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LIGHT.AS - Q2 2026 Signify NV Earnings Call

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PRESENTATION

Operator

Hello, and welcome to Signify's second quarter and half year 2026 results conference call, hosted by As Tempelman, CEO; ⌧eljko Kosanovi⌧, 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.

It appears we have some technical difficulties. Please hold on.

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

Sure. Thank you, operator.

Operator

Welcome to the Signify's second quarter and half year 2026 results conference call, hosted by As Tempelman, CEO; ⌧eljko Kosanovi⌧, 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 second quarter 2026 earnings call.

Before we begin, I'd like to draw your attention to forward-looking statements, risk and uncertainties, and non-IFRS financial measures disclaimers on this slide.

With me today are our CEO, As Tempelman and our CFO, ⊠eljko Kosanovi⊠.

During this call, As will discuss the highlights of the quarter and key business developments. ⊠eljko 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 this morning at 7 AM on our Investor Relations website. A transcript for this call will be made available soon after the call.

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 thank you again for joining us today.

Our second quarter results reflect a mixed market environment, and we have started to implement the strategy we introduced at Capital Markets Day in June.

Now, looking first at our build portfolio, Professional projects continue to grow in the United States and Rest of the World, where we are outperforming the markets. At the same time, Professional stock and flow, the trade side of the business, remained weak across most geographies, particularly in Europe.

Now, in our consumer business, the connected lighting performance needs some explaining. Sell-out, so meaning the sales to consumers, remained strong and was growing, and that is also reflecting the strong underlying demand for our products. However, the retailer destocking continued to weigh on our sell-in, as it did in the first quarter, and this impacted both our top and bottom line. On the positive side, we delivered continued growth in India and luminaires growth worldwide.

Now, then moving on to the Harvest portfolio, that is our more commoditized upstream manufacturing activities, including KLite and OEM continued to face demand challenges. Our lamps manufacturing company, KLite, was affected also by component availability and cost inflation. At the same time, consumer lamp sales were resilient and our conventional business delivered a strong recovery in profitability, and that is a good example of an effective execution of our strategy.

Importantly, the turnaround playbooks for underperforming areas are in full execution, and we know what needs to be done. We are seeing positive traction from pricing with further targeted increases underway alongside ongoing cost actions and operational improvements. And together, these actions support our confidence in delivering stronger profitability in the second-half of the year. Finally, and important also, employee engagement and the response to our new strategy has been very positive, which is critical as we begin to execute with greater focus and with discipline.

Now, some examples of our strategy in action. You see it here on the slides.

At Capital Markets Day, we shared that we would be making targeted investments in our Professional business, and stadium lighting is one of the focus areas within our Professional Europe business. And on this slide, and actually throughout the presentation, you see the newly renovated Stade Armand Cesari in Furiani in France. It is a great showcase of our integrated offering for stadiums, so dynamic lighting, smart controls, architectural highlights, and 3D printed fittings. And this connected lighting project was delivered in collaboration with our certified system integrator partner, important that we are well connected in the ecosystem to help this project and bring it to life.

Moving on to consumer.

In line with our entertainment focus in the consumer business, we introduced a new way to enjoy match day at home, and that was particularly relevant, of course, during the World Cup. Our Sports Live feature for Hue and Philips Smart Lighting triggers real-time lighting effects that react instantly to big events in the game, such as goals or yellow cards, creating an interactive full-room experience. It's a great example of how we can use lighting to make homes more entertaining and fun. And we have a great community of highly engaged new customers, and this was reflected by the very high level of adoption during the World Cup tournament.

Moving on to sustainability, this is actually the first progress report on our Brighter Lives, Better World 2030 program, which we launched at the start of this year. And the program focuses on improving lives, saving energy, and preserving resources. And on the slide, you can see the four KPIs and the progress against each of them towards the 2030 targets. And basically, we're off to a good start, on track, and just ahead of our H1 targets, which puts us on the right path towards these longer-term ambitions.

