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CORPORATE PARTICIPANTS

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

Peter Herweck *Schneider Electric SE - Chief Executive Officer, Member of the Executive Committee*

Hilary Maxson *Schneider Electric SE - Chief Financial Officer, Member of the Executive Committee*

CONFERENCE CALL PARTICIPANTS

Philip Buller *Joh Berenberg Gossler & Co KG - Analyst*

Andrew Wilson *JPMorgan Chase & Co. - Analyst*

Simon Toennessen *Jefferies LLC - Analyst*

Alasdair Leslie *Bernstein Autonomous LLP - Analyst*

Andre Kukhnin *UBS Investment Bank - Analyst*

Jonathan Mounsey *BNP Paribas Exane - Analyst*

Gael de-Bray *Deutsche Bank AG - Analyst*

James Moore *Redburn Atlantic - Analyst*

Max Yates *Morgan Stanley & Co LLC - Analyst*

William Mackie *Kepler Cheuvreux - Analyst*

PRESENTATION

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

Good morning, everybody. Delighted to be with you today to report on our half-year 2024 results. I'm joined by our CEO, Peter Herweck; and our CFO, Hilary Maxson. We come to you from London. Today, the slides and the press release are both with you. We will go through the presentation and make sure to try to keep enough time for the Q&A.

So without any further ado, I hand it over to Peter.

Peter Herweck - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Committee*

Well, thank you very much, Amit, and good morning, everybody, from London. We've left Paris for the 33rd Olympic Games and we're here at the AVEVA office. And very proud actually in H1, we've been named the most sustainable company in the world by the TIME magazine and Statista. It goes in line with our stringent execution on our purpose and our mission to create impact by empowering all to make the most out of energy and resources, bridging progress and sustainability for all.

And as you know, at Schneider, we call this Life Is On. Well, this also translates into record revenues and accelerating in Q2, as you can see here. It was an all-time high for any quarters that we've delivered with EUR9.6 billion of revenue and organic growth of 7.1% for Q2, bringing us to H1 at EUR18.2 billion of revenue and the growth rate organic at 6.2%.

Now, for the business, as you can see, the acceleration that we have in energy management going from 8.9% organic growth in Q1 to now almost 10% in Q2. Now, in industrial automation, you can also see a sequential improvement here from Q1 to Q2 with roughly minus 3.5%. But let me dive a little bit deeper where you can see the execution that we've done to deliver these strong results and the strong growth metrics that you see.

Gross profit also up 8.8% organic to EUR7.9 billion at a stellar gross margin of 30% -- 43.4%, up 100 basis points. And also up 100 basis points, our adjusted EBITA margin at 18.6%. Now, the adjusted EBIT at EUR3.4 billion, up 12.2% organic. And the adjusted net income at EUR2.2 billion, also up 10%. That leaves us with an operating cash flow of EUR3.1 billion for H1, up 15%. Strong results, strong execution as we go ahead and on track to deliver what we've said at the Capital Markets Day for our midterm ambition 2027 where we've said 7% to 10% CAGR over the period with a margin improvement of circa 50 bps CAGR over the period of time of the adjusted EBITA margin.

Now, the megatrends really work for us and they deliver structural growth as we see. We'll sure talk about data center and what it means to the company, it's been a very dynamic end market for us. Also, the geographies that we've been focusing on. You can see in the US, in the Middle East and in Africa and India, these are all perfect growth markets for us and leading the growth for the company.

Now, we'll be talking about the targeted capacity investments that are ongoing and what that means to us to meet the unprecedented demand that we're seeing. So strong progress also on our software business here at AVEVA and all the software businesses that we've put together that are independent of our hardware business, if you will. So continuous innovation we're also driving. You see how we're going to be doing that at the end of the day. And of course, artificial intelligence everywhere in the company, in our products and also with our clients.

Now, we've been aligning many of our activities to those megatrends that are driving growth. If you look at digitization and AI, we've been all over the place in forums and talking with our clients and thought leaders in driving architectures forward to deliver on the AI. Climate change and energy transition, very, very important for us, also in Europe where we've built a new factory in Hungary to drive and be ready for the energy performance and building directive that is enacted at the moment.

Now, in respect to the evolution of wealth and the new global equilibrium, you have seen how active we've been in the Kingdom of Saudi Arabia in the Middle East and also in India. We have just inaugurated the largest campus for our people globally with 8,000 people in Bangalore.

Now, let me remind you a little bit of the end markets where we're active and we see good development across all end markets, supporting the medium-term growth expectations that we have in the four end markets where we are. And as you would expect, and I start off with the industrial market, there is, of course, a little bit of weakness in the market, as we have said and seen before, and it moves also as we expect and we'll talk about this a little bit more. The growth is, of course, carried by the investment that goes into infrastructure, into the grid and then also into data center and networks where we continue to believe that there is a strong growth momentum and we can actually see it in numbers.

Now, in buildings, and I've talked about the energy performance and buildings directive that is coming in Europe and will accelerate the renewal of buildings, we've done a large investment into Planon where we've been owning minority before, which we've now ramped up to 80% as the majority owner of that business. And it will help us to be ideally positioned in buildings, not only from a building management perspective, from an energy management perspective, but now also workplace and asset management. So an ideal addition for the group.

