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PRESENTATION

Operator

Welcome to the Schneider Electric’s Third Quarter 2022 revenues. 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. I will now hand you over to Amit Bhalla, Head of Investor Relations.

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

Well, hello, everyone. Very happy to have you join us this morning as we talk about our third quarter revenues. I’m joined by our CFO, Hilary Maxson. We’re going to get started. The slides are on our web page, and you can refer to them if you’re not following on the webcast.

Just a very quick reminder of the disclaimer on Slide 2.

I’m going to hand it over to Hilary, and then we’ll make sure to keep enough time for your questions. Hilary, over to you.

Hilary Barbara Maxson  Schneider Electric S.E. - CFO

Thanks, Amit, and good morning, everyone. I’m also happy to be here with you today to comment on our Q3 2022 revenue numbers and to update you on our outstanding offer for the remaining minority shares of AVEVA as well as other portfolio actions.
Starting on Slide 3 with some highlights on the top line for the quarter. Q3 continues with strong growth with third quarter revenues of EUR 8.8 billion, up 12.1% organic versus a strong Q3 2021 and despite continued impacts from supply chain and impacts from Russia, where we completed our exit from our Russian operations at the end of the quarter. Both businesses contributed with Energy Management finishing the quarter at EUR 6.8 billion, an organic growth of 12.1%; and Industrial Automation finishing the quarter at EUR 2 billion, an organic growth of 12%.

Moving to the detail of our strategic growth pillars. More products continued to progress strongly, up 11% for the quarter, driven by both businesses and with strength in nonresidential building and OEMs. Software was up 14% for the quarter, supported by Energy Management Software and Digital Services, both up more than 20%, with our agnostic software companies in electrical design and build plus our EcoStruxure Advisors all performing strongly.

AVEVA is focusing on its transition to subscription and drove double-digit ARR growth. This has a negative impact on its sales and profitability, which we expect to last for some time.

Field Services were up 8% for the quarter with relatively higher performance in Energy Management services and with an uptick expected in Industrial Automation services in coming quarters, driven by the recovery we see in our long-cycle business.

And our Assets under Management, where we’re particularly focusing on our monitored and advised assets, which drive recurring revenue, continued to progress strongly, up 29% to 6.8 million.

We continued to see strong double-digit growth in our Sustainability business, up more than 20% this quarter with a continued ramp-up in Sustainability consulting.

And I’ll call out an exciting update we have here on the prior announced Gigaton PPA project we’re collaborating on with Walmart to provide increased access to renewable energy for Walmart’s U.S.-based suppliers. Last week, we announced the first set of suppliers to enter into an aggregated purchase of renewable energy from a wind farm in Kansas. Combined, this purchase is equal to 62 megawatts of new wind power capacity, so it’s a great start to the program.

Turning now to our own sustainability journey. And what we do here for our customers and for our own operations is more important than ever, particularly as we see customers continuing to focus on their sustainability goals even with the current macroeconomic backdrop, so this continues to be a great opportunity for us.

We achieved a score of 4.54 on our Schneider Sustainability Impact index as of Q3, tracking well towards our 2022 target of 4.7 and our 5-year target of 10.

Key drivers of our performance in Q3 were our SSI #2, where we’ve now helped our customers save or avoid 407 million tonnes of carbon emissions, and where one of our key products for delivering this result, our Altivar variable speed drives, were named the Most Climate-positive Carbon Handprint Product by the Vancouver Economic Commission and Climate Leadership Coalition.

Our SSI #5, where we achieved 41% of our packaging transformation goal to eliminate single-use plastic and shift to recycled cardboard; and our SSI #9, where we’ve now provided access to green electricity to 37.4 million people, well on track towards our 5-year target of 50 million people.

I’ll also mention that during the Q3, we became one of the first companies in the world to have its net zero commitment road map validated by SBTi, in line with the new corporate net zero standard.

And the full detail of our sustainability performance is available in our press release and in the appendix to this presentation.

