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EDITED TRANSCRIPT

LIGHT.AS - Q3 2026 Signify N.V. Earnings Call

EVENT DATE/TIME: OCTOBER 23, 2026 / 7:00AM GMT

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PRESENTATION

Operator

Hello. Welcome to the Signify third quarter 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.

Thelke Gerdes - *Signify N.V. - Head of Investor Relations*

Good morning, everyone, and welcome to Signify's third quarter 2026 earnings call. With me today are our CEO, As Tempelman; and our CFO, Zeljko Kosanovic. As will start with an update on our strategy and key business developments. Zeljko will then walk you through our financial performance before As returns to the call for the outlook and closing remarks. Our press release and presentations are available on the Investor Relations website. The transcript of this call will be made available shortly after.

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

As Tempelman - *Signify N.V. - Chief Executive Officer, Member of the Management Board*

Thank you, Thelke, and good morning, everyone. Thank you for joining us today. Now these third quarter results really, I think, show the progress that we are making in executing our strategy that we introduced at Capital Markets Day back in June. We strengthened profitability sequentially quarter-on-quarter, supported by pricing and cost actions, while the end markets actually remained quite challenging.

Now we introduced the portfolio split of build and harvest. The build and harvest portfolio split and the specific playbooks for performance areas give us a much better visibility now and are really helping us to take more targeted action. So we are making progress in harvest. And I would say in build, there's still considerably more work to do.

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So let me comment on both. Starting with Harvest, the Genlyte, our -- one of our North American business is in turnaround and the turnaround is progressing well. Costs have already come down. We are simplifying the product portfolio and also significantly reducing the number of SKUs. And of course, that then translates into improved profitability. On the OEM side, and turnaround too. That turnaround is also on track with another sequential improvement in profitability.

We've lowered the cost base in OEM and positive pricing is also supporting gross margins despite continuous market softness. Earlier, we also announced at Capital Markets Day that all portfolio options remain open for our OEM business. So meaning we either divest, we partner or we keep and optimize. And to support this optionality and this flexibility, we have decided to separate the OEM business and make it stand-alone. So in fact, a carve-in and we expect that carve-in to be completed in the second half of next year. That might sound like a long time, but it's actually quite complex.

So while we do this, we will, of course, continue to improve the operational performance of that business. Then moving to Klite, our manufacturing business in China, where we have the same optionality. So we either divest or we keep. It's already partnered. It's a joint venture setup. And while we are improving operational performance in Klite, we are actively exploring divestiture opportunities with the parties involved. Too early to conclude on that, but it is actively going on.

Now turning to the build part of the portfolio. India remains a powerhouse for Signify in lighting, contributing both to growth and profitability. And we also see opportunities to use our brands and our distribution power to expand into adjacent categories and fans were our first step, and I'll come back to that in a moment. Now Professional Europe, a large business requires a turnaround. We got to be honest and face that the performance over the past three years has not met our expectations.

Market conditions have played a key part, but we've also not been adapting fast enough. And under new leadership, we will rightsize the organization and strengthen our execution capacity in key countries, empowering really our local country teams operating close to the market, close to customers. And this will yield significant cost savings and improved competitiveness. And with these changes underway, I mean, 2027 will be a transitionary year for Europe because these changes take some time.

Moving to another of our build businesses, Consumer. Our priorities are growth and productivity. So we are investing in customer acquisition to grow connected, our -- Hue offer, while maintaining profitability in the harvest area. So we are also putting in place an additional cost reduction program for consumer. We will reinvest part of the savings in growth and both operating leverage and lower indirect costs will drive profitability up.

And finally, I do want to mention that we are reviewing our R&D spend. Actually, that is about to be completed. And we are sharpening our investment priorities and taking cost out -- significant cost out of our R&D spend to improve returns on R&D. And those returns need to come through -- need to really come through in sales from innovation and in lower-cost products. That's where -- how we target our R&D. It needs to lead to more revenue, more profitability.

And as a reminder, about 40% of our R&D costs actually relate to product redesign and value engineering. So this is about -- not just about innovation. So these are the actions that we are taking to turn the strategy into better performance. We have clear priorities for each part of the portfolio, and we are happy to take your questions on it.

Now then we wanted to share a few examples as we always do. Let me illustrate the capabilities we have in professionals. You see here on the slide, and you also saw it on the opening slide when we started the call. It concerns a project in Romania and where we bring an iconic landmark to life by combining architectural luminaires, lighting design and controls in one integrated lighting solution.

And we deliver this project with our local partner, Luxten and multiple lighting solutions illuminate the facade, the roof line, the dome and all the architectural details. I think it's a really cool project and a good example of the value we bring to complex projects through technology, application expertise and very important, our partners.

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The next example I wanted to share is winning with adjacencies in India. I referred to it earlier. Our fans business shows that we can build on our local strength to grow beyond just lighting. We entered India's EUR1.4 billion fans market in 2021 under the EcoLink brands, local brand. In '24, we stepped up our focus on design-led innovation in brushless direct current fans, so-called BLDC, BDC brushless direct current fans. And these motors make fans more energy efficient and quieter than conventional alternatives.

So it was a real opportunity to get in the market with this new technology. We have supported the business with brand investments, including advertising, digital campaigns, sponsorship on the Indian Premier League and in-store activities. And you see it works. Fans sales grew 61% in just the first 9 months compared to last year across more than 11,000 retail outlets. So this is a very good example, I think, of how we can use our distribution and brand capabilities and product innovation to develop adjacent business. And it gives us also a foundation as we assess further opportunities in India.

