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SU.PA - Q1 2018 Schneider Electric SE Corporate Sales Call

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OVERVIEW:

Co. reported 1Q18 sales of EUR5.8b. Expects 2018 organic topline growth to be in the higher half of plus 3-5%.



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PRESENTATION

Operator

Good day, and welcome to the Schneider Electric Q1 2018 Revenues Conference Call, presented by Emmanuel Babeau, Deputy CEO and CFO; and Amit Bhalla, SVP, Head of Investor Relations. Today's conference is being recorded.

At this time, I would like to turn the conference over to Amit Bhalla. Please go ahead.

Amit Bhalla

Well, thank you, operator. Good morning to everybody, and welcome. Thank you for joining us today for our Q1 revenues results.

The press release and the presentation is available on our website. As the operator mentioned, we have Emmanuel, our Deputy CEO and CFO, to share the results with us. We will have a Q&A at the end of the presentation.

Just a quick reminder for Page 2, which is the disclaimer, I'll let you read that.

And having said that, I pass it on to Emmanuel.



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

Thank you, Amit. Good morning, everyone. Very pleased to be with you. Warm welcome for this call where we're going to discuss about our sales performance for the first quarter of 2018.

I suggest that we go immediately on Page 5 of the presentation and allow me a kind of preliminary comment. Of course, we're coming up with a strong result, and no doubt that the positive environment has been helping our performance. But I would say that beyond this good environment, the good results that we've been delivering in terms of sales growth for this first quarter is really, for me, reflecting 2 things.

The first one is the strength of the portfolio and our positioning. And I would mention among our strengths, our capacity to innovate, and that is leading to differentiation. I think we are evidencing over this Q1 the strength of the cross-selling as well; and of course, the good positioning that we have in terms of global exposure to geographies and notably, of course, strong exposure to new economy that has been having a very nice ride during this first quarter.

Second element, of course, the success of our strategy to lead the digital transformation of our business. And we see traction coming from customer and potential materializing when it comes to this digital offering and what it brings to the customer in terms of added value. That has been translating into our 2 core activity, Energy Management and Industrial Automation, growing very nicely. You see that Energy Management is growing close to 6% organically, great performance, on which, of course, I'm going to elaborate. And Industrial Automation is even growing faster at plus 9%.

Moving to Page 6 and starting to dig a little bit on the number. Clearly, this first quarter of 2018 is a further acceleration versus the last quarter of 2017 when we had been growing plus 4.6% organically. And we are reaching for this first quarter of 2018, plus 6.2% organic growth. And working day adjusted, it's even higher, we have reached plus 7.7% organic growth.

When you look at Energy Management, growing plus 5.2% organically. The plus 6% is including the Delixi performance, which, as you know, is consolidated below the line. Energy Management, at plus 5.2% organic, that's really strong performance across end markets. And we want to mention, of course, residential, the commercial and industrial building, industry as an end market, infrastructure or data center, they all have been growing very nicely during this first quarter.

Industrial Automation has been growing, as I said, plus 9.2% organically. It's a great performance in discrete automation, and all the discrete offering of Schneider has been performing very well, and a particular success on machine automation, on which I'll come back later on in this presentation.

That, of course, is reflected in growth across all region. I will provide more color on that. But the performance of Asia Pacific is, of course, particularly impressive with a strong double digit during this first quarter. But the performance in North America has been extremely good, Rest of the World as well. And Western Europe has been slowed down by the Medium Voltage decrease, which was expected. I will come back on that. But many areas have been growing very nicely, and notably, Low Voltage and Industrial Automation in this first quarter.

I was mentioning this competitive, we think, advantage that we have through our exposure to new economy. They have been growing globally double digit in this first quarter.

Now what has been making our success, I said it, we have a clear strategic road map. We have clear priorities, and we are delivering on that road map. You see the products have been growing organically, plus 8%. Wiring devices, final distribution are a particular good performer. But like we have mentioned, all the product in discrete automation such as drives, contactors and HMI, I mean, all these things have been performing extremely well.

More software and services, very pleased, of course, to have closed the AVEVA transaction, 1st of March. AVEVA is one new company in which we own 60%. If I look at the legacy business of Schneider in software, it has been growing positively during this first quarter with a mid-single-digit organic growth. And AVEVA has been commenting on strong performance on their side, and they are coming up with a double-digit growth without currency effect.



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More services as well, plus 6%, so accelerating again on services. You know the ambition that we have, how services are important to us. It's, of course, a sticky, sustainable, good-margin business. It's a new way to build further the relationship with our customers, so we have a particular focus on services, and it has been contributing to the growth as well.

Last but not least, of course, EcoStruxure, which I would say is encompassing our all-digital push and ambition. And we've been accelerating clearly on delivering EcoStruxure solution to our customer during this first quarter. And the EcoStruxure growth has been outpacing the average of the group, which, as you know, is the objective that we have.