Let me now hand over to ⌧eljko, who will discuss the financial performance.

⌧eljko?

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

Thank you, As, and good morning, everyone. So, I will now walk you through our second quarter financial performance.

So, total sales were EUR1,332 million this quarter, with a comparable sales decline of 3.6% as market conditions remain mixed. Pricing pressure continued to ease across the business, supporting the top-line. We saw sequential improvement across both our build and Harvest portfolios. Adjusted EBITA was at EUR81 million, resulting in an adjusted EBITA margin of 6.1%. The margin decline was mainly driven by a lower gross margin in consumer, where higher input costs outpaced price realization during the quarter, combined with lower fixed cost absorption on weaker volumes. Overall, our indirect cost resizing program remains on track, which will provide increasing support to our operating margin improvements through the second-half. And finally, free cash flow was broadly stable at EUR35 million, compared with EUR36 million last year, supported by continued working capital disciplines.

Moving on to the Professional business.

So, the Professional business continued to demonstrate resilient profitability in a challenging market environment. Comparable sales declined by 2.5%, mainly reflecting continued softness in stock and flow across most geographies. At the same time, project activity remained resilient in the US and the Rest of the World, where we continue to outperform the market, partly offsetting weaker demand in Europe. Despite the lower volumes, the gross margin remained stable at around 40%, supported by disciplined pricing and ongoing cost management. As a result, the adjusted EBITA margin was 7%, with the modest decline primarily reflecting lower operating leverage on reduced volumes. Looking ahead, our cost reduction program remains on track. And the turnaround actions we have initiated in Genlyte are progressing well and are expected to provide increasing support to profitability.

Moving on to consumer on slide 11.

The business remained broadly resilient from a top-line perspective this quarter, with the comparable sales down 0.2%. Connected continued to see strong consumer sell-outs, confirming healthy underlying demand for our products. However, lower retailer selling, driven by ongoing inventory normalization continue to weigh on our reported sales. Outside of Connected, we saw strong growth in our luminaires business and another very good quarter in India. These positive developments were partly offset by weaker performance in China and lower sales at KLite, which was impacted by components shortages, delaying the supply delivery of its order backlog.

So, let me now explain the development in profitability.

The adjusted EBITA margin declined to 3%, primarily for three reasons:

First, the lower connected selling resulted in lower fixed cost under absorption and creating operating deleverage.

Second, we experienced higher deal of material and other input costs during the quarter. We implemented targeted price increases, which started to gain traction, but there is naturally a timing lag before this fully offset the higher cost.

And finally, the KLite performance area facing stronger headwinds on its profitability, both in fixed cost absorption and in higher input costs.

Looking ahead, we are implementing several actions across our different performance areas to sequentially improve the profitability of our consumer business, including additional price increases and further cost reduction measures.

Turning to OEM business on slide 12.

So OEM continued to operate in a very challenging market environment, particularly in Europe and in the US. Comparable sales declined by 12%, reflecting continued market softness across the business. At the same time, we continue to see encouraging dynamic on pricing with competitive pressure easing further compared with previous quarters. Adjusted EBITA margin was 4.6%, despite continued headwinds in volume and also input costs. The profitability continued to improve sequentially quarter over quarter as the execution of the turnaround is on track, supported by the structural actions taken to significantly lower the fixed cost base.

And finally, the conventional business. Comparable sales declined by 9% as the general lighting continued its structural volume decline in line with the market. This was partly offset by positive pricing and also the continued growth in the specialty lighting. Adjusted EBITA margin improved to 18.1% with the underlying profitability restored in line with our plans. This was supported by the normalization of manufacturing operations, pricing, and cost discipline with additional non-recurring positive effects. Looking ahead, we remain focused on maintaining a strong level of profitability while continuing to carefully manage the structural decline of the business.