Now, if you look at the global footprint and our unique positioning there and the unique business model with multi-hub, it really gives us a competitive advantage. I'm not going to go through the geographies that we've mentioned at the Capital Markets Day and how we want to materialize on it, just give you our view in H1. And as I said, US, India, Middle East, Africa, they're all growing double digit for us. So it's fabulous in H1.

Now, the capacity investment and resource deployment is, of course, linked to those growth markets, and I'll be talking about that on this slide here. So we've carefully looked at where our investment are to go. And we said at the Capital Markets Day that throughout the period, we're going to be investing EUR2 billion in key geographies to be able to deliver to the growth.

And we've talked about some of the supply chain issues that we've had in North America and we've started to enhance capacity quite rigidly there and spend very responsibly to be able to deliver to this unprecedented growth opportunity. You see some of the factories where we've been investing. And as you would expect, there are, of course, some growth pains that come with it as we're hiring new people, as we're ramping up new machinery, as we're building inventory and work with our suppliers to be able to deliver to this unprecedented positive situation that we have.

Now, we've also said at the Capital Markets Day that until 2027, we want to drive up our R&D intensity to 7%. Now, we've reached 5.9% or 6%, as you can see on the slide, and it is showing in a lot of new offers that are coming in into growth markets with software-defined automation, the energy management products that will go into infrastructure, that go into data centers and that will also go into the buildings that are coming back.

The grid build out is very important, overall grid, microgrid, mini-grids, where we've done quite a few new packages. And then, also moved into a systems business where we're showing new offers all the way into service. Also, all of our top new offers that have come out in the market, 50% of those have AI built in to be able to help our customers, respectively. So you can see that the money is in action and new products coming to fuel the growth.

Now, our dedicated AI team that we've put together in a hub and also in our supply chain across the geographies and across the hubs where we're active, we're ramping up the number of projects, 195 AI-powered use cases in the company and with clients to help us drive productivity, to help us drive customer satisfaction, to help us drive serving our clients in a better way. And then, also, AI-powered features that we've incorporated for our clients. And an example here with ST, with whom we've worked together, respectively.

Moving on to the software side, so digitization and AI. On the digitization side, the software remains, of course, core to our digital journey. And as you can see here, we're in AVEVA today where we've been driving forward the platform, CONNECT, an industrial platform to connect clients, to bring data to the cloud, to bring our offers to the cloud, to bring third-party software to the cloud, to drive one platform, one experience for our client, to deliver on the digital twin.

And of course, it pays off. And you can see the growth that we have in AVEVA where we're further progressing very well on the journey to subscription with an ARR growth of 16% for the last 12 months. So quite excellent. And also, if you see a little bit the momentum that we have in the cloud with our revenues up 140% in H1 for the cloud offers that are, of course, sold as a service. A very strong cash conversion rate in the software, as you would expect as you come out of the valley that we've talked about many, many times.

And I have a couple of clients here with whom we've had great wins in the last quarter with voestalpine, with the African Rainbow mining company, and then also with the Cooper company here. So in total, excellent results on the software side. And of course, we're not named the most sustainable company by accident. It is also rigid execution on our SSI metrics, and we're well on track to reach our targets for 2024.

A couple of examples here that we're very proud of driving decarbonization at our clients with 605 million tonnes CO2 that we've been driving down or avoided. Then, the trust where we work with our strategic suppliers in making a better environment, plus 12 points. And then, the idea of bringing 1 million people into electricity, we're making very, very good progress respectively, and this is something that is deeply embedded in the company, respectively.

A couple of customer examples. Of course, as we have the Olympics start off, how we've helped to decarbonize the Olympic Games with the acquisition that we've done last year, EcoAct, where we help to drive down the hard-to-abate areas with the CO2 certificates, respectively.

BlackRock in the buildings market in the US, and we've named them the sustainability impact maker. Their new building is well below the energy usage of the average glass tower that's out there in New York. And it is another example of how you can create impact while you build or renew, respectively, fully digitized. All our EcoStruxure offers in that high rise quite nice to see, respectively.

The data centers, of course, we need to talk about. And we see projects in geographies that we haven't seen before. Here in the Kingdom of Saudi Arabia, I was able to visit that data center during my last trip. Now, it's just out of Riyadh, built in a sustainable and future-proof way and rapidly expanding also in the Kingdom, respectively.

And then, in industry here, an example out of China, where we're helping the WANT WANT Holdings group that is focused on food and beverage to drive their digitization and dual climate goal that they have. More than 30 sites that they have in China, and we're progressing in building those out.

As you would expect also quite a few external recognitions that we've had in H1. We've talked about the TIME magazine. It's also good to see that there are recognitions in respect to our drive for diversity, in respect to designing our product in a way that the clients have a great experience with them in the industrial design and many more of them, respectively.

