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PRESENTATION

Operator
Welcome to Schneider Electric’s 2023 Half Year Results. 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

Well, thank you, operator. Good morning, everyone, from Paris for our half year results for 2023. I’m delighted to be here together with our CEO, Peter Herweck; and our CFO, Hilary Maxson. The presentation will be followed by a set of Q&A.

The press release and presentation should already be on our website. So with that, I’m going to kick start and hand it over to you, Peter.

Peter W. Herweck  Schneider Electric S.E. - CEO

Well, thank you very much, Amit, and good morning to all of you. I’m glad to be here to share our H1 ’23 results and also give you a sense of how we see the market and our opportunities therein.
Let me dive straight into the numbers, and I’m very happy to report a very strong Q2 and H1 with record numbers for the group. We’ve grown 15% organically in the first half with strong double-digit contribution from both our businesses and strong growth across all our 4 geographies, resulting in record H1 revenue of EUR 18 billion. Also, both our businesses contributed to the organic margin improvement of 190 (corrected by company after the call) basis points, ending the half year again with a record adjusted EBITA margin level of 18%.

Of course, Hilary will go into many more details of the numbers, but I wanted to share a few of the headlines of the first half with you. We’ve continued to build backlog during Q2. So that is another record high for the group even if it’s not shown here on the slide, but something to remember. That 18% adjusted EBITA margin translates as EUR 3.2 billion, which is equally a record for an H1. We’ve also grown our bottom line strongly with adjusted net income up 13% on a comparable basis with our net income is up 33% because of the cost taken last year, as you remember, associated with our exit from Russia.

Our operating cash flow continues to be very strong and free cash flow is also up nicely year-on-year and we expect, of course, a higher contribution of free cash flow in the second half of the year, as usual.

As this is the first time I’m connecting with many of you since I have assumed the CEO role just less than 3 months ago, I wanted to spend a minute to share on my few areas of attention since I have taken charge. Of course, I reengaged deeply with the business interacting with several groups of [stakeholders] (corrected by company after the call) traveling all to our key geographies, allowed me to cumulative meet more than 130 of our large customers, partners, of course, suppliers and key industry bodies.

In my attempt to go deep into technology, I’ve spent significant time with our R&D teams across the world to better understand the products, of course, the existing pipeline of new products and I’m very attached to the respective return of those. Most importantly, I’ve of course spent time with our great people and taking time to engage and listen.

I’m very mindful that I have had only limited interactions with our investors so far, an important stakeholder group. And in my mind, I’m taking, of course, time to meet with you and I’m close to the markets.

I would also like to highlight a few key events that we’ve engaged in over the last quarter. Firstly, I wanted to share the event centered around energy efficiency that we co-hosted alongside the International Energy Agency in Versailles in June, with representatives from over 80 countries, 30 ministers, 50 CEOs, more than 650 participants. It is very clear that energy efficiency is more important than ever, and there is building consensus around regulation to enable implementation.

We also hosted our Innovation Summit as usual in different parts of the world, most notably in Saudi Arabia, where we had more than 2,000 customers visit. It’s a country that is reinventing itself and embarks on the latest technology trends and innovations. We’re also honored to be listed the Top 50 Most Innovative Companies by BCG, something that we’re very attached to.

And as you know, I’ve spent the last 2 years at AVEVA, so I also engaged with the other agnostic software businesses of Schneider, and I’m pretty excited with the overall potential to build something really special. Further, we continue to engage different industries in their journey towards net 0.

Following the alliances we’ve built in the recent years in retail and pharmaceutical industries, we’ve just announced the partnership through our Catalyze program for carbon reduction in the semiconductor industry. That created quite a big engagement at the SEMI West just a couple of weeks back.

Now turning to our own sustainability performance, we achieved a score of 5.28 in our Schneider Sustainability Impact in Q2, putting us on track towards our interim goal of 6 for the end of the year.

Let me highlight some key drivers of our performance so far. Our SSI #3 where we target to reduce CO2 emissions from our top 1,000 suppliers, they have made significant progress, reaching 19% through extensive engagement of suppliers, in particular, through our iAccelerate Zero Carbon
Days in Europe and in North America, which provides suppliers with training, solution overviews and dedicated support to accelerate their carbon journey.

We also made good progress related to green material content in our products and in providing access to green electricity around 42 million people cumulative since 2008 and we're well on track towards our target of 50 million people, a big number. We are focused on all our ambition and commitments with a lens of making a significant impact to our customers and our ecosystem.

It is important that we work towards those ambitions and challenging targets in order to drive positive behaviors in our own operations and the wider communities in which we do business. So apart from making progress on the SSI ambition, we continue to help our customers, of course, to drive their sustainability journey. I’d like to share a couple of examples. One is the Choice Hotels International, where we support their long-standing commitment to helping its franchisees streamline operating costs and drive profitability through leading technology.

