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SU.PA - Q1 2017 Schneider Electric SE Corporate Sales Call

EVENT DATE/TIME: APRIL 20, 2017 / 7:00AM GMT

OVERVIEW:

Co. reported 1Q17 sales of EUR5.840b. Expects 2017 organic revenue growth to be plus 1-3% outside Infrastructure.

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PRESENTATION

Operator

Good day, and welcome to the Schneider Electric First Quarter 2017 Revenue Results Conference Call. Today's conference is being recorded. (Operator Instructions) At this time, I would like to turn the conference over to Mr. Amit Bhalla, Senior Vice President, Head of Investor Relations. Please go ahead, sir.

Amit Bhalla

Well, thank you, operator, and hello and welcome to everyone to Schneider Electric's Q1 Revenue Results Conference Call. The press release and presentation is available on the website.

Before we begin, I just would like to draw your attention to Page 2 of the presentation. As you know already, the conference call may include some forward-looking statements. These statements are based on the company's current expectations and certain assumptions and [adapt] to certain risks and uncertainties.

To share the results with you today, I have with me our Deputy CEO and CFO, Emmanuel Babeau. We have a full hour for this conference call, and we will attempt to take all your questions after the presentation.

With that, I'd like to hand over the call to Emmanuel.

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO - Finance and Legal Affairs*

Thank you, Amit. Good morning. Good morning, everyone. Very glad to be with you on this call this morning to review our sales number for the first quarter of 2017.

And if everybody is ready, I suggest that we start immediately on Page 5 with the highlights of this first quarter. So in a nutshell, it has been a good start of the year for Schneider with clearly a success made in executing our strategy. And this strategy has been implemented in an improving environment, as expected and as announced at the beginning of the year. This translates into an acceleration of our growth in Q1, with probably growth of our sales of plus 4.5% and an organic growth of plus 3.1%.

When we look by business, we've been delivering a very strong quarter on the 3 businesses where top line growth is the objective. And actually, for the 3 businesses, we've been growing in all 4 regions. Building has been one of them, growing across all regions. China and the U.S. posting very nice growth and a particular performance on the Wiring Devices & Final Distribution product, which is up plus 6% organically for this 2 family of offering.

Industry grew strongly as well. The acceleration of Industry was expected. It has been confirmed. Continued favorable market for discrete industry, I will elaborate on that later on. The good news is that we've already seen the Process Automation business stabilizing.

IT has been up as well, and I will explain the driver for this performance. And we've seen an improvement across all region and notably strong growth in new economy.

Infrastructure, you know that the name of the game here is different. It's a play where we want to first improve the margin and, therefore, because of the selectivity, we are down in organic. But without the selectivity number, we are growing by about 1%. And it shows that some part of the portfolio are clearly growing and exciting despite an environment which is going to keep improving but only gradually. And of course, I'm here referring to everything around the smart grid and our EcoStruxure Grid proposal.

When we look at the region now. Our 4 big regions that we report have been growing. And I think it's interesting to note the acceleration of the new economy, which clearly are back to significant growth, up 6%. It's China and, of course, we'll come back together largely on China, I'm sure; but it's also Russia and India.

North America has been growing -- sorry, we have somebody on the line who is probably not on mute. So if you just make sure that everybody is on mute, that would be great. Thank you.

(technical difficulty)

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO - Finance and Legal Affairs*

So North America has been growing, with the U.S. up thanks to construction industry globally, OEM in particular, and the IT market. Western Europe has been showing good organic growth across the 4 businesses. Asia Pacific has been growing, thanks to China and India. But we have 2 markets, Australia and Japan, who have been declining and who have been more difficult. And Rest of the World has been up, with very strong performance in CIS and Africa, while Middle East and South America remained weak.

As I said, we've been very focusedly and consistency implementing our priority and our strategy during this quarter. That translates into the performance. The project revenue are nicely up, plus 5% organically in this first quarter.

Service sales are at a lower level. We are at around 1% growth, but we have seen a high single-digit organic growth for the order intake, which bodes well for the rest of the world -- for the rest of the year, sorry, in terms of service growth.

We push, of course, further all the (inaudible) on digitization of our business and of our offer. And notably, of course, with the development of our EcoStruxure architecture, and this rollout has been on track during this quarter.

And last, of course, we keep optimizing our portfolio, and we've announced the disposal of DTN that we expect to close during the first half of the year. And as a result of this first quarter, we confirm our objective for 2017, but of course, I will come back on that at the end of this presentation.

Moving to Page 6 and before, of course, we move to the detailed number by business and by region. Just looking, as always, at the detail of our Planet & Society barometer and looking at our performance on this barometer, which is our commitment to sustainability. So we're reaching an increased score of 8.79 out of 10, so we keep progressing. You remember the 3 pillars of our Planet & Society barometer, which is how we can keep growing our business in a more sustainable manner, how we can bring more sustainability to our partner and customer and sort of course, which kind of positive impact we can have on our people and on communities that we can develop around our business.

