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Schneider Electric SE (SU.FR)

Q3 2019 Sales and Revenue Call
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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Schneider Electric Third Quarter 2019 Revenues Conference Call hosted by Emmanuel Babeau and Amit Bhalla. At this time, all participants are in a listen-only mode. I must advise you that this conference is being today, 24th of October 2019.

I would now like to hand the conference over to your first speaker today, Amit Bhalla. Please go ahead, sir.

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

Well, thank you, operator. Good morning, everybody. Very happy to have all of you with us as we discuss our Q3 2019 revenues which we announced this morning. Of course, to take us through the results, we have Deputy CEO and CFO, Emmanuel Babeau. We will have a Q&A session after this. We’ll ensure all questions are taken. I just want to refer you to slide 2, which is the disclaimer as always, but without further ado, I hand it over to Emmanuel.

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

Thank you, Amit. Good morning, everyone. Great to be with you to share about our Q3 sales number. And I'm immediately going to go on page 5 of the presentation. And just a quick reminder for everyone, to say that Schneider is a simple and focused company today. We have two businesses, Energy Management and Industrial Automation. And these two businesses are driving two revolution, two of the main revolution of the global economy, powered by digital and innovation, of course. And we bring to our customer for all the type of assets,
efficiency, productivity, reliability, safety and sustainability. And you have on that page a nice discussion of the kind of benefit that we can bring to our four end markets.

Moving to page 6 and here you have the global picture of this Q3 for us. This is another good quarter of growth. We are coming with €6.6 billion of sales. It's up organically plus 3.1%. And once again, our two businesses have been growing: Energy Management, plus 3.9%; Industrial Automation, plus 0.4%. And on the basis of this good quarter, we are reaffirming our 2019 target.

Moving to page 7, what is certainly important to note is during this third quarter is that the growth is coming from our priorities so the strategic core now that we've set is delivering. Of course, we are still putting a significant focus and emphasis on connected product, and it has been growing despite the slowdown of some end markets at a nice plus 2%. We are, of course, putting a lot of priority on services, a nice growth of plus 8%. We have another great performance coming from software, up double digit during this third quarter.

Globally, we put, of course, a top priority on growing EcoStruxure, and EcoStruxure is growing significantly above the rest of the group. You have one number here which is highlighting the success of our digital push, which is the number of assets under management. We have reached €2.6 million of assets under management and it's a growth year-on-year of plus 45%.

Last but certainly not least on systems, you know that the focus is put on margin improvement. I'm not commenting, of course, during this Q3 sales call the P&L, but we are continuing absolutely along this line of putting the priority for systems on improving the margin.

Next page, of course, this success is the transformation of the trust of our customer into business for us. And you have as always, because we think it's essential, a number of nice example of business that we are developing with our customer and value that we bring to them.

I would just like maybe to highlight a few of them on that page and not to go through all of them. Maybe taking the first one on Data Center with TAS. TAS is a listed company in Italy. It specialize in payment system. And we're advising them on the energy efficiency and global efficiency of their data center. And we've been selling to them software for data center management and all our technology to make data center efficient and reliable.

Another example, Avenue2, which is a great project. I think I'm being told, I don't know whether it's true but I'm sure it is, it's the first double-decker tunnel in Europe. It's an essential place in the Netherlands to ensure the traffic between the northern part and the southern part of Europe. And we've been delivering a full solution for efficiency, for reliability of the infrastructure, and that include some AVEVA offering and notably the [indiscernible] (00:05:28) but also some [ph] PLC, some LV (00:05:30) packages, and some UPSs, so a pretty nice illustration of the value that we can bring to our customer when we combine our technology.

And maybe a third and last one, moving to industry for the AV Group Nackawic Mill, which is a transformation of a traditional pulp mill plant into a viscous staple fiber which is an advanced transformation. And here we are implementing the AVEVA [ph] software suite plus, our DCss. (00:06:03) We are also putting PLCs. We are installing temperature devices, and we are providing EcoStruxure Maintenance Advisor. So another illustration here of putting technology together, both process and discrete and, of course, the benefit of combining AVEVA with the rest of our offering.