Another example here is Tereos where they are standardizing to use the AVEVA PI System, which is the golden standard of industrial data platforms to allow their accelerator plan to net 0 across various sites in Europe. Also, I would like to highlight our partnership with Green Yellow to provide microgrid solutions to small- and medium-sized businesses across Europe.

Of course, we continue to participate in great customer success stories across all the industries where we are active with our complementary portfolio in the unique and open EcoStruxure architecture. So I’d like to highlight a couple of showcases here, some client wins, 2 of them. So let me specifically highlight the following 2 wins.

First is the Compass Datacenters, one of the Inc. Magazine’s 5,000 fastest-growing companies. They design and construct data centers for some of the world’s largest hyperscale and cloud providers and campuses across the globe. We have formed a unique partnership with Compass, building together a state of the art integrating facility to support a high driven increasing demand for prefabricated modular data centers.

The second one I want to highlight is Verallia where our EcoStruxure power and process allowed the customers to decarbonize their process through electrification and automation. The replacement of gas furnaces with electric furnaces poses, of course, a challenge in process control paired with electrical distribution which we could resolve uniquely in the industry.

I’d also like to share many recognitions that we’ve won in H1 and this is a testimony of the great people of Schneider Electric, and we are proud of our contribution to our customers, our stakeholders and society at large. Many recognitions of which I can highlight the green Guidehouse leaderboard of microgrid integrations where Schneider earned the #1 spot in the leaderboard, which represents and recognizes our expertise in delivering at-scale purpose and technology.

Now equally proud of our recognitions regarding the gender equality metrics. This recognition highlights our ongoing efforts to increase gender equality across the company and nurture an inclusive and caring work environment. I’m also happy to report that our Employee Engagement Index, which we just took in June is at its all-time high as per the latest survey concluded just a couple of days back.

So I know you have a lot of questions regarding the economic scenarios and, of course, the impact on our markets and businesses. I will come back to you to speak about the expected trends. But before I pass the ball to Hilary to first take you through the numbers in more detail, I want to just reiterate that we believe we are very well positioned with our portfolio to help our customers across our 4 end markets to help decarbonize and drive energy and process efficiency.

This is a pivotal time for several of our end markets and the investments required to drive electrification and digitization for greater efficiency and sustainability will drive growth for the years to come. As you are aware, we will host the Capital Markets Day on November 9. And today, we confirm that, that will take place in London, and I’m looking forward to sharing more with you at this stage then.

Having said that, let me hand over to Hilary to guide you through the numbers in more detail. Hilary?
Hilary Barbara Maxson - Schneider Electric S.E. - CFO

Thanks, Peter. Great to be here with you this morning, and good morning to everyone. Happy to be with you today to discuss our strong H1 results and expectations for the full year. And I'll start with a few additional financial highlights.

As Peter said, we drove record revenues up 15% to organic which translated into our gross margin where we saw an uptick of 220 basis points organic supported by price carryover and a return to positive productivity and into record adjusted EBITA margin of 18%. We also continued to deliver record operating cash flow at EUR 2.7 billion for the half, and we drove a significant improvement in our year-over-year free cash flows and our cash conversion ratio.

Turning to some details on revenues. We finished the half at EUR 17.6 billion, up 15.3% organic year-over-year. Around 6 points of that was due to volume, driven by another sequential pickup in volumes in Q2 with the rest driven primarily by carryover from pricing actions taken in 2022. Sales in Energy Management were up 16.7% for the half, with industrial automation up 10.7%, and where we remain relatively more impacted from supply chain constraints, as well as the transition to subscription at AVEVA. Both businesses finished with strong backlog, and I'll speak more to that in a moment.

In Scope, we continue to see impacts from the exit from our Russia businesses last year, and FX impacts are now turning negative as anticipated, driven by a weakening in a number of currencies versus the euro. And as you can see in the footnotes to this slide, based on current rates, we would expect the negative impacts from currency translation to impact top line by between EUR 1.4 billion to EUR 1.5 billion and around minus 80 basis points to adjusted EBITA margin.

This quarter, we've included this slide showing the dynamics between our different business models of products, systems, software and services. As you know, our products business is mostly sold through distribution and partners, supported by prescription sales, whereas our systems business is primarily sold directly to the end user. Products continued to grow double digit, up 10% organic for the half, driven by price and backlog execution, as well as continued strong demand across most product lines.

Systems was up 29% for the half with strong contributions from both volumes and price and supported by strong demand across all of our key segments, particularly data center, transportation and power and grid. And due to the actions we've taken over the past years to improve our execution and customer selectivity paired with pricing, the margins we're seeing in our systems business model continue to progress favorably.

We also continue with strong momentum in software and services, up 12% for the half. Our agnostic software companies, so AVEVA, RIB and our eCAD software business, grew single digit despite our focus on transitioning to subscription and partly impacted by RIB's footprint in Germany. And we're pleased with AVEVA's continued strong growth in ARR, now at 15%.

