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SU.PA - Q3 2017 Schneider Electric SE Corporate Sales Call

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OVERVIEW:

Co. reported 3Q17 sales of EUR5.904b. Expects 2017 organic revenue growth to be around 4% outside infrastructure.

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PRESENTATION

Operator

Welcome to the Schneider Electric 2017 Third Quarter Results Conference, presented by Emmanuel Babeau, Deputy CEO and CFO. Today's conference will be recorded.

I will now hand the conference over to Amit Bhalla, Senior Vice President, Head of Investor Relations, for the introduction. Please go ahead.

Amit Bhalla

Well, thank you very much. Good morning, good afternoon to all. Welcome to our Q3 revenue results this morning from Paris. We have with us Deputy CEO and CFO, Emmanuel Babeau, who will be guiding us through the presentation. After which, we will open it up for question and answers.

I would like to again remind you around the disclaimer on Slide #2, which is self-explanatory. And with that, we get on with it. So Emmanuel, over to you.

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

Thank you, Amit. Good morning, everyone. Really glad to be with you to lead you through our numbers for our Q3 sales.

I'm on Page 4, and starting with the headline for our sales for this third quarter. We've delivered a good performance, certainly illustrated by the organic growth, plus 2.7%. Actually, we've been also experiencing during this quarter a significant negative impact coming from the working days, minus 0.6 points. So that would then mean that the underlying organic growth, same working day, would have been plus 3.3%, which is showing a further acceleration on the organic growth, but I will elaborate on that later on.

The reported growth is minus 1.9% because of negative ForEx impact and because of the scope impact. But here again, I will come back to that in the course of my presentation. Reason for acceleration is clear and simple. We've been delivering good performance on the businesses where growth is the objective. If you look at the group outside Infrastructure, so if you look at Low Voltage, plus Secure Power, plus Industrial Automation, we've been delivering an organic growth of plus 4.3%. And working day adjusted, that would have been a 5% organic growth, so showing nice dynamism.

If you just focus on the 2 star performers of the first half, Industrial Automation and Low Voltage, well, altogether, they've been growing 5.2% organically during the third quarter. And Industrial Automation, same working day, was growing organically at plus 7.5%, and Low Voltage growing at about 5%. So a very nice performance for these 2 businesses.

Medium Voltage, of course, has continued to be impacted by selectivity. Outside selectivity, Medium Voltage has reached an organic growth of about 1%. And today, the good news is to see new economy doing well, and they are up 5% in the quarter with another very strong quarter in China, growing at 10%.

We've also continued to deliver on our strategic priority during this quarter. We've been delivering organic growth on product of plus 5%. If you look at Final Distribution & Wiring Devices, it's another solid mid-single-digit growth. I think I'm not mistaken if I say that we have now been growing 4 years in a row without interruption on Final Distribution & Wiring Devices, quite a nice journey actually.

Industrial Software revenue, going up as well, 3%. Service orders, so more moderate growth for the sales, but very nice growth for the order growing high single digit. And we are progressing well on our EcoStruxure. I will detail that later on. But we are offering some progressing on the digital asset under management, reaching 1.5 million, which is plus 20% year-to-date, so nice growth.

Spending a little bit of time with you now on Page 5. I think we highlighted that at the end of H1, and we wanted to come back on that, the fact that we are really, today, developing successfully the cross-selling between our businesses and our technology. And there are a few striking elements, I think, that illustrate that. The first thing is that we are reaching double-digit growth in specific targeted segments because we are precisely able to put together all our portfolio and maximize what we can bring to our customers. So that would be, in terms of segment, the case for food and bev, health care, cloud and service provider, for instance.

Another very interesting element, I think, is when we look at some of these targeted segments, well, you see that actually, the technology which are being pulled through by the main technology are growing faster. So it shows that the kind of entry point that we have, the kind of natural, I would say, door opener is actually opening widely the door to develop even in an accelerated manner the other technologies. So just to take an example that you have other one taken here, if you take food and bev where the main tech is, of course, Industrial Automation; and if you look at the sales coming from Medium Voltage, Low Voltage or Secure Power, these 3 businesses are going to even grow faster than Industrial Automation for that food and bev segment. Quite an interesting element to show the success of this cross-selling.

And then on the page, you have a few nice examples where we are bundling our technology for the benefit of our customer. I'm not going to detail all of them. But certainly, now looking at this large Indian co-location provider, we've been working on 2 large data centers and supplying the UPSs, but also the full LV/MV management for a nice bundle. And you have other examples, but I will let you go through this example when you have a second.

We are also doing some very good inroad on the deployment of EcoStruxure. There was a big event in Hong Kong months ago now. Some of you have been with us in this occasion. And I think it has been clearly regarded as a nice, full of learning event from all the people who participated in. You can catch up. Actually, we've put a link on the website where you can have a good summary of what has been there. And it's my teaser moment. Well, actually, more is to come, and we have our Digital Day on December 12 at our headquarters in Paris. We'd be very happy to welcome you. And we will talk more about EcoStruxure and how we are further accelerating on our digital journey, both for our product, for our customer experience and on the way we digitize the way we work.

