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PRESENTATION

Operator

Welcome to the Schneider Electric's 2023 Q1 Revenues Conference Call with Hilary Maxson, Chief Financial Officer; and Amit Bhalla, Head of Investor Relations. Thank you for standing by. (Operator Instructions) I would like to inform all parties that today's conference is being recorded. If you have any objections, you may disconnect at this time.

I will now hand you over to Amit Bhalla.

Amit Bhalla - *Schneider Electric S.E. - Vice-President of Financial Communication & IR*

Thank you, operator. Good morning to everybody, and thanks for taking the time to join us this morning where we talk about our Q1 2023 revenues with Hilary Maxson, our CFO. The presentation, press release are -- is already available with you on the website. And I'll hand it over to Hilary to go through the presentation, and then we'll come back for questions. Hilary?

Hilary Barbara Maxson - *Schneider Electric S.E. - CFO*

Thanks, Amit, and good morning, everyone. I'm happy to be here with you today to comment on our Q1 2023 revenue numbers as well as to update you on expected trends for the year, and I'll finish with our full year guidance.

I'll start on Slide 3 with some highlights on the top line for the quarter. We had a very strong start to the year with a continuation and, in some cases, acceleration of the same trends we saw in Q4 of continued strong demand across most of our product lines and end markets, driven by the strong secular trends of electrification, digitization and sustainability, continued good contribution from volumes as well as strong price carryover.

Both businesses had a record Q1, with Energy Management finishing the quarter at EUR 6.5 billion and organic growth of 18%, and Industrial Automation finishing the quarter at EUR 2 billion and organic growth of 10%. Industrial Automation continues to be relatively higher impacted by supply and by AVEVA's transition to subscription, but had a good pickup in both volumes and demand throughout the quarter.

Moving to the details of our strategic growth pillars. More products continues to progress strongly, up 11% for the quarter, driven by demand and backlog execution in OEMs and with strong demand across most end markets for energy management, mitigated by some deceleration from heightened residential building and consumer-led distributed IT. And within products, we continue to see relatively stronger growth in our connectable products, a key driver of our digital flywheel.

Software was up 10% for the quarter, supported by energy management software and digital services, with our agnostic software companies in electric design and build plus our EcoStruxure advisers all performing strongly. We're pleased to see that AVEVA remains on good track in its transition to subscription and drove a strong acceleration to 16% ARR growth at the end of Q1. And I'll give a bit more detail on AVEVA in a few minutes.

Field services were up 14% for the quarter, with strong performance in both businesses, a good indication that the double-digit demand we drove in 2022 is translating into sales as supply chain constraints ease. We also continue to see double-digit growth in our sustainability business despite a high base of comparison we have there, driven by sustainability consulting and our efficiency projects, which are our main driver of pull-through.

And I highlight an example from our PPA business here, where we facilitated a new PPA between UNITED CAPS, an innovative company in the packaging industry; and Renantis, a Swedish wind farm. This agreement will see UNITED CAPS' purchase around 40% of the electricity produced by the wind farm over a 10-year period, which will contribute directly to reducing their scope 1 and 2 emissions.

Turning now to our own sustainability journey where we had a good start to the year. You can find the full details of our sustainability performance in our press release and in the appendix to this presentation. However, I did want to highlight here that we'll offer all shareholders a chance to express their views on our climate strategy through a say on climate resolution in our upcoming AGM on May 4.

Moving now to AVEVA. As you're aware, AVEVA is now 100% owned by Schneider, and we're already beginning to see the benefits of this new and simplified corporate structure. At the end of the Schneider Q1 is when AVEVA would have presented its annual results, we thought it would make sense to share the results of the key operating metrics we're focusing on as we drive the subscription transition at this business as well as cooperation with our other agnostic software businesses.

