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Schneider Electric SE (SU.FR)
Q4 2019 Earnings Call
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Hello and welcome. Thank you for being here in person and for the people who have joined in on the webcast. We are here for our Q4 revenues and full year results for 2019. Joining me, of course, here Chairman and CEO, Jean-Pascal Tricoire; and Deputy CEO and CFO, Emmanuel Babeau.

The presentation is on the website and can be accessed if you’re seeing it separately. Without further ado, we’ll get started. We will have Q&A after we finish the round of the presentation. Jean-Pascal?

Jean-Pascal Tricoire
Chairman & Chief Executive Officer, Schneider Electric SE

Thank you, Amit. Well, thank you all for being here. Thank you all for being with us today. Very happy in the next session to go through, of course, the record performance of 2019, goes through the perspective of 2020 that one dedicated to growth, and especially profitability and profitable growth; and of course, reiterate also our commitment to, over three years, increase the profitability of Schneider by 200 bps.

So, I’m going to go straight into the presentation and start with the business highlights and move on to slide 5. To comment the highlights of this exercise 2019, and I’ve to say while it’s a record performance in all directions, first time ever we crossed the €27 billion revenue line, growing by 4% organically, but by 6% on the current perimeter; adjusted EBITA, our operational result, at €4.2 billion, for the first time over €4 billion, up 9%. So, of course, growing faster than the revenue. The adjusted net income at €2.9 billion, so close to €3 billion, growing by 14%, double digit, in 2019. And probably, the most striking signature of this year 2019 is the cash flow generation,
which is always a signature of quality on results. At €3.5 billion, you know that Schneider was a company generating a cash flow around €2 billion. This time, we crossed the €3 billion line. And it's up actually 65% or 50% according to the impact of IFRS 16.

So, really record performance on all direction, proving – or the consistency of the deployment and execution of our strategy. And this allows us during the next AGM to propose a dividend of €2.55 per share, up 8.5%. I'm going to speak about that later, but we are signing 10 years of progressive dividend without too much speaking about it, but progressively and persistently improving the dividend and the return to our shareholders. And also, you know that it's part of the executives reward.

Signing also an excellent total shareholder return in increase of 60% in 2019, number one on the year 2019, number two over three years, but there again giving a holistic picture on the return to our shareholders. So, great headlines for this year 2019. Now, what I propose is to get a little bit into the details because those are just the results of the deployment of the strategy.

Picture of the company at the end of 2019. Two leading business, Energy Management, €21 billion, very strong global position, growing of course over the market at more than 5% organically, increasing its profitability by 80 bps, above the line of the 18%, 18.4%. And strong coupling with Industrial Automation, €6 billion, which in a year where discrete automation was under pressure for all the industry, manages to grow still more than 1% of gross, supported in that by the choice we did several years ago with the adunction of Invensys and AVEVA to rebalance our portfolio from discrete to discrete, on continuous, on software. And therefore, we keep improving our profitability there and we crossed the line there again of the 18% of profitability and increased the profitability by 30% on the top of growing.

If we go into the detail of the two on, I mean, slide 7, going drilling into Energy Management, this is supported by the main factors. We keep growing mid-single digit in residential and small building. And you know that it's business that we have been developing in the past 15 years, but I'm really proud of the size it has reached. On the continuous beating of the competition, we realized that. So, it's a business directed to home, small buildings, electricians, and it has been consistently growing every year over the past years.

Again, a growth, which is supported by EcoStruxure for commercial and industrial building, so the digitization on what we do in Energy Management is keeping on growing and developing. Another year of strong double-digit growth in the field of data centers, both in large installations, which normally retain the attention on the headline, but a lot more in small installations, especially as we see more edge computing developing. And there again, we couple what we do in Energy Management with digitization of the [ph] whole power chain and the whole (00:05:55) powertrain. A more mixed picture in industry and infrastructure. In infrastructure, certainly, very positive in many countries and we benefit from that. Industry is suffering of the weakness of discrete automation, so that's kind of well-known in the industry. Very strong performance on contribution of our recent acquisitions of ASCO and IGE+XAO, both of them going strongly. And again there, high-single digit growth in services which is really just keeping on developing as we still serve only a fraction of the installed base.

When we go into a more granular vision of what's happening by geography, very strong North America at 8%, especially if you integrate that this is impacted negatively, but what is happening in Mexico. This is integrative of the minus 1.4% in Mexico, was a sluggish market, which mean the rest of the market is really – our position on the market is improving. We are gaining market share in North America.

Comes second Asia Pac, driven by China and has a strong year in China on the back of a very strong year in 2018. If you remember, that was a double-digit growth in 2018, here we are speaking about mid-single digit. India,
which is good omen as we are moving to the conclusion of the last interval of acquisition, is growing mid-single digit in EMEA, which was complicated, it was an election year on Southeast Asia and all of Australia, see good growth also. So, Asia really still a major engine for growth for the company.

Then the rest of the world, which contrasted reality, is very strong in South America; Africa, Central and Eastern Europe doing well. The only place which is weak is Middle East, which has suffered a lot of, well, turmoil and some issues on the utility market in Saudi Arabia and some issues in the Gulf.

And then comes Europe and I'm pleased to say that Europe is growing, which is good. So – well, very good growth in residential markets, mainly supported by France, Italy, Spain; UK doing well through the uncertainty of the Brexit, which is not an uncertainty anymore; and good growth in Germany, especially in Smart Grid projects. So, a very well-balanced geographical portfolio and you realize that in Energy Management as well – in Energy Management, all regions are growing and we are taking share, I would say, everywhere.

Now, going on to Industrial Automation. So, in a year of more moderate growth, you remember we had a fantastic year in 2018, certainly suffering in discrete automation of the trade tension between the US and China, delaying a number of decisions for where invest. Our feelings that people are getting more used to those tensions and are now coming to a point where they're getting used to that environment to make decisions. But main headlines here, resilient growth coming from the rebalancing of our portfolio to long-cycle business and software business; process and hybrid offer growing mid-single digit with an order intake, which is actually growing faster.

Slowdown, of course, in discrete industries, particularly touching the activity of our machine manufacturer customer. Very good progress in every joint value we develop with AVEVA to propose complete efficiency solutions with AVEVA, inclusive of Schneider controls and AVEVA software. And very strong performance in services. Historically, our Industrial Automation had not developed so much services that is now over. We work on it and that has become a major engine. On an installed base, very often, that needs more upgrading and more development of new functionalities.

So when you look at geographies, strong performance of the rest of the world. And this is everything we do in the resource industry in emerging countries. Asia-Pac, quite good actually, seeing that China is a strong machine manufacturer country that suffered from the trade war. But really rebalanced from what we do in the long-cycle business of process automation supported by strong growth in software.

India growing; Japan, of course, [ph] re-suffering (00:10:35) of discrete automation or crisis. Western Europe, minus 1% with different realities; French, Germany, UK, growing; Italy down. It's a country of machine manufacturers. General slowdown in discrete industries. Moderate growth in process and hybrid, and good demand in our main targeted segments.

Probably, the only place which was weaker than we saw, it is North America and really impacted by the lack of decisions in discrete automation, while the market was good in terms of continuous process on the associated software.

