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SCHN.PA - Half Year 2025 Schneider Electric SE Earnings Call

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CORPORATE PARTICIPANTS

Amit Bhalla *Schneider Electric SE - Head of Investor Relations*

Olivier Blum *Schneider Electric SE - Chief Executive Officer, Member of the Executive Board*

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

CONFERENCE CALL PARTICIPANTS

Martin Wilkie *Citibank SA - Analyst*

Alasdair Leslie *Sanford C Bernstein & Co LLC - Equity Analyst*

Jonathan Mounsey *Exane Bnp Paribas - Analyst*

Daniela Costa *Goldman Sachs Group Inc - Analyst*

Philip Buller *J P Morgan (UK) Ltd - Equity Analyst*

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

Max Yates *Morgan Stanley - Analyst*

George Featherstone *Barclays Services Corp - Equity Analyst*

Ben Uglow *OxCap Analytics - Analyst*

Andre Kukhnin *UBS AG - Analyst*

James Moore *Redburn Partners LLP - Analyst*

PRESENTATION

Operator

Welcome to the Schneider Electric's 2025 Half Year Results Presentation with Olivier Blum, Chief Executive Officer; Hilary Maxson, Chief Financial Officer; and Amit Bhalla, Head of Investor Relations. Thank you for standing by. (Operator Instructions) I would like to inform all parties that today's conference is being recorded. If you have any objections, you may disconnect at this time.

I will now hand you over to Amit Bhalla.

Amit Bhalla - *Schneider Electric SE - Head of Investor Relations*

Well, good morning, everyone, and welcome to our half year 2025 results presentation and webcast joined by Olivier and Hilary from Paris. You have already the slides, and we'll go through it, and we'll make sure we have enough time for Q&A. So without further ado, I'll pass it over to Olivier.

Olivier Blum - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Board*

Thank you, Amit, and good morning to all of you. Always excited to be with you to share our half year results for Schneider. Look, before I start to talk about financial, I'd like to share, and I'm sure you are already aware that Schneider Electric has been ranked for the second time in a row, the most sustainable company in 2025 by time. It's a great achievement for us. And beyond for me, those kind of awards that we get from outside, it confirms the credibility that Schneider Electric.

I think -- when we say we want to be a partner to deliver efficiency and sustainability for our customer, I can tell you, it's really, really a strong market of Schneider Electric, always well appreciated, recognized by all our partners and our customers everywhere in the world, but also good and strong recognition for our own employees and a good attractive point when new people want to join Schneider Electric. So again, very pleased with this recognition. It confirms our commitment and it helps really to enforce the credibility of the mission of Schneider Electric.

Now turning to the most important topic of the day, which are really our financial results. I'm pleased to report a very strong growth revenue in Q2. After 7.4% in Q1, we have delivered 8.3% in organic growth in Q2, which continued to show really the momentum from a growth standpoint. And as you can see, we continue to deliver a very, very strong performance on Energy Management with double-digit, 10.5%.

And of course, still negative on the Industrial Automation side. But the good news, and we said that in our yearly results and it was confirmed at the end of Q1 by Hilary. We continue to see step-by-step improvement in Industrial Automation, in particular, in Discrete. And in different part of the world, we see that it's picking up, and we believe that it will -- we will continue to face a good acceleration in the rest of the year.

Now if I turn to the full H1 results, it gives a plus 8%, which is a very good performance from a growth standpoint at EUR19.3 billion We are very, very pleased with this strong growth performance for H1, and with 7% organic growth on adjusted EBITDA, and of course, Hilary will get back more in the details on how all of that move from the top line to the bottom line. We'll comment, in particular, what we see on the gross margin and what we plan to do in H2.

And maybe a short comment at this stage on my side. Regarding the free cash flow, we are still very confident that we can deliver our full year free cash flow objective. H1 is always a little bit lower. Actually, as you know, we have a couple of exceptional one-off also in H1, but still confident that we can deliver a robust performance in terms of cash flow for the full year.

Now as usual, we show you these slides, and that's not the first time you see it. You see it on my side for the Investor Day in India, and we tried to give you an update on how we see our end market, which reflects really the positioning of Schneider Electric for the mid and long term.

So I'll start with Data Center where we had a lot of questions since the beginning of the year on how do you see the dynamic of this market. Look, we have been very consistent. We see a double-digit growth opportunity for Schneider Electric. We don't see any major change versus last time when we communicated with you. Of course, the market is always changing because there is a change of mix between the different geographies, and of course, between the hyperscaler and the cooler and so on and so forth.

But overall, when we look, number one, at the backlog that we have, it's still a very robust backlog to deliver on this year and next year. But also when we look at our pipeline, it confirms really this double-digit growth opportunity in Data Center. And of course, Schneider Electric, I think is ideally positioned. We are a market leader, and I'll come back on that later to capture that opportunity.

When it comes to Building, it has been always a bit lower, definitely, especially in residential, where we have a low exposure at Schneider Electric. But we continue to focus on buildings because we have assembled all the technology to make buildings more efficient, and that's a place where we continue to see good growth opportunity, but definitely, we would hope that there will be some acceleration really in the future, in particular on the residential.

When it comes to Industry, I said it already, we have started to see a good recovery. We said that probably we reached the bottom of the cycle in Q4 last year. And step by step, even if it's a slow recovery, we see more and more opportunity to grow faster in Industry. And as I said, we already see that in our Discrete business. But again, here, we are talking more about the midterm, we see really, really a positive trend in the midterm from a market standpoint.

And last, when it comes to Infrastructure, and it has been a consistent message we've given, robust growth opportunity. And in particular, everything which is really around digital grid, power infrastructure, business we are doing with utility, always a little bit slower in decision-making, but we see definitely an appetite for stronger digital solution to electrify also the grid, so which is overall good news. So and -- in end, that confirms really a pretty strong positioning for Schneider Electric and a good confidence to deliver really good medium- and long-term growth as a company.

