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Schneider Electric SE (SU.FR)

Q3 2018 Sales and Revenue Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the Schneider Electric Q3 2018 Results presented by Mr. Emmanuel Babeau, Deputy CEO in charge of Finance; and Mr. Amit Bhalla, 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. Amit Bhalla. Please go ahead, sir.

Amit Bhalla

Senior Vice President & Head-Investor Relations, Schneider Electric SE

Thank you very much. Good morning, everyone. Thanks a lot for being with us for the next one hour where we're going to be sharing our third quarter revenue results with Emmanuel Babeau, Deputy CEO and CFO.

So without further ado, just reminding you of the disclaimer as always on page 2. I hand it over to Emmanuel.

Emmanuel Babeau

Deputy Chief Executive Officer in charge of Finance and Legal Affairs, Schneider Electric SE

Thank you, Amit. Good morning, everyone. Very pleased to be with you this morning. Well, I believe it's a great moment to catch up, certainly to review with you where we are at the end of Q3, give the outlook for Q4 and the coming months. It's certainly a very timely moment to talk about what we see in the market. I'm sure you're coming with a lot of questions. So as always, of course, I have my presentation, but I will be more than happy to answer your question after that on what we are seeing on the various markets.

So, we have clearly experienced, and I'm on page 5 of the presentation, another strong quarter of growth. I believe that this is clearly coming from the success of our strategy and a successful implementation, notably of course, thanks to putting digital at the forefront of the strategy. We clearly see that leading the race is a big differentiating element in gaining new customer and developing new things with our customer.

I think that this quarter also illustrate well the advantage of having a balanced portfolio. And when I say balanced portfolio, I mean balance in terms of geographies, of course. I'm sure you have seen already that we have two very powerful engine delivering during this quarter, still Asia Pacific of course, but North America as well. And that's the good thing of having a diversified geographical exposure, but also diversified exposure in terms of end market and technology, which means that we are exposed to the various phase of the cycle.

Of course, we have seen now for the last 18 months our short cycle business doing well and delivering good growth. What I believe we have started to see in Q3 is first, of course, on short cycle still good news and delivering good growth, but an acceleration on the mid-long cycle part of the business. So, that's really what is behind, I guess, this strong performance of Q3. You can see first on page 5, when I mean balanced, look at Energy Management plus-7.4% organic, Industrial Automation plus-6.6%. I mean, the two businesses are growing at a very similar pace at the end of the day and very much in line with the average of the Group.

If you turn the page, page 6 where there is a bit more detail on the headline of the performance. Firstly here on the left hand part of this page, looking at the region, I've seen an organic growth across our region. I must say we've been growing across all technology across all region during this quarter. So, the four region have been growing in all technology. I think we – I've not seen that for quite a while. It's interesting to note. When you enter

into the region, you see double-digit growth of course across Asia Pacific and it's another quarter of the double-digit growth in China. I don't know whether I should comment China now because I'm sure you'd have plenty of question on China that I'd be more than happy to answer later.

North America. Great to see North America which was already pursuing a good H1 further accelerating with high single-digit growth. Rest of the World still growing at mid-single-digit growth with some pluses and minuses in the trends. And globally, we see new economies as a very important contributor to our growth with high single-digit. Systems growing at plus-9%. I think we're still growing very dynamically on product plus-5%. We are very happy to grow on service at plus-11%. We keep growing the weight of services in our total portfolio. Great success on software. I guess you may have seen the AVEVA communication this morning, but we are growing double-digit at the Group level, and Aviva in particular, during this Q3. But the growth in system altogether is illustrating what I was mentioning in term of the businesses which are more mid, long cycle accelerating. I think that's an interesting element to note.

Of course as I said, digital is at top of the agenda for us and EcoStruxure is leading the charge when it comes to digitizing the business of our customer. One very important metric that we are looking at which is a number of assets under management which will trigger business in the future in term of digital services notably selling analytical capacity that is growing more than 25%. So, a good performance. We also growing very nicely in our sustainability services, what we call, Energy & Sustainability services which is mix of digital services and efficiency that we deliver to our customers. It's up plus-12%.

We remain focused on delivering shareholder value. And given the situation on the financial market, we are contemplating the possibility to accelerate the completion of our buyback program and to finish it before the end of 2018, and that we need to be six months ahead of initial plan. All that gives for 2018 the possibility to revise upward our guidance. We are now targeting an organic growth of the adjusted EBITA between plus-8% and plus-9%, when previously the bracket was between plus-7% and plus-9%.

Moving now to page 7. I think it's more for you when you will have maybe time to enter into some detail and that can really trigger question when we'll have more contact with you and more interaction. We really have four big pillars that are supporting our progress and our success. The first one, of course, is innovation. In today's world if you cannot be relevant, you cannot make a difference without being a leader in innovation. And we keep innovating and launching new product, new technology, new digital capacity that create more added value with our customers.

So you have a few example here in terms of Power Advisor that keeps being improved and enriched with new apps and new analytical capacity. Easergy P3 Connected Product which is about accelerating on the digitization of the grid automation. And we are also investing on some startup super innovative technology. That's what we've been doing with Sense. Sense is a startup which provides a product that makes your electrical panel at home a smart panel instantaneously with the capacity to assess, measure the way you are actually consuming energy with your various devices.