In Digital Services, we saw strong double-digit growth driven by our EcoStruxure softwares and advisers, as well as our cyber services. And field services were up 13% for the half. This all translates into very good progress on our digital flywheel, with sales up 21% for the half and now representing 55% of our overall group revenues. I'll note here that in addition to software and services, we had very strong growth in our connectable products, up 26% organic, which is where our customers start their IoT journey. And also in Edge Control, up 23% organic, which is a key building block in the digitalization of the physical world around us.

We've again noted for this quarter the progression in our backlog and given an indication here of the demand dynamics in some of our key segments. Our backlog remains at record levels and continues to increase in the Q2 despite our strong sales performance and the easing supply environment. This reflects the strong demand dynamic we continue to see across most of our key segments and end markets.

In residential building, we continue to see some moderation in demand, although we do see some signs of stabilization in some geographies. And in OEM, we start to see a moderation in demand from machine builders as these customers work through lingering impacts from the supply crisis and shortening lead times. And I'll note that OEM is where we still have abnormally high backlogs across most geographies.
Turning now to second quarter revenues. We were up 14.8% organic to EUR 9.1 billion, with around 6 points of that due to volumes and the rest driven by price, primarily carryover. The negative scope is due from our exit from Russia and negative impacts from FX as anticipated. All 4 geographies show strong growth, with the U.S. and Middle East as particularly strong contributors to North America and Rest of World.

Specifically on Energy Management, we were up 16% organic for the quarter, with particularly strong sales in North America, up 24% organic with both U.S. and Mexico up over 20%. This was partially driven by backlog execution, as well as by continued strong demand dynamics across technical buildings, data center and infrastructure and a stabilization of demand dynamics in distributed IT.

Field services also accelerated strongly. Western Europe was up 10% organic with double-digit growth in U.K., Germany and Italy and single-digit growth in Spain and in France, all driven by an easing of supply constraints and by continued demand across most product lines with some continued softer demand for residential buildings. Asia Pacific was up 11% with China up double digit against a low base of comparison and supported by demand in new energy and transport but with some continued softness in construction.

The rest of Asia Pacific was up mid-single digit with continued good growth in India against a high base of comparison. Rest of World was up 16% with both Middle East and Africa up double digits, supported by strong growth in systems.

Turning to Industrial Automation. Sales were up 12%, driven by continued improvements in the supply environment and strong demand. North America was up 8% with double-digit growth in the U.S., supported by demand across segments, particularly OEM and backlog execution. Canada saw particularly strong performance in process automation, while Mexico is impacted by a strong baseline in process automation and by software.

Western Europe was up 16% with double-digit growth in Germany, U.K., France and Italy and single-digit growth in Spain, supported by demand and backlog execution, particularly to OEMs and good performance in software. Asia Pacific was up 7% for the quarter, with China up mid-single digit, driven by growth in Process Automation, while Mexico is impacted by a strong baseline in process automation and by software.

Moving now to the P&L. We finished the half at EUR 3.2 billion in adjusted EBITA, a margin of 18%, up 190 basis points organic supported by strong gross margin progression. Our support function costs, or SFC as a percentage of sales, did see an uptick due to Scope and FX, as well as some onetime impacts that I’ll detail further in a few moments.

To give a bit more detail, starting with gross margin. We finished the half with gross margin of 42.4%, up 220 basis points organic. The biggest contributor to this strong improvement is price, primarily due to carryover. And we start to see some small benefit from decreasing raw material prices in our gross margin. In productivity, we continue to see inflation impacting us in the first half. So I’m quite pleased to see an overall positive industrial productivity returning.

Mix turned negative for the first half. Within this bucket, we did continue to drive strongly positive systems pricing, but this was more than offset by the significant uptick in system sales versus our other business models. And we’d expect this bridge to look a bit different in the second half with a lower contribution from pricing as carryover impacts fade and a continued improvement in year-over-year productivity.

I already mentioned our decline in operating leverage reflected in our SFC to sales ratio for the half. Outside of Scope and FX, this was due primarily to higher bonus accruals and a technical accounting change on employee share plans. We would expect our operating leverage on an organic basis to be back to positive by year-end. And we do continue to selectively invest to support future growth opportunities, whether for the longer term in R&D or for our commercial footprint where we see strong demand. And as always, we expect to manage our costs with agility based on our assessment of opportunities in the market.

Turning now to net income. Including Scope and FX, our adjusted EBITA is up 14%. Below the line, our other income and expense was positively impacted by a gain on disposal, partially offset by M&A and integration costs, whereas 2022 was adversely impacted by an impairment in relation to the sale of our Russia businesses. Restructuring costs were EUR 41 million for the half. And for the full year, we still expect these to trend down from last year’s level towards our target of around EUR 100 million.
In financial costs, we have a step-up versus last year due to the additional debt from the acquisition of the AVEVA minorities and higher interest rates. And our effective tax rate was in line with our previously communicated range at 25%. This leads to a net income of EUR 2 billion, up 33% for the half and adjusted net income, which excludes other income and expense and restructuring, also coincidentally EUR 2 billion, up 13% for the half.