Moving to the next page, we've had a plenty of moment of engagement with our customer in Q3. We've seen many of you actually were there at the AVEVA World Summit in Singapore which has been a tremendous
success or, more recently, in our Innovation Summit in Barcelona where we received more than 3,500 customers. But we are doing that, I would say, across the planet. We have a nice Innovation Summit as well in Cairo, in Bogota and in Jakarta. There is more to come in in the coming quarters and, of course, you are always welcome to see and visit these events, where you can discover the innovation that we are bringing to our customers.

Moving to the next page which is the Schneider sustainability index. We keep doing good progress. We are absolutely in line with our road map and with the targets that we have for the end of the year and beyond. There was an important event in September in New York when we have been stepping up our commitments on carbon reduction. And we've been actually advancing by five years the objective of becoming carbon-neutral that was initially planned for 2030. And we are now planning to deliver that for 2025. We are now planning for 2030 to be net-zero operational emission, and we are now targeting to be net zero CO2 emission, including our supply chain for 2050. So we keep raising the bar as we all see the urgency of action moving up.

Last but not least, in the sequence of CSR component, as you know, a sense of purpose, inclusiveness, empowerment of people is absolutely part of our core DNA. And we've been receiving many rewards once again during this quarter. One of which I think we are particularly proud is that we are really a top rank in the Fortune’s Change the World list, which I think is a tribute to our commitment and action to move the planet to a more sustainability as we see the pressure is growing.

I'm now moving to page 13 and really digging into the results. So our sales have been amounting to €6.646 billion. It's up plus 4.2% versus the third quarter of 2018. Several component to that growth: forex, positive nicely, plus 2.2%. That is mainly the positive impact coming from the dollar. We are now seeing for the full year a globally positive impact of around €400 million, so we are moving up the impact on the top line. And we had been giving the 10 bps to 20 bps negative range in terms of impact on the EBITA margin. We now believe that it could be in the high end of this range.

Scope effect is negative. Of course, that's coming with the strategic review program that is going on, minus 1.1%. That is mainly the Pelco impact but also the disposal of the US panel business that is impacting here. That leaves us with a net of plus 3.1% organic growth on which I'm going to elaborate now.

Moving to the next page. I think that's an important one because that's where we see that we are really driving the growth of our group with the priorities. And here you have the year-to-date situation of the growth driver that we think is a good illustration of the priority and what is happening.

First of all, of course, product growing 3%. It's a good performance as the cycle is progressing. As we've seen, a number of negative trend notably in discrete automation which, by essence, is negative [ph] for two products (00:10:59) but we are still managing to grow product by 3%. It's a combination of, of course, volume and price increase. But that show the capacity, we keep growing products and more and more connected product in this environment.

System growing faster than product. That was, of course, expected in this environment and as we progress through the cycle. It's a 6% growth. We've seen, of course, good momentum. That was expected in the backlog evolution on system. As I said, here it's about growing the top line but, of course, margin improvement is also a big, big priority when it comes to system progression.

And last but not least, of course, growing services and software which represents around [ph] 16% (00:11:48) of the company today. You know that we have this ambition to grow that percentage very fast. And, of course, the higher growth that we generate with services and software, almost 10% since the beginning of the year, is going
to contribute nicely to that objective. And we are really firing and powering on two cylinders here because services are growing very fast, not 10%, but close to 10%, and software is nicely in the double-digit territory.

All right. So, now let's move to Energy Management and Industrial Automation. And really starting with Energy Management, sales of €5.1 billion, plus 5.4%, forex of plus 2.4%, scope minus 0.9%, that's mainly Pelco, as I said, and at least an organic growth of plus 3.9%. When we look at the driver for that growth, we see clearly continued strong performance from Residential & Small buildings. We talked here of growth about mid-single digit, and we've seen really good growth in many geographies going on.

