SCHN.PA - Full Year 2020 Schneider Electric SE Earnings Call

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PRESENTATION

Operator

Welcome, and thank you for standing by. (Operator Instructions) I would like to inform all parties that today’s conference is being recorded. If you have any objections, you may disconnect at this time. (Operator Instructions)

I would now like to hand you over to our host, Mr. Amit Bhalla, Head of Investor Relations. Sir, you may begin.

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

Well, thank you, operator. Hello to everybody. Welcome. We’re delighted that you can join us this morning in Europe, in fact afternoon in Asia, which is where our Chairman and CEO, Jean-Pascal Tricoire, is dialing in from; and we also, of course, have CFO, Hilary Maxson, joining us on this call.

We will go through the first section on business highlights and strategic highlights, and then Hilary will take us through the financial highlights. We’ll make sure to keep enough time for Q&A towards the end of the call. Thank you again for joining. Just a quick reminder on the disclaimer, as you would have seen on the slide.

But I would like to pass the call over to Jean-Pascal to take us through the strategic and business highlights.
Jean-Pascal Tricoire - Schneider Electric S.E. - Chairman & CEO

Thank you, Amit. Thank you all for being with us today. Well, I hope wherever you are in the world, you are doing well. Here in Hong Kong is a bit of a special day because people in the West might not realize it, but we are on the eve of the new year. So it’s very exciting to be sharing new year’s eve in with you. And I tell you, I’m even more excited because I’m so happy we leave the year of the rat on associated germs and viruses, and we are now moving into the year of the bull, which from the stock market point of view, means a great year.

But when I look back to 2020, while I’ve been CEO of Schneider for roughly 15 years, and I have known 2 deep crisis. One was 2009 and the other one, is the one we experienced last year, which is not completely finished. And I really, I think 2020 is more than a year of reaction for Schneider, the signature of the transformation, the profile of the company.

If you dive back and go back in 2009, our sales went down by 15%. Our profitability went down by 3.3%. Fast forward in 2020, same kind of deep crisis, much more resilient profile, minus 5%, actually, minus 4.7% on the sales, and we actually grew our operating margin on, and we signed a record cash flow, which is almost double of the one we signed in 2009. So it’s important for us to understand how much the transformation of Schneider has impacted the profile of the performance.

So very fast on this slide to remind you that we are very focused on integrated company to business, energy management, industrial automation, which combining together, support our customers in their solutions for sustainability and efficiency. All of that supported by our digital platform, EcoStruxure that we launched in 2008. And a very balanced exposure in terms of end markets, building and data center, 50%; industry and infrastructure, 50%.

Now headline of 2020. I would say, number one, 2020 has been the acid test of our purpose, our mission to our customers and to our societies, and we’ve proven that we are mission-critical to many of the applications around us.

Second point, high performance, I’m going to go into the detail of that today. And third, it’s been more than a performance year. It’s been an year of acceleration of our strategic transformation on the many aspects, and I will go through the detail of this.

So let’s go on first things first. While a very special year, our purpose is to make the most -- is to empower all in the world to make the most of our energy and resources, leveraging technology to bridge progress on sustainability for all. We proved, I think, every day during the COVID crisis that we were helping and supporting our customers to make sure that life is on. And day by day, we are the digital partner of our customers for sustainability and efficiency.

When I look back to 2020, it’s been proven in every part of the world, 90% of the countries where we operate have ranked us or classified us as mission-critical industries and have asked us to keep operating our factories, keep sending our service people on-site to support critical applications like hospital, data centers, critical networks of cities.

We have also supported our customers to derisk their operation and to remote operate them. This has also been a year of high performance, and I would like to focus on H2. Last time we spoke about our P&L was at the end of H1. And actually, H2 is already a recovered P&L we grow in H2 by 1% with respect to 2019, most of our business are signing an increase of operating margin of 120 bps, and that the level of the group by research of even more efficiency, we increased the EBIT margin by 140 bps.

And when you look at the root causes of this great performance, we used sell more products in what we’ve been doing systematically over the past few years, which is to productize solutions that we have developed for our most advanced customers and make them available to our unrivaled partner network is working, and this has been also well supported by our resilient supply chain. So more products in H2. On the second part of the equation, it’s more software and services, we’re going to come back on that. And those 2 combined together to offer full solutions to our customers.

What we’ve seen also in H2 is a confirmation, and we’ve reallocated resource to those that some segments were actually accelerated by the COVID. Residential, that’s obvious, nonoffice, nonhospitality building. Speak, about hospitals, logistics buildings, life science buildings, industrial buildings, a lot happening there. Data centers and networks, accelerating smart grids and everything around machine manufacturers with a specific focus.
on things around packaged goods. And what we've seen also in 2020 and especially on the second part of the year is really a pivotal layer with a world which is going to be more electrical, more digital and more sustainable.

Now take a broader view to the year, of course, our sales are going down by minus 4.7%, but we recover a lot from H1, which was at minus 11%. Both of our business are delivering a very solid profitability. And the operating margin of the company is improving as a whole by 20 bps. Think about the contrast to what we had to experience in 2009. On the best quality signature, signature of quality of this year execution, with our cash flow, which is breaking a record, and for the second time, is above EUR 3 billion.

Moving on, this performance is really based on a few factors. The first one I want to underline is growing importance of software and services in our portfolio. Growing by 1% over the full year, 5% better -- actually 6% better than the rest of the average of the group, with an acceleration of -- in Q4, plus 6%, and those business are really important because they increase stickiness of our relationship with the customer, they enable recurring revenue, they are accretive in margin. There are catalysts for growth because they put through the sales of connected products, which come with a higher technological values than the rest of the catalog. And we have all together to realize that this proportion of software and services is going to increase following the acquisition that we have initiated and we are closing in 2021.

Second base is a very resilient supply chain. And I think it comes from the fact that our supply chain is both global and one direction but very regional and that we have fully pushed the digitization of the supply chain to be more reactive. So we signed this year strong productivity in H2. We are investing for resilience in some blind spots, which have been revealed by the COVID. And we've been, over the year, really building on our relationship with suppliers because we have to work with them very closely to make sure that all of our supply chain is resilient.

I'm very proud to announce that we've been progressing in the ranking of Gartner to the #1 position in Europe, and the #4 position in the world, all industries compounded, and the last part of it is due to what we do in digitization and more so in sustainability. And you know that in the supply chain, we keep stepping up the ambition, and we just launched a new program called STRIVE to go to the next level of performance in this field.

Third pillar of our performance has been the agility in which we have innovated to transform the way we work. First, with customers doing almost everything or a lot of things in digital, remote services, remote everything, I would say, all the meetings with the customers, our innovation summit, collaboration practices have gone on digital in no time. And we have also transformed the way we work in the company. Frankly, it was not that of a revolution for us because in most of the places we had already hybrid workspace or work formula already operating. So all of our people were equipped to work from home. But we've really leveraged a lot our multi-hub organization, empowering our country presidents to take the right decisions in real-time and single this with the local stakeholders.