Our operating results continued to drive record cash flow from operations in the first half to EUR 2.7 billion, up 4%. As anticipated, we continue to have an increase in CapEx driven by our investments in resilience, capacity and R&D. We continue good working capital controls, particularly in receivables and payables, where our days inventory outstanding remains impacted by supply constraints, although we expect some improvement there by year-end.

Free cash flow was EUR 820 million for the half, an increase versus last year of 86% with a cash conversion ratio of 41%. And similar to 2022, we would expect a significant pickup in this cash conversion ratio in the second half and to be close to the around 100% cash conversion for the full year.

Lastly, we've included a slide on our balance sheet, which you can see remains strong with the main changes since year-end and increase in net debt tied to our continued commitment to paying a progressive dividend.

And with that, I'll turn back to Peter to give an expectation on our 2023 full year.

Peter W. Herweck - Schneider Electric S.E. - CEO

Thanks very much, Hilary. A strong set of results. But let’s talk about the trends we’re seeing during these exciting times and how they translate into our targets for the rest of the year. I will not repeat every line mentioned, of course, on this slide, but as you can see, there are multiple accelerations and some moderations related to our overall business.

We see great momentum on Digital and AI which has a direct link to our Data Center offers and Software. The topics of sustainability, reshoring and electrification remain extremely relevant in the market, as I had outlined before. Our end-to-end offering in power distribution, coupled with automation technologies position us very favorably.

If I take a geographic lens, the U.S., which is our largest market, continues to lead the growth. India, which is our third largest remains full of opportunity, as do several other emerging countries, especially the Middle East.

On China, and I know there are a lot of questions, we have a strong localized business. We expect to continue to rebound from a slow start to the year with market demand seeing a progressive recovery.

I am optimistic for the rest of the year. And hence, we want to upgrade the full year guidance as follows: The 2023 adjusted EBITA growth of between 18% to 23% organic, the target would be achieved through a combination of organic revenue growth and margin improvement, currently expected to be revenue growth at plus 11% to plus 13% organic and the adjusted EBITA margin up 120 basis points to 150 basis points organically.

With that, we’re ready to take your questions, and I hand over to Amit to moderate.

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

Well, thank you, Peter. Thank you, Hilary. We start with the Q&A session now. I’ll hand it back to the operator, keep it to one question, so we can try to get all analysts to have a go. Operator, for the first question, please.
QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Phil Buller with Berenberg.

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

The question, it’s for Peter. Obviously, the business is in great shape. Every quarter feels like it’s another record. I’m wondering if there’s any pockets of the portfolio where there’s an opportunity, something more punchy than the evolution, not revolution message. So what parts of the business do you see as requiring more attention operationally? And is there anything from a portfolio standpoint, which is piquing your interest as a priority for M&A be it an offering or perhaps additional geographic expansion in India, for example?

Peter W. Herweck - Schneider Electric S.E. - CEO

Well, thank you very much, Phil, for the question. And as you said, a great quarter again. Listen, taking over just 3 months in the position, I can say I’ve inherited a great business with a strong portfolio across energy management and automation, with good growth in most of our end markets, and we’ve talked about those.

From a portfolio perspective, we've just about finished a EUR 1.7 billion program to prune our portfolio. This is in the process of being done. And then we’ll talk more about that at the Capital Markets Day where we're going to be going forward.

From a capital allocation, which I also sensed in your question, I'm very much attached to what we had communicated before, be it our positive credit rating, and then also the dividend. And I would not expect any transformational acquisitions, and we’ve said this before, to put this maybe in front of the parenthesis. Of course, there are businesses that are always doing a little bit better than others, and that’s for us to manage, but nothing specifically to highlight here today.

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

All right. Thank you for the question, Phil. Next question please.

Operator

The next question is from Alasdair Leslie with Societe Generale.

Alasdair Leslie - Societe Generale Cross Asset Research - Equity Analyst

So a question on the Data Center outlook and the impact of AI. It looks like the sort of large web giants are already ramping up CapEx plans. I noticed you mentioned the enhanced capacity investment in the press release related to AI. I was just wondering whether you could elaborate, I suppose, a little bit more on that comment. Are you seeing signs already of that kind of additional demand start to come through in terms of pipeline quotation activity, maybe conversations with customers?

And maybe can you also talk a little bit about your positioning in thermal management and liquid cooling, I suppose, specifically around immersive cooling technologies and whether you have a kind of competitive go-to-market offering there already? Do you see that as more important going forward as well?
Peter W. Herweck - Schneider Electric S.E. - CEO

Well, thank you very much. It’s a long one question, but centered around AI and Data Centers. Listen, the there is quite some momentum. We’ve talked about it before. If you look at the building of AI models, they need a lot of compute and you would move from CPU technology to GPU technology with graphic processing units. Those graphic processing units need roughly 4x the energy than a CPU. And at Schneider, I always say we love electrical energy. It’s great, it’s great for the business, it’s great for growth.