Commercial & Industrial Buildings also continue to contribute positively in many markets, and they've been a good contributor to the performance in this third quarter. Data Centers is also continuing to have a strong performance, and that was reaffirmed during this third quarter. We've been, of course, impacted by the impact of the discrete automation players who have been reducing their investments, and that is having some impact on some of the Energy Management technology that we can sell to them. And last element on the trend, of course, good growth on services.

One element which is important now, looking three years backward, you see a pretty consistent growth. And we are at more than 4% organic growth on average over the last 12 quarters, so good growth. Certainly, nicely within the 3% to 6% target that we are through the economic cycle and showing the potential and the nice outlook for Energy Management.

When I look at the region now, the good news is, first of all, that all region has been growing. The first one, North America, with still a very nice growth, plus 7%. That is certainly due to a continuation of a very good performance in the US where we continue to have a good impact on the Building market. Good situation, as I said as well, on Data Center. And Services has been growing nicely as well, notably thanks to ESS during the quarter.

On the more negative part for North America, certainly, the industrial market which is also buying Energy Management and where we've seen some softness during the quarter. And Mexico, which has been globally a weak market, is probably more pronounced for Industrial Automation but that was certainly the case as well for Energy Management.

Second performer, Western Europe, plus 4%. I'm not sure that everybody was expecting Western Europe at that level of growth. But that shows that most of our big geographies have been growing during this quarter. That's today the case for France, Germany, Spain, Italy. I mean, they were all up nicely, showing good construction market in many of these countries. I mean, residual in France, for instance, is in good shape. And there was certainly one market which has been negative for us in Western Europe during this quarter for Energy Management. That's the UK, where we were down low to mid-single digit for Energy Management and, of course, that is coming from uncertainty on Brexit.

Asia Pacific, plus 2%, with another good performance coming from China. We're talking about mid-single-digit growth in China. Construction continue to be well-oriented and notably residential. We see good business in infrastructure clearly. That has been continuing and that is big support for the growth because the rest of the region has been more mixed, and that may be one of the disappointment, and notably with India, we're actually following the election. We are expecting a rebound. We knew that we are facing extremely high comp in India globally. They were growing 20% in Q3 last year. But clearly, India is not yet the level of growth that we are expecting. Australia has been down as well. We see some pressure on the residential market in Australia.
And when it comes to Southeast Asia and what we can call the [ph] ASEAN-5, (00:17:00) we actually say that they've been impacted by the slowdown of the global economy and uncertainty on the global trade, which is there are regions that are certainly region of investment when the exchanges are growing, when the economy is growing. We're seeing certainly some impact coming from uncertainty on this region during the quarter.

Rest of the World, it's also plus 2%. Here, as always, I would say given the diversity of the region, it's contrasted. We are seeing strong and nice growth in South America, in Central and Eastern Europe when the situation has been much more difficult in Middle East and with the utility market negative [indiscernible] (00:17:47) for Saudi Arabia and globally a tough environment in the Gulf. CIS is also down, and we get to see a low growth environment for Russia.

Moving to Industrial Automation, €1.540 billion of sales, it's up plus 0.5%. Forex is contributing positively by plus 1.9%. Scope is negative by minus 1.8%. That's, of course, the disposal of the panel business in the US and the given organic growth of plus 0.4%.

Many were asking whether we are at the right spread in terms of exposure to compensate for the decrease in discrete automation. Well, we have here the illustration that, yes, we have today a business that is well-spread on the various technologies. And we definitely have seen a continuation of a slowdown on the discrete end market. We can see that globally, [ph] discrete energy (00:18:54) we are down mid-single digit. And that has been almost most of the geography, even if there were some pocket of resistance in in Germany, Russia, also [ph] South America, (00:19:05) but globally, that was going down. That should continue to go down in the coming quarters, that's what we expect for the time being.