So it has been a quarter of progress. Maybe one element that I would like to highlight, the fact that we have already reached our global objective of 120,000 tons of CO2 avoidance. We are beyond this mark, which shows that we are strongly contributing to carbon emission reduction.

We've been receiving a number of awards. You have them there, so I'll let you read them. One maybe which is interesting, for the seventh consecutive year, we have been listed as one of the most ethical companies in the world by Ethisphere, and that's something which is very important for us.

All right. So let's move now to Page 8, and let's dig into a little bit of detail in our number for the sales of (inaudible). So in total, our sales amounted to EUR 5,840,000,000. It's up plus 4.5% versus the first quarter of 2016. You first have a ForEx impact, which is this time positive of plus 2%. We took about around EUR 100 million positive impact coming from the ForEx. That's mainly the U.S. dollar, but you have also the Australian dollar. You have also other currencies such as the Russian ruble or the Brazilian reais, which have been contributing positively to this positive ForEx impact. And we do confirm that for the year, at the sales level, we expect an impact, a positive impact to be around EUR 400 million.

Then you have the scope impact, which is slightly negative, minus 0.6%. This is mainly the disposal of the transportation business. But I have to highlight that we also have been moving the solar business to a consolidation through equity method, and we have restated the first quarter of 2016 for that. The reason for that is that we are reorganizing this business to make sure that in the fast-moving environment, fast-evolving technology, we have the right setup, the right organization to have the level of agility, of capacity to adapt, move fast and also be ready for a partnership, alliance, why not JV. So we've been changing the governance of the company. We are going to put the management with some shareholding in this solar business. So this new governance is triggering according to the accounting rules, a move to consolidation by equity method for that business. And just for you to have a reference in mind, the sales in 2016 for the solar business were around EUR 230 million.

All right. Then therefore, of course, we have the biggest impact for this quarter, which is the organic growth, plus 3.1%. I have to note that we benefited from a positive working day impact, which is mathematically of around plus 1.5%. It's, of course, very difficult to say what has been the exact impact because you have some element which do not, I would say, answer in a linear manner to the number of working days. But that's just to say that we certainly received some help from the working day on this first quarter.

The 3 businesses, where clearly the priority is grow the top line, businesses where we are already delivering a good or very good margin, have been growing organically around plus 4.4%, so a strong performance. Building at plus 3.8%; Industry, plus 5.3%; and IT, plus 4.6%. Infrastructure, as you know, the play here is to improve margin. We are, as expected, down; and here down organically by minus 2.4%. But as I said, excluding selectivity, we would have been up by about 1%.

Let's move now to the detail by business, and I'm on Page 9 of the presentation, starting with the Building business. Sales reaching a bit more than EUR 2.5 billion, it's up plus 5.1%; you have a ForEx impact positive, plus 1.6%; a scope impact of minus 0.3%, this is solar moving to the equity method for consolidation; and then an organic growth of plus 3.8%. It's interesting to note that if you include Delixi that, as you know, since last year, it's consolidated through an equity method. But if it was consolidated in our sales, the organic growth of the Building business would have reached plus 5%. So just to show that the global performance of China has been very positive, and I will elaborate on that. But then the Delixi performance, which is not included in these numbers, has been very solid and very strong as well.

So of course, during this quarter, we've been focusing on leveraging the super leadership that we enjoy in this Building business. We've been leveraging our network of partner and the strength that we can deliver through this network. We've been developing innovative and differentiated offers. We've been, of course, rolling out the set of EcoStruxure for building. We've been developing further our mid-range offers quite successfully.

I already said it, but I think it's interesting to repeat it again. We've been in particular very successful in our Final Distribution & Wiring Devices portfolio, growing about 6%. But we also have seen during this first quarter an acceleration of the low voltage that we are selling to commercial and industrial building. And we've been for -- seen for a circuit breaker or MCCB a very solid growth during this quarter as well.

By region, we see Asia Pacific growing, with China posting double-digit growth with a strong construction market. I'm sure that in the Q&A, we'll have the opportunity to elaborate on that. We also have been helped by distributor restocking, partially driven by price increase, but also largely driven by a global improvement in the market and better anticipation for evolution of the business in the coming months. For the rest of the Asia Pacific region, it has been mixed, with growth in Southeast Asia, but a decline in Australia.

North America up, with U.S. residential activity remaining strong with new offer being quite successful. Important and interesting to note that we've also seen the commercial and industrial building improving in the U.S. during this first quarter. And Canada and Mexico have been up as well.

Western Europe has been growing. Here, the impact of working days is probably particularly relevant. In France, we see residential activity remaining favorable. U.K., Germany and Italy and Spain have been growing; Nordics as well, thanks to the resi market. And when we look at the Rest of the World, we've been up slightly. We have a good sales evolution in Africa and Russia, but Saudi Arabia has been declining.

