CORPORATE PARTICIPANTS

Amit Bhalla  Schneider Electric S.E. - Vice-President of Financial Communication & IR
Hilary Barbara Maxson Schneider Electric S.E. - CFO
Jean-Pascal Tricoire Schneider Electric S.E. - Chairman & CEO

CONFERENCE CALL PARTICIPANTS

Alasdair Leslie Societe Generale Cross Asset Research - Equity Analyst
Andre Kukhnin Credit Suisse AG, Research Division - Mechanical Engineering Capital Goods Analyst
Andreas P. Willi JPMorgan Chase & Co, Research Division - Head of the European Capital Goods
Benedict Ernest Uglow Morgan Stanley, Research Division - MD and Head of European Capital Goods Equity Research
Gael de-Bray Deutsche Bank AG, Research Division - Head of European Capital Goods Research
Guillermo Peigneux-Lojo UBS Investment Bank, Research Division - Executive Director and Industrials Analyst
James Moore Redburn (Europe) Limited, Research Division - Partner of Capital Goods Research
Jonathan R. Mounsey BNP Paribas Exane, Research Division - Analyst of Capital Goods
Philip John Buller Joh. Berenberg, Gossler & Co. KG, Research Division - Research Analyst

PRESENTATION

Operator
Welcome to Schneider Electric’s 2022 Q1 revenues. Thank you for standing by. (Operator Instructions) would like to inform all parties that today’s conference is being recorded. If you have any objections, you may disconnect at this time.

I will now hand the call over to Amit Bhalla, Head of Investor Relations.

Amit Bhalla - Schneider Electric S.E. - Vice-President of Financial Communication & IR
Good morning, everyone. Thanks so much to be with us today. We are here, of course, to report on our first quarter revenues. The press release and presentation is already with you.

You might have noticed that we have an additional announcement today. So joining us on this call, Jean-Pascal Tricoire, Chairman and CEO; and Hilary Maxson, Chief Financial Officer of Schneider.

So with that, I’m going to pass it over to Jean-Pascal.

Jean-Pascal Tricoire - Schneider Electric S.E. - Chairman & CEO
Thank you, Amit. Very pleased to be together with Amit and Hilary today in Paris. There is only one reason why I am participating to this opening of the call today, and this reason is to share on the status of our action in Ukraine, and more so, decisions that we are making for our Russian operations. And then I will really let the whole of the comments on Q1 to be done by Hilary.
But anyway, let me say a word about Q1. Very pleased with a very strong Q1, which for me is a good balance of what we do in volume and price on both sides. It's also a quarter that keeps seeing a good development of our strategic business, products, software, sustainability at a solid double-digit growth.

So let me go into why -- the reason why I wanted to speak with you. We are facing a very big crisis in Europe and the priority of Schneider facing this situation has been to support Ukraine, starting with our employees and we have in the country 150 employees, which represent an extended community of more than 500 people, including family members, contract workers of whom we've been taking care since day 1 of the war.

We have made donations, EUR 2.5 million. If you put together the donation of our employees of Schneider and its foundation, actually employees represent 20% of the value of this donation, entirely dedicated to taking care of our people and their families and refugee camps in the neighboring country. On top of that, we just concluded a EUR 4 million equipment donation to a utility to restore energy supplies in the parts of Ukraine, which have already been very affected by the war.

So first priority of action has been definitely on Ukraine and supporting our people and their communities in Ukraine.

Now let's speak about Russia. Russia represents for Schneider under the banner of Schneider Electric Russia 3,500 employees in Russia and Belarus. It represents 2% of our group revenue if you take the sum of actually Russia and Ukraine.

We have actually one of the characteristics of our Russian operation, it's largely a local business serving domestic market and really shouldered on local technologies produced by local factories. We have 3 factories and 2 distribution centers in Russia. And there is close to no export or supply chain sourcing from Russia and certainly no critical components coming from Russia.

Since the beginning of the war on February 24, we have suspended all new investments and we've put also hold of new international projects. And of course, at every step, we've adhered strictly to all sanctions on regulations, which keep escalating.