Very interesting also to see is that we've invested, as you know, in a lot of digital tools in the past 10 years. And we seen tools like AVEVA 3D, which is for the design of manufacturing and infrastructure, collaborative design; IGE+XAO, which is about ECAD; and the N2 cloud-based platform of RIB for construction orchestration, really taking off and accelerating with our customers as we were going through a very specific year. And what we've seen is that 2020 has been the biggest catalyzer of digital adoption. I really wish that 2021 will consolidate this adoption, and I see no way back to the way we are working. The future will be an hybrid between what we've learned in the past 12 months and what we used to do before.

So we've kept on being very active also in 2020 with projects. And you have here a list of examples. I just want to point on one, which is very dear to me, which is what we do in Egypt to provide electricity to 20 million people in this fast developing and populous country with state of the hi-tech smart grid that we are putting into place. So that's about the headline, strong performance based on strong fundamentals.

Now 2020 has been also very specific year for us because we've made of it an year where we accelerated our strategic transformation. On the first point concerning that strategic transformation is, of course, acquisitions and partnerships. We acquired -- we initiated directly or indirectly or closed the fundamental or the foundational acquisitions of Larsen & Toubro, of ProLeiT, RIB; initiated OSI and ETAP; and concluded a very strong partnership with Planon. And at the same time, it's not all about acquisition. We completed numerous partnership and singled out, too, here. What we do with Autodesk in the field of building construction digitization and Fortinet in the field of OT cybersecurity, making sure that our solutions are augmenting each other.
So the acquisition of Larsen & Toubro in India consolidates India as a very strong country for Schneider. Our mix of our India team, the fourth global hub of Schneider, increasing of product marketing, R&D, supply chain suppliers and sales, and that validates a model which is extremely local and which has been extremely useful at the time of COVID when people cannot travel and things and situations to face were very different from one geography to the other one.

The other acquisitions that we have either initiated or closed directly or indirectly together with AVEVA are appearing on this table, and they show the very strong reinforcement that we are aiming to achieve through this. ProLeiT, reinforcing our automation capability in food and beverage. The contemplated combination of AVEVA and its unparalleled catalog of functionalities together with the leading position of OSI in the field of injection and structuration of data. And the fact that we complete our digital thread in the field of electrical CAD, ETAP, potentially completing IG on IP to form a unique chain of electrical design.

And Planon, bringing cloud-based solution for construction, orchestration and facility management optimization. In the case of Planon, I repeat it's a partnership that is reinforced by the stake that we take in the company. So first point of strategic construction acquisitions.

Second point is really accelerating on digitization. And we see digitization accelerating in all our end markets, smart buildings, data centers where we have a leading position, smart grid, Industry 4.0. All of this is boosted by the convergence of technology disruption, 5G, which is multiplying the number of sensors; big data where we can put together a lot of data at the marginal cost; and AI that gives sense to the data. And that goes exactly in the direction of the world that we have prospected with you for the past many years of an all-digital and all-electric world.

Our value proposition in digital is not only digital. It is bridging the world of IT and OT. When you speak about the Internet of Things, the unique value proposition of Schneider is to be able to be operating in the digital space and in the real-world of our customers, which is the physical space.

And that goes with putting together connectable products, which are 25% of our business today, as we speak, which connect into edge control systems, which control systems on site, and the data collected by those connected products and those controls are given sense by a old portfolio of software and digital services already to the 7% of our business on why those digital tools are putting and monitoring the installations of our customers we are able to deliver a solution on the short floor in the facilities for our field service teams who are representing 10% of our business.

So 50% of our business, which is already in this flywheel of digital and services. The proof of the traction for this is that in 2020, which is an year of crisis for everybody in the world, we have increased the number of assets under management. I mean, assets that our customers ask us to manage for them by 1.3 million new assets, growing the number by 46%, and we've seen also the community of people in Schneider exchange, people who work on developing solutions on EcoStruxure, growing again in 2020.

It's true that we propose our customers a unique value proposition, an unparallel level of integration around the 4 dimensions, which is bridging together energy and automation systems for energy and process efficiency, making systems completely transparent from endpoint to the cloud through EcoStruxure, providing a full suite for digitization of facility on manufacturing and infrastructure life cycle from design and build to operate and maintain, and this is what I was describing the added value of the acquisition we started in 2020. And finally, allowing our customers to go from a traditional way of managing the company side-by-side to an integrated company management through unified operation centers.

So second, strategic construction or acceleration is digitization. The third one is really a lot of innovation. And let me single out a few of them. EcoStruxure Automation Expert, which is a completely new approach to automation, I would call it software-defined automation, making the bridge between IT and OT much more natural on cutting the cost of designing and implementing automation systems.

Another one is getting rid of SF6 in medium voltage with our asset new line of product. And finally, I would like to underline all the new products we bring in low voltage for native connectivity or the system of systems that AVEVA has developed for data centers with a unified operation centers for our IT customers. 20 new lines of products which are coming to the market in H1 2021.

And at the same time, as we innovate in technology, we bring innovation in the way we do business with our customers, and we digitize the way we work with our natural partners, our distributors, our integrators. And from the point of view, the COVID year has been a massive accelerator of e-commerce which, for instance, in 2020, represents 1/4 of the sales we do with our distributors. We have already some countries where more than 50% of the sales we do with distributors are going through e-commerce.
Third -- fourth, I would say, a key acceleration of 2020 is sustainability. First, inside Schneider, we finalized our 3 years plan that we had explained to you. And we move them to the next Schneider Sustainability Impact with an upped ambition, increased targets in all directions. On (inaudible), we want to do 80% of our revenues in green revenues by 2025. We keep researching the assessment by external agencies, and we’re seeing the ranking of Schneider keeping on increasing. We’ve been actually ranked in doubles 2 weeks ago as number one more sustainable company in the world.

But at the same time, as we apply and discover and innovate inside Schneider, we are becoming the digital partner of our customers for sustainability. And you see here a few logos with whom we have a deeper relationship. I want to single out here Walmart that engage us to work with hundreds of their suppliers to save 1 gigaton of carbon or the contracts that we -- or the partnership we initiated with Faurecia and STMicroelectronics during 2020 to work (inaudible) and technologies to become more sustainable.

Finally, I would say that in 2020, we've not stopped building up the competency of our companies on recruiting people to prepare for the future. We often say at Schneider that great people make a great company and people who join us, join us because we have a meaningful mission, because we want to be the most inclusive workspace in the world and because people who come at Schneider are locally empowered, they can impact decisions of the company.

Doing all of this, we certainly have not lost sight of our shareholders. And would it be on a 1-year period on or 3-year period on a peer group that we publicize in our annual report we have come as #1 in terms of TSR. And we are going to propose at the next AGM a vote of a dividend of EUR 2.60 per share, which is an increase of 2 points with respect to 2019, honoring a commitment of now 11 years of a progressive dividend as a return of our shareholders who have followed and supported all the strategic transformation of our company.

So now that comes as an introduction on the headlines of 2020. Now I’d like to call Hilary to come and explain into more details what happened in last year.