Now if you move to Page 7, I want to elaborate on some of these priorities, and the first one is, of course, the cross-selling. We clearly see this capacity to bundle different technology, put them together, of course, within Energy Management, to give the complete set of Energy Management, but also putting together Energy Management and Industrial Automation as a real differentiation and strong added-value proposal for our customer. We see a growing demand for this capacity to combine various technology. And we think that this Q1 performance illustrates the success of this cross-selling ambition.

A few example here. I'm not sure I want to elaborate on all of that. But it just show that you have, I would say, across region, across sector, customers who are seeing strong benefit in putting together the full Energy Management, of course, Medium Voltage, Low Voltage and Secure Power, but also -- and you have here the example of the oil and gas company in Argentina or the desalination plant in Northern Africa, putting together in a very powerful manner the automation of processes, factories, plants and the energy management to deliver the last mile in terms of efficiency and productivity.

Second priority, of course, grow EcoStruxure. We want to lead this digital technology revolution. We want to enable our customer to take the full benefit of this energy transition and industry of the future, which clearly digital is a catalyst of. And during this Q1, we've seen this ambition rewarded with a lot of growth in EcoStruxure globally and with a lot of example here. Again, I don't want to comment all of them, but a lot of EcoStruxure architecture that we've been selling to the customer, whether to optimize a building, whether to optimize a data center efficiency, a plant or a big infrastructure, like it is the case with the Chinese example on the right-hand part of this chart. So really, traction gaining momentum. And together with cross-selling, we have 2 big driver for growth there.

Just very rapidly on Page 9, just to say that a lot has been going on in the past months in the company. And many of you have been joining us in one or several of the events that we've been organizing. We had this visit of the Wuhan plant, which I saw many of you found full of learnings. We have, of course, the Innovation Summit in Paris together with a marathon, but a few other big events that happened in the company, and more to come, so just bear with us. We certainly intend to keep very close contact relationship to explain everything which is going on, all the initiatives that we have on our priorities. So a lot to come in the coming months as well in that regard.

Moving to Page 10. You know that we put a lot of emphasis and we really grant a lot of priority to sustainability. I'm sure you all have in mind the Planet & Society barometer that we've been using over the past few years. Well, we are starting for a new Planet & Society barometer for the period 2018-2020. It is slightly amended. It is rebranded into Schneider Sustainability Impact, but the concept remains the same. There will be 21 criteria that will be measurable and that will certainly be able to assess the effort, the progress that we make in key direction for sustainability.

Here, you have 5 pillars. I would say that climate and circular economy are about what we bring to our customer for sustainability and what we do to be more sustainable in the way we operate. You have health and equity, which is how we progress on the health, safety and ensuring equality at Schneider. That's really how we deal with our people. Of course, ethics is about making sure that we are permanently with the highest standard of ethics and with a few objective in that respect. And then development is about our impact on underprivileged people, less favored community, I would say, in 2 dimension: access to energy and also training people and I would say boosting community, creating jobs and economic activity to help them. So that's really a start of a new journey for this barometer. And of course, we'll keep you informed on a quarterly basis of the progress that we are making.

And in the meantime, our effort and the work we are doing continue to be rewarded. You have on the right-hand part of the chart a few example of the recognition that we received recently. We've been again part of the, for the eighth consecutive year, of the Ethisphere World's Most Ethical Companies list. We are the third company globally for the Carbon Clean 200 list for clean energy. We are ranked 45th in the Global 100 Most



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Sustainable Corporation list. And we have been included among the 104 companies in the Bloomberg Gender-Equality Index. You know that we have a very important, here, ambition on driving diversity and gender equality.

If you move to Page 11, the sustainable model is really in line, on the right-hand part, is really in line with what I've just been saying, but we've been receiving other recognitions. So on our people, I mean, I said it about gender equality and being part of the most ethical company. On the center, it's a tribute to the quality of our technology, and we've been recognized from Gartner on the quality of our supply chain. We are recognized by Fortune among the most admired companies in the world. Triconex has been awarded a premium as the best safety system. And we've been designated by the marine business as the most efficient ship solution with EcoStruxure. So all that showing recognition from communities, stakeholder on what we are doing.

Moving to Page 13. And of course, we've been playing a positive environment, and that's helping. I believe that the great strength of Schneider is that the capacity that we have, given our geographical exposure, given the depth and the breadth of our portfolio, to really seize all opportunities of growth in this environment. And I think that's what has been materializing over this first quarter.

If I look at the various end markets and the trend that we have seen, starting with the residential and nonresidential building, we simply lead positive demand on commercial and industrial building, I would say, across geographies, with clearly the time of people chasing efficiency clearly arriving. Good demand in residential market, here, again, I would say, across the region. And for critical building, the quest for reliability, efficiency, sustainability is there and certainly has been a driver for our performance.

Moving now to industry and infrastructure. We have seen overall a good demand and a good level of investment, no surprise to you, I'm sure. We've seen a very strong OEM demand during this first quarter. We've seen overall good trend in discrete and hybrid industries, and notably, some very strong pockets of growth in Asia.