If you move to the next page and just to dig a little bit further on EcoStruxure's success in Q3. Well, here again, you have a few examples of implementing our EcoStruxure solution for the benefit of our customers. So if you take the Bainbridge Island School District example, we've been implementing an EcoStruxure IT architecture, which is enabling this school to do all these -- their IT monitoring and really move to maximum power reliability in a zone which is subject to power interruptions. So interesting one. I'm not going to detail all of them. There is a nice one with EcoStruxure Plant & Machine for a customer in Algeria, where we bring global efficiency on the site. And there is a nice one, the Bubolz Nature Preserve here where, with the EcoStruxure Grid, we are providing a solution to get to 0 carbon emission and achieve 50% saving on power consumption through the lifetime of the site. So a nice one contributing to sustainability.

Sustainability, that's, of course, the main theme of the next page, I'm on Page 8, and this is our Planet & Society barometer. We keep doing progresses. We are now above 9% out of 10%. We finish at the end of 2017 this 3-year barometer. You have the full detail, I believe, in appendix on all the KPIs and how we progress on them. Just wanted to highlight a few of them on that page. When it comes to energy saving, we had an initial maximum ambition of 10%. We're getting there. We're at 9.2% energy saving over the period. Another one, which was very important, was the avoidance of CO2. We had initially an ambition of 120,000 tons, where we are getting to 150,000, so we actually passed the mark. But of course, we're not going to stop there, and we continue to work on that direction.

As always, it is a moment of self-advertising on how pleased we are with the award that we received once again during the third quarter. We've been, for the seventh year in a row, on the CDP Climate A list. And it's quite a remarkable achievement we have, for 7 years in a row, this kind of ranking. And there is a new award, which I personally find interesting, which has been awarded by European authorities, which is called the Integrated Thinking Award, where they look at our company, got put together strategic, financial and sustainability thinking and dimension. So it means that we are working on the possibility to develop all of them in the right direction at the same time.

All right. So let's move to the business performance, and I'm on Page 10. So global sales for the third quarter amounted to EUR 5,904,000,000. It's down minus 1.9% versus the Q3 of 2016. You have a massive negative ForEx impact, representing minus 3.6%, mainly coming from the U.S. dollar, the Chinese yuan, the British pound and a few other emerging country currency. We believe now that for the full year 2017, the translation impact of the ForEx impact should be around minus EUR 300 million on our sales. So that's our latest vision based on the current rate. We also have a negative impact coming from the scope. This is the DTN disposal. Of course, we have ASCO, we'll have the full consideration of AVEVA, but the deal has not closed yet. So that's why, for the time being, we just have the negative impact. Now looking at the organic growth, the plus 2.7%, again, without this negative working day impact, it's a growth of about plus 3.3%.

And you have here the detail for the 4 businesses on which I'm going to elaborate right now, and I suggest that we move to Page 11, where I'm actually going to talk about Low Voltage. So sales of Low Voltage are up plus 0.6% at EUR 2,632,000,000; organically, up plus 4.3%; plus 5%, working day adjusted. But as you know, we are no longer consolidating the Delixi sales in China. And Delixi, like the whole Chinese business, has been achieving a tremendous performance once again in Q3. That was already the case in H1. And actually, the whole portfolio, which is really the one we're looking at internally and that one we are reporting that measure, the whole Low Voltage business has been growing with Delixi not at 4.3%, but at plus 5.5%. And that means that working day adjusted, this Low Voltage business has been globally for us growing at 6%. And it shows the excellent dynamism that we are experiencing on the business.

No surprise. Low Voltage is growing across our 4 regions. I mentioned the very nice performance in Final Distribution & Wiring Devices. It's a real, solid mid-single-digit growth. We've seen a good momentum on Commercial & Industrial Buildings globally. So it's many areas. It's both the residential and the commercial and industrial building which is progressing well.

North America has been nicely up. New residential, doing well, sure. But good performance in targeted segments and notably in data center. We should see more of that in the coming quarters, but that was already the case in Q3 in North America. Western Europe, that was expected. But we have the confirmation, it has notably been good in Low Voltage, very clearly. Asia Pacific has experienced growth in many countries, driven, of course, first, by China. But not only by China, although it's smaller today, but Vietnam, Indonesia, for instance, are markets where we are experiencing very nice growth when it comes to Low Voltage. And then looking at the Rest of the World, it posted a very strong growth. And looking at Russia, looking at Eastern Europe, Africa, these are all markets which have been clearly seeing a nice and positive development for Low Voltage in this third quarter.

I am now moving to Medium Voltage Infrastructure. I mean, that's the business on which the name of the game for us for the time being is rather to improve the margin than to really push the top line. Now we do confirm that we will have seen the end of the negative impact of selectivity at the end of 2017. Looking at the order intake, we believe that we have troughed, and you know that we have probably turned the corner in term of order intake evolution. And when we look at the sales, they are negative by 4.5 -- 4.4% organically. But without the selectivity, which we evaluate to be about EUR 55 million on the quarter, the business has been marginally up about 1%.