Turning to profitability on slide 14, so the adjusted EBITA bridge. So the adjusted EBITA margin declined by 170 basis points to 6.1%. Lower volume had a negative impact of 90 basis points, reflecting reduced fixed cost absorption. On the positive side, price and mix combined contributed positively, reflecting the traction of our price increases, improved mix, and easing pricing pressure across the business. At the same time, cost of goods sold became a larger headwind in this quarter, many reflecting the faster pace of input cost inflation, particularly in consumer. Where there is usually a time lag before price increases fully offset these costs.

In total, price mix and COGS had a negative contribution of 90 basis points, broadly in line with the quarter one, but with very different dynamics on both drivers. Indirect cost reduction provided a positive contribution of 40 basis points, reflecting the continued benefits from our resizing action and ongoing cost discipline. Currency had a 50-basis-point negative impact on the adjusted EBITA margin in the quarter, this was primarily driven by non-hedge currencies, including the US dollar, which was addressed and offset through pricing actions as for other cost inflation elements. That said, we have clear plans and operational efficiency initiative in place across all our businesses and performance areas, and this gives us confidence in delivering a stronger profitability performance in the second-half of the year.

Finally, let me conclude with our working capital performance, slide 15. So compared with last year, working capital improved by EUR107 million, primarily driven by lower inventories and trade receivables. As a percentage of sales, this translated into an improvement by 120 basis points to 6.3%, reflecting our continued focus on disciplined working capital management.

With that, let me hand back to As to conclude today's presentation.

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

Thank you, ☒eljko.

Indeed, to conclude, while market conditions remain mixed, pluses and minuses, we feel genuinely positive about our strategy and the start of the execution of that strategy. We are very clear about where the opportunities and the challenges are, and we know what to do. Target price increases are gaining traction. Our cost initiatives remain on track. The turnaround actions are in place in our underperforming areas and underway. So as all these measures take effect, we expect to deliver an improved profitability in the second-half of the year, as also mentioned by ☒eljko. And accordingly, we confirm our full-year guidance of an adjusted EBITA margin of 7.5% to 8.5% and a free cash flow generation of 6.5% to 7.5% of sales.

Now, this, I think, concludes our prepared remarks.

And operator, we are now ready to begin the Q&A session, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Daniela Costa, Goldman Sachs.

Daniela Costa - *Goldman Sachs Group Inc - Analyst*

I will ask the one question and the follow-up.

First, I guess, can you talk a little bit what do you think is driving the retailers to the stock-connected products if the actual sell-out has been strong? And I guess you've been talked about it being improving for some months. So why are they destocking in this type of environment?

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

Yeah, thanks, Daniela, for the question.

Indeed, on the back of the Q1 earnings, I did mention that I expected that convergence to happen in Q2. It was slower than we expected. So we do see the convergence, however. Stock levels are now, based on our data, in the range of 8 to 9 or 10 weeks, depending on the retailer. So that is just, I would say, just on or below normalized levels. So we see now that convergence is happening, and that's why we also feel more confident going into the third quarter. What is exactly behind what retailers do -- how retailers optimize their inventory positions, they clearly came from a much higher coverage in terms of number of weeks, now they are at these levels.

Daniela Costa - *Goldman Sachs Group Inc - Analyst*

Got it. Thank you.

And then just can you talk us through, I know IEEPA was very minimal this quarter. You've mentioned to the gain was not substantial. You obviously had a sizable imbalance, I guess, with imports into the US. Do you expect it to become more substantial into the second-half? How shall we go about quantifying it? What do you include in guidance?

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

Yeah, good morning, Daniela.

So maybe what I can say on the IEEPA is maybe more on the process, because we, of course, diligently, as you know there are different phases. So the phase one, which was completed end of April, phase two, end of June, and then the phase three, expected end of July. So we are doing the filing, as you mentioned, which was indicated in our half-year report proceeds, which were not material received and reflected in the first quarter.

So, look, for now, of course, the amount and the timing remain uncertain. So, we will be communicating, of course, in due time on all the implications and how it will translate to the financial. For now, to your question on the guidance, so the guidance, as it's being confirmed, does not include any additional impact from that side that would eventually materialize in the second-half of the year.