Hilary Maxson - Schneider Electric S.E. - CFO

Thanks, Jean-Pascal, and good morning, everyone. Great to be here with you to comment on our full year 2020 numbers and to give some thoughts on expected trends in 2021. I’ll start with some highlights of what we believe has been a strong and defining year financially, demonstrating our agility and resilience. First, we finished with solid revenues of EUR 25 billion down only 4.7% organic and marked by a strong rebound in the second half of the year.

A key highlight for us was our gross margin performance, where we offset some of that negative year-over-year revenue performance on both an organic and inorganic basis. Also we reacted swiftly on cost both tactical and structural to finish the year at plus 20 basis points organic in our adjusted EBITDA margin.

Cash was also a highlight where we hit record free cash flow of $3.7 billion, and I'll speak further to ROCE later in the presentation and in more detail on all of the points.

Turning to second half specifically. We saw a strong rebound finishing at plus 1% sales growth organic or EUR 13.6 billion in sales driven by positive performance in Asia Pacific and a turnaround across all other regions. We start to see positive scope impact from our acquisitions of L&T, RIB and ProLeiT, partially offset by 2019 disposals. And FX impacted us by minus EUR 741 million on the full year in top line in 2020, mainly due to strengthening of the euro. Based on current estimations, we’d expect similar impact to top line in 2021 in the range of minus EUR 600 million to minus EUR 700 million; an impact to adjusted EBITDA of around minus 10 basis points.

Energy management had a strong turnaround in the second half, finishing with plus 1.8% organic sales evolution and plus 120 basis points organic on adjusted EBITDA margin. This performance was broad-based with most geographies contributing. Strong positive price actions impacted both sales and adjusted EBITDA positively. And in addition to price, revenues were boosted by continuous positive trends in residential construction and renovation supported by low mortgage rates, consumer spending and work from home, and the DIY channel is also particularly strong. We also saw strength in pockets of nonresidential building, particularly in health care, life science and logistics, where we're focusing our efforts. The
data center end market remains buoyant with sales to data center increasing in the second half, including to Edge customers, and we expect to return to year-over-year sales growth in data center in 2021.

Oil and gas and mining continues to be impacted by lower oil price and delayed CapEx, while smart grid continues to be a point of key strengths. We do see turnaround and demand trends in mining, although not yet impacting sales. And in contrast to the third quarter, we finished the year we estimate with around normal level of inventory at distributors worldwide.

Industrial Automation also showed positive momentum in the second half, finishing with minus 1.6% organic sales evolution and plus 120 basis points adjusted EBITDA margin. The discrete end markets remained resilient, including strong growth in China due to OEM demand. Process automation remains challenged, impacted oil price and delayed CapEx. However, various segments remain strong with good demand in consumer packaged goods, wastewater and a pickup in demand for mining as commodity prices increased. AVEVA finished the year strongly, including the booking of set scheduled subscriptions and services were also strong, finishing at mid- single-digit growth.

Focusing now specifically on the fourth quarter, Energy Management grew sales plus 1% organic, including notably in our 2 largest markets, China and the U.S. North America grew 3% organic, with continued sequential quarterly improvement in the U.S. The U.S. continues to see particularly strong demand in residential with continued momentum in housing starts and in the DIY market. Residential U.S. was one of the few areas where we were impacted from a supply chain perspective earlier in 2020, and we continue to make progress in enhancing capacity and reducing back orders to meet the dynamic demand there.

Despite lockdowns in various countries, sales in Western Europe increased by 1% organic with good traction in residential and data center markets across most of the countries. Italy and Spain, again, experienced some impact from lockdowns, but at a much lower magnitude than the second quarter of 2020.

Rest of world was up 1% organic, with continued growth in Russia and South America, plus we started to see the revenues from the large smart grid project in Egypt that Jean-Pascal mentioned earlier. In Asia Pacific, high single-digit growth in China was offset by continued weakness in Southeast Asia and India, although both with some turnaround and momentum towards the end of the year. Indonesia remains particularly impacted due to the credit situation of its state-owned utility, where a specific turn to growth in the fourth quarter.

Industrial Automation continued with sequential improvement into the fourth quarter, with sales down minus 1% organic. Here, the picture is a bit mixed geographically with strong double-digit growth in China and growth in Australia driving Asia Pacific’s fourth quarter sales up 6% organic. India continued down, but on a high base of comparison and a sequential improvement versus the Q3. Western Europe turned to growth at plus 3% organic for the quarter, driven primarily by AVEVA as well as sequential improvement in discrete automation in Germany.

North America and rest of the world remained weak, down 12% and 7%, respectively. The U.S. remained negative in OEM sales, but with some signs of stabilization during the quarter. And U.S. Process Automation continued with strong negative impact from disruption in oil and gas due to oil prices. In Rest of world, Africa and Russia, also still strongly impacted negatively in process automation, whereas South America continued strong growth in Q4, up sequentially from Q3, driven primarily by strength in OEM in Brazil.

Turning now to our strategic pillars. And as mentioned by Jean-Pascal earlier, we finished the year strong on both more products and more services and software. We also continue to focus on better systems, where we kept margins primarily flat at plus 10 basis points despite minus 9% organic sales growth.

In systems, we’re shifting our focus from margin improvements, having improved gross margin by around 150 basis points over the last 5 years to ensuring continued solid fundamentals across this business model to contribute to our mid- and longer-term ambitions.

Better systems is a good segue into my next slide, highlighting our gross margin performance over the past years. We finished 2020 with gross margin at 40.4%, a 12-year high. The plus 60 basis point organic move we saw in 2020 was in part due to mix, which we would expect to normalize in 2021. However, the underlying trend, an increase of plus 250 basis points and a track record of continuous improvement over the past 5 years is driven by key drivers reflecting the quality of our business. First, we have a strong track record of positive -- net positive pricing over the cycle,
a mix of tactical cost neutralization actions and value-based pricing. We've also consistently driven strong industrial productivity, and we set an
ambitious target of around 1 billion additional productivity as part of our margin progression plan between 2020 and 2022. And I mentioned in
the prior slide, our performance in better systems.

Our gross margin performance has contributed to our strong adjusted EBITDA expansion over the past 5 years, with an impressive increase of plus
300 basis points and driving 6% compounded annual growth rate of our adjusted EBITDA over the past 5 years. I'll mention that this consistent
margin expansion has been demonstrated in both low and high-growth years, including a plus 20 basis point expansion in 2020 despite lower
organic sales growth by minus 4.7%. So we continue to be quite confident in our trajectory to around 17% adjusted EBITDA margin by 2022. That's
what's applying current FX rates in 2021 and 2022.

Turning now to the drivers of our plus 20 basis points margin expansion in 2020, we acted early on pricing in 2020 based on expectations of potential
cost increases due to COVID leading to gross pricing impact of plus EUR 188 million despite a positive RMI environment. We do expect RMI will
turn negative in 2021, and we'll continue our pricing strategy to at least neutralize RMI over the cycle and focus on value-add pricing.

We also saw an increase in productivity in the second half, due in part to increases in volume, but also our baseline productivity adjusting for COVID
impact was stronger than in prior years based on ongoing action plans, giving us confidence in our projected around 1 billion productivity for 2020
to 2022.