Page 10 now. Moving to the IT business with a nice growth of plus 4.6% organic during this quarter. In total, sales reached EUR 832 million. It's up plus 7.5% because of ForEx impact of plus 2.9%. I would say 3 drivers really for this achievement in this first quarter. First of all, the nice growth that we have seen in some country in the IT channel. Second, we have been building a solid backlog, and we mentioned that in the second part of 2016, and we have been executing this backlog on -- of system for data center and notably with a nice 3-phase UPS technology content and the growth on services. And third element, good growth in India with the Luminous business.

By region now. North America has been up, thanks to growth in services and distributed IT in the U.S. and Canada. And as I mentioned, a good backlog execution for system in the U.S. Western Europe was up, with growth in data center and distributed IT. That's true for France, that's true for Germany, Nordic. Italy and Spain have been growing. And the only significant market which has been down in Western Europe was the U.K. for the period.

Asia Pac has been up. Strong growth in Southeast Asia and in India. I mentioned the performance of Luminous. China has been growing slightly. And on the contrary, Australia and Japan had been weaker and more negative. Rest of the World has been growing. Good performance in Russia, Africa, South America, and Middle East has been the negative part for this first quarter. I mentioned the strong inroad on services during this quarter. As mentioned as well, 3-phase system have been also executed and has been contributing to the growth.

Moving to Page 11, and I'm now on the Industry business. We have started to see in the fourth quarter of 2016 that the Industry business is accelerating and moving into positive territory. We've got the confirmation of this acceleration in this first quarter of 2017. And I would say, as expected, the short-cycle discrete business has been moving up, with clearly increased momentum across a number of segments in general and, in particular, among our OEM customer. And we've seen improved execution in our 3 major geography, China, Western Europe and the U.S. But beyond discrete automation, as I've noted already, Process Automation has continued to show sign of stabilization, which is a good news.

So looking at sales, EUR 1.4 billion. It's up almost 9%. There is a ForEx impact, which is positive. There is a scope impact here, which is the fact that we are now integrating here the software for pipeline management business, which was coming from Telvent and that we are now putting with the Industry business. And that give us this organic growth of plus 5.3% for Industry for this first quarter.

If we look by region. China has shown strong growth in an improving market for discrete industry, here again, with a further boost received from distributor restocking. North America has been marginally up, clearly improvement in the U.S. which is back to positive territory. We talk about low single-digit growth, but we talk about a growth coming back on the back of more optimism and investments resuming in some area as well as probably the strong U.S. dollar impact having been partly or largely absorbed by the U.S. player.

We've seen notably the OEM segment improving in the U.S. And we've seen, as I said, Process Automation also showing sign of improvement and heading toward stabilization. We've been facing a decline in Mexico due to a high base of comparison. Too early to say that this is due to political evolution of the move coming from the evolution in the U.S.

In Western Europe, we've been up, with growth in Spain, Germany and Italy. And France was really the only big geography, big country in Europe being flat and not showing growth. I would say the performance in Western Europe is just illustrating what we have seen since the beginning of the year in the PMI, which are showing overall favorable trend.

Software has been a big negative, impacted by several elements. First of all, exposure to resource-related segments where we haven't seen yet investments being back or at least no translation in terms of sales. But of course, that has not been the case in other segments, which had shown better momentum. We are also, as you know, moving to a subscription-based model in some area, and that is having an impact. And we'll come back to you during the summer with a timeline and a more precise vision on how we think it's going to impact our business in the coming quarters and years. And the last element is that on the software as well, there may be some element of selectivity where we want to focus on the attractive part of the Software business, and that may have some impact on the evolution of sales.

Moving to the fourth business, and I'm now on Page 12, of course, Infrastructure. And the first message on Infrastructure is that, obviously, we keep executing for the rebound plan. So it's about driving the margin up, driving the quality of reserves, the profitability. But I believe that the Q1 illustrated the fact that beyond what we are doing in that respect and on continuation of playing the selectivity in a pretty hard way, we have clearly growth potential on other parts of this Infrastructure portfolio and notably around everything, actually, in what we call the energy transition and the new grid and the smart grid development. And that is where we are, of course, being particularly relevant with our EcoStruxure Grid architecture.

For the first quarter, we expect -- or we believe selectivity has been around EUR 40 million based on the analysis that we make. We have reached sales of a bit more than EUR 1 billion for Infrastructure. It's down minus 4.4%. You have a positive ForEx. You have quite a significant negative scope, minus 4.5%. It's first the Telvent Transportation business disposal and the pipeline management software that we've been moving to Industry, and that gives this organic decrease of minus 2.4%. But without the selectivity impact of about EUR 40 million, we would have been up by 1%.

North America has been down due to a combination of lower backlog execution and selectivity initiative. So we've been seeing the backlog getting weaker as we are progressing through 2016. And therefore, it's not that the situation is getting worse, to be very clear, in Q1 in that respect. It's just that we are being impacted by a thing that happened probably in the middle of 2016 now.