I'm happy to report that we saw a strong finish to AVEVA's fiscal year with a significant acceleration in their ARR, which remains the key metric we're focused on as we go through this transition. ARR was up 16% at the end of March. And what's particularly encouraging is the degree to which this was driven by net new customer wins, demonstrating great traction for AVEVA's offers.

Pointing to a couple of elements that speak further to the acceleration of this transition from license to subscription, recurring revenues represented 73% of the revenues for the fiscal year. And within that, AVEVA drove particularly strong growth in cloud-based SaaS revenues, both of those metrics tracking ahead of plan. Overall, we believe that the transition to subscription is on a good track, including the as-expected headwinds on organic growth and on margin, which have been considered in our overall near- and medium-term guidance.

Of course, these headwinds will diminish as the transition progresses. And on the chart on the right, you can see the shape of how we expect these transition impacts to occur over the next years, fully abating by 2026. You can also see the underlying growth for the business, despite these accounting headwinds, remain strong. We're excited for the future of AVEVA and our overall agnostic software offers and will share more during our CMD.

To give a concrete example of how we're bringing our digital offerings together, we've highlighted a particular customer win in the rightmost column of this slide. Here, we engaged with the customer in Spain, Metro BCN, a public company which manages the subway of Barcelona, to ensure its operational teams had the right information to manage its energy and operations through advanced data analytics and an operational intelligence by bringing end-to-end visibility across facilities to improve safety, efficiency and interoperability.

More specifically, the solution is a combination of our Modicon control products, our ETAP design software and AVEVA's unified operations center along with some additional AVEVA offerings. This is a good example of how the combination of EcoStruxure and our agnostic software offerings comes together to solve customer pain points across both existing and new facilities and systems.

Turning now to the details of our Q1 revenues. We finished the quarter at EUR 8.5 billion in revenues, up 16% organic year-over-year, with an estimated 5 points of that due to volume with a particular uptick in systems and services volumes. Price also contributed strongly, primarily due to carryover. All of our regions contributed to our strong organic growth, with Asia Pacific impacted by the as-anticipated slower start in sales from China, but where we did see signs of demand recovery in the second part of the quarter.

The scope impacts of around 2.8 points are primarily due to our exit from Russia, and FX impacts are close to flat after the strong positive impacts we saw in 2022. Based on current rates, we would expect the negative impacts from currency translation to impact top line by negative EUR 1.25 billion to EUR 1.35 billion, and by around minus 70 basis points to adjusted EBITDA margin, partially due to some reversal of last year's gains in major currencies versus the euro and partially due to devaluations in Egypt, Argentina and Turkey. We do engage in agile pricing and hard currency billing to primarily offset the impacts from any significant devaluations in the emerging markets, so we would expect some offset from these in our organic results.

Turning now to some highlights by our end markets. On this slide, we speak to the combined end markets of Energy Management and Industrial Automation and the dynamics we saw throughout the quarter. Starting with buildings, we continue to see strong sales and strong demand in nonresidential buildings, with customers focusing on energy efficiency, digitization and sustainability and with a strong dynamic in renovations. Residential building sales remained positive, supported by backlog execution and with particular strength in the U.S. Demand in residential continues to moderate as expected, particularly in new build, with relatively stronger demand in renovation.

Data center and networks remained strong with double-digit sales growth supported by continued strong demand for data centers across most of the world, with spending in cloud bolstered by IoT, big data and now artificial intelligence. Sales in distributed IT remained positive into business customers, with a decline in sales of distributed IT to consumers. Sales and demand continued strong in infrastructure across both Energy Management and Industrial Automation, supported by continued investments in the electrical grid, in water and transportation.

In industry, demand also continues quite strong across OEMs and process automation in our major segments, with a noticeable uptick in demand in the U.S. and with some recovery in China, particularly in new energy segments, health care, life sciences and food and beverage.