So if I go really on what is our focus and where we are working with the management team right now. Priority one, of course, is to deliver a very strong performance in H2, but how we are doing that in H2 and beyond. Number one, extremely strong focus on energy management, on innovation and technology. I've shared already with you in different events I have participated all the investments we have made in R&D, how we are positioning Schneider Electric to be the best company to make the most of the energy landscape.

It's very, very important. We want to be the global energy tech partner of our customer. We believe we have a unique portfolio, unique technology to help our customers to electrify, automate and digitalize home, industries and buildings. And it's super important because the positioning that we have created help us to deliver strong growth today. But even more important, we want to get ready for the next phase and continue to invest in R&D.

So the next point, which is very, very important for us is to leverage all the investments we have made. And definitely, we have invested in R&D, SF6-free and all the asset range we have launched in the market in medium voltage is helping us to capture really good growth opportunity to make our customers more efficient and more sustainable, and we are very pleased with the launching in the past two years.

We've mentioned really a strong position in Data Center. As you know, it has been reinforced by the acquisition of Motivair that we have closed in the first part of the year. And I'm very, very pleased with the start of Motivair. We are above our business plan so far, and we are leveraging all the technology of Motivair to reinforce our long-term partnership with our customer, and that's a unique positioning that we have, of course, mainly in the US at that stage, but we are getting prepared for the next phase outside of the US.

And of course, I was talking about the focus on performance in H1, extremely focused really to deliver a strong backlog. When it comes to Industrial Automation, which has been a bit more of a challenge because of the market slowdown, there are also a certain number of things we have been doing on our side on repositioning in R&D. We are very, very confident that we can capture most of the growth opportunity in Discrete in H2.

We are confident with the transition that we have launched in subscription with AVEVA. We always said that we plan to be in line with our objective we fixed for AVEVA transition to subscription by '27. And we see really a good acceleration on that side.

What is super important is also to make sure that we create strong synergies between the two businesses of Schneider Electric, and we see that moving really in the right direction. And we've communicated a lot in Hanover this year about EcoStruxure Automation Expert, which is really our software-defined solution we are launching in automation. And I'm very, very pleased to see really the pickup in different part of the world and the strong positive feedback from our customers.

Last but not the least, we have a very strong plan to focus on the recovery of our margin in Industrial Automation. So when you combine all of that, this portfolio we have created, the acceleration we have R&D, we accelerate everything we can do at the digital level. We have a very strong position, as you know, in hardware, in equipment. Historically, we are the number one worldwide in electrical distribution.

We have added Secure Power, which is very important. For us, what is now the next phase is how we can leverage this huge positioning to bring more digital solution to our customer. We've communicated a lot about what we do with EcoCare, which is our franchise in digital services, and I'm very pleased to see the report.

What are the other focus for us as a team? Pricing; productivity; to deliver a strong H2, but also to get prepared for the future. And in a world which is very fragmented, and I'm sure there will be a lot of question of the volatility of the market, the tariff, it's super important that we take our multi-hub model to the next level.

And of course, I'll come back in a minute on our India acquisition, which reinforce a strong position. So pretty good and dense agenda for the management team to deliver a strong H2, but also to get prepared for the future.

As mentioned, a lot about what we are doing on top of hardware really to deliver the more digital solution to our customer. As you know, the digital flywheel is for way to measure the progress. That's something that you have seen, and we have been very consistent over time. I'm very pleased to report that it represents now 60% of our revenue in H1 2025 and a strong acceleration compared to last year.

We look at all elements of the flywheel, as usual, making sure all our products are connectable by design. We can leverage this native connectivity to give more services, more software-defined application to our customer. So all the four elements of the flywheel are very important. And I remind you that this is what makes really Schneider Electric unique. The combination of the portfolio in automation and energy management but being able to support our customers all along their life cycle.

So this is really a strong feedback, I would say a strong performance in H1 that demonstrate our commitment to this strategy. And of course, when we speak about AI, all our digital solutions can be accelerated with AI technology. So very pleased with the report on that.

Of course, you've seen the news already yesterday. We are very pleased with Hilary and the team to announce really the 100% ownership of our India joint venture. I had the privilege myself to spend five years of my life in India. And I remember being sent in India in 2008. It was a bit less than EUR100 million business for Schneider Electric.

Last year, it's a EUR2.5 billion business for Schneider Electric in a market where we have seen and we continue to see a double-digit growth opportunity. So it confirms really that we have a unique platform now in India, not only to grow in the Indian market and to benefit from this important growth opportunity, but also to leverage India as our fourth largest hub in the world to deliver more supply chain, more technology for India and the rest of the world. So very strong positioning, and we'll continue to operate with our two-brand strategy in India. So very pleased with this acquisition that reinforce again our position in India and very excited by the opportunity for the future.

I've mentioned that Schneider Electric has a leading position in data center. We are very pleased with Motivair to be able to provide a full solution from grid to chip and chip to chiller. I said it already. Very pleased with the start. Let's keep working, not only on the massive opportunity we have in the US, but also preparing, really, by investing in capacity outside.

So that was, for me, a very important one. The first acquisition actually under my mandate, but very pleased with the start and the strong results and synergies we are delivering in H1 [2025] (corrected by company after the call) with the rest of the company.

Now talking a bit more about few other partnerships, customer success that we have. We continue to have a very strong partnership with NVIDIA. It's very, very important. We don't want to be just solution provider. We want to work on the architecture of the future that will make data center more efficient with the latest AI technology.

And it keeps changing by the day. So for us, this partnership with NVIDIA is extremely important because it helps us to be upstream in the value chain, to work with NVIDIA on what really their next chips, what are the design we need to provide in terms of data center to make sure that our centers are more efficient. And how to make a data center more efficient? It's a combination of power, building management, cooling. And of course, Schneider Electric has all the technology to make it happen.

We have been working also on a very interesting innovation with ETAP recently. And we will get back to you with more demo by the end of the year on how we are helping to create a digital twin of the future data center, which will make them even more efficient. So great partnership that we continue to deploy with NVIDIA.

