

29-Jul-2020

# Schneider Electric SE (SU.FR)

Q2 2020 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

### Amit Bhalla

*Vice President-Financial Communication & Investor Relations, Schneider Electric SE*

Hello, and welcome to Schneider Electric's Q2 and H1 2020 Results Digital Event. We're joined today by Chairman and CEO, Jean-Pascal Tricoire, who joins us from Hong Kong; and our CFO, Hilary Maxson, right here with us in Paris. The presentation and the press release are available for you to view on our website. And, of course, after we're done with the presentation, we will have enough time for question and answers. Thank you all for joining us. Hope everyone's well. And with – having said that, I'm going to turn it over to Jean-Pascal in Hong Kong.

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### Jean-Pascal Tricoire

*Chairman & Chief Executive Officer, Schneider Electric SE*

Thank you, Amit. Hi to all you. It's really good to reconnect with you after this unprecedented, I would say extraordinary H1 that we've been through. First, let me wish all of you, every one of you to be safe and well wherever you are in the world.

Today, what I'm going to do with Hilary is to give you the main highlights of what went through during H1 and give you as many details as I guess you would wish. But let me dive straight into the subject. During the crisis that we are going through, our compass has been the strong fundamentals of Schneider, the fact that we serve two key transition, the two – what – two of the largest transitions at the beginning of this century, energy transition and Industry 4.0. We do it with two synergetic business, Energy Management and Industrial Automation. We deliver the following values to our customers: Sustainability, efficiency, and finally, resiliency which has increased or which has gone up into the priorities of our customers.

We do it based off our integrated digital architecture, which is EcoStruxure. We deliver EcoStruxure that integrated solution for our customers with a business model which is itself integrated, empowered, truly decentralized in the countries where we operate, open to a large community of suppliers and integrators, and championing sustainability in our industry. And we are focused on the strong return to shareholders based on the strong cash generation, based on the progressive dividend, now 10 years of progressive dividend, on a very disciplined capital allocation.

What are the highlights of this first half? We have delivered a resilient financial performance through the crisis. Our revenue, of course, has been impacted by the COVID and has been decreasing by 10%, around. Our adjusted EBITA has decreased by 130 bps in H1 which, if I dive back my memory and go back to the last crisis, [ph] Annette (00:03:14) as the CEO in 2009, is three times better in terms of resilience and the performance we produced at that time which was an EBIT impacted negatively of 4%. So, business model has re-evolved, the company has evolved so that we would ensure that much better resiliency.

We have delivered an adjusted net income of €1 billion. We delivered free cash flow of €1 billion, record high in H1, benefiting from disciplined working capital management and there – but doing that while building a significant stock, a significant inventory to make sure we serve our customers through the disruption of supply chain. We have a net debt of €4.8 billion after paying the dividend that we committed in February and which was voted by our AGM of €1.4 billion recognized in 2019.

If we look now at our two business, both of them show the same kind of top line evolutions for H1. Energy Management very resilient with a decrease of 80 bps in the adjusted EBITA. Industrial Automation a bit more impacted due mostly to the mix evolution of the business which has been really impacted by the COVID and affecting principally our product business and our OEM business.

What we've leveraged to ensure such a resiliency in H1 has been a consistent business model and organization. We have been following our strategy over many years, and we have an organization which has not changed, which is proven and keeps working on delivering through the crisis. We have benefited also of our agility, catalyzed or enabled by the fact that we are very local, that we empower our local teams to react locally with local governments, respect to local conditions, and benefiting from supply chains that we have built over time to be very local again.

We, of course, are agile also because our operations are digitized using Schneider technology. And we have also benefited from what we've done over the years, which is to balance our exposure in terms of geographies, in terms of cyclical exposure, we're balancing what we do into the construction on the data center space with what we do in industry and infrastructure, and building our business with partners based in our business and the relationship with our partners on the business which is fundamentally asset-light.

We, in H1, have kept taking good projects, sometimes large projects like the Smart Grid project we took in Egypt, which has the objective to supply reliable electricity to 20 million people. We've kept working on digitization of industry in France, for instance, to collect structured data and build digital libraries, or in the Middle East with an oil and gas company to build its cybersecurity strategy.

We've worked also on Greenfield Process Automation, of course, oil and gas impacted by the crisis. But oil and gas is digitizing for more efficiency and for more – for better processes in dealing especially with the upstream but also the downstream part of oil and gas. We've kept working then also in booming industries. Data centers were [ph] overrated (00:07:14) by the crisis, health care of course, and even building where people are looking to build on to develop smarter building like in Notre Dame in the US, an application that we've built with Cisco.

Not only we've kept working with our customers and been taking projects, but what we've seen is that the COVID-19 has been a massive accelerator of digitization. On one side, you have 50% of the business of Schneider which is within that flywheel of digital and services. We sell to our customers software and digital services. That is 7% of our turnover, putting of the software monitoring, their installations, the detect issues. Predictive maintenance is detecting, before they happen, some outages. And they call – our customers call our field services, now 10% of our business.

When our service people are on the shop floor, they connect more products which are generating more data, and connectable products, in one year, generate today 25% of our business. And once we've installed connectable products, they tend to be connected to our edge control, we generate data back to our software and there we go with our digital and service flywheel.

But the other part of our business, the other 50% of Schneider is a business we are very proud of. It's a world-leading product business, and there again, we've seen an acceleration of digitization in the way we've interfaced and interacted with our partners, which has grown even more digital in these special times; in e-commerce, which has been growing by around 20% and which represents already a significant part of our business; and in the way we've interacted with our customers through webinars, through digital events replacing all physical events and actually giving us access to many more people than physical events.

When we zoom on the digital and service flywheel, the most resilient part of it has been Software & Services, and we've been talking to you over the past reviews about that. That's already 17% of our revenues. It has been almost flat in terms of growth, much better than the average of the group, and it offers customer intimacy and recurring revenue, and it's more resilient, it's margin accretive, and it's a catalyst for growth [ph] on this – by (00:10:02) more intimacy and more space for innovation as we go forward.

Another highlight I really want to mention is the performance of our supply chain. Very, very difficult to operate our 200 factories, our 100 distribution centers in a landscape disrupted by the numerous injunctions provoked by the COVID. Well, first, what we are doing has been recognized by Gartner and we've been ranked – all companies, all industries integrated on all over the world as number 4 supply chain in the world, mostly thanks to our digitization.

Then we've really benefited of the original setup of our supply chain. And as I explained many, many times, we have always sought for many reasons, service to customer, low carbon impact, that on time of response to our customers, that our supply chain should be local. We have also benefited from the digitization of our supply chain. So we are focused today on business continuity, on quality and delivery focus, with [ph] the load (00:11:16) mid of the year to build an inventory which is much higher than usual to benefit to our customers, and we are now focusing on our productivity as our plans are coming to a normal regime.

We still have some issues. The biggest issue is in North America due to one factory which was in an [ph] advent (00:11:41) of contamination, which has been stopped for some time and where we are catching up. This is in process of being resolved. We have resolved most of the other issues. Of course, we had a hot spot in India which has been the object of a very severe lockdown, but I would say that those issues are getting now resolved.