Now in the meantime, we've been working in detail on the situation trying to assess what was the best future for our Russian operation and we've done that in consultation with the local management. And we've come to the conclusion that the best was to transfer the ownership of our Russian operation and to sell actually our Russian operations. And we found from the beginning that the best owners of our business would be the local leadership team.

So at this stage, we've signed an LOI defining the steps on the main conditions of the transfer. We still have to go through a closing and that will go through the regulatory approvals in Russia, which we have to go through. But we have built a very solid understanding of what it takes to transfer the ownership of what we do in Russia to our local Schneider Russia leadership team.

This has a financial impact. It entails a write-off of up to EUR 300 million in net book value, and this is including all the aspects of transferring all of our Russian operations in the territory, whatever they're for. And then there is a noncash reversal of currency translation reserve, which is impacted by EUR 120 million. And all of these are current estimates.

So that's about what I wanted to communicate to you because, of course, it's a structural transformation for Schneider Electric.

I just don't want to miss the opportunity to be with you to speak also about China because I know that everybody is really looking at the situation there. And if I summarize, I think China is experiencing today what other parts of the world have experienced 2 years ago at the beginning of the COVID. What we are facing is, of course, a lockdown situation in Shanghai where we have 4 factories and 1 distribution center. We have seen in Q1 a minimal impact on every other operational plant.

There is a good news, though, is that we have been included in the first white list of companies which are prioritized to ramp up and to be back to their manufacturing capacity in the next coming weeks. The action taken, of course, have been in priority to supporting our colleagues in Shanghai, and we have 4,700 people in the region of Shanghai and really also maintaining a very strong connection with all the ecosystem, our suppliers, our partners, to make sure that when we ramp up, everything is well synchronized so that we do that efficiently.
Now you will see that the impact on Q1 is very limited. We expect an impact in Q2 and it’s going to be a significant impact. And we're going to be probably, in respect to some of our peers, more impacted because we have some core factories in Shanghai. So it’s really good news for us that we are now included in that list of -- in that white list of companies prioritized to ramp up in the first batch.

And you will see that we have formulated the hypothesis that the ramp-up of our capacity in Shanghai will happen through May. And with those kind of hypothesis, we still see China, while having a negative Q2, still expected to contribute to the growth of the group for the whole year of 2022.

So as you can see, the Q1 has been full of events that we had to deal with. But when we look at the global environment, and when we look at the impact of a very high energy price and probably likely to stay high for the next coming times, we see still everywhere in all of our business a strong demand that we can serve through our unique positioning. We see clearly all of the people who are facing high price of energy -- of fossil fuel energy and sometimes the threat of scarcity of that energy are really reverting even more to electrification and digitization for energy efficiency. So that’s another accelerator of the fundamentals of our market.

We’ve seen, in the wake of that, an acceleration of the demand for sustainability of software. You will see that our Services are below expectations in Q1, clearly because we prioritized our manufacturing on products for partners. And there, again, the characteristics of our model and especially the multi-hub part of it, makes it easier for us to react to those different conditions region by region.

What we are doing is very simple: in response to inflation, we respond with pricing. In dealing with the complexity of supply chains, we leverage our multi-hub setup. And in front of that need for more electrification to exit fossil fuel or to escape the scarcity of fossil fuel, the need for more energy efficiency, the need for more digitization, for more energy sovereignty or industrial sovereignty and on the express acceleration need for sustainability, we are ramping up our capabilities to respond with more EcoStruxure, more Software and more consulting.

So a very, I would say, moving environment. But seeing the strength of our fundamentals, our unique positioning on the organized response to all of those factors, we are confirming our guidance on the full year 2022 target.

With that, this is what I wanted to share with you really because of the evolution of -- that we’re going to proceed with of our Russian operations.

And now I would like to hand over to Hilary to speak about Q1. Hilary, the floor is yours.

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

Thanks, Jean-Pascal, and good morning, everyone. I’m happy to be with you here today to comment on our very strong Q1 2022 revenue numbers, and I’ll provide some more financial detail on the impacts of the recent events that Jean-Pascal just mentioned. And I’ll finish with our full year guidance.

