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SU.PA - Q1 2016 Schneider Electric SE Corporate Sales Call

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OVERVIEW:

Co. reported 1Q16 sales of EUR5.773b. Expects 2016 organic revenue growth to be flat to down low-single digit.

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PRESENTATION

Operator

Ladies and gentlemen, welcome to the Schneider Electric Q1 2016 results presented by Mr. Emmanuel Babeau, Deputy CEO and CFO; and Anthony Song, Head of Investor Relations. For your information, this conference is being recorded.

At this time, I would like to hand over the call to Mr. Anthony Song. Please go ahead, sir.

Anthony Song - *Schneider Electric S.A. - Head of IR*

Ladies and gentlemen, welcome to our Q1 sales release conference call today, and today with us is our Deputy CEO and CFO, Mr. Emmanuel Babeau.

And with that, I hand over to Mr. Emmanuel Babeau to start the call. Emmanuel, the floor is yours.

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO, Finance & Legal Affairs*

Thank you, Anthony. Hello, everyone. Good to have you with us this morning to present our Q1 revenue number, and I propose that we dive into the deep immediately starting with the highlights of this Q1 sales number. I'm actually on the page 5 of the presentation that you've been able to download on our site.

So that has been very much for Schneider a quarter where we've been focusing on our priorities and executing on our priorities. And as you know, the first one was to grow our priority product, software and services. And we did manage to generate a 2% organic growth on this priority, and that has been a powerful drive to drive globally our Q1 revenue number organically up plus 0.1% in what remains a mixed environment.

Going into a little bit of detail now by business first, looking at the buildings & partner business, this business has been growing as we will see, and that has been growing thanks to good performance on the retail business, wiring devices and final distribution growing, I would say, across all regions.

Industry still declining, but at a slower pace compared to what we've seen in 2015, and we've been -- notably software and process optimization doing well and growing. I will come back on that.

Infrastructure has been flat, notably with a good performance in Western Europe. It has been much more difficult in North America. And this is a place where we start to see the impact of what we have announced in terms of selectivity on projects, and I will detail the impact that we have started to see on infrastructure.

IT was up globally with a clearly improved performance in North America, and this improved performance in North America has been more than offsetting the weakness that we have seen in Western Europe.

Now looking by region, we've been growing in three out of our four regions; North America first where we've been growing, with a strong growth in the US construction market notably as a positive driver for us, and the continuation of a good situation in Mexico.

As expected, Western Europe has been also positive. Certainly different dynamic across country, and I will detail this dynamic.

China has continued to decline but at a slower pace. And we were expecting some early sign of improvement in construction, and that indeed is what we have seen during this first quarter. I will come back to that later on.

For the rest of the new economies, a contrasted picture. Growth in Middle East slowing down; that was expected. Brazil weak as expected. But LATAM outside Brazil has been growing and relatively well oriented; and we've been [evidencing] some positive evolution in the CIS perimeter globally.

As I said, that has been very much a quarter during which we have been focusing on our priorities, and you know them very well. Growing product; we've been growing services by 8%; growing software mid single digit overall in Q1, so good evolution of this software business.

We are targeting to increase margin on project, and that is notably going through more selectivity. That has started to impact our infrastructure business, as I said.

And, of course, although it is not reported here with our sales number, there was a continued focus on cost efficiency in order to adapt to what was, as described, a mixed environment.

So on this basis of Q1 numbers and what we've seen in terms of trends, we are confirming our target for 2016; and, of course, confirming that we remain focused on executing our strategic initiatives.

Moving to the page 6, this is our now famous Planet & Society barometer. We keep growing; we keep being ahead of the anticipated curve and objective.

One matter of satisfaction, and I would say even of pride for us during this first quarter, we've been named for the sixth year in a row by Ethisphere as one of the world's most ethical companies. I think it's a tribute to the work we are doing on the way we do business and our principle of responsibility.

And for the three pillars of the barometer, we have been seeing a number of good evolutions. I would highlight two of them: savings from transportation where we continue to make good inroads; and on the profit pillar, the recommended suppliers, where we are growing the number of these recommended suppliers, being ISO 26000 referenced, and we are doing very good progress on that objective. So good progress on our sustainability objectives.

Now I'm going to enter into detail of this Q1 sales number and I'm now moving on page 8.