Now moving to the sustainability side and of course, our Brighter Lives, Better World 2030 program. We continue to see progress against the four measures in our program. Year-to-date, revenues from products and solutions that deliver benefits beyond illumination, i.e., beyond lighting, reached 36.3% of sales. So that's well on track towards our 2030 target of 41%. Our LED products sold under the program have contributed cumulative energy savings of 12 terawatt hours and the annualized reduction in our portfolio, carbon emission intensity reached 11.1%. And all these things are important in the context of large-scale electrification going on in the world.

Signify Circle revenues reached 21.8% of Professional Europe sales. That program is very much targeted towards Europe -- on Europe and towards 27.5% target for 2030. So basically, all 4 measures are on track. We're also very proud that we have again received the EcoVadis Platinum rating for the seventh consecutive year with a record score of 88 out of 100. So placing us in the top 1% globally, and that is very much where we would like to be.

Now with that, I will hand it over to Zeljko to discuss the third quarter financial performance. Zeljko?

Zeljko Kosanovic - *Signify N.V. - Chief Financial Officer*

Thank you, As, and good morning, everyone. So I will now walk you through the third quarter financial results, starting on slide 9 with the group results. So sales were at EUR1.367 billion with a comparable sales decline of 3.4%. We achieved positive pricing across all businesses, while demand in our end markets remained weak.

Adjusted EBITA was EUR145 million, giving an adjusted EBITA margin of 10.6%. This includes a net benefit of EUR28 million from US tariff refunds equivalent to 210 basis points of margin. Excluding the net tariff refund benefit, our adjusted EBITA margin was 8.5% compared with 6.1% in the second quarter and 9.7% in the third quarter last year. Gross margin strength and cost reductions supported underlying profitability, while the lower sales in consumer continued to weigh on the performance. Free cash flow increased to EUR118 million from EUR71 million last year, supported by working capital improvement and tariff refunds.

Going to slide 10 on Professional. So the Professional business delivered resilient underlying profitability in a still challenging market. Sales were EUR921 million with a comparable sales decline of 1.5%. Project activity remained resilient in the US and the rest of the world, while stock and flow continued to face soft demand across most geographies.

Agricultural lighting performed strongly during its high season. Adjusted EBITA was EUR115 million with a margin of 12.5%. This includes a 200 basis points net benefit from tariff refunds. Excluding this benefit, the margin was 10.5%, stable compared with last year. So gross margin expansion and fixed cost reductions fully offset the impact of lower volumes.

Turning to Consumer. Sales were EUR283 million with a comparable sales decline of 5.3%. The decline was mainly driven by lower connected sales, partly offset by strong growth in luminaires and in India. Within Connected, sales continued to be affected by retailer destocking in response to the elevated inventory levels carried since the start of the year.

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As retailers reduced these inventories, their orders remained below underlying consumer demand. Importantly, this is not the full picture of consumer demand. Hue sell-out grew at mid-single-digit rate year-to-date, and we continue to gain market share, growing ahead of the connected lighting category. So we are working closely with retailers to bring ordering pattern into closer alignment with sell-out and reduce the volatility between quarters.

Adjusted EBITA was EUR19 million with a margin of 6.8%, including a 230 basis points net benefit from tariff refunds. Excluding these benefits, the margin was 4.5% -- so the decline primarily reflects the lower profitability from connected, thereby reducing fixed cost absorption. As previously mentioned by As, we are taking targeted actions to improve productivity and reduce the fixed cost base while continuing to invest selectively in customer acquisition and innovation. So these actions are expected to support the business over time with a sizable part of the additional cost benefit coming through in 2027.

Going now to OEM on slide 12. So OEM continued to face soft markets, particularly in the US and Europe. Sales were EUR88 million with a comparable sales decline of 6.7%. Strong pressure remains on volume. However, we achieved positive pricing in the third quarter. Adjusted EBITA increased to EUR5 million with a margin of 5.9% compared with 4.7% last year and 4.6% in the second quarter.

Gross margin expansion and the benefits from our cost reduction actions more than offset lower volumes. There was no material benefit from tariff refunds for the OEM business. So the execution of the turnaround plan of our OEM business is on track, lowering the business cost base and sequentially improving the structural profitability.

Now in Conventional, sales were EUR67 million with a comparable sales decline of 12.2%. Specialty Lighting continued to grow, partly offsetting the structural decline in general lighting. We continue to outperform the declining general lighting market, supported by strong price discipline. Adjusted EBITA was EUR14 million with a margin of 21.3%, including a 550 basis points benefit from tariff refunds. Excluding this benefit, the margin was 15.8%. Gross margin expansion supported solid underlying profitability against a high prior year comparable. We remain focused on disciplined pricing and cost management while carefully managing the structural decline of the business.

Now turning to the year-on-year margin bridge. So the adjusted EBITA margin increased by 90 basis points to 10.6%, including the 210 basis points net benefit from tariff refunds. Excluding this benefit, the margin was 8.5%, below the 9.7% reported last year. Lower volume reduced the margin by 100 basis points. Price and mix combined contributed a positive 80 basis points.

We achieved positive pricing across all four businesses, reflecting consistent price discipline and helping to offset higher bill of material costs. Lower cost of goods sold contributed a further 70 basis points. Together, these effects provided 150 basis points of support. Within cost of goods sold, however, we saw different dynamics. We faced higher bill of material costs as expected from raw material and components, but also energy and transportation.

