

THOMSON REUTERS STREETEVENETS

EDITED TRANSCRIPT

SU.PA - Q1 2014 Schneider Electric Sales Conference Call

EVENT DATE/TIME: APRIL 24, 2014 / 7:00AM GMT

OVERVIEW:

Co. reported 1Q14 revenues of EUR5.7b. Co. expects low single-digit organic growth in revenue in 2014.



CORPORATE PARTICIPANTS

Emmanuel Babeau *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

CONFERENCE CALL PARTICIPANTS

Andreas Willi *JPMorgan - Analyst*

Martin Wilkie *Deutsche Bank Research - Analyst*

Simon Toennesen *Credit Suisse - Analyst*

James Moore *Redburn Partners - Analyst*

Fredric Stahl *UBS - Analyst*

Gael De Bray *Societe Generale - Analyst*

Olivier Esnou *Exane BNP Paribas - Analyst*

Alfred Glaser *Oddo Securities - Analyst*

Wasi Rizvi *RBC Capital Markets - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, welcome to the Schneider Electric 2014 first quarter revenues conference call. I will now hand over to Mr. Emmanuel Babeau; sir, please go ahead.

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

Thank you, good morning everyone and a warm welcome to this presentation of our Q1 sales numbers and I suggest that we move immediately to page 5 to look at the highlights of this set of numbers.

We can say globally that we have done a solid start to 2014 during this Q1. Our revenues reached EUR5.7 billion. It's up 7.7%; and organically, we're up plus 2.5%. We also have noticed a good start of Invensys and I will come back to that.

Globally, we consider, during this Q1, we have been seeing the elements of a continuation of the recovery of the world economy. And certainly the first element of that is the good success of two of our businesses, the first one being buildings and partner, which grew 5.8% organically.

The second business which has performed well, industry, with an organic growth of plus 6%. We know that these two businesses are early cycle and that they react first to an improvement of the global economy.

Our two other businesses, infrastructure and IT, have been facing weaknesses in some countries, with contrasted situation, and I will detail that further on.

In terms of geographies, other elements of global improvement, we have seen sequential improvement of Western Europe; still negative, declining by 2% organically. But without the strong decrease of utility spending and the impact on infrastructure business, we would have been growing in Western Europe low single digit.

New economies continued to be solid, up 7% organically, despite some impact coming from the depreciation of many of their currencies. And in North America, we have posted a steady growth, despite the negative impact of the weather during this first Q1.



Now when we look at other important elements of this first quarter, certainly the growth of our services, up plus 14%, one four, organically, a very good performance; and the good result for Invensys, which was finishing its fiscal year. On that basis, we confirm the guidance that we gave in February for the full year.

I am now moving to page 6, starting certainly with one of the key events of this first quarter. That has been the finalizing of the acquisition of Invensys and first consolidation for this quarter of Invensys numbers, excluding appliance in our sales.

As you will remember, this first quarter for us is their last quarter for their fiscal year 2014. And we can say that Invensys has reached good results. All together, we have revenues which are about flat, but orders intake has been nicely up by 9%, with a particularly good performance for software, double-digit growth; industry automation, high single-digit growth.

And all that has been achieved with a significant improvement of the profitability, with a double-digit growth of what Invensys call the operating profit before interest and taxes. So it bodes well for the future of Invensys within Schneider and it's a good start.

Moving to page 7, we also have continued to put a lot of emphasis on our CSR policy. And as you know, this is something on which we put a very high degree of importance.

You have three pillars of this CSR policy and we do measure that through barometers. For each of these pillars, we have a number of initiatives. We have KPIs. We can measure our performance on these various initiatives and they give a note. And we follow closely the improvement of this global performance on our planet and society barometer.

Let me remind you of our three pillars. The first one is what we call planet, which I would summarize as what is our impact globally on the planet because of the way we do business.

The second impact is profit, in the way we operate in our business, how can we deliver positive results for the environment and what can we bring to people through this business.

And the third pillar is people, which I would summarize as how we develop people within the organization. But also, how can we develop people which are interacting with Schneider Electric and notably, at the basis of pyramid.

You will have in the appendix all the details of the various successes and improvements that we have reached. But we are, in this first quarter, reaching a nice improvement of our global score with 8.08 (sic - see slide 7, "8.04") out of 10. And I think all that is epitomized or illustrated by various awards that we have received.

