as well? Or do you think the primary offset will be much more coming from supply chain optimization, taking cost out? I'm just trying to understand how big could the magnitude of inflation headwind be. And how much price are you planning to put through as a result?

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

Yeah. So maybe I'll have a go at that. Zeljko, you might want to complement me. I think -- thanks for the question. Of course, it's all for us pretty uncertain about what is going to happen and how things are going to evolve in the Middle East. So -- and the impact also varies across different parts of the portfolio.

So for example, in India, right, we saw that the immediate shortage of fuel and also the inflation on plastics is much higher than we see the cost of goods sold going up elsewhere in the world. So it's still -- we still are navigating through that. The main increase, of course, energy costs, commodity prices like plastics and so on and that affects transportation costs as well.

Now to your question, what do we do on the pricing side, we take very pointed actions. So depending on where we see the pressure on our cost of goods sold, but also in terms of where we think that we can stay competitive while putting pricing up, that is where we will take

very disciplined pricing actions. So it's not one price increase across the globe. It's very pointed on segments, on geographies and on certain parts of the product portfolio.

What we have seen so far is that our teams have been quite good at keeping that margins at the resilience level. So we are very confident that on the crop side, for sure, we can make sure we retain that gross margin by taking the right pricing actions.

Zeljko, do you want to add anything?

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**Max Yates** - *Morgan Stanley & Co Ltd - Analyst*

And maybe just a follow-up. Could you talk a little bit about how demand trended through the quarter? And I guess, particularly, you talk about the kind of consumer demand sort of remaining robust and most of the negative impact being channel inventory destocking from some of your distribution partners or some of the people that sell your lighting. I guess when I look at a lot of the consumer confidence indicators, they seem to be falling off a cliff in April.

So I guess I'm just wondering sort of any initial take on sort of how April is holding up. Are you seeing any of this in your business? Because it looks to me like the consumers and consumer confidence indicators are suggesting things are about to get quite significantly worse.

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

Yeah. No, we see the same thing. And actually, consumer sentiment has been pretty low for some time, and it has also further come down. So -- but we don't yet see that in terms of demand. So we see indeed cautious consumer sentiment, but still strong demand for connected lighting.

And on your question around April and the second quarter, I expect growth in the second quarter from the consumer side, and we also see that in April, where our sell-in and sell-out numbers have converged much more. So we recognize the sentiment, yet we are still optimistic on the sales.

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**Operator**

Sven Weier, UBS.

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**Sven Weier** - *UBS AG - Analyst*

The first one is actually on the OEM business, where the organic developed much better than we thought. And I was just wondering what were the constituents to that? I mean you talked about less price pressure. I was wondering how important was that as a contributor to that. But also did you actually see some prebuy effects, maybe some customers already starting to stock up ahead of potential price increases or supply chain issues? And how much is actually the phasing out of the customer discontinuation that you saw last year. So really, really interested in those moving parts, especially on the OEM side.

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

Yeah. Well, on the OEM side, indeed, we, of course, had a very challenging 2025. Let's remind ourselves of that. And we see it easing out, both on the volume as well as on the pricing side.

Quite -- we've seen quite a few announcements in the market of price increases. Some of that is being implemented, but we still saw some price erosion, but it has eased out a lot since last year. And it's too early to really conclude fully, but we do see that the market is bottoming out. And therefore, this price pressure is easing.

On the volume side, whether customers are stocking up ahead of price increases, we don't see so much of that. So what we engage now on with customers is pretty much back to normal. Of course, that is still to see how that develops. But so we see actually, I would call it more stabilization of the OEM business to much more constant levels.

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**Sven Weier** - UBS AG - Analyst

And you didn't see any prebuy effects in the other -- in any of your other businesses like in the professional trade channel, for example?

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

No, not notably, not significant, no.

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**Sven Weier** - UBS AG - Analyst

Second question I had was just with reference to the upcoming Capital Markets Day because as you alluded to, you want to focus more on the areas that are structurally growing and deemphasize those that -- where there is an issue. I mean, how should we think about this? Does it mean it's more targeted applications of the strategy so that like it doesn't sound like you can sell like an entire unit. It's more about maybe also having to close down individual areas within the divisions. I know you're going to talk about that in two months' time, but just to get an idea about how strategy-wise, this can actually be implemented.

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

Yes. Well, what can I say on Capital Markets Day? The -- I think we'll start off really with telling you a bit more about how we see the business to create a bit more insight and transparency around how our business is built up. And of course, we have seen a huge transformation of the market and technology over the last decade.