Now, we have to integrate also that the impact of COVID is increasing the cost of our operation because we have to mitigate challenges from disruption, because we have to pay supplementary freight costs, and because we have to incur supplementary costs to protect our employees through protection equipment, through accentuated to a much higher level cleaning of factories and offices, and dealing with the under absorption that is coming from social distancing and equipment.

We've also immediately decided at the beginning of the crisis the creation of the Tomorrow Rising Fund, which has supported 65 projects in the response time and is really now focused on organizing the recovery and the resilience of the communities where we operate, but a very, very specific focus on the youth employment, on youngsters, on giving access to young people who will be probably the biggest victim of this crisis, and making sure that they are not getting de-socialized and find a job after they go to school.

We have been also recognized in the main dimensions of our employee and customer value proposition around our meaningful mission, our inclusive work environment, and the empowerment we give to our teams. And we have been keeping – progressing in sustainability, on progressing against the main key performance indicators of the Schneider Sustainability Impact. And what is important is to realize that what we learn in the company is something that we propose to our customers in terms of sustainability services to help our consumers to monitor their performance in terms of energy, on resource consumption, as well as in carbon emissions. And that shows this great contract we have concluded with Faurecia to be their partner in their journey to sustainability.

Very, very soon and very early in the crisis, we have decided that we were back in business, back in business in unusual conditions. So, we call it business as unusual, and it includes a safe de-escalation; new ways of working; business growth and new business growth, which have been actually accelerated by the COVID on reallocation of

resources to those business; structural efficiencies in many places; and working on the trust and resiliency of our company relationship with its customers.

What we've seen is that the crisis is actually accelerating some of the values we deliver to our customers. Of course, you know that Schneider has been working on digital solutions for efficiency and sustainability for the past many years. What we've seen is a renewed need for resiliency. And that brings me back in the past, in 2007 when we bought APC.

And you remember the tag of APC, legendary reliability of everything we supply. In the past 13 years, since APC joined, this has become the tag and the motto of the whole company. And what we've seen is that this agenda of reliability and resiliency have gone very high on the agenda of our customers. Another part which has reinforced the need for our systems is remote everything; automated operations, remote maintenance, training, remote monitoring. All of them – all of these has been accelerated, and the common thread to all those values is an acceleration of the digital systems on EcoStruxure.

When we speak about resilience, what our customers are discovering is that you are as resilient as the weakest link of your installation. And we supply a complete resilient solution for each part of our customer solutions. It goes with local automation that can manage locally and automatically a lot of the processes without human intervention, and it goes with a full set of software and digital services which are putting those automated installations [ph] under (00:16:43) monitoring.

What we have kept working on also as we are growing is to make sure that we are digitizing the full life cycle of those installations. Of course, we do it in industry with AVEVA, but we've complemented in H1 what AVEVA does with the adjunction or with the addition of RIB that joined actually the company just one week ago. Remind you what RIB is bringing to us at Schneider, to Schneider and to AVEVA is bringing a brick of functionalities that we didn't have in our catalog, a completely cloud-based solutions enabling planning, scheduling, and construction orchestration for all our customers who work on complex worksites.

The other thing I want to share here is that we are expanding the capabilities of AVEVA beyond their traditional segments of industry. Working closely between Schneider and AVEVA, AVEVA developed a full solution of management of data centers and IT networks that can plug into Schneider systems, on anybody else's system, but taking the capabilities which has been developed in complex industrial processes, visualization technique, alarming capabilities, planning, scheduling, and putting them to service of data centers to manage the data centers on the complex interaction between edge computing and data centers. Just launched on the market and ready to be proposed to all the customers we have in the data center space.

We have also – we are also keeping on pushing sustainability to customers who really are passionate about it. It goes with new technologies and new innovation that would bring in Energy Management – and I want to cite again the fact that we are coming with tremendous revolution this year, which is SF6-free, an, in fact, gas-free medium voltage solution, the [ph] asset (00:18:56) completely based on air, coupled with the deployment of digital solution for more saving, for more circularity on using decentralized and decarbonized generation.

What you see is that sustainability during the crisis has rather been reinforced on the agenda of companies, and it is at the top of the agenda of most of the stimulus packages that we see developing around the world. And for many countries, it's about green and digital at the same time because all other countries have understood that digital is your best pass, your fastest and cheapest pass to higher level of sustainability. So, we work with the local communities, local cities where we work, and local governments to help them and support their research on more sustainable and more digital solutions.

Some examples of what we keep doing, green data centers, working on smart cities like in Los Angeles, saving on energy, which means saving on carbon. And to be mentioned that in the past 2.5 years, we've helped our customers to take out 110 million metric tons of CO2 from their installations.

When we look at our markets, our segments, our customers, everybody is impacted by COVID. Of course, there are some negative impacts. Some segments are impacted negatively. But we see also development of needs, which are positive for Schneider in all of the segments we address, all of them. It's about getting everything smart, smart building, smart manufacturing. It's about sustainability. We spoke about it. It's about use of software. It's about full life cycle efficiency. It's about more products, more things connected, more IoT catalyzed by 5G on its development. It's reshoring some production, which goes necessarily with automation and digitization, and it's about government stimulus, which are affecting all of those I mentioned.

So, when we look at our market, of course, some segments are more under pressure and they are looking for costs and efficiency. Some of those segments are looking – actually boosted or ask for more capacity, and they are really challenged on their resilience. But all of our customers, all of our customers in the world, all have today a sustainability, an efficiency, a resiliency agenda powered by a digitization agenda. This is work. We work with them on today, and that feeds the engines of our resiliency, Software, Digital Services, EcoStruxure, Cybersecurity, Sustainability services, and the unique capability of Schneider to integrate energy and automation solutions, digital solutions for sustainability and efficiency. So, that's about what we've – how we've lived through the crisis of COVID.

Now, I'd like to hand over the mic to Hilary, so that she goes into the details of H1.

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## Hilary Maxson

*EVP & Group CFO, Schneider Electric SE*

Thanks, Jean-Pascal, and good morning, everyone. Great to be here with you today to comment on our H1 numbers and to give some thoughts on expected H2 trends. I'm starting on slide 28.

As expected, our results were strongly impacted by COVID in the second quarter and first half. For first half, revenues were down 10.5% organic with negative results across all regions. I'll give some specific commentary on Q2 performance on the following slide. But country-by-country performance was primarily linked to the level of containment actions taken by governments across the world in efforts to combat the health crisis.

Scope impacts were negative due to last year's disposal of Pelco and Converse and the deconsolidation of a business in Russia. FX impact was negative €221 million in H1, and the full year is now estimated at negative €500 million to negative €600 million for the top line based on the current volatile rates, and minus 30 basis points to minus 40 basis points on adjusted EBITDA. This impact is largely due to the strengthening of the euro against the majority of currencies.

Turning to slide 29, to give you a little bit of commentary on Q2, we thought for this quarter it would make sense to give you more detail on top line performance in some of our largest countries as this crisis is leading to a differentiated performance based on contagion levels and government actions.

Starting with Western Europe, down 18% organic, with a significant differential in performance across the region with France, Italy, and UK substantially down versus Germany where we experienced only single-digit declines and Nordics, which remained positive. In Europe, we saw a stronger rebound than we had originally expected in second half June, particularly in France, partly due to distributor restocking.

Asia Pacific was down only 5% organic with a recovery from Q1 levels driven by a strong rebound in China, partly offset by declines in the rest of the region. Similar to Europe, we see a differential in performance between countries with India substantially down and Australia performing relatively better.