Digital, of course, is at the heart of innovation. As I said, it is top of the agenda for the Group. We are progressing very fast in our digital journey. I talk about asset management. You understand how critical it is to grow very fast on these metrics. That's going to trigger, on the long term, a sticky, strong added value for the customer business. We are, of course, growing fast on EcoStruxure, and EcoStruxure is a contributor to the growth of the Group. It's growing faster and significantly faster than the rest of the Group. And we are also working on the customer experience to make it digital and to really here make a real difference versus competitors on this Digital Customer Experience which is going to be so critical in growing our business in the future.

Third pillar is the segment focus. In today's world, if you want to be relevant, you have to build expertise by segment. We can do that very powerfully by bundling our technology. Of course, quite easy for me to take data center as a very clear example where we can bundle various technology. I could also take example on the industry space, and each time we deliver very tailor-made specific expertise on each segment that make us relevant to our customer.

Last but not least of course, cross-selling, the fourth pillar. That's maybe what defines Schneider versus many of our competitors. That's a big strength. And that's certainly something that is helping the performance in our Q3 once again. And we talk here, of course, about bringing the full Energy Management and Industrial Automation to our partner in both industry and infrastructure space. We talk about approaching the building with all the answer in terms of making the building efficient in terms of power management and all the features of the building management. I talk about data center. I mean, we could multiply all the example of the strengths of this cross-selling.

Next page. I want to elaborate just again pointing to my comment on the diversity of technology of exposure look by geographies, the diversity of end market, technology type of customer, things that we do for them which are extremely different and that we've been delivering during this Q3. I think it points to the strength of the Group that has today an unchallenged breadth and depth of portfolio and capacity. Again, I don't want to spend too much time because I want to leave time for Q&A later today in this talk.

Moving to page 9 and just pointing to the fact that innovation is, of course, our role, our mission but it's a journey that we are clearly making with our customers and partner. And therefore, we have this kind of, should I say, climax or key moment in the relationship with our customer. Across the globe, as you can see, many, many date where we've been spending time with thousands and thousands of customers. Many of you have been joining us during some of these events, just doing two minutes of advertising. The next one is actually in the U.S. in a couple of weeks, in Atlanta. We expect many customers. I hope that some of our shareholders will able to join us to talk about innovation in two weeks in Atlanta.

And before moving to more detail on the number, I really want to insist again on the fact that sustainability is certainly core to our mission and it's deeply rooted in our DNA. And we spend a lot of time, we invest a lot of energy. It makes our business better altogether for the planet, but also for our customer. We are sharing, of course, with them this sustainability championship or capacity. We have this new Schneider Sustainability Impact, five dimension. Again, I don't want to spend too much time elaborating on all of them. Just taking one maybe which, I think, is particularly striking. If you look at climate, we target to have in 2020, 80% of renewable electricity. We started Q2 2018 on a low key. We're at 6%. Look at the jump that we managed to achieve in Q3. We are already at 25%. So we're not yet at the 80%, but clearly we are accelerating our journey.

And this is a kind of action that we've been taking together in Americas. We've been purchasing renewable certificates. We've been signing Green Tariff contract for 50 gigawatt hour in EMEA. And in Asia Pacific, we actually have on-site 2,000 kilowatt of capacity in our factory in China. So we are using a lot of levers to get there and we're going to get there, I can tell you.

The last one on this section is just, of course, to highlight the fact that all this work that we are doing on sustainability, on compliance, on ethics is acknowledged and rewarded by mainly recognition, great ranking. Again, don't want to enter into detail. It's here for your perusal, but I think it's clearly recognized in a very clear fashion.

All right. Now maybe let's move to page 13 and let's enter into some details on this Q3 performance. Our sales have amounted to €6.377 billion. It's up plus-8% versus the third quarter of 2017. One impact on the negative here which is the forex. The negative impact is abating. It's now only minus-2.4%. When I look at the main currencies that are driving this negative impact, you have the Indian rupee, the Russian ruble, the Brazilian reais. And then of course Turkey and Argentina currency have not been helping, but these are the currency that have been negatively impacting us. Good news probably coming on the dollar where we see some strengthening of the dollar which is, of course, a good news for us.

Moving to the scope impact, plus-3.2%. This is mainly AVEVA and ASCO impact, but it's a nice contribution to the growth. And then you have this balanced growth between Energy Management and Industrial Automation and I'm going to elaborate on each of them. Just one point on the global forex impact. We are slightly revising it for the full year just for the top-line impact. We were around €1 billion negative impact. We now believe that because of the weakness in some emerging country currency, we'd rather be around minus-€1.1 billion. Nevertheless, we don't change the expected impact on the margin. We are still seeing an impact which would be around minus-20 basis points.

So let's move to Energy Management analysis. I'm on page 14. It's €4.846 billion. It's up plus-7.5% with an organic plus-7.4%. I think what is extremely interesting and maybe remarkable during this quarter is how even is the high growth that we are seeing across the three technology. You've been used, of course, to see Low Voltage flying high, it's still flying high, but look at Medium Voltage, up plus-8.3%; Secure Power up plus-6.4%. So it's really across the three technologies of Energy Management. And that's of course the success of our EcoStruxure offering. That is a power of cross-selling. And this is certainly the fact that we are approaching with a very bespoke approach by segment and that make us very successful.

If I enter into some detail on the Energy Management component, I think you look at Medium Voltage, up plus-8.3% organic. That's a very nice acceleration. When I was pointing to mid, long cycle businesses accelerating, this is one of them; not the only one, of course, Process Automation. Data center, to some extent, contribute to that but clearly, Medium Voltage illustrate that in a nice fashion.