Our procurement teams mitigated a significant part of this exposure through sourcing actions. This was more than compensated by the effect of productivity improvement on other manufacturing and supply chain costs and also lower tariffs compared to last year as mitigation measures took effect. Indirect costs reduced the margin by 40 basis points as higher incentive accruals and other cost increases more than offset the cost savings that were achieved.

I will provide more detail on our indirect cost in the next slide. Currency had a negative impact of 100 basis points, mainly driven by the appreciation of the Chinese yuan against the euro. Other items had a further negative impact of 30 basis points. So we do recognize that the progress we are making in our cost reduction program is not always immediately visible in our reported indirect costs. And so we want to provide some additional clarity on the underlying developments shown on slide 15.

So first and foremost, our cost reduction program remains on track. We delivered EUR37 million gross savings in the third quarter, bringing the total for the first nine months to EUR98 million. Overall, this corresponds to a reduction of salaries and wages of approximately 10%, consistent with the evolution of the workforce during this period.

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Within the third quarter, these savings year-on-year were more than offset by the effect of higher employee incentive accruals true-ups, the salary inflation and other cost increases. The largest offset of EUR25 million related to employee incentive accruals was especially pronounced and unusually pronounced in Q3. This is due to the unfavorable employee incentive accrual comparison, reflecting, on one hand, the true-up increase of accrual this year compared to, on the other hand, the true-up releases in the prior year.

Salary inflation added EUR9 million and other costs, including outbound transportation, agent commissions and advertising and promotion added a further EUR11 million. Currency and other items increased costs by EUR4 million. As a result, the adjusted indirect cost in the third quarter increased by EUR12 million year-over-year to EUR451 million.

Looking at the first nine months on the right-hand side, adjusted indirect costs decreased by EUR51 million to EUR1.356 billion, driven by the gross cost reduction of EUR98 million. So overall, the savings from the execution of our cost reduction program are coming through, and we are on track to reach the fully annualized run rate entering 2027, with further specific cost actions being implemented in different performance areas, in particular in Professional Europe and Consumer as outlined earlier.

Let me conclude now with working capital. Working capital was EUR331 million at the end of September, equivalent to 6.1% of sales. This represents a year-on-year improvement of EUR169 million or 230 basis points, mainly driven by lower inventories and receivables. Our continued focus on working capital improvement supported our free cash flow of EUR118 million in the quarter alongside the benefit of tariff refunds.

With that, let me now hand back to As for the outlook and the closing remarks.

As Tempelman - *Signify N.V. - Chief Executive Officer, Member of the Management Board*

Thanks, Zeljko. Indeed, what about the outlook? So indeed, the market conditions, right, remain quite challenging. You see the Professional Europe under pressure, I mean, particularly on the public side, so the municipality spend on outdoor lighting is a weak market. But also residential in the US, we see some weakness, and we see that back in our daily order intake.

Now it is to be seen what happens around Thanksgiving and Christmas on that. And then the consumer comparable, where we had quite a few weeks of stock up last year also makes it a bit tough. So this means that altogether, we expect that fourth quarter sales growth to be in line or slightly below the third quarter. So that's our best estimate for now.

And against this background of sales market, we confirm our full year adjusted EBITA margin guidance at the higher end of the 7.5% to 8.5% range. And that is, of course, including the tariff refunds received for the third quarter. If you would exclude those, we would be at the lower end of this range, but still within.

The progress we have made in reducing our indirect cost base is expected to support the bottom line profitability in the fourth quarter and of course, as our cost program reaches its full run rate by the end of the year. Our free cash flow guidance remained unchanged, 6.5% to 7.5% of sales.

So we are making progress in harvest, and we are taking further actions where performance needs to improve in our build portfolio. Our priorities are clear. I would summarize them as execute the turnaround, reduce costs and invest selectively in growth. We remain focused on these actions within our control, a lot of self-help to improve performance and build a stronger and more focused Signify.

I think this concludes our remarks, and we would like now to start the Q&A session and hand it back to the operator, please.

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QUESTIONS AND ANSWERS

Operator

Thank you very much, ladies and gentlemen. (Operator Instructions)

Ines Lefranc, Goldman Sachs.

Ines Lefranc - *Goldman Sachs - Analyst*

Hi, thank you very much for taking my question. I just wanted to ask about the free cash flow guidance. Given you've increased your EBITA margin -- your margin guidance on the back of tariff refunds, why haven't you increased the free cash flow guidance too? Thank you.

Zeljko Kosanovic - *Signify N.V. - Chief Financial Officer*

Thank you for the question. As, just said, we confirm and maintain the free cash flow guidance. Now when you look at the profile of our free cash flow in the fourth quarter, of course, it's -- and it's the usual seasonality. We have a higher concentration of the cash in the fourth quarter. So there is no specific element related to the tariff. First of all, our guidance does not include any further tariff refunds in the fourth quarter, and we have not qualified specifically the effect of the tariffs, but we do confirm the guidance for the full year.

Operator

Adam Parr, Rothschild & Co.