When it comes to process industry, the recovery is still slow. And I would say, today, we don't see much relaunch of big greenfield projects, but it's much more people focusing on productivity, efficiency, clearly with the software play because you have great return on investment when you increase your efficiencies with digital capacity. But that's very much what we've seen in this Q1 rather than a new big project starting. And what I've been saying, I would say, apply to oil and gas where we see certainly some sign of recovery on investment. But again, it's more on how can I reduce my cost of production rather than launching big new things.

Moving to data center and networks. A lot going on and strong investment in data center, clearly, carry on. We've seen that across regions, U.S., of course, but not only. And I would say it's across the type of data centers, so you will have the web giant, the cloud and service provider, co-location, micro data center, we see a lot of investment happening, of course, accompanying the Internet of Things growth. We also have seen good business in our IT channel for our small UPSs. The business is accelerating there. And also, favorable evolution of the non-IT market.

Last, the utilities, the key being, of course, no news to you, challenged by the decentralized grid. And they are investing on digital. The name of the game for them is clearly in Europe to make sure that they have a better return on their asset, and that goes through a better and more efficient grid with digital investment. I would say that where we see still significant investment in the grid is -- and by the utility is in the Asia Pacific region. Microgrid, this new energy landscape, clearly, the activity is ramping up in new economy and in North America, but we are probably just at the beginning of the potential of this microgrid.

Moving to Page 14. So I was talking about the environment, but you don't have this 6.2% and 7.7% working day adjusted performance, just on the environment. So beyond that, clearly, we believe that the strength of our model, as I said, the success of our strategy, our positioning is delivering.

We've put 2 things on that slide. On the left-hand part, you have a few end markets where we believe that in some geographies, clearly, we've been gaining market share. That's the case for wiring devices and final distribution. In several markets, I would say, on machine solutions, that's probably the case across the board. Water and wastewater, very good progression. And clearly, here, we have a solution differentiated and we are gaining ground. Data center, one of the best, if not the best performer for us again in Q1, very strong growth. We have a unique capacity in that data center space and commercial and industrial building in several geographies.



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And what is driving this outperformance are what I described as the capacity to be innovating and even in things which are putting some creativity as well. And we've taken this nice example here of the AvatarOn land that we have launched for wiring devices in China, which is really delivering an amazing growth. Of course, differentiation is key. I was mentioning the great success that we have in water and water treatment. We believe it's coming from our differentiated offer. In the OEM, we are globally very successful in China. It's definitely working extremely well. It's about being scalable, flexible and answering the needs of the Chinese OEM in a very specific manner.

Digital deployment, I've been already commenting a lot on our EcoStruxure architecture, all our adviser technology. And people are clearly today understanding more and more the potential that is coming from starting from what are the data I want to have to operate my building, my data center, my plant; and then you build a full architecture starting from what do I want this building, as an example, to be able to deliver, to do, to have in terms of functionality; and then you build the full architecture, and EcoStruxure is absolutely, I would say, meaningful in that respect.

And last but not least is cross-selling, but I think I have been talking a lot about it. I just want to mention that, again, this very strong performance that we have in data center, we think, is clearly helped by this capacity to put together our expertise, first, in data center and how you build an efficient data center; and then all the power management, the building management system, in order to deliver a complete solution in a short period of time versus any of our competitors.

Well, let's dig into a few numbers on Page 15. So sales amounted at EUR 5.8 billion for the first quarter. It's down versus the first quarter of 2017, minus 0.7%, so it's nearly flat. Of course, the big, big impact here is the ForEx, which is generating minus 8.4% of evolution. I would say it was totally expecting, so it's in line with what we thought a bit more than 2 months ago.

And we are confirming, based on the current rate, the guidance for the FX impact for the year. So for the top line, it is estimated to be between minus EUR 1 billion and minus EUR 1.1 billion. For the margin, we confirm that the negative impact would be around minus 20 bps on the adjusted EBITA. And the ForEx impact is going to be much more skewed towards the first part of the year. And we expect close to 80% of this negative ForEx impact, based on the current rate, of course, to materialize in H1. So hence, the very big impact, more than EUR 450 million negative impact that you have coming from ForEx in Q1. Q2 is going to be, again, very big on ForEx. And then H2 is going to be much more benign in terms of negative impact.

Then you have the scope impact with, of course, still the impact of a few disposals and mainly the DTN and a few acquisitions that start to kick in and notably, ASCO and AVEVA for 1 month.

So I'm now going to comment both, first, Energy Management, and then Industrial Automation, and I want to start with Energy Management. Sales for Energy Management altogether at EUR 4,325,000,000. It's down 2.2%. Very important, of course, ForEx impact, minus 8.5%. The scope, plus 1.1%, is the ASCO acquisition and the DTN disposal in front of that, mainly, and then, of course, the organic of plus 5.2%.

Let's start with Medium Voltage, the only business decreasing over this first quarter, minus 2.7%. That was totally expected. We knew that during this Q1, we would be invoicing the low backlog that we had been taking in the previous months and even quarters, and notably, in Western Europe. So we knew that this would impact Western Europe. And we see also in India and Russia a challenging performance during this Q1.