Mix continued positive for the full year. However, we would expect this to normalize in 2021 as we see the geographies impacted in 2020 to emerge
from specific lockdowns, and we begin to see better growth in our systems business.

And our strong cost savings plan, I'll speak to this in more detail in a few slides, more than offset inflation and new investment. FX impacted our
adjusted EBITDA margin by around minus 30 basis points and others was at minus EUR 179 million with some onetime items impacting, including
product risk provisions. Full year margin remained resistant in both businesses with continued progression in Energy Management at plus 30 basis
points, and Industrial Automation finishing at minus 30 basis points, impacted by product mix. Due to strong cost actions, our support function
costs decreased by 2.9%. However, we did continue to choose to continue with strategic investments in key R&D programs in services and in
cybersecurity.

As mentioned previously, we remain focused on the evolution of our SFC to sales ratio across the cycle. Operational efficiency and effectiveness
also remain a key point of focus for us to ensure our margin progression and to support our strategic investments.

Here's the numbers behind our efficiency focus. First, we responded to the crisis quickly and with agility, driving tactical savings of around EUR 200
million in the first half and continuing with savings in the second half for a total of around EUR 300 million in tactical savings for the full year. This
savings was primarily driven by reductions in travel, in-person events and delays in hiring. So we'd expect it to primarily reverse in 2021. However,
we're looking to transition some of this into ongoing savings by embracing new ways of working. As we phase down on tactical savings in the
second half, we accelerated our structural savings program, and we're on track to deliver cumulative structural savings of around EUR 1 billion
between 2020 and 2022. Of course, we don't expect this to translate 100% into our P&L as we'll be redeploying some savings into strategic
investments, particularly in R&D.

Turning now to net income. Including scope and FX, our adjusted EBITDA is down minus 7%. Below the line, the lower impact from loss on sales
in 2019 were offset by higher M&A integration costs and higher restructuring, in line with our expectations. Amortization of purchase price
accounting intangibles increased due to L&T and RIB, and we'd expect this to increase further in 2021 with the full year impacts from acquiring
those businesses.

In financial costs, our cost of net debt decreased, offset by a write-off of a subsidiary loan and lower dividends from equity investments. And our
effective tax rate increased slightly to 22%, while we had some positive one-off impact related to a reversal of tax reserve. We would expect our
effective tax rate in 2021 to still be between 22% and 24%. This all translates into net income of EUR 2.1 billion and adjusted net income of EUR 2.6
billion, down 12% and 11%, respectively, and to adjusted EBITDA of EUR 472 million.
Free cash flow is a big focus for us throughout 2020 and a big highlight for the year. We finished 2020 with record free cash flow of EUR 3.7 billion and a cash conversion ratio of 159%. Cash from operations net of CapEx, was down EUR 317 million or 10% due to lower results, but this was more than offset by EUR 500 million in trade working capital, driven partly by evolution in receivables and payables as would be expected with lower sales. However, we also improved days sales outstanding and days payable based on some initiatives we started in 2019. Inventory increased EUR 153 million year-over-year as we continue to prepare for a demand uptick in 2021, but inventory days outstanding remains at average levels.

Non-trade working capital was also positive for the year due to tax payment timing and VAT recovery plus some tactical actions. Although we’d expect some natural reversal of working capital in 2021, we expect to continue with healthy cash conversion ratio, and we have confidence in achieving our around EUR 3 billion annual free cash flow across the cycle, and that excludes the lease accounting impact.

Turning now to our capital allocation priorities. As mentioned by Jean-Pascal, we remain very focused on return to shareholders, and we’ve proposed a progressive dividend for the 11th year in a row. We also remain focused on our strong investment-grade credit rating, and I’ll speak to our debt ratios in a moment. In terms of portfolio, we had a busy year for acquisition in 2020 with a number of key transactions and partnerships that prepare our company for the future. We’ll be focused on successfully integrating those acquisitions to realize the benefits to our customers and investors. In the near term, therefore, we expect only 1 or 2 potential smaller strategic bolt-ons or partnerships tied with our longer-term strategy.

Disposals remain an important component of our strategy, and we continue to work on our previously announced EUR 1.50 billion to EUR 2 billion, that’s in sales, with possible progress to share in the first half of this year. We do expect a ramp up in working capital that will impact our first half cash flows due to turnaround in demand versus last year. So we’ll keep the share buyback program on hold in the near term. We’ll update on timing of share buyback program as well as potential deployment of disposal proceeds in coming quarters.

A quick note on our debt ratios. Net debt-to-adjusted EBITDA remains at a healthy onetime at the end of 2020 even adjusting for third-party funds on our balance sheet for the minority portion of rights issuance performed by AVEVA in November 2020 to support the OSI transaction. If we assume the OSI transaction occurred at the end of 2020, so no contribution from OSI to adjusted EBITDA, this ratio would have been at 1.5x. This is historically on the high side for Schneider. However, based on our strong free cash flow generation and disciplined capital allocation strategy, most rating bases reiterated our A- / A3 credit rating after the announcement of the OSI transaction.

ROCE is a key metric for us, particularly on our core business. Here, we’ve shown an ROCE metric for 2020 adjusted for recent significant acquisitions. So excluding L&T and RIB, both in the numerator and capital employed in the denominator. I think it’s a good representation of our underlying business. And you’ll see that even in a year like 2020, we have strong resilience in ROCE with only 10 basis points dilution to down to 12% based on our strong free cash flow generation and expansion and profitability.

Looking back at 2016, you can also see that positive evolution in ROCE in 2017 and 2019, while 2018 is impacted by the consolidation of AVEVA. Using 2020 pro forma numbers, we would expect our announced acquisitions, including OSI, to result in an impact of around 2 points negative on our ROCE. L&T as a core acquisition is expected to be accretive, but will be more than offset by our software acquisitions of OSI and RIB. We’ll continue to follow ROCE as a key metric, particularly on our core business, where we expect continued positive progression in ROCE over time. And additionally, we follow the ROCE progression, profitability and growth profile of all of our software businesses to ensure value from these future-oriented acquisitions.

Lastly, I’ll just mention an innovative sustainability-linked financing we issued in November 2020. ESG is key to Schneider’s strategy and important business driver for us. This recent sustainability-linked convertible bond reiterates our commitments. And it’s time to target linked to carbon reduction for our customers, gender diversity and harnessing the power of all generations. You’ll recall, we launched our new SSI program in November at our ESG Investor Day, and we raised the bar on our ambition through this program, and the convertible bond is linked to those new ambitious targets under our new SSI program.

With that, I’ll turn back to Jean-Pascal to discuss our 2021 expectations as well as longer-term targets.
Jean-Pascal Tricoire - Schneider Electric S.E. - Chairman & CEO

Thank you, Hilary. And congratulations for stepping in, in your role in what you described has been one of the most intense years we've had at Schneider in -- during my tenure at least. Well done.