Adam Parr - *Redburn Partners LLP - Analyst*

Hi there. Thanks for taking my question. Can we talk perhaps a little bit about price mix and any detail here would be very helpful. So at the group level, was -- if we sort of disaggregate price/mix into -- price and mix was mix positive. And if we look at price by division, perhaps without putting any numbers to them exactly, could you perhaps help us with the divisions in terms of highest to lowest pricing in the quarter? Because I know you said that price mix was up -- sorry, pricing was positive in all businesses, but any ranking help would be very appreciated.

As Tempelman - *Signify N.V. - Chief Executive Officer, Member of the Management Board*

Yeah. Indeed, Adam, I can say a few words. Price/mix was positive across the group. And like you said, Adam, achieved in all four businesses. And overall, I think better pricing in areas where we have higher differentiation and more concentration and worse in areas that are more commoditized and more fragmented.

So if I translate that for you, I mean, professional pricing was slightly positive, strongest in India and Rest of World and Europe lagging, particularly stock and flow. Consumer pricing turned positive overall, good progress in Europe and Rest of World. OEM also across all regions. And then conventional is, of course, where we have a lot of discipline and a lot of pricing power. So there also pricing remained positive. So by geography, I would say Europe remains the most competitive market, although pricing has eased versus last year.

So -- and in the US, I would say pricing remains positive. But what we have seen is, and that might be due to the fact that you see some of these price refunds coming into the market. We don't see the same pricing discipline in US as we saw in previous years and quarters. So their margins are clearly under pressure, particularly in the stock and flow. So that is something that is worth highlighting. We'll see how that plays out in the coming quarter.

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Adam Parr - *Redburn Partners LLP - Analyst*

That's very helpful. Thank you for the detail.

Operator

Max Yates, Morgan Stanley.

Max Yates - *Morgan Stanley - Analyst*

Thank you. Good morning. I just wanted to ask about your EBITA bridge because it's quite unusual to see you being able to get price when your COGS are coming down. So you talked about obviously your rising input costs, but those were being offset by some of your supply chain actions.

So I guess I was just trying to understand, do you think you can continue to see this trend where effectively your kind of aggregate cost of goods sold are coming down and you're able to keep pushing up price because normally, we've seen when your costs come down, your price comes down as well and you essentially have to give it back to competitors to remain -- give it back to customers to remain competitive. So just sort of how sustainable you think that trend is, anything particularly outsized in that number? Or can that continue for the next few quarters?

Zeljko Kosanovic - *Signify N.V. - Chief Financial Officer*

Yeah, thank you for the question. You're totally right. I think as I mentioned, and this is -- as we always indicated, we do manage the gross margin as a whole, and you have many, many dimensions at play. So it's true that what we've seen is -- and that's what we have been driving and anticipating is to adapt and to recalibrate the price positioning also in line with what we see happening in the bill of material. So the bill of material inflation is impacting. However, it's fair to say that -- and this is really a tremendous job done by our procurement team to really contain and mitigate to the extent possible the effect and the timing of those input cost impacts or in the phasing. So that is time also to get the full price through.

At the same time, I think you have one element, which is, of course, a bit of a consequence of the way the increase of the tariffs last year compared to this year, right, we see an easing because we've been taking a lot of measures to reduce the exposure, or to adapt the exposure. So that's coming through as a positive element year-over-year in our COGS.

And third, and this is a key element also that is relevant for the way we are executing our turnaround strategy in some of the performance area, where we are reducing the fixed cost base, so the supply chain manufacturing, which is an element that is very important to support, for example, the continued improvement of profitability in OEM.

So on that third part, it's really self-help execution and cost resizing, which is not dependent on -- and this is helping us in the overall gross margin management to see, as you indicated, an impact that more than offsets the effect of the raw material or the bill of material inflation. So we keep doing with a lot of agility to make sure that overall, to your question on how sustainable it is, I think gross margin resilience for us is a very important element. So we've been driving that across very volatile, very dynamic period, and we expect to be able to continue to do that in the coming quarters in a very structural manner.

As Tempelman - *Signify N.V. - Chief Executive Officer, Member of the Management Board*

Yes. But I think, I really think that this is an area of outperformance, and we can be proud of that. The market out there is still inflationary, right? I highlighted last time that we have this increasing tightness on components and semiconductors. That has not gone away.

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We don't expect supply chain disruptions, but clearly, it is inflationary. So we manage that very proactively. We invest in stocking. We do capacity reservation, but we also do the value engineering. So that all justifies price increases in terms of our competitive positioning. But if we manage our BOM and COGS well, like Zeljko laid out, that helps profitability.

Max Yates - *Morgan Stanley - Analyst*

No, I guess -- look, I mean, I guess it's just interesting because like I think if I had asked you 9 months ago and you said, how are we going to get margins up? I think you would have told me we're going to try and keep gross margins flat and then we're going to take out indirect costs with our EUR180 million cost savings, and therefore, we'll get SG&A leverage. And in fact, what's happening in your business is your indirect cost saving will be wiped out by other stuff and your gross margins are going up, so your margins are moving up sequentially.

So I guess it's a slightly different mix of sequential margin expansion than I think we would have expected. And then I guess that raises a question over whether you can keep expanding gross margins because it actually looks like the indirect costs are not really coming down, they're being offset by other stuff. The cost savings being offset by other stuff. So I guess that's why I'm curious because it seems much more important for your margin expansion with gross margin expansion than I would have originally.

As Tempelman - *Signify N.V. - Chief Executive Officer, Member of the Management Board*

Yeah. No, I understand the way you look at the dynamics. Do you want to comment a bit, Zeljko on the topic of indirect costs because I don't want to leave you with the impression that, that is all wiped out. Actually, we are structurally improving the profitability of the company by reducing indirect costs.