Of course, we’re in discussion with many of our customers in that regard. Has it hit the top line yet? The answer is no, but we see very strong engagement in this area. And as I outlined in the example earlier, mobile data centers where we’re working with a client, for example, called Compass, you can read this in more detail. It explains what’s going on there. In particular, when models are built in AI, it’s very good for compute.

That requires, of course, if you have 4x the power, you have much more heat. You need to get the heat out of the system with that and new cooling mechanisms are required. We’re happy with our portfolio on large cooling and then also immersive cooling, that we have at the moment places us very well with our clients and we see this as an exciting opportunity for the company that we’re preparing for.

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

All right. Thank you, Alastair.

Operator

The next question is from Jonathan Mounsey with BNP Paribas.

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

Thanks for letting me ask a question. It’s really around free cash flow and net debt. I think first half free cash flow is a bit weaker than the Street models. Just wanted to check and on record, there’s no issue for the full year around that? Yes, that’s just seasonality. And what lead to that, I think the net debt number was actually considerably worst than the stream model, far more than the free cash flow was weak, I think about EUR 1.7 billion.

I just wanted to understand why that is? And also, the Street has, I think, EUR 9.1 billion of net debt for the full year. And I want to understand, is that reasonable as an assumption, given the level of net debt was touching almost EUR 13 billion as of the first half?

Peter W. Herweck - Schneider Electric S.E. - CEO

It’s a super question for Hilary.

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

Thanks, Jonathan. So from our perspective, you can see the free cash flow that we had had a good uptick -- actually, a great uptick versus last year, 86%. And we have a lot of seasonality in the free cash flow, we always have, and particularly in recent years, we’ve had a bit more seasonality as we work through supply chain crisis. And we also have timing; also things like as we pay a higher and higher progressive dividend, for example, for our shareholders.

So the free cash flow for the full year, I gave the indication, I think, while we were speaking, that we’d expect it to be close to the around 100% free cash flow that we’ve talked about for some time that we expect just on average year over -- on average over the years over the cycle.
So I think no particular problem with the free cash flow for this year. And we still expect to be on track for free cash flow of at least EUR 4 billion, like we mentioned in our Capital Markets Day by 2024. So the only point that I’d called out there was a bit the inventory. But again, we expect to see some improvement there. And the disimprovement is not big. It's just an area that we continue to target as a company.

In terms of net debt, interesting question because we did a little bit of work ourselves as to what you guys may have had in your models. Typically, we have an uptick in net debt in the first half. From a timing standpoint, I already mentioned the seasonality of our free cash flow, which has been there for quite some time. But it's also from a timing perspective where we have quite a bit of heavier payments.

So this year, we obviously had the progressive dividend, as we usually do. We also had a few payments left, not associated with the transaction itself, but things like stamp taxes and things for AVEVA. We also pay our bonus payments for an annual basis at the beginning of the year. So for us, that net debt uptick at the beginning of this year wasn’t surprising. I think that was more tracking aligned with ourselves.

And happy to discuss, of course, we don’t give guidance on net debt for the end of the year. But of course, the analysts should take into account what we have in the H1 into what they look at for the rest of the year.

Gael de-Bray 

I have one question on margins, but potentially a second one on Software, if possible, but I may simply get back in the queue to prefer. The first question on margins. The new margin guidance for 2023 implies a slight deterioration in H2 compared to H1 despite usual positive seasonality of more than 100 bps. So I guess one of investors’ concerns these days is that industrial companies are now already running on peak margins. So that big rate, if you could elaborate on this, please?

Hilary Barbara Maxson 

Sure. So thanks for that question. Indeed, we expect -- well, first, I would start by saying that we had a good uptick, I think, in margin in the first half of the year and that -- but also the strong demand trends and everything we see in the market is what led us to feel comfortable to upgrade the margin guidance, once again for the full year. And in that, you’re right that we expect some normalization, I would say, in the gross margin, mostly driven by the dynamics that I already discussed.

So we have a particular scenario this year associated with pricing. We had heavy, heavy inflation last year. We did a lot of pricing last year. I think clearly, we’re not the only ones in the market. There’s a lot of inflation in the overall system.

And we see that carryover this year. But that uptick in pricing that we saw last year, particularly in the second half, is going to close a bit year-over-year for us in the H2. And so that’s one of the dynamics we have, with some uptick in industrial productivity. But in industrial productivity, we continue to see some inflationary trends, things like energy costs. So that’s impacting us also in the second half.

