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SCHN.PA - Q3 2024 Schneider Electric SE Corporate Sales Call

EVENT DATE/TIME: OCTOBER 30, 2024 / 7:30AM GMT

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PRESENTATION

Operator

Welcome to the Schneider Electric's 2024 Q3 revenues with Hilary Maxson, Chief Financial Officer; and Amit Bhalla, Head of Investor Relations.

(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 SE - Senior Vice President, Head of Investor Relations*

Thank you, operator. Good morning, everyone. Thanks so much for spending the time with us for our Q3 revenue release. You have the press release and the presentation is on the screen. So I'll hand it over to Hilary and then we come back for a Q&A.

Hilary Maxson - *Schneider Electric SE - Chief Financial Officer, Member of the Executive Committee*

Thanks, Amit. And good morning, everyone. I'm happy to be here with you today to comment on our Q3 2024 revenues as well as update you on some recent M&A transactions and share our expectations for the rest of the year.

Starting with slide 3. I'm happy to report another strong quarter with sales of EUR9.3 billion, a new record for a Q3. In energy management, we see strong demand, particularly accelerated by data center and with continued momentum in electrification. In industrial automation, we continue to see the impacts of weak market for discrete impacting our sales, with some early signs of turnaround and demand against the low base, particularly in China.

Overall, we were up 8% organic in sales, reflecting the strong positioning of our portfolio, much of which is tied to the global mega trends we highlighted in our Capital Markets Day, plus the benefit we have from diversification across geographies and our business models. In terms of business models, in products which reflects our shorter cycle business and sales through partners, we were up plus 2% despite the continued weakness in discrete automation.

Price on product continues at the more normalized levels we spoke about earlier this year. So volume is a positive contributor. In energy management, across categories, products continued with strong demand including distributed IT and residential products were flat to positive against a low base.

Our systems business, which includes medium voltage, continues with strong double-digit growth driven by secular demand trend, particularly in data center. Software and services was plus 7% for the quarter, with reported revenues at AVEVA impacted by timing and its continued transition to subscription. ARR at AVEVA was plus 15% and we saw strong growth in recurring revenues in energy management software, so we're well on track for a success in shifting our software business model to subscription.

Digital and field services, which includes our sustainability, advisory, and efficiency offerings were together up double digit tied to our strong growth in systems as well as continued good momentum in grid automation.

Turning now to our own sustainability performance. We remain well on track to achieve our year-end target of 7.4, with cumulative performance at the end of Q3 at 7.29. I'll particularly highlight our SSI number-9, where we have a goal to provide green and reliable energy to 50 million people to support a just energy transition. We've now achieved that goal one year in advance of our ambition, by installing our solar power solutions in public facilities across India and Africa.

We've also highlighted a couple of awards and initiatives on the right hand of this slide, including our recognition by S&P Global as an industry leader in our group for the third year in a row, with a score of 86 out of 100 on our Corporate Sustainability Assessment.

On this slide, I'd like to give one interesting example of where sustainability and business cross in a positive manner for both companies as well as for the planet. As we work to ensure our access to continuous supplies of materials in potentially constrained markets, and to ensure those materials are responsibly sourced, we're partnering with Glencore to acquire copper directly on behalf of our sub-suppliers in the European market.

We're also working with Glencore on digitizing and decarbonizing their raw material supply chain with solutions like AVEVA PI, ETAP, and our power and energy management systems. And as you may recall, Glencore is also a key endorser on the materialized program, a supply chain decarbonization program for the mining industry, similar to the Energized program we have for pharmaceuticals and Catalyze for semiconductors.

Turning now to the details of our Q3 revenues. We finished the quarter at EUR9.3 billion in revenue, up 8% organic year-over-year, with a particularly strong contribution from systems, as I mentioned prior. In terms of geographies, we're back to positive growth across all geographies, driven primarily by results in energy management. Rest of World continues with strong double-digit growth driven by strong demand and supported by pricing. North America continues with strong double-digit growth driven by demand in the US and as we continue to unlock supply constraints there.

In Asia Pacific, we were up 2%, with China down mid-single digits, still impacted by weakness in the construction markets, while the rest of Asia Pacific was up high single digit. Western Europe was flat to positive, supported by good growth in energy management. And I'll further detail the comments by geography in the coming slides.