I mentioned building market when I was talking about the exposure of Schneider Electric. Just to reinforce that, even if it's a market which is a bit less attractive, I would say, from a growth standpoint compared to the others, we continue to see robust growth, but we see opportunity for energy efficiency, and that has been really a strong positioning of Schneider Electric, thanks to all the portfolio that we have, all the technology we are bringing to our customers.

And now with the combination of all our building management system, the acquisition of planon last year that give us a full portfolio to make building even more efficient. We are testing that in our own building. We have just opened recently our new office in Dubai. We have done it in France, in Grenoble. But of course, with many customers around the world, we continue to work and in with them to make sure we can deliver more efficiency.

Of course, we do it also for new building by designing -- helping design -- optimize the design for building, both with ETAP on the electrical side and with RIB on the construction side. So -- and continue to be a very strong success for Schneider Electric and a pretty good positioning.

We have, as I mentioned, invested a lot in services in the past 10 years, but more than services itself, what we have done in its part of our flywheel, we have made all our products, all our equipment connectable. It took time really to transform all this portfolio. I mentioned what we've done with AirSet in Medium Voltage, but we've done that with all the portfolio of Schneider Electric. So now we have all those hardware equipment, which are connectable. We have created common gateway to make sure we can leverage data and amplify now those data with AI to deliver more services, more digital services to customers, and that's what we call EcoCare.

And it starts to pay. And we see a very strong appetite from our customer. We have two business models, one which is really scalable and repetitive and one which is more customized. For instance, when we have a large contract with Compass in data center, it's associated with a customized contract in digital services that generate also recurring revenues for Schneider Electric. So a very strong part of our strategy, very unique, very differentiated when you look at the entire portfolio, and we continue to see a good momentum and a good feedback for our customer, and it continues to represent a double-digit growth opportunity for Schneider Electric.

You have here, as usual, a couple of customers story that we like to share going through what we do in digital grid optimization, for instance, with Tata Power in India, to data center in Saudi, but few other good examples in other part of the world. What is really, really, really important, we are positioned in Schneider Electric as a solution provider. We go in front of our customers, we understand their pain point, and we combine all the solution.

It can be in one geography, it can be multiple geography. It can be in one part of our portfolio, several part of our portfolio, but we solve their problem to deliver more efficiency and sustainability. And we see more and more really appetite for those full solutions. And of course, we are quite excited to continue the journey with all our customers and partner everywhere in the world.

When it comes to investment, we continue to make responsible investment. We mentioned last year that we were ramping up our investment definitely to increase our capacity. We are always adjusting depending, of course, on the midterm demand. But we continue to be very, very responsible.

There are a couple of examples of announcements we've made for H1 2025 to reinforce our capacity going from the US to Europe, to, of course, India, which is very, very important for us. I said it, we continue to have a robust investment in R&D. It's very, very important for me. We have been living in an industry which has been stable for a long time, but the energy industry, the electrical industry is transforming by the day.

And it's super important for us that we are always prepared for the next cycle, and we bring to our customer solutions, which are differentiated, that create unique value proposition. But it's not only at the product level, this is a full application to our customer, amplified by digital, and you have a couple of examples of what we call the hero offer, which are the new product we are reaching to the market that contribute really to the strong growth we have in H1.

And I said it very important since we are moving more and more with digital solution, we amplify those solutions with AI in all parts of our portfolio from the digital services to our software business with ETAP, RIB, or AVEVA. That's a unique opportunity to make our customer more efficient at the end of the day.

Moving to the last part of my presentation, we continue to be very focused. I started the meeting by saying that we have been awarded Most Sustainable Company in the World. It's the past, we focus always on the future. Priority one, deliver a strong performance for 2025. And as we said last time, preparing the next cycle of commitment since '25 is last year of the previous program.

We continue to be recognized in different parts of the world, not only in sustainability, in diversity and inclusion, in technology, innovation, and of course, all those external awards are good recognition that Schneider Electric continues to be an impact company, a company that delivers strong results in the short term, but which has also a strong commitment from the midterm.

So if I wrap up on H1. Robust performance, good growth. What we continue to do as a management team is preparing the future of Schneider Electric, creating this unique value proposition between the combination of Energy Management and Industrial Automation, providing solution to all the four markets that I described, which are all very promising in front of us. And of course, with a big strategic intention to continue to deliver more digital to solution to our customer in services, in software.

I want to mention, and I said it last time that we are preparing the next company story of Schneider Electric. So there are a lot of things we are implementing already to continue to reinforce our leadership in technology, to continue to build a unique model supported by a multi-hub model to deliver unique solutions in all the geographies with our customer. Multi-hub model is a differentiating factor of Schneider Electric. And last but not the least, a very, very strong focus on competitiveness from the design of our product to industrial productivity that should deliver results in H2, but also very important that we continue to prepare the future, but we'll get back to you with the management team to disclose the full plan in the coming months.

So on that, I'd like to hand over to Hilary, who will give you much more details on the financial results for H1.

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

Thanks, Olivier, and good morning, everyone. Happy to be here with you all today. I'll start with our key financial highlights for the first half, some of which Olivier has already mentioned.

First, our H1 revenues are at EUR19.3 billion, a record for a first half. In gross margin, we see the impacts of timing and pricing versus inflation, plus we have negative mix driving down our gross margin for the half by 90 basis points organic. Despite this, our adjusted EBITDA is close to flat as expected, at minus 10 basis points, supported by good control of costs while still ensuring appropriate investments for the future.

Our net income was impacted by a noncash impairment with adjusted net income up plus 6% organic. And our free cash flow is impacted by timing and a fine paid in France. And I'll speak more about our expectations for gross margin and free cash flow for the full year in a few minutes.

Moving to H1 revenues. In Energy Management, we continue to see strong demand and strong growth across our end markets including data center and with a step-up in demand in Q2 across our other end markets of building, particularly nonresidential, industry and infrastructure.