Looking now a bit more detail on the performance. North America declined, once again, not necessarily so much reflecting the current environment, but much more what we've been seeing in the past. And notably, in 2016, we're invoicing order that we took quite a while ago. So that was expected, but we had the consummation of a very negative number. Western Europe was down as well, but certainly, largely impacted by selectivity initiative. And when we look at places of growth where we've been growing in many new economies, it's in Middle East, China, Africa or even Russia, CIS, up strongly, where we believe that probably some of the difficulties in the oil and gas sector are now behind us. The good news is that on where we target strong growth, i.e., grid automation, we have been delivering strong growth with particular success on the software business for grid automation.

Here, we're just confirming the fact that, as announced, we are working on this implementation of a new organization in order to take care of the project and equipment business, particularly targeting the utility segment. I would say, at that stage, nothing else to be added. We are implementing the new organization. And of course, we are going to then monitor very closely how it performs in the coming months.

I'm now moving to Page 13, the Secure Power IT. And this is going to finish our Energy Management pool, if you want. Secure Power IT, up 0.3%, around 1% working day adjusted, and that's probably, to be clear, where we would have expected higher growth initially and notably because the U.S. has been down more than what we were expecting. But behind this number of underlying 1% organic growth, in fact, you have a contrasted picture because North America has been disappointing, but many other places have been good. For instance, when you look at growth in distributed IT, we have some good results in many, many geographies. So all our impact in the IT channel has been positively oriented in many, many places. We also have seen a good dynamism in non-IT end markets, and you know that it's a priority for us as a nice diversification for the business. Good growth in services as well, mid-single digits.

Western Europe, growing nicely, with Germany, Nordics and U.K. being up. And in new economy, we also were up mid-single-digit with good progress in Asia Pacific and Africa notably. So U.S. was the negative part. And the reality is that we have seen, as expected, a significant investment in data center in the year during that quarter. But the architecture that we have been implementing were more for web giants or very large player, as you know, with more Low and Medium Voltage and, therefore, that has been beneficial to our Low and Medium Voltage business, but less UPSs, less cooling, less rack as well, and that explain the negative performance in the U.S. for IT on the third quarter.

Now we got the confirmation that the Secure Power technology was fully playing its channel role with an impressive double-digit growth in LV and MV orders for cloud and service provider over the period. So that continued to deliver the expected benefit, and that's definitely good news.

Now moving to the Industrial Automation business, which has been the best performer. So it's easy for me to finish with the best member. Sales amounting to EUR 1,395,000,000, it's up plus 4.6%; organically, growing plus 6.9%. And again, working day adjusted, you would be around plus 7.5%. Quite an impressive growth and I would say across the board. So you remember that we are talking about a lot of dynamism in discrete automation, and that has continued to be the case for drive, HMI, contactors, PLC. Globally, OEM offers has been firing up very nicely. But the good news is that we also have been experiencing good growth in Process Automation, which is up mid-single-digit. Good development on EcoStruxure, and I already mentioned the fact that the software revenue were up 3% organically.

Growth, here again, like for Low Voltage, across the 4 regions. North America up, with the U.S. seeing good situation with OEM demand and some beginning of improvement in the oil and gas end market. So let's see how it evolves, but there was some first sign of an improvement there. Western Europe was clearly very, very good, with good growth across the region. China was, I would say, excellent with good growth on the OEM demand and continued execution on this new priority or new strategic segment on which we want to really perform strongly. That has worked extremely well. And the Rest of the World was already -- was also, sorry, up, thanks mainly to the growth in Middle East, but not only in Middle East.

Regarding the AVEVA combination, so you certainly have seen that the AVEVA shareholders have approved to, I would say, in a kind of unanimous way the combination with our software business. And we keep expecting closing around the end of the year. So I would say nothing new in that respect, and it seems to be developing normally.

I am now moving to the Page 15 with a little bit of color, I would say, by region. Best performer, I would say, once again, has been Asia Pacific. China growing 10%. So here, I'm going to repeat what I said already at the end of H1. Don't expect China to continue to grow at double digits in the coming quarters. I'm not saying it's totally impossible, but it is not, for us, the most likely scenario. The most likely scenario is that, first, we're going to start to face higher comps in China. And second, we do believe that everything around Industrial Automation is going to work -- to continue to work very nicely. We have, as we already flagged, more uncertainty, I would say, on the construction market. So we do expect China to continue to deliver nice performance. We are not expecting China to necessarily continue to grow at double digit.

In the other nice performers for Asia Pacific over the quarter, you have Australia, which has been resuming growth, and that's good news. You have Vietnam that we have put here where we have a good growth and we have quite an impressive trajectory in Vietnam. But Indonesia, Malaysia would have been positive. For me, highlighting the fantastic potential of this Southeast Asia region, which, for the future, is a big priority for us. India was flat, frankly, does not reflect the trajectory of the country. But there was clearly, during this quarter, because of the reform implementation of new tax, some headwind. We would expect India to resume growth on the short term. And South Korea was down because of Medium Voltage business and selectivity and very high basis of comparison.