I will go now to 2021. I won't go through the detail of that busy slide. You have the document. But as we look at 2021, we see a landscape where while everybody hates it, we have all gotten used to live with the virus, with the COVID, there is a hope on the deployment of vaccination, which is now coming forth. We have stimulus packages that were put in place by most of the countries where we operate to a level that we've never seen before in history. And a lot of that is going in the direction of a greener and smarter infrastructure, all those things that really we can serve on support at Schneider.

We see, of course, some segments which are down, but many segments, which are actually being reinforced by the crisis, residential, is an example; technical buildings, we spoke about it; data centers; all the critical networks of cities and especially grids, which have to manage a level of variability not known before, and all industries going for many reasons to more digitization. And on the top of it, many of the places where we operate have gone through lock down, which is creating favorable comps for the future, plus as I explained, we've really changed again the profile of our portfolio, and we will keep doing so with divestment on leveraging the acquisition that we have started.

Therefore, we are formulating the following guidance: a growth of the adjusted EBITA in organic in 2021 between 9% to 15% through a combination of organic revenue growth of 5% to 8% and an increase and improvement of our adjusted EBITA margin by 60 bps to 100 bps. This is extremely consistent with the horizon, with the ambition we had expressed a few years ago of creating or developing a business profile with 3% to 6% of growth across the cycle with an adjusted EBITA margin around 17%. This is just a step. This is a milestone, but it's by no means a seeding as we keep pushing on transforming the profile of our company towards more accretive on high-quality business, and confirming also the early generation of cash flow around EUR 3 billion.

So what we are prospecting really in a very simple manner because what can be executed has to be spelled in a simple manner is an acceleration of the execution of our strategy around more products, more services, more software and more sustainability, which is developing as a bigger activity at Schneider. All of this will yield more growth, more recurring revenues, marketing improvement, cash flow generation and make our model more sustainable and, of course, will incur more shareholder return.

With that, Amit, I hand the mic back to you. Thank you all for your attention, and we are ready for questions.

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

Thank you, Jean-Pascal and Hilary as well. We will now move into the Q&A. I'm looking at the clock. So just to reassure everyone, we're not going to stop at the hour, and I want to make sure that we take several questions. But just sort of be respectful for the rest, I think there's a long list. So let's keep it to 1 question per analyst. And then if we have time permitting, we'll probably come back is possible.

So with that, let's move to the Q&A. And operator, you can raise the first question.

QUESTIONS AND ANSWERS

Operator

Our first question comes from Andreas Willi from JPMorgan.
Andreas P. Willi - JPMorgan Chase & Co, Research Division - Head of the European Capital Goods

My one question is about cost developments into 2021. You already mentioned the raw material headwind. Over the cycle, you always more than compensate, but is it fair to assume that like in 2017 and ‘18, it will be a negative for the 2021 bridge? Maybe you can give some indication around that.

And also on the cost side, we've seen currently a pretty big shortage building for semiconductor chips, how could that potentially impact you on the cost side or delays or also then indirectly from customers that are affected from that?

Jean-Pascal Tricoire - Schneider Electric S.E. - Chairman & CEO

Hilary, do you want to take cost side?

Hilary Maxson - Schneider Electric S.E. - CFO

Sure. So I'll get started on the cost side. I spoke to the fact that, of course, we see raw material headwinds facing us in 2021. And we've seen that and talked about it, I think, since even sort of midyear of 2020. So we showed some past historical performance that we have there. And like you said, you can see that we've been strong in what I would consider to be the pricing machine, both in tactical pricing and in value pricing and even accelerating that over the past years. We've been getting ourselves prepared, and we're looking at those cost increases into 2021. And like in all years, we'll look to be cost neutral, but more over the cycle as opposed just to only within a calendar year itself.

Jean-Pascal Tricoire - Schneider Electric S.E. - Chairman & CEO

And from the point of view, the track record we had over the past 2 years in terms of net pricing is very encouraging. On the side of the supply chain, while we are monitoring the situation in a very close manner, the fact that we have a globalized supply chain and globalized purchasing is really helpful in the sense that we have a concrete view of what is happening at the level of the company, and we can neutralize our forces, our request together to make sure we get a better attention of our suppliers.

But we are going to stay, well, make no mistake. I mean 2020 has been an everyday test of the resilience of the supply chains. And I think we've gotten better. Our understanding how to manage it together with our suppliers, that has make us closer to our suppliers. And as we go into 2021 that better transparencies and better proximity of our suppliers will be helpful.

Operator

Our next question comes from Ben Uglow.

Benedict Ernest Uglow - Morgan Stanley, Research Division - MD and Head of European Capital Goods Equity Research

It was really to just dig a little deeper into your trends in industrial automation in China, in particular, could you calibrate or just quantify a little bit more on the growth? And when we say it's double digit, is it more 10% to 15%, 15% to 20% or something else? Just how strong was China automation during the period.

And then, I guess, in the press release it mentions a kind of sequential moderation. Can you just sort of tell us what -- how that trend line is developing? And why do you see a sequential moderation at the moment in China?

And Jean-Pascal, given that it is Lunar new year, what is the environment at the moment on the ground in terms of distributors restocking and, let's call it, general demand as we enter new year?
Jean-Pascal Tricoire - Schneider Electric S.E. - Chairman & CEO

Well, I guess, on the ground, as we speak, probably most of China is having a festive dinner with their family. So we are probably the only one working as we speak in this part of the world. But now to answer your question, we see a very healthy level of business in China, and you know that China has been back to a normal level of operation for now some months. The impulse given also to the activation of the domestic economy is favorable to what is happening on the local market in every aspect. So we see a sustained dynamic here.

Now when you look at automation, double-digit and it’s a good double digit, and I don’t want to be more precise than this. With different dynamics, very strong at the level of machine manufacturing on OEMs and still a bit slower on resource business some continuous process, which is impacting a part of what we are doing in China. But overall, I say positive and confident about the dynamics of 2021 in China.

Operator

The next question comes from Jonathan Mounsey from Exane.

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

So picking more, I guess, maybe on the free cash flow guidance, I kind of think of you as a probably a cyclical growth company. So actually growing revenue and profit through the cycle, your actual free cash flow guidance. I appreciate this year may be difficult to work in capital reasons. But the actual guidance is kind of EUR 3 billion through the cycle. That doesn’t really suggest a lot of growth in free cash flow, say, over the next 3 years. I mean what do we really mean by EUR 3 billion through the cycle? Surely, as profit grows, that pool of cash per annum adjusted for working capital will grow as well.

Jean-Pascal Tricoire - Schneider Electric S.E. - Chairman & CEO

Hilary?

Hilary Maxson - Schneider Electric S.E. - CFO

Yes. So I think what I would say there, we gave the EUR 3 billion through the cycle. You see this year, actually, trade working capital is quite positive for us and nontrade working capital, partly helping to drive the record free cash flows we have at the EUR 3.7 billion. And while I won’t -- we won’t give any guidance for free cash flow, like usual. In 2021, we would expect certainly, cash flow from operations to go up, like you said, with the normalization and a recovery in the year. Maybe some negative trends, though, in trade working capital and nontrade working capital as ramp up for the increase in demand, so the opposite of this year. And also, we have a number of plans like restructuring that will impact our nontrade working capital.