We have been ranked as the 10th most sustainable corporate by the Global 100 ranking and that was an improvement versus the 13th position in 2013. When we look at the ranking of the world's most ethical companies, here again, for the 4th consecutive year, we've been named as one of these most ethical companies. So all that is a tribute to the success that we are achieving through all these initiatives.

I am now moving to the detail of our Q1 numbers by business and I'm moving to page 9 with the detail of our sales. So altogether our sales amounted to EUR5.671 billion, up plus 7.7%. We have two big impacts during this first quarter.

The first one is the scope impact which contributed plus 10.4%. This is, of course, mainly Invensys but also Electroshield Samara, which is still in the scope effect during this first quarter. As expected, the ForEx impact has been once again significantly negative and it's a drag of minus 5.2% on the growth. No surprise for most of the currencies which have been impacting this first quarter.

One dimension, nevertheless, which is new, which is the Chinese yuan, which started to depreciate during this first quarter and that was not the case in 2013. Taking everything into account, we are slightly revising up the impact of negative evolution of currency on our sales for 2014; and on the current ForEx, we expect this impact to be negative between EUR900 million to EUR1 billion on our sales for the full year.

Now, moving to the organic growth, altogether it's 2.5% and I'm now going to move in the analysis of this organic growth, business by business.

I am now moving to page 10. So starting with buildings and partner. You will remember that buildings has been merged with the partner business. Sales have amounted to EUR2.422 billion. You have a scope impact here which is largely coming from the small part of Invensys, which is no part of this division, around 5% of the sales of Invensys. And when we look at organic growth, we've been delivering 5.8% of organic growth, a significant acceleration compared to the trend in Q4 2013.

We can see that all regions have posted a growth. Western Europe has been positive, with some good performance in Spain, largely based on non-resi construction; improving construction market in the Nordic and a good success in commercial activity in Germany.

When we look now at North America, growth in the US with still good investment in residential, good investment in data center and a slight improvement in non-residential in the US.

China has been good during this Q1. Solid growth, certainly with a lot of activity in the beginning of construction towards the end of 2013 that did materialize into sales in the beginning of the year. And we've also seen some recovery in Australia after what has been a tougher year, 2013.

Rest of the World, we have posted double-digit growth with large infrastructure projects, notably in the Middle East, and good performance in South America as well.

Like for the rest of the Group, services has been good for building and partner, and services to the installed base for building and performance contracting project.

Moving now to infrastructure business, I'm on page 11 (sic). Sales amounted to EUR1.089 billion; here the scope impact is mainly coming from Electroshield Samara. It was a full quarter of still scope effect on Electroshield Samara. We have been experiencing a good quarter, by the way, on Electroshield Samara; but organically altogether we are down minus 3.7%.

Let's be very careful on that number. In fact, we are facing a very contrasted environment, because we have a double-digit decline in Western Europe. And in fact, outside Western Europe, the business has been growing low single digit. So it's a contrasted environment; very tough in Europe, Germany, Spain, France, very weak utility spending; a lot of uncertainty on what transition around energy should be, so low level of spending.

North America has been strong. Continued investment in data center, good execution in oil and gas and good projects on transportation as well.

Slight decline in Asia Pacific, weak Indian utility market. You know that we are in pre-election period so a lot of wait-and-see attitude with impact on India.

Rest of the World has been good. Continued investment in the Middle East, Africa and South America; in all these regions we've seen good growth.

Here again, on services, very good performance with double-digit growth for services in the infra business.

Moving to industry business, I'm on page 12 (sic). We have seen another strong quarter for industry growth. Q4 of 2013 had been strong already. Here we have an organic growth of plus 6%. We have, of course, huge scope impact which is coming from Invensys and that means that industry sales have reached EUR1.444 billion.

We can see that OEM have been the main driver for the growth in most regions, while at the same time, end-user has been clearly weaker with the exception of the US.

In North America, the underlying trend has been positive, driven by oil and gas. A good activity and successful commercial activity for us, but we are facing some high comps in Canada, which has been limiting the performance on published numbers.

Asia Pacific was strong. Very solid performance in China, in Japan. One point of weakness, Australia, with mining environment that remains, no surprise, weak.