But a lot of things have been going in the right direction and make us believe that we are clearly in the right direction. First, the order intake has been very good in this Q1, and we are now 6 months in a row with a strong order intake. We believe, therefore, that we're going to be back to growth for the top line in Q2. And when it comes to strategic initiatives and priorities, because, of course, the recovery on Medium Voltage is not just about being back to growth, which is the first element, but it's also to be growing on our priority, and the priority are more products, more services, more digital. And this priority has already been growing during this first quarter. So we are absolutely well embarked in this journey of improving and further increasing the top line and the profit on Medium Voltage.

Of course, regarding the power system, we keep implementing the new organization. Nothing new, [and as I said], in that respect, I would say. We see that the full organization will be implemented and operational at the end of H1. It's still the objective. And we are also strategically looking at the performance across geographies to see how this new organization is performing by geography.



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Moving to Page 17 and looking now at the Low Voltage business. This has been growing organically, plus 9.1%, including the Delixi performance, which has been absolutely stunning during this first quarter. The business is growing at plus 10.3%. So it's a double-digit growth for Low Voltage, and it's really strong performance, strong growth across all regions and across all offers. So Asia Pac stands out, of course, here, a particularly remarkable performance. But North America has been doing extremely well. Residential, commercial building, data center segment, I mean, these are all areas of strong growth in North America. We have a double-digit growth in Rest of the World as well. And Western Europe, Western Europe, which, altogether, is flat. I'll come back on that. But Western Europe has been growing working day adjusted mid-single digit for Low Voltage. So clearly, we see a good growth in resi and non-resi market for Western Europe.

Well, the performance, no surprise, is coming from this unrivaled position that we own, of course, in Low Voltage. It's about the depths of the portfolio that we have, our capacity to innovate, the strength of the cross-selling with the rest of the Schneider technology. EcoStruxure, here again is accelerating the growth. And we are even more relevant when it comes to efficiency of a building. We keep working on connectivity of our ecosystem. And we signed a nice partnership with Danfoss and Somfy during the quarter. And when we look at the performance by, I would say, technology, I mean, final distribution and wiring devices have been growing very fast. But it's really across the family of product that we've been growing at double digit or close to double digit. We also closed one important deal for us on the 1st of Feb. The IGE+ XAO transaction has been completed.

Now let's finish the Energy Management review with the Secure Power business, and a nice acceleration in Q1, which is a very good news. And again, I would say the good news are coming from all the end market of technology. So good growth in data center, I've been referring to it. It's, of course, the Low and Medium Voltage, but it's not only the Low and Medium Voltage. We see also the 3-phase UPS, racks, our cooling business accelerating. It's a good performance for our small UPSs in the IT channel. And it's also the Secure Power that we are selling to non-IT application, like building or the industry businesses that has been growing. So a good start to the year and a good news to see the Secure Power business accelerating.

Moving on, Page 19, and commenting Industrial Automation, with nice organic growth of plus 9.2%; sales growing by 4.1% at EUR 1,475,000,000 despite a negative ForEx impact of 8%. The scope, a positive, plus 2.9%. And of course, that's mainly the AVEVA transaction here, where we are treating in scope for 1 month, not only the AVEVA business, but our legacy business as well for 1 month. So you have the cumulation of the 2. Great performance, I mean, clearly, in discrete and hybrid. We've been very dynamic for all our family of product in discrete automation. If you look at PLC, drives, contactor, HMI, motion control, I mean, everything has been growing with a lot of dynamism, particular, certainly, mentioned for a very strong OEM demand. I think it goes, as for all the explanation I'm giving, favorable end market, but we think that we are gaining market share with a differentiated offer and with a great answer from our customer.

I made my comment on Process Automation with mixed results, where clearly, we have regions where we see some growth, and that has been the case in North America and Asia Pac; more difficult in Europe, where the oil and gas market remains difficult. Good news to start the software on a very good note for the Q1. And I think it totally support and justify our strategy to develop, grow on software and the tech company, of course, our digital ambition globally.

I'm done now with the review of the businesses. Looking at the region rapidly, I would say, starting with Asia Pac, growing 14%. You see that, of course, China has been delivering a strong performance. We talk about strong double-digit growth in China during this Q1. But you see that India, Australia, Indonesia, Vietnam, I mean, all these countries have been growing very nicely and contribute to the performance of this first quarter.

Good news coming as well from North America and very good performance in the U.S. Canada has been growing. Mexico was down, but we think that Mexico should recover for the rest of the year. But good to see, clearly, the U.S. accelerating and confirming the good performance of the last quarter of 2017.

Rest of the World, plus 5%. It's really growth, I would say, across the region. You see that South America, Middle East, Africa, all growing. Good to see both South America and Middle East back to growth. One only negative, Russia, which is probably an area where we can have some question on the coming months, given impact of potential new sanctions and uncertainty on what it could mean there.



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I want to finish with Western Europe. It's flat. It's actually growing plus 2% working day adjusted. And as I said, in fact, Western Europe has been growing nicely outside the Medium Voltage, a low backlog invoicing. And you have some countries like Spain, Italy, who been globally growing very nicely. France, Germany have been growing nicely outside Medium Voltage. We just confirmed that certainly, our biggest question mark or uncertainty for the year is the United Kingdom and the impact of the Brexit, the uncertainty that it triggers and for the wait-and-see attitude that we see in terms of the market in the United Kingdom.

