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PRESENTATION

Operator

Welcome to the Schneider Electric 2023 Third Quarter Revenues 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. (Operator Instructions)

I will now hand you over to Amit Bhalla. Please go ahead.

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

Well, thank you. Good morning, everyone. Thanks a lot for joining us today for our Q3 revenue results. The press release is already with you and the presentation. I'm joined here with -- obviously, with our CFO, Hilary Maxson. We'll go through the presentation and then make sure to have time for questions.

So just to remind you about the disclaimer, as always.

But with that, I hand it over to 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 Q3 2023 revenue numbers as well as to update you on expected trends for the fourth quarter.

Starting with Slide #3, I'm happy to report another record, this time for third quarter, with sales of EUR 8.8 billion and with particular and Energy Management, driven by continued strong trends in electrification and digitization.

In Industrial Automation, we saw continued strong trends in our longer-cycle Process Automation business and in Software, partly offset a weakness in discrete automation, particularly in China.

Overall, we were up 12% organic in sales, reflecting the strong positioning of our portfolio, most of which is tied to accelerating secular trends, plus the benefit we have from diversification between our long- and short-cycle businesses as well as Software and Services.

This slide particularly illustrates the benefits of that diversification with products where we have primarily shorter-cycle business up 5% for the quarter due to contributions from price and backlog execution and with continued momentum across most of the end markets for Energy Management, offset by weakness in discrete automation.

Our Systems business where we sell directly to the end user into segments like data center, utilities and industry, continued with particularly high demand translating into sales of plus 23%.

Software and Services was also up a strong 17% for the quarter with ARR at AVEVA, up 16%, and where we continued to progress well on our transition to subscription, including strong growth trends in our SaaS revenues.

And we're particularly pleased to see Digital and Field Services both at strong double-digit growth for the quarter as we continued to execute on our plans for growth acceleration there.

And our Sustainability business continued to perform strongly with strong demand from customers for decarbonization and energy efficiency, up double digits for the quarter despite a strong baseline from 2022.

Turning now to our own sustainability journey, where we had a nice acceleration in Q3 and where we remain on track to achieve our year-end targets. We had particularly strong progress in our SSI #3 goal to address our upstream Scope 3 emissions through Zero Carbon Project, enabled by continued engagement with our top 1,000 suppliers to encourage their own journey to decarbonization.

We also made significant progress on our SSI #4, where we aim to increase green materials in our products. Here, we achieved our target for the year already in Q3 through a focus on green metals and qualifying new suppliers, particularly in Asia and North America.

And you can find all the details of our SSI performance in the appendix to this presentation and in our press release.

We've also highlighted a couple of recent awards on this slide that we're particularly proud of, a 3 times winner of excellence awards by CIPS and recognition across 4 categories at the Gulf Sustainability Awards.

In this slide, we show a few customer examples across our 4 end markets to help illustrate exactly what it is we're doing across our portfolio. I'll speak to just one of them in our data center end market. The customer here is Loughborough University in the U.K., where we worked together with one of our elite data center partners to modernize the university's data centers with our energy-efficient EcoStruxure data center solutions, including our hot aisle containment system, InRow cooling, Galaxy VS UPS, and to manage it all, our EcoStruxure IT data center software solution.

This is a good example of the continued opportunities in enterprise data center where we're a lead player alongside our strong positioning in hyperscale and colos.

Turning now to the details of our Q3 revenues. We finished the quarter at EUR 8.8 billion revenues, up 12% organic year-over-year with an estimated 5 points of that due to volume and with particularly strong contributions from Systems, Services and Software as discussed earlier. Price also contributed by around 6 points, but is trending downward year-over-year as expected.

All of our regions contributed to our strong organic growth with particular strength in North America and Rest of World. Asia Pacific is impacted by China, where we had a negative quarter at group level with discrete automation a bit weaker than anticipated, but with solid sequential improvement versus Q2 in Energy Management. And we still anticipate China to have positive full year sales performance versus 2022 like we said at the H1.

Scope impacts of around 3 points are primarily due to our exit from Russia. And FX impacts are now translating more strongly into our top line results, as anticipated. Estimated full year impacts on our top line based on current rates improved to minus EUR [1.35](corrected by company after the call) billion to minus EUR [1.45](corrected by company after the call) billion with estimated impacts to adjusted EBITA unchanged around minus 80 basis points. And I will mention that with the situation in the Middle East, we could expect some further volatility in rates going forward.

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 dynamics we saw throughout the quarter.