But the good news that we managed to compensate that with good growth on process and hybrid automation, of course, including software and globally now in process and hybrid we've been growing mid to high-single digit.

And when you look at the last [indiscernible] (00:19:32) we've been looking at the last 12 quarters, the last three years. Again, overall, a good average growth, 5% organic CAGR over the last – not CAGR, sorry – average growth over the last 12 months. And we are nicely here, again, I would say, in the 3% to 6% range.

If you look now at the performance by geography, which [indiscernible] (00:20:01) tells a lot about the weight of discrete and the potential for process, there is, of course, a very strong performance in the Rest of the World, plus 11%. That's definitely a place where we have a nice presence for process and hybrid. All zones have been growing in the region with one exception which was Africa. Particularly good growth in South America and Middle East. And clearly, there, we have plenty of good projects in oil and gas, in mining, in chemical, in water, in infrastructure. So, that's really what is behind this very nice growth for the Rest of the World.

Asia Pacific is also positive, plus 2%. And here, it's a little bit the reverse picture for Energy Management, so China has been a big negative because of the negative trends for OEM, because on process as well, there were obviously some positive elements. And we've been compensating the slight decrease by growing elsewhere, notably in India, but also in Australia, in South Korea, in Thailand, so several markets with good growth in process and hybrid. And Japan was another one with an exposure to discrete to be negative. But I think it's a pretty good illustration of the fact that we managed to turn into positive territories, thanks to this process and hybrid business.

North America, minus 2%, which is clearly the continuation of the softness of the discrete end market and in particular drag coming from Mexico, it's a very negative performance coming from Mexico. No doubt that Mexico is still being impacted by the uncertainty coming from the trade war and the risk that has emerged that maybe at a certain point in time, you could see some tariff on goods between Mexico and the US. That is for us definitely
having an impact on the decision for investment and the level of investment. Elsewhere, we've seen a good level of demand for process industry. So, obviously, that has been partially compensating for the decline in discrete and in Mexico.

And then Western Europe, minus 5%. I would say we've been seeing a negative trend in almost all geography. A couple of exceptions, Germany and Nordics, which were stable or slightly up. And a very negative trend in the UK where actually the Brexit uncertainty is biting. Here, we are negative double digit in the quarter for Industrial Automation.

Moving to the evolution of the portfolio. First of all, maybe one word to say that we keep progressing on the Larsen & Toubro closing. Remember, it's complex because it's a massive deal and, therefore, we need to transfer assets and not the shares of one company. So, it takes a lot of time to go through the administrative obligation. It will present a number of advantage, but that explained why it's taking some time to close and we are expecting the closing in the first quarter of 2020.

We continue, of course, to work on our road map to find a strategic solution for €1.5 billion to €2 billion being that we consider as no longer a priority or that we see as less core, less performing and with a lower margin. And the most recent announcement is the one that we have been doing on the [indiscernible] (00:23:51) so the medium voltage business in Russia. It's a business that we have been acquiring in 2011, largely exposed to electro-intensive player in Russia. So that's oil and gas, that's mining, that's utility. And that's a business that has been hit very hard by the sanction and the slowdown of the Russian economy.

So we are partnering with the Russian direct investment firm, which is the [ph] Russian sovereign funds. (00:24:21) We're going to create a JV to own this company. We are investing and we are investing with someone in that company. The JV is certainly to jointly work on improving the performance of that company. And we are very happy to have RDIF with us. They have great portfolio of investment and we are sure that they will allow us to establish a number of contact and business relationship with their companies. This is not, of course, the end, so we continue. And you should expect us in the coming months, on a regular basis, to come with new announcement on this €1.5 billion to €2 billion program.

All right, so that leads me to talk about Q4 and what we can expect from the market. What we expect for North America is globally continuation of the significant weakness in Mexico first. We also expect discrete automation to continue to be weak, and we are also expecting now to see [ph] high comps (00:25:32) in Q4. Remember last year, that's when North America started to grow up to double digit. So taking everything into account, we're expecting for Q4 moderate growth for North America.