Now I draw your attention on the fact that Q3 2017 was minus-4% for Energy Management (sic) [Medium Voltage] when Q4 was plus-2%. And therefore there was some year easy comps, if I may say, but clearly we've been turning the corner on Medium Voltage and we are now growing nicely. And the good news that is €1.1 billion of revenue has been achieved delivering on the right priority because it's not only about growing Medium Voltages. It's about growing the top-line in a profitable manner and improving the margin. And indeed during this third quarter, we did manage to generate the right mix. We've been growing very nicely on product. We've been growing very nicely on services. Software component is delivering well. And therefore, we are growing this Medium Voltage business the way we want to grow it and that's certainly a good news.

We've seen growth across region. So all regions have been growing on Medium Voltage. We are growing nicely in our priority end market and targeted end market. Commercial industrial building, this is here in package with Low Voltage and that is clearly helping the transaction or the product component, which is so important and we've been growing also very well on data centers.

Services are up double-digit. It's another priority, and it's delivering very well with a great performance notably in North America. We are also growing nicely EcoStruxure Grid and we are growing on software for the grid, which is good news.

And of course, the consequence of everything I've just been saying you that system has been growing but at a slower pace than transactional for Medium Voltage, and that's exactly something we want to target.

Moving to the next page and the Low Voltage performance, I mean, Low Voltage has been flying high for quite a while now, and it continued to fly very high. We are once again growing in all region. We continue to have a great success in residential and small building across region. And China and India once again were particularly good in that space but not the only one. We see great success in commercial and industrial building, and the LV offer is really making a difference. I talk about data center for Medium Voltage. That's also the case for Low Voltage. Service is up high single-digit. And I talk about this nice performance on energy and sustainability offers that epitomize both what we can do in term of the management of energy and making sustainability a great success and element of performance for our customers.

Next page, Secure Power; plus 6.4% organic growth in Q3. And I think we have not seen this type of growth for Secure Power for quite a while actually, and it's great to see really Secure Power becoming as well a great contributor to the growth. It has been across the various part of this business, starting with the distributed Secure Power, so the small UPSs, what is going through the IT channel. Although, we are still being impacted by some shortages, that was clearly a positive quarter for this business. Very strong growth in data center. We are now growing double-digit for the Secure Power technology in data center. And that means that Secure Power, Low Voltage and Medium Voltage, the three of them are growing at double-digit now for data center.

Good growth as well in non-IT market. This is the Edge computing, I would say, implication that I shared with many of you. We see a lot of small, medium-sized server room or data center I would call them, creating Edge computing capacity towards, I don't know, close to an hospital, manufacturing sites and Oil & Gas sites, and that is clearly helping the non-IT market. And then, services up mid-single-digit. This is here we talk about critical services, critical application. We are not growing as fast as for the rest of the Group. But that has been a very sustained growth over the past year and that continue, which is a very good news.

I am now turning to Industrial Automation, which keeps growing fast at close to 7%, plus 6.6% exactly, now facing higher base of comparison in Q3 of 2017. I mentioned already that we are benefiting from this balanced portfolio between Discrete, Hybrid and Process industries. That's clearly, I think, a big plus in this performance of Q3. We continue to grow well with the OEM. And of course, this is part of our Discrete offer. We are growing nicely and gaining traction with EcoStruxure Machine. We see Process Automation accelerating. And clearly, I mean, the price of Oil & Gas is an element for that. It's not the only one but as we progress through the cycle we see this acceleration for Process Automation.

And last but not least, of course, we have great success with AVEVA that has been delivering a nice double-digit organic growth in Q3. And the performance of AVEVA is highlighting or confirming, I would say, the strategic intent and the synergy that AVEVA and Schneider can generate together. Well, that gives a bit more than €1.5 billion of sales. It's up almost 9%, the scope impact, of course, is the AVEVA contribution. And that's an overall excellent performance again for Industrial Automation over this quarter.

A few words about the geographies, all positive again, starting with Asia-Pacific, plus 11%. China is actually very much in line with this growth, and China keeps growing fast. And the growth was actually well spread between Energy Management and Industrial Automation over this quarter. India with great performance on Low Voltage with growth north of 20%. Australia where we have seen double-digit growth both in Energy Management and Industrial Automation. Indonesia, great growth in Low Voltage and Industrial Automation. Only negative point or significant negative point in this zone is Japan which has been down because of the slowdown in Industrial Automaton for us.

North America which is growing almost as fast now as Asia-Pacific, great news. I would say, very homogeneous growth across these three countries but, of course, weight of the U.S. make it the most important market. Growth across the businesses and across the technology for North America which is reflecting both a market in good shape, and I guess the fact that we are also gaining market share in North America. When we look at the growth of some of the competitors that looks pretty obvious. Western Europe, before moving to Rest of the World, plus 3%. It's slightly better than the plus 2% that we had experienced in H1. Great performance in Spain where we are growing double-digit in Energy Management. Italy is delivering a nice mid-single-digit growth both in Energy Management and Industrial Automation.

A particular positive note on United Kingdom; I've been cautious on United Kingdom for quite a while now, but they've been delivering a nice Q3 with good performance in Low Voltage, Medium Voltage, good performance as well in Industrial Automation. Two negative points in Western Europe; France and Germany. France, where we have both some destocking impact with some of our intermediaries and distributors, but they do not reflect the underlying trend of the market, and some of that should be corrected in the coming months; and also Medium Voltage business that is suffering from low activity on the market. Germany, that's largely the [indiscernible] (00:27:00) performance on Medium Voltage because you have other dimension positively oriented in Germany starting with Industrial Automation.