Moving to Rest of the World, the second performer, plus 4%. Good to see many new economies performing well. Russia clearly delivering a nice performance. Turkey, growing as well, but remember that Turkey Q3 2016 was disrupted by an event in the country. So that was a kind of catch-up during this quarter. Two countries with difficulty, Brazil, which is still down; and Saudi Arabia, so we no longer have the same kind of decrease, but it's still a significant decrease in Saudi Arabia.

Western Europe. Good to see Western Europe back to nice growth, plus 3%, despite an important working day negative impact. We announced that we are expecting Western Europe to be back to growth. But it's always nice to have the confirmation and notably with France. And actually, if you take all these countries, they all have been growing between plus 2% and plus 5%. So all the countries that you have here and, of course, which are the main countries for Western Europe, have been delivering a pretty good performance. The only market which has been less positive are the Nordics where we are about flat, largely on selectivity for Medium Voltage.

And then finishing with North America, minus 1%, probably close to flat in working day adjusted. United States are actually flat. Mexico was down, both for reason of very high comps last year and also because of the earthquake at the end of the quarter, which has not been -- which has been disrupting the business for the last days of the quarter. When I look at the U.S. and I spend a little bit of time, I think that's what I started to describe, you have clearly a very good situation when we look at Low Voltage and Industrial Automation. We expect that to continue. You have Medium Voltage still being impacted by the very low backlog accumulated notably in 2016. We think that things should gradually start to improve. And we have this performance in IT where we certainly also have the objective to improve the trajectory. So you would expect North America globally and the U.S., in particular, to have a much better momentum in the fourth quarter.

All right, that leads me to Page 17, and the revision of the guidance upward based on these good numbers and the very positive trajectory in many key areas for us that I described in the course of this presentation. So following this Q3, first of all, we are revising up our target for top line growth. We are now targeting an organic revenue growth around 4% outside Infrastructure. Remember, at the beginning of the year, first guidance was 1% to 3%. So it's a nice improvement versus what we thought we would be doing at the beginning of the year. For Infrastructure, I would say, nothing has changed. Of course, margin improvement remains the priority. And before selectivity, that we continue to expect to be around minus 4% in terms of impact for the full year. We expect Infrastructure to deliver a low single-digit organic growth.

We are also, based on this sales evolution, looking at the businesses that are progressing well. We are revising our guidance for the improvement of the adjusted EBITA margin. And we now target plus 50 to plus 70 basis point organic adjusted EBITA margin improvement. Remember that at the beginning of the year, the guidance was plus 20 to plus 50 bps. So I think that it shows the work that we are doing in the right direction and what it can deliver at the level of the margin improvement. We also are updating the impact coming from the ForEx. We were minus 10 to minus 20 bps in July. Here, we are just adjusting by 10 bps, minus 20 bps to minus 30 bps coming from some currency accelerating their depreciation versus the euro. And we are clarifying the scope impact versus the number published last year, the 14.1% of adjusted EBITA margin for the full year 2016 that we reported last year. You should take the deconsolidation of the solar business, the DTN disposal and some other minor impact, you get to a plus 20 bps positive impact versus last year margin.

Well, that terminates my presentation. Amit, back to you for a few comments before we start the Q&A.

Amit Bhalla

All right. Thank you for that, Emmanuel. We will move now to the Q&A. We have exactly 30 minutes, so that's great. I see we already have several request for questions. (Operator Instructions)

So with that, we move to the first question. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will take our first question from Andreas Willi from JPMorgan.

Andreas P. Willi - *JP Morgan Chase & Co, Research Division - Head of the European Capital Goods*

My question is on price/cost. Obviously, given your upgrade to the margin guidance, it seems like you're able to offset raw material increases. Maybe you could just give us a little bit more information around both what you've been able to do on price and whether the raw material headwind guidance for the year is changing, given we have seen some of the raw materials keep going up recently and, basically, how that whole process is going and passing that on to your end customers.

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

Yes, sure, Andreas. So we are, I think, quite in a disciplined manner implementing the road map so far, which was to continue to price up and even improve further the situation versus where we were at the end of the H1 2017. Remember, 3 months ago, we said 90% of the raw mat inflation has been compensated with price increase outside China. We want to do better for the rest of the year. And I would say that remains our ambition, and I want to believe that, yes, that has been the case in Q3. So raw mat, you're absolutely right, remains strong. You know that we have a kind of average 3 months hedging policy. So I would say, even if the latest event on the commodity market are not great in terms of looking at the future because that means that more negative impact is to come, I think I'm able to say that the H2 should be around EUR 100 million, maybe a bit more negative impact, but that was the kind of view that we had at the end of H1. So maybe it's going to be a bit more, but I don't expect a kind of sudden disaster in H2 when it comes to raw mat inflation. But certainly, that will have some impact for next year.