North America was down 20% organic. We were impacted in this region by some supply chain challenges, as already mentioned by Jean-Pascal, as well as some market impacts from COVID. The Rest of the World was down minus 15% with relatively good performance in Middle East, particularly in Industrial Automation.

Let's turn now to our results by business starting with Energy Management. Revenues in Energy Management declined 11% organic with declines across all regions. Sales were most strongly impacted in April and May with a turnaround in June, driven partly by working days and distributor restocking. Nonresidential building performance was strongly impacted as lockdowns caused delays in construction worldwide. We primarily saw a reopening of construction sites in the later part of H1 but with some lag versus other parts of the economy. Residential demand was relatively stronger, particularly towards the end of Q2. And we saw resilience in some sectors like healthcare and life sciences, and data center demand remained strong with sales still impacted by a high base in 2019. Demand for our EcoStruxure Power and Building offers, which provide digital intelligence across segments, increased.

Adjusted EBITAs were relatively resistant with a decline of 80 basis points organic driven by volume declines, offset by positive price, productivity, and mix as well as strong tactical cost actions.

Industrial Automation was also strongly impacted by COVID in H1 with revenues down 8.9% organic. Discrete as well as Process & Hybrid markets were down but with relatively better performance in Discrete with Process Automation also impacted by project phasing.

We saw relatively more resiliency in certain segments like Wastewater and Consumer Packaged Goods and Software & Services were a high point with continued growth in H1. Adjusted EBITA margin was down 200 basis points organic driven by lower volumes and a negative impact from product mix, partly offset by strong tactical saving actions.

Now, to focus on Q2 on slide 32. In Energy Management, Q2 sales were down 15% organic with a similar performance across regions with the exception of Asia Pacific due to China. In North America and the US in particular, we saw resilient demand in residential with Q2 performance impacted by supply chain issues now under recovery. Nonresidential building was impacted by lockdowns with some recovery at the end of Q2. Data center in the US continues with good demand with sales impacted by a high base of comparison.

In Western Europe, there was the same differential in performance across countries that I discussed at the group level. Rest of the World was also heavily impacted by COVID with some resilience in Central and Eastern Europe due to Smart Grid sales. COVID impacts in South America and CIS were on a slower timetable than other regions with more visible adverse impacts on demand towards the end of the quarter. Asia Pacific performed relatively better due to a strong rebound in China with high-single-digit growth in Q2. Australia was also more resilient driven particularly by delivery of system backlog. Rest of the region was more strongly impacted.

Turning to slide 33, Industrial Automation was relatively stronger in Q2, down 10% organic, and with Asia Pacific swinging positive for the quarter. In North America, we experienced disruption in Process & Hybrid markets due to oil price partly mitigated by demand in downstream services. We also had weakness in OEM demand with some resilience in Wastewater, Mining, Consumer Packaged Goods. Software performance was a highlight.

In Western Europe, we saw a differentiated performance by country aligned with the group with Germany the most resilient driven by our end-user business. Rest of World was relatively stronger with double-digit growth in Middle East and CIS due to backlog execution, OEM demand, and software. Asia Pacific grew by 3% organic supported by strong double-digit growth in China, primarily driven by OEM demand in packaging, hoisting, and materials handling. Singapore also grew during the quarter supported by software sales.

Turning to slide 34 and coming to our sales broken down into our priorities or our different execution models. Jean-Pascal already mentioned the strong resilience demonstrated in our Software & Services with H1 at close to flat in year-over-year sales. Products performed relatively better than Systems with a strong recovery in second half Q2, partly boosted by distributor restocking, and our Systems business moves more strongly impacted by lockdowns and our inability to access sites in many geographies. We'd expect that this mix between Products and Systems would begin to normalize in the second half with a pickup in backlog execution. I'll turn to profitability in a minute, but of note [audio gap] . (00:30:00)

Turning to slide 35, despite the [ph] backtrack, (00:30:03) we continue to see positive evolution in our gross margin, a great reflection of the strength in the underlying factors leading to our gross margin expansion over the past years. First, we were able to continue pricing up on Products in this difficult environment, further boosted by raw material headwinds (sic) [tailwinds]. Price is a big focus of our management team, and we expect this positive price evolution to continue in H2. Productivity is positive, although quite a bit lower than you've seen in prior years, due to lower volumes and around €50 million in increased costs in PP&E, freight and other cost directly tied to COVID.

This strong productivity performance was supported by the underlying action plan that led to our acceleration of productivity in H2 2019, plus reactivity through tactical savings actions. We'd expect to continue to see positive productivity in H2 despite continued COVID cost due to [ph] stop (00:30:58) consumption from inventory build-up an H1.

Mix was also positive in H1 driven by the differentiated sales performance across geographies and relatively stronger growth rates in Products, Software & Services. Plus, as I mentioned prior, we continue to see a positive margin evolution in our Systems business. We would expect mix to be around flat for full-year 2020.

Regarding R&D, we have tactical savings here, but not enough to offset the drop in volumes. Plus, we look to preserve our key innovation projects despite the crisis. Forex was negative with some additional negative impacts from scope and other.

On slide 36, in terms of adjusted EBITA, you can see we're only down 18% organic due to quick actions in cost savings both in gross margin and in SFC to adjust for the volume declines. I'll speak more to this on the next slide.

Our SFC to sales ratio did increase over the half, but I think the swift actions we took are a great reflection of the agility and reactivity of the company. In H1 and beyond, we also believe it's important to keep capacity to invest in our strategic priorities including innovation and digital. So, we'll continue to balance our focus on efficiency and effectiveness with a focus on targeted reinvestment to ensure the future.

Turning to slide 37 to give some additional detail on our costs both in H1 and expectations for the future. Our SFC savings totaled around €350 million in the first half partly due from the benefit from our ongoing efficiency plan announced last year, which delivered H1 savings of €150 million. As a direct response to COVID, we also drove an additional €200 million in tactical savings in H1 and primarily in Q2. Those savings were derived from a variety

of measures, some global and some country-specific, including a deferral of salary increases worldwide, shorter working weeks or furloughs, and a freeze on travel and hiring. Government subsidies were immaterial. We expect these tactical savings to progressively reduce starting in second half as we're now fully back to work and focused on the future. Although some of those tactical savings we'll expect to translate to structural in the future. At the same time, we continue to look at opportunities to accelerate and enhance our ongoing operational efficiency program with a goal to now complete the entire program by the end of 2022.

We'll take the opportunity with COVID to push further on simplification of our SFC to ensure we're best positioned for the medium and long term. Taken altogether, we expect to deliver €1 billion SFC savings in aggregate by 2022. We also expect in industrial productivity of around €1 billion over the same 3-year time period partly driven by structural savings.

In order to prepare the company for the future and to deliver on these savings, we expect to incur total restructuring charges of around €1.15 billion to €1.25 billion over the 3-year timeframe with the majority to occur in 2020 and 2021. If you recall, we were already on track for around €250 million per year to support our prior plan, so this is an increase of €400 million to €500 million versus prior disclosures.

On slide 38, moving now to net income, you'll see we've already experienced part of the higher restructuring costs discussed on the previous slide in H1 with cost of €220 million. Net income was impacted positively by a decrease in other income and expense primarily due to the impairment charges from Pelco in 2019. Financial costs were slightly increased due to a write-off while costs of net debt remained steady. Our effective tax rate was at 24%, and we still expect to finish the year in the range of 22% to 24%.