Finishing with Rest of the World, plus 5% organic growth. This was a trend that we had seen at the end of H1. A lot of positive in South America. For instance, when we see Colombia growing, Brazil back to growth, Africa is growing. Many of these countries are being held by price of energy, price of commodity at a better level than 12 months, 18 months ago. Therefore, there is some renewed investment. Middle East is flat. Actually it's a mixed bag because we have a number of country in the region that are doing well, thanks to the price of energy. But we are leaving Iran, and that is having some negative impact. And, of course, there are also some difficulties on the Turkish economy for the time being. Clearly, negative element, we flagged that already in the region, Russia, which is negative because of the sanctions, and an economy that is having today, I would say, a subdued evolution. That's it for the region.

That leads me to my outlook and conclusion. Maybe before coming to the final vision for 2018, sharing with you what we expect for Q4 and the following months. First, in North America, we believe that we're going to see a continuation of a favorable environment, and here the visibility look pretty good and really the driver for the economy looks pretty strong. On China, where I know there are a lot of question, and I'm sure some of you will come with more question, we are certainly now facing very high base of comparison. Remember that at the beginning of the year we are growing north of 20%. We always say that we're not sustainable. And we believe that there will be certainly some area that are going to be impacted by the war on tariffs between China and the U.S. And every business that is very significantly exposed to export and export to this country will be impacted.

But fundamentally, for Q4 and the coming quarters, we see China as a growth market, and we see dynamism clearly continuing in many in many end markets and many parts of the Chinese economy. And that does include many parts of the construction market, certainly investment in infrastructure. And in industry, we see several segment on industry like Oil & Gas, mining, metals, electronics remaining well-oriented. So we continue to see China for the coming quarter and for the coming months as a growth country. We expect good momentum seen in many Asian Pacific country, India, Southeast Asia to continue. In Western Europe, we are not expecting a sudden improvement, and I think we're certainly getting much, much better than they are. We continue to expect moderate pace of growth. And when it comes to the Rest of the World economy, so which is roughly new economy outside Asia, we believe that the energy pricing and some of the commodity pricing should help this

economy and many of the market and country in the coming months. So that was the outlook I wanted to share with you.

Now, moving to more precisely 2018. You've seen it. We had a strong sales performance in Q3. We have an expectation of continued growth in Q4, although we certainly acknowledge that we have higher base of comparison. And all this allow us to revise upward our objective for 2018. We are now targeting an organic growth of the adjusted EBITA between plus 8% and plus 9%, and previously we were between plus 7% to plus 9%. When we look at the component or the driver for that, we target an organic sales growth for 2018 close to plus 6%. We are previously between plus 5% to plus 6%. And for the margin, we target plus 30-basis point to plus 50-basis point organic improvement of the adjusted EBITA margin.

This is it for what I wanted to share with you. And I'm now extremely happy to answer your questions.

Amit Bhalla

Senior Vice President & Head-Investor Relations, Schneider Electric SE

All right. Thank you very much for that, Emmanuel. I see that we already have a long sort of number of questions or request for questions. So we want to try to get them all in within the designated time. So as always, please keep it to one question per analyst, and then time permitting we'll come back. So with that, we open it up for the first question, please.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from Andreas Willi, JPMorgan. Please go ahead.

Andreas Willi

Analyst, JPMorgan Securities Plc



Yeah. Good morning, everybody. My question is about the investments you're doing, and we have clearly seen the benefit to organic growth with some market share gains year-to-date. How do you look at this kind of investment strategy in light of potentially more uncertain and weaker economic growth, in terms of how you calibrate going into next year as well investments to drive market share relative to protecting profitability and protecting from kind of the uncertainty that's out there?

Emmanuel Babeau

Deputy Chief Executive Officer in charge of Finance and Legal Affairs, Schneider Electric SE



Thanks, Andreas, for your question. Well, first of all, because I know where your question could lead me, I don't want to share pessimism about next year. And therefore, you expect me to start talking about what we're going to do if things turn negative. I think what I've just been saying is that, for the time being we see the environment overall to be positive. I would certainly agree that the environment is not as positive as it used to be six months ago. But let's look at all the PMI growth outlook, it's still being positive.

Now, if I leave aside 2019, and therefore, what I'm going to say is not linked to 2019 at this stage, I certainly believe that we have the capacity to act, to keep the priority in terms of investment, and make sure that we don't decrease this strategic investment that, as you rightly said I think, are making a difference. And that will require certainty, if it was needed, that would require privatization, that would require a lot of discipline on other costs that

we see less important, less efficient. And I think we've done that in the past, this capacity to generate efficiency. And therefore, in the event, and again, I'm not talking about going into 2019, it will be required. I think we have perfectly delivered to generate efficiency in several places in the company and keep focusing on this strategic core investment that we see as very important.

Andreas Willi

Analyst, JPMorgan Securities Plc

Thank you.

Q

Amit Bhalla

Senior Vice President & Head-Investor Relations, Schneider Electric SE

Thank you, Andreas. Next question, please?

A

Operator: Next question from Gaël De Bray, Deutsche Bank.

Gaël De Bray

Analyst, Deutsche Bank AG (France)

Thanks, and good morning, everybody. Can you talk a bit more about the Medium Voltage business which clearly stood out this quarter and was for once the fastest growing business? So maybe, could you give us some indication on the order trend here just so that we can see if the kind of growth you've seen so far on the revenue side is sustainable for the next few months? And in light of the pretty strong growth you had in Q3 and also given the commentary you made that the business was turning around the corner and growing with the right mix, I was wondering if you were now sort of on track to deliver the upper end of your targeted margin improvement for the Medium Voltage business. Thank you.