Scope impacts of around 60 basis points are due to our exit from our sensors business, and FX impacts are primarily due to the weakening of the US dollar against the euro and some further devaluation of a few emerging markets. Estimated full year impact on our topline based on current rates are minus EUR450 million to minus EUR550 million, with estimated impacts on our adjusted EBITA margin remaining around negative 40 basis points.

Turning now to some highlights by our end markets with my comments regarding demand based on what we're seeing in our orders. Starting with buildings. We continue to see strong demand in nonresidential buildings where we particularly benefit from our exposure to what we call technical buildings, like hotels, hospitals, schools, stadiums, and we also continue to see positive renovation trends.

For residential buildings, we do seem to have hit a point of clear stabilization with signs of improvement in demand across geographies, of course, against the low base from last year, with the exception of China and Southeast Asia. And sales in residential are positive, supported by demand trends as well as continued improvements in our supply chain in North America.

Demand for data center & networks is very strong, driven by strong trends in data center, both AI and traditional, and with demand and sales growth in distributed IT now recovered to high single-digit levels. In Infrastructure, we do continue to see a focus on grid and water infrastructure improvements at utilities. And in the industry, we continue to see negative sales in discrete automation, with some early signs of demand pick up against the low base in the later parts of the quarter. Overall, market trends continue to be positive for process and hybrid.

Turning now to Q3 revenues by business and geography. Energy management was up plus 12% organic for the quarter to EUR7.7 billion. We saw continued double-digit growth in North America, up 18%, driven primarily by strong double-digit growth in the US due to continued strong demand trends there in systems, particularly data center and good demand for products. Sales were also supported by a step-up in our supply chain as we invest in our capacity and resilience there. And services was up double digit across the region.

Western Europe was up 6% organic with all of our key economies contributing to growth, supported by strong demand from data center and infrastructure, as well as a return to growth in Residential with the exception of Germany. Services also saw strong growth driven by trends in renovation. Asia Pacific was up 5%, with China down mid-single digit, impacted by continued weakness in the construction sector, only partially offset by continued recovery in Data Center.

India was up strong double digit with continued strong demand dynamics across end markets. Australia was up single digit, driven by demand in data centers and the rest of the region delivered double-digit growth driven by projects in data center and industry. Rest of World was up 18%, including some strong pricing actions in economies with significant devaluations. Excluding these pricing actions, Rest of World was up double digit with strong contributions from South America and Africa, driven by projects in data center, Industry and infrastructure alongside a return to growth in residential.

Turning now to industrial automation. Revenues were down 6% organic to EUR1.7 billion, impacted by discrete automation and by the transition to subscription at AVEVA, while process automation continued with strong growth for the quarter. North America was down 5%, with the US down mid-single digit, with strong growth in process automation offset by negative performance in discrete, with higher inventories at distributors and OEMs still working through the system.

Western Europe was down 16%, impacted by discrete automation and the transition to subscription at AVEVA. France, Italy, Spain, and Germany were all down double digit, with relatively better performance in UK, supported by Software. Asia Pacific was down minus 8%, with China close to flat, supported by a return to growth in some early cycle products, offset by negative growth in process automation. The rest of Asia Pacific was down double digit against a stronger base of comparison.

Rest of World was up 15%, including some strong pricing actions and economies with significant devaluations and supported by growth in discrete and process and in software. Outside of pricing actions, growth was driven by the Middle East, again with strong demand across discrete, process and software.

Before I move to our expectations for the remainder of the year, I wanted to mention an exciting bolt-on investment we announced earlier this quarter as well as the JV to support our focus on Prosumer. As you know, we're the market leader in the data infrastructure space with the most comprehensive offer across the industry. Through this acquisition of Motivair, a US-based company with a world-class portfolio of liquid cooling, will enhance our thermal management abilities to ensure we're ready to meet all the needs of AI data centers.

We're acquiring 75% of the company for $850 million, a mid-single-digit multiple based on expected 2025 revenues, with the intention to acquire the additional 25% in 2028. We also entered into a JV with StarCharge, a global leader in EV charging infrastructure in microgrid to create a European Prosumer hardware company with cost competitive offers. Both transactions are subject to regulatory approval and are expected to close in 2025.