And we look to normalize that industrial productivity over time, but probably not to a full normalized level, like we’ve seen in the past associated, with the high growth until next year. So overall, I think that implies, you’re right, a slight deterioration. We’ll see into the second half, but that’s what we’ve assumed in the scenarios that we have today.
In the Capital Markets Day, we'll talk about the guidance that we have, obviously, for future years. But I think all of those strong drivers that we've talked to in the past, associated with our gross margin, whether it's industrial productivity, whether it's pricing, but for innovation as opposed to inflation. All of that still remains in our business model. So I think we feel pretty comfortable with margins, and again, we'll talk to that in the Capital Markets Day.

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

Right. Thanks, Gael. We'll come back to you on your Software question, time permitting. Next question, please.

Operator

The next question is from James Moore with Redburn London.

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

Peter, Hilary. My question is on price and raw material. I think fresh product prices are 11.35% in the half, so around 12% and posted EUR 111 million of raw mats. Could you say what the carryover might be in the second half? I was thinking 2% to 3% in quite a significant step down, but obviously, it will be helpful to get a better steer on that? And do you see a positive number from gross raw material in the bridge of a similar magnitude to the first half or something that is different to that? Please.

Peter W. Herweck - Schneider Electric S.E. - CEO

You want to take this, Hilary?

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

Sure. So in fact, of course, we look at varying scenarios on the raw material and a bit in price as well because we still -- we're still in a market where we have some inflation, some deflation, so lots of varying impacts. So you're right in the first half, and I think it's right in the bridge. We have EUR 1.1 billion in pricing, most of that from carryover.

We still would anticipate though, I think we talked about single-digit carryover for the full year for ourselves and that's still the same aligned with what we said at the beginning of the year. So that EUR 1.1 billion is no different than what we would have expected in the number that we already gave you. We didn't give you a specific number, but in those same numbers that you were -- that you were talking about.

In terms of RMI, of course, no crystal ball. I wish that we did have one. But indeed, we would expect in our own gross margin, there's a little bit of a lag in raw material prices. You can see here we start to see the positive in the gross margin. So we would expect some positive to continue based on raw material trends that have already taken place.

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

Next question, please?

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

Quantify the magnitude in the second half. Yes, I mean we're talking low single or more mid-single on gross product price year-on-year?
Hilary Barbara Maxson - Schneider Electric S.E. - CFO

So I think we talked about -- maybe I'll talk to it in the context of the guidance range that we gave, the 11% to 13%. We'd still expect the majority of that to be from volume in all of the scenarios with the rest from price.

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

Next question, please.

Operator

Next question is Guillermo Peigneux with UBS.

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

I think it's almost like a follow-up from previous 2 questions on pricing. I wondered whether you are basically now signaling to new price increases to your customer base or whether there is value pricing that you can act on in the second half of 2024. And also if you could comment now that your visibility on the backlog is over 6 months, whether the margins in 2024, the limited amount that is going ready in 2024 is looking better from an operating profit margin perspective.

Peter W. Herweck - Schneider Electric S.E. - CEO

So let's talk about 2024 in the Capital Markets Day. I think for the rest of the year, we have a strong backlog and we understand the dynamics of it. This is all baked into the new guidance from that perspective.

On the pricing side, listen, we've also punctually increased prices this year. We've shown, I think, in the last 3 years that we're quite agile in pricing, quite resilience and have pricing power and that's going to be a muscle we continue to strengthen as it is required.

I don't know whether you want to add something, Hilary, to it. Feel free.

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

No. I think, very good. Thanks, Peter.

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

Next question, please.

Operator

Next question is from Andrew Wilson with JPMorgan.
Andrew James Wilson - JPMorgan Chase & Co, Research Division - Analyst
I just wanted to ask around inventories and I guess, to the degree you have visibility of inventory that you’ve distributed, just where you think inventory levels are? And I know we’ve seen some signs of selective destocking. I want to, I guess, ask in addition, if there were sort of areas you would flag where you are seeing some of those destocking trends coming through?

Peter W. Herweck - Schneider Electric S.E. - CEO
So when talking about the stock levels of our distributors, we continue to see a good demand there, very strong sellout at our distributors don’t -- for the large ones. Of course, it depends geography by geography, but I wouldn’t talk about an overstocking there. I think we’re at reasonable levels. Again, sell-outs very good, and we’ll follow with the sell-ins as appropriate.

Amit Bhalla - Schneider Electric S.E. - Vice-President of Financial Communication & IR
Thank you, Andy. Next question?

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

Alexander Stuart Virgo - BofA Securities, Research Division - Managing-Director
I wondered if you could just dig into the headwinds you talked about with respect to resi construction, I’m guessing, in Europe, in particular. I noted you called out headwinds in the RIB -- sorry, RIB Software business. So I just wanted to try and understand some of the dynamics there given the normal resilience of software businesses within the broader context of marketed declines?