When we look at China, I would say we've been very consistent and we're still very consistent in what we see for the market. So indeed, there is a slowdown for the OEM market. We are expecting construction and market to possibly moderate at a certain point in time in their pace of growth.

But China, as we said and as we continue to say, that remain a growth market for us. We continue to see many area of good dynamism in construction, in infrastructure, in part of industry. And we certainly ambition to continue to grow in China in Q4.

We expect Western Europe to continue to grow also at a moderate pace. So I think you've seen the contrasted driver for the business in Western Europe. And we expect, when it comes to new economy, to continue to see a contrasted picture. We expect South America and India to have a good Q4, and we expect Russia and the Gulf to remain challenging in many end markets.
And we are reaffirming our target for 2019. We are targeting an organic growth for the adjusted EBITA between plus 6% and plus 8%. And to deliver this ambition, we have two levers. First of all, of course, the revenue growth. We target an organic growth within plus 4% to plus 5%. And the margin improvement, the improvement of the adjusted EBITA margin, and we target to be in the upper half of the 20 bps to plus 50 bps organic range.

That ends my presentation and I’m extremely happy to answer your questions now.

Amit Bhalla  
Senior Vice President & Head Investor Relations, Schneider Electric SE

Well, thanks, Emmanuel. We’ll move to the Q&A. I think we have sufficient time to take all the questions. But again, I would request, keep it to one question per analyst and then we’ll come back for repeat questions as needed. So with that, operator, can we please have the first question?

QUESTION AND ANSWER SECTION

Operator: Thank you. The first question comes from the line from Andreas Willi from JPMorgan.

Andreas Willi  
Analyst, JPMorgan Securities Plc

Yeah. Good morning, Emmanuel. Good morning, Amit. My question is a bit more kind of medium term. So you reiterated with the release as well the target to improve margins by 200 bps over the next few years to 2021. Maybe you could talk a little bit about what you’re changing in terms of your approach to that, investment priorities, cost savings and so on, to still support and achieve that target in an economy that clearly gives you less market growth in terms of how you’re trusting that plan to still achieve that target.

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

Good morning, Andreas. We absolutely stay committed to the improvement of the 200-basis-point improvement over three years. I mean, as we say and as we said in our target, it’s our ambition to nicely start this journey in 2019. And we’ve always said that we were not necessarily expecting the global economy to keep growing at the pace of 2018 when we announced the target.

So, we see and I think your question is, of course, the question on what's going to happen in 2020 and beyond. Clearly today, there are plenty of question mark, plenty of uncertainty. Well, I have the feeling that maybe the Q4 is starting to bring some answer to some uncertainty on Brexit. We’re not there yet but, apparently, the risk of a new deal seems to be more remote at least today. There is maybe some beginning of answer all – stopping escalation between US and China. We’ll see whether in November there are more good news coming.

So, it’s certainly too early to say what 2020 is going to be. We can – and it’s, of course, important to answer your question – reaffirm that we are committed to this 200 basis point that we intend, whatever is the environment, to grow faster than the markets to keep gaining shares, if you want.

And as you know, we have several levers well-identified to work on this margin improvement. We are working first on the non-organic path. You should expect us to continue to work on this non-organic path. And on the organic
path, so the priorities are clearly on the things that are going to contribute to margin improvement. And as we signal, we have leeway, we have much margin of maneuver on our cost evolution. We certainly intend to keep investing, but we are also in the plan to generate significant productivity on all our cost base. And of course, we'll be able to use that to deliver the 200-basis-point objective. So, that's really where we are today. And I can only just reiterate the fact that we are committed to this 200-basis-point margin improvement objective.

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

Thank you, Andreas. Next question?

Operator: The next question comes from the line from Andre Kukhnin from Credit Suisse.