So today, I would say we’re quite comfortable with the around EUR 3 billion through the cycle. However, similar to the around 17%, I would say, with the free cash flow as well, and you’re right, that’s not the end of the journey. And of course, we would update as we go along.

Operator

Our next question comes from Alasdair Leslie, Societe Generale.
Alasdair Leslie - Societe Generale Cross Asset Research - Equity Analyst

So just on the growth outlook, there’s a kind of helpful summary on our markets on Slide 49. Overall, lots of positives there, but maybe you can just talk a little bit about some of the weaker areas, some of the segments within non-res, perhaps also kind of process automation as well, which areas you’re kind of most negative or cautious on? Just to get a sense of how much of those kind of weigh on your growth and might influence the range you set for the group in 2021.

And just a quick follow-on there. I think at the H1 stage, you said 20% of the group might be challenged over the next 2 to 3 years. Perhaps, are you a little bit more optimistic about that portion of the portfolio now, given the development in H2?

Jean-Pascal Tricoire - Schneider Electric S.E. - Chairman & CEO

Which one, sorry? Which part?

Alasdair Leslie - Societe Generale Cross Asset Research - Equity Analyst

On the follow-on...

Jean-Pascal Tricoire - Schneider Electric S.E. - Chairman & CEO

Yes. Which part of the portfolio did you mentioned? Sorry, I didn’t...

Alasdair Leslie - Societe Generale Cross Asset Research - Equity Analyst

So you highlighted the H1 stage on your presentation slides that you -- that maybe 20% of your portfolio was going to be a little bit more challenged over 2 to 3 years. I think the areas in building, infrastructure, et cetera.

Jean-Pascal Tricoire - Schneider Electric S.E. - Chairman & CEO

Yes. Sorry for that. Yes, quickly on the places of the portfolio that are maybe the one where we are looking more attentively. There is everything which would be office or hospitality buildings, which have been probably affected by the crisis. We are not very much exposed to direct transportation, sports and those kind of things but marginally. And when you look at that, we do 35% of our business in buildings, but 1/3 of that is residential and is rather accelerated by the COVID. And the part of those buildings, which is corresponding to, let’s say, hotels and office building is less than 10%, all right?

And we’ve not seen a complete absence of activity, especially people are retuning many of their office buildings or hotels for -- to make them more healthy and better organized when -- to adapt to the new conditions, but that’s less than 10%. The other usual suspects somewhere in our portfolio at the moment post COVID is -- or during COVID is oil and gas. And oil and gas is 7% to 8%. You know that our exposure is not too extreme. It’s mostly mid and downstream. And first, I mean, the price of oil is coming back to a better level, and we see more projects coming back up. And second, the actors in this sector are really looking at their digitization for understanding better or improving their processes, getting more efficient getting more sustainable also on working for some of them together with us on their transition. Those, I would say, will be the 2 major segments that we are watching, and the rest, I already spoke of it, is a place of many places which are actually showing a rather positive dynamics.

Operator

And our next question comes from Phil Buller from Berenberg.
Philip John Buller - Joh. Berenberg, Gossler & Co. KG, Research Division - Research Analyst

Jean-Pascal, it's interesting to hear your opening comments about the margin performance during the pandemic compared to where we were in the financial crisis. So I guess the one thing that has always been pretty resilient even back then was the cash performance. But we now seem to be seeing a structural step-up in the gross margin and the cash performance, which is obviously a good thing. I was wondering how both you and Hilary are thinking about the right level of balance sheet leverage going forward, which is always quite conservative in the past.

But I know Hilary, you commented on where leverage would have been had OSI completed already at around 1.5x. But do you see now an opportunity to operate at a higher level of sustained leverage compared to the past to capture higher growth, given we've now seen this change in cash profitability. And how do you see leverage evolving in 2021 and 2022, given we've got these disposal efforts underway.

I know you said that we talk about how the proceeds would be used in due course. But is there a ballpark figure you can share in terms of the expected cash proceeds from those disposals, please?

Jean-Pascal Tricoire - Schneider Electric S.E. - Chairman & CEO

On the transformation of the profile of the company, and I won't go into details because probably you will be able to stop me on the topic. But we have a more global presence. And clearly, in 2020, being very global and very balanced has been usual. Massive rebalancing of our end segments between building segments, which was the majority of our exposure and infrastructure and industry, that will be the beneficiary of many of the stimulus packages that we've done.

And of course, the profile of our business has changed. And we've complemented our franchise for products. With strong activities and fast-developing activities in services and software. And we are just at the beginning of the journey. We still see a lot of runway in front of us to go to the next step in rebalancing the portfolio.

Now on the leverage, I would just make a simple comment. I -- we don't want to take risk on the financial part of the equation, but now I let Hilary answer to the second part of the question.

Hilary Maxson - Schneider Electric S.E. - CFO

Sure. Thanks. So what I would say on the leverage side is actually 2020 is a great year where our strengthened cash flow, our strengthened gross margin, I think we were able to take the opportunity, for example, with some of these acquisitions that really put us on a great track for future ready. With that, though, like I said, we're getting closer to historically high debt ratios. Of course, the one I gave doesn't include the contribution from OSI. So it's a little bit sort of artificially high, is the way that I would put it.

In terms of capital allocation, like I said, the investment-grade credit rating remains very important for us. I think that in the near term, we would expect to see a little bit of return to normalization of those debt ratios.

Operator

Okay. Our next question comes from Gael de-Bray from Deutsche Bank.

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

So the one question I have is about the software business and the growth of about 6% you reported in the fourth quarter. I just wanted to check how you account for the AVEVA's performance into this number, does it fully reflect the 26% organic growth they reported in Q4. And if that's
indeed the case, it looks like the trend in the order software and services categories has been rather negative. So could you just comment about this, please?

Jean-Pascal Tricoire - Schneider Electric S.E. - Chairman & CEO

Hilary?

Hilary Maxson - Schneider Electric S.E. - CFO

Sure. So the way that we account -- AVEVA is consolidated into the group, however, we sell software between Schneider and AVEVA. So there's an intercompany adjustment between ourselves so that 26% is also accounting for some of the software that we would also count as internal within Schneider. So overall, you're right that, that 6% includes a good performance from AVEVA. It also includes our overall performance in services, which is more neutral. And then it includes our own internal software, which also continues to track well.

Jean-Pascal Tricoire - Schneider Electric S.E. - Chairman & CEO

Yes. Gael, if I want to answer, I think if you take a larger perspective, we've seen really an acceleration in our software and beyond AVEVA, which has been the point of a lot of our attention. But there is much more in China. And especially, we've had very strong dynamics in smart grid, actually driving more of our software to service to utilities.

The place which is getting a lot of significant traction today, are the digital services and the software attached to connected assets. And in -- especially in the field of energy, there, we see a significant traction.

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

Can I just...

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

And actually the digital services is a good level of growth in Q4.

Operator

Our next question comes from Shane McKenna from Barclays.