When we look at Western Europe, Western Europe has been up, notably with France and Germany. Nordics and the U.K. were up as well, and Spain has been the declining country for Western Europe. Asia Pacific has been down. Still pretty weak in Australia, once again. We are certainly expecting an improvement on the medium long-term on this resource-based business, mining industry, but it's not going to show up in the sales on the immediate future. And therefore, in Q1, we were still impacted by lower order intake in the past.

Rest of the World has been mixed, with weakness in Middle East, but we've seen continued growth in CIS. Services have been down, but clearly, we've been a very good trend for the order intake, so the rest of the year should be better oriented.

Rapidly by geographies because I think I've been already sharing a lot. So North America, 28% of our sales, plus 5% on sales, plus 2% organic. United States, growing. And we have a good evolution on Building, Industry and IT, which have been driving the growth. Mexico, up, with good evolution on building. Canada, negative, notably with the Infra business that we are facing high comps.

Western Europe, 28% of sales as well, up plus 1%, plus 3% organically. France was up with notably the Infrastructure and IT business. Germany was up in Industry. United Kingdom doing a good quarter, up in Building and Infrastructure. Spain was stable, up in Industry, but down in Infrastructure. And Italy was up in Building and IT.

Asia Pacific, 26% of sales, growing 7%, plus 5% organically. China, growing double-digit, mainly on Building and Industry. India growing very nicely as well, Industry and IT driving the growth. Australia being down, it's mainly Building and Infrastructure. Japan was down as well, and Industry and IT was the driver for this negative performance. Indonesia was up on Building, Industry and Infrastructure.

And last region, Rest of the World, growing 6%, 3% organic growth, 18% of combined sales for the group. Russia was growing in all businesses. Brazil was up in Building and Infrastructure. Saudi Arabia was down in Building and Infrastructure. And we had, in Turkey, a positive evolution in Industry and Infra.

So I am now done with this comprehensive tour of the geography. And just a few words to conclude on Page 16 on the overall objective for 2017. So following this positive Q1 result, we do confirm that we expect for 2017 increased momentum in our major end markets, notably construction and discrete industry should remain positive across key markets and notably, the U.S. and China.

Western Europe is expected to grow moderately, but we have to acknowledge that some political risks remain. And we still expect to face headwinds from the Oil & Gas and some resources-driven economy, such as Saudi Arabia. But some of this negative evolution or trend could ease throughout the end of the year. As already highlighted with many of you, the sequence will be: first, improvement in the price; second, improvement in the order intake; and then we shall see the improving at the level of sales, but that's probably more a 2018 event than a 2017 element.

Additionally and as already mentioned, in 2017, we will face a strong increase in raw material costs. And we estimate the negative impact, based on the current prices, to be around minus EUR 200 million. That's why in this environment, the group's priority are very clear, and they are the following: first, to increase price to mitigate the raw material impact; second, to keep growing the top line through the enrichment of our offer and the enhancement of our partner network; three, to keep accelerating product, services and software sales; four, to work on globally margin improvement and notably through continued selectivity on project; five, to keep posting strong attention on cost control; and six, and certainly not the least important, we expect that we're going to benefit from the recent deployment of our EcoStruxure architecture in several areas to create growth opportunity.

Therefore, following this positive start of the year, we confirm our target for 2017. First, for an organic revenue growth between plus 1% and plus 3% for the group outside Infrastructure. I remind you that for Infrastructure, the priority remains margin improvement, and the organic growth target for the division is to be about flat underlying before an expected minus 4% to minus 5% impact from project selectivity for this business expected in 2017. Second target, a 20 to plus 50 bps organic improvement on the adjusted EBITA margin. And for the time being, based on the current ForEx rate, we expect the ForEx impact to be about neutral on margin.

So I'm done now with my presentation, and I'm extremely happy to answer your questions.

Amit Bhalla

Thank you, Emmanuel. I think now, I think we have -- already have a bunch of questions on the line, and we'd like to ensure we take them all. (Operator Instructions)

With that, we can open it up for questions. Operator, can we have the first question, please?

Operator

Our first question comes from the line of Andreas Willi from JPMorgan.

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

(technical difficulty)

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Amit Bhalla

Andreas, we cannot hear you. Maybe you're on mute. Maybe we move to the next question. We'll be back to Andreas later.

Operator

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

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

My question is for the businesses where you have some backlog and some visibility, the larger part of basically the 3-phase in IT and in Infrastructure, what do you see in terms of the backlog development during the quarter? Can the good growth we have seen, particularly in IT, be sustained on what you have seen in the backlog development since the beginning of the year?