Operator

Our next question is from Andre Kukhnin from Crédit Suisse.

Andre Kukhnin - *Crédit Suisse AG, Research Division - Mechanical Engineering Capital Goods Analyst*

Could you talk about the dynamics within the industry, please? And what are you seeing in the discrete segment by regions? And maybe somewhat linked to that and to your comment on, "Don't expect China to carry on growing double digit," is there anything that you're seeing there, anything like maybe channels, stock buildup, that worries you?

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

Yes, Andre, I'm happy to elaborate on that. I mean, as I said, the dynamic that we have seen on the industry were really good momentum across the board. So I'm not saying that process is today at the level of discrete. And clearly, on one side, you are high single, sometimes you're double-digit, growing for some of the family of product. That's not the case for Process Automation on average today. But the first good news is that everything now is turning quite nicely positive. Now we are growing across the region. I mentioned that in discrete, I mean, look at the drive, HMI, contactors, PLC, everybody is posting a very nice performance. Western Europe and China are 2 big markets. I think that we can expect Western Europe to continue to do well. As I said, China should continue to do well. Now the kind of performance, strong double digit, once we will start to face higher comps, I mean, of course, the bar will be higher, and I don't think that we can sustain that. But I would say, we are today in a very healthy environment for Industrial Automation globally. And we see that continuing as far as we can see.

Andre Kukhnin - *Crédit Suisse AG, Research Division - Mechanical Engineering Capital Goods Analyst*

And the channel stock levels, you're not seeing anything concerning in that?

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

Well, difficult to say that the people are building inventory over 9 or 12 months period. So you may have a hiccup at the end of the quarter or -- and we know that, and that's certainly always the case. When you have a positive momentum in the market, the distributors tends to overstock in order to not to run into shortages. And when the situation is bad, they tend to destock in order not to be with the level of inventory which is twice. So you have a risk of maybe accentuating some of the trends. In the kind of a specific manner, you may have impact here and there, but I think that the trajectory seen over the last 9 months, notably in China, is just reflecting the strength of the market globally and maybe, again, with here and there some element being magnified, but it doesn't change the trend.

Operator

Gael de-Bray from Deutsche Bank.

Gael de-Bray - *Deutsche Bank AG, Research Division - Head of European Capital Goods Research*

My first question relates to the U.S. because we've seen early signs of slowdown in the nonresidential market over there lately, with mix indicators and with some of your peers suggesting slower growth rates recently. So I'd like to have your take on this. And in relation to this, I'm not so sure I understood why you expect a much better momentum in the U.S. in Q4. I mean, do you actually see better market conditions in T&D? And what makes you confident that you will return to growth in IT?

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

Gael, so on the U.S., on the early sign of slowdown you are alluding to, again, I don't think that today, we have, when we look at the backlog, what we've been building over the past few months, an element of that. So we see dynamism in Commercial & Industrial Building. That's what we call the non-resi, so it's not just commercial or -- and therefore, that is giving us the kind of confidence on the fact that we are on solid trends for the coming months. And we don't report orders. But as you can imagine, when we make comment about what we expect for the coming months, of course, we also look at our backlog and what we can see. So that certainly is building confidence for us in what we can expect for North America for building, and again, continuation of a solid trajectory for the residential and the commercial and industrial building. On the Medium Voltage business, we are not saying that things are suddenly going to move to a nice positive thing, but it was extremely negative. And again, we've seen the order intake evolution. We are going to face easier comps starting in Q4. So I'm not saying that Medium Voltage is turning positive, to be very clear, in North America in Q4. But it has been double-digit negative, and I think that the trend should improve, if you want. And then when it comes to IT, I did not say that we are returning to growth. It's a scenario, but I'm not saying it's going to be necessarily the case. I'm just saying that after a decrease, which was a significant one in Q3, we do expect a better momentum and a better situation in the fourth quarter for the U.S. So that's all these elements, which, if you put them together, give us some optimism on the fact that, yes, North America should be able to post a better performance in Q4.

Operator

James Stettler from Barclays.

James Edward Stettler - *Barclays PLC, Research Division - MD*

Well, just focusing quickly on the Medium Voltage division there, you talk about continued strong growth in grid automation. Can you talk a bit about how big this business is today and where you see the opportunities?

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

Yes. You talk about when it comes really to what we define as grid automation, several hundred millions on this -- out of the EUR 2.5 billion business, which is positive. So it's a sizable one. But of course, on its own, it's not sufficient to create the global trend. But when it comes to software, for automation, protection relay, all the automate for the grid, that's a few hundred million. Amit is telling me that we've been disclosing the amount in the past, so it's about EUR 500 million. So it doesn't make the full Medium Voltage business for this EUR 2.5 billion positive part, but it's a sizable part.

James Edward Stettler - *Barclays PLC, Research Division - MD*

Is it a step change, though, in demand?