Shane McKenna - Barclays Bank PLC, Research Division - Research Analyst

Just on your data center business, notwithstanding, obviously, the tough comps from 2019, most of your peers have been calling out the strength of hyperscale in North America. Is that a trend that you're seeing? Or is your growth in 2020 more broad-based? And as you look into next year, do you see a shift more towards sort of co-location, local edge?

And also, if I can ask about your Chinese data center business. What sort of growth trends were you seeing there in the fourth quarter versus the high single-digit growth that you called out for EM?

And finally, are you able to give us the current figure for data center and networks as a percentage of group sales, that would be great?
Jean-Pascal Tricoire - Schneider Electric S.E. - Chairman & CEO

Okay. As a percentage of group sales, we are speaking about of -- if you take a combination of secure power technology on what we do in the field of data centers and network because we have more and more inroads of those technologies in other spaces around 15%. And it tends to be increasing in proportion as we go within the year.

For the global market of IT and data centers, frankly, we remain very optimist. We had the base of comparison, which was a bit stronger in '19. But at the end of the day, what we see is that there is an increase of traffic, there is an increase of storage. There is now an increase of AI on computing, which is generating units. There is actually a strong movement to complement the aggregation of data in large data centers with a movement to be close to the application, which is largely catalyzed by IoT on the need for low latency, but also for data resiliency to complement hyperscale by edge computing on edge data centers, and we are very well positioned here. And it's something we see everywhere on.

When I look at the proportion of the business that we do with hyperscale, it tends to increase, but it's -- the growth that we see and the potential that we see is broad-based, it's across the board. So remain -- we've been always at the forefront of this supply in energy and infrastructure to the IT industry. We have developed a complete offer like no other, including system or system by AVEVA, and we want to keep innovating with this industry and building bridges between IT and automation systems in other sectors.

Shane McKenna - Barclays Bank PLC, Research Division - Research Analyst

I'm sorry, the China data center growth that you saw as...

Jean-Pascal Tricoire - Schneider Electric S.E. - Chairman & CEO

Frankly, I don't think it's particularly relevant, and there is nothing specific there to be said about Q4 that will be materially different from the other quarters. The business of data centers keeps growing in China.

Operator

Our next question comes from James Moore of Redburn.

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

This feels like a question for Jean-Pascal. Remarkable job lifting margins in a down year. Great to hear on track to the 17% in '22. I'm really interested in your phrase you keep using about how this is just a step. And it makes me ask if you can think ahead to the next step, if you could, and what do you think the correct entitlement margin for Schneider is 3, 4 years, 5 years after that. And when you think about it, you don't want to put a number on it, but I'm wondering if 20% is possible, what are the major areas of profitability upside beyond 2022 in your mind?

Jean-Pascal Tricoire - Schneider Electric S.E. - Chairman & CEO

As we are speaking about Chinese new year, there is a proverb in China that says that the 10,000 leagues won't start with the first step. And I come from, I would say, practical origin, so one step at a time. But at the end of the day, when you look at what we are operating, we are changing the profile of the company, and that relates to margin and that relates to cash too. So the more we productize our business, and we work in a deeper and broader manner with partners and access and scale out the reach of the technology, the more we complement which we use not to do before at all.
We complement those products free of services, and we go back to its installed base in a world that needs this installed base to be upgraded and is facing a lack of competency and shortage of possibilities to do so. The more those products are connected, they can be augmented with software, digital services on multiple possibilities. And the more -- based on that, we grow pure software to integrate the life cycle of the installation of our customers. The more we are creating an activity, which is certainly more intense in R&D, but which is elevating the profile of margin and the rotation of the generation of cash flow. So that's the best answer I can produce. I mean we are going to keep pivoting on rotating our portfolio.

You've seen in 2020, an intensified investment in the field of software. Large part of that's driving in the future to more subscription and to more recurring revenue. At the same time, we are going to now execute on the divestment of a part of the portfolio, EUR 1.5 billion to EUR 2 billion, already done EUR 600 million of activities, which have a lower profile, and we want to keep working always on that reshaping of Schneider. So 17% is a step. Then we still want the 10,000 league walk, right?

Operator

Our next question comes from Andre Kukhnin from Crédit Suisse.

Andre Kukhnin - Crédit Suisse AG, Research Division - Mechanical Engineering Capital Goods Analyst

I wanted to ask specifically about software and BIM within that. It sounds like 2021 will be more of a year of digestion of the deals and partnerships that we’ve struck already. But in BIM, specifically, do you see yourself as now having got enough critical mass all the kind of pieces of that value chain covered with what you've got organically? Or is there still scope to add through acquisitions?

And just related to that in terms of connecting the kind of design and operate part of AVEVA BIM with RIB’s construct, how do you envisage that happening? What will be the package? Will the AVEVA’s package integrated in RIB or the other way around?

Jean-Pascal Tricoire - Schneider Electric S.E. - Chairman & CEO

Look, Andre, thank you for this question. Just as we -- just focus on the point. The first priority for us is to make sure that we digitize the electrical experience and we create solid plugs with other companies and markets. So you've seen us putting together ALPI IGE+XAO. Now we are pursuing ETAP. This is in process as we speak. That is getting or that will be combined with everything we have at Schneider and this is creating a really unique suite of digitization of the electrical cycle. We have initiated, and it's public, a partnership with Autodesk to make sure that we would plug that unique capability together with the huge presence of Autodesk in that presence. And with that, we help each other, and it's all good.

RIB is really bringing for us a unique capability that plugs into multiple part of Schneider. It’s a platform-based platform of orchestration, costing and scheduling of projects and still we do a very large part of our business at Schneider with customers who deal with projects. So our customers are the natural target customers of RIB. And RIB is not only interacting with AVEVA. It’s, of course, a really interesting complement to (inaudible) of AVEVA. So it augments in a very nice manner AVEVA.

The teams are talking together. The teams of AVEVA and the teams of RIB are talking together. And at the same time, it has a huge number of products into our building-oriented and infrastructure-oriented business in the rest of Schneider. And we are also building those products. But the first priority with RIB is really helping lead to globalize and to deploy and to grow which we have started to do last year, and we’ll keep doing in 2021.

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

All right. Thank you, Andre. I’m mindful of time, but I just want to make sure that we give probably another 2 or 3 questions. So let’s go to the next question, operator.
Our next question comes from Guillermo Peigneux from UBS.

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

I wanted to maybe laser focus a little bit on energy management and nonresidential renovation trends. I think obviously, some of the, let’s say, non-specialized markets, so the traditional commercial and office building renovation markets have been postponing spending for a prolonged period of time. And I wonder, first, what do you see in terms of activity levels on renovation on those particular segments in Q4? And what do you see as well in 2021 as this postponed spending probably comes back at some point in time in some sort of way of form?

Jean-Pascal Tricoire - Schneider Electric S.E. - Chairman & CEO

Guillermo, thank you for your question. I think we touched a subject multiple times during Hilary’s and mine presentation and already the answers that I provided on hospitality and commercial buildings. First, let’s really realize which weight it has on our portfolio. So far, you’ve seen our figures in energy management and especially in H2, they are very resilient and showing good dynamics. And as we look into 2021, we really -- you have to realize that for the 35% of business we do in the building, again, more than 1/3 is residential and the rest is in majority, noncommercial or nonhospitality buildings. That last segment is less than 10%.