Operator

Max Yates, Morgan Stanley.

Max Yates - *Morgan Stanley - Analyst*

I just firstly wanted to ask around the cost savings program. Of the EUR180 million, could you give us an idea of how much you recognized in the quarter? Are we at the kind of normalized quarterly run rate, which I guess would be low EUR20 million if it was going to be saved over two years? And maybe any color on just how to think about that EUR180 million phasing this year and next in terms of when the cost savings will be allocated from a P&L perspective rather than a run rate perspective?

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

Yeah, thank you for the question.

So, on the first, on the progress, so we are totally on track and even ahead of the plan and the phasing we had defined for the realization of the gross savings, so the EUR180 million, of course, is related to the gross savings linked to the resizing and restructuring action that we have taken. So, since we had -- so it's a little bit more, it's more concentrated on the second-half of the year, right, and the reason for that is because we were -- of course conducting all the consultation process with the social partners, which have been satisfactory and completed across the board. So, hence, the majority of the savings will be captured in the second-half of the year, but we saw an acceleration in the second quarter.

So, what we said is that the intent is to get the full benefit from, let's say, run rate perspective leading to 2027. So, that's the goal and that's the aim to get the run rate exit of '26 capturing the full benefit of the EUR180 million gross savings of course, the gross savings are partially netted by inflation, cost inflation and targeted investment that we are supplying specifically in our built portfolios. So, well on track (multiple speakers) --

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Max Yates - *Morgan Stanley - Analyst*

What was it in the quarter?

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

I can't give you the exact amount in the quarter. I think we don't the exact what I can say is that it's way on track with the plan that leads to the full capture by the end of the year. That's what I can say on Q2.

Max Yates - *Morgan Stanley - Analyst*

Maybe my follow-up would just be, if I look at the phasing of your EBIT, even to get to the low end of guidance, you're going to have to do -- it'll be about 40% in the first half, 60% in the second. You've done that kind of once in five years. The end market environment is difficult, inflation is still happening. So maybe if you could point us toward kind of the two or three things that really give you confidence in getting that kind of outsized second-half of EBIT, because obviously, it looks like maybe there should have been a guidance reset today. There have obviously been multiple, so I think people will be concerned that we have another guidance cut, which has obviously followed on from quite a few years of disappointment. So maybe kind of the two or three things that give you confidence in getting that kind of second-half recovery in EBIT, please.

Thank you.

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

Yeah, thank you for the question. Totally fair question, of course, looking at where we are on the first half.

So, look, for the second-half of the year, I think three main drivers and three dynamics:

Number one, improved top-lines, both in nominal term, because we do have, of course, and that's the normal seasonality, a stronger second-half of the year compared to the first half in nominal and both in nominal and in comparable sales growth terms. So, there we do see. As was mentioned earlier by As on the dynamic of in our build and Harvest portfolio, a sequential improvement on the top-line. So that's one.

Second, gross margin resilience, of course, as you mentioned, but we've had those situation in the past, increased price -- increased inflation on the input cost. So there we do have also action. So this is all about managing price mix and cost of goods sold in combination to manage the gross margin resilience, which has been the case for the first half of the year in most businesses, except consumer in Q2, as we indicated. So, there we do have a clear plan for the gross margin resilience.

Third, the increased contribution from our cost resizing program. So, this is back to your previous question, where the contribution and the benefits of the cost savings will be increased in the third part of the year.

Now, I would say, in addition, what is very important is across the board, this improvement that is expected is also linked to the strategy execution in action that has referred to. We have a very, very clear plan across all the performance areas and with all the different playbooks that do apply. If you, for example, look at the -- we have a clear turnaround playbook applicable for the OEM business. The OEM business profitability has been sequentially improving quarter over quarter. We expect that to continue in the second-half of the year and the structural profitability improvements.