So what does our portfolio look like? And how do we see the prospects of the individual bits of it? And then I think a very important part of the strategy is how do we get most of what we have today, right? If you look at those respective parts of the business, what are we doing to outperform markets. And there will be a series of really important areas where we can do better to really get to first quartile performance.

And then there is the question around if you look at that portfolio, where would we want to invest for the future and where we want to put our money and time and invest. And that's -- and where do we deprioritize. I think that's the kind of clarity you can expect by the end of June.

Now how that will play out, I mean, it's too early to share as you will understand. Now is that just on the very high level growth consumer OEM? No, we will also show a bit more granularity that how are these businesses build up because you really need to understand a lower level of segmentation to make it meaningful.

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**Sven Weier** - UBS AG - Analyst

And when you say you -- those -- some businesses you will invest less, does that also include that you could divest? Or is it just a function of investing less in those areas?

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

Well, I mean, for the businesses that we think are -- of less interest to Signify for the future, I think we will explore all options, yes. And where we are on that, I think we will let you know by the end of June.

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**Sven Weier** - *UBS AG - Analyst*

And then just a very quick follow-up for Zeljko on the Section 232 because you said it's a positive impact. I mean, do you mean positive impact you pay less tariffs after or more tariffs and you pass it on? Or how should we understand the positive?

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**Zeljko Kosanovic** - *Signify NV - Chief Financial Officer*

Comment on positive was looking at the blended because as I said, it's a very [of course in the] granularity. But all in, it's on the cost impact compared to the new baseline of tariffs. So it's really on the cost side. It's less pressure, let's say on the tariff cost that we see for now overall, but it's not a very material impact one way or the other. As I said, we are assessing (multiple speakers) [indication]. It's not an additional headwind on the dynamic of the tariff part of our cost base.

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**Operator**

Martin Wilkie, Citi.

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**Martin Wilkie** - *Citi Infrastructure Investments LLC - Analyst*

It's Martin from Citi. I just wanted to come back to the Professional business. You talked about softness in the trade channels, which have been growing for a few quarters now. Just to understand, is that beginning to show any signs of easing? I think there was some views that the tariffs meant that a lot of Chinese capacity was sort of diverted from selling into the US to perhaps being sold into Europe. And obviously, we haven't quite lapped the 12 months of the full impact of tariffs. But is there some signs of easing in that trade channel weakness in Europe?

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

Yeah. Let me say a few things about -- well, specifically on Europe, your question. So let me say a few things about the trade channel in general. I mean what we basically see is that the lighting category with our main distributors is down, quite significantly down, so high single digit down. We performed much better.

So our business is still seeing some revenue decline as well, but a lot less, right, than the category of our distributors. So that implies a gain of share of wallet, which, of course, we are happy with. Now that decline is a buildup of a smaller volume component and a price component. That price component, that price erosion was much larger and indeed is easing out. And have we seen the bottom of it, too early to conclude, I think.

But from what I have seen also in terms of the dynamics in India where -- in China, where a lot of these products are being produced, it is such that we have reasons to believe that we've kind of reaching bottom and that, that price pressure will ease going forward. And we've also seen that actually.

At the same time, we also see that of the mix, right, there's a growing part of the lower end of the portfolio. So -- and that indeed is also stabilizing, but that has also played a role. So it's a mixed effect of volume product mix and price. But indeed, to your question on price, we think that it is easing and it's a lot less than what we have seen in recent quarters.

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**Martin Wilkie** - *Citi Infrastructure Investments LLC - Analyst*

That's helpful. And just if I could follow up on the Projects business. You do talk about some improvements in Europe. But one thing that's happened in the background is the performance of Buildings Directive in Europe, which I know has been a very sort of slow piece of regulation to get implemented, but it does become, in theory, a big driver of building regulation rules effectively as of this summer. It's probably too early to see anything, of course, in Q1. But is that providing signs of hope for perhaps not improvement straight away, but that you begin to see more renovation work, including lighting retrofit in European projects?

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

Yes, indeed. We see that as a very positive development is building regulation. Now what is very important is that this regulation is actually enforced. So that we still have -- if the jury is still out whether we did see enforcement of that. But yes, if that were to happen, then indeed, we will see many projects upgrading in Europe. That's very positive.

And like I highlighted on the indoor side in Europe, we have grown the business and outperformed market. So we're happy with that trend. The challenge on the project side is much more on the public side, particularly outdoor municipality lighting is where we still see softness in the market. So that's the public spend side.