So those technical buildings, actually, for some of them, have also some accelerated or some renewed dynamics. For offices and hospitality, trying to look for healthier, more flexible, reconfigure the space is creating opportunities. A large part of our building business anyway is around renovation retrofit. Many of those buildings will get more electric, for instance, of the development of electric vehicle that will have to be accommodated in the parking of buildings. You have a lot of new standards coming around the world to us that new buildings will be more electrical. That means more electricity and more potential for our offers.

So all in all, between an acceleration of the residential, which is across the board between more focus on -- of us on a natural position on technical buildings and the fact that the rest of the buildings have to reconfigure, we’ll certainly see that there will be some softness on new projects but we see also opportunities, which makes that we are confirming our global guidance for 2021 for the whole group.

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

We’ll take -- we’ll move to maybe the last 1 or 2 questions.

Jean-Pascal Tricoire - Schneider Electric S.E. - Chairman & CEO

One thing I’d like to mention, you know that for buildings, we’ve developed over time, a very strong platform inclusive of consoles, it’s called EcoStruxure building operations, and assorted of really powerful digital services and what I see is that platform is taking market share at a time when buildings are digitizing.

So the work that we’ve done over the past, let’s say, almost 20 years, 15 years, to converge the world of building control on the world of power distribution at the time when buildings are becoming more electric, on digitizing the experience leading to a new level and connecting it to subscription-based services is really a pain, it makes digitization of existing buildings very flexible and very effective. So I think in that space, we are, thanks to the electrification, gaining ground and gaining market share.
Simon Toennessen - Jefferies LLC, Research Division - Equity Analyst

My question is on capital allocation. If I wanted to be slightly critical, you could say that your dividend is only up 2% at a time when your free cash flow is EUR 700 million above your target or 20% higher. In fact, the dividend yield you provide is just about 2% and below your key European peers and below even U.S. peers like Eaton or Emerson. Your buyback is still on hold given the deal, but we're still receiving cash from on disposals, and it doesn't sound like you're planning to do large deals. So let's say you invest organically a lot more in the business going forward. Should investors expect a higher cash return focus going forward? And maybe you can guide a bit more when you expect to return -- to restart the buyback?

Jean-Pascal Tricoire - Schneider Electric S.E. - Chairman & CEO

Yes. Hilary, do you want to take that?

Hilary Maxson - Schneider Electric S.E. - CFO

Sure. So on the dividend side, I would say that we've strongly been returning to shareholders. We chose to pay the dividend for 2019, quite early in the crisis in 2020 based on the strength of our cash flows. And we've chosen to, again, do an 11th year of progressive dividend for this year as well based on our strong cash flows and also how we feel about the recovery in 2021.

I spoke to earlier, I spoke to the fact that we keep the share buyback on hold over the short term because we expect we might see some working capital ramp up with the ramp-up in demand. H1 has a very low base of comparison, as you recall. So we can have some working capital trends in H1 that are much more negative than we'll see over the course of the whole year, I would say. But I also said that we will update on the disposal program. We expect to have updates, and then we'll update also on the share buyback program in the next quarters.

Jean-Pascal Tricoire - Schneider Electric S.E. - Chairman & CEO

Yes. Can I reinforce on that point? We have no problem to restitute cash flows to our shareholders one way or the other. And Hilary explained very well why we are balancing the equation. I want to mention one thing, we can speak about it now. But last year, in the middle of the crisis, we are the first, I think, company, at least in France, to maintain our dividend and to confirm it in the AGM. We are committed to our commitments, right? And we have to realize also that we live in a world where many stakeholders have been suffering during the past year. And you're going to ask questioning about our companies about the balance of value.

We are absolutely committed to on a progressive dividend, and second to be giving back the money to shareholders when we are secure about the way to allocate our capital. At the same time, I think we have to realize that there is a world out there, which is watching us, not Schneider, but all others and we have to be balanced in the way we allocate the capital in the short term.

Wasi Rizvi - RBC Capital Markets, Research Division - Analyst

One last on smart grids, actually. I was quite interested in the Egypt contract, but also maybe it's hard for you to quantify because the scope and the products vary, but how big a smart grid's for you now? How has that been growing? And what you think the outlook is like?
And I’m perhaps even more interested in how do you think you’re positioned versus your peers because you’ve got people who come at it from a generation perspective or a transmission or maybe just a pure software perspective? What’s the key differentiator for you? And are there any depths in your portfolio, you think, which makes you even stronger?

Jean-Pascal Tricoire - Schneider Electric S.E. - Chairman & CEO

Okay. On our vision on the grid, we’ve been very clear now for -- while since I have been appointed as CEO, that’s probably 17 or 18 years that we see the future of grid on the distribution side. Because this is where the complexity is developing, right? It’s between local and more and more decentralized intermittent sources of energy connecting with beyond the meter digital modulation, and all of this needs to be orchestrated during smart grid.

Frankly, 2020 has been a fantastic illustration of this where in a few days, in many countries, grids had, had to reorganize from industry on building usages that we’re falling in consumption by 20% to 40% and had to accommodate with homes that were always full, and we’re going up to 30% and 40%. So it has reminded everybody that always digitized could do it; always not, was in big trouble. That’s number one. So we are very clear that the place where things are happening is the distribution part, and this is where we have invested.

While we have a full offer, and we have a growingly full offer, we are the best at least said by analysts, the best advanced distribution management system in the world, look at the analysis that connects straight into our software and automation system or substation automation. We have GIS, we have EMA. If when we conclude or when we close the acquisition of OSI, OSI and AVEVA has both a very strong position with utilities, complementing the digital offer that we have in this space. And we are working every day with utilities to invent the new world of energy. And we supply technologies, they’re masters at operating their grids. And really that show the teamwork on those innovation is really important. And I believe that when you position the future of the game on the distribution side, we have a position which is really strong and getting stronger.

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

All right. Thank you, Wasi. And thank you, everyone. I think we have to -- we can go on for longer. But first of all, thanks, everyone, for the longer time frame. I think it was important that we took extra questions and extra time for this full year results. We look forward to the digital Roadshows management as well as IR which are coming up in the coming days and weeks. And look, feel free to get in touch with us, and we can schedule interactions as required. But with that, just wish everyone well. Jean-Pascal or Hilary, any closing remarks from your side?

Jean-Pascal Tricoire - Schneider Electric S.E. - Chairman & CEO

So thank you all. It’s been an incredible year. We are happy to report how we’ve dealt with it in terms of reactivity and in terms of actually accelerating our transformation. And we look forward to being back with you to keep you informed about the evolution of this transformation. Thank you, and have a good day. And happy New Year, by the way. Happy blue year.

Operator

This concludes today’s conference. Participants may now disconnect, and speakers please standby.
FEBRUARY 11, 2021 / 8:00AM, SCHN.PA - Full Year 2020 Schneider Electric SE Earnings Call

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