We have performance areas where maintain high profitability applies. So that's the example of conventional where we have restored the profitability and expect to maintain that in the second-half of the year. It's also the case for consumer lands, for example. And we do have also few performance areas where the operating leverage applies, and that's the case of consumer connected, professional projects, and India. So we have a very clear plan for each of the performance area, which are really supporting the development and the improvement, which is behind the confirmation of the guidance for the second-half of the year.

Operator

Martin Wilkie, Citi.

Martin Wilkie - *Citibank Cameroon SA (Douala Branch) - Analyst*

It's Martin from Citi.

The first question is just to come back to consumer. And obviously, I can hear what you're saying in terms of the sell-in and sell-out. But when we look at the sort of headline numbers, revenue is probably better than people were expecting, but the margin weaker. Is there a mix effect inside that as well in terms of the non-connected business just having a sort of structurally lower margin. And then connected, just explain why the optically the margin decreases probably more than you'd expect given the relatively new decline you had on comparable sales growth.

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

Yes, I think there is an element of mix, but I would say these are -- the two biggest drivers. I mean, if you really look at the and this is basically 80% of the erosion is first on the or let's say manufacturing, right, the lamps manufacturing business KLite, which is also structurally on a much lower level of gross margin. I think there we've been facing a combination of a very tough combination of headwinds, because you've had on one hand shortage on components, which enable to -- did not able to deliver on the backlog. So that was a volume impact. And then in that kind of manufacturing business, the under coverage impact was very heavy. We've seen also on the cost inflation side, this is where the components, cost inflation has been particularly heavy and faster. And the timeline of addressing that fruit price is obviously more difficult. So that was the second. So in combination, that had a big impact, although the size of that business for the total consumer is not that big, but the impact on the margin for that business has been quite significant.

On the other hand, for the connected part, I think there is intrinsically that sell-in, sell-out gap, which immediately translated on the under coverage. So I think these two components. I think they represent most of the impact. And then we have smaller impacts on other elements and some negative one-offs. But broadly speaking, this is more about the intrinsic impact on those two businesses. I would say the connected part is transitory, clearly.

On the KLite part, the upstream manufacturing there, it's more structural because there you really have that headwind on volumes. You have that, of course, headwind and cost inflation that need to be addressed, but we are very, very clear. So, we understand exactly what the issues are on those two areas, and we have a very clear plan for the second-half of the year. So, the mix element to your question, to be fair, has been limited to explain the erosion of the consumer EBITA margin in Q2?

Martin Wilkie - *Citibank Cameroon SA (Douala Branch) - Analyst*

Great. That's really helpful.

And as a follow-on and also related to destocking, in Professional, you obviously talked about stock and flow again, but just to be clear, is that also sell-in versus sell-outs? Is the stock and flow levels of inventory at your distributors normalized or so this is just really about the end market or how should we think about what's driving that weakness there?

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

Well, that again is a mix. So the destocking effect is not so evident as it is on the consumer side, Martin. What we see on the stock and flow is that you still have some price erosion, although we see that easing. And then we've just seen also a lower demand in those channels, right? So that's both the price effective as well as the volume effect. That we have not -- we've seen the sales in stock and flow coming down. And on the other side, on projects, of course, that has been much more resilient.

Operator

Akash Gupta, JP Morgan.

Akash Gupta - *JPMorgan Chase & Co - Analyst*

Some of my questions has already been asked, but maybe just a follow-up on consumer margins development in second-half. So if we listen to what you have said so far, there are quite a number of moving parts here, and it looks like some of the headwinds that we have seen in first half will turn into tailwind, particularly from the channel inventory point of view.

But overall, when we add everything together, what's your conviction on second-half margin versus last year? I mean, we saw significant erosion in H1. Could we see more of a flattish margin for consumer overall in second-half or that could be too ambitious? That's the first one.

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

Look, I think for as you said, there are different moving parts within the consumer business. You have different performance areas. You have the upstream manufacturing parts there. It's fair to say that, as I said, you have a structural pressure, both coming from volume, and that's obviously directly impacting the margin and cost inflation. And we do have, of course, levers to offset whether you're in an upstream manufacturing place. So this is a bit more challenging. So this, I would say, would be probably the most challenging path.

