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# Schneider Electric SE (SU.FR)

Capital Markets Day

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## MANAGEMENT DISCUSSION SECTION

### Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

Well, good morning, everyone. Very happy to have you here. As you can see, we are at almost full capacity. But we're also webcasting the event. It's available live. Just wanted to say thank you for all of you for the interest in our company. Thank you for your investment. Most importantly, thank you for the time today that you've decided to spend with us.

I wanted to very quickly share what the agenda is for today. Really the day is in two halves. So the first half here in this auditorium, in the morning session where we have a few presentations, of course, strategy and finance followed by presentations from our two businesses.

We have slots also for Services business and the ambition of growth on the Services business and an interesting sort of operations interaction as well, which is not normally that we've been having in the past. So we put that in. We'll make sure that we have time for questions and answers, but then we have a hard stop at about 12 o'clock.

The second half of the day, and that's interesting, is a visit to Le Vaudreuil, about a little over an hour from here. So I'll get back on the arrangements later. But really what we're going to showcase to you in our factory over there is two things. One, our complete offer for the industrial end market that we have as a company. And secondly, some of the EcoStruxure and digital technologies that we put in practice into our own factory and which we do that for customers as well to drive efficiency.

The presentations from today are going to be available towards sort of the end of this morning session on the website. I do have to get everyone's attention to the disclaimer regarding forward-looking statements.

But with that, I want to get the day started and we start with Chairman and CEO, Jean-Pascal.

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### Jean-Pascal Tricoire

*Chairman & Chief Executive Officer, Schneider Electric SE*

Thank you, Amit. Good morning to all of you and thank you for making all the way to tropical Paris, I should say. I live in Hong Kong and work in Paris, always under the tropics and for the Parisians for making it all the way to Rueil, which is for Parisian very difficult to access to.

Well, today, I'm going to be sharing the stage with many of my colleagues. Hopefully, it will give you a broader picture of Schneider and the usual Tricoire and Babeau show that you get normally. It's a good opportunity to know more people as a team to exchange, ask questions, and get answers.

But in the 25 minutes or so, what I would like to do is to set the stage, because when I look at our industry, which I've been working for the past 33 years, I've seen it has been more repositioning, restructuring transformation in the past two years than in the previous 20 or 30 years. One could lazily say that all the company look equal in our environment, but actually I think we are profoundly different company by company, which means that today some have to start a journey of repositioning, and some others have to execute on the plan that was fixed a long time ago.

On what I want to do or try to do in the next 25 minutes is to make you come back and make you understand how we have positioned Schneider on what are the distinctive traits of our company in the industry we are in. Okay.

So, let's move straight into the fundamentals. We've positioned Schneider onto the two major transitions of the beginning of this century. The first one is energy transition, which we are all realizing with climate disorders, climate change. On the bigger line of all this is more energy efficiency, but it goes with subtitles. The first subtitle is an accelerated electrification. We see a proportion in the energy consumption of the world consumption of electricity that will in proportion double in the next coming 20 years.

Today, electricity is just 20% of energy consumption. It's going to be 40% in 2040 on the base of consumption, which is increasing. Think about IT. Think about heating and cooling going electrical everywhere. Think, of course, about electric mobility. Think about generation, [ph] we choose to be remote on the way on which is getting and (00:04:44) this is the second headline of energy transition decentralized and decarbonized.

Today, predictions say that 50% of the installed power generation in 2050 will be based on renewable and storage. That's a massive shift of paradigm. And all of this would be only possible because of digitization to manage intermittency of generation on the volatility for modulated consumption.

That's the first transition. Second transition we've been addressing, which is the other part of the equation of efficiency of our customers, is Industry 4.0. Headline is process efficiency. If all of our customers are putting those two efficiencies together and this will be accelerated boosted by IoT, 8 times more objects connected to the web in 2025 than people.

Massive acceleration of big data and AI in quantity on spending multiplied by five to multiplied by six in the next coming five years. Acceleration due to 5G, of which 35% at least of the application are speaking to our business, are speaking about energy or industrial automation, plus 75% of our customers coming to us and have already deployed the Digital Twin. We are working all to deploy it in the very near future. So all of this is happening now.

And our customers are not asking about this or that. They are asking about one thing, which is the old solution of efficiency and we from the beginning made no difference between the two because if you want to manage the efficiency and energy of your customers, you have to understand and tweak the process. And if you want to operate efficiently your process, you have to get an impeccable and very reliable energy.

So what we have been doing is put together those two words on converge, energy and automation in one solution of efficiency with the benefits of energy efficiency on the collateral benefits of productivity, safety, reliability and sustainability. And we've defined 15 years ago our mission as the following: to provide energy and automation digital solutions for efficiency and sustainability. This is what we have been doing for the past 15 years.

So I'd like to come back on the journey, because it's been a journey, which has been incremental, rewarding and sometimes painful. And I thank you for having accompanied the journey. But I see three phases in that journey. The first one was build. Second one was integrate. And the third one, where we are in, is about scaling.

So if you go into the detail of that, build was 10 years going from 2003 to 2013. And if you remember, we are very acquisitive at the time with the purpose to build two things: a world leading power distribution capability, medium voltage, low voltage, secured power, world leading in all categories, coupled with a digital clear solutions for each of the four markets we're addressing. That was 10 years of intense building.

Then we actually decided to be very, very selective on any kind of new acquisition that we do and actually 2018 was the time where a few of our projects landed together. And they are good example of what we want to do, software, AVEVA, IGE-XAO. We have the pleasure to have Craig with us, Craig Hayman, the CEO of AVEVA. And very, very targeted on value accretive bolt-ons to what we do in the company. So the example of ASCO or Larsen & Toubro. Phase one.

Phase two, integrate. We want to simplify the life of our customers. And our customers are facing a huge complexity in their installations and they need to integrate that whole equation of efficiency. So that phase of integration started with the launch of EcoStruxure v1 in 2008. That's been more than 10 years ago and there is no better example of what we do in integration. Connected end points, connected products going into edge control, going into a setup of digital services, analytics on software, which are serving our four markets: building, IT, industry, infrastructure based on six domains on all of these completely integrated and completely consistent. I shouldn't forget here massive effort done on cybersecurity. What is important if you want to be cyber secured, if you have a clear platform, therefore there you can build the monitoring on the defense. So those were the years of integration. They're again, sometimes painful because those were a lot of costs that we're to assume on the top of improving or bettering our results.

Phase 3, this is where we are today. And that Phase 3 is very simple. It's about focusing. When we did acquisition they were a part of those acquisitions which were less core. When we are trying new innovations, some didn't work. So what we've done in the past three years is to divest €1.5 billion of revenue to focus on truing the portfolio.

We have announced that we're upping the review to €1.5 billion to €2 billion more of revenue in our portfolio so that the focus part on with what we have built, focus on integrated, we are scaling out on growing, and you saw momentum building in 2017-2018 confirmed in Q1 2019. Those are the priorities that we have in front of us.

So what was the – somewhere the mission or the target of this journey; it was to serve a unique mission with our customers, which is the following. To do what we call the triple integration. And actually, I'm going to go from triple to quadruple. But let's make it very simple. First integration is energy and automation. I spoke already about it. I won't detail that more.

The second one is what I call the vertical integration, which we call the vertical integration. Going – total transparency from the endpoint up to the cloud, which is a journey we started as a company much ahead of any other company with transparent factory 1997 and EcoStruxure is just the evolution or the next evolution of this architecture. Making sure there is complete digital transparency on the same digital model to the service of the operator on the shop floor to the CxO in the control room. And actually, the notion of control room is reductive because at the time of the cloud you can get access to everything, on your tablet, on a remote point, on a [indiscernible] (00:12:02) point on the cloud.

Third integration which we have ambition and we are delivering now with AVEVA is what I call the horizontal integrations, the thread, the digital thread integration, a full digital journey from design to commissioning and from operation to maintenance so that there is no drop of your digital model all across the lifecycle of an installation. And the best example of course is what we've built with AVEVA last year by building a unique company completely dedicated to the digitization of manufacturing ongoing in an integrated manner from the design into the maintenance of operation.

Let me now speak probably of the fourth dimension of integration which is very often underestimated. When you look at companies today, very often, they are managed site-by-site. On the list of companies you see [ph] scoring

(00:13:04) in here, the forefront thinker companies, which have decided to escape or to get outside this old notion of site-by-site management and have decided to integrate thanks to digitization their whole company on a full scale. When you connect the connected sites together, you get a lot of advantages like sharing the data of your whole company in real time, being able to negotiate with your suppliers, energy waste on a complete global scale, sharing better your competency, putting your sharpest on rarest competencies in one place through service of all the sites, benchmarking your sites to make sure that all the sites get to the same competency articulating the flows of goods between your sites in real-time. You start really to get to the next level of efficiency. So, triple to quadruple integration that we are doing with EcoStruxure on with our set of software.

Now, this is a strategy of integration, integration of efficiency, integration of complexity for our customers. And to do that, we have built the whole company on four strategic pillars. Four strategic distinctive features which support this mission of delivering integrated solution.

The first one is that we are the integrated company. On this I detailed it's in all aspects of what we do. We are integrated in sales to start with. And when I look at the sales we do, we are using the same distribution network which is more than 50% of our sales for energy and automation. Integrators and machine builders are putting together bundles of technologies to equip their machines, equip their equipment, automation and energy together. And when you go to end users, they buy roughly 50/50, half and half, half Automation and half Energy Management, which means we have integrated our commercial organization.

At Schneider, there is a country president who is in charge to deliver sales synergies, maximize growth, maximize sales, and who is in charge also of leverage costs all across our business and division costs and when we went to One Schneider because before it was all silos in a country, we gain three points of structural cost because there are a lot of duplication of cost underground when you've got separate entities.

So, integrated in sales. Integrated in supply chain, actually under the roof of Mourad Tamoud, who is here in the room, and will lead you this afternoon in Le Vaudreuil. We are a unique case in our industry where the whole supply chain is under one person. And why did we do that? Because there is no point to be a large company if you can't flex the muscle of the scale. So, it's good for cost, it's good for purchasing, we do more than €12 billion of purchasing with suppliers and we've been developing since we globalized the supply chain a much more strategic and efficient relationship with a bit more than 1,000 suppliers. It allows you to have more resources, shared resources to the service of quality on digitization of factories.

I'll tell you the most important and it's true in our sales organization too, one sales organization in the country, one supply chain in the region makes the jobs you have to propose to people who join the company is much bigger than the jobs that competitors would be able to propose. Therefore, it's very attractive for the best balance in the industry.

The third point is one digital, because when customers come to us, again, thinking about the complexity, they want to benefit from the integration, the plug and play integration we've realized. So it's about one EcoStruxure, one cloud, one exchange that I'm going to talk about later which is putting on the digital platform the exchanges of our ecosystem on one IT. That drives to higher corporate costs in what we declare because we decided to put it at the corporate center because it's more simple and it's a better reflection of reality, but it makes it much more efficient.

Finally, one marketing. I'm going to scour through that quite fast, but One World Innovation Tour 30,000 customers last year, 15 cities, one unified brand portfolio, more than 70% of our sales under the Schneider brand name. One PRM and CRM. And more important, for the customer experience, one website and one call center

because our customers don't want to talk to several Schneider. When we started this journey 15 years ago, we started – I started with one thing, pulling a lot of people in the market, a lot of customers. By far, their biggest ask was to say we want One Schneider because you guys are too complicated, and we need a simple interface for us, a simple architecture for us. This is what was built by integrating those.

And by the way, it has also streamlined the organization because at least things are very clear. Our countries are in charge of the P&L, our businesses are in charge of innovation, and innovation is accelerating as we speak. So it needs our full focus. Our supply chain is in charge of quality, of course, delivery on cost. And our functions are global, and they are in charge of cutting the cost and ensuring the circulation of resources around the company. But very defined and very clear roles for each of us, and all of this being supported by a management system, the Schneider Electric Performance System that we have presented to you by small purchase at times, especially in supply chain. But we have the same system that we deploy in the company in all major trades of the company.

One company program and we keep you informed every three years or every five years according to the frequency of those programs of what's happening there. One management cadence whereby while we are global and connected, we have regular meetings with different circle of management in a very military-organized cadence. And then leadership which is organized globally under one roof so that we all speak the same language, and are all aligned on the way we train and skill our people.

So principle number one of our strategy, integrated organization to serve a strategy of delivering integrated solution. Second one which is really important is multi-local. I've never believed personally in full globalization maybe because I worked in different countries in the past or maybe because it's easier in our business because standards are not even the same between the U.S., between Europe, between China. The products we sell are not the same. The business models are different.

And I believe in speed maybe because I live in a very speedy part of the world. But at the end of the day, you beat your competition. You serve better your customers on speed. And we believe that we major articulation of speed is at the level of the local. So we want to be the most local of other companies on the ground.

And it has worked for us because when you look at where we are in 2003, 80% of our business was transatlantic. While 15 years after, 45% of our business is done in emerging countries or in the rest of the world especially Asia-Pac which has grown very fast and has taken the pole position in terms of business size, but this rebalancing has been very efficient. Maybe one distinctive point also and that goes, if you want to be local, you have to empower localized people.

And what is striking today is that the balance of people – sorry I went too fast on that one. The balance of people that we have around the world is exactly in sync with the business we do. And it's a fair proxy of what we do in R&D on what we do in supply chain, on the way we have organized our suppliers. So if you looked at the way we work, what we call our multi-hub organization is following the capacity to go fast in the major hubs of the world, North America, EMEA, and Asia inclusive of R&D, of supply chain, of suppliers, of the old commercial network. Well, things which are loosely connected for speed, but tightly aligned by our business on functions.

And this is served by a model of leadership which is quite original whereby not everybody is in the same center, but we spread out our resources around the world closer to the largest customers and closer to the largest centers of talent so that we can develop people in global mission from wherever in the world. And served by a board now that I would argue is one of the most diverse and the most international in our industry. So multi-local as the second base.

Third point on sort of key elements of our strategy is our focus on sustainability. That has been extremely important for Schneider. We started I think earlier than many other companies. And the first thing it has fixed is our mission. While if I look where we were 20 years ago, our mission was to deliver electrons or to deliver energy to our customers.

We focus helping people or empower all in the world to do more while using less of the resources, ensuring that Life Is On everywhere for everyone, and at every moment. And when we say that Life Is On, we provide energy which is the passport to all to a decent life and we provide digital, which is the passport to all for inclusion, economic inclusion on progress. That's what we do at Schneider.

But for us, sustainability is not only a mission, it's also the way to drive the company and lead the company. And you remember, every three years, we come with a new step-up in our sustainability impact defining areas for progress, measuring the progress. That's part of our performance. That's fixing a part of the incentive. That's audited by auditors so that we make sure it's as important for the people of Schneider as a financial.

When we do that, while we also get recognition which we are very proud of, it's good for the attractiveness of the company. Also, it's good for the retention. Good for the pride of the customer to work for us. And frankly, I've been working 10 years on that, I'm feeling very lone about it because I didn't get many questions on that. And customers, they don't seem to be interested, investors mildly interested at times. This is has turned. This has really changed. You'll see that at the top of the agenda everywhere. With people, when they want to join you, they ask you very precise question about that. With customers, because they want to progress in sustainability, we are part of their supply chain, so they need sustainable company. And of course, in the dialogue we have with you. Recent turning point but good turning point.

And we are also very attentive with the people that we embark onboard of Schneider because we believe that great people make a great company. And we want the people who onboard Schneider to be motivated by working for the company with the most meaningful mission in our industry and working in the most inclusive and empowered environment which our multi-hub organization is allowing and enabling.

So I like to come to the fourth distinctive pillar of our strategy, it's our openness. In our industry, it starts with the way we do business. We are the company that does the most business with partners. Hundreds of thousands of integrators, system developers, software developers, that's the first one. And this is being put on steroids and accelerated by the launch of Exchange that we launched in Hannover this year where we have already 45,000 customers exchanging tips, working in communities, 200 apps already on Exchange and being traded between our ecosystem.

It goes also in the direction of innovation. We've been 20 years with a venture capital fund that we've just rebooted and reinforced, but it goes also in other parts like the partnership we signed with Carlyle where we arrived in the U.S. to revamp the U.S. infrastructure, align the force in project from finance of Carlyle together to capacity of engineering in green infrastructure of Schneider.

On strategic technology partners, it's something that you know, we are very attentive not to develop what others have already developed, and we've kept building more alliances with other technology partners with whom we build and develop EcoStruxure.

So, when you look at the results of that strategy, while we've delivered performance, we've multiplied by 3 times our size in the past 15 years, we've multiplied by 4 times our EPS and our adjusted EBITDA, multiplied by 4 times on enterprise value. By the way, when I was looking at the growth, we've grown the number of people inside the

company at half the pace. When we are growing 100, number of people was growing by 50 if you take a cut around the year. So, gaining productivity and leveraging our scale as we are progressing.

We have delivered a consistent return for shareholders. Frankly, I think we've suffered at a point in time when we're learning painfully solutions. The good news that we have been delivering for several years now a progress in result on that side which show that we are on the top of this but it has been

a learning, and that learning has been complicated. We have a very simple strategy that we have told you that we are reporting on, which is more products. We develop solutions directly with the most advanced customer. We productize it and we scale it through our network of partners. More services, and we're going to speak about that today. More digital, we're going to speak a lot about that today, and better systems, which is that we have been focusing our system capability where we are truly able to create value.

