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SU.PA - Q3 2015 Schneider Electric SE Corporate Sales Call

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OVERVIEW:

Co. reported 3Q15 sales of EUR6.594b.

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PRESENTATION

Operator

Ladies and gentlemen, welcome to the Schneider Electric 2015 third-quarter results conference call. Now I hand over to Anthony Song, Head of Investor Relations. Sir, you have the floor.

Anthony Song *- Schneider Electric SE - Head of IR*

Good morning, ladies and gentlemen. Welcome to our third-quarter 2015 release conference call. Today with us are Mr. Jean-Pascal Tricoire, our CEO and Chairman; and Mr. Emmanuel Babeau, our CFO.

With that, I hand over to Mr. Tricoire to kick off the call.

Jean-Pascal Tricoire *- Schneider Electric SE - Chairman & CEO*

Thank you, Anthony. Hi to all of you. This is Jean-Pascal speaking. While this is a quarter we are normally not typically participating but today, well, first I happened to be in Paris together with Emmanuel.

Second point, times are turbulent and volatile. So I wanted to hear your questions and to hear your concerns. Emmanuel will deliver the full presentation driving the dialog with you.

When I look at the quarter, I just would like for you to hear the headlines. We have tailwinds and headwinds. In a very contrasted way, we have positives and negatives.

If I very summarily [lead] the positives and the tailwinds, the good news is that West Europe stabilizing. Emerging countries, except China, doing well to delivering a pretty impressive quarter. US construction, especially residential, doing well. Services confirming acceleration. Infrastructure confirming stabilization globally. And our partner business, which is a very good business, outside China growing.

Now on the headwinds. Clearly, China still negative. US disappointing in IT and industry. Oil and gas, of course, impacting what we do in industry and infrastructure. And industry as a whole still suffering, I would say, from (inaudible) distraction. I call that the distraction with the investment of the teams into the integration last year.

So no big changes with respect to the last quarter, confirmation of what we said the positives and negatives.

And now I hand over to Emmanuel and I'm pleased to be with you this morning.

Emmanuel Babeau - ***Schneider Electric SE - CFO***

Thank you, Jean-Pascal. Good morning, everyone. Pleased to be with you to share about our Q3 numbers. So I'm on page 5 and I'm going to go straight into the presentation, starting with the headlines of our Q3 sales numbers.

So altogether our sales amounted to EUR6.6 billion. It's up plus 5% versus the Q3 of 2014; of course, driven by ForEx.

Organically, on a like-for-like basis, working the adjusted, we are down minus 1.1%. Jean-Pascal has been describing the big trends that we have experienced during this Q3 but, of course, China and low industrial investment have been the big drag on our performance.

Looking by business, we can see that we have seen a mixed picture in our organic performance.

First starting with buildings and partner. We've seen growth in Western Europe and in most of the new economies, when China continued to be weak. And we have seen mixed trends in North America.

Industry, a decline. Of course, the big impact coming from oil and gas investments. We've seen a further slowdown in China. But we've seen in Western Europe a good OEM business, which has been growing.

Infrastructure is growing slightly, notably thanks to new economies. And IT has been about stable.

Now looking by regions, you have new economies outside China, which have been posting an excellent plus 8%.

China has been further deteriorating. We keep having a double-digit decline this quarter in China, I would say, as expected. But some end markets, like industry and IT, have been further deteriorating.

Western Europe has been confirming stabilization. We are slightly negative this quarter but, clearly, Southern Europe, Spain, Italy confirming growth. And I would say a general positive trend on Western Europe.

US has been impacted by further weakening of oil and gas investments. We had a high basis of comparison on data center markets, I would say, across our business. So that's true for low voltage, medium voltage and our IT business. But, in addition to that, we've seen what we would qualify as a rather soft data center market in this Q3. And last, but not least, of course, the strong dollar, which has been taking its toll on some of our end markets and notably, of course, industry.

At the same time, we've seen some positives and sometimes very positive and notably on construction, where the positive trend is clearly still going on.

Looking at the Invensys performance for the third quarter, if you exclude the ramping down of the China nuclear project, we've seen for the full Invensys perimeter decreasing at a low-single-digit rate, which, given the very depressed oil and gas market and the fact that the field devices business is down mid-20%s, in terms of percentage versus last year, so that the rest of Invensys has been performing actually quite well.

And on systems, for instance, we are around stability, which I think is a tribute to the quality of the business and the work that we are doing in this tough environment.

Jean-Pascal mentioned it. Services still very positive highlight of this set of numbers. We've been growing 7% on this third quarter.

We take into account what we've seen in this Q3, the environment, the evolution of the ForEx, on which I'm going to come back in a minute, and, therefore, we are updating our full-year targets.