Moving now to slide 12 with an update of our market dynamics, primarily focused on the Q4. These remain unchanged, with the exception that we've now started to see signs of demand recovery in consumer-linked, Distributed IT as effectively recovered, and residential is showing signs of positive demand with the exception of Asia, and we expect this demand recovery to continue, particularly as interest rates slowly decline.

Additionally, while it's early days, we did see some signs of recovery in demand in industrial automation products against a low base in China and parts of Europe. We would expect this demand recovery to continue, albeit only broadly impacting sales for discrete in 2025.

With this backdrop, we're reiterating our full year 2024 guidance of organic growth in our adjusted EBITA of between 9% and 13%, and which we expect to be driven by organic growth in revenue, plus 6% to 8% and an expansion of our adjusted EBITA margin up 60 to 80 basis points organic.

And you might have seen from our press release, we've shared a decision by the French Competition Authority received yesterday regarding previously disclosed legal case. As indicated, we firmly disagree with the findings and reserve the right to appeal. However, the fine is not suspensive. So we'll update you on the timing of that payment when we have it, likely 2025.

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

Amit Bhalla - *Schneider Electric SE - Senior Vice President, Head of Investor Relations*

All right. Thanks very much, Hilary. We'll move to the Q&A. (Event Instructions) And we can start with the first question.

QUESTIONS AND ANSWERS

Operator

Simon Toennessen, Jefferies.

Simon Toennessen - *Jefferies International Ltd. - Analyst*

I've got one question on what you're seeing in the discrete market recovery. You mentioned the signs of demand recovery in discrete. Maybe you can just elaborate a bit more on that? And maybe do you think that's just a low comparison reason? Or do you think there's actually some higher demand, for example, in China? It seems Western Europe is still very weak.

And if I look at what you said on the slide at the Q2 stage, it seems the US has really been the main difference, I would think. You talked in the year from down now down mid-single digits versus, I think, it was about flat in the second quarter. So maybe just a few words on that as well. Thank you.

Hilary Maxson - *Schneider Electric SE - Chief Financial Officer, Member of the Executive Committee*

Yeah, sure. Thanks for the question. So as you can see, we continue to see the dynamic of a very steep inventory cycle here exacerbated by the electronic supply chain crisis, and we see that play out globally in our sales results and across the market. And obviously, we've been speaking about that over the last quarter. And we also have movements at AVEVA that are impacting seasonality across the quarters that make that a little bit steeper in certain cases in the overall number for industrial automation.

I did mention towards the end of the Q3, we did start to see some early signs of potential demand recovery in IA products. Examples of that would be in signaling, in contactors, in drives, and it is against a low base, particularly in China, but not only. We do think those are good signs. We'd expect this gradual demand recovery to continue.

Like I said, only broadly impacting sales for industrial automation in 2025. But we do think that, that's a good sign in the cycle. And of course, in these cycles, we always expect -- I think nobody talks about it coming down, and then when it's down, we feel like it will never come back up.

But we wanted to transparently share with you some of those early signs of demand that we've been talking about for the last quarters, and now we start to think that we see a bit. In terms of the US, I wouldn't point to anything particularly different in terms of trends in discrete automation. I mentioned that we have very strong growth in process automation in the US, so that's probably the big differential that you might see there with the weakness in discrete automation we see across the board.

Amit Bhalla - *Schneider Electric SE - Senior Vice President, Head of Investor Relations*

Thank you, Simon. Next question, please.

Operator

Jonathan Mounsey, BNP Paribas.

Jonathan Mounsey - *Exane BNP Paribas (UK) - Analyst*

Maybe one on the sign. Obviously, I mean, just looking at the value, it's far below the theoretical maximum, I think, that could have been levied. But I just wondered, does the judgment impact the way you can operate in France going forward? Obviously, France is maybe not quite as big as India anymore. They're still third/fourth biggest territory across the group. Are you going to have to change your business practices as a result of the sign and the implications in terms of how you can trade there?

Hilary Maxson - *Schneider Electric SE - Chief Financial Officer, Member of the Executive Committee*

Indeed, so I mentioned, we put in the press release I mentioned, obviously, we don't agree with the findings there. But we got the decision from the French Competition Authority now. We're reviewing all of the information. Obviously, it's beyond just the number that we put in there. So we're reviewing all of the information there. I don't think we expect any impact beyond what we've already put into the press release and what I'd said on the financial pieces, but we'll certainly update at the end of the year, if anything different.