At the same time, we've been attentive to make our company more resilient. I mean, we went through a crisis of 2008 and keep some vivid memories of that time, and we've worked in many aspects in making sure that we will be more resilient in case there would be a downturn. Making sure that the business is more diversified geographically, and I already spoke about that. Making sure that the people footprint would be more close to the business on more flexible countries.

On West Europe, which used to be 58% of our head count in 2003 is today only is 27% of our head count, making the business less cyclical, less early cycle, only 40% of our portfolio today, growing recurrent business around services and software, up to 16% of our business, and making sure that our cost base is as externalized as possible.

We've taken new commitments in February. We are committed to grow our adjusted EBITDA margin to 200 bps. So, that's our new objective, and keeping the growth across the cycle of 3 points to 6 points. And we do that with three priorities, portfolio optimization, growth in high-margin business, best example being software, and internal productivity that we have always delivered even when we were in a relatively slow growth times.

So, to sum up and to conclude. I just want to leave you with those four elements of distinction and those four pillars of our strategy being integrated to sell the strategy of integrated solution by product or integrated directly to a customer, mostly by product today. Multi-hub sustainability as a core objective, open and with a clear mission to empower all, to do more with less, and making sure that Life Is On everywhere for everybody at every moment.

This being said, it's been a long speech, and as my marketing team would say it's been far too long. So, we tried a summary of that long speech into a video that I would like to share with you this morning. Thank you.

[Video Presentation] (00:30:34-00:32:02)

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## Emmanuel Babeau

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

Good morning everybody. Thank you very much for being with us today. Great to have you and I hope you are going to have fantastic day this morning and then later this afternoon at Le Vaudreuil. Great introduction from Jean-Pascal on our strategy where we stand and the great positioning that we have taken. And obviously now, it's time to talk about finance. And what I really want to do with you in the next 20 minutes is to share about our ambition to deliver a very strong performance, financial performance that's sustainable and which has been quite consistent in the past years.

But before doing that and I may surprise with the start of my presentation, I want to start something which is not precisely what you would call a strong financial performance KPI. Although I believe that it's going to be absolutely instrumental in our future success. And I want to speak of course about our principle of responsibly. Those are the principles that are going to guide our action in the coming years, setting the very high ethical standard that we want to follow, defining the impeccable way we want to deal with the CSR matters.

And of course, they are not new at Schneider Electric. We actually started almost 20 years ago in 2002. But of course, we keep improving them, putting more granularity, be more comprehensive in the fields they are covering. And we are now reorganizing them around five pillars which are going to be extremely exhaustive in the way they are covering all aspects of the company. The first one, human rights people development. Of course it's about respect of the people, it's about inclusiveness. Jean-Pascal mentioned that. It's about diversity and it's about accident safety.

The second one, ethical business conduct. We want of course to have a very fierce fight against corruption. We want to make sure that we fully respect all the rules in terms of trade. We want to make sure that we are in a fair competition everywhere. And of course, we want to protect our assets.

Third one, probably one which has been growing, the digitally trusted and secure partner that we want to be for our customer. Very clearly here, it's about bringing a best-in-class cybersecurity solution for our customer and making sure as well that we take care of privacy of the data and we are fully compliant with regulation.

Fourth one, acting for the environment. Jean-Pascal of course already alluded to that. We want to make sure that we limit the impact of our business on the planet. We go for full recycling. We limit the carbon emission. And we go for a sustainable world.

Fifth, a responsible corporate citizenship. We want of course to go for responsible lobbying. But here we're really talking about all the impact that we can have among community we're dealing with and make sure that we have a positive impact including for the less favored community. Our customer, our partner, our people, our shareholders are asking us to be very strict in implementing those principles of responsibility. And as I said, we are absolutely convinced that they're going to be key for our future success.

All right. Now let's move to a more traditional way of looking at financial performance. We have one strong conviction, sustainable financial performance will come from a combo. A combo between dynamic top line growth and margin expansion. And let's start with top line growth of course here. When you look at the past, we've been doing quite well, quite consistently better than our peers. We've been seeing in the previous presentation that we are indeed riding two of the most powerful and positive megatrend of the century. So we are fundamentally on the positive market.

But on top of that, we have selected the battle we want to fight and we think we're going to win them. We are clearly positioned with a lot of competitive advantage in term of capacity to innovate, in term of breadth and depth of the portfolio, in term of geographical coverage. For all those reasons, we believe that we are able to deliver a superior growth versus the market. And as you can see, we've done that on a systematic basis in the past.

Now, when we look at the future road map is very clear. We want more product, and of course more connected product. We want more services. We want of course more digital services. We want more software, and I would say globally, we want a more digital experience for our customer that go through the growth of what we call layer 2 and layer 3 of our EcoStruxure architecture. They represent today 15% of our sales and we want them to grow significantly faster than the average of the company.

We're not against selling system, don't get us wrong. We are very pleased with selling system. We just want to sell system with a good margin. And we've been doing quite good inroad in that respect, last four years improving by 400 basis points of margin on system. We just want to continue in that direction.

Strong top line growth, GDP+ company, beating the market and our competition on average. And this is going to come with an improvement – regular improvement on the margin. We are 100% convinced that the more we're going to go for innovation technology and digital content in our offering, differentiation, the more we're going to be able to gradually increase the margin in the future, and we are just one step in the journey, and we have many, many positive steps ahead of us in that direction. And that starts with the gross margin. The added value that you deliver to your customer is visible at the level of the gross margin.

And look at the journey that we have had in the last three years, growing the gross margin by 200 basis points not only in an organic manner but largely in an organic manner. And our ambition is, of course, to continue, and we have clear road map to do that. First of all, the priority, I described that we want to go for more product, more software, more system. They're going to come with higher gross margin and therefore a positive mix. We're going to increase the price and make sure that we bring more value to the customer, and this is reflected in the pricing policy that we can implement. We're going to go for more connectivity, and we're going to also work on better system margin.

We also are enabling us allowing us to go for inorganic improvement of the gross margin. I'm going to talk later about what we intend to, I would say, pruning the portfolio, quite obviously, there will be largely businesses with the lower gross margins, so that would contribute as well to the overall performance. Rapidly just digging on two of the drivers for the gross margin on price, I would say the logic on price is the one I've been describing.

If you come with the innovation, if you come with strong technology and digital content, the differentiation which is absolutely key, then the customer will recognize the value you are bringing to his business, and you will be able to price for it. So this is a strategy that we intend to continue in the coming years.

If you look at the past, we've been quite nicely beating the raw material inflation which is just I would say a mark or a reference, we want to make sure that we are above that over the last 10 years and if you look more recently 2017, 2018, well, remember 2017 there was a burst in the raw material inflation and despite that, we very quickly managed to start moving up on making sure that we were increasing price and we intend to continue in the coming quarters.

Second element, very strong productivity. We have I think a fantastic track record in that respect. And once again for the 2019-2021 period, it is our intention to deliver a very strong productivity around €1.1 billion of productivity. You know what are the driver of productivity, it starts with excellence in procurement of course, first thing. Second is re-engineering of product. Third, improving the logistic. Fourth of course, using our full manufacturing footprint to keep optimizing our cost, and fourth element to have productivity on what we call manufacturing best cost.

Below the gross margin, you're going to find the support function cost. And here again, we believe that we are a truly global integrated company and we have the capacity in the future as we did by the way in the past years to keep growing sales at a faster pace than our SFCs. Look at the last years, in 2015, we did that pretty nicely, 130 basis points difference between top line growth and SFC growth. The road map is clear. The [indiscernible] (00:41:44) is clear. We want to continue to do that in the coming years, and as I said, we believe that we have already the platform, we have the model, and we have the critical mass to do that successfully.

So a clear path toward this 200 basis point improvement and toward the 17%, and we want already to be very clear, this is not the end of the journey. This is a milestone. It's an important one. We'll need to work very diligently to deliver it, but it's only one step, and our ambition is to go beyond that in the future.

You've understood that the driver to deliver the 200 basis points are well-defined. It's about the right priority for the top line. It's about price, productivity, it's about simplification and efficiency on our support function cost. And as I said, we are also looking at our portfolio, and we're going to put this €1.5 billion to €2 billion under review with certainly some help on the margin. But that should come only at a marginal point a part of the 200 basis points.

So one could say, well that looks very ambitious, this 200 basis points of margin improvement, and actually have said that. Well actually, that's what we delivered in the last years. So if you look at the last few years, we've actually delivered a bit more than 200 basis points organic improvement. And together with nice top line growth that has enabled us to deliver this very nice growth of our adjusted EBITA and organic growth of 8% over the last three years.

Nice growth in our profit, nice cash flow generation as well. As you can see we've been, over the last years, above the 100% target that we have, and that we'll continue to keep in the future of conversion of our net profit into free cash flow generation. And that has been done despite the growth. That growth is generating working capital need, and we've been absorbing that and generate this strong cash flow and our ambition is to continue to be a very strong cash flow generative company.

Strong cash flow generation and that has been enabling us despite some targeted acquisition, despite strong cash return to shareholder to stay with a very solid balance sheet. We will want to keep some leverage in the balance sheet, but we also clearly retain the ambition to have a strong rating on the long term.

Strong growth for the top line. Margin expansion, good cash flow generation. That is explaining why we didn't manage to put our retirement capital inflows on a good trajectory look at the last three years. And even in 2018, when we've been closing the AVEVA deal with some capital deployed, we did manage organically to improve by 40 bps. So, before Forex, the return on capital employed, which is quite an achievement when you invest to keep improving the ROCE and just show the efficiency of the model that we have here.

We wanted to show as well, because I think it's very important element, what we call the return on operating assets. And you see that we have been crossing the 40% mark when it comes to return on operating asset. What does this tell you about, it's simple, it's a return on assets or the return on capital employed less the goodwill. So, that gives you a vision of how profitable is the growth when it is an organic growth.

So, now that we have put together what we think is a very powerful portfolio set for a very nice ride in terms of organic growth, you can see that any growth is going to have a fantastic return. And of course, that bodes very well for our performance in the coming years.

Strong financial performance in terms of growth, in terms of extending the margin, in terms of cash flow generation, and also very disciplined capital deployment. We've been doing targeted deal and both in size and really on our priority, digital. I mean, AVEVA is a fantastic success. Great to have you, Craig, with us today.

Since the announcement of the deal, the AVEVA share price has been growing by more than 200%. And today, as you know, AVEVA has been joining the FTSE 100 Index I think illustrating the success. IGE+XAO is a great success. It's slightly smaller size but it's a great success as well.

And ASCO and the Larsen & Toubro deal are just highlighting our ambition to keep building our leadership in Energy Management and on the low voltage [indiscernible] (00:46:36) more precisely. As you know, we've been quite active as well on pruning the portfolio. We have today of course a lot of work going on. I will elaborate on that in a second.

But look at the past. I mean, we've been selling for a cash amount of €2.3 billion of noncore business in the past. So, we've been quite active already on managing our portfolio and making sure that we are becoming a more focused company.

All that has made possible a great cash return for the shareholder. 80% of the cash generated over the last four years has been returned to our shareholder, whether through buyback. And you've seen that we've been accelerating a €1 billion buyback which was supposed to end in 2019. We concluded it in 2018. So with some kind of anticipation and we've been immediately launching a new €1.5 billion to €2 billion buyback program that will conclude in 2021. And the dividend has been growing very nicely with a 5% CAGR. Nice growth over this five year period.

On portfolio optimization, €1.5 billion to €2 billion, you know the number now. We've been announcing Pelco. I can tell you, we are working on many, many files. We believe we're going to take the three years to go for the full program but nevertheless we do expect to be able to come with more and move in 2019. So, bear with us but in the coming months we think we're going to come with more announcements on this €1.5 billion to €2 billion business which is under review.

Now, so the road map is clear for the 200 basis points and we know what are the priority for the next three years. At the same time as I said, it is just a step in the journey, not the end of the journey. And we believe that we need to prepare already today. What's going to be the next growth generation or are we going to generate the next growth wave if you want. And of course that's going to take some time. But the idea is certainly beyond 2021 and beyond the 200 basis points on which we have already set the plan, to prepare more top line growth and more margin expansion. And to do that we need to invest on the core driver of our performance on the long-term, innovation, of course R&D. It's of course about digital, where we need to keep investing up even if we've been quite active already in the past.

Working on the sales force, we need new size, new priority, new skills as well and we need to work on that. And, of course, we need to keep increasing our impact among our customer, we need to keep building the brand and that's the marketing and communication effort.

No surprise, of course, we want to do that, but having no impact on the short term on the bottom line. Impact on the long term will be positive, but to have no impact on the short term, it has to be redeployment from what we would call a non-productive cost, back office, middle office, global function toward this priority.

And we target the size of redeployment that could be up to 10% of our current support function cost that give you an magnitude and the way we're going to do it is by increased productivity on our support function cost.

Is going to have a moderate impact on our restructuring cost. We were guiding for a bracket of €150 million to €200 million where we think that integrating that move, we could be in the next four years between €200 million and €250 million. And last, but probably not least, it give us also some capacity to use this saving and the efficiency, the simplification gain in case of a downturn, so that is giving us here some leeway.

Conclusion, we are today a high-quality company. I think that we can say that we are clearly focused, simpler and with all the strength of a pure player, we've been delivering a very consistent and strong financial performance in the past year. We are well positioned today and with clear path and clear plan to deliver in the coming years continued success and strong financial performance, clear objective already for 2019, [ph] 2020 (00:51:12), 2021, and we are already preparing [ph] for growth (00:51:16) beyond 2021 and future success beyond 2021. That, together with strong discipline on capital deployment, will ensure a strong return for our shareholders. And, of course, we are confirming our guidance for 2019 and our mid-term objective.

Thank you very much. I'm going now to hand over to Peter. Thank you.

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## Peter Herweck

*Executive Vice President-Industrial Automation, Schneider Electric SE*

Well, good morning also from my side. It's a pleasure to be here and talk about how we digitize industries. Of course, digitization is at the heart of the Industrial Automation. And if I could have the first slide, it would be fantastic. I've something to say, but I also have some slides. The digital transformation, as I say, is at the heart of what's going on. And you can read about this very much also in the social media, invite all of you to come and – in the discussion rooms and so forth, what's going on. It's heavily discussed out there. It's one of the largest transformations.

I've been in the business for 28 years in Automation, and it's probably the most exciting years in the last three years that I've seen in this industry. Now, the Industrial Automation business is the same as the group, is a very geographically, nicely distributed business. Meanwhile, our strongest foothold is in Asia-Pacific. But of course, also in Europe, there is a strong industrial base and with it, that's our second largest market, but also strong in North America and in the rest of the world.

Now, what is very important and unique about us is the distribution of our portfolio in early, mid, and late cycle, or if you wish, the discrete business and more of the hybrid and the process business. So, roughly 50/50, the split in 2018. That's pretty good. And you'll see later on as we're moving more towards a software company with our Industrial Automation portfolio, also the R&D spend as a percent of our revenue is growing, with 8%, I think we have a healthy spend at the moment that helps us to have our portfolio at the top of what's out there, delivering number one positions of some of our portfolio.

For example, in safety, we are very well-known for safety in our HMI offering, in control & signaling, of course, motor protection & control that are relevant throughout all markets. Now with €6.2 billion, you may say in the market, we're a little bit small, but you will see how laser-focused we are. And it's important to be laser-focused in this market, because that allows you for superior margins, and currently, at an adjusted EBITDA margin of 18% in our business.

Now, to build a little bit on what Jean-Pascal has said. How have we grown this business? I think it's important to understand, if we start off in 2013, where the Automation business was roughly €4.3 billion in sales, the main focus at that time was really on the discrete and the hybrid space with a very strong offering also in motion control, where we're very much focused on certain applications where we are able to be the world market leader. And I'll show you some of those applications later, also resulting in a comprehensive PLC family that we use throughout those different end markets and then, a comprehensive family of drives.

Now, with the acquisition of Invensys in 2014, we were able to supplement our portfolio into the process markets and become even stronger in the hybrid markets, hybrid meaning food and beverage, pharma biotech, water, waste water, metals, mining, mineral, where we already had a strong foothold. But then, we also moved into the

continuous process industries, being chemical, refining or the [ph] hold (00:55:28) streams of oil and gas in downstream, midstream and also upstream and, of course, also in power generation, where we already had a good foothold on the energy management side. And that's very relevant as we will see as we go into a little bit more detail here.

Now, with the Invensys acquisition and the couple other acquisitions that we have done, we also started to have a pretty significant software portfolio, extremely strong in the area of monitoring and control, in planning and operations and also asset performance management, a couple of packages that came together, and we said, why don't we build a complete software company that can have an end-to-end portfolio from the design to the building of the plant to the operation and maintenance?

And that's what we did with the reverse takeover of AVEVA, which we closed last year in March. And we added kind of the engineering design suite software to it and created a unique listed software company, and we're going to be talking about this in a minute, because in the past, you've had quite a few questions on that.

So, that allowed us to really be, what I say, a full liner in Automation, very dedicated, but the full liner throughout all segments and it is very relevant, because it allows us to live through the cyclicity of that market. It also allowed us to move more from a couple of, we would say, electromechanical products that we had into software.