Q

Emmanuel Babeau

Deputy Chief Executive Officer in charge of Finance and Legal Affairs, Schneider Electric SE

Thanks, Gaël. I don't want to be drawn into questions only on the margin because, as you know, it is not the purpose of this call. Nevertheless, trying to give some element of answer on the order evolution, of course, as you would imagine, we're not talking about a short-cycle business here. So we've seen order intake evolving positively for quite a while now on Medium Voltage. And I would say, taking into account my comments on the basis of comparison last year Q3-Q4, yes, of course, we have an order intake evolution that is supporting the positive evolution of the Medium Voltage business. On the margin, I think that we are delivering the scenario we were expecting to deliver. So there is no reason for us to change anything regarding our expectation guidance in that respect.

A

Gaël De Bray

Analyst, Deutsche Bank AG (France)

Okay. Thank you.

Q

Amit Bhalla

Senior Vice President & Head-Investor Relations, Schneider Electric SE

Thank you, Gaël. Next question, please?

A

Operator: Next question from Alasdair Leslie in Société Générale.

Alasdair Leslie

Analyst, Société Générale SA (UK)

Q

Yeah. Hi. Good morning. So for North America, you highlight you're continuing to sort of deliver on several large projects in data centers and IT. Can you comment a little bit on the outlook for larger projects heading into the next year, so 2019? We've seen a sort of step change in hyperscale CapEx this year. I guess, just trying to work out how sustainable that is. Do we push higher again due to kind of ongoing needs to support cloud computing, digitalization, et cetera, or should we really see 2018 as somewhat exceptional and investment pull back a bit? Thank you.

Emmanuel Babeau

Deputy Chief Executive Officer in charge of Finance and Legal Affairs, Schneider Electric SE

A

Thanks, Alasdair. No, I think, you rightly said there is clearly some CapEx investment going on in the U.S. I've been sharing with many of you the fact that we see digitization of the economy clearly getting traction in the type of investment that we see, a lot of investments on data center as, of course, epitomizing that. I don't think that 2018 is a one-off, and I would expect certainly a lot of project to carry on 2019. So I don't see a kind of stop at the end of the year. And clearly, this is a very powerful trend. When I was referring to solid trend in the U.S., I think this is one of them.

Alasdair Leslie

Analyst, Société Générale SA (UK)

Q

All right. Thank you.

Amit Bhalla

Senior Vice President & Head-Investor Relations, Schneider Electric SE

A

Thanks, Alasdair. Next question?

Operator: Next question from Andre Kukhnin in Credit Suisse.

Andre Kukhnin

Analyst, Credit Suisse Securities (Europe) Ltd.

Q

Yes. Good morning. Thanks very much for taking my question. I want to talk about pricing, how that has developed in Q3, whether you have continued to look to increase prices, and how that's worked out across the key divisions, please.

Emmanuel Babeau

Deputy Chief Executive Officer in charge of Finance and Legal Affairs, Schneider Electric SE

A

We continue to work on pricing. I would say, I very much stick to my earlier comment which was, there will be a few impact in 2018. But clearly, our goal is to make an impact in 2019. So there is a lot of things on which we've been working. And I would say, tactically, more strategic and deep. I would not expect that to have a lot of impact in 2018 in the second half.

I would really expect that to have a nice carryover impact in 2019 as many things will be put in place, but it's toward rather the end of the year that they will start to deliver full effect. So yes, we are working. I can tell you it's a big priority. We are clearly today seeing inflation ramping up in many, many places. I don't expect a lot of acceleration versus our H1 performance in H2. I would certainly expect that 2019 is going to show the result of what we've been doing.

Andre Kukhnin

Analyst, Credit Suisse Securities (Europe) Ltd.

Got it. Thanks, Emmanuel.

Q

Amit Bhalla

Senior Vice President & Head-Investor Relations, Schneider Electric SE

Thanks, Andre. Next question.

A

Operator: Next question from Daniela Costa, in Goldman Sachs.

Daniela Costa

Analyst, Goldman Sachs International

Hi. Good morning. I just wanted to ask you about the Medium Voltage growth and whether you could sort of give some color on how much of that is just the easy comp versus actually seeing some signs of change of utilities and investing again and how sustainable do you think that is? Thank you.

Q

Emmanuel Babeau

Deputy Chief Executive Officer in charge of Finance and Legal Affairs, Schneider Electric SE

Hi, Daniela. Well, difficult for me to exactly give you a precise answer. Of course the fact that Q3 was clearly weak, last year is helping. But I think I made a comment on – beyond three months impacting the quarter on the fact that the order intake was pretty solid, that we were clearly seeing the cycle playing, if I may say, and CapEx increasing, infrastructure spending increasing. So that is giving – I'm not saying that 8% is the underlying trend. Don't get me wrong. And I want to be very clear, but I think we have a pretty nice underlying trend today on Medium Voltage growth fundamentally.

A

Amit Bhalla

Senior Vice President & Head-Investor Relations, Schneider Electric SE

Thanks, Daniela. Next question?

A

Operator: From James Moore in Redburn.

James Moore

Analyst, Redburn (Europe) Ltd.

Yeah. Morning, everyone. Morning, Emmanuel. My question surrounds China. Can you help us dig into the growth a bit more granularly? You mentioned it was similar to APAC. I wondered if you could go further and say where we are [ph] 9, 12 (00:41:41), what have you. But within that really is my question. My sense is that IA was growing faster than Low Voltage in China in the second quarter. Could you give us a sense as to how that's developed? And perhaps more importantly, can you talk about how the sequential growth trends within the quarter in China have developed? Basically, has September stepped down versus the running rates in July and August than some other companies have seen? And of course, do you have any flavor on October that will be helpful as it's a big topic at the moment.