Andre Kukhnin
Analyst, Credit Suisse Securities (Europe) Ltd.

Yes, good morning. Thanks so much for taking my question. I would like to talk about North America in a bit more detail and kind of how that is likely to play out in terms of kind of cadence for the 2020. You've got a construction market that is kind of near the peak or over the peak, and lead indicators are telling us that we're rolling over. At the same time, you've had a substantial drag from Mexico that I think we're going to be annualizing quite soon. So I wonder if you could just talk about that, kind of the dynamics of these two, how they're likely to play out over the next 6 to 12 months.

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

Well, sure, I can definitely try. First on Mexico, I think it's difficult to see a rebound in Q4 today, but it doesn't mean the real rebound could not happen next year, we'll be probably facing a much easier comp. So I don't know what going to happen in Mexico. We know that the volatility there can be more important.

On the US market, well, there are a number of sign of a slowdown of some growth, but it doesn't mean that we are turning into negative territory. So when it comes to the construction market, whether resi and non-resi, I mean, we are still seeing growth. It doesn't mean that the growth is, of course, at the same level as a few quarters ago. But we are definitely still seeing growth. We are still seeing growth clearly on Data Center. We are seeing growth on infrastructure investment.

So I don't see today a view where everything in the market would turn to the red. And therefore, that's the view that we have on the US. At the same time, noticing that we are facing much higher comps from [ph] around, (00:32:52) that's for sure. And that it's still growing, but it doesn't mean it is growing at the same pace as a few quarters ago. So that's globally the picture that we have for the US for the foreseeable future.

Andre Kukhnin
Analyst, Credit Suisse Securities (Europe) Ltd.

Thank you.

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

Thanks, Andre. Next question, please.
Hey, hi, good morning. So one question, two parts. So really within IA, Industrial Automation, you're understandably calling out subdued demand for discrete in coming quarters. But how about on the prices side, do you think there's enough momentum in those markets to compensate and we can continue to sort of see a flattish growth overall for IA in the coming quarters as we saw in Q3?

And then linked to that, just on China, I think you called out on your modest decline there. I think OEM, as you call it, so discrete export-orientated businesses already slowed down in Q3 last year for you or at least started to. Should we be kind of bumping into some reasonably favorable comps there now? And are you seeing any signs of a pickup in demand around factory automation in China? Thanks.

Thanks, Alasdair. So, on discrete process, net of the two, I mean, the good news after a few years ago when discrete was going down, we had no way to compensate. I know that there were some skepticism on Q3 whether we'd be able to compensate, and we more than offset coming slightly in positive territory.

I can tell you that the momentum on process is there. Certainly, it could have been probably even higher without some of the tension and exaggerated for the economy because of that, but it's there definitely, and it's going to contribute positively to the growth of industry.

Now, what's going to be the net of the two? I wasn't able – when I was asked to get it for the Q3, I'm not able to – Q4, is it going to be net positive, net negative? I think there is a possibility that's going to be net positive, but I don't know. But the good news is that clearly we have a strength, we have a positive momentum coming from process and hybrid, and it's going to stay there.

On China, well, I think you're right. I mean, that's [ph] certainly going down. (00:35:15) We're going to be facing easier comps. Is it going to be at the beginning of next year or rather a year later, next year? I don't know. But we're certainly going – on that part for the Chinese business, going to be facing an easier comp at a certain point in time. And hopefully, that's going to be good news for us in the coming quarters but too early to say exactly when we're going to say I would say things bottoming out.

Yes. Good morning, everybody. Good morning, Emmanuel. Can I ask, in your experience with all the various cycles you've seen now at Schneider and given the usual time lag between the trends observed in discrete industries and those in process and hybrid, for how long would you expect to close gap between discrete and process to be maintained like this? That's question number one.
And the second one, that’s a quick one. Could you comment on how you see the level of inventories in the channels in the US for both EM and IA products? Thank you.