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

Well, we see -- I would say, not surprised. We see acceleration of people investing on the efficiency of the grid. So is it a step change, an acceleration? Maybe, in many countries, where investments are going to more efficiency for the asset, more efficiency on the grid and less on building new capacity. And that's what is benefiting this grid automation business and plus everything around sustainability, capacity to support extreme weather condition and, quite obviously, what has been happening recently in many countries is bringing many, I would say, utility of other work to come to us and start working on that. So that -- everything ensuring, protecting the grid, making it more efficient to use, lower capacity of production and have a better return, that's the kind of investment that we see today.

Operator

James Moore from Redburn.

James Moore - *Redburn (Europe) Limited, Research Division - Partner of Capital Goods Research*

I wanted to go back to the new margin guidance, so just clarify. You mentioned earlier that the raw materials will be close to the EUR 200 million for the year, maybe a bit more. But it's more an issue for next year. A number of companies are talking about raw material headwinds next year being of a similar magnitude, and some are saying it might be half. I know it's early, but could you say where within that range it's looking? And you also mentioned at the half that on savings, you could do a similar industrial productivity in the second half to the first, and do you still stick with that? And do you still stick with the view that the IT margin will come up year-on-year in the second half after the decline in the first half?

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

James, that's a lot of question in one question, but I'll take the one global question to clarify the guidance. So on raw material, frankly, it's too early to say for next year. I don't want to give a number and then in 4 months, 5 months, come back with a different picture. But it is -- I mean, by yourselves, I mean, you get to the conclusion that, of course, if the raw material prices and notably copper, which is back to USD 7,000 a ton, has been increasing towards the second part of the year, that will have an impact on -- over next year. Now will it be the same impact as this year? Not necessarily. But it's because other commodities have been moving in another direction, but it's too early to say. On the productivity, yes, we certainly intend to deliver another quarter -- 6 months of strong productivity in H2. And of course, Q3 is giving us already some hint on that. Remember that beyond everything we do and which already allow us to generate productivity in the absence of material top line growth, as soon as we have some acceleration on top line growth, that is also mechanically helping the productivity. So that's going in the right direction. And on IT, I can just repeat that it is our objective to certainly have a better performance during the H2 than in H1. So I'm happy to confirm that, and we'll see where we finish H2.

Operator

Simon Toennessen from Berenberg.

Simon Toennessen - *Berenberg, Research Division - Analyst*

One more question on China. You talked about it quite a bit already. But obviously, growth has been strong for quite a few quarters now. Schneider is obviously quite present there. You've done early investments there in the past, a long time ago. You've restructured the business, I think, over the last couple of years, particularly with regards to some of your sales channels. When you look at China growth right now, and obviously there's a lot of debate on the sustainability of some of the growth -- strong growth you're seeing there, how do you review kind of the changes you've done over the past 2 years in relation to, obviously, some of the growth you're seeing right now? And when you look forward, do you -- compared to maybe 3 or 6 months ago and you look at some of the maybe CapEx-driven plans you're seeing versus, which might be a bit longer term, versus some of the sort of shorter cyclical part of your business, do you generally feel more confident about China growth that this could sustain maybe also into '18 for longer, maybe not at -- like, it's obviously double-digit rate, but maybe for longer than what we've anticipated maybe 3 or 6 months ago? And lastly, just on China, could you comment how much -- how strong the growth in Low Voltage was in China, please?

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

Thank you, Simon, for that question. I mean, you're right, we've been working a lot on our, I would say, Chinese footprint over the last 2 to 3 years, at the time where the country was obviously going through a major transition, and we're transitioning with the country. I think, today, we have certainly a business which is benefiting from the effort that we've made, notably in terms of capillarity in the country and capacity to be present in a much broader scale and notably much better in the central and the western part of the country. That is certainly giving us a better reach on the global capacity of growth of the country. We have all this strategy of focusing on the new growth segments. I mean, we've mentioned them, pharmaceutical, health care, food and bev, water, wastewater, electronics and many other. We are, I think, positioned on the right, new, big infrastructure work like metro, which is a big thing today, where we are clearly making a very, very good inroad in term of business. So I think we've been evolving our organization. One element that I can add is that you have, even with the new markets remains a big one, you have the development of retrofit for the construction. That's a new space and I think in which we are doing well. So I think we've been adjusting to the market, then, of course, helped by the global acceleration of the Chinese economy. And I want to finish by repeating that construction is going to stay probably a bit more volatile in the future. You will have ups and downs. We see some very solid perspective for Industrial Automation globally as China wants to get to the next step or milestone in its journey for industry leadership. The need to strive for more technology, more quality and more wage inflation absorption so that we go through more automation.

Amit Bhalla

And Simon, you would recall that there's a presentation that was made last month specifically on China, which is also available on the website.

Operator

Alasdair Leslie from Societe Generale.

Alasdair Leslie - *Societe Generale Cross Asset Research - Equity Analyst*

Just maybe a question on cross-selling opportunities because you've highlighted that again. It seems like the rise there in the opportunities has maybe coincided with the ramp-up of connected product launches. So I was just wondering how important EcoStruxure is to maximizing those opportunities you talk about now. And then if you could maybe comment on the pace of new connected product launches this year, I think, and whether that's kept pace with last year. I think you were talking about some 300 products -- connected product launches last year from memory.