Turning now to Q1 revenues by business and geography. Energy Management grew by 18% organic, with North America, a significant contributor, up 29%, with strong double-digit growth across all 3 countries. Growth was driven by strong demand and backlog execution across end markets, with some moderation in demand from high levels in residential building and distributed IT. Western Europe was up 18% organic with double-digit growth in all key geographies. Sales were driven by strong demand across our end markets and backlog execution, with some deceleration in demand in residential in a few countries.

Asia Pacific was up 5%, with China down less than 2 points, so a bit better than our expectations, due to disruptions from COVID in 2022 and at the start of this year. India was up double digit with strong growth and demand across end markets. Australia was flat, impacted by a slowdown in residential, with double-digit growth across most of the remaining countries. Rest of World was up 19%, with double-digit growth in most geographies and strong contribution from price, particularly in economies with high inflation.

Turning now to Industrial Automation. Revenues were at EUR 2 billion, up 10% organic, with strong double-digit growth in process automation, while OEMs continued to be impacted by supply constraints now easing and a slow start in China. North America was up 10% for the quarter with double-digit growth in both U.S. and Mexico, with Canada down slightly impacted by software. U.S. saw double-digit growth in both OEMs and process and hybrid industries, with strong demand across most segments. Western Europe was up 11%, supported by some easing in supply chain and driven by continued strength in OEM as well as process and hybrid with strong demand across most segments, partly offset by impacts from the transition to subscription and software.

Asia Pacific was up 4%, with China down mid-single digit as anticipated, but with pickup in demand momentum, particularly in March, across both OEMs and end users. India continued with strong double-digit sales up more than 20%, driven by demand in discrete automation and software. Most of the rest of Asia Pacific was at double-digit growth supported by demand, backlog execution and software, with Australia adversely impacted by software timing. Rest of World was up 18% with all key geographies up double digit with strong demand across both OEMs and process and hybrid, further supported by backlog execution.

Prior to moving to expectations for the full year in guidance, we saw that it would make sense to share with you a bit of information on our order and backlog evolution, as I know from speaking with many of you, this is top of mind in understanding the various trends as the supply chain crisis eases and delivery times and inventories normalize. On the left-hand side, we show order trends in some of our key segments year-over-year and versus Q4.

As you can see, on a whole, orders remain strong and sequentially improving despite lead time normalization starting to happen. And due to the strong demand trends discussed throughout the call, we continue to see an increase in the already record backlog levels we reported at the end of Q4, despite the backlog execution we realized in our sales in Q1.

Moving now to Slide 13 with an update on our market dynamics. First, we continue to see a strong demand environment supported by accelerating secular trends of electrification, digitization and sustainability, further bolstered by government incentives across key geographies around the world. As mentioned prior, we also continue to expect to see moderation in consumer-linked segments, primarily residential and distributed IT.

In terms of geographies, I'd like to highlight our 2 largest. The U.S. is expected to continue to contribute strongly to our growth this year due to strong demand across most end markets, including nonresidential building and industry and backlog execution. And we expect China to see a progressive recovery in demand as we already saw starting in March. We continue to expect an easing supply chain environment supporting volumes and a deceleration in inflation.

With this backdrop, we're upgrading our guidance to 2023 adjusted EBITDA growth of between plus 16% and 21% organic. This is supported by our assumptions of growth in our organic revenues of plus 10% to 13% and an expansion of our EBITDA margin of between plus 100 and plus 130 basis points organic.

With that, I'll turn the call back to Amit for the Q&A.

QUESTIONS AND ANSWERS

Amit Bhalla - *Schneider Electric S.E. - Vice-President of Financial Communication & IR*

All right. Thank you very much, Hilary. Hopefully, that was clear for everybody, but happy to take one question per analyst and then, time permitting, we'll come back. So with that, we're going to open up to the first question. Operator?

Operator

The first question is from Phil Buller of Berenberg.