Amit Bhalla - *Schneider Electric SE - Senior Vice President, Head of Investor Relations*

Thanks, Jon. Next question, please.

Operator

Alasdair Leslie, Bernstein.

Alasdair Leslie - *Sanford C. Bernstein & Co. - Analyst*

I was just wondering, first of all, if you could confirm that the backlog increased sequentially again. But then, really, I was wondering if you could expand on data center trends just globally outside of North America, but particularly in Europe. That's one region where it seems the commentary around growth is a bit more mixed and perhaps muted. We've seen plenty of major announcements on the web giants there.

So really, what are you seeing in terms of pipeline quotation activity? And is this one area potentially where growth could maybe materially accelerate next year? Thank you.

Hilary Maxson - *Schneider Electric SE - Chief Financial Officer, Member of the Executive Committee*

Yeah, sure. So just in the backlog, we don't report on orders, obviously. But I can confirm that -- and you can probably tell, based on the comments that I made on demand that, indeed, we continue to see positive movement in our backlog. So more and more historic backlog build over time. Data center trends, you can see, and I've mentioned, remain very positive, double digits in sales and orders in the quarter. But realistically, we've been double digit in terms of demand for data center for quite some time, I think, since 2017, actually. We accelerated recently with the AI on top of the traditional Data Center.

You're right that those trends are more impacting today in terms of actual results, North America and Asia Pacific. That's quite normal. When we start to have some acceleration in trends, like -- something like AI, we tend to see that North America market where a lot of the Internet giants are located with a big portion of their market come first.

In terms of Europe, with pipeline, I would say we don't see anything particularly different. I don't think that anyone thinks that the opportunities in terms of -- I don't think any of our customers think that the opportunities in terms of AI are particularly different in Europe versus the US.

However, we have seen some delays in projects in AI data center as the Internet giants, as the colors, really look to finalize the design that they want for the European market. So as usual, I think we see that trend more in the US first. We mentioned Asia Pacific, and we expect that positive trend in Europe as well to come.

Amit Bhalla - *Schneider Electric SE - Senior Vice President, Head of Investor Relations*

All right. Thanks, Alasdair. (Event Instructions)

Operator

Phil Buller, Berenberg.

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

The demand and current growth in US on data centers is very strong. I'm wondering if there are any constraints to growth repeating at this level in 2025 that we should consider, please -- be that capacity trend -- or are you hearing anything from your suppliers and customers in terms of the potential constraints for growth repeating at this level in 2025, please? Thanks.

Hilary Maxson - *Schneider Electric SE - Chief Financial Officer, Member of the Executive Committee*

So for us in the US, one thing I would mention is that we've talked about really is still being in constraint in terms of supply situation there ourselves, and this is where we've talked about putting investments from a capital standpoint, I mean, that we're really ramping up our supply chain there. You can start to see the results of that here, I've mentioned it. And we would expect that we continue to ramp up that capacity.

In terms of the US overall, obviously, there's various many factors that impact the US overall. In terms of data centers, nothing in particular. You can see all those about all of the different paths that the different companies that participate in the data center market are following in order to do things like free up electricity. But we continue -- what we said there is that this is a market which we expect to be good, strong growth, like we've seen for quite some time, for some time going forward.

Maybe not exponential growth, because like we see now, like we would see going forward, there's some physical realities in the data center business, whether it's electricity, whether it's permitting, whether it's labor, whether it's capacity and industrial capital goods, that impacts that market. But nothing particular to call out in this quarter or for 2025 that'd be different than what we've been saying over the past few quarters.

Amit Bhalla - *Schneider Electric SE - Senior Vice President, Head of Investor Relations*

Thanks, Phil. And of course, 2025 guidance will be February. But just a reminder to everyone that we do have our mid-term targets through to 2027, which we've already articulated. Next question.

Operator

George Featherstone, Barclays.

George Featherstone - *Barclays Capital Securities Ltd. - Analyst*

I just wanted to see if we could get an update on where you're at in terms of the capacity expansion in terms of the percent that you completed? And then as we turn to 2025, you have added, I think, about 5% to your incremental Industrial in the square meters. Can you help us understand what the difference will be in terms of volume outlook? I'd assume that they would be higher with these are state-of-the-art facilities.