So altogether for this quarter, our sales amounted to EUR5,773 million. It's down 3.7% versus last year; but, of course, you have scope and ForEx which are driving the decrease.

ForEx, as expected, minus 2.4% for this first quarter, and this negative impact of a little bit less than EUR150 million has been driven by both hard currency and, I would say, soft currency; but you have negative impact coming from the Chinese yuan, from the British pound, Australian dollar. All that was expected, of course.

Indian rupee going down as well; Brazilian reais, Russian ruble. That's everything we've been describing; a string of emerging country currency weakening, and notably when they have a strong link with raw materials and energy. And we are confirming anticipation based on the current FX of a negative EUR1 billion on the top line for the full year.

We also have a negative scope of minus 1.4% impact globally on our sales. Juno is the biggest impact, but we also had the disposal last year of the IT service business that we have inherited with the Telvent acquisition.

Now when we look at the like-for-like basis organic growth, you have two businesses growing: buildings & partner plus 1.4%; IT plus 0.7%; infrastructure being around stability at minus 0.1%, and industry negative at minus 2.6%.

Let's now enter into the details for each of these businesses.

So first of all, buildings & partners -- and I'm on page 9 of our presentation -- reaching sales of EUR2.6 billion. It's down 3%, but it's ForEx minus 2.6%. The scope, minus 2% is, of course, Juno. And organically, it's a nice growth of plus 1.4%.

And really, this is a business which has been growing in almost all our regions globally with, I would say, across the board growth seen for our retail business. And in particular, everything around wiring devices and final distribution developing well, with construction market well oriented in several places.

If we look by region, North America has been showing good growth; certainly very strong growth seen in Mexico. Good evolution in the US as well driven by continuation of good situation on the construction market, and also for us the launch of some new offers.

Western Europe, several markets doing well: Spain, Italy, Germany. We are in a mid to a high single-digit growth for this market. France, on the contrary, has been down minus 3%, even if we start to have some early signs of maybe some improvement in the residential market in France.

Asia Pac about flat globally with very nice growth. It's mid-teen growth in India offsetting a decline in China, but China now decreasing, if I may say, only by low single digit for this buildings & partner business.

And we were expecting sign of improvement. We have seen them in the first tier city in construction during this quarter, and if you look at the Q1 statistics, indeed, we have a mid single-digit increase of investment globally in construction.

Now still to be confirmed in the coming quarters because we've seen the authorities in front of some heating up of prices in the first tier cities for residential taking some measures to curb that and slow down that, so let's see which kind of evolution we have in the coming months. But it shows that this market, as expected, has been showing some sign of improvement in Q1.

Rest of the World was up as well with clearly success in our medium range, and we did manage to generate some good price increase in certain countries. Central Europe, CIS were among the markets growing. We've been, I would say, slightly negative in other markets such as Middle East or South America globally.

Turning now to industry. Of course, industry remained under pressure and everything happening in oil and gas has continued to be a drag in industry; but we've seen a number of slowing down, I would say, in the negative rate, or decreased pressure, if you want, in the downward trend.

And altogether, as a first highlight for this industry business, if I just look at the previous Invensys perimeter and without the China nuclear rundown, which is really a one-off impact, we've been growing 2%. So it's of course a positive evolution on this quarter, and I think a tribute to the work that we continue to do on the integration of Invensys. A good number on process automation; good number on software. That has been certainly a reason for satisfaction of this first quarter.

Looking by region, we see the US continuously under pressure. Clearly, in industry, we are on mid single-digit decline. Oil and gas is, of course, still seeing a significant reduction in investment, and that has been impacting our business. And, therefore, for us, it's really to make sure that we bring innovation to our customers; that we leverage our channels to maximize our performance in the US.

In Western Europe, we've seen a number of markets, and notably Spain, Italy, still well oriented. Germany more contrasted, but the OEM business still being positive. And France has probably been the most difficult market for industry during this Q1.

China has been weak. We are still here talking of a double-digit decline for industry in China. The country is still facing adjustment on overcapacity and rebalancing on new segments where we need to increase our exposure. And increasing exposure to new growth segments in China, as you all know, is a top priority for us.

Moving now to infrastructure, we have here a stable performance at EUR1.1 billion; and again, as I said, the scope effect here is mainly the Telvent IT services disposal. This is a place where we have seen the selectivity starting to impact negatively, as expected, the growth of this business.