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO - Finance and Legal Affairs*

Andreas, well, as you know, we don't comment on the order intake, and I don't want to be starting to elaborate on others, on one element, and that would create some blurred vision, I would say. What I can say certainly is that the order intake for this Q1 are just confirming the good evolution of our sales in general, I would say. So that's a very general comment on order evolution versus the top line. Now more specifically, on what you are asking on IT, I would say the strong momentum that we have seen, and especially in H2 2016, has certainly been helping sales in Q1. And I'm not saying that this is something that we necessarily expect to continue in H1. So it doesn't mean that we're going to move to negative territory. But we are expecting things to be back to a more moderate growth in the order intake. So I would say, positive order intake in Q1 as well for the IT business globally. Luminous contribution being important, but not with the same kind of dynamism or momentum that we had seen in the second half of 2016.

Operator

Our next question comes from the line of Gael de-Bray from Deutsche Bank.

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

I was actually surprised to see such a low impact of selectivity in Q1. I think that was just about minus 0.7% of sales after minus 2.2% in the fourth quarter. So how should I read that? I mean, does it reflect timing effect or rather better execution in your side and the need for less selectivity than initially expected?

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO - Finance and Legal Affairs*

Gael, when we say around EUR 40 million for the full year, we said, and that's probably the reference you should have in mind, between minus EUR 200 million and minus EUR 250 million. Please bear in mind that Q1 is a small month -- a small quarter, sorry, for Infrastructure, therefore, that's [understandably] why you have the biggest impact. So it could be a little bit below the average in terms of impact on sales for the year. But I don't think at that stage -- we'll of course see what we see in second quarter, but I don't think at that stage, it changes this EUR 200 million to EUR 250 million negative impact that we expect for the year.

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

Okay. And can I have a second question?

Amit Bhalla

Gael, we'll come back to you. We'll come back to you.

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO - Finance and Legal Affairs*

Yes, exactly. There will be a second chance, from what I understand.

Operator

(Operator Instructions) We will take our next question, and it comes from the line of Ben Uglow from Morgan Stanley.

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

I'm going to try 2 for the price of 1 in terms of questions. On China, Emmanuel, you mentioned that there is a distributor restock effect, and I'm assuming that some of this is prebuy. Could you give us a sense of how you see the sort of rest of the year playing out in China? Should we assume that the kind of double-digit growth rates we've seen in the first quarter begin to normalize? And on a related note, can you just update us, give us a sense roughly of how price actions are coming through across the group? Are there any divisions which are easier or any divisions which are tougher right now in terms of rate and price?

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO - Finance and Legal Affairs*

You are asking for (inaudible) for the rest of the team because you clearly have been asking 2, and I guess 2 for the price of 1, yes. Right. Let's start with China. Yes, we've been growing 14%, 1-4, globally in China during this first quarter. And clearly, the 2 businesses that have been driving the growth are Building on one side and Industry on the other side. And for Building, you have a strong double-digit and for Industry, it's a 20% growth. My sense is that without the restocking impact, we are probably talking of an underlying trend for these 2 businesses of, I would say, high single digit for the Building business and probably around 10% for Industry. I think we've highlighted at the beginning of the year, and I would stick with this vision, that we have probably some visibility on the fact that the year should be globally solid for Industry and that we should continue to see a solid trend through the year. I don't know whether it's going to stay at double-digit, but it should stay very solid. I think we have some visibility for H1 that Building should be still good. We still have some question mark on the second part of the year, even in the most recent new start early indicators pointing you to be pretty well-oriented, I would say. Now we know that there is a number of actions taken by the authorities to try to cut down some, I would say, irrational dynamism in the business. So it's going to take its toll at a certain point in time. So that's our vision for China. In terms of price action, well, what I can say is that, of course, as we are being impacted by people anticipating price increase, everybody has concluded that it means that price increases were not made on the 1st of Jan. And that, therefore, on the first quarter, we are not at the kind of speed that we want to have. And therefore, I confirm and I said it at the beginning of the year, that there will be a lag between the impact of the raw material and the price increase. Certainly, we do expect to be in a much better position in H2 in terms of compensating the price increase with -- sorry, the raw material inflation with the price increase, but there will be a lag in the H1. And of course, each month should bring some improvement. So we should be better in Q2 than in Q1. I'm not saying that Q2 is going to be perfect in terms of matching and compensating. One element of information, we were negative last year in terms of price increase because of China. We were positive outside China and negative in China, but was a net negative. I'm not going to detail because, as of the moment, the impact on Q1. But what I can tell you is that we've been positive, so we've been moving in a net positive territory before a negative raw mat inflation, though not at the level required in order to compensate the raw mat inflation.

Operator

Our next question comes from the line of Costa, Daniela from Goldman Sachs.

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

I have one question regarding -- I think it's the first time we're actually having a conference call since you've announced the DTN sale and then the buyback. So wanted to ask you basically a little bit, post those events, how you're thinking about capital allocation, the direction of the portfolio now that you've returned some extra cash to shareholders.