And then on the other hand, we see connected is all about leverage, right? So it plays both ways. So we had an operating de-leverage, unfavorable impact in the first half of the year driven by this destocking. But then when it goes back into the normalization and the convergence of sell-in, sell-out, then you are back into the operating leverage, and this is a business that has a much higher seasonality in the second-half of the year. So, I think there we are clearly seeing that it should go back to the levels expected.

Price power to offset cost inflation is, of course, of a different nature. We do have also on the lamps business, right, which is more a Harvest portfolio within our consumer business, where there we see strong profitability, so very resilient profitability, which we do expect to maintain in the second-half of the year. And then we also have the luminaires business there we are applying. It's one of our build portfolio, which has been growing strongly. So there we are really -- and this is a pure operating leverage performance area again.

So I think very different dynamics. But to your question, I think we expect clearly that we are normalizing, let's say, the level of margin in the second-half of the year for the consumer business after what was clearly a challenging first half with different moving pieces.

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

Yeah, if I would have to simplify it, I mean, positive India, positive luminaires and lamp sales. Then challenging in Q1 was KLite and connected on the operating leverage, and then we had China online, which was a challenge. And going forward, this with price management, we see margins improving. We will also see inflationary BOM, bill of materials, so that needs to be offset. But typically, we see much higher sales on connected in the second-half, and that will give us that operating leverage and that margin uplift.

Akash Gupta - *JPMorgan Chase & Co - Analyst*

Thank you. And my follow-up question is on exchange rate in the bridge.

So when we look at in your P&L, FX headwind on revenues have gone down quite materially in Q2 versus Q1, but headwind on margins was same 50 basis points in the bridge. Can you tell us about what shall we think or how shall we think about this exchange rate impact in second-half? Is there any chance that it might turn positive in H2?

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

Yeah, thank you for the question. As you know (laughter) it's always a bit difficult to project, but at least what we can say, because, of course, we have very clear hedging mechanisms in place, right? So, for the hedge currency, I think, put simply, they've worked very well in the first half of the year, and they are going to continue to play their part.

Now, when you look at the non-hedge currency, I think you do have movements, and there, if you have between the sales currency and the [COX] currency. We have quite a large part of our supply, which is China-based so when you look at the dynamics of the RMB versus the dynamic of the US dollar, for example, you have to -- so this is basically another element of cost inflation that we are fully incorporating as such. So it's really looked at, if you like, the FX movement as one other flavor of cost inflation dynamic or cost deflation, depending on how currencies go, which are embedded in the way we manage the margin.

So, how to tell you specifically on that element of the bridge how it would look like, but that is what I can say is that for the hedge part under control and fully managed and for the non-hedge currencies, it's back to gross margin management discipline.

Thank you.

Operator

Rajesh Patki, Barclays.

Rajesh Patki - *Barclays Services Corp - Analyst*

I've got a question on the cost base. I mean, I think you said the cost savings will have a lot more meaningful impact in the second-half. Do you expect the exit run rate for indirect costs as a percentage of sales to reach a 30% target by the end of this year?

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

So as I said, the cost, so yeah, full capture of the growth savings expected as entry into 2027. Now to your question, what we have indicated is, and this is what we mentioned during Capital Markets Day. Our goal is to bring the overall indirect cost ratio to 30% or below by 2029. So I think looking, of course, at the dynamic of the top-line, so we will and we are sequentially improving, but this is not going to lead for 2027 yet to reach the 30% that we have indicated as the objective for by 2029.

Rajesh Patki - *Barclays Services Corp - Analyst*

And the follow-up is a slightly different cost bucket. The shipping cost, which were at 6.2% of sales last year. Can you comment on where you stand for the first half and what have you assumed to get to the margin guidance?