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

Good morning, Gael. Tough question frankly on – I don't know whether any cycle is similar. I think that the process is going to be beating discrete for certainly several quarters in a row, no doubt. And as discrete has been beating process for several quarters in a row. So, is it going to be 12, 18, 24 months? Frankly, I don't know. Could we see some green shoots on discrete as early as sometime next year? That's possible. I was alluding to the fact that comps are going to become easier, and that maybe in some market, it's going to start having an impact. But frankly, I'm not able to tell you when it's going to [ph] play. (00:37:36) Once again, the good news is that as we have this two engine not working necessarily at the same time, there is a way to significantly decrease the volatility on our Industrial Automation business.

On inventory in the US and I will probably make a global comment on inventory. I think that what we've been facing already and we may have a bit more of that ahead of us is, as always, when you have some markets slowing down, some negative impact coming from inventory reduction and, therefore, sell-in for us being actually below the sell-out. And that's exactly the [indiscernible] (00:38:20) when things accelerate, you can have the sell-in above the sell-out because of natural behavior of the distributor, whether because they believe the market is going to accelerate or slow down adjusting the level of inventory.

Well, I have seen that today the level of inventory in the US is absolutely normal and there is nothing specific to report on that one. I know that globally at Schneider level, there have been some impact of destocking process in France in Q3, which have played negatively. But I don't have anything to report for the US specifically in that respect.

Gael De Bray  
Analyst, Deutsche Bank

Okay. Thanks very much.

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

Next question, please.

Operator: Thank you. The next question comes from Alexander Virgo from Bank of America.

Alexander Virgo  
Analyst, Bank of America-Merrill Lynch

Thanks very much. Good morning, Emmanuel. Good morning, Amit. I wondered, could you just take a little bit into the differences in dynamics between Industrial Automation between the sort of service and software growth and the hardware growth because I'm guessing in line with your peers, you're seeing – and obviously you called double-digit growth in software. You're seeing quite a marked difference in trends. I'm conscious that you do have a different end market exposure than some of your reporting peers, so maybe you could just begin a little bit to that for us to give us some idea of how to frame the next few quarters as well? That would be helpful. Thank you.
Emmanuel Babeau
Deputy Chief Executive Officer in charge of Finance & Legal Affairs, Schneider Electric SE

Good morning, Alexander. So I guess your first question is between the process automation hardware and the software we set for the commission with the difference in trend. So one is a mid-single-digit growth, nice mid-single-digit growth. The other one is double digit. And quite obviously, on software, there is a mix of good end market and software growing fast because, of course, that's a great way to invest for more efficiency, more productivity and to get a great return.

There is also clearly the success of the AVEVA deal. I mean, we've been building a news force and that's really making an impact on the market among our customer. The customer proposition is unique. The end-to-end software from a design, build, operate. And I think we are entering into dialogue that did not exist before with many customers. And we are having an impact on the market which is absolutely unprecedented. So that is probably adding up, if you want, to the good situation of the end market.

Now, there was also a nice contract taken during this quarter for the software business. And we'll see what is the trend. I'm not saying it's going to continue to be always double digit. But I certainly expect a very nice continuation of the growth on software in the coming quarters. Again because of end market and because [ph] the device (00:41:32) is clearly a strong success in terms of strategic intent.

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

Thanks, Alex.

Alexander Virgo
Analyst, Bank of America-Merrill Lynch

Thank you.

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

Next question?

Operator: Thank you. The next question comes from the line from Wasi Rizvi from RBC.

Wasi Rizvi
Analyst, RBC Europe Ltd.

Hi. Good morning. Thanks for taking the time. On the question, I just wanted to build on the North America Energy Management question. I mean, I know that you called out growth driven by function circuit breakers. I was interested, you mentioned that. I mean, was it big enough to move the needle? Are you able to quantify how much that contributed to the growth? And then also if you could just help me understand what's going on because I think there's regulation have been in place for some time. Are you seeing an acceleration in the States adopting it or enforcing it or what's driving that and how big is it?