Starting with buildings. We continued to see strong sales and good demand in non-residential buildings with customers focusing on energy efficiency, digitization and sustainability and with a continued strong dynamic in renovations.

Construction of new office buildings has been adversely impacted in a number of markets due to interest rates and back-to-work trends. However, our diverse footprint across technical buildings, sectors like education, hotels and health care plus a focus on renovation positions us well for areas of strength in this market. And demand for residential buildings is now showing good signs of stabilization across most markets with the exception of Western Europe.

Data center and networks remained strong with AI-related orders now being booked and sales and distributed IT returning towards growth after signs of stabilization in the H1.

Sales and demand continued strong in infrastructure across both Energy Management and Industrial Automation, supported by continued investments in electrical grid in water and transportation.

In the industry, we saw a drop in demand from OEMs, particularly in China and Western Europe, after the elevated levels we've seen there in the past and as lead times continued to normalize.

Sales remained positive in discrete automation, driven by backlog execution. However, we would expect weaker results in this part of our business over the next quarters. And to give you a sense of the magnitude we're talking about, discrete automation is a bit less than 15% sales for the group.

In stark contrast to this weakness in discrete, we have continued strong demand and sales in our Process & Hybrid segments like consumer packaged goods and energy and chemicals served by both Energy Management and Industrial Automation. And all of this is translating to a continued step-up in our backlog, and I'll speak more to that next.

In this slide, we've once again this quarter given you some information on our backlog evolution prior to officially reporting our backlog at the end of this year. Once again, despite our strong sales performance, we achieved a new record in backlog, supported by the strong secular demand trends we continued to see across the vast majority of our portfolio.

On the right-hand of the slide, you can see a representation of that demand across our key segments with continued strong demand in data center, in wastewater, in utilities and a return to positive demand dynamics in residential. And I've already mentioned the weaker demand trends in OEM.

Turning now to Q3 revenues by business and geography. Energy Management grew by 13% organic with North America a significant contributor, up 18%, with strong double-digit growth in U.S. and Mexico and high single-digit growth in Canada. Across the region, we saw strong demand in data center and infrastructure with good growth in residential in the U.S. supported by backlog execution. Services was up double-digit across the region.

Western Europe was up 9% to organic, also with strong demand from data center and infrastructure with some continued weakness in residential. U.K., Germany and Italy had particularly strong growth and services grew strongly across the region.

Asia Pacific was up 7% with China up low single-digit quarter-over-quarter and with solid sequential growth versus Q2, supported by good dynamics across many key segments and some good signs of stabilization in demand generally with the exception of construction-related activities. Overall, a bit better than our expectations. Our equity method subsidiary in China, Delixi, returned to double-digit growth in Q3, a further sign that market dynamics are picking up.

India was up strong double-digit with strong demand dynamics across end markets, particularly building and infrastructure.

Australia was also up -- sorry, Australia was up high single digit with continued modest growth in residential. And most other geographies also showed double-digit growth.

Rest of World was up 27% with double-digit growth in Middle East, Africa and South America, supported by demand across end markets.

Turning now to Industrial Automation. Revenues were at EUR 1.9 billion, up 5% organic. Here, the picture is more varied with strong double-digit growth in Process Automation and Software and strong performance in North America and Rest of World, partly offset by weaker performance in discrete automation in China and Western Europe.

North America was up 12% for the quarter with double-digit growth in the U.S., driven by growth in discrete supported by backlog execution as well as Software. Canada also saw good growth in discrete and in Process & Hybrid, offset by lower performance in Software due to timing. And Mexico was also impacted by timing in both Software and Process with strong double-digit growth in discrete automation.

Western Europe was up 3% with strong growth in Process Automation, Software and Services across the region partly offset by weakness in OEM, particularly in Germany, Spain and Italy, with the U.K. and France remaining positive in OEM due to backlog execution.

Asia Pacific was down 6% with China down double digit, impacted by weakness in OEM markets.

India continued with double-digit sales with strong growth across both Process and discrete.

Australia was also up double-digit with strong growth across discrete, Process and Software.

Our other key geographies here, Japan and Korea, were both down impacted by weak demand in OEM and semiconductor.

Rest of World was up 28% with most key geographies up double-digit with strong growth across discrete and Process.

Moving now to Slide 12 with an update on our market dynamics. I won't read out all of the bullets here as most are unchanged since H1. We continue to see strong demand across most of our portfolio, driven by strong secular trends and particularly in our Systems business in segments like data center and utilities and across our longer-cycle business.