I'll start with some highlights for the quarter. We had a strong start to the year with sales for the quarter of EUR 7.6 billion, up 10% organic, balanced well between price of around 6 points and volumes of around 4 points. The quarter was characterized by the same themes we saw in Q4 of strong demand somewhat mitigated into sales due to some continued worldwide supply chain constraints, although we did see a sequential reduction of impacts from supply chain in Q1 2022 versus the Q4 of 2021 and then agile pricing to offset inflation.

Both businesses contributed to the strong performance with Energy Management finishing the quarter at EUR 5.7 billion, up 10% organic and industrial automation finishing at EUR 1.9 billion, up 9% organic.

Turning to our strategic growth pillars where we also had a strong start to the year. In Products we’re up 13% with about 7 points of that from price, leaving us with a strong 6 points from volumes and with strong contributions from both businesses. Growth here is driven by demand in OEM and discrete automation, and across all key end markets in Energy Management, including residential and nonresidential building and distributed IT.
Software and Services grew 7% in Q1, driven by double-digit growth in Software and Digital Services where both AVEVA and Energy Management software started the year with strong performance, partially offset by low single-digit performance in Field Services where we were impacted by elevated COVID restrictions and component shortages, which we expect should moderate in going forward quarters.

Our Sustainability business grew double digit for the quarter with continued strong traction in sustainability consulting. And I’ll give a good example here on the work we’re doing in Sustainability. We’ve partnered with Johnson & Johnson, a key strategic customer for us, to support them on their 3-year journey toward carbon neutrality globally starting with the digitization of a manufacturing site they have in France to help decrease the site's carbon footprint through a reduction in energy consumption while heightening operational efficiency and shortening lead times. The France project aims to achieve a 10% reduction in energy costs and up to 25% reduction in carbon emissions.

We also remain focused on our own sustainability journey. We’ve given the full update on our Schneider Sustainability Impact index in our press release and also in the appendix to these slides.

A few highlights from the quarter: Our customers have now achieved 358 million tonnes CO2 reduction with the support of our EcoStruxure solution. So progressing nicely toward our goal of 800 million tonnes between 2018 and 2025. Also good progress on our goal on packaging to avoid single-use plastic and to use recycled cardboard. We're at 30% now and are only using recycled cardboard at all of our distribution centers in China, India and Europe. And Jean-Pascal already detailed the great work we’re doing through the Schneider Foundation and within the company to support our Ukrainian colleagues and families as well as the local community.

Turning to our sales bridge, you can see the plus 10% organic growth was driven across geographies, with particularly strong performance from North America and Rest of World. Our key countries continued with strong performance with U.S. and India at double-digit growth and China at mid-single-digit growth off of a high base from last year, particularly in Industrial Automation. Scope continued as a significant contributor with particularly strong contributions from OSI as well as great traction from the recent ETAP acquisition. The L&T acquisition in India, which we closed in Q3 2020, is now fully included in organic performance.

FX impact was a positive EUR 258 million in Q1 and full year impact on revenues is now estimated at a positive EUR 1.3 billion to EUR 1.4 billion was around plus 10 basis points on adjusted EBITA, and that’s based on current rates.

A few comments on our end markets before moving to performance by business. We continued to see broad-based demand across all of our end markets and for both businesses.

Starting with building. We see strong sales and strong demand in residential construction and renovation as well as nonresidential buildings, particularly in North America and Europe. Demand in data center and networks also remained quite strong with sales in pure data center tracking at high single digit, led by North America and Asia Pacific with some adverse impact from component shortages. Distributed IT sales remained double digit. In infrastructure and industry, demand is also strong across all of our key segments, including utilities, mobility and consumer packaged goods. Oil and gas and mining demand is also particularly strong, driven by the market environment.

We don't report on our orders numbers, but here we've included a slide showing trends in our Q1 orders year-over-year and versus the average of 2021. And you can see that demand remains quite strong across our key segments, and that holds true across geographies.

Turning now to Q1 results by business and geography. Energy Management grew by 10% organic versus 2021, driven by both price and volume at roughly the same breakdown at the group and with strong contribution from all geographies. North America was up 10%, with double-digit growth in the U.S. and Mexico and with strong demand across all end markets, but with component shortages continuing to impact sales.