Q

Emmanuel Babeau

Deputy Chief Executive Officer in charge of Finance and Legal Affairs, Schneider Electric SE

A

Thank you, James, for your question. Frankly, I would have been very disappointed if your question had not been on China. So, it's good to see that you're not disappointing us. So you're asking for a lot of information. I think I've been providing already a lot of detail on China and maybe let me repeat it and maybe elaborate further, if I can.

I'm not saying that China is not slowing down. As I say, plus-11% for the region. Asia is actually a bit above that. But I think it just show that China has been very dynamic. We've been flagging again for many, many quarters now that China is not growing at 20% underlying. Now we have, of course, this 20% reference for Q1 next year, but China is a market where we see underlying growth. We flag the fact that OEM would be impacted probably as the first impacted by the war on tariff. So I would expect the business to slow down on the OEM order intake in the coming months, but as I said, there're many other places in the economy where we see a lot of dynamism.

If I look at construction first, I think here is a question of how tight is access to credit because plenty of project out there. I think that the question is can the real estate developer and even the individual find the capacity to finance the project. Here, maybe the government has had some change in attitude and the recent attitude seems to be more lenient. I think they've been announcing a number of things on easing access to credit. So, let's see what happen on residential, but there is still a lot of demand momentum, if access to credit is not an issue. We see a lot of dynamism in construction for public building. That is developing very well. So that's what we can say for construction.

Now, apart from that we see a lot of investment, a lot of momentum on infrastructure, lot of project going on. There is notably, among other things, in metro a lot of investment, and we have a bespoke offer that has been very successful. That's one element to illustrate what we see in infrastructure. We see in digital economy, in data center, a lot of investment as well and that's another driver for the economy.

And I mentioned the industry because I talk about OEM maybe being the most impacted for us by the war on tariff, but there're many, many other part of industry, I mentioned Oil & Gas, mining, electronics. I could have been talking about pharmaceutical and many other where we see continued dynamism. So again, I'm not disputing the fact that China is slowing down. We are no longer at 20%. It's 11%. I've been flagging the fact that maybe the underlying growth rate of China was more high single-digit. We'll see what is the final impact of the tariff, but I certainly want to highlight that you have many powerful growth engine in the Chinese economy, which we see as very favorable for us in the coming months and quarters.

James Moore
Analyst, Redburn (Europe) Ltd.

Q

Thanks, Emmanuel.

Amit Bhalla
Senior Vice President & Head-Investor Relations, Schneider Electric SE

A

Thank you, James. Next question please.

Operator: Next question from Ben Uglow in Morgan Stanley.

Ben Uglow
Analyst, Morgan Stanley & Co. International Plc

Q

Morning, Emmanuel, and morning, Amit. I really sort of wanted to follow up, of course, on China following on from James. Emmanuel, just – I mean, you partly sort of explained it but there does seem to be big differences between different sub-sectors in China and different industries. So, we see Automotive doing one thing,

semiconductor doing another and there's clear growth in areas like pharma, Food & Beverage, et cetera. Just in terms of your conversations with customers at the moment, i.e. in the last few weeks, do you do you believe that OEMs in general are going to be postponing investments and things are going to slow down? Or do you think it's localized to some specific industries? The fact that Automotive is going down shouldn't be a surprise to anyone, but what I wanted to know is how broad-based do you think this OEM slowdown is?

Emmanuel Babeau

Deputy Chief Executive Officer in charge of Finance and Legal Affairs, Schneider Electric SE

A

Certainly not all of them will be impacted. And the more they work for the local market, the less they will be impacted but let me give a global color because I'm not sure I have the granularity to enter into specifics that will be relevant for you. As I said, I think that OEM is clearly the place where we expect slowdown. It has started already in Q3 and I think we've been now saying that for a while. So yes, we expect slowdown in OEM generally. So that means that even if you have positive OEM end market exposure, the global impact will be for the OEM business for us to slow down.

Ben Uglow

Analyst, Morgan Stanley & Co. International Plc

Q

Okay. Thank you.

Operator: Thank you. Our next question from Simon Toennesen in Berenberg.

Simon Toennesen

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Yeah. Good morning, Emmanuel and Amit. We talked quite a bit about the good growth in Medium Voltage, but we haven't talked that much about Secure Power which I think you flagged as a growth level that you haven't seen for quite some time here. And I remember couple of years ago when the business was obviously struggling in terms of seeing growth, can you just talk a bit more about the underlying market and what has changed over the course of the past sort of four to eight quarters in this business?

And obviously lots of questions on visibility arguably given the kind of noise out there in the market. And Secure Power is obviously another business where you can have some larger type project. What's the sort of visibility you have here that finally [ph] sort of (00:48:46) the growth seems to be accelerating that this should continue? Thank you.

Emmanuel Babeau

Deputy Chief Executive Officer in charge of Finance and Legal Affairs, Schneider Electric SE

A

Thanks, Simon. May I take one second of my answer to you to complement what I've been sharing with Ben? I mean it was rightly pointing to the fact that I did not clarify and I should have clarified that our exposure to Automotive in China is super small. So if there was any question about what Automotive means for us in China, it's globally at the Group level, our Automotive exposure is very small, but it's true as well in China. Sorry, Simon.

