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SU.PA - Q3 2016 Schneider Electric SE Corporate Sales Call

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OVERVIEW:

Co. reported 3Q16 sales of EUR6.064b.

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PRESENTATION

Amit Bhalla - *Schneider Electric S.A. - Head of IR*

Hello and welcome to Schneider Electric's third quarter 2016 revenues meeting and conference call.

To share our results today we have our Deputy CEO and CFO, Emmanuel Babeau. Emmanuel, take it away.

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

Good morning, Amit. Good morning, everyone. Thank you. Well, a lot of people this morning arriving in the room, told me, well, it looks like a concert stage. And so the good news is that Jean-Pascal and I, we're going to sing, but that will be later on today. So we're going to start with a casual conversation around our Q3 numbers and thank you very much for starting the day early with us.

Of course, you know a lot of things will be said during the day and I'm not going to anticipate many, many pieces of information that we'll share with you in the course of the day, but really focusing on our Q3 numbers and the highlights for this Q3.

The overall performance, as you have seen, is an organic growth of minus 1.7%, which is in line with our expectation that we shared with you for the full year of an underlying organic growth about stable, without the selectivity impact which accounted for roughly 1 point of negative impact in the quarter.

And there was another impact playing in Q3 which was the working day impact; you had less working days in Q3 2016 than in 2015 and that's about 0.6 point of growth. So without that, we have been about flat during this quarter, I would say as expected.

Now looking a little bit in the detail by geography. First thing probably, and maybe biggest event of the quarter, is the fact that China is back to positive territory. We've been growing in China in Q3 and that was actually the first time of growth after almost two years of decline, seven quarters exactly. And I will elaborate a little bit more, of course, on what we've been seeing in China.

Globally, we've seen North America and Western Europe pretty good resilience. North America is flat; we've been growing a little bit in the US. Here, again, I will enter into more detail.

Western Europe, you will see, is down 1%; in fact, re-treated from the working days we are flat in Western Europe. And we've seen ups and downs during the quarter that I will detail.

No doubt that the biggest impact, but maybe we're not going to be the only one during this quarter, is Middle East with a significant decrease. Please remember that in Middle East we also include Turkey and we have faced a kind of perfect storm during this third quarter. On one side, we all have in mind, of course, the events in Turkey which has meant that, during almost one month, the business was shut off.

The other, of course, big negative is everything we are seeing in countries exposed to the price of energy and, notably, in Saudi Arabia and, to a lesser extent, in the Emirates. And Middle East has been so negative; we talk about [mid-20%s] in terms of decline. That is, I think, globally a big impact at the level of the Group, minus 1.3 points.

If I were to be totally exhaustive in terms of countries facing difficulty, I should probably add Australia, which also has been experiencing a significant double-digit decline over the quarter. And that has been costing an extra minus [0.5] points of growth during the quarter. So that means that outside Australia and Middle East, in fact, we've been showing some growth and some significant growth in the rest of the countries, on an underlying basis.

New economies, of course, very much impacted during the quarter by what has been happening in Middle East, but new economies keep growing. We have a lot of questions very often, what do we see in new economies? Which kind of future do we see for new economies? And no doubt that it's important to see that new economies outside Middle East kept growing.

Now entering by business I'm going, of course, to detail and elaborate on that. Building really continuing a solid growth outside Middle East and Australia. We said the business is globally flat, but really growing outside Middle East and Australia still, with our final distribution business doing well.

Infrastructure, slightly up before selectivity actions. I have Frederic in front of me and we will, of course, give a lot of information on infrastructure on the course of the day and we'll come back on selectivity as much as you want.

Industry performance, I would say, was according to expectations, so still negative. We are still being impacted by oil and gas and, clearly, having an impact notably on the process automation business. But China, for industry automation, was back to growth in Q3. That's good news.

And then IT, which was probably the unexpected negative number for the quarter, you will see that we are bit south of minus 3% organic growth. Frankly, it does not reflect the trend in IT; actually, our order intake has been positive in the quarter for IT. So yes, indeed, there were a few countries with a lower spending in IT, but there was also a number of phasing issues that explain why we have been at around minus 3% for IT in this quarter.

Then, of course, services continued to be a big priority. Another quarter of good growth, mid-single-digit growth for services during this quarter.