Highlighting the strength of our diversified portfolio, while we see weakening of demand in our discrete automation business, particularly China and Western Europe, we have our consumer-led segments of residential and distributed IT showing some signs of stabilization and return to growth across various markets.

With this backdrop, we're reiterating our full year 2023 guidance of adjusted EBITA in growth of between 18% and 23% organic, supported by expected organic sales growth of 11% to 13% and organic margin expansion of between 120 and 150 basis points.

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

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

All right. Thank you very much for that, Hilary. Let's start with the Q&A. I'm sure there are many people with questions. We'll stick with one question per analyst. Operator, let's go with the first question, please.

QUESTIONS AND ANSWERS

Operator

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

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

I know that there are several areas of cyclical weakness, which you've called out. But given there is still backlog expansion in aggregate, and that's despite the improved supply chain and so on, it does feel like demand versus history is actually still pretty good at aggregate level. And I'm sure you followed your own share price reaction in recent weeks where it feels as though perhaps that's not the case. So the market is increasingly concerned that we might be moving into a negative pricing and/or volume scenario in aggregate. And I guess the wide range of outcomes implied in your Q4 doesn't really help alleviate that concern.

So perhaps you can comment on the probability of negative pricing going forward and/or volume in Q4, but also into 2024 in whatever general terms you feel comfortable with, please?

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

Sure. Thanks very much. So perhaps starting with demand, like you started the question with, I think we'd made clear and you can certainly see in the Q3 results but also in the discussion we had on market dynamics for the future that the vast majority of our portfolio remains positioned in what we consider to be strong secular demand trends, perhaps accelerating in various places.

So overall, it's really with that backdrop that I'd answer the question around are we heading into a scenario of negative pricing, negative volume. I think we were quite clear that there's one piece of our portfolio that's weakening in terms of demand, and that's OEM and discrete automation, less than 15% of our portfolio.

At the moment, we would still feel that we are in an environment and continue to be in an environment where the dynamics are there that pricing remains strong. You can see that in the Q3. I don't anticipate a scenario where there's any real reason that, that should change across the vast majority of our portfolio.

On the right range for the Q4, realistically I think we've just never tightened that guidance before to the 1 point even in the Q3. We talked on the call about certain trends a bit weaker than we anticipated in OEM, but offset, I think, by the discussion that we had in Energy Management, particularly in China, where things were overall a bit stronger than we anticipated.

So no real change in my mind from an outlook standpoint versus what we discussed in the H1 at the group level.

Operator

The next question is from Jonathan Mounsey with BNP Paribas.

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

Yes, a couple, if I may. Just on China, obviously, saying it's down double-digit in Q3, I assume the weakness is in part a function of destocking. Have you any sort of view on the inventory levels that you're seeing in the chain in China and how that's maybe tracking sequentially? I suppose really, I'm sort of feeling for when you feel the bottom might be hit in China. And when that comes, whether we can then see a sequential recovery in sales perhaps in Q4, maybe into 2024?

And then just on India, I think India looks to be very strong. Fastest-growing territory, perhaps, and that's across, I think, both business units. Can you talk about the outlook for the Indian businesses going forward? I mean does India have a backlog that suggests the levels of growth we're seeing is sustainable even as we head into 2024? Or is India just as much at risk of cyclical slowdown as anywhere else.

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

Okay. So I get both questions. So on China, indeed -- maybe I'll speak to OEM demand generally. I think at the end of the day, OEM has always been a cyclical industry with maybe a little bit of a heightened cyclicality here because of the supply chain crisis that we had underlying. So at the moment, I think in OEM demand generally we see -- we still see a normalization of supply chain trends with normalization of lead times, which is definitely leading to movements in inventory across the whole value chain, basically, of OEM. Everything from the OEMs themselves all the way up to the manufacturers. And you can see that in our results and all of the results.

In China, I think discrete OEM demand -- discrete and OEM was a bit weaker than we had anticipated. I won't comment on whether the bottom is hit or not, but I would say that in Energy Management we saw good sequential growth with a stabilization of demand across a lot of those Energy Management-led segments. No reason to believe that, that won't occur in the future in terms of OEM, but I don't think I would put a particular date on it today.

In terms of India, the outlook there, I think, is very strong. We've talked for the last -- really, I think, since 2022 about India now being our fourth hub in the multi-hubs that we're creating. And we see an opportunity in India, maybe not every quarter, but certainly we see an opportunity that looks a little bit like entering into China some few decades ago. And we think that, that will continue.