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

Well, cross-selling opportunity, obviously, is not isolated from EcoStruxure. EcoStruxure is a fantastic way to bring the full Schneider power to our customer in an integrated, open, efficient manner. And you're absolutely right, I mean, when you bring efficient platform, it is an easy way to integrate more Schneider technology for the benefit of the customer in a kind of end-to-end, easy-to-use way. So no doubt that this EcoStruxure proposal is helping the cross-selling, not the only element, to be very clear. I think we are also making sure that we are organizing ourselves in terms of sales force, the way we deal with the customer and maximize this capacity to channel all our portfolio to our customer. But that's one element. For the connected product, bear with us until the 12th of December. I don't want to kind of start a patchwork of element on that. I would prefer to come with a comprehensive view on the 12th of December. We'll share a lot of data on that day on how we are progressing in that respect.

Operator

Ben Uglow from Morgan Stanley.

Benedict Ernest Uglow - *Morgan Stanley, Research Division - MD and Head of European Capital Goods Equity Research*

I apologize for being the sort of 10th person to bang on and ask about China, but really was a clarification. Earlier in the year, I think that you were sort of giving some hints or some figures around the kind of relative growth rates in Industrial Automation. And I think in one quarter, Industrial Automation was growing at nearly 20%. What I'm curious about is in the 10% China growth, is this -- is Industrial Automation growing mid-teens and Low Voltage growing mid-single digit? Or is it much narrower than that? Can you just give us a sense, a calibration of where those 2 businesses are in China? So that's question one. And question two, if we put aside all the comp effects, restock, destock and all this other stuff, if you look into your China industrial business in 2018, do you think -- do you see early signs, Emmanuel, that the Industrial Automation piece next year can still be quite good? Are there any positive signals for how that business should trend next year?

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

That wasn't one question, Ben, but that's fine. Well, I'm not going to disclose because if I start that with China, I can do that for everyone. But...

Benedict Ernest Uglow - *Morgan Stanley, Research Division - MD and Head of European Capital Goods Equity Research*

We did a couple of quarters ago.

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

Yes. So -- but this is only for a specific purpose. But I'm happy to give a sense of what is going on. I mean, we had a nice double-digit growth for Industrial Automation in the quarter in China. But actually, Low Voltage was also posting a nice high single digit. So it's differentiated, but it's not, as you should know, there was a kind of a phenomenal gap between the 2. But again, I think that we highlighted the fact that we see Low Voltage and construction globally as less clear in the evolution. Now when I look at next year in China, I'm not going to say we're going to continue to fly at double digits. I don't know. But I think we have today expectation of a continuation of a very solid growth, which is exactly how it materialized.

Operator

We will now take our next question from Jonathan Mounsey from Exane BNP Paribas.

Jonathan R. Mounsey - *Exane BNP Paribas, Research Division - Analyst of Capital Goods*

I wonder just regarding the divisional name changes today. I guess, whenever you sort of change the description of a division, maybe it changes your attitude towards all the assets within that division. Perhaps, do the name changes imply there may be assets within those divisions now that appear as non-core? Low Voltage is a very probably more specific title than building and partner was, for instance. Could you comment on maybe portfolio and whether there are some businesses we may see depart in the next year to 18 months?

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

Well, no, I don't think that, Jonathan, you should take in the change of name more than a desire of clarifying what was sometime a kind of misunderstanding between is it an end market or is it a technology. And I think that we realized that when we are talking about building, for instance, people thought that was kind of all our sales to building, and that was not the case. So I think we took a shortcut and called it Low Voltage, which is the bulk of what is within this business. As you know, we also have building automation, and it's very important for us. But I don't think you should read more than that in the change of name than a clarification that we are reporting by technology today and not by end market. And that was the purpose of changing the names.

Operator

William Mackie from Kepler Cheuvreux.

William Mackie - *Kepler Cheuvreux, Research Division - Head of Capital Goods Research*

Coming to Medium Voltage, could you just update us on when you expect the timing of completion for the formation of the specialized organization and specifically the sizes of the respective businesses? And in the past, you talked about selectivity within Medium Voltage impacting the results, something like negative 4% for this year and then largely complete. Is that how you see the picture in the context of your updated guidance that it should be about a minus 4% and nothing into 2018? Or is there an adjustment there? And I guess, specifically, a clarification on the earlier questions around IT. The level of growth within IT, you've said, was good in all regions, excluding North America. Can you give a sense of what the aggregate growth was excluding North America for IT?