We estimate the negative impact for Q1 to be in the range of EUR20 million to EUR30 million. And we confirm that we expect for the full year for infrastructure and globally for the Group the negative impact of selectivity to be of a few hundred million, which if I try to put that in percentage of growth, it could be anywhere between, I would say, 1 to 2 points of negative impact on the growth of the Group due to selectivity. That clearly means that we are expecting an acceleration of the selectivity impact in the coming quarters.

Now looking by region to the performance of infrastructure, very good performance on Western Europe. France, UK, Germany, growing nicely. And really, the only difficult spot during this Q1 in Western Europe has been Spain which has been declining when the rest of the region has been clearly growing.

North America; US has been tough, [particularly] impacted by weak investment again globally in infrastructure, and dragged by the poor trend in unconventional oil and gas. Canada is generally a difficult market, but we are still executing a few significant projects there.

Looking at Asia Pac, China has seen some sign of improvement in the trend of infrastructure, but we've been penalized by high basis of comparison in Asia Pac in Australia and a strong double-digit decrease in Australia in this first quarter. And if there is a place where we have been clearly impacted by projects in selectivity, this is India where we have been almost decreasing double digit, and notably because of significant selectivity.

In the Rest of the World, we've observed a slowdown in the Middle East, and that was expected. We knew that we are facing high comps, and there was an expected lower level of investment in the oil and gas sector globally. And Russia for that business has also continued to be tough.

One matter of satisfaction has clearly been what we've been doing in services. For infrastructure, we've been up double digit very nicely during this quarter.

Moving now to the IT business reaching EUR774 million. It's about stability, but negative ForEx of minus 0.8%. Organically, the business is back to growth, plus 0.7%. And we have been clearly seeing some improvement in the US, and notably in the transactional business. So that's a positive sign for our sales.

We also have seen in small micro data center segments some improvement. Once again, this is positive. So we still have a backlog which has been weakening last year and this will have an impact on 2016, but that was good to see this sign of improvement.

The difficult place for IT has been during this first quarter Western Europe where we have seen IT markets softening clearly during this first quarter, and that has been a significant decrease for us in Western Europe during this first quarter.

Asia Pac was about flat, with good growth in India, but we've seen decline continuing in China and a pronounced decline in Japan.

We have seen here two areas of growth, products and services, and this is clearly the project part which has been seeing a negative orientation when these first two elements were growing during the first quarter.

I am now moving to the page 14 and looking at the performance by region.

So three out of the four regions have been growing, starting with North America. It's an organic growth of plus 1%. US were up once again, as I've said, thanks to strong growth in the construction market, but the headwind that we have seen in 2015 has not disappeared and we still see the negative impact coming from a much lower investment in oil and gas globally impacting both infrastructure and industry; and we still see stronger dollar being a drag on the evolution of industry.

Again, the probably positive element on the US has been this good evolution on transactional and on some other intake on the IT business.

Looking at Canada, Canada remains a difficult market, but as I said, benefiting from invoicing of projects that we have been taking in the past; and Mexico has continued to post a very solid performance.

Western Europe up again, I would say; plus 1% organically. Italy posting a very nice performance globally.

Spain was contrasted but with a negative evolution on infrastructure and much more positive on other business such as buildings & partner or industry.

Germany did perform strongly, and notably thanks to buildings & partner and thanks to infrastructure.

And France was down in globally pretty stagnant market. Maybe it's a sign of positive things that we need to highlight, as I said already, is this residential construction where we've seen new permits, new starts improving, and that is probably boding well for the coming quarters for France.

Staying with the region that has been posting growth, Rest of the World. So here, we really talk about new economy outside Asia Pac growing organically 1%, with a very contrasted picture.

As expected, Middle East still growing, but much, much, slower than last year. That was absolutely expected. South America about flat; and you have good growth in Argentina, Colombia, Chile, which has been offsetting very strong weakness in Brazil.

CIS was up with good execution of project outside Russia; and as I was reporting, in Russia, we see more contrasted picture with still medium voltage under pressure and going down, but a more favorable situation happening in low voltage and in industry.

In Central Europe, good performance as well during this quarter, but this is a region which has been pretty consistent in good performance over the last quarters.