Before entering into more detail in the numbers, I certainly don't want to forget our planet and society barometer, on which we put so much importance and emphasis. We've been on good track. At the end of this quarter we have reached the mark of 5.06. I remind you that we want to reach 8 out of 10 at the end of the three-year period.

You know the three pillars now. What we can do in order to limit the impact of our activity on the planet; what we can provide to our customers and communities around us to improve their impact on planet and society; and last, but not least, the impact that we can have on people, our people, of course, but communities and notably the [less-able] community. And I would like to highlight two positive evolutions during this quarter.

The first one on the zero waste to landfill. We have a 100 industrial site targets. For that objective, at the end of the period we have reached already 54 at the end of Q3, which is good.

The other element I wanted to emphasize, I think we're quite proud of it, is training underprivileged people. We reached almost 95,000 training of underprivileged people at the end of Q3. We target 150,000 for the full three-year period.

I am now moving through the detail of the numbers and I'm actually on page 8 of the presentation.

So altogether our sales reached EUR6.594 billion. It's up plus 4.9%. Of course, the ForEx once again is the big driving force in this quarter but I guess you remember that at the end of H1 the ForEx impact was plus 10%.

So we have seen quite a significant reduction of the positive ForEx impact on the top line during the third quarter. It's, of course, the euro starting to strengthen versus the US dollar. It is the Chinese yuan, which is linked to the US dollar, and, in addition, as you know, has seen depreciation of 3% made by the authorities.

And, in addition to that, I would say most of the currencies of the new economies have been depreciating versus the euro; notably on the back of commodity prices going down. It's also true, by the way, for mature countries, such as Canada and Australia, which economies are strongly linked to commodities.

So that is bringing us to a revision of the ForEx impact for the full year.

So far for the top line we were expecting around EUR2 billion of positive impact coming from the ForEx. We've reduced that by EUR200 million and we now expect a positive impact of around EUR1.8 billion on our top line.

And then on the margin you will remember that so far we were expecting a neutral impact on the margin with the depreciation, and sometimes very significant, of some currencies, like the Brazilian real, the Turkish lira, further depreciation of the ruble, is creating now, based on the current rate, a negative impact on the adjusted EBITA margin, which we assess to be around minus 20 bps on the current ForEx.

Now looking at the organic growth, it's minus 1.6%. We said it. You have a negative working day impact of [4.5%]. Now if you look at our growth outside China, we've been growing a bit positively outside China.

I'm going now to detail the growth by business. And I start, of course, with buildings and partner, accounting for 46% of our sales; EUR2.983 billion. It's up 8%, thanks to the ForEx. We are down organically by minus 1.2%. And outside China we've been, in fact, slightly growing during this quarter for buildings and partner.

Looking in detail by region, North America has been down. We clearly have seen a continuation of the very positive trend in the construction market in the US but this has been offset by weaker industrial activity, notably because of the strong dollar and oil and gas. And also as we are facing very, very strong activity last year on data centers, so we had a huge base of comparison, at the same time we have seen weaker activity on data centers in the US during the third quarter.

I want to know that Mexico was nicely up, clearly benefiting from the economic recovery of the country.

Western Europe was up, notably with growth in Spain and Italy. We've seen about stability in France and softness in project activities in Germany.

Asia Pacific has been growing outside China. It's about India, Australia, [probably] the Asian five countries growing. And China, of course, has been a top market, still declining around double digit during this Q3.

Rest of the world has posted a very solid performance, with good growth in Africa, Middle East and new economies in Central and Eastern Europe.

Moving to industry, sales in industry reached EUR1.398 billion. It's up plus 1.2%. And, of course, as expected, our industry business has been the one significantly impacted by a weak oil and gas investment and the slowdown in China. And that explains why we are organically down minus 4.6%.

Now when we enter into the detail by region, we clearly have also some positives.

When we look at Western Europe, altogether we are marginally down but we have seen the business with OEMs growing and notably Spain and Italy have been doing well, largely driven by export OEMs. Germany as well has been growing. And what we have seen as tougher markets in Western Europe has been France and the Nordics.

North America, as we have already said, declined with a clear weakening on the oil and gas investment and altogether sluggish OEM demand, notably impacted by the strong dollar.

Asia Pacific has been clearly impacted by the very significant decline in China. Here again we talk about a significant double-digit decline, where we have seen OEM demand being extremely weak and the trend getting probably tougher as we have seen Q3 developing.

Rest of the world. Once again here has been strong, notably driven by investment in the Middle East and Africa.

I've been commenting already on Invensys. Just want to emphasize once again that the very bad parts at Invensys have been the field devices. It's a mid-20%s decline. And, again, we've been holding up extremely well on systems at the same time.

Moving to the infrastructure numbers, sales for infrastructure are stable. We have a slightly different exposure here with more new economies. And that's where you start to see the ForEx impact on the new economies. We are stable at EUR1.273 billion.