In Western Europe, a good momentum thanks to commercial activity, improvement of OEM. And we could say that it has been a kind of across country growth; Spain, Italy and of course, Nordics and Germany, also growing.

Rest of the World was up as well, with good growth in Turkey, in Brazil, and in Africa globally.

And once again, installed base services have been performing strongly for industry.

Moving to page 13 and the IT business; we have an organic decrease of 3.4% of the activity. That mean that sales have reached EUR716 million. Here again, we have seen a contrasted picture for the IT business.

If you look first at the data center market, as expected in the US, revenues were still down, as we have seen investment in large and extra-large data centers, promoted by web giants, shifting to low and medium voltage offering, and less demand for IT technology.

But at the same time, we have been delivering a good quarter in Western Europe, with a strong project execution globally in the region.

Home and business network; one big impact, which really has been the big [pen-point], given the tough situation in Russia, strong destocking among our distributor, with a significant impact on our sales.

Services has been positive as well, with a strong performance for IT in this first quarter.

Let's now have a look by region. I'm moving to page 15, and starting by the only negative region, Western Europe, minus 2% organic growth, 29% of our sales. And as I said, excluding infrastructure and the collapse in utility spending, the region is up low single digit.

To illustrate the improvement, I will start with Spain and Italy. Yes, they are globally still down because of utility, but we have started to see in many of our businesses, positive numbers. I mentioned buildings and partner for Spain. Industry has been well oriented for Italy. So sign of improvement there.

We see Nordics and UK globally posting growth. We knew that these two economies were rebounding. This has been confirmed in our sales.

Then we have seen two other markets being more difficult. Germany growing, outside utilities, but certainly very difficult on utility with the (inaudible), and with a very significant decrease in the spending.

France, certainly one of the toughest points in Western Europe, with a construction market which is still poorly oriented, and utility spending, which has been down as well.

Moving now to North America; here we are up plus 2%. Continued growth in the US. I mentioned good activity in oil and gas, in data center. I mentioned the residential, which continued to improve, non-residential, although to a lesser extent.

But at the same time, in North America, we have seen both Canada and Mexico facing difficulty. In Canada, with the resi market poorly oriented, very high basis of comparison in Q1 2013.

In Mexico, an economy which is transitioning; lots of freeform, a lot of new things happening. Some positive element in terms of macro element, but yet not reflected in the activity, and notably in construction in Mexico.

Moving to Asia Pacific; an organic growth of plus 6% during this first quarter, representing, globally, 27% of our sales.



China has been the most growth driver for the region during this quarter. Good activity, as I said, on construction. Good activity on industry, and notably with OEM. A need from our industry customer for more investment in automation, again increasing quality, increase the automation to offset some inflation on wages; so all that has been playing positively.

At the same time, Australia was down slightly with mixed performance, and mining still being a drag on the performance of the country.

For the rest of the region, we have seen South East Asia and India growing modestly. These regions are still impacted by the volatility of the currency. So they start to stabilize but they've been impacted by the strong volatility.

They are also facing some wait-and-see attitude because of election time. It's both the case for India and Indonesia. We would expect a number of projects to start, or to restart, after the election.

Last comment on Japan, which has been good for us, driven by industrial demand.

I'm now finishing this geographical tour by Rest of the World. Rest of the World is, in fact, a new economy outside Asia Pacific. We have posted a nice growth for this first quarter, plus 8%, partially helped by pricing freeze, as expected. We mentioned to you the fact that we would increase price in order to react to the depreciation of some of the currencies of this region. That has been taking place.

Beyond that, globally we have seen good evolution of our sales in Middle East, in South America, and in Africa. If we look at Middle East, good investment in Turkey. Infrastructure and oil and gas in the Gulf has been positive.

In South America, its spending around infrastructure and the World Cup in Brazil certainly helping the performance. Globally good growth in Africa.

Then the most difficult point for this region has been Russia, which, since Q4, is impacted by a slowing down of the economy. I would not say that we have seen yet a possible consequence of, I would say, an increased attention on the economy because of the international tension.

I would say that the trend in the Russian economy was difficult in Q4. It has continued to be difficult in Q1. And for our business, it has been a contrasted situation. I mentioned a strong destocking in the IT business. It has been a good quarter for Electroshield. So contrasted situation in Russia globally.