Now Asia Pacific has been the negative region, minus 2%. This is in fact between minus 4% and minus 5% in China organically. Please note that there was a 2% positive working day impact on China. So without working day impact, the Chinese performance would have been between minus 6% and minus 7% which compares well to the double-digit decline that we have seen in 2015. And really, the improvement, as I said, is coming from construction and the trend on low voltage.

We do expect this working day impact to reverse in Q2, and we really believe that we are in the pattern that we're expecting at the beginning of the year. So a first improvement in H1 with this kind of trend improving, as I said, around 6%/7% negative underlying trend in H1, and further improvement in H2 as we expect markets to continue to improve and as we will be facing easier comps.

Outside China, we have seen some markets posting very nice performance. First of them, of course, as expected, India continued to be an economy which is doing well or very well. But we've seen a number of markets in East Asia doing well between Philippines, Singapore, Vietnam, Malaysia markets growing during this first quarter.

Australia has been penalized by a high base of comparison, and notably, as I said, for medium voltage for the infrastructure business. That has been impacting negative business performance of Australia during this first quarter.

So back to the conclusion, and to summarize, I would say that globally we have, as expected, seen growth in Western Europe during this Q1 with construction market well oriented in several countries.

We've seen the US in positive territory and with a good construction market continuing. But we also have seen continued weakness in oil and gas and pressure on industry coming from dollar. So this has not gone away and we are not back to a fully positive picture today in the US. It remains contrasted with positive and negative.

We've seen outside China a mixed picture in new economy, and I described what is the situation. And in China, we've seen this, as expected, beginning of improvement, even if we still see a decline in our sales.

We have started to apply, as announced, increased selectivity on projects. This is going to ramp up and gain momentum and impact on the Group as we continue to go through 2016. Again, a few hundred million expected for the full year; anywhere between 1 to 2 points of negative impact on the global growth of the Group for 2016.

So in this environment, we are obviously sticking to our priorities. You know them very well. We want to grow the top line where we deliver good margin and where we see good business, i.e., on product, on software, on services. And the sales of Q1 just highlight that we are so far delivering on this objective. We want to improve our margin on solution; and, of course, we keep working on cost optimization.

And based on these trends, we are indeed confirming our 2016 target, first for the top line of an organic revenue growth to be flat to down low single digit, once again impacted by the Group's higher selectivity on project activities. And I did describe the impact that we can expect on this, I would say, increased selectivity.

And regarding the margin, we are targeting plus 20 to plus 60 basis point improvement on the adjusted EBITA margin before ForEx; and we haven't changed our estimate based on the current ForEx rate of the negative FX impact on margin that we estimate to be between minus 40 to minus 50 bps, once again at the current rates.

This terminates my presentation and I'm now extremely happy to answer your questions.

QUESTIONS AND ANSWERS

Anthony Song - *Schneider Electric S.A. - Head of IR*

Thank you, Emmanuel, for [surrender] of our Q1 performance. Now we are open to Q&A and first person on the line, please.

Operator

Thank you. (Operator Instructions). Ben Uglow, Morgan Stanley.

Ben Uglow - *Morgan Stanley - Analyst*

I have a couple of questions; really, just a bit more color on the China situation in particular.

Emmanuel, you kindly gave a figure that the buildings & partner in China was running down low single digits in the first quarter. Can you just give us a frame of reference for how that was in the second half of last year? I'm just trying to understand in that particular business, which is obviously quite big for you in China, how big has the change been in buildings & partner in particular. And any additional color on the -- how do I put it -- the tentative signs of construction improvement that you see.

And then the second question is, do you see any change at all in industry? It still looks -- the data we see for the industrial automation area still looks very weak. Have there been any tentative signs of improvement there at all?

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO, Finance & Legal Affairs*

Hi, Ben. So again, yes, indeed, low single-digit decline in the buildings & partner business in Q1. Please note that there is this 2 points of positive impact coming from working days, and that will reverse in Q2. But we were still in H2 last year double-digit decline, so it's a material improvement, of course, coming from where we were in H2.

On industry, that remains for us the very weak spot on the China performance, and we are clearly still declining at a significant double-digit decline in this first quarter for industry in China. and we don't really see improvement at that stage.

Ben Uglow - *Morgan Stanley - Analyst*

Okay. That's very helpful. Thank you.

Operator

Gael De Bray, Deutsche Bank.