You have the scope impact, which is disposal of the IT service coming from Telvent here. Organically we are slightly up plus 0.2%.

We have seen a very strong growth coming from the rest of the world and notably Middle East, who has been a driving force coming from utilities and infrastructure.

Western Europe has been negative. We've seen nice growth in Spain but this did not manage to offset the decline that we have seen in France, due to project delays, notably. And in Germany, where we are being much more selective on the projects that we take.

North America has been down. Here again it's oil and gas and, I said it, data center, which is really impacting, I would say, across our businesses the trend in North America during Q3. Canada was good because we are executing a large project and that has been helping our sales for this Q3.

We've seen in Asia Pacific mixed trends. No surprise; China very difficult once again. Australia, as well, difficult, on the back of this poorly oriented commodity market. At the same time, we've seen East Asia and India posting nice growth.

A big driver of the infrastructure performance has been our performance on services.

Last business, IT. Sales up plus 8.2% at EUR940 million. A big contribution of the ForEx. On organic we are close to stability at minus 0.6%. And we can say, as a general comment, that we managed to offset with solutions in general and notably with very nice growth in services, witnessed in our product business.

So entering into the details of the regions.

The US has been flat, despite this soft market that I described. And that was very much about project execution. At the same time, we've seen the project (inaudible) in the US, what we call the [omen] business network clearly being negatively oriented.

We also have been more selective in the projects that we take, working and going for more profitability in what we accept to take as projects today.

Western Europe. We're still positively, I would say, oriented in terms of underlying trend. We had a very high on exceptional basis in Q3 last year.

Asia-Pac was down. Once again, China taking its toll, probably with even the market becoming tougher in China. A bit of a weak [inventory] demand in India, you know, our Luminous business. But, clearly, the rest of East Asia has been growing nicely.

Rest of the world was up. Growth in Middle East, Africa. And Russia was a very tough market in the rest of the world perimeter.

I am now going to be back on the evolution by region. I think I probably has been commenting most of that.

Starting by the worst performance, very much expected, Asia Pacific going down organically by minus 5%. That's clearly the biggest region for the Group now at 29%. We were expecting China to be as difficult as in H1, so no surprise that has been the case.

We mentioned the fact that probably industry and IT have been weakening further during this Q3.

And, at the same time, in front of that, we've been growing outside China in Asia Pacific, thanks to India, where I would say across the board we are growing, thanks to Australia, where construction is well oriented. And, globally, East Asia has been performing well, as well. So that was very much expected.

North America, the second poorest performance; minus 4%. I would say probably some elements of difficulties were coming as more of a surprise in this Q3 and, notably, the fact that really oil and gas became clearly weaker during this period.

And also the data center market. We knew that we are facing high comps but we've been facing some softness in this data center market.

Last, but not least, the impact of the strong dollar, notably on industry.

Situation on Canada and Mexico has been more favorable, notably Mexico. Canada is much more mixed but Mexico has been a more favorable market for us.

I note that North America, due to the ForEx evolution, is our second region in this Q3 with 28% of our sales.

Then Western Europe confirming, I would say, stabilization; slight negative in Q3. A lot of good things happening in some end markets.

We've seen, compared to the first half, Italy and Spain confirming their rebound and the fact there is growth here. France was more stable during this quarter.

UK was a bit more negative. We think it's probably a temporary evolution for basis of comparison and some phasing impact. But we believe that the UK market remains underlying extremely well oriented.

And Germany was mixed. We mentioned the fact that we were good in industry but we also have been seeing a decrease in infrastructure and we've been, as we said, much more selective on projects.

And, of course, the best performer, rest of the world; plus 9% with growth, I would say, across the board. And Middle East, Africa, countries from Central Europe, really driving the growth.

One only negative area, which has been South America. And even there not everywhere, because Brazil has been the negative part. We've been seeing growth and sometimes that growth in other parts of the subcontinent.

So all that is driving us to the targets for 2015. Want to summarize for the last time what we have seen in this third quarter.

Sustained stabilization in Western Europe. Growth in new economies outside China. That's for the positive. China still being tough, with some further deterioration in some markets that we have described.

The US performance being impacted by weak markets outside construction. And, clearly, oil and gas, IT are the two end markets being difficult. I remind you as well that we're going to face huge comps in Q4 on North America because last year we were growing organically by plus 8% in Q4 in North America.

So, taking all these elements into account, we are, of course, going to continue to relentlessly deliver and work on our Schneider Is On program.

We have a lot of growth initiatives, and you see the areas of growth, whether by businesses or by geography, for growth initiative on which we're going to continue to work.