I'm now moving to the outlook. Q1 performance is in line with our expectations. As anticipated, Q2 will be impacted by high comparison and also a slight negative working day impact that we value at around minus 0.6 points. And we expect an acceleration of our growth in H2.

Therefore based on that, we confirm our guidance for 2014 and we target low single-digit organic growth in revenue. Between 0.4 point to 0.8 point of improvement of the adjusted EBITA margin versus a pro forma 2013 of 14.0%, which is including Invensys. This improvement is excluding the currency impact.

Regarding the currency impact, we estimated it at around minus 0.4 point, very much in line with what we have experienced in 2013. And we remind you that we expect most of the impact to be concentrated in H1.

That finishes my presentation on our Q1 numbers and I'm now very happy to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Andreas Willi, JPMorgan.



Andreas Willi - *JPMorgan - Analyst*

My first question is on China where you had a good quarter. Maybe you could give us some indications on some of the forward-looking indicators and what you expect from the country, given some of the data we've seen on slowdown, particularly in construction. And whether you have a sense of what part of your growth in China has been due to your own initiatives and the move to tier 2/tier 3 cities and what has been overall market growth.

The second question I have is if you could give, maybe, some indication on how March developed, relative to January/February. I was in the US; you probably saw some payback for weather, but maybe you could comment on other regions, whether you've seen a sequential acceleration of growth as we went through the quarter.

Lastly on the difficult comps in Q2. Last year, you had very strong Q2 in the US, going from minus 5% in Q1 to plus 10% in Q2. Maybe you could just give us a little bit more data or indication around which division that mainly was, and why did we have such a big spike in Q2 in the US last year. Thank you.

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

First, your question on China; it's true that we have experienced a good quarter, and it's a mix of an economy which is still growing. I see a lot of debate on what is the momentum in the economy. The announced number of 7.4% of GDP growth showed that there is growth in the economy.

Certainly, the content, or the components of the growth, are evolving, and indeed, we know that a part of the growth is developing now more in the western part, or central part, of the country. That's very much where we've been investing, and investing significantly, in terms of putting teams, building a commercial network; but beyond that, developing production, logistics and R&D as well in cities in the center and the western part of the country.

To make the link with your question, I guess that is linked with our initiative to develop in dynamic place of the economy, and that certainly has been boosting the growth of our business in China in the first quarter.

Now for the outlook on what's going to happen in the rest of the year, we are confident with the fact that we are going to continue to grow in China in the rest of the year. We see some pluses and minuses in the global indicators that are being published, so we are going to monitor that. We are not saying that the magnitude of the growth will be the same in the rest of the year than what we have experienced in Q1, but we certainly keep a positive view on many drivers for our business for the rest of the year and, globally, on the growth for the rest of the year in China.

Moving to acceleration in March, over a quarter it's always very difficult to design the trend or to identify the trend. You have so many things playing and really moving month by month, or looking month by month, with whether Easter is in one month or another. We know that Chinese New Year can have an impact as well. It's very difficult to give a trend.

The only thing I can say is that March has not been bad for us clearly. But I would not say that March has been clearly drawing an acceleration that would change the picture of what we can see from the global economy.

Now in Q2 and the US, you're right. We have a very, very high basis of comparison. There was, last year, some working day impact and some positive impact playing on, mainly on construction and low voltage. So for that it should be probably at the level of the partner business that I would expect, probably, the biggest impact in terms of high comps being faced in the US in the second quarter.

Andreas Willi - *JPMorgan - Analyst*

Thank you very much.

Operator

Martin Wilkie, Deutsche Bank Research.

Martin Wilkie - *Deutsche Bank Research - Analyst*

A couple of questions on Invensys. You talk about double-digit growth in operating profit and also a good 9% in order intake. That looks like quite a big acceleration. Obviously we did have some numbers for Invensys for the first half of its fiscal year.

I was wondering if you could go through, on the operating profit improvement at Invensys, was that a mix effect or was there some project phasing that drove that, or anything else we should think about in terms of what gave us that big increase in operating profit for Invensys?

And then secondly on the order side, again, that looks like quite a big acceleration in the second half for Invensys and again, if you could just go into what drove that? And in particular, do you think that being part of Schneider has helped to accelerate that order increase at Invensys, given that it has now been part of the Group for about three months? Thank you.

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

I'm, of course, going to be limited in what I can share in terms of margin improvement. I will certainly be happy to give much more detail and much more color in July when we will comment the global impact of Invensys in our first half.