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

Yes, on the shipping cost, that's where we've seen, of course, much earlier in the year, right, the effect of cost inflation because that's also to a great extent linked to the conflict in the Middle East. So, we've seen that transportation costs increasing, so as a percentage of sales we see an increase in the first half, but which is, of course, mitigated and addressed through pricing actions.

So, I think when we look at the transportation rate, look, of course, it's a very volatile market in any given week, you can see different movements, but we do not expect -- I think the pressure is already high in the first half. So, I think the ramp-up would be more limited, but we have factored that in, of course, in our (inaudible), but starting from a relatively high level already in the current cost for the first half of the year.

Operator

Chase Coughlan, Van Lanschot Kempen.

Chase Coughlan - *Kempen & Co - Analyst*

Two questions from my end.

Firstly, you mentioned that the conventional volume decline from the general market was, of course, offset by a strong specialty performance and some pricing benefit. Could you remind me how much of that conventional business is a specialty today, even approximately?

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

Good morning, Chase. That is about one-third, just below one-fourth (technical difficulty) 30%, yeah.

Chase Coughlan - *Kempen & Co - Analyst*

Amazing. And then my follow-up would be just on the pricing impacts of the year. You've, of course, mentioned you've already taken some pricing action, and there should be more to come in the second-half. Could you give an estimate on sort of how much, let's say, the pricing impact on a sales level should be for the full year '26?

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

Yes. So if we look at what happened in the quarter, so the price mix was about neutral for all Signify. So we clearly see an improvement versus the pricing erosion that we saw in the last two calendar years, '24, '25. So where we push up prices in areas where we have higher differentiation and more concentration, and of course, we are careful doing that in areas where it's more fragmented and more commoditized. But if you would look at it by business, the price mix, that Professional was more or less flat year-on-year, and then consumer, the pricing has been lagging and versus cost increases in the first half and that should catch up in the second-half. OEM continues to have pressure, so then negative price mix effect and conventional was a positive price mix effect. So it's really a mix back in the portfolio.

And it depends on the mix, it depends on where we have differentiation and concentration power. So it's really a bit hard to predict to average set out on the second-half of the year, but it's been more or less neutral effect in the first half. And for now, that continues. (technical difficulty) We're taking decisive action where we can to, of course, offset inflationary effects.

Operator

Marc Hesselink, ING.

Marc Hesselink - *ING Groep NV - Equity Analyst*

The first question is actually on the price increases. And I think if I read it correct or listen correctly, then a significant impact is on KLite, where you have to increase the prices to protect the margin. But that's also probably an area where it's more difficult to raise prices without impacting volumes. So can you maybe talk about the trade-off there and what you then expect for volumes in this business for the second-half?

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

Specifically for KLite, Marc.

Marc Hesselink - *ING Groep NV - Equity Analyst*

Yeah, maybe in general, but I guess KLite is an area where you have a lot of -- where it's a difficult market at the moment and where I think it's quite difficult to raise prices without impacting the volumes.

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

Well, KLite, of course, is really our manufacturing of lamps position in China. That was facing quite a bit of headwinds in the first half because of the shortage of these components, which were very specific also to concentrate to KLite. And then we saw lower volumes and under coverage. So that has been the dynamic of KLite. That should improve in the second-half.

Lamp sales, however, were pretty resilient in the first half. And it's also a position where we have strong brand power. So we think that we can also take price actions as required on that part of the business.

Marc Hesselink - *ING Groep NV - Equity Analyst*

Okay, great. That's clear.

And then second question is on the margin development maybe a little bit per quarter, not asking like guidance per quarter, but I've seen over the last few years, typically the third quarter was relatively strong already relative to the first half of the year and then obviously the fourth quarter being the strongest. How do you expect that cadence then this year because you still have quite a difficult comparable base in the third quarter? Maybe your thoughts there?