Cost efficiency more than ever is a priority. We have this EUR1.5 billion cost-efficiency ambition of our three-year period productivity SFC. We're going to continue to work on that. And, of course, in this environment cash generation is paramount.

Based on these third-quarter numbers and based on our expectation for the end of the year, we are updating our targets.

For our top line we now expect a slightly negative organic growth in revenues.

And for our margin, we precise where we now believe we're going to land, and you we remember that we are saying at the end of H1 stable to moderate decline, where we think we're going to land in the low part of the bracket, a moderate decline in adjusted EBITA margin versus 2014, noting that this could be further impacted by the evolution of currency. And I have detailed what we expect now with this minus 20 bps impact that we expect on our margin, based on the current ForEx.

This terminates my presentation and Jean-Pascal and myself, we are truly happy to answer your questions now.

QUESTION AND ANSWER

Operator

(Operator Instructions). Andreas Willi, JPMorgan.

Andreas Willi - ***JPMorgan - Analyst***

I have questions on price and mix trends. First on price. Maybe you could give us some commentary around that. One of your competitors keeps talking about increased price pressure in low voltage. What are you seeing? Are you that competitor that is lowering prices?

And the second question on mix. There's obviously a lot of moving parts now geographically, with US down, China down, but very high growth in some other emerging markets. How should that impact the geographic mix in the second half?

And on your mix, in terms of solutions versus products, you mentioned a couple of times in the release you're more selective in your approach. Is this because you want to protect margins more? Or is this because pricing in the market has deteriorated and, therefore, you need to be more selective? Thank you.

Jean-Pascal Tricoire - ***Schneider Electric SE - Chairman & CEO***

On pricing, you remember that, you know that perfectly, in our industry price is not directly linked to raw materials but it's somewhere linked to the evolution of raw materials. What is happening at the moment is a release of pressure on raw materials and what we see is a natural release of prices consecutive to that.

What we are monitoring, and we always say that, is the net pricing between the price we are paying on the market, and we measure it on products, and the release of pressure which is coming from RMI (Raw Material Impact).

So that's as a first answer, which is an answer of principle. So today we have pressure on pricing but we monitor that it's better than what we get from the RMI.

Second, the place where we see the most pressure today on pricing is, I would say, China, certainly. Why? Because there is an intense competition and because, frankly, I think Schneider had opened too much of a price umbrella in some cases and some of our competition took profit of that. So we selectively reacted on some projects and, to a certain extent, some projects in the US that we are quite competitive but to a much lesser extent. So that's one.

Concerning the solutions?

Emmanuel Babeau - ***Schneider Electric SE - CFO***

I'm going to take that one. And just maybe to complement beyond that, I think that a lot of price lists are almost publically available. And I am sure you will see, if you manage to have access to them, that we are everywhere playing at the premium.

So we are clearly the price leader, if I may say, because of the franchise, the quality of our products. And I think that we are price leader by a meaningful edge. So that's probably an element of answer.

Now on your question, Andreas, on mix, solutions versus products and profitability, well, let's be clear. And that's a comment that I'm making for the full 2015 year but certainly which is valid for much beyond.

When you are in an environment with limited top-line growth, working on margin, protecting margin and, if possible, improving margin, is a clear objective. So that's certainly very much something we have in mind for the future.

Regarding the mix, yes, probably, I would say, given the development of what we see compared to the [mix] that we have been reporting in H1, we could have a bit more of a negative mix impact for the full year. I think it's not the moment to elaborate on that. But just looking at the global trend that would be a kind of natural evolution.

At the same time, I think we clearly stated that we were extremely unhappy with our performance on solutions on H1. And we work on improving the margin on solutions in H2 and, of course, beyond H2.

So you will have these various drivers on the margin in the future.

Jean-Pascal Tricoire *- Schneider Electric SE - Chairman & CEO*

So that means we are going to be more selective on sales. And I would say that globally we are managing much more closely the mix of our business between the product part of it, the project part of it and the service part of it. But this doesn't have a short-term effect. It takes some time to flush through the pipe. So we are working on it with effects which are certainly not coming this year.

Operator

Mark Troman, Bank of America Merrill Lynch.

Mark Troman *- BofA Merrill Lynch - Analyst*

I've got a question on the guidance. So in terms of the EBITA margin we've moved to moderate decline, from flat to moderate, so the lower end of the range. Just to check, does that include the 20 basis points of current FX expectation or not?

So is that the reason that you've moved to the lower end of the range? Or is it to more because you've got a slightly weaker top-line guidance? That was question number one.

And second question. In terms of the top-line trends that you're seeing, I'm thinking particularly of in industry, are you seeing a lot of destocking? Or how do you assess how much of the decline is destocking or not across your business? Thank you very much.