Zeljko Kosanovic - *Signify N.V. - Chief Financial Officer*

Yeah, First a few clarification on the gross margin expansion. I think if we look at it, of course, normalizing the effect of the tariff refund, we would be around 40%. So let's say, slightly improving, but it's not a major expansion. So it's quite consistent with what we indicated, right, stable on the back of a comparison base that was strong. So maintaining close to the 40%, I think that's the gross margin stability that we have indicated. Then at the same time, on the structural growth savings that are coming out of the cost reduction program that we have launched. That's also coming through. And as you indicated, and that's, I think, a very, very unusual element that comes with the effect of how the annual incentive accrual true-up plays out.

I think typically, it would not be a very material element. The annual incentive overall represent less than 5% of the total indirect cost. But in any given quarter, in particular in the third quarter, when you have, on one hand, a comparison of a release that was on a true-up last quarter or last year in Q3 versus an increase, then the combined effect of that takes away a big part, let's say, in our indirect costs, a big part of the structural savings that have been realized. So just to be clear, gross margin in line stable cost reduction happening as per the plan. So I think this is quite in line, in fact, with what we had indicated, as we said nine months ago.

Max Yates - *Morgan Stanley - Analyst*

Okay. Just one very quick thing, which also doesn't make very much sense to me is your currency in your EBITA bridge is still heavily negative, and it's turning positive on your sales. So how long is that going to be a point drag to your EBITA? And we're now seeing positive currency on your top line. Should we expect that to go away in the coming quarters?

Zeljko Kosanovic - *Signify N.V. - Chief Financial Officer*

Look, I think it's always a very complex, but try to keep it very simple because this is the central point. The weight of the Chinese yuan on our bill of material and cost of goods sold is significantly higher than if you look at the sort of basket, the mix of currencies in our top line is

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obviously very different. And that's the main element where you see the appreciation of the Chinese yuan compared to the euro or the US dollar has been quite significant.

We have a hedging mechanism that works and brings the benefits, but you still have -- it's basically another flavor of material inflation, if you like, which is fully taken into account in the way we manage our gross margin. So to your question, the relation between our FX on top line and on EBITA is different mainly due to the effect of the weight of the Chinese yuan on our bill of material, but this is fully managed, anticipated and incorporated on how we drive our gross margin management as we commented on earlier.

Max Yates - *Morgan Stanley - Analyst*

Thank you. Thank you very much for your time.

Operator

Rajesh Patki, Barclays.

Rajesh Patki - *Barclays Services Corp - Analyst*

Yes, good morning. I -- please check if I understood it right. The actions you're taking in the Consumer division, are those expected to deliver incremental cost savings of the ongoing EUR180 million plan?

As Tempelman - *Signify N.V. - Chief Executive Officer, Member of the Management Board*

Yes, Rajesh, the short answer to that is, yes, that is correct. So what we'll see -- what you saw in the past is that when top line came down, we had to reset our indirect cost, and we did that company-wide. And the last kind of corporate program we did was the program of the EUR180 million cost takeout, which is on track, and we have the full savings bank run rate at end of the year. So that's that program. On top of that, we are now taking much more focused actions in the performance areas where we see productivity improvement opportunity, yes.

So I mentioned Prof Europe, where we will take out a significant amount of cost. But equally on consumer, we will drive productivity up, and that comes also with cost savings. Part of those cost savings, we will reinvest in new product innovations and acquisitions of new households, but also some of that cost savings will find its way to the bottom line. So that is indeed, to your answer, yes, that is on top of the EUR180 million that we communicated earlier.

Rajesh Patki - *Barclays Services Corp - Analyst*

And how should we think about the net impact from this from a profitability perspective?

As Tempelman - *Signify N.V. - Chief Executive Officer, Member of the Management Board*

Yeah. So we have -- we are still working through all those productivity increase. What I can say at this point it's not going to be insignificant. But of course, once we have the numbers and the plans in the more advanced stage, and then we will share that with you as well. So we can make that commitment in the performance areas where we make productivity improvements. We will get back to you about the magnitude of that and also how that affects profitability. But it's a bit early to call numbers on that today.

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Rajesh Patki - *Barclays Services Corp - Analyst*

Right. And lastly, can you talk about what you're seeing as the key bottlenecks for executing the harvest part of your strategy?

As Tempelman - *Signify N.V. - Chief Executive Officer, Member of the Management Board*

When it comes to harvest key businesses like lamps, right, we are managing that very well. So both the brand strength as well as our distribution brand, actually, that is -- that business is performing even above our own expectations. So when it comes to the divestments, well I indicated before, we have 3 assets that we said we have all options open. So I can take them one by one. The first one is OEM. So in OEM, we said we could either partner, divest or keep. In any case, no regret, we will improve the performance of that business, and that is happening. So we saw sequential improvement of profitability.

Now you have to imagine that we work in 50 countries with a Signify country setup and all those business lines are part of that integrated Signify setup. So if you actually want to divest that business, you first need to carve it in, right, from the bigger Signify corporate infrastructure. And that's what we're currently going through. That means that you need to create own legal entities that you have to run it on its own IT system with its own services, its own functional support and all that. So we are working through that. And that is all straightforward.