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

Good question. So, no, I'm not going to quantify it precisely, but it's a significant impact. I mean it's one of the contributor to the growth as you can imagine given the size of North America, the US, it's not one driver making
the performance. But it's a nice one. You're right, there was a change of regulation and I think we're coming with an answer to this changing regulation which is particularly relevant for the customer. And it's the good performance and we're hopeful it's going to continue.

Wasi Rizvi  
**Analyst, RBC Europe Ltd.**  
Okay. And sorry and just a follow-up. Are you able to help on how much you think that kind of rollout, that product is in terms of where it needs to be. Is there still a long way to go or is it going state-by-state?

Emmanuel Babeau  
**Deputy Chief Executive Officer in charge of Finance & Legal Affairs, Schneider Electric SE**  
So, I think it's a progressive rollout. I'm not able to tell you how long this adjustment is going to last. It has been here for several quarters already. And based on [indiscernible] (00:43:20) it's not yet coming to an end, but I'm not able to give you exactly the date of when the whole market will be covered. I think it's going to still take a while.

Wasi Rizvi  
**Analyst, RBC Europe Ltd.**  
Thank you.

Emmanuel Babeau  
**Deputy Chief Executive Officer in charge of Finance & Legal Affairs, Schneider Electric SE**  
Thank you.

Amit Bhalla  
**Senior Vice President & Head-Investor Relations, Schneider Electric SE**  
All right. Let's take one more question.

**Operator:** We have one question – a follow-up question from Andre Kukhnin from Credit Suisse.

Andre Kukhnin  
**Analyst, Credit Suisse Securities (Europe) Ltd.**  
Great. Thanks so much for taking my follow-up. I just wanted to ask about the portfolio measures that you have taken already this year, the €0.4 billion plus the Samara Electroshield deconsolidation. Could you give an estimate of the margin impact from those for 2020, just kind of as a calculation?

Emmanuel Babeau  
**Deputy Chief Executive Officer in charge of Finance & Legal Affairs, Schneider Electric SE**  
It's a bit too early because, of course, that will depend on exactly when we close Samara and so on. But it's going to be positive, I think, for the time being. The only number that we gave was for Pelco. We said they're full year 10-basis point positive. Bear with us, when we will close the Electroshield deal, we'll try to be more precise on the impact, but expect a positive impact on the margin in 2020.

Andre Kukhnin  
**Analyst, Credit Suisse Securities (Europe) Ltd.**
Got it. And if I may, just on the last question, dual-function circuit breaker. Is there any chance of that being rolled out kind of Rest of the World, though, in Europe as well beyond US, as US tends to follow on this kind of price safety regulations?

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

I think...

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

Amit wants to take that one.

Andre Kukhnin  
Analyst, Credit Suisse Securities (Europe) Ltd.

Take the lead, sir.

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

That’s a specific regulation which is built upon by the North America electrical standards. And again, in terms of the rollout as well, I think there is clearly a publicly sort of available rollout plan for a specific stage, which is going into the next few quarters as well. But as Emmanuel said, there’s probably – there’s more adoption that could happen which is not yet very clear in terms of its timing, but it’s specific to North America.

Andre Kukhnin  
Analyst, Credit Suisse Securities (Europe) Ltd.

Right. So there’s no signs of Europe looking at this yet? Because usually Europe I think follows, right?

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

Yeah. We don’t discuss it, but we don’t see that in the short term.

Andre Kukhnin  
Analyst, Credit Suisse Securities (Europe) Ltd.

Got it. Thank you for taking the follow-ups. I really appreciate it.

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

Well, thank you, everybody. I think with that, we will close the call. Thanks for your time and please get in touch with the IR team as required. Have a good day. Bye-bye.

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

Thank you. Speak to you soon. Thanks. Bye.
Operator: That does conclude the conference for today. Thank you all for participating. You may now disconnect.