So if you take a consolidated view of our business at the end of 2019, well, everybody grows. Every region grows. And it's driven by North America or it's led by North America; second, Asia-Pac; third, Rest of the World, with again the contrasted view I was describing, frankly, only Middle East was weak last year. And in Western Europe, most of our core countries are growing and keeping on growing, and we gain or we develop new values especially around energy efficiency on industry digitization.
So, that's about the detail of our business. So now, if we try to go across a business and look at our strategy and the execution of our strategy, we've been very public on the simple headlines of what we want to execute. And what we want to execute is more products, which means that we channel more business through our partners and we want to be the reference company in our industry for integrators on the numerous partners out there on the market, more services, more digital and more software on better systems.

And look at this, it's plus 3% on products, plus 8% in services, double digit in software and better systems, while we increase our profitability by 40 bps and the interest in [indiscernible] (00:12:51) a noticeable thing is that why in this year systems are growing faster than the average of the group, while we'll still manage to increase considerably the overall profitability of the group, which for me have been true that all development into solutions which was a painful journey at the beginning, learning how to take the right projects and deliver properly the projects, the fact that we are really growing in professionalism, in systems, and we are being much more selective, is a very encouraging factor for the future.

So, going a little bit into more details, 2019, we launched 20, what we call, [ph] euro (00:13:38) offer, core offers, very innovative. We organized again a lot of innovation summit, gathering more than 70,000 customers in the dialogue which is a private dialogue, a great year of launches [ph] and really (00:13:52) that supported a lot of the growth that we do here.

While more services, field services growing by close to 8%, digital services growing double digit. We are speaking here to take two examples of services like what we do in Smart Grid, which is knowing a lot of traction today, and all the advisors that we have described in the field of EcoStruxure. We have double-digit growth in selected advisors like Building Advisor, Asset Advisor, Power Advisor. So, the more we connect products, the more people want to give sense to the data which is coming outside of those products.

So, a sense is given by the analytics on the embedded artificial intelligence, which is applied into the advisors. And really growing part of our – the value we propose to those customers is being the partner of our customers in sustainability at three levels. Making sure that digitally we help them understand their carbon footprint and their consumption of resources. Second point is bringing them recipes on technologies to reduce their energy consumption and their carbon footprint. And third point, of course, is to source the greener source of energy and helping them through digital platforms to source the most efficient source of renewable for their installations. So, field, digital and sustainability growing to a total of 8% for the company.

Now, going into the third part of our strong growth engine or our growth performance, which is around more digital. So, we are connecting more and more products to our cloud for the account or for the benefit of our customers. Last year, you remember that in 2018 the number of connected products was increasing by 25%, noticeable acceleration this year. We grow the number of connected assets by 50%. So, that's the first point.

On this base of more connected products, more data available, big progress in our software offering. Of course, there is AVEVA, but there is all the rest of the software and the advisors that we sell. So, that's double-digit growth in our portfolio.

Third point is communities, the digital communities that we develop around Schneider, around the office of Schneider, connecting people who are looking for solution, developers and integrators who are able to supply solution. And that's called Exchange that was launched this year in Hanover. Today, we have already 50,000 registered users trading tips and solutions on the web and which is [ph] outgrowing (00:16:41). We have already 300 apps available on this community and it's developing by the day.
And the fourth point of our digital development is digital interaction with our customers, which we call e-commerce that can be, well, technical advice and going as far as a selection of product, growing by 25%, as well as the number of connected customers growing by 20% in the year 2019.

And if we [ph] pause (00:17:11) on those two elements of services and software, that shows a significant transformation of the portfolios that we silently accomplished over the past 10 years. 10 years ago, we had very little services, we had zero software. Today, if you put together those two parts of our portfolio, which have overlap, and this is why we group them together, that represents 25% of our end-of-year revenue. And that’s, of course, much more sticky with our customers because we are connected with the customers or we live with the customers, and that’s generating recurring revenues. So, it’s growing faster than the group average. It’s accretive in margin. It’s, of course, a catalyst for more connected products which come with higher values that we can sell to the customer. And it increases for innovation and for detection of new business opportunities our intimacy with our customer.

So next track that we’re developing at the moment for growth is we are really becoming, in many instances, the digital partner of our customers in their sustainability journey. And actually, it goes beyond digital. 2020 will be a very foundational year where, in the field of medium voltage, which historically has been attached to the use of gas, which are not good for climate change, we are the first company to propose a solution which is not only SF6-free, but is also completely gas-free. So, we think that the best gas is no gas. And we are coming with solutions that we want to deploy in the next coming five years, which are completely air based. So, be prepared for the launch of AirSet, which is going to be a major revolution in the field of medium voltage, that means the stage that links a grid to any kind of usage, in the building and industry. A major step.

Second point, you know that in our Schneider Sustainability Impact barometer, we had fixed ourselves the target to help our customers save 120 million metric tons of CO2 over three years. At the end of two years, we helped our customers through visible project to save 90 million metric tons, which when you think about it, is two-third of the yearly carbon footprint of Paris or the carbon footprint of Toronto or the one of Melbourne or the equivalent of 9 million cars for full year in the US. And that very strong contribution of Schneider, our business is really contributing to the [ph] de-carbonization (00:20:01) of the planet.

And finally, and we spoke about that already, sustainability services up by 9%. Take the example of Canada with Maple Leaf, where we are the partner of Maple Leaf to engineer their trajectory to carbon neutrality; on Agrial in France, which is a well-known agricultural company that we help saving energy actually beyond the initial target we had fixed together.

And we see that really on – from the beginning, right? I remember that this has been the key topic of Schneider for the past 15 years. But we see a clear acceleration on the market when you think about it. At the Climate Week in New York last year in September, you had 90 companies, multinational companies, decided to go to a 1.5 trajectory – 1.5 degree trajectory is a global compact, science-based target; while six months after in Davos, you had 200 of those companies.

And to reach our objectives, those companies have to take along and tag along all of their suppliers and all of their partners. So, this is a movement which is becoming real and each company is getting interrogated by their customers, like Schneider, when we want to work with a company, we question them on their carbon performance, by their employees, do you want to board a company that doesn’t have ambitious targets in this one? So, that’s becoming really main stream, after 15 years of being lone preachers of the cause as a company.
So, going to the next engine of our growth, we believe at Schneider that our customers need simplicity for their efficiency energy and process efficiency solutions. And it’s complicated, because all of this is new technology. It’s a lot of software. It's a lot of digital. It's a lot of connected products, things that were not really existing some years ago. So, we really believe that it's important to come together in front of the customer in each country with local characteristics. And you've got examples here that customers of customers, prestigious ones, very different countries that come to ask us for energy efficiency, process efficiency together. And they ask us to advise them and resolve their issues, which our model of integration in the country is really serving well. I mean, nobody wants a [ph] split-out (00:22:34) bunch of uncoordinated products to come on their shop floor. They need somebody to take their problem in hand and to solve it.