Turning now to the details of our Q3 revenues. As mentioned prior, we finished the quarter at EUR 8.8 billion in revenues, up 12% organic year-over-year. Sales were adversely impacted by around 2 points from Russia where we completed the sale of our Russian operations at the end of the quarter. And with the closing of that sale, we’ll deconsolidate Russia going forward.
Excluding Russia, volumes contributed around 2.5 points to growth in our top line with a step-up in industrial volumes quarter-over-quarter due to continued easing of supply chain constraints. All of our regions contributed to our strong organic growth with Rest of World adversely impacted by Russia. Excluding Russia, Rest of World would be at 12% organic growth.

Scope impacts are now immaterial due to the shift of OSI into organic results as of Q2, and FX continued to impact strongly our reported revenue growth. Based on current rates, which remain volatile, we'd expect positive impact to top line for the full year of EUR 1.7 billion to EUR 1.8 billion and around plus 20 basis points to adjusted EBITA margin.

Turning now to some highlights by our end markets. On this slide, we speak to the combined end markets of Energy Management and Industrial Automation, and although we don’t report on orders, we’ve incorporated some comments on the demand environment.

Starting with buildings. We continued to see a strong sales and strong demand in nonresidential buildings with customers continuing to focus on energy transition and energy efficiency, digitization and sustainability. Residential building sales remained positive with particular strength in the U.S. where demand continued to stay strong and with some as-anticipated slowdown in demand, particularly in Western Europe and China. Demand for residential was also impacted by some distributor destocking, although sellout trends remained good and accelerated throughout the quarter.

Data center and networks also remained strong with strong double-digit sales growth and continued acceleration in demand for data center in the Q3. Sales in distributed IT remained positive despite supply chain constraints and with some softness in consumer-led categories amplified by distributor destocking.

In infrastructure and industry, demand trends continued to be strong across most sectors and geographies.

So overall, for the quarter, broad-based strong demand continued to support a buildup in our backlog despite the as-anticipated slowdown in residential markets and some distributor destocking, so we continue to be in a primarily supply-constrained environment.

Turning now to Q3 results by business and geography. Energy Management grew by 12.1% organic despite some continued supply chain constraints and impact from Russia. North America was up 18% with double-digit growth in U.S. and Canada and mid-single-digit growth in Mexico driven by broad-based demand across our end markets, including residential building and supported by some easing and supply chain constraints.

Western Europe was up 14% organic with double-digit growth in all key geographies, excluding Germany, where we were up high single digits. Sales were driven by strong demand across our end markets with some deceleration in residential building and consumer-led distributed IT also impacted by distributor destocking. And Energy Management Software saw high single-digit growth.

Asia Pacific was up 9%, with China at mid-single digits with growth across all its end markets with the exception of residential building, supported by both demand and backlog execution with an easing of supply constraints after the Q2 lockdown.

Outside of China, the rest of Asia Pacific was up double digits, driven by strong performance in all key geographies, particularly Eastern Asia, and supported by growth in nonresidential building and data center. India was up mid-single digit with strong growth in buildings, including residential buildings and in data centers, with some decline in sales in consumer-led distributed IT versus a strong baseline.

Rest of World was up 2%, impacted by Russia with double-digit growth in most other key geographies, including Middle East, South America and Central and Eastern Europe and with broad-based growth across the portfolio of Energy Management offers.

Turning now to Industrial Automation. Revenues were at EUR 2 billion, up 12% organic despite continued impacts from global electronic component shortages in Russia. North America was up 9% for the quarter with double-digit growth in both discrete and Process & Hybrid supported by a project in Mexico, but with Process Automation now positive in all 3 countries due to a translation of the demand momentum in our longer-cycle business now into sales.
Western Europe was up 15%, supported by some easing in supply chain and with double-digit growth in all key geographies with the exception of the U.K., where we were up mid-single digit, driven by continued strength in OEM as well as momentum in Process & Hybrid now translating into sales.

Asia Pacific was up 18% with China up double digit and rest of Asia Pacific up more than 20%. In China, we saw continued strong sales growth in discrete automation driven by OEM demand and strong backlog execution and good momentum in Process & Hybrid. India was up strong double digit against a strong base of comparison from 2021 with strong growth in discrete, particularly with OEMs. The growth in rest of Asia Pacific was also driven by strength in OEM and Process & Hybrid.