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO - Finance and Legal Affairs*

Happy to do it, Daniela. I think nothing has changed. So we've been announcing the disposal of DTN at what we think is a pretty good multiple and, therefore, a good valuation. Just showing, by the way, that the Telvent acquisition, given the quality of the assets that remained in our portfolio, was overall a pretty good acquisition. We expect this deal to close in H1. We've announced that then in the 24 months following this closing, we will do a buyback of about EUR 1 billion. And I would say for the rest, the vision on capital allocation remain exactly the same. We are not changing the dividend policy. And we are still leaving the door open, but with absolutely no certainty on M&A activity. We've been very silent for almost the last 4 years on M&A. But we flag the fact that if there was good opportunity on the core of the core, and I would certainly reconfirm that for -- that would mean where we have today a leadership, strong margin, good visibility on growth of the segment, i.e., I'm talking about Building and the Industry business, I mean, we could be open to things value creative for our shareholders. But that has to come with the right valuation, the right synergy, and we're not going to enter into deals being overpaid and not able to generate value at the end of the day.

Operator

Our next question comes from the line of Andre Kukhnin from Crédit Suisse.

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

I just wanted to check on the margin guidance, please, and the impact from DTN sale and on the solar reallocation through equity accounting. I think we calculated that DTN, on a fully annualized basis, is about minus 10 bps on the margin from what you disclosed about the business with the disposal. Can you confirm or calibrate that, please? And what would be the impact from solar business moving to equity accounting on the margin?

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO - Finance and Legal Affairs*

Well, so the solar moving to equity will be a bit positive. And I would expect, and I'm sure we'll elaborate more on that at the end of June, but I would expect for -- on a full year basis to have the DTN impact and the solar impact largely compensating each other and the net being about neutral. I cannot guarantee this is going to be exactly neutral, but that's about neutral. So that's what we expect today.

Operator

Next question comes from the line of William Mackie from Kepler Cheuvreux.

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

I wanted to come back to Building & Partners. You called out the strength of the final low-voltage and distribution business at 6% and the context of the strength in China. But can you throw -- could you please throw a bit more light on the performance of the low-voltage, final low-voltage business in other regions? What drove the 6% and, hence, the impact of performance in the other business areas within Building & Partners?

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO - Finance and Legal Affairs*

William, are you specifically on Final Distribution & Wiring Devices or globally on the work that -- to make sure that I have the right answer?

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

You called out Final Distribution & Wiring Devices as flat within the division. And I imagine China, as you've highlighted, was a large driver. But are there any other particular regional or country features which helped to lift that number?

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO - Finance and Legal Affairs*

No, no, of course, China was one contributor, but certainly not the only one. I mentioned the fact that the resi business continued to be well-oriented in the U.S., and that is impacting the final distribution business. In Western Europe, we've seen a few markets, U.K., Nordics, well-oriented in that respect. Russia has been actually pretty good in that space as well and Africa as well. So there has been several regions. Of course, China has been a big engine for growth, but certainly not the only one. You probably remember, William, that last year, this business was already growing very nicely. And therefore, we have a further acceleration. We are growing 3% to 4% in the past quarters. We further accelerated to 6%. But it's not something that has been just starting in the Q1 of 2017. That has been here for quite a while. And we have obviously a very strong portfolio, a global presence, super franchise and very strong network of partner and distributor that we leverage. And when you combine all that, that explains certainly the level of performance that we are delivering.

Operator

The next question comes from the line of James Stettler from Barclays.

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

In terms of Infrastructure and your target areas of smart grid energy revolution, how far away are you from that? How many non-core areas do you think there's still in that division?

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO - Finance and Legal Affairs*

James, well, we used to say that out of the EUR 5 billion or roughly EUR 5 billion, it's probably a bit less now, of the Infrastructure business, you have around EUR 2 billion. It's difficult to draw a precise line where we are facing the utility, electro-intensive big customer for, I don't know, LV/MV substation with load technology content, a transformer. So that's the part where we are really playing on selectivity and where we are seeing -- well, we may want to abandon a few type of project on which we don't see the right differentiation, margin, reward for the risk that we take on any project or equipment. But then you have a kind of EUR 3 billion amount where you keep adding very attractive medium-voltage switch gear, secondary targeting more commercial building, for instance, or more interesting part of Infrastructure or Industry customer. And you have then everything around this -- the grid in terms of more automation, more capacity to handle more complexity and where software protection relay, everything around automating the grid, connecting with a consumption, which is getting more and more sophisticated. So that's a nice place if you want. And that's globally something that I would evaluate to be around EUR 3 billion out of the EUR 5 billion.

Operator

Our next question comes from the line of Jonathan Mounsey from Exane.

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

So if I remember, about last year, full year results '15, I think there was obviously a caution on things like growth investment. Sales were down, and obviously there was some pressure on margins and you obviously refocused on improving returns. Now that we're seeing growth improve and there's obviously the need to invest in platforms like EcoStruxure, are we likely to start to see growth investment rise? And if that's the case, what does that mean for operating leverage the next 12 to 18 months?