Another year in 2019, where I want to mention that, but we kept developing our differentiated DNA to be the most meaningful company in our industry in terms of mission, in terms of the way we do business, being one of the early adopters and one of the pioneer developers of the Global Compact charter, being the most inclusive company and certainly the most multi-local in our industry, having a completely balanced presence from the turnover point of view, from the people point of view, across the major part of the world; and really being the company that allows our people, our associates, to make decision and make impact on the market. So, quick loops of decision on the market. And we’ve got multiple recognitions in the field of sustainability, in the field of inclusiveness, and in the field of innovation in 2019.

Another year where we, the whole company, works on the better performance in social responsibility and in sustainability. So, we are ahead of our target. There I think it’s been – it has always been a major cause of engagement, of pride, of commitment for every person at Schneider. So, these are objectives that are ambitious, but we tend really to make sure we go after [ph] with other (00:24:14) region. So, 7.7 at the end of Q4, which puts us well on track to reach a target of 9 of 10 that we have for the end of the year 2020.

We've also announced our objectives in terms of carbon neutrality to be net zero operation by 2030, on net zero supply chain, including everything from our suppliers by 2050. And it's actually a great vector of innovation on the progress, because we apply our technologies to every of our factories, to every of our building, and we learn a lot about the technologies and we learn a lot about new ideas that we can bring after to our customers.

So, looking at that, I'm trying to zoom out from 2019 and put you back on the GPS of the time line of Schneider. Remind you, and I'm in slide 22. I described the past 15 years during our last CMD in two, three phases. The first one was building the portfolio for the best energy management and a full digital solution for four segments and that – those were the years of acquisition, 2003 to 2013.

That overlapped with 10 years of integration from the launch of the first EcoStruxure to where we are today, which is a much larger version of EcoStruxure, integrating everything we have put together into plug-and-play digital solutions and efficiency solutions for our customers, but also a time where we pruned our portfolio and refocused on what we saw as essential.

On front 2016, we entered into the phase of scaling, deploying what we had put together strategically. And you remember, we assembled you or we gathered together at the end of 2016 and we took commitments, we took commitments to you which at that time were observed with interest for sure, but some time with skepticism, looking, are you able to do that? So, we said we want to grow 3% on average, and we've grown close to 5% across those years, in average organically. We said we want to grow our adjusted EBITA by 20 to 50 bps on average, and we delivered 70 bps on average over those years. And we said, we want to grow our adjusted EBITA by 4% to 7% a year, and we've been delivering over the past [ph] few (00:26:46) years 9% a year.
So, very simple – simple strategic priorities, more products, more services, more software and digital, better systems, commitment to targets, focus on execution, on consistency and delivery.

And at the beginning of 2019, we said on the base of what we told you in 2016, we want to change the level of profitability of the group, focused on the quality part of the business of Schneider, and increased by 200 bps over three years. And of course, the progress that we do last year of 70 bps puts us on the right trajectory to reach this three-year objective.

Also want to tell you that we have not forgotten the shareholders in the journey. We are now completing 10 years of progressive dividend over the years. And actually, the dividend has been increasing over the past years at an average of 8%, almost. And the shareholder return, which is now a part of our LTIP, the Long-Term Incentive Plan, where we are number two among direct peers over three years, and number one over 2019.

So, that concludes my presentation, giving you a picture of the results of the way we produce them on the consistency, respect to commitments we had taken to you. And now, I hand over to Emmanuel for the details.

Emmanuel Babeau  
Deputy Chief Executive Officer in charge of Finance & Legal Affairs, Schneider Electric SE

Thank you, Jean-Pascal. Good morning, everybody. Very pleased to be with you to comment this set of numbers. And as you can expect, I mean we are obviously quite pleased with the numbers. Well, first of all, because as Jean-Pascal said it, I think it illustrates the success of the strategy that we have been implementing for many years now. I think it underlines as well the quality of the execution. But I would say, as important, it's good to see that all the evolution of the business that we are targeting, the evolution on the assets that we own, on what we want to achieve and the evolution of the profile of the company is really visible in these numbers in 2019, and not only in the P&L, but of course if you look at the balance sheet and even more so in the cash flow generation, we think that this is very visible.

So, let's now go into more detail and let's start with the three pillars of a strong overall financial performance. It starts, of course, with the strong revenue growth. Here, you have all the indicators, growth of revenue, organic, plus 4.2%. Jean-Pascal said it, more product, more services, almost 8%, double-digit growth for software, more EcoStruxure. We are growing faster than the group average, which is, as you know, the target, and better system.

We are pleased to continue to go grow in system, but only if we manage to gradually keep improving the margin on the system that has been, again, the case in 2019 with plus 40 bps of margin.

Second pillar, of course, no interesting growing the top line if it's not coming with more profitability. And once again, that has been the case very neatly in 2019. Adjusted EBITA growing plus 8.7%, it's above, of course, the last guidance that we gave. So, we've been even beating our final estimate for the year. Adjusted EBITA margin is 70 bps. Remember, the high end of the bracket that we gave was plus 50 bps, so we are above this high end of the bracket.

We have an adjusted net income, which is getting close to the €3 billion at plus 14% and, of course, in the Q&A, we'll be happy to elaborate on the evolution of the definition of the adjusted net income. But probably, what matters most is the consistency on the performance and that's why we think it's very important to look backwards. And if you have the five years vision backwards and it shows a gradual progression, 280 basis point of organic growth over a five-year period, and after forex, it's 190 basis points reported, and it's really year after year that we are, as we are growing the top line, also working on the profitability.
All that, of course, translating into a strong shareholder focus. I will come back with great detail on the cash flow generation, that's very important. Share buyback €0.3 billion. We're going to be very frank. We wanted to do more, but unfortunately, we had the approval from our shareholder only until €90. So, we were stopped at the beginning of December to do more in term of buyback. We're going to ask for a new approval with a limit price of €150 at the next shareholder meeting. And therefore, we're going to be able to resume the buyback and we absolutely stick with the initial plan in term of buyback.

Jean-Pascal commented the dividend. We are working on shaping our portfolio for the future. I will elaborate on that. And maybe on the ROCE, it's something that we are closely monitoring. We've had several years of progress of the ROCE with some forex headwind. Well, this time it's a significant bounce forward, 12.5% of ROCE in 2019 and it's plus 70 bps.

Okay. Now, let's go into a bit more detail on the P&L and then we'll look at the cash flow, and we start with sales. So, sales amounted to €27.2 billion, plus [ph] 5.67% (00:32:21). We have negative scope impact, so in line with our €600 million program that we have already implemented out of the €1.5 billion to €2 billion. So, it's about €200 million of negative impact on the top line in 2019. The forex has been positive, plus 2%. It's largely the dollar progressing versus euro. And on the current forex situation, we are expecting for 2020 another positive forex contribution, around €400 million. Regarding the margin, it has been negative to about 20 bps on the margin in 2019 and we expect it to be about neutral on the margin in 2020.

Now, when we look at the performance by region, well, the good news is that all region have been growing, North America being the best performer at plus 6%. Good to see Asia-Pac at plus 4% and China was even a bit above the average of Asia-Pac. Rest of the World, plus 4% contrasted. Jean-Pascal talked about that. And Western Europe, as expected, a more moderate growth at plus 2%.