Rest of World was down 2% impacted by Russia, but with double-digit growth in most other key geographies, including Middle East, Central and Eastern Europe and Africa driven by discrete automation as well as Process & Hybrid, particularly in Middle East and Africa. South America grew mid-single digit supported by Process & Hybrid with some deceleration in discrete.

I now move to Slide 10 to give you an update on our portfolio disposal program and evolution of our share buyback program. If you recall, we set up our current portfolio disposal program in 2019 with an ambition to sell businesses with revenues totaling between EUR 1.5 billion to EUR 2 billion by end of 2022. And with 1 quarter remaining, I’m happy to share with you that we’ve now reached this target range.

The main disposal we’re announcing today is Telemecanique Sensors, our legacy industrial sensors business, which generated revenues of EUR 280 million last year. This transaction values the business at EUR 723 million and is expected to close in H1 2023.

And as you can see on the slide, we also disposed of some smaller businesses, including our Eberle Controls business and ASCO load banks during the quarter.

Including these transactions, we’ve now disposed of businesses with cumulative revenues of EUR 1.5 billion since we announced the program in 2019.

In Q3, we also closed the previously announced sale of our Russia operation, which will subsequently be deconsolidated from our accounts. Just a small note that under the accounting for this transaction, there won’t be a restatement of historic periods. So the year-over-year impact of the deconsolidation will be treated as scope starting in Q4. And the financial impacts of this transaction are in line with our previously communicated expectations with an expected write-off of net book value of up to EUR 300 million and a noncash reversal of the currency translation reserve associated with these activities now fixed at EUR 19 million loss.

On the buyback, I reiterate we remain committed to the completion of our current program of EUR 1.5 billion to EUR 2 billion. In light of the AVEVA transaction, we’ve been restricted on further progress on the buyback in Q3, but we do expect to complete the current program in the coming months.

Moving now to Slide 11 and to provide you with an update on the AVEVA transaction, which we announced in September. We’re moving ahead under the rules of a U.K. scheme of arrangement for this proposed transaction. What this means is that the completion is conditional upon, among other things, a shareholder vote of all minority shareholders expected on November 17. For this transaction to be approved under this scheme of arrangement, it requires the support of a majority in number and 75% of the minority shareholders to participate in the vote. As things stand, this is our preferred transaction structure, although the U.K. rules do allow alternatives.

As explained on the call we held with you in September and reflected in the transaction documents agreed with the AVEVA Board, with this transaction we’ll be in a position to accelerate the execution of our software growth strategy and to ensure the acceleration of AVEVA’s transition to a hybrid cloud-based subscription model.

Of course, like any acquisition, while the underlying strategic rationale must be strong, the transaction also needs to be done on terms that make sense from a financial perspective. Our offer price delivers a very significant premium in cash to the minority shareholders in an increasingly challenging environment. And as you know, this transaction is recommended by the Independent Committee of the Board of AVEVA.
We think there’s opportunity here to more rapidly deliver a unique proposition for our customers combining energy and process data. However, this is not an absolute must-do deal for us, and we could also maintain our 59% ownership. We look forward to updating you as to the progress of this proposed transaction and on our plans for the business in either case and in more detail in due course.

I’ll finish with an update on our market dynamics since our half year results. First, we continue to see a strong demand environment across most segments and geographies, driven by accelerating energy transition trends, continued acceleration in digital and further recovery in late-cycle segments. And this strong demand continues to support a good environment for pricing going forward despite our expectation that certain inflationary pressures may ease.

We do start to see some slowdown in demand in residential buildings, as expected, particularly in Western Europe and China and in the consumer-led piece of our distributed IP offer. However, backlogs remain high globally even in consumer-led segments with no signs of cancellation, so we expect a partial offset as supply chain constraints continue to ease. And demand across the rest of our end markets remain strong.