In Industrial Automation, we continue to see minus 1% in organic sales growth. However, as expected, we turned to positive demand in terms of orders in both discrete and process and hybrid in Q2 and for the H1 overall. In total, we were up 8% organic in sales with good momentum going into the H2.

Positive scope impacts are driven by our acquisitions of Motivair and Planon. FX translation adversely impacted our revenues by around EUR400 million, mainly due to the weakening of the US dollar, Indian rupee, and a number of more volatile currencies against the euro. And you can see in the footnote to this slide, if current rates remained where they are now, we would expect FX impacts of minus EUR1.25 billion to minus EUR1.35 billion in revenues and minus 40 basis points in adjusted EBITDA margin for the year.

Moving to Q2 revenues. We were up 8% organic to EUR10 billion with a return to positive contribution from all geographies. FX impacts were more negative in the Q2 due to the weakening of the US dollar and the Indian rupee.

Turning to our mix of business models for Q2. Products improved to plus 2% growth with low single-digit growth in Energy Management, driven by good demand in most of our end markets, partially offset by residential building offers in North America and some parts of Western Europe. And products continues to be adversely impacted by negative contribution from industrial automation products down low single digit.

Our systems business, where we sell directly to the end user, continued with particularly high demand and strong execution translating into sales of plus 17% driven by data center and infrastructure, partially offset by some delayed projects in process and hybrid. Software and services were back to double-digit growth at plus 11%, supported by good growth in revenues at AVEVA, double-digit growth in energy management software, and double-digit growth in digital and field services. The ARR at AVEVA was plus 12%, impacted by timing of a few deals.

On this slide, we showed the results of energy management by geography. In Q2, Energy Management was up 10%, driven by growth across geographies. North America was up 15% driven by our systems business with continued strong growth in data centers, further augmented by a large stadium project and growth in infrastructure. We also saw good growth in products across end markets, offset by weakness in residential. US and Canada both saw strong growth, partially offset by weakness in Mexico with markets that are impacted by tariff uncertainty.

Western Europe was back to growth at plus 3% organic with good growth in systems, driven by execution of data center projects in Spain, Italy and France, partly offset by continued weakness in residential. In terms of data center demand in Europe, we do continue to see a strong pipeline, and we start to see some small signs of better momentum towards execution in a few countries as governments look for accelerated routes to grant access to land and grid connections.

Asia Pacific was up 11% with China up mid-single digit with growth there led by demand in data center. The rest of Asia Pacific was up double digit with particularly strong growth in India, where we see strong growth across end markets as well as double-digit growth in Australia, driven by data centers. Outside of China, Asia Pacific starts to see a solid return to growth in residential, including in Australia. And Rest of World was up 11%, primarily driven by project execution in Middle East and Africa.

Turning to Industrial Automation. Sales remained at minus 1% in Q2, although we saw a definitive shift to positive demand in the form of orders across discrete and process and hybrid. North America was minus 3%, with continued weakness in discrete and delays in projects in Mexico, offsetting strong growth in AVEVA software.

Western Europe was flat for the quarter, with double-digit growth in software, offset by continued weakness in discrete as well as some weakness in process and hybrid, both particularly weak in Germany, whereas Italy returned to growth in both discrete and process. Asia Pacific was down 5% for the quarter with weakness across discrete, process automation and software.

China was down mid-single digit, where a slight growth in sales to OEMs was more than offset by negative impacts in process and hybrid. And I will note that our OEM business in China is quite a bit larger than process and hybrid with a good dynamic in OEM demand in Q2 and in H1. The rest of Asia Pacific was down mid-single digit. Rest of World was up 8% with double-digit contributions from software and process and hybrid and mid-single-digit sales in discrete. Middle East and Africa and Central Europe led the growth there.

Turning now to our half year P&L. We finished the half with adjusted EBITDA of EUR3.5 billion, a record for an H1 with organic growth of 7%. This was driven by our strong top line growth, partially offset by a decline in our EBITDA margin of 10 basis points organic due to a decline in our gross margin primarily offset by good control over our operating costs. And as Olivier mentioned, despite that focus on prudently managing our costs, we do still continue to invest for our future with R&D stepping up to 6.1% of sales, including capitalized costs.

Our adjusted EBITDA in Energy Management was down 50 basis points, reflecting the same dynamics as the group in gross margin, partly offset by positive leverage in operating costs. Adjusted EBITDA margin in Industrial Automation was down 120 basis points, reflecting strong industrial productivity, offset by negative net pricing and mix with negative operating cost leverage due to lower sales.

Getting into a bit more detail on our gross margin progression. We finished the half with gross margin of 42.4% or minus 90 basis points organic. This was driven primarily by negative net price on products due to timing of a ramp up in prices to offset effects of raw material inflation and tariffs and due to negative mix. Outside of China, where we do see deflation and where we manage with productivity as normal, we've already increased list prices in our major jurisdictions, including the US, and we would expect to see a step-up in pricing on products in H2.

In mix, we're back to more normalized price increases in our systems business as anticipated. So the negative you see there is simply due to the faster growth in systems versus products. We did see positive contribution from productivity in H1, and we'd expect this to continue to step up in H2. Net-net and depending on timing of various tariff actions in the US, we'd now expect our gross margin progression for the full year could be somewhat negative due to the timing of price impacts flowing into the P&L to offset raw material inflation and tariffs.

And as you know, we're a company with demonstrated pricing power. So we do expect to fully offset the impacts of tariffs and of inflation over the next quarters.

In terms of our OpEx or what we call support function costs, we continue to make investments to support our strategic priorities with a strict process of cost controls, and we continue to drive structural saving initiatives, all resulting in a good cost leverage in H1. We would expect some additional focus and step-up in structural savings over our next quarters. So our restructuring costs for full year 2025 will be above EUR150 million.

Turning now to net income. Including scope and FX, our adjusted EBITDA is up 4%. Below the line, some items I'll note are an uptick in our net financial costs due to last year's bond refinancings and also some FX impacts. And we'd expect full year net financial costs to be around EUR500 million. We also see an uptick in amortization of PPAs due to our recently closed acquisitions.