Hilary Maxson - *Schneider Electric SE - Chief Financial Officer, Member of the Executive Committee*

Yeah. So in terms of CapEx investments, we'd like to think that we've been and will continue to remain being agile there. We -- like we've mentioned, we're particularly ramping up capacity in US, but not only India as well, to serve really the overall Capital Markets Day time frame that we've mentioned, with places like US or Middle East being our most dynamic market. So really, the additions that we have are tied to that. And we've mentioned in the US that most one of the biggest focuses that we have where we have quite a lot of demand both to work through and to come going forward in our minds.

We -- in terms of those demand additions, I think we gave you an update in the H1. We'll give you an update at the end of the year, but we continue to just plug along on those, I would say, with new lines and new plant coming online as they come, supporting the -- some of, for example, I pointed out that here, the plus 18% or the plus 15%, I think, at group level in the US is also supported by that step-up in capacity.

So we'll give an update at the end of the year as to where exactly we are. And again, we'd expect to remain agile, both on the upside in terms of new capacity additions, but also balanced by potentially some older capacity shutdowns over time. So this is just part of our overall Industrial capacity planning over the Capital Markets Day time frame.

Amit Bhalla - *Schneider Electric SE - Senior Vice President, Head of Investor Relations*

Yeah. Thanks, George. And even before that, at the India event that we're doing in early December, and as Hilary mentioned, that's one of the areas of capacity expansion. So there'll probably be a little bit more detail, especially on what's happening on the India side there. Next question, please.

Operator

Andre Kukhnin, UBS.

Andre Kukhnin - *UBS Limited - Analyst*

I'd like to ask about pricing. Could you talk about how that's developed in the second half so far, maybe versus first half, where I think in product pricing, we only saw about 30 bps? And what level should we expect for product pricing for the full year? I appreciate that there's quite a lot of price coming through in the mix in the systems part of the business, but I just wanted to check on the products side.

Hilary Maxson - *Schneider Electric SE - Chief Financial Officer, Member of the Executive Committee*

Yeah. So on product pricing in the -- well, first, we've mentioned in pricing overall, we would expect to be back to more normalized this year. Yes, we still remain in an environment that's generally inflationary, but not at all like what we saw in the previous years. So we've said at a group level, what does that mean in terms of normalized, maybe 1 to 2 points. And we've mentioned also in the Capital Markets Day that, that generally contribute something like plus 30 basis points to our margin on an annual basis over a long time frame.

We wouldn't really expect anything different than that for this particular year. I mentioned actually during the call that the H2 actually looks -- the Q3 looks similar impact to the H1, so no real change versus what we've seen in the H1.

Amit Bhalla - *Schneider Electric SE - Senior Vice President, Head of Investor Relations*

Thanks, Andre. Next question, please.

Operator

William Mackie, Kepler.

William Mackie - *Kepler Cheuvreux SA - Analyst*

My one question would relate to tariffs and trade regulation specifically in the USA or North America. To what extent have you considered the various scenarios of what may happen about trade inflows and outflows that relate to your business? I'm aware that Schneider is a very localized business with regional hubs, but to what extent could you potentially be exposed to changes in trade tariffs?

Hilary Maxson - *Schneider Electric SE - Chief Financial Officer, Member of the Executive Committee*

Yes. What I would say is that the issue around tariffs is not new, right? So we particularly examine, for example, everything is, for quite some time, associated with the term of presidency of Trump back in 2016, 2017. So that's not new. And then the idea that there's trade tariffs, also there's Made in America, all of these have been building into scenarios that we've been watching for quite some time.

I think for us, like you mentioned, we're pretty multi-hub. We have a plan to continue to be more and more multi-hub, which really means some R&D for the local market where it makes sense, but definitely, production and the supply base as much as we can in the local markets that we serve regionally, not necessarily country by country, with the big regions for us in North America Europe, China, and then rest of world.

So we feel pretty good about where we are in terms of that balance. We'll continue to look at all the various scenarios that could play out there. But I think we've prepared ourselves as well as we can. And we won't look like another company because we started from a very, very different base, where we're mostly regionalized already.