So taking your question on Secure Power, I think we've been already saying for many, many months that we see the wave growing on Secure Power and we see and we were elaborating on the reason why we see investment accelerating, of course, still an exponential growth so the data that needs to be stored.

Certainly, less efficiency in reducing the efficiency precisely on the data center space and how you store more data in a more reduced space. The regulation which is playing powerfully, everybody now started to dig data

center on their own soil and ground and that is big driver. Then I was talking about the development of Edge computing which is also helping. So a number of positive things happening at the same time that make us believe that the trend is deep and powerful.

We have very strong order intake year-to-date globally on Secure Power and I'm not saying that we're going to keep growing at 6%, but we have certainly a lot of underlying element that shows that we are probably gaining market share, but in a market that is growing well. So that's what we are seeing. You're right. On top of that, some big project that are magnifying the growth and we see some of that in the U.S., not only in the U.S. There are many, many places where we see big project for large data center, but we see as well pre-fabricated data center growing very fast. It's in line with my Edge computing comment.

So these are all the aspect playing and delivering the nice performance on Secure Power. What is the visibility? Frankly, once I've said that. We have of course a backlog that has been growing. We have a number of projects. Now beyond the deep analysis that is pointing to a good growth and describing what we've been seeing, I'm not sure that I can add much at that stage. So I hope it answers your questions, Simon.

Amit Bhalla

Senior Vice President & Head-Investor Relations, Schneider Electric SE

Thank you, Simon.

A

Simon Toennesen

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Yes. Thanks, Emmanuel.

Q

Amit Bhalla

Senior Vice President & Head-Investor Relations, Schneider Electric SE

Next question, please?

A

Operator: Next question from Jonathan Mounsey in Exane BNP Paribas.

Jonathan Mounsey

Analyst, Exane Ltd.

Hi. Thanks for taking my question. Good morning. On Low Voltage, is it that you're taking market share here? This is a very impressive growth number. And if it is, is it related to EcoStruxure. And I'm thinking particularly Secure Power is growing well now. You talk a lot about how one business feeds the other. If Secure Power, in the way that you've just described, is set to continue to grow, does that mean Low Voltage is also set to continue to surprise positively versus peers as well?

Q

Emmanuel Babeau

Deputy Chief Executive Officer in charge of Finance and Legal Affairs, Schneider Electric SE

Yeah, Jonathan. I think that the success of Energy Management, and if the capacity – of course, we have an unparalleled, unrivaled breadth and depth in Low Voltage. So clearly, nobody is able to challenge us in the technology we can offer, the channel that we have to deliver this technology to our customer. But back to the pillars I presented during my slideshow, I mean the fact that we are able to put together Low Voltage and Medium Voltage in the commercial and industrial building, the fact that we are able to bundle that with building

A

management system, the fact that for data center we can put together Secure Power with Low and Medium Voltage. And all that of course, encapsulated or offered through EcoStruxure architecture.

The fact that in Industrial Automation we bring best technology for Discrete, Process and Power Management of course starting with Low Voltage. I think that's a major strength for us and I think that's clearly making a difference. So yes, when I look at our performance, frankly we've been growing faster than the competition for many, many, many quarters now. And I'm happy to make the exercise with any of you on that and I see all the reason for that to continue.

Amit Bhalla

Senior Vice President & Head-Investor Relations, Schneider Electric SE

Thank you, Jon.

A

Jonathan Mounsey

Analyst, Exane Ltd.

Thank you.

Q

Amit Bhalla

Senior Vice President & Head-Investor Relations, Schneider Electric SE

Next question, please.

A

Operator: Comes from Markus Mittermaier in UBS.

Markus Mittermaier

Analyst, UBS AG

Hi. Good morning, everyone. Can you just dig in a little bit more detail please on Secure Power? So it seems like data center, it's nothing really new that this is growing strongly. But I think given that you have a 60-40 split roughly between Low Voltage and say traditional UPS-type equipment, it seems to me that now there's growth back also on the UPS side. Is that because of new product launches, is that because something fundamentally changed or is that sort of the comp element that we already discussed?

Q

Emmanuel Babeau

Deputy Chief Executive Officer in charge of Finance and Legal Affairs, Schneider Electric SE

Thank you, Mark. I was super happy to see clearly James on China and I'm super happy to see you on data center. And I'm going to try to give you a clear answer. What we are seeing – I think that the very good trend on data center that we've been experiencing for many, many quarters now started clearly with some architecture, not only with the Web giants, with a lot of Low and Medium Voltage, and as a you know, a bit less UPSs. I think we see two things. We see some of this architecture changing, and therefore, people being back to maybe a more traditional architecture with UPSs. So that's beginning of our financier. And then, we see also investment that are happening in many, many other places apart from the Web giant. It can be colocation. It can be proprietary data center. I talk about Edge computing where you're going to have some small, medium-sized data center that are not going to be, of course, on architecture without UPSs and cooling. So these are the reason why we see a global acceleration of Secure Power in data center. I know I would say the three component growing double-digit.

A

Amit Bhalla

Senior Vice President & Head-Investor Relations, Schneider Electric SE

A

Thank you, Markus. Next question, please?

Markus Mittermaier

Analyst, UBS AG

Q

Sure.

Operator: Comes from Denise Molina in Morningstar.

Denise Molina

Analyst, Morningstar Holland BV

Q

Hi. Thanks for taking my questions. Actually, I wanted to ask about the AVEVA integration in terms of, if you think that there are any places where you still need to sort of get the teams to work together in terms of cross-selling and what sort of incentives you're providing to the sales force to do the cross-selling? And finally, I would say just in terms of new launches on software that you might be using, maybe other verticals where you're using digital twin or other kinds of software rollouts?