So -- while we are doing that in the course of '27, we will then proactively engage market and see whether there's better owners for that business. If we don't find that, then we will keep optimizing it ourselves. But that is the trajectory for OEM. On Klite, our Chinese manufacturing plant, that is where we already have much more of a stand-alone setup. So we don't have that same kind of carve-out or carve-in challenge that we have on the OEM side.

But there, we have to deal with partners and also the limited buyer universe in China for such an asset. So I'm confident, right, we can conclude at some point, but it's -- we need to continue conversations for now. And then on the conventional specialties business, and I want to highlight that it's not all conventional. So our conventional business, you saw it's performing well for us. We are managing that decline very proactively and profitability is at a very good level.

But the conventional business exists of the general lighting business and then the specialty lighting business. We have said all options are open for the specialty lighting business. So there, you need to think about purifications and other applications beyond lighting. That business has grown in the last two quarters. That is a business that is not declining and where market consolidation could make a lot of sense.

And that we are also preparing as a kind of stand-alone setup in the course of next year, and then we will also explore market opportunities for that. So that's where we are in terms of our harvest, Rajesh. I hope that answers the questions and gives all of you a bit more insight about where we are at.

Rajesh Patki - *Barclays Services Corp - Analyst*

Thank you very much. Very clear.

Operator

Chase Coughlan, Van Lanschot Kempen.

Chase Coughlan - *Kempen & Co - Analyst*

Good morning all and thank you for taking my questions. I wanted to ask about consumer. So obviously, a weaker quarter than at least we expected. I'm curious on the commentary on the destocking and the sort of detachment from underlying trends.

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Correct me if I'm wrong, but I would have thought that usually Q3 would be a period where a lot of the retailers were sort of actually building up their inventory ahead of usually what is a strong Q4 in terms of seasonality. Is that not really the case today? Or could you provide any more sort of color around how you expect this destocking or the channel problems to continue?

As Tempelman - *Signify N.V. - Chief Executive Officer, Member of the Management Board*

Yeah, thanks for the question, Chase, and it's spot on. There are a lot going on. First of all, let me put in perspective the performance in consumer outside of connected, so our Hue proposition has actually been good, good in lamps, I mentioned it before, but also steady growth in luminaires and in India. So that's a good part of it. The challenge is on connected, so our Philips Hue and proposition in particular. Now if I look at markets, what we basically saw in the third quarter is that in the US, there's still growth in the category. In Europe, we saw a decline in the category. So that tells you something around discretionary spend in Europe in consumer markets.

The positive side, though, we outperformed in both regions. And Zeljko mentioned it before, our year-to-date sell-out of Philips Hue year-to-date is about mid-single-digit growth. So we are still growing, right, in terms of the number of customers buying our Philips Hue product, which is positive. However, you saw that you asked about that sell-in/sell-out dynamic.

What we saw is that we have seen the channel stocking up significantly in the end of third and particularly the fourth quarter of '25. And that also meant that we with very high stock levels into '26, and we have felt that year-to-date in our sales. What we are doing is we are now trying to manage that volatility in channel stock levels much more proactively.

So obviously, we want to stock up the channel also in anticipation of all the festive holidays and events to sufficient levels that we can cater for that increase in sell-out in the fourth quarter, but we don't want to end up in a similar situation where we were last year, where you had too high stocks in the channel. So that's basically the dynamic that we need to -- that we are actively managing on a day-by-day basis.

While we are doing that, I mentioned that we are taking the action to invest in acquisitions of new households to bring new products in, to bring that sellout even more up and also to take actions to -- on the cost side to increase productivity. So it's really those three things: reducing costs and bringing up productivity, acquisition of households and actively managing stock levels in the channel. That's our consumer story for the quarter.

Chase Coughlan - *Kempen & Co - Analyst*

Okay. That's very helpful. And maybe one quick follow-up on consumer as well regarding the margin. So I think sort of excluding the refund impact, the margin fell again quite a bit, basically halved. I mean, just sort of looking forward, if we see a larger volume recovery, do you still expect that business to, let's say, recover margins back to what we were doing historically? Or is there sort of anything structural that has maybe made this business a bit lower margin going forward?

As Tempelman - *Signify N.V. - Chief Executive Officer, Member of the Management Board*

No, we have no reason to believe it's lower margin, actually, quite the opposite. As we grow it, there's operating leverage, and we see margins returning to that level, if not improving.

Chase Coughlan - *Kempen & Co - Analyst*

Okay, perfect. As, Zeljko, thank you very much.

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Operator

Wim Gille, ABN AMRO-ODDO BHF.

Wim Gille - *Oddo BHF SCA - Analyst*

Very good morning. This is Wim from ABN ODDO. I have two questions. First, on Prof Europe. During the prepared remarks, you said that you didn't deliver to the expectations you had in the last two years. Can you give us a bit of a flavor of how much market share did you lose over the last two years? And also in which countries you are struggling most in Europe in terms of market share performance? And how long does it take for you to basically claw back that market share and prepare or repair the positioning there?

The second question would be on the OEM business. Also in the prepared remarks, you mentioned that the OEM did not see any meaningful impact from the US tariffs. looking at the nature of the business, it sounds a bit counterintuitive to me. Is this more a reflection of internal transfer policies? Or is this a realization that the OEM business is not active in the US. Thanks.