Amit Bhalla - *Schneider Electric SE - Senior Vice President, Head of Investor Relations*

Thanks, William. Next question, please.

Operator

James Moore, Redburn Atlantic.

James Moore - *Redburn Atlantic - Analyst*

My question is on data centers and AI. Is it possible just to give us a flavor for what the share of AI is now in orders versus the share in revenues? And have you done any work on the rack density of training versus inference? And are you seeing any difference there. I ask because the sense that training might be very rack intense, but we might then see intensity fade once we move to a more inferenced style operation.

Hilary Maxson - *Schneider Electric SE - Chief Financial Officer, Member of the Executive Committee*

Indeed. So without getting -- giving you specific numbers, of course, we would still say that AI orders would be a higher contributor than sales today. There hasn't been a lot of announcements as you can see of AI data centers that have fully come online yet. So you can probably even see that in the announcements of the different data center players. So we see more increasing orders for artificial intelligence data centers.

But not only -- and actually, I think that, that second point that you made is a key one that -- and again, this isn't -- we're not a data center company, but certainly, we're closely partnered with them. And I think that's exactly a key question that they themselves are willing to answer, right? Which is, certainly, there is more intensity in training and compute, and therefore, everything else that goes with it, including electricity, right, rack, et cetera, during the training phase versus during the, quote, run phase later.

So that's something that the data center companies are looking to figure out how to design around in a way that is effective, I would say, for running going forward. But it's certainly -- and so that's where I think we see or we would expect to see data centers from a design standpoint that are going to be a little bit more flexible. So not just for training, not just for run, but some ability to have flexibility over time.

And of course, we partner closely with the customers that we have here on topics like this. And this is part of the reason, for example, we made the acquisition of Motivair. Cooling is a big a big impact, of course, associated with the different intensities as well as rack size, as well as everything else that goes into it. So it's something that I think the industry itself is very much looking at in order that they end up with designs that can be sustainable over time from a flexibility standpoint.

Amit Bhalla - *Schneider Electric SE - Senior Vice President, Head of Investor Relations*

Right. Thanks, James. Next question, please.

Operator

Gael Delixi-Bray, Deutsche Bank.

Gael de Bray - *Deutsche Bank Equities - Analyst*

Most of your electrical peers have guided for or even already reported pretty strong margin performance this quarter. And your guidance continues to imply a deterioration in H2 on a sequential basis. So could you elaborate again, perhaps specifically on the expected negative impact that you expect to come from the execution of capacity investments in the US? And in relation to that, perhaps, do you confirm that the EUR207 million penalty will be booked below the adjusted EBIT line and is not included in the margin guidance?

Hilary Maxson - *Schneider Electric SE - Chief Financial Officer, Member of the Executive Committee*

Yeah, sure. So probably not a lot different than the H1. I think we responded to the question there. So it's true that, seasonally, we would anticipate -- normally, we would anticipate with the increase in volumes that we should see some improvement in margin between the H1 and the H2. Our guidance obviously implies that, that won't happen this year. Why is that the case?

Probably three factors I would call to. We do expect industrial productivity have a lower contribution in the second half of this year as we ramp up workforce and capacity. It actually also impacts our free cash flow. So what we have is a ramp-up in workforce, a ramp-up in inventory and some operating expenses, while we don't yet have the full volumes coming out of those plants. So that's what's impacting us in the second half of this year. And that's particularly in North America. And we do start to see that now in our Q3 alongside with the ramp-up in deliveries that I mentioned.

So it's not we don't have any ramp up in deliveries, but we won't be at the exact -- you don't ramp up your volumes at exactly the same time as the impacts that we're incurring in terms of in terms of OpEx and in terms of inventory on the free cash flow.

Second, we expect continued strength in systems in H2. So it's possible mix could be a little bit less positive. And of course, we continue to invest in various areas like, R&D and digital, we'll do that particularly in the H2 as well. Although nothing timing-wise that I would call out there.

In terms of the decision of the French Competition Authority, that's a decision that EUR207 million that we don't agree with. So like any legal case, at the end of the year, we'll assess it on its merits, along with our external counsel and make an accrual for that case, if any, if we judge that that's appropriate. And that would be in our OOIE. So that would be below the line. It's not tax deductible. So it could impact our effective tax rate, but it would be below the line in our other income and expense.