These both impact our adjusted net income, which finished at minus 1% recorded or plus 6% organic. In net income, up plus 2% recorded, we had the benefit of lower other operating income and expense, partly offset by another impairment in an equity method investment focused on our software for utilities in the US where we don't see the pickup in growth for the business in the next few years and where we now have very little book value remaining.

Our operating cash flow for the H1 was down 5% year-over-year primarily due to the timing of the payment of cash taxes. In our free cash flow, we paid an around EUR200 million fine related to a legal case in France. We previously disclosed that in a case that we're appealing. And we continue to have some buildup in working capital, inventory, in particular, in North America, supporting our business there. We do expect some unwind of that inventory buildup over the next quarters.

In terms of total free cash flow for the H1, aside from the onetime fine and the timing of cash tax payments, we have a similar seasonality in free cash flow this year as we saw in 2024. And just like last year, we expect a strong acceleration in free cash flow in H2 to finish the year at a cash conversion ratio approaching 100%.

Our debt ratios remain strong, supported by our continued strong results, and you'll see in this slide, we did receive a credit ratings upgrade to A2 by Moody's in the second quarter with both Moody's and S&P reconfirming their ratings yesterday after the India transaction announcement. And we've put into this slide a pro forma indication of where we'd be in terms of net debt to adjusted EBITDA had we closed the India transaction at the end of June.

Similar to when we acquired the minority stake in AVEVA, we expect our debt ratios to go back to normal over the next few quarters. And to give a bit more financial detail on the transaction, the deal is roughly neutral to EPS. And as we consolidate this JV already, as you know, we know this business very well, there is no impact to our ROCE.

With that, let me pass the call back to Olivier to further discuss our expectations for the full year.

Olivier Blum - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Board*

Thank you very much, Hilary. Look, to summarize and really to talk about the expected trends for 2025, of course, in an environment where there is still a lot of uncertainty everywhere, we continue definitely on our side to see a strong demand recovery in discrete automation and mention it with nice recovery in H2 all our end markets are growing, of course, with a different speed. But going from data center network to buildings to industry and infrastructure, we are confident to continue to see a good momentum despite some weakness, of course, still in 2025 -- the rest of '25 in residential.

As we said, we continue to see a strong demand in system. We have a strong backlog for this year. We are getting prepared for next year, both in data center, but also in infrastructure. It's very, very important. Everything which related to electrification creates a lot of opportunities for Schneider Electric.

And as we said, we continue to see a lot of opportunities in all our digital portfolio. And in particular, we see good progress on subscription transition in software and also strong growth in services.

So as Hilary said, and I mentioned it also, we are implementing a lot of actions to deliver a strong H2, a lot of focus on pricing, a lot of focus on productivity to compensate any kind of impact that we could have from the tariff. And of course, in that context, our multi model is a pretty good advantage to be much more agile and faster on how we could react in the rest of the year. All our four regions are contributing to growth, which is led, of course, you see by US, by India and the rest of Middle East and Africa, which give us good confidence to deliver good performance in H2.

When I combine all of that together, we reaffirm definitely our guidance for the rest of the year. We reaffirm our confidence to deliver an adjusted EBITDA growth between 10% and 15%, supported by a growth of 7% to 10% organic and improvement of our adjusted EBITDA margin from 50 to 80 bps for the full year. Of course, all of that considering the uncertainty of the environment, the impact of tariffs and so on and so forth. But at the end of the day, as Hilary said, and we'll be happy to answer more questions. We have a very, very strong plan to deliver a strong H2 to deliver this end of year guidance.

So that will close the end of the formal part of the presentation, and Amit, I hand it over back to you.

Amit Bhalla - *Schneider Electric SE - Head of Investor Relations*

All right. Thank you, Olivier. We'll move to Q&A. I'll try to make sure that we get everyone's question in. So please keep it to one question so that we can try to make sure that we capture all the questions.

Operator, let's go to the first question.

QUESTIONS AND ANSWERS

Operator

Martin Wilkie, Citi.

Martin Wilkie - *Citibank SA - Analyst*

It's Martin at Citi. The question I think was just on gross margins. You've outlined obviously, that lower in the half, but there is obviously pricing action expected in the second half. Could you just clarify how much of that is already pricing has been announced and therefore, you sort of automatically come through into the second half?

And how much is still some uncertainty about the final tariff levels and so forth. And therefore, that we still need to see the pricing action alone to happen in the half year to see that pick up in gross margins in the second half?

Olivier Blum - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Board*

Yes, sure. Thank you for the question. Look, I can start, and of course, as you Hilary, feel free to complete.

Look, most of the actions have been launched. As Hilary said, we have reacted quite fast to all the tariffs that have been announced in H1. So we have implemented some action. Of course, it takes time. There was a bit of delay. That's why we are confident we'll see a pickup in H2.

Now of course, we are watching, like anybody else, the news, what's happened. And if there are further actions to be implemented depending on the latest news, of course, we will continue to do more. But to answer question, most of the action and the price increase have been put in place. Now we expect a strong translation into margin in H2. But anything else you would like to add, Hilary?

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

No, indeed, like I said, we've done the list price actions in general. So now it's about executing those and the flow through into the P&L.

Olivier Blum - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Board*

And stay agile depending on what else could happen in the market.

Operator

William Mackie, Kepler Cheuvreux.

Martin Wilkie - *Citibank SA - Analyst*

I wanted to ask a question about the systems growth and just on a couple of dimensions. First of all, perhaps discuss how the backlog has been building across data centers and infrastructure quarter-on-quarter? And then perhaps more specifically, could you frame how you see the data center-related growth developing in 2025 based on backlog execution in pricing and project development?

Olivier Blum - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Board*

Sure. I can start maybe on the second part, and you can go more on the quarter on quarter. Look, we had a lot of questions from all of you since the year on data center because a lot of things that happened in the market. Now if you try to summarize everything, we've heard in the market H1. As I said in my introduction, we continue to see a very robust pipeline, first of all.