As Tempelman - *Signify N.V. - Chief Executive Officer, Member of the Management Board*

Thanks, Wim. So, maybe I can leave the OEM question to you later. Let me start off with your question on Prof Europe. The -- and you made the implicit assumption that we've lost market share, but let me unpeel the onion a little bit here. If you look at our Prof Europe business, about 30% to 35% is stock and flow, so it's traditional distribution and trade. And then there is the projects. And within projects, we distinguish public projects. So this is street lighting, outdoor applications, indoor manufacturing buildings and so on.

If I look at all those three segments, we have seen quite a bit of competitive pricing pressure over many quarters. And therefore, just the peak time skew, we've seen a lot of peak down in stock and flow. I think it's fair to say we've also lost some market share there, particularly on the lower end of the product portfolio. And it's actually not where we want to play strategically going forward. We want to play in more the value-add higher end of the portfolio in stock and flow. So that has yielded, of course, lower -- some lower sales in stock and flow over many quarters.

The price pressure in stock and flow is now flattening, right? So we see it now very close to the 0 point. So I'm confident that also going forward, we can work with our distributor partners around upping the competitiveness of our offer on -- across all the stock and flow, and that should then yield into a flat and yet growing again in stock and flow.

On the project side, Europe, unfortunately, has just been very weak market when it comes to government spending on street lighting. So where we saw huge investments in the past in France, but also in places like Belgium and the Netherlands, we have not seen that in recent quarters. And then, of course, year-on-year comparison, you see that coming down. Is there no market out there? Yes, there is still a market out there.

In a country like France, only 60% of the street lights are on LED and the same goes for the Northwest European countries like the Netherlands, let alone the Mediterranean. There is still a lot to go after. Yet we currently don't see the public investment into LED. We are actively engaging with municipalities and governments. But obviously, the first step into electrification is a lot easier to make than getting the whole system onto LED. What we also see is LED for LED replacement. So some of these LEDs have been installed now 8, 10 years ago, and they need replacement.

So there is clearly a market out there for outdoor and public lighting, yet it has been very weak over recent quarters. Hence, we saw a decline. I don't think we've lost market share in that space. The market has just been weak. And then on the indoor side, it's more competitive space. There, profitability is not to our liking. So we are clearly addressing there around adjusting our cost base. But when it comes to sales in indoor, our market share has been more or less flat, up a little bit in one quarter, down a little bit in the other. And that is, of course, very project dependent.

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So I would say, all in all, Europe, price pressure stock and flow, lost some share on projects. Market has been weak and all that together has been quarter-on-quarter decline. What are we doing about it? We are much more rightsizing our organization, take out a significant amount of cost, with more important, bringing back that commercial and partnership power into the key markets. And on that, your question then was around -- give me a bit of a geography perspective.

Actually, Mediterranean is pretty good, particularly Spain is working really well for us at the moment, where we see a lot more challenges in France, right? That is -- and the Northwest Europe is somewhere in between. So that is the dynamic in terms of geographies.

Zeljko Kosanovic - *Signify N.V. - Chief Financial Officer*

Yeah, maybe on the -- briefly on the question on OEM. So I think the effect or the nonmaterial effect is logical considering that the sourcing of our OEM sales in the US was at the time when the tariffs implement was insulated for the most part coming from countries I mean in North America. So I think the exposure at the time was limited OEM so it's quite logical and consistent that the effect of the refunds is in line with us looking at Q3.

Operator

Marc Hesselink, ING.

Marc Hesselink - *ING Groep N.V. - Equity Analyst*

Yes, thank you. My first question is on -- you mentioned in the press release that you had some extra investments in your sales incentives and your marketing. And if you want to link that to the comparable sales growth, those kind of investments, is it -- they take a couple of quarters to see the full effect? Or is there also -- or is it a dynamic that if you hadn't done that, then your volumes might have been -- or your volumes might have been even a bit lower than what they are today? Is it a bit of a time there when you see the effects on these extra investments?

As Tempelman - *Signify N.V. - Chief Executive Officer, Member of the Management Board*

Yeah, Marc, I think the -- so you mentioned two things, right? There was this -- the costs related to the incentives and then there is the marketing investments. And maybe I'll leave it to you to comment on the incentives, Zeljko.

Zeljko Kosanovic - *Signify N.V. - Chief Financial Officer*

I think the -- again, on the investment, it's a bit different. But on the annual incentive and as we said, which is an unusual effect on the comparability. I think the way it works, it's basically on your annual incentives, they are accrued throughout the year, and this is -- so we reassess every quarter the provisions based on the company's performance and what are the expected payout.

So this adjustment can result in either additional accruals or releases. So that I think the dynamic of that, you can't really relate it right to the ROI cycle of a typical investment. Again, as I said, this is just a composition or a piece of our compensation structure. It's less than 5% of the total indirect cost, but the accrual movement in any given quarter can create a bit of volatility.

So I think that has to be put aside. Then when you look at the other real investment, a few things that are shown in the additional bridge we've added. I think you have in our indirect costs, a bit of variable components, right, in agent commissions, in the US or outbound transportation that are a direct relation to the volume of sales.

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So there, you would say this is really like a very, very short cycle kind of investment. It comes with the execution of our sales. And then you have the AMP. And then on AMP, it's a bit more -- we have a very defined ROI model, if you like, to really look at the cycle time of realization of payback of those investments, in particular, linked to our consumer business.