What I can share with you is that margin improvement is coming from a combination of good evolution of the mix of the business. No surprise that the software is certainly the most dynamic part of the business and it's coming with the highest margin. There was a plan, which has been put in place by Invensys as well, in terms of savings, and we certainly continue this plan.

So all that has been contributing to the margin improvement and again, I will be very happy to go into much more detail in July.

On the order side, it's, again, some good achievement in the business. We mentioned that software has been a strong performer, double digits, so continued strength for software. The good news is that industry automation has been also progressing well in terms of order intake with some good contracts, which have been won.

Now I'm not able to say that they are directly linked to the fact that Invensys is now part of Schneider. Maybe that's the case and as you know, we anticipated, we are now giving visibility to the clients of Invensys. They know that the Company is here for the long term and that it's therefore a very reliable partner.

What I can say, nevertheless, is that we have some first elements of synergies, and notably one big utility in South East Asia, which was -- and is a big customer of Invensys. And through Invensys, we have opened the door and we managed to get to some sales, including low and medium voltage, which were so far not things that we could have been contemplating because we have no relationship with this big utility.

So we have already, after three months, clear proof, clear illustration, of what we can do by combining our technologies, combining our customer portfolio, and that's certainly very good news.

Martin Wilkie - *Deutsche Bank Research - Analyst*

Okay, thank you.

Operator

Simon Toennesen, Credit Suisse.

Simon Toennesen - *Credit Suisse - Analyst*

Just a question on the utility spending in Europe where you've obviously seen harsh declines in Germany. Do you still expect that to recover in the second half to a certain degree or do you expect some of the project delays that we are aware of, those might be pushed out even to 2015?

And a second question is on construction in Europe; how much do you think was impacted by the positive weather we've seen, particularly in the Nordics obviously? In the US, we are aware of the bad weather but we've had particularly good weather in the Nordics and how that's contributed.

And then secondly, can you just say a bit about the sensor sale that you're obviously pushing forward now and we know you've been in talks and maybe share a bit more color around on timing on that? Thank you.

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

Three questions. Recovery on utility, I would certainly expect that at a certain point in time, utility will need to make a number of investments that will require some clarification on what is the roadmap and what they really want to achieve. We could expect some clarification to happen in the course of 2014. Will it happen sufficiently early in the year to generate sales in 2014? On that I'm less clear, frankly speaking. So I would say the jury is out but I would be very cautious on the capacity to have, before the end of the year, in our sales, a rebound for utility.

Construction in Europe, nothing has been highlighted as a significant impact, so I cannot say that there is zero. But when we discuss with the team, we haven't been identifying specific good news coming from something which would not correspond to the underlying trend of the market.

On sensor, I have to be still very cautious because we are in exclusive negotiation but we need to discuss with the works council, and therefore it's a project that at that stage I cannot comment further. It's something on which we are still in discussion and as soon as things clarify, then I will be able to put more color.

Simon Toennesen - *Credit Suisse - Analyst*

Okay, thank you.

Operator

James Moore, Redburn Partners.

James Moore - *Redburn Partners - Analyst*

My first question is on the second quarter growth. Will it be below the first quarter with the 60 bps effect more than offsetting the positive momentum, or do you expect the positive momentum to more than offset the 60 bps?

My second question is on CST and I couldn't hear the previous sensor question. Your last disclosure was 16.4%, I think, on the margin in 2010. Can I just get a feel for how that's changed since then?



And lastly on the IT business, I get the point that some of the growth is shifting to low and medium voltage in other businesses and less so to UPS. You've said that you want to adapt your products for this market shift. What exactly does this adapting of products mean and is there any timing on when you're going to launch those products that could shift the growth dynamics? Thanks.

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

On Q2, frankly we've been highlighting the two elements for you to have that in mind. I'm not able to give guidance on Q2 and what it's going to be, so please allow me to stay there and say that you have a number of underlying trends indeed, that we have been experiencing in the first quarter. We have some headwinds now. What will be the net of all that, it's too early to say.

On CST, we are a bit above the last time that we disclosed the margin. So if CST was to leave the Schneider perimeter, that would have some dilutive impact. But once again, we're in discussion. At that stage I cannot be more specific than that.