So overall, we primarily remain in a supply-constrained environment with continued strong momentum in demand. So we’ll continue to leverage our unique global supply chain setup to execute in the near term and to focus on redesign and our supplier strategy to ensure continued success in the medium term.

With this backdrop, we’re confirming our full year 2022 target of organic growth in adjusted EBITA of plus 11% to 15%, supported by organic growth in revenues of 9% to 11% and expansion in our adjusted EBITA margins of 30 to 60 basis points. Although I’ll note that due to the inflationary environment, we currently expect to finish towards the lower end of that adjusted EBITA margin expansion range.

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

**QUESTIONS AND ANSWERS**

**Operator**

The first question, sir, is from Alasdair Leslie of Societe Generale.

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**Alasdair Leslie** - Societe Generale Cross Asset Research - Equity Analyst

Just maybe a few questions, I suppose, on the digital flywheel businesses. You saw very strong growth in EM software. That’s now, I think, 40% of your software business. Just kind of thinking how sustainable is that growth more than 20%, was there something one-off in the quarter?

And then maybe if I can just pick up on the comment you made about strong progress in monetizing sort of digital Assets under Management. I just wonder if you can elaborate on that a little. Are you seeing kind of an uptick in interest in the assets — sort of asset management and predictive maintenance services, those kind of things, due to the energy crisis? And how much is that already reflected in your growth? Do we see the benefits now? Are they going to flow through in the coming quarters?
Sure. So indeed, we were quite happy to see the continued acceleration of the growth in Energy Management software. I think that’s something that we’ve been working on with our agnostic software companies over the past quarters and past years. And so I think that, that’s not something associated with one-offs with this quarter and we’re quite pleased to see it.

Now that said, we would expect that all of our agnostic software businesses will, at some pace in over some time frame, start to make a shift to subscription. So similar to AVEVA, we may have some differing growth rates among various of the Energy Management software in the future, but that’d be included in the Capital Markets Day guidance that we gave.

In terms of the Assets under Management, I think we've talked a few times in the past that we have basically a couple of major categories of Assets under Management. We have the monitored and advised assets under management, where we're driving recurring revenue, and we continue to see great progress there, including similar rates of growth that we see at the overall Assets under Management. Part of the Assets under Management we're also including -- and those include -- those are more than 60% of the Assets under Management that we have today.

The rest is going to be logged assets, so we're not yet driving recurring revenue, but important from a Field Services standpoint, identifying our assets in the field and opportunity to shift those to driving recurring revenues becoming monitored and advised in the future. So great momentum there as well.

And again, that's something -- that progress and that strategy is something we've taken into account into our Capital Markets Day.

Operator
The next question is from Phil Buller of Berenberg.

Philip John Buller - Joh. Berenberg, Gossler & Co. KG, Research Division - Research Analyst
I know you scale things like [resi] by geography and also product versus service and software. But I was hoping you could help us scale some of the other buckets which you're referring to when it comes to the outlook. Can you talk about a continuation of the accelerating energy transition trends? And you talk about a deceleration in consumer-linked segment, which still makes sense intuitively, but I'm trying to get my head around those buckets.

So I was wondering if you could help us scale as a percentage of sales, let's say, as to how much is consumer-linked segments. Or how big as a percentage of revenue would you say the accelerating segments towards energy efficiency are, please?

Hilary Barbara Maxson - Schneider Electric S.E. - CFO
Sure. Of course, it's not perfect. But what I would say here is so sales growth in residential remained good overall. However, like we called out, we did see a deceleration in demand in Q3, mostly in Western Europe and in China and a few other countries. You can see them in the press release. Demand in the U.S., parts of Asia Pacific and Rest of World remains robust.

Our overall exposure to residential globally, we've talked about in the past being around 1/3 of our overall building end markets, so we'd estimate the total exposure globally, including all markets that are both in good demand trends as well as those that are a bit weaker today, probably around 10% to 15% with relatively lower exposure in China.