Turning to slide 39, on cash flows, a big focus for us. We did experience a decline in operating cash flow, as you would expect, given the results of H1. However, our free cash flow increased year-over-year to almost €1 billion due to lower capital expenditures and management of trade working capital.

To give some additional details on working capital, we saw a decrease in receivables, not only aligned with our lower sales, but also driven by a decrease in overdues. We also saw an increase in payables due to ongoing efforts from our procurement team to ensure optimal contractual terms with our suppliers. This increase is net of some actions taken to support critical suppliers throughout the crisis. In inventory, we made a conscious decision to run our plants at capacity in order to ensure necessary stocks for a turnaround. We'll continue to keep agile in our inventory decision-making in H2.

As we saw at the end of 2019, the underlying drivers of our free cash flow remained strong. We're growing in Software & Services, less capital-intensive businesses, and we acted to manage our trade working capital with agility. Jean-Pascal will speak more to our expectations of free cash flow going forward.

Turning to slide 40 on capital allocation, I'd like to start by emphasizing that the capital allocation policy of the company remains consistent. We remain focused on value accretive M&A transactions in the core and on adding technological bricks as can be seen from our recent acquisitions. To give you an update, and Jean-Pascal already mentioned, we closed the transaction for acquiring RIB Software after receiving CFIUS approval earlier this month. We've received a large shareholder stake and we're very excited to welcome our colleagues at RIB and work together to extract the synergies from this transaction. The teams are excited in collaborating with a clear plan of action.

On L&T, we look to close the transaction in H2. As we've mentioned, we had to delay the closing due to the nationwide lockdowns in India in Q2 and the continuing COVID situation that's still impacting the country. We're

also expecting to close on the transaction of ProLeiT that we announced in the Q1 results. Both RIB and ProLeiT demonstrate our view on adding specific technological bricks to our existing software and digital suite for the benefit of our customers and to enhance our existing offers in specific end markets. I'm also happy to report that our other recent acquisitions, AVEVA, IGE+XAO, Asco, and ALPI all continue to perform well including through the crisis.

At the same time, we continue to work on our portfolio optimization or disposal program as we previously announced. Our plan to divest between €1.5 billion to €2 billion is high on our priority. We don't have much to announce in H1, but we continue to prepare the necessary actions for disposals to come. Given disruptions in H1 due to the pandemic, it's reasonable that we'll take an additional year to implement this plan, and, of course, we'll keep you updated on the progress.

Moving to other topics, Jean-Pascal already referred to the dividend, so I won't repeat. In terms of buyback, given we're today reestablishing the targets for 2020, the buyback plan, as approved by the board, is technically no longer suspended. However, given the continuing economic uncertainty, we'll exercise caution as we implement the buyback plan in the near term.

I'll finish with the last slide on liquidity. We continue to maintain a strong liquidity position through the crisis with three successful bond deals done during H1.

And with that, I'd like to hand over to Jean-Pascal to share our 2020 as well as our longer term targets and also to share our current management priorities.

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## Jean-Pascal Tricoire

*Chairman & Chief Executive Officer, Schneider Electric SE*

Thank you, Hilary. Well, time to speak about H2 and the end of the year. We recognize that there is a lot of uncertainty on the market today. At the same time, we've been through Q2 that we see the trough provoked by this crisis. We've learned together to live through the COVID time and to operate in those unusual condition. So, when we look at H2, of course, there are many possibilities. There could be, in many places, second wave of contagion, but what we see is the following.

In North America, we recognize absolutely the uncertainty presented by the strong increase of contagion in several states, especially in the South and the West of the US, and the associated containment measures resulting in a mixed picture across the country. We note also strong economic data related to residential construction and a very robust demand in data center market. Though several segments show pockets of resilience linked to digitization and services, the overall demand remain challenged. The group expects also continued softness in Mexico, which has been really hit by the pandemia.

We expect China to continue the growth trend commenced in or started in Q2 with the continuation of economic recovery led by OEM and Data Center end-markets and with pickups in Construction and Infrastructure, especially on the back of the stimulus package linked to the new infrastructure.

For the rest of Asia Pac, we expect India to remain impacted in H2 based on increasing levels of contagion resulting in recent resurgence of lockdowns. South East Asia and countries in the Pacific could see improvement in the economic activity. This situation is varied country-by-country.

We expect major Western Europe economies to progressively recover in H2 with rate and strengths of recovery diverse country-by-country. And in the Rest of the World, we see some very diverse situations. We have to signal that there was high base of comparison in Industrial Automation in H2 2019.

Putting together all of those diverse situations around the world, which are a summary of all the things we are facing at the moment. Integrating multiple scenario of resurgence of contagion, of lockdowns in diverse cities or countries where we operate. And on assuming, with humility, that there is a lot of uncertainty, we see the moment enough momentum in the company to reinstate the following guidance.

We see our revenue to be between minus 7% to minus 10% organically at the end of the year, which means a better H2 in terms of top line in H1 of course. And we see our operating result, our adjusted EBITA margin to be decreasing by minus 50 bps to 90 bps organically. So, there an improvement again in H2 in respect what we have in H1, which implies an adjusted EBITA margin between 14.5% to 15% including scope and forex based on the current situation. But as important is the fact that we stay firmly committed to our mid-term ambition.

Now, we also realized that 2020 has been the year that delays the fulfillment of this ambition. But we want, as soon as possible, to be boosting our core engines of growth, so that the organic revenue growth of Schneider across the cycle is going back to where it should be between 3% to 6%. We want also to make sure that we work on the portfolio of our company to achieve higher margins with the first step of moving the adjusted EBITA margin to around 17% by 2022.

And this shows the action that we have already explained to you, working on our efficiency and we are reinforcing that effort of efficiency because of the COVID impact, accelerating the most accretive part of our portfolio, and divesting the dilutive part of it. And finally, making sure that we work on the cash flow and the cash generation of the company on establishing across the cycle around €3 billion of cash flow generation as we did in 2019, and as the strong cash signature of H1 2020 is proving, even if we gave still the priority to customer service on building a strong inventory in [indiscernible] (00:44:31) of H2.

So, giving you guidance for the end of the year, integrating the uncertainty at the moment, remaining firmly committed to our mid-term ambition, and with that, I hand over the mic back to you, Amit, for the Q&A session.

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## Amit Bhalla

*Vice President-Financial Communication & Investor Relations, Schneider Electric SE*

Thank you, Jean-Pascal. We'll move to the Q&A now. I think we're at the 45-minute mark. It was important to get through all the details to you. I think we could probably stretch slightly over the one hour if need be. I believe there are several questions. Please respect, we'll take one question per analyst, and then we'll come back depending on availability of time.

So, with that, let's move to the first question, please.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] Your first question comes from the line of Andreas Willi from JPMorgan. Please ask your question.

**Andreas Willi**

*Analyst, JP Morgan Cazenove*

Q

Yeah. Good morning, Jean-Pascal, Hilary, and Amit. My question is on the slide you showed on page 25, the end-market impact, the challenged ones for the next two to three years. Maybe you could give us a little bit more information, that one-third in Buildings, what have you put into there, which ones? And I'm a bit surprised about the size of the [indiscernible] (00:46:04) markets you see in Infrastructure. Maybe you could elaborate on those markets as well. Thank you.