Emmanuel Babeau *- Schneider Electric SE - CFO*

I'm going to take the first one on the guidance. Clearly, the Q3 number and the fact that we are, at the same time, revisiting the top line for the year is the one driving the fact that we go for the low end of the bracket that we have been giving.

In addition to that, you have the minus 20 bps, which, frankly, I don't know how it's going to end because, and you can still see that on your screen, currency continues to be very volatile.

So we share this 20 bps at that stage. That's what we can see to the best of our information at that stage. But it's really we revisit top line to say that we're going to be slightly negative on the top line. Q3 number is pointing to that. We, therefore, go for the low end of the bracket that we have been giving. And, in addition, we update you on the impact of the ForEx.

Jean-Pascal Tricoire - ***Schneider Electric SE - Chairman & CEO***

On the destocking, impact of stocking, you know we are in an industry of which the cycles are accentuated by stocking and destocking of our partners and especially distributors.

What we see in this rather down cycle is that, for our business, cycle is accentuated by destocking. But it's very variable country by country. In some places you've got more products in the stock.

I just say that I don't think destocking is finished at this stage.

Operator

Gael De Bray, Societe Generale.

Gael De Bray - ***Societe Generale - Analyst***

Two questions, please. Given your comments on greater project selectivity and also with the services business growing nicely in the quarter, could you maybe give us some initial indication on how the solutions margin has developed in Q3 compared to H1?

And second question. How do you assess the decoupling between the weakness in China and the US and the continued strong growth in the Middle East and Africa and some other Latin America geographies? Do you see the decoupling continuing? Or are there early signs of weakening in the rest of the world markets? Thank you.

Emmanuel Babeau - ***Schneider Electric SE - CFO***

On the evolution of the margin, I don't want to transform this sales number review into a P&L review. I think that Jean-Pascal and myself, Gael, we have been giving the visibility on what we intend to do.

I think we also clearly expressed the fact that things are not going to happen fully immediately. But we also flagged at the end of H1 that we wanted to improve as quickly as rapidly. That's the key objective.

We'll see what we manage to have done at the end of H2. But I'm not going to comment at that stage on where we stand and on details. You will have to wait for the full year, I'm afraid.

Jean-Pascal, do you want to take the decoupling on --?

Jean-Pascal Tricoire - ***Schneider Electric SE - Chairman & CEO***

I don't know if we should speak about decoupling. There is volatility in the economy. If you look at what we see today is we see a US with a double-speed economy, with some parts of the business going very well, some other ones being weak and some other ones just [operating] off a very high base of comparison.

Then you've got, and this is very good news for us, Europe, which is confirming the stabilization. That's good.

I think China has been really readjusting strongly this year. I'm not expecting China to restart now but I would say that now the base of comparison is becoming more forgiving. And, at the same time, we change our positioning to be adjusting to the new priorities of the new five-year plan, (inaudible) five-year plan, on trimming our costs.

Everything we do today is a lot about looking at the mix of the business, into each and every business, pruning the portfolio and keeping on looking at that. We spoke about pricing, being very attentive and very selective on pricing; on repositioning ourselves in the right segments, according to the geographies.

On the strong dynamics in the rest of the world, there, again, it's very different. So we have good, today, sales in some of the oil-related countries, which -- but (inaudible), except for what was coming from Invensys, we are more positioned on the urbanization, building side of the equation. And there are still projects coming in.

At the same time, as you have probably some weakening of those economies in the months to come, we see more projects coming in places which have been destabilized in the past. Take north of Africa, which are restarting some of the projects, and all of Africa, for some regions. So it's really a variation.

Emmanuel mentioned South America, where Brazil is depressed, but the rest of the countries are faring rather good.

We've been rather slow in Southeast Asia over the past two years, I would say, following a certain number of crises in Indonesia and Thailand. And from that low base of comparison we should have some compensation.

India is doing well.

So it's a mix of things which are fluctuating. So it's difficult for me to say that there is a decoupling. The world is just multipolar. It's submitted to a certain number of variations.

I always say to you that I think that one of the great assets of Schneider was to be positioned in many countries, on four markets, with the same technologies, which enabled us to compensate in one market with the strength of the other markets.

Operator

Simon Toennessen, Berenberg.

Simon Toennessen - ***Berenberg - Analyst***

The first question on China. Maybe just a bit more color on that. Could you just talk a bit more how it went through the quarter? Was September a lot worse than July and August?

And, given we are going into Q4 where you should have about a 600 basis points easier comp from last year, how are we thinking about just the headline China number for the fourth quarter?

And then, just simply looking out to Q4 in general, what could be the biggest swing factors on the positives and on the negatives? I guess US and China are discussed most on probably more the negative side. But on the positive, is it European low voltage that could surprise a bit more on the positive? Or the infrastructure business in Germany?