If you look at our PLC offerings, if you look at our motion offering, if you look at our process control offering, that's all extremely heavy software already with 75%, as I mentioned the last time, 75% of our R&D investment going in software, just nicely packaged with a little bit of hardware. And then, of course, our software offering in total, that's 100% R&D in software. That allowed us a very nice growth of 7.6% over a period of five years, as you can see here, and we are moving up the value chain. You will see later on also that even in our, I would say, most electromechanical products that we have, we are now moving in the direction of integrating software in it, and it will disrupt parts of the markets where we and some of our competitors are active.

Now, talking a little bit about software, of course, who better can explain than Craig Hayman, CEO of AVEVA?  
So, Craig, it's good to be – have you here.

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## Craig Hayman

*Chief Executive Officer & Director, AVEVA Group Plc*

Thank you, Peter.

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## Peter Herweck

*Executive Vice President-Industrial Automation, Schneider Electric SE*

So usually, we do this in front of customers together. So, this is the premier one in front of the investor community, but I'm looking forward. Craig, you want to talk a little bit about the journey over the last 18 months?

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## Craig Hayman

*Chief Executive Officer & Director, AVEVA Group Plc*

Sure. Yeah. It's been 18 months, as Peter said, since Peter first called me with that twinkle in his eyes saying hey, we have this idea for AVEVA, a company that's listed on the London Stock Exchange, has 60% ownership by Schneider Electric, and so this combination. And as we spent time working together with investors and with customers around the world, it's actually been quite amazing. We've moved very, very rapidly.

The company, AVEVA, is listed on the London Stock Exchange. It is three times larger than it was just two short years ago. It is twice the size in terms of market cap than it was 12 months ago. We're moving unbelievably quickly. We have about 150 scrum teams around the world focused on software development. There are about 8 to 12 people, and every 90 days, we reprioritize their work around what we learn out with our customers around the world. It's an amazing model.

That's generated some good results. In the last trailing 12 months, we generated our – so revenue grew by 12%. Our adjusted EBIT margins grew by almost 24% and what we call as recurring software, recurring software is software that's available through a subscription or a rental model. The customer renews it each year. And what's great about that type of – that model is it creates a lot of free cash flow in the out-years.

So, as a percent of our overall business, that recurring software is 54%. So, now, we have these metrics aligned. We have our engineering team aligned. And now, we're off driving this digital transformation across the asset and operations lifecycle of our customers across the industries that Peter just mentioned. And I would have to say it's quite rewarding to go talk to some customers and very rapidly be able to show them how we can transform them very quickly.

We also recently committed a medium-term road map purely for the AVEVA business to grow our top line revenue at or above the market growth rate, grow our adjusted EBIT margins to 30%, and grow that recurring revenue line as a percent of our overall business to 60%. The future ahead is quite bright.

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## Peter Herweck

*Executive Vice President-Industrial Automation, Schneider Electric SE*

So, people ask us, why is it important to own the software and not just be in alliances? And I go back to the three transformations or three plus one, so the quadruple. So the – because it's also – it explains the journey of the company, it also explains very well the journey of our customers that many times come to us and ask us how can I reduce my carbon footprint, how can I reduce my energy cost, and can you get and help us to do that. And with that, of course, we need the full integration of Energy and Automation.

Now, in order to do that, one needs to have all the data and bring up all the data that's available in their operations. And as I go from a sensor or actuator from the ground floor, from the power distribution, from a sensor that takes a temperature to more sophisticated piece of equipment or a drive that's there, we bring up data to – and I say cloud, this may be in the cloud, this may be in a private cloud or it may be in a hybrid solution. And that's unique for every customer.

Now, if you have this data, of course, you want to use all the engineering models that were built, all the design that was done of the plant to bring this data together with this end-to-end software and we'll demonstrate this to you in a second because that allows you to holistically improve the performance and reduce the cost of the plant.

Basically, there are three elements of improvement. It's about safety, it's about the efficiency, and it's also about the cost of the raw material that we're bringing into those factories. And that's why it's important to own the software and have a joint development road map to make sure that the data that comes up and the control systems and the software is aligned to each other. And that's what we're working on as one major work stream together.

Now, if we have this discussion with our customers, and if they go from the ground floor to the control room and further into multi-location setups, they say what about cybersecurity? And there's been a constant discussion as every – the second discussion we have with the customer. And there are three elements to it. There is the

element that we protect our company and the assets that we have from our customers. That's taken care of by our chief digital officer.

Secondly, we need to develop products that are absolutely cyber secure and that's done by our development departments and there is, of course, the product security officer that takes care. But then we thought, well, why don't we do a business out of that and we go out and we help our customers to make their facilities more cyber secure. And I'm going to be talking about that because it's a quite exciting business that we have.

Now since we are at Schneider, I got to talk about EcoStruxure obviously, because it's our architecture and people ask us how does AVEVA fit into the EcoStruxure stack? And, of course, with what I said earlier, having aligned road maps and so forth, it is very clear that our people can go out and also sell the software. If I say our people, I'm not talking necessarily about the AVEVA people, which I also think are our people, but also our Schneider people.

And people say how is that working and I think we have a pretty mature – developed a pretty mature go-to-market model that has been, of course, originated in the heritage Schneider Electric software. And we've brought it to AVEVA and have refined it. So, maybe we start off how the model works in AVEVA and then a complement to Schneider and you see how this works together in the field.

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## Craig Hayman

*Chief Executive Officer & Director, AVEVA Group Plc*

Yeah, so just all the way back to where we started. We have this commercial alignment on how the company is set up structurally. And we have the technical alignment around EcoStruxure being powered by AVEVA software. And now, we have the go-to-market alignment. And so, let's just start with the channel for example.

About 30% of AVEVA's business comes through the channel. About 10% of our total business is in concert together with Schneider Electric, where our channel partners are working together around the Schneider footprint and the AVEVA footprint on this digital transformation.

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## Peter Herweck

*Executive Vice President-Industrial Automation, Schneider Electric SE*

Right. So if you – what's the channel? I mean, channel are people like Industrial Automation distributors or system integrators. By accident, we have yesterday and today our 400 largest system integrators and Industrial Automation distributors and also technology partners here in Paris. They come to us to discuss how we can move business forward together. And so, yesterday, Craig and I, we were there jointly together, 400 partners there. More than 200 of those are already selling software and automation today. So those are our partners and bringing those networks together has really helped on this level, right.

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## Craig Hayman

*Chief Executive Officer & Director, AVEVA Group Plc*

Right. And then, we have – if you think we are engaging with these customers and we learn from them about these great best practices to unlock productivity, drive productivity improvements. And so, we put this into a specialty sales team. One of those, for example, is asset performance management. These will be our regional specialty sales teams. And they work together with the Schneider team to go off and illustrate the transformational value of some of these solutions.

## Peter Herweck

*Executive Vice President-Industrial Automation, Schneider Electric SE*

So sometimes you would see us together at customers or Jean-Pascal and Craig or others and those are the top customers that we are really worried about. It's a couple of handful of customers, 60-plus strategic accounts that we're driving this forward together, because on their agenda at the CEO level is the digital transformation. And they want to talk to one company in order to make this happen.

So, to come from the theory maybe to an example, let's talk about the North American international oil and gas company. Not everybody wants to be named. I leave this to your fantasy who it is. There are not so many out there. And I want to guide you through the journey that we have gone with this customer so that you understand how we are functioning also and if we're saying we are bringing the whole company together at one account.

Now, in 2013, and this is prior to Invensys, we really had a transactional, if you wish, relationship to this customer. So, if you wanted to find somebody at the customer who knew Schneider Electric, you would need to go deeply into the purchasing department and with that invisible to the top floor of the customer. Now, with the acquisition of Invensys, we became – and I need to read this because these are the words that our customer used – we became an industrial automation and software partner.

And with that, you start engaging in what is called main automation contracting. So, if they do a plant, you do the complete automation solution with them with – there's a safety system, process control system. It is the instrumentation sometimes. It is also the analytics that that goes with it. So you move into the control room at the customer.

Now, since we had that, we said, and we're strong in energy management. Obviously, why don't we bring this together to the customer and there is value, of course, for him. And then we became, in addition to that, the main electrical contractor. That means you bring in things like medium voltage, low voltage transformers, motion control centers that go with it.

And then, of course, since this year, we became the Strategic Relationship Management partner category, SRM as abbreviated in the company. And that allows us – now, if you look at the cycles 2010 to 2013, €15 million in average, and then 2014 to 2018, €50 million revenue in average per year. So you can see how we've grown this customer by an integrated approach with our complete offering.

Now, of course, that looks a little bit theoretical still. That's why we've brought a little bit of a demonstration that I'm trying to guide you through with Craig in two or three minutes.

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## Craig Hayman

*Chief Executive Officer & Director, AVEVA Group Plc*

Sure.

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## Peter Herweck

*Executive Vice President-Industrial Automation, Schneider Electric SE*

[indiscernible] (01:08:59) go over there.

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## Craig Hayman

*Chief Executive Officer & Director, AVEVA Group Plc*

So we're in a process industry here. And when this area of a deethanizer, which is a step where you take ethane and propane out of a natural gas. So that's the scenario we're looking at over here.

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## Peter Herweck

*Executive Vice President-Industrial Automation, Schneider Electric SE*

So, I'm here. You see me on the on the screen. I hope in a second, yeah, so you can look straight forward. I'm really in the machine room of the plant. The machine room is where the power distribution is. So, you need to imagine hundreds of cabinets of this size, where you have power distribution, medium voltage, low voltage. And then what you see here is a motor control center. The motor control center is connected usually to a motor, of course, not of the size that we have here, but these are pretty large pieces of equipment.

Sometimes they go into the range of megawatts. So, they can fill half a room here and they operate pumps, they operate fans, they are close to a compressor and so forth. And they are of course connected to the DCS system that you see up here that may be in the same or maybe in an adjacent room.

Now, what's totally relevant and what people haven't believed in the past that we can go all the way from the electrical equipment and the motors into the DCS system and the DCS system you would see in the control room here. And that's where the people operate the plant.

Now, in case we would have an error on one of those motors, then usually this is where the panic breaks out and people want to make sure that they keep the plant under control and this has been extremely simplified with the integration of we're coming from power through the DCS system or the process control system now to the software. Because if they look at the error here, they can see the error is at a pump, and then one could immediately look at the 3D model of the plant and that's where AVEVA comes in.

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## Craig Hayman

*Chief Executive Officer & Director, AVEVA Group Plc*

Yeah. And so, we're in a deethanizer, we're in a pump that's involved in the flow of the feedstock into and out of that deethanizer. And so, now, we want to go from this operational view. We know there's a problem with the pump. So, now, look at the – how that looks to the capital view. So, maybe if we can just look to the 3D display at the top – ahead of – just slightly to the right of Peter there. You'll see this 3D view, and that is the asset view. You're now looking at that same pump that you saw in a 2D schematic. You're now seeing it in context of the electrical control system, you're now seeing it in the 3D context. So, now you're able to switch from the design view to the operated view, which will be really important if now you needed to do something with that pump...

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## Peter Herweck

*Executive Vice President-Industrial Automation, Schneider Electric SE*

Right. And what you need what you need to imagine is that this is all happening context-sensitive. And that's the change to the path. And that's the clear advantage of being totally integrated. So, on the process control system, you go with your cursor to the pump, and then on the 3D model, automatically, you can see where that pump is located. Now, you see that here in such a plant, you would have a certain redundancy. That means if one pump failed, you have another pump there. So, before you go out and get this pump fixed you want to understand what's the performance of the second pump here, is that going to be potentially failing in the future? And that's where you would call in larger plant the so-called reliability center. And in the reliability center, we have quite a bit of AVEVA software running. For example here our Asset Performance Management suite of products. And Craig will explain what we can do with that.

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## Craig Hayman

*Chief Executive Officer & Director, AVEVA Group Plc*

So, this idea of Asset Performance Management, when you have downtime, it's okay as long as it was planned. You don't want it to be unplanned. That's very expensive. So, in this situation, we know that there's a pump, we know it has an issue and we're about to switch over to a second pump. And, of course, we want to look at the information around that second pump to be sure that it is going to be reliable. Well, it turns out we've been capturing all of the operational data of that pump over a long period of time. And based on that, we can predict when it would fail or not fail in the future using some artificial intelligence and some machine learning. And so, we're able to look at that before we actually activate the switchover to the backup.

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## Peter Herweck

*Executive Vice President-Industrial Automation, Schneider Electric SE*

Right. And then, with the same Asset Performance Management suite, you would actually send out the service engineer, he will get his work order. He will look at his mobile device. He will have all the data plus the 3D model, everything on his mobile device as he does the service on site. Now, what you also could do prior or after the service, you can calculate with our Profit Advisor automatically, what's the profit impact for the company or for the plant that you would have.

Now, I understand of course this is only a model. So, let's see how that could look like at the customer side.

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## Craig Hayman

*Chief Executive Officer & Director, AVEVA Group Plc*

Yeah. We've talked before about Abu Dhabi National Oil Company or ADNOC, and we've talked before about how in eight weeks we were able to deliver Schneider Electric and AVEVA software together...

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## Peter Herweck

*Executive Vice President-Industrial Automation, Schneider Electric SE*

Can we have the slide – it's perfect.

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## Craig Hayman

*Chief Executive Officer & Director, AVEVA Group Plc*

...together into what you see here, which is a 50-meter wall, visually breathtaking, 100,000 data points across over a dozen different operating companies rendered in real time into this digital view of – into Abu Dhabi National Oil Company. This was the foundation of our work together. So, they're very proud of it. We're very proud of it. This formed what ADNOC now call Oil & Gas 4.0 is part of their digital transformation.

Now, I want to come back to – now the customer says, well this is great. Now, how can I drive productivity improvement, and we've gone in with that account team, that coverage model we described earlier and we worked with them around two scenarios.

First, Asset Performance Management, we ....

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## Peter Herweck

*Executive Vice President-Industrial Automation, Schneider Electric SE*

Absolutely.

## Craig Hayman

*Chief Executive Officer & Director, AVEVA Group Plc*

We just we just talked about.

## Peter Herweck

*Executive Vice President-Industrial Automation, Schneider Electric SE*

Yes.

## Craig Hayman

*Chief Executive Officer & Director, AVEVA Group Plc*

So looking at a certain asset class, predicting when it's going to fail, before it fails, dramatic improvement in productivity. And secondly, is optimizing the feedstock. So, looking at the sulfur content of oil coming out of the ground, optimizing where that gets routed to the refinery capacity, to the storage facility, to the vessels at sea, to the spot market prices. Every optimization in this end-to-end point by ADNOC's words is over \$50 million of economic value generated. And we're just getting started with ADNOC.

## Peter Herweck

*Executive Vice President-Industrial Automation, Schneider Electric SE*

Right. It's up-sell, down-sell, cross-sell and all over the place here at the customers. But we don't want to leave the impression that this is only oil and gas. So let's move, so to say, from the most heavy process industry, all the way to discrete with a couple of examples.

## Craig Hayman

*Chief Executive Officer & Director, AVEVA Group Plc*

So, Black Rock Mining, operations in South Africa. They produce 3.7 million tons of manganese. Manganese is an important material. It's used for fertilizer, used for steel production. It's one of the three major materials in electric batteries for example. So what we did, we've work them – is over – less than 90 days, bring together all of that operational data, time in the context of a mining facility. And something very interesting happened there. Now the operational team have this data at their fingertips and they're better able to collaborate and work through areas such as improving reliability, improving asset utilization.

Very, very compelling and the customer is really excited about. This as part of their own digital transformation.

## Peter Herweck

*Executive Vice President-Industrial Automation, Schneider Electric SE*

Yeah, but why don't we listen to the customer as opposed to slide showing slides.

## Craig Hayman

*Chief Executive Officer & Director, AVEVA Group Plc*

Great.

## Peter Herweck

*Executive Vice President-Industrial Automation, Schneider Electric SE*

Thanks very much, Craig, for joining me. Can we have the video or do I need to press here something? Yeah, I guess so.

[Video Presentation] (01:17:01-01:18:16)

So you can hear them talking about the integrations that we're talking about in one room. So, that's what the customer tells us. And if we can help them, that's happening, not only in oil and gas and metals or mining here, but also if you go to a food and beverage customer that we have in North America and I guess in the background, they're producing a little bit of chocolate bars here.

We started off in 2013 and you see the different aspects of cross-selling that we have in these examples. We started off with an installed base of automation. And then, through again the acquisition of Invensys, we brought in the first software packages that allowed us to establish a larger footprint at the customer. And then also moved into Energy Management contracting.

And with that, as we are moving forward into a more recurring revenue with our customers in 2019, we've engaged into a five-year contract that allows us to retrieve recurring revenue with that customer. Over this period of time, five years, 18% growth, this is one of the largest food companies on the planet. So, again, triple integration at this customer here.

Now, if we were to go one step further and we move into a discrete environment, and I steal a little bit of the show of Mourad this afternoon, and maybe for those who don't have a chance to join, but only on one slide, because our factories are discrete operations. And in 60 of our factories, we have heavily deployed our automation and software offering to make them what we call smart factories. And some of you may have seen this Wuhan, that's a fairly new facility. This afternoon, you would have the chance to see it in a facility that's 50 years old. And also, the average age of folks is of course different in China than it is in France. And I don't need to talk about the unionization. But all of that has not stopped us in driving that forward and deploying automation technology, our combined offering of automation and Energy Management to bring down the energy bill of that facility. But then, within a short period of time of implementation, three to four weeks, reduce – improved the overall equipment efficiency by 5% to 15%, pending on the machine that you will see this afternoon and we are deploying latest technology like augmented reality, for example, in those plants, artificial intelligence, all deployed there in 60 of our factories and growing together with AVEVA and Energy Management, a complete suite of products.