**Amit Bhalla**

*Vice President-Financial Communication & Investor Relations, Schneider Electric SE*

A

Sure. Jean-Pascal, do you want to take that question? I think the line was not very clear on this side for the first second. But over to you in terms of the Building exposure, I suppose that's the question around – that Andreas is asking.

**Jean-Pascal Tricoire**

*Chairman & Chief Executive Officer, Schneider Electric SE*

A

Right. Andreas, [indiscernible] (00:46:31) market exposure on Building on the side of Infrastructure. Am I right?

**Andreas Willi**

*Analyst, JP Morgan Cazenove*

Q

Yeah. Yeah. Which market do you consider challenged within the Building space? And also, I'm a bit surprised that almost half of Infrastructure you consider challenged. Maybe you could elaborate on which parts of the Infrastructure end-markets you have included in the challenged one.

**Jean-Pascal Tricoire**

*Chairman & Chief Executive Officer, Schneider Electric SE*

A

Yeah. That may be a pessimistic view of the situation. But when we look at the Building, on the more than 30% of our exposure, you've got 10% which is residential. On this one, the crisis substantially could boost actually this segment because people have spent time at home and they want probably to retrofit and rework on the apartment. And also, we've seen in some countries the movement of people from center of city to the outside like in the US, and that's generating actually already more business.

Then when we go into the space of the building actually, what we do is a lot of technical building. Let's speak about healthcare for instance. That's part of the Building segment and it's very significant for us. You've got building [indiscernible] (00:47:47) also, which [ph] have been or reworking (00:47:51) on their facilities to prevent the diffusion of the contagion, for instance, working on their BMS to control the quality of air and so on and so on.

The one which has been impacted negatively has been hospitality. It doesn't mean we don't do business there. We've taken some nice projects of services to retrofit, upgrade in the time of non-occupation and be ready for – when customers would start to come back. But you see that at the end of the day, when one thinks about the

building, many people are thinking about offices [ph] and key offices, (00:48:28) that's only a fraction of what we have here in that group that we call Building.

10% residential, lot of technical building, more than 10% others, and the rest is more office building, more usual building, or commercial buildings that you meet in the cities. And what we see in the building is a real questioning on what digitalization can bring in the future for sustainability, for efficiency, and a lot of development into social distancing in the building on [ph] healthy (00:49:07) building. So, that's for the Building.

When we speak about Infrastructure, the reason why we've put a bit of red here is negative impact of the crisis that it might have on some countries. But it's clear that it's a place where a large part of the investment in the stimulus packages will go. And we are speaking about transportation networks, which will lead – I mean, intracity transportation network. You're going to speak about electrical vehicle here on the preparation of the Infrastructure for electrical vehicle, which is impacting, of course, our business because most of the investment is going into the parking of tertiary buildings where people work or residential building where people live. It's about all the city infrastructure.

The grids, on the grid, actually, we've seen our order intake to the grid developing out utilities for the digitalization of utilities, developing very well with that flagship project we have taken in Egypt for instance or the [ph] water (00:50:20) networks where people have questioned the capacity of the network – [ph] water network (00:50:25) to propagate the virus, which will there again entail more investment into monitoring and surveillance.

Well, maybe we've been a little bit too pushy on the – or too pessimistic on the red. The red part is economy going down, less investment, but this is the place in Infrastructure where a lot of the stimulus package will go.

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**Andreas Willi**

*Analyst, JP Morgan Cazenove*

**Q**

Thank you very much.

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**Amit Bhalla**

*Vice President-Financial Communication & Investor Relations, Schneider Electric SE*

**A**

All right. Thank you. Thanks, Andreas, for the question. We can come back on the detail separately as well. I think there's the element also around oil and gas there.

Let's move to the next question, please.

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**Operator:** Your next question comes from the line of Andre Kukhnin from Credit Suisse. Please ask your question.

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**Andre Kukhnin**

*Analyst, Credit Suisse Securities (Europe) Ltd.*

**Q**

Good morning, everyone. Thanks very much for taking my question. I want to talk about Software and the strategy there now that you've closed RIB. Particularly, could you give some indication of what is the growth potential for RIB just from introduction of that offer to Schneider's existing clients? Kind of the way I understand it is that the competition there is not really the kind of [indiscernible] (00:51:36) but rather the kind of traditional tools like paper and Excel spreadsheets to [indiscernible] . (00:51:43) So, I just wondered what's kind of the potential for RIB to grow as Schneider helps introducing it to its existing customer base.

And the second part of that question is, could you talk about how that Software business will be managed within Schneider? Because it's obviously very different to how AVEVA is set out as a stand-alone company. You're now building a software portfolio inside Schneider, so I wonder who would be responsible for that and whether [ph] that'd be your (00:52:14) responsibilities across kind of Energy Management. If you could talk about that, that would be great.

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**Amit Bhalla**

*Vice President-Financial Communication & Investor Relations, Schneider Electric SE*

A

Thank you for the question. I think we'll pass it to Jean-Pascal. Just to be aware that RIB is going to announce their results I think just in the coming day or two. But I'm sure we'll talk about what that means for us. So, Jean-Pascal, over to you, please.

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**Jean-Pascal Tricoire**

*Chairman & Chief Executive Officer, Schneider Electric SE*

A

Yeah, Amit. As you say, I'm going to say very general because RIB is listed company. They're going to publish in a few days, so I don't want to infringe on their territory. Very happy that we closed this operation. What it means, we work at Schneider, we supply systems of Energy Management, of building of automation to many construction sites. And as you rightly say it so, while the building sector is yet to start really its movement toward digitalization, so far it's not been really digitized and it's probably the least digitized of all the segments we are addressing.

And what we see that the whole industry – and it's a complex industry because it's an industry where many stakeholders will be [ph] intervening (00:53:28) architect, a design company, a consultant, a contractor, the end users, they all converge onto that construction project and all want and need to be coordinated on this project. So, there is a massive questioning at the moment for digitalization, and we see actually that there, again, the COVID has been an accelerator because during a few months, people have been stuck in their homes and they still had to collaborate together on the projects. And therefore, they have moved or they are really wanting to adopt digital tools, on cloud-based digital tools, to share information and to be collaborating together. And we see a lot of potential beyond RIB.

Our business is really to participate to construction project. Design, of course, is important, but companies are doing that and they're doing it very well. AVEVA, by the way, for infrastructure. But the place of planning, of scheduling, on articulating, orchestrating all the trades on the construction side is something, which has barely started, and RIB is offering the best solution on the market.

What we're going to do at Schneider is very simple, is open doors. We've got relationship with all the major players of the construction in the world. What we're going to do is make sure that we take around us or with us the people of RIB who knows very well their offer and make sure that they install the suite together, we'll promote together the suite of software, the cloud-based suite, with the customer.

So, we see a lot of potential especially because RIB so far is still a medium-sized company having barely started its globalization. And really the big expectation is the global coverage of Schneider, the knowledge of the main [ph] deciders in this sphere (00:55:24) on the capacity to bring this offer to new customers.