Gael De Bray - *Deutsche Bank - Analyst*

I have got three questions, please. Excluding the services business, apparently the solutions segment was probably down 2% or 3% on an organic basis. So how much of the decline here was self-inflicted, and have you already started to see some benefits to margins?

Then the second question is, maybe you could give us some indication on how the organic sales developed in Q1 as we went through the months, particularly for the short-cycle product segments.

And the last question is around the IT division. You said there were some signs of improvement in some data center segments. So could you just elaborate a bit on this, please?

And I'm also a bit curious to see where the growth for the IT products is coming from. I know there are various trends playing out and I'd like to better understand what's going on.

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO, Finance & Legal Affairs*

Hi, Gael. So I'm going to try to answer your question but I'm not sure I can give color on everything.

Starting on solution and what is not services and software, which at the end of the day is what we call system or project and equipment, yes, this has been done, of course. That's a natural conclusion.

And on the impact that you call self-inflicted that we call selectivity, I think that most of it is really what I've been highlighting at the level of the infrastructure which is the minus EUR20 million to minus EUR30 million. That's really -- which is quite significant because that means that without that, the infrastructure business would have been growing 2% to 3% in the quarter.

Now on the margin, you will allow me to wait for the H1 numbers to elaborate on the impact. Of course, the EUR20 million/EUR30 million at the Group level is not huge in any case, so I'm sure you get [in] conclusion by yourself that it's not -- it cannot have a huge impact. I think it just gives a direction with the full impact that I gave of a few hundred million for the year, and again, anywhere between 1% to 2% negative impact on the top-line growth.

On the development in Q1 of organic sales, I guess what you want to conclude is whether there was an acceleration on transactional and whether we have seen an acceleration on short cycle. That's probably what you are asking.

And I'm not going to elaborate on the trend on Q1. I think that what we are reporting here is, I would say, the trend that we have been observing through the quarter. So I would not say that there has been an improvement in March and suddenly things would be getting better.

On the third question on data center segment, I'm not sure I understood your question. Were you asking where do we see the improvement? And if this is the question, I was referring to some micro and small-size data center in the US where we have seen some renewed activity largely so far in terms of order intake.

And then on your next question on transactional, that has been again more activity mainly in the US. One of the [comps] has been more negative in Western Europe. And the driver for transactional here is really what we call small UPS, which is a big part of the business.

Going through our IT channel, so it's going to be typically for the server room; small companies, small tertiary companies. That has been the big driver for positive and renewed investment, I would say, in the quarter.

Gael De Bray - *Deutsche Bank - Analyst*

And do you see that as sustainable?

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO, Finance & Legal Affairs*

Well, very difficult to say. I think that we've seen that there was a better flow of investment. I think that we have highlighted on the long term that we see some positive and some negative driver behind this, I would say, product business for IT.

One of the big positives that we have been highlighting between being Internet of Things which is going to drive a massive use of small UPS, and that's clearly something that we expect to see developing.

The negative element being less [destocking] in the future and, therefore, less need for some of the small UPS, but that's probably a trend that we have seen already for quite a while.

Gael De Bray - *Deutsche Bank - Analyst*

Okay. Thank you very much.

Operator

Andreas Willi, JPMorgan.

Andreas Willi - *JPMorgan - Analyst*

I have a couple of questions, the first one on France. You said you're down in a stagnant market. Is there something specific about you losing share, or is that just a comment on your end-market mix within France?

Secondly, on foreign exchange, the 40 to 50 bps margin headwind you guided for in February. Given that many of the EM currencies you have exposure to have strengthened since then, hasn't that improved current spot rates a bit?

And thirdly, in Europe, where the growth slowed versus Q4, is there anything beyond just a working day impact and the tough comps in Spain in terms of underlying markets? And, for example, do you see a slower environment in the UK due to fears around Brexit.

Thank you.

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO, Finance & Legal Affairs*

Hello, Andreas. So on your various questions, first, on France, well, we were probably facing high comps last year. We had very good performance in H1 last year.

I would say that France remains a market with a rather sluggish environment. It is true that we are now expecting in construction some improvement, but there will be some lag between the few good news that we have seen in terms of new starts, in terms of renewed investment, and we haven't seen the benefit of that in Q1. And we have seen good investment in infrastructure but industry being weak.