Now there is always year-on-year difference of mix by region. Sometimes people will go more through colo. Sometime there will be more direct investment from hyperscaler. You see a lot of news by the way in the market, and you can observe they have all very, very different strategy.

What is very, very important for us is we see region contributing to data center. We speak a lot about North America, but we see a robust pipeline in India, in Middle East, in China. We see it also more recently this year in France.

So we are confident with the pipeline. We have a solid backlog to deliver H2. So at the end of the day, it continues to be a robust pipeline and delivering definitely a very strong opportunity for Schneider Electric.

Now maybe you want to give a bit more details on how the backlog is evolving quarter-on-quarter and how we are preparing also next year.

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

Sure. I think we've mentioned in the press release that we continue to see underlying strong double-digit demand and strong double-digit growth in sales. The only thing that we called out was we had a -- it's not new news. We had a rephasing of backlog and orders of one of our largest customers; doesn't really impact 2025, just timing and already as anticipated. So that strong double-digit growth in backlog, obviously, implies.

Of course, that we continue to have a book-to-bill decently above one, and we expect that to flow into sales in the second half of 2025. Nothing really to call out in terms of any change in terms of pace and into 2026.

Operator

Alasdair Leslie, Bernstein.

Alasdair Leslie - *Sanford C Bernstein & Co LLC - Equity Analyst*

Maybe just following up on data centers there in Europe. I mean I was just wondering whether you could update us on that region. It does look like, based on the commentary, perhaps there was a bit of a pickup this quarter versus the last. I mean you're still flagging an overall environment of project delays, I think. But are those starting to ease at all?

And maybe what's your prognosis for kind of reacceleration already in the second half? And then maybe linked to that, on a broader level, your US -- yesterday, they said that they kind of felt that the regulatory environment in Europe was becoming more conducive to AI infrastructure investment. It sounds like from the comments Hilary made earlier that you're perhaps seeing the same thing, but perhaps you could just expand on that.

Olivier Blum - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Board*

Yes, sure. Look, I would say, first of all, definitely, we've started some pick up in Q2 with Hilary, but too early from speaking to confirm a massive acceleration of growth in Europe in particular, but there was some early signals. So one point I mentioned briefly, we see definitely a growing pipeline in data center in Europe. I just mentioned France before. But we -- I would stay relatively cautious because there are a lot of those new investments that we see that are probably good news for the midterm.

But Europe will continue to be a very challenging environment in H2. Now we have a good confidence to keep accelerating because we have differentiated offer. Of course, part of our portfolio is related to the market. But we are also launching a new offer in the market, new initiative.

We announced, for instance, the joint venture with StarCharge, which is a new business. So we try to accelerate our performance through a lot of new growth initiatives. But I would say we are cautiously positive on what's happening in Europe, I would say.

Operator

Jonathan Mounsey, BNP Paribas Exane.

Jonathan Mounsey - *Exane Bnp Paribas - Analyst*

Maybe I'll ask one on capital allocation, given yesterday's news. So obviously, very helpful of you to give the pro forma net debt-to-EBITDA post that deal completing, I think 2.13. I suppose it sort of begun the question. What does this mean in terms of at least the next one to two years in terms of your future M&A ambitions or certainly at least for the next 12 months or so? I mean, would you potentially resort to equity for the right deal?

How much financial leverage could you go to? Is this really kind of the top end of the range, and we'll have to wait to delever before we start thinking about further deals? Really, just some color on capital allocation and also are you willing to take the balance sheet.

Olivier Blum - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Board*

Thank you for the question. I'll take the first part, probably more on the strategic part and hand over to Hilary for the financial part.

Schneider, we have been very consistent from an M&A standpoint. We always do M&A when it helps us to accelerate our strategy. We are extremely selective. We are looking at those deals that accelerate the transformation of the portfolio of Schneider Electric, but also our positioning in geography. That's why we are very excited with one Motivair liquid cooling for the US, for the rest of the world, accelerating the position of Schneider Electric in data center.

Very excited again with what we have announced yesterday in India because that confirmed really the strong position we have India as a fourth hub of Schneider Electric; double-digit growth opportunity. And we'll continue definitely to be active in the next 12, 24 months, but we'll be always selective.

For me, what is super important is a strategic fit, how it helps Schneider Electric to be stronger, to accelerate our strategy and of course, making sure we do it at the right price. But I turn over to you, Hilary, probably for the second part of the question, which is more on the financial part.

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

Sure. I think capital allocation, like Olivier said, doesn't change. Our first priority being maintaining our strong investment-grade credit ratings. You can see actually both ratings agencies, like I said, confirmed the ratings target that they have today in light of the India transaction. And actually, within those ratings, we remain with a decent level of liquidity.

We're a strong liquidity company. So we would expect to remain agile and opportunistic in terms of M&A, like we've always said. So effectively, from my perspective, no real change from a capital allocation standpoint.

Operator

Daniela Costa, Goldman Sachs.

Daniela Costa - *Goldman Sachs Group Inc - Analyst*

I wanted to ask to dive a little bit deeper into Western Europe on the energy management side, where you had a turn back to growth this quarter. Was that just the data center part turning given you didn't have the same maybe comparables as last quarter? Or do you see like any other green light signs across other areas in Europe?

Olivier Blum - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Board*

Thank you for the question. Look, it's fairly consistent with what I said in my presentation. It's definitely data center is contributing, but also we see good opportunity in infrastructure, in everything which is related to the digitalization of the grid. So everything which is related to power grid continue to be positive.

Building, we are a little bit more cautious, of course, extremely cautious on residential at that stage. We don't see any turnaround at that point of time. But I would say on the building side, through energy efficiency, we continue to see a positive trend. So you could say that what we see in Europe is fairly consistent with what I presented when I was talking about the midterm trend.

Now on the other side, as I said, we are bringing new offer to the market, which is definitely very good because that helped us to accelerate a little bit the growth in the market. Which is still, I would say, relatively low compared to the rest of the world.

Operator

Philip Buller, JPMorgan.