On the IT business, it's a shift which is again for some time of data center -- again let's be very cautious. We are not talking about global change, we are talking about a few players for specific reasons which are implementing some different architecture which results into a less UPS, it's true and more low and medium voltage.

We certainly want therefore to be offering something extremely tailor-made for low and medium voltage; we discussed about the Premset offering on medium voltage which is particularly relevant to the data center.

And then for the IT business globally, it's about making sure that we follow the evolution, that we seize all the new opportunity. There is a world of new opportunity which is going to come from being connected to the network; this Internet of things means that access to the network will have to be protected.

So an evolution, certainly new needs emerging, and that's where we want to come with the adapted offer, and that's where we want to develop the business in the future.

James Moore - *Redburn Partners - Analyst*

That's very helpful. If I could just follow up on the IT side of things, is it that you see some kind of new UPS or IT business-based product launch or some event there with this changing technology having a step change on growth that's coming in the foreseeable future? Or is it just an ongoing evolution?

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

No, I don't see for the UPS a revolution in new UPS coming. We are permanently developing R&D around both single and three-phase UPS, and we continue to do that. So it's not a revolution, it's a permanent evolution, an improvement of our offering. Certainly making sure that we target this new need that I was referring to, but I would not talk about revolution.

James Moore - *Redburn Partners - Analyst*

Brilliant. Thanks.

Operator

Fredric Stahl, UBS.



Fredric Stahl - UBS - Analyst

I just wanted to follow up on Andreas's question on China there. I was hoping that you, given the contrasting data that we're getting, in particular when it comes to with inland markets that are the weakest right now. If you could quantify the growth that you're achieving in China at the moment, just to help us judge how sustainable it is.

And then along the same lines, Rest of the World is doing well; I'm getting Brazil is doing well there as well. Outlook, quite mixed. How should we think about the outlook for partner in Latin America?

And then finally, IT is doing poorly in Russia right now. How about infrastructure? Doing well there. Can you give us some more color on what's driving that? Thank you.

Emmanuel Babeau - Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs

On China, I'm happy to share with you that China has been growing high single digit during the first quarter. We've been growing in all businesses except infrastructure where, as I've been sharing with you, we are facing some more difficulty. Again, partner being good, industry being good and IT being well oriented with a number of projects on data centers. So that's the situation for China in the first quarter.

Partner in Latin America; good start of the year. Certainly some countries in the region with some difficulty. Brazil, which seems to be improving, and certainly I mentioned the fact that there is a number of work around the World Cup which has been helping the business. I'm not able to say after the World Cup what will be the trend. But certainly beyond -- big difficulty in Argentina for instance. You have a number of countries in Latin America, what we call South America, because we don't include Mexico when we report South America, which are performing well.

So today, I would take globally for the year a positive view on partner for South America.

In Russia, you said it; destocking for IT. We know that for the IT business, Government spending is important and clearly we have been seeing some reduction and probably, above all, uncertainty which has led the distributor to destock because they have less visibility on what the business is going to be.

On infrastructure, and I mentioned it for Electroshield, we have seen some good activity with good projects around oil and gas and natural resources globally. And this has been the driver for growth. Please note that this is not within the organic growth because this first Q1 was still taking Electroshield Samara into the scope effect.

Fredric Stahl - UBS - Analyst

Very good. Thank you.

Operator

Gael De Bray, Societe Generale.

Gael De Bray - Societe Generale - Analyst

Firstly, could you elaborate on the magnitude of the decline for the IT business in the US? And maybe whether the US market conditions are now showing some signs of stabilization. I think that's something that's been recently highlighted by Emerson.



Secondly, looking at the 8% growth in the Rest of the World, how much of that growth was actually due to the price actions you have implemented? And maybe more globally at the Group level, maybe could you say what was the price effect for you in Q1 and whether you expect that to accelerate in the coming quarters.

Lastly, you're guiding for accelerated growth in H2 so are you looking for a broad-based acceleration, or do you have in mind some specific geographies or divisions which should account for the bulk of this improvement?

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

On the IT business in the US, no, I would not speak about stabilization, I think we have still been down significantly. Frankly, no surprise; we were expecting that. But we knew that the shape of the data center market today and what we can expect for the beginning of the year was along these lines. So in terms of sales, no surprise.