When you want to improve the profitability of a company, everything start at the gross margin level, and great companies have great gross margin, because this is the ammunition that you have then to invest for the future and to make sure that you have the capacity to build further the future.

Here, you have the evolution of the gross margin rate since 2015, and that has been quite a regular and impressive growth from 37% to 39.5%. And let's be very clear. That is illustrating a company, the journey of the company going towards more innovation, more differentiation, more technology, more digital, therefore, more capacity to price. And together with productivity and margin improvement on system, that accounts for this very nice growth.

And 2019 is making no exception. When you look at what has been the build of the margin improvement, here, you just have the H2 margin improvement, which has been even more spectacular because we've been moving from 39% to 39.7%. Well, you see that we have two big drivers which have been incredibly powerful. First, the net price, 0.9% of improvement in H2 coming from a mix of continuation of price increase and positive raw material deflation. And then, the productivity that has accelerated in H2 and we certainly expect productivity to continue to be strong in 2020. And these really two engine account for the margin improvement.

Then in front of that, you have some negative impact coming from the forex. We are investing on R&D and we have some inflation on labor cost. The mix is negative. That was expected because systems are going faster than products so that was expected. And then, as always, you have a number of scope impact and others

Now, very good to have a great gross margin evolution, which is, once again, in line with our key target. It doesn't mean that we don't have to work on efficiency at the same time. So, I've been talking about the productivity.
We've been delivering more than [ph] €300 (00:35:43) million of productivity in 2019. We are targeting over a three-year period to do €1.1 billion and we are absolutely in that journey. And at the same time, we have a huge challenge on SFC, because as we shared with you, we want to invest on SFC. We want to make sure that we invest on our priorities, which are, as you know, more digital, more innovation, more services, more marketing, more new skills in our sales force. So, that needs more ammunition to do that, more dry powder.

But to do that, and in order to contain [ph] development (00:36:19) of the SFC and to keep decreasing the SFC on sales ratio, we need to generate saving, efficiency, simplification on our SFC, and that's exactly what we did in 2019. You have more than €200 million of savings, €240 million, which is really enable us to invest for our future. So, very, very important.

Here, we wanted to clarify one element which is about what we used to call our corporate costs, guess which, in fact, are only for a minor part of that, 30% our corporate costs, and that means that corporate cost on sales ratio is 0.8%, so I think we are pretty good in terms of benchmark. And at the end of the say, what we are classifying here are things that are common to the group, like the cost of performance shares. Also IT, digital marketing investment that we are making for the group. And that means that in fact in term of corporate costs – true corporate costs, we are a very lean company, but we wanted to make sure that we clarify that.

So, that gives a full P&L until the adjusted EBITA. So as you can see, an adjusted EBITA of €4.2 billion growing a bit more than 9%. The margin on adjusted EBITA at 15.6%, 70 bps organic with a 20 bps negative on forex, it's an improvement of 50 bps.

And once again, to summarize the growth between the €3.9 billion last year to the €4.2 billion this year, it's good to see that the performance is relying actually on three engines, which are almost equally powerful, I would say. The growth of the top line, so that's the volume impact; the net price, almost €300 million net price. Roughly speaking, two-third is price increase, one-third is coming from raw material deflation. The productivity and all that give us the capacity to innovate on innovation, to innovate on our future, to – sorry, to invest on our future, the capacity, of course, to face inflation and also some negative impact coming for the mix to generate this 9% growth.

Going down to the bottom of the P&L, a few things that I would like to bring to your attention. Other income and expenses, it's a negative of minus €411 million. Remember, at the end of June, we're already at minus [ph] €350 (00:38:45) million that was largely the Pelco disposal impact – negative impact of the disposal due to a loss and impairment on the disposal. On H2, a much more negative reduced amount. You have positive and negative impact coming from the evolution of the scope. Positive linked to the Converse disposal, negative due to the deal on [indiscernible] (00:39:10). And then, we continue to have a number of acquisition and integration costs in the second half of the year.

Restructuring amount, €255 million, we are in the high end of the bracket that we give as the average of the year. But this is accompanying the very nice performance that we are delivering on our simplification and efficiency on SFC and on productivity that I described.

Another good news on the P&L, financial cost at €261 million versus €310 million. So, we continue to decrease the line financial cost. And today, the average cost on our debt in 2019 has been 2% versus about 2.5% in 2018. So, we continue to have a dramatic reduction of the cost of the debt that accounts for the decrease of the financial cost.
Income tax at 22% is also good news because we are in the low end of the medium-term bracket that we give and that we keep for 2020 of 22% to 24%. And then on equity investment and minority, here, the good news is that it's pretty stable. You have the minority part of the AVEVA shareholder, which is growing with the performance of AVEVA. But at the same time, we are growing fast with Delixi, a 30% growth of the net income of Delixi for the year and that means that Delixi is contributing €65 million to the net profit.

That is, in total, a net income group share of €2.4 billion. And if you exclude the nonrecurring element, it's an adjusted net income of €2.9 billion because of the buyback. The EPS is even growing a bit faster than the adjusted net income. It's €5.32 per share and it's a growth of 15%.

Now, of course, let's spend some time on the cash flow, because I'm sure that is going to raise a lot of question on how do we increase the free cash flow generation even before the positive impact of the IFRS 16 by 50%. And we're coming with the fact that this improvement, to a large extent, is normative. Well, of course, everything starts with the operating cash flow. So, from €3.4 billion last year, as we keep growing the top line and the profitability, that generate a nice improvement of the operating cash flow. And as you're going to see on the guidance for 2020, it is our ambition to keep growing the top line and the profitability. So, that should continue to move in the right direction.

Now, when I was referring to the evolution of the Schneider model and fundamental businesses, that's going to start to be visible at the level of the CapEx, at the level of the working cap as well, because the more we are growing on services, on software, the more we are growing on a strong added-value businesses, the more we are able to grow faster top line and profit and not grow the CapEx at the same pace. So, that's creating a first favorable element on the evolution of the cash flow generation.

Then on the working capital, we're going to have similar positive evolution. As we are moving for more services and software, we have a portfolio of customers who are also going to pay, on average, with shorter terms. So, that is allowing us to do a good job on the receivable on sales ratio.

And the same is true for inventory. So as we are growing on services, on software, on more added value type of businesses, the inventory are going to grow at the lower pace than the top line. And on top of that, we believe that there is still efficiency that we can generate on the management of inventory.

So, all that is bringing to the €3.2 billion. I think in addition, this year, we have to recognize that we have some catch-up on last year, which was particularly negative because of the disruption of the supply chain. So, I'm not committing to have every year that nice positive number on the change in the working capital. But we can certainly have a nice growth on the top line without having too much negative on the working cap. And that's why we believe that we can be in a sustainable manner around €3 billion of free cash flow in the future.

And of course the consequence of that is that we finish the year with a debt, which is nicely reduced from €5.1 billion last year to this year €3.8 billion. And here, we just wanted to illustrate the step change in term of cash full generation. We've been quite regularly, over the last four years, between €2 billion and €2.2 billion, €2.3 billion, and in one go, we go to €3.2 billion and even €3.5 billion now with the new IFRS 16 impact.