Western Europe was up 5% organic with France and Spain up high single digit and Italy up double digits. Demand in Europe also remained strong across segments.
Asia Pacific was up 12%, with China at double-digit growth despite a high base of comparison. Some of this growth may have been due to distributors anticipating potential supply disruptions due to lockdowns. However, we believe underlying demand remained solid across all key segments. Outside of China, the rest of Asia Pacific was up double digit, driven by strong performance in India, Australia and Singapore.

Rest of World was up 15% with double-digit growth in Central Europe, Middle East and South America. CIS was adversely impacted in March due to the war in Ukraine and the resulting impacts to our businesses in both Russia and Ukraine.

Turning now to Industrial Automation. Revenues were up 9% organic, driven by both price and volume, again with similar relative breakdown at the group. North America was up 28% for the quarter, with strong double-digit growth in U.S., Canada and Mexico, driven by growth in Software and continued growth in OEM. Here, we start to see sequential improvement in Process Automation sales, reaching flat in U.S. and Canada and with continued strength in Mexico.

Western Europe was up 8%, driven by continued strength in discrete markets, primarily OEM.

Asia Pacific was down 2%, with China down low single digits against a high base of comparison but with a good demand momentum. The rest of Asia Pacific was flat with negative performance in Australia due to a large software deal there in 2021, offset by continued strong double-digit growth in India.

Rest of World was up 19%, driven primarily by OEM with double-digit growth across Middle East and South America. And CIS declined as a consequence of the war in Ukraine there and resulting impacts in both Russia and Ukraine.

I’ll finish with some specific points on our market dynamics and expectations, as well as some key assumptions underlying our reconfirmed guidance. First, as mentioned throughout the call, we see a strong demand environment across our segments and geographies and across both businesses, including strong demand in late-cycle segments. However, we do see heightened uncertainty in worldwide supply chain both as an indirect impact from the conflict in Ukraine, as well as lockdowns in China. For purposes of our guidance, we’ve assumed a gradual reopening of Shanghai in May after the holiday week there. And our exposure is primarily limited to within China itself in terms of supply chain.

Globally, we continue to assume sequential improvement of shortages in the second half of 2022, partly driven by our efforts in redesigning and in leveraging our multi-hub procurement organization and partly driven by a loosening of supply chain constraints worldwide.

We also expect continued inflation, including higher energy prices, at least through the next few quarters. And we’ve provided some information on our 2021 cost footprint in the appendix to this presentation to provide some context. We continue with agile pricing and we still expect to be net price positive for the full year, including electronics and freight.

Regarding Russia. Jean-Pascal already mentioned expected charges that will be booked below our adjusted EBITA line. Within our adjusted EBITA, we expect to continue to include results from Russia until we complete any transactions, which we expect to be subject to Russian local government approval.

Within this backdrop, we’re confirming our 2022 target of organic growth and adjusted EBITA of 9% to 13%. This is supported by expected organic growth in revenues of 7% to 9% and expansion in our adjusted EBITA margin of 30 to 60 basis points organic.

We do expect a specific impact on Q2 from Russia and China, and like we said in our full year call, we expect to revert to a typical weighting of more margin towards the second half of the year.

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

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

All right. Thank you very much, Hilary. We'll open up the Q&A now. (Operator Instructions) So I’ll hand it back to the operator for the first question.
QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Andreas Willi of JPMorgan.

Andreas P. Willi - JPMorgan Chase & Co, Research Division - Head of the European Capital Goods

Jean-Pascal, Hilary and Amit, my question relates to Russia. If you could maybe elaborate a bit more on the separation here and the sale you’re looking for. What could be the potential timing for this to close?

And how do you work with this potential new Russian entity going forward? I assume even though it was quite independent, there’s quite a bit of parent support still being provided in the past. Would you still basically provide that support to that new company? Or would you treat that basically as a fully separate stand-alone company with no connection anymore from Schneider?

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

Sure. Thanks, Andreas. So like you can see, we announced the LOI to sell our Russia electric operations today. Obviously, just a letter of intent, we’ve not yet reached signing there. Russia operations, for us, is that’s the vast majority of what we have in Russia, around 90% of our sales, a couple of other small legal entities and equity-level investment where we’ll look at similar options. And the EUR 300 million covers the entirety of Russia in terms of estimates.