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**Operator**

(Operator Instructions) Wim Gille, ABN AMRO-ODDO BHF.

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**Wim Gille** - *Oddo BHF SCA - Analyst*

Yes. This is Wim Gille from ABN AMRO. I would like to have a bit of a follow-up on the Professional market. Basically, when I read into the details, it appears that Europe is doing a bit better than previous quarters. And I just want to feel if there's a bit more granularity on if Europe is really improving underlying or if this is just a matter of comparable base.

And in relation to that, the profitability in the Professional business was quite a bit better than what consensus expected. Can you give us a bit of feeling on how profitability was impacted in the Professional business in the quarter, both on geography as well as the market impact? And the follow-up question would be -- and that's related to the European market, how are the Chinese behaving at this point in time?

And judging by the performance of Klite, this part of the market is still struggling in terms of performance. And that should point to ongoing pressure from Chinese competition in Europe. So can you give us a bit more feeling on how the Chinese competition is performing in Europe?

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

Okay. Well, many questions. I'll try to give you a narrative, and please let me know if I haven't answered all of them. In terms of -- if we take a geography view on Professional, we saw that we grew in China, we grew in Rest of World.

If I zoom in on the US and Europe, in the US, basically, we saw that our indoor projects was good, was -- we did, I think, perform markets, but we saw some real softness on the public side. And you see that also reflected. We've got two businesses in the US, the Cooper business

is in Genlyte Lighting Solutions and Genlyte in particularly exposed to outdoor projects is there we saw a big weakness, while Cooper was more or less flat versus previous same quarter last year.

So I think Cooper has outperformed on the bigger portfolio on the indoor side, while Genlyte was more exposed to the outdoor side, we saw a drop. And a similar trend you see in Europe, where our business has performed well and actually delivered growth on the indoor side and less so on the outdoor side where you're much more exposed to public spend.

Now of course, we hope that with all the prospects of infrastructure investments and significant budget becoming available in Europe that we see some of that money actually hitting the market. But so far, we have not really witnessed that. Then within Europe, we see that Southern Europe was more positive than the main markets of Germany, France and Netherlands.

So Northwest Europe, in that sense, is a bit behind on projects than what we see in the Mediterranean. Mediterranean is also catching up on a low comparison base. But our business in Mediterranean grew, while in the Northwest Europe, it was still softer.

And then you made a specific question around -- or a specific comment around the China manufacturing site in Klite. There is still a high underutilization, and I expect that will continue not for quarters, but for years, underutilization of manufacturing capacity in China. Now we have felt that in the trade channels, but as we discussed earlier, that we see that easing out, less so on the project side, where we still have a lot of made-to-order and made to engineering business.

Klite is more consumer and bus oriented. That's our manufacturing site in China. There, we saw a drop in volume, but that wasn't so much because there were less orders. That had more to do with the supply chain and availability of components where some of the orders were moved into the second quarter. So I wouldn't link that to the Professional business.

I hope that answers most of your questions. But if I didn't, please let me know.

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**Wim Gille** - *Oddo BHF SCA - Analyst*

No, it surely does. And I have a follow-up question, if I may, on the consumer side where you had some inventory corrections. Just trying to get a bit of a feeling on how severe it is. So you already mentioned that in April, the sell-in and sell-out numbers were closing in. So can we conclude that the, let's say, inventory issue has been corrected already in Q1 and that for Q2, we should expect a normal market again?

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

Yes. We indeed have seen that we already see a convergence of sell-in and sell-out. And I also mentioned that I expect the second quarter growth in consumer.

Now to give you a bit more flavor of what happened in the first quarter. So we saw two main drivers behind the volume drop. Firstly, the retailer, we just saw inventory adjustments downwards. And of course, we track sell-in and sell-out, and we try then to reconcile the inventory levels. So we saw some lowering of inventory from -- with our main retailers.

And the second effect is that we had commercial negotiations with some major online retailers. And these commercial negotiations took longer than concluded. And that we've also felt in terms of selling to those retailers. And that is very much a temporary effect that I expect will be fully corrected and actually going now where we are in April, we already see that correction taking place.

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**Operator**

Chase Coughlan, Van Lanschot Kempen.

**Chase Coughlan** - *Kempen & Co - Analyst*

Just to go back to something you mentioned about the indoor projects within professional. So I recognize the public was a bit softer, but you said indoor was doing quite well. Is there any risk you see maybe going into the second half around the potential for either higher for longer rates or rate hikes, would that have an impact on that indoor side of the business, do you think?