And on the selectivity of projects, this has globally an impact of EUR60 million for the third quarter; EUR40 million for infrastructure, EUR20 million for the rest of the Company.

And, based on this quarter, which is once again in line with our expectations, we are confirming and reaffirming our targets for the year.

Before going into more detail I, of course, have to [stop], as always, on our planet and society barometer which, as you know, is our commitment to sustainability. I don't pretend that I'm going to go through all the indicators here; maybe the first two are interesting.

The CO_2 savings from transportation we target 10% through the Company program. We've been moving from 6.8% to 8.5% through the quarter; very good progression. And the other one is the way we design our products for sustainability and we've been making a steep progress during the quarter, getting to 46%.

On the right-hand part of this page, of course, all the recognition rewards that we are receiving based on everything we do on sustainability. One of them during the quarter has been the fact that, for the first time, we've been included in the FTSE4Good. And maybe a rewarding one, the fact that Fortune has been classifying us as 24th out of 50 companies which are actually changing the world. It's a great matter of pride for us.

Right, so entering into a bit more detail now in the numbers. Our sales amounted to EUR6.064 billion for the quarter. It's down 8%. Two, of course, effects which are not organic. The first one is the scope effect. Biggest impact is the deconsolidation of Delixi. Some of you may ask the question, what was the performance of Delixi during the quarter? Delixi has been growing organically 2% during the quarter, but it's no longer consolidated in the sales for the reason that we explained at the end of H1. Other scope impact include Juno and Telvent Transportation.

ForEx impact, minus 2%. The impact is easing; it has been lower clearly in Q3 than what we've seen in the first two quarters. Now, for the full year, we expect a negative impact for the top line to be around EUR800 million. You still have, first, the Chinese yuan and, second, the British pound are the big, big negative driver for our ForEx.

Now, looking at the detail of the organic growth. Please, once again, bear in mind the two impact here, which is working day, around minus 0.6 points, and the selectivity which is, first and foremost, applying to infrastructure for two-thirds, but not only, and the EUR60 million I described.

Building was stable, minus 0.1%; industry was down, minus 2.6%; infrastructure, minus 3%, would have been growing slightly without selectivity; and IT, minus 3.1%, once again, I'm going to come back on that, not reflecting the underlying trend that we see on [IT].

Starting with our building business; still growing without the working day impact, and still growing quite materially outside Middle East and Australia, which have been the two negatives, and significant negatives, during the quarter. First, maybe a word on the scope impact, the minus 8.2%. That is mainly the deconsolidation of Delixi, but that is also the disposal of Juno Lighting.

Looking, by region, at the performance; in North America we have continued to grow. A good performance in the US. That's still the construction market, which is positively oriented, and notably, of course, the residential market, where we seem to gain market share and to have good progress.

Mexico was also up in the positive -- in the negative in the US when it comes to construction. We still see, of course, some negative pressure coming from the industrial building notably, which is somewhat offsetting the good trend that we see in the residential.

In Western Europe, contrasted picture. We have been growing in the UK and in Italy, but we've been declining in Germany and Spain. I will elaborate, later on, on what we see on Germany and Spain.

And in France, where today we see clearly some element of improvement on the medium/long term in France; everybody is reporting an improvement in the construction market, notably for residential. It's probably less clear today for the commercial building. I think we see that firming up, but there's probably more a positive contribution for 2017 than for 2016.

Then Asia Pacific was mixed. As I said, China back to growth globally and, certainly, positive for the building business. It's always a good situation that we shared with you in the Tier 1 and Tier 2 cities, where we see a lot of investment. Among the other good news in the Asia Pac region, I clearly have to mention India, which has been delivering a good quarter.

Australia has been, clearly, a difficult part. The economy is facing the impact of the low price on commodity globally. We have seen some impact beyond the infrastructure and industry markets, which have been weak for a significant period of time. Now, we see construction market weakening as well in Australia.

Rest of the world; Middle East, extremely bad, as I said. It's really across the business that Middle East has been bad, so no exception with building. Good news in Africa and in Russia, the CIS region, where we've been posting a nice growth.

Industry still impacted, of course, by oil and gas. We see that the impact on oil and gas, that we start to see becoming extremely severe in the Middle East, is maybe going to ease, hopefully, in the coming quarters in other regions. So let's not see oil and gas as a kind of homogeneous impact, everywhere with the same magnitude at the same time. But, nevertheless, in Q3, it was clearly still playing and playing negatively.