So our best estimate in terms of overall consumer-linked exposure in entirety, we would put at 15% to 20%. So really, we consider that the majority of our end markets remain in very strong demand, driven by the mega trends that we've discussed.
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 focus on the guidance construct? You obviously chose not to move it this time around and we've got a range there, and just looking simply at what you've printed for Q3 and that the run rate kind of for Q4 staying at the same pace, it kind of clearly points to the top end of that 9% to 11% organic. So I just wanted to check whether that makes sense to you and whether there is maybe some notion of moving within the range without moving the range itself.

And is there anything kind of beyond what you've already put out to us on expectations for Q4 trends that we need to look out for in Q4 that might catch us out in this math?

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

Sure. So as you know, the formal guidance that we gave is the adjusted EBITA growth of 11% to 15%. Underneath that, what I would say is that just in the H1 call, we already upgraded our top line guidance to 9% to 11% and then we've stuck with the same margin guidance throughout.

So what I would say there is that we do still remain in a dynamic and uncertain environment from a supply chain standpoint. So that’s probably the key point that I would say that we see a bit of uncertainty that would -- that I would point to. Other than that, you're right that, as of the Q3, we’ve continued quarter-over-quarter to track well in terms of supply chain and we hope that’s the case for the Q4 as well.

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

Maybe just to follow up on this, but more on the margin side of the guidance. Because in your comments for Q4 you mentioned gradual easing in supply chain challenges, some deceleration of inflationary pressures, a positive price/cost equation and continued good volumes. So all of this bodes pretty well for margins in the second half, at least in theory, right? So is it fair to say that you’re now perhaps leaning more towards the upper end of the margin range rather than the lower end? Or is there something I’m missing here?

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

No, I think -- maybe I went over it quickly. But I did confirm in the script that we currently expect to finish towards the lower end of the adjusted EBITA margin expansion range. We do expect to see continued supply chain easing. We do expect to start to see some lower inflationary pressure, particularly in raw materials. We are hedged, however, if you recall, on a quarter-to-quarter basis over 12 months. So that easing in raw materials will impact us more in 2023.

So indeed, between pricing, where we certainly expect to remain net price positive for the full year versus raw materials as well as a couple of those inflationary elements that we’ve pulled out in productivity, we still expect, because of timing there, to finish towards the lower end of the range.
Operator

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

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

I wonder just thinking about actually you don’t disclose orders, but you have talked about book-to-bill. The fact early on in the year that revenue growth was lagging because of the -- but you did have a very strong order intake, obviously, supply chains away. I guess you’re starting to hit tough comps now for orders. I’m just thinking about both year-on-year and sequentially, are orders still up on that basis year-on-year and sequentially?

And also, what’s the book-to-bill like now? Is it still above 1 or is it below 1? And could -- as the comps get increasingly tough, are we expecting the book to bill to fall below 1, say, in Q4 or through into the early part of next year? And if it does, I think you mentioned at the end of your script the backlogs remain high. How long before that backlog becomes exhausted and revenues would come under pressure?

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

Indeed. So I did mention that, in fact, we continued to see record backlogs in Q3, so we continue to see positive evolution from a backlog standpoint. We don't report on our orders, but I think that gives you a good sense. Also, I talked about demand sort of as a proxy for what we're seeing on the ground order.

So in general, strong demand across the board, aside from those few points that I called out that aren't enough to make a difference in the overall demand equation. So at the moment, we still remain in that strong order environment with backlogs increasing.

Now I think what you're asking about is, look, some of that backlog increase is probably associated with an increase in delivery times because we have supply chain constraints and some of that is associated with demand from the market and we agree that that's the case. In the supply chain-constrained areas, we would anticipate at some point to see some normalization from an order standpoint. You might see in your orders technically they fall into negative range. But at the moment, we continue to see a strong demand environment. So we don't see a scenario where, on a whole, we would expect to have a loss of momentum in overall sales on a going-forward basis.

Operator

The next question is from Simon Toennessen of Jefferies.

Simon Toennessen - Jefferies LLC, Research Division - Equity Analyst

Hilary, I just wonder if you could talk a bit about trends in discrete a bit more. I think you mentioned on the IA slide that you’re seeing it slowing in some parts. You obviously mentioned the late cycle recovery continuing in your Q4 outlook. But maybe a bit more color on discrete trends also by end market would be helpful.