Philip John Buller - *Joh. Berenberg, Gossler & Co. KG, Research Division - Research Analyst*

I'm curious to hear how you're thinking about the broad shape of the P&L going forward on a multiyear view in big handfuls. I'm not after a numeric guide, obviously, it's more of a relative question between the 2 businesses. Obviously, both are attractive and they've been growing very strongly, but the Energy Management business continues to outgrow IA. And I appreciate some of that may be accounting, but the IA business has been the one that's consumed a high amount of M&A dollars of late.

So I'm curious to know, would you expect both businesses to typically grow at a similar rate through the cycle, whatever that rate of growth may be? Or is EM just a more structurally attractive place to be? And in terms of enabling that growth, you talked about R&D investment moving towards 7% of sales at the last Capital Markets Day, so is that accelerating R&D spend happening in the upgraded margin guide? And if so, is that organic R&D increase being steered more towards Energy Management at this stage?

Hilary Barbara Maxson - *Schneider Electric S.E. - CFO*

All right. Quite a few questions in there. So let me just talk first about the broad shape of the -- well, actually, let me first address the similar rates throughout the cycle. So it's true that over the past couple of quarters, we've seen that Energy Management is above Industrial Automation in growth rate. A couple of reasons there, we're relatively more impacted by the supply chain crisis just with a relative higher amount of electronic components in Industrial Automation versus Energy Management. Plus, of course, the software AVEVA has really reported basically entirety through Industrial Automation, so the subscription transition is also impacting industrial automation.

Now as you know, we run our business integrated basically. And both of these businesses sell into the same strong end markets that we expect to see over the next years. So over the cycle, we think that there's just as much opportunity in Industrial Automation as there is in Energy Management. And of course, we have some points that will end -- we have an easing supply chain environment. And of course, we have -- I think I now gave you even more information than we've given in the past about when we expect the impact from subscription at AVEVA to be finishing. So overall, I think I would say that we expect both businesses have similar rates of opportunity for growth over the cycle.

In terms of R&D, indeed, we've talked about that acceleration. And of course, that's something we take into account in the upgrading guidance that we've given for this year. I wouldn't expect that it goes more towards Energy Management versus Industrial Automation. Both businesses, we expect to put the right level of R&D to support the business. We have more software in Industrial Automation. We have more electronics in Industrial Automation. So just naturally, it has a higher percentage of R&D as a percentage of sales to start with. But that's not really how we think about making the investments, right? We're making the right investments to support the businesses.

Broad shape of the P&L, therefore, between the businesses, there's a couple of points that I would make there. Broad shape of the P&L just for 2023, of course, we're a bit opposite than last year, right? This year, we have a lot of price in the first half, because we're focused on carryover a bit less. So we might expect to see a little bit opposite shape of the P&L this year versus last year. Between the businesses, growth is always a component of growing the P&L. But in general, and you saw in the full year, that in fact, we expect to track fairly similarly. I think there are similar margin opportunities between the businesses as well. As well as particularly with Industrial Automation, we have that growth in software that impacts the gross margin.

Amit Bhalla - *Schneider Electric S.E. - Vice-President of Financial Communication & IR*

Thanks, Phil. I noted you put in 3 questions in one, but they were good ones.

Operator

The next question is from Jonathan Mounsey of BNP Paribas.

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

Thank you for letting me ask some questions. Actually, you touched on the first one I wanted to ask just at the end, but perhaps a little more color. Obviously, price is going to -- did pay a major component in Q1. Just remind us maybe what the level of price was in the first quarter. I'd be very interested to know what you think it's going to be in Q2. And are you raising prices still year-over-year, meaning that we'll have a price effect in the second half? And if so, any feeling right now as to what the magnitude of that might be?

And then as a second question, just on China. Obviously, we know it was weak in the first quarter, you had already guided for that. How are you seeing it so far in Q2? Are you seeing that pick up that your guidance implies is going to happen? Are you seeing it accelerating already as we go post Q1?