Now, let me spend a second here on the summary. I think we're well equipped for value creation while promoting sustainable future for all. At the Capital Markets Day, I've been speaking for the first time of the powerhouse of energy management and automation, and we've talked about the megatrends that will structurally drive growth for the company, 7% to 10% in the respective time frame until 2027.

And we're on a good track with those and we're executing according to our management priorities with a growth culture, the sustainability that will drive forward software and our prosumer business, of course, the AI everywhere and then, of course, the organic growth and expansion that we want to drive, respectively, of our franchise.

Now, this goes, of course, coupled with an agile operating model, then of course, respective deployment of capital in a very reasonable and responsible way, disciplined as you would expect from us. And then, of course, a strong governance, respectively. The idea is, of course, to create total shareholder return, and with that, also a clear view on the ROCE that has also moved in the direction where we want to see it.

So with that, I think a great H1 with a record performance in Q2 and many more details to it. Hilary, if you help me guide us through the numbers here.

Hilary Maxson - *Schneider Electric SE - Chief Financial Officer, Member of the Executive Committee*

Thanks very much, Peter. And happy to be here together at AVEVA, speaking with all of you as well today. I'll start by reminding some of our key financial highlights for the first half. As Peter said, we finished with first-half revenues of EUR18 billion, up 6% organic, with strong sequential improvement between Q1 and Q2. We hit record quarterly revenues in Q2, up 7% organic. We also hit record-high gross margins of 43.4% at the end of H1, up 100 basis points organic, which drove our adjusted EBITA to a margin of 18.6%.

Our net income was impacted by a non-cash impairment, with our adjusted net income better reflecting our strong operating results at plus 10%. Operating cash flow and free cash flow are also tracking to our strong operating results at plus 15% and plus 8%, respectively. And I'll speak in more detail on each of these in the next slides.

Starting with H1 revenues. In energy management, we continued to see strong demand and strong growth across most geographies supported by the megatrends we introduced at our Capital Markets Day. In industrial automation, we continued to see weakness in discrete automation, partly offset by continued strength in process automation and relatively stronger results in software. Overall, we were up 6.2% organic in sales, reflecting the strong positioning of our portfolio and the benefits we have from diversification across geographies and our business models.

The negative scope impacts are primarily driven by the sale of our sensors business in Q4 2023, and FX translation also adversely impacted our revenues by around EUR300 million, mainly due to the weakening of the Chinese yuan and a number of more volatile currencies against the euro. And as you can see in the footnotes to this slide, based on current rates, which are fairly volatile in a few places, we'd expect FX impacts of minus EUR550 million to minus EUR650 million in revenues in 2024, and minus around 40 basis points impact on adjusted EBITA for the full year.

Looking at our revenues in the context of our digital flywheel, our digital and digital-enabling revenues remained at 56% of our total group revenues with continued double-digit growth in connectable products and field services, partially offset by the transition to subscription in our software businesses, which adversely impacts our revenue there and due to the softness in discrete automation.

In software, you can better see past the accounting impacts of the transition to subscription by following the annual recurring revenues or ARR at AVEVA, where we're quite pleased, Peter mentioned, to see we're at plus 16% ARR at the end of H1, well aligned with the 15%-plus medium-term ambition we shared at our Capital Markets Day.

Turning now to our second-quarter revenues, we were up 7% organic to EUR9.6 billion in revenue with strong contributions from both systems and software. North America and rest of world continued to be strong contributors with continued growth also in Asia Pacific against a strong Q2-2023 baseline. Western Europe continues negative, impacted by discrete automation and some continued weakness in residential, particularly in Germany.

In scope, similar to the Q1, you can see the impacts from our portfolio disposal program. And in FX, we have negative impacts from the Chinese yuan and a number of more volatile currencies starting to be partially offset by the strengthening of the US dollar.

Turning to our diverse mix of business models. In Q2, products grew at plus 1%, with overall positive volumes and with single-digit growth in energy management products driven by continued growth across most end markets and continued stability in consumer-linked offers, partially offset by weakness in products for discrete automation. Our systems business, where we sell directly to the end user, continued with particularly high demand translating into sales of plus 16%, driven by strength in data center and grid.

Software and services was back to double-digit growth at plus 13% after the shift in fiscal year at AVEVA impacting last quarter. And field services continued with strong double-digit growth, driven by the execution of our strategic growth plans.

Specifically in energy management, we were up 10% organic for the quarter. North America was up 15% organic against a high base of comparison with double-digit growth in the US and single-digit growth in Mexico and Canada.

Across North America, we continued to see particularly strong growth in systems with continued demand across end markets, particularly data center and Infrastructure. Product growth also remained solid, including in residential. Due to this demand, as mentioned by Peter, we're continuing to stabilize and invest in our supply chain in North America through the H2 and beyond.

Western Europe was up 3% organic, with growth in Italy, France, Nordics and the U.K., driven primarily by demand in data centers and infrastructure. Demand for products across the region was more muted, particularly in Germany.

Asia Pacific was up 5% with China down low single digit against a particularly high base of comparison and where we see continued weakness in construction markets, partially offset by demand for data center and new energy. The rest of Asia Pacific was up double digit with particularly strong growth in India, where we see strong growth across end markets, including residential.