We are growing the adjusted EBITDA, which is around €5.2 billion. We are decreasing the debt. So, of course, the net debt on adjusted EBITDA ratio is decreasing and we are coming with a ratio of 0.7 time. And all that, you know, is translating into a nice ROCE improvement, and that's very good news, because of course that mean that we can continue to work on the return for our shareholders, the buyback is, of course, continuing. I mentioned
that, we are proposing a nice increase of the dividend as well. And this situation has already been anticipated, we guess, by Moody’s who has been upgrading us a few weeks ago on our rating.

Now, of course, we continue to shape the portfolio of the future – of our future. And as we do that, we need to do two things at the same time. So, we need to invest, of course, for our future. Jean-Pascal mentioned that the most recent investment have been very, very successful in 2019 with double-digit growth on AVEVA, ASCO, IGE+XAO. And we keep building the priority for the future, priority on geographical leadership on our core. This is the L&T deal in India that should close in the coming weeks. And of course, we continue to build our digital capacity and the RIB offer to be able to be a big player in digitizing the building lifecycle in the future.

So, that’s for the new things that are joining the Schneider team. And of course, at the same time, as we are evolving in our model, things become less relevant. And you know that we have this €1.5 billion to €2 billion objective of sales that should leave the group. We have done roughly one-third of the journey with €600 million. And this is already contributing for 2020, a positive impact on the margin of 20 bps. So, the €600 million that are going to leave the group in 2020 generate a margin improvement of 20 basis points.

Well, that slide is really to summarize the fact that beyond the very good results of the year, you can really see the evolution of the company on many line of our P&L, balance sheet and cash flow generation. Of course, improved top-line growth profile that, I think, we are demonstrating and notably versus peers. The pricing power that, I think, has been quite noticeable in 2019. The fact that we are also progressing on system and that because we are much better on [ph] executing on the (00:46:30) system, but we are also able to come with system with more added value for our customer. That translates with productivity on gross margin improvement.

Then everything we’re doing on the investment. So, the fact that we are able to generate significant investment on our future, while still continuing the growth on our SFC. Then I mentioned the receivables on sales ratio and the inventory on sales ratio. I mentioned the CapEx evolution and all that, of course, magnified in the free cash flow generation. So, I think it’s important to understand all these dynamic. And okay, as a consequence of that, Jean-Pascal said it, we are once again coming with a proposal of a nice growth for our dividend, plus 8.5% at €2.55 per share. And it’s a CAGR of 8% over the last four years.

We also are reporting that it’s part of the LTIP for the management, the overall total shareholder return. So, Jean-Pascal was mentioning that we’ve been number one in 2019 among a group of 12 peers. We are, of course, measuring that over a three-year period. And it’s interesting to see that we were number six in the first year, and we’ve been gradually progressing through the ranking, and over a three-year period, we finished number two with an overall 50% total shareholder return over this period.

Thank you very much. And now, Jean-Pascal, back to you for...

Jean-Pascal Tricoire
Chairman & Chief Executive Officer, Schneider Electric SE

So, a long page for the guidance for the year. But what we see is that we keep seeing a market which is very positive in North America, though we’re going to be impacted by the base of comparison for Energy Management due to some large projects. In Industrial Automation, we expect pressure on discrete to remain in H1, but we will expect to rebound. That could be expected in H2.

Mexico, we think we remain sluggish probably in the near term. Looking at China, which is a matter of a lot of debates at the moment, structurally, China remains for us a growth market, where customers are looking for energy efficiency, carbon reduction, digitization of all their facilities. With dynamism in many end markets and
segments, including construction, of course, infrastructure, transportation, data centers, health care industry will look for probably more vertical integration due to the trade tensions. But it's been, of course, impacted by the present disturbance due to the virus. The OEM demand, we think, could strengthen in H2. We have seen some positive signs at the end of the year. But now, it has been all kind of disturbed by the new issues.

Now, focusing on the coronavirus, which again we should see as a problem of the moment, which is much less structural. There will be an impact for us in Q1 2020 due to the loss of working days in January and February. At this point, we estimate that the potential impact has been estimated at €300 million, mainly in China. But we also estimate that we should be able to capture this within the calendar year, catch up would be operated doing H2. Okay?

So, clearly, when – while we are very close to China, of course, but what we've seen that in the past two weeks, the priority is now turning to being back to work. The absolute priority in the past before was about the principle of precaution, giving priority to containing the contagion. News seems to be better on that front. Now, the priority is to be back to work.

The rest of Asia, as we look into the year, is in India, in Southeast Asia, we continue to see growth. The group, we expect Western Europe to grow at a moderate pace, on the rest of the world to be contrasted, which mean that there are several realities that are very diverse around that zone.

So in the current [ph] macro environment, on integrating the full year impact of the coronavirus, we expect positive growth in aggregate, and we continue to deploy our strategy. So, we see a growth between 1 to 3 points in organic, an adjusted EBITA margin between 16% to 16.3%, which is very consistent. If you think about it, with the guidance, we give over three years, of increase by 20 bps – actually, over more years – five years, of 20 to 50 bps a year, which add to a 20 bps improvement due to the scope that we have operated last year by divesting €600 million of dilutive business from our portfolio.

And of course, we shouldn't look at this guidance only for year. That sets us in the right place to be on the trajectory of the 200 bps improvement within three years.

So, with that, I think we've been through a very extensive presentation of our results and perspective. I thank you for your attention and we are ready to take questions.

Amit Bhalla
Vice-President Financial Communication & Investor Relations, Schneider Electric SE

All right. Thank you. So, we attempt to take all the questions, but we'll give priority to the folks in the room. So, maybe we'll start with Alasdair. We're going to keep it to one question first and then we come back. Alasdair?
QUESTION AND ANSWER SECTION

Alasdair Leslie
Analyst, Société Générale SA (UK)

Thanks. Good morning. Alasdair from SocGen. So, very good margin progress again in 2019. But as you were just saying there, I think, on an underlying basis, the guide for 2020 is looking for 20 to 50 basis points of margin expansion. So, pretty much in line, as you said, with the last few years as well. And that's really despite, obviously, I think, if you look at the average over the last three to four years, it's been more like 70 basis points. You're also articulating a very positive message about the sort of mid- to long-term margin potential. I was just wondering whether there was an opportunity maybe this year to upgrade the sort of annual margin guidance in 2020. And just whether maybe the reason you didn't was just a little bit conservatism whether you're sort of integrating a coronavirus impact in there as well and maybe some investments. And then, maybe if you could also just provide some color in terms of expectations for the kind of main elements in the bridge around pricing, productivity and mix. Thanks.

Emmanuel Babeau
Deputy Chief Executive Officer in charge of Finance & Legal Affairs, Schneider Electric SE

Well, so 70 bps has been indeed the performance over the last few years. We are coming up this time with a guidance on the top line, which is, as you can see, a bit below what we've been achieving in the last two years. And of course, top line is also helping the margin. I think it is today our best estimate of what we think we can deliver organically. And as always, we'll see how the years develop, but we are comfortable today with the 22 to 50 bps. Let's be clear. We have this 200 basis points objective. We have a road map to deliver that. We are absolutely within the road map, and we are well in our journey to get there. And I think that 2020 with that guidance is absolutely in line with our objectives. So, we feel comfortable with that.