Hilary Barbara Maxson - *Schneider Electric S.E. - CFO*

So on the price side, like I had mentioned, out of the plus 16% organic growth that we had in the Q1, around 5 points of that is from volume. Okay, it's not an exact perfect science, but their -- exact perfect measurement, but around the rest, therefore, you can assume is related to price in the Q1. Much of that is carryover. We -- I mentioned we expect a deceleration in the inflation environment this year, not a complete -- not a reversal in inflation. So we'll continue to selectively price for inflation. You saw last year that it was -- even despite the pricing, we had a bit of a drag on the gross margin level. So we continue to make sure that we have the right price associated with inflation.

And of course, we always look for value-based pricing opportunities as well. But in general, the majority of the price we would expect this year would be for carryover. A lot of the pricing that we did last year started to really hit in the H2. So you can assume that carryover is generally there in the H1. No different than what we said in the full year, we expect a few points, therefore, of overall pricing in the full year as a contribution to the guidance ranges we put in.

In China, indeed, like I'd mentioned, we -- a slow start to the year as we expected in both of the businesses. Energy Management, particularly even a bit stronger than we had expected. In terms of demand, though, like I mentioned a couple of times, we did start to see a good pickup in the demand environment across quite a few segments, particularly in the second half of the quarter, and that's where we are today. We have a particularly low baseline in the Q2. If you recall, we were strongly impacted by the Shanghai lockdowns last year. So I think both the strong demand pickup that we start to see as well as the baseline in the Q2, we still feel quite comfortable, like I mentioned, that China will be a good contributor to the growth ranges that we showed for this year.

Amit Bhalla - *Schneider Electric S.E. - Vice-President of Financial Communication & IR*

Thank you, Jon. Next question, please.

Operator

The next question is from Alasdair Leslie of Societe Generale.

Alasdair Leslie - *Societe Generale Cross Asset Research - Equity Analyst*

Just on the guidance upgrade, maybe you can give us a little bit more insight into the thinking behind the upgrade, how much of that was driven by the supply chain situation and the backlog versus kind of confidence in demand. And has there been anything, I suppose, that incrementally surprised you in Q1 that's also influenced the guidance upgrade, I suppose, particularly in relation to Slide 12, I think, and the development of some of those verticals that you highlight on a sequential basis?

Hilary Barbara Maxson - *Schneider Electric S.E. - CFO*

So the guidance upgrade for us, and I know that it's still a bit early days, right, we're just at the Q1. But we saw good trends in the Q1, both in terms of the demand environment. And you saw in sorry -- I don't know if it's Slide 12. But in one of the slides, we showed about the record backlog and the increase in backlog that we saw, even though the supply environment continues to ease as we expected. So I think good signs, both in terms of supply, both in terms of demand, leading us to feel comfortable with that upgrade.

Amit Bhalla - *Schneider Electric S.E. - Vice-President of Financial Communication & IR*

Thanks, Alasdair. Next question, please.

Operator

The next question is from Ben Uglow of Morgan Stanley.

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

It's really just a general question about Industrial Automation. I take onboard the point that you've still got some supply chain constraints. But what I'm trying to reconcile is, some of your competitors, and not just one, are actually kind of saying the opposite. They've seen a big acceleration in growth this quarter, and they're sort of targeting more than 15%. So how -- I guess what I'm politely trying to ask is, is this really just supply chain? Or is there something else going on in terms of either, I don't know business mix, geographic mix? How do I explain that gap?

And a sort of related question, thank you for talking about orders and backlog. Can you give us a sense of your order patterns within Industrial Automation specifically? Are we looking at a book-to-bill sort of above 1 still or not?

Hilary Barbara Maxson - *Schneider Electric S.E. - CFO*

Okay. Again, a few questions. So in terms of -- so of course, we watch competitors probably as closely as you do. We certainly don't look at our numbers in a vacuum, but we're always rating ourselves in terms of performance against competitors. Of course, our competitors in Industrial Automation, there is a different geographic mix and business mix. In particular, we're not exposed, for example, to the automotive sector. We have a particularly strong footprint in China, for example. So of course, we're always looking at that.