Rest of world was up 16%, including some strong pricing actions in economies with significant devaluations. Middle East and Africa and South America were both up double digit even excluding those price impacts due to strong demand across end markets, including residential.

Turning to industrial automation. Sales were down 3.5% for the quarter with single-digit growth in process automation and strong growth in software offset by discrete automation. North America was flat with growth in process and software offset by discrete as stock levels at our channel partners continued to normalize. Western Europe was down 15% for the quarter against a high base of comparison with strong growth in process and in software offset by weakness in discrete, particularly in Germany, Italy and France.

Asia Pacific was down 1% for the quarter with strong growth in software. China was down mid-single digit while the rest of Asia Pacific was up low single digit with double-digit growth in India and Australia driven by software, offset by weakness in discrete automation across the rest of Asia.

Rest of world was up 10%, including some strong pricing actions in economies with significant devaluation. Excluding these impacts, Africa was up double digit, driven by strong growth in process and software while Middle East showed strong growth in discrete.

Turning now to our H1 P&L. We finished the half with adjusted EBITA of EUR3.4 billion, an organic growth of 12.2%. This was driven by our top line growth as well as an expansion in our adjusted EBITA margin of plus 100 basis points organic to finish the half at 18.6%, supported by strong progression in our gross margin.

We stepped up our R&D-to-sales ratio, including our capitalized R&D to 5.9%, around 6%, edging closer to the around 7% we mentioned at our Capital Markets Day to support key innovations to drive our strategy. And despite this step-up, our SFC-to-sales ratio remained flat for the half on an organic basis.

Our adjusted EBITA margin in energy management was up 170 basis points, supported by strong demand and strong systems pricing, whereas adjusted EBITA margin in industrial automation was down 300 basis points, impacted by the lower volumes and negative mix impacts from the decline in discrete automation.

Getting into a bit more detail on our adjusted EBITA progression, we finished the half with record gross margin of 43.4% or plus 100 basis points organic. This was driven by some continued positive net pricing, albeit at much more moderated levels than 2023, as expected, a strong acceleration in Industrial productivity and strong pricing in our systems business.

In H2, we would expect the contribution from productivity to moderate versus the H1 due to the actions we're taking in our supply chain to support growth, particularly in North America. In terms of our OpEx, or as we call it, our support function costs, we continued to drive some structural savings this year helping to offset inflation. And we continued to make investments to support our strategic priorities of innovation, support to our commercial footprint and our digital transformation including investments in AI.

Turning now to net income. Including scope and FX, our adjusted EBITA is up 7%. Below the line, our other income and expense was negatively impacted by a small adjustment in a legal provision this half versus last year's recognition of a disposal gain. Restructuring costs were EUR59 million for the half, and we have a positive evolution in financial costs year-over-year due to interest income and FX gains. Our effective tax rate was 23.5%, and we anticipate our ETR will remain within the range of 22% to 24% for 2024.

We did take a non-cash impairment at Uplight, a minority investment we made in 2021 and where we own around 44%. We continue to believe in the strong opportunities for Uplight's market-leading software platform for utilities. However, customer adoption is a bit slower than anticipated. And this all results in a net income of EUR1.9 billion, down 7%, and adjusted net income of EUR2.2 billion, up 10% reported or 15% organic. These strong operating results translated into record cash flow from operations, up 15% to EUR3.1 billion. Free cash flow is at EUR889 million for the half, up 8% year-over-year, impacted by some normal seasonal working capital movements, particularly in inventory.

In the second half, we would expect the cash conversion ratio to step up as usual and we'd expect to approach a cash conversion ratio of around 100% for the full year, including some impacts from the supply chain actions I already mentioned. Our debt ratios remained strong with a small impact in H1 from the payment of our dividend, as normal. And I'm pleased to highlight that during the quarter, we've received an upgrade by S&P on our rating and an upgrade from Moody's on our outlook.

Our capital allocation priorities remain unchanged since our Capital Markets Day with the credit ratings actions and our payment of our 14th progressive dividend in Q2 well reflective of our top two priorities. Our current focus and priority remain organic growth, and the financial targets we gave at our Capital Markets Day are tied to our current portfolio. And in terms of portfolio, as mentioned by Peter, we did exercise a call option to acquire a controlling stake in Planon this quarter, reinforcing our position in the building end market with its facility and workplace management software.

With that, I'll turn back to Peter to give an update on our full year expectations.

Peter Herweck - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Committee*

Well, thank you very much, Hilary, for this eloquent description of where we are at H1. Now, let's talk about the trends and also what we see in respect to the targets. Now, in the coming months, we expect many of the trends to continue with a strong and dynamic market demand, which will continue on the back of the structural megatrends that we've been laying out. Now, strong demand for system offers notably driven in the trends by data center and grid infrastructure, as we've been talking how capital is deployed there, and the increased investment across process industries served by both businesses, respectively.

Now, there is a continued focus on the subscription transition in software and the growth in services that you see in our digital flywheel. Nothing new in that regard. So a gradual demand recovery for product offers, consumer-linked segments and discrete automation, as we've said before.