And then, looking out even further to 2016 and I know you don't provide any guidance yet, but, just simply, where do you have confidence today which businesses and maybe also geographies should grow next year from today's point of view? Is it Europe? Is it the rest of the world. I presume your service business, which should still grow. Any color on that would be very helpful. Thank you.

Jean-Pascal Tricoire - ***Schneider Electric SE - Chairman & CEO***

So on China, as I'm going to spend most of the next week there so I will be probably more literate at the end of next week.

But the first thing, when you take a bit of a longer view, China, because of urbanization, because of what is called Manufacturing in China 2025, which is a big action of the Government, which is requiring for more automation, more software, where we are strong with our network, because of digitization, no doubt that China remains a great potential and a great country for us.

I remind you that we have done the tremendous efforts in the past years to move from 80 cities to 300 cities, so to go deep into China. And while some of the medium historical cities are getting more saturated, we still see some good dynamics in not always in the west but in secondary cities that we cover firsthand with our network.

Now if you look at the short term, the first thing which is weakening the economic growth in China is something which is good for China, which is the anti-corruption campaign. But it has slowed or canceled a lot of decisions of investments in every sector: in the state-owned companies, in the real estate decisions, in the provinces. And that is still impacting. And that will keep impacting for some time.

Now what you can see in China is that the Government is tuning the economy, lowering interest rates over the past year. I think the next 13th plan, which is coming out, is very consistent with all the messages of the Government of the past two years, taking back everything around innovation, Internet Plus, Manufacturing in China 2025, the one way, one belt, which will carry a lot of investment of Chinese companies outside of China, pushing the growth of all the regions around Southeast Asia and Central Asia.

And it's good that the plan is coming now because it gives clarity of execution to the Government and to all the companies in China.

So, all in all, what we see that construction is stabilizing, and there has been last year a series of small and progressive measures which are re-enabling some investment in this, and fluidity on this market. And we've seen some more trading happening.

What we've seen in the recent past is, in our presence in industry, in the segments we are positioned, lots of them are related to construction, weakening of our industrial sales, weakening of the IT sales.

To cut a long story short, it's not for tomorrow probably but it's not been a crash at all. It's been a stabilization at a certain level. And I see signs of stimulation that should carry a more reasonable growth in the future, more normal growth. By the way, China calls it the new normal.

And we are reassessing and readjusting our presence on the right segments. And I don't want to share them here because, beyond you, there are some of my competitors probably listening. But some clearly identified segments where the Government is supporting, where the Government is pushing and where we are clearly positioned in China, geographically and business-wise.

So what we see is really that transition to a new normal happening but now it's becoming really official. With a certain time I think it will free some energy in China that will impact probably from, I would say, probably the second part of 2016. That would be my best guess.

Emmanuel Babeau - ***Schneider Electric SE - CFO***

On your second question on what could be more positive in Q4 and beyond, I certainly, and don't get me wrong, I don't want to enter into any kind of guidance, neither for Q4 nor for next year.

Now, having said that, I don't think that we are expecting for Q4 major changes in the trends. So I think China is going to remain difficult. Indeed, we have slightly easier comps that hopefully are going to help us. But we mentioned a few markets which got tougher in Q3.

I think that what we've been seeing, linked to oil and gas, (inaudible) is still going to take its toll in Q4. In addition to that, as I said, we had some very high comps in Q4 2014.

And then, in front of that, Western Europe, I mentioned it, is purely sending some positive signals and hopefully we're going to see some illustration of that in Q4. And in new economies, I'm not saying that we're going to repeat the plus 8% but we see that a number of new economies, and Jean-Pascal described it, are relatively well oriented.

And looking for next year, the question is, of course, whether the US economy is going to absorb this oil and gas adjustment and, therefore, which will enable the industry to focus on the positive part of the market. And you have plenty of them as the US economy is growing.

Is Western Europe going to confirm its positive trend and evolution?

Are we going to see in China a beginning of a stabilization? Jean-Pascal said it. We don't expect a fast rebound but we expect probably to see a kind of stabilization materializing through 2016.

And on new economies, we still expect many of them to have good performance. Probably one area where I would flag that we don't think that the very good performance can continue is the Middle East, where we've been boosting on projects. But, given the oil price, I don't think it's reasonable to believe that the Middle East is going to continue to be a flamboyant region for us next year.

So in a nutshell, and again without giving any kind of indication or guidance, that's the kind of view we can have on our markets for the coming quarters.

Operator

James Moore, Redburn Partners.

James Moore - ***Redburn Partners - Analyst***

Apologies for flogging a dead horse but I've got three questions all on China and I hope you might be able to answer them before your trip.

Firstly, could you help us with a hard number, please? Was it worse or better than the 15% you mentioned last quarter? From the 8% and zero comment, it looks around there.