Peter W. Herweck - Schneider Electric S.E. - CEO
So we’ve talked about, and I think it’s not coming as any surprise. If you look at the residential exposure that we have for the group, we’ve always talked about this 10% to 15% of overall revenue. We continue to see the same softness that we’ve had before. There are some geographies actually where now indicators are trending positive. We are watching this very carefully.

And then if you look into the market, for example, in China, where we have less exposure than the group overall in the world. We’ve seen some signs that there may be some potentially government intervention there. So we follow those trends very closely.

But then in the construction market, you shouldn’t forget that there are also the more complex buildings that require energy resiliency and that are right in our sweet spot, be it hospitals, be it warehouse, be it more complicated buildings than all the way moving to infrastructure. We see good demand there.

And then Hilary has mentioned on the more discrete automation side, which is roughly, if you will, half of the automation business. We do see some softness on the OEM side, in particular, in China and in Western Europe, and that shouldn’t come as a surprise to anybody at very high backlog levels that we have.

Now of course, zooming in on your question on RIB, they are in the construction segment and their -- a lot of their business is heavily weighted towards the DACH region, so Germany, Austria, Switzerland. And from that perspective, we do see demand moderation there, while in other geographies, they are doing pretty well. Overall, with the software portfolio, we can be very happy.
Hilary talked about the ARR growth that we have in the journey to subscription is right on plan as we've outlined it many times before. So that's something we're very positive about.

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

Thanks. The next question is from Jonathan Day with HSBC.

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

I was just wondering if you could talk a little bit more about the infrastructure business and maybe just give us a sense of how much is the growth is today and kind of the trends that you're seeing down? How long do we expect like the trend to continue for?

**Peter W. Herweck** - Schneider Electric S.E. - CEO

It was very hard to understand the question. I don't know whether any of the colleagues have understood?

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

Infrastructure business and the trends that you see around that?

**Peter W. Herweck** - Schneider Electric S.E. - CEO

Okay, okay, so on the infrastructure side of the business, as I said, we see positive trends because many of our clients want to drive decarbonization, they want to have electrification. And then also, if you look at all the government programs that we have, be it the IRA, be it BABA, be it -- I can't remember all the abbreviations, the CHIPS Act. In the U.S. alone, we're following 35,000 projects that get funding out of those programs, and the funding is north of EUR 200 billion.

And you need to see that there is, of course, also private funding that comes on top of it, which is double than what the government gives. So it's huge from that perspective. And you see that we've talked about our system business being quite positive about it, a systems business where we have worked in the last years to substantially improve pricing and margins on the cost side. So that gives us quite some hope for the quarters to come.

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

All right. Thanks, Jonathan. Next question, please.

**Operator**

The next question is from Martin Wilkie with Citi. Mr. Wilkie, your line is open. Maybe, you're on mute?

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

Let's go to the next question. We come back if Martin is probably a step away. Next question?
Operator
The next question is from Delphine Brault with ODDO.

Delphine Brault - ODDO BHF Corporate & Markets, Research Division - Capital Goods Analyst & Deputy Head of Research
Can you comment a little on China? I assume that your guidance includes some recovery in China. So what type of growth in China is included in your guidance? And how comfortable are you with this assumption?

Peter W. Herweck - Schneider Electric S.E. - CEO
Thanks very much, a question I anticipated much earlier. We are very attached to our business in China, where we are greatly local for local. So we've built a company that -- where we do R&D, where we produce, where we sell. What we've said before, we've had a slow start into the year. We've said that before. We see sequential improvement. And there are some good signs. So that will continue towards the rest of the year. Even some of the business that's a little bit slower, we expect recovery to come towards Q4 and the end of the year when we're talking OEM business, for example.

So all in all, I would say we see sequential improvement. Of course, also on easier comps, but all of that is, of course, baked respectively, into the guidance -- into the growth guidance going forward.

Amit Bhalla - Schneider Electric S.E. - Vice-President of Financial Communication & IR
Yes. Thanks, Delphine. As we said before, we expect China to be a contributor to the growth for the full year. Next question, please.

Operator
The next question is from Lars Brorson with Barclays.

Lars Wauvert Brorson - Barclays Bank PLC, Research Division - Director
Just last question. Can you clarify whether that's also true for your discrete automation business in China? Curious as to what you see specifically within that segment? And then maybe can you just unpack the EUR 230 million bonus accrual, please? What's within that? Help us a little bit understanding about the moving parts?

Peter W. Herweck - Schneider Electric S.E. - CEO
Yes. Let me tackle the China question in respect to -- in respect to the OEM automation. Yes, we do see a recovery towards the end of the year. And it's also at a pretty solid level. Some of the machineries that we're serving are in markets where we're expecting and seeing some pickups. So that's, again, baked into the statement that we see. We see China being a growth contributor also in the OEM business towards the end of this year, maybe a little bit more leveraged towards the last quarter or last month of this year. In respect to the bonuses, happy to hand over to Hilary.