All four regions should be contributing to growth led by the US, India and the Middle East, as we've said before. And you would expect that we continue to execute capacity investments to support our unprecedented high demand that we have specifically in North America.

Now, taking all of this into consideration, we are talking about our targets for 2024. And the 2024 adjusted EBITA growth is going to be between 9% to 13% organically. Previously, it's been between 8% to 12% organic.

And the target would be achieved through a continuation of organic growth and margin improvement currently expected to be a revenue growth of 6% to 8% organic, which is unchanged; and an adjusted EBITA margin, up 60 to 80 bps, organic, plus of course, which has previously been at plus 40 to 60 basis points organically. This implies an adjusted EBITA margin of around 18.1% to 18.3%, including scope, based on transactions completed to date and FX based on current estimation. So I think a good upgrade that we see for the rest of the year.

With that, I hand over back to Amit.

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

All right. Thank you, Peter, and thank you, Hilary. I think we're in good time. We have about 25 minutes left for questions and answers. And as always, we'll go with one question per analyst, and hopefully, we'll have time to accommodate them all.

So I move it over to the operator for the first question, please.

QUESTIONS AND ANSWERS

Operator

Phil Buller, Berenberg.

Philip Buller - *Joh Berenberg Gossler & Co KG - Analyst*

Hi. Thank you. Good morning. The question is on everyone's favorite topic of data centers. I was hoping you could add a bit more meat around what you're seeing here, please? What should we infer in terms of the current growth rate you're seeing? I assume it's accretive to the growth rate you're reporting in systems. You say you're on track for the 10%-plus medium-term CAGR offered at the CMD over C&SP quite a way ahead of that. Is that fair?

And how should we think about margins in systems? It feels as though it used to be very dilutive and perhaps that's no longer the case. So really, just as much further insight as you can, please, on the demand growth and pricing dynamics, I guess, in data centers would be super helpful. Thank you.

Peter Herweck - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Committee*

Thank you very much for the question. I'll take a first stab at it, and then Hilary can complement. Now, the data center space indeed, is dynamic. Now if you look at the midterm growth that we've set out for our C&SP business and data networks. So it's a combination of several markets.

You would expect that data centers are a little bit more dynamic to that one. And we feel very good and well positioned with the portfolio that we have to participate in the growth that is there and in the increased investment that you've also heard from some of the folks that just reported over the last couple of years -- a couple of days, sorry.

And this business also comes, of course, largely as a systems business. And you see it in the growth numbers, respectively, and this is a very excellent contributor to it with respective margins. There's also quite some services attached to it, which we really like.

And I think I missed out on maybe one or two points that you've asked. Hilary?

Hilary Maxson - *Schneider Electric SE - Chief Financial Officer, Member of the Executive Committee*

Yes. I think, Peter, just suffice to say, as you mentioned, certainly, data center was a great contributor to the Systems number that we saw. We won't confirm the exact growth rate, but you can see what others are reporting in that space. We're the market leader there, and I think we would expect that to continue to be the case.

In terms of margins, we mentioned at our Capital Markets Day that the systems business has already actually closed quite a bit in terms --

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Operator

Ms. Maxson, could you please speak a little closer to the microphone. We can't hear you very well.

Hilary Maxson - *Schneider Electric SE - Chief Financial Officer, Member of the Executive Committee*

Sorry for that. I guess you're not hearing me very well. So indeed, actually, we -- hopefully, you can hear me a bit better now. But indeed, we confirmed at the Capital Markets Day that we'd already closed a decent level of that differential between the margins between systems and products. We wouldn't expect that to close in entirety.

But suffice to say in the systems business where we have great demand, as you can see, we also have good pricing power and we're working with our customers to have the right level of margins for ourselves, but also to have the right level of relationships with those customers over what we would expect a fairly lengthy period of good demand.

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

All right. Thank you, Phil. We'll go to the next question, please.

Operator

Andrew Wilson, JPMorgan.

Andrew Wilson - *JPMorgan Chase & Co. - Analyst*

Hi. Good morning, everyone. Hopefully, you can hear me okay. I wanted to ask around the backlog development. I think in previous results that was said, you've helped us a little bit with at least some commentary on backlog development and book-to-bill type, I guess, metric. So hoping you can give us an update on that as well, please?

Peter Herweck - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Committee*

Yeah. Hi, Andrew. Thanks very much for the question. As I said, we've -- I think we have an unprecedented demand environment, and as you would expect, a positive backlog. Short question, short answer.

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

All right. Thanks, Andy. Next question, please.

Operator

Simon Toennessen, Jefferies.

Simon Toennessen - *Jefferies LLC - Analyst*

Yes. Good morning, Peter, Hilary and Amit. I've got one question on the margin that's implied in the second half. Looks very conservative on a first-look basis. I think, Hilary, you mentioned the low productivity in North America. Maybe you can just talk a bit around this in a bit more detail.

I think if I take the midpoint of your guidance, it implies 90 basis points roughly down on the H2. Obviously, last year was down, I think, 30 bps, but last five, six years, you've always had north of 100 basis points higher margin in the second half. So just a bit more clarification on that, please. Thank you.