Secondly, could you give us some divisional flavor? If you're able to rank the four divisions by Chinese organic decline in the quarter or help us understand the range of decline that might be quite helpful.

And finally, you mentioned the work you're doing on mix, which you've mentioned before and I understand that. And I'm just thinking, in your more traditional construction mix, could you help us a little bit on what you see across the tiers?

I was surprised that you talked about seeing better trends in some of the smaller cities and you've done more than others to go from 80 to 300. But I see construction starts down single digit in Shanghai and Beijing but down 40-plus-% in tier 3/4.

And so could you help us a little bit understand what the city growth in low voltage looks like? And is the weak growth not because of your higher exposure to smaller cities?

Emmanuel Babeau - ***Schneider Electric SE - CFO***

We're not going to give, I'm afraid, the level of detail that you would like to get on the trends in China. I'm happy to say that the overall trend has been at a low-teens decrease, so I think that we are still in a very difficult environment.

I think that we mentioned that industry had been particularly tough in this quarter so it probably gives you an idea of a kind of ranking of what we have seen.

But, again, the four businesses are significantly negative and some are a little bit above the average, some are a little bit below the average. But I would say it's difficult across the board.

Jean-Pascal Tricoire - ***Schneider Electric SE - Chairman & CEO***

Just one second, but this has to be put in regard of years of intangibles. It's an adjustment, as you say, in the lower teens after many years where we've gone very fast. Just to make relative what is happening I think we're still in the reign of pretty solid performance in China in 2015.

Emmanuel Babeau - ***Schneider Electric SE - CFO***

Jean-Pascal do you want to take the one on the smaller cities and --?

Jean-Pascal Tricoire - ***Schneider Electric SE - Chairman & CEO***

The only issue is that the line was terrible and I didn't understand your figures exactly and I won't go into the detail. The fact is that it's very variable. It's not only a question of large cities and small cities on the west and east. It's depending on the precise business which is happening in those cities. It depends on the focus which is happening in those cities.

I was recently in [Zhongshan], for instance, which is a very large city, though in the west, and the GDP has grown by more than 10% in a country where the growth has been weaker. So it's a series of [second], and I would say this one, I will keep it private for ourselves. But it's very variable.

By the side of the cities, I would even say the location in large cities. And by the kind of environment you have in each and every city. And it's not as important as west and east, for instance, or central and peripheral.

But globally, I think what we did, which is to position ourselves around, and especially in a capital manner, because our business model and our product lineups are fitting, has been a way to be [morally] in what has happened as an adjustment.

Operator

Fredric Stahl, UBS.

Fredric Stahl - ***UBS - Analyst***

I have two questions, please. I wonder, going back to the rest of the world, which is up 9% in the quarter, for me at least it's easy to assume that when you mention Middle East and Africa that it's commodity driven. But maybe you could help us with what industries are driving this growth, to better help us judge if it's sustainable or not.

And then the second question is just if you could give us an idea on how the old building business is doing within partner? Doing margin-wise, that is. Thank you.

Emmanuel Babeau - ***Schneider Electric SE - CFO***

So on the rest of the world, really it has been growth across geographies. I think we flagged the fact that Brazil is the big negative. Even Russia has been probably better oriented than what we thought. And we said it's Middle East, it's Africa, it's also Central Europe and many markets in South America.

And, yes, we flagged it in the presentation. We have good trend for infrastructure but we have been also growing for building and partner. We've been growing for industry. We've been growing for IT. So this is a region where I would say the general economic growth has been driving the positive.

And, as you've heard, we flagged the fact also that, clearly, in the Middle East we don't think that we have a sustainable growth rate, given the fact that some of the projects are linked to, I would say, oil and gas and other investments that probably are going to slow down in the foreseeable future. But, really, it has been about dynamism of the region as a whole.

Jean-Pascal Tricoire - ***Schneider Electric SE - Chairman & CEO***

Not all of it. And the last part of it is not directly linked to [resources]. It's very linked to the organization particularly of those countries.

Emmanuel Babeau - ***Schneider Electric SE - CFO***

All right. And on your question on our what we formerly called the building business, it actually has been growing quite nicely at the end of September. Q3 has been good as well.

So when I look at building and partner, we've been good in what we call the retail final distribution and, indeed, are places where we have been so far end of September positive and where we have been performing reasonably well in Q3. And this building, I would say, [for the French] is the other one.

Operator

Ben Uglow, Morgan Stanley.

Ben Uglow - *Morgan Stanley - Analyst*

My question was around the industry division and the kind of trends that you were seeing there throughout the quarter. And particularly I was interested in the North American market. I think you mentioned that the OEM demand was, quote-unquote, sluggish.

And I guess, and maybe this is for Jean-Pascal, but have you seen a significant change in behavior by the OEMs during 3Q? And is that something that -- I guess what I'm asking is, is the exit rate as we go into 4Q going to be significantly lower? So that was question number one.