All right, so let's move now to the conclusion and the outlook for 2018. So as you see, we continue to, in a very consistent and successful manner, I would say, implement our strategy in a positive environment. Products, services, digital offering, the cross-selling, all that is delivering. I want to add to that, of course, our global presence, which is clearly a plus in this environment. And the strong performance in Q1 bodes well for the organic top line growth for the year.

So in this context, we reaffirm the target to deliver a strong organic growth of adjusted EBITA in 2018 around, as we said, the high end of the plus 4% to plus 7% bracket, which is the 4% to 7%, the bracket that we communicated as the average yearly objective for 2017-2019.

And to deliver this strong performance, we, of course, have the ambition to maximize the organic top line growth in this good environment with this nascent digital market where we want to build a clear leadership. And of course, we will make the necessary investment to capture this growth in this fast-growing market.

Therefore, for 2018, we will target an organic top line growth to the higher half of the plus 3% to plus 5% range. So remember, initially, we are saying plus 3% to plus 5%. Now we are just, I would say, it's a precision. We are, based on this Q1 now, targeting the higher half, higher half of the plus 3% to plus 5% range. And we target an organic adjusted EBITA margin expansion toward the upper end of the plus 20 bps to plus 50 bps range targeted as yearly average improvement for 2017-2019.

You have then a page that I let you read on additional notes and that helps you factor a number of impact on scope, tax or ForEx.

And with that, I'm done with my presentation, and I'm ready to answer questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We are taking our first question from Ben Uglow from Morgan Stanley.

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

Two questions, briefly. First of all, Emmanuel, last year, you gave us some fairly precise numbers about the industry -- Industrial Automation business in China. And from memory, I think that we were close to 20% growth. You clearly had another fabulous quarter there. Can you just calibrate the growth? Double digit can mean a lot of things. How good are we relative to last year? And also, can you just talk about the progression in the Industrial Automation business during the quarter? So were we seeing an acceleration into March? Or how do you see that one business, in particular? That's the first question. Second question, I mean, the growth in Low Voltage is absolutely fabulous. Can you just talk about, and I know you don't like to talk about margins normally on the call, but pricing and whether you have to be a little bit tactical around pricing to achieve that growth?

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

Thank you, Ben. I want to make sure that I'm understanding well your question. When you talk about progression, question of progression through the quarter, is it in China or globally?

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

Yes, no, sorry, China. Was really just wondering the sense of how the Industrial Automation business developed in China over the 3-month period. And obviously, we've got the uncertainty of New Year, et cetera, so just what you're seeing.

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

Yes, yes. So the progression, as I mean you rightly say, it has been very impressive in China during this first quarter. And we are, once again, close to 20% growth in industry in China for the first quarter. Frankly, I mean, it has been strong performance across the quarter. So -- and with the Chinese New Year, I'm not able to say whether there was an acceleration or a deceleration. I would say strong performance across the quarter, but nothing specific to mention in that respect. Regarding your second question, and you know I do not want to be dragged into commenting margin on this call because that's not the purpose. And I just want to reiterate the fact that our objective is for the full year with a price increase to compensate the raw material inflation. We are confirming that the raw mat inflation for the year should be around EUR 200 million, so that's exactly the same kind of guidance that we gave a couple of months ago. And when we say that when we talk about compensation between price increase and raw mat, it's outside China, where we flagged the fact that the situation was a bit different. But that remains our objective. It doesn't mean that over a quarter or over a period of 6 months, we manage to compensate. And sometimes, depending on how fast the raw mat impact can accelerate, we have odd years where we did not manage to compensate over a calendar year. But over time, we always managed to more than compensate, and that remains our objective.

Amit Bhalla

Thank you, Ben. I see that we have actually several questions. (Operator Instructions)

Operator

The next question comes from Andreas Willi from JPMorgan.

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

My question is on Europe, positive 1% organic growth. If you adjust it for trading days, Medium Voltage, it doesn't look maybe as weak as the headline. But maybe if you could comment a little bit what you have seen in Europe during the quarter, given there are some concerns around the macro momentum in Europe with PMIs maybe having slowed more than expected in Q1, and some of the hard economic data has actually been quite weak in Q1. Are you seeing, in terms of lead indicators, orders, the trends in March, are you seeing a slowdown in Europe?

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

No, we don't. So again, I'm not saying that Western Europe is growing as fast as the rest of the geographies because that's not the case, obviously. But if you look at both Low Voltage and Industrial Automation working day adjusted, because the 1.5% working day impact in -- globally for the group, in fact, mean that in Europe, you have more than 2% because that's the Easter impact, which is more for European countries. So we've been growing mid-single digit both for Low Voltage and Industrial Automation. And we've seen clearly dynamism in the construction market, industrial automation, in most countries, I would say, with a few exceptions. Certainly, Spain is a very strong performer, but Italy has been doing very well. France has been doing quite okay, I would say, on both Low Voltage and Industrial Automation, and Germany as well. So you don't understand where the performance on Europe if you don't factor in the fact that we have been decreasing by a strong double digit in Medium Voltage. And that's why we don't have a better -- a positive performance. So I think that on Western Europe, back to my earlier comment, our biggest question, concern, worry is on U.K. and what could happen in the coming quarters based on this wait-and-see attitude I was describing. But I would say that



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Europe should, I mean, on basis of what we see today, should keep dynamism; nothing that we're going to grow as fast as some other regions, of course.