Now on the bridge, I mean, if I can provide more color of 2020 and, of course, with limitation, we keep having the ambition to continue to price up. Certainly, the inflation is not at the level of 2018-2019. So, that's an environment that we need to take into account. So, don't expect necessarily the same impact than in 2019 in term of pricing. And based on the current situation of the raw material, it could be, once again, a bit positive on the margin. So, that's something that we see for the time being. But of course, we're just at the beginning of the year and we'll see how the raw material inflation evolves. But that should be the situation based on the current price.

And on top of that, we continue to, of course, expect a significant productivity in 2020. As you know, I mentioned, we are in the €1.1 billion plan, which is absolutely still on the part of the journey.

Amit Bhalla
Vice-President Financial Communication & Investor Relations, Schneider Electric SE

All right. Thank you, Alasdair. Maybe we move to questions on the web or phone lines. So, operator, the first question, please.

Operator: [Operator Instructions] And the first question comes from Andreas Willi. Please ask your question.

Andreas Willi
Analyst, JPMorgan Securities Plc
Yeah. Good morning, everybody. Thanks for your time. My question is about the Energy Management business, particularly here in the US. You had a strong double-digit growth in 2019 that slowed a bit in Q4. Maybe you could just talk a bit more about that. And also, you said you keep growing market share. Maybe you can be a bit more specific if you – in terms of which areas that drives that stronger-than-average growth, and what's basically a function of mix given your higher data center exposure, and how that's doing relative to kind of mix-adjusted market share gains you're seeing in the market?

Jean-Pascal Tricoire  
Chairman & Chief Executive Officer, Schneider Electric SE

Yeah. Andreas, I'm just taking the figures. I'm just noticing that we [ph] grow (00:56:29) faster than the other reported figures. So, my conclusion is that we grow market share. Why is that? Well, first, we are putting together, not only in terms of technology, but also in terms of business model and approach to the market, a very cohesive approach in the world where people want a full powertrain – full powertrain that vehicles the electrons, that is controlled by one suite of software, one suite of control. So, that's the first element. So, it's a very consistent technological, architectural and commercial approach that we put in front of the customer.

The second point is that clearly if you take what we've been putting together in EcoStruxure Power, the way we've put things together, we have a system which is completely integrated and I have often shared that. We have two business at Schneider. Industrial Automation is almost all connected. Energy Management is almost all not connected, not really, but it's – there's a large potential of connecting everything. And therefore, we are really pushing on our digital architecture, because customers just want better safety, better reliability, preventive maintenance and they really want their power, especially in a country like the US where the grid sometimes can be weak. They want to be able to predict and react very fast.

Third point is that we keep developing services. And it's field services and it's digital services, and that opens plenty of new possibilities. It goes as far as sustainability services, where in front of the challenge of being better in terms of carbon footprint, our customers go from consulting into technological solution, we're not – many people are wanting to advise people on sustainability, but we are not only doctors, we are also pharmacists. We provide people with the remedies so that they can really improve their performance. And we do that with a very [ph] capital (00:58:50) coverage of the market from system people to service people.

So, all those elements, plus the fact that we have positioned ourselves on fast-growing segments, like datacenter being one, but you have the electric vehicle coming now, electric mobility [ph] that has (00:59:09) to retrofit and revamp a lot of networks. Buildings are becoming more electric around the world and also in the US. So, all of these makes that we have the right coverage that puts us into the right place.

Now – and it was mentioned and it's mentioned in our guidance, we have strong base of comparison because we executed large projects in 2019. Now, we are also pursuing new opportunities as we go into the new year. But clearly, the base is more demanding as we go into the next year and especially in H1. So, that's where we are today. And let's face it also, we've probably benefited from some disorders on the market with other companies, while we were completely operational and completely organized in front of the customer, right.

So, that's what I would say about our performance here.

Amit Bhalla  
Vice-President Financial Communication & Investor Relations, Schneider Electric SE

All right. Thank you, Andreas. Next question, please.
Operator: Thank you. And the next question comes from the line of Ben Uglow. Please ask your question.

Ben Uglow  
Analyst, Morgan Stanley & Co. International Plc

Good morning and thank you for taking the question. It's really around China on two different ways. Firstly, there was a nice pick up prior to the coronavirus in 4Q. So, the growth went from plus 2% to plus 4% in Industrial Automation. Could you give us a little more color on what's happening there? Was there any particular strength in any individual end market? What drove that pick up? That's the first part. Second part – and I know Jean-Pascal you've talked about this before. But if we step back and look at the environment in China and the trade tensions, et cetera, there has been a lot of speculation around decoupling, around supply chains, around companies either pulling out or reorienting what they do. Are you seeing any evidence of that at the moment? I realize coronavirus has probably dampened things. But what's your big-picture take on the decoupling idea, please?

Jean-Pascal Tricoire  
Chairman & Chief Executive Officer, Schneider Electric SE

Yeah. So, on the environment for Industrial Automation in China, we saw better environment at the end of last year. That's coming from a focus on the long-cycle business, combination of process automation and software, where we are getting traction. And we are relatively smaller because we're really performing well in discrete, so probably very focused on the growth here. So, we've rebalanced our presence there. And we saw – and I was mentioning that, at the end of last year and the beginning of this year, before the whole virus stuff started to happen, that there was a little bit more optimism and the more business on the discrete market. So, all of this is positive which lets us think that structurally that we are [ph] seeing of (01:02:06) at least troughing on discrete, on rebounding on good dynamics on process automation.

On the more structural part, which is decoupling of the supply chains between the continent, look, it's – we spoke about that last year. This is a long-term trend. But clearly, the tensions will push China to more vertical integrations. That's clear. And you're going to have more industrial investment in China probably as we go forward and there's going to be probably more decoupling. We see already decoupling happening in the digital space where we are operating in two very different ecosystems. From that point of view, the model that we have [ph] at Schneider (01:02:55), which is decentralize in terms of geography, which is according to us a real meaning of decentralization is well-adapted to a world where geographies are more equal in terms of size of economy and have their own ecosystem in terms of digital and supply chain.

Ben Uglow  
Analyst, Morgan Stanley & Co. International Plc

I'll pass it on for now. Thank you.

Amit Bhalla  
Vice-President Financial Communication & Investor Relations, Schneider Electric SE

Thank you, Ben. We'll take the next question from the phone line, please.

Operator: Thank you. The next question comes from the line of Andre Kukhnin. Please ask your question.

Andre Kukhnin  
Analyst, Credit Suisse Securities (Europe) Ltd.
Good morning. Thanks so much for taking my question. I wanted to ask about capital allocation more broadly, whether your appetite for M&A has increased maybe during 2019. How is the pipeline looking now compared to maybe 12 months ago? And just in relation to that on the RIB Software acquisition, how should we view that in terms of is it a platform acquisition that you build organically from or is this a piece in a jigsaw that you continue to build out? Thank you.

Jean-Pascal Tricoire  
Chairman & Chief Executive Officer, Schneider Electric SE

[ph] I’ll take on RIB. Do you want take (01:04:08) capital allocation?