Amit Bhalla - *Schneider Electric SE - Senior Vice President, Head of Investor Relations*

Thanks, Gael. Next question, please.

Operator

Max Yates, Morgan Stanley.

Max Yates - *Morgan Stanley & Co. International Plc - Analyst*

I just wanted to ask on the shape of second half margins between the divisions because, I mean, I see some of the other competitors in Industrial Automation, I mean, I think ABB is now not making money in their machine automation business. So I guess when we look at -- and maybe this is more of a qualitative question, when we look at the shape of margins and we look at industrial automation at 15.4% in the first half, within the context of your overall guidance, that you have for the full year, would you expect the Industrial automation bit to take a meaningful step down in the second half and that to be mitigated by a broad flat Energy Management piece?

I'm just wondering how -- whether we can get at least any qualitative guidance on how those divisions may start to shake out within the context of the overall guidance.

Hilary Maxson - *Schneider Electric SE - Chief Financial Officer, Member of the Executive Committee*

So in terms of industrial automation, what's impacting our margins there, it's the lower volume, it's mix. I'd mentioned that we start to see some potential signs of an improvement in discrete automation, but that those would largely play out in industrial automation sales in 2025. And indeed, we would expect to continue to have a drag on margin in the second half. I won't quantify it, but certainly, we would expect to have exactly the same factors that are causing the drag on margin that we've seen over the past couple of quarters in industrial automation.

In terms of energy management, that's actually primarily where we have the impacts associated with industrial productivity that I just mentioned, as well as, obviously, there's a mix impact there as well. So again, I won't give particular comments on those. But certainly, IA, I wouldn't expect that we'd have anything different in terms of the drags that we see on that business in terms of margin for this year 2024.

Amit Bhalla - *Schneider Electric SE - Senior Vice President, Head of Investor Relations*

Thanks you, Max. Next question, please.

Operator

Martin Wilkie, Citi.

Martin Wilkie - *Citigroup Inc. - Analyst*

It's Martin from Citi. The question I had was on the Motivair acquisition that you did. It sounded like you're paying a mid-single digit multiple of sales. Just to understand, is that primarily a revenue synergy strategy behind that, so most of you're plugging into the larger footprint of Schneider? Or should we expect other synergies as part of it? And is it a systems business, so just understand a bit more about the go-to-market that Motivair has? Thank you.

Hilary Maxson - *Schneider Electric SE - Chief Financial Officer, Member of the Executive Committee*

Yeah, sure. So indeed, this is a small company. So with the big opportunity, with technology that's well advanced in cooling, liquid cooling in the supercomputing space. Now, of course, we see that big opportunity in terms of growth of that same technology being applied in the data center and AI space. So this is an opportunity for us to take a very small company and plug it into Schneider and really achieve alongside the rest of the data center business, the opportunity and growth that there is in cooling. And indeed, their go-to market tends to be more on the systems side.

Amit Bhalla - *Schneider Electric SE - Senior Vice President, Head of Investor Relations*

All right. Thank you, Martin. Maybe we'll take another quick two or three questions. So next question, please.

Operator

Jonathan Day, HSBC.

Jonathan Day - *HSBC Bank Plc - Analyst*

I was wondering if you could just update us on where we are in the subscription transition? I know you've mentioned before that AVEVA, I think, is further along than plan on meetup. I'm just wondering if you could talk about that and also where we are on the profitability journey there, too. Thank you.

Hilary Maxson - *Schneider Electric SE - Chief Financial Officer, Member of the Executive Committee*

Sure. So indeed, AVEVA, we have most strongly going through -- I'd say, the most aggressive transition to subscription and not just subscription, but SaaS technology standpoint as well and cloud-based technology from a technology standpoint.

On AVEVA, which is the bulk of what's impacting us from a revenues and margin standpoint, we've mentioned in the past at the Capital Markets Day, and it remains the case, that we would be primarily done with the impacts from that from that transition in 2027. And that remains the case as well, where our 2027 year should primarily be not impacted by that transition anymore.

All those points -- the multiple points that we see down in revenue, and we gave a curve of that in the Capital Markets Day, impact us in terms of margin and even a bit worse, right? So you can translate it all the way down to the bottom line. At the end of that transition, we would expect, of course, to be largely back to where we were at AVEVA in terms of margin before. The energy management software businesses, you can hear they've actually started their journey as well on the subscription. I mentioned that ETAP has good growth in its recurring revenues.