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

Sure. So probably the couple of areas that I might cover there, maybe there are probably -- the one that I would point to is the demand dynamic that we’re seeing in China. So in China, we saw a good turnaround in sales after the Q2, supported by both demand and supply chain recovery. In demand, we continued to see momentum across many segments with the exception of construction type. So that includes residential, but also some OEM segments correlated to construction like HVAC, hoisting elevators. And then our equity investment -- equity method investment, Delixi, is also impacted.
Good news, despite those weaknesses, we’re now positive year-to-date in respect of both orders sales, and we expect to finish the year positively and with good momentum in 2023. But that’s the one area that I would probably point to a deceleration from an OEM standpoint in demand. The other one, I think, that we called out was one of the countries in South America. But in general, we continue with good demand trend.

Operator
The next question is from James Moore of Redburn.

James Moore - Redburn (Europe) Limited, Research Division - Partner of Capital Goods Research
Can I please follow up on Mr. Mounsey’s last question, please. I mean if we have an industrial downturn globally next year, I’d just like to understand a little bit how you think you might behave this time compared to previous cycles. Schneider’s always seen a downturn in the past when we had the cycle, but I guess you’ve increased your percentage of revenues that are growing more secularly.

I wondered if you could give us a flavor for what percentage of revenues you think are growing above underlying end markets like green, and how much that’s changed really over the last 5 or 10 years? I’m really trying to decouple the secular versus the cyclical.

Hilary Barbara Maxson - Schneider Electric S.E. - CFO
Yes. Understood. So for us, I think that — we think and obviously we run many scenarios, right, so there’s lots and lots of different scenarios that everyone can talk through. But we believe that most of our markets remain with good momentum even in that scenario based on the mega trends that we’ve talked about. It only accelerated really with the issues with Russia and Ukraine with countries more focused on energy costs, on energy securitization.

So I called out the level of portfolio that we expect is more consumer-linked, that 15% to 20%. As you know, we — like you mentioned, we’ve also shifted our revenue mix over time to more recurring revenue, more software. Much of that digital flywheel we think is more resilient than just purely cyclical than it is in the past.

So I won’t give a particular breakdown of numbers, but it’s really that 15% to 20% we think is probably more cyclical with the mix in the rest where we would expect to continue to see a good amount of momentum based on the mega trends that we’ve talked about.

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
I was hoping you could elaborate just a little bit on some of the comments around the AVEVA transaction. Hilary, I think you sort of said that this is our preferred transaction structure, but under U.K. regulation there are alternatives. So I guess what I want to know is what are you sort of implying there? What could be the alternatives?

And then in terms of this being a sort of "not a must-do deal," it is a major capital commitment. It’s a EUR 4 billion sort of cash outflow from Schneider. If you weren’t to do this deal for whatever reason, do you have other M&A opportunities in the pipeline that you could simply switch to? So if it’s not a must-do deal, what else could you be thinking about?
Hilary Barbara Maxson - Schneider Electric S.E. - CFO

So again, on the call, I think I discussed about the opportunities that we see there and we talked about that in September as well. As to the alternatives, there’s a number of technical possibilities there. I don’t want to get into those today. We’ll expand upon those only if we expected to move in that direction.

In terms of the not must-do, that’s frankly how I feel about every acquisition, right? The strategic rationale has to be there, but the financial rationale has to be there, too. And if they don’t meet, they simply don’t meet.

In terms of other M&A opportunities, we’ve said in the past, we said in September and I think it continues today that, in general, we’re happy with the portfolio that we have. In fact, we view the potential proposed AVEVA transaction sort of as a reflection of that. So in terms of other M&A opportunities, there’s nothing that would be glaringly jumping out at us at the moment.

Operator

The next question is from Guillermo Peigneux of UBS.

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

Guillermo from UBS. Maybe I wanted to elaborate a little bit on the net pricing comments. If I go back to your previous half year results, you used the word aspire to be net price positive, whereas you use now the word expect or the word expects to be a net price positive. Do I sense that there’s a little bit more conviction on today’s statement versus previous statements? And how can we put a number to that conviction, if I may?