Emmanuel Babeau  
Deputy Chief Executive Officer in charge of Finance & Legal Affairs, Schneider Electric SE

So, on the capital allocation, I would say, nothing has changed and I think we’ve been signaling for quite a while that we were open to opportunity on the core of the core. And of course, our ambition to grow into software first organically, but possibly inorganically could be one of the things that could lead us to do M&A. I think RIB is exactly in that direction. We have now two possible significant deal in the pipe. L&T, so I mentioned that we expect to close the deal in the coming weeks and then the offer on RIB. So, that's something that is not coming as a surprise, I guess, for anyone. And for...

Jean-Pascal Tricoire  
Chairman & Chief Executive Officer, Schneider Electric SE

It [ph] shouldn't come (01:04:54). It has been quite slow cooking.

Emmanuel Babeau  
Deputy Chief Executive Officer in charge of Finance & Legal Affairs, Schneider Electric SE

Yeah. Exactly. And for the rest, we have the same vision on M&A. We don’t need to do M&A. If we do M&A, it will be only on the core and certainly with a view to keep building leadership and notably in digital. So, nothing has really changed in that respect.

Jean-Pascal Tricoire  
Chairman & Chief Executive Officer, Schneider Electric SE

Well, I really want to confirm that. I mean, when we finished the acquisition phase or building the portfolio phase of 2013, we are very picky on every new piece we add. So, of course, Larsen & Toubro comes as no surprise. It establishes a leadership in probably the fastest-growing electrical market in the world, biggest needs in the world.

And concerning RIB that we spoke about last week, quite at extent, so I would say, well, the logic here is that it brings the functionalities that we didn't have in our portfolio in costing, planning and scheduling. And remember that Schneider is part of multiple projects in the world in many applications. And this industry is still operating with very basic tools in many cases.

So, we have developed a series of software in operations in the industrial field, in building field. We have developed with AVEVA tools into the plan design field and that has been great, as you can see from the performance of AVEVA. But there is this brick, which is around costing, planning, and scheduling that we are missing, which fits very good on – RIB is bringing also that brick of the construction field, the build of the building, with a focus of the building segment that AVEVA – AVEVA does operate in the building space, but not so much on the design space – design build, but more so on the operation space. So, that's a complementary approach in...
term of segment and a new approach in terms of functionalities, but it's not a jigsaw thing. It plugs really into what we do in the rest of the company.

Amit Bhalla  
Vice-President Financial Communication & Investor Relations, Schneider Electric SE

All right. Thanks, Andre. I think maybe we take another couple of questions on the phone line, come back then to the room. So, next one on the phone line, please?

Operator: The next question comes from the line of Wasi Rizvi. Please ask your question.

Wasi Rizvi  
Analyst, RBC Capital Markets

Yeah. Hi. Good morning. Thanks for taking my question. I was interested in the detail you gave on the EcoStruxure exposure, where you said that the revenues were up 15%. Could you talk a bit more about that actually? Is that product not specifically software that's EcoStruxure enabled? And you've mentioned the growth was above average. How has that growth been over the last few years and what's the margin profile of that business as well?

Jean-Pascal Tricoire  
Chairman & Chief Executive Officer, Schneider Electric SE

Yeah. Right. On EcoStruxure, we've given several figures on the rarity (01:07:51). By definition, EcoStruxure is a meeting of software, of connected products, of controls, on those services, in many cases, which comes as a consulting because customers rarely say, well, this is a list of product I want to order to digitize my company. They don't come for digital. They come for reducing my carbon footprint or improving – decreasing my energy bill, or increasing my productivity, or increasing the safety of my operators on the field. So, we come with a complete and holistic approach that starts with consulting, in many cases, and then we go into digital solutions, and then we mobilize our partners, integrators, specifiers to define together a solution.

But I think what you refer to is a combination of what we call the level two or level three of EcoStruxure which is software and digital services, which is the upper layer of EcoStruxure, combined with the control layer of EcoStruxure, and that makes total roughly of, let's say, 16% of the turnover.

Now, to give you a more holistic picture of what we are talking about, as there is a overlap of digital services together with services more globally, because Schneider being Schneider, when we deliver services to our customers, they are really current with digital. We use fully the potential of digital to provide a differentiated answer. That combination of services and software and control, let's say, makes 25% of our business. If you want to have the full picture of EcoStruxure, you will have to go to the layer of connected products, right, which by themselves represent – and take my figures as right as what they are and not precise to the decimal, but roughly 25% of our business, which means that 50% of the business we do today is in the field of the whole (01:09:57) environment of EcoStruxure plus services, inclusive of the services, which has been silent, but very profound transformation.

When you think about it, that thing was not really with us 15 years ago. So, it's a very large part of Schneider, which is developing and we still see a lot of potential behind that. And the all things are feeding each other. The more you have software, the more you want to connect products, because the more you can gather data and the more you can get in productivity. And the more you have connected products, and again they were growing by
50% last year, the more you generate in a field of data, so that you can train more AI and bring more functionalities on the average at data. So, that's what we're putting together.

Amit Bhalla  
Vice-President Financial Communication & Investor Relations, Schneider Electric SE

All right. Thank you, Wasi, and we can, of course, get into the detail of the calculations, as you see, the top two layers of EcoStruxure growing faster than the group, and the 25% categorization also growing faster than the group. One more question from the phone line and we'll come back to room.

Operator: Thank you. The next question comes from Denise Molina. Please ask your question.

Denise Molina  
Analyst, Morningstar Holland BV

Thanks for the question. I just wanted to follow-up on that last question, actually, [ph] so I've a (01:11:15) similar one. In terms of the breakout of the revenue within EcoStruxure, actually digital, if you look at edge control, software and digital services, field services, my guess is that the edge control is low-margin component, and that the high-margin business is at 6% in the middle of the software services. And I guess, my question is really related to the fact that if you look at the bridge on the EBITDA margin, mix effect is negative which I'm guessing is diluted by discrete being down. But I'm just wondering if you could just talk about the relative margin of those three components, edge control, software and digital versus field services.

Emmanuel Babeau  
Deputy Chief Executive Officer in charge of Finance & Legal Affairs, Schneider Electric SE

So, I'm not sure I'm going to elaborate more on the margin. I think we give a great deal of detail on many, many things already. So, I'll let you make your assumption. I think everybody knows the kind of margin on software that can be done and, of course, the AVEVA numbers among others are known. And let's be clear, all our businesses are providing a good profitability, some even better. But I won't elaborate more. I nevertheless want to clarify one thing on the mix impact. So, you have one element coming from system, but the geographical mix is also important. So, that's another dimension that you need to take into account to explain the impact of the mix on our performance in 2019.

Amit Bhalla  
Vice-President Financial Communication & Investor Relations, Schneider Electric SE

All right. Thank you, Denise. Thanks, Emmanuel, for that one. Just coming back to the room, is there a follow-up question here from the room? Alasdair, maybe one more.