As Tempelman - *Signify N.V. - Chief Executive Officer, Member of the Management Board*

Consumers in a much shorter cycle. So they are -- with the TikTok and online campaigns, I mean, you have immediate payback in some of the investments we do on the prof side, it has a longer lag effect. Of course, incentives for sales always work. So we have our sales clearly on incentives. And for the organization as a whole, of course, we have a small part is variable pay, and that is on a few financial -- key financial metrics to make sure that the interest of the company and the interest of our shareholders are fully aligned.

Marc Hesselink - *ING Groep N.V. - Equity Analyst*

Okay, that's clear. Thanks. And my second question is on the comment of the softening of the US prof market. I guess that's the larger country, you have a bit more visibility also maybe going into next year. So what's happening there? And how do you have any visibility on if it's very short term? Or is it maybe a bit longer?

As Tempelman - *Signify N.V. - Chief Executive Officer, Member of the Management Board*

Yes. So there's -- again, P and Q answer to this question. On the pricing side in the US, I highlighted that normally where we see if bill of material or cost of goods sold go up, then the market typically brings price up accordingly, and that protects gross margin across the sector. We have not seen that same discipline in the US market in the recent quarters. And I don't know for sure.

But one of the reasons could be that, of course, quite a few players now bank refunds and therefore, have different margin profiles than they would normally, in a normal situation would have. So that might take a bit of time up to the end of this year to normalize if this refund effect disappears, and we need to go back to proactive margin management through pricing. But that's hard to tell, but that is one of the reasons why we think there might not be the pricing discipline in the US that we normally see.

And then there is the volume side of things. So clearly, there are sectors that are still growing very rapidly. No surprise, data centers. There's also infrastructure projects, although that's a bit slower. Hospitals, that's still strong. The residential sector, however, has been weak. And a large part of our Cooper business, which is one of our positions in the US, has a stock and flow business that also serves that residential and also office segment. And that is where we see weakness also in the order intakes. So is that going to last for long? Well, we'll see. But I want to be a bit cautious there in terms of the fourth quarter.

Marc Hesselink - *ING Groep N.V. - Equity Analyst*

Okay, very clear. Thanks.

Operator

(Operator Instructions)

Emanuele Sartori, Kepler Cheuvreux.

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Emanuele Sartori - *Kepler Cheuvreux - Analyst*

Hi, good morning all. Thanks for the time to squeeze me in.

I just have one -- maybe I appreciate to touch on the Q4 organic growth now expected to be in line or slightly below Q3 and obviously, the US project demand also softening, I'll just mention. I would be interested if you could share where do you see the greatest opportunity to protect the margins in Q4?

Is it primarily professional or the consumer side with the cost savings measures mentioned? And if I can add on this, are these initiatives you mentioned going to add some restructuring cash outflow, I'm thinking compared to the EUR50 million increase compared to last year? Or is it more a '27 question?

As Tempelman - *Signify N.V. - Chief Executive Officer, Member of the Management Board*

Yeah. Okay. Well, maybe we make this a joint answer, Zeljko. I mean in terms of -- I want to warn a little bit around not all top line drops is a big concern. So we are very much transforming the company, resetting it. And also as part of the turnaround, we cut stuff that is not profitable. So there's some self-help there as well that we really focus on where we see the growth, but profitable growth, right?

So that is performance area by performance area. And of course, we try to invest and grow the parts where we have operating leverage and where we see good future and good profitability. So you will see, and we will highlight that in some of our performance areas, you see some top line decline, but that's by choice.

But on the market weakness, the maintaining profitability is true across the board. So we manage that very actively. Where you can move much faster is, of course, in Rest of World and in US. In Europe, this cost takeout always takes more time because it requires consultation and long intensive processes. But we feel confident that despite some of the dynamics that we discussed in this call that we can keep that margin resilience. It might be a bit up and down quarter-to-quarter, but I'm not afraid of that.

Zeljko Kosanovic - *Signify N.V. - Chief Financial Officer*

On your question on how the levers to protect profitability in that context, number one, sustaining gross margin resilience and discipline, right? We talked about it earlier with all the different levers in, and we'll continue to do that. Second, continuing to execute on our cost resizing program. And I would say, linked to that, continuing to drive the implementation of our execution playbook.

So it means that the sequential -- so it really means that we are continuing to drive the structural sequential strengthening of our profitability. And we do that still in the midst of headwinds from a volume perspective with a bit more support from price. But we continue to do that.

Of course, Q4 is our highest season, let's say, in terms of sales. So we get also, of course, an element of operating leverage supporting sequentially the improvement of the profitability. But I think it's continuing to -- on the path that we have engaged to sequentially strengthen regardless of the dynamics that we see on the top line and keeping the resilience.

On your question on cash out, we have -- we are in line with what we had indicated. So the effect of the cash out -- restructuring cash out in 2026 that we indicated will be roughly EUR40 million to EUR50 million higher than last year. So we are totally in line with that. So totally in line with the execution of the plan, in line on the cash out and, let's say, the payback of the restructuring program is very much in line with what we expected in around 1 year as we have typically seen.

Emanuele Sartori - *Kepler Cheuvreux - Analyst*

Very clear. Thank you.

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As Tempelman - *Signify N.V. - Chief Executive Officer, Member of the Management Board*

Okay. I think this ends the call. Thank you all. We hand it back to you, Thelke.

Thelke Gerdes - *Signify N.V. - Head of Investor Relations*

Yes. Thank you very much for joining the earnings call today. If you have any additional questions, please reach out to us, the Investor Relations team. Thank you, and enjoy the rest of your day.

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