So globally, between construction where we do expect improvements in the coming quarters but it's going to take some months to come, and industry which remains low, we are left with really infrastructure where we have seen positive numbers.

Now please note that globally in Western Europe, and it's true for almost all countries, we have on the contrary a negative 1 point of working day impact. So that has been positive for China but negative for Western Europe, and we'll get the compensation of that in Q2. So I would say working day adjusted, the performance of Europe would have been 2% of growth, if you want, and not 1%, so that probably gives a better idea of the trend.

And maybe back to your question on Spain, I think that may have been somewhat impacting the Spain performance as well which otherwise, frankly, is not bad. So the Spanish market is still well orientated. Buildings & partner is positive. Industry is positive. We had some very high comps in infrastructure last year in Q1, but I would not say that suddenly the Spanish market is turning negative or difficult. It's still well oriented. There is just here some working day impact and some comps.

UK is probably, yes, impacted by some wait-and-see attitude. We finished very strongly the year last year in the UK, so one can always wonder whether there is a link between a very strong finish last year and a Q1 which has been a bit slower. But certainly, we do see some wait-and-see attitude which hopefully is going to be clearing up at the end of June. But the uncertainty of a Brexit cannot be good for the market globally.

Then your third question which I think, Andreas, was on the ForEx. Yes indeed, we've seen some currency coming from new economies improving; not all of them, first of all. And at the same time, we've been seeing some currencies such as the British pound weakening versus the euro. So I think we're still comfortable with the 40 bps/50 bps bracket that we've been giving on the back of all these evolutions.

Andreas Willi - *JPMorgan - Analyst*

Thank you very much.

Operator

Andre Kukhnin, Credit Suisse.

Andre Kukhnin - *Credit Suisse - Analyst*

I'll just go one at a time. Firstly, on the channel activities that you highlight in buildings & partner and industry in Germany, could you just comment what these activities are? And I'm just trying to assess the sustainability of that impact and maybe potentially margin impact.

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO, Finance & Legal Affairs*

Well, on Germany, so again, good quarter for us clearly in Germany. We've been growing in buildings & partner; we've been growing in infrastructure. We've been about flat in IT. I think we've seen for us some renewed activity both in low and medium voltage; good orientation on construction and leveraging our channel in an efficient way. And that's really what has been driving the performance.

On industry, much more contrasted. We've been doing growth with OEM. Rest of the business has been more difficult, and that gives a marginal decrease altogether. That's really what I can report on Germany.

Andre Kukhnin - *Credit Suisse - Analyst*

Okay. But there was no push from your side on any abnormal rebate activity or anything like that?

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO, Finance & Legal Affairs*

No. If I want to add something, we were probably facing some easy comps in Germany in Q1.

Andre Kukhnin - *Credit Suisse - Analyst*

Got it. Thank you. And second on process automation. What's driving that better performance within that segment?

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO, Finance & Legal Affairs*

You mean on --? Is it a general question on process automation?

Andre Kukhnin - *Credit Suisse - Analyst*

Within industry, just surprising to hear that this is a segment that's doing better.

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO, Finance & Legal Affairs*

You're right, and I think it's quite a noticeable performance given the environment and we still have some elements in the Invensys perimeter of still very negatively oriented. Field devices is still posting a significant double-digit decline.

So really, this process automation perimeter has been performing positively on executing a contract on working the brownfield base, the installed base. We're benefiting from order intake that we have been taking in the past. We've been doing well on software for automation. So that's really -- and doing well as well on services. That's really what has been enabling this 2% growth on the Invensys perimeter.

Once again, this is without the China ramp down, but I think it shows that the Invensys integration is well on track and that we keep seeing the well oriented in what remains a challenging environment. So I'm not saying that this is going to be necessarily the performance for the full year, but it's certainly a matter of satisfaction for this Q1.

Andre Kukhnin - *Credit Suisse - Analyst*

Great. Thank you. And just final question on the IT. In North America, just to make sure I understand this correctly, are you saying that the market is softer but your business has grown in Q1? Right?

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO, Finance & Legal Affairs*

No. I'm saying that you have the conjunction of many things. So transactional business well oriented; more short term in orders. And it's probably renewed investment that we have seen by some players when they go through IT channel for supply. We've seen on projects the pressure of lower order intake that we have seen last year notably. But in new order intake, we've seen renewed investment coming from micro, small, medium-sized data centers. So this is the picture I was giving on the US.