Alasdair Leslie  
Analyst, Société Générale SA (UK)

Thanks for the follow-up. So, very helpful breakdown of, I think, the central and digital costs line. I think back in 2007, I think the corporate line was around 1.4% of sales. And I was just wondering whether it [ph] caused (01:13:19) really the entire move up to 2.7% was driven by the digital IT marketing bucket and maybe even the underlying increase was even greater given the corporate costs where maybe on an underlying basis [indiscernible] (01:13:30)?

Jean-Pascal Tricoire  
Chairman & Chief Executive Officer, Schneider Electric SE
Which year did you mention?

Alasdair Leslie  
*Analyst, Société Générale SA (UK)*

2007, I think, it was around [ph] 1.4% (01:13:33).

Jean-Pascal Tricoire  
*Chairman & Chief Executive Officer, Schneider Electric SE*

I was not [ph] born (01:13:35).

Emmanuel Babeau  
*Deputy Chief Executive Officer in charge of Finance & Legal Affairs, Schneider Electric SE*

Congratulations for having a record.

Jean-Pascal Tricoire  
*Chairman & Chief Executive Officer, Schneider Electric SE*

Just what I want to – the whole journey on digital is quite paradoxical. On the one side, you can be very fast on the market with new concepts on [indiscernible] (01:13:48), which is very entrepreneurial. And at the same time, it has to be super disciplined. So, the big change that it implied for Schneider is a globalization of our IT [ph] and (01:14:00) one direction. So, probably, the figures [ph] that I (01:14:01) referred to are coming from the old Schneider, the old way of doing things, where things were country-by-country, entity-by-entity, many non-compatible IT systems. And we are still have a lot of work to keep that to the complete homogeneity and consistency.

Emmanuel Babeau  
*Deputy Chief Executive Officer in charge of Finance & Legal Affairs, Schneider Electric SE*

I think, Jean-Pascal, that – I mean, I wasn't there in 2007, but what I can tell you is that that was probably a true real corporate cost, I'm sure, at that time. So, there was no other digital cost, because [indiscernible] (01:14:31).

Jean-Pascal Tricoire  
*Chairman & Chief Executive Officer, Schneider Electric SE*

IT, at the time, was spread all over and much more costly, actually. It was completely divergent from one place to the other one. So, a large part to create the digital development that has been herculean to us, and we are not finished with that one, has been to drive that consistency. And frankly, I like common sense, right. Accounting-wise, we could push it down in the division, surely. But at the end of the day, this is a cost that we [ph] mutualized (01:15:03) and reduced because it has been globalized and this is why we report it collectively.

Emmanuel Babeau  
*Deputy Chief Executive Officer in charge of Finance & Legal Affairs, Schneider Electric SE*

But Jean-Pascal, if I may, so that's the point on the digital cost. On the corporate cost, if you allow me to come back on that one, I think it shows one thing is that we keep reducing corporate cost on sales ratio, and I can tell you every year we make sure that corporate costs are certainly growing at a much lower pace than the other costs which are reflecting the investment that we make. So, we don't invest in corporate costs, to be really clear. We're trying to be, each year, leaner. And very often, we're just trying to go down, actually, in term of amount. And that is probably reflected from this move from what was maybe [ph] 1.4% to 0.8% (01:15:46), and I think it is the
direction that we’re going to keep following, corporate costs should continue to decrease in term of corporate
costs on sales ratio.

Amit Bhalla  
Vice-President Financial Communication & Investor Relations, Schneider Electric SE

Thank you very much. All right. I think we have done the questions here. I just want to give the opportunity to see
if there’s any...

Emmanuel Babeau  
Deputy Chief Executive Officer in charge of Finance & Legal Affairs, Schneider Electric SE

One question in the room.

Jean-Pascal Tricoire  
Chairman & Chief Executive Officer, Schneider Electric SE

There is one question.

Amit Bhalla  
Vice-President Financial Communication & Investor Relations, Schneider Electric SE

We’ll take one more question from the room then. Go ahead.

[ph] It’s just Madison (01:16:09) from Bank of America, just one clarification on the free cash flow guidance. €3
billion number, does that include the IFRS impact or that is without the IFRS impact?

Emmanuel Babeau  
Deputy Chief Executive Officer in charge of Finance & Legal Affairs, Schneider Electric SE

No, so it’s not €3 billion, it’s around €3 billion...

Around €3 billion.

Emmanuel Babeau  
Deputy Chief Executive Officer in charge of Finance & Legal Affairs, Schneider Electric SE

...as a first clarification, and does not include the IFRS 16.

Okay. Thank you.

Amit Bhalla  
Vice-President Financial Communication & Investor Relations, Schneider Electric SE
All right. I believe there's probably a question on the web. So, we can have our colleague just read it out for us here.

Okay. Yes, there's questions from George O'Connor from Stifel. Can you give any thoughts or color regarding your shareholding of AVEVA? Has your thinking changed since you first crafted the deal? And do you have any message for the other AVEVA shareholders?

Emmanuel Babeau  
Deputy Chief Executive Officer in charge of Finance & Legal Affairs, Schneider Electric SE

I think we're just very pleased with AVIVA.

Jean-Pascal Tricoire  
Chairman & Chief Executive Officer, Schneider Electric SE

We are very please...

Emmanuel Babeau  
Deputy Chief Executive Officer in charge of Finance & Legal Affairs, Schneider Electric SE

That has been amazing success. Since we closed the deal, I think that the share has been multiplied by three, if I'm not mistaken, or close to it. And it has entered the FTSE 100. It has a €10 billion market cap, [ph] 8-point-something billion (01:17:13) in pounds. And we thought that would be a great formula to have, at the same time, a pure dedicated agnostic software company, generate plenty of great synergy with Schneider, recruit the best people in software and have potentially a good vehicle to make acquisition to have the right valuation and right setup. And I think we've been proven right on all fronts so far. So, we are just very happy with the current situation and very happy with how things are developing.

Jean-Pascal Tricoire  
Chairman & Chief Executive Officer, Schneider Electric SE

We are very happy with the work of the team and we see a lot of potential. I think this putting together our forces we can open more doors for AVEVA, and the value proposition we've put together has no equivalent. And as people go into their digitization journey, they are looking for the digital twin from design to operation. And AVEVA is an exceptional value proposition on the market.

Amit Bhalla  
Vice-President Financial Communication & Investor Relations, Schneider Electric SE

All right. So, I think on that note, we will stop there. You can probably see on your screens that we have the agenda for H1. We're also thinking of some more events maybe in the second half of the year which we will share. What's not included here is that in the coming weeks, of course, we'll be seeing many of you on the road or otherwise to welcome you in the offices.

So, thank you very much for your attention.

Jean-Pascal Tricoire  
Chairman & Chief Executive Officer, Schneider Electric SE
Thank you very much.

Emmanuel Babeau  
Deputy Chief Executive Officer in charge of Finance & Legal Affairs, Schneider Electric SE

Thank you.

Amit Bhalla  
Vice President Financial Communication & Investor Relations, Schneider Electric SE

Okay. Thanks a lot.

Emmanuel Babeau  
Deputy Chief Executive Officer in charge of Finance & Legal Affairs, Schneider Electric SE

See you soon.

Jean-Pascal Tricoire  
Chairman & Chief Executive Officer, Schneider Electric SE

See you soon.

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