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

Yeah, look as you said, of course, the blended answer will be difficult because you have different dynamics at play across the different businesses. I think this year compared to previous year, I think the pacing of offsetting cost inflation through price, of course, will have an effect, right, because it will not be applied in the same way across all the performance areas or at the same pace across all the performance areas. So, I think there may be a bit of a difference [pattern], let's say, Q3, Q4, compared to what we've seen in the previous year. But the dynamic, back to what I was saying earlier of sequential improved top-line, gross margin resilience improvements and increased contribution of costs, will continue to apply from Q2 to Q3 and then, of course, from Q3 to Q4.

Marc Hesselink - *ING Groep NV - Equity Analyst*

So is it then fair to assume that this year will be even more for fourth quarter greater than usual.

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

That's fair to assume that, yes, indeed.

Operator

Adam Parr, Rothschilds & Co.

Adam Parr - *Redburn Partners LLP - Analyst*

Could you please help us a little bit more with the split of price mix, because I know you sort of conflate it. So how much was true price increases versus mix? Given one, you mentioned targeted price increases, but as well, it sounds like there's some negative mix coming from the destocking in connected. So I just wanted to ask, was overall pricing at the group level positive?

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

Well, we look at price mix always, and there I indicated it's been a neutral across H1. We are putting up prices, right, where we see a higher cost input and higher input costs, and we are more careful in areas that are more commoditized, and then that mix plays out as neutral. That's where we are.

Adam Parr - *Redburn Partners LLP - Analyst*

Is there time for a follow-up, if I may? I'll try it anyway.

So I just wanted to ask on OEM, is there anything else we should be aware of why it sort of re-deteriorated in the quarter in terms of organic sales growth?

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

OEM, yeah, it's a bit changing. It is a bit volatile quarter to quarter, I have to say. The second quarter, we saw weaker demand and lower sales in Europe and the US. AsiaPAC actually sales was quite good. Now, the team is extremely agile, applying the playbook, as ⌧eljko indicated earlier, really taking out the cost and taking the pricing actions. And therefore, we see better results bottom line but Q3, right, I mean, will have its own dynamics. So, I don't necessarily see this as a trend that needs to continue like we saw in Q2.

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

(technical difficulty) the way it has been applied in the past, because.

Operator

Maarten Verbeek, the IDEA!

Maarten Verbeek - *Idea-Driven Equities Analyses company BV - Analyst*

What has not been presented in this current press release is the connected light points, which tends to give some indication about your performance in this area. So could you disclose that amount of connected light points?

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

No, thanks for the question.

And indeed, we normally put that in. We left it out this time to focus on the strategy. But at the latest that I've seen, we stand at [175 million] points. We still track it very well.

Maarten Verbeek - *Idea-Driven Equities Analyses company BV - Analyst*

Right.

And secondly, your dividend will be based on your adjusted net income going forward. So actually, what I also missed in this press release was an adjusted net income for Signify in the first half, just to get a better feel what we could expect for dividend to be paid by Signify start of next year.

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

Yes, I think you're right. So we mentioned it's on the continuing net income. So the way it has been applied in the past because the dividend policy, as has been communicated, is similar, is the same as what was applied previously for Signify, so 40% to 50% of the continuing income. So, I think the main element of adjustment would be relating to restructuring. So, I think you would, so it's a fair point that we perhaps could make that even more visible. But basically, if you look at what has been reported. The proxy would be your adjusted, the net income restated of the impact of the restructuring. So that's something which we can make a bit more visible in the disclosure for sure.

Maarten Verbeek - *Idea-Driven Equities Analyses company BV - Analyst*

If that's visible, obviously there will also be a tax impact, which is not that visible, at least for me.

Zeljko Kosanovic - *Signify NV - Chief Financial Officer*

No, point is taken. I think we can give that visibility and add that into the disclosure.

Operator

Now, I would just like to turn the call back over to Thelke Gerdes for any closing remarks.

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

Yes, ladies and gentlemen, thank you very much for joining our earnings call today and apologies for the technical disruption at the start of the call. So if you have any additional questions, please feel free to reach out to us. And thank you very much again and enjoy the rest of your day.