In terms of management of software channel, [ph] we did been listed as AVEVA (00:55:33) and RIB is listed also. We are very attached to managers of software company, as software companies because as soon as you go into that software layer of EcoStruxure on the top of confirmed products, all of our customers want to have an agnostic view of the situation because of the past, because maybe of different habits in different geographies.

They will be using, in the best of cases, Schneider controls on products. But in many cases, they will have to accommodate with somebody else's control on products. So, we are very attached to the fact that our software is managed with strong synergies, strong plugins with the rest of the company, especially at the commercial level, especially at the technological level when you need to plug the software into the rest of EcoStruxure. But, at the same time, we are even more attached to the fact that our software remains a software company.

So, RIB, as the other software company, IGE+XAO, are managed by entrepreneurial managers who leverage the rest of Schneider on our commercial introduction to develop their own value proposition and also to create common thread, digital thread behind the different or between the different parts of the software offer of Schneider.

Very interesting thing. As you mentioned it, is what we have launched in H1. You know that AVEVA is growing mostly from the industrial segment. And AVEVA, working with Schneider, has developed this complete, unified operation center for data centers on edge computing, which is a complete new value proposition [indiscernible] (00:57:26) somewhere in terms of capabilities from the most complex manufacturing that AVEVA [ph] sells in the world (00:57:30) and apply to a completely new sector, which Schneider knows perfectly well, which is the data center.

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**Andre Kukhnin**

*Analyst, Credit Suisse Securities (Europe) Ltd.*

Q

Thank you.

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**Amit Bhalla**

*Vice President-Financial Communication & Investor Relations, Schneider Electric SE*

A

All right. Thank you for that. We'll take the next question.

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**Operator:** Your next question comes from the line of Jonathan Mounsey from Exane BNP Paribas. Please ask your question.

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**Jonathan Mounsey**

*Analyst, Exane BNP Paribas*

Q

Hi. Thank you. Good morning. Yes, a question, please. So, on free cash flow in the second half, obviously sales [ph] would be down (00:57:59) year-on-year, but hopefully up sequentially. I just want to know how much the working capital from here? Is there now a sequential headwind in the second half?

And obviously, such a strong start, almost €1 billion in free cash flow in the first half. [indiscernible] (00:58:14) the €3 billion that you see as achievable through the cycle this year. Can we now actually do €3 billion now with such a strong start to the year? And if not, why not? Is it related to cash cost, the restructuring?

I know that you've got guidance of €400 million to €500 million over the next three years of P&L charge. What does that look like from a cash perspective? Is there a lot of cash cost to restructure in the second half, which is going to impact your cash flow?

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**Amit Bhalla**

*Vice President-Financial Communication & Investor Relations, Schneider Electric SE*

A

Thank you, Jonathan. Thank you, Jonathan. Very clear the question. Maybe Hilary you want to take that one?

**Hilary Maxson**

*EVP & Group CFO, Schneider Electric SE*

A

Sure. Happy to walk through it. So, I'll start by saying that Jean-Pascal talked to the midterm expectations for our cash flow, so around €3 billion on average across the cycle. We aren't going to give cash flow guidance for 2020, specifically today, but to talk through a few of the elements. Like you already said and is obvious in our guidance, we do expect a year-over-year volume decline still between second half 2019 and second half 2020. Like you also said though, we do expect Q2 is the trough in our volumes. So, there is a sequential pickup between H1 and H2. And, of course, there's a bit of impact there in terms of cash conversion on working capital.

In terms of trade working capital in particular, I expect we'll continue to focus on days sales outstanding and payables in the second half. And I spoke to the fact that we expect to remain agile on inventory in order to serve our customers. The only other point I would make is that we do have some deferred tax payment in H1 that would impact us in H2.

Turning to the second piece of your question in restructuring costs, in terms of the restructuring, I'd spoke to – we were on track at the end of 2019 for around €250 million in restructuring. I've spoken to an additional around €400 million to €500 million, and a total restructuring of €1.15 billion to €1.25 billion over the three years. The majority of that will be in 2020 and 2021. And you can see in first half already we have around €220 million in restructuring.

**Amit Bhalla**

*Vice President-Financial Communication & Investor Relations, Schneider Electric SE*

A

All right.

**Jonathan Mounsey**

*Analyst, Exane BNP Paribas*

Q

In cash terms?

**Amit Bhalla**

*Vice President-Financial Communication & Investor Relations, Schneider Electric SE*

A

Thank you, Jon. I think we'll move on to the next question.

**Operator:** Thank you. Next question comes from the line of Gael De Bray from Deutsche Bank. Please ask your question.

**Gael De Bray**

*Analyst, Deutsche Bank AG (France)*

Q

Yes. Good morning, everybody. Can I have a quick question for Hilary and then a question for Jean-Pascal? So, the quick one on the inventory line, so there was obviously a kind of a big increase in H1. I was wondering whether the increase was equally spread perhaps between work in progress and finished goods or not really? The second question is about the M&A pipeline, if you could talk a little bit more about this. And in particular, I was wondering whether you see the current crisis as perhaps an opportunity to accelerate on the M&A side, in particular, in the software domain. Thank you very much.

**Hilary Maxson**

*EVP & Group CFO, Schneider Electric SE*

A

Maybe I can take the first part of the question. So, in terms of inventory, you could see on our balance sheet we did have an increase in the first half. I think as you can see in 2019, in both halves, we're quite agile in managing inventories, so we're capable of managing between – over a three- or four-month timeframe. In terms of inventory increase, therefore, what you are seeing is an increase in finished goods and products that we expect to sell.

So like I said, we make – we made a conscious effort to keep plants running at capacity in the H1 in expectation of some level of recovery in the H2 and in order to serve our customers. If that answers that piece of the question, I think I – I'll turn to Jean-Pascal for the second.

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**Jean-Pascal Tricoire***Chairman & Chief Executive Officer, Schneider Electric SE*

A

Okay. Thank you, Hilary. Am I online?

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**Amit Bhalla***Vice President-Financial Communication & Investor Relations, Schneider Electric SE*

A

Yes.

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**Gael De Bray***Analyst, Deutsche Bank AG (France)*

Q

Yeah.

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**Jean-Pascal Tricoire***Chairman & Chief Executive Officer, Schneider Electric SE*

A

Right. I just want to reinforce what Hilary said. We are really engaged to make sure that we support our customers in the recovery post-lockdown. And it's really important for us to make sure that we build enough reserve in a very complex world in term of supply chain, especially also supporting our suppliers on compensating for some of the issues we may have met there in H1 and make sure that we cover well the need of the market.

In terms of M&A, well, we've acquired ProLeiT as you saw and it's a beautiful adding in the field of software, for consumer goods, for food and beverage. Really a nice piece that complements very well what we do at Schneider. Very happy also that we concluded RIB actually sooner than I thought. We still are – the process of acquisition of [indiscernible] (01:03:56) which is going forward. Frankly, we don't see, particularly the crisis as a plus or minus for all of this, like for acquisition as I said many times. We have declared them. We have made clear our strategy now for many years. You know where – our points of interest, if we want to enlarge our portfolio.

Also, repeat it that today we have everything we need in the portfolio, but when we see some surgical moves, very, very focused, that we can do to reinforce our portfolio, then we are moving like we do with RIB in the field of complementing the portfolio of AVEVA as well as the one of Schneider. But we remain extremely focused in anything we should do and we don't see particularly the crisis as a trigger of specific movements.