As you know, we don't comment on orders for Schneider, so I won't enter into order intake, but what I can comment is this sales trend, which really was still significantly down and I would say in line with our expectation.

In terms of growth for Rest of the World, certainly price has been contributing. I will not disclose price impact at the end of March. I will certainly do that at the end of June.

But globally for price, I would say that at the Group level, we are experiencing what we were expecting at the beginning of the year. Significant action taken in the new economies which have been impacted by currency depreciation and, at the same time, on the back of a deflationary environment and raw material prices which are going down, certainly a situation which is tougher in the mature countries and where price evolution, like we have seen on H2, will be much more complicated.

So this is the environment that we are facing on price. Once again, that's what we were expecting and that's what we are experiencing.

On H2, I won't comment what we expect for H2. It's certainly too premature to enter into any kind of detail, but certainly we would expect both global environment to continue to improve and certainly, we mentioned Western Europe which is to be on the gradual mode of recovery.

We expect many new economies impacted by the currency crisis to start to show some recovery; and globally, certainly, some improvement of the world economies. So I don't see which area I should identify specifically beyond what I've just said, but that's certainly a continuation of the recovery, plus some basis of comparison that will be more favorable.

Gael De Bray - *Societe Generale - Analyst*

Okay, understood. Thanks very much Emmanuelle.

Operator

Olivier Esnou, Exane.

Olivier Esnou - *Exane BNP Paribas - Analyst*

Just wanted to come back on the price elasticity maybe, I understand you're not disclosing. In terms of how the market is reacting to price increase, one of the concerns could have been that following FX pressure, there could be some austerity in emerging countries and maybe higher price elasticity than usual.

How do you view that at the moment? How has been the reaction of the market to your price increase? Is it fully reflected in the quarter or do we need to see a bit more [distraction] in the coming quarter if any? I'd like to have your views on that side please.

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

Well it's always a very difficult matter when you talk about price increase and the impact. And it's difficult to make a general comment because it's really a case-by-case situation in each country, depending on what has been the impact of currency depreciation, what is the landscape in terms of competitors, are they facing the same kind of pressure on price; the answer is different.

I would say that globally, when we talk about price increases which are there to compensate for increase in cost of goods which are paid in hard currency, and when everybody is facing the same difficulty, it's something that should be well accepted by the client and should not have an impact on the sales.

Where we have to be much more cautious is when we talk about things which are coming from a specific setup of Schneider and where we would be having some cost of goods in other currency, but because of our internal organization. So, so far, we have been, I think, increasing price ambitiously, but certainly making sure that we were not doing something that would create unnecessary or too much difficulty.

And I think in what we see is that we are accompanying, in most cases, inflation, so we are not doing something that the customer would find very surprising in an environment where we see now everywhere, and I could quote all the countries impacted, we see inflation increasing.

So it's not coming as an event unexpected/surprising; it's accompanying a global move of prices up. So, so far, we've done that, taking all the necessary steps, making all the necessary analysis and we are not expecting, at that stage, a negative reaction coming from price increase.

Olivier Esnou - *Exane BNP Paribas - Analyst*

Thank you. If I could have just a follow-up more specifically on the IT business. I know -- I remember in previous comments around full-year results, you were saying that maybe in that specific market, you could take advantage of pricing to take some market share or grow a little bit faster than market.

I would just like to have your view on the current situation. Does your growth reflect the market? Or are you doing better than the market because you're being a bit, maybe, more tactical about pricing in IT? Thank you.

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

Well, I would answer differently. I think that when I was mentioning in mature countries evolution of price and the fact that we could be more tactical and take into account the fact that we have some decrease in cost of goods, certainly IT is part of the comment. There is a number of price action on IT that take into account this situation.

Olivier Esnou - *Exane BNP Paribas - Analyst*

So you think you're doing a bit better than the market then, probably here? Is that a fair --?

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

No. I'm saying that, as we said, when we think it's relevant and it makes sense, we can use price in order to -- whether gain sales or defend position.

Olivier Esnou - *Exane BNP Paribas - Analyst*

Okay. Thank you very much.

Operator

Alfred Glaser, Oddo Securities.

Alfred Glaser - *Oddo Securities - Analyst*

I just wanted to know on the foreign exchange impact; you said that there would be a bigger impact on sales but the same impact basically on margin. Could you give us some explanations on this?