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

Well, I'm now seven or eight months in, and I find it quite difficult to predict the market in the medium and long term. So second half, let's see what happens. For the second quarter, that's a bit nearer. We are pretty positive about our order book. So not immediate, but what happens in the third or fourth quarter with all the uncertainty in the world, I think we'll be -- I want to be careful giving any firm guidance on that.

**Chase Coughlan** - *Kempen & Co - Analyst*

Yes. Okay. Understood. And then maybe just one follow-up around the free cash flow number. So the strong free cash flow. Of course, as you flagged, that was primarily working capital driven. These -- yes, this working capital swing, is that really a very structural change in the business? Or is this something you would maybe expect to revert somewhat going throughout the year? Or how should I -- how should we read that?

**Zeljko Kosanovic** - *Signify NV - Chief Financial Officer*

Yes. Thank you. Indeed, as you pointed, I think the strength and the strengthening of the working capital, I think this is a key focus area, right, as we have mentioned and communicated also in previous quarters, a lot of focus, in particular, on the inventory optimization, where we do see structural opportunities forward.

So I think this is I think encouraging signs that we've seen over the last few quarters that are translating into the strengthening of our working capital performance. So I think we are clearly driving towards what we believe is an opportunity forward to structurally improve compared to the level we have.

So I would say that Q1 performance in many ways is just one step and one milestone in the directional trajectory of structural improvement that we are driving as one of our performance step-up priorities that has been also mentioned earlier is supply chain excellence. We are putting a lot of effort in that area, and that will translate and already starts to translate into our working capital improvement.

**Operator**

Martin (inaudible).

**Unidentified Participant**

It's Martin (inaudible). Question around your reduction program. You set aside you took a EUR63 million restructuring charge, most of it to be used to execute this program. Does this amount cover the whole program? If not, how much? And of this EUR63 million charge, do you expect the cash out of that amount in the current fiscal year? And attached to this theme, this program targets 900 roles across the organization. In Q1, the number of FTEs declined by 600. How much of that amount can be related to this reduction program?

**Zeljko Kosanovic** - *Signify NV - Chief Financial Officer*

Thank you for your question. So I'll try to break it down. So first of all, briefly updating on the status of implementation of our cost reduction program. So we are well on track in the execution with a very, of course, very clear and detailed road map across the whole organization for the implementation. The provision that were booked are linked to that.

So to your question on the -- perhaps looking at it for the full year because we have in our restructuring cash out for the full year, we have, of course, what is linked to that specific cost reduction program, but also other element linked to the adaptation of our conventional business, where we have every year also substantial restructuring cash out linked to that.

So if we combine all the elements, we do expect that the cash out linked to restructuring this year will be around EUR50 million higher than what it was last year, and that's fully reflected in the confirmation of our free cash flow guidance for the year. So to your question for the cost resizing program, most of the cash out is expected indeed to be done in the financial year 2026.

Now on the FTEs, I think the only point of caution is when you look at the total headcount for Signify, which also includes all the direct labor linked to our manufacturing. Of course, you have a high seasonality factor, so you cannot connect one-to-one, of course, the dynamic on the total headcount to the execution of the program.

But compared to the 1,900 role that we have mentioned for the full year, we are seeing the first part of the decrease already visible in the first quarter, but most of the impact is expected on the second half of the year. So it's really towards the second half of the year that we will see the translation to the cost reduction of towards the EUR180 million annualized run rate that we have indicated as a gross savings. So we are well on track with that role now.

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**Operator**

Emanuele Sartori, Kepler Cheuvreux.

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**Emanuele Sartori** - *Kepler Cheuvreux - Analyst*

I just have a quick follow-up actually on the Professional business. I'm just trying to get some color on the margins. So the Professional had relatively well despite volume pressure. So I'm just trying to understand how sustainable is this if the volumes remain weak throughout the year? And do you expect the cost and price discipline to continue to help offset this weakness into Q2 and in the rest of the year as well?

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

Yeah. I think we're pretty confident about our ability to keep that margin resilience, particularly on the profit side because there, the majority of our strength, of course, on the project side is less subject to that same price pressure. So we have some pricing power there. And at the same time, we have, of course, scale and ability to optimize our sourcing. So I think if you bring that together, our sourcing and our pricing partner, we're pretty confident on the margin side and, particularly on the project side.

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**Operator**

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

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**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 reach out to the Investor Relations team. Thank you, and enjoy the rest of your day.

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