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO - Finance and Legal Affairs*

Jonathan, well, I mean, of course, we have to be clearly agile and make sure that we don't lose growth opportunity and that we capture this more favorable wind that we see raising. Several elements, I guess, to answer your question. First one, regarding industrial CapEx, yes, of course, we have to make sure that, as we see in some area and notably in Industry, the discrete automation part, some acceleration, we have to make sure that this is not creating a kind of shortage situation where we will not be able to supply our customer. I would say that it's not only our internal supply chain because here we have, I think, a very large capacity to adjust, adapt, and we have spare capacity if we want to adjust. So we have to make sure that we work with our supplier and that themselves, they don't find any situation where there's difficulty to supply us. So that for me would be the big concern. And I cannot say that for the first quarter, we don't have here and there some element of shortage because we've been facing this situation. But I don't expect a kind of sudden burst, I would say, on industrial CapEx because of what we are seeing for the time being. Then you have the question of, of course, the SG&A, what we call the SFC. The first very important point is that we absolutely stick to our program of efficiency, again on our cost, simplifying the company, and we are not changing that. So for me, the question is the amount and the speed of reinvestment to make sure that we build the new capacity, notably the digital one, the new capacity to develop services, to sell software, to roll out this EcoStruxure offering. And that's where, of course, if we have a number of market accelerating and where you have possibly to capture growth, we have to make sure that you put in front of that the right team. So I would say the saving plan is here to stay, and it's not going to go away, very clearly, and we stick to the objective. The level and the speed of reinvestment will be partly driven by the dynamism that we see in the top line globally and in some markets more specifically.

Operator

Our next question comes from the line of James Moore.

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

Emmanuel, can you say roughly what sort of service organic sales growth we should expect for the full year given the strong orders?

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO - Finance and Legal Affairs*

James, difficult for me to give a guidance on what particular element we give a global guidance. What I can tell you is that, of course, low single digit which is what we are seeing for our sales in Q1 is not what we have seen, as mentioned, for the order intake. And certainly, we don't intend, in terms of sales, to stay at the low single-digit growth for the full year for services. So I won't elaborate further. But clearly, our ambition is to be above a low single-digit growth for service for the full year.

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

And can I come back on a piece of Ben's China question that was left unanswered? Did you say restocking won't last? Yes, I wondered if you can (inaudible) the restocking will last in China.

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO - Finance and Legal Affairs*

No, no, I did not say that. I'm not saying that you cannot steal elements in Q2, although I imagine evidence of that, but I have to be cautious. I was trying, answering Ben, to asses our view of the underlying trend for the 2 big drivers for the growth, i.e., the Building growth and the Industry growth. But I -- frankly, on restocking, I don't know. I think we've seen probably the bulk of it anyway in Q1, very clearly, and I don't expect to have the same kind of impact in Q2, to be very, very clear. But I cannot say that there cannot be -- and there are some elements still there in Q2. But I think what was important in my answer is to give the underlying trend for these 2 businesses that we think we have seen in the first quarter.

Operator

Our next question comes from the line of Martin Wilkie from Citi.

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

It's Martin from Citi. Now just coming back to the solar business, you mentioned the potential margin impact or at least given some sort of indication of that. But just to understand perhaps the impact on the growth, how negative was that business last year, just so we can understand from a sort of sequential perspective how the Buildings business will look without having a solar business involved? And just as part of that, if you could let us know, is there an impairment needed for that business as you sort of move into equity, given obviously that business hasn't been as good as perhaps I was expecting when you bought Xantrex all those years ago? So just in terms of whether an impairment is needed.

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO - Finance and Legal Affairs*

Martin, so on the solar business, that has been a business overall growing quite nicely in the past years. I think that 2015 was a year of particular growth. I don't know. For this year, we are launching an extremely differentiated new offer. So I think we are quite optimistic for the second part of the year for the business. It was slightly down for Q1, but it would have moved back on the plus 3.1%. With or without solar, it would have been plus 3.1%. So it's not having an impact here. On an impairment, so we'll see that with the account with H1. There could be some element of impairment on some. But at the same time, we also have to finalize the impact of the DTN disposal where there could be some gain. So I'm not able to say what's the net of the 2, but we'll come back with detail with our first half results. As always, whatever the impact, up or down for the group, we won't be taking that into account for the determination of the dividend.

Amit Bhalla

I think since we have some short technical difficulty earlier, we'll probably extend by another 5 minutes or so. So let's just go ahead with the next -- last 2 or 3 questions. Next question, please?

Operator

Next question from Wasi Rizvi from RBC Capital.

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

Just a follow-up from me on the pricing, actually. Could you talk a bit more about what you're seeing in North America and particularly with distributors, given they're seeing some price pressure? I'd just like to understand what that means for you, what the dynamic is between you and them, and how that affects your ability to put through price increases?