In terms of the supply constraints, I guess there's a lot of ways to still define whether we're in a supply-constrained environment or not. For us, we're defining supply constraint -- or when we would feel internally that we're out of the supply constraints when we're "back to normal" is when all lead times are back to normal when the backlog starts to normalize. So that's for me, why we continue to say that we continue to see some supply constraints more relatively impacted in Industrial Automation. No doubt that the environment is easing. But I don't think there's anything other than that behind it, and I mentioned the AVEVA transition as well.

In terms of orders and backlog, therefore, in Industrial Automation, indeed, we continue to see -- and you can see in the graph, we didn't report on orders nor the book-to-bill, but I think it's implied in the graph that we showed. Including in Industrial Automation, yes, we continue to have a book-to-bill that's above 1 in the Q1.

Amit Bhalla - *Schneider Electric S.E. - Vice-President of Financial Communication & IR*

Thank you, Ben. Next question, please.

Operator

The next question is from Andre Kukhnin of Credit Suisse.

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

Can I ask about the nonresidential construction exposure you have and indications and indicators that you track internally. You've got some interesting software businesses that are quite early in construction stages, I think you've got some specified activity as well. I just wanted to hear from you how you've seen that trending for different subverticals within nonresi and what that points to maybe across Europe and U.S.

Hilary Barbara Maxson - *Schneider Electric S.E. - CFO*

Sure. So nonresidential construction, in -- so we have 37% exposure in terms of sales to building overall, with probably a bit more than 1/3 of that in residential. So the rest would be nonresidential building. And of course, we track certainly all of the economic indicators that you track, but we also very much look at our pipeline and all of the indicators that we have in terms demand in our -- in nonresidential building.

In general, across on residential building, we continue to see strength in demand. We highlighted a number of the segments where we saw particular strength and continue to see particular strength nowadays, including technical buildings, including hotel, including retail. So we continue to see, and I've mentioned it a few times, strong demand in nonresidential construction, and that's across geographies as well.

Amit Bhalla - *Schneider Electric S.E. - Vice-President of Financial Communication & IR*

All right. Thank you, Andre. Next question, please.

Operator

The next question is from Gael de-Bray of Deutsche Bank.

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

I have a question on the margin objective you raised for the full year. This targeted 100 to 100 bps improvement on an organic basis would probably be one of the best performances ever achieved by the company on an annual basis. So I'm just wondering, I mean, given the negative mix dynamics, with solutions and the U.S. probably growing a bit more than the rest, what are the key drivers behind the grade to the margin target this year. That would be great if you could provide a bit of indication on this. Is this mostly price related? Is it more about efficiency? And while you're on it, could you perhaps put on the dilutive impact from the SaaS transition on margins?

Hilary Barbara Maxson - *Schneider Electric S.E. - CFO*

So in terms of the guidance we gave on the organic -- and of course, probably a key target for us is making sure that we track progressively on our EBITDA margin, even nonorganic as much as we can without major disruptions in the environment. But this year, in particular, we have a couple of things that are going on. First, like you mentioned, we continue to have price carryover. Last year, we had some detraction in our gross margin because we hadn't yet covered the entirety of the impacts from a gross margin standpoint in terms of a -- in terms of price. So that's something that we're particularly interested in offsetting this year. We also continue to think that we're in a, now, a decelerating inflation environment, but not a retrenching inflation environment. So it still remains a good environment for pricing.

The other point that we mentioned is, last year, we had gross productivity around $150 million due to the supply constrained environment that we were in. Normally, we'd be tracking more in the range of $300 million plus, and I had mentioned in the full year call that we would expect to start to normalize that number in gross productivity, which is a big driver of our gross margin, has been in the past, and we had mentioned that at the Capital Markets Day that we expect it to be a driver in the future.