Emmanuel Babeau

Deputy Chief Executive Officer in charge of Finance and Legal Affairs, Schneider Electric SE

A

Yeah. Thank you for this question on AVEVA. Frankly, we're at the beginning of the journey on AVEVA, so great to see the company growing double-digit, again confirming the strategic intent showing that the first thing that we are doing together are working, but it's beginning of the journey. And there is much, much, much more to do. It's for AVEVA to get to a unified, homogenous software suite, they're working fast on that. But they have not – far from that finish the work and certainly, by type of customer in countries to work even closer together. And it takes some time to build the relay and the right organization. Very encouraging signals already, but we are at the beginning of the journey and we would expect much more to come in the future.

Now, you were talking about launch of new software. I think they are permanently going to innovate and develop new things on, first of all, making the software suites synergetic and homogenous. And of course, they keep working on the capacity, on the analytical capacity on what the software provide. But I would then suggest that you spend more time with the AVEVA people. I think it's for them to elaborate on what they are doing, but I'm sure they will be more than happy to do it.

Denise Molina

Analyst, Morningstar Holland BV

Q

That makes sense. I just...

Amit Bhalla

Senior Vice President & Head-Investor Relations, Schneider Electric SE

A

Right. Thank you, Denise. Yeah sorry.

Denise Molina

Analyst, Morningstar Holland BV

Q

Sorry. Can I follow up on that?

Amit Bhalla

Senior Vice President & Head-Investor Relations, Schneider Electric SE

A

Yeah. Go ahead.

Denise Molina

Analyst, Morningstar Holland BV

Q

Yeah. No, I was just wondering specifically on the software sales in terms of incentives for the sales force for cross-selling?

Emmanuel Babeau

Deputy Chief Executive Officer in charge of Finance and Legal Affairs, Schneider Electric SE

A

Well, I think the incentive is coming from the fact that, of course, also sales people are incentivized on the business they do. And I think that the two teams discover that when they work together, they do a great business and they do great thing for the customer. So I think it's a great incentive because it's just moving up their sales number and there is a benefit of it, of course.

Amit Bhalla

Senior Vice President & Head-Investor Relations, Schneider Electric SE

A

So I think we are approaching the close of the hour. I'm also mindful that some of you might be getting on to another call at the turn of the hour, but as I said earlier I think there are probably a couple more repeat questions. So we're happy to sort of take them quickly. So the next question, please?

Operator: It comes from Andreas Willi, JPMorgan.

Andreas Willi

Analyst, JPMorgan Securities Plc

Q

Yeah. I just had a follow-up question on your earlier comments on Automation. Maybe you could indicate what the size of your OEM business is within the roughly €6 billion Industry division?

Emmanuel Babeau

Deputy Chief Executive Officer in charge of Finance and Legal Affairs, Schneider Electric SE

A

I was checking whether we shared this information, but I'm happy to say that globally between Discrete and Hybrid Process, and I put Software in there, with Software it's 50-50. And the OEM business altogether is part of Discrete, but it's several hundred millions but you have a big, big part of that which is going – of the Discrete technology, which is going to the general market but I don't think we give exactly an OEM number, but that's as far as I can go in detailing our exposure.

Amit Bhalla

Senior Vice President & Head-Investor Relations, Schneider Electric SE

A

All right.

Andreas Willi

Analyst, JPMorgan Securities Plc

Q

Thank you.

Emmanuel Babeau

Deputy Chief Executive Officer in charge of Finance and Legal Affairs, Schneider Electric SE

A

Thanks. And we take one more last one in the interest of time so.

Operator: Thank you. It's a follow-up from Gaël De Bray in Deutsche Bank.

Gaël De Bray

Analyst, Deutsche Bank AG (France)

Q

Thank you very much for the follow-up. Can you just talk a bit more about the trends in France, in particular, on the construction side of the portfolio? Thank you.

Emmanuel Babeau

Deputy Chief Executive Officer in charge of Finance and Legal Affairs, Schneider Electric SE

A

Well yes, Gaël. As I was alluding to, we don't think that the performance in France in Q3 reflects the underlying trend, and therefore, notably for construction, I think that there was some stocking element, destocking versus last year. I think the construction remains well oriented all together. Probably the new start are slowing a little bit, but it means that we're going to be impacted much, much later. So I would expect overall growth in construction and that we can reflect that on the kind of underlying trend. So, I hope we're going to be able to show that in Q4, we are back to growth with the construction business and with Low Voltage in France.

Gaël De Bray

Analyst, Deutsche Bank AG (France)

Q

Sorry. Did you say how much it was down in France in Q3?

Emmanuel Babeau

Deputy Chief Executive Officer in charge of Finance and Legal Affairs, Schneider Electric SE

A

No. I don't think we said we are down low single-digit in France in Q3 globally, but we don't split by business.

Gaël De Bray

Analyst, Deutsche Bank AG (France)

Q

Okay.

Amit Bhalla

Senior Vice President & Head-Investor Relations, Schneider Electric SE

All right. So I think we'll have to stop it there. I must just thank everyone for the time this morning and wish you all a happy, happy rest of the earnings season. Thank you.

Emmanuel Babeau

Deputy Chief Executive Officer in charge of Finance and Legal Affairs, Schneider Electric SE

Thank you. Talk to you soon. Thanks guys. Bye.

Operator: And that would conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.

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