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**Amit Bhalla***Vice President-Financial Communication & Investor Relations, Schneider Electric SE*

A

All right. Thank you for that.

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**Gael De Bray***Analyst, Deutsche Bank AG (France)*

Q

Thank you very much.

**Amit Bhalla**

*Vice President-Financial Communication & Investor Relations, Schneider Electric SE*

A

We'll move to the next question but I just want to repeat, let's keep it to one question for – per person because I'd like to give the opportunity for all the analysts to ask a question in the timeline. So, next question, please.

**Operator:** Your next question comes from the line of Alexander Virgo from Bank of America. Please ask your question.

**Alexander Virgo**

*Analyst, Bank of America Merrill Lynch*

Q

Thanks very much. Good morning, everyone. I trust you're all well. So my one question is a clarification, I suppose really. I just wondered if you could give us a little bit more color around the tailwinds in H1 and Q2 from the inventory build, working days, and distributor restock, and to – a little bit more color I suppose about how that may or may not reverse, presumably reverses in H2, and the benefit that that brought to the margins as well I suppose would be helpful. Thank you.

**Hilary Maxson**

*EVP & Group CFO, Schneider Electric SE*

A

Sure. So around inventory, you can see that we built inventory in the first half, around €400 million in inventory we built in the first half. Now, if you compare with prior sales, of course, we had the drop in sales in Q2. So, days of inventory outstanding is going to have an increase. What I said was that we would remain agile in the H2 around inventory. I had also said we would expect certainly a level of stock consumption of the inventory that we have, that we've built up in H1 today. So that will come through in our cost of goods sold.

And then we expect to keep agile at the moment. I think inventory planning is less about the past and more about where we see on month-by-month basis as much planning as we can do there in order to make sure that we're prepared to meet the customer demand that we see coming.

**Amit Bhalla**

*Vice President-Financial Communication & Investor Relations, Schneider Electric SE*

A

All right. We'll move to the next question.

**Operator:** Thank you. Next question comes from the line of Alasdair Leslie from Société Générale. Please ask your question.

**Alasdair Leslie**

*Analyst, Société Générale SA (UK)*

Q

Oh, thanks. Good morning. I wanted to ask about your energy and sustainability services business. Firstly, can you give us the growth rate – sorry, you gave us the growth rates but I was wondering whether perhaps you could give us an indication of the size of this business either in absolute terms or share of group revenues. And secondly, there's a clear acceleration in the number of companies, as you highlighted, trying to understand their carbon footprint, mapped their own emissions, launched carbon-related targets, et cetera. I'm trying to gauge the growth potential here over the next few years for you in the pool for a more Schneider technology.

So, perhaps what are the typical lead times from customer contact and initial consulting through to implementation of energy efficiency measures and potentially procurement of more Schneider product systems solutions? And then finally, you said previously, Jean-Pascal, that not many people really wanted to advise on sustainability. So how much of a competitive advantage would you say sustainability services is today for you versus some of your other strengths like EcoStruxure, partnership network, et cetera? Thanks.

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**Amit Bhalla**

*Vice President-Financial Communication & Investor Relations, Schneider Electric SE*

A

Well, thank you for the question. I think before I turn it over to Jean-Pascal on the topic, I think yes, we do have the growth rates, so that's already available. And in terms of the overall size, I just refer you to our Schneider Sustainability Impact and there is – in fact, one of the criteria that we have is linked to the size as well, so I think you can find it there. But, Jean-Pascal, over to you on the overall element of sustainability here.

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**Jean-Pascal Tricoire**

*Chairman & Chief Executive Officer, Schneider Electric SE*

A

Yeah. So I just – I – [ph] it's centrally a (01:08:41) – refer to sustainability impact to give the perimeter we give to that specific consulting. But actually the question is much wider at Schneider because – well, we've engaged into this avenue because many of the solutions we propose, whether it be smart building, smart and efficient buildings or smart and efficient homes, energy monitoring of which we are world leader by a large amount, smart grid for microgrids for customers who want to produce autonomously their own energy from renewable, and also organizing the secularity on your production line or organizing the efficiency for your energy and resources at the level of a production line, all of these are recipes or solutions to a problem of sustainability.

What we have organized over the past 10 years is to grow a team of consultants which have, from the beginning, bet or invested on digital so that they would come to your company; put your company – whether it be a treasury company, whether it be an IT company, whether it be a manufacturing company, put sensors on all your sources of consumption or impact on energy and resources; bring all of the data into one central repository; analyze your demand profile; match it with analytics, with AI to all the offers in terms of supply which can come from all the diverse offers, it can be utilities, it can be independent power producers, it can be renewable producers; and provide you advice on how to reduce your consumption, therefore, save, consume less, and where to source your energy which is consumed better; and organize also a strategy of certificates in the countries where you can deploy that kind of strategy.

On doing that, because we are not only consultants, we are also [ph] practitioners (01:10:56), we're not only doctors, we're also pharmacists, we've seen an incredible traction of customers, especially because – when those customers are not only local but they're also international, so they want to consolidate their data all over the world. So, we are serving one – you can find that on our Internet, but we are the sustainability advisor of Blackstone, of other firms also who are investors in real estate. We are working – we signaled the contract that we just signed with Faurecia, so a pure industrial company, and there are many other companies around the world that [indiscernible] (01:11:43).

You take another example, we are the biggest advisor in the field of renewable PPA in North America, I mean – and actually in the world today. If you want to source your energy from renewable, you – we are the trusted advisor of many companies around the world. So, that layer of consulting, again, same as software, first, it's completely enabled by digital; and second, it's completely agnostic. So, we have this entity which is outside of the hardware line of business and which can then advise the customer, and the customer find the warranty of the impartiality of this entity. But if the customer wants to go to results or wants to go from the diagnosis into the

commitment of achieving the results, then we can implement the solutions with our Energy Management division or with our Industrial Automation division. So, that's it.

[ph] On – and (01:12:47), of course, you have the official figures that you can find in our reporting, but the reality of what we do in sustainability is much larger. If you stick to consulting, you have one figure. And if you go to consulting plus remediation, it's a large part of Schneider. It's actually a large part of what I call the digital and service flywheel, which is going into that part of the equation.

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**Amit Bhalla**

*Vice President-Financial Communication & Investor Relations, Schneider Electric SE*

A

All right. Thank you for...

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**Jean-Pascal Tricoire**

*Chairman & Chief Executive Officer, Schneider Electric SE*

A

Competition, look, you have a lot of companies that have started to try to provide, but in terms of scale, it's almost, I would say, a greenfield space. It's a place where the value proposition that we have from diagnosis into operation, our capacity to respond is quite unique. And our history of championing sustainability is also unique. So it's for us to push this advantage faster or to do it in a more reasonable manner. It's all about [ph] recruiting (01:13:50) people at the end of the day.

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**Amit Bhalla**

*Vice President-Financial Communication & Investor Relations, Schneider Electric SE*

A

All right. Thank you for that. I think, mindful of time and I know that there still probably a few questions, we'll probably go over another five minutes and we'll try to wrap in as many questions as we can get, quick questions. So let's go with the next question, please.

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**Operator:** Your next question comes from the line of Wasi Rizvi from RBC. Please ask your question.