Now we do have some different mix impacts. Last year, we talked about the transition to subscription. And in the second half of the year, we had a little bit of a different dynamic between the products and systems business. But we've taken all of that into account in the margin guidance that we gave.

Amit Bhalla - *Schneider Electric S.E. - Vice-President of Financial Communication & IR*

Thank you, Gael. Of course, we'll update that at the half year mark when we report the full P&L. Next question, please.

Operator

The next question is from Guillermo Peigneux of UBS.

Guillermo Peigneux-Lojo - *UBS Investment Bank, Research Division - Executive Director and Industrials Analyst*

I have one related to the underlying from the U.S. and European market. I guess you already mentioned in the past that you saw some of the IRA act spending pattern is starting to happen, and I was wondering whether you are starting to see anything similar in Europe, if at all. Yes.

Hilary Barbara Maxson - *Schneider Electric S.E. - CFO*

So in Europe, the U.S. has the one big act that they've put into place that's gotten a lot of headlines, and we've talked a bit about that for ourselves. In Europe, post-COVID, there's been a series of sort of smaller acts, but combined, they do make an impact on ourselves. So similar to the U.S. act, the European sort of series of acts, under the Green Deal, under the post-COVID recovery fund, are exactly focused on electrification, digitization, a lot of trends in sustainability.

So in fact, starting as early as 2021 in a couple of the countries -- because the U.S. has to go to the States, the Europe has to go to the actual -- the EU has to go to the actual countries, I think as early as 2021, we started talking about seeing impacts, particularly in France, in Italy, of the recovery funds. And now we start to see rolling in some of these underlying again, smaller packages, but there's a few of them in the Green Deal. One difference I would point out in Europe -- so we do see the -- so we do start to see the benefits of that.

One difference I would point out with Europe is the European acts are a mix of incentive, so subsidies, but also disincentives. So for example, we saw some laws being changed on building renovation, so forcing the renovation market there. And indeed, we start to see the impacts of that already today.

Amit Bhalla - *Schneider Electric S.E. - Vice-President of Financial Communication & IR*

Thanks, Guillermo. Next question, please.

Operator

The next question is from Alexander Virgo of Bank of America.

Alexander Stuart Virgo - *BofA Securities, Research Division - Managing-Director*

I wondered if you could just go back to the backlog question a little bit. I think at the end of last year, you'd said $16.5 billion in 6 months of sales in terms of the visibility it gave you. I just wondered if you could give us a bit of an update, maybe just in terms of the visibility by division, particularly in the context of your end observations. And thank you for that, really helpful to see the different dynamics, I wondered if you could comment on the machine solutions and OEM segments, given the difference between year-on-year and Q-on-Q, and CPG Energy?

Hilary Barbara Maxson - *Schneider Electric S.E. - CFO*

So we're not going to probably get into the habit of giving detailed backlog information. We particularly wanted to give some information. We don't report on orders, we don't report on backlog, except we give the backlog on an annual basis in our URD. We thought it was important anyhow to give you an idea on where that's tracking. So the Q4 versus the Q1, what I would say is that we remain at record backlog levels. So exciting that we continue to build backlog.

I'd already mentioned in IA that, in fact, the orders trend there is strong. You can see it in the sequential numbers and that we continue to build backlog there as well. So that would be in Machine Solutions and OEM. Across Energy Management, we tend to be building backlog, again, in all of the segments that we called out.

Amit Bhalla - *Schneider Electric S.E. - Vice-President of Financial Communication & IR*

All right. Thanks, Alex. We move to the next question.

Operator

The next question is from Martin Wilkie of Citigroup.

Martin Wilkie - *Citigroup Inc., Research Division - MD*

It's Martin from Citi. Just a question coming back on FX and pricing. You've alluded in the press release on the call that there have been some price increases in certain emerging markets where the currency has devalued. When we look -- you commented that pricing was about 5% -- sorry, volume is 5% in the quarter. So -- sorry, pricing. So when we think about that pricing number, does that include the sort of offset for FX? Or when we think about both that price number for the year and the FX number, just how we think about interplay in some of these markets where you've had quite big currency devaluations.