Again, I won't give a quarterly forecast in India, but the macroeconomic trends there, the choices that the government has made over the past few years look to give some good foundational strength on all of the trends that have been happening in India over the past few quarters. And we would expect that, in general, to continue. Of course, I won't give a particular guidance on India for the next quarter or for 2024.

Operator

The next question is from Alasdair Leslie with Societe Generale.

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

Just a question around the coverage from the backlog. How should we think about the phasing of deliveries from that? One of your data center peers seemed to indicate yesterday that some of the orders were kind of longer duration, perhaps skewed towards the back end of 2024. I mean I suppose if you're consuming some of the shorter-cycle backlog into year-end, do you see a risk for a bit of an air pocket forming for sales at the start of next year and maybe a slower start to 2024?

And then maybe if I could just link a question in there. I don't know if you can give us a little bit more color in terms of how the backlog breaks down between EM and IA, and how much of the additional backlog that's kind of built up in IA over the past couple of years is related to kind of discrete versus Process & Hybrid?

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

So the backlog that we -- of course, the backlog covers our portfolio, which is quite a bunch of different business models and end markets, as you expect.

So in general terms for the backlog, we've had an increase in months, I would say, of the backlog for 2 reasons. One of which is the supply chain constraints to which we're still partly exposed, and that impacts even the product side of the business. And then part of the backlog increase in terms of numbers of months is also associated with the step-up in the Systems business, which you're right, in general, has a little bit longer of a cycle. Although across the various segments that length of cycle will vary, anything from data center, which is a bit shorter in time frame, all the way up to oil and gas, which perhaps will be quite a bit longer in time frame.

I think we'd talked in the past that in our backlog today in a number of geographies, we have full coverage, I would say, of 2024, particularly on the Systems side of the business. And I don't -- nothing has changed there in the Q3. So I wouldn't call out anything particular associated with the H1 in our backlog.

To talk to the breakdown in backlog between IA and Energy Management, all of the Systems businesses, including Process Automation, have seen that strong and good demand dynamic. You can see it translating into our sales, both in Industrial Automation and in Energy Management, and that good demand dynamic continues.

On the OEM side of the house, we're not completely out of the woods in our supply chain issues, which is impacting discrete automation demand. So you can see, for example, here that we start to see a translation into sales in some of the weakness from that OEM business.

Operator

The next question is from Andrew Wilson with JPMorgan.

Andrew James Wilson - *JPMorgan Chase & Co, Research Division - Analyst*

I just wanted to drill in a little bit on the discrete automation commentary. And just I appreciate the 15% at the group level, but maybe you could help us with sort of the direct exposure on discrete automation in China and Western Europe.

And then maybe just to clarify as well what the percentage of Process Automation would be at the group level? Just trying to square off some of those numbers.

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

I think we've said in the past -- you can see in our own Industrial Automation slide that we have relatively higher exposure in Industrial Automation overall in Western Europe and in China, so you can take that into account.

In terms of the breakdown, what we've given in the past is a breakdown between Process & Hybrid and discrete with around 50-50 in each of those categories across Industrial Automation with, like I've mentioned, quite a bit of Process & Hybrid in very good dynamics in terms of both demand and in terms of sales.

Operator

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

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

Growth in Industrial Automation obviously looks rather disappointing this quarter. So could you perhaps help us on 3 things. What was the sales decline overall in discrete automation in Q3? Then when do you expect the destocking process to come to an end? And thirdly, could you comment on market share dynamics in automation? Because I'm under the impression that some of your peers are performing better.

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

So in terms of Industrial Automation, we don't give the sales decline directly in discrete out of the mix. But I would divide the performance there probably into 2 sections. So in the market, and we can see it, we have orders for discrete automation normalizing, as anticipated and we talked about that in the H1 directly. And we've sort of prefaced that for quite some time, given the particularly high orders that we ourselves and I think across the market saw because of the supply chain constraints.

So in the market, we have this order normalization, as anticipated, with lead time adjusting back to normal and then ancillary impact in inventory levels across the value chain from the OEMs themselves all the way back to the manufacturer as all of the supply chain unwinds, particularly associated with electronics.

Plus, for us, we're not completely out of the woods with our own supply chain issues, which is impacting our discrete automation demand. In some places, we're still in normalization of our supply chain, which we expect to continue through the beginning of 2024.

On market share, we don't look at it quarterly per se. It's a bit difficult to look quarterly. But we do focus on performance versus competition and market share as a management team. So we definitely have action plans in place to recover anywhere we feel we could be at risk of losing market share.