Now, let me go one level further down, I go into a machine automation. As I said earlier, in the machine automation, we are world leading. Why are we world leading, because we are focusing on certain specific segments as I will tell you in a minute. Now, this is a cabinet of a pumping station, for example, and we're pretty good at pumping stations. And of course, this has only Schneider equipment in it. I'm not showing competition here, but you could imagine that at many of our customers, there's also a variety of different equipment in there.

So, whatever I have marked here in red with our new technology is going away. We're just replacing it and integrating it into software in our new offer. So, we take out all the I/Os that come with the PLC. Now, you know our PLC market share. We're not targeting to take away our IOs. We will, but we take away the I/Os of others. That's a pretty nice business to integrate I/Os into our contactors, because our contactors now have software integrated, and we're eliminating, so to say, one step.

We're taking away 15% of the relays out of this cabinet. We eliminate auxiliary wiring. Of course, the wiring has no cost. It has cost to put it in actually significant if you – [ph] pending (01:22:27) where you are. And it reduces also the amount of failures. There's just one cable that goes from the PLC that this over here, this blue box, you

see one of those cables that is connected to the contactor. Now, that's the only connection we need. And then we drive the power in this application and the power is not going to go away, because it moves the physics. It moves the pieces of the machine. So, that's something that will stay. But the I/Os, our history and I told you the PLC, anyway 75%, 80% software content today. So, it's just a question of time, where, and how the software will run. Of course we also got rid of the network switches. We integrated those in our PLC and also protection relays.

Now, people have asked me whether that's bad news for Schneider if it's 20% cheaper for the customer. No, it's good news for us, because it's 20% cheaper for the customer and it increases our content by 33% given what the overall market shares are in the company. Of course, if I go from 100% Schneider solution to 100% Schneider solution, then it's 20% less for us. But that's probably a small fraction of the pieces, installations that we have out there. And as an additional proof point of moving from electromechanics to a software-based IIoT solution that we're moving up the [ph] latter (01:24:00).

Now, that you've seen this curve before for those that follow us for a longer period of time. That's very important for us in our machine business – in our motion business. The number of machines we are converting. Converting means somebody builds a new machine. They started off with our own equipment or they have built it with somebody else and we convert this machine to our equipment. And that's kind of an early indicator for us how growth may develop in the future. So, it's very important to follow. We believe we've been growing 3 times faster than the market, because we are very much focused.

We are focused on packaging. We're number one in the world in packaging. We are extremely good in material handling. Material handling extremely important these days. If you look at all the packages that are sent around the world, those need to be handled. So, large distribution center of package is automated with us. Then, hoisting cranes is one of our favorite solutions, where we're also extremely strong in the market. HVAC, we're number one in the market. So, we're picking segments, where we bring all capabilities together and then laser focused go after those customers to establish scale not do everything, but be very focused to it.

And then, you've asked me before, will you go in and sell those Advisors that Schneider has to offer? How much automation equipment are you pulling? Well, we can say with pretty good confidence these days that with €1 of software Advisor that we sell to the customer, we can pull €4 of automation equipment. So, there is a correlation to it and it helps us of course driving growth at some of those customers. And, of course, as we go in with the software, it's much more sticky and it's much more long-term and there's a much higher level relationship that we have with our customers. That's true for the OEM customers. That's true for the end-users. And that's, of course, also true for our partners. They have understood this very, very well.

Now, we've come all the way to the discrete example. And then let me come to our number four topic, which is cybersecurity as a business. And so, what are we doing in cybersecurity? We're not competing against the IBMs of the world. We are competing against people who understand the OT environment. The OT environment is what you see over there, when you are on the plant floor, when you're in the control room, where you have PLCs, where you have process control systems, all of which have IP addresses today and they're extremely difficult to understand.

So, we've a couple years ago, and that's how it really started, we had a customer where the IT cybersecurity team went in, changed the Windows version on the process control system and the plant was down. And the downtime, unplanned of a large plant costs €40 million if this is an oil and gas plant. So, it was burning. And they called us. So, we went in and helped them fairly quickly, because we understand the process control systems that are established at those plants, not only our stuff, but also the stuff from others and that's very important, because you face a very heterogeneous environment.

So, what we started then in 2015 is that we need to have a process where we can go to our customers, consult them about technology, consult them about processes and consult them about their people, because it's not only a technology problem. Cybersecurity is usually a process problem, it's a people problem that you have. So, you need to have a holistic approach to it to make the plant a safe one. And usually, you start off with the assessment. So, our people go into the plants, they look at the OT environment, they assess what is the situation and then they come up with a report and say, this is our gap analysis. This is what you need to do to make this plant a safe one. This assessment is paid, of course. This is not free of charge and we do this quite regular.

Now in 70% of the cases, after the assessment, we are also invited to do the design and the implementation to mitigate the gap, right. So, this is a one-time project that you would do. And then comes the beauty of trying to move this into a monitoring, where we use third-party monitoring software. We don't have a monitoring software on this one at the moment, and then try to maintain the cybersecurity at this level. And once you gain – once you get into those contracts, they become very beautiful, because it's recurring, right?

So, unfortunately, we're not at the 70% yet, but you can see we have grown this business by the factor of [ph] 10 (01:28:53). And to give you an indication of scale in 2019, it's going to be so-called high in the double-digit million range. So, it has become the sizable business in four years. And if people say you cannot incubate a business newly in a large corporation, I think this is proving them wrong.

And to give an example of the case that we've done, and nobody wants to have his name mentioned on cybersecurity. So, this is a Middle East national oil company. This contract is in the neighborhood of – is a larger one of US\$5 million, I think, or €5 million. And so, we're looking at – as I said earlier, we have IT and OT convergence.

So, they want us to worry about OT. And then also, as it migrates with a site oversight visibility into the IT space, the DMZ, means Demilitarized Zone implementation, so to make sure that it cannot be penetrated then go into the design and the deployment of the architecture, you see this in this wonderful circle on the left hand side and assuring remote access, assuring device control. Device control means that every single piece that has an IP address is controlled in this facility.

And then, of course, worry about the assets that are out there. This was done on an installed base, not only of Schneider, but also a third-party and other manufacturers that we see and sometimes don't see any more in the market. But there is, of course a huge installed base out there that needs to be worried about.

So with that triple integration plus cybersecurity and I think we've built a very balanced, again, what I say full liner in automation, meaning from discrete all the way to process, very heavy on electronics and software, very little and no equipment like motors or heavy machining equipment. So it's an asset-light model, where we move further into software that has well-positioned us for a strong growth through the cycle, from 2013 to 2018, we also had cycles in there if you remember in particular in the process industries that were heavy with a 7.6% CAGR. And I think it's also delivering superior value by the convergence to software. So we've improved the margin from 2016 to 2018 by 130 bps. And of course, we'll participate actively in the 200 bps we want to continue to deliver forward in respect to portfolio.

We've just closed the sale of our cabinet business in the U.S. that was highly margin-dilutive. So that's been closed before the half year ends. We are in all the efficiency programs. We are working on our supply chain quite actively and have quite some good plans here, so I'm very confident that we will contribute with that and then also of course in respect to portfolio. Because we are very unique. We are unique, because we have the approach we

have chosen with owning 60% of AVEVA, having it integrated in EcoStruxure, have a joint development road map, have a mature go-to-market model that is functioning and delivering a double-digit growth of EcoStruxure since we closed the acquisition. So, I think we're a good company to invest in. Thank you very much.

And with that, Philippe? It's all yours.

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## Philippe Delorme

*Executive Vice President-Energy Management, Schneider Electric SE*

Thank you, Peter. It was very impressive and very exciting to see the strength of our Industrial Automation portfolio. So, we're going to move on to our second business, which is Energy Management. When preparing with Amit, we were trying to collect your feedback and your question. There were many questions about, okay, what's your recipe in Energy Management to build your leadership, to sustain your leadership?

So, in the coming 45 minutes, we're going to go through this, trying to be as practical and transparent as we can to explain you what has brought us here in term of building our leadership, but I would say probably more importantly what are our plans to strengthen our leadership going forward to keep delivering superb financial to our shareholders.

So, my name is Philippe Delorme for the one who don't know me. I've been 23 years with the company, and I lead today the Energy Management business globally. I'm based in Hong Kong, close to where Jean-Pascal is, traveling quite a bit as our business is very, very global. So, for the one who were in this room 18 months ago, when we last did our Investor Day, you probably remember that we kicked off the concept of Energy Management. We started to share with you what was our growth strategy, what was our portfolio, what would be the benefit of the combination. At that time, if you remember, there were many questions about data centers. Many of you were saying, is it a good market? Are you going to grow there and so on. And actually, since then, the story has been pretty good. We've delivered beyond expectation. I would say more importantly, we've delivered better than competition.

On the Energy Management side, this business represent for Schneider €20 billion. We've been growing in 2018 by 7% organically, while growing the bottom line by 60 bps, reaching close to 18% EBITA margin. And the Data Center story has been also very strong, and clearly contributing to what's on the left part of your screen. Today for Schneider Electric, actually Data Center is our biggest segment. It's a place where we grow double-digits, where we sell the whole portfolio of Schneider. A lot of secure power for sure, a lot of low voltage, medium voltage, building management. Actually some Industrial Automation and we see a trend here that's very exciting. So, really the full portfolio and building the future with the biggest name. You know those names and we have, I mean Peter was mentioning those C-level relationship. We build very similar relationship with those customers, actually learning a lot, learning with them. And making sure that we will raise the bar with these customers.

So, our ambition is very simple. We want to continue to strengthen that leadership. Keep growing faster than the market, beating competition while being very disciplined on value creation. And the recipe behind relies on innovation and digital and I would say the two are very, very connected and you'll see that through different example we're going to take. Having an end-user-led approach through a segment focus and we'll take a few example about that. Being obsessed by cross-selling. Peter was mentioning a lot, the opportunities of selling together and that's really something that we are very disciplined across the board, this One Schneider. We have sales force, who are incentivized to sell the old portfolio, because it makes sense for our customers.

And Emmanuel was talking about the discipline on the value creation on the efficiency, making sure that every time we invest in cost, we are very frugal about that and very disciplined on the return on these investments. Very

disciplined on pricing, we delivered very well in the past years on that, but there still opportunity. I would say on this, we use more and more marketing automation analytics to be even better in the quality of our pricing and portfolio optimization. We are mentioning telco. We are very precise in all business, Peter is, I am, Fréd is, on looking at our portfolio and making sure by country, by product line, we scroll places where we believe Schneider would not be the best owner, because we wouldn't have the scale, we don't have the strategic positioning, we don't have the right portfolio and that we'll be a better owner elsewhere to drive that. So we have indeed very precise plan to drive these value creation levers to make sure that we deliver the commitments we've been exposing to you guys and sharing in the past months.

We talk about data center 18 months ago. We are very happy to have a very close customer to us, which is Penn Med. So slightly later in the presentation, we'll welcome Steve on stage to share his experience about working with Schneider to build a very, very innovative hospital. And we'll take a bit more time later in the presentation.

So before that, let's take maybe some helicopter view and understand from a market standpoint, an outstanding standpoint in which market we operate what are the key trends that are driving our business, then come into what make our differentiation and what's our plan going forward.

So, Jean-Pascal mentioned two very important trend and probably no surprise for you the things related to a more electrical world, the thing related to the more digital world. So, let's dive into a few specific figures here. So, we've been very clear in the past years about the fact that the world is becoming more electric. The all electric world. By 2040, the electrical consumption will double. By 2040, the electrical consumption will double, which is very good for Schneider Electric, because our business is about electricity.

Now, if you go one level down into what it means, it means a lot of change. Everything or let's say a lot on the generation side is going to go towards electricity because it's more efficient. 50% of the renewable – of the power generation will be coming from renewable energy by 2040. This is a massive change, which will drive more micro grids.

On demand side, the loads are going towards more electric, because more electric means more efficient. More electric vehicle, more electricity usage in building, more electricity usage in industry, which are driving more Low Voltage and more Medium Voltage. And all of this is also driving more dependency on electricity. Life is on when energy is on. Now the reverse is true. If you have no power, your all business is in trouble and people, therefore, consider up-time is an absolute must which is great for Secure Power. So, that's the first thing that's really driving our business in our direction and in really more micro grid, more power distribution, more Secure Power.

Second trend on the All Digital World, we are all addicted to our phone, our teenagers even more than us. Now, the new phenomenon of the acceleration phenomenon is that all machines are getting connected and the pace of that connectivity is actually 8x to 10x to what it is for all of us. So, think about it. That means more connected products. All that traffic on top of that, which was very centralized, is moving to the edge to help with the performance of those application. There's more 5G, and that's moving towards more Secure Power, more at the edge with smaller data center, which fits very well with the business model of Schneider.

And last but not least, IT and OT are very connected, and we see more and more, and we'll give some example on the fact that there is no efficiency in the OT space without IT. So, IT and OT are connected, and that means EcoStruxure for Schneider Electric. So, all of it goes into a very favorable direction for business.

Now, let's [ph] see it in the shoes (01:41:29) of a customer. I'm the customer and I'm confronted to that more digital and more electric world. And actually, I have to run two things in parallel. On one side, I have to manage

my energy, because if I have no energy, I have no business; and I have to manage my process. And actually, I need someone who can bring me a solution to combine together the Energy Management and Automation to be future ready and deliver on the promise that I want to deliver for my customers. And that's what we do for living; to deliver smart buildings, smart data center, smart infrastructure, smart plants, and that's the whole logic of the portfolio of Schneider Electric.

So, we wrap it up. There is an All Electric World. There is an All Digital World. There is a second parameter that's very important and that's really, really important in electrical world, which is a multi-local World, which actually goes with a lot of specificities in the electrical space system of standards in terms of products. I mean, the plugs in the UK are different from the one in France, they are different from the one in the U.S., and that drives – that's coming from very different standard. And that requires a very multi-local approach to the business.

And in front of this, we build with Schneider and we build with our Energy Management business four key ingredients of differentiation around our size and our scale and our innovation portfolio, point one. Point two, I'm getting inspired a lot by what has been very well done in industry space, a full presence on all lifecycle of our customers supported, number three, by a full enterprise architecture that you know by heart, which is EcoStruxure, and a unique multi-local reach. Thanks to our scale. Thanks to our history that allows us to be with our customers everywhere in the world, all of it allow us to have the means to invent the New Electric World.

Now, let's go in detail on those four bullet points to understand with some example what it means. Size and innovation, something that you are pretty familiar with. You know we are number one in Low Voltage. We are number one in Medium Voltage. We are number one Secure Power, and we've done a lot of work in the past 18 months with the creation of Energy Management to build synergies across portfolio. Cost synergies, but I would say even more importantly, go-to-market synergies to make sure that every sales force will be fully incentivized to sell the full portfolio of Schneider in Energy Management and also with Automation.

And coupling that with a full focus on innovation, for simplicity, we'll talk about a lot of things related to digital. There were many questions from many of you on the fact that some of our partners are bit afraid of that digital transformation. One angle of our innovation is really to make things simple for customers and for our partners.

Now, let's take a few example of that and let's crawl back in time in the past 40 years on a few of our iconic products. Number one, everybody talks about IoT and it's been, let's say, more for discussion in the past five years. We launched our first IoT device in the power distribution world 40 years ago in the U.S. with [indiscernible] (01:45:11) 40 years ago.

So, IoT for us is no news. Now there are many things that have been moving, when we move to the cloud, but the old reality of making power distribution digital started in Nashville, Tennessee in 1978. Since then, we've been going further with more values, UPS and the general reliability with APC, more efficiency with our circuit breakers, making our circuit breakers smart.

I wanted to illustrate two points of innovation, which I find very interesting and that are, let's say, more accelerating going forward. The first one is, sustainability. So, this equipment is a Medium Voltage cubicle that's green and digital. So, maybe not all of you are that's a specialist of Medium Voltage, but in Medium Voltage and high voltage actually for years, we'll be using a gas called SF6 to, let's say, isolate the conductors to make sure that those equipment would be rather compact.

The problem with SF6, it's a fantastic gas for electromechanical specialist. The problem is that 1 kilogram of SF6 has the equivalent environment impact as 20 ton of CO2. 1 kilogram of SF6, 20 ton of CO2. So that's not a very

good gas, let's say for environment. And we launched months ago products that can get rid of SF6. That [ph] could react into the air (01:46:45), which is an unparalleled innovation in the industry which is raising a lot of question from our competitors. And I would say more importantly, a lot of excitement from our customers. So with that product, we are the forefront of innovation in power distribution to make power distribution green and digital.

The second thing where we are really, really obsessed is, driving digital and connectivity to deliver more value for customers. That's something that actually we see a lot coming with EcoStruxure and I will talk about that. The point number two is getting inspired with what's happening in industry, where we clearly see in the industrial space probably some adverts compared to the building space on thinking, let's say the old cycle, from the old cycle we were historically with our power distribution very intensely positioned in the build. And actually we see that all these installations start to leave at the design phase and then have a real life in the operate and maintain. And the all work we are doing is to expand to the design phase through M&A and alliances so that was the meaning of the recent acquisition we did in IGE+XAO and ALPI to help our customers, in this case a lot of design from contractors to make design simple and more efficient, and then in operate and maintain, buildings suites of software that help our customers, in that case, facility managers, end-users to deliver energy efficiency, sustainability, asset optimization, comfort and so on. We today rely on €1.3 billion asset under management. 18 months before, it was €700,000.