Philip Buller - *J P Morgan (UK) Ltd - Equity Analyst*

I was hoping to ask about IA, please. It's obviously nice to see the step-by-step improvement in demand. I was hoping you could help calibrate us on the margin side. I think for this year, consensus is expecting about 15% for the full year. That's obviously a big step-up in the second half margin.

I would assume that, that's perhaps a little bit ambitious. And are there any perhaps ingredients you can share on the mechanical uplift from AVEVA once we're through that SaaS transition from today into '27. And also, there's this slight increase in H2 restructuring costs at the group level, should we assume that, that's predominantly targeted to IA in the second half of the year? Basically, anything that you can help share to help deal with confidence or build the bridge on the margin recovery in IA would be great.

Olivier Blum - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Board*

No, no, sure. Thank you for the question, and I'll let, of course, Hilary go into detail. But for, I would say, it's a very important focus for us. IA is absolutely essential to the delivery of our all strategy. We have a very strong a plan to come back to growth but also to higher profitability.

Of course, we have been impacted in the past by lower volume. We are also doing a very strong plan on our SG&A on that part to be back to profitability. But Hilary will probably go a little bit more in detail, but it's a very strong area of focus for us in H2.

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

Sure. So maybe I'll start with sort of the elements that have seen that step down in IA margin over the past couple of years. First, clearly, mix. There's a market differential, not just for ourselves, but everybody between discrete automation and process automation in terms of gross margin and margin. So as the discrete market fell away, naturally, we had a big impact in terms of mix.

Also, because of the transition at AVEVA, I think if you look over the past few years, probably around a third of the decline in the industrial automation margin has been associated with that transition to subscription at AVEVA. So that's another sort of mix issue, I suppose.

And then similar to energy management, we have some slow translation of pricing into the P&L in the H1 of this year, in particular. And then we've had some deleveraging costs. We've continued to invest for the future in IA.

So what would you expect in the H2? As we expected -- it's hard to call the exact timing. You can see we still have 7% to 10%, for example, in our guidance on sales for this full year. But as we have a return in discrete automation, this will obviously be an uplift in terms of margins for industrial automation. And as we come out of the transition with AVEVA in 2027, this is another obvious and mathematical uplift as well.

And if you recall, we've said a number of times, we would expect AVEVA after this transition to be back to a Rule of 40 company. So the sum of growth and adjusted EBITDA margin should be 40 or above in general for that business. So both of these are an automatic turn.

Now in terms of costs, certainly, that's something that we're focused on. We're focused on as a company overall, and Industrial Automation will definitely be a part of that.

Operator

Gael de-Bray, Deutsche Bank.

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

Can I ask again about the data center organic growth performance. I think this quarter, we saw a very big acceleration in data center organic growth at most of your peers really. But that's a trend that I can't really see so much in your publication today.

So I guess my question is whether you've been adding capacities quick enough? I mean, any update on the ramp-up process would be really useful, maybe in terms of how quickly the process is going on and how dilutive it might have been again in the first half of this year to the margin.

Olivier Blum - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Board*

No, sure. Thank you for the question. Look, if you remember, first of all, what we said last year, we've been ramping up our capacity. It has not started this year already last year to make sure we can face really this very, very important growth opportunity that we have in data center.

We've done it, if you remember, when we have announced all the investment we are doing in the US on the capacity side, in India as well. So on a capacity standpoint, we have taken a certain number of measures to make sure we are ready to face its important wave.

The second point that I would like to mention, which is very important when we speak about capacity, a large part of what we sell in data center is also for the other end market of Schneider. So we have this unique ability to leverage really the capacity. Whenever there is more on data center, we can support there is a bit of slowdown for one quarter and a higher demand on the rest of the market.

So to answer your question in short, and Hilary, of course, I'd let you complete, we are fairly confident that with all the actions that have been taken roughly 12, 18 months ago, that we are in a good position to capture the growth opportunity in data center, short term, midterm across all the part of our portfolio. And then there was a specific case, which is, of course, Motivair, which is a company which was mainly focused in the US, where we have ramped up already capacity for the US market, but now we are getting ready for the international market.

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

Maybe just two points I would add. So in terms of market share, I think we feel very good about how we're performing in data center. Of course, we all have different baselines and this type of thing, and this is a project business.

The second point I would make with the new capacity that we're adding, indeed, we have more. We're performing well in terms of productivity today. You can see the good contribution in the H1. But there's more potential for productivity in the future that we'll probably talk about in the next quarters.

Operator

Max Yates, Morgan Stanley.

Max Yates - *Morgan Stanley - Analyst*

Could I just ask on your gross pricing in products? Because I guess I understand why sort of the systems business may see some negative pricing and that normally goes into your mix line in your EBIT bridge. But most companies in industrials and electricals are seeing sort of 1% to 2% price rises. And I guess that would have been EUR180 million to EUR360 million in the bridge. It was slightly negative on gross pricing.

So I guess my question is, is it difficult to push prices up from current levels? Are there any kind of products or regions where pricing is negative? And yes, just any detail around why gross pricing and products should be negative, just ignoring net pricing but the gross price?

Olivier Blum - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Board*

Yes, sure, sure. Thank you for the question. Maybe I can start on the region and give you -- Hilary, the floor to give more perspective. Definitely, the situation region by region is very different. We start -- for instance, we see China, which is still a kind of deflationary environment where it's difficult to price up, but I would say this is the exception.

For the rest of the world, we are confident that we have good pricing capability. We have leadership position in most of our portfolio. So I would say, definitely, we see different region by region, China being on the extreme side, but we see strong pricing power on the other part of the world.

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

Yes. And I think we talked about it quite a bit now. For us, it's more -- in our mind, more of a timing issue flowing through into the P&L. So we've done those price list increases. What you do see, therefore, is that deflation in China without yet the uptick in pricing.

