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Q1 2019 Sales and Revenue Call
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MANAGEMENT DISCUSSION SECTION

**Operator:** Good day and welcome to the Quarter One Financial Release Schneider Electric Conference Call. Today's conference is being recorded. At this time I would like to turn the conference over to Mr. Amit Bhalla, Head of Investor Relations, please go ahead, sir.

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

Well thank you, operator. Good morning everyone and welcome. Early start than usual this time but thanks for making it. So we're here for the Q1 revenue release. It was released an hour ago on our website, the presentation and release is available. To take us through today we have Deputy CEO and CFO Emmanuel Babeau. So we'll have about maybe 30 minutes of presentation and followed by [audio gap] (00:00:47) Q&A. So with the usual disclaimer that you will see on slide number 2, I want to hand it over to Emmanuel.

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

Thank you, Amit. Good morning, everyone. Really pleased to be with you. And I just have to repeat what Amit has been saying. Thank you, I know it's an early start for many of you. So thank you for being with us. I suggest that we start immediately on page 5 of the presentation. And as a starter I would like to remind that Schneider is a simple and focused company. We have two businesses and each of them is driving a major transformation of the world economy. Both on one side you have energy management driving energy condition, on the other side you have industrial automation driving industry 4.0. And each of them of course is accelerated by the digital disruption.
And we are here making a difference with leading expertise in that field. All that is driving significant opportunity for our customer.

And when we talk about our customer, I talk about our four domain of expertise for and market building data center, infrastructure, and industry. And here, you have a display of some of the benefit for the customer in terms of energy efficiency, productivity, of course reliability and safety and last but not least, when it comes to delivering sustainability to the growth and to the development. I'm now moving on Page 6. And all that simple company focus with leadership which is a clear value proposition for the customer, that is translating into continued dynamism in our growth. And as you have seen, we are off to a good start in 2019. I would say that I am going to elaborate on that. All the ingredients that made our success in 2018 continued to deliver in Q1. So globally, €6.3 billion of sales growing organically plus 5.9%. And you see that the two businesses have been growing nicely. Energy Management on one side growing 7% organically and Industrial Automation growing 4% that is making a retreatment and taking as a scope effect and of panel activity with low margin in the U.S. And of course based on that good starts, we are reaffirming our 2019 targets.

Moving to Page 7, one of the reasons for our success I think has been of course the successful strategy that we've been now implementing in a very consistent – I would say persistent manner over the last few years now.

and quarter-after-quarter showing its strength and the result it does deliver. It starts of course with the fact that we have a well-balanced portfolio by geographies. You see here that Asia Pacific is number two this quarter behind North America and it's certainly interesting to see that Asia Pacific is still growing fast nevertheless the best performer is North America this quarter. So this capacity to see the growth very, very easy is a big plus for our company today.

The other dimension which maybe and has been well totally perceived is the fact that the company has been evolving and is now well balanced in terms of exposure to the various part of the economic cycle and we have a good balance between early cycle and mid-late cycle exposure and clearly in Q1, we have seen the benefit of that. We talk about that when it comes of course to industrial automation, but I would say it's also the case when it comes to energy management.

Moving to page 8, the subject varieties has been also very, very clear for a long period of time now and we keep working on them and deliveries. You know that the first thing is that we want to drive more product and we want to maximize the gross on product and they are still growing I would say nicely by 3% despite the fact that of course we are progressing with the economic cycle. So it means that we are able to globally with innovation, with locality of the portfolio, with the geographical exposure to keep delivering gross on product even if the evolution of the cycle is less favorable for them. We want more services, because they're coming with great margin

great return on capital employed and Q1 has been absolutely excellent in that respect plus 11%. We want more software and I don't think I need to argue why we think that we have certain need to develop software both for what they bring to the customer and of course because they represent a fantastic value creation.

And once again, we are coming here with the quarter with double-digit and we are extremely pleased with the – AVEVA performance. We want EcoStruxure which is really a powerful drive of our digital and an integrated offer. We want EcoStruxure to grow faster than the average as a group and we keep delivering on that.