So, we've doubled that pool of asset under management in 18 months, so that gives you a trend of how fast that business is growing which is growing recurring revenue, digital services, which in itself are very interesting business, but which are also very good pull-through opportunity because once you [ph] live (01:49:06) with your customer in a recurring revenue, in a recurring digital relationship, when there are optimization to be done in that facility, the first company to be called is Schneider Electric.

This relies on point number three, our enterprise architecture, that's EcoStruxure. You know it by heart. You know the three [ph] levels (01:49:28). Peter talk about it. Emmanuel talk about it, Jean-Pascal talk about it. Just wanted to give a slight twist to make you understand how this work with our customer. The backbone of our solution is coming with power distribution. Peter, you were mentioning that in most of your example, we have a power distribution footprint that span across all our end-markets, and we make it digital, thanks to EcoStruxure Power, which is, let's say, the base of helping our customer manage their energy. And actually, what we do on top is to stitch, let's say, the process application that our customer require to bring together the energy and the automation, which was the example I was going right before.

So, in a building, the process will be the building management. In a data center, the process will be the data center infrastructure management, the DCIM, EcoStruxure IT in a Grid that will be the ADMS. And in industry application, that will be the machine or the DCS, which is actually the example that Peter was giving before.

And here, we are truly unique by bringing the two together, the energy and automation with a specific focus by segment and that being recognized very strongly in the outside world by people like Gartner and Verdantix that's very often put us in their [ph] Quadrant 4 (01:50:51), which is the sort of place of leadership in the world of software.

The last point and that's very, very important in a multi-local world, we have the capacity to respond global, regional and local. Our industry is driven by local standards. So, when you talk to companies like for instance Marriott and Hilton, we can engage with them at the global level, for instance, to provide the full energy dashboard or sustainability dashboard, which actually we do with both Marriott and Hilton, which means thousands of sites connected. That was the example from Jean-Pascal of the integrated company.

But when we talk to these people and we are working with them on deploying a new hotel in Dubai, or in Oakland, or in California, we will be confronted to different standards and the power of Schneider comes with the fact that everywhere in the world, we can accompany those global customer globally, but also locally with a full network of partners, which is really hard to beat, because we are accumulating here decades of relationship with partners and decades of investment into multi-standard electrical equipment which allows us to go now, bottom up with a lot of partners. So, here, you have an example of a contractor in the state of California. The U.S. has an electrical code which is nationwide, but there are [ph] decrease (01:52:26) of application of that electrical code that differs by states.

So, even at the size of the U.S., products would have to fulfill different standards depending on different states in the U.S. That's our local [ph] arm (01:52:42) businesses which come with some level of complexity to manage for customers, which actually is the business we love, because that comes with some level of capillarity and presence with our partners.

So, pretty simple equation of why do we get that leadership and where we are going. Now, we wanted to go one level down into sharing with you our two main business model. Schneider goes to market typically direct when our customers are asking us to do so or indirect through partners. So, we're going to take a practical example here with Penn Med. I'll be helped with Steve, who will testify about that. But before Steve coming on stage, let me share a video of what this project is all about and what we've been working on together with Steve and his team.

[Video Presentation] (01:53:42-01:55:44)

So, Steve, let's hear from you about that fantastic project.

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## Stephen Greulich

*Project Director, Real Estate, Design & Construction, Penn Medicine, Penn Medicine*

Good morning. I just want to start out by saying I've only been to Paris a few times. And every time, it's been really hot. So, maybe it's me. I don't know. And I'll stop coming if you want me – actually, I'm not going to stop coming. So, you just saw a short video.

A little bit of real quick background on Penn Medicine. We are an \$8 billion healthcare system in Philadelphia and in that region. We – Pennsylvania Hospital was the first hospital in the United States more than 250 years ago. Today, we have six hospitals. We see about six million patients every year and have over 40,000 employees. So, a pretty substantial enterprise.

We also were the first school of medicine in the United States. And so, we've been teaching doctors and nurses and also researchers. And so, on the research side, we led in X-ray diagnostics development a long time ago, and today are leading the fight to cure cancer. So, it's a pretty – it's old in U.S. standards, not in maybe European standards. But we're very old in U.S. standards, but have always been innovative and always looking to the future.

And so, back in 2014, when we took on the direction to design and build a \$1.5 billion new facility, new hospital facility, the basic emphasis was this has to be the best hospital that we can build in the United States and we're going to open it in mid-2021, but we don't want to build a hospital that is a 2021 hospital, we're looking to the future. And so, some of the big emphasis really is on – for us is patient care, clearly, and that is first and foremost, what's most important. But secondly is we have to have facility that will allow for us to have the best patient care. So there's really two parts to that. Jean-Pascal talked about it. We've talked about it a lot. That's electrical or power in digital or IoT.

And so, I'm going to talk about both of those things from our projects requirements perspective and how Schneider and the Schneider team has worked with that. So, you can see here the – so, our Penn Medicine requirements for energy management and this is really the second part of that which is the building and the facilities and the facilities needed to support the patient care. So, power reliability.

Early on we said, we made a decision to go with Square D, to go with ASCO, and a number of other Schneider products on the reliability side. And then, on – so that's sort of the initial sort of capital side of it, but almost more importantly is the sustainability and how that works throughout the life of the project. Again, we're going to open this hospital in 2021, but it is it is designed to be a 100-year building.

So, how do we do that? You heard a lot about EcoStruxure. Obviously, you know a lot about EcoStruxure, the different modules. We are in the process of implementing all of those into the design and construction of the building, so that we can constantly manage or monitor, diagnose and then, manage our energy usage for the building.

I don't know much about hospitals in other parts of the world, but it is really expensive to run a hospital in the United States. We have lots and lots of requirements. Jean-Pascal just said he thought France was complicated, but the U.S. is really complicated and each state is different [ph] with their power (02:00:04) requirements. But we can't – we have many operating theaters in this new building. We can never afford for power to be out. We can never afford to lose connectivity and integration.

And so, the thing that Peter and Craig went through, we're not going to have a screen that's quite as large as that it takes up a whole wall. But our central plan, our facility in this hospital is the heart and soul of what goes on in the building. And we can't afford for an unplanned outage. And we don't – it's not necessarily lost profit, but it is people's lives could be at stake quite honestly or we may be losing patients. So, the power reliability and sustainability are foremost for us.

The second part or really, first part is people. And people is two things for us, patients and visitors, and then, our staff. And so, how do we – and that really comes down to process management for this new building. On the patient and visitor side, you saw in the video, I don't know if you could really tell, but we built what we called the lab about I think, two-and-a-half years ago. So, very early on in the process, and tested out all the different parts and pieces of the infrastructure. So, lighting in a patient room, shades, air conditioning, how that interacted with our clinical systems, so that patients and family would have some level of control, and they felt like that they were actually, not in a hotel, but really, it wasn't that they were in this sterile environment. Schneider Electric set this up. You saw some of the folks in the video, and we've worked through many different products, many are Schneider products, some are not Schneider products. We really – there are just some places where we don't even have an opportunity. In some places, where – especially, clinically, those are not the best solutions.

But integrating them is a Schneider role. And again, we worked through that with the lab, we got – as Peter was going through, we've spent a lot of time over the last year-and-a-half getting rid of some of those cables and things in those boxes. I don't know a lot about this stuff, right, but getting rid of a lot of those cables and things and using modules, whether they were a Schneider product or not. So, those saved us money on the capital side and more importantly, a lot of flexibility in the future.

On the staff side, we have many clinical systems. Again, Schneider, this is really sort of outside of the Schneider realm, but it is things like Epic and Hill-Rom and things that you've probably heard about but – or things out there. But, again, it's all about integration for the clinical side and that the staff feels comfortable that, if their nurse call

system doesn't function well with the tracking of the nursing, that can affect our patient care. So, huge amount of that.

And the last bullet here is really important. Again, we've – again, we – I said this before, but we're opening in 2021, but we are looking to the future. And we know that things change in your guys' – in most of your businesses, but in healthcare, they change all the time. And so, we have to be able to evolve, and Schneider has helped us over the past couple of years be flexible and understand what we think we don't know.

So, how did we do this? Again, this project started way back in 2014 and we knew from the very beginning that we were going to need to bring on what we called a low voltage integrator, something we had never done on any of our projects before and we were looking for someone who would be able to help us integrate all of these different parts and pieces.

So, we brought Schneider on about nine months or a year into the process. And they've been with us on that integration side through the whole process, people there, working with our engineers, our architects, our doctors and surgeons all the way through. We then made the selection to go with the Schneider for the building automation system and some security integration. But then, all that's really important on building the building, designing the building, but as I'm sure you know, it costs a lot more to maintain the building over the life of its building.

So, we will spend much more maintaining this building for over 100 years than we do spend in building it. So, again, it kind of goes back to sustainability and service and maintenance today and into the future. So, we're already planning for those systems again using EcoStruxure. So, as many of your businesses do, we do a strategic plan, a five-year strategic plan, Penn Medicine. And back in 2012, which was a really long time ago, we had six priorities on our strategic plan and we hadn't yet decided to build this new hospital. But we did that. That decision was made about in the middle of that five-year plan.

And what I've highlighted here are the six priorities and really how those priorities have aligned. And we've used those through the design and construction of this building, but how they've aligned with Schneider's priorities. So you can see there, I talked about flexibility, innovation, reliability. All of those things have been really important to us leading and – but, again, optimizing for the future. I think if I had to pick one, that's really where I would focus, and optimizing on the future, and how we design the building today so that we get the most out of it for the life.

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## Philippe Delorme

*Executive Vice President-Energy Management, Schneider Electric SE*

Thank you, Stephen. Thank you. So, big thank you for your business, for your trust and for your time, and for taking the time to stop here and share with us, share with the representative of shareholders. We've been working together and partnering together. But thanks first for your trust over those long period of time. We are really excited to be on the side of Penn Medicine [ph] folks (02:07:18) to build such an hospital and we feel very proud and very happy with that.

Now, that was an example of one segment, which is healthcare, which is a very important segment for us, but there are many others. And you have the list here. You know that list. And the recipe is pretty much always the same. We bring together energy and process. We customize this by end market. We make sure that everywhere we can – we bring together the Energy and the Industrial Automation, which is especially true in more electro-intensive and critical application. And we deliver to market with global teams and with partners.

And then back to your question, the question you were asking, what is at the core of Schneider's performance? Things like this and doing them very consistent across segments towards partnership as we do with Steve in other healthcare in other places in the world and with other segments.

Now, to complement the view, there were also a lot of question on, let's say, some new energy landscape type of examples. And we wanted to pick the example of Lidl, which is a customer that for sure wants to keep the light on but who wants to get used of all the new technologies of solar, EV, energy storage, transfer switch and these kind of things, coupling connected products and software to run, let's say, in that case the logistics center of the future, which is what we did in that case really using the old power FICO structure under three layers and also the old know-how we have in the field of energy and process in that case, which is building automation to make the full combo that will be future ready for Lidl. We do that with many more customers. And actually, we see a lot more requests like this coming. When Emmanuel was mentioning infrastructure and are in engagement with Carlyle in JFK, we have a lot of similar conversation with that customer, which is really exciting which make us very proud and actually very future-driven towards sustainable and digital innovation.

So, that was a deep dive on, let's say, the end-user LED. So, we wanted now – we want to switch gear and move to the partner-led approach, which has been very core to Schneider, very, very central to our business leveraging two things: a very wide partner network on one side; second point, amplified with a stronger digital engagement.

So let's have a look at a couple of those ingredients out of that partner-led business model. First of all, I was mentioning scale. For sure scale is important. We are blessed to be operating with 600,000 ecosystem partners, 600,000 ecosystem partners, which are an extension of Schneider Electric and who really work in an orchestrated way and I'll give some example about that.

I think what we were seeing in the case of Penn Med was a very good example of that and are not only distributors. And distributors are very important. They are system integrators. They are IT resellers. They are panel builders, electricians, electrical suppliers. All our e-commerce partners, which starts to be a very sizable business. All that business partner-led means 70% of Schneider business of Schneider sales so a very, very important part of our business operating out of that base of 600,000 partners.

We have many questions on, are these partners really embracing digital? And is it really moving? How is that working and so on? So, on that one, first of all, it's important that when we work with partners, we usually on project don't work with them one by one. It starts with the lifecycle of design then build, then operate and maintain. And we very often add that orchestration between specifiers, panel builders, contractors, system integrators, which actually are needed so that we will deliver a full solution to an end user. So, it's a full lifecycle. And we see really a big opportunity with Exchange, which is a collaborative platform, a digital platform that helps orchestrate the interaction with all of those partners.

And the figures are already pretty big. We have 45,000 users of Exchange. So it's not a pilot. It's already a large scale deployment and we see an acceleration of adoption because it brings value for our partners. And scale matters and when we have hundreds of thousands of partners, if we can get more efficient together, working on projects, that makes a big difference.

Next point is our capillarity, our presence at the point of sales. There are many point of sales in the world from, let's say, Incredible India on the left to online platform on the right. We believe we are present in one point of sale out of two in the world. From again on the left side, a small shop in Incredible India to a Rexel or Sonepar point of sales in developed economies to e-commerce platform, which often actually are run by the same Rexel or Sonepar or by others. It depends.

And you see here the magnitude of the figures, 350,000 traditional point of sales, 400 online platforms. And when you look at the dynamic, we've gained in the past four years 150,000 point of sales because we, I wouldn't say religiously, but meticulously follow a point of sale conquest and our presence in point of sales. And we do the same work on the right side with our online platform to expand our presence through online platforms so really to grow and digitize on all cylinders of the partner machine we have, which is extremely powerful, extremely powerful.

Brands are important. Schneider is a very strong brand, very strong let's say on the product side, but the more we go to a more capillar presence with small electrician contractors, might be crazy, but those guys identify themselves with brands that we acquired that again are the results of decades of strong relationship, whether Clipsal in Australia, PDL in New Zealand, Square D in the U.S. of course, Merten in Germany, Feller in Switzerland, Elko in Sweden, Elke in Denmark, Steck in Brazil, Gunsan in Turkey, Luminous in India and Delixi in China. This represent more than 30% of our sales, what we call, associated brands. And it might represent some very immaterial value and linkage, but for especially the small electrical contractor, this is extremely important. They would associate that with the Clipsal family, the Square D family because they've been trusting those names and those products for such a long time.

So the products are important. And the products and the offers and the innovation for these electrical contractors are important. These people are very emotional with our brands. And what we try to do with those products is to bring simplicity so that when people go on job site, when the small electrical contractors goes on the job site, he works with Square D, he works with Clipsal or Schneider and he knows there will be no surprise. The product will be easy to use. It will be fast to deploy because time on-site means money. So, when we have Plug-On Neutral with various installation, it makes a big difference for this type of guys. When Clipsal brings a new wiring device which is very modular, so that there is less stock for the electrician, that means a lot for them.

And those people are digital and more and more and the new generation that comes to us, asking us to have better digital interaction, apps on their phone, to be able to select and configure our products. And we see a fast expansion of those tools, which are actually a great way to stay in touch with those communities. And when you are in touch with tens of thousands of electricians, that makes a big difference going forward.

This innovation is recognized externally. We are very proud to have a very strong ramp-up of design award with new products that can be more consumer-led or more professionally-led. We take a lot of care on that design. We've worked in the past 10 years on really improving the brand design so that our product look distinctively as the same so that we code our innovation. And we also get very strong recognition out of the channel award we get, which is really recognizing what we do with our system integrators, with our electrician partners, our distribution partners, and we are very proud and very happy with those recognition.

So, as a wrap-up, the question was what is really your equation to lead the market and lead the business in Energy Management. Well, it's a pretty simple equation, which is it starts from more electric in the digital world. The pillar and the foundation is sources of leadership that we build over time around a very wide portfolio, a portfolio that bring together energy and process that relies on leading brands with a very strong reach at multi-local with multiple partner.

That's really the foundation of our business in Energy Management that leadership we want to strengthen and build the future, a lot being fueled by digital, making sure that we innovate for simplicity, that we keep developing EcoStruxure. EcoStruxure, Jean-Pascal was saying, is 10-year-old is true, but we accelerate actually our pace of

innovation there. We digitize our partner network and really do it across a full lifecycle of our assets and our customers.

And in the background, we want to stay extremely disciplined on execution so that we drive productivity, we drive pricing as a team, we drive efficiency, and we drive our portfolio management. And the result is what you're asking for, which is growing faster than the market and focus on value creation, which is what we've been doing in 2018, which is what we'll be doing in 2019, and for the foreseeable future per the commitment we've made with Emmanuel and Jean-Pascal in February for the coming years, and we take that commitment very, very seriously.

So, that's it for Energy Management. We thank you for your time. We thank the people who are also attending online because we understand there are many of them. So we appreciate your time and your trust. I think now it's time for...

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## Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

15 minutes break.

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## Philippe Delorme

*Executive Vice President-Energy Management, Schneider Electric SE*

...15-minute break, and we are back in this room in 15 minutes. Thank you very much.