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO - Finance and Legal Affairs*

Yes, of course, with pleasure. I think that the U.S. makes no difference versus the Rest of the World, I would say. Therefore, we are pricing up in the U.S. There is a little bit more of inflation. I think people also feel the pressure of commodity prices going up. So as always, you need time, you need to explain, you need to work with your partner. But I would not say that we face a kind of reluctance because, as already explained, our distributor are very often encouraging us to increase price and are supporting us, of course, provided that we bring the right explanation and right understanding to the final customer with them of why we have to increase price. So I would say it has started in the U.S. Like for the Rest of the World, I certainly would not say that we were at the right [feel] in Q1. We're going to keep improving. And altogether, we'll be in a better position in H2 than in H1 to compensate in the U.S., like for the Rest of the World, the inflation.

Operator

We have a follow-up question again from Andreas Willi from JPMorgan.

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

I just wanted to ask about the U.S. and the industrial demand there. You noted a small improvement year-on-year. But if we look at where the ISM is, where the small business confidence is, you would normally expect to see a much more vigorous environment in the U.S. for industrial demand. Maybe you could comment a little bit on the various end markets and what you see in the U.S. in terms of industrial demand.

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO - Finance and Legal Affairs*

Yes, I think that after several quarters of tough situation, maybe apart from automotive, what we've seen since November is clearly a better feeling altogether, improvement in the mood, a number of initiatives to increase, I would say, productivity, performance, a number of maintenance things have been launched. We have to keep in mind that there was a big drag coming from this shale gas and shale oil business, and nothing that is back to strong growth. Although in some areas, we've seen a beginning of renewed investment, at least at the level of discussion, and beginning of order intake. But the fact that it's no longer a drag and that industry players have been adjusting to that, and also probably swallowing the impact of the strong dollar, has been improving the landscape. So we are improving in this Q1 versus last year. We moved from very negative to stability, now positive. I don't discount that we need to see further acceleration in the coming months if all of that is confirmed. So we are in the process of a gradual improvement, and hopefully, we're not at the end of this process.

Operator

Next question from Andre Kukhnin, again a follow-up question, from Crédit Suisse.

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

I just want to talk more broadly. We've seen some of your peers kind of accelerating capital allocation on the automation space with moves from ABB and Siemens. And you talked in the past about potential maybe collaborations in the PLM space. And just wanted to hear the latest on that and whether those moves by your close peers create any kind of high sense of urgency for Schneider to make a move in that space?

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO - Finance and Legal Affairs*

No, it doesn't. And there has been -- you're right, as you move some of these companies we knew very well, we have partnerships with them, but I think everything has a price. I think we have clearly discipline in the way we look at M&A. So it's about strategy, but it's about valuation as well. That has to be extremely clear. And therefore, we are not discarding the possibility. As I said, I think I was answering Daniela's question to do M&A. But again, it has to be on the core of the core. And I do confirm, of course, that the industry automation space is part of the core at a price that makes sense. And frankly, we haven't seen a lot of deal coming at price that were making sense recently. And therefore, we combine these 2 dimensions. I'm repeating what I said after the Invensys acquisition. We have today the critical mass. We have the software capacity. And by the way, in the recent -- I know there was no software, in fact, so it's not a software play. It's a chem good play, traditional on PLC. So we think that we have what we need today organically to have a great performance. We are not excluding the possibility, again, if there was a deal that was making sense at the right price to move, but we haven't seen it so far.

Operator

The last question is from Gael de-Bray from Deutsche Bank.

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

In relation to the move of your software offers to a subscription-based model, where would you say you are in the process relative to the competition now? Are you late? Are you ahead of the pack? And does that mean the shift, does that mean the business could actually continue to be down for another year or so?

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO - Finance and Legal Affairs*

So very difficult to say. I would say, because a lot of software business is part of larger company and it's not totally reported with the criteria that we will need, our feeling is that probably a lot of pure software players have been starting the move already and are communicating very clearly. For others, it's less clear, I would say, and especially when they are not pure software players. It's going to have some drag effect. Is it going to last a couple of years or a bit more? Generally, the transition is 2 years, 2.5 years. But that's what we all do during this summer, a kind of timeline in that respect. Now we certainly expect to resume growth as a number of end markets improve and, hopefully, be able to offset this negative driver. So I will not say that we are condemned to a negative evolution on software. Although I acknowledge that for a couple of years, that could have a slowdown effect on the evolution of the software business.

Amit Bhalla

All right. So I think with that, we're probably out of time. I'd just like to remind that if there are further questions, please feel free to call or e-mail the IR team, we'll be happy to answer all questions. And also for the shareholders, just a reminder that we have the AGM on the 25th, and we'd like to welcome you.

So with that, thank you, Emmanuel, and thank you all for attending the call this morning. Bye-bye.

Emmanuel Babeau - *Schneider Electric S.E. - Deputy CEO - Finance and Legal Affairs*

Thank you. Talk to you soon. Thank you very much. Bye.

Operator

That concludes today's conference. Thank you, everyone, for your participation. You may now disconnect.