China, as I said, good news; back to positive, thanks to the OEM market, which has been showing stabilization and some renewed investment among certain of our customers.

Western Europe was close to flat; a good resilience in the OEM market here again. France was a bit negative; Germany was about flat. The good news was coming from Italy and Nordic during the quarter.

The US still impacted. A lot of people are saying, well, the oil and gas pressure should ease in the coming quarters. But we've seen the US still impacted by the low oil and gas investment, and that's I think been taking its toll on our performance in Q3.

The good news, certainly, is the fact that services continue to grow. So for industry, like for the rest of the Group, services is an engine for growth.

Infrastructure; we were expecting a significant decrease, of course, based on selectivity, around EUR40 million of negative impact during the quarter. So this organic decrease is not coming as a surprise. The scope impact here; maybe [one word on] the scope impact is coming from Telvent Transportation.

Now, if we go in detail through the region. North America still down; again, US industry impacted by a weakness coming from the oil and gas investment and, probably, strong dollar still having an impact.

We see weakness in Canada. Canada has been really getting difficult with price of commodity going down. We see a number of projects coming to an end and, therefore, the situation in Canada getting probably overall more difficult.

Western Europe was up. We see that, after a difficult period of time, some investments are back in Western Europe and, notably, in the UK and Nordics, where we've been growing. France was up as well with some renewed investment among our customers in France.

Moving to Asia Pacific; China down on selectivity, because that's the place where selectivity is meaningful. Otherwise, we can say that Australia has been also negative. Again, no surprise in a country where commodities are driving, to a large extent, the economy. Low price on commodity is driving lower investment.

Then rest of the world was also negative. Middle East, sorry to come back on Middle East being negative, and Russia was also negative. When you look at Russia today, this is really the only remaining significant negative place. The situation has been improving as well. And Africa was growing and services were well oriented.

Now, moving to IT and we'll have a long presentation this afternoon with you, Dave, on IT, so you'll be able to answer to many questions. Organic, minus 3.1%. The business was close to flat in H1 and I want to be very clear. This minus 3.1% does not reflect the underlying trend that we see in the IT business.

The reason for the minus 3% is that we have seen a number of regions, indeed, with lower spending, but there was also some comps impact; there was some phasing in projects; there were was some delivery issues that we have been facing that explain this minus 3% globally.

Order intake were nicely positive; in fact, during the quarter and year to date, we are slightly up in terms of order intake. So I'm not saying that this is a fast-growing business today, but once again, minus 3% does not reflect the trend.

Going through basically the region rapidly; rest of the world was a big negative, Middle East, no surprise was a negative, but Africa was negative as well. In the US, we were down, but I think we still keep doing a good job in the IT channel in the US with good feedback from what's happening there. We were facing high basis of comparison the US, so clearly, that has been having an impact.

Western Europe was down as well, declines in Germany and in the UK. And we see France and Italy growing with some data center spending going up.

Asia Pac, up; strong growth in India and Southeast Asia. India has seen good performance on Luminous. Bad news coming from Australia again, and Japan was also negative during the quarter.

Good growth on services. That's really one of the big strengths of our IT business in terms of resilience, in terms of margin. The services business posted another good quarter.

Going now into some detail by region, starting with the best performance, North America, which was flat. As I said on the US, we are up on the building business; good [seeing uptick], even if there were some high comps on IT and notably in the IT channel. It's still much tougher with everything which is related to oil and gas and industry investments.

Mexico has done a good quarter, and Canada is turning difficult and significantly difficult.

Western Europe, minus 1%; once again, without the working days, that would have been stable. Going in detail, you have France which was a bit down with some [comps] and some phasing issue, but I would say France is around [stable] (corrected by company after the call) today.

In terms of negative markets, we had Germany and Spain. Germany and Spain were both facing some higher comps in Q3 last year, starting maybe with Germany. Year-to-date trend is still very much positive, so let's not focus on the one quarter. I think that the nine-months trend is relevant there and we are growing in Germany for the first nine months.

Spain was down, with a mix of high comps. As we all know, until recently, there was some uncertainty on the political situation in Spain, which clearly, puts a brake on a number of spending and investment, adding an impact on the business.