Peter Herweck - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Committee*

Yeah. Maybe I start off, Simon, with some of the elements that we're seeing, and then Hilary can go further into detail. As I've said, we really have an unprecedented demand environment at the moment. And we did have some issues in the supply chain in North America. So we've been investing and continue to invest in a very responsible way to address those -- this unprecedented demand.

From that perspective, as we're hiring and bringing in more people, they won't be as productive as people that are there for a long time. As you would expect, we are ramping up some new machinery and new lines and we're fitting out factories to serve our clients. And the priority number one is to bring the service levels up to where the clients would believe them in respect to delivery time, in respect to on-time delivery, that's going to be priority one as we want to follow the market demand that we have there.

Hilary Maxson - *Schneider Electric SE - Chief Financial Officer, Member of the Executive Committee*

Indeed, Peter. So we do expect industrial productivity, like I mentioned, would moderate in the H2 versus the H1 because of what we're -- all the actions we're taking in North America.

We also expect continued strong growth in systems with a more gradual improvement in Products. So it's possible that mix could be a bit less positive between the H1 and the H2. And of course, you can see we're investing in various areas with R&D, digital. And we'll continue to do that, not just in the H2, but over the course of the Capital Markets Day like we shared with you in November.

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

All right. Thank you, Simon.

Simon Toennessen - *Jefferies LLC - Analyst*

Thank you, both.

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

Next question, please.

Operator

Alasdair Leslie, Bernstein.

Alasdair Leslie - *Bernstein Autonomous LLP - Analyst*

Yeah. Hi. Good morning. Thank you. And I suppose a follow up a little bit on the subject of capacity additions. Obviously, more emphasis on that now. Just in terms of those comments around productivity, and I guess, we can understand the impacts on margins.

But is this also a limiting factor now potentially on growth? Or could it disrupt growth in the short term, particularly in North America? Obviously, that's the core growth driver. I was just wondering if that's the message here or we can rule that out? I just wonder if that's maybe one of the reasons behind the top line guide remaining unchanged. Thank you.

Peter Herweck - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Committee*

No. Alasdair, as you've seen, we have had a good dynamic from Q1 to Q2 and that sets the stage for the following quarters to come. And the guidance fully remains intact with 6% to 8% as were -- as all our facilities are running at full speed and we're bringing in new people and new capacity to be able to fuel the growth that's there. So nothing to be concerned about both the guidance that we've given, and also the midterm target remain fully intact.

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

Yeah. Thank you, Alasdair. Next question.

Operator

Andre Kukhnin, UBS.

Andre Kukhnin - *UBS Investment Bank - Analyst*

Hi. Good morning. Thank you very much for taking my question. I just wanted to pick up on the capacity additions as well given that featured very heavily through the presentation. How much capacity are you adding in North America versus the current capacity that you have there?

And to the point of diluting margin in the second half, completely understandable in the ramp-up stage. But also, wouldn't it be right for us to think that this will be brand-new capacity designed and engineered to the latest state-of-the-art technology, and hence, will become a productivity driver in 2025?

Peter Herweck - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Committee*

Andre, let me start off. I only understood the first part of the question. I don't know whether the others understood the second part. So then I'll give it to them.

Listen, the demand environment is very good with also many, many long-term contracts that we have with our clients. And we're going to be adding capacity, as I said, in a responsible way to be able to serve that demand and also able to live with fluctuations if they were ever coming in that regard. We have a solid understanding how market will develop, and we've talked about our medium target. And we're going to be set up, respectively, to serve that growth that is in front of us.

Hilary Maxson - *Schneider Electric SE - Chief Financial Officer, Member of the Executive Committee*

And maybe I can address a bit the second part of the question. So first, probably, it's not new, we've been talking about the issues that we've had in capacity in North America for the last few quarters. So nothing new in terms of growth. Actually, like Peter said, you can see between the Q2 -- Q1 and Q2, we actually had some sequential even more improvement in North America. We'd expect that, that would continue.

And of course, to the second piece of your question. Indeed, what we would put in, in new capacity would be the latest state of the art. We would expect that these are temporary ramp ups as we put and bring new capacity online, and therefore, that would drive future productivity in the future, absolutely.

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

Yeah. Thank you. Next question, please.

Operator

Jonathan Mounsey, BNP Paribas Exane.

Jonathan Mounsey - *BNP Paribas Exane - Analyst*

Thank you, and good morning. Maybe if we touch on regional dynamics, so India versus China, I think China down low single digit in Q2. Just want to know how does that look in EM versus IA? And what do you see as the likely path for China in H2? Can it return to growth that soon?

And then, on India, obviously, the third largest territory by revenue now and double-digit growth in the quarter, continuation of trends really from last year. How do you see sales in that country growing over the coming few years even in the second half? Can this double-digit rate be maintained?

Peter Herweck - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Committee*

Thanks, Jonathan. Now, let me start off with China and I go back to 2023 where we've said we will be growing. Nobody believed us at the time. We did grow. The dynamic continued in Q1 with both businesses at growth.