[Break] (02:19:33)

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## Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

Well, can I just request everyone to take their seats? I think we've – I'm glad we all got a chance to have a little bit of a coffee and I must thank the people on the webcast who had to wait a little bit longer for us to start. So we're getting into sort of the second part of the morning. And just to be mindful of time, we do have a hard stop at 12:00 because we need to move to the factory after. So what we're going to do here and we started off with Frédéric Abbal. So, Frédéric is heading the Services business, maybe a 20-minute presentation around the ambition on Services, yeah?

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## Frédéric Abbal

*Executive Vice President-Services, Schneider Electric SE*

Yeah. I understand. Thank you. It's not going to be 21. I understand this one. Thank you, Amit. Well, very nice to meet you again. So, I'm Fréd Abbal, I'm in charge of the service organization, the Service business that we have created actually since 1st of Jan. Previously, we had many time occasion to meet together.

I just want to tell you about the – well, the story of the Services and how this is a high level of opportunity for us and our customers. Number one, the customer needs are evolving. We speak about the main four disruption that we are witnessing today. And it means that the customer needs are moving towards a new dimension and toward new needs. The good news is that the technologies are available. We have now more and more technology capable to connect, capable to develop AI into our software. So those are the good news and even better news is about the fact that we have, in Schneider, a unique position to tackle this one.

Number one because of our EcoStruxure digital platform. Peter and Philippe has been speaking about how we are positioned in this EcoStruxure digital platform, that's a unique positioning. The second point is about the domain expert, expertise we have. We have an expertise in Energy Management, Industrial Automation that's for sure, in the sustainability also. We have a lot of capabilities across the board, lot of asset management capabilities, cybersecurities, all has been presented already by Peter and Philippe.

We have an unparalleled installed base with a local presence and a local reach. That's the story where we are. So, how big is Services today? We are €3 billion business today in the group. We have been having a growth of 6% during the last four years as CAGR. It's about 15,000 people and you see the split in terms of geographies. I would say rather a good split area where we can go most probably in the rest of the world and India, Asia Pacific region. The split in terms of end market is very close to the one we have in Schneider with building, data center, industry and infrastructure other end markets.

So, how the ambition is. The ambition is starting from a part, a share of services in the turnover of Schneider which was in 2014 9%. We were last year 12% as Jean-Pascal say. And we want to grow to us, as fast as the group gross average. And this will help us to contribute to one of the target of the group, which is to reach software and services around 20% of the total turnover of the group. That's the ambition. That's the ambition.

Now, we have two model to achieve this ambition. The number one model is field services. We have an installed base, we are going to see that. We have offers what we call business lines. And we have service possibility along the lifecycle. That's the number one opportunity with the field services approach. The second approach is digital services. Digital services, it's a new system. It's a new era. Of course, we'll see how it's moving. It's moving extremely fast and as we can understand very well connected to our product to our installed base. So, let's move and let's focus on one on the first topic which is the field service approach.

On the field service approach, well, we have, I think, a unique position today in the market. Why? Number one, our installed base. We are number one in what we call the powertrain low voltage, medium voltage, secure power, number one since many years. That created a huge installed base. Second, we are addressing the critical application of our customers. This is the second point that we are having today in terms of criticality that's unique. So let's imagine in oil and gas an unplanned shutdown could cost in average \$40 million. In mining, we have \$3,000 per hour of downtime, et cetera, et cetera. We are at, of course, in data center of the same issue while you see here an example in 2016 with 2,000 flights cancelled. I mean, actually two days of our operation in [indiscernible] (02:25:47) not so long ago.

So that's one thing which is very important which is we are addressing the installed base and we are addressing the critical application of our customers and parallel installed base. So, the installed base is the key to develop the Services business. We have in 2018 €16 million of critical assets. So, the topic is very simple. We need to know where are those critical assets and it's not a given. So, we need to use as much as we can, all the touch points that we have with the customers. By the way, most of them could be also digitized. And move from 5% in 2014 which you see very low to 50% which is our main target.

Number one, tracking. Number two, coverage. And to cover this installed base here we use AI-based tools. We need those tools to enable us to make to sort the real critical asset, to understand where those assets are in terms of site. How do we rank them and move from 4% of the covered assets in 2014 which is extremely low to 35% which is the ambition that we want to aim for.

So, well, when we have this asset tracked, when we have those assets covered and understood then we can go with our usual way of doing business, whether we go direct, whether we go through our partners. And in both

cases, we are going to cover massively this critical installed base. So, you understand where we want to go in terms of ambition. Again, 16 million critical assets move and improve our tracking of the installed base. Second, cover the installed base with our direct approach, with our partner approach and of course leverage our AI and our digital tools and software in order to analyze this. It has been a long journey. We have been preparing that since many years. We have developed a lot of tools, a lot of digital tools that are now launched on the market, in our market, and enable us to go to this ambition. So, this is the first topic, which is field services.

The second approach part is about the digital services. Digital services, that's something which is coming from the assets. So, the assets, and here we connect with the EcoStruxure architecture that we have. Assets are connected more and more through IoT technology that we have developed. Those assets are going to be connected to the sustainability consulting and advisor suite which are softwares.

Those software have been developed and built across what we call customer practices. Customer practices, what does it mean? Asset performance management we had a demonstration in Peter's presentation. Cybersecurity, same. Energy efficiency, sustainability, consulting. So, this is a way somewhere the only way to monetize the digital services going through the customer journey, customer pain point and capabilities. And that creates a lot of value. That creates the value of the 24/7 customer connection that create the stickiness with our customers. That create also innovation and we will see that later on in terms of R&D. You understand that that something which is extremely creating value to the customers.

So, I mean, if we go and if we enter in the customer cases or the customer example, let's speak about three practices. First one, energy efficiency, Sodexo, we communicate together in newspaper. We can communicate all of them have been actually published. And we have been actually supporting Sodexo with our apps, with our advisors to create savings 20% of energy saving. This is a technology curve provider we are to this customer which is a facility manager. So, we are a tech provider to facility manager somewhere to understand it better.

BASF sensing, it's an asset management practice. 40 years old installed base. We manage, we help them to manage putting our asset advisor on their system and digitizing in fact our installed base in order to support them and give them a predictive and preventive maintenance 24/7 connected to our service bureau. Berto asset performance management as well is a solid example.

But there is one practice that I would like to focus on, which is the sustainability consulting offer that we have. We have today one leader, worldwide leader in this aspect which is a trusted advisor somewhere to our customers in terms of sustainability transformation. The sustainability transformation means that this entity is capable to manage €30 billion of invoices of spending of those customers. So, we manage by doing this 500,000 invoices, digitized invoices in order to make them understand whether they are rightly purchasing energy and rightly purchasing energy in terms of mix whether green or not green. It's equivalent to 80-gigawatt in terms of power generation. 80-gigawatt, to give you an idea, that's the generation, almost the generation we have installed in France, which is 100-gigawatt. Just to give you an idea of the magnitude of that one. So this is 1,800 people across the board, very, very connected on to their customer to drive them to this journey and to this transformation.

So, we have on that one two examples. First one is about Whirlpool. We, [ph] same thing, (02:33:10) had an energy and sustainability strategy. We help them to define how they want to move first save money which is in terms of sustainability, they save like €1 million of savings from recycled waste. They are growing and achieving their zero-waste goal this year in Brazil and they have – just to give you an idea, the largest onsite wind power in the Fortune 500 field. So that's first customer where we have given some – we are working with very closely.

The second part is Albéa. Albéa the same thing that an enterprise efficiency around carbon free efficiency actually, where we have been capable to generate €1.3 million of savings and 20% of savings achieved across the board of their total cost. So, long story short on the Service journey. Service journey is resilient. Resilient because going through the economic cycle with the right continuous growth and speed. This is recurrent because this is a very strong connection on the customer site, every day we have to implement. That's the growth engine for the group to reach software and services as 20% of the mix. And there is a huge customer stickiness which enable us to develop innovative solutions, whether they are from hardware point of view, whether they are in the digital standpoint of view.

Again, two area. One is about the installed base, installed base knowledge, installed base coverage, developing our AI tools and of course leveraging our partner capabilities. And the second point is about the digital offer which is innovative. It's about connecting the customers asset and generating revenue out of datas, taking into account the customer outcome journey which is what we call the customer practices that are the way to monetize it. And of course, developing across the different portfolio of the company, synergies and revenue. I mean, I'm looking at Craig because on the asset performance management we are having a very, very strong relationship and using a lot of the software across the board to manage this synergy.

That's going to be faster than – it's a service for you actually. But I mean that's the level of ambition we have. It's a very fast growing engine and we are very happy to call now Amit on stage. Thank you very much.

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## Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

Well, thank you, Fréd. I think as we setup the stage, just to let you know, so the next maybe 20 minutes or so, we thought as we are planning the day today that it might be useful to have a slightly different perspective which is based on the operations, the regional operations. So, we have, okay, that's well appreciated already. So, but may I just invite our colleagues to come by.

All right. So, just let me introduce who we have on the panel here with us. So we have three of the operations leaders. Of course, we have more operations leaders but the others are running the operations and working at the moment.

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## Barbara Frei-Spreiter

*Executive Vice President-Europe Operations, Schneider Electric SE*

We are the lazy ones.

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## Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

But just – thanks for making the time to be here today and almost at short-ish kind of a notice but that represent important. So, just to introduce Barbara Frei. She's been with the company for a few years, still continue to be based in Switzerland.

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## Barbara Frei-Spreiter

*Executive Vice President-Europe Operations, Schneider Electric SE*

Switzerland, yeah.

## Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

And running Europe Operations. Aamir Paul, Country President, Head of Operations for our largest market which is of course the U.S. And Christel Heydemann running France. So, that's the only country in Europe that Barbara doesn't lead, but is led by Christel. So, thanks. Thanks all for making it. So, what I've done is, I've tried to put together some questions and what I've done and I'm going to just ask them at random but the idea has been that we've been hearing from the investors on several questions over a period of time, just try to put them together.

Maybe, Barbara, start with yourself. And I think one of the key questions of course is that different companies have different sort of operational structures, which are applied. More recently, we've seen some companies in our industry as well which are moving away from regional structures, et cetera. We continue to have the structure that we have. So, maybe you can explain to the audience as to what is unique around our structure and why we believe it's the right structure for us.

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## Barbara Frei-Spreiter

*Executive Vice President-Europe Operations, Schneider Electric SE*

So, look, Jean-Pascal explained it very well also in the morning in his presentation. We are very an integrative organization and we are really done an organization which is aligned to our customers. So, it's the panel builders, it's the distributors, it's the machine builders. And in the market, we try to make or do one phase with the customer. So, a salesperson who is fronting a machine builder is not only selling the industry portfolio, he's selling a whole portfolio. And if the machine builder wants to build a new building for his factory, so we can also provide him the building management system and all these kind of things.

We also have gained a lot of cost synergies out of this. So, we have a common customer care center which is taking care of the customers' needs. And we really believe this is the right way then to be very strong in front of the customer itself. And it's also a good way for people to develop within the company. So, you do not only focus on one portfolio, you have the whole basket that you can push through our channels and to separate them and which is an attractive value proposition as an employer. Furthermore, and this has also been mentioned this morning, the Country President represents the number one person of Schneider Electric in the country. So if there is a quality issue, if there is a customer issue, it's his or her duty to really go after it and make things work. And I think this is really powerful.

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## Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

That's an interesting point you bring. So, you're saying that you've got the one phase for Schneider in the country level led by the operations. You mentioned quality, Jean-Pascal mentioned in the morning quality is with global supply chain for instance, maybe, Aamir if I come to you. Is there any practical confusion in terms of the role of operations, the role of business various functions in keeping with what we just discussed?

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## Aamir Paul

*Country President-US, Schneider Electric SE*

Look, I think our system requires a degree of collaboration. But if you go back to what we talked about today and building on what Barbara said, the role of the operation is to enable the customer. We designed the go-to-market for our geographies and they're not exactly the same but they're built on common structures. Our opportunity is to position the entire portfolio and ultimately own the P&L to deliver profitable growth, which means real-time tradeoffs between cost and investment and our pricing strategy. So, all of that is very clearly with the operation.

Now, what we do is we get feedback from our customers is we feed in the business strategy which owns innovation. So, the business drives the road map, the R&D investments, long-term technology, really understanding the micro trends as well as the major trends. And then global functions are about expertise. This is where we hire best-in-class experts whether it's in market strategy, supply chain strategy, HR or finance, and they create a transversal capability that we all have to. So, yes, there is a degree of collaboration required. But actually, on the ground, the roles and responsibilities are quite clear.

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## Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

Yeah. It's good. That's good to hear. That's not really the answer we're giving to the community here.

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## Jean-Pascal Tricoire

*Chairman & Chief Executive Officer, Schneider Electric SE*

Glad we coordinated it.

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## Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

Christel, may we bring you in, I think another topic which is quite central to what we've been discussing this morning, which is really around the two businesses in the cross-selling, right. So, the fact that synergetic portfolio, it cross sells into the end markets. Can you tell us from sort of from the ground level how much of this is actually playing out? How does this really differentiate us and help the customers on the ground?

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## Christel Heydemann

*Executive Vice President-France Operations, Schneider Electric SE*

So, I mean, cross-selling is really an everyday reality for us. And actually, we don't call it cross-selling, we call it saturating customers with whatever we can sell to them. And obviously, I mean, we have a lot of, what we would call here, cross-selling across our Energy Management portfolio, I mean, low voltage and medium voltage. I mean, it's a no-brainer, massive saturation of customers with those technologies. But beyond the only Energy Management portfolio – and I think Peter mentioned that and Jean-Pascal in his presentation this morning, I mean, our industrial customers, they need our help. They're moving to other world that's more digital and that's more efficient and with less carbon impact.

So, our Energy Management capabilities and our industrial and process understanding are critical. So, it's really about energy and process efficiency as we said this morning. And so, this is very true. And more and more, because of the digital transformation, they need more data – they have more data that they need to store. So, they also need more second power. So, there's a lot of opportunities as well to continue to saturate customers with the entire portfolio.

I mean, ultimately, we also have our segment approach. And especially for large electro-intensive customers, I mean, oil and gas, mining, water, wastewater treatment, et cetera. I mean, those customers, they consume our entire portfolio. So, again, we are really trying to saturate them. And last but not least, and that's been mentioned this morning, our distributors, I mean, they won't – they have one relationship with us and we maximize what we can offer to them, and they want to maximize what they do with us across the entire portfolio.

## Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

And would that resonate in your zone for instance as well, same comments around the cross-selling?

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## Christel Heydemann

*Executive Vice President-France Operations, Schneider Electric SE*

Absolutely. Absolutely. So, besides going then to a machine builder and selling in principle whatever is in the drivetrain, we now can also talk to him about services. What can be provide if additional services by providing a machine advisor. And that of course is a very powerful weapon and a clear differentiator in the market.

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## Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

Interesting. And I think that's a good segue maybe to the next question. You mentioned advisor in the context of machine advisor, but take it broadly and the question around digital, digital transformation is probably high on the minds of most customers. We've spoken a lot about EcoStruxure. Tell us from an operational level how is EcoStruxure really embedded within your operational teams on the ground? Do the people see it as a key differentiator to add value to customers?

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## Christel Heydemann

*Executive Vice President-France Operations, Schneider Electric SE*

Absolutely. So, in the last two years, we spent a lot of time with our sales force to upscale them. To bring them up to speed, what is the values we can sell through the EcoStruxure platform? It took some time so to be really able to pitch this, like what is really the big advantage is a key differentiator also to get to the C-level. So before, we were talking to the Technical Director, we were talking to the engineering team about the context. Now we talk with them about digitization. And the CEO is very much interested to meet us and the Chief Digital Officer or the CFO depending on the structure of the company. And this gives us a much better access to the, let's say, wallet of those customers which is clearly an advantage to our competition.

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## Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

So, new sort of go-to-market approach, thanks to EcoStruxure as well and the ability to cross-sell more business as well.

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## Christel Heydemann

*Executive Vice President-France Operations, Schneider Electric SE*

Absolutely. And our sales force is very much motivated by this. So, it's something very attractive to sell.

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## Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

Interesting. Christel, maybe come back to you. I think maybe linking back to the point around the sales force and the topic of digitization. I think one of the big challenges around running the operations practically is around getting the right talent, retaining the right talent in a digital world. And that's a question we get from the investors as well that do we have the setup for the new digital world? Tell us that practically on the ground, how is Schneider thinking about this and how are you preparing for it?

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## Christel Heydemann

*Executive Vice President-France Operations, Schneider Electric SE*

Absolutely. Sure. So, I mean, first, we have our global function. I mean, Schneider Digital who really owns our Digital Transformation and all our digital program. And so, we really rely and work with them on a day-to-day basis. And they hire people and obviously they are great pool of talents that then we can pull into other parts of the company. So, that's the first one.

Second, I mean, to attract talent and I believe it's been said this morning, but we really have a strong and unique differentiation in the market. Thanks to our sustainability commitment. And most and that's even stronger, I would say, with younger generation. They want to know that they're working for a company that cares about the future, that cares about the next generations. And this is something that we've been doing not just as other companies recently, we've been doing that consistently over the past years and that's really we see that to attract people that's unique.

Now, when it comes to innovation and making sure that we're equipped with the technology skills, I mean, and also in system on what again we said this morning, our multi-hub and our regional setup because this is key. Speed in a digital world is the essence. And so, leveraging our multi-hub approach to really work close to customers and with this agile setup that's key and again that's very important for our future moving into a more digital world.