Andre Kukhnin - *Credit Suisse - Analyst*

Very clear. Thank you very much.

Operator

Simon Toennessen, Berenberg.

Simon Toennessen - *Berenberg - Analyst*

My first question is just on the growth outlook for the rest of the year. If I look at your comps in the remaining quarters, it doesn't get much worse, maybe apart from Q2 being a bit more difficult. You are now roughly flat in Q1 with already some project selectivity which I think you said should be about 1% to 2% for the full year. And if I listen to the trends, it sounds more upbeat. You mentioned China construction, France, Invensys.

Taking your guidance into account, and project selectivity would imply that your underlying markets would be at least flat if not growing low single digit, where do you expect really negative surprises still to come from where you could end up low single digits down for the full year, including the project selectivity?

And the second question is on mix, and I appreciate obviously that you're not going to talk about margins really and guidance. But looking at the different drivers and what's been driving the mix down over the years, the software and product business seems to be growing quicker than solutions in Q1. Europe is still, albeit slower than Q4, growing faster than the Group now, and you started with project selectivity. So is it fair to assume that mix, which was obviously heavily down last year, should see quite an improvement in 2016?

And the last question is just on Invensys; plus 2% you mentioned it. Was it including the nuclear shutdown? And what are your expectations going into Q2 for Invensys?

Thanks.

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Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO, Finance & Legal Affairs*

All right. Well, thank you for so many questions.

On our guidance on sales for the full year, so what I've been saying again is that I do expect the ramp up on the impact of selectivity because EUR20 million/EUR30 million in Q1 gives you an impact which is at maximum around a 0.5 point of growth; and I'm pointing to up to 2 points negative for the full year. So that clearly means that starting Q2 and beyond, it's going to have more impact.

So I think I'm quite comfortable with the trend we've been describing, and taking that into account to stick to the guidance given back in February. And I think that [if] this Q1 is confirming a number of positive things in Europe, what is good and what is not good in the US, improvement expected in China. We're not either saying that we're going to be back to growth in China even in H2, we're just saying we do expect to be less negative and that we're going for the better; but we're not saying we're going to back to positive.

Well, I think all that is just very consistent with our guidance and we are happy to stick to it.

On the mix, clearly, as we put the organic growth of our margin as a priority, work on the mix is important, and that's obviously one of the reasons why we put products, service, software growth as a key priority. And, yes, when we managed to grow product, service, and software, that has a positive impact on the mix. So this is what I can say at that stage.

On Invensys, we are closer to stability with the nuclear ramp down, but I'm not going to give you a trend for the year because, frankly, that's not something I want to do. I was just highlighting the fact that in this environment we are being quite successful in keeping some momentum in some parts of the Invensys business that Foxboro, Triconex, well integrated.

We start to have good results on order intake on greenfield. We work well; on brownfield. Very happy with what's happening in software. And, therefore, we are, I would say, executing this Invensys integration as expected and despite the tough environment getting what we were looking for in terms of results. That was very much the content of my message.

Simon Toennessen - *Berenberg - Analyst*

Very clear. Thanks, Emmanuel.

Operator

Jonathan Mounsey, Exane.

Jonathan Mounsey - *Exane BNP Paribas - Analyst*

First of all, on pricing, I think you've just mentioned that one of your key focuses is organic growth of the margin, and I think you've just talked about mix. I would imagine pricing would be a key component of that as well. Are you taking actions to maybe raise prices more so than you have done in previous years?

And then secondly, just in terms of understanding the margin going forward, as you have been selective and so you're effectively doing less business, how does that initially, or how is that likely to initially affect the margin? Are you actually going to have to carry some more cost to begin with as you walk away from business, or can you adjust the cost base at the same rate? So what I'm basically saying, is it likely to have an immediate positive mix effect or could that be delayed?

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO, Finance & Legal Affairs*

That's a very good point, Jonathan, and thank you for [jumping] my daily life.

So first, on pricing, pricing [up] is, of course, a priority, and I would say I expect to see 2016 with the same kind of pattern as 2015. In terms of outside China we're going to price up, and I do expect to have some nice [inroad] in terms of price up in the geography outside China.