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**Wasi Rizvi**

*Analyst, RBC Europe Ltd.*

Q

Hi. Morning. Thanks for taking my question. It was another one on restructuring actually. So, I mean you're putting in, what, another two years' worth of restructuring over the next three years basically. And I just want to understand, is there an acceleration of longer standing plans that you have and maybe after this period the underlying restructuring was lower, or are you making fundamental shifts based on what you think is going to happen from COVID and the way the world works? And then also just a bit more detail, I mean is it head count, is it factory, are you changing markets that you're targeting? Just a bit more color would be helpful.

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**Hilary Maxson**

*EVP & Group CFO, Schneider Electric SE*

A

Sure. Let me speak to that. So, we talked about a total restructuring now of around €1 billion over the three-year timeframe. We'd had a prior operational efficiency plan already going. That's a decent portion of that. And we are looking to accelerate that into the three-year timeframe, so we've talked about something more in the range of four to five years. So, we'll look to accelerate the restructuring that we're doing, both from the prior program that we already had and taking the opportunity of COVID on simplification and effectiveness within the organization to land on around €1 billion in reduction in SFC over the next three years.

Now, of course, we may choose and we would choose, I would expect, to do some strategic investment in innovation and digital at the same time. I also talked to around €1 billion in productivity during the same timeframe. That's a little bit lower than productivity's numbers that we've talked to in the past, recognizing of course that while we see positive productivity in 2020, it's quite a bit lower than what we've had due to lower volumes and COVID cost impacts. So – but – and some component of that is associated with structural savings as well.

On the costs side, therefore, a total cost of €1.15 billion to €1.25 billion in restructuring over that timeframe. No serious crystal ball as to exactly how the world is going to be doing after 2022, but we would expect – again, this is an acceleration of a program that we already had underway, so we would expect to go back to what I would consider to be sort of normalized levels after that. And of that around €1.5 billion (sic) [€1.15 billion] (01:16:46) to €1.25 billion, the bulk of it will probably be in 2020, you can already see the beginning of it in 2020, and in 2021.

**Amit Bhalla**

*Vice President-Financial Communication & Investor Relations, Schneider Electric SE*

A

All right. That's the...

**Wasi Rizvi**

*Analyst, RBC Europe Ltd.*

Q

That helps. Thank you.

**Amit Bhalla**

*Vice President-Financial Communication & Investor Relations, Schneider Electric SE*

A

We're going to take probably one or maybe two if we can squeeze them in.

**Operator:** Your next question comes from the line of James Moore from Redburn. Please ask your question.

**James Moore**

*Analyst, Redburn Partners*

Q

Yes. Good morning, everyone. Thanks for taking the question. I have so many but I'll stick to one. I might just talk about demand momentum, if I could. I know you don't report on order intake, but given the world is moving really fast at the moment, I wondered if you might be able to give us a little flavor for order dynamics at the end of the period and the revenue exit rate, the – for June and maybe any color on how we started in July.

I ask because we're getting some mixed signals. Some talk about China not sustaining the good 2Q recovery, some talk about a re-deterioration in the USA, others are more upbeat and we have some mixed signals. So I'd be very interested in as much possible color on recent demand momentum as you can give. Thanks.

**Amit Bhalla**

*Vice President-Financial Communication & Investor Relations, Schneider Electric SE*

A

All right, very clear, James. Jean-Pascal, do you want to take that one?

**Jean-Pascal Tricoire**

*Chairman & Chief Executive Officer, Schneider Electric SE*

A

Yeah. James, I will send you back to the beautiful slide of guidance that I presented, which is – the guidance of today is almost becoming a book in the number of lines of detail that we tried to give in our vision of the demand

today. But I would say, look, if you look back at Q2, the worst of the months were April and May with valuations really by region very different. But we've seen June clearly with the recovery so we consider Q2 as a trough. There are many reason for that. I think most of us, countries and companies, realize that it – there is no such thing as post-COVID at the moment. We have learned to live with it, we have learned to operate with it. And it may be in a very different and unusual manner, but now people are back to business and back at work. So, we see no recovery on the demand.

Our order book, we don't disclose it, but is better than the sales book of course in Q2, which prepare us for a bit of momentum as we're – as we go. Now, I told it in my presentation, I think we have to be all very humble in our capacity to predict, but there is enough momentum that we can give you the forecasts that we gave you. On the specific case of China that you mentioned, we still see a solid recovery in China in the sectors that we cover.

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**James Moore**

*Analyst, Redburn Partners*

Thanks, Jean-Pascal.

Q

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**Amit Bhalla**

*Vice President-Financial Communication & Investor Relations, Schneider Electric SE*

All right. I think we'll probably take one more question, please.

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**Operator:** Thank you. Final question comes from the line of Simon Toennesen from Jefferies. Please ask your question.

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**Simon Toennesen**

*Analyst, Jefferies*

Yeah. Good morning, everyone. One question please on your EBITA bridge. Looking at the swings, obviously, the much better SFC versus I guess much lower productivity is the biggest swing in the bridge. You also talked some – about some structural changes positively around SFC. Given you're confident giving full-year guidance again, could you just elaborate a bit more around the changes, H2 versus H1, of the kind of key drivers within your bridge? And I'd be also interested, within SFC, if you could mention the level of investment and whether that's changed in H1 year-over-year. Thank you.

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**Amit Bhalla**

*Vice President-Financial Communication & Investor Relations, Schneider Electric SE*

All right. Go...

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**Hilary Maxson**

*EVP & Group CFO, Schneider Electric SE*

Sure. So, I think the question is to talk a little bit about the adjusted EBITA between H1 and H2. So, in terms of – we gave a few of the elements, in terms of – gross margin was a driver for us in adjusted EBITA in H1. We talked about price remaining positive in – between H1 and H2. We talked about productivity remaining positive between H1 – sorry. I don't mean necessarily a sequential increase, but price should remain – was positive in H1, should remain positive in H2.

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Productivity was positive in H1, productivity should remain positive in H2. One differential was on mix where we expect a more normalization of geographical and of the mix between our products and systems business in the second half. So, we talked to that being flat or, best prediction, being closer to flat in the second half.

In terms of SFC, we spoke about – we gave you the direct numbers in terms of SFC reduction in H1 with a big bulk of that, €200 million out of the €350 million, being associated with tactical savings. We do expect that that should probably start to ramp down, certainly start to ramp down in H2 and over the next 12 months. At the same time, we have some level of structural savings through our operational efficiency plan that we would expect to maintain and, in fact, accelerate over the next 12 months. So, that can give you a bit of guidance in terms of what we might expect in terms of SFC.

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## Amit Bhalla

*Vice President-Financial Communication & Investor Relations, Schneider Electric SE*

All right. I think we'll probably have to stop there. Thank you for all the questions. I believe there are still a few more questions on the Web, I believe, as well as on the phone line. We promise to get back to you as soon as possible. You'll probably see on the slide deck as well that we have a list of conferences and events that are coming up, mostly obviously digital now, and we're also thinking about some specific thematic events and I'll take the feedback from the questions that came today as well as we plan through those.

So, thank you, all, for your time, for your extended time with us today. Thank you, Jean-Pascal in Hong Kong and Hilary over here. And the IR team is available as well for follow-up calls. Thank you, all. Have a good day.

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**Operator:** Thank you. That does conclude our conference for today. Thank you for participating. You may now disconnect.

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