For the positive, we've seen Italy growing, I would say almost across the board. We've seen the UK growing and we have there in the room Tanuja, country President for UK, which means that the Brexit has not yet impacted the economy.

We still believe that next year is going to be difficult, but what we've seen in Q3 is, first of all, a lot of projects being implemented, and projects which have been launched keep carrying on. And probably, people in front of uncertainty have been anticipating a number of things, and notably fearing inflation, so that has been triggering some business as well.

So that probably is a reason why we haven't seen yet the [impact of] (corrected by company after the call) Brexit, but we all see that the level of uncertainty is increasing and it's very likely that 2017 is going to be tougher.

We also have seen good growth in the Nordics region with solid performance in delivering a number of projects over there.

Asia Pacific, minus 1%. Actually, outside Australia, we've been growing between 1% and 2% in Asia Pacific, so Australia has been really impacting the region.

As I said, China back to growth; that's really building and that's industry -- let's be clear, it's modest growth, so I'm not saying that China is back to the modest growth, but that was very good news from the quarter. India in the region has been also very positive in the quarter.

Southeast Asia, marginally positive with ups and downs. You have countries such as Vietnam or Philippines doing very well. Indonesia is more difficult, for instance. And, of course, Australia, as I said already many, many times, has been very [disappointing].

And then rest of the world, minus 6%. Actually, the rest of the world outside Middle East has been growing, so the big, big negative here is Middle East for the reason I explain.

When we look at South America, I haven't been talking about South America so far, Brazil still negative; the rest of the regions are growing. So that means that overall, we are close to stability in South America.

CIS positive everywhere apart from infrastructure, and Africa has been growing.

So on the back of quarter which is, as I said, in line with our expectation, we are confirming our targets for the full year. For the revenue, it's about flat underlying organic growth before project selectivity, and I'm going to come back on the project selectivity.

And for the adjusted EBITA margin, we target a 60 to 90 bps improvement on the adjusted EBITA margin before ForEx. And on the negative ForEx impact on margin, we repeat the minus 50 to minus 60 bps view that we shared with you at the end of June.

Now, on the selectivity impact, it's, so far, EUR130 million to EUR140 million and we expect to be around EUR130 million for the last quarter, so, as expected, an acceleration in the Q4 regarding the selectivity. That's exactly according to our plan. But that means that the amount of selectivity, and the impact on selectivity for Q4, could be more or less the same amount than what we've seen for the first three quarters in total.

Last element that I want to bring to your attention, the working day impact, which is going to be negative again in Q4 at around minus 1 point.

Well, that's it for my presentation and I'm now very happy to answer your questions.

QUESTIONS AND ANSWERS

Amit Bhalla - *Schneider Electric S.A. - Head of IR*

All right. Just a clarification on the questions because we have a couple more sessions of Q&A today, so we'd like to keep the questions here for Q3, if possible.

Operator

(Operator Instructions).

Unidentified Audience Member

(technical difficulty)

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

Yes, certainly. We don't disclose order intake, so when it's meaningful, when I see a big difference between our sales and order intake, I think it's relevant to explain that we are seeing some different things. I would not say this is the case for industry. We don't have the kind of gap that I was mentioning for IT.

Now, it is clear that when we look at the detail, process automation has been difficult for a significant period of time now. And we see, certainly coming from Middle East, a number of decrease in the backlog and the order intake going down, so that has been a negative one.

And in some areas, you can certainly see (inaudible) decline. But altogether for industry, I would not see a kind of material or very significant gap in the sales that we report and the order intake.

I think we shared with you at the end of June the fact that our field device business was still with a strong double-digit decline. I don't think that I can report a significant improvement on that element.

So yes, everything related with oil and gas, [process automation] is a difficult part. Overall, the trend is not miles away from what we are reporting on the call.

Now, on the selectivity, as we've seen and sorry for playing a little bit with the number, but I wanted to be clear here, EUR130 million, EUR140 million for the first three quarters, roughly two-thirds in infrastructure, one-third elsewhere. I expect around EUR130 million for the last quarter, based on the work that we have been doing. It would be around EUR100 million for infrastructure, around EUR30 million for the other businesses.