In terms of forecast there, certainly we don't have a crystal ball. We would anticipate that, that weakness continues for the next few quarters.

Operator

The next question is from James Moore with Redburn Atlantic.

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

Could I clarify one thing and then ask a question. Just to clarify, Hilary, please, I wasn't clear from your backlog slide. Are you saying that with the backlog at a record, that the book-to-bill in the third quarter was above 1 or was it actually below 1?

And my question is on AVEVA. Just going back to the chart you showed in the first quarter, it looks like margins have found the bottom from the SaaS transition. Can I just confirm which year that is likely to be? Which is the bottom here, is it '22 or '23? And can you say versus the 29.5% margin when it was actually disclosed broadly how much has come down from that level to the trough? Are we talking just [100 or] 200 bps? Or are we talking more like 1,000 bps to 20%? It would just elucidate the potential from here.

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

Yes. Thanks very much. So I think we've shown over the last couple of quarters, we continue to hit record backlog despite sales. So the only way that, that works in terms of mathematics is that we have a higher -- we have a book-to-bill that's higher than 1 for the Q3. We don't usually report on that. We're especially giving it to you guys during the supply chain crisis, but you can see in that slide that -- or you can infer that the book-to-bill is above 1 for us in Q3, again, I think, reflecting the strong demand dynamics we see across the vast majority of our portfolio.

AVEVA, we did give what I think is that helpful graph in the Q1 of this year. We didn't particularly call out, and I won't on this call, the exact bottom of the years, but you can see that it's in the '22-'23 range.

Broadly, how much is it down? We -- on the slide, we gave some directional impacts around revenues that would translate directly into the bottom line or a little bit higher as you go through a transition to subscription. So from that slide, you can probably infer that the range would be higher than the around 200 basis points that you pointed to, as would be normal with all of the other transitions if you go look at some other software companies that have done the transitions in the past.

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

That's helpful. You're the only player not providing orders really in the EM or the IA space. Do you think you could move to the disclosure that everybody else at the large end is providing?

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

Happy to think about it. At the moment, I think that's why we've given you some -- a little bit of additional information here during the supply chain crisis.

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*

You mentioned a 5% volume growth in Q3, which is below the 6% reached in H1. Do you still believe that volumes will outgrow pricing in your organic growth in 2023?

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

Yes, indeed. So that volume number is impacted by where we have a little bit of weakness in the product business where I called out. In general, we still anticipate that price and volume would at least be equal for the overall year and trending more towards higher in volumes like we'd said in the H1.

Operator

The next question is from Max Yates with Morgan Stanley.

Max R. Yates - *Morgan Stanley, Research Division - Equity Analyst*

Could I just ask about your conversations that you're having with your customers around the Process business. I guess what I'm wondering is you've seen weakness in the discrete business, but would you normally think that, that would start to spread to some of the sort of mid- and later-cycle Process business?

So I've heard from some other companies talking about sort of potentially seeing some slower investments, delays in projects. So are you seeing this come up in any of the conversations with your customers on the more sort of Process & Hybrid side?

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

In general, I would say no. We -- there's various dynamics happening in the market. For example, oil prices are at highs and other things that are causing investors to still be quite positive, I think, on a lot of the dynamics in the longer-cycle business. So I would say, no, we don't -- we really don't see that in Process Automation.

Operator

The next question is from Alexander Virgo with BAM.

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

I guess question primarily on residential markets. And I wondered if you could talk about the signs of stabilization that you're seeing and perhaps also about the weakness that you're seeing? I think France, you called out for the first time as being weaker sequentially as a pretty core market for you. I guess I just wanted to go through the dynamics for that.

And if I could slip in a housekeeping question on pricing. Would it be fair to interpret your pricing comments as volumes in products are now down year-on-year, obviously dragged by discrete automation and presumably low-voltage products in the residential side of things?

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

So in residential, as you know, we have a pretty diverse geographic footprint. So we called out some stabilization signs that we see across the portfolio, and I'll give a few examples. You can see in Australia, for example, where the market probably had a bit earlier of a downturn than some of the Rest of the World. We've already started to see a couple of quarters of growth there in the sales side for us.

India, for example, and a lot of our international, has remained quite strong throughout the last quarters.

In the U.S., we continue -- or we've mentioned in the H1 that we might have seen some signs of stabilization. We do believe that there are some signs of stabilization in the market, both with our customers and in the market in general, on residential there. And we continue to have positive sales in the U.S. on residential. We've called that out for quite some time, also supported by price and backlog execution.