We would expect to see that uptick in pricing in products in the second half. And maybe just to the -- one other point you made on systems. We do continue to see some improvement in gross margin in systems, so positive pricing systems. Actually, if you pull price out of that whole bridge, on a whole, we're positive in price, including both systems and products, just not at the same level that we've seen in prior years, and that was as anticipated. So I think it's more just a timing issue in terms of products that we'll expect to see a different dynamic in the H2.

Operator

George Featherstone, Barclays.

George Featherstone - *Barclays Services Corp - Equity Analyst*

Mostly hyperscaler customers have been stating through the year that they're currently shifting their spend towards the server room. Have you noticed the difference at all in the demand for white space versus gray space products and systems?

Olivier Blum - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Board*

Do you want to get?

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

So indeed, I think this is something we've talked about a few times before, the gray versus white space. We're actually -- we feel we're pretty well positioned in both. Areas that we would call out, for example, where I have trouble placing them would be things liquid cooling, which I suppose is in the server room but connected overall, and we talked about the excitement we have with the Motivair acquisition. So I don't think our team has called out anything in particular about that different dynamics.

Actually, with AI, I think we think what's most important is that interconnection between the gray and white space as energy intensity starts to increase. And also with liquid cooling, there's a real connection between all that stuff now that you really need in order to deliver energy efficiency. And I think that energy efficiency is really the key to all that next uptick that the hyperscalers would need to see to build that data center infrastructure.

Operator

Ben Uglow, OxCap Analytics.

Ben Uglow - *OxCap Analytics - Analyst*

I wanted to come back and thank you very much for all the color on the Industrial Automation margin. I think I sort of understand what's happened in the last sort of 12, 18 months or so. I wanted to kind of look at it a little bit longer. If we look at the business, let's say, over the last 5 to 10 years, you've averaged pretty consistently 17% margin, and you've achieved those types of level even in the down cycle. I think you got down to about 15% in the first half of 2020.

My question, and maybe it's for Hilary, my question is, are you confident that the downturn that you're seeing in the margin at the moment and stripping out, let's say, AVEVA at 50 bps, a SaaS transition or whatever it might be. Are you absolutely confident that, that is purely cyclical? Or are there any other structural factors going on?

So do we know for sure that there hasn't been a change in market share? That our customer base in Italy or machine builders or whomever it might be, is absolutely the same as it was? This is very much a cyclical phenomenon and that we're going to go back to where we were the 17%-plus range once these effects roll off. Is that the view?

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

Indeed, I think that is the view. A couple of points I would note there. As you saw, probably over the past few quarters, it's true that the downturn in discrete was probably a bit longer than we anticipated this time. So we did continue to invest for the future, for example.

So we didn't quite do the agility we might have done in prior years, plus we have AVEVA. So we feel good that in fact, we should go back to those same levels from just a mathematical and structural standpoint. And as we see the market come back -- and it's hard to call the exact timing. But let's say, as the market come back and we have AVEVA coming out of the transition, one would presume at least by 2027.

Amit Bhalla - *Schneider Electric SE - Head of Investor Relations*

All right. Thank you, Ben. I'm mindful we're at the hour, but maybe we'll have another couple of questions just to make sure everyone has the opportunity. So operator, next question, please.

Operator

Andre Kukhnin, UBS.

Andre Kukhnin - *UBS AG - Analyst*

I just have a brief kind of bigger picture margin question as well. When we think about your targets of target of 20% and kind of how we're going to get there. Is this now purely reliant on industrial automation recovery helped by the measures and the cycle in AVEVA? Or do you see scope for margin improvement in Energy Management as well if we look out a couple of years?

Olivier Blum - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Board*

No, no. Look, it's clearly both. And I think all the comments we've made together with Hilary, of course there is one which is specific on IA, but when it comes to a strong focus on pricing power plus productivity, it applies, of course, to energy management. And we have a robust plan not only to deliver our objective for H2, but I do see an opportunity to keep on accelerating between -- beyond 2025.

I was mentioning briefly to all of you that we are preparing the next company story, company program of Schneider. And there is a very, very strong focus on competitiveness, which starts from the design of the new offer designed to cost to more productivity plus pricing. So I do believe the focus will pay in H2 and beyond in IA, but of course, in energy management, which is very, very important in the core of the company.

Amit Bhalla - *Schneider Electric SE - Head of Investor Relations*

Right. Very clear. Thank you for that question. And maybe we'll take one last one in case there is one.

Operator

James Moore, Redburn Atlantic.

James Moore - *Redburn Partners LLP - Analyst*

I wonder, Olivier, if I could ask you about portfolio. Your software business of AVEVA is more AEC, more process construction really, whereas your automation business is predominantly discrete or at least as bigger than process. Do you see any room to shift into PLM and CAD over time? Would you be interested in such assets?

Olivier Blum - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Board*

Well, that's a very good question. Look, that's not the first strategic priority of the company. I would say that's not where Schneider want to position. Now if you step back and you look at the opportunity we have in front of us in all our end markets, you mentioned very clearly, we have the franchise we have created with AVEVA in industrial software that creates a huge differentiation. By the way, we never speak a lot about it, but a lot of synergies generated by the rest of Schneider.

What I do see as the next frontier for Schneider Electric is everything we do in software and in digital, in energy. Again, if you step back, we want to be really the energy technology partner of our customer, we created a strong franchise in industry. We are creating the same on the energy side, which is here a mix of what we do with a nonagnostic part of our portfolio going to digital services. We do sell already a lot of software and energy, but our objective is really to go to the next cycle and to reinforce our position on the energy side. PLM, I would say, is a bit beyond really the core strategy of Schneider Electric and not the primary focus at that stage.

Amit Bhalla - *Schneider Electric SE - Head of Investor Relations*

All right. Thank you, James. I think we'll probably stop the Q&A over here. And maybe in case there are some who we couldn't get through to, we'll engage with you separately. At the same time, in the coming weeks, we are going to be on the road and look forward to seeing most of you, if not all.

So thank you very much for your time today as well as your continued support of Schneider Electric. Have a good rest of the day.

Olivier Blum - *Schneider Electric SE - Chief Executive Officer, Member of the Executive Board*

Thank you very much.