Operator

The next question comes from Andre Kukhnin from Crédit Suisse.

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

It's really about guidance and on top line. You've moved to the kind of higher half of the 3% to 5% range, but you just delivered 6.2% despite the 1.5% points day effect. So the question is, really, whether there is anything in the outperformance that you don't deem to be entirely sustainable, or is there anything sort of later in the year that we should think about and then capped at 5%? Or is this just kind of early days in the year and which warrants some caution, some conservatism?

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

Well, I don't know what, of course, the future will bring. I think that given the good start to the year, we can certainly have more ambition and say that the higher half of the bracket is at reach. I don't think that we have today the visibility, the data to say that we have to revise above the 5%. We said that China has started the year on a very strong note. I would say that China is going to stay strong through the year, but it doesn't mean that it's going to deliver strong double digit through the full 2018. So this could see some slowdown in the coming quarters. We'll be facing some higher comps toward the end of the year. So given where we are, even if we are taking into account this good Q1 performance, we think that this is a reasonable, I would say, adjustment or precision on the guidance at that stage.

Operator

We are now moving to Gael de-Bray from Deutsche Bank.

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

I'd like to better understand how you feel now about the margin outlook for the full year compared to a few months ago. Because on the one hand, I think you've been pretty clear when you said that you wanted to maximize organic growth and that you would do the necessary investments, but on the other hand, how do you see the mix playing now? Because with much faster growth in Low Voltage and automation that in the low-margin Medium Voltage business, I guess this should be quite positive for margins, right? Just a bit of comment on that, that would be great.

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

I don't want to spend much time commenting on the margin because, again, that's not the purpose of the call. I mean, you said it, we clearly want to make sure that we seize, we grab the maximum potential of growth. We think that today, we have a lot of wins in the sales and that we can outperform on many markets. So we want to make sure that we do that. That requires investment that, of course, we can afford with this kind of top line growth, but investments are having an impact on the bottom line on the short term. That's clear. So that's what we are doing. We've been very consistent on saying that. We're going to deliver both top line growth organic and organic margin improvement for the year. That's clearly the ambition. Now we said that we are putting a particular focus on the top line growth. And we highlighted this need for investment. Now on your question on the mix, I'm not going to deny the obvious. Yes, of course, Low Voltage and Industrial Automation growing is not bad for the mix. That's quite clear.



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

Okay. Can I have a quick second one? The -- in Medium Voltage, I mean, what kind of challenge -- sorry, what kind of challenges did you see in India and Russia exactly? Is it pricing-related? Or is it project execution-related?

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

Slow market, first, clearly, for Russia, I mean, a market which is clearly weak today in terms of investment in Oil & Gas notably, but in terms of big projects as a whole. And on India, I would say, it's probably the competitive pressure for non-differentiated offer, I would say.

Operator

We are now moving to Alasdair Leslie from Societe Generale.

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

So you called out strong order intake in Medium Voltage over 6 months. So I was just wondering if it's possible to give some more color on the order trends for Secure Power and maybe also the process side within Industrial Automation, just to get a sense of how growth might ramp up for 2018. I think just particular to Secure Power, there was a tough comp there in Q1. Just trying to reconcile the positive comments that you made on investment levels and kind of activity around the industry and data centers and what that means specifically for growth expectations for Secure Power.

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

Yes. So as we don't comment order intake very often, they are not that differentiated versus the top line. I think that when it's very relevant, and for Medium Voltage, you have a bit more lag between orders and sales. And we saw that to give you visibility, it was important just to give a color on the fact that we are back to growth on order intake, and that should materialize in the top line in the coming quarters. I would say, the order intake evolution in all businesses are supporting, confirming the analysis I've been sharing with you. So I have nothing else really to report. The order intake is in line and support the comments I've been making on the trends and on the geography's evolution.

Operator

We are now moving to Simon Toennesen from Berenberg.

Simon Toennesen - *Berenberg, Research Division - Analyst*

Can I just ask sort of high level? I mean, from your perspective, where would you summarize we are as of currently in the industrial cycle? I mean, you clearly seem to be taking share in several areas, as you mentioned, field devices, et cetera. And if we take out comps which are becoming a bit tougher in Low Voltage and IA in the next quarter, are we still in sort of the acceleration phase? Or do you expect this to stabilize sort of at this level now? And I know you usually don't disclose orders, and you've just said that on Medium Voltage. But I mean, in Low Voltage and Industrial Automation, you've seen a very strong acceleration in the first quarter and also where market expectations were for your first quarter. Is it -- can you just give a bit of color at least maybe where sort of order intake towards the end of the quarter was and whether it matched kind of the growth that you've seen in the first quarter, in particular, the short-cycle business?