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

Well, good spotting. I’m not sure that we actually changed that necessarily on purpose. But what I would say is that anyways we’ve already gone through 3 quarters of the year, so we have far more visibility now than we did at the beginning of the year. So we do expect to be net price positive.

Numbers-wise, we’ll definitely show you at the end of the year like we usually do in the full year results.

Operator

The next question is from Alexander Virgo of Bank of America.

Alexander Stuart Virgo - BofA Securities, Research Division - Managing-Director

I guess it was just question of expectation and thinking about how your organic growth has actually accelerated versus Q1, Q2. And I suppose a little bit to Andre’s question earlier, what is it that surprised you about this? What is it that you're expecting in terms of softness to manifest in Q4 as you work through the back end of the year? So surprised in Q3 for [expectations]. And then where do you expect to see the greater softness in Q4, is that just on the resi side?

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

So I think in Q4, the comments that we said there was the entirety of what we do expect. So some continuation potentially of the -- of what we already called out in terms of consumer-led weakness.
From our perspective, the expectation primarily per plan. One thing I would call out is interesting to see a bit of distributor destocking despite good sellout. But anyway, that is what it is. And in general, and I think we talked about an expectation and slowdown in residential already over the first quarters of the year, so on plan.

Operator
The next question is from Lars Brorson of Barclays.

Lars Wauvert Brorson - Barclays Bank PLC, Research Division - Director
I wanted maybe to just touch briefly on the data center piece, Hilary. I think it's clear that you're seeing some destocking in networks. Maybe you can help us understand whether that's behind us. But on the pure data center side, that 10% or so of the business, you talked about accelerating demand, which I take to mean orders that's quite consistent with what we've heard from U.S. peers so far this earnings season.

Where are lead times now? And backlog currently, are you taking orders, some of the longer lead time items, within that business for 2024 at this stage?

And maybe just on the downside, I'm trying to understand what a downside might look like in your data center business. Should we think of that as being sort of roughly 50-50 between white space and gray space. And how to think about the cyclical risk in the latter, so particularly, I guess, your uninterrupted power supply business. That would be my question, please.

Hilary Barbara Maxson - Schneider Electric S.E. - CFO
Sure. So maybe I'll start with the breakdown. So we talk about one of our end markets as data center and networks. And I think the last number, Amit, correct me if I'm wrong, that we gave there was around 16% of our total revenues?

Amit Bhalla - Schneider Electric S.E. - Vice-President of Financial Communication & IR
16% to 17%.

Hilary Barbara Maxson - Schneider Electric S.E. - CFO
16%, 17% of our total revenues with around half of that associated with more pure data center and half of that, again, associated with more hyperscale data centers, so that can give you an idea. And the other half being distributed IT with a good portion of that more B2B and then some of it associated with consumer-led, if that gives you a good sense.

In terms of momentum, like we said, we continue to see good demand -- very strong demand in data center with continued acceleration.

And in terms of -- I won't really comment too much on lead times. Certainly, that's part of the area where we continue to build up backlog, obviously with that acceleration of demand with orders that would go out for some time.

In terms of downside, I think you asked me about the downside as well. We always expect to see at least part of that business to be somewhat cyclical, right? It's a CapEx-driven business, probably a little bit more tied to the hyperscale side of that business. So we -- that's the kind of thing that we look at in our scenario planning and that we would have assumed in the Capital Markets Day.
Daniela C. R. de Carvalho e Costa - Goldman Sachs Group, Inc., Research Division - MD and Head of the European Capital Goods Equity Research Team

I just wanted to ask regarding your own working capital trends, and you commented on distributors destocking in portions of the business. I was wondering in yourself sort of how has working capital been evolving? And should we also see maybe destocking a bit more than normal in the second half and into 2023?

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

Sure. So obviously, this is just a revenue update. But what I would say here is that I think across the industry, what we start to see is -- and you can see it, everyone can see it, right, is some higher inventories mostly associated with -- not associated so much with demand, but more associated with this golden screw problem, right? There's some supply constraints in the market, and then everyone has inventories prepared to fulfill their own backlog.