Unlike AVEVA -- well, first, they're a bit smaller. But secondly, the transition, we don't expect to be as aggressive there for various reasons, including technology reasons. Those are companies that -- ETAP is a very involved design software. So we would expect that those well will go down the path transition to subscription, you can see that those don't have quite the impact on revenues. I think we mentioned that we were at mid-single-digit revenues there anyhow. [PlanOn] is already a SaaS-based technology.

Amit Bhalla - *Schneider Electric SE - Senior Vice President, Head of Investor Relations*

All right, Jonathan. Next question, please.

Operator

Alexander Virgo, Bank of America.

Alexander Virgo - *BofA Securities - Analyst*

I wondered if you could talk a little bit more broadly about the software dynamics. You obviously talked about SaaS transition there, and the ARR growth is obviously still pretty healthy. But you do have been a pretty material slowdown in software and digital services. So I wondered if you could just give us a sense of what's going on there more broadly. And perhaps as we look at tough comp, I think, in Q4, just wondering how that transition looks like as we move into 2025. Appreciate that's a qualitative question, rather than quantitative given guidance for '25 isn't until February. Thank you.

Hilary Maxson - *Schneider Electric SE - Chief Financial Officer, Member of the Executive Committee*

Yeah. So with AVEVA in particular, I think we mentioned that ARR is at plus 15%. We'd expect to finish the year in line with that 15%-plus that we talked about at our CMD for AVEVA over the time frame of the Capital Markets Day. With the Software, we do have some additional timing and seasonality this year. If you remember, we had the end of the calendar -- or we changed AVEVA from March year-end to the calendar this year.

So we see some additional seasonality or timing, I would say, in the quarters, Q1, Q2 and Q3 this year, that are impacting us. As well as we're right in the big push, I would say, in terms of the transition to subscription. 2026, we have -- in that fishbone shape that we showed, you would expect 2026 has a little bit less impact. And then 2027, like I mentioned, that we would be primarily finished with impacts from a rig revenue standpoint.

Amit Bhalla - *Schneider Electric SE - Senior Vice President, Head of Investor Relations*

Well, thank you, Alex. I think maybe we try to squeeze one more in as the last question.

Operator

Ben Uglow, OxCap.

Ben Uglow - *OxCap Analytics - Analyst*

It's really about the dynamics in data centers. And specifically on the pricing side, I appreciate that price cost is normalizing for the group. But could you just give us a general sense on your customer conversations in data centers in the last 6 to 12 months? How are they evolving? Because when I look at lead times, and we had an update from one of your US competitors last week, they're not coming down. So it strikes me that things are still probably very, very robust from a Schneider standpoint. But please could you just give us a sense on those conversations? Thank you.

Hilary Maxson - *Schneider Electric SE - Chief Financial Officer, Member of the Executive Committee*

Yeah, indeed, so in our systems business, we've mentioned at our Capital Markets Day that we've started -- that we've closed the gap in terms of the margins between systems and products by more than a third since 2016, and that we'd expect to continue to have some closure of that gap. Never being the same, but expect some continue of closure of that gap. And it's areas like data center that have a big opportunity for us there because the strong demand that's in that space.

So indeed, I think we've said in the past, and I would say that in a strong demand environment, that might be even more the case that Data Center customers, price is probably not their number-one objective. It's more quality, overall comprehensive offer, design, co-design, the ability to co-design, and nowadays, a bit on lead times because they're all trying to get moving with their AI data centers. So indeed, this is an area where I would say that there's good opportunity for pricing.

However, of course, we balance -- these are long-term customer relationships, they have something reasonable. But certainly, this is part of the reason that we would expect to see that differential in gross margins between products and systems close a bit more over this Capital Markets Day time frame.

Amit Bhalla - *Schneider Electric SE - Senior Vice President, Head of Investor Relations*

All right. Thank you very much, Ben. I think we'll probably stop here. The team is obviously available for further questions in the coming days. and look forward to seeing you all soon. Thank you very much for your time this morning.

Operator

This concludes today's conference call. Thank you for participating. You may disconnect at this time.