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

No, I can try. I think that when you look at the early indicators and the PMI, probably the acceleration is now behind us. So we are -- I mean, what I would qualify in a dynamic environment. But probably, the acceleration that we've seen in H2 2017 is now behind us. So we are in this positive momentum that we are describing. And I'm not sure I can bring more color than that. So again, orders are just supporting the comment that we are making on the trend and on the ambition. And I would not say that today, they bring more information than what we've been sharing with you as well, as said, in Q1. That's how I would summarize things.

Operator

The next question comes from James Moore from Redburn.

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

Maybe I could ask my question on EcoStruxure. You've given us a lot in the last year qualitatively about it, but you kind of chose not to say too much quantitatively. I wondered if you could put a rough revenue size on it as a percentage of sales and size how fast those sales are growing. And could you say which of the 4 businesses are seeing the fastest EcoStruxure growth and penetration story?

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

Yes. What we said that we have today 45% of our offer that can be considered as part or possibly part of an EcoStruxure architecture. But of course, some of that is sold independently today and not in an EcoStruxure architecture, but is, I would say, made in terms of capacity to communicate, the IoT ready, I would say, thing. So that's the number we gave. Now when we're going to report about the EcoStruxure number, it's going to be about the Edge Control and the digital software, digital services capacity. And that's what we are -- because that's, I would say, the most digital content of what we identify with this EcoStruxure portfolio. And that's -- on that part that we are saying that we've been growing faster than the average of the group during this first quarter.

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

Yes, I heard that, and the group is growing at a nice number. I just wondered whether the spread is 100 bps or 1,000 bps or more.

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

Okay. So sorry not to be able to bring more. I'm sure you know as we are -- it's WIP, so it's work in progress, clearly. I'm sure that in the future, we're going to come with a more regular reporting and with numbers. But that is something that we are today building and setting up, so bear with us. And we will come in the coming months with probably the level of clarity or granularity that you are looking for.

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

Sorry, just to clarify. Earlier on, the whole of China, organic, did you say it's just under 20% for the group or just the industry? Could you say what the group was?

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

That was for industry.



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

And for the group?

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

That's also close to 20%.

Operator

We are now taking Martin Wilkie from Citi.

Martin Wilkie - *Citigroup Inc, Research Division - Director*

It's Martin from Citi. Just coming back to Russia. I think at one point, Russia was about 7% of your sales, and I'm assuming it's quite a bit lower than that now. But can you just remind us how big Russia is of your group sales? And then just in terms of, you did mention sanctions in your commentary. I don't understand, have you already seen some incremental hesitation on projects late in the quarter because of the possibility of sanctions? Just to understand how we should think about Russia as the year progresses.

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

Russia is globally 3% to 4% of our sales. And my comment was, given the sanction or outlook for more sanction, I think there is also a wait-and-see attitude on financing, can this project be launched. So that's creating this kind of environment of uncertainty and doubt, and that's what is slowing down the market globally for Medium Voltage. So we are still growing in several dimensions in Russia, don't get me wrong. And clearly, we are growing nicely in Low Voltage, for instance. But clearly, Medium Voltage is a difficult part.

Martin Wilkie - *Citigroup Inc, Research Division - Director*

And then just of that 3% to 4%, is that largely inside Medium Voltage? And I know you do have some other stuff in Low Voltage and data centers, but the lion's share of that is Medium Voltage? Is that the way to look at it?

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

No, no, Medium Voltage is about the size of Low Voltage, so these are the 2 big dimensions. We also have a big Secure Power business in Russia. So it's not as if it was representing the vast majority of the business in Russia, not at all.

Operator

Next question comes from William Mackie from Kepler Cheuvreux.

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

My question is focused on sell-in versus sellout in the Low Voltage business. I mean, in this environment where you're experiencing inflationary pressures on the materials and on labor, and you are actively looking at dynamically raising prices to offset that, I mean, often, we have seen in previous cycles the response being that the distributors will stock up, so to speak, ahead or anticipating your changes in list prices. I mean, can you



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comment if you have seen any significant differences in what you believe to be the market growth trends across the key regions, the U.S., China and the main markets in Western Europe, and the growth that you've experienced, just the sellout of your factories to your distribution partners?

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

Well, I would say, probably, China, we are flagging it in the detail of the analysis we are providing this morning. We think that in China, probably, we've seen some of a catch-up on restocking, if you want, so where probably the sell-in was above the sellout. But let's be clear, not in a very material fashion, so it doesn't change the fact that China is growing fast and doing very well. And as very often in this kind of situation, it's just being magnified by people stocking a little bit or maybe a price increase and maybe because this is your dynamic market and they don't want to run into a shortfall of availability. And it always plays the same way. So when things are clearly accelerating, you generally have the sell-in which is above the sellout. And it goes the other way around when things are decelerating because the distributors don't want to be left with a too high level of inventory. So that's the kind of trend that we are seeing. I think we have been flagging China as a place where probably has been bringing a couple of extra percent of growth. But I don't think it has materially or dramatically changed the positive trend, to be clear.