Timing to close. LOI, we have to get to signing and then we have to get to close. In terms of signing, like Jean-Pascal said, we’ve worked out quite a bit of the details between ourselves and the LOI, but of course, there’s more to be done. We target to sign really between now and certainly the end of June. In order to get to a close, we’ll be subject to local approval by the authorities there, a bit difficult to predict exactly what the timing for that would be. So on the signing before June closing, it’s a bit difficult to predict.

In terms of how we work going forward, this is a 100% sale of our Russian entities. As would be typical through any disposal process, we would expect to have a number of transition services agreements, in this case also covering some of the legally binding projects that aren’t subject to sanctions that we have there today, for example. But we would expect that after those transition services agreements are closed over a period of no more than 12 to 18 months, that we would have no longer any contractual relationship or relationship between ourselves.

Operator

The next question is from Jonathan Mounsey of BNP Paribas Exane.

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

So really a topic, obviously, the guidance. Back in February, I think you had stated that you expected margin progress to be weighted towards H2. I’m not talking about seasonality here, but more the year-on-year margins in H1 and then what they’ll look like in H2. I think consensus has basically interpreted your statement as meaning no progress in H1, quite a bit of progress in H2. I think it’s about 90 bps on the consensus that came out just before this print.

That’s quite a lot of margin expansion given that since you gave the guidance, we’ve had the war, an acceleration in inflation, wider China lockdowns and you’re still saying net price positive as well.
So how does that work? How are you confident on that? Or is it that consensus has got the shape wrong? Actually, there will be some margin progression in H1 and so it doesn't have to be as aggressive on progression in H2.

And really, when it comes to price, have you done enough already to be net price positive? Or is there more work that has to be done to make that happen?

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

Thanks, Jonathan. So that's exactly right in the full year. We've talked a bit about the shape and I think we talked even a bit further to all of you throughout the normal sell-side calls. So here, quite a few things have changed and quite a few things have not changed, right? We have very strong demand, even perhaps a bit stronger than we'd anticipated at the beginning of the year. And then we have the events that we talked about today that are very specific to the Q2.

So although it's a different situation, net-net, I think that puts us in the same scenario with the H1 being a scenario where we wouldn't expect as much margin progression. In fact, depending on the Q2, we might expect even a bit of margin retrenchment over the course of the H1. And then we still feel comfortable with our full year guidance in the H2.

In terms of price, therefore, and price playing a big role in that, right, with RMI, with inflation and the things that we have there, you can see the moves that we've made in price, both in the Q4 and in the Q1. Is that enough to cover what we have in front of us? Frankly, no. I think we still have some more pricing to come into the Q2 and perhaps the balance of the year.

I talked more and more about agile pricing because that's what's necessary in this environment. So we're not always able to predict 12 months in advance, but that's good, right, because we're looking to do agile pricing and we're able to do that now even in the more Western economies.

So in terms of price, I think you would expect to see more throughout the rest of the year. And like we said, we expect to be net price positive over RMI, as well as freight and electronics.

Operator

The next question is from Alasdair Leslie of Societe Generale.

Alasdair Leslie - Societe Generale Cross Asset Research - Equity Analyst

So a lot of good color, I think, on the situation in China, so thank you. But I guess I'd just like to better gauge your confidence around the assumption of a ramp-up in May. Are you already seeing some improvements at any of those 4 factories in Shanghai?

And maybe you could elaborate a little bit just how significant is it you've been included on that white list of companies that are prioritized to ramp up capacity. Maybe elaborate a little bit on the process there.

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

Sure. So actually very, very similar to May of 2020, I think. We're watching the events in China very carefully. Of course, we can't perfectly predict what's going to happen. I think, in Shanghai, the authorities had originally thought they might open a little bit earlier. I told you what we anticipate today, which is more likely that the ramp-up would be throughout May, probably starting after the holiday week there. That's what we've assumed.
In terms of our factories, I think more and more we feel comfortable that we'll be capable of running. And then there's really -- the point for us in opening up in the lockdown is also our own suppliers are from this area. So it's important to us that there [is an] reopening there in May. That's what we've assumed in our assumptions today.