And basically it's a related question just in China as well. Looking at some of the machine tool data that's been available over the last couple of weeks, it looks to me as though there was quite a step down in China as well in terms of machine tool demand. Have you experienced anything like that?

Jean-Pascal Tricoire - *Schneider Electric SE - Chairman & CEO*

Ben, the line is very bad, I don't know from which mic you are speaking, but it's not really easy to understand. So if I go on North America on the OEM demand, which is sluggish. So yes, this is what we have seen.

Now we are not speaking on that was more your China part about machine tool business. We have several kinds or different kinds of OEMs. On the one, we are not particularly positioned on machine tools at all, actually. We are positioned on other kinds of OEMs.

I also think that what happened in the US for us is a collateral of what was done last year in integrating the teams of Invensys and on the teams of Schneider. So there is a part which is due to the market, which is, we find, slower than we were expecting on the industry side in the US.

On the part that we have really addressed now, but it takes time to [reposition] ourselves, which was what is happening when you do a massive integration, especially in the US, because Invensys is quite strong in the US.

In China we are really not [prevalent] position on machine tools. So there are plenty of sorts of machines serving the Chinese economy. By tradition, and probably by natural inclination, we are not positioned on machines serving the construction, on those ones that have been really seriously hit. And we are repositioning our presence on segments which are more serving the consumption but that will take some time because the sales cycle to an OEM is at least one year of time.

I really think what we see, though, Ben, is that we have a lot of consultation with people paying attention to manufacturing in China 2025 really interested. So that will take some time because people are looking for direction. But there is a lot of interaction with our teams to build a new way to approach production in China; for better quality, for better productivity and for labor scarcity for some of the manufacturing.

Anthony Song - *Schneider Electric SE - Head of IR*

Given the time constraint we have, we are going to take one more question. Please go ahead.

Operator

Alfred Glaser, Oddo Securities.

Alfred Glaser *- Oddo Securities - Analyst*

On foreign exchange I wanted to ask you which currencies are, in fact, mostly weighing on the margin outlook that you have given today--

Operator

I'm sorry, Mr. Glaser. Your line is very poor. Could you please reposition your headset, please?

Alfred Glaser *- Oddo Securities - Analyst*

My question was on foreign exchange, which currencies are mostly denting the profit outlook? And do you take any specific (inaudible) measures on this topic?

And my second question was on the acquisition and (inaudible) project with Aveva. Do you have any news that you could share with us on the negotiations with (technical difficulty)?

Emmanuel Babeau *- Schneider Electric SE - CFO*

Thank you, Alfred. I hope I got your questions right. The line was actually very poor.

So regarding the currency impact, no surprise. I can make you can an exhaustive list but, of course, it's going to be the Brazilian real, the Russian ruble, the Turkish lira, the South African rand. And then compared to July, because it's always compared to the last vision, you will see that most of the Southeast Asian currencies, Indian currency has been depreciating. True as well for the Canadian dollar and the Australian dollar.

And in these countries that's where you can have in imbalance between the currency of the invoicing and the currency of the cost and where you have some of the costs which are in stronger currency, whether in dollar, which continues to be [appreciated] versus these currencies, or in euro. So that is what is creating the squeeze on the margin.

Regarding Aveva, we have nothing else to report. As you know, you have very strict rules. You don't comment if there anything new you can report. So I'm afraid on that one we will stay silent and will, of course, be back to you as soon we have something to share with you.

Anthony Song *- Schneider Electric SE - Head of IR*

With that we conclude our third-quarter 2015 revenue conference call. Thank you, gentlemen, for attending this conference call with us and look forward to--

Jean-Pascal Tricoire *- Schneider Electric SE - Chairman & CEO*

Ladies and gentlemen.

Anthony Song *- Schneider Electric SE - Head of IR*

Ladies and gentlemen, sorry.

Jean-Pascal Tricoire *- Schneider Electric SE - Chairman & CEO*

Okay. Well thank you for your time and attention and, as we see those turbulent times made of headwinds and tailwinds, be sure that we work on the mix on the prioritization of our business; on our cost structure; a lot on our efficiency, it's a good time to train the Company to a new level of the Company; and on pricing, which again is affected by currencies and RMI levels and a series of things. Thank you for your attention.

Emmanuel Babeau - ***Schneider Electric SE - CFO***

Thank you and talk to you soon. Thank you.

Anthony Song - ***Schneider Electric SE - Head of IR***

Thank you. Bye.

Jean-Pascal Tricoire - ***Schneider Electric SE - Chairman & CEO***

Bye-bye.

Operator

Ladies and gentlemen, this conference call is now over. Thank you all for your participation. You may now disconnect.