I can't speak to our own distributors, but hypothetically I might assume that, that's something that they might have taken into account, right, as they were looking at their own numbers.

Ourselves, I would say, mixed. We also -- obviously, we're focusing on working capital trends. We confirmed in the H1 that while we don't give free cash flow guidance, we would expect our free cash flows this year to be around EUR 3 billion. Part of that being good inventory management, although we mentioned that we still wouldn't expect to see any sort of big decrease or adjustment versus the increase in days that we saw in 2021 associated with the demand environment and the supply chain-constrained environment where we've built up some strategic stock.

Eric A. Lemarié - CIC Market Solutions, Research Division - Financial Analyst

I've got a question about Telemecanique Sensors and I would like to understand why you divest this business because I used to believe that industrial sensors -- I'm so sorry, in general, was part of your EcoStruxure's ecosystem. Should we understand that sensors are now just commodity for the industry?

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

So for us there, this is more our legacy industrial sensors business, so not directly tied to our IoT strategy. So for me, this, portfolio disposal is a good example of where -- this is a solid business, but one that's not within the core of the strategy that we see going forward. Not to say that sensors aren't, but this industrial -- this more legacy business for us, not the case. So that might give you a bit of a sense of what the reasoning is there.

Operator

The next question is from William Mackie of Kepler Cheuvreux.
William Mackie - Kepler Cheuvreux, Research Division - Head of Capital Goods Research

My question would go back to the pricing trends. I hear what you’re saying about net pricing, which has always been a strong characteristic of your products business. But could you give, as you have done in the past, a little more flavor of the absolute price contribution across EM and IA to the recorded organic growth and perhaps some flavor on what you think about how pricing should evolve as you’ve called out that some of the input costs begin to stabilize or maybe even decline?

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

Sure. So I've mentioned on the call we have around 12% organic growth with an adverse impact from Russia of around 2 points. Excluding Russia, the volume that we see — the volume contribution that we see in the Q3 is around 2.5 points, so of that 12 plus 2. And what I would say there is that here, we start to see a little bit of a divergence in that part of that volume is driven by the increase in industrial volumes that I talked about based on the supply chain easing. And then part of that, particularly in the product business, is impacted by the deceleration in the consumer-linked IT and residential, which are more on the product side of the business if that gives you a sense.

Net-net, between the Q2 and Q3 in terms of overall volumes, we're about flat in terms of euros, again, excluding Russia. I think maybe that gives you the right information.

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

Thanks, Will. I think we probably covered most analysts. Let's just see if there's probably -- is there another question on the line, operator?

Operator

Yes, sir. We have a follow up from Phil Buller of Berenberg.

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

I guess it's a follow-up to Will's question really. If I look at consensus for next year, it's around 2% organic. Assuming there is no incremental price ups from here, what would the purely mechanical carryover effect be from pricing for 2023 at this point, please? I appreciate price can go both ways. But just as it stands today, it would be great.

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

Yes. And apologies if I didn't answer that on the last question. Indeed, today, you can see the amount of pricing, therefore, I think you can parse through -- I just gave you the volume. You can, I'm sure, subtract and get the level of pricing that we have today. So you can see that we would anticipate a decent level of carryover into 2023. I won't give a number there, but it would be higher than this around 2% organic.

In general, and we talked through it on the call, we see the environment for pricing still remains good. And we see that likely to be in 2023 as well, by which I mean, of course, we will -- pricing for us is obviously both about value-add. It's also about market dynamics and remaining competitive. So it's important to us to balance all of that together. But in general, we expect to be in a decent pricing environment with normal pricing power as we've demonstrated over the past decade in 2023.

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

All right. Thanks, Phil. I think we'll probably call the end of the call now. You'll probably see on the slide in front of you that we are going to be at a couple of conferences, so look forward to seeing many of you there.
And of course, reach out to the IR team if there are any further questions and we'd be very happy to engage with you.

So thank you very much for your time, and have a good rest of the day.

Operator

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