And you will see certainly that, starting next year for the selectivity, we'll be very much focusing on the impact on infrastructure and we'll be giving you the vision and objective on the rest of the businesses. And when it comes to the infrastructure business we believe that, for the coming period, largely in 2017, it could go a bit beyond 2017, we're going to be between EUR200 million and EUR250 million of extra negative selectivity impact on infrastructure for 2017 and beyond, largely in 2017.

So I hope I'm making myself clear, but if there is anything which is unclear, please ask me.

Gael de-Bray - *Deutsche Bank Research - Analyst*

Gael de-Bray, Deutsche Bank. A couple of questions for me, please. You've talked about the phasing issues in IT, so if you could perhaps elaborate a bit more on that; is it related to execution problems or is it something different? And does it mean you actually expect some sort of catch up in Q4 in terms of revenues? By the way, what's the typical lead times for that business, the lead time between orders and revenue?

And the second question is about the construction market in China. You said you were seeing some growth now in this market, but do you see that as sustainable, given the Chinese authorities are obviously trying to [clear up] the property market again?

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

So on IT, I'm going to enter into a lot of detail but it's really the phasing of projects -- once again, you have to understand that a quarter doesn't necessarily encapsulate everything which makes the comparison relevant quarter on quarter, year on year.

So on that quarter, we had basis of comparison, we have seen that it may have been shifting to Q4, so that explains why some projects we have some phasing. You may have some logistic issues, things that are moving from one quarter to the other, for a matter of availability or logistic issue.

So all these things which have been playing. So we'll see whether in Q4 we have a catch up but certainly, given the underlying trend in order intake, we are not expecting to stay at this [minus 3] level. I think the idea was really to say this is not the trend and you should not believe that this is a business which is going south by this kind of magnitude. That was the message on IT. I don't discount some catch up in Q4. We think that what is the fourth quarter implementation.

China, well, is it a sustainable recovery? I don't know. I think that there is clearly some money which wants to be invested in real estate; there is a [shift] from the Chinese people from real estate. Some of you know I was mentioning the fact that a lot of money has been leaving the stock exchange to go on the construction money. A lot of money is available. So yes, they are trying to cut down because as you all have seen, there is significant inflation on the price of real estate. In some cities in China they are trying to limit that.

Now, I think they are also trying to make sure that construction, which is a powerful engine for the Chinese growth, is not coming to a stop. So I think they are trying, in a very subtle path, to pilot some construction activity to support the growth, at the same time trying to avoid excess and bubbles.

I am not able to say what is going to happen. For the time being, we are seeing this trend and we have no element to tell us that things certainly are going to get back to negative territory. That is the best answer I can give for that question at this time.

Amit Bhalla - *Schneider Electric S.A. - Head of IR*

Just to check at this point, we probably have some questions on the phone line and we'll come back to the room thereafter. So are there any questions --?

Operator

Simon Toennessen, Berenberg.

Simon Toennessen - *Berenberg - Analyst*

My first question just on software; I think in the past you've split out a bit how the software growth was. I don't think I saw it in the release; I think you only did solutions and services. Could you just comment a bit how that developed in the quarter?

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

Yes, I'm happy to do so. So software was a bit negative, low single-digit decrease in the quarter with a mix of oil and gas in part which is during the quarter a negative impact and some basis of comparison for some of the business. Again, on software, you may have some issues on one quarter, things which can be taken the quarter before are moving to the quarter after. So that does not reflect the trend in software but we were a bit negative in Q3.

Simon Toennessen - *Berenberg - Analyst*

Okay. And then the second question on the [SFC] savings; I wasn't quite sure whether in the past you split out what the net number would be, and I think there's obviously an asterisk in the presentation where you're saying you're going to reinvest a couple of hundred million into digitalization and marketing and other bits. Was that in the past also EUR200 million, i.e., the net number now will just be an increase, EUR150 million on the midpoint effectively?

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

Absolutely, Simon, we haven't changed the EUR200 million; it will be more a question for the end of the morning and this afternoon. But we are sticking to the EUR200 million, so we've been indeed growing the net amount.

Simon Toennessen - *Berenberg - Analyst*

Perfect. See you later.

Andreas Willi - *JPMorgan Cazenove - Analyst*

Andreas Willi, JPMorgan. First on the UK, which you've alluded to the risk, going forward, but where is the good performance coming from in Q3? We get very mixed signals from companies; ABB has a 20% decline this morning in the UK in orders, which is a bit different, but not altogether [different]. What's really going on, what are you seeing orders and which markets are still holding up?