Hilary Barbara Maxson - Schneider Electric S.E. - CFO
Thanks, Peter. The EUR 230 million bonus accruals, this is simply associated with the overall bonus payment that we have for the company. I think you can see the various targets that are associated with the cash bonus that we have. So nothing particular to point there.
All right. Next question, please.

The next question is from Martin Wilkie with Citi.

It’s Martin. Apologies for technical glitch earlier. The question was just coming back to the buildings market, for nonresidential, I know that it included in some of the sections you gave on Slide 17. But just driving those to some markets where there obviously are some debates around spend and particularly office, we here grade A doing very well because of energy efficiency upgrades, lower spec, perhaps less so. So just to understand what you’re seeing in some of those other nonres markets into the back half of this year?

Thanks very much, Martin, for the question in more detail. I think I reported on the -- and talked about the residential. But of course, as you highlight, the office market, we’re not blind on some of the things that are ongoing in respect to new construction there. But there is also quite some renovation work that needs to be done. So we see some reasonable demand on refurbishments.

A lot of people put their money into more energy resiliency in (inaudible) of energy cost and then also the drive for sustainability. If you look, for example, at some of the large hotel chains that want to drive this forward, where we also, as a technical building, see good demand in addition to what I mentioned earlier with health care, for example, or warehouses which are segments that we’re following quite reasonably. So from that perspective, I would say we’re not concerned in this area.

Thanks, Martin. Just mindful of time. Maybe we’ll take another couple of questions. Next question please.

The next question is from Daniela Costa with Goldman Sachs.

Just on the backlog and the comment of over 6 months visibility now. Can you talk perhaps about sort of what’s the dispersion across businesses and regions? Is there anything that stands out particularly longer than others?

Just on the backlog and the comment of over 6 months visibility now. Can you talk perhaps about sort of what’s the dispersion across businesses and regions? Is there anything that stands out particularly longer than others?

Thanks, Daniela. And in fact -- well, first, I’m glad that we’ve given you some information about backlog. As you know, normally, we wouldn’t give any. So I know it’s quite important to you guys.
In terms of dispersion, I won’t talk too much about it. I would say pretty strong backlog, frankly, across the board, partly driven by demand, partly driven by still working through some of the supply – let’s say, catching up as the supply chain eases.

We called out one area, which is tied to discrete manufacturing, where we have particularly high backlog. I would tie that to the normalization of demand that we mentioned that we see in the OEM space as everything sort of works its way out there.

The rest probably nothing particular to call out. We’ve called out before that North America has particularly high backlog, and you can see we have particularly strong demand there. So those are probably the key points that I would say around the backlog. Gives us good visibility, obviously, for the next quarters and going into 2024.

Peter W. Herweck - Schneider Electric S.E. - CEO

Yes. And maybe one point to add is that we continue to build backlog in Q2. I just want to mention it again because it’s so nice.

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

All right. Thank you, Daniela. Maybe we can fit in one more question.

Operator

The next question is from William Mackie with Kepler Cheuvreux.

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

Will Mackie at Kepler. My question relates to the outlook for Industrial Automation. We started to see a divergence in growth between EM and IA in Q2. Very strong results for IA across the board, particularly in Western Europe in Q2. But you flagged some softness in order intake coming through. Can you maybe -- could you please provide some more color on your expectations for growth across IA in the second half of the year and the contribution you see the company make -- the division making in H2 growth expectations?

Peter W. Herweck - Schneider Electric S.E. - CEO

Yes. Let me add a little bit color to IA and I maybe go through the different elements in markets, starting off with the process markets, the more long cycle business that we have. We have a very strong backlog. We see good demand, and we see this demand to continue into H2.

On the software side, you should -- which we consolidate into IA as you know, we should always be mindful of the transition to recurring revenue and subscription in AVEVA. And that of course, while at 15% ARR growth and that’s a fabulous number, I believe consecutive over the last 3 quarters, it dampens, of course, the revenue number of IA. So that’s something to be kept in mind, but demand here is also good, and I have good confidence for the next quarter.

Then, of course, the question comes back to how is the OEM or more discrete market developing going forward. Again, we’re on a very high -- a record high backlog. And while we talk about the supply chain easing, there are some electronic components, we’re not totally out of the woods. And that, of course, affects the IA business most in the group.

So from that perspective, we should see a good backlog execution in H2. And then as we said, some of the discrete markets we see potentials of coming back towards the end of the year.
Amit Bhalla - Schneider Electric S.E. - Vice-President of Financial Communication & IR

Well, thank you, Will. And I think before we close, as you can see on this slide, there are obviously touch points in the coming weeks. We will be in some conferences. And of course, we have Q3 as well before we have the Capital Markets Day, which you should pencil in for London.

The IR team is available for engagement for further queries if you might have, but I want to thank you all for your time and attention today, and I speak on behalf of my colleagues here as well. Thank you.

Peter W. Herweck - Schneider Electric S.E. - CEO

Thank you very much. See you soon.