China is going to be negative again. Now we'll see exactly what is the magnitude of the decline. I remember that I think I've been sharing with the [Group] already the fact that you have two drivers for prices in China going down.

One for the medium, minimum [thing] is the fact that there is an immediate and natural pass-through of any evolution in the input cost. So when you still have copper price, energy price going down, that is translating into a decrease in terms of price. And the other one was an adjustment that we have been doing on our premium range on the Schneider brand on the level of premium that we have versus the competition.

On the first one, again, I don't know what's going to happen this year, so that will be driven by evolution of input cost. On the first one, what I said is that I think the adjustment has been done to a large extent. Now we're probably going to have some carryover impact of the beginning of the year, but I believe that a large part of the adjustment has been made last year.

So again, on pricing, that's of course a priority. Outside China, we expect to have prices going up for product. On China, I would expect another negative year now [we take the action] which is the magnitude of the decrease.

On the impact of decreasing business, you have to do the two at the same time. So, of course, you take radical action to (technical difficulty) [coming] at gross margin which are too low. And then -- and, of course, you try to have a consistency in the way you do things. You are decreasing cost below the gross margin to make sure that you are not [eluding] the top line on the gross margin but the cost stays there.

The objective is to have the two things happening at the same time in order to have the maximum benefit. I'm not saying it's always the case, but we're going to try to have that happening as much as possible simultaneously. Anyway, if there is a lag, it has to be a short lag between the two.

Jonathan Mounsey - *Exane BNP Paribas - Analyst*

And maybe just one final question. In terms of disposals, obviously, you've done a couple towards the back end and early part of this year. What's the attitude there? Are you still looking at the portfolio? Are there areas that you might look to exit, or do you think that's now done?

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO, Finance & Legal Affairs*

No. We're still very much looking at the portfolio, and you should expect us to continue to prune for what is not core, for what is coming at margins which are too low for business where we don't see the synergy with the rest of the business. In all that, we are looking at possible options for divestment.

We are not [for sellers], so the philosophy is we sell if we have the right price for the asset. That's what we've been doing in the past and we'll continue to do that.

Now in term of disposal, you never announce before when you want to sell. There is nothing more destabilizing for a team to announce that one asset is going to be put on the block. And you just do things when you have the right solutions for all the stakeholders, the customers, the people in the business. And then, of course, it depends on a number of things like the environment, the market.

So not possible to give any plan for disposals, but it's certainly very much among our priorities for the coming quarters. Not able to give any kind of expected impact in 2016 though.

Jonathan Mounsey - *Exane BNP Paribas - Analyst*

Thank you.

Anthony Song - *Schneider Electric S.A. - Head of IR*

Given the constraint of the time, we are going to take the last question. So, please, go ahead.

Operator

Delphine Brault, Oddo.

Delphine Brault - *Oddo Securities - Analyst*

I have a last one on Middle East. Can you be a bit more specific on the slowdown you see in the Middle East by country and by division?

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO, Finance & Legal Affairs*

I can try to put more color on Middle East. So you'll remember that Middle East was a great region for us last year. Even if things were obviously starting to be more negative because of oil price, we had a very nice portfolio that we were executing, and we knew that 2016 would show a different picture.

So we're still positive in Middle East for the first quarter with some businesses, namely industry, IT, still growing. On the contrary, low, medium voltage turning negative globally for the region.

Now we have some countries where we're still doing reasonably well, and notably, of course, Turkey, which is not exposed to oil and gas, or I would say in a symmetric way, positively impacted. So Turkey is a market which is still doing well.

On the contrary, [Saudi] Arabia and Emirates are facing, as expected, a more difficult situation, and notably, of course, for everything linked to infrastructure.

So this is really the color I can give you on Middle East.

Delphine Brault - *Oddo Securities - Analyst*

Thank you.

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO, Finance & Legal Affairs*

Thank you, Delphine. Well, that's the end of this Q1 revenue call, Anthony.

Anthony Song - *Schneider Electric S.A. - Head of IR*

Yes, that it is. Thank you, Emmanuel, for [surrender of the call].

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO, Finance & Legal Affairs*

Thank you, all.

Anthony Song - *Schneider Electric S.A. - Head of IR*

Thank you for everybody participating on call.

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO, Finance & Legal Affairs*

We'll see you very soon. Thank you very much. Bye bye.

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.