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## Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

That's interesting. So, the angle of the multi-hub also being a structure which helps to attract the right talent going forward. Aamir, maybe on that very topic of multi-hub maybe not from the purpose of – from the context of having talent, but really again in terms of differentiating back to the operations, you're running North America in the U.S. Obviously, lots of geopolitical. So, the fact that we're structured on a multi-local basis as Jean-Pascal was mentioning this morning, what does that really mean on the ground from an operational standpoint?

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## Aamir Paul

*Country President-US, Schneider Electric SE*

Yeah. Look, I think the fundamental design point is what Christel just said. The underlying thing we're solving for is agility. And as someone who's dealt with tariffs on a reasonably regular basis, agility is becoming really super important element of how we operate. And I think the underlying thesis is simply this is. If the geography is big enough, the role of the organization is to push as much of the resources as close to the customer as possible, because the speed of things change, the adaptability and responsiveness has to happen close with the customer.

Now, the balancing equation in that is leverage of cost and scale and talent. If we hire the right type of engineering talent, we can create these hubs. You heard about R&D hubs. In North America and in the U.S. in particular, we have federal standards, we have state standards and we have city standards. And I would love to sit here and tell you they all are incredibly well coordinated, they're not. So, we have this incredible requirement to adapt really quickly. California and sustainability for example, in general will lead the rest of the country by a decade. But because of the fires that happened last year at PG&E, they're now adopting an entirely new protocol for how to deal with the summer issues that they're having, but how are we going to respond to that?

The ability to be local, to be a local expert with global technology capability is what these hubs afford us to do.

## Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

Right. And trying to put a sort of financial angle to that, I guess then if each of the big operations are looking to be almost multi-local, that requires resources, allocation of resources, don't tell us what you can't, but the idea would be that, how is that process internally in terms of allocation of resources between the different operations workers, is that a challenge? How do you see it? There's no challenge this way.

## Christel Heydemann

*Executive Vice President-France Operations, Schneider Electric SE*

No. This way.

## Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

There is constructive input in other directions. But look, I mean, are our stakeholders are here. Right. We have three businesses we work with. Our job is to build bottom up operating plans that look at the cycles of the business, the customers, the segments we're strong in, and say look, this is what we believe is possible, understanding macro, understanding micro.

Then the job of the businesses is to look at that globally and allocate capital to the geographies they can best utilize it. And that optimization is iterative. It has a degree of constructive tension in it, but it's the best way to make sure in a world where the cycles are changing faster that the right resources go to the right markets. I think internally, in the operations, the goal is simply to make sure that North Star of profitable growth is always sort of centered to those strategies.

## Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

So, sort of at a micro sort of level, your two shareholders are the two businesses – the three businesses...

## Christel Heydemann

*Executive Vice President-France Operations, Schneider Electric SE*

Three businesses is correct. Yeah.

## Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

All right. Thanks. Maybe another element around the financial part, and Barbara, I'm just reflecting on the first answer you gave in terms of the structure that we have. And of course, we talk about everything being more efficient and now we continue to gain efficiency. And in the first part, you've mentioned that the structure is quite focused on the customer and it's quite lean. But if we were to think about what could be the next level of efficiencies or are there specific areas within the operations where we can drive even further efficiency.

## Barbara Frei-Spreiter

*Executive Vice President-Europe Operations, Schneider Electric SE*

It's a very good point. In principle, specifically in the mature markets and we're all sitting in mature markets when you look at Western Europe, France and the U.S., we look continuously at the efficiency gains. So, our salary

level is high. There is inflation. We have to adapt and be agile to the structure. So, on the last two years, we were focusing a lot on layering to become simpler, to become leaner in this area. The next step from my point of view is now that we digitize more than we automate more. We have started this to do this in certain areas that we can do even more. And also working on a strong digital experience for the customer and I think that will bring us even more efficiency, but on the other side also a great customer experience. This as I see is the next great step in operations.

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## Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

And so that's evolving journey and sort of...

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## Barbara Frei-Spreiter

*Executive Vice President-Europe Operations, Schneider Electric SE*

Correct. Evolving journey.

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## Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

...a continuous one. Okay. I'm sort of just getting mindful of time and I think I want to make sure there's enough time for Q&A for everybody. But I think before we end, maybe one question and I can probably give it to all three of you. And really to understand that what is it that for instance success means to you in operations and maybe we go the other way. So Christel, if you want to just say, okay, what do you think is success for you in operations?

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## Barbara Frei-Spreiter

*Executive Vice President-Europe Operations, Schneider Electric SE*

So, I mean, there's not one criteria ultimately and we have to take a very balanced view because we're managing, we have different stakeholders and responsibility. Now, I mean being in this room ultimately it's financial performance and we need to make sure and our primary role is to deliver growth, I mean, absolute value growth and to make it profitably and sustainably.

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## Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

Yeah. Look, I think in addition to owning the P&L and being accountable for profitable growth, I'd say we talked a lot about customer saturation and customer breadth. And I think those two matter a lot. Going deeper with customers we have, understanding their business, understand their challenges and evolving with them and then using our access to continually get new customers. So, if we're constantly expanding the number of customers and going deeper with the ones we have, I think that's a great barometer of success. Barbara, if we?

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## Barbara Frei-Spreiter

*Executive Vice President-Europe Operations, Schneider Electric SE*

But for me, it's people. So, people and customers. So, we are dealing these people on a daily basis and one of the success factors of course, there is the customer Net Promoter Score. That's a good key measure. How are they perceiving the relationship with us? And then the other aspect is of course our people. How do we develop our talent? How do we bring them up in our company? How do they talk about us? So, that for me is another big success factor which makes Schneider Electric.

## Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

Well, that's interesting. So, hopefully these success factors are all not mutually exclusive. And...

## Barbara Frei-Spreiter

*Executive Vice President-Europe Operations, Schneider Electric SE*

Correct.

## Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

...usually say it once. But we're not.

## Barbara Frei-Spreiter

*Executive Vice President-Europe Operations, Schneider Electric SE*

Yeah. We're just complimenting one other.

## Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

Yeah. But what I'm hearing is, P&L financial performance. You mentioned around saturating customers clearly take that as market share, I could say. And you're talking about very important aspect of people and structures. All right. So, I think we'll probably stop it at that. But thank you very, very much for your time. And may I just call upon the speakers from earlier today to kick off the Q&A session. It might be a bit cozy.

## Jean-Pascal Tricoire

*Chairman & Chief Executive Officer, Schneider Electric SE*

Cozy. Are we good? Yeah. It's going to be very cozy.

## Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

All right. So, we're all here. I think we have at least 30 minutes I would say. In order to make it fair for everyone, let's keep it to one question. We come back with the questions in the room. So, why don't we start right from here? Andreas, you want to take the first question.

## QUESTION AND ANSWER SECTION

Andreas Willi

*Analyst, JPMorgan Securities Plc*

Q

Thank you. You've added the comment to your margin target that you can go beyond 200% now longer-term and laid out a plan where you're going to do to invest into. Maybe you could [ph] lift the lever and cover (02:57:03) and tell us what you think the full potential is for Schneider in terms of profitability.

Emmanuel Babeau

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

A

It's a very good first question.

Jean-Pascal Tricoire

*Chairman & Chief Executive Officer, Schneider Electric SE*

A

Potential is good.

Emmanuel Babeau

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

A

To clarify, the ambition above the 200 basis points that we've been sharing with you guys is beyond 2021. So, nothing has changed for the three-year ambition that we've been sharing with you. And yes, indeed, as I said, the ambition is to say no glass ceiling to get to 17%. And at the end of the journey, it's one step in the journey. And as we see us as more and more high-tech content, digital company, yeah, we target to keep increasing the margin.

So, I'm not saying that anytime soon, we're going to be on the full software type of P&L. And I think that Craig nicely shared with us the ambition of AVEVA to get to 30% one day, but there is still a nice leeway of progression in the future beyond 2021. So, I'm not going to be more explicit, sorry for that, but I think that the ambition and the way we are phrasing it and the way we are sharing the vision with you, I think shows the kind of direction that we want to follow in the coming years.

Andreas Willi

*Analyst, JPMorgan Securities Plc*

Q

Thank you.

Guillermo Peigneux-Lojo

*Analyst, UBS Ltd.*

Q

Maybe I can ask a follow-up, I'm Guillermo Peigneux from UBS. More looking into what's going to happen from now until 2021, I guess we heard today transformation, increased solutions, increased services, increased software content. But yet, when we do the numbers from the 200 basis points and allowing for your divestments and potential improvement, we get to a very similar operating leverage on the group on the organic growth. Is that the right way to look at it or should we see how operating leverage actually changes as your transformation takes place?

Emmanuel Babeau

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

A

Well, I think we're sharing a lot of detail already on the mechanics and how we are going to articulate and the drivers, then, I let you make your assumption on what is going to be the weight of the various driver and what's going to be the operational efficiencies, the drop-through and so on.

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**Jean-Pascal Tricoire**

*Chairman & Chief Executive Officer, Schneider Electric SE*

A

It's the sum of three factors, right, [ph] through (02:59:19) optimization, then growth of higher value or higher margin business and that goes with technology. [ph] Productivity, as we've always had, I'm (02:59:30) probably pushing to a new level because I was describing the three phases, the phase of build, which was not [ph] destructive (02:59:39), but it takes some energy of the company, [ph] on some losses of energies and (02:59:43) integration generated a lot of costs, which are one-off costs. I'm not saying that we are not keeping on integrating, [ph] but that was cost (02:59:51). Now, we are in scaling, so we can get more traction behind.

So, it's a combination of those three and frankly, they are all linked together also, when you launch more technology, you have to invest together with it. So, it generates some costs. So it's difficult to spreadsheet exactly. But...

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**Emmanuel Babeau**

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

A

And we want to keep some [ph] freedom in a way (03:00:11). Ultimately, we're going to deliver...

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**Jean-Pascal Tricoire**

*Chairman & Chief Executive Officer, Schneider Electric SE*

A

Okay. And to be agile, because we don't know exactly what the world of tomorrow will be, but being much closer to the market around our hubs allows us to tweak or to adjust in a faster manner.

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**Guillermo Peigneux-Lojo**

*Analyst, UBS Ltd.*

Q

Thank you.

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**Amit Bhalla**

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

A

Thanks, Guillermo. Andreas? It's on the other side here.

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**Andreas Willi**

*Analyst, JPMorgan Securities Plc*

Q

Thank you. Andreas Willi from JPMorgan. I have a question for Philippe on Energy Management. There was a good example with Penn Medicine which shows a low voltage integrator early on in a big project and they said they've never done it before. I guess a lot of customers historically haven't done it that way.

What part of your business today is kind of driven by a decision like that where somebody says from a top-down perspective, I'm going to choose somebody relatively early on for some of the key low voltage, medium voltage, secure power part of the project rather than the traditional way where this is kind of put together later on in the process with lots of people having an influence on system integrators, specifiers and so on, and maybe where that ratio was in the past?

Philippe Delorme

*Executive Vice President-Energy Management, Schneider Electric SE*

A

I would say the more we grow EcoStruxure, the more there is value in the earlier discussion, which can be with design firms, which can be with end users. And frankly, we see that pretty much across all segments. So there is no – we do it in data center. We do it in [indiscernible] (03:01:39). I think you had a good example here. We do it in hotel. We do it with Peter in more industrial infrastructure application.

And on that one, I would say sky is the limit or the limit we have today to grow faster is probably our people and the capacity to deploy fast enough. People can drive those discussions, because when we are in front of either design firms or end users with this combo of energy and process or energy and information together, we are very unique and that's very exciting.

Andreas Willi

*Analyst, JPMorgan Securities Plc*

Q

[ph] And the size (03:02:21)?

Philippe Delorme

*Executive Vice President-Energy Management, Schneider Electric SE*

A

The size of the business?

Andreas Willi

*Analyst, JPMorgan Securities Plc*

Q

[indiscernible] (03:02:23) how big is that kind of top-down driven?

Philippe Delorme

*Executive Vice President-Energy Management, Schneider Electric SE*

A

I would say a lot of our end user driven business is like this. I think, I was giving the magnitude of what the partner business is. So by difference, you can probably guess what it is. And it's growing. But [indiscernible] (03:02:41) – sorry, and one thing important which is we have an end-user led business where we go direct, but what we see is like – so early in the stage, we talk with those end users. We talk with those design firms more and more. In many case, actually, we choose to go with partners and then, we transact. We might invoice less, but actually, we invoice, say, better, because we have a better mix of margin.

And a lot of the work we've been doing around better system is on, we call it, the transactionalization of our business, which is we drive an end-user led discussion and then, we orchestrate partners, which by the way, we did with Penn Medicine going through partners, but being the orchestrator in the back. So in that regard, it's more than, let's say, the straight 30% of the end-user led business we will have, bigger than this.

Jean-Pascal Tricoire

*Chairman & Chief Executive Officer, Schneider Electric SE*

A

Yeah. Just to dissipate any kind of misunderstanding as well in those – I think it's the vast majority of Philippe business. When you looked at a partner – when we go through partners, very often, there is a discussion happening at the level of the end-user on the project, is completely specified, because it's complicated, right. So, I will say in most of the countries, it's certainly [indiscernible] (03:04:07)

Philippe Delorme

*Executive Vice President-Energy Management, Schneider Electric SE*

A

[ph] It's somewhat (03:04:10) getting more intense is as we go – and I think Peter was showing it very well, that pyramid, where we started from products, let's say, 10, 15 years ago and the more we go high in the food chain with EcoStruxure value proposition with the best combo, the more meaningful we are for C level. And I'm very – we have very deep discussion with all CEOs more and more.

Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

A

Okay. [ph] We're taking this (03:04:42). Let's take one at the back. James?

James Moore

*Analyst, Redburn (Europe) Ltd.*

Q

Thanks. It's James Moore from Redburn. My one question is on the central line, which I think you renamed from corporate and holding cost to Central Functions & Digital cost. And I know on top of the shared services and the marketing, that has always sat in that line. You've put the Digital, Central global cost base. My question is really whether that line item is going to grow faster than group revenue growth over time as digital is a faster growing part of the company as opposed to something you might think it's a flat line item?

Emmanuel Babeau

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

A

So, the answer is yes, you should expect our investment in digital to grow faster than probably even our sales. I think I've been talking about what we intend to do in term of redeployment of our SFCs and therefore, clearly, digital investment is going to be a big beneficiary of this redeployment, and that's going to grow faster than the average SFC, but probably, faster than the top line as well, being itself a big driver of the top line. So, we should – that's really something you should expect for the future. And we hear the questioning on, is it relevant to have that amount here as a kind of central investment that we are making? So, we'll look at the future, whether – if it was becoming too big probably at [ph] some point (03:06:08) in time, we'll have to make some kind of allocation. But really, most of it is really servicing the food business of Schneider. So, to start to split it is, to some extent, a kind of fictitious exercise, but maybe we have to do that, not to give the feeling that we have a very fat corporate with very heavy cost, it doesn't correspond at all to the reality.

James Moore

*Analyst, Redburn (Europe) Ltd.*

Q

If I can just follow up, I don't know the split of that cost item, but I guess the digital might be something like a third, but the remaining part of it, things like marketing and the global shared services. Is that something that can stay more stable than revenue growth or would that part of it grow with revenue growth?

Emmanuel Babeau

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

A

Well, I think you have area where we would intend to generate extra productivity or increase productivity that I mentioned, so that should grow at a much slower pace than the average of SFC. Probably the marketing one for what is Central is spending on building the brand and building the franchise around Schneider. That is probably something that should grow on average faster. So, I will not say – I would say probably not as fast as Digital. But, yeah, I would expect to continue investing on that line, because it makes sense. It create value.

James Moore

*Analyst, Redburn (Europe) Ltd.*

Thank you.

Q

Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

Okay. Thank you. Let's go with Ben.

A

Ben Uglow

*Analyst, Morgan Stanley & Co. International Plc*

It's Ben Uglow from Morgan Stanley. I'm not sure if it's a question for Peter or for Craig. But there were some brands that were required as part of the Invensys transaction. Avantis, SimSci, Wonderware, very well-known and let's say famous brands in kind of factory software. We don't hear a lot about how those brands are doing. How are they managed within AVEVA, and how is the growth of that original factory software base?

Q

Craig Hayman

*Chief Executive Officer & Director, AVEVA Group Plc*

So, we have very limited time here today. So, we're wise in skipping a lot of detail. So, monitoring and control would be the category that we would breakout in the AVEVA business, which would cover Wonderware and some of the other products that you discussed. That business is about 30% of our total business and is growing mid-single-digits. In fact, we've accelerated the growth rate of that business. Now, in terms of going to market to get scale, you have to simplify go-to-market. So, that's what we've done. So, some of – we had a hodgepodge of names and we simplified it. So, Wonderware has some AVEVA branding associated with it and that's how we connect it.

A

And then – and of course, we're cross-selling. So, Wonderware fits within monitoring and control and then we talked earlier about Asset Performance Management. You heard earlier about the massive productivity boost of that. There're some products in there called PRISM, there's others around dispatch. There's some [indiscernible] (03:09:00) brands. We've simplified that into Asset Performance Management. That's the fastest growing segment. That's over £100 billion growing at 20%, a lot of focus.

Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

All right. Take the next question.

A

Peter Herweck

*Executive Vice President-Industrial Automation, Schneider Electric SE*

Maybe one additional point to that is, since we've brought all of this together, we can use the beautiful franchise of the distribution that we have built on the software side, where now other software packages go through the same distribution channel. So, that's also accelerating some of the growth that Craig has mentioned.

A

Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

All right. We go with Gael.

A

Gael de-Bray

*Analyst, Deutsche Bank AG (France)*



Thank you. Good morning. Gael de-Bray from Deutsche Bank. I have two questions. So, I guess one for Philippe and the other one for Peter. So, for Philip first. In the past few years, we've talked a lot about the cloud and that sort of things and hyperscale data centers and alike. And now it seems that we are talking more and more about edge computing. So, we're getting back closer to the data tools and we're closing again – we're talking again much more about perhaps smaller data centers and I guess 5G – the deployment of 5G would probably accelerate that trend. So, the question is, how do you see this basically transforming perhaps the demand for Secure Power, Low Voltage and Medium Voltage going forward.

The second question is for Peter. I guess, you've talked about TeSys island. Seems that with this kind of product, you don't see a great future really for PLCs in the longer term. So I was wondering beyond TeSys, do you see other sort of products devices in the factory floors that could also be used to further displace the importance of PLCs in factories.

Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*



Philippe?

Philippe Delorme

*Executive Vice President-Energy Management, Schneider Electric SE*



Okay. So, one question [indiscernible] (03:11:05). So, on let's say the broader picture of Secure Power. So number one, on the web giants on the large data center, we see still a pretty strong market dynamic with the web giant and with what we call the co-location, which are actually maybe a smaller type of players, which by the way work very closely with web giants, so we see a strong dynamism here on that part of the business which by the way is supporting some of our growth.

Now, indeed, as we see that 50% of the traffic goes to the edge, we see an opportunity of Secure Power application close to the loads, which actually is a fantastic opportunity to reinvent what we call our [ph] HBN (03:11:52) franchise, which are our smaller UPS type of business. And the way we do that is, we go after vertical application, where, as you say, there is an opportunity to get the Secure Power, but actually to combo that with other stuff.

Very good example will be retail, retail chains where you have a need more and more to secure a lot of power usage in the shops – that are in those shops. You also need to monitor your energy. You need to control the heating or the cooling, in many case the cooling of the fridge and these kind of things. And we are working on combos of Secure Power, plus other application, which are made of a reference design that's standardized that then goes with one cloud application that allow us to have a multi-usage type Secure Power plus other application, giving a lot of feature and a very unique positioning for Schneider, because we come with multiple applications. So, all of this is early stage. So, we see some edge application in banks and you kind of think where we used to sell UPS, where we now sell more cloud application and we see an opportunity to expand to more segments in a very capillar way, which then comes very close to our Low Voltage business. Early stage, very exciting, a few verticals that are growing very well. We see opportunities in industry in that field too, because some of the, let's say, compute power has to be secured, so we're working hard on that. We'll come probably soon with a couple of example by vertical, but we see very good traction here.

Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

Peter, on PLCs? Yeah.

A

Peter Herweck

*Executive Vice President-Industrial Automation, Schneider Electric SE*

Yeah. So, to the second question, you're well understood what we're doing with the contactor family, TeSys island, so it's the idea to move some of the components in the cabinets into the contactor with the software. That will not be good for any application out there, but it's good for many, many applications, so I always will move into the contactor.

A

If you look in my example, what was left over as a PLC is really two or three components. One component is a piece of industrialized hardware. And on this industrial – it's called PLC. The higher value, however, is in the software that runs on this industrial piece of hardware, the PLC. And I'm saying these two not necessarily need to be combined in the PLC hardware and the PLC software. So, if you think of that, maybe the PLC will be virtualized. That's the tech term that we're using. Virtualize mean it can run anywhere, right. And with that, maybe that piece of hardware also goes away.

Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

Okay.

A

Peter Herweck

*Executive Vice President-Industrial Automation, Schneider Electric SE*

So stay tuned on that one.

A

Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

Okay. We'll take the next question, Jon.

A

Jonathan Mounsey

*Analyst, Exane BNP Paribas*

Hi. It's Jon Mounsey from Exane BNP Paribas. And maybe one for Jean-Pascal. Obviously, it's now over a decade since you launch EcoStruxure, you've mentioned that been investing in it, building it almost a life's worth to create it and I guess that's ongoing. In more recent years, we start to see maybe some competitors launch strategies, which look quite similar. I might point to ABB Ability perhaps, but how easy do you think it is for some of your competitors to replicate the strategy now, if it is the right way to go forward, which obviously you believe it must be?

Q

Jean-Pascal Tricoire

*Chairman & Chief Executive Officer, Schneider Electric SE*

I won't speak about them. I just know it was costly and painful for us. That's all. And you just need time, right? We had the demanding vision that if you wanted to go to digital, you needed to have one clear platform for each domain and ensuring backward compatibility with the past and every company faces it. Nobody was grown completely green roots on – as only one platform. So you have to do that effort. It's huge in software particularly.

A

Good rule of thumb is that you start the project with one budget, one unit of time, just multiply it at least by two, because it's more complicated than people think. And for us, it's done. So what does it mean for a customer? That means they can integrate their installed base going back from the past, 5 years, 10 years, and integrate them in our software platform. They can develop applications that will for all of the applications, they don't have five platforms on which are – of which different applications. And it's an IT-based architecture at every level. Therefore it's future-proof. It's ready for the future. They can start exchanging on benefit from the ecosystem of developers that is now existing on Exchange.

So it multiplies the possibility, it simplifies life because you can integrate the past, prepare for the future. And leverage all ecosystem of other people in the world to work on the same things. But now, take my word, it took us 10 years.

Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

A

All right.

Jean-Pascal Tricoire

*Chairman & Chief Executive Officer, Schneider Electric SE*

A

[ph] And I shut up (03:17:23).

Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

A

At the back there, Wasi.

Wasi Rizvi

*Analyst, RBC Europe Ltd.*

Q

Hi. It's Wasi Rizvi from RBC. Just one on understanding the three-year framework in the long – in the context of the longer term. So you've given us revenue and margin targets for three years, but then we're talking about investments and changes to your cost structure over the next four to five years. So, [indiscernible] (03:17:47) earlier question, should I think about the next three years as kind of continuation of some of the operating leverage and some of the mix trends that we've seen? But then the real kick that's come from these investments that you're talking about and I imagine changing 10% because core function cost takes time for the benefits to come through. Does the real kick come after that and how should I think about it?

Emmanuel Babeau

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

A

I think that's exactly the way you describe it for the next three years. And really to deliver the 200 basis points improvement and the overall objective that we've been sharing with you. I mean to a large extent, we've been launching what is going to deliver that and we are working on the driver. We have a pretty good idea of what we want to do with each of them as you've seen today.

Then beyond 2021, it takes time. I mean first of all to create the resources, to reinvest. So first, you need to generate the productivity, then you start reinvesting, and we are going for something beyond 2021 with some impact in terms of cost structuring. As we explained in terms of the re-deployment, it will be neutral, and then, hopefully, with some impact on more top line growth acceleration coming from all the investments that we're going to make, from more margin improvement given the evolution of the mix of the business that will start to kick in in 2022 and beyond.

So, I think the plan for 2019-2021 is pretty clear and I think we've been describing it. We're going to work in a kind of underlying manner, if you want for you to start seeing the benefit of the new investments beyond 2021.

Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

A

All right. We'll take – let's take one from here. Simon?

Simon Toennesen

*Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)*

Q

Yes. I've got one question on ROCE. When I look at your targets overall, I think the ability for you to take share has been quite well understood and you've shown it over the past years. Your 200-basis-point margin improvement, there's quite a lot in your own hands as well. But if I look at your returns, I mean we're still on average more towards the bottom end of your 11% to 15% range. Is it fair to assume that if the margin goes up 200 bps and your kind of build and integrate phase is done, and you're not trying to scale and focus, shouldn't the returns also start moving more towards say the upper end of that range or do you think that's unrealistic?

Emmanuel Babeau

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

A

So, Simon, you won't bring me to a guidance on that, but I would certainly, by the direction that you've just been giving, i.e. obviously, this ambition to improve the margin, we're going to stay very cash generative, and we certainly target to improve cash generation as an absolute amount. That's going to mean certainly that the ROCE is going to keep going up. That's an ambition that is going to accompany if you want the margin improvement. The margin improvement together with, of course, sustained strong cash generation is ultimately one of the big, if not the biggest, driver for the ROCE improvement to be very clear.

Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

A

All right. Delphine.

Delphine Brault

*Analyst, Oddo BHF SCA*

Q

Delphine Brault from Oddo BHF. You are targeting 20% of sales in services and software midterm. And what part of the growth beyond will be organic and what part will be M&A. And if M&A, what could be the role of AVEVA?

[indiscernible] (03:21:20)

Frédéric Abbal

*Executive Vice President-Services, Schneider Electric SE*

A

On services, it's going to be mainly organic growth. As I was explaining during my presentation, the installed base knowledge and coverage we have today is extremely far from what we should be having. So we have a huge opportunity on that one, and it's mainly an organic growth for the software [indiscernible] (03:21:42).

Peter Herweck

*Executive Vice President-Industrial Automation, Schneider Electric SE*

A

As you've seen, AVEVA is a wonderful company that's listed in the FTSE 100. And when we did the call after the closing, we said, number one focus is on integration and materializing on the synergies and the team has reported on that on the Capital Market Days. Those have been following a little bit closer, we've added the first acquisition just very recently, a very small tech acquisition in the area of asset performance management and that's going well. And we've built the company for profitable growth, as Craig has mentioned earlier.

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**Amit Bhalla**

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

All right. Peter.

A

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**Jean-Pascal Tricoire**

*Chairman & Chief Executive Officer, Schneider Electric SE*

One microphone needs to go.

A

[indiscernible] (03:22:42)

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**Peter Reilly**

*Analyst, Jefferies International Ltd.*

Good morning. It's Peter Reilly from Jefferies. You had an interesting chart showing organic growth versus your peers over the last two years. I mean, clearly, you've grown materially faster over the last five or six courses. If you roll that chart further back in time, another five years or so, I think the chart would look less impressive. There's a long period of growth being very close to peers or even underperforming.

Q

So what changed in late 2017-2018? Was it a cyclical because you had oil and gas coming back, China's doing better or it's just taking you a long time to integrate all the acquisitions, get everything performing properly? Because long term, your strategic narrative hasn't really changed in the last 5 or 10 years. It's been very consistent. You had a sudden acceleration in growth about five quarters ago. So, maybe you can help us understand what's driven that [ph] structuralism (03:23:25) and help us understand where it's going from here.

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**Jean-Pascal Tricoire**

*Chairman & Chief Executive Officer, Schneider Electric SE*

There were some elements of cyclicity. You mentioned a few. But frankly, the biggest thing was what we call selectivity. I know that it was sometimes question on [indiscernible] (03:23:39). It was really disengaging from part of the market that we thought were not strategically relevant for the future. On why we are doing that, it took a toll on the top line of the company.

A

And those were also – I think you said it all, there was selectivity, extracting ourselves from many markets. At the end of the day, it was several hundred millions that we had to take down, plus in the cost because we are, first, remember we're working on profitability, all because of the integration that we mentioned on the digital platform on creating EcoStruxure.

So, delicate balance of integrating, of refocusing and still delivering a correct performance. But what took it on the top line has been really more about selectivity that we had in several subject. Learning the solutions, right? If I spoke about the three phases, but we are just a product company, I was personally [indiscernible] (03:24:43) convinced that the future is digital because that was coming from facing the customer. And I would say in the future where everything should be connected.

When you go into digital, you can't make it just with products anymore. You have to understand the application in our field. You have to be deep with the application of the customer. And so, for us, learning the solution was to bring onboard people of services segment, architects, software development integration, 20,000 people that we didn't have in the company.

When we started to do that, we did that with a certain level of optimism that those guys would manage executive solutions as we expected. And some of that optimism was to optimists. So we really learned who was doing it well, who was not doing it well, which segment was promising for the future, which one was not. And that learning curve lasted five years. And it was that combination, selectivity, learning the solution and creating our digital platforms, which costed on our top line. When you do all of these, that number of things that you can do in a company at the same time, we've done quite a lot. But that moment has been real moment of intense internal work side.

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**Amit Bhalla**

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

Okay. I think another sort of five minutes so, Daniela.

A

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**Daniela Costa**

*Analyst, Goldman Sachs International*

Thank you. Good morning. It's actually a very quick question just in terms of financial reporting on – I wonder why do you exclude on your definition of margin, the restructuring expenses. I guess they've been there for a few years. I understand you increased the guidance because you want to grow and have more ambitions for productivity. But wondering if at some point they will fall in and then they are really exceptional or should we consider them ongoing for executing your plans?

Q

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**Emmanuel Babeau**

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

Well, I think, Daniela, for the very reason that we want to give a reference that is really comparable year-on-year and, as you've rightly said, we have some important variation on the restructuring. So we want to make sure that people understand the underlying performance than depending on the environment. The ambition that we are following, we may accelerate in restructuring. There is a kind of underlying amount of restructuring and I think we said it, which is probably around €150 million corresponding to productivity and the necessity of adapting our company to a fast changing world and that's going to stay.

A

And then you have some kind of investment if you want on the long term to further improve the profile of the company. The number is clear, you have it and you treat it the way you wanted to deal with it. But I think certainly, given the variability of the amount, it's important to take it below the adjusted EBITDA which we think is a relevant reference giving visibility and understanding of how things are moving in an underlying way.

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**Jean-Pascal Tricoire**

*Chairman & Chief Executive Officer, Schneider Electric SE*

[indiscernible] (03:27:52) you can't have a disconnect between what we report externally and internally. I want people to dare restructuring. So there is no hesitation, right? So that's putting it there, makes that we're isolated but there is – we discuss it, of course, we budget it but it's part of a different plan.

A

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**Amit Bhalla**

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

A

All right. I think we'll take one last question, even though it's a second one for Simon, but that'll be the last one.

Simon Toennesen

*Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)*

Q

I've got one more on the cross-selling. You've been totally talking about this for many years, way more than your competitors. And obviously, if you're looking at your growth profile, it seems to be working. I've got a question how you track and measure this actually internally. So just irrelevant of the growth, I'd say we can all see that, but how do you make sure internally you track and measure it? And how do you incentivize your sales on this? I believe, historically, you have not directly incentivized your sales on cross-selling. Would that be a right way of looking at it? And how could you optimize this further?

Jean-Pascal Tricoire

*Chairman & Chief Executive Officer, Schneider Electric SE*

A

Yesterday, I met – we were one of the earliest adopters of Salesforce here in Europe. And actually, we're probably one of the biggest deployments. And that's to follow opportunities. And that's the key tool to follow what you call cross-selling, seeing saturation, serving the customer opportunities. That gives place to regular meetings, regular meaning very regular in the regions on solution. It's called the Solution Committee where people are meeting and they are addressing how they can play together, how they can really bring the solutions together.

It's served by delivery centers, people who are able – I was speaking about the solution people, people who are able to take on a project, which is a bit more complicated, on project management, if you want to drive it through partners or deliver it by our sales force a few cases that we want to serve by ourselves. And we incentivize people on interest.

And if you are smart and your salespeople are smart, they know where their interest is, if they can be differentiated by bringing the whole breadth of [indiscernible] (03:30:16) would do it. If they can help each other – they understand pretty far that they can help each other. Right. You help me one day, I help you the next day. That works. I mean, it's a simple system. There is no system actually. It just – it works, right. But it's really tracked by tools, organized in terms of local teams, followed up more centrally or regionally for the most important opportunities. Plus, we have an organization in charge of strategy customers of segments which is led according to segments by Peter and Philippe. They organize a much more systematic approach of some segments. We saw Penn Medical, but there are plenty of other examples.

Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

A

All right. I think...

Jean-Pascal Tricoire

*Chairman & Chief Executive Officer, Schneider Electric SE*

A

And, look, I mean, this is the way we built the company not because there is a dogma on an ideology, but speak to the customers. Okay, I am setting up a new factory. Before, it was pretty simple. It was a bunch of power, a bunch of automation, maybe. Now, it's all IoT integrated or maybe it has to be connected through AVEVA [indiscernible] (03:31:24) control in their company.

Life is complicated. So, you want to take those modules which are integrating by themselves. Again, when you go to a customer, this is their first request. I understand that to manage a company, frankly for me, much more complicated, because we are taking over the complexity of the customer inside the company to solve the problem

with partners mostly. But at the end of the day, this is what the customer wants. And simple principle for me, what the customer wants, we better deliver. Does that answer? Yeah.

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## Amit Bhalla

*Senior Vice President & Head-Investor Relations, Schneider Electric SE*

All right. I think we'll have to stop at that. I believe we have several questions on through the Webcast as well. We will make sure to get back to each one of them through the IR team. And, of course, all of you know that you can reach us as well. But with that, I think we close the webcast, and thank you, all. For the morning session, I will just spend a minute or two once we disperse from the stage on the logistics and what needs to happen next.

So, that's the conclusion of the morning session.

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## Unverified Participant

Thank you.

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## Jean-Pascal Tricoire

*Chairman & Chief Executive Officer, Schneider Electric SE*

Thank you, Amit.

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## Emmanuel Babeau

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

Thank you.

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