Operator

The next question comes from James Stettler from Barclays.

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

In terms of the very significant opportunities from the energy transition, how do you feel you're now set up in Medium Voltage? And can you maybe discuss the strategic plans in that division?

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

I think we clearly are saying this morning that we keep implementing this power system organization that will be up and running fully at the end of H1. We are, of course, monitoring the impact, have been reporting the fact that we are likely to see good progress on product, on services and on all the digital grid dimension, which is, as you very well know, a top priority for us. We also are clearly monitoring by geographies how this new power system business is doing. And we'll come at the end of H1 with some first element of vision and clear report on where we stand. At this stage, we're working on it. We, of course, want to be back to a positive top line growth, which was not yet the case in Q1. But otherwise, between order intake and the priority which are growing well, as I was describing, I would say a lot positive is going on, on the energy technology today.

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

But you believe there's anything missing in the portfolio here?

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

On the portfolio missing, no, I would not say that we miss something on Medium Voltage. That's not the way we are approaching the matter today.

Operator

We are now taking Daniela Costa from Goldman Sachs.



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

Just one final question left. So can you talk a little bit about sort of the outlook for M&A, a few things sort of -- I know the last question, you're asked about Medium Voltage. But in the broader portfolio, if there are areas that you would be keen to still build out? And sort of what's your capital allocation strategy priorities from here?

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

I'm not sure it fits very well in the call commenting the Q1 sales, but I'm happy to just repeat what we've been saying for a good moment now, which is we don't need to do M&A. We have a portfolio which is strong and set for a nice organic growth, given what we own in terms of technology, given our geographical exposure. Having said that, we, of course, look at possible opportunity to strengthen the business in our core priorities. We've done that with ASCO. We've done that with AVEVA, no surprise to you. Certainly, Low Voltage and software could be a big priority. But we have nothing else, I would say, or nothing new to add to that capital allocation strategy. That's really one we've been playing with now for almost 4 years.

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

Absolutely. Just you mentioned Low Voltage and software, you didn't mention Secure Power.

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

No, I'm not discussing that because, of course, you know, but I would certainly say that's not necessarily what would come first. But of course, if there was something strategically making sense at the right price, creating value, we could consider it.

Operator

We are now taking Jonathan Mounsey from Exane.

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

I guess since the last time you were on conference call, you've now consolidated AVEVA. I just wanted maybe some first thoughts, particularly in regards to the potential synergies and whether you have any sort of updated views on that since now it's within the Schneider group? And then linked to that and slightly linked to the last question, although you're sort of happy with the portfolio, I've always given -- or understand that the new AVEVA separately listed asset would be a potential platform to require -- to acquire other software businesses, and I guess it will take some time to integrate the Invensys businesses. But now that you own that combined asset, have you any view on how long it's going to take to bed those down and be ready maybe fit to do some deals via the AVEVA vehicle? Any sort of color on that would be great.

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

All very good question, but you should ask them to the AVEVA team. What I can tell you and confirm is that AVEVA has started well the year or finished well the year for them because they have their year-end at the end of March in terms of sales. I've been reporting on the various trends, which are positive or super positive. For the rest, and you had a question on the synergy, on outlook for external growth, I leave that for them to comment. And at that stage, I won't elaborate on that.

Amit Bhalla

All right. I think we're over the hour. Maybe we'll take one last short question.



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

And thank you for the interest, by the way.

Operator

Markus Mittermaier from UBS.

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

Quick question on the Secure Power business. What you said is that data center was one of the fastest-growing end market for the quarter, double-digit growth. What I'm struggling with is, if I interpret Slide 28 in the Appendix correctly, 2/3 of the data center business is Secure Power. So that would suggest, given the 2.7% growth in Secure Power, that I have the Low Voltage, Medium Voltage and data center was significantly above group average or Secure Power and non-IT was significantly below the 2.7%. Can you just help us out, is it Low Voltage into data center that's really good? Or is Secure Power outside of IT weak?

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

So Markus, it's a mix. First of all, you have a decrease on the Luminous business in India, which is a negative. Second, you have indeed the trajectory on the business in the IT channel, which is not necessarily -- which is growing, but not necessarily at the same pace as the data center end market. And last but not least, yes, we have had a very strong performance in Low and Medium Voltage in data center. So that's a complete answer to your question.

Amit Bhalla

And Markus, just to add, I think if you're referring to a slide in the Appendix, that's actually an extract from the full year results slide, so that's more indicative, it's not specific to Q1.

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

Right. Yes, I know, I know, I know. Yes, absolutely. But I guess that these numbers don't change dramatically quarter-on-quarter, right, those mix numbers?

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

No, they don't. No, they don't.

Amit Bhalla

All right. So I think we probably stop there. Thank you, everyone, for your time. IR team would be available here now and in the coming days and weeks. And please look forward to communication from us, and we've got some events we are participating in, which is on our website, and look forward to seeing you all. Thank you.



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

Thank you all. Thank you. Talk to you soon. Bye-bye.

Operator

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

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