Operator

The next question is from Andre Kukhnin of Credit Suisse.

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

Can I switch to Software? And I wonder if you could talk about that 7% growth in the quarter, how that was by segment for you and whether that was aligned with your expectations for the business. And what should we expect for 2022 overall, please?

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

Sure. So the 7% number that you're quoting is actually our Software and Services number combined. So that includes -- I spoke to double-digit growth in Software and Digital Services and that includes AVEVA, as well as our Energy Management Software businesses. And both of those are performing strongly. So both of those are contributing to that double-digit growth that I talked about.

And then Field Services is where we're at lower single-digit numbers. And again, I've said because of restrictions for COVID and also because of component shortages, Jean-Pascal mentioned it as well, and we expect that to be moderating throughout the balance of the year.

So in terms of -- I think those are the comments that we made on the Software and Services that we would expect that at least the Field Services component would be moderating throughout the rest of the year. And at the moment, we prioritize the Products and we'll consider that balance throughout the rest of the year.

Operator

The next question is from Phil Buller of Berenberg.

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

I was wondering if you could comment on the market share evolution in terms of volume. It sounds like you did around 5% in Q1. It's obviously still too early to read a trend this earnings season, not everyone's reported. But I think that's above what we're hearing from peers in terms of volume.

So do you still feel as though you are gaining some share in terms of volume? And if so, why is that? Is this the multi-hub approach allowing you to get things out the door faster than peers in places like North America perhaps? Or am I overthinking that?

And also, I know you don't fully disclose the backlog at Q1, so thanks to your slide 13, but just to be clear, the growth in orders, is this still expanding well above the growth rate in revenues?
Hilary Barbara Maxson - Schneider Electric S.E. - CFO

Yes. So I think in terms of market share, I can't really comment directly, certainly not just based on 1 quarter. But I would say that the strong volume growth that we saw we're quite happy with as well as the price. Like we said, we think we had a really good balance of that and a strong Q1. So overall, happy with the performance that we see for Q1.

In terms of the backlog, you're right that we don't directly talk to orders. We only give backlog, I think, once per year. But you can surmise, I think, based on what we've said that we have stronger growth in orders than we do in sales. I said that we have somewhat mitigation into sales in the Q1. So you can mathematically figure out what that could mean in terms of backlog.

Operator

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

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

So you mentioned a 7% price increase for Products this quarter, which is, well, obviously significantly higher than what you've ever achieved in the past. So based on your discussions with customers and distributors, how much more do you think you can do before we start to see some demand distraction? So that's question number one.

And if I may, just a quick second one. Clearly, we've seen a surge in electricity prices recently and there are some perceived risks of energy shortages in Europe. So have you seen any signs of acceleration in demand for your energy efficiency solutions since the war in Ukraine started? I mean do you have any evidence of this on the ground or is it just too early?

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

Understood. So in terms of price increase, I think you're right that between the carryover from last year and what we've done already in Q1 translating into that 7 points of the Q1 in Product, probably this is a historical high for us.

In terms of discussions with customers, I think we're still in a scenario where, in fact, supply is really king. Customers are very much focused on getting deliveries. So at the moment, we don't see any signs that, that price inelasticity that we spoke about during the full year call has -- there's any shift in that.

Conceptually, theoretically, academically, I agree with you that indeed there needs to be some kind of shift at some point between price demand and -- price and demand. It seems that we're definitely not to that point yet. And we, of course, are carefully having discussions with our customers and seeing what's going on.

But I think the underlying trends that Jean-Pascal talked about are very, very strong in electrification, in digitization and at the moment that's very, very important to the customers that we've seen. And in a lot of cases, we're not a huge percentage of the bill of materials of customers, but meanwhile, we're a critical path item. So that's probably important to note.

In terms of whether we see any signs of customers being more excited about energy efficiency, I would say, indirectly, even today, yes, I think that the increase in energy prices was accelerated by the war. But I think that people had seen many trends, right, that would be driving them to move into electrification, into efficiency, into digitization, including sustainability. Those are obviously very, very tied together. So I think indirectly, probably some of the strong demand that we see is a bit tied to that, but it's early days with the implications from the war.
Operator

The next question is from Ben Uglow of Morgan Stanley.