And then if you look at H1, again, both businesses are growing. Q2 was a very tough comparison for us, and unfortunately, we still need to look at the aftermath of COVID, respectively. But in H1, we've had both businesses growing while IA was, one could also say, flattish. And we see good movement there. And from what we see today, is also going to be growing in 2024. What we've said earlier, of course, we'll see what all the messages that came out just recently from the Politburo going to mean for us and at what speed they're going to be implemented, and we'll keep you updated on that one.

India has become a fabulous, a growth market for us. And I want to reiterate the invitation for our Capital Markets Day that we're going to be having in December in India. So I invite you to join. It's been a double-digit grower for us.

In June 1, we introduced a new brand that would basically change all the Larson & Turbo EA brand to what we call Lauritz Knudsen, publicly named LK in India. All products have been available on day one in the new look and feel, new design and so forth. They have landed extremely well with our clients and it's been a super demand environment. And we see that even with the newly formed government, we see extremely good demand to continue.

More on that in December. I'll invite you to join us there. It's going to be exciting. December, sorry, December.

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

All right. And the invite is already out there. So it's an India-specific investor event on December 3. Thanks, Jon. Next question, please.

Operator

Gael de-Bray, Deutsche Bank.

Gael de-Bray - *Deutsche Bank AG - Analyst*

Thank you very much. Good morning, everybody. Can I ask about M&A, please? Acquisition effects have been negative for 3 consecutive years now. So is it because you've been concentrated on one or two very large potential deals that have not materialized? Or is it rather because the pipeline of the small and midsized productions is rather small?

And while you're talking about this, I mean, could you also discuss how the M&A decisions are taken and how all of this is being managed internally? To what extent is it centralized? Or is it a decentralized approach? Thanks very much.

Peter Herweck - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Committee*

Yeah. Let me take the second part of the question first, and then Hilary can get into some of the numbers that you're quoting.

Now, as we've lined out, we have very stringent capital allocation rules that we follow. And in respect to M&A, what we're looking at is, is it fitting exactly into the strategy that we've lined out and we go, respectively, in execution? We've also said that we will be focusing on organic growth. That doesn't mean that we shouldn't be agile and so forth.

Now the plan and investment that we just talked about is just basically a call option to what has been negotiated in -- three years back, and we're very happy with that investment because it goes straight into our digital energy environment where we worry about building management, energy management and now also workplace management. So these three positions us ideally in that regard.

And the businesses where we integrate those units are in charge of driving the synergies, respectively, and the performance. So they all follow a very stringent governance model that we have in the company. Hilary?

Hilary Maxson - *Schneider Electric SE - Chief Financial Officer, Member of the Executive Committee*

In terms of the M&A and integration costs, what we have in there it's not just associated with M&A fees, for example. So it doesn't -- it's not just impacted by the pipeline or the amount of M&A that we look at. Quite a bit of that, we've done, as you know, a number of large acquisitions over the past few years with the acquisition in India from L&T, OSIsoft through AVEVA. AVEVA itself, we did the privatization. So large and, I think, fairly successful.

And actually, we consider the integration costs for these types of acquisitions in the M&A integration costs for a number of years after the transaction as we're doing things like bringing them into the digital backbone of Schneider.

So that's remained fairly steady because of those larger acquisitions. Not super impacted probably by the M&A pipeline that we've looked at aside from transactions that you might already know like the one that we talked about earlier this year. Nothing really to call out there that would be associated with small pipeline or anything like that.

And like Peter said, we have a centralized process. So we look at everything through the governance model. Everything is looked at in that aspect from an accounting standpoint, too.

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

All right. Thanks, Gael. We have about 9 minutes left, so we try to accommodate as many questions as we can. Next question, please.

Operator

James Moore, Redburn.

James Moore - *Redburn Atlantic - Analyst*

Yes. Good morning, everyone. I hope you can hear me. Thanks for the time. I'd like to ask about energy management margins versus the competition. Over the last five years, your margin has gone up from 300, 400 basis points. ABB had 1,000 basis points --

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Operator

Excuse me, sir, could you speak without the headset? We can't hear you very well.

James Moore - *Redburn Atlantic - Analyst*

I don't have a headset.

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

James, I'm sorry. We don't hear you very well.

James Moore - *Redburn Atlantic - Analyst*

Can you hear this now?

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

Yeah, this is better. One more time, better now.

James Moore - *Redburn Atlantic - Analyst*

Okay. Just a relative versus competition margin question. In the last five years, Schneider EM is up 300, 400 bps; ABB, 1,000 basis points; Eaton, 700 basis points. The others have come from behind you to ahead of you yet you have the biggest data center mix, which should be premium margin and your cumulative price over the period is the highest.

When you look at that equation, what is it you see as to why your margin hasn't moved further? And is it that these expansions in capacity are dragging it to explain all of the gap? And can that drop out going forward?

Peter Herweck - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Committee*

Do you want to take this one?