We also want better system, so systems are not the priority, but we certainly want to grow them in a profitable and efficient manner. You see that they are growing by 10%. It does reflect the evolution of growth of the economic cycle and we go for more infrastructure, more data center, more process automation project and that means more system. And it's good to see the capacity that we have to balance the growth through the cycle and to limit the
volatility. Thanks to this exposure to let and mid-cycle activity so that's what the system growth is reflecting that. And of course, all these priority, all the objective being then translated into the overall growth for sales.

Moving to the page 9. It's also our strategy about being focused and getting even more focused and that's -- that of course with the portfolio optimization that we have announced the €1.5 billion to €2 billion revenue that are today under strategic review.

First disposal acquired in Q1 with Pelco, you know the time of the transaction, you know the impact on the company. We've been disclosing that. We are here at the beginning of the process, and of course I'm [indiscernible] here to share a timeline and what's coming next, but you should expect us to come with more pruning of the portfolio in the coming months, in the coming quarters, because by pruning the portfolio, we're making the business stronger, simpler and of course there is a very strong merit on the focus, on the quality of the execution, on the strength of execution.

We're also making sure that we are strengthening our core by gathering more strength, or I would say building new teams, and The Carlyle the partnership that we have announced for critical infrastructure and to make sure that together we build a super-efficient sustainable digital infrastructure with two nice projects, the JFK Airport and the Lone Star Ports Harbor Island that's two projects that of course are just the beginning of what we think we could be together. But it shows that there is today a need for efficient critical infrastructure that we are extremely well placed. I would say really with a strong differentiation and I guess why Carlyle has decided to partner with us in that respect, and we see very nice potential of development in that direction and through this partnership.

Moving to page 10, we wanted to remind here the pillar of the growth, and what the strategy is building upon. You know then the four pillars starting of course with you know them the four pillar starting of course with innovation, we came up again with a plenty of innovation whether on contactors, on new PLCs. Your new digital protection relay, you have new UPSs that is a big objective for us to continue to accelerate on innovation to make sure that this innovation is reaching our customer fast and that the share of new products or innovation among the global share keep increasing month-after-month, that's how we get differentiated and that of course we managed to bring value and price for it.

Second pillar the digital. We have been nicely growing our assets under management by 39% year-on-year. We've been developing more advisor apps on EcoStruxure. And for those who were in Hannover you've seen the launch of our exchange platform which we think is going to be a nice collaborative platform and a great ecosystem for improvement for sharing and at the end of the day for creating value ultimately for the customer and for all our partners and people willing to work with us for the benefit of the customer.

Third pillar, we are segment focus. We know that at the end of the day, expertise differentiation is coming with knowledge of given application. And I would say intimate granular knowledge of the need of the various end market and to talk the language of the customer. And we have a very nice progression of orders in few of them which are of course critical like oil & gas and MMM and we are even growing double digit showing that we really manage to make a strong impact when we have this focus.

Fourth pillar, extremely important, you know it. The cross-selling, we see day after day that our customers are asking for this capacity to bundle technology together within energy management. I can tell you we really no longer speak about, family of product of type of technology, but we talk about how do you make my energy management efficient, sustainable and above that of course you have the cross-selling between energy management and industrial automation which is allowing us here again to make big impact among consumer goods, oil & gas, mining or water and waste water.
I think we really see in our performance, the strengths of the cross selling and Q1 is another illustration of that. Good to talk in general term but also important to speak about some detail and precise case of success of putting together and cross selling.

I have to start with the building one in the Tottenham stadium, I mean yesterday evening they were not playing in Tottenham but not only, with the new stadium which is full of Schneider Technology, are they more efficient in terms of energy saving, safer and globally improving dramatically the customer experience and the fan experience but apparently it's giving the chance at home because I think they haven't lost since they are starting the new stadium and maybe a way as well but may I'm getting a little bit too far there.

Data center a nice project in China where we are putting together the old power management and that has been attached to secure power as well. Infrastructure, great project with Marines where we are putting together bows going for renewable getting greener and the – I would say reliability and efficiency. So, we are covering the efficiency, the reliability, but also becoming greener and it's not – the two are not antagonist of course and they get on together extremely well. First thing, it's just a Full Monty. It's an ethanol plant in Brazil where we've been delivering a combo of all power management, medium, voltage, low voltage, secured power. We've been selling plenty of technology for industrial automation and plenty of software from AVEVA. And it really shows that, I mean we are not dreaming about this kind of project. They are actually happening. And we see more and more of this project month after month. Where we know that and I'm not going here to take you by surprise. Driving sustainability for our customer in the way we operate, for the community we interact with, and therefore globally for the planet is part of our DNA. We are reporting quarter after quarter our progress on the Schneider sustainability impact. You have here the performance at the end of Q1 versus where we were at the end of Q4. You have the final objective. And I have to highlight here that given the fact that we were progressing fast and really having a fast journey, we decided to raise the bar for some of the indicators. So, we are making our target more demanding, more difficult to reach. But, we are super happy to do that.