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

So coming back on the sort of evolving China situation, I guess 2 things. Could you talk about the underlying demand from customers in China? I think the press release highlights a sort of strong underlying OEM demand, for example, in Industrial Automation. And I was wondering if you could just give us a sense and color around customer groups and sectors and how -- ex lockdown effects, how you would describe the appetite for equipment in China. So that's the first part.

The second part is can we be a little bit more specific? I guess we can get it from the employee numbers, but -- around Shanghai versus the rest country. China is a big area, and obviously, what may be improving in Shanghai may not be improving elsewhere. So could you just give us a sense of what you're seeing outside the Shanghai area?

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

Sure. So in China, we talked a little bit about the demand in OEM. And I would say there we've also spoken about details in the past, so it's early days, obviously, with the lockdown. But overall, in terms of demand, what we still see is that there still is a slowdown in residential. And if I can remind you there, our overall exposure looks very different in China than the rest of the world in terms of building versus the rest of our end markets.

So building for us is probably only in the low 20s percent with only 1/3 of that residential. So not really a key segment for us. But that's where we see and saw a more market slowdown with continued solid demand really across the board -- strong demand in most cases across the board in China.

In terms of the impact from lockdowns among particular sectors, at the moment, I would say the impact from lockdowns for us is more supply oriented as opposed to demand oriented in China. And maybe to a bit of your second question, I think Shanghai, and I can't quote the numbers perfectly, but I think Shanghai itself contributes to a big portion of the GDP for China itself and a lot of the supply and a lot of the manufacturing.

So for us, the lockdown is actually quite tied to supply. We feel comfortable that there's solid demand trends there that, like Jean-Pascal said, that we would get back to China being a contributor for growth in 2022 despite the impact in the Q2 that we've assumed there.

For us, the impacts from the rest of the country today would be more limited than Shanghai. Shanghai is a big base for us. So it would be more limited today. And at the moment -- we don't see, at the moment, lockdown in Beijing happening today. We're certainly watching carefully. But again, more limited impact for us in the rest of the country versus Shanghai directly.

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

All right. Thank you, Ben. (Operator Instructions)

Operator

The next question is from James Moore of Redburn.
James Moore - Redburn (Europe) Limited, Research Division - Partner of Capital Goods Research

Yes. I wondered if I could ask about IA. You mentioned in the press release Process & Hybrid flat in the U.S. and down in Europe and APAC. I wondered if you were to take the whole Process & Hybrid business on a global basis, you could help us with the growth rate, I'm assuming a sort of low single-digit organic decline in the quarter. Is that fair? And can you say whether that's something you expect with tenders and orders to improve? I would have thought we might have started to see a bit of an improvement in Process given the high oil price, et cetera.

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

In terms of the overall Process Automation business, so not mixing with Hybrid, I think we do see a flattening in the quarter. So we're close to back to growth in terms of overall Process business.

Operator

The next question is from Guillermo Peigneux of UBS.

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

I wanted to ask about the shortages, semiconductor shortages and other shortages, that you've seen through the quarter and especially in Process Automation where you were hit a little bit more than on the other divisions. Do you see any easing of the situation? Do you have any increased visibility as we go forward?

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

So in terms of shortages, you're right, and I should have mentioned it in the prior question. In fact, there is an impact in our Process Automation business in terms of shortages. So overall, in shortages, I mentioned that there is a sequential lower impact from shortages in the Q1 of this year versus the Q4 of last year. So in terms of estimated points of, let's say, opportunity in terms of sales. And I also mentioned that we expect a sequential improvement in the shortage environment starting in the H2 of this year.

Realistically, we think that the shortage environment, particularly associated with electronics, will probably continue and could continue even beyond 2022. But we've taken everything that we know today and everything we account for today into our guidance ranges.

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

All right. I think with that, we're probably towards the end of the time. You'd see on the screen that we have a bunch of chances to engage through conferences and I'm sure we have meetings as well. So please reach out to the team, and we'll be very happy to continue the discussion.

But thank you for your time this morning. And with that, we close the call today.

Operator

Ladies and gentlemen, thank you for joining. The conference is now over, and you may disconnect your telephones.