Hilary Maxson - *Schneider Electric SE - Chief Financial Officer, Member of the Executive Committee*

So a couple of things I would say there. So in terms our margin, well, first, we started from a bit different starting places, I would say. I can't really comment on competitors, but there were certainly some portfolio actions and differing portfolio actions, I think, that took place over that time frame, whereas I think our portfolio actions perhaps were a bit earlier in the cycle. We started with, for example, stabilizing our Medium Voltage business even as I was joining Schneider maybe 7.5 years ago. So I think the comparison is not exact.

In terms of Industrial productivity, I think we've been actually pretty good over the cycle with -- and you saw that, that was a big driver for us. However, you're right that we've made some capacity additions recently. I think that's only good. We want to maintain our market leadership. But like I mentioned earlier, we would expect those capacity additions would be strong drivers of industrial productivity in the future, without any doubt.

The only other thing that I would mention as well is that we've been quite clear that we want to make investments, particularly in R&D. So I think our gross margin has been tracking actually very, very well. And in terms of investments, we've chosen to make investments, particularly in innovation, and a few other areas that we think position ourselves for that longer-term growth over this cycle, and who knows, hopefully beyond.

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

Yeah. Thanks, James. And just to remind everybody, we do have the margin guidance all the way through to 2027, which already incorporates all of the capacity investments as well. Next question, please.

Operator

Max Yates, Morgan Stanley.

Max Yates - *Morgan Stanley & Co LLC - Analyst*

Thank you very much, and good morning. I just wanted to ask on the Industrial automation division. And obviously, you referenced inventory destocking at your distributors. I just wanted to understand what is your latest thinking on timing of recovery when you look at the inventory levels? How long do you expect that destocking to go on for?

And I guess, into the second half, is there anything to really change the margin profile of that division? Or is it really just about waiting for that destocking period to come to an end and volumes start to normalize? Thank you.

Peter Herweck - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Committee*

Thanks very much, Max. Now, if you look at the performance of IA, I think one needs to look a little bit at the sequential improvement that's there. And if you compare H2 to H1 this year also from a margin perspective, you see somewhat of a recovery. We were expecting that, of course, with more demand coming up in H2, and we continue to say that's going to be there. It probably is going to hit the top line in the second half of H2, but there is good tendency.

I'm not worried about the inventory levels that we have at our OEM customers or at our distributors, at least from our perspective. Again, I cannot talk about others in that regard. And as we see recovery, we would expect also margin to come back, all of which is built into our guidance for the year and then also into our medium-term targets that we've put forward.

We do like the portfolio of IA very much, it's very complementary to the other stuff that we have in energy management as it goes to the same client groups, to a large extent anyway.

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

Right. And also, incorporating the impact of the subscription transition in software, which is also there as well.

Peter Herweck - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Committee*

Yeah. Absolutely, absolutely.

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

Next question, please.

Operator

William Mackie, Kepler Cheuvreux.

William Mackie - *Kepler Cheuvreux - Analyst*

Yeah. Good morning. Thank you. The question relates to your products business outside the tight supply-demand environments you're measuring in data centers and Infrastructure and particularly to the broader markets in building or industrial. Can you discuss how you see the pricing trends evolving across that large swathe of your business and how we should expect the pricing to evolve across much of that going into the second half of the year, please? Thank you.

Peter Herweck - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Committee*

Thank you very much, William. I'll start, and then Hilary can comment. Now, we've said, as we started 2024, that we -- there is no carryover in respect to pricing and that we would go back to normal 1% to 2% for the group. And also in H1, our product portfolio was a contributor to that. So in -- while also the volume was positive, that gives you a little bit of a window on where we see this to be.

Traditionally, we've been quite resilient and able to price up, but -- and there are some movements in material and freight that we need to consider and other stuff that goes down, and we'll be agile to it for H2.

Hilary, I'll leave that to you.

Hilary Maxson - *Schneider Electric SE - Chief Financial Officer, Member of the Executive Committee*

Yes. Not much to add. I think in this environment, we still think that we have good pricing power generally. It tends to be a somewhat inflationary environment, there's ups and downs. So we'd expect some continued pricing on products. Peter mentioned the 1 to 2 points that's really across all of our business models. So some pricing on Products when and where it makes sense. Of course, we're looking at inflation consistently.

At the same time, we always look at deciding pricing from a competitiveness standpoint. So we may choose to invest a little bit in pricing in certain areas like we have in the past in order to gain market share. And of course, we'll continue pricing on systems and services, and again, across products where and when it makes sense. So nothing new probably versus what we'd said in the full year and the Q1, that 1 to 2 points on an overall group and across the business models level.

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

All right. I think we are coming to time. And in case there are a couple of questions we couldn't take, we'll get back to you soon after the call.

I just want to remind everyone of the -- of course, we have the road shows coming up after the summer break and also another reminder of the event in India for which seats actually are limited. So we've already sent out some e-mails for -- if you're interested. Reach out to us, in case you are, and then we take it on from there.

But with that, I just want to thank everybody for your time this morning and wish you a good rest of the day.

Peter Herweck - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Committee*

Thank you very much.

Hilary Maxson - *Schneider Electric SE - Chief Financial Officer, Member of the Executive Committee*

Thank you.