But it's just showing that we are on this various parameter making good project. And of course we have one branch, one division which is epitomizing the sustainability mission that we carry which is ESS, energy and sustainability service. And here we just wanted to put a nice project with the city of St. Joseph where we've been working with them on again how to make their energy management greener more efficient and certainly with a very high degree of reliability and you as the testimony of our partners there. It's one story among many, many other.

Moving to page 13, I'm going to skip very well. It's nice to see that this particular feature of Schneider the mission that we have is recognized, you have the list of the prize recognition that we are received in Q1, but it's just good to see that this is making an impact and this is seen by the outside world.

All right, so now let's go to the numbers, but of course the numbers are coming from what I've just been explaining. And let's start by page 15 and global view on sales evolution. So sales amounted globally at €6.307 billion, it's a plus 8.7% versus the first quarter of 2018. Good to see that the ForEx is moving positive at plus 2%, biggest driver year is the U.S. dollar. Second then is the Chinese one, and then we have a number of currency that has been negative for us whether in Middle East, in South America, the ruble has been, the Russian ruble has still been negative for us in Q1, but in total, it's positive. We see now for the full-year based on the current parity positive impact on top-line which has improved. Now, it's between plus €300 million and plus €400 million. And all the SC's we were expecting some senior [ph] instability. It could be slightly negative. I mean it's really moving marginally, but it could be around minus 10 basis points because of some of the new economy currency
that has been depreciating. On the Scope, plus 0.8% this is mainly AVEVA to be very clear and that leave us with an organic growth of plus 5.9%.

Moving to the detail of that. So I've already alluded to the three components of the growth starting with the products, so plus 3%, clearly in the billion market, we have seen a continuation of a very good growth, discrete industry has been moderating in terms of growth, but globally still growing. [indiscernible] in line with our expectation and that's what we were planning for and really to deliver 3% it shows the strength of the portfolio and I would say the impact that we managed to have on the various geographies. I commented about the system growth plus 10%. It's good to have this exposure to process industries to data center to infrastructure because they are nice contributors to the growth. Now, as you know, we are working on the quality of the system and on the [ph] profitability of the system and as well. And it's – it allows really to smooth volatility and decrease massive [ph] visible volatility through the cycle.

Last but not least, the recent software 12% growth each one really you know growing extremely fast both of them. And on services, I have to highlight the very nice growth on data center and among our industrial customer. I talk about ESS that is doing extremely well and you have seen of course the performance of AVEVA for the Q1 and they've been closing the first year as the new AVEVA and – and we are very pleased of course, they will communicate the full year result in the course of May. But the top line growth has been – has been extremely – extremely good and it's a great satisfaction for the first year to see really such a dynamism.

Let me a little bit into Energy Management and Industrial Automation, and on page 17, I start with Energy Management of course €7.438 billion, it's up plus 9.6%. We are really are continue to grow nicely on the residential and on small building. We are [ph] playing on innovation. We are working on the – on the channel that the cross-selling is very important year. We have a good progression on the commercial industrial building and that's really the strength you know [ph] the capacity to be able to cover both residential small tertiary, but also the CIB that's a big strengths of the company and that has been playing across geographies.

Good cross-selling as well with the Industrial Automation that has been showing in the Oil & Gas, MMM, EcoStruxure is hitting the market with a great success, and continuation of really great journey on Data Center with the double-digit. I must say the sequence that you have here on the right bottom part of the slide is an – is impressive. The growth over the last nine quarters, it has been now several years in a row of good growth for Energy Management and that is continuing in Q1.

Moving by geographies. I'm sure you've been impressed by the growth in North America plus 12%. So it is a combination of strength on building both resi and non-resi. Data center is doing very well. I talk about services growing well and SS notably, so there was this accounting for the 12% growth in North America.

Asia-Pacific plus 8%, very solid performance in China, we have been certainly further and then, so I would say by some distributor restocking that certainly has been I would say helping the number. But fundamentally, what is happening in China is what we said would be the China is a gross market that despite the fact that we are seeing some very, very comps in Q1 is going to continue in Q2. We see the Chinese market as a gross market. We see construction going well. We are here flying the fact that we believe that after a fantastic period of growth, the growth could moderate in the coming quarter, I would say to a large extent in-line with our anticipation already several months ago. But we see also all the energy management things that we set to infrastructure, to industry doing well.
India has continued to deliver good growth, and we've seen Southeast Asia and Australia also performing well notably on data center and smart grid customer. Rest of the world growing 4%. Good to see South America but Africa keeps growing as well. For the moment, Middle East has been down with number of markets like Saudi Arabia, the Gulf being more difficult. And CIS globally has been down, good trajectory I would say seasonally to residential and commercial building, much more difficult when it comes to investment in oil and gas. And therefore all the energy management that we said to that end market.

Western Europe plus 3%, good growth in Italy and Spain, good growth in the U.K. but clearly uncertainty is increasing linked to the Brexit and that is having some impact and we see wait and see attitude and the level of project on which we are working with the customer [indiscernible] all that is certainly impacted by the level of uncertainty. Germany has been a bit down and France has been down notably because of weak utility market.

Going to industrial automation. So up, plus 2.3% that we believe that you really have to organically. We really have to treat the end of

the panel builder which was a low margin business in the U.S. and that's the reason why we decided to stop it. We have been delivering a 4% organic growth so without that impact. And there was a lot of question I know around so what's going to happen to the discrete and the OEM business. We've been extremely clear on the fact that the OEM has been slowing down and sometimes significantly that has been the case in China, but nevertheless we are still slightly up despite the slowdown in some of these geographies.

Accounts were high in Q1, they are going to be even higher in Q2, because all these discrete business was on fire in Q2 last year, but nevertheless good to see that discrete is holding up decency well. We have strong growth in process and I believe that is continuing and that boosted by late cycle demand that was expected that you know we would have a replay of this businesses with the cycle and actually process automation has been growing in all region which is a good news. And I think the design that the Invensys acquisition which have some sort of the environment at the beginning is clearly delivering today and we see that across the geographies.

Now I have too of course finish that with AVEVA detail, double digit growth as you have seen again on the top line. And here you have the combination of the strength of the new portfolio independently and autonomously I would say the fact that putting the two portfolios together is having a nice impact and create a lot of dynamism for AVEVA. And second and it's very important

as well the fact that Schneider and AVEVA together are unique differentiated value proposal for the customer and we see very nice traction beyond that. The sequence of growth was impressive for energy management. It's even more impressive for industrial automation. And you've seen that we've been from mid-single digit to double-digit growth for the last nine quarters, so very strong business year with industrial automation. Just by geography rapidly starting with Western Europe, Western Europe is the only region where actually industrial automation has been growing faster than energy management. Good growth in France, in Germany, in Spain and in the UK. And actually here, good performance on OEM and machine solution really doing well. Of course, Process & Hybrid has been also good performer, but interesting to see that discrete has been holding up pretty well for us in Western Europe. Then Asia-Pacific, plus 3%. China still up again despite this OEM slowdown. And process industry doing well in Southeast Asia. India growing across technology I would say. And Japan more difficult, here discrete automation has been clearly under pressure and declining. Rest of the world growing plus 3% as well. Good growth in South America, in CIS, in Africa, in Central Europe and therefore really places of the securities have been Middle East and Gulf and Turkey in particular. And last North America growing plus 2% excluding panel. Even if you just look at the U.S., U.S. has been growing plus 5%.
U.S., U.S. has been growing plus 5%. Clearly good performance on process industries. Oil & gas within that have been doing well. if you just look at discrete and OEM it has been stable. So again still growing in North America despite this slowdown on discrete.

All right so that leads me to the conclusion for the rest of 2019. I'm on page 22.

So what should we expect for the rest of the year after this Q1. And we are if you were confirming and sometimes refining the vision for the various markets, on China I think we keep repeating that China is a gross market. We are facing as we said, high basis of comparison and the softening OEM market. We flag the fact that the construction, infrastructure and many parts of the industry should continue to do well and that's what we are expecting. And we are, here highlighting the fact that construction could soften, could moderate in terms of growth in the coming quarters. North America has been very good in Q1 and we expect North America to continue to be good for the rest of the year. We see last country in Asia-Pacific such as India and the all big geography in East Asia to continue to enjoy good momentum. In Western Europe we expect to see continued moderate growth and of course the Brexit is a big question and what could be the impact.

On the rest of the world, we expect to see a continuation of a contrasted picture that's exactly what we've been experiencing in the first quarter.

So we are of course reaffirming the target for the year. We do expect a good growth in aggregate in 2019 and Q1 is of course just confirming this ambition and then – and the target. We are globally targeting for 2019 an organic adjusted EBITDA growth between plus 4% and plus 7%. And as you know, we're going to use the two levers to deliver that, the first one is the top line organic growth. We are targeting to be between plus 3% and plus 5%. And the other one is the organic improvement of the adjusted EBITDA margin and we target an improvement – an organic improvement between plus 20 bps and plus 50 bps.

That ends my presentation and we are now moving to the Q&A. I will be very happy your questions.
QUESTION AND ANSWER SECTION

Operator: Thank you, sir.

Unverified Participant

All right. Thanks...

Operator: [Operator Instructions]

Unverified Participant

Yeah. So just to – just to reiterate I think, we do see several questions in queue, so let's keep it to one question per person and then time permitting, we'll come back, so that everyone gets a chance. So with that, let's move to the first question, please.

Operator: Thank you. Our first question comes from Andreas Willi of JPMorgan. Please go ahead.

Andreas Willi
Analyst, JPMorgan Securities Plc

Q Yeah. Good morning Emmanuel and Amit. My question is about data centers, which based on your commentary, it seems to have – had strong growth in Q1 across many regions. Maybe you could tell us what the overall vertical is growing currently and what do you see on the order intake whether this can continue in the coming quarters?

A Yes, Andreas, thank you. I mean, indeed data center has been growing nicely. I would say it's a continuation of the trend that we have seen. So it's not as if suddenly there was a big acceleration. That has been there. We've been saying the fact that we were having nice success on that market. It has been growing across geographies. You are absolutely right. So North America was good, but clearly many new economies have been good, many countries in Europe have been good as well. So that's a good momentum that we are enjoying. We know that the cycle is also explaining that and there is – that's a business where you have acceleration on the growth and then, the growth can be softening. We are still seeing good momentum and good dynamism. I'm not able to say how it's going to evolve in the coming months, but we are certainly taking the view that for the year, data center growth should be a nice contributor to the growth. No doubt about that.

Thank you. Thank you, Andreas. Next question, please.
Operator: Thank you. Our next question comes from Andre Kukhnin of Credit Suisse. Please go ahead.

Yes. Good morning. Thanks so much for taking my questions. I'll ask about China. If you could maybe quantify the amount of restock held in Q1 in AM and what are your expectations are for this geography for the year maybe for AM and for industrial automation where I guess growth was surprisingly robust still in Q1, you've tough comps that you [ph] flagged. Thank you very much.

Yes, Andre. I can try. Always extremely difficult of course to give a growth outlook for the year on China, we started around 7%. Again, with number of element that has been helping back to my comment on the fact that the Chinese market is a growth market and should be a nice contributor to the growth. I'm not sure that is going to reach Q1 for the overall year and probably today, I would say the underlying is probably around mid-single digit growth as a kind of underlying impact without the working day and all that.

Knowing that Q2 is a mountain to climb again in China because Q2 was enormous and notably for industrial automation, so that's the kind of kind of underlying and could be a vision to be concerned for the full year.

Got it. Thank you.

Thank you. Next question.


Hi. Good morning. Thanks. I'm just wondering on the on the systems growth and your comment about kind of working to ensure profitable growth there shows the implied mix impact to margins. Just wondering to what extent the strong growth in data centers is influencing that growth and really whether this has any impact on the traditional margin profile that we kind of think about for the systems business? Thank you.

Sure. Absolutely, the system growth is partly only because you have also positive information, you have everything on infrastructure where we sell a lot of Energy Management technology, EcoStruxure. So these are contributed to the system growth. So Data Center is a contributor. I would not say that the profile of margin is sufficiently different, because that is the only gross contributor, so yeah also other elements. So and this is – its
efficiency is different to change the profile of the margin, and we have globally, I would say an objective to improve the margin on system. We've been doing that for the last three years. We want to continue, and it's a big objective to make sure that we keep improving the margin and the return on capital employed on system.

Now at the end of the day, it is clear that systems growth is going to bring some negative mix impact. In front of that of course we are coming with a price increase. We are coming with a productivity. We have services growing fast. We have software growing fast. We are working on our HFC even if I'm not going to surprise you, but we are investing to keep our leadership on innovation and digital. But we take all these dimensions and I can do that could of course include the impact of system, when it comes to working on our margin improvement.

Thank you.

All right. Next question, please?


Jonathan Mounsey
Analyst, Exane BNP Paribas

Hi. Yes. Good morning. Thank you for taking my question. So on the runoff of the power [ph] bill-of-business deliberations in IA in the U.S. just thinking about the balance of the. So what is the impact on the top line as we run this through the – obviously, it's quite significant in North America in Q1, is that a kind of a drag that we should be modeling, is it analyzes over the next three quarters?

Jonathan Mounsey
Analyst, Exane BNP Paribas

Hi, yes. Good morning. Thank you for taking my question. So on the runoff of the power of deliberations in IA in the U.S. just thinking about the balance of the. So what is the impact on the top line as we run this through the – obviously, it's quite significant in North America in Q1, is that a kind of a drag that we should be modeling, is it analyzes over the next three quarters?

So we'll be – we will be happy to provide you Jonathan with of course the impact. And there is – I mean you have the drag on Q1, you had already an impact on Q4 last year and I think, we flagged the fact that for the full year that was about 1 point – one full point of growth for Industrial Automation at the group level, right. So and that – therefore you know if you start with a bit more than €6 billion, it's around €60 million impact for the year. so we'll be happy to provide you with an expected phasing of that.

Jonathan Mounsey
Analyst, Exane BNP Paribas

Thank you.
All right, Jonathan, we'll come back to you on that and next question, please.

Operator: Thank you. Our next question comes from James Moore of Redburn. Please go ahead.

James Moore  
Analyst, Redburn (Europe) Ltd.

Yeah. Good morning, everyone. Morning Emmanuel. Please can I return to China, you mentioned hopefully the 7%? I wonder, if you could do the same for IA and EM I was thinking to a 9% and you mentioned China construction could moderate in the coming quarters. Can I ask what prompts you to say that, is it based on comparatives or something more specific like land sales or tender activity or something else?

Yeah. So I answer the question on China. So clearly, I'm happy to provide some detail between Energy Management and Industrial Automation, if it was your question. And Energy Management was growing in high single-digit when industrial automation was rather growing mid-single digit. Okay, so that's a mix of that which is giving around 7% growth. And on the moderation that's what we can try to call with the very icon that we were having and you know some exceptional growth last year and also when we look at the new start, when we look at the environment that the feeling that we have that the growth could moderate, we have to be very cautious, but because of course decision could change relatively on access to credit for instance or giving more new permit or whatever, but based on that that we have the feeling that this could soften the growth could soften in the coming quarters.

Just to be clear on that, you're talking more about comparatives than any great visibility of order deterioration or tender deterioration? Okay. Thanks.

Yes absolutely, absolutely.

All right. Thanks James. Next question please.

Yeah, thanks. Thanks very much. Good morning everybody. I had a question about industrial automation and within industrial automation about the Western Europe in particular, which outgrew all the geographies this quarter. And I mean some of your competitors had previously flagged some delayed investment decisions in Europe, particularly in Germany talking about mission builders becoming more cautious on the outlook. So I guess you've not been really impacted by this, this quarter so the questions I have is would be I mean what's driving the so called your growth in Industrial Automation in Europe now. Why do you think you're getting share in Europe and how easily could you actually replicate this European success as well in other geographies?

A

Thank you, Gaël. Difficult for me to say that we are gaining share because of course, not many competitors so far have been reporting, so not yet fully clear what has been happening. Well, I think we certainly have been quite efficient in growing, still with OEM making sure that we've diversified the industries with our distribution channel. We were having success. Certainly, process automation here as well is accelerating and we see a number of investments. You have to bear in mind that we have very little exposure with unfortunately to automotive and that maybe some of the slowdown that has been seen in Europe is starting maybe with automotive. So that could explain why we don't have that negative drag on the performance, but I'm not sure I can comment more than that. I think it's really again, innovation and the fact that we are spreading our exposure to the various technology and again, may be automotive could make a difference there just as others.

A

Thank you, Gaël. Next question, please.

Operator: Thank you. Our next question comes from Wasi Rizvi of RBC Capital Markets. Please go ahead.

Q

Hi. Good morning. Most of mine have been answered. I guess one thing that didn't come up during the call which I think you spoke about Q4 with the -working days impact and seems like you'll – it's been negligible in the first quarter. But, I think it is specified to be an issue for the whole of the first half. So, I guess if you could talk about what you're expecting for Q2 and what you saw in Q1 as well?

A

Yeah, sure, that's important. So – No, actually we had a negative working day impact on Q1 which was close to 1% negative. Actually Q3 is even worse. And that's going to be significantly more than 1%. So, Q2, it was the highest comp last year. We have big working day. So, that's going to be – that's going to be a very demanding quarter in terms of comps and one-off impact. And then we're going to recover in H2 in terms of working days. So for the full year, that should be about neutral, but H1 is very negative and H2 is going to be much more positive.
All right. Next question please.

**Operator:** Thank you. Our next question comes from Peter Reilly of Jefferies. Please go ahead.

Good morning. Could you please give us a bit more color on what's happening in data centers? You talked about growth in all regions. Are you seeing a trend to smaller more local data centers for releasing licensee and complying with local regs. And if so, do you think that trend has a long way to run?

**A**

Yes, Peter, absolutely. I mean really on data center, that's the kind of positive chemistry that we've been experiencing for several quarters now. You have the combination of on one side regulation, of course fundamentally starting with growth in capacity that is absolutely needed because you keep having an exponential growth of the data that needs to be stored in data center.

The regulation is of course helping because more and more, you need to have data center in specific geographies and you need to store your data in specific geographies and it's not going to ease. And that is combining with Edge Computing which is for us a great news because that means that many people are going to go still for a small medium-sized data center where they will keep their, I would say sensitive critical data and they really have a latency time. They of course manage to exclude any kind of cyber risk by having a private cloud.

And that is – that is triggering a lot of investment as well. And therefore the two cover the full ground of our technology which are the small UPSs, the single phase, UPSs but also of course the large data center, three phase which are involving as we know also a lot of power management dimension. So that is, that's really the combination of the two that is explaining the dynamism at the level of data center and if I look at the family of products that you were reporting, like Secure Power, they have been growing very strongly in Q1.

Thank you.

All right, next question please.

**Operator:** Thank you. Our next question comes from Daniela Costa of Goldman Sachs. Please go ahead.

Daniela Costa

**Q**
Good morning thank you very much for taking my question. I just have one follow-up, wanted to ask you about sort of the guidance for the margin improvement. Last quarter you had a comment about the margin improvement being more pronounced in the second half and I think you've removed that from the release now. Can you help us understand given what you mentioned on mix and then given the various comps and other things throughout the year. How do you expect margin progression to pan out in the year. Thank you.

Yes. I can try them. So, we haven't been repeating that. That's a comment that we made at the beginning of the year. That was a possibility that is still a possibility, I mean implying the fact that Q2 was a big comps and with one off impact coming from the working days. That's obviously that we are seeing a couple of months ago. Now, the year started. We are of course off to a strong start. That's good news.

It could mean that what was a possibility won't materialize. But it's too early to say. So, we said it, it's a possibility, we'll see where we are at the end of H1. It is clear that we are starting the year on good note and that's globally good news. But there's nothing else I can add to that.

Right. Next question.

Operator: Thank you. Our next question comes from Denise Molina of Morningstar. Please go ahead.

Hi. Quick question on the portfolio pruning. If you look at the announcement to [indiscernible] somewhere around the upper end 8% of the revenue and it sounded like you are saying that there could be more that goes under review, which makes sense given that you are seeing growth software and maybe impact from other legacy businesses. So, I'm wondering if you are done with the review, hope we can expect more to come?

No. My comment was really to say, versus what we've been announcing, you should expect more to come. So, I'm absolutely within this €1.5 billion to €2 billion. I'm not able to tell you where we're going to end up. But it is clear that we have this absolute willingness to become even more focused. You have some huge positive [indiscernible] in fact you know when you get [indiscernible] more focus you know the way you operate in the remaining business is even more efficient, you focus your investment on what is really making a difference, you globally work in an easier more agile environment. So we – we're going to be uncompromising with that, but we're – I'm not coming with more than the €1.5 billion to €2 billion, that's absolutely the envelope on which we are working.

Denise Molina
Analyst, Morningstar Holland BV

Okay. Thank you.
All right. Thank you, Denise. So I think, we've covered the – we've covered the most all the institutions. We have about five minutes left. We can probably take another couple of repeat questions and within the time left. So let's – let's go for the next one.

Operator: Thank you. Our next question is a follow-up from Jonathan Mounsey of Exane BNP Pariba. Please go ahead.

Jonathan Mounsey
Analyst, Exane BNP Paribas

Hi. Thank you for taking the second question. And really it was just to ask, what's the Q1 impact from price rises? I know that we're kind of analyzing price rises from last year that we're catching up for also raw material headwinds. I would assume therefore the prices materially positive in Q1. Can you give us the magnitude of that effect, please?

A

So [ph] Jonathan I won't comment on the number, what I can tell you for sure is that we said that you know we wanted to be more ambitious on price. We said that you know it was no longer about just matching the raw material inflation, which we expect probably to be you know negative for the full year, but not to the same magnitude as last year and far from it. And I think that you know last year in H2, we showed

And I think that last year in H2, we showed the capacity to accelerate on price increase and to deliver more impact on the top line and therefore of course on the margin that is certainly the way we've been addressed in Q1.

Q

Thank you.

A

All right. Let's take one more.

Operator: Thank you. Our next follow-up is from Andreas Willi of JPMorgan. Please go ahead.

Q

Thanks for the time. I had a question on process automation, if you look at the Foxboro DCS business now that we see some investments coming back in the market, are you participating in this mainly in your historic installed base or also with new customers?
Thank you, Andreas. I think you know after a difficult cycle, phase of the cycle you’re right they are both greenfield and brownfield and what we have today with AVEVA, the capacity cost structure to have of course the analytical level with AVEVA and our advisor is very well complemented by our DCS and by our safety system by Triconex. So it is our ambition to certainly try to go for greenfield including with new customers that maybe sometime AVEVA could introduce to us. We believe that we’ve been I mean that’s what already five years ago the acquisition of Invensys. We have been progressing we are becoming more relevant. So we have globally been gaining shares over the last five years on the DCS, but in the market, which was relatively subdued so that was certainly more difficult our ambition today is to accelerate and I have – we have a number of signs that shows that we are clearly developing among new customers in oil and gas, in mining, in – for hybrid in some of the hybrid market. I think the next 12 months to 24 months are going to be important to watch to see the impact that we managed to do. My feeling is that in Q1 we have both in terms of shares, but also in terms of order intake, good sign though we will have to wait what the others have been doing in the same period of time.

Thank you.

Thank you.

Thanks. I think we’re coming to the hour. So I just want to remind everyone of two days. So this year we’re doing the EPG. So most welcome to meet with us over there for the investors and a specific sell side to do with that as well. And secondly, just the 26 of June which is our Capital Markets Day in our headquarters in Paris. So it’s probably for those of you who haven’t please, please mark the date.

So with that thank you from my side. Emanuel, any closing comments before we close the call?

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

No. Thank you. Thank you all. Glad to have a good start to the year. Again, very much in line with our expectation. We had various scenarios when we did the full-year. Certainly, no they were not at all that favourable for Q1. That is good to start on the good note and that was an opportunity to continue. And I think what is important for us is again clearance, consistency and persistence, the ingredients of the growth at the beginning of 2019 are the ones that we have been experiencing and that we have been working in 2018. Thank you and talk to you soon, I’m sure.
Unverified Participant

All right. Bye-bye.

Unverified Participant

Bye.

Operator: Ladies and gentlemen, this concludes today’s call. Thank you all of your participation, you may now disconnect.

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