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

So William, that's at least 2 or 3 questions. But I'm certainly going to take the first one on energy, where we are. I mean, we started, and I don't think we want to give a date by which it will be done. By the way, it's not a kind of thing which it's done in one go and this is it. Actually, it's a gradual implementation. So hopefully, by the beginning of next year, this new organization will be up and running. But I don't think we want to put more pressure than this kind of objective on that time line. On the minus 4%, I'm certainly happy to confirm that this is the full impact that we expect for 2017. And by the way, I think it's in the presentation and in the press release. And I'm happy to confirm that for 2018, we are not expecting any more material impact coming from the selectivity. So we will target for 2018 a performance which won't be impacted by selectivity. On the IT growth, no, I'm not going to detail it. I think I just mentioned the fact that the decrease in the U.S. was a significant one. So I'm sure you can make your assumption on what it means for the rest.

Amit Bhalla

I think we've got another 4 minutes and maybe 2 or 3 questions, so we'll try to see if we can fit them in. Next one, please?

Operator

Daniela Costa from Goldman Sachs.

Daniela Costa - *Goldman Sachs Group Inc., Research Division - MD*

I just have one quick question, sort of following up on utilities in the U.S., and I guess more broad than utilities, probably. But on the hurricane recovery impacts, what are your expectations in terms of how much growth could come from that? Maybe in the near term, it leaves a negative impact. But I guess events like Katrina was pretty important for utility CapEx and for construction rebuild. So what expectations do you have for the coming quarters on the back of that?

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

Daniela, good question. I'm not sure I have an answer. We are discussing with the team. We are trying to help as much as we can our customer, and some of them are in very difficult situation. We've been, I can tell you, during this very difficult moment, fully mobilized to help people to face this tough situation. That should have some impact because, indeed, you have a lot of repairs, reworks to be done, both of course at the level of the utilities, but at the level of many new individuals who clearly have to repair their house. I think there could be an impact in Q4, but I'm even not sure. I think it can take a little bit of time. So I don't want to -- I don't have the number, by the way. I think it went missing. Yes, there is, of course, a special effort that would need to be done. I'm not able to put a number. I'm not able to put a time line on it.

Daniela Costa - *Goldman Sachs Group Inc., Research Division - MD*

How significant was Katrina?

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

Good question. We can try to -- I don't have the number, Daniela, so we can try to find that out for you and get back to you.

Operator

We will now take our next question from Markus Mittermaier from UBS.

Markus Mittermaier - *UBS Investment Bank, Research Division - Co-Head of European Capital Goods Research for EMEA and Executive Director*

A quick question on your [parts], please. It seems to me that the bundle that you're selling in the market, IT plus the voltage is an attractive one, but I'm thinking about IT alone, you've mentioned there for North America, you sell less rack, less cooling, less UPS. Is that sort of like a new underlying trend in that market in the face of co-location, hyperscale, et cetera? Has there anything changed in terms of pricing power that you have? I mean, if I look at margin expectation for next year, I think they're clearly up for IT. But is that realistic given some of the underlying moves here in that industry?

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

Markus, well, allow me not to be dragged into a discussion on the margin for IT for next year at that stage. But no, happy to answer on, is it the kind of underlying trend? The answer is no. So it depends. When we talk about co-location, traditional investor in data center, it's very much a traditional architecture that apply. When it comes to big investment made by the web giants, I think we flagged that they are coming with different architecture. And when you look at the past 18 months, we have had moments with 2 types of investments. So I would certainly not say that there was a kind of one trend, one trajectory. We had some very good moments in terms of IT business for data center investment over the last 12 to 18 months.

Amit Bhalla

I think we're running out of time, but I think we have one last question.

Operator

Wasi Rizvi from RBC Capital.

Wasi Rizvi - *RBC Capital Markets, LLC, Research Division - Analyst*

I was just hoping for a bit more detail on your process businesses within Industrial Automation, trying to understand where they are within the cycle. So if you could tell us which bits are recovering quite well. And the other part is maybe that's by geography, maybe that's by subsegment, where you still think there's quite a lot of room for recovery.

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

Well, I think we are probably at the beginning of the improvement on process. We know that it's more medium-, long-term cycle, that we need oil and gas and other industry like mining probably to resume investment. What we can say is that our field devices are back to growth, around mid-single-digit, so that's good news. We see also our Process Automation solution, so including Foxboro, Triconex, the DCS and the safety system, which are up nicely over the period. So it's -- and again, no, I don't want to be bragging around here. We are probably facing easy comps as well. But it's good to see a more positive trajectory. When I talk to the team on the kind of where is the level of discussion with the customers, what should we expect for the future, they very much speak about, yes, things we know which are improving, probably order intake that are going to be taken rather probably H1 2018. And I think that they are not saying that they necessarily see a kind of de-acceleration before the second half of 2018 at that stage. But I will be happy to catch up after the end of the year. I think that Q4 is going to be an interesting one in that respect.

Amit Bhalla

All right, thank you. So thanks, everyone. I think we'll probably close here because we've reached the hour, slightly crossed it. Sorry for that. And thank you, Emmanuel. And just a reminder again for December 12, please mark the date, invites to follow for the Digital Day.

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

We are expecting you in Paris.

Amit Bhalla

And the IR team is, of course, available for follow-up questions, as required. Thank you.

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO & CFO*

Thank you very much. Bye-bye.

Operator

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