In terms of price versus volume in products, we're still slightly positive in terms of volumes.

Operator

The next question is from Martin Wilkie with Citi.

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

It's Martin from Citi. Just to come back with your comments on China. I know you've answered some of this already, but just to clarify, when you're looking for China to be positive for the year, obviously, this quarter we've seen China positive in Energy Management, negative in automation. What builds that confidence that China is positive for the year? And how much of it is based on comparison? How much of it is in your backlog? Just to get some understanding as to why we should expect China to be positive for the year overall.

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

So for China, what we've talked to, China like the rest of the world, the bigger component of our business is Energy Management. And Energy Management, we've mentioned some good sequential growth versus the Q2 and good -- and positive growth year-over-year in the Q3 plus we saw a stabilization of demand across a lot of the Energy Management-led segment. So things like new power, which would be solar and wind, electronics, oil and gas, transportation. So good support in those markets. I also mentioned that our equity method subsidiary, Delixi, started to see double-digit growth in the Q3.

So with the exception of OEM and construction-linked markets, we see good signs of stabilization in demand. Maybe altogether on the Energy Management side, a bit ahead of expectations while discrete was a bit weaker than we had anticipated.

So similar to what we've been saying -- actually exactly what we've been saying the whole year, we still expect China to be finishing with a positive growth contribution at the level of the group.

Operator

The next question is from William Mackie with Kepler Chevron.

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

Yes. I'll come back, I'm not sure it was answered. But could you just give us a sense of what you expect from your distribution partners in terms of their stocking/destocking cycle across your product business within your major geographies, please?

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

So with distribution, nothing really to call out, nothing to call out in the Q3. In general, we think the sell-out still remains good. So nothing to call out in distribution in the Q3, including, we think, on the whole that inventories are about at the right level. So I wouldn't call out anything there.

Operator

The next question is from Daniela Costa with Goldman Sachs.

Daniela C. R. de Carvalho e Costa - *Goldman Sachs Group, Inc., Research Division - MD and Head of the European Capital Goods Equity Research Team*

Just a question on the slides you had. Obviously, the backlog in Systems is the thing that it's driving the backlog to grow and project -- product is seeing some consumption. So I was wondering if on the back of that you could give us some highlights on how you think about mix and margin impact from the backlog going forward?

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

Yes. So in terms of mix and margin impacts, we certainly see an uptick in our Systems business. But we've also worked very hard on that business model over the past years, I think we've talked about better Systems for some time until a year or 2 ago and we'd already seen a good uptick in margin in that business from those efforts, a bit of which was selectivity.

And then we've continued with progress and really supporting best practices in that business model. So we've only seen further upticks in terms of margin.

So we feel we're in a good place to manage at the margin level, all those business models that we talked through. So the mix of product, Systems, Software and Services altogether, gives us the good leverage, I would say, in order to generally manage our mix.

Daniela C. R. de Carvalho e Costa - *Goldman Sachs Group, Inc., Research Division - MD and Head of the European Capital Goods Equity Research Team*

So not much of a gap (inaudible).

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

Across those 4, we have obviously varying margin levels, but that gap is quite a bit different than it would have been some years ago.

Operator

The next question is from Eric Lemarié from CIC.

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

I got a question regarding China and your exposure to the discrete industry tied to construction. A naive question, is it possible for Schneider Electric to reallocate your offer from construction to other segments of the discrete segment?

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

Indeed. So we do have an OEM business with some exposure to construction linked, things like hoisting and elevators and things like that in China.

In terms of reallocating our portfolio, over time, it's possible -- over time, actually in China, and we haven't talked about it recently, but we've changed our exposure. We were quite exposed in building. And over time, we've rebalanced that exposure in Energy Management.

So it's possible, but not in sort of like a few quarters, I would say. That takes innovation and work across the multi-hub that we have set up there. But more than possible, this is exactly why with China and our China for China business and multi-hub we have set up there, I think we can respond with agility to the market.

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

All right. Thank you very much, Eric, and everyone for the questions.

As you probably see on the slide in front of you, today, we are sharing the venue for the Capital Markets Day, which is exactly 2 weeks from now. So it's going to be at the Tottenham Hotspur Stadium in London. So look forward to seeing all of you and listen, of course, the buy-side as well, which is probably on this call. So more details to come in terms of the logistics, but please mark the day. And thank you very much for your time this morning.

Operator

That concludes today's conference. Thank you for participating. You may now disconnect.