Hilary Barbara Maxson - *Schneider Electric S.E. - CFO*

Sure. So just to clarify on the numbers, around 5 points of the overall organic growth is volume. So you can sort of impute that most of the rest is associated with price. Within that, in terms of pricing, yes, you'll see the actions that would carry on both for offsetting transactional pricing, which is fairly automated in most of our emerging markets countries, so we're automatically offsetting for transactional pricing.

And then translational pricing, which is what we're showing below the line, and what we're showing the below the line around 70 basis points for. We also, in many cases, where countries fall into hyperinflation or where they have high degrees of inflation or high degrees of devaluation or even just volatility, we look to do hard currency billing, which therefore offsets all of the impacts, right? So I hope that gives you a bit of a sense. The transactional is always sitting in the organic. And then when we're pricing for inflation, it's also going to be sitting in the organic numbers that you see.

Amit Bhalla - *Schneider Electric S.E. - Vice-President of Financial Communication & IR*

All right. Thanks, Martin. I think maybe we take another 1 or 2 questions. Are there more questions on the line, operator?

Operator

Yes. The next question is from Eric Lemarié of CIC.

Eric A. Lemarié - *CIC Market Solutions, Research Division - Financial Analyst*

Yes. Just a small one on the guidance of this organic growth for the top line between 10% and 13% this year. Could you -- do you maintain that -- or could you confirm that there will be more volume than pricing effect in the organic top line?

Hilary Barbara Maxson - *Schneider Electric S.E. - CFO*

Yes. So like we mentioned on the full year, we still anticipate that there's more volume than price across the ranges there.

Amit Bhalla - *Schneider Electric S.E. - Vice-President of Financial Communication & IR*

Thanks, Eric. Maybe we take one more.

Operator

And the final question is from Jonathan Day of HSBC.

Jonathan Day - *HSBC, Research Division - Analyst of Industrials*

I was wondering if you could talk a little bit -- given all the comments around the backlog, I was wondering if you could talk a little bit about what you're seeing in terms of lead times and what the average lead time is and how that's been developing? And perhaps also, secondly, just walk a little bit through the really strong systems growth that we saw during the quarter.

Hilary Barbara Maxson - *Schneider Electric S.E. - CFO*

So lead times, I don't think we've ever given any much information on lead times. But we do start to see normalization of lead times. It's not there yet, but we start to see some normalization across most product lines. In terms of -- sorry, what was the second question? On the system. So in terms of the strong systems business. We've talked about the fact that we've seen strong end user business throughout 2022. That will be in things like data center, that will be in things like oil and gas, energy and chemicals, mining.

So we've been anticipating that we would have a strong degree of systems growth, which we've talked some time about that uptick in the more long cycle business. And for me, that's what we start to see, in particular, both starting towards the second half of last year and coming into this year as well. And we expect that, that would -- this uptick in the long-cycle business, the end cycle business, we expect that, that remains strong in 2023 and probably beyond '23 as well.

Amit Bhalla - *Schneider Electric S.E. - Vice-President of Financial Communication & IR*

All right. Thanks, Jonathan. And I think maybe we stopped there. I would mindful that the full year mark, we went over the allocated time. So hopefully have a few minutes back. I just want to draw your attention to the slide that you see now which has a list of upcoming conferences. And of course, the -- we are all available for any meetings and calls that need to be set up.

Special mention around the Capital Markets Day. We've spoken about that, and you're aware that we're having a governance evolution. Next week, we are going to have the succession for the CEO. And then the Capital Markets Day is now announced for November 9. More details to follow, but please mark the date in your respective calendars. So with that, thank you all for your time and attention, and have a good rest of the day.

Operator

Ladies and gentlemen, thank you for joining. The conference is now over, and you may disconnect your telephones.