The second question on selectivity; was it always planned like this in terms of how it flows through this year and next year, or is it a bit like maybe that it's [slow]?

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

We are lucky enough to have just in front of you Tanuja, who is the country President of the UK, so I think that it's certainly better to have directly from you your view on what has been happening in Q3 on the UK market, the positive and the negative.

Tanuja Randery - *Schneider Electric S.A. - Zone President UK & Ireland*

[In terms of UK let me address] two parts to this. On the revenue side, I think Emmanuel already mentioned we had a good orders growth last year, and we are seeing the execution of those orders. They were typically back-end loaded in terms of the timing of it, so for example in energy, we are seeing our backlog run through so that's obviously helping.

In terms of orders in particular, if I look at the different markets, on IT I think we have some FX impact on the top line. On construction market, we've actually seen projects starting slowly to slip in terms of orders for the fourth quarter, possibly going into next year. However, in Q3 we actually were relatively resilient in orders in the construction space. The particular segments doing well are data centers; we continue to see data centers actually as a strong growth area, particularly actually post Brexit with data localization potentially becoming stronger. We also see investments continuing in hotels in the UK and European area, and we also see increasing potential in education and healthcare.

What we are seeing some negativity in is the industrial market; overall in automation the market is generally down in the UK. Then we're also seeing in some of our retail markets with residential housing starts the housing starts forecast is lower than we expected it to be.

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

Thank you, Tanuja. You've done it much better than I could have been doing, so thank you for that.

Daniela Costa - *Goldman Sachs & Co. - Analyst*

Daniela Costa, Goldman Sachs. I know you don't give a bridge in Q3, but if you can comment even qualitatively on how pricing and raw materials are impacting you and how that's changed versus the first half.

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

No, indeed, not only don't we give an [AOC on any of those] changes, but we don't give details of P&L because we don't publish the P&L. What I can say that price remains a top priority and you will see that later in the day. On the raw mat, I think it's in line with what I said at the end of June, and the fact that most of the impact would be in H1, and we are not expecting much in H2. I would say nothing new in the quarter in that respect.

Ben Uglow - *Morgan Stanley - Analyst*

Ben Uglow, Morgan Stanley. Emmanuel, can you just elaborate in China on the change in trend in terms of the industry exposure? I believe that your industry division overall was down in China in the first half; what has changed in the third quarter, what are you specifically seeing in the OEM environment?

Also, looking forward, can you just give a sense that the OEM environment in Europe? We're hearing mixed things; how do you see that playing out over the next six to 12 months?

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

No revolution, Ben, to be clear, happen in Q3. I think that we started to see some stabilization in the [de-growing] market; we've seen some customers starting to look back to some investment after almost three years of decreasing investment. Again, let's be clear we are facing easier comps, so that's helping. We are probably, in some of our customers, facing the need of more investment after a period of low investment. Globally for industry, and I'm not just on OEM, we see maybe also some distributor anticipating some improvement of the situation, so the destocking is also over.

It's not a radical change in the picture, I would say, it's just that the decrease has been, to some extent, exhausted. And given the outlook for now and the global momentum with the Chinese economy, things have started to stabilize and firm up in some areas. That's really what we have seen.

Now the OEM in Europe were, indeed, contrasted; I think I have been reporting the fact that Germany, which was up so far, has been a bit more difficult in the quarter. Italy was still very nicely up in that business. Spain was down but facing high comps. And France was actually a bit down as well during the quarter.

So it's a mixed picture and not, during this quarter, the kind of maybe positive momentum that we have seen in H1. But, again, let's be cautious because you have the working day impact which you know is clearly having a consequence on the number. So I would not say overall a kind of significant change in trend; were a bit tougher in this quarter than the first two quarters of the year.

Andre Kukhnin - *Credit Suisse - Analyst*

Andre, Credit Suisse. Just a couple of things to tidy up. Firstly on the Middle East, could you help us with just the phasing of that downturn; were we in it when we started to see easier comps and how that evolved sequentially?

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

I'm going to try to help you. So Middle East was a formidable growth story last year; I must say, beat again all odds and expectations. That was last year a fast-growing region. So we are facing high comps and that's going to be the case until the end of the year.

In H1, Middle East was already going down, but certainly not at the pace that we have seen in Q3. Please keep in mind that all that has been magnified by the Turkey situation, and the fact that Turkey, which is, I don't know whether the underlying should be growing, but it should not be decreasing at around 20% as we have seen in Q3. So this is really what has been happening during one month in Turkey.

Now I think that let's put Turkey aside; Saudi Arabia, Emirates, we are probably at the beginning of the decrease. It doesn't mean that all quarters are going to be that negative, but I think the region is set for a significant decrease. We all see the decisions that have been made in terms of cutting budget, cutting CapEx. That start, of course, with the oil and gas business but that is spreading, in a pervasive way, to the whole economy.

So I would say that we are probably set for a year of difficulty in Middle East globally. It doesn't mean that Middle East is always have the same impact on our supply than the one of course we have had in Q3, for the reasons I've explained.

Andre Kukhnin - *Credit Suisse - Analyst*

Great, thank you. And can I just ask a follow-up on China? The comments you made on the industry are very interesting; is there much difference in terms of what you're seeing between process and discrete industries? What you said sounded like discrete [being difficult].

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

Yes, I think certainly discrete is better than process.

Andre Kukhnin - *Credit Suisse - Analyst*

And finally, on the UK, are you moving prices in the UK [to counter Brexit]?

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

Yes, we are, and that started during the summer. So we've been increasing price and frankly, we stay super-agile and flexible on that one and, depending on the situation, we'll act again. But clearly the pound at [EUR1.12] against the euro has pushed us to be reactive, but that started during the summer. So immediately after the Brexit we took action in order to compensate for the margin squeeze that this is creating.

Amit Bhalla - *Schneider Electric S.A. - Head of IR*

Considering that we have more Q&A during the course of the day, and to give you guys more time--

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

A couple more questions maybe?

Amit Bhalla - *Schneider Electric S.A. - Head of IR*

Yes, we can probably take another couple of questions.

Alasdair Leslie - *Societe Generale - Analyst*

Alasdair Leslie, Soc Gen. Just firstly if you could, just following on the comments on short cycle in China, maybe you could just comment on the US short cycle as well? I think ABB this morning was maybe blaming some uncertainty surrounding the US elections, but I think most US industrials haven't been citing that. So just your own thoughts there, and maybe over the next couple of quarters how you see that trending?

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

So in the US, I don't think that the trend in industry was very different in Q3 than since the beginning of the year. So we still see negative impacts in terms of investment; again, it's everything related to oil and gas, non-conventional investment. It's strong dollar which we've seen it taking its toll on investments. But I don't think that we have seen a kind of accelerated decrease during the quarter.

And for us, the question is maybe after the election, and I think I'm not challenging the fact that maybe some uncertainties are going to wane after the election, do we see some investment coming back and resuming? I don't have yet the element. But we certainly we have the view that, after a significant period of decrease, because of shale gas, shale oil and the whole industry in the US, there will be a time where we'll be facing easier comps, investment will be needed, and we're going to see first some stabilization, and hopefully then some growth being back. I'm not able to say exactly when it is going to happen, and what will be the role of clarification on the political grounds.

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Alasdair Leslie - *Societe Generale - Analyst*

A quick follow-up on 2016 guidance, maintained about flat underlying organic growth; just given the weaker trend in Q3, and I think also you highlighted the additional negative working day impact expected in Q4, should we just read that there's a bit more downside risk now on the full year, or do you expect a bit of catch-up maybe in some or the areas like (inaudible)?

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

No, I think that, again, so the simple math. If you take my numbers that I shared with your on selectivity, and the fact that there's going to be a big deal of EUR300 million, and we say apart from that we're going to be around flat, I think that drives the trajectory that we expect for the year really. And I don't think we have changed at all in that respect, so I think it's exactly in line with what we said at the end of June.

Amit Bhalla - *Schneider Electric S.A. - Head of IR*

All right, that's very good. Thank you. Thank you, Emmanuel, and I think we--

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

I cannot wait to be back on stage later today, so--

Amit Bhalla - *Schneider Electric S.A. - Head of IR*

Just for everyone, thank you for this morning's session. We will reconvene back at 10 AM for the start of the Investor Day, and please use the opportunity to spend some time at the marketplace. Thank you very much.

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

Thank you very much.