My second question was on the weather impact in the US in Q1. Do you have any kind of estimate of how much the bad weather has shaved off your sales in Q1?

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

On sales and margin, Alfred, the explanation is relatively simple. A large part of the deterioration is coming from the Chinese yuan, and we tend to be having our costs in Chinese yuan and a kind of China-for-China exposure. So we may have a decrease on sales not necessarily having an impact on the margin.

Regarding the weather impact, I frankly am not able to quantify what it has been. We are sure that there is certainly some millions of dollars of sale that have been lost in the first quarter but I won't risk myself in putting a number.

Alfred Glaser - *Oddo Securities - Analyst*

Okay. Thank you.

Operator

Wasi Rizvi, RBC.

Wasi Rizvi - *RBC Capital Markets - Analyst*

Just a few questions from me. Just on industry, that was the fastest growing division over the quarter, and if I read the statement, it seems reasonably balanced. Could you talk a bit more about what's going well there and what's driving the growth, and perhaps how that continues for the rest of the year?

Then Spain with industry, can you just confirm whether CST is included in that sales number that you've given, or whether you've decided that that's discontinued following your statement that you're in exclusive talks?

Then just finally on --

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

On industry -- sorry, you have another question?



Wasi Rizvi - *RBC Capital Markets - Analyst*

Yes. Just finally on the currency question, just following on from the last question, do you export out of China much to the other emerging markets? Could you actually have a -- could that help the margin impact that you've been talking about previously, and perhaps the FX -- the transaction impact is less than it might have been previously?

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

On industry, what is doing well? We said it is largely everything related to OEM. We see a significant investment in order to gain productivity, in order to compensate for inflation, and automation is providing that for industry. That's why we have seen in emerging countries, in Western Europe, significant investment in that respect.

We take a positive view for the rest of the year. We think that these investments are going to continue, and that we should continue to see a good trend for industry in the rest of the year.

Now for CST, I confirm that this is still part of the Q1 sales. Once again, I repeat that we have not signed an agreement. We are in exclusive negotiation. We need to talk to the works council before any kind of progression on the discussion. So it's something which is not finalized, and therefore, it's certainly still part of our sales.

On the currency, it's a mix of things so always very difficult to detail one element. Indeed, there are a number of things which are being produced in China and exported. Now, it would require for me to map exactly where we export that and how the currency of the country where we export has been evolving versus the Chinese yuan, to give you the full picture. So I won't do that; I will stick to the impact on margin, around 0.4 point, that we have confirmed. I'll still stick to that for the time being.

Wasi Rizvi - *RBC Capital Markets - Analyst*

Okay. Thank you.

Operator

James Moore, Redburn.

James Moore - *Redburn Partners - Analyst*

Just some follow-ups. On CST, on sensors, on the timing, I know you're going through works council, it's still in negotiation, but are we talking July-type thing or Jan next year. I'm just trying to get a feel if we start to deconsolidate it.

On the working day impact in the first quarter, can you say anything about that?

Finally, the good growth in partner is great. Is it the low voltage side or is it the IS&C side, or is it both?

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

Sorry, James, I'm not sure I understood everything. On CST, I'm not able to give a timetable at that stage, so I'm sorry for that. Certainly as soon as we are able to clarify what is going to happen, we'll do that.

On the working day impact, it has been 40 basis points positive on the first quarter.

James Moore - *Redburn Partners - Analyst*

Okay. The final question was just on the partner and buildings business -- or is it building and partner; and there's two sides to that really, the low voltage side and then the LifeSpace, IS&C side of the business. I just wondered whether the strength that you saw in growth had come on one of those two sides or whether it was broad brush.

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

Well okay, they've been both positively oriented, so I would not say that one has been better. We've been -- in LifeSpace, in low voltage, we've been seeing good trend.

James Moore - *Redburn Partners - Analyst*

Great. Thanks.

Emmanuel Babeau - *Schneider Electric S.A. - Deputy CEO in charge of Finance and Legal Affairs*

All right, well that was the last question.

Thank you very much for attending this presentation. We look forward to meeting with you and having the presentation of our first half numbers at the end of July. Talk to you soon.

Thank you. Bye-bye.

Operator

Ladies and gentlemen, this concludes the conference call. Thank you all for your participation; you may now disconnect.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2014